Joint Committee on Climate Change (JC3) Report on the Sustainable Finance Landscape in Malaysia

An assessment of sustainability practices and product offerings in the financial sector

April 2022

JC3 Joint Committee on Climate Change

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Contents

Preamble

Sustainability and climate change are important issues that financial institutions should consider given the significant risks they posed to the financial system. Given the huge contribution of the financial sector to the economy, the financial institutions play an important role in supporting Malaysia's commitment to the United Nations' (UN) 17 Sustainable Development Goals (SDGs) and the Paris Agreement, including Malaysia's aspiration to achieve net zero greenhouse gas emission by 2050, as announced at the 2021 United Nations Climate Change Conference (COP26).

At the regional level, several ASEAN countries have made national decarbonisation commitments at COP26 in line with the Paris Agreement aspiration. While the majority have pledged to reduce emission levels by 2030, only six out of ten ASEAN countries have committed to net zero with Malaysia being one of them[1]. In taking the climate agenda forward for Malaysia, the 12th Malaysia Plan outlines the nation's path towards net zero emission by committing to a carbon neutral target by 2050 and the phasing out of coal power generation.

The financial sector in Malaysia is guided by the respective blueprints and masterplans released by the regulators, including in addressing sustainability and climate issues. In September 2021, the Securities Commission Malaysia (SC) launched the Capital Market Masterplan 3 (CMP3) which serves as a strategic framework for the capital market to continue to support the economy as we transition into an inclusive and sustainable country. More recently, Bank Negara Malaysia (BNM) launched the Financial Sector Blueprint 2022-2026 with the primary objective of facilitating an orderly transition of the banking system into a greener economy.

As part of an initiative to support this agenda, the Joint Committee on Climate Change (JC3) launched a survey in November 2021 involving the financial institutions in Malaysia to understand and assess the current state of sustainability practices and readiness within the financial sector.

It focuses on four key aspects of sustainability practices:

- Sustainability commitment and strategy
- Governance and risk management
- Green products and solutions
- Climate disclosures

The report sets out the results of this survey and observations on the common issues within the industry. Based on the survey results, Malaysian financial institutions have demonstrated commitments on sustainability and climate issues. There have also been concerted efforts to embed climate risk as part of the risk management framework and governance oversight. There are also opportunities to accelerate the readiness of the Malaysian financial sector in furthering the sustainability and climate agenda further.

A great deal remains to be done; however, we hope that this report will provide some insights on the common issues to be addressed in the industry, and the next steps forward for the Malaysian financial sector.

1 ASEAN Taxonomy for Sustainable Finance, November 2021, *https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf*

Survey overview

The JC3 launched a survey in November 2021 to understand and assess the current state of sustainability practices and readiness within the financial sector.The survey instrument was developed and designed by JC3.

The survey gathered feedback from JC3 members comprising the banking, insurance and asset management sectors. The results of the survey were then compiled and analysed for the purpose of this report.

Number of **financial** institutions invited to participate

35

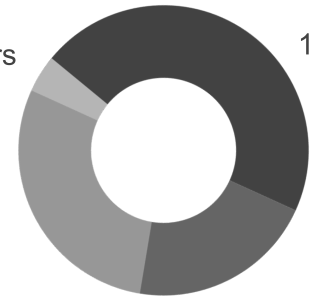
Number of respondents*

24

Survey questions categorisations

Section A: Strategy and Commitments
Section B: Governance, Risk and Reporting
Section C: Asset and Liabilities
Section D: Products and solutions
Section E: Client Base
Section F: Shareholder and Investor Engagement
Section G: Critical Success Factors and Challenges

Breakdown of respondents*



**Note: The larger financial institutions responded to the JC3 survey at the Group level.*

Results at a glance

92%
of respondents have a sustainability **strategy** in place, however only **42%** have made commitments on **net zero**

Strategy

73%
of banking respondents have made some commitments to ban or phase out **financing of coal** related activities

Commitment

83%
of respondents have a sustainability **framework** in their organisation, however only **46%** have reflected **climate risk** in their risk appetite statement

Governance

88%
of respondents offer sustainability **products** to their customers, and **92%** plan to increase the number of sustainability products in the future

Products

21%
of respondents have **a third party verification** process on their sustainability reports

Reporting

95%
of respondents cited **data quality or availability** as one of the key challenges in driving the sustainability agenda

Challenges

1

Strategy and Commitment

Malaysian financial sector's sustainability journey

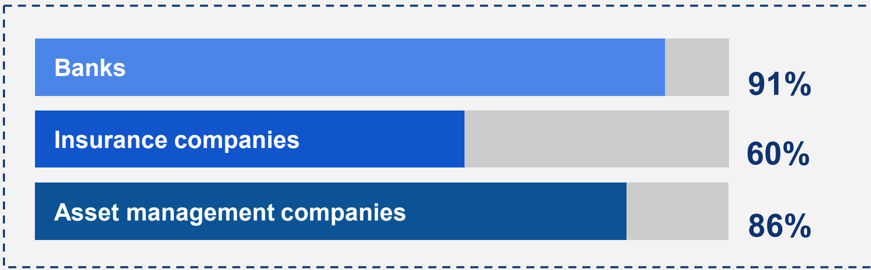
Most financial institutions say they have strategies and governance structures in place to embark on the sustainability journey towards greener finance. Only a minority of the respondents state that they are still working towards putting a sustainability strategy in place.

As sustainability became more imperative in recent years, more organisations and their stakeholders recognised sustainability as a strategic priority to capture business opportunities and address risks.

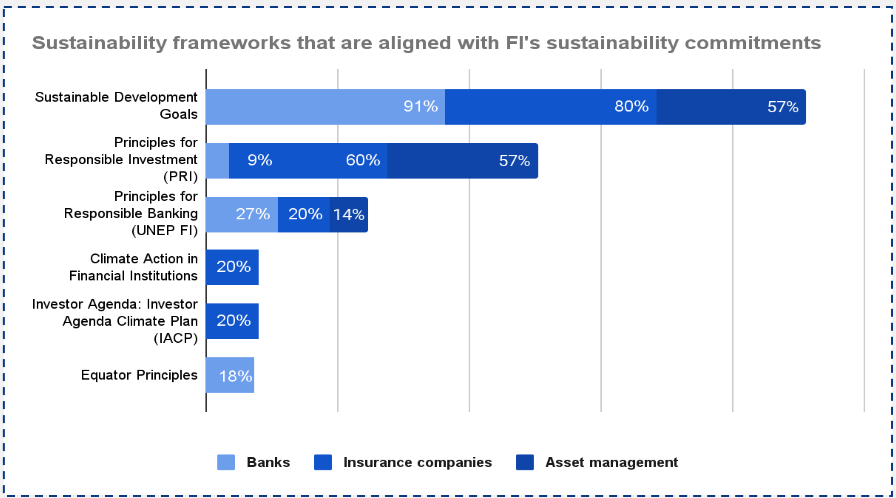
Survey responses on sustainability oversight as part of the governance structure suggest that many banks are incorporating global sustainability frameworks and policies such as the Value-based Intermediation (VBI) principles, UN SDGs and Principles for Responsible Investment (PRI), among others with boards leading and working together with the senior management team in setting the right strategies, targets and frameworks.

Has your organisation made any sustainability commitments as part of the strategy?

Do you have any sustainability frameworks in your organisation?



Survey responses show that, based on the various sustainability frameworks, 79% of the respondents are aligned to the SDGs, 33% are aligned to the Principles for Responsible Investment (PRI) and 21% are aligned to the Principles for Responsible Banking (PRB).



Commitment to net zero

The financial sector is progressively making commitment towards net zero.

Based on the survey result, about 42% of the survey respondents in the financial sector have made commitments towards net zero targets. This appears to be ahead of other Malaysian companies based on a recent study[2] conducted which showed that only around 18% of Malaysian companies, across all industries, have made net zero commitments.

It is important for organisations to set net zero targets, to ensure accountability and commitment to facilitate decarbonisation of the economy. Financial institutions should also adapt their business model and strategy accordingly as more and more stakeholders expects commitment on sustainability and climate.

*Please refer to the appendix on **Box Articles A and B** on the approach of Standard Chartered and Zurich on transition to low carbon economy.*

92% of respondents have a sustainability strategy in place, however only **42%** of respondents have made commitments on net zero.

Has your organisation made any commitments towards net zero target?

42%

of FIs have made commitments on net zero

58%

of FIs have not made commitments on net zero

2 PwC 25th Annual CEO Global Survey 2022
https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2022.html

Stance on coal financing

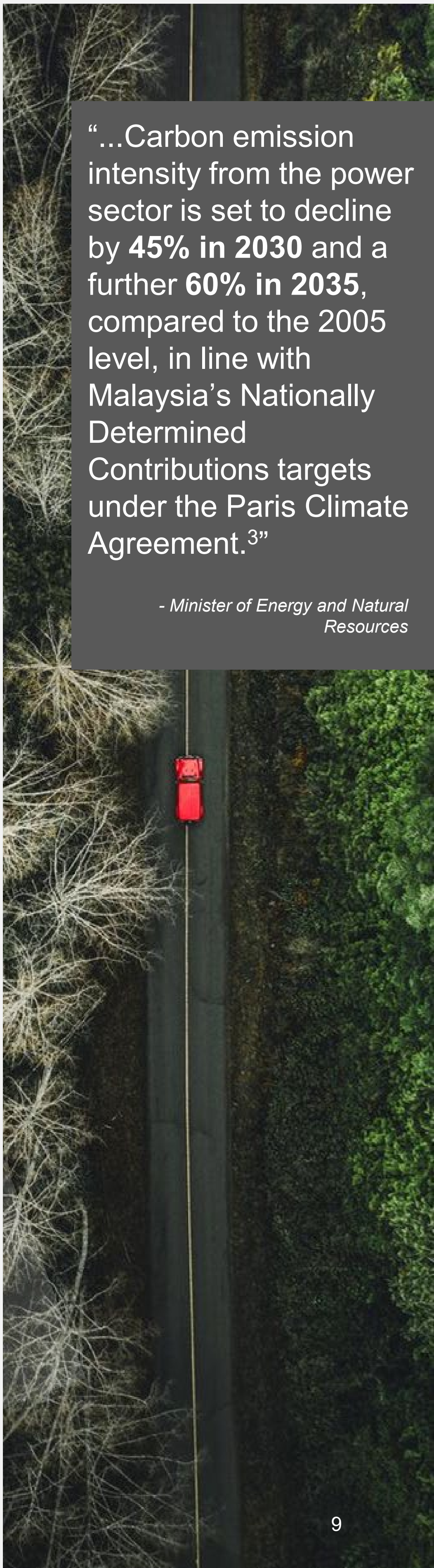
The financial sector is committing to reduce coal financing.

A collective response to address this issue has now become crucial. The financial sector, which is a key enabler of the economy plays an important role to ensure that the initiatives towards sustainability are achieved successfully.

Our survey results show that 30% of the organisations from the banking sector have set plans in motion and commit to reduce coal financing. Most of the targets set are to cease coal-fired power plants and coal financing in the coming years and many have started to phase out new coal-related activities in the last year.

On the other hand, insurance companies are planning to increase their green exposures by introducing new green products in their portfolio offerings although the majority are yet to set specific targets.

While this is a start towards the journey, there is still a pressing need for these organisations to prioritise their focus to ensure they are able to achieve these targets by the set timeframe.



"...Carbon emission intensity from the power sector is set to decline by **45% in 2030** and a further **60% in 2035**, compared to the 2005 level, in line with Malaysia's Nationally Determined Contributions targets under the Paris Climate Agreement.[3]"

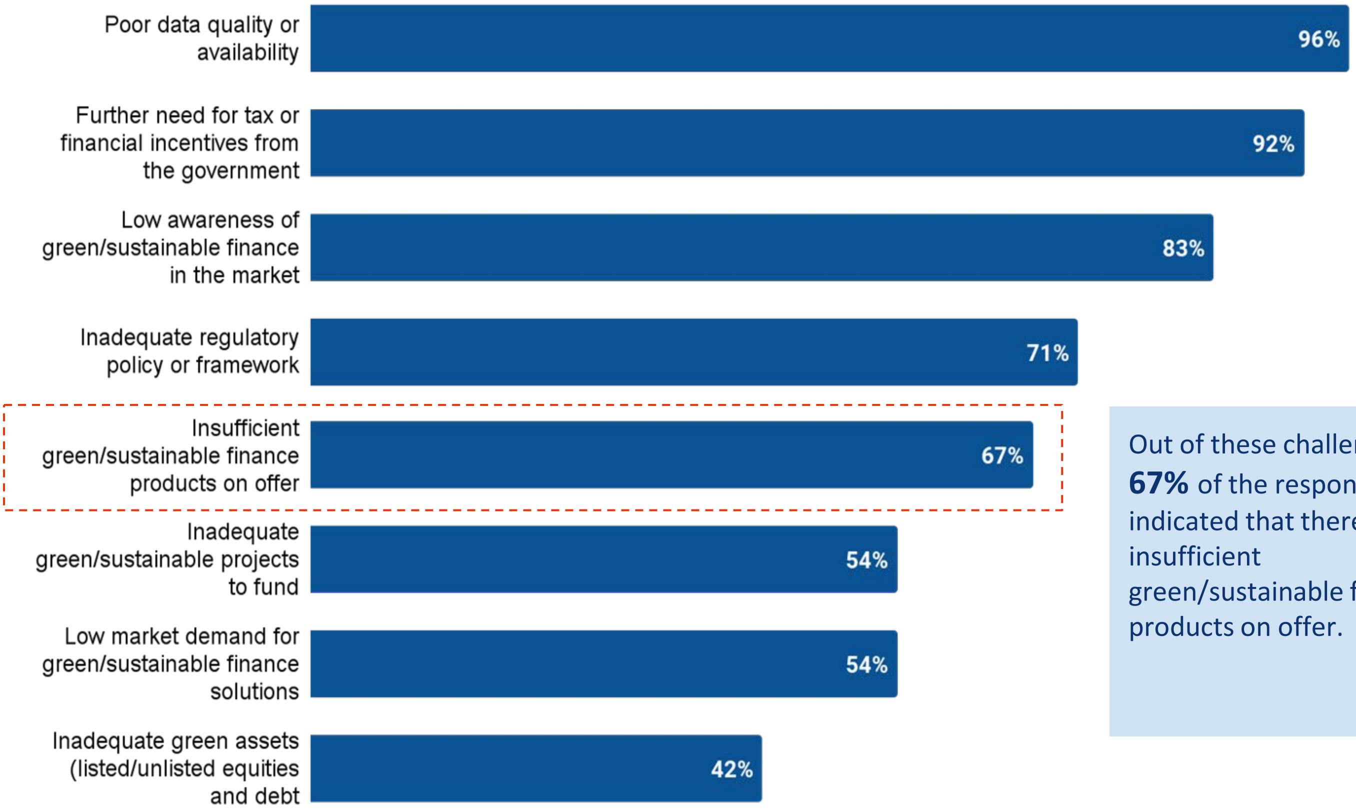
- Minister of Energy and Natural Resources

3 MIDA, 2021, *Malaysia aims 31% RE capacity by 2025*

Challenges in sustainable finance

The sustainable finance market in Malaysia has seen remarkable growth. While there are a number of ongoing sustainable finance initiatives, there are also various challenges that could prevent the efficient scale-up of this sustainable finance market.

Survey respondents cited poor data quality or availability, inadequate financial incentives and low awareness of green finance in the market as some of the top challenges faced in their efforts towards a sustainable finance market.



Out of these challenges, **67%** of the respondents indicated that there are insufficient green/sustainable finance products on offer.

Challenges:
"Low awareness among SMEs, the Environmental and Social Risk Assessment (ESRA) checklist is technical in nature and medium-sized companies may not have access to subject matter expertise"
Success factor:
"Collaborative efforts with regulators and industry partners is essential to give impetus for the development of feasible industry standards and practices."

\- **Local banking institution**

Challenges:
"Readiness of external fund manager in terms of skill & consistent methodology (amongst others) in identifying and evaluating sustainable / green securities, consistent with the industry"
Success factor:
"we think better coordination and stronger policy integration will help address the conflicts among the various interests and priorities in the public and private sectors."

\- **Local asset manager**

Challenges:
"Difficulty in deriving to optimal risk-reward profile as unlike interest rate & credit risk, there is no benchmark yet to measure environmental, social and governance (ESG) premium"
Success factor:
"Supply availability of ESG bonds/sukuks in the primary and secondary market"

\- **Local insurance provider**

How to resolve the challenges?

Pushing the ESG agenda forward

Our survey reinforces the view that the strategy and implementation plan within the financial sector is still at an early stage of development. Given the challenges faced, particularly in relation to the top three challenges on poor data quality or availability, inadequate financial incentives and inadequate awareness of green finance in the market, which are among the common problems most organisations encounter, there needs to be tailored and targeted approaches in resolving these issues.

Survey results show that the banking sector is moving towards sustainability-centric initiatives, and making higher commitments towards financing green and environmentally sustainable activities. The banking sector is also putting more focus on introducing new green/sustainable products and offerings to customers by increasing public awareness and encouraging them to take on such products.

Working together with the authorities and regulators, the financial sector can make greater progress in its contribution for a net zero future.

*Please refer to the appendix on **Box Articles C and D** on how BIMB Investment Management Berhad and BNP Paribas Asset Management Sdn Bhd are supporting the ESG agenda and the transition towards a low carbon economy.*

Please describe what are the necessary steps for your organisation to establish these commitments and targets, including key success factors and challenges.

“

Next steps:
‘Implement Exclusion list and Environmental, Social and Governance Risk Assessment (ESG) and set ESG-related Annual KPI”
Success factor:
“Embedding ESG considerations into our strategies, business, operations and decision making”

- Local financial institution

Next steps:
“Cascading of this information to fund managers so ESG would be one of the factors under consideration.”
Success factor:
“Available ESG bonds/sukuks meet the appetite i.e. credit rating, maturity, valuation, liquidity”

- Local insurance provider

Next steps:
“Establish policy that is in line with our Group and parent company”
Success factor:
“Upskilling & Grooming in the Workforce - Upskilling to develop the skill of our staff and grooming them with the right knowledge and upskill their level of skills offering proper training to bring the best out of them.”

- Local asset manager

”

2

Governance and Risk Management

Driving forces for change

Most organisations are making progress in establishing a governance structure and oversight over their sustainability strategy.

It is important for the Board to set the tone from the top in spearheading the sustainability efforts and vision for the organisation.

92%

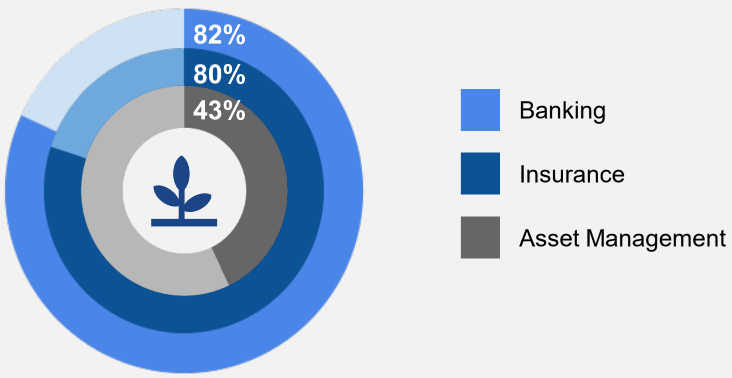
of respondents have reflected sustainability roles and responsibilities in their governance structure

Climate change risks continue to receive increased focus from investors, regulators, media and non-government organisations.

A total of 71% of respondents from our survey reported that climate risk has been incorporated into their risk management framework. A further 25% of the respondents are currently at the pilot stage of establishing the process and framework while the rest have not started to integrate climate risk into their risk management framework (4%).

While it is imperative that organisations have an established framework with a defined structure, it is also important that the governance structure is clear on the roles and responsibilities of the Board in making sure the organisation has an articulated strategic response to make an informed business decision.

Has climate risk (e.g. physical, transitional and other related risks) been considered into your risk management framework?



Embedding climate risk into sustainability framework

83%

of respondents have a sustainability framework in their organisation, however **only 46%** have reflected climate risk in their risk appetite statement.

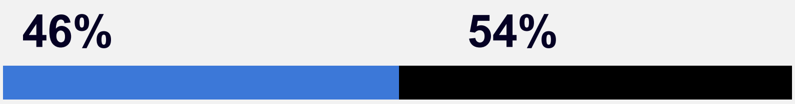
The banking sector is relatively ahead of the insurance and asset management sector with 73% of respondents saying that they have reflected climate risk consideration into their risk appetite statement and risk consideration process.

Embedding climate risk into its counterparty ratings continues to be a challenge for many financial institutions.

The top sustainability issues faced today are largely environmental in nature due to the impact of climate change and regulatory requirements. COP26 emphasises on climate risk being the greatest risk faced by humankind and the urgent need to tackle climate change together.

Most respondents say that they are in the process of integrating climate risk into their risk management process including the identification of clients' portfolio that are more susceptible to climate risk.

Does your risk appetite statement make any reference to climate risk?



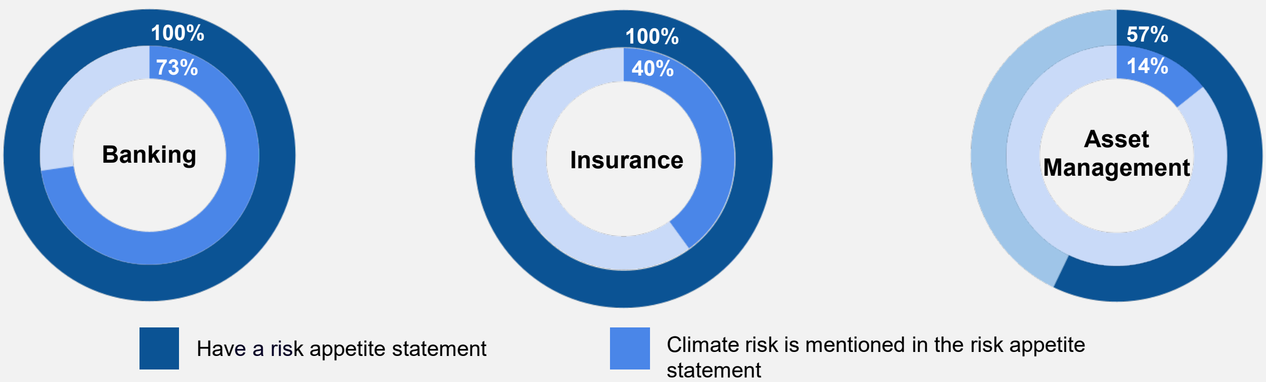
have a risk appetite statement that makes reference to climate risk

of FIs do not make reference to climate risk in the organisation's risk appetite statement

While all banks have a risk appetite statement, only 73% say that they make reference to climate risk.

While all insurance companies have a risk appetite statement, only 40% say that they make reference to climate risk.

Only 57% of asset management companies say they have a risk appetite statement and 14% say that they make reference to climate risk.



Risk management is critical in business resilience

There should be more focus on embedding climate risk into risk appetite statements

It is important that the Board stays updated with current regulatory requirements and evolving risks vis-à-vis climate-related aspects. This is critical to ensure that the Board is able to drive the strategic vision in managing the organisation's climate risk.

Another approach financial institutions can take is by clearly addressing climate-related risks within their risk appetite statement and develop relevant risk metrics to manage climate-related risks. Currently, over half (54%) of our survey respondents have not embedded climate risk into their risk appetite statement.

When such targets are set, it will help the organisation to direct its focus to consider embedding climate change risks across the organisation, and think about ways to mitigate them in the long term. This would support the organisation's vision in building resilience towards climate-related risk issues.

This is aligned with BNM's Exposure Draft on Climate Risk Management and Scenario Analysis which sets out the proposed requirements and guidelines on climate risk management and scenario analysis for financial institutions. The exposure draft complements the Climate Change and Principle-based Taxonomy (CCPT), Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF), as well as the VBIAF Sectoral Guides.

4 BNM, 2021, Climate Risk Management and Scenario Analysis - Exposure Draft

3

Green Products and Solutions

Expanding green finance

Green finance covers a broad range of products and services, which can be divided into banking, insurance products and asset management segments. The 'green' aspect in green products relates to investment or underlying assets that are environment-friendly, such as clean renewable energy projects or products that are designed to encourage or reward activities that manage environmental risks.

To deepen the green finance market, the financial sector needs to focus on developing innovative financial instruments that will mobilise capital and investments into sustainable projects and activities.

Examples of products that have been observed in the global market:

Banks

- **Microfinance** - *Financing instrument targeted at low income population*
- **Green loans** - *Lending to encourage market development in climate aligned sectors*
- **Green mortgages** - *Encouraging homeowners to purchase new energy efficient homes such as those with solar panel*
- **Green vehicle financing** - *Incentivise demand for green cars with low greenhouse gas (GHG) intensity and high fuel efficiency ratings*
- **Sustainability linked solutions** - *Incentivise positive change by offering access to preferential interest rates based on sustainability performance including ESG-linked Revolving Credit Facility (RCF) and ESG-linked Supply Chain*

Capital Markets

- **Green bonds** - *Funding projects with positive environmental or climate impact*
- **Climate bonds** - *Financing projects needed to address climate issues*
- **Transition bonds** - *Funding decarbonisation strategies*
- **Low carbon ETFs** - *Instruments that invest into companies that meet low carbon emission criteria*
- **Private equity infrastructure fund** - *Unlisted, closed-end funds investing in renewable infrastructure projects*
- **Alternative financing** - *Alternative fundraising via equity crowdfunding (ECF) and peer-to-peer (P2P) financing*

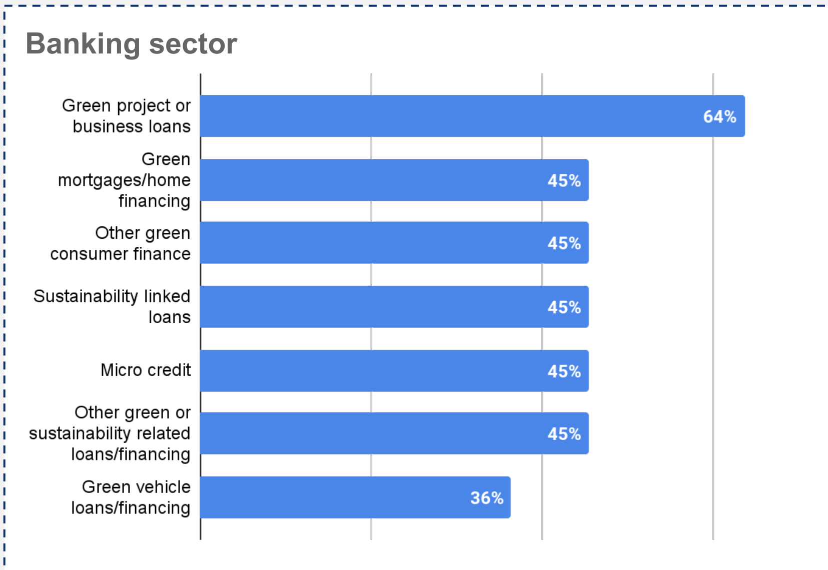
Insurers

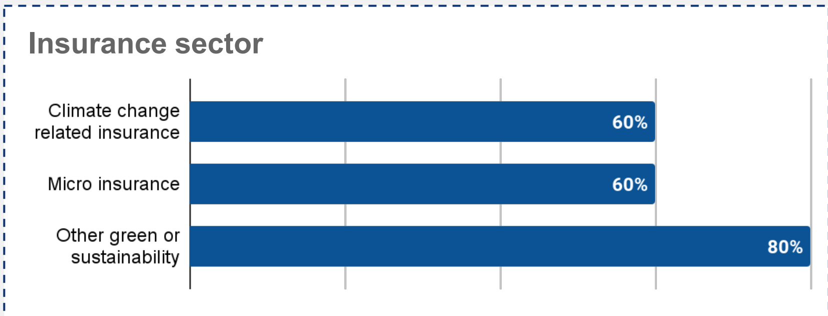
- **Green motor insurance** - *Insurance incentives offered on motor vehicles that help reduce greenhouse gases emissions*
- **Green housing insurance** - *Facilitate use of renewable materials or energies in homes or buildings*
- **Green insurance for business** - *Insurance incentives for businesses that use alternative materials or energy i.e. Pay as You Drive to track miles driven in your car, installing "green" building systems and materials and coverage for "green" certified rebuilding*
- **Green technology** - *Insurance to provide risk protection for new green technology such as solar, wind-turbine, energy efficiency technology to help mitigate the risks associated with newly emerging technologies*

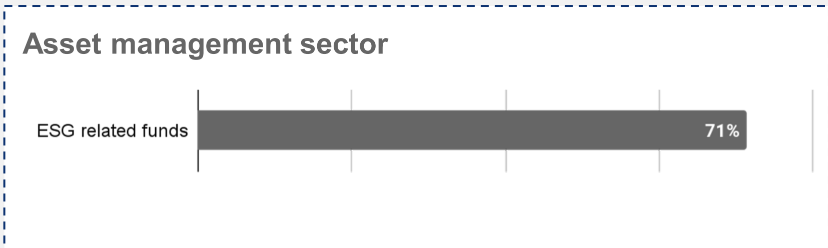
Tapping into the local green finance market

Survey results indicate a growing trend of green products in Malaysia

91% of the banking sector have at least one or more green product / service offering. Green financing is among the most commonly offered products. 80% of insurance companies have some form of sustainability based insurance products while 71% of asset managers offer ESG related funds.







*Please refer to the appendix on **Box Articles A, B, E, F and G** on how Standard Chartered, Zurich, CIMB, HLB and RHB offer financial solutions in the market for climate-friendly activities.*

Key initiatives and incentives to drive sustainability in Malaysia

A number of initiatives were announced by the government in the Malaysian Budget 2022. The following are some of the key initiatives in relation to the E, S and G dimensions of sustainability.

E

Environment, minimising the impact of an organisation to nature

Initiatives to reduce carbon dioxide (CO2) or other GHG emissions including:

- Green incentives and funding/matching grants for activities to reduce CO2/GHG emissions (e.g. RM12 million matching grant for research to enhance Light Emitting Diodes (LED) and electric vehicles (EV).
- RM1 billion fund to support small and medium-sized enterprises (SMEs) in reducing their carbon footprint
- Setting up of Bursa Malaysia's Voluntary Carbon Market (VCM) platform to support trading of carbon credits to help manage organisations' carbon footprint

S

Social, contributions by an organisation to promote fairness in society

Contributions to promote trust, welfare and equality in society, product safety and data privacy and security. For example:

- Funding/matching grants (e.g. RM1.1 billion fund for training/upskilling, RM6.6 billion to implement various Technical and Vocational Education and Training initiatives)
- RM7,000 tax relief for professional courses including ESG-related programmes

G

Governance, processes for decision making, reporting and ethical behaviour

Focuses on quality and scope of reporting and accountability. This includes tax transparency, for example:

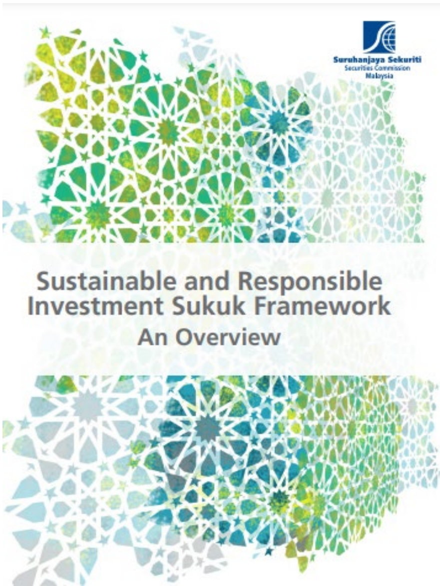
- Management of fiscal affairs by the authorities (proposed Fiscal Responsibility Act, Tax expenditure statement),
- Tax compliance certificates

Expanding product offerings for sustainable development

The Malaysian financial industry has demonstrated commitment towards national sustainability and climate change agenda through the mobilisation of financing for projects and activities that are aligned with environmental, social and sustainability objectives.

In the sukuk and bond market, issuances of green and sustainability sukuk under the national Sustainable and Responsible Investment (SRI) Sukuk Framework, are gaining traction since the issuance of the world's first green sukuk for the financing of a renewable energy project in 2017.

The SRI Sukuk Framework was introduced in 2014 to facilitate the financing of sustainable and responsible investment initiatives in Malaysia. As at 31 December 2021, a total of RM8.3 billion of SRI Sukuk have been cumulatively issued to fund a wide range of green, social and sustainability projects, which include quality education, affordable housing, green building and affordable and clean energy.



Out of the total issuances of RM8.3 billion, 72% (RM6.0 billion) were dually recognised under both the SRI Sukuk Framework and the ASEAN Green and Sustainability Bond Standards. In addition, RM1.6 billion of RM-denominated issuances have been issued cumulatively under the ASEAN Green and Sustainability Bond Standards in Malaysia .

The issuers of these sukuk and bonds were guided and supported by Malaysian financial institutions that served as the Principal Advisers for these issuances.

Expanding product offerings for sustainable development (cont'd)

In 2021, Malaysia's first sovereign sustainability sukuk amounting to USD1.3 billion was issued in alignment with the ASEAN Sustainability Bond Standards. This issuance is also recognised as the world's first US dollar sustainability sukuk issued by a sovereign, where proceeds are being used for eligible social and green projects aligned to the SDGs. Such offering provides a strong signal of the Malaysian government's commitment towards the sustainability agenda.

As at 31 December 2021, the total issuances of bonds and sukuk labelled under the ASEAN Green, Social and Sustainability Bond Standards amounted to USD20.9 billion since the release of these standards, of which 18% came from Malaysia. This includes CIMB Bank Berhad's issuance of its USD680 million SDG Bond that was aligned with the ASEAN Sustainability Bond Standards.

Within the fund management space, there has been steady growth of SRI funds since the Guidelines on SRI Funds were introduced in 2017. As at 31 December 2021, there were 34 SRI funds offered in Malaysia, which comprised 22 unit trust funds and 12 wholesale funds with a total net asset value (NAV) of RM5.07 billion, thereby offering investment options that are aligned with environmental, social and sustainability objectives to individual and institutional investors. Out of these SRI funds offered, 16 are also Shariah-compliant. The Malaysian fund management industry has also leveraged on the SC's Waqf-Featured Fund Framework (framework) to provide the public access to Islamic funds that allocate whole or part of the funds' returns towards socially impactful activities via waqf arrangement. To date, four Waqf-featured funds have been issued since the launch of the framework in November 2020.

To further grow this segment and attract more investors, fund managers need to introduce more innovative SRI fund products, including funds that focus on key investment themes such as climate change, social inclusion, etc.

While there has been encouraging growth in the introduction of green and sustainability sukuk and bonds and qualified SRI funds, the Malaysian financial industry has to continuously enhance its capabilities to meet the needs of the market for sustainable investment products and innovative product structures that can support Malaysia's transition to a low-carbon economy.

Footnote:
1. The ASEAN Green Bond Standards were launched in 2017, followed by the ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards in 2018.
2. Introduced by the Securities Commission Malaysia to strengthen Malaysia's leadership position in the SRI fund market in the region, particularly in integrating the commonalities between ICM and SRI into investment products and solutions.

Securities Commission Malaysia (SC) has established the SRI Sukuk and Bond Grant Scheme to encourage and grow the SRI sukuk and bond segment further.

SRI Sukuk and Bond Grant Scheme

Suruhanjaya Sekuriti
Securities Commission
Malaysia

OBJECTIVE

To incentivise and encourage more issuers to finance green, social and sustainability projects through sukuk issued under the SC's SRI Sukuk Framework or bonds issued in Malaysia under the *ASEAN Green, Social and Sustainability Bond Standards*.

ELIGIBILITY FOR ISSUANCES THAT QUALIFY FOR THE SRI SUKUK AND BOND GRANT SCHEME

- Green SRI sukuk issuances made under the SC's SRI Sukuk Framework from July 2017 onwards
- Social sustainability or other SRI sukuk issuances made under the SC's SRI Sukuk Framework from 25 August 2020 onwards
- Bond issuances made under the *ASEAN Green Bond Standards, ASEAN Social Bond Standards or ASEAN Sustainability Bond Standards* from 29 October 2020 onwards

CLAIM

Issuer can **claim** for the Grant based on **an issue or programme**

CLAIM AMOUNT

90% of the actual external review cost subject to a maximum of **RM300,000**

TAX INCENTIVE

Income tax exemption for the recipient of the SRI Sukuk and Bond Grant Scheme from Year of Assessment (YA) 2021 until YA 2025

APPLICATION PERIOD FOR THE SRI SUKUK AND BOND GRANT SCHEME

From **January 2021** until fully utilised

SRI - Sustainable and Responsible Investment

www.sc.com.my | www.capitalmarketsmalaysia.com

Bank Negara Malaysia (BNM) has established a Low Carbon Transition Facility RM2 billion as part of a joint effort with participating financial institutions to support and encourage SMEs to adopt sustainable practices for business resilience. This initiative is in line with Malaysia's national target to achieve a net-zero emission by 2050.

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BNM's Fund for SMEs:

Low Carbon Transition Facility (LCTF)

BNM's Low Carbon Transition Facility is established to support SMEs in adopting sustainable and low carbon practices.

The type of businesses suitable to apply for this facility

The Low Carbon Transition Facility is open for SMEs in all sectors that are committed to transform their business operations towards low carbon operations. This includes improving energy efficiency, increasing the use of sustainable material for production and obtaining sustainability certification.

All applications should be made directly with the participating financials to reduce risk of financial scams. No third party agents are being employed by participating financial institutions for the purpose of this facility.

Financing size per SME

Maximum RM10 million

Financing Rate to SMEs

Maximum financing rate of **5% p.a.** Inclusive of guarantee fee (if any)

Tenure

Up to **10 years**

Low Carbon Transition Facility (LCTF)

Objective	Encourage and support SMEs to adopt sustainable practices for business resilience
Special feature	Participating financial institutions to provide financing on a matching basis
Size	RM2 billion [RM1 billion at location from Bank Negara Malaysia + RM1 billion from participating financial institutions (matching basis)]
Eligibility Criteria	SMEs in all sectors
Purpose of financing	To fund capital expenditure or working capital to initiate or facilitate the transition to low carbon and sustainable operations
Tenure	Up to 10 years
Financing size per SME	Maximum RM10 million
Financing rate to SMEs	Maximum financing rate of 5.0% p.a., inclusive of guarantee fee (if any)
Guarantee	Guarantee schemes by Credit Guarantee Corporation Malaysia Berhad (CGC) / Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP)
Availability	3 February 2022 until fully utilisation

For more information

Contact the participating financial institutions' customer service centre

Log on to participating financial institutions' website

bnm.gov.my/sme-financing

An initiative by:

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Credit Guarantee Providers:

CGC

SJPP

Sustainable marketplace is growing

88%

of the respondents say that they are currently offering green or sustainable products and / or solutions.

Financial institutions are starting to think about the business opportunities created by climate change.

Most of the respondents from the survey have undertaken initial analysis to understand the impact of climate change on their business lines, products and portfolios.

A total of 92% of respondents are considering how climate change could create opportunities and are currently planning to increase the number of green or sustainable products and solutions in the coming future with strategic considerations and new opportunities to engage with clients on climate-related issues.

Towards greener financing

From the survey results, many respondents say their customers express interest in green products and services. Indeed, some studies have suggested that between RM300 to RM500 billion worth of investments are needed until 2050 to achieve Malaysia's net zero target[5].

Even though 88% of respondents say that they are currently offering green or sustainable products and solutions, 67% indicated that there is a challenge in terms of the breadth of green/sustainable financial products on offer.

Based on discussions and feedback from the JC3 members, one of the key challenges faced by financial institutions is insufficient overall awareness of green products, financial incentives and talents.

*Please refer to **Section 5** on the potential steps that could be taken as a way forward.*

*Additionally, please also refer to the appendix for the **Box Article H** on how Swiss Re conducts knowledge sharing sessions for its Malaysian clients on sustainability topics and the transition towards innovative green products.*

5 BCG, 2021, Securing Our Future: Net Zero Pathways for Malaysia

4

Climate Disclosures

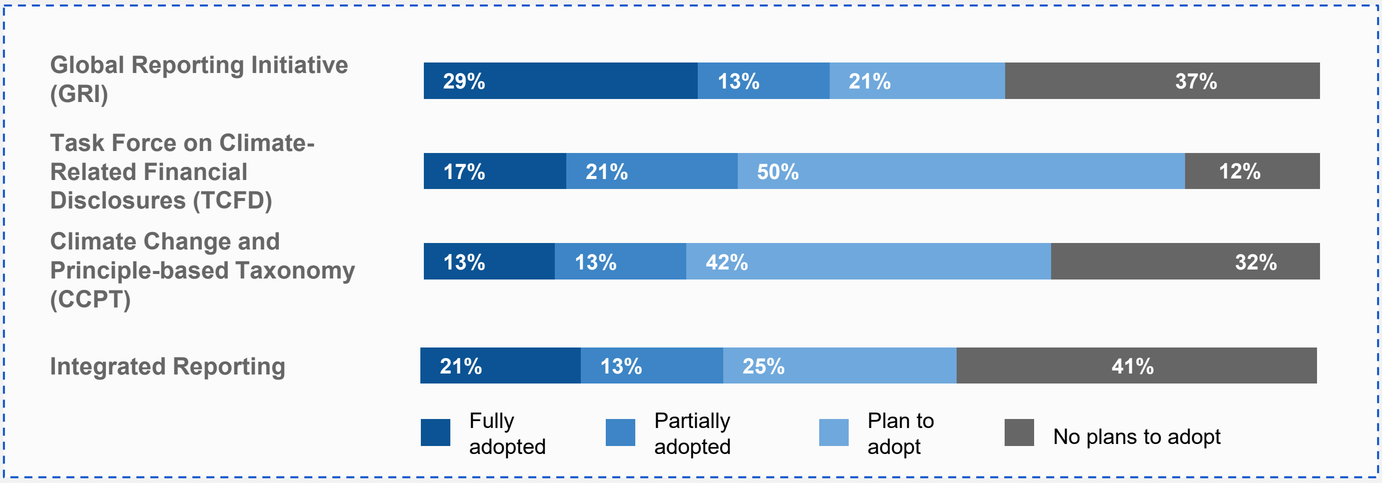
Increasing adoption of sustainability reporting frameworks

Sustainability report helps stakeholders better understand the impact of business decisions made and the actions taken towards a sustainable business practice.

Our survey shows that 29% of respondents have adopted the Global Reporting Initiative (GRI) framework, while there is a potential growth on the adoption of Task Force on Climate-Related Financial Disclosures (TCFD) with 50% of respondents saying that they have plans to adopt TCFD in the coming future.

79% say they have either **fully or partially** adopted at least one sustainability reporting framework

Adoption of frameworks by the FIs



Banking

91% of banks say that they have **fully or partially adopted** at least one sustainability reporting framework

82% of banks say that they plan to **adopt at least another framework,** in addition to their existing sustainability reporting frameworks

Insurance

60% of insurers say that they have **fully or partially adopted** at least one sustainability reporting framework

80% of insurers say that they plan to **adopt at least another framework,** in addition to their existing sustainability reporting frameworks

Asset Management

71% of asset managers that they have **fully or partially adopted** at least one sustainability reporting framework

29% of asset managers say that they plan to **adopt at least another framework**, in addition to their existing sustainability reporting frameworks

Disclosures on sustainability reporting

Independent assurance on sustainability reports promotes the integrity and credibility of disclosures in order to build trust among stakeholders and investors while providing transparency.

Financial institutions should think about disclosures in a holistic manner, to help address challenges and refine the processes for data gathering while enhancing climate metrics to establish a more comprehensive framework over time.

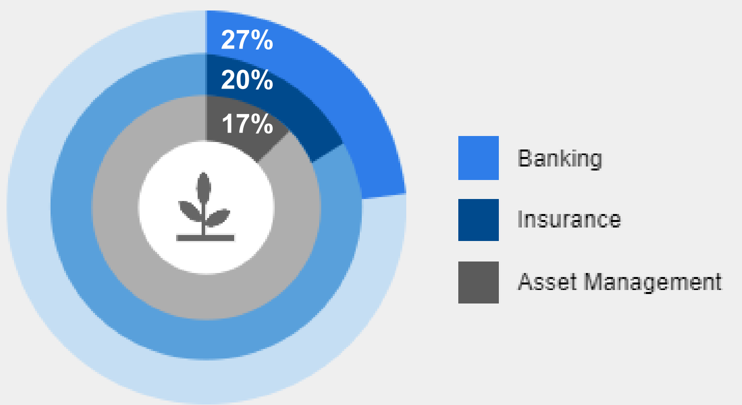
Our survey suggests that interactions with customers help to highlight areas that most respondents need to pay attention to.

Only 50% of the respondents said that they have established a methodology to identify customers who are more susceptible to climate change. It is observed that the bigger financial institutions have already started evaluating and engaging with clients on climate-related issues, including their approach to manage climate change risks.

When asked if the financial institutions have third party verification on their sustainability reporting process, only 21% stated that they have conducted independent assurance assessment.

Investors and stakeholders would have more confidence in the information reported when it has been independently assured. Third party verification provides a reasonable assurance level for the stakeholders as assurers have experience in conducting the work using a recognised assurance standard. This allows the stakeholders to find value in the assurance reports and find out if there is something they need to be aware of.

Most institutions have a sustainability strategy and framework in place. Majority are in the budding stage of sustainability reporting. However, only **21**% state that they have third party verification on their sustainability reporting process.



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The way forward

Next steps forward

There has been a lot of encouraging progress in the sustainability journey in the Malaysian financial sector so far. This also comes with a set of challenges on its own and there is still much that can be done as part of the transition to a greener economy. The following sets out some of the thematic initiatives that financial institutions can consider when furthering this agenda.

Embed strategy and commitments

Even though the majority of survey respondents indicated that they have a sustainability strategy (92%) and framework (83%) in place, however, more than half of the respondents (58%) have not yet made any commitment towards the net zero target. This commitment is important if we want to decarbonise the economy and move towards net zero. Given the key role of the financial sector in our economy, it is more important than ever for the industry to take a lead on this issue and set the right tone in the economy. In addition, sustainability issues is not just about responding to risks, but also about recognising the opportunity that it presents and adapting to this new paradigm. As such it is important for the financial institutions to set and announce respective climate targets, in line with Malaysia's commitment to achieve net zero GHG emission by 2050, as well as to continue aligning its strategy towards this agenda.

Strengthen governance and risk management framework over climate risk

The survey results indicated that 92% of the respondents have reflected sustainability roles and responsibilities in their governance structure. Governance framework is important to enable effective oversight into climate risk and sustainability issues by the Board and senior management. As such, there is increasing need and proposition for the establishment of a dedicated sustainability function within the financial institutions, and designating the relevant ESG roles.

From the survey results, we noted that 29% of respondents have not yet considered climate risk as part of their risk management framework while more than half of the respondents (54%) have not yet embedded climate risk considerations into their risk appetite statement. This is an area of importance as financial institutions need to assess climate risk on their business strategy and adapt accordingly within this new paradigm. In addition, the industry can also benefit from further applications of risk management tools such as stress testing and scenario analysis (refer to JC3 Application and Reference Guides on Climate Risk Management and Scenario Analysis) to facilitate further analysis and insights into this area.

Next steps forward (cont'd)

Widen the range of innovative products

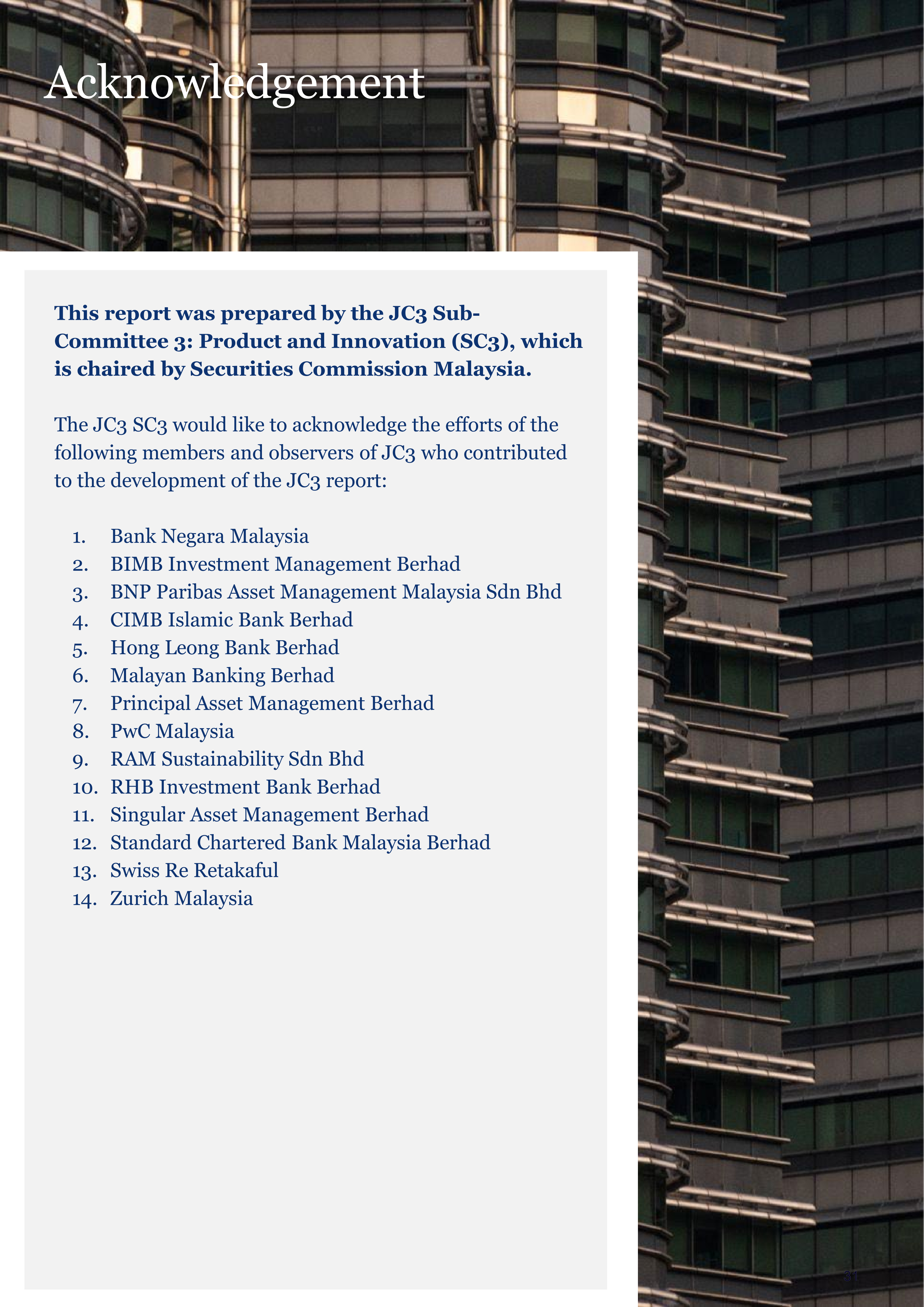
From the survey results about 67% of respondents agreed that there is currently inadequate number of green/sustainable financial products in the local market. It is important to increase the breadth of green products to cater to market demands from customers and investors. Moving forward, there needs to be further investments, including in new technologies, development of sustainable investment methodologies and skill sets, to enhance internal capabilities and readiness of the financial institutions to offer innovative products into the market. In addition, financial institutions should consider and explore collaboration with multilateral development banks/agencies in providing blended financing for green projects. Furthermore, the industry is encouraged to engage and understand the financing needs of corporates and SMEs to enable them to offer suitable financing spectrum, including for sustainable supply chain financing and alternative financing.

Stronger disclosure framework and verification

Reporting framework is an important component of the sustainability agenda, and many stakeholders are demanding for more robust, transparent and quality disclosures. From our survey results, there is still a proportion of the survey respondents which have not yet adopted a sustainability disclosure framework as part of their reporting process. For those who have, only 21% have conducted third party verification on their disclosures. Financial institutions play an important role to ensure robustness and reliability of data reported in sustainability disclosures. Meanwhile, the industry should accelerate the adoption of TCFD-aligned climate-related financial risk disclosures (refer to JC3 TCFD Application Guide for Malaysian Financial Institutions), which will not only provide greater transparency on how climate risk considerations are integrated into business decisions and risk management of financial institutions, but will also help drive action towards more effective risk mitigation and better adaptation to climate change.

Capacity building and awareness

Many of the initiatives and steps discussed above are reliant on a good support system within the financial institution. There is a high importance of having the right set of talents with aligned goals in order to assist the financial institution in realising its strategic objectives. Given that the overall Malaysian economy is relatively new to ESG, there may be a shortage of talent in the short term. As such, investment in people should be an important part of the financial institution's agenda to continuously build and groom talent internally. A structured and phased development plan for an identified pool of talent would play an important role in supporting the financial institution throughout its sustainability journey. The financial sector should also work on enhancing sustainability capabilities to develop ESG specialist talent for the industry.



Acknowledgement

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1. Bank Negara Malaysia
2. BIMB Investment Management Berhad
3. BNP Paribas Asset Management Malaysia Sdn Bhd
4. CIMB Islamic Bank Berhad
5. Hong Leong Bank Berhad
6. Malayan Banking Berhad
7. Principal Asset Management Berhad
8. PwC Malaysia
9. RAM Sustainability Sdn Bhd
10. RHB Investment Bank Berhad
11. Singular Asset Management Berhad
12. Standard Chartered Bank Malaysia Berhad
13. Swiss Re Retakaful
14. Zurich Malaysia

6

Appendices

Box A: Enabling the net zero Transition through Sustainable Trade Finance

Standard Chartered has had a long commitment to Sustainable Finance. We have the financial expertise, governance frameworks, innovative thinking, technology and geographical reach to get capital from where it exists to the markets where it matters the most. We continue to be an early leader in sustainable finance focused on emerging markets, from launching the world's first Sustainable Deposit to introducing comprehensive Sustainable Trade proposition.

At Standard Chartered, our vision is to be the world's most sustainable and responsible bank. We are committed to sustainable social and economic development in our business, operations and communities. Thus, in an effort to meaningfully support clients with their sustainability journey, we set out to understand what a truly sustainable supply chain is.

Through the launch of Standard Chartered's Sustainable Trade Finance proposition, which included our lens on what sustainable trade is, we aim to help our clients deliver on their own sustainability goals and drive changes to their supply chains, which in turn enhance our clients' brand recognition and reputation in relation to sustainability. By applying our sustainability lens to the entire suite of trade finance products, we are able to support:

- **Sustainable goods:** Working with customers and partners to finance underlying goods that meet agreed sustainability standards.
- **Sustainable suppliers:** Supporting trade for suppliers who meet acceptable thresholds against ESG ratings or metrics such as gender equality, responsible sourcing criteria and water use.
- **Sustainable end-use:** Focusing on trade financing in sustainable industries including renewable energy, energy efficiency, the blue economy, sustainable infrastructure, water management and clean transportation.
- **Transition industries:** Helping industries transition and reduce their carbon footprint by offering trade financing that recognises efforts to help reduce emissions.

As part of our proposition, we established definitions on sustainable financing of working capital products, across documentary trade as well as open account, to supply chain financing solutions in support and incentivise clients' journey to sustainability. In furthering our mandate to drive financing towards sustainable development outcomes and be the leading Sustainable Trade Bank in our footprint, we have and will be working closely with our clients on transaction and transition advisory while providing thought leadership for the industry.

To meet the goals of the Paris Agreement – perhaps the greatest challenge faced by our planet – and reduce carbon emissions to net zero by 2050, collaboration is crucial. We cannot combat the worst effects of climate change without policymakers, financial institutions and companies working together. Nowhere is this more true than for multinational companies (MNCs) and their suppliers.

Box A: Enabling the net zero Transition through Sustainable Trade Finance (cont'd)

Our research report, Carbon Dated, reveals that almost three-quarters of MNC carbon emissions are generated in their supply chains. As MNCs start to transition to net zero, it's therefore no surprise that they are looking to their suppliers to do much of the heavy lifting. Our research shows that two-thirds of MNCs are targeting supply chain emissions as the first step on their transition journey. For suppliers, especially those in emerging markets, the stakes couldn't be higher: 57% of MNCs are willing to replace emerging-market suppliers with ones in developed markets that are less reliant on fossil fuels if it would help them reach net zero. There is clearly an expiry date for carbon-reliant businesses, and it's fast-approaching. However, if suppliers can show their MNC partners that they are making progress in their transition and can become a positive link in the chain, a share of a huge market could be theirs. In 12 key emerging and fast-growing economies we reviewed exports to the tune of USD1.6tn, or around one-third, are set to be subject to MNC zero tolerance on carbon. Closer to home, impact on Malaysia's export market, is estimated at USD65.3 billion, if the suppliers are not embracing net-zero transitions expediently.

The above represents a major opportunity for net-zero-focused suppliers, but also quantifies the potential losses to companies not embracing net-zero transition.

Suppliers cannot do it alone but will rely on support from both banks and trading partners to reach net zero. Many of the MNCs with whom we spoke as part of our study are keen to help, with almost one in five now offering grants or loans to their suppliers to invest in reducing emissions from operations. Carbon markets and transparent carbon pricing will provide even stronger signals to reduce carbon emissions and the tools to manage the related risks.

The role of banks such as Standard Chartered is critical and cannot be underestimated. We must provide the financing needed for companies in both emerging markets and carbon-intensive sectors to transition to net zero.

In this regard, Standard Chartered has supported various clients on their Sustainability journey. One such example is the recently mobilized executive green trade finance facility to support Amplus Energy Solutions FZE, a subsidiary of Amplus Solar, in its solar generation business. Amplus Solar is a member of the PETRONAS Group and is Asia's leading distributed energy company which provides low-carbon energy solutions to its industrial and commercial customers. This facility is a significant milestone towards the implementation of sustainable practices across ecosystems and in building more resilient supply chains.

Launching sustainable trade is one of the key enablers in delivering our commitment to fully integrate ESG into our business and financing decisions, from how we finance suppliers to how we help deliver the SDGs and beyond.

We are committed to promote economic and social development in the markets we serve, doing so sustainably and equitably in line with our purpose and valued behaviours of "Never Settle", "Better Together" and "Do the right thing". This sustainability philosophy sets out how Standard Chartered integrates sustainability into our organisation decision making and we work closely with non-governmental organisations (NGOs), investors and technical specialists to ensure our framework remains fit for purpose.

Box B: Insuring sustainability for long-term benefits

The world is transforming at an unprecedented pace. The next generation will inherit the outcome of our choices today. As such, we need to do and contribute more to play our part in preserving the planet.

Zurich's ambition is to become one of the most impactful and responsible companies in the world. Central to our purpose, differentiation, and growth, is our commitment to sustainability. We want to create a brighter future together to generate positive progress and impact, and through this journey, unite our people and customers towards realising a shared vision: an inspiring and optimistic future.

Our 1.5°C Future

In June 2019, Zurich became the first insurer to sign the United Nations Business Ambition for 1.5°C pledge, demonstrating our commitment towards climate action and accelerating action to reduce climate risks. The road to achieve goals of the Paris Agreement to limit global warming to 1.5ºC requires immediate and decisive action. In translating our support for the transition to a climate neutral future, we set science-based CO2 reduction targets and focused on innovation to drive sustainable solutions.

Zurich Group's operations have been carbon neutral since 2014, and we have now set targets to further reduce emissions from operations of 50% by 2025, and 70% by 2029. We also target to adopt 100% renewable energy to power operations by end-2022, and electrify 100% of our corporate vehicle fleet by end-2029.

As a responsible corporate citizen, we track our CO2 emissions. This is part of our accountability for our impact on the environment. The amount of CO2 emissions from electricity utilised by Zurich offices in Malaysia is equivalent to:

- About 10.5 million km driven by an average passenger vehicle
- 313 homes' energy use for one year
- 316,027,596 number of smartphones charged

In offsetting our CO2 emissions, we are one of the early adopters in the financial industry in Malaysia to purchase Renewable Energy Certificates (REC) as part of our pledge and global commitment towards the utilisation of 100% renewable power.

> "Our planet is at a climate crossroads now. Immediate, collective action to halt this is paramount. We must act before it is too late. Progress over perfection is much needed. While climate action is long-term, any action today no matter how small is better than inaction."
>
> *Junior Cho*
> Zurich Malaysia Country Lead

Box B: Insuring sustainability for long-term benefits (cont'd)

Work Sustainability

Apart from focusing on the action to preserve the planet, we also need to look at how our actions will impact us − the people. Driven by technological advancements, the skills of today may no longer be relevant in the future. These changing trends bring with it new challenges, and we care about these challenges. Zurich acknowledges the need for individuals to be better protected. To this end, we support our people and business in navigating the changing world of work and responding to evolving customer needs.

For our own workforce, Zurich is committed to creating a sense of security and trust at the workplace. Under this principle, we prioritise employee development by upskilling and reskilling, to help them stay relevant and fit for the future as well as offer career opportunities to fulfil their individual aspirations and business needs.

Our employees are the drivers of our business. Their wellbeing is our top priority. To build a sustainable and diverse workforce, we must establish the feeling of shared ownership. Each and every one of us plays an important role to create a meaningful impact to the business, our customers, and the community that we serve.

At the start of the first Movement Control Order in March 2020, Zurich Malaysia became one of the first companies to adapt and work fully remotely while maintaining our service standards to our customers. On top of this, we implemented various programmes to manage and support employee wellbeing such as webinars on various wellbeing pillars, COVID-19 vaccination programme and working with partners like Naluri to provide a comprehensive mental and physical wellness programme.

One of the ways to support our employees in their wellbeing journey especially during the pandemic was a company-wide Wellbeing Day on 18 October 2021, where Zurich Malaysia employees were given the day off to take time off from work and focus on themselves.

Confidence in Digital Society

The shift into working remotely during the pandemic has compelled us to change the way we interact with our customers. When face-to-face interactions were restricted, we depend on technology to ensure that we are able to provide the level of service expected by our customers. This is not only at the organisational level, as the industry's digital adoption and transformation took a quantum leap too. A McKinsey Global Survey in October 2020 indicated that COVID-19 accelerated the digitisation of customer interactions years ahead of the average rate of adoption from 2017 to 2019. In APAC, the acceleration was ahead by 4 years, while the rest of the world was at 3 years.

The expectations and increased reliance on digital communication and services reinforces Zurich's commitment to be clearly responsible in the way we work with and handle data, and this is expressed in our Data Commitment which was put in place in 2019.

Box B: Insuring sustainability for long-term benefits (cont'd)

Confidence in Digital Society (cont'd)

Zurich's Data Commitment pledges to protect the personal data of our customers and never sell or share it without being fully transparent. We will only use the data provided to us, to do what is best in rendering our products and services to our customers, in line with Malaysia's Personal Data Protection Act.

Bearing this in mind, we will continue to contribute to increased cybersecurity through risk awareness, risk mitigation and insurance programmes. In 2020, Zurich Malaysia together with Alliance Bank introduced Malaysia's first personal cyber insurance to safeguard Malaysians against financial losses arising from cybercrime.

Supporting ESG in the communities around us

Flood resilience – "Being there when it matters most" claims programme

Flood Aid Vehicles to provide on-the-spot claims approvals of up to RM30k and disbursement of flood relief items, benefitting 124 policyholders/participants and totalling RM1.43mil. This was supported by the 24-hour flood claims contact centre

Eat Right to Play Right

A 6-year integrated community programme in partnership with Zurich Foundation to focus on children malnutrition by instilling healthy eating habits; leveraging on grassroots football as a platform for outreach

Home building and COVID-19 Collective for Orang Asli

82 communities across 5 states were engaged by grant partners and Epic Society in initiatives across several impact areas such as sustainable energy, education, food security, clean water, culture preservation, health & hygiene awareness, socioeconomic empowerment, digital literacy and skills training.

Disbursement of surplus sharing from the takaful fund for the benefit of the community during the pandemic

Contributed monies accumulated from the general takaful surplus pool as donation on behalf of our general takaful customers to philanthropic or life-saving causes. The latest initiatives include supporting the local COVID-19 vaccination programme in collaboration with the Malaysian Red Crescent Society, and purchasing medical equipment for government hospitals.

Box C: Role of a Fund Manager to drive SRI growth through ESG incorporation

We believe our actions have both a direct and indirect impact on a wide range of stakeholders, ranging from investors, corporations, employees and suppliers, as well as the local communities in which these stakeholders live, work and serve. We also believe economic value creation can and should be combined with environmental stewardship, social inclusion and good governance. The fund management industry, being the primary savings and investment vehicles, could play a significant role to drive the SRI growth through ESG incorporation and shareholder resolutions.

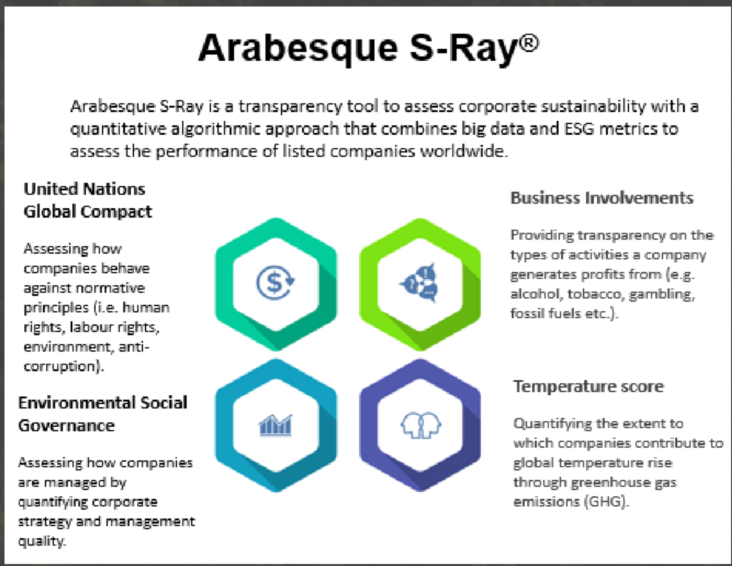
The fund manager should have the following in place to kick start its ESG roles: -

a. Sustainable investment approach (how the firm approaches sustainability).
b. Governance structure (how the firm ensures compliance with this policy).
c. Clear and transparent description of how ESG is integrated in the investment process.

By considering ESG criterion, fund managers seek to identify companies that are attractive for investment because they have superior management practices or present lower risk to investors and other stakeholders. ESG criteria have evolved over time to encompass a wide range of indicators as well as take into account emerging trends. This has led to more disclosure from companies, more tools and methods for investors to analyse ESG risks and opportunities, and in many cases more favourable risk/return benefits for investors over the long term.

Fund managers incorporate ESG issues across a range of asset classes and investment vehicles. These include unit trust funds and exchange traded funds and many others such as venture capital, private equity, hedge and responsible property funds as well as other commingled, pooled products typically reserved for specific kinds of institutions or other accredited high net worth investors.

Fund management companies may integrate technology, data and finance to deliver sustainable, transparent financial solutions for a changing world. BIMB Investment is leveraging on Arabesque S- Ray's services as well as other of major financial institutions, investors, corporations and consultants, together with media organisations and other stakeholder groups. The Arabesque S-Ray collects and processes information from a variety of sources and this data is transformed into proprietary scores based on financial materiality. The S-Ray data engine evaluates companies' sustainability performance across a spectrum of ESG dimensions to create a suite of proprietary scores:

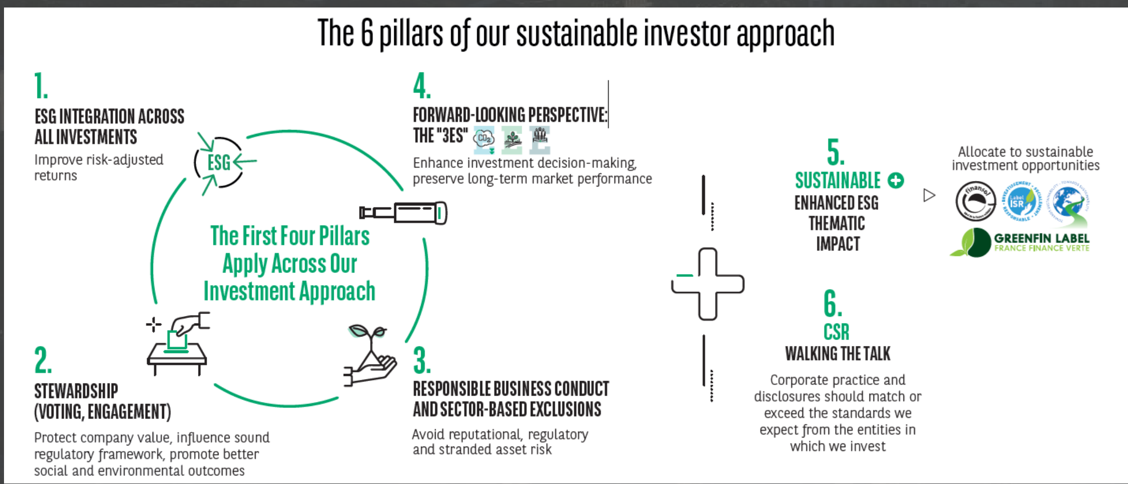


S-Ray ESG Score, United Nations Global Compact (UNGC) Score and Temperature Score, in addition to a Preference Filter, that allows for the screening of companies to align with investors' values. Arabesque S-Ray has increased BIMB Investment's transparency into a company's long- and short-term risks and opportunities by analysing its corporate DNA through a range of sustainability lenses which enhances financial decisions.

Box D: The importance of active stewardship to support the transition towards a low carbon economy

BNP Paribas Asset Management has been a pioneer in sustainable investment since 2002 – with sustainability at the heart of our approach. We launched our Global Sustainability Strategy in 2019 and became the first global asset manager to commit and integrate sustainable investment across its flagship fund range (i.e., all our applicable funds have ESG criteria integrated within their investment process).

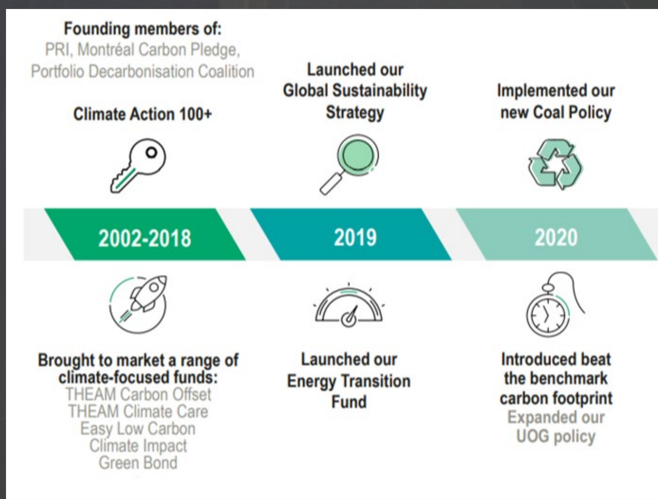
We are committed to being a 'future maker', leveraging on our investments, voice to shape a better future. We differentiate ourselves from our peers by defining six pillars of sustainable investment, which are governed by robust and transparent policies and implemented across our portfolios. Within each pillar we articulate several commitments to action including the commitment to align our overall portfolio with the Paris Agreement.



This decision was made after years of climate leadership by our firm and has since been supported by several portfolio and operational actions - ranging from engagement targets to specific KPIs.

BNPP AM now publishes the carbon footprint of its funds and has set up portfolio KPIs, such as targeting a higher weighted average ESG score and a lower carbon footprint than the benchmark. We also have sector policies covering the sectors that are the most sensitive to climate change:

- in 2020, BNPP AM implemented a significantly tighter exclusion policy on companies engaged in the mining of thermal coal and the generation of electricity from coal; and
- in 2021, we enhanced our policy on Unconventional Oil & Gas. Climate indicators are integrated in investment decisions, with engagement to encourage better disclosure and practices.



Box D: The importance of active stewardship to support the transition towards a low carbon economy (cont'd)

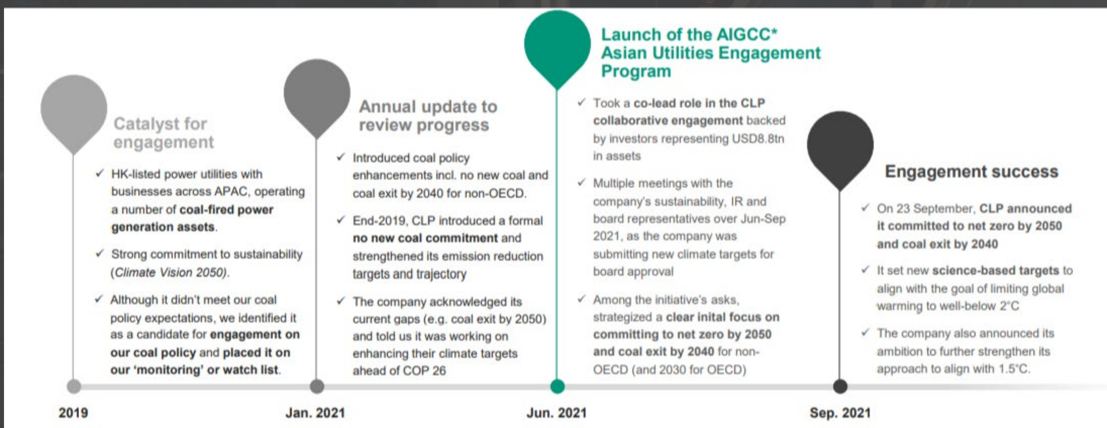
Companies, investors and governments are also ramping up efforts to achieve their 2050 net zero commitment and halve emission targets by 2030 in the coming years. These are aligned with The Inevitable Policy Response (IPR)'s Forecast Policy Scenario (FPS) – and will result in growth in investors' allocation to low carbon investment solutions.

Active stewardship plays a key part in aligning to the Paris Agreement. It includes effective voting activities, direct and collaborative corporate engagement and public policy advocacy. Active stewardship needs to be central to an asset manager's strategy. It can help identify ESG risks and opportunities and contribute to positive changes to economic and environmental ecosystems.

At BNP Paribas Asset Management, our Global Sustainability Strategy sets out the firm's roadmap "to make a substantive contribution to the low-carbon energy transition" and states that one of the ways we will achieve this is by encouraging our investee companies "to align their strategies with the goals of the Paris Agreement".

BNP Paribas Asset Management plays an active role in collaborative engagement initiatives such as Climate Action 100+ and the recently launched Asia Investor Group on Climate Change (AIGCC). We believe in the importance of structured and focused engagement with companies rather than divestment. When you divest, you lose the ability to influence a company.

BNP Paribas Asset Management was also co-leading engagements with CLP, a Hong Kong listed power utility with businesses across APAC, operating a number of coal-fired power generation assets on their coal policy, via a dedicated Engagement Program supported by the AIGCC. This Program is backed by investors with over USD8.8tn in assets.



Source: BNPP AM, September 2021. *AIGCC: Asia Investor Group on Climate Change

As a result of the ongoing engagement with CLP, the company announced on 23 September 2020 its commitment to net zero by 2050 and coal exit by 2040. It set new science-based targets to align with the goal of limiting global warming to well-below 2°C. The company also stated its ambition to further strengthen its approach to align with 1.5°C.

Through engagement, we believe we can identify which companies are actively reducing their reliance on coal and lowering their carbon intensity of power generation and continue to support them as they make progress towards facilitating a low carbon future.

Box D: The importance of active stewardship to support the transition towards a low carbon economy (cont’d)

We see urgency expressed by regulators in the region to address climate related risks, as Asia is not immune to the impact of climate change. The formation of the Joint Committee for Climate Change (JC3) co-chaired by Bank Negara Malaysia and Securities Commission Malaysia, which brings together major financial institutions in Malaysia, outlines initiatives to strengthen climate-related risks in the industry. The SRI Roadmap issued by the Securities Commission Malaysia in 2019 and the Climate Change and Principle Based Taxonomy issued by Bank Negara Malaysia in 2021, set the fundamental framework and commitment for all financial institutions to play a role in promoting economic and social development in a sustainable way.

Ultimately, BNP Paribas Asset Management is committed to engaging with companies and working with regulators, our clients and stakeholders in the region to take the necessary action to align to Paris targets and commitment.

Box E: Setting a One-Stop Sustainability Solution for SMEs

CIMB GreenBizReady launched in February 2021, is a one-stop sustainability solution for CIMB's SME customers looking to start and advance in their sustainability journey. SMEs will be connected to and supported by industry leaders and government agencies, and will be offered a suite of solutions to enable and strengthen their sustainability efforts. Solutions include sustainability-linked financing, sustainability service providers, training and capacity building, certification and advisory services and business matching. CIMB GreenBizReady will provide SMEs with a competitive advantage by equipping them with practical knowledge and tools to incorporate Economic, Environmental and Social considerations into their business, helping them become sustainability-ready for long-term business resilience. This is also aligned with Bank Negara Malaysia's Value-Based Intermediation ("VBI") initiative, of which CIMB Islamic is a strong proponent, and a founding member of the VBI community of practitioners.

CIMB GreenBizReady's strategic associates include MIDA, MATRADE, MGTC, SIRIM, TNBX, PFAN, BuySolar, IMPACTO, MAEKO, Aerodyne, Sols Energy, Maqo Solar, and Revotech, of which these strategic associates are grouped into the following pillars respectively:

With the support of these strategic associates, GreenBizReady will enable SMEs to participate in programmes and activities via online platforms while also enjoying complimentary mentorship sessions on a regular basis. After completing each session, SMEs will have a designated contact person to help them plan the next steps of their sustainability journey by assessing their readiness and providing recommendations for implementation.

Box E: Setting a One-Stop Sustainability Solution for SMEs (cont'd)

CIMB GreenBizReady provides SMEs the flexibility to determine the best way for them to embark on their own sustainability journey according to their preference, priorities, and budget. However, the recommended first step for SMEs under GreenBizReady would be through the CIMB - IMPACTO SME Adoption Programme because it will provide a framework and structured approach for the SMEs, where they can build on from this foundation going forward (e.g. global standards and best practices). In summary, the programme is structured as follows:

Steps of the SME GreenBizReady

Step 1

Sustainability Self-Assessment Questionnaire

Upon expression of interest, CIMB will disseminate the assessment questionnaire to its member SMEs

Step 2

Summary Recommendation Report by Impacto

Completed questionnaires will be submitted for topline analysis and a Summary Recommendation Report

Step 3

Comprehensive Assessment* by Impacto

One-on-one sessions regarding operations and strategies, resulting in a customised report with checklists, useful information and templates that can be used for implementation. Using a scoring mechanism, baseline scores will be attributed.

**For selected SMEs, subject to eligibility criterias*

As this is a long-term journey and we are only at the beginning, we are working on various awareness and engagement initiatives both internally and externally.

There is definitely a strong business case for SMEs to transition towards sustainability, especially for SMEs in the global supply chain or SMEs that are exporting to advanced economies. They would have come across the importance of sustainability in their business dealings and recognised the opportunities available to them if they transition earlier than their competitors.

Box F: HLB's Whole-of-bank approach to Sustainability

At Hong Leong Bank (HLB), we are cognisant that individuals and companies we do business with will directly or indirectly affect the environment. This is why we are committed to adopting a whole-of-bank approach towards integrating environmental and social considerations as well as good governance into our business activities and solutions in order to create a better future for us, for our future generations, and for our environment.

Our sustainability journey is guided by deep and meaningful engagements with stakeholders to ensure that all of our sustainability initiatives and policies are aligned with business objectives and consistent with the bank's values. Consequently, we have progressed in integrating environmental, social and governance ("ESG") considerations into our daily business practices, products and services, and in our interactions with business partners and with our customers.

Our business activities and interactions with our stakeholder partners and customers can be categorized into the four focus areas as depicted in the accompanying diagram; namely the areas of products and services, innovation and funding, advocacy and advisory, as well as capacity building and knowledge sharing.

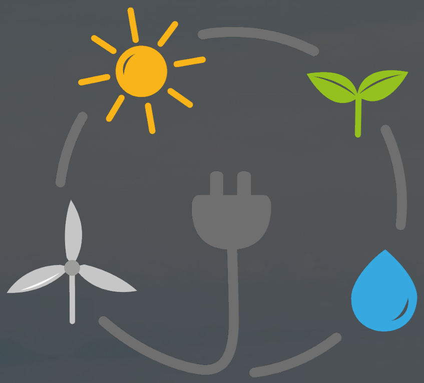
Products and Services

The Bank has identified Renewable Energy (RE) as a critical important and high growth industry with significant commercial potentials. We believe in helping to steer the transition towards a more sustainable source of energy. Our significant focus in sustainable financing ~~focus~~ are driven towards our Corporate and SME customers that are investing in renewable energy; this includes solar, biogas and small hydropower. Our initiatives are in line with the government's goal to increase the share of RE to 20% of the country's power mix by 2025.

Renewable energy has significant growth potential to support the country's low carbon economy agenda, as well as long-term advantages for households in terms of energy cost savings, cushioning against future rise in energy costs and reducing carbon footprint in the process.

In 2021, the Bank successfully launched two Solar Financing initiatives, one catered to SMEs whilst the other is to home owners. The HLB SME Solar Financing product is a green energy financing facility developed for SMEs looking to install small-scale solar photovoltaic (PV) systems. On the other hand, the HLB Solar Plus Loan/Financing-i product is a financing facility for installation of solar power systems in homes. It allows home owners, including those with homes under construction, to seamlessly apply for financing of solar power energy systems together with their home loan/financing application.
We have partnered with solar powered energy system specialists such as Solarvest, ERS Energy and Solaroo Systems, that provides comprehensive one-stop installation, commissioning, operations and maintenance services to our customers, and will look towards partnering additional well regarded solution providers in the marketplace.

Box F: HLB's Whole-of-bank approach to Sustainability (cont'd)



As part of our efforts to decarbonise transportation in Malaysia, the Bank has developed a Green Car Financing Framework which formulates initiatives to form partnerships with hybrid car manufacturers as well as community engagements to facilitate a shift in consumer preferences towards green vehicles. We offer customers competitive financing rates on new green car purchases, as well as fast-track one-day approvals through our Green Lane for priority credit evaluation.

To ensure that the Bank achieves its sustainability aspirations, HLB constantly looks at developing new value propositions in our products and services to drive greener outcomes for us and our customers.

Funding and Innovation

There is growing demand from both investors and customers for sustainable financial and investment products. In 2021, HLB was the first bank in Malaysia to undertake a consumer finance green securitisation exercise worth RM300mil in sustainable home loans and financing. The issuance of the green securitisation is to promote and grow the Ringgit bond market with high-quality sustainable bond/sukuk offerings.

These home financing assets were amongst the Bank's eligible sustainable assets that met HLB's and Cagamas' stringent environmental, social and governance (ESG) criteria.

Our efforts were recognised when the Bank won the Asset-Backed/Asset-Based/Covered Sustainability Bond Of The Year in the Environmental Finance's Bond Awards 2022.

Advocacy and Advisory

The Bank's commitment to sustainable business practices extends across our entire value chain. We strive to create a fair, sustainable, responsible, and ethical approach to procuring and delivering goods and services. To that end, we create meaningful partnerships with our suppliers and vendors. In addition, we worked on embedding sustainability considerations across our entire value chain. The Bank has enhanced our Procurement Policy to include ESG evaluation on all of the Bank's vendors. More importantly, we want to help our supply chain transition towards sustainable practices and we will continue to advocate, advise and support our suppliers in embracing a greener future.

Box F: HLB’s Whole-of-bank approach to Sustainability (cont’d)

In relation to our customers, and as part of our best efforts to focus on RE, the Bank has established a dedicated RE specialist unit that draws expertise from professionals who have focused on the fields of RE in order to help guide the Bank and our customers on the path towards transitioning to sustainable energy sources and practices. We work closely with our customers to provide value-added services that include advisory in guiding new energy players on warranties and guarantees form of coverage for equipment as well as help customers evaluate the feasibility and generation capacity of their Renewable Energy projects.

We make continuous efforts to build upon our sustainable banking practices. HLB implemented a business and corporate banking framework, which governs our sustainable lending and financing processes. By adopting an inclusionary approach, the aim is to work with and encourage our customers in their transition to more sustainable business practices and mitigate environmental risks.

Capacity Building and Sharing

We believe capacity building and knowledge sharing is very important at this stage to engender more broad-based awareness and galvanize more affirmative actions for the environment from our communities. Towards this end, HLB has initiated a number of programmes as part of our efforts to promote internal and community capacity building and sustainability knowledge sharing.

1. Collaboration with Jeffrey Sachs Centre on Sustainable Development

The Bank collaborated with Jeffrey Sachs Centre to introduce a Sustainable Development Programme that provides a comprehensive training module and certification for our business relationship managers and credit risk managers. The Programme covers climate change, environmental and social themes, case studies of sustainable practices implemented by global and domestic companies, and the Bank’s ESG Policy & Assessment Framework that was developed by the Bank in consultation with the WWF. To date, we have completed training for over 400 of our relationship and credit risk managers and executives.

Concurrently, HLB hosted a strategic engagement and dialogue session on Sustainable Development at Sunway University. The session facilitated a high-level discussion on climate-related risks, environmental and social issues, and financial institutions’ role in supporting the transition towards a lower carbon economy.

Box F: HLB's Whole-of-bank approach to Sustainability (cont'd)

2. Sustainability Roundtable Sessions

The Sustainability Roundtable sessions serve as our stakeholder engagement platform with the objective of enabling our customers and business communities to learn more about the current and future ESG related developments, issues and its impact on long-term sustainability and economic / social value creation. We have conducted seven roundtable sessions since 2020 and have three more scheduled for the remainder of 2022.

In addition, similar to digital transformation, many companies are keen to incorporate more sustainable practices in their operations, but the lack of know-hows as well as the uncertainty in relation to returns-on-investment may have discouraged them from making the shift.

The Bank made concerted efforts in engaging industry stakeholders such as regulators, governing agencies, trade associations and key industry players as part of our discussion panels to share their insights as well as their respective sustainability transformation and journey for the benefit of the roundtable attendees.

We have created awareness amongst the wider community, on the importance of embedding ESG practices as a core function of a company's long-term sustainability.

As a banking institution, we also gained great insights in terms of understanding the different industries' challenges and opportunities in the sustainability space, thus allowing HLB to empower our front-liners to have more meaningful conversations with our borrowing customers, in our effort to support them to transition towards better ESG & sustainable business practices.

Box F: HLB's Whole-of-bank approach to Sustainability (cont'd)

3. Collaboration with Malaysian Green Technology and Climate Change Corporation (MGTC)

The Bank collaborated with MGTC to introduce an informational section on our corporate website which will include infographics related to topics such as Types of Electric and Hybrid Vehicles and the Future of EV Cars in Malaysia. Besides that, MGTC assisted the Bank in developing a GHG Carbon Calculator by providing the Bank with the calculation methodology. The aim of the calculator is to track and analyse our Scope 3 emissions from employees' commute.

This is in line with the government's plan to promote a more sustainable mode of transportation whereby the Bank will, based on the analysis, be introducing initiatives such as lower interest rates for mobility financing based on relative carbon savings.

Sustainability is the Now and Future

In conclusion, the Bank strives towards inclusive growth, ensuring that we provide economic empowerment to our customers and communities while managing the climate and social impact of our operations.

The Bank believes that sustainable banking practices will serve as the foundation to our continued competitive advantage and contributes to a better future for the world. Sustainability is not just the future, it needs to be acted upon now.

Box G: Providing Financial Solutions for the Climate

Demand for green banking solutions has accelerated in view of the continued and sustained interest from the investment community, in particular by investors who are focused on long-term, stable returns, and are more aware on the impact of environmental risks on businesses, which have the potential to materialise over a longer term.

For ASEAN, the demand for additional ASEAN green investment from 2016 to 2030 is an estimated US$3 trillion. This opportunity represents a new ASEAN green investment market 37 times the size of the global 2016 green bond market, which will certainly benefit SMEs that are seeking sustainable financing. Additionally, part of our role as a financial services provider is to steer customers / clients towards climate action and sustainable practices. This will in turn, create actual impact and change in the real economy for sustainable development which will contribute towards financial inclusion and access, as well as sustainable investment.

RHB Banking Group has committed to extend RM5 billion towards green financing activities by 2025 to further promote the transition to a low-carbon and climate-resilient economy through lending, insurance, capital markets advisory and investment. As of the first half of 2021, RHB has extended RM3.3 billion in green financing of which 20% is for renewable energy projects.

As of June 2021, RHB Asset Management launched four ESG SRI-qualified funds - RHB i-Global Sustainable Disruptors Fund which is a Shariah-compliant fund, RHB Global Impact Fund, RHB Sustainable Global Thematic Fund and RHB Asia Sustainable Leaders Fund with a combined AUM of RM812 million. The four hallmark ESG funds, and potentially more new funds in the future, provide avenues for investors to deploy their capital in sustainable investments, hence making a positive impact across the national and global landscape.

Meanwhile, in the insurance space, RHB Insurance has been equally busy as well with the launch of Hybrid/Electric car insurance in mid-August 2021 aimed at supporting lower carbon emissions where preferred pricing is provided for hybrid/electric car policyholders. Since its launch, the product has impacted about 300 policyholders, and RHB Insurance will continue to develop more ESG insurance in supporting a sustainable and responsible insurance.

Through RHB Investment Bank Berhad (RHBIB), as of June 2021 the group has successfully originated and distributed RM1.65 billion worth of green/sustainable/SRI Sukuk for our clients in the capital market and advisory segment. Certainly, this will be a catalyst for the RHB Group to continue to support the development of ESG initiatives in the capital markets space.

Box G: Providing Financial Solutions for the Climate (cont'd)

Notable programmes and deals by RHBIB relating to the group's green financing commitment include:

RHIB as the Principal Adviser, Lead Manager, and Lead Arranger for the issuance of Malaysia's 1st ever ESG-related Unrated Perpetual Sukuk of up to RM500 million

RHIB as the sole Principal Adviser, sole Lead Arranger and Joint Lead Manager for the landmark issuance of the 1st ever Sustainability Sukuk by a Malaysian Development Financial Institution

RHBIB as the Sole Adviser, Lead Arranger and Lead Manager in the establishment of Islamic Medium Term Notes programme of up to RM200 million in nominal value ("ASEAN Green SRI Sukuk Programme")

- In 2020, Pasukhas Green Asset Sdn Bhd's RM17 million Green Sukuk was commended with the following awards:
    - Best ASEAN Green SRI Sukuk by The Asset Triple A Islamic Finance Award
    - Green Deal of the Year by Asian Banking & Finance Corporate & Investment Banking Awards 2020

In August 2021, RHB launched the Sustainability Financing Programme (SFP), a Green Financing product bundling programme aimed at reaching out to the needs of both Small Medium Enterprises (SME) and Retail customers. The four pillars of the SFP comprise Green Energy, Green Buildings, Green Process and Green Products, which aim to promote sustainable development and support the nation's transition to a low-carbon economy through green financing solutions that integrate ESG criteria. They target to grant a total of RM1 billion in new financing via the RHB Sustainability Financing Programme by 2025.

RHB Visa WWF Debit Card-i

In addition to this, RHB Islamic Bank Berhad (RHB Islamic) has strengthened its commitment in sustainable practices by becoming the first bank in Malaysia and in the Asia Pacific region to introduce an eco-friendly recycled plastic debit card via its collaboration with WWF-Malaysia and Universiti Malaysia Terengganu. This revolutionary RHB Visa WWF Debit Card-i forms part of RHB Islamic's initiative under its flagship initiative "Ocean Harmony" that aims to raise public awareness in the conservation and environmental sustainability of the marine ecosystem. The first edition of the eco-friendly card features the Green Sea Turtle, one of the most endangered sea creatures in the world today.

Box H: Knowledge sharing that that tackles sustainability challenges

Sustainability has long been top of mind in Malaysia, and we have seen significant efforts towards creating a green market and increasing the share of renewables in the energy mix.

Off the back of the recent Intergovernmental Panel on Climate Change (IPCC) report, it's also becoming very clear that we all need to move towards immediate, rapid and large-scale reductions in greenhouse gas emissions, moving to a net zero energy system by 2050, if feasible.

At Swiss Re, we continually share our knowledge in a way that tackles sustainability challenges, creating long-term value across the re/insurance and re/takaful value chain. In fact, we constantly manage and monitor risks and opportunities associated with ESG issues and focus on long-term value generation, by reducing our underwriting activities in sectors we do not consider sustainable – such as thermal coal, or stop investing in companies with poor ESG ratings altogether.

Sustainable re/insurance and re/takaful covers all our business activities from liability to the asset side of our balance sheet, our own operations and dialogue with our stakeholders. Here in Malaysia, we are looking to support the transition to a low carbon environment by enabling new risk solutions to come to market, thereby giving consumers and businesses confidence to adopt new technologies – for example in green infrastructure, energy and mobility projects and impact investing. Our dialogues with clients on sustainability remain top of our agenda and our commitment to our Insurance and Takaful clients stands strong, as we help our clients develop innovative products to address growing environmental and social challenges. As a concrete example we are currently developing a solar parametric solution for a large Malaysian client which will help in the transition to this form of renewable energy.

Now, more than ever, shareholders are putting pressure on all companies to adopt more sustainable practices; regulators are asking for more disclosure; employees, especially the younger generation, also expect real progress towards a more sustainable future. Thus, we have very active dialogues with Malaysian clients about sustainability topics.

As a business focused on building resilience in communities, we are also moving away from providing insurance and takaful coverage to most carbon-intensive oil and gas producers. At the same time, to encourage the transition towards renewable energy, we are providing risk cover to more than 5,600 wind and solar farms globally. To achieve our business and net-zero goals, we are continuing to build and scale on successful partnerships with clients working on this transition.

As we move towards 2030, Malaysia's development priorities will forge ahead to align and integrate with SDGs – advancing green growth towards a low-carbon nation, attaining carbon neutral. We at Swiss Re will also do the same and we believe that achieving net zero by 2050 is mission possible, however, we will need to speed up and scale up climate solutions across all value chains.