7 January 2026

Banks

A Mixed Bag Likely In Store For 2026

Neutral (Maintained)

Stocks Covered	3
Rating (Buy/Neutral/Sell):	1 / 2 / 0
Last 12m Earnings Revision Trend:	Neutral

- **Top Pick: DBS.** We see a mixed bag for Singapore banks (SG Banks) ahead. Positives include a sanguine macroeconomic backdrop, wealth management business that should benefit amid a low interest rate environment, positive investor sentiment, continued inflows, and stable asset quality, offset by lingering NIM pressure and elevated sector valuations. In the absence of a meaningful rise in ROEs, headroom for further valuation expansion may be limited, resulting in more modest returns for the sector ahead. We like DBS for its "in-the-bag" and attractive dividend yield. Maintain NEUTRAL.
- **2025 was a good year for SG Banks but more modest returns are likely for 2026.** Despite the sharp sell-off during the height of the US tariff uncertainties in Apr 2025, the sector subsequently recovered strongly to end 2025 with double-digit total returns, outperforming peers in Malaysia and Indonesia. We believe a combination of factors such as the flight to quality to SGD assets, attractive dividend yields, falling risk-free rate and the sector as a potential beneficiary of equity market reforms have helped underpin the sector's performance. Looking ahead, though, returns could be more modest.
- **We estimate Singapore's 2026 GDP growth at 3%** on resilient external demand and momentum across manufacturing- and trade-related sectors, including spillovers from the electronics upcycle and sustained technology demand. Inflation is set to edge higher, with both headline and core inflation firming to c.1.5% in 2026 as local demand stays resilient. We also see scope for further SGD strength on Monetary Authority of Singapore's (MAS) mild appreciation bias and a USD/SGD path that stays skewed lower. We expect two US Federal Funds Rate (FFR) cuts (50bps in total) in 2026, which is likely to lead to a measured Singapore Overnight Rate Average (SORA) dip. Global and local rate declines should still underpin demand for yields.
- **2026 sector outlook – non-II to drive operating income again.** We expect domestic loans demand to stay decent as a lower rates environment should bode well for mortgages and non-trade corporate loans. That said, sector NII is likely to remain muted due to lingering NIM pressure from further FFR cuts. As mentioned above, we are positive on the outlook for non-II with the wealth management business a key driver for fees. While 4Q is seasonally a slower period for wealth activities, the wealth momentum seen in 2025 is expected to be sustained this year. On asset quality, SG Banks remain watchful but have not observed any systemic signs of asset quality issues. Amid a stable to positive macroeconomic outlook around the region coupled with healthy LLC levels, we are not expecting any significant asset quality stress and credit cost should be under control.
- **Capital management and dividends to stay in focus.** During the 3Q25 results briefing, DBS reiterated its ordinary DPS step-up and capital return DPS commitment, which underpins our call on the stock. For now, UOB had ruled out any further special DPS but instead, will continue with its share buyback plan. As for OCBC, its 4Q25 results announcement will see the completion of its earlier announced capital return dividends Investors will need to wait for its 4Q25 briefing to learn if OCBC will lift the ordinary payout and/or unveil another capital return dividend package.
- **We expect sector 2026F PATMI growth to rebound to +4% YoY** from -6% YoY in 2025F, although this rebound is underpinned by UOB's earnings recovery (2026F PATMI: +18% YoY) as its credit cost normalises after having accelerated the build-up in performing loan coverage in 2025. For peers DBS and OCBC, we are projecting 2026 PATMI to stay relatively flat.

