

## RHB Bank Berhad

(1066 | RHHBANK MK) Financial Services | Finance

### 2QFY23 Results: Huge Writebacks Lifts Earnings

**Maintain BUY**
**Revised Target Price: RM6.66**  
 (Previously RM7.58)

#### KEY INVESTMENT HIGHLIGHTS

- 6MFY23's Core NP of RM1,570m was *Within/Within* our/*street* forecasts: **50%/53%** of full-year forecasts
- Management's tone: **Cautiously optimistic**
- Core themes: (a) **Huge overlay writebacks**, (b) **Reliance on GIL recoveries**, (c) **Stabilising asset quality figures**
- Forecasts revised: FY23F/24F/25F Core NP adjusted by **-7%/-7%/-5%**
- Maintain BUY | Revised TP of RM6.66 | based on a revised FY24F P/BV of 0.88x (formerly 1.06x)**

**Verdict:** Valuations remain attractive, despite lacklustre outlook.

Yays	1. Dividend yields remain promising – RHB has offered a full cash dividend this time around.
Nays	1. Mgmt seems overly reliant on recoveries and writebacks in deriving its ROE target. 2. Lacklustre overseas loan growth.
OKs	1. Loan growth, which has been a selling point in previous years, seems very average. 2. NOII recovery is not quite there yet.

#### 6MFY23's Core net profit (NP) of RM1,570m up by +29%yoy.

This was driven by NOII and provisioning improvements, as well as tax normalisation. This offset poor NII and OPEX management.

**2QFY23's Core NP of RM809m up by +6%qoq.** This was single-handedly propped by a hefty overlay writeback of RM284m offsetting poorer NII and OPEX.

Loan growth was poor, rising by +0.4%, bringing the YTD figure to +0.9%. GIL ratio was decently well maintained, rising by +5bps to 1.64%.

#### Have a look at:

**Heavily reliant on recoveries.** RHB's current GIL ratio of 1.64% is far above its guidance of <1.50%. Mgmt is banking on sizeable recoveries in a few accounts within the next 3-6 months to achieve its target. Also relevant is its current low LLC of 83%, which mgmt is expecting the recoveries to push up to a healthier range.

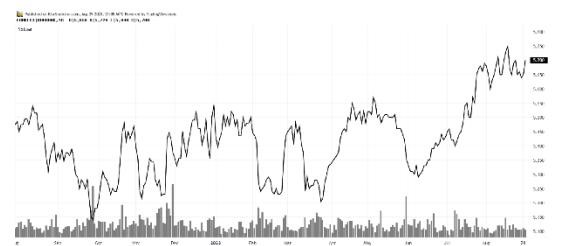
**Expect heavy NCC in 2HFY23, possibly leading to RHB being unable to reach its ROE target.** Mgmt is guiding for 18-19bps NCC for FY23, factoring in overlays (For BAU provisions only, 25-30bps). 1HFY23's total is -5bps. This implies a 2HFY23 NCC of roughly 23-24bps.

While mgmt is expecting a softer 2HFY23 in terms of OPEX, a muted NIM outlook coupled with higher provision costs may prevent RHB from achieving its FY23 target.

#### RETURN STATISTICS

Price @ 29 August 2023 (RM)	5.70
Expected share price return (%)	+16.8
Expected dividend yield (%)	+7.1
Expected total return (%)	+23.9

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.2	-0.1
3 months	4.4	0.7
12 months	-2.4	0.8

#### INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>2,923</b>	<b>3,132</b>	<b>3,342</b>
CNP growth (%)	8	7	7
<b>Div yield (%)</b>	<b>6.7</b>	<b>7.1</b>	<b>6.8</b>
Gross DPS (sen)	38.0	40.4	38.8
<b>P/BV (x)</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
BVPS (RM)	7.2	7.6	8.0
<b>ROE (%)</b>	<b>9.9</b>	<b>10.1</b>	<b>10.3</b>
<b>MIDF/Street CNP (%)</b>	<b>98</b>	<b>100</b>	<b>101</b>

