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Banking

Reforming View on Capital

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OVERWEIGHT



As we approach the implementation of the revised credit risk assessment framework under Basel III for banks applying the Standardised Approach on 1 July 2026, we assess the potential implications for capital positions and potential shareholder returns. Based on the respective banks' guidance, PBBANK (OP; TP: RM5.75) stands to benefit the most, with an estimated CET-1 uplift of 100 bps. Within our coverage, we estimate that the CET-1 relief from the rebased risk-weighted assets (RWA) of the affected banks to possibly provide dividend yield opportunities of up to 4.0%, with BIMB (MP; TP: RM2.55) offering the largest potential. PBBANK is slightly behind at 3.6% in this regard.

We note that the banks operating under the Internal-Rating Based (IRB) approach (AMBANK, CIMB, MAYBANK, RHBBANK) are expected to adopt a revised framework only in 2028 and are therefore not projected to recognise any immediate impact from the upcoming changes.

Following the 4QCY25 earnings season, we maintain our OVERWEIGHT stance on the banking sector, with results broadly mixed (2 above, 2 below expectations). Guidance for CY26 appears cautiously framed, particularly with larger banks anticipating continued albeit more modest NIM compression, which we believe reflects persistent retail funding pressures. That said, loan growth guidance has turned incrementally more constructive amid easing tariff concerns, though macro uncertainties remain in relation to forex dynamics. Broadly, asset quality risks appear manageable, with overlays largely in place to absorb adverse macro developments.

Following our recent upgrade on CIMB, we re-feature it as our Top Picks for the sector. We turn more constructive on CIMB (OP; TP: RM8.45) as the group pivots towards less capital-intensive growth channels, striking a better balance between expansion and shareholder returns. Its sustainable dividend yield of >6% positions it as a sector leader on income appeal. Meanwhile, PBBANK (OP; TP: RM5.75) looks to be an interesting tactical pick in our opinion, riding on our estimated special dividend potential of up to 3.6%, on top of the group's commitment to pay out 60% of its earnings in the near-term. Relatively speaking, current price points for PBBANK appears compelling when compared to historical average yields of c.3.0% (vs 4.8% now).

Basel III reforms to ease some credit risk weighting

The upcoming Basel III reforms on 1 July 2026 recalibrate credit risk weights for banks. These affect banks adopting the Standardised Approach for calculation of regulatory capital which rely on prescribed weightage by regulator Bank Negara. This will impact particularly residential mortgages and certain corporate exposures, resulting in lower RWA for affected banks. In turn, this effectively improves CET-1 ratios which would then enhance the banks' capacity to support asset growth or increase shareholder distributions without raising additional equity. Note that banks adopting the IRB approach, whereby they rely on own internal models rather than prescribed weights, are not expected to implement credit risk weight changes until 1 Jan 2028.

Between the banks, we were guided for their estimated sensitivities from the reform to be as follows, which we conducted back-of-the-envelope calculations to estimate the potential impact on their respective capital positions:

Fig. 1: Estimated Impact to Banks' CET-1 Ratio

Bank	Framework for Credit Risk	CET-1	Post-1 July 2026 Basel III Reforms	
		Post 4QCY25 Dividend	Expected CET-1 Impact	Est. CET-1
ABMB	Standardised Approach	13.10%	+15-20 bps	13.27%
AFFIN	Standardised Approach	13.34%	+13 bps	13.47%
BIMB	Standardised Approach	13.40%	+35-50 bps	13.82%
HLBANK	Standardised Approach	12.65%	+60 bps	13.25%
MBSB	Standardised Approach	18.95%	Slightly positive	19.00%
PBBANK	Standardised Approach	13.89%	+100 bps	14.89%
AMBANK	FIRB & Standardised Approach	14.57%		
CIMB	IRB & Standardised Approach	14.33%		
MAYBANK	IRB & Standardised Approach	15.13%		
RHBBANK	IRB & Standardised Approach	15.23%		