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-26F	P/B (x) Dec-26F	ROAE (%) Dec-26F	Yield (%) Dec-26F
DBS	Buy	59.00	4.1	14.3	2.2	15.4	5.7
OCBC Bank	Neutral	18.70	(6.3)	11.9	1.4	11.7	4.4
United Overseas Bank	Neutral	36.10	1.7	10.4	1.1	10.9	4.8

Source: Company data, RHB

Top Pick	Target Price
DBS (DBS SP) – BUY	SGD59.00

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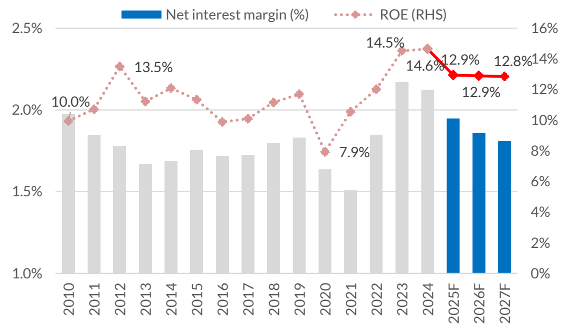
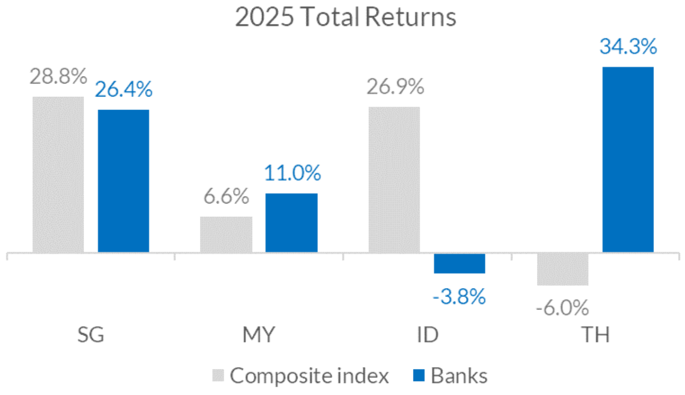
Sector NIM vs ROE



Source: Company data, RHB

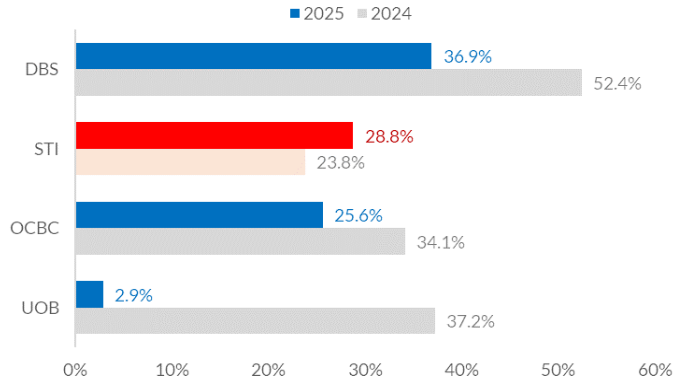
Share Price Performance

Figure 1: SG Banks' 2025 total returns performance beat regional peers in Malaysia and Indonesia …



Source: Bloomberg, RHB

Figure 2: … thanks to strong dividend and price returns from DBS and OCBC



Source: Bloomberg, RHB

SG Banks posted double-digit total returns 2025 – significantly outpacing the Malaysia and Indonesia peers but trailed the STI slightly. In our view, SG Banks' relative regional outperformance has been aided by attractive dividend yields, falling risk free rate (supportive of yield spread compression) and the flight-to-quality to SGD assets. Within the sector, DBS' strong returns was thanks to its good dividend visibility and attractive yields. Meanwhile, OCBC ended 2025 slightly behind the STI but posted a strong share price rally in 4Q25, which we believe was underpinned by optimism over its wealth management prospects (post a robust set of 3Q25 metrics) and expectations that the group has room to dish out more special dividends once its current SGD1.5bn special dividend plan (in FY24 and FY25) is completed. UOB was a laggard – owing to earnings disappointment and concerns over asset quality, among others.

