

# Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

## 4QFY24 Results: Potential Fed Rate Cut Benefits?

### KEY INVESTMENT HIGHLIGHTS

- FY24's Core NP of RM4,196m was *Within/Within* our/street forecasts: **104%/101%** of full-year forecasts
- Management's tone: **Optimistic**
- Core themes: (a) Fed-cut induced NIM benefits, (b) FY25F loan growth target can be beaten, (c) Progress on Singapore's wealth management segment.
- Forecasts revised: FY25F/26F Core NP adjusted by **+5%/+8%**
- **Maintain BUY | Revised TP of RM22.76 | based on a revised FY25F P/BV of 1.16x (formerly 1.11x)**

**Verdict:** We like HLBK's commitment to growing dividend payouts. Fundamentals and growth prospects remain intact.

Yays	1. Commitment to increase dividend payouts. 2. CIR, asset quality and ROE are among best in industry. 3. Potential for large overlay writebacks remain. 4. Still room for NOII refinement.
Nays	1. Negative China sentiment can soften investor sentiment.
OKs	1. Low free float can make sustainable rerating difficult. 2. Management is actively paring down its stake in BOCD while developing regional enterprise.

### Results in a nutshell:

- ▲ **FY24's Core net profit (NP) of RM4,196m up by +9%oyoy.** Stronger NII, associate contributions and net writebacks offset weaker NOII.
- ▶ **4QFY24's Core NP of RM1,034m down by -1%qoq.** Higher cost inflation offset stronger NII, NOII and Associate income.
- ▲ **Gross loans grew by +3.8%qoq, coming up to +0.0%YTD.**
- ▲ **Deposits grew by +3.8%qoq, coming up to +4.1%YTD.**
- ▲ **GIL moved by -4bps to 0.53%, LLC currently at 155%.**

### Have a look at:

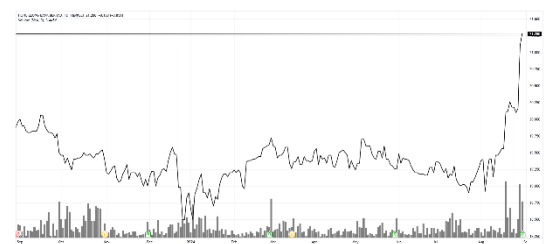
- ▲ **Potential NIM uplift from Fed rate cuts?** Fed rate cuts help HLBK's US dollar book and other components of COF. Each 25bps cut is expected to benefit HLBK's NIM +1bps. This will help alleviate some loan yield pressure HLBK experiences in the residential mortgage and SME loans segment. With HLBK intending to keep L/D ratio at the current 87% level, HLBK's levers in optimising NIM seem rather limited.
- ▲ **Potential to beat FY25 loan growth target.** Double-digit SME growth is expected to persist. Management thinks they can beat FY25's 6-7% target. The main downside pressure comes from competitive loan rates in the SME segment.

**Maintain BUY**
**Revised Target Price: RM22.76**  
*(Previously RM21.38)*

### RETURN STATISTICS

Price @ 29 August 2024 (RM)	21.28
Expected share price return (%)	+7.0
Expected dividend yield (%)	+3.6
Expected total return (%)	<b>+10.5</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.2	3.0
3 months	2.2	-0.9
12 months	-1.4	-13.0

### INVESTMENT STATISTICS

FYE Jun	FY25F	FY26F	FY27F
<b>Core NP (RM m)</b>	<b>4,476</b>	<b>4,855</b>	<b>5,201</b>
CNP growth (%)	7	8	7
<b>Div yield (%)</b>	<b>3.6</b>	<b>3.9</b>	<b>4.2</b>
Gross DPS (sen)	76.4	82.9	88.8
<b>P/BV (x)</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>
BVPS (RM)	19.6	21.2	23.2
<b>ROE (%)</b>	<b>11.6</b>	<b>11.6</b>	<b>11.4</b>
MIDF/Street CNP (%)	101	102	

### KEY STATISTICS

FBM KLCI	1,653.55
Issue shares (m)	2,049.0
Estimated free float (%)	32.2
Market Capitalisation (RM'm)	42,530.6
52-wk price range	RM18.4 - RM20.1
3-mth avg daily volume (m)	0.8
3-mth avg daily value (RM'm)	14.8
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.8
EPF Board	9.4
Hong Leong Bank Sdn Bhd	2.3

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► **Nothing new on the BOCD front.** No new updates on BOCD. Management repeats that no corporate exercises are planned for BOCD in FY24. Shareholder dilution is expected in FY24, with BOCD already having converted its C-bonds, now awaiting other shareholders to follow suit (this will reduce HLBK’s ownership from 19.6% to 17.8%).

