UOBKayHian

Sector – Update | Malaysia

Wednesday, 23 September 2026

Banking

ESG: Assessing TNFD Readiness

Highlights

- Nature-related exposure is material: 54% of RM816b commercial loans have high ecosystem dependency, while 36% have high environmental pressure.
- CIMB and Public Bank show relatively developed readiness, while Maybank benefits from lower exposure and peers remain at varying stages.
- Near-term earnings impact should be limited, but regulation is the key medium-term catalyst to embed nature into borrower assessment. Maintain OVERWEIGHT.

Analysis

- **Nature-related risk is becoming increasingly relevant to conventional credit risk.** Malaysian banks have meaningful exposure to sectors that depend on ecosystem services or exert pressure on nature, with palm oil and construction particularly relevant. The financial implications should emerge progressively through borrower selection, loan pricing, portfolio composition and, potentially, asset quality rather than through an immediate earnings impact.
- **Bank-level differentiation reflects both exposure and readiness.** Our peer assessment combines exposure to nature-sensitive sectors with publicly disclosed evidence of Taskforce on Nature-related Financial Disclosures (TNFD) reporting, nature integration in credit-risk processes and nature-related targets or metrics. CIMB currently shows the strongest disclosed readiness, with Public Bank also relatively advanced, while the remaining banks are at different stages of implementation.
- **Regulation could accelerate the transition from disclosure to credit decisions.** Current Malaysian nature-related assessment remains less developed than climate-risk management. As supervisory guidance, taxonomy requirements and disclosure expectations evolve, banks with established nature-risk data and credit processes should face a smaller implementation gap.
- **Nature finance also creates an emerging opportunity.** Beyond managing downside risk, banks may increasingly finance sustainable agriculture, water management, ecosystem restoration and other nature-positive activities as customer and regulatory demand develops.

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	22.54	24.50
CIMB	CIMB MK	BUY	7.63	9.30

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 22 Sep 26 (RM)	TP (RM)	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (S$m)	Price/ NAV ps (x)
Public Bank	PBK MK	BUY	4.84	5.54	12.8	12.3	11.4	6.1	12.4	22,693	1.5
CIMB Group	CIMB MK	BUY	7.90	9.30	10.5	9.9	9.1	6.6	11.6	20,216	1.1
HL Bank	HLBK MK	BUY	23.80	24.50	10.0	10.3	9.8	4.9	10.8	11,976	1.1
RHB Bank	RHBBANK MK	BUY	7.90	9.10	10.2	9.7	9.3	6.7	10.2	8,409	1.0
HLFG	HLFG MK	BUY	18.76	22.00	6.8	6.4	5.3	5.3	9.6	5,182	0.6
Maybank	MAY MK	HOLD	10.44	11.58	11.0	10.5	10.3	6.4	11.0	30,595	1.2
AMMB	AMM MK	HOLD	6.64	7.30	10.6	10.1	9.5	5.9	9.7	5,439	1.0
Alliance Bank	ABMB MK	HOLD	4.85	5.20	10.2	9.8	9.1	5.7	9.3	2,074	0.9
Affin Bank	ABANK MK	HOLD	2.02	2.48	9.0	8.3	7.5	4.8	4.8	1,297	0.4
Bank Islam	BIMB MK	HOLD	2.07	2.45	7.4	7.5	8.2	6.7	7.1	1,133	0.5

