

## Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

### 2QFY23 Results: Huge NOII Gains Boost Earnings

#### KEY INVESTMENT HIGHLIGHTS

- 6MFY23's Core NP of RM4,604m was *Within/Within* our/*street* forecasts: **50%/49%** of full-year forecasts
- Management's tone: **Neutral** – there are upsides and downsides
- Core themes: (a) Huge NOII uplift, (b) OPEX issues, (c) Local deposits contract
- Forecasts unchanged
- Downgrade to **NEUTRAL** | Unchanged TP of **RM9.28** | based on an unchanged FY24F P/BV of 1.21x

**Verdict: Growth drivers are not the most convincing, but dividend yields still attractive.**

<b>Yays</b>	<ol style="list-style-type: none"> <li>1. Dividend yields as strong as ever – and now possibly fully cash.</li> <li>2. Loan growth looks to be promising, in comparison to peers.</li> </ol>
<b>Nays</b>	<ol style="list-style-type: none"> <li>1. NIM outlook remains sanguine – especially with sizeable SG exposure.</li> </ol>
<b>OKs</b>	<ol style="list-style-type: none"> <li>1. Budget allocation for M25+ may not be fully utilised this year, providing upside to cost in FY23.</li> <li>2. NOII boost may not be sustainable – upticks are coming from more opportunistic, MTM-related segments.</li> </ol>

#### 6MFY23's Core net profit (NP) of RM4,604m up by +30%yoy.

Multiple growth drivers: Strong NOII improvement of +56%yoy and lower provisions offset sharp upticks in OPEX and weaker NII contributions.

**2QFY23's Core NP of RM2,339m up by +3%qoq.** Stable NII and huge +63%qoq jump in NOII offset higher loan provisions, OPEX and tax charges (provisions are not fully tax-deductible).

Loan growth surprisingly leaped by +2.4%qoq, in a quarter where most peers performed badly, largely driven by overseas contributions. In contrast, deposits rose by a muted +0.6%qoq. GIL was well managed, falling -3bps qoq to 1.47%

#### Have a look at:

**RM1.5b allocated for M25+ in FY23 may not be fully utilised.** So far management has only utilised ¼ of the budget – they believe the full budget may not be fully utilised this year. The remainder could instead be pushed back the following year. This could provide upside to cost control in FY23, though FY24 could take a hit.

**A more moderate 2HFY23 for OPEX.** 1HFY23's personnel costs rose by a sharp 15.5%yoy. This was due to the one-off Collective Agreement – a normalised figure would be closer to the ~11% range. The Collective Agreement was RM144m which makes up ~4% of 1HFY23's personnel costs.

## Downgrade to NEUTRAL

(Previously BUY)

**Unchanged Target Price: RM9.28**

#### RETURN STATISTICS

Price @ 30 August 2023 (RM)	9.11
Expected share price return (%)	+1.9
Expected dividend yield (%)	+7.2
Expected total return (%)	<b>+9.1</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.9	0.6
3 months	5.1	1.9
12 months	1.5	4.8

#### INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>9,196</b>	<b>9,828</b>	<b>10,649</b>
CNP growth (%)	12	7	8
<b>Div yield (%)</b>	<b>6.7</b>	<b>7.2</b>	<b>7.8</b>
Gross DPS (sen)	61.5	65.7	71.2
<b>P/BV (x)</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>
BVPS (RM)	7.4	7.7	8.0
<b>ROE (%)</b>	<b>10.5</b>	<b>10.9</b>	<b>11.4</b>
<b>MIDF/Street CNP (%)</b>	<b>99</b>	<b>100</b>	<b>102</b>

#### KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	12,054.1
Estimated free float (%)	36.1
Market Capitalisation (RM'm)	109,330.9
52-wk price range	RM8.26 - RM9.08
3-mth avg daily volume (m)	8.7
3-mth avg daily value (RM'm)	76.9
Top Shareholders (%)	
Amanah Saham Nasional Bhd	38.1
EPF Board	13.0
Yayasan Pelaburan Bumiputra	6.8

#### Analyst

Samuel Woo

samuel.woo@midf.com.my

**Local deposits contract as part of NIM optimisation exercise.** Maybank has followed some of its peers in letting pricier FDs mature without renewal. As a result, MY deposits have contracted by -2.6%qoq – these were largely corporate deposits. Mgmt guides that the bulk of this has been done within the quarter, and 3QFY23 should assume positive growth once more.

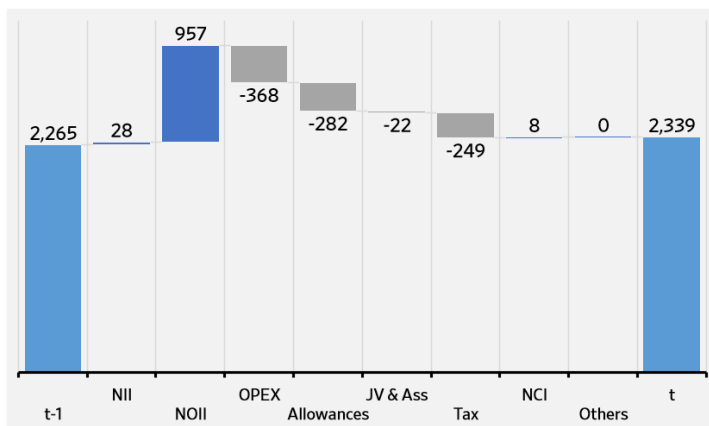
**NOII see huge uplift, but no guarantee that this is sustainable.** Maybank’s quarterly NOII jumped by a whopping +63%qoq, +121%yoy. While core fees remained relatively stable, the more opportunistic treasury & markets segment rose by RM670m in 2QFY23 to RM1.53b in this quarter. Management guides that only a small proportion of this (the realised profit segment) is expected to be remotely recurring in nature.

**Forecasts unchanged.** We maintain our current earnings forecasts, though we tweak FY23’s NIM and NCC figures to reflect latest guidance.

**Key downside risks.** (1) Poor cost control, (2) Further NIM compression, (3) Weaker than expected NOII recovery.

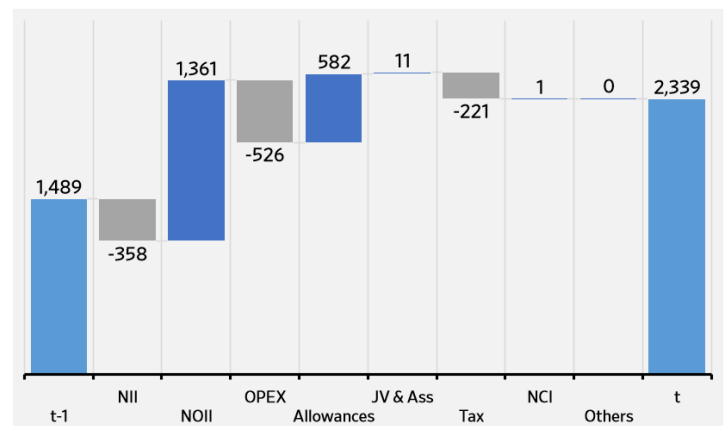
**Downgrade to NEUTRAL call: Unchanged GGM-TP of RM 9.28.** The TP is based on an unchanged FY24F P/BV of 1.21x. As the positives for Maybank has already been priced into its share price, we downgrade to **NEUTRAL**. (**GGM assumptions: FY24F ROE of 10.9%, LTG of 3.0% & COE of 9.5%**)

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



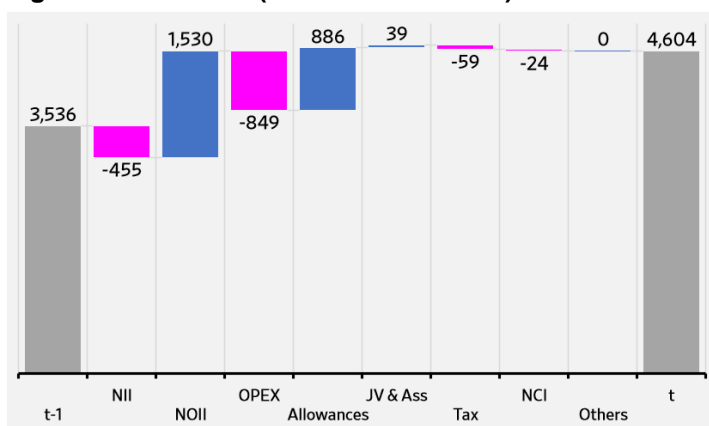
Source: Maybank, MIDFR

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



Source: Maybank, MIDFR

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



Source: Maybank, 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.	3,208	3,228	3,511	-9	-1	6,436	6,838	-6
Islamic banking inc.	1,851	1,791	1,766	5	3	3,642	3,436	6
Non-interest inc.	2,251	1,305	1,030	119	73	3,556	2,285	56
<b>Net income</b>	<b>7,310</b>	<b>6,324</b>	<b>6,306</b>	<b>16</b>	<b>16</b>	<b>13,634</b>	<b>12,559</b>	<b>9</b>
OPEX	(3,420)	(3,052)	(2,894)	18	12	(6,473)	(5,624)	15
<b>PPOP</b>	<b>3,889</b>	<b>3,272</b>	<b>3,412</b>	<b>14</b>	<b>19</b>	<b>7,162</b>	<b>6,935</b>	<b>3</b>
Loan provisions	(562)	(360)	(838)	-33	56	(922)	(1,281)	-28
Other provisions	(13)	67	(319)	-96	-119	54	(472)	-112
JV & Associates	55	77	44	26	-28	132	93	41
<b>PBT</b>	<b>3,370</b>	<b>3,056</b>	<b>2,300</b>	<b>47</b>	<b>10</b>	<b>6,426</b>	<b>5,275</b>	<b>22</b>
Tax	(972)	(723)	(751)	29	34	(1,696)	(1,637)	4
NCI	(59)	(67)	(59)	-1	-12	(126)	(102)	24
<b>Reported NP</b>	<b>2,339</b>	<b>2,265</b>	<b>1,489</b>	<b>57</b>	<b>3</b>	<b>4,604</b>	<b>3,536</b>	<b>30</b>
<b>Core NP</b>	<b>2,339</b>	<b>2,265</b>	<b>1,489</b>	<b>57</b>	<b>3</b>	<b>4,604</b>	<b>3,536</b>	<b>30</b>
Total NII	4,825	4,797	5,183	-7	1	9,622	10,077	-5
Total NOI	2,485	1,528	1,123	121	63	4,012	2,482	62
<b>Gross DPS (sen)</b>	<b>29.0</b>	<b>-</b>	<b>28.0</b>	<b>n.m.</b>	<b>n.m.</b>	<b>29.0</b>	<b>28.0</b>	<b>n.m.</b>
Core EPS (sen)	19.4	18.8	12.5	55	3	38.2	29.7	29
Gross loans	605,835	591,714	575,332	5.3	2.4			
Gross impaired loans	8,912	8,895	10,425	-14.5	0.2			
Customer deposits	628,070	624,440	608,155	3.3	0.6			
CASA	223,037	231,396	272,036	-18.0	-3.6			
<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>10.4</b>	<b>10.1</b>	<b>7.0</b>	<b>3.3</b>	<b>0.2</b>	<b>10.2</b>	<b>8.4</b>	<b>1.9</b>
<b>NIM (Reported)</b>	<b>2.14</b>	<b>2.19</b>	<b>2.41</b>	<b>-0.27</b>	<b>-0.05</b>	<b>2.16</b>	<b>2.38</b>	<b>-0.22</b>
NOI/Net income	34.0	24.2	17.8	16.2	9.8	29.4	19.8	9.7
Cost/Income	46.8	48.3	45.9	0.9	-1.5	47.5	44.8	2.7
NCC (Ann.) (bps)	38	25	60	-22	13	31	46	-15
GIL ratio	1.47	1.50	1.81	-0.34	-0.03			
Loan loss coverage	126	129	119	7	-3			
CASA ratio	35.5	37.1	44.7	-9.2	-1.5			
L/D ratio	94.7	92.9	92.6	2.1	1.8			
CET-1	15.2	15.1	15.0	0.2	0.1			

Source: Maybank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	2,339	Qtrly ROE	Qtr value	10.4%
	25% of FY CNP				
	Qoq	3%		t-1	10.1%
	Yoy	57%		t-4	7.0%
Cum Core NP	RM mil	4,604	Cum ROE	Cum value	10.2%
	Within our forecast				
	50% of FY CNP				
	Within consensus				
	49% of FY CNP				
	Yoy	30%	t-1	8.4%	
NII	As expected		NIM	As expected	
				Qtr value	2.14
				Cum value	2.16
	Qtr (Qoq)	1%		Qtr (Qoq)	-5bps
	Qtr (Yoy)	-7%		Qtr (Yoy)	-27bps
	Cum (Yoy)	-5%	Cum (Yoy)	-22bps	
NOII	+ve surprise		Qtr	% NII	66%
	Qtr (Qoq)	63%		% NOII	34%
	Qtr (Yoy)	121%	Cum	% NII	71%
	Cum (Yoy)	62%		% NOII	29%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	46.8%
				Cum value	47.5%
	Qtr (Qoq)	12%		Qtr (Qoq)	-1.5%
	Qtr (Yoy)	18%		Qtr (Yoy)	+0.9%
	Cum (Yoy)	15%	Cum (Yoy)	+2.7%	

Source: Maybank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)	
<b>Decent quarter, with heavy provisions and OPEX offset by massive NOII gains.</b>	
<b>Contraction was well within expectations.</b> Management has grown much more pessimistic on MY outlook, subsequently lowering its overall NIM forecast.	
<b>Huge uplift coming from treasury side.</b> Core fees remain flattish.	
<b>Collective agreement elevates personnel costs.</b>	

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					<p><b>Strong loan growth driven by SG segment, which is a bit of a positive surprise.</b> Dragged by -0.1%qoq contraction in MY segment.</p>
	Qoq	2.4%				
	Yoy	5.3%				
	YTD (FY)	3.2%				
Depo. grwth	As expected		CASA grwth	As expected		<p><b>Management is letting pricier corporate FDs expire as part of its NIM strategy.</b></p>
	Qoq	0.6%		Qoq	-3.6%	
	Yoy	3.3%		Yoy	-18.0%	
	YTD (FY)	2.1%		YTD (FY)	-7.3%	
CASA ratio	As expected		L/D ratio	As expected		<p><b>Well maintained.</b> Some uptick in RSME segment but management assures us its well provided for, mostly stemming from RA programmes.</p>
	Value now	35.5%		Value now	94.7%	
	Qoq	-1.5%		Qoq	+1.8%	
	Yoy	-9.2%		Yoy	+2.1%	
GIL ratio	As expected		LLC ratio	As expected		<p><b>Very healthy.</b> This dividend was all-cash. Management intends to provide further full-cash deposits.</p>
	Value now	1.47%		Value now	126%	
	Qoq	-3bps		Qoq	-3%	
	Yoy	-34bps		Yoy	+7%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	38bps		Value now	31bps	
	t-1	25bps		t-4	46bps	
CET 1	Very healthy level		Div payout	Div announced		
	As expected			As expected		
	Value now	15.2%		Payout	76%	
	Qoq	0.1%				

Source: Maybank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	1H FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	10.5-11.0	10.2	
CIR	<47.5	47.5	Includes RM1.5b allocated for M25+, which will likely not be fully utilised this year (and instead passed on to next year). This provides potential benefit in FY23 (at FY24's expense).
NIM	-25bps <del>-5-8bps</del> from 2.39	2.16	SG exposure provides more compression pressure than peers in 2HCY23.
NOII		62% (yoy)	
Loans		3.2 (YTD)	MY: ~5%yoy / IDN: 6-7% / SG: Low-to-mid single-digit growth (Upside to SG likely, given able to acquire sufficient liquidity).
Deposits		2.1 (YTD)	
% CASA		35.5	
Loan/Depo		94.7	
GIL ratio		1.47	
NCC (bps)	30-35 <del>35-40</del>	31	
LLC		126	
CET 1		15.2	>13% is comfortable
Div payout	40-60	76	Final dividend could be fully cash as well.

Source: Maybank, MIDFR

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	17,205	21,628	22,196	24,697	24,993
Interest expense	(5,171)	(7,793)	(8,250)	(9,820)	(9,820)
<b>Net interest income</b>	<b>12,034</b>	<b>13,834</b>	<b>13,946</b>	<b>14,877</b>	<b>15,173</b>
Islamic banking inc.	7,573	7,414	7,632	7,779	7,933
Other operating inc.	5,842	6,367	6,224	6,561	6,561
<b>Net income</b>	<b>25,448</b>	<b>27,615</b>	<b>27,803</b>	<b>29,217</b>	<b>29,668</b>
OPEX	(11,519)	(12,807)	(13,206)	(13,878)	(13,350)
<b>PPOP</b>	<b>13,930</b>	<b>14,808</b>	<b>14,596</b>	<b>15,339</b>	<b>16,317</b>
Loan allowances	(2,659)	(2,189)	(2,111)	(2,152)	(2,112)
Other allowances	(571)	(596)	(362)	(228)	(161)
JV & Associates	186	131	190	199	212
<b>PBT</b>	<b>10,887</b>	<b>12,153</b>	<b>12,312</b>	<b>13,158</b>	<b>14,257</b>
Tax & zakat	(2,565)	(3,780)	(2,832)	(3,026)	(3,279)
NCI	(225)	(138)	(284)	(304)	(329)
<b>Reported NP</b>	<b>8,096</b>	<b>8,235</b>	<b>9,196</b>	<b>9,828</b>	<b>10,649</b>
<b>Core NP</b>	<b>8,096</b>	<b>8,235</b>	<b>9,196</b>	<b>9,828</b>	<b>10,649</b>
Total NII	19,089	20,685	20,816	21,878	22,313
Total NOII	6,359	6,930	6,987	7,339	7,355

## BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	57,521	53,670	60,469	61,641	61,805
Investment securities	210,702	218,267	222,256	214,311	208,197
Net loans	541,888	575,387	607,149	635,351	661,602
Other IEAs	26,674	27,792	29,459	31,363	32,808
Non-IEAs	48,707	69,860	63,475	64,724	68,544
<b>Total assets</b>	<b>885,491</b>	<b>944,976</b>	<b>982,809</b>	<b>1,007,390</b>	<b>1,032,957</b>
Customer deposits	588,968	614,895	648,099	678,560	707,738
Other IBLs	133,568	146,912	154,280	159,515	165,001
Non-IBLs	73,896	94,039	88,934	74,580	61,649
<b>Total liabilities</b>	<b>796,431</b>	<b>855,846</b>	<b>891,313</b>	<b>912,656</b>	<b>934,388</b>
Share capital	53,156	54,619	55,297	56,027	56,814
Reserves	33,005	31,485	33,361	35,769	38,698
<b>Shareholders' funds</b>	<b>86,162</b>	<b>86,104</b>	<b>88,658</b>	<b>91,796</b>	<b>95,512</b>
NCI	2,898	3,026	2,837	2,937	3,056
<b>Total equity</b>	<b>89,060</b>	<b>89,131</b>	<b>91,495</b>	<b>94,734</b>	<b>98,568</b>
<b>Total L&amp;E</b>	<b>885,491</b>	<b>944,976</b>	<b>982,809</b>	<b>1,007,390</b>	<b>1,032,957</b>
Total IEAs	836,784	875,116	919,334	942,665	964,413
Total IBLs	722,536	761,807	802,379	838,075	872,739
Gross loans	553,789	587,122	619,414	646,668	673,181
CASA	267,147	240,493	243,037	244,282	240,631

## FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
<b>Interest (%)</b>					
NIM	2.33	2.42	2.32	2.35	2.34
Return on IEAs	2.10	2.53	2.47	2.65	2.62
Cost of funds	0.73	1.05	1.05	1.20	1.15
Net interest spread	1.37	1.48	1.42	1.46	1.47
<b>Profitability (%)</b>					
<b>ROE</b>	<b>9.5</b>	<b>9.6</b>	<b>10.5</b>	<b>10.9</b>	<b>11.4</b>
ROA	0.9	0.9	1.0	1.0	1.0
NOII/Net income	25.0	25.1	25.1	25.1	24.8
Effective tax rate	23.6	31.1	23.0	23.0	23.0
Cost/Income	45.3	46.4	47.5	47.5	45.0
<b>Liquidity (%)</b>					
Loan/Deposit	92.0	93.6	93.7	93.6	93.5
CASA ratio	45.4	39.1	37.5	36.0	34.0
<b>Asset Quality (%)</b>					
GIL ratio	1.99	1.57	1.80	1.75	1.72
LLC ratio	108	127	110	100	100
LLC (w. reserves)	120	154	132	122	122
Net CC (bps)	49	38	35	34	32
<b>Capital (%)</b>					
CET 1	16.1	15.7	15.2	15.0	14.9
Tier 1 capital	16.8	16.4	15.9	15.7	15.6
Total capital	19.5	19.1	18.6	18.4	18.3
<b>Growth (%)</b>					
Total NII	14.6	8.4	0.6	5.1	2.0
Total NOII	(21.6)	9.0	0.8	5.0	0.2
Net income	2.8	8.5	0.7	5.1	1.5
OPEX	2.6	11.2	3.1	5.1	(3.8)
Core NP	24.9	1.7	11.7	6.9	8.3
Gross loans	5.7	6.0	5.5	4.4	4.1
Customer deposits	5.9	4.4	5.4	4.7	4.3
CASA	16.3	(10.0)	1.1	0.5	(1.5)
<b>Valuation metrics</b>					
Core EPS (sen)	67.6	68.8	76.8	82.1	89.0
Gross DPS (sen)	58.0	58.0	61.5	65.7	71.2
Div payout (%)	83	84	80	80	80
BVPS (RM)	7.2	7.2	7.4	7.7	8.0
Core P/E (x)	13.5	13.2	11.9	11.1	10.2
<b>Div yield (%)</b>	<b>6.4</b>	<b>6.4</b>	<b>6.7</b>	<b>7.2</b>	<b>7.8</b>
P/BV (x)	1.3	1.3	1.2	1.2	1.1

Source: Maybank, 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