Pending / To be implemented later

Source: Companies, Kenanga Research

Fig. 2: Estimated Impact to Banks' RWA and Potential CET-1 Relief

Bank	Post 4QCY25 Dividend [A]		Post-1 July 2026 Basel III Reform [B]			[C] = [A] - [B]		
	CET-1 (%)	CET-1 (RM m)	Updated RWA (RM m)	CET-1 (%)	Est CET-1 to Rebase to Prior Levels (RM m)	CET-1 Relief i.e. amount available for dividends (RM m)	Potential Dividend Per Share (RM)	Potential Yield per Share (%)
ABMB	13.1%	7,583	57,136	13.3%	7,483	100	0.039	1.5%
AFFIN	13.3%	9,776	72,589	13.5%	9,682	94	0.055	1.1%
BIMB	13.4%	7,191	52,036	13.8%	6,970	221	0.098	4.0%
HLBANK	12.6%	24,426	184,387	13.2%	23,319	1,106	0.510	2.2%
MBSB	18.9%	8,993	47,332	19.0%	8,969	24	0.003	0.4%
PBBANK	13.9%	51,229	343,959	14.9%	47,790	3,440	0.177	3.6%

Source: Companies, Kenanga Research

From our computations, we derived stand-outs to be **BIMB** and **PBBANK** with the largest release relative to share price, translating to yield of 4.0% and 3.6%, respectively. **HLBANK** also screens modestly, with a potential return of 2.2%. We note that these banks are relatively retail-heavy, particularly in residential mortgages, which, under the Basel III reforms, see one of the more meaningful re-calibration in risk weights compared with other asset classes.

Fig. 3: Loans Composition by Type

Bank	Residential Mortgage	Personal Use	Credit Card	Transport Vehicles	Purchase of Securities	Non-Household	Total
ABMB	32%	10%	1%	0%	5%	52%	100%
AFFIN	30%	8%	1%	22%	7%	33%	100%
BIMB	41%	30%	1%	3%	0%	23%	100%
HLBANK	48%	2%	2%	12%	1%	35%	100%
MBSB	25%	40%	0%	0%	0%	34%	100%
PBBANK	42%	3%	1%	19%	1%	34%	100%

Source: Companies, Kenanga Research

With regards to the six affected banks, the larger-cap names had already guided towards higher dividend commitments prior to the reforms. **PBBANK** has indicated a sustainable payout of at least 60% in FY26, while **HLBANK** raised its Jun-FY25 payout to 46% (from a historical average of below 35%) and appears positioned to maintain similar levels. At current prices, both banks are offering dividend yields of 4.5%–5.0%. The anticipated capital release on day one of the RWA reforms could further enhance their capacity, along with peers, to declare meaningful one-off special dividends. **BIMB**'s largest potential uplift is likely supported by its current valuations trailing at only 0.7x PBV.

While the banks should be able to distribute its released CET-1 fully, we do not discount the possibility that some capital could be invested into its operations, having often indicated a preference to strengthen capital formation through loan and asset growth, ensuring dividend sustainability over the longer term rather than maximising near-term distributions. Structurally, our reading of [Basel III: Finalising post-crisis reforms](#) did indicate that the magnitude of RWA relief varies meaningfully across asset classes. Notable recalibrations include:

- i) **Residential real estate:** The flat 35% risk weight is replaced with a loan-to-value (LTV)-based range of 20%-70% risk weight for homes where repayment is not materially dependent on cash flows generated by property. In practice, we expect meaningful savings for mortgages with financing margins of 60%-80%, which would attract a 30% risk weight, implying a 5-ppt reduction versus the previous framework. On the other hand, LTVs of 80%-90% now fetch a higher RWA of 40% or a 5-ppt increment to risk weight.
 Meanwhile, homes where repayment is materially dependent on cash flows generated by property (i.e. rental) incur a higher band of 30%-75% risk weight.
- ii) **SMEs:** Eligible SME exposures previously assigned a 100% risk weight may be reduced to 85%, lowering the capital intensity for this segment.
- iii) **Corporate exposures:** Externally rated corporates within the BBB+ to BBB- range see a reduced risk weight from 100% to 75%, while other rating bands remain largely unchanged.
- iv) **Credit card portfolios:** Accounts classified as "transactors" benefit from a reduced risk weight of 45%, down from 75%, reflecting their lower credit risk profile.