Singapore Macroeconomic Outlook

RHB Economics and Market Strategy forecasts Singapore GDP growth of 3% YoY in 2026, following the 4.8% expansion in 2025. The optimistic view for 2026 GDP growth is underpinned by: i) Improving trade dynamics, ii) anticipated global monetary easing, amid iii) continued strong growth momentum already seen in 4Q25. Global economic conditions have proven more resilient than expected, supported by recent de-escalations in trade tensions. Tariff risks are easing, with recent exemptions under Annex 2 and potential measures under Annex 3 of Executive Order 14346, alongside improving US-China relations. Meanwhile, we expect a cumulative FFR cut of 50bps in 2026, with major developed market (DM) and emerging market (EM) economies following suit. Furthermore, Singapore's GDP growth, which had performed relatively well, especially in 2H25, may persist into early 2026, thereby allowing a relatively healthier growth print from a base year comparison perspective. Domestic demand is expected to remain resilient, supported by steady consumption, investment and government policies.

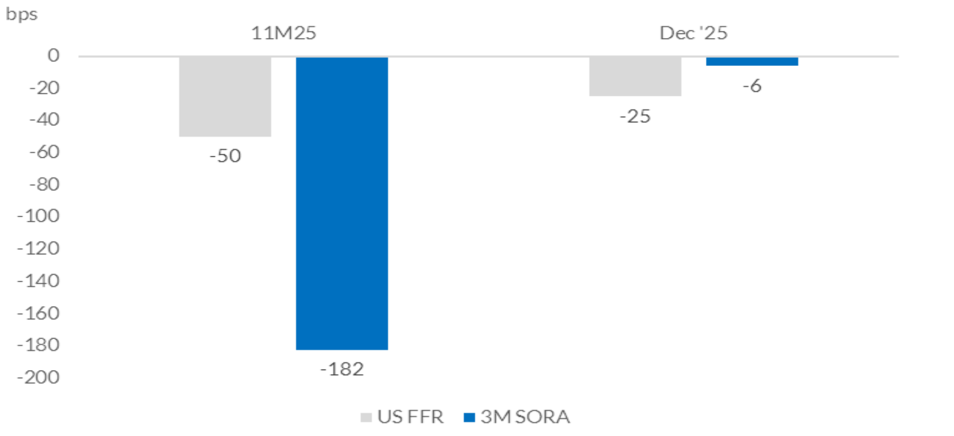
Singapore's resilient growth outlook suggests that the MAS is likely to keep its policy parameters unchanged, as the relatively strong growth print provides little impetus for policy accommodation. We expect the Singapore dollar nominal effective exchange rate (S$NEER) policy settings to remain unchanged, with an estimated +0.5% appreciation slope within a ±2.0% band – at least through 1H26 – as this stance continues to be appropriate for managing price pressures. Our in-house auto-regression suggests that core inflation will approach 2.0% by Jul 2026, with MAS core inflation likely to hit its trough soon before gradually rising as temporary disinflationary factors fade. Given firm growth and upward-trending core inflation throughout 2026, maintaining the current policy stance appears prudent.

From a Singapore rates perspective, a gradual and measured US Fed easing cycle is likely to translate into a downward bias for SORA in 2026, though the pace should remain orderly rather than abrupt. As US policy rates ease, global funding conditions should become more accommodative, exerting downward pressure on domestic money market rates, especially given Singapore's open capital account and exchange rate centred monetary framework. However, with MAS expected to maintain its current policy stance amid firm domestic growth and gradually rising inflation, declines in SORA are likely to be moderate rather than aggressive.