▲ **Optimistic on Singapore’s wealth management section.** One conundrum initially faced was that upon building wealth for clients, the natural progression would be for the client to simply move on by placing wealth overseas in another bank to manage. Management wants to form partnerships with overseas players, likely to get a cut from the referral income.

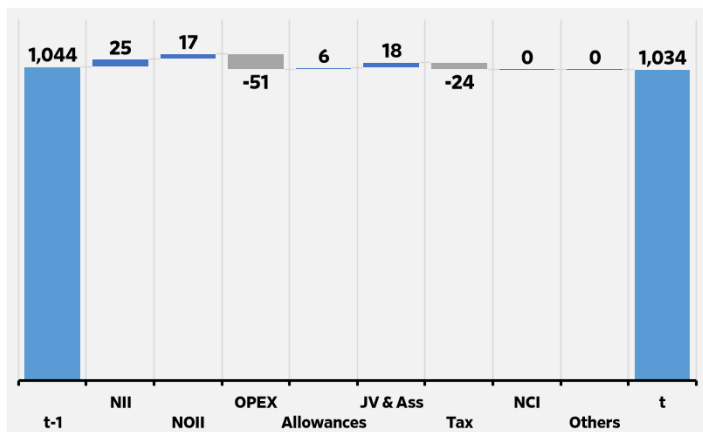
**Forecasts revised: FY25F/26F Core NP adjusted by +5%/+8%.** To reflect the latest guidance offered by management.

**Key downside risks.** (1) Weakness in BOCD contributions, (2) NIM compression, (3) Poor NOII result.

**Maintain BUY call: Revised GGM-TP of RM 22.76 (from RM21.38).** The TP is based on a revised FY25F P/BV of 1.16x (formerly 1.11x), to reflect altered earnings prospects and ROE-based valuations.

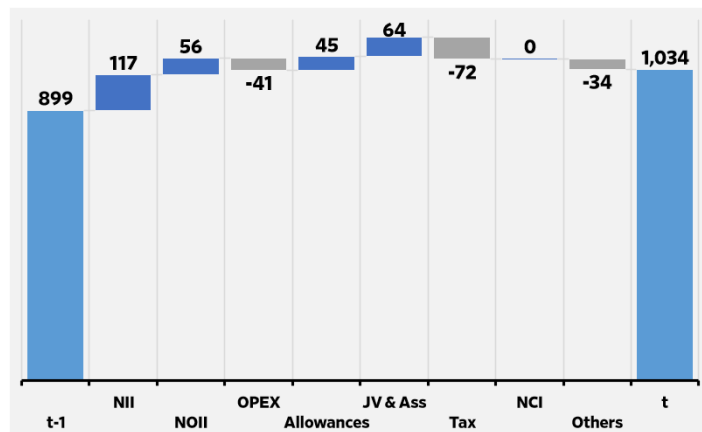
**(GGM assumptions: FY25F ROE of 11.6%, LTG of 4.0% & COE of 10.5%)**

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



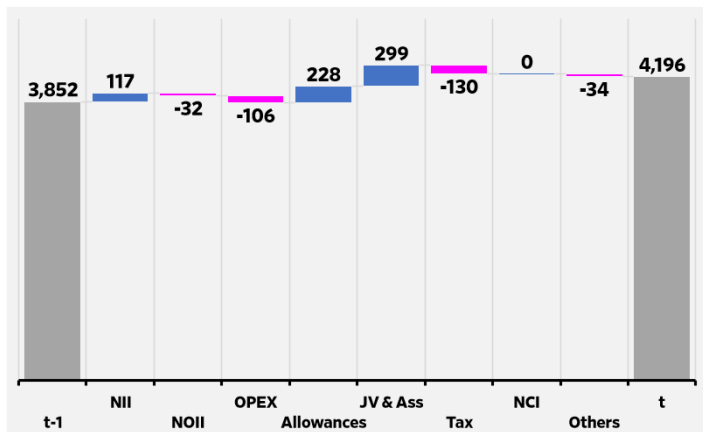
Source: Hong Leong Bank, MIDFR

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



Source: Hong Leong Bank, MIDFR

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



Source: Hong Leong Bank, MIDFR

Fig 4: Quarterly results

FYE Jun (RM m)	4Q FY24	3Q FY24	4Q FY23	Yoy (%)	Qoq (%)	FY24	FY23	Yoy (%)
Net interest inc.	981	968	893	10	1	3,821	3,684	4
Islamic banking inc.	260	254	230	13	2	986	963	2
Non-interest inc.	236	212	180	31	11	963	1,038	-7
<b>Net income</b>	<b>1,477</b>	<b>1,435</b>	<b>1,303</b>	<b>13</b>	<b>3</b>	<b>5,770</b>	<b>5,686</b>	<b>1</b>
OPEX	(628)	(577)	(587)	7	9	(2,339)	(2,233)	5
<b>PPOP</b>	<b>848</b>	<b>858</b>	<b>716</b>	<b>19</b>	<b>-1</b>	<b>3,432</b>	<b>3,452</b>	<b>-1</b>
Loan provisions	31	26	(14)	-316	18	114	(115)	-199
Other provisions	0	(1)	0	n.m.	n.m.	(1)	0	n.m.
JV & Associates	402	384	339	19	5	1,589	1,289	23
<b>PBT</b>	<b>1,282</b>	<b>1,268</b>	<b>1,040</b>	<b>23</b>	<b>1</b>	<b>5,134</b>	<b>4,627</b>	<b>11</b>
Tax	(248)	(224)	(176)	41	11	(938)	(808)	16
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
<b>Reported NP</b>	<b>1,034</b>	<b>1,044</b>	<b>865</b>	<b>20</b>	<b>-1</b>	<b>4,196</b>	<b>3,818</b>	<b>10</b>
<b>Core NP</b>	<b>1,034</b>	<b>1,044</b>	<b>899</b>	<b>15</b>	<b>-1</b>	<b>4,196</b>	<b>3,852</b>	<b>9</b>
Total NII	1,206	1,181	1,089	11	2	4,669	4,552	3
Total NOII	271	254	214	26	7	1,101	1,134	-3
<b>Gross DPS (sen)</b>	<b>43.0</b>	<b>-</b>	<b>38.0</b>	<b>n.m.</b>	<b>n.m.</b>	<b>68.0</b>	<b>59.0</b>	<b>n.m.</b>
Core EPS (sen)	50.4	50.9	43.8	15	-1	204.7	188.0	9
Gross loans	194,927	187,810	181,677	7.3	3.8			
Gross impaired loans	1,041	1,074	1,042	-0.1	-3.1			
Customer deposits	220,433	212,417	211,652	4.1	3.8			
CASA	71,617	65,005	65,097	10.0	10.2			
<b>Ratios (%)</b>	<b>4Q FY24</b>	<b>3Q FY24</b>	<b>4Q FY23</b>	<b>Yoy (ppts)</b>	<b>Qoq (ppts)</b>	<b>FY24</b>	<b>FY23</b>	<b>Yoy (ppts)</b>
<b>ROE (Ann.)</b>	<b>11.6</b>	<b>12.1</b>	<b>11.1</b>	<b>0.5</b>	<b>-0.5</b>	<b>11.8</b>	<b>11.9</b>	<b>-0.1</b>
<b>NIM (Reported)</b>	<b>1.89</b>	<b>1.87</b>	<b>1.83</b>	<b>0.06</b>	<b>0.02</b>	<b>1.86</b>	<b>1.98</b>	<b>-0.12</b>
NOII/Net income	18.3	17.7	16.4	1.9	0.6	18.3	16.4	1.9
Cost/Income	42.5	40.2	45.1	-2.5	2.3	40.5	39.3	1.3
NCC (Ann.) (bps)	(7)	(6)	3	-10	-1	(6)	7	-13
GIL ratio	0.53	0.57	0.57	-0.04	-0.04			
Loan loss coverage	155	154	169	-14	1			
CASA ratio	32.5	30.6	30.8	1.7	1.9			
L/D ratio	87.7	87.6	85.0	2.7	0.1			
CET-1	13.3	12.5	12.8	0.5	0.8			

Source: Hong Leong Bank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric		Surprise? Qoq/Yoy		Metric		Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil		<b>1,034</b>	Qtrly ROE	Qtr value		<b>11.6%</b>
	26% of FY CNP						
	Qoq		<b>-1%</b>		t-1		<b>12.1%</b>
	Yoy		<b>15%</b>		t-4		<b>11.1%</b>
Cum Core NP	RM mil		<b>4,196</b>	Cum ROE	Cum value		<b>11.8%</b>
	Within our forecast						
	104% of FY CNP						
	Within consensus						
	101% of FY CNP						
Yoy		<b>9%</b>	t-1		<b>11.9%</b>		
NII	As expected			NIM	As expected		
					Qtr value		<b>1.89</b>
					Cum value		<b>1.86</b>
	Qtr (Qoq)		<b>2%</b>		Qtr (Qoq)		<b>+2bps</b>
	Qtr (Yoy)		<b>11%</b>		Qtr (Yoy)		<b>+6bps</b>
Cum (Yoy)		<b>3%</b>	Cum (Yoy)		<b>-12bps</b>		
NOII	As expected			Qtr	% NII		<b>82%</b>
	Qtr (Qoq)		<b>7%</b>		% NOII		<b>18%</b>
	Qtr (Yoy)		<b>26%</b>	Cum	% NII		<b>82%</b>
	Cum (Yoy)		<b>-3%</b>		% NOII		<b>18%</b>
OPEX	As expected			Cost/ Inc.	As expected		
					Qtr value		<b>42.5%</b>
					Cum value		<b>40.5%</b>
	Qtr (Qoq)		<b>9%</b>		Qtr (Qoq)		<b>+2.3%</b>
	Qtr (Yoy)		<b>7%</b>		Qtr (Yoy)		<b>-2.5%</b>
Cum (Yoy)		<b>5%</b>	Cum (Yoy)		<b>+1.3%</b>		
JV & Asso- ciates	As expected						
	Qtr (Qoq)		<b>5%</b>				
	Qtr (Yoy)		<b>19%</b>				
			Cum (Yoy)		<b>23%</b>		

Notes (Cum = Cumulative, Qtr = Quarterly)

Source: Hong Leong Bank, MIDFR

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					
	Qoq	3.8%				
	Yoy	7.3%				
	YTD (FY)	0.0%				
Depo. grwth	As expected		CASA grwth	+ve surprise		
	Qoq	3.8%		Qoq	10.2%	
	Yoy	4.1%		Yoy	10.0%	
	YTD (FY)	4.1%		YTD (FY)	10.0%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	32.5%		Value now	87.7%	
	Qoq	+1.9%		Qoq	+0.1%	
	Yoy	+1.7%		Yoy	+2.7%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	0.53%		Value now	155%	
	Qoq	-4bps		Qoq	+1%	
	Yoy	-4bps		Yoy	-14%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Net writebacks			Net writebacks		
	Value now	-7bps		Value now	-6bps	
	t-1	-6bps				
	t-4	3bps		t-4	7bps	
CET 1	Healthy level		Div payout	Div announced		
	As expected			As expected		
	Value now	13.3%		Payout	33%	
	Qoq	0.8%				
<b>Others:</b>						

Source: Hong Leong Bank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY25F	FY24F	FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	12	12	11.8	
CIR	41	<40	40.5	
NIM	1.85-1.95 (from 1.86)	1.8-1.9 (from 1.98)	1.86	
NOII			-3% (yoy)	
Associates			23% (yoy)	
Loans	6-7	6-7	0.0 (YTD)	Realistically, management thinks they can beat FY25's 6-7% target. Focus is on SMEs – double digit growth expected.
Deposits			4.1 (YTD)	
% CASA	>32	>30	32.5	
Loan/Depo			87.7	87% level is ideal steady state.
GIL ratio	<0.65	<0.70	0.53	
NCC (bps)	<10	10	(6)	
LLC			155	
CET 1	>13		13.3	
Div payout			33	Dividend payout should continue increasing gradually to 40%.

Source: Hong Leong Bank, MIDFR

## FINANCIAL SUMMARY

### INCOME STATEMENT

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
<b>Net interest income</b>	<b>3,684</b>	<b>3,822</b>	<b>4,183</b>	<b>4,516</b>	<b>4,768</b>
Islamic banking inc.	963	986	1,141	1,232	1,301
Other operating inc.	1,038	963	1,117	1,122	1,155
<b>Net income</b>	<b>5,686</b>	<b>5,771</b>	<b>6,441</b>	<b>6,870</b>	<b>7,224</b>
OPEX	(2,233)	(2,339)	(2,641)	(2,817)	(2,962)
<b>PPOP</b>	<b>3,452</b>	<b>3,432</b>	<b>3,800</b>	<b>4,053</b>	<b>4,262</b>
Loan allowances	(115)	114	(202)	(215)	(229)
Other allowances	0	(1)	(0)	(0)	(0)
JV & Associates	1,289	1,589	1,827	2,047	2,272
<b>PBT</b>	<b>4,627</b>	<b>5,134</b>	<b>5,426</b>	<b>5,884</b>	<b>6,304</b>
Tax & zakat	(808)	(938)	(949)	(1,030)	(1,103)
NCI	-	-	-	-	-
<b>Reported NP</b>	<b>3,818</b>	<b>4,196</b>	<b>4,476</b>	<b>4,855</b>	<b>5,201</b>
<b>Core NP</b>	<b>3,852</b>	<b>4,196</b>	<b>4,476</b>	<b>4,855</b>	<b>5,201</b>
Total NII	4,552	4,669	5,164	5,575	5,887
Total NOII	1,134	1,102	1,277	1,294	1,337

### BALANCE SHEET

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	8,644	6,452	7,408	7,716	7,864
Investment securities	70,736	75,667	74,126	72,968	72,166
Net loans	179,903	193,304	207,103	220,676	235,052
Other IEAs	0	297	0	0	0
Non-IEAs	20,568	22,069	21,305	26,265	33,386
<b>Total assets</b>	<b>279,850</b>	<b>297,789</b>	<b>309,942</b>	<b>327,624</b>	<b>348,468</b>
Customer deposits	211,652	220,433	236,084	251,193	267,269
Other IBLs	22,677	26,863	27,081	27,554	28,062
Non-IBLs	11,535	13,199	6,567	5,461	5,581
<b>Total liabilities</b>	<b>245,864</b>	<b>260,495</b>	<b>269,732</b>	<b>284,208</b>	<b>300,912</b>
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	26,248	29,555	32,471	35,677	39,816
<b>Shareholders' funds</b>	<b>33,987</b>	<b>37,294</b>	<b>40,210</b>	<b>43,417</b>	<b>47,555</b>
NCI	0	0	0	0	0
<b>Total equity</b>	<b>33,987</b>	<b>37,294</b>	<b>40,210</b>	<b>43,417</b>	<b>47,555</b>
<b>Total L&amp;E</b>	<b>279,850</b>	<b>297,789</b>	<b>309,942</b>	<b>327,624</b>	<b>348,468</b>
Total IEAs	259,282	275,720	288,637	301,360	315,082
Total IBLs	234,328	247,296	263,165	278,747	295,331
Gross loans	181,677	194,927	208,572	222,130	236,568
CASA	65,097	71,617	75,547	82,894	90,872

### FINANCIAL RATIOS

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
<b>Interest (%)</b>					
NIM	1.83	1.75	1.83	1.89	1.91
Return on IEAs	3.02	3.28	3.25	3.26	3.23
Cost of funds	1.72	2.06	1.96	1.88	1.81
Net interest spread	1.30	1.22	1.30	1.38	1.42
<b>Profitability (%)</b>					
<b>ROE</b>	<b>11.9</b>	<b>11.8</b>	<b>11.6</b>	<b>11.6</b>	<b>11.4</b>
ROA	1.4	1.5	1.5	1.5	1.5
NOII/Net income	19.9	19.1	19.8	18.8	18.5
Effective tax rate	17.5	18.3	17.5	17.5	17.5
Cost/Income	39.3	40.5	41.0	41.0	41.0
<b>Liquidity (%)</b>					
Loan/Deposit	85.0	87.7	87.7	87.9	87.9
CASA ratio	30.8	32.5	32.0	33.0	34.0
<b>Asset Quality (%)</b>					
GIL ratio	0.57	0.53	0.50	0.50	0.49
LLC ratio	169	155	140	130	130
LLC (w. reserves)	265	276	199	186	183
Net CC (bps)	7	-6	10	10	10
<b>Capital (%)</b>					
CET 1	12.8	13.3	13.9	14.0	14.0
Tier 1 capital	13.9	14.3	14.9	14.9	14.8
Total capital	15.9	16.3	16.8	16.8	16.7
<b>Growth (%)</b>					
Total NII	-1.4	2.6	10.6	8.0	5.6
Total NOII	15.7	-2.8	15.9	1.4	3.3
Net income	1.6	1.5	11.6	6.7	5.2
OPEX	6.4	4.7	12.9	6.7	5.2
Core NP	24.1	8.9	6.7	8.5	7.1
Gross loans	8.0	7.3	7.0	6.5	6.5
Customer deposits	7.3	4.1	7.1	6.4	6.4
CASA	-1.4	10.0	5.5	9.7	9.6
<b>Valuation metrics</b>					
Core EPS (sen)	188.0	204.8	218.4	236.9	253.8
Gross DPS (sen)	59.0	68.0	76.4	82.9	88.8
Div payout (%)	31	33	35	35	35
BVPS (RM)	16.6	18.2	19.6	21.2	23.2
Core P/E (x)	11.3	10.4	9.7	9.0	8.4
<b>Div yield (%)</b>	<b>2.8</b>	<b>3.2</b>	<b>3.6</b>	<b>3.9</b>	<b>4.2</b>
P/BV (x)	1.3	1.2	1.1	1.0	0.9

Source: Hong Leong Bank, MIDFR

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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### 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