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As such, there will be a greater inclination for the banks to pursue these segments more aggressively as they now attract lower risk weights, thereby optimising RWA intensity and improving capital efficiency. On the flip side, by virtue of a lower RWA assignments, there is an asset quality incentive as well should the banks pursue these segments further. However, this could present competitive pressures for banks that are already heavily concentrated in these segments. For instance, **ABMB** and **AMBANK** may face heightened competition within the SME space, where its exposure is relatively sizeable. At the same time, banks may become more receptive to lower-to-mid investment grade corporates, given the improved risk-weight treatment, balancing margin enhancement against a modestly higher credit risk profile.

4QCY25 results reflects sustained resiliency.

The 4QCY25 results season ended with a mixed bag, where out of the 10 listed banks within our coverage, we saw positive surprises from: (i) **ABMB** for reporting higher-than-expected treasury gains, and (ii) **RHBBANK** which managed to contain its credit cost to a lower degree. Conversely, we had disappointments from: (i) **AFFIN** from incurring larger-than-expected operating expenses, and (ii) **MBSB** for the unexpected provisions booked from a large troubled corporate account.

In terms of guidance, banks faced several operational headwinds, though most targets were broadly in line with expectations. For CY25, CIR was the most commonly missed metric (**CIMB**, **RHBBANK**, **MBSB**), largely due to softer treasury and investment income in 4QCY25, which weighed against year-end cost allocations.

Loan growth targets were missed by **MAYBANK** and **CIMB**, primarily due to unfavourable forex translation effects impacting their regional operations, particularly in Indonesia. Meanwhile, **AFFIN** and **MBSB**, both of which fell short of our earnings forecasts, also underdelivered on their ROE targets, reflecting weaker overall profitability trends.

On a more positive note, while most banks reported 4QCY25 NIMs that remained below pre-OPR cut levels seen in 2QCY25, margins showed sequential improvement from 3QCY25. This was largely driven by the gradual repricing of shorter-tenure deposits, alongside a more disciplined approach to deposit gathering. Notably, **MAYBANK** managed to lift its NIM above pre-OPR cut levels, supported by the decline in SORA, which benefited its Singapore operation.

Fig 4: Quarterly Results Performance

	4QCY25						3QCY25					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ABMB			1		1			1			1	
AFFIN	1				1			1			1	
AMBANK		1			1			1			1	
BIMB		1		1					1		1	
CIMB		1			1			1			1	
HLBANK		1			1			1			1	
MAYBANK		1			1			1			1	
MBSB			1			1			1			1
PBBANK		1			1			1			1	
RHBBANK	1				1			1			1	
Total	2	6	2	1	8	1		8	2		9	1
Total (%)	2	60	20	10	80	10		80	20		90	10

Some bullish guidance, some not so much. With regards to CY26 forward targets, loans growths are expected to remain stable across the banks with a notable mention on **CIMB** which moved towards total asset growth targets as opposed to loans, citing the intention for more capital efficient fee-based income and a more selective approach on higher-return loan segments. NIM dynamics appear mixed with **CIMB** and **PBBANK** anticipating slight compressions to remain while other banks are hopeful for a single digit bps improvement from more manageable funding costs and better asset yields.

(refer to Fig. 6 for updates on corporate guidance post-3QCY25 results)

Pack leaders widening the gap. Based on the 4QCY25 domestic market share breakdown, the combined loan market shares of our 10 listed local banks came in at 83.4% (+82 bps YoY, +34 bps QoQ). **MAYBANK** and **PBBANK** remained leaders at 18.8% (+16 bps YoY, +12 bps QoQ) and 17.9% (+18 bps YoY, -4 bps QoQ), respectively, on the back of larger mortgage and vehicle hire purchase books. **CIMB's** 12.1% (-7 bps YoY, +8 bps QoQ) decline continued to come from their continued emphasis on more profitable accounts as opposed to more volume capture. Meanwhile, **AMBANK** (-4 bps YoY, +1 bps QoQ) is gradually regaining its position sequentially on the back of its increasing appetite for commercial loans in the manufacturing and services sector.

