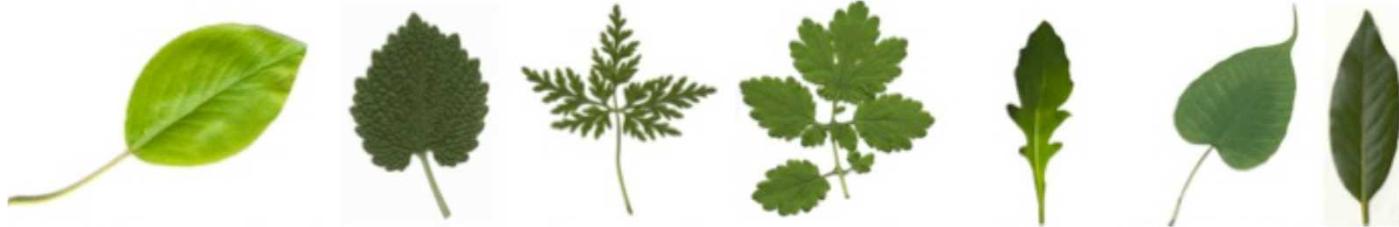


Malaysia's Green Bond Market

December 2018



Malaysia's Green Journey

Malaysia unveils Green Technology Master Plan (2017-2030) outlining strategy to create a resource-efficient, low-carbon footprint economy.

2017

Malaysia integrates the UN SDG* targets within the 2030 Development Agenda into the 11th Malaysia Plan (2016-2020)

2015

Malaysia signs Paris Agreement; pledges to cut its greenhouse emissions by 45% by 2030.

2016

* United Nations Sustainable Development Goals

Major Organisations Driving the Development of Green Finance



Government polices and incentives to accelerate the pace of 'clean growth'.

Re-allocation of capital from high-carbon to low-carbon investments in corporate equity and debt.

Organizations responding to climate change risks and opportunities within their businesses.

Prospects for Green Financing

51%

Green financing demand CAGR
2010-2013

RM1.9 billion

RM6.7 billion

15.4%

Projected growth rate in green
financing demand
2013-2030

RM76.2 billion in 2030

11
times

RM6.7 billion in 2013

Environmental
management



Green
buildings



Water
management



By 2030, green businesses will
contribute approximately 1.5%
to Malaysia's GDP.



Energy
efficiency



Public
transportation

Adaption
measures



Source: Malaysian Green Technology Corporation (GreenTech Malaysia)

Malaysia's Green Finance Market



Green and SRI Policies in Malaysia

- 11th Malaysia Plan (Government of Malaysia)
- Green Technology Master Plan (Ministry of Energy, Science, Technology, Environment and Climate Change)
- SRI Sukuk Framework (Securities Commission)
- ESG Index and Sustainability Reporting (Bursa)
- Value-Based Intermediation (Central Bank)

Government Incentives

- Tax deduction on the issuance costs of SRI sukuk
- Tax incentives under MIDA and Green Tech Malaysia for green technology activities in energy, transportation, building, waste management and supporting service activities.
- Green Technology Financing Scheme (GTFS)
- Bank Pembangunan Malaysia Berhad's RM1 billion Sustainable Development Financing Fund (Budget 2019)

Green Technology Financing Scheme (GTFS)

GTFS 1.0



319 projects financed
28 participating FIs

2%

Government bears 2% of
the coupon or profit

60%

CGC guarantees 60% of the
green financing amount



GTFS was introduced by the Government in 2010 to drive investment in **low carbon technology-based projects**. The GTFS provides access to **subsidised financing** to support the national green technology agenda.

GTFS 2.0



GTFS 2.0 allocates RM2.0 billion for green bond or sukuk issuance that will be **100% guaranteed** by national financial guarantee insurer.

Green bond and sukuk issuers enjoy coupon and profit subsidies **identical to GTFS 1.0**.



Malaysia's Green Sukuk

- Malaysia's green bond issuances to date have been in the form of green SRI sukuk with a risk-return profile that is comparable to regular sukuk.
- Green SRI sukuk is a **Shariah-compliant** sustainable and responsible investment (SRI) certificates for renewable energy and other environmental sustainability projects.
- Malaysia's green sukuk are taken up by and targeted at institutional investors. Green sukuk facilitates and increases the **broader participation of conventional investors** in the sukuk market, especially those looking for more ethical and socially responsible investment opportunities.
- Green sukuk paves the way for **convergence between faith-based and sustainable, low-carbon ESG investing**, potentially widening the appeal of sukuk beyond Asia and the Middle East to include fund managers with a green mandate to invest in sukuk for the first time.

Domestic Green Sukuk Issuances To Date

Year	Issuer	Issue	Purpose
July 2017	Tadau Energy Sdn Bhd	RM250 million Green SRI Sukuk	To finance the construction of a large scale solar photovoltaic power plant in Sabah
October 2017	Quantum Solar Park (Semenanjung) Sdn Bhd	RM1 billion Green SRI Sukuk	To finance the construction of three large-scale solar photovoltaic plants in Kedah, Melaka and Terengganu
December 2017	PNB Merdeka Ventures Sdn Bhd	RM2 billion ASEAN Green SRI Sukuk Programme	To fund the construction of 83-storey green building, Merdeka PNB118 Tower
January 2018	Sinar Kamiri Sdn Bhd	RM245 million Green SRI Sukuk	To finance the development of a 49MW solar photovoltaic facility in Perak
April 2018	UiTM Solar Power Sdn Bhd	RM240 million Green SRI Sukuk	To finance the development of a 50MW utility solar power plant in Pahang

Malaysia's Green SRI Sukuk

Green sukuk issuance only represents a fraction of total bond and sukuk market issuance.

Corporate sukuk

	2017	2016
Sukuk approved/lodged		
Number of sukuk	47	32
Size of sukuk (RM billion)	94.15	63.73
Size of total corporate bonds and sukuk (RM billion)	187.91	140.99
% of sukuk to total corporate bonds and sukuk	50.11%	45.20%
Total issuance (long term)		
Sukuk issuance (RM billion)	87.65	64.82
Total corporate bonds and sukuk issuances (RM billion)	124.88	85.65
% of sukuk to total corporate bonds and sukuk issuances	70.19%	75.68%
Total sukuk outstanding (long term)		
Sukuk outstanding (RM billion)	454.49	393.45
Total corporate bonds and sukuk outstanding (RM billion)	604.88	532.76
% of sukuk to total corporate bonds and sukuk outstanding	75.14%	73.85%

Corporate Green SRI sukuk

