Banking

Rule 78 Revisited

POSITIVE (Maintain)

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HIGHLIGHTS

- **Purpose: Dewan Rakyat has abolished the use of flat rate and Rule of 78 for fixed-rate hire-purchase loans. The previous ruling discouraged premature hire purchase settlements by frontloading heavier interest payments in the first few years of the loan**
- **Negligible impact on banks, with the benefit largely going to consumers. Negative impact will come in the form of lesser interest payments, but early repayments are better for asset quality, and it could also speed up the car replacement cycle**
- **BNM is proposing to abolish the Rule of 78 for personal financing products – expect this in the near future. Overall, these regulations are in line with CCOB's efforts to discourage predatory lending practices**
- **Maintain POSITIVE call: Despite the presence of headwinds, the fundamental outlook is still pretty solid, as with dividend yields**

Sector Verdict

The banking sector, despite the presence of some headwinds, remains resilient with extremely attractive dividend yields. We believe the sector's fundamental outlook remains sound, with robust earnings (even factoring in NIM compression), manageable asset quality, large-scale recoveries, and better loan growth expected in the months ahead.

Core Themes

1. ▲ **Core beneficiary of emerging market inflows, should the narrowing between the OPR-Fed Funds Rate persist (given its dovish stance).** Robust earnings, high dividend yields, asset quality stability, and the lack of geopolitical/political issues (especially in light of recent regional events) make our banks look particularly attractive.
2. ▲ **Dividend outlook is bright.** Lower loan growth expectations and less skittishness over Basel III implementation lessen worries about capital. There are hints of higher dividend payouts at year's end.
3. ▲ **NOII to act as core topline driver in CY25.** Wealth management, bancassurance, and debt capital markets are common drivers of the fee side. Forex volatility and lowering bond yields bolster these returns.
4. ▲ **Liquidity outlook is bright.** Most banks boast elevated liquidity ratios, with space for pricier FD release or loan/deposit optimisation. This can offset NIM compression in subsequent quarters.
5. ► **Loan growth outlook is not amazing – most banks are expecting mediocre to weak figures.** Expanding on that, the primary market residential mortgages environment is even more competitive. Industry SME yields are narrowing, while problematic portfolios in several banks may dissuade strong growth in this segment.
6. ▼ **NIM compression to occur, a consequence of the recent OPR cut.** Be wary that a possible further rate cut in 2HCY25 is possible.
7. ▲▼ **Mixed bag on asset quality.** Some banks saw a spike this quarter, concerning investors – others managed this very well. Regardless, the consensus is that there will be some normalisation in 2HCY25 – and large recoveries are expected in select banks.
8. ▲▼ **Mixed bag on provisioning, though upside risk is greater.** Most banks have already issued large overlays. Hence, we are not expecting too many further incidents of higher provisioning. Concurrently, multiple banks are gearing up for large-scale writebacks, implying a lighter 2HCY25.

COMPANY *IN FOCUS*

RHB Bank

Maintain BUY | Target Price: RM7.21
Price @ 9 October 2025: RM6.77

- High dividend yields, with the possibility of higher-than-average dividend payout in FY25.
- Recoveries expected in multiple loan categories, particularly SME and foreign segments.
- Solid NOII to buoy topline in 2HFY25

SHARE PRICE CHART



HL Bank

Maintain BUY | Target Price: RM21.71
Price @ 9 October 2025: RM20.50

- Improved dividend payout and yields.
- Defensive pick: Asset quality and provision remain the best.
- Sharp NOII growth persists, especially from regional offerings.

SHARE PRICE CHART



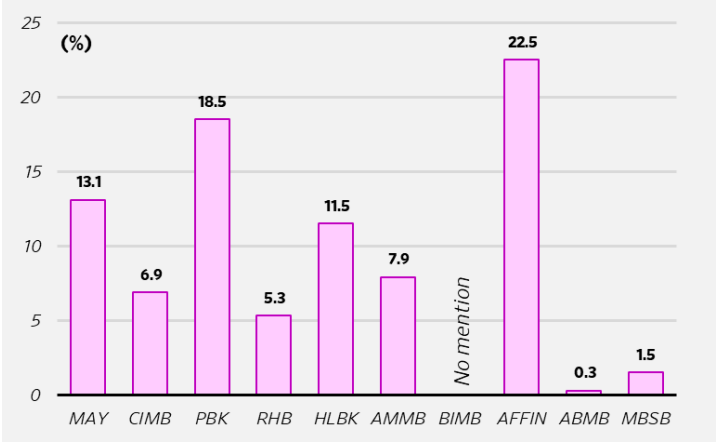
On Wednesday, the Dewan Rakyat passed the Hire Purchase (Amendment) Bill 2025, aimed at abolishing the use of flat rate and Rule of 78 for fixed-rate hire-purchase loans. The rule of 78 is a loan interest calculation method that benefits lenders by front-loading interest payments. This reduces the borrowers' savings brought about by early repayments, as the majority of interest payments are already paid within the first few years of the loan. Banks with larger hire-purchase exposure will be hit harder by this exercise, as well as credit service providers with sizeable hire-purchase exposure, such as **AEON CREDIT (NON-RATED)** and **ELK-DESA (NON-RATED).**

While the new ruling is good for consumers (via fairer monthly instalment calculations), the impact on banks will be immaterial. At first glance, the lesser interest payments to banks (however negligible it may be) will likely have a negative impact. But early repayments are better for asset quality, due to the higher likelihood of full repayment. Theoretically, it could also speed up the car replacement cycle (thus increasing the need for more hire-purchase loans) as consumers are far more likely to trade in their cars (for a new replacement) only after full loan repayment.