Fig 5: Domestic Loan Market Share Breakdown as at 4QCY25

Name	Domestic Loans				Domestic Market Share			Total Group Loans (RM b)	Total Asset (RM b)	Total Equity (RM b)
	RM b	Proportion (%)	YoY Growth (%)	QoQ Growth (%)	(%)	YoY Chg (bps)	QoQ Chg (bps)			
MAYBANK	444.3	65	5.7	2.1	18.8	+ 16	+ 12	686.5	1,067.4	92.7
PBBANK	421.0	94	5.9	1.2	17.9	+ 18	- 4	445.8	561.7	59.9
CIMB	285.4	63	4.2	2.1	12.1	- 7	+ 8	452.9	778.7	70.4
RHBBANK	213.0	85	6.2	2.4	9.0	+ 12	+ 9	250.6	358.1	34.1
HLBANK	200.6	93	8.3	1.6	8.5	+ 27	+ 2	215.7	316.1	39.8
AMBANK	142.4	100	4.2	1.6	6.0	- 4	+ 1	142.7	202.2	21.2
AFFIN	77.8	98	9.9	3.8	3.3	+ 15	+ 8	79.5	124.1	12.2
BIMB	74.7	100	6.4	1.8	3.2	+ 5	+ 1	74.7	104.1	8.1
ABMB	65.8	100	7.9	2.9	2.8	+ 8	+ 4	65.8	88.4	8.7
MBSB	42.3	96	0.2	-2.2	1.8	- 8	- 7	43.9	65.2	9.9
Others	390.3	N.A.	-0.1	-0.6	16.6	- 82	- 34	N.A.	N.A.	N.A.
Total	2,357.6		4.8	1.4	100.0			2,458.2	3,666.0	356.9

Source: BNM, Companies, Kenanga Research

¹ Others include non-listed local and foreign financial institutions

² Total domestic loans refer to total system loans during the period as reported by BNM

Share price consolidation and refreshed lens recalibrates our favourites. We maintain our **OVERWEIGHT** stance on the banking sector, with the upcoming Basel III reforms potentially reintroducing special dividends into the investment narrative.

On fundamentals, following our recent upgrade of **CIMB** to **OUTPERFORM**, we view the stock as particularly compelling at current levels. The group's strategic pivot towards less capital-intensive growth alleviates our earlier concerns over balancing expansion with capital distribution. With projected sustainable dividend yields of >6%, including distributions under its capital return plan, **CIMB** now compares favourably against **MAYBANK** and **RHBBANK**, traditionally viewed as dividend leaders. This supports our decision to elevate CIMB as a **Top Pick** for the sector.

From this report, we introduce **PBBANK** as our second Top Pick for the sector, supported by nearer-term dividend catalysts, including potential special dividend yields of up to 3.6% upon the implementation of the Basel III reforms on 1 July 2026. In addition, the group's commitment for a more sustainable payout ratio of 60% enhances dividend visibility and stability. This is further underpinned by PBBANK's industry-leading asset quality, with a 4QCY25 GIL ratio of 0.51% versus the industry average of 1.37%. While its current ordinary dividend yield of 4.8% is marginally below the industry average of 5.2%, it remains well above its historical range of c.3.0% which suggest that current valuations remain attractive, particularly as investors continue to assign a premium to the bank's high-quality and resilient asset base.