Source: Bloomberg, UOB Kay Hian

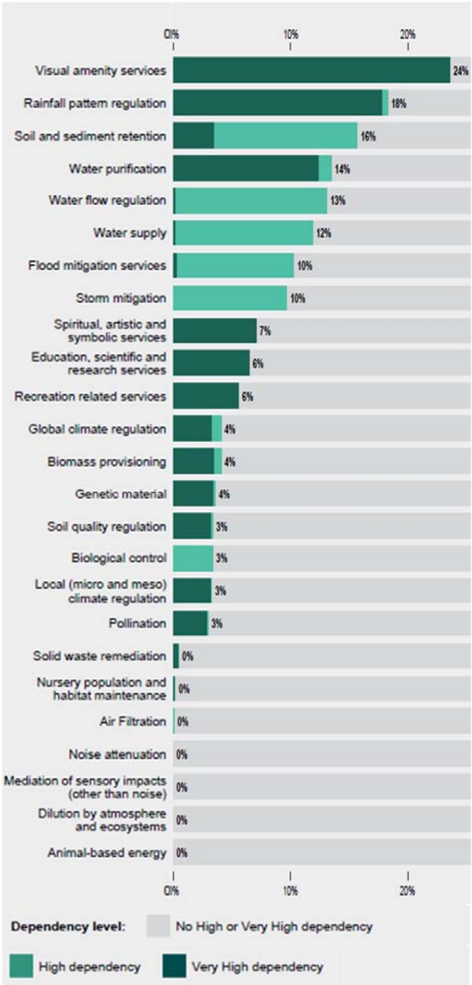
How Meaningful Nature Risk Becomes Financial Risk

- **System-wide exposure is already material.** According to Bank Negara Malaysia (BNM), the World Bank and the United Nations Development Programme, 54% of Malaysian banks' RM816b commercial loan portfolio at end-24 was extended to sectors with high or very high dependency on at least one ecosystem service. Separately, 36% was extended to sectors exerting high or very high pressure on nature, exposing banks to both physical and transition risks.
- **Physical risk transmits through borrower cash flow and collateral values.** Deterioration in ecosystem services such as water supply and purification, rainfall regulation, flood mitigation and soil retention can disrupt operations, reduce productivity and raise operating or remediation costs. Where these effects weaken earnings, cash flow or asset values, borrowers' repayment capacity may deteriorate, converting nature loss into conventional bank credit risk.
- **Transition risk arises as environmental requirements tighten.** Borrowers with significant impacts on nature may face stricter regulation, restrictions on activities in environmentally sensitive areas, higher traceability or certification requirements and changing customer preferences. These pressures can increase compliance costs or alter business-model viability, requiring banks to reassess credit appetite, underwriting standards and loan pricing.
- **The financial effects ultimately emerge through conventional credit channels.** Nature-related risk does not require a new earnings line to become financially relevant. Weaker borrower cash flows or collateral values can increase probability of default or loss given default, while greater uncertainty may lead banks to tighten underwriting standards, reprice risk or reduce exposure to vulnerable sectors. In more severe cases, this could translate into higher expected credit losses and net credit costs.
- **The next step is integration into core credit decisions.** BNM finds that most financial institutions still rely on broader environmental, social and governance or climate assessments rather than dedicated nature-specific analysis. Nature-risk management should therefore evolve progressively from identification and disclosure towards more explicit use in borrower assessment, credit approval, investment decisions and risk pricing.

Nature-Related Exposure Across Malaysian Banking

- **Nature dependencies extend beyond agriculture.** Nature-related exposure extends beyond conventionally sensitive sectors. At end-24, 24% of commercial lending had high or very high dependency on visual amenity services, 18% on rainfall regulation and 16% on soil and sediment retention. Water dependencies were also material: 14% for water purification, 13% for water-flow regulation and 12% for water supply. Deteriorating ecosystem services can directly weaken borrowers. This broadens the potential transmission of nature degradation beyond agriculture into property, infrastructure and other commercial activities.
- **Palm oil and construction stand out as key sources of nature-related exposure.** Perennial crops, predominantly oil palm, and construction combine relatively high dependence on ecosystem services with meaningful representation in Malaysian banks' commercial loan portfolios. Perennial crops account for much of the banking system's dependency on water purification and water supply, while construction is particularly relevant to rainfall regulation, soil and sediment retention and flood mitigation.
- **Palm oil is directly exposed to deterioration in natural systems.** Production depends on water availability and quality, rainfall patterns and soil condition. Deterioration in these ecosystem services can reduce agricultural yields, raise production costs and require additional investment in water management or land remediation, potentially weakening borrowers' operating performance and repayment capacity.