Sector Outlook

During the round of 3Q25 results briefings, SG Banks' 2026 guidance suggest a modest operating backdrop ahead, amid a low- to mid-single digit loans growth, coupled with some NIM pressure due to further FFR cuts expected (DBS and UOB are expecting another 2-3 cuts this year). Domestic loans demand is expected to stay decent thanks to mortgages and non-trade corporate loans, further aided by a lower rates environment. On a more positive note, though, as the FFR approaches closer towards the end of the rate cut cycle coupled with the sharp decline in SORA last year (partly due to strong liquidity inflows), the decline in SORA ahead is likely to be milder. Indeed, we observed that after the last 25bps FFR cut by the US Federal Reserve (US Fed) in Dec 2025, the 3M SORA fell by only 2.5bps. This is as compared to the 182bps decline in 3M SORA vs 50bps cut in FFR in 11M25. Nevertheless, with a modest loans growth and some NIM pressure, 2026F sector NII is expected to stay muted overall.

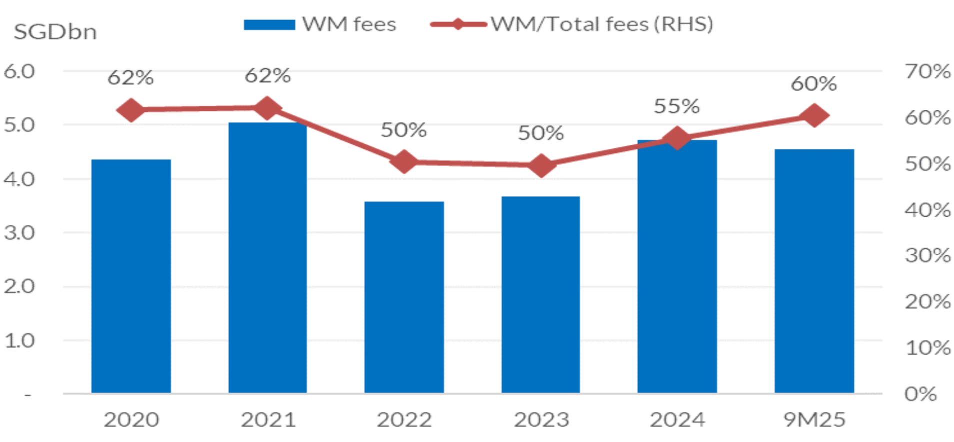
Figure 3: Impact from Dec 2025 FFR cut on 3M SORA has been minimal, suggesting a milder pass through effect could be on the cards ahead



Source: Bloomberg, RHB

That said, we remain positive on the outlook for non-II with the wealth management business a key driver for fees amid continued strong liquidity inflows, a low interest rate environment and positive investor sentiment. SG Banks posted a double-digit QoQ growth in wealth management fee income in 3Q25, with OCBC having reported net new money of SGD12bn during the quarter – significantly above the typical SGD4-5m quarterly run rate. While 4Q is seasonally a slower period for wealth activities, the wealth traction seen in 2025 coupled with the equity market reform agenda should bode well for SG Banks ahead.

Figure 4: 9M25 wealth fees have already surpassed that of FY20, FY22 and FY23 and are on track for a new annual high



Source: Company data, RHB

On asset quality, the banks remain watchful but have not observed any systemic signs of asset quality issues. Despite UOB's total credit cost spiking up to 72bps in 9M25 from 28bps in 9M24, this was due to management opting to accelerate the build-up in its performing loan coverage. Post build-up, its LLC jumped to 93% from 81% in 2Q25, albeit still trailing its peers at 139-145%. As for DBS and OCBC, 9M25 credit cost remained well within guidance. Looking ahead, amid a stable to positive macroeconomic outlook around the region coupled with healthy LLC levels, we are not expecting any significant asset quality stress and credit cost should be under control.

Sector Earnings Forecasts

Post estimated 6% YoY decline in FY25 PATMI due to NIM squeeze (-17bps YoY on lower benchmark rates) and higher credit cost (31bps vs 2024: 20bps) arising from UOB's build up in loan loss coverage, we project sector FY26 PATMI to rebound with a 4% YoY earnings growth. Non-II is expected to be the main driver for operating income once again in FY26F, thanks to fee income and especially, wealth management. While we pencilled in further NIM squeeze, the pace of compression is expected to ease to 9bps. The other driver to FY26F bottomline growth is credit cost, where we project a more normalised rate of 22bps.