#### KEY STATISTICS

FBM KLCI	1,454.44
Issue shares (m)	4,247.4
Estimated free float (%)	35.5
Market Capitalisation (RM'm)	24,303.6
52-wk price range	RM5.29 - RM5.85
3-mth avg daily volume (m)	3.9
3-mth avg daily value (RM'm)	21.6
Top Shareholders (%)	
EPF Board	40.6
OSK Holdings Bhd	10.2
Amanah Saham Nasional Bhd	5.9

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**Covid-related overlays are no more.** Previous quarter's balance of RM411m has either been written back (RM284m) or reallocated as non-Covid overlays (the remaining RM127m).

This has bumped up the figure of non-Covid overlays to RM557m from RM430m in the previous quarter. (non-Covid overlays were barely guided for in previous quarters).

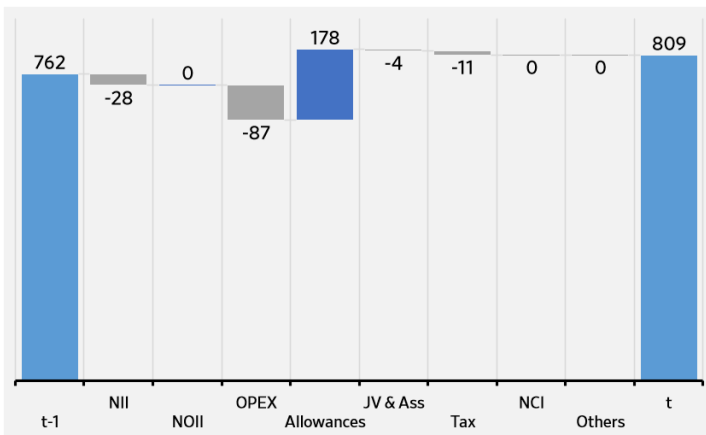
**Forecasts revised: FY23F/24F/25F Core NP adjusted by -7%/-7%/-5%.** To reflect slower NIM recovery and higher NCC expectations. We believe there is a possibility RHB may not reach its ROE target for the year.

**Key downside risks.** (1) Lacklustre loan growth, (2) Weak NOII growth, (3) Surprise provisions.

**Maintain BUY call: Revised GGM-TP of RM 6.66 (from RM7.58).** The TP is based on a revised FY24F P/BV of 0.88x to reflect altered earnings prospects and ROE-based valuations. **(GGM assumptions: FY24F ROE of 10.1%, LTG of 4.0% & COE of 11.0%)**