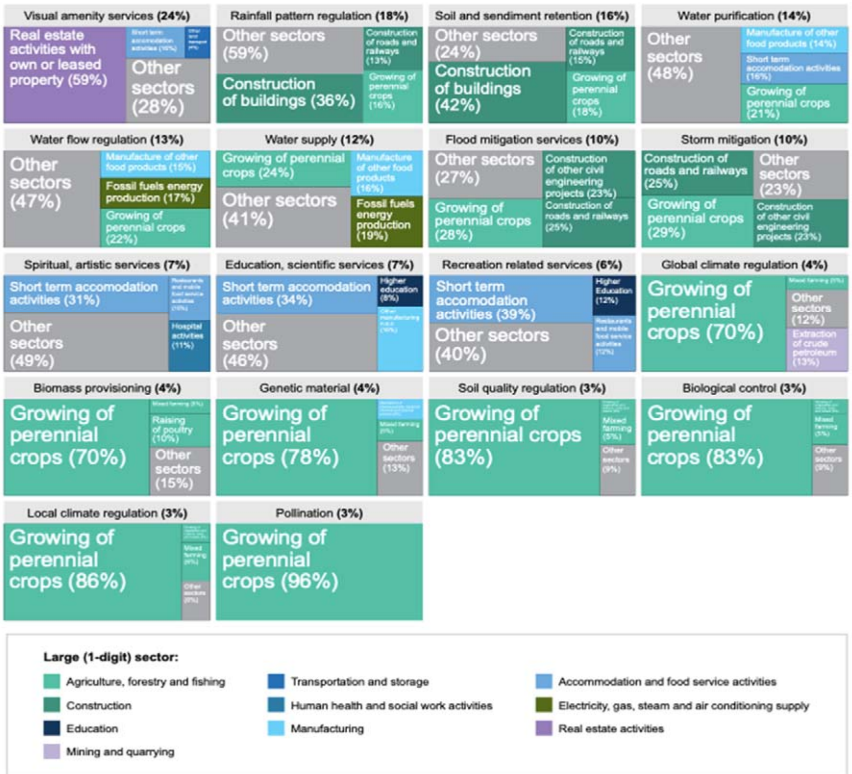
High Or Very High Dependency Of The Commercial Lending Portfolio To Individual Ecosystem Services (% of Total Loans)



Source: BNM

- **Construction faces a different set of physical vulnerabilities.** Project location and surrounding environmental conditions can influence exposure to floods, storms and landslides, while degradation of natural flood protection, soil retention and water-purification services can raise remediation and infrastructure costs. BNM estimates that construction of buildings alone accounts for 36% of banking-sector exposure to rainfall-pattern regulation.

Sectoral Contribution To Loans' Dependencies On Ecosystem Services – Malaysia, 2024 (% Of Total Loans, Top) And % Of Exposure Explained By The Sector (Inside Boxes)



Source: BNM

- **Environmental pressure creates an additional transition-risk channel.** At end-24, 29% of commercial lending was extended to sectors exerting high pressure through toxic soil and water pollutants, while 22% was associated with noise and light disturbance. The corresponding proportions were 13% for greenhouse-gas emissions and 9% for other air pollutants.
- **Borrowers with greater environmental impacts may face rising adjustment costs.** Tighter environmental standards, restrictions in sensitive locations, greater scrutiny of deforestation-linked commodities and higher biodiversity, certification or traceability requirements could increase operating costs or constrain activity. Banks with larger exposures to such borrowers may therefore need to differentiate credit appetite, underwriting standards and pricing more clearly over time.

Bank Loan Exposure And Management Readiness

- **Malaysian banks are at different stages of incorporating nature into readiness.** We assess each bank across four dimensions: exposure to nature-sensitive sectors, maturity of TNFD reporting, integration of nature into credit-risk processes, and availability of nature-related targets and metrics. Sector exposure indicates where nature-related risks may arise, while the remaining three measures assess the maturity of publicly disclosed risk-management practices.
- **Our assessment shows meaningful differences in exposure and preparedness.** CIMB currently shows the strongest disclosed readiness