Upside risks to earnings would be:

i. Better-than-expected NIM;

ii. Elevated non-II (robust wealth activities and treasury flows);

iii. Lower-than-expected credit costs.

Downside risks could come from NIM, loans growth, weaker-than-expected other non-II, especially on the treasury and markets front and higher-than-expected credit cost.

Figure 5: SG Banks – sector earnings and key assumptions

(SGDm)	2023	2024	2025F	2026F	2027F
NII	**32,966**	**33,853**	**32,737**	**32,377**	**32,784**
NII growth (%)	*22.2%*	*2.7%*	*-3.3%*	*-1.1%*	*1.3%*
Loan growth (%)	*0.5%*	*5.2%*	*4.1%*	*4.3%*	*4.7%*
NIM (%)	*2.17%*	*2.12%*	*1.95%*	*1.86%*	*1.81%*
Fee income	7,405	8,533	9,686	10,643	11,638
Other income	7,230	8,678	8,782	8,994	9,401
Non-II	**14,635**	**17,211**	**18,468**	**19,637**	**21,039**
Non-II growth (%)	*18.1%*	*17.6%*	*7.3%*	*6.3%*	*7.1%*
Total operating income	**47,601**	**51,064**	**51,205**	**52,014**	**53,824**
Operating income growth (%)	*20.9%*	*7.3%*	*0.3%*	*1.6%*	*3.5%*
Non-II/Total income (%)	*30.7%*	*33.7%*	*36.1%*	*37.8%*	*39.1%*
Opex	**(19,731)**	**(21,070)**	**(21,232)**	**(21,857)**	**(22,573)**
Opex growth (%)	*14.7%*	*6.8%*	*0.8%*	*2.9%*	*3.3%*
CIR (%)	*41.5%*	*41.3%*	*41.5%*	*42.0%*	*41.9%*
PIOP	**27,870**	**29,994**	**29,973**	**30,156**	**31,251**
PIOP growth (%)	*25.8%*	*7.6%*	*-0.1%*	*0.6%*	*3.6%*
Loan impairment charges	(2,036)	(2,098)	(3,432)	(2,612)	(2,568)
Other impairment charges	(344)	(250)	(129)	(128)	(128)
Total impairment charges	**(2,380)**	**(2,348)**	**(3,561)**	**(2,740)**	**(2,696)**
Credit charge-off (bps)	*20*	*20*	*31*	*22*	*21*
GIL ratio (%)	*1.19%*	*1.17%*	*1.13%*	*1.11%*	*1.07%*
Loan loss coverage (%)	*117.3%*	*113.9%*	*119.1%*	*117.8%*	*117.0%*
Associates & others	1,260	1,365	1,481	1,577	1,681
Pre-tax profit	**26,750**	**29,011**	**27,892**	**28,993**	**30,236**
Taxation	(3,797)	(3,914)	(4,242)	(4,417)	(4,608)
Minority interests	(159)	(176)	(167)	(169)	(172)
Net profit	**22,794**	**24,921**	**23,484**	**24,407**	**25,456**
Net profit growth (%)	*24.6%*	*9.3%*	*-5.8%*	*3.9%*	*4.3%*