Fig 6: Updated Corporate Guidances Post-4QCY25 Results

Bank	FYE	Loan growth	NIM	Cost-to-income ratio	Credit cost	Return on equity	Gross impaired loan
ABMB	Mar-26	8%-10% (FY25: 12.0%)	2.34%-2.37% (from 2.37%-2.43%) (FY25: 2.45%)	~48.0% (FY25: 48.0%)	30-33 bps (from 30-35 bps) (FY25: 32 bps)	>10.0% (FY25: 10.3%)	
AFFIN	Dec-26	10% (FY25: 10.4%)	1.55% (FY25: 1.45%)	67.0% (FY25: 69.7%)	13 bps (FY25: -13 bps)	5.0% (FY25: 4.5%)	1.80% (FY25: 1.64%)
AMBANK	Mar-26	Single digit growth (FY25: 3.5%)	Stable (FY25: 1.97%)		~20 bps (FY25: 8 bps)		
BIMB	Dec-26	8%-9% (FY25: 6.4%)	>2.1% (FY25: 2.07%)		28-30 bps (FY25: 21 bps)	>7.0% (FY25: 7.1%)	<1.1% (FY25: 0.97%)
CIMB	Dec-26	Total Assets 5%-7% (FY25: 3.1%)	+/- 5 bps (FY25: 2.13%)	<47% (FY25: 47.3%)	25-35 bps (FY25: 31 bps)	11.0-11.5% (FY25: 11.3%)	
HLBANK	Jun-26	6%-7% (FY25: 7.8%)	1.80-1.90% (FY25: 1.79%)	~39% (FY25: 38.7%)	<10 bps (FY25: -19 bps)	11.5%-12.0% (FY25: 12.2%)	<0.65% (FY25: 0.54%)
MAYBANK	Dec-26	4%-5% (FY25: 1.7%)	2.05%-2.10% (FY25: 2.05%)	<49% (FY25: 48.8%)	20 bps (FY25: 8 bps)	>11.8% (FY25: 11.3%)	
MBSB	Dec-26	7%-8% (FY25: 2.2%)	2.00% (FY25: 1.95%)	<53% (FY25: 57.9%)	30-40 bps (FY25: 41 bps)	5%-6% (FY25: 4.1%)	4%-5% (FY25: 5.2%)
PBBANK	Dec-26	4%-5% (FY25: 5.1%)	Stable-to-mid single digit compression (FY25: 2.15%)		single digit (FY25: 2 bps)	12%-13.0% (FY25: 12.8%)	
RHBBANK	Dec-26	5%-6% (FY25: 5.4%)	1.83%-1.86% (FY25: 1.80%)		13-14 bps (FY25: 13 bps)	10.8%-11.0% (FY25: 10.1%)	1.35%-1.40% (FY25: 1.41%)

Source: Companies, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
Affin Bank Bhd	MP	2.63	2.50	-4.9%	6,664.0	N	12/2026	22.4	24.0	4.9%	7.1%	11.8	11.0	0.5	4.6%	9.0	3.4%
Alliance Bank Malaysia Bhd	MP	4.99	5.20	4.2%	8,633.8	N	01/1900	48.0	50.3	10.7%	4.6%	10.4	9.9	1.1	10.5%	19.5	3.9%
AMMB Holdings Bhd	OP	6.46	7.45	15.3%	21,365.3	N	03/2026	64.2	67.0	6.0%	4.5%	10.1	9.6	1.0	10.0%	34.0	5.3%
Bank Islam Malaysia Bhd	MP	2.41	2.55	5.8%	5,462.2	Y	12/2026	26.5	28.5	7.9%	7.5%	9.1	8.5	0.7	7.5%	16.0	6.6%
CIMB Group Holdings Bhd	OP	8.02	8.45	5.4%	86,597.9	N	12/2026	78.6	83.9	6.9%	6.8%	10.2	9.6	1.1	11.4%	50.0	6.2%
Hong Leong Bank Bhd	OP	23.40	25.95	10.9%	50,724.6	N	06/2026	227.1	236.0	-0.6%	3.9%	10.3	9.9	1.1	11.5%	105.0	4.5%
Malayan Banking Bhd	MP	11.84	12.30	3.9%	143,040.3	N	12/2026	89.0	90.4	2.1%	1.6%	13.3	13.1	1.4	11.0%	64.0	5.4%
MBSB Bhd	MP	0.700	0.730	4.3%	5,755.6	Y	12/2026	5.7	7.7	45.4%	36.4%	12.4	9.1	0.5	4.1%	4.5	6.4%
Public Bank Bhd	OP	4.89	5.75	17.6%	94,918.3	N	12/2026	38.6	40.0	3.7%	3.6%	12.7	12.2	1.5	12.2%	23.5	4.8%
RHB Bank Bhd	MP	8.60	8.40	-2.3%	37,512.5	N	12/2026	75.5	79.9	-2.7%	5.8%	11.4	10.8	1.1	9.5%	47.0	5.5%
SECTOR AGGREGATE					460,675					3.5%	4.5%	11.8	11.3	1.2	10.3%		5.2%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.00	6.25	9.4	0.51	2.50	MP	
Alliance Bank Malaysia Bhd	3.00	10.0	10.0	1.00	5.20	MP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	8.0	9.7	0.73	2.55	MP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.95	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	MP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	MP	
Public Bank Bhd	4.00	13.0	9.4	1.68	5.75	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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