Scoring Methodology

- TNFD reporting, nature in credit risk, and targets and metrics are each scored from zero to three: zero indicates no meaningful public disclosure; one, recognition or mainly qualitative disclosure; two, evidence of implementation; and three, systematic implementation supported by specific processes, assessments or quantitative evidence. The overall readiness score is the sum of these categories, with a maximum of nine. Sector exposure is assessed separately.
- Caveat: The comparison is a sector-based proxy, not a direct measure of each bank's nature-related financial risk. Disclosure classifications and granularity differ, so we include only six sectors that can be mapped reasonably consistently and exclude materially inconsistent mixed categories. Maybank and Hong Leong Bank report comparable sectors using loan carrying values rather than the gross-loan basis used by several peers. This should not change their exposure bands, but small percentage differences should not be overinterpreted. The exposure bands are peer-relative, not regulatory classifications.

Source: UOB Kay Hian

alongside moderate sector exposure, with Public Bank also screening relatively well. Maybank benefits from comparatively lower exposure, although its nature-related framework remains at an earlier stage of development. AMMB, Hong Leong Bank and Bank Islam have relatively higher exposure to nature-sensitive sectors, though Bank Islam shows more developed integration of biodiversity considerations into credit assessment. Overall, the differences largely reflect varying stages of disclosure and implementation rather than a judgement on the effectiveness of each bank's underlying risk-management framework.

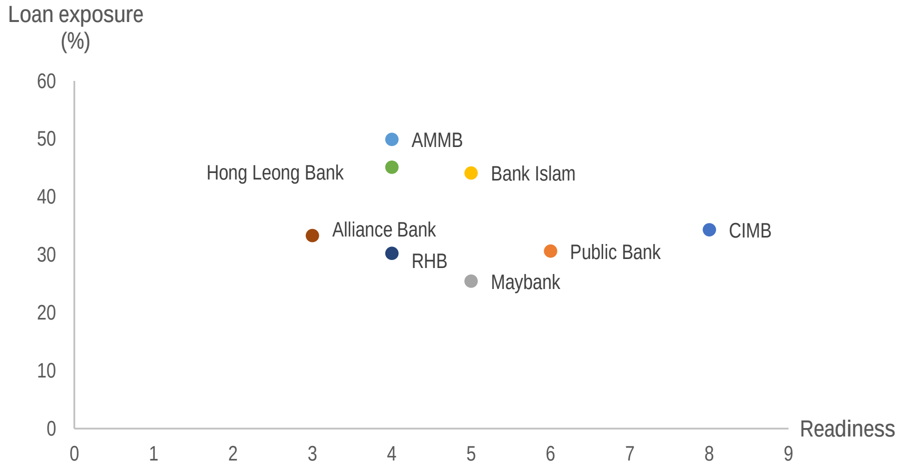
- Readiness differences should not drive near-term earnings, but stronger capabilities may increasingly support better borrower selection, underwriting and risk pricing. Over time, the effects could appear in the portfolio mix, asset quality and credit costs.

Banks' Loan Nature-Related Exposure (Non-Household Loans) And Management Readiness[2]

Bank	Core nature-sensitive exposure[1]	TNFD disclosure	Nature in credit risk	Nature targets / metrics	Overall readiness
CIMB	34.3%	3	3	2	8 / 9
Public Bank	30.6%	2	3	1	6 / 9
Maybank	25.4%	2	2	1	5 / 9
Bank Islam	44.1%	1	3	1	5 / 9
AMMB	49.9%	1	2	1	4 / 9
Hong Leong Bank	45.1%	0	3	1	4 / 9
RHB	30.2%	0	3	1	4 / 9
Alliance Bank	33.3%	0	2	1	3 / 9

1 Core nature-sensitive exposure comprises agriculture, mining and quarrying, manufacturing, electricity, gas and water, construction, and transport, storage and communications as a percentage of non-household loans.
2 Refer Appendix for detailed breakdown
Source: Respective companies, UOB Kay Hian

Loan Nature-Related Exposure (Non-Household Loans) vs Management Readiness



Source: UOB Kay Hian

Financial Effects Will Emerge Through Credit Decisions

- **Asset quality: A medium-term rather than immediate earnings risk.** TNFD adoption itself should not materially affect near-term net credit cost or sector earnings. The financial impact would instead arise if ecosystem deterioration or tighter environmental requirements weaken borrower cash flows, collateral values or business viability. Over time, this could translate into a higher probability of default or loss given default, prompting tighter underwriting standards, higher risk pricing and, in more severe cases, higher expected credit losses and net credit costs. The impact should therefore be more relevant for banks with larger nature-sensitive exposures and less developed capabilities to identify these risks early.