Source: Company data, RHB

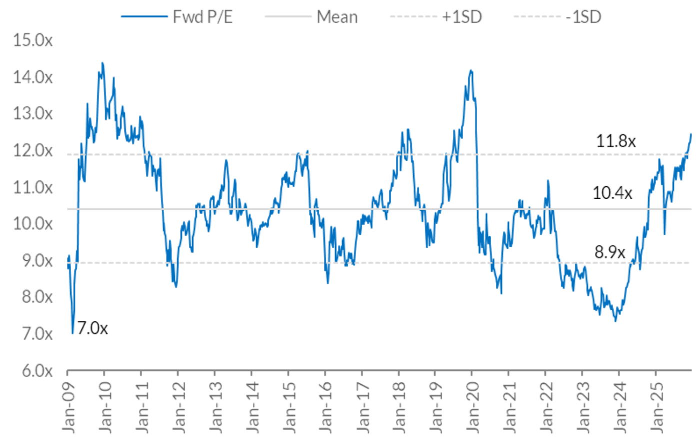
Valuations

Figure 6: Summary of SG Banks' valuations

	Rec	Price	TP	Mkt cap	EPS chg (%)		P/E(x)		P/BV(x)		ROE (%)		Div yield (%)	
		(SGD/s)	(SGD/s)	(SGDm)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F*	FY26F*
DBS	Buy	56.65	59.00	161.12	(0.4)	(0.3)	14.3	14.3	2.24	2.17	16.0	15.4	5.4	5.7
OCBC	Neutral	19.96	18.70	89.72	(5.7)	3.3	12.5	12.1	1.44	1.37	11.8	11.6	5.1	4.4
UOB	Neutral	35.50	36.10	59.42	(19.8)	17.5	12.2	10.4	1.17	1.10	9.6	10.9	5.2	4.8
Sector Avg					**(5.6)**	**4.2**	**13.4**	**12.9**	**1.80**	**1.74**	**13.6**	**13.4**	**5.3**	**5.2**

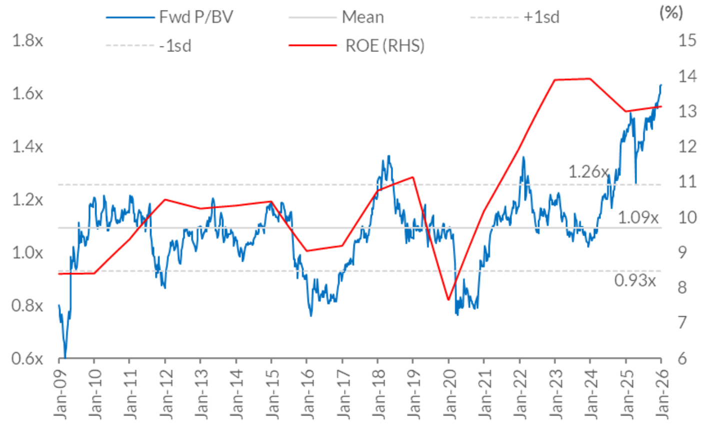
*Note: *Inclusive of capital return and special DPS*
Source: Bloomberg, RHB

Figure 7: SG Banks' 12-month forward P/E



Source: Bloomberg, RHB

Figure 8: SG Banks' 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Figure 9: Sector dividend yield has compressed but could compress further based on current risk free rate

Source: Bloomberg, RHB

The strong share price return by SG Banks has led to a significant rerating in the sector's P/BV. While partly justified by the higher sector ROE and the banks' ability to keep ROE elevated thanks to capital management initiatives, we think it may be a challenge for another year of significant valuation rerating for SG Banks, especially in the absence of higher ROEs.

That said, we think there will likely be continued interest in SG Banks given a fairly constructive macroeconomic environment coupled with the hunt for dividend yields. SG Banks still offer an attractive dividend yield spread relative to the risk free rate of c.325bps vs the 10-year average of 290bps.

Our stock picking framework for the sector continues to be driven by dividend yield. DBS remains committed to its 6 SG cents per quarter step-up in ordinary DPS and reaffirmed that it will continue with the 15 SG cents per quarter capital return DPS in 2026 and 2027. This gives the stock a 90-130bps dividend yield advantage over peers and is our Top Pick for the sector.

At the other end of the spectrum, UOB said it is retaining its 50% ordinary dividend payout and is committed to its SGD2bn share buyback programme, but said there are no plans for any further excess capital returns. As for OCBC, investors will need to wait until the 4Q25 briefing for fresh updates on further capital management plans.

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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