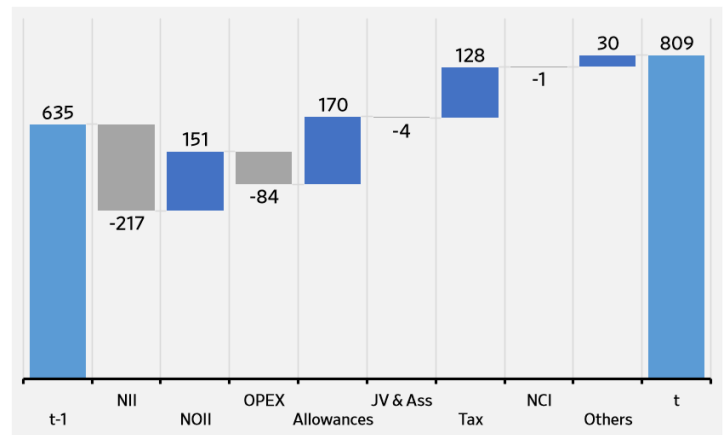


**Fig 1: QoQ P/L walk (Quarterly results)**



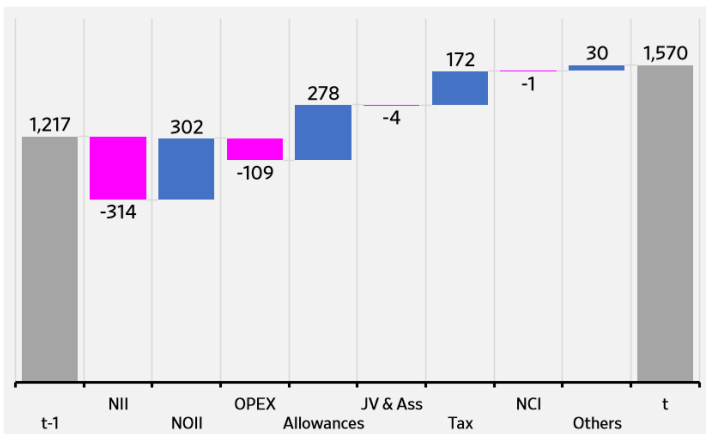
Source: RHB, MIDFR

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



Source: RHB, MIDFR

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



Source: RHB, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Net interest inc.	893	884	1,031	-13	1	1,777	2,021	-12
Islamic banking inc.	672	553	601	12	21	1,225	1,110	10
Non-interest inc.	315	470	278	13	-33	785	632	24
<b>Net income</b>	<b>1,879</b>	<b>1,908</b>	<b>1,911</b>	<b>-2</b>	<b>-1</b>	<b>3,787</b>	<b>3,763</b>	<b>1</b>
OPEX	(943)	(857)	(860)	10	10	(1,800)	(1,691)	6
<b>PPOP</b>	<b>936</b>	<b>1,051</b>	<b>1,051</b>	<b>-11</b>	<b>-11</b>	<b>1,987</b>	<b>2,073</b>	<b>-4</b>
Loan provisions	102	(55)	(19)	-649	-286	47	(165)	-129
Other provisions	29	9	(20)	-247	232	38	(28)	-237
JV & Associates	(4)	0	0	n.m.	n.m.	(4)	-	n.m.
<b>PBT</b>	<b>1,063</b>	<b>1,005</b>	<b>1,012</b>	<b>5</b>	<b>6</b>	<b>2,068</b>	<b>1,880</b>	<b>10</b>
Tax	(253)	(243)	(382)	-34	4	(496)	(668)	-26
NCI	(1)	(1)	(0)	n.m.	n.m.	(2)	(0)	n.m.
<b>Reported NP</b>	<b>809</b>	<b>762</b>	<b>630</b>	<b>28</b>	<b>6</b>	<b>1,570</b>	<b>1,212</b>	<b>30</b>
<b>Core NP</b>	<b>809</b>	<b>762</b>	<b>635</b>	<b>27</b>	<b>6</b>	<b>1,570</b>	<b>1,217</b>	<b>29</b>
Total NII	1,346	1,374	1,562	-14	-2	2,719	3,033	-10
Total NOII	534	534	384	39	0	1,068	766	39
<b>Gross DPS (sen)</b>	<b>15.0</b>	<b>-</b>	<b>15.0</b>	<b>n.m.</b>	<b>n.m.</b>	<b>15.0</b>	<b>15.0</b>	<b>n.m.</b>
Core EPS (sen)	19.0	17.9	15.3	24	6	36.8	29.3	25
Gross loans	214,192	213,359	204,926	4.5	0.4			
Gross impaired loans	3,512	3,389	3,326	5.6	3.7			
Customer deposits	229,289	226,432	225,942	1.5	1.3			
CASA	63,187	63,699	66,283	-4.7	-0.8			
<b>Ratios (%)</b>	<b>2Q FY23</b>	<b>1Q FY23</b>	<b>2Q FY22</b>	<b>Yoy (ppts)</b>	<b>Qoq (ppts)</b>	<b>1H FY23</b>	<b>1H FY22</b>	<b>Yoy (ppts)</b>
<b>ROE (Ann.)</b>	<b>10.8</b>	<b>10.2</b>	<b>9.3</b>	<b>1.5</b>	<b>0.6</b>	<b>10.5</b>	<b>8.9</b>	<b>1.6</b>
<b>NIM (Reported)</b>	<b>1.82</b>	<b>1.90</b>	<b>2.23</b>	<b>-0.41</b>	<b>-0.08</b>	<b>1.85</b>	<b>2.18</b>	<b>-0.33</b>
NOI/Net income	28.4	28.0	20.1	8.3	0.4	28.2	20.3	7.9
Cost/Income	50.2	44.9	45.0	5.2	5.3	47.5	44.9	2.6
NCC (Ann.) (bps)	(20)	11	4	-23	-30	(5)	17	-21
G/L ratio	1.64	1.59	1.62	0.02	0.05			
Loan loss coverage	82	109	117	-34	-27			
CASA ratio	27.6	28.1	29.3	-1.8	-0.6			
L/D ratio	92.1	92.5	88.9	3.2	-0.4			
CET-1	16.7	16.9	16.6	0.0	-0.2			

Source: RHB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	809	Qtrly ROE	Qtr value	10.8%
	26% of FY CNP				
	Qoq	6%		t-1	10.2%
	Yoy	27%		t-4	9.3%
Cum Core NP	RM mil	1,570	Cum ROE	Cum value	10.5%
	Within our forecast				
	50% of FY CNP				
	Within consensus				
	53% of FY CNP				
Yoy	29%	t-1	8.9%		
NII	As expected		NIM	As expected	
				Qtr value	1.82
				Cum value	1.85
	Qtr (Qoq)	-2%		Qtr (Qoq)	-8bps
	Qtr (Yoy)	-14%		Qtr (Yoy)	-41bps
Cum (Yoy)	-10%	Cum (Yoy)	-33bps		
NOII	As expected		Qtr	% NII	72%
	Qtr (Qoq)	0%		% NOII	28%
	Qtr (Yoy)	39%	Cum	% NII	72%
	Cum (Yoy)	39%		% NOII	28%
OPEX	-ve surprise		Cost/ Inc.	-ve surprise	
				Qtr value	50.2%
				Cum value	47.5%
	Qtr (Qoq)	10%		Qtr (Qoq)	+5.3%
	Qtr (Yoy)	10%		Qtr (Yoy)	+5.2%
Cum (Yoy)	6%	Cum (Yoy)	+2.6%		

Source: RHB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Decent quarter, but a lot of it is propped up by overlay writebacks.

RHB's guidance for NIM was not as optimistic as peers – so the compression was not so unexpected.

Honestly, we were expecting a much stronger recovery. Decent improvement in fee income and forex gains on a sequential-quarter basis was offset by weaker MTM performance.

Higher cost was expected this half, due to collective agreement arrangements.

2HFY23 should not be intense, OPEX wise.

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

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	<b>-ve surprise</b>					<b>YTD loan growth has been extremely lacklustre so far.</b> Regardless mgmt is confident in its 2HFY23 pipeline.
	Qoq	0.4%				
	Yoy	4.5%				
	YTD (FY)	0.9%				
Depo. grwth	As expected		CASA grwth	As expected		<b>Decent deposit growth.</b> Mgmt is expecting deposit growth (more importantly, CASA growth) to improve dramatically in later quarters
	Qoq	1.3%		Qoq	<b>-0.8%</b>	
	Yoy	1.5%		Yoy	<b>-4.7%</b>	
	YTD (FY)	0.9%		YTD (FY)	<b>-4.9%</b>	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	<b>27.6%</b>		Value now	<b>92.1%</b>	
	Qoq	<b>-0.6%</b>		Qoq	<b>-0.4%</b>	
	Yoy	<b>-1.8%</b>		Yoy	+3.2%	
GIL ratio	As expected		LLC ratio	<b>-ve surprise</b>		<b>GIL well controlled.</b> Mgmt believes GIL is close to its peak and should improve in the light of further recoveries within the next 3-6 months. Aside from obvious delinquencies from the RA portfolio, mgmt is seeing slight weakness in non-RA SME portfolio.
	Value now	<b>1.64%</b>		Value now	<b>82%</b>	
	Qoq	<b>+5bps</b>		Qoq	<b>-27%</b>	
	Yoy	<b>+2bps</b>		Yoy	<b>-34%</b>	
Qtrly Net CC	As expected		Cum Net CC	As expected		<b>Huge overlay writeback.</b> Unfortunately, NCC outlook may not be as bright in 2HFY23.
	Net writebacks			Net writebacks		
	Value now	<b>-20bps</b>		Value now	<b>-5bps</b>	
	t-1	<b>11bps</b>		t-4	<b>17bps</b>	
CET 1	Healthy level		Div payout	Div announced		<b>As always, CET-1 among the highest in industry.</b> Dividend this time around is full cash.
	As expected			As expected		
	Value now	<b>16.7%</b>		Payout	<b>41%</b>	
	Qoq	<b>-0.2%</b>				

**Others:** Digital bank to be rolled out before Apr-24. It takes 4-5 years to breakeven. Also, RHB may be implicated in negative news flow as of late.

Source: RHB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	1H FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	>11.0	10.5	Note that this includes (and will be largely driven by) overlay writebacks.
CIR	<44.6	47.5	
NIM	1.8-1.9 <del>-2 to +1bps</del> from 2.24	-	Mgmt is, however, guiding for compression in 3Q before improvement in 4Q.
NOII		39% (yoy)	
Loans	4-5	0.9 (YTD)	Mgmt believes they can reach the upper range of their target, with loan pipeline improving in 2H.
Deposits		0.9 (YTD)	
% CASA	30	27.6	This value is ambitious, but mgmt seems confident in pulling off, with help from onboarding the MySiswa programme.
Loan/Depo		92.1	
GIL ratio	<1.50	1.64	
NCC (bps)	25-30	(5)	25-30 does not factor overlay writebacks. Mgmt believes FY23 NCC will be 18-19bps with writebacks – hence expect a heavy 2H provision-wise.
LLC		82	
CET 1		16.7	
Div payout		41	Mgmt has been guiding for possibility that div payouts could reach up to 60%.

Source: RHB, MIDFR

## FINANCIAL SUMMARY

### INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	6,328	7,382	7,359	7,624	7,845
Interest expense	(2,266)	(3,208)	(3,425)	(3,425)	(3,425)
<b>Net interest income</b>	<b>4,062</b>	<b>4,174</b>	<b>3,934</b>	<b>4,199</b>	<b>4,420</b>
Islamic banking inc.	2,095	2,398	2,083	2,125	2,237
Other operating inc.	1,876	1,736	1,801	1,966	2,160
<b>Net income</b>	<b>8,033</b>	<b>8,309</b>	<b>7,818</b>	<b>8,289</b>	<b>8,817</b>
OPEX	(3,522)	(3,717)	(3,487)	(3,606)	(3,836)
<b>PPOP</b>	<b>4,511</b>	<b>4,592</b>	<b>4,331</b>	<b>4,684</b>	<b>4,982</b>
Loan allowances	(575)	(309)	(413)	(503)	(527)
Other allowances	(163)	(112)	(64)	(51)	(48)
JV & Associates	-	0	-	-	-
<b>PBT</b>	<b>3,773</b>	<b>4,171</b>	<b>3,854</b>	<b>4,130</b>	<b>4,406</b>
Tax & zakat	(906)	(1,459)	(925)	(991)	(1,058)
NCI	(5)	(4)	(6)	(6)	(7)
Others	-	-	-	-	-
<b>Reported NP</b>	<b>2,863</b>	<b>2,708</b>	<b>2,923</b>	<b>3,132</b>	<b>3,342</b>
<b>Core NP</b>	<b>2,805</b>	<b>2,708</b>	<b>2,923</b>	<b>3,132</b>	<b>3,342</b>
Total NII	5,875	6,379	5,871	6,175	6,500
Total NOII	2,159	1,930	1,947	2,114	2,317

### BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	23,318	19,787	16,646	16,274	16,684
Investment securities	61,881	69,070	65,717	62,574	59,631
Net loans	194,897	208,379	219,498	230,700	242,193
Other IEAs	0	0	0	0	0
Non-IEAs	9,446	13,536	21,427	26,211	30,434
<b>Total assets</b>	<b>289,541</b>	<b>310,771</b>	<b>323,288</b>	<b>335,759</b>	<b>348,943</b>
Customer deposits	218,733	227,160	237,609	247,826	258,483
Other IBLs	35,520	46,360	47,006	47,759	48,627
Non-IBLs	7,259	8,483	8,463	8,454	8,453
<b>Total liabilities</b>	<b>261,511</b>	<b>282,003</b>	<b>293,078</b>	<b>304,039</b>	<b>315,563</b>
Share capital	7,613	8,146	8,146	8,146	8,146
Reserves	20,386	20,592	22,034	23,543	25,201
<b>Shareholders' funds</b>	<b>27,998</b>	<b>28,737</b>	<b>30,180</b>	<b>31,689</b>	<b>33,347</b>
NCI	32	31	30	32	33
<b>Total equity</b>	<b>28,031</b>	<b>28,768</b>	<b>30,210</b>	<b>31,720</b>	<b>33,380</b>
<b>Total L&amp;E</b>	<b>289,541</b>	<b>310,771</b>	<b>323,288</b>	<b>335,759</b>	<b>348,943</b>
Total IEAs	280,095	297,236	301,861	309,548	318,509
Total IBLs	254,252	273,519	284,615	295,585	307,110
Gross loans	198,512	212,200	223,022	233,950	245,414
CASA	65,606	66,439	66,531	64,435	67,206

### FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
<b>Interest (%)</b>					
NIM	2.17	2.21	1.96	2.02	2.07
Return on IEAs	2.34	2.56	2.46	2.49	2.50
Cost of funds	0.93	1.22	1.23	1.18	1.14
Net interest spread	1.41	1.34	1.23	1.31	1.36
<b>Profitability (%)</b>					
<b>ROE</b>	<b>10.2</b>	<b>9.5</b>	<b>9.9</b>	<b>10.1</b>	<b>10.3</b>
ROA	1.0	0.9	0.9	1.0	1.0
NOII/Net income	26.9	23.2	24.9	25.5	26.3
Effective tax rate	24.0	35.0	24.0	24.0	24.0
Cost/Income	43.8	44.7	44.6	43.5	43.5
<b>Liquidity (%)</b>					
Loan/Deposit	89.1	91.7	92.4	93.1	93.7
CASA ratio	30.0	29.2	28.0	26.0	26.0
<b>Asset Quality (%)</b>					
GIL ratio	1.49	1.55	1.43	1.29	1.23
LLC ratio	122	113	107	104	103
LLC (w. reserves)	133	140	135	134	133
Net CC (bps)	30	15	19	22	22
<b>Capital (%)</b>					
CET 1	17.2	16.9	17.1	16.3	15.6
Tier 1 capital	17.2	16.9	17.1	16.3	15.6
Total capital	19.8	19.3	19.6	18.8	18.1
<b>Growth (%)</b>					
Total NII	11.5	8.6	-8.0	5.2	5.3
Total NOII	12.5	-10.6	0.9	8.6	9.6
Net income	11.8	3.4	-5.9	6.0	6.4
OPEX	4.0	5.5	-6.2	3.4	6.4
Core NP	21.1	-3.5	8.0	7.1	6.7
Gross loans	6.7	6.9	5.1	4.9	4.9
Customer deposits	8.1	4.2	3.9	3.7	3.7
CASA	4.5	1.3	0.1	-3.2	4.3
<b>Valuation metrics</b>					
Core EPS (sen)	67.0	64.7	69.8	74.8	79.8
Gross DPS (sen)	40.0	40.0	38.0	40.4	38.8
Div payout (%)	57	62	55	55	50
BVPS (RM)	6.7	6.9	7.2	7.6	8.0
Core P/E (x)	8.5	8.8	8.2	7.6	7.1
<b>Div yield (%)</b>	<b>7.0</b>	<b>7.0</b>	<b>6.7</b>	<b>7.1</b>	<b>6.8</b>
P/BV (x)	0.9	0.8	0.8	0.8	0.7

Source: RHB, 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