- **Loan growth vs risk pricing: nature also presents an opportunity.** Nature-risk management is not purely defensive. BNM encourages financial institutions to finance nature-positive activities including sustainable agriculture, water efficiency and watershed management, ecosystem restoration and nature-based infrastructure. CIMB has identified opportunities in areas such as water security, mangrove and blue-carbon restoration and regenerative land management, while Bank Islam highlights sustainable agriculture, water management and biodiversity-sensitive infrastructure. Banks that build expertise earlier could therefore improve risk selection while also capturing financing demand from customers adapting to tighter environmental requirements.
- **Regulation is likely to be the key catalyst.** The pace of regulatory development will likely determine how quickly nature moves from sustainability reporting into mainstream banking decisions. BNM notes that current Malaysian frameworks remain predominantly climate-focused and broader biodiversity assessments are still largely voluntary. Its recommendations include integrating nature into the Malaysia Taxonomy, broadening the Joint Committee on Climate Change's mandate, strengthening supervisory guidance and developing a phased path towards mandatory nature-related disclosure.
- Banks that have already begun building nature-specific data, assessment tools and credit processes should face a smaller implementation gap if supervisory expectations tighten, while banks at earlier stages may need to accelerate the development of underwriting, monitoring and client-engagement practices.
- **Conclusion.** Nature-related risk is unlikely to become a major near-term earnings driver for Malaysian banks, but its relevance to conventional credit-risk management should increase as data, methodologies and regulation mature.

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.

Sector Catalyst/Risk

- **Catalysts:** Stronger-than-expected dividend payouts, stronger-than-expected NIM recovery.
- **Risks:** Higher-than-expected asset quality deterioration from the sustained spike in oil prices on businesses.

Banks' Loan Nature-Related Exposure (Non-Household Loans) And Management Readiness

Bank	Core nature-sensitive loans (RMb)[1]	Non-household loans (RMb)	Exposure	TNFD disclosure	Nature in credit risk	Nature targets / metrics	Overall readiness
CIMB	75.7	220.6	34.3%	3/3. Published its first dedicated Nature and Biodiversity Report in 2025, aligned with TNFD recommendations. Applies double materiality, identifies priority sectors and uses tools including ENCORE, Global Forest Watch and WWF Biodiversity Risk Filter. Also participated in Malaysia's TNFD LEAP pilot.	3/3. Nature considerations are incorporated into environmental and social due diligence. More than 70 in-depth nature-risk assessments were conducted in 2025; 114 of 707 enhanced sustainability due-diligence cases identified nature-related risks and led to client action plans. Material issues can trigger monitoring, watchlist placement or financing restrictions.	2/3. Quantitative nature assessment and monitoring are already in place, but formal portfolio-level nature and biodiversity targets have not yet been established.	8/9
Public Bank	40.5	132.0	30.6%	2/3. Has begun assessing biodiversity-related risks and dependencies across its portfolio under the TNFD framework and is piloting the TNFD LEAP approach, but has not yet published a full portfolio-level TNFD assessment.	3/3. ESG due diligence, sector-specific Risk Acceptance Criteria and an ESG Exclusion List are embedded in financing decisions. Nature-related exclusions cover Ramsar wetlands, Key Biodiversity Areas, endangered-species habitats, high-conservation-value forests, peatlands and activities affecting water security.	1/3. Has substantial sustainable-finance and decarbonisation targets, but no mature portfolio-level biodiversity, deforestation, water or ecosystem targets were identified.	6/9
Maybank	100.8	396.4	25.4%	2/3. Explicitly recognises biodiversity risk and is developing a Nature and Biodiversity Framework aligned with TNFD. A Nature and Biodiversity Primer was introduced in 2025, but a substantive published TNFD-aligned assessment is not yet available.	2/3. Biodiversity and land-use considerations are embedded within its ESG Risk Management Framework and Risk Acceptance Criteria. Pilot assessments cover Key Biodiversity Areas, Biodiversity Protected Areas and Water-Stressed Areas, although disclosed transaction-level financing consequences remain less developed.	1/3. Nature-related data collection has begun, but quantitative environmental targets remain predominantly climate- and operations-focused rather than portfolio-level nature targets.	5/9
Bank Islam	8.0	18.1	44.2%	1/3. Explicitly recognises TNFD and nature-related financial risk and discusses biodiversity and nature-related impacts, but has not yet disclosed a TNFD-aligned DIRO or LEAP portfolio assessment.	3/3. Nature-related considerations are embedded in financing safeguards. A third-party biodiversity tool is being incorporated into the CCPT Due Diligence Questionnaire to identify protected areas, Key Biodiversity Areas and water-stressed regions and to support credit decision-making and mitigation.	1/3. Biodiversity and ecosystem preservation are identified as emerging priorities, but no portfolio-level quantitative nature targets have been disclosed.	5/9
AMMB	38.8	77.8	49.9%	1/3. Nature and biodiversity risks are explicitly recognised, but the bank identifies a preliminary nature and biodiversity risk assessment as a future step rather than a completed TNFD-style assessment.	2/3. Its Climate Change and ESG Risk Assessment is integrated into corporate lending and project-finance evaluation, supported by nature-related restrictions including NDPE requirements and prohibitions involving endangered habitats and sensitive sites. Nature remains embedded within a broader ESG framework rather than a dedicated nature-risk process.	1/3. Quantitative climate-risk metrics are relatively developed, but dedicated portfolio-level biodiversity, deforestation, protected-area or water-dependency targets have not been identified.	4/9
Hong Leong Bank	35.0	77.5	45.1%	0/3. No TNFD/LEAP assessment or dedicated portfolio nature-risk assessment was identified in its FY2025 disclosures.	3/3. Environmental and social due diligence is applied across new and renewed SME, commercial and corporate facilities and annual reviews. Nature-related exclusions cover illegal deforestation, degradation of high-biodiversity-value areas, destructive land-clearing practices and other environmentally harmful activities. Assessment outcomes can influence risk rating, mitigation, lending strategy and pricing.	1/3. The bank discloses various sustainability and climate indicators, but no meaningful portfolio-level nature-specific targets were identified.	4/9
RHB	34.1	113.1	30.2%	0/3. Its sustainability reporting refers to frameworks including TCFD and IFRS S1/S2, but no TNFD-aligned assessment, LEAP exercise or portfolio nature DIRO assessment was identified.	3/3. Nature-related financing restrictions are embedded in Group Credit Policy. These include restrictions relating to High Biodiversity Value and High Conservation Value forests, peatlands and deforestation, alongside NDPE requirements for relevant sectors. Such considerations can determine financing eligibility.	1/3. Quantitative targets are largely climate- and sustainable-finance-related, with no portfolio-level biodiversity, KBA, deforestation or water-dependency targets identified.	4/9
Alliance Bank	11.3	33.9	33.3%	0/3. No dedicated TNFD-aligned assessment, LEAP exercise or portfolio-level analysis of nature-related dependencies, impacts, risks and opportunities was identified.	2/3. ESG Risk Acceptance Criteria form part of financing and credit assessment for environmentally sensitive industries, supported by a Prohibited Lending List covering activities causing significant environmental harm and unsustainable forestry. However, evidence of systematic nature-specific assessment remains more limited.	1/3. The bank has extensive climate and ESG metrics, but no dedicated portfolio-level biodiversity, deforestation, water or ecosystem targets were identified.	3/9

1 Core nature-sensitive exposure comprises agriculture, mining and quarrying, manufacturing, electricity, gas and water, construction, and transport, storage and communications loans.
Source: Respective companies, UOB Kay Hian