As it stands, roughly 30% of hire purchase borrowers settle their loans early – but only a very small proportion settle the debt before 5 years (when interest charges are at the highest). Also, keep in mind that the new ruling applies to new loans – though we do not discount the possibility of banks providing some form of discount/assistance to pre-existing borrowers.

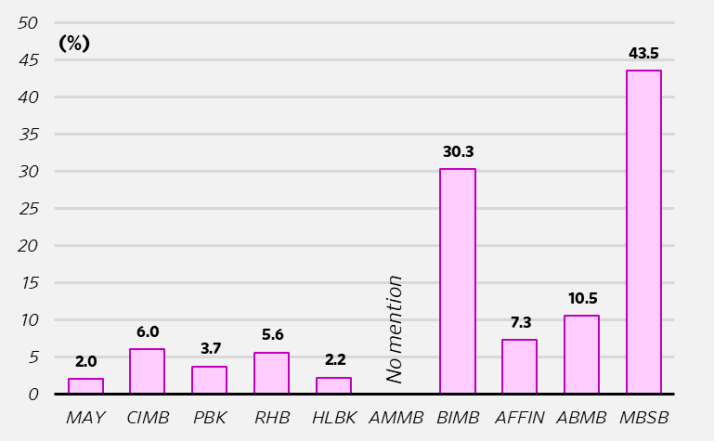
This comes hand-in-hand with BNM's proposal to abolish the Rule of 78 for personal financing products. This was first codified in the Exposure Draft on Personal Financing released on Dec-24, which has since graduated to a Policy Document released on Sep-25. Aside from banks, credit service providers with sizeable personal financing exposure (namely **RCE CAPITAL (NON-RATED)**) will be impacted.

FIG 1: % HP loans by bank



Source: Banks, MBSBR

FIG 2: % Personal financing loans by bank



Source: Banks, MBSBR

This is in line with the Consumer Credit Oversight Board (CCOB) efforts to discourage predatory lending practices by non-bank credit lenders. As the majority of CCOB's efforts focus on non-bank credit providers, we do not expect much impact on Malaysian banks. Before these recent rulings, the CCOB suggested abolishment of the Rule of 78 for fixed-rate hire-purchase loans way back in Apr-23. This can be found in their Consultation Paper 2 (CP2).

Reminder: The Consumer Credit Act 2025 is expected to be gazetted by the end of the year, providing more comprehensive protection for consumers by enforcing ethical practices by non-bank credit providers. The end goal is to implement a "Twin Peaks Model" of financial regulation, with separate regulators for prudential supervision and market conduct, as both these functions can sometimes be in tension. Currently, Malaysia does not function this way, with BNM performing both duties. These will affect non-bank lenders negatively, as limitations brought about by conduct regulations should restrict recovery methods, advertising, and financing charges.

Maintain POSITIVE call. (Our comprehensive list of sector drivers is on the first page).

Top downside risks include:

1. Weaker-than-expected GDP growth, which could lead to slower asset growth and asset quality issues,
2. Potential OPR cuts that will compress NIMs in the short term,
3. Asset quality flare-ups, which could lead to instances of heavier provisioning.

Top Picks: RHB Bank (BUY, TP: RM7.21) and **HL Bank (BUY, TP: RM21.71).**

PEER COMPARISON

Bank	Rec	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
MAY	NEUTRAL	10.00	9.92	-0.8	120.6	11.7	11.5	1.2	1.2	10.8	10.7	6.8	6.9
CIMB	BUY	7.57	8.22	8.6	81.0	10.4	10.2	1.1	1.1	11.0	10.8	5.2	5.3
PBK	BUY	4.29	4.82	12.4	83.3	11.3	10.8	1.4	1.3	12.4	12.3	4.7	5.1
RHB	BUY	6.77	7.21	6.5	29.0	9.4	8.9	0.9	0.8	9.3	9.5	6.2	6.5
HLBK	BUY	20.50	21.71	5.9	42.0	9.4	8.8	1.0	1.0	11.1	11.1	5.0	5.3
AMMB	NEUTRAL	5.86	5.30	-9.6	19.4	9.9	9.4	0.9	0.9	9.3	9.3	4.6	4.8
BIMB	NEUTRAL	2.28	2.31	1.3	5.1	9.9	8.9	0.7	0.7	6.8	7.5	6.0	6.7
AFFIN	BUY	2.37	2.48	4.7	5.9	9.9	9.3	0.5	0.5	5.0	5.1	3.0	3.2
ABMB	NEUTRAL	4.52	4.69	3.9	7.8	9.3	9.0	1.0	0.9	10.5	10.3	4.3	4.5
Simple avg (ex-HLFG)						**10.1**	**9.7**	**1.0**	**0.9**	**9.6**	**9.6**	**5.1**	**5.4**
Weighted avg (ex-HLFG)						**10.8**	**10.4**	**1.2**	**1.1**	**10.9**	**10.8**	**5.6**	**5.8**

**Closing prices from 09 Oct 2025.*

^HLBK, HLFG, AMMB and ABMB use FY26F/27F values.

Source: MBSBR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology