

## AMMB Holdings Berhad

(1015 | AMM MK) Financial Services | Finance

### 1QFY24 Results: Lumpy Provisions this Quarter

#### KEY INVESTMENT HIGHLIGHTS

- 3MFY24's Core NP of RM352m was *Within/Within* our/*street* forecasts: **20%/20%** of full-year forecasts
- Management's tone: **Less optimistic than before (especially for loan growth)**
- Core themes: (a) **SBR-induced NIM compression**, (b) **Reduced loan growth guidance**, (c) **Heavy provision quarter**
- Forecasts unchanged
- **Maintain BUY | Unchanged TP of RM3.98 | based on an unchanged FY25F P/BV of 0.80x**

**Verdict: AMMB is close to being priced in, but we look to solid dividend yields, and what is likely the weakest quarter in FY24 having passed.**

<b>Yays</b>	<ol style="list-style-type: none"> <li>1. Good cost control – management guiding for OPEX figures to be lower than FY23.</li> <li>2. NOII uplift guided for the following quarter.</li> </ol>
<b>Nays</b>	<ol style="list-style-type: none"> <li>1. Loan growth looking lacklustre.</li> </ol>
<b>OKs</b>	<ol style="list-style-type: none"> <li>1. Decent provisions – the worst is likely out of the way.</li> <li>2. Finished capital build could imply dividend payout of &gt;35% after FY24.</li> </ol>

**3MFY24's Core net profit (NP) of RM352m down by -9%yoy.** This was due to higher OPEX and provisions, as well as lower NII offsetting improvements in NOII and tax normalisation. Provisions were particularly large this quarter, with heavy BAU and forward-looking provisions offsetting a sizeable overlay writeback.

**1QFY24's Core NP of RM352m down by -18%qoq.** The reduction was due to higher provisions, weaker associate income and NII contributions offsetting positive benefits of tax normalisation and OPEX reduction.

**We expect future quarters to be much healthier.** This is premised on management guiding for (1) Better loan growth in 2HCY23, (2) More normalised provisioning figures, (3) OPEX to remain stable/lower than 1QFY24's figures.

#### Have a look at:

**SBR has compressed NIMs.** Despite OPR currently at the pre-pandemic's 3.00% level, current NIM of 1.76% is weaker than pre-pandemic figures (~1.94%). Management attributes this to SBR effects on the retail portfolio, which has compressed NIMs by -21bps.

**LCR is heavily elevated due to earlier refinancing – this could be a sector-wide phenomenon.** LCR has risen to a high 170%, from last quarter's 149%. Management attributes this to much earlier refinancing (Tier-2 debt, CAGAMAS lending etc.), as they intend to lock in financing while rates are still good. We expect other banks to follow a similar route.

**Maintain BUY**
**Unchanged Target Price: RM3.98**

#### RETURN STATISTICS

Price @ 21 August 2023 (RM)	3.77
Expected share price return (%)	+5.6
Expected dividend yield (%)	+5.3
Expected total return (%)	<b>+10.9</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.5	1.2
3 months	5.8	6.9
12 months	-5.4	-1.6

#### INVESTMENT STATISTICS

FYE Mar	FY24F	FY25F	FY26F
<b>Core NP (RM m)</b>	<b>1,779</b>	<b>1,902</b>	<b>1,984</b>
CNP growth (%)	3	7	4
<b>Div yield (%)</b>	<b>5.0</b>	<b>5.3</b>	<b>5.5</b>
Gross DPS (sen)	18.7	20.0	20.8
<b>P/BV (x)</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
BVPS (RM)	4.6	5.0	5.3
<b>ROE (%)</b>	<b>9.5</b>	<b>9.5</b>	<b>9.2</b>
MIDF/Street CNP (%)	103	104	104

#### KEY STATISTICS

FBM KLCI	1450.57
Issue shares (m)	3,296.2
Estimated free float (%)	46.6
Market Capitalisation (RM'm)	12,685.0
52-wk price range	RM3.42 - RM4.25
3-mth avg daily volume (m)	3.0
3-mth avg daily value (RM'm)	10.9
Top Shareholders (%)	
ANZ Funds Pty Ltd	21.6
Clear Goal Sdn Bhd	10.9
EPF Board	9.7

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**Asset quality spotlight: PHRA Mortgage and Retail SME loans.** Overall, GIL ratio has risen by +20bps qoq to 1.66%. Management largely attributes this to an increase in impairments among Mortgages and Retail SME (RSME) loans that have signed up more than one PHRA programme. Regardless, management assures that judging by the current flow of delinquencies, the current GIL ratio should be close to the peak. We believe that this will be an industry-wide phenomenon and urge investors to be cautious of banks with high percentage of retail exposure in RA programmes.

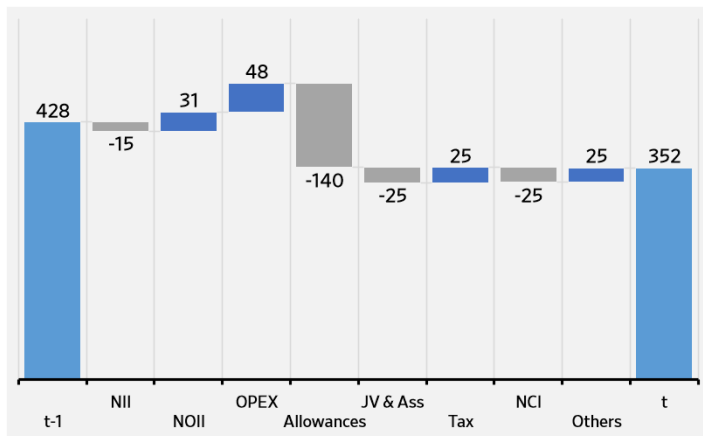
**Forecasts unchanged.** We make no revisions to our earnings forecast.

**Key downside risks.** (1) Higher-than-anticipated credit costs, (2) Poor cost control, (3) Weaker NOII contributions.

**Maintain BUY call: Unchanged GGM-TP of RM 3.98.** The TP is based on an unchanged FY25F P/BV of 0.80x. (**GGM assumptions:** FY25F ROE of 9.5%, LTG of 3.5% & COE of 11.0%.)

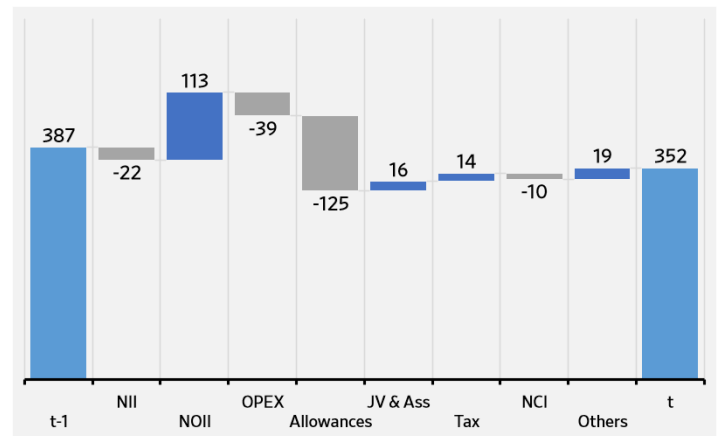


**Fig 1: QoQ P/L walk (Quarterly results)**



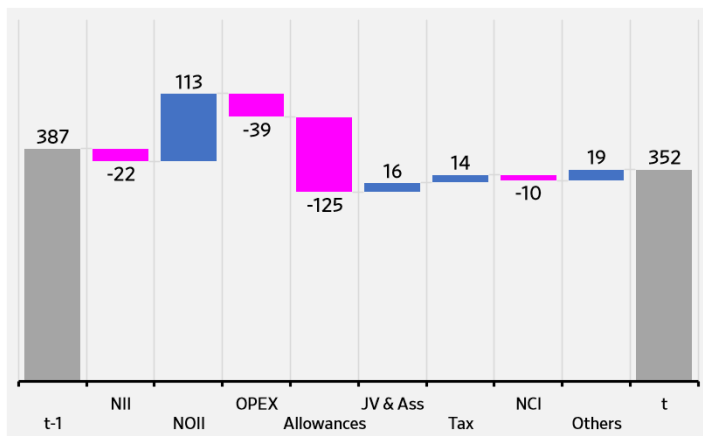
Source: AMMB, MIDFR

**Fig 2: YoY P/L walk (Quarterly results)**



Source: AMMB, MIDFR

**Fig 3: YoY P/L walk (Cumulative results)**



Source: AMMB, MIDFR

Fig 4: Quarterly results

FYE Mar (RM m)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3MFY24	3MFY23	Yoy (%)
Net interest inc.	520	522	566	-8	-0	520	566	-8
Islamic banking inc.	371	316	283	31	17	371	283	31
Non-interest inc.	249	287	192	30	-13	249	192	30
<b>Net income</b>	<b>1,141</b>	<b>1,125</b>	<b>1,041</b>	<b>10</b>	<b>1</b>	<b>1,141</b>	<b>1,041</b>	<b>10</b>
OPEX	(508)	(556)	(469)	8	-9	(508)	(469)	8
<b>PPOP</b>	<b>633</b>	<b>569</b>	<b>572</b>	<b>11</b>	<b>11</b>	<b>(508)</b>	<b>(469)</b>	<b>8</b>
Loan provisions	(166)	(84)	(60)	177	97	(166)	(60)	177
Other provisions	(24)	34	(6)	316	-172	(24)	(6)	316
JV & Associates	10	35	(6)	-265	-72	10	(6)	-265
<b>PBT</b>	<b>453</b>	<b>554</b>	<b>501</b>	<b>-10</b>	<b>-18</b>	<b>453</b>	<b>501</b>	<b>-10</b>
Tax	(100)	(126)	(114)	-12	-20	(100)	(114)	-12
Discontinued ops	51	-	39	n.m.	n.m.	51	39	n.m.
NCI	(25)	(0)	(15)	n.m.	n.m.	(25)	(15)	n.m.
<b>Reported NP</b>	<b>378</b>	<b>428</b>	<b>410</b>	<b>-8</b>	<b>-12</b>	<b>378</b>	<b>410</b>	<b>-8</b>
<b>Core NP</b>	<b>352</b>	<b>428</b>	<b>387</b>	<b>-9</b>	<b>-18</b>	<b>352</b>	<b>387</b>	<b>-9</b>
Total NII*	809	824	831	-3	-2	809	831	-3
Total NOII*	342	336	213	61	2	342	213	61
<b>Gross DPS (sen)</b>	<b>-</b>	<b>12.3</b>	<b>-</b>	<b>n.m.</b>	<b>n.m.</b>	<b>-</b>	<b>-</b>	<b>n.m.</b>
Core EPS (sen)	10.7	12.9	11.7	-9	-18	10.7	11.7	-9
Gross loans	128,971	130,227	120,126	7.4	-1.0			
Gross impaired loans	2,139	1,896	1,864	14.8	12.8			
Customer deposits	130,265	130,315	121,393	7.3	-0.0			
CASA	39,583	48,800	39,554	0.1	-18.9			

\*Contains contributions from JV &amp; Associates

Ratios (%)	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3MFY24	3MFY23	Yoy (ppts)
<b>ROE (Ann.)</b>	<b>7.6</b>	<b>9.5</b>	<b>9.1</b>	<b>-1.5</b>	<b>-1.9</b>	<b>7.6</b>	<b>9.1</b>	<b>-1.5</b>
<b>NIM (Reported)</b>	<b>1.76</b>	<b>1.84</b>	<b>2.12</b>	<b>-0.36</b>	<b>-0.08</b>	<b>1.76</b>	<b>2.12</b>	<b>-0.36</b>
NOII/Net income	29.7	29.0	20.4	9.3	0.7	29.7	20.4	9.3
Cost/Income	44.5	49.4	45.0	-0.5	-4.9	44.5	45.0	-0.5
NCC (Ann.) (bps)	53	27	20	33	26	53	20	33
GIL ratio	1.66	1.46	1.55	0.11	0.20			
Loan loss coverage	97	105	100	-3	-8			
CASA ratio	30.4	37.4	32.6	-2.2	-7.1			
L/D ratio	97.4	98.4	97.4	-0.0	-1.0			
CET-1	12.9	12.5	12.4	0.5	0.4			

Source: AMMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	352	Qtrly ROE	Qtr value	7.6%
	20% of FY CNP				
	Qoq	-18%		t-1	9.5%
	Yoy	-9%		t-4	9.1%
Cum Core NP	RM mil	352	Cum ROE	Cum value	7.6%
	Within our forecast				
	20% of FY CNP				
	Within consensus				
	Yoy	-9%		t-1	9.1%
NII	As expected		NIM	As expected	
				Qtr value	1.76
				Cum value	1.76
	Qtr (Qoq)	-2%		Qtr (Qoq)	-8bps
	Qtr (Yoy)	-3%		Qtr (Yoy)	-36bps
Cum (Yoy)	-3%	Cum (Yoy)	-36bps		
NOII	As expected		Qtr	% NII	70%
	Qtr (Qoq)	2%		% NOII	30%
	Qtr (Yoy)	61%	Cum	% NII	70%
	Cum (Yoy)	61%		% NOII	30%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	44.5%
				Cum value	44.5%
	Qtr (Qoq)	-9%		Qtr (Qoq)	-4.9%
	Qtr (Yoy)	8%		Qtr (Yoy)	-0.5%
Cum (Yoy)	8%	Cum (Yoy)	-0.5%		

Source: AMMB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

**A weak quarter, dragged largely by higher macroeconomic provision allocations.**

Despite this, management is maintaining its guidance of RM1.6b for FY24.

**Honestly, a bit weaker than expected, as management was guiding for stable NIMs initially.**

COF should be stable here on out, until 6-7 months from May-23 (when the latest OPR hike should be priced in).

**Decent improvement.**

The Group is taking advantage of low yields and cashing out. It will do the same next quarter.

**Decent uptick. Management aims for FY23's OPEX to be lower than FY23's RM2.1b.**

Management will be strict on headcount figures. Management thinks they can achieve <RM1.0b in 1HFY24, guiding for <RM500m in 2QFY24.

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	-ve surprise					<b>Very weak, and management has revised guidance downwards.</b> Management is confident in 2HCY23's prospects, riding on the post-election pipeline.
	Qoq	-1.0%				
	Yoy	7.4%				
	YTD (FY)	-1.0%				
Depo. grwth	-ve surprise		CASA grwth	As expected		<b>Disappointing overall deposit growth.</b> CASA qoq performance was weak but expected – following high base effects from last quarter's CASA promo. (The CASA balances were largely converted to FDs).  Last quarter's distortion aside, CASA ratio fell from 32.2% (two quarters ago) to 30.4%.
	Qoq	-0.0%		Qoq	-18.9%	
	Yoy	7.3%		Yoy	0.1%	
	YTD (FY)	-0.0%		YTD (FY)	-18.9%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	30.4%		Value now	97.4%	
	Qoq	-7.1%		Qoq	-1.0%	
	Yoy	-2.2%		Yoy	-0.0%	
GIL ratio	As expected		LLC ratio	As expected		<b>GIL deterioration was expected.</b> Mostly coming in from residential mortgages and RSME segment of PHRA portfolio – more specifically, those that signed up for >1 PHRA programme. Management thinks this should be the peak, or at least close to it.
	Value now	1.66%		Value now	97%	
	Qoq	+20bps		Qoq	-8%	
	Yoy	+11bps		Yoy	-3%	
Qtrly Net CC	-ve surprise		Cum Net CC	-ve surprise		<b>Heavy forward-looking and BAU provision, but management retains guidance.</b> This offset the effects of a sizeable overlay writeback of RM100m made in the quarter.
	Heavy provision			Heavy provision		
	Value now	53bps		Value now	53bps	
	t-1	27bps				
	t-4	20bps	t-4	20bps		
CET 1	Healthy level		Div payout	No divvy		<b>Healthy, capital build has finished.</b> This translates to ~14% upon conversion to FIRB regime. Management is unlikely to increase payout ratio past 35%, given the uncertain outlook of this FY.
	As expected			As expected		
	Value now	12.9%		Payout		
	Qoq	0.4%				

Others:

Source: AMMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3MFY24	Notes (Red: New guidance, Strikethrough: former guidance is no longer pertinent)
ROE	9-10	7.6	Management guides for earnings of RM1.6b (allocations may not be evenly distributed between quarters).
CIR		44.5	FY24's OPEX should be lower than FY23's RM2.1b.
NIM		1.76	Should remain close to current level of 1.76% in remainder of year.
NOII		61% (yoy)	
Loans	<del>5-6</del> 4-5	-1.0 (YTD)	Downward revision following lacklustre GDP figures. Management expects improved figures in 2HCY23 due to post-election pipeline.
Deposits		0.0 (YTD)	
CASA	30 (Unofficial)	30.4	Group wants to keep acquiring retail deposit market share, as part of its reaching out to the mass market.
Loan/Depo		97.4	
GIL ratio		1.66	
NCC (bps)	35bps	53	Management is maintaining guidance, upcoming quarters shouldn't be as intense. Overlay balance: RM362m (+RM99m qoq), heavy writebacks.
LLC		97	
CET 1		12.9	
Div payout		-	Normalised goal: 35%.

Source: AMMB, MIDFR

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	3,942	4,976	5,381	5,805	6,044
Interest expense	(1,770)	(2,695)	(2,950)	(3,218)	(3,400)
<b>Net interest income</b>	<b>2,172</b>	<b>2,281</b>	<b>2,431</b>	<b>2,587</b>	<b>2,644</b>
Islamic banking inc.	1,062	1,301	1,271	1,219	1,245
Other operating inc.	822	956	1,049	1,151	1,251
<b>Net income</b>	<b>4,056</b>	<b>4,538</b>	<b>4,752</b>	<b>4,957</b>	<b>5,140</b>
OPEX	(1,789)	(1,999)	(2,138)	(2,181)	(2,262)
<b>PPOP</b>	<b>2,267</b>	<b>2,539</b>	<b>2,614</b>	<b>2,776</b>	<b>2,878</b>
Loan allowances	(314)	(422)	(376)	(382)	(386)
Other allowances	(454)	68	(13)	(29)	(24)
JV & Associates	44	70	91	111	115
<b>PBT</b>	<b>1,544</b>	<b>2,255</b>	<b>2,316</b>	<b>2,476</b>	<b>2,583</b>
Tax & zakat	(177)	(513)	(537)	(574)	(599)
NCI	(92)	59	-	-	-
Discontinued ops	229	(66)	-	-	-
<b>Reported NP</b>	<b>1,503</b>	<b>1,735</b>	<b>1,779</b>	<b>1,902</b>	<b>1,984</b>
<b>Core NP</b>	<b>1,503</b>	<b>1,735</b>	<b>1,779</b>	<b>1,902</b>	<b>1,984</b>
Total NII	3,012	3,436	3,576	3,696	3,777
Total NOII	950	1,110	1,176	1,261	1,363

## BALANCE SHEET

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	14,523	8,699	9,185	9,320	9,551
Investment securities	35,011	51,851	48,326	45,204	42,445
Net loans	118,066	128,243	136,113	143,001	150,165
Other IEAs	0	0	0	0	0
Non-IEAs	7,185	8,639	8,542	8,600	10,366
<b>Total assets</b>	<b>174,784</b>	<b>197,432</b>	<b>202,166</b>	<b>206,125</b>	<b>212,528</b>
Customer deposits	122,593	130,315	138,264	145,454	153,018
Other IBLs	18,130	34,513	25,136	20,712	18,455
Non-IBLs	16,177	14,577	19,421	19,222	18,811
<b>Total liabilities</b>	<b>156,900</b>	<b>179,405</b>	<b>182,822</b>	<b>185,387</b>	<b>190,284</b>
Share capital	6,776	6,376	6,376	6,376	6,376
Reserves	9,909	11,650	12,968	14,361	15,868
<b>Shareholders' funds</b>	<b>16,685</b>	<b>18,026</b>	<b>19,344</b>	<b>20,737</b>	<b>22,244</b>
NCI	1,199	1	0	0	0
<b>Total equity</b>	<b>17,884</b>	<b>18,027</b>	<b>19,344</b>	<b>20,737</b>	<b>22,244</b>
<b>Total L&amp;E</b>	<b>174,784</b>	<b>197,432</b>	<b>202,166</b>	<b>206,125</b>	<b>212,528</b>
Total IEAs	167,599	188,792	193,625	197,524	202,162
Total IBLs	140,723	164,828	163,401	166,166	171,473
Gross loans	119,993	130,227	138,040	144,942	152,190
CASA	43,107	48,800	47,010	46,545	47,435

## FINANCIAL RATIOS

FYE Mar (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Interest (%)</b>					
NIM	1.82	1.93	1.87	1.89	1.89
Return on IEAs	2.39	2.79	2.81	2.97	3.02
Cost of funds	1.27	1.76	1.80	1.95	2.01
Net interest spread	1.11	1.03	1.02	1.02	1.01
<b>Profitability (%)</b>					
<b>ROE</b>	<b>9.6</b>	<b>10.0</b>	<b>9.5</b>	<b>9.5</b>	<b>9.2</b>
ROA	0.9	0.9	0.9	0.9	0.9
NOII/Net income	25.7	24.3	24.8	25.4	26.5
Effective tax rate	11.5	22.7	23.2	23.2	23.2
Cost/Income	44.1	44.0	45.0	44.0	44.0
<b>Liquidity (%)</b>					
Loan/Deposit	96.3	98.4	98.4	98.3	98.1
CASA ratio	35.2	37.4	34.0	32.0	31.0
<b>Asset Quality (%)</b>					
GIL ratio	1.40	1.46	1.47	1.41	1.40
LLC ratio	115	105	95	95	95
LLC (w. reserves)	121	116	104	104	104
Net CC (bps)	27	34	28	27	26
<b>Capital (%)</b>					
CET 1	12.3	12.8	12.9	13.1	13.0
Tier 1 capital	12.3	12.8	12.9	13.1	13.0
Total capital	15.4	16.0	16.1	16.4	16.3
<b>Growth (%)</b>					
Total NII	2.6	14.1	4.1	3.4	2.2
Total NOII	-39.6	16.8	6.0	7.2	8.1
Net income	-10.0	11.9	4.7	4.3	3.7
OPEX	-16.1	11.7	7.0	2.0	3.7
Core NP	56.2	15.5	2.5	6.9	4.3
Gross loans	6.5	8.5	6.0	5.0	5.0
Customer deposits	1.7	6.3	6.1	5.2	5.2
CASA	20.6	13.2	-3.7	-1.0	1.9
<b>Valuation metrics</b>					
Core EPS (sen)	35.9	41.5	42.5	45.4	47.4
Gross DPS (sen)	5.0	18.3	18.7	20.0	20.8
Div payout (%)	11	35	35	35	35
BVPS (RM)	4.0	4.3	4.6	5.0	5.3
Core P/E (x)	10.5	9.1	8.9	8.3	8.0
<b>Div yield (%)</b>	<b>1.3</b>	<b>4.9</b>	<b>5.0</b>	<b>5.3</b>	<b>5.5</b>
P/BV (x)	0.9	0.9	0.8	0.8	0.7

Source: AMMB, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
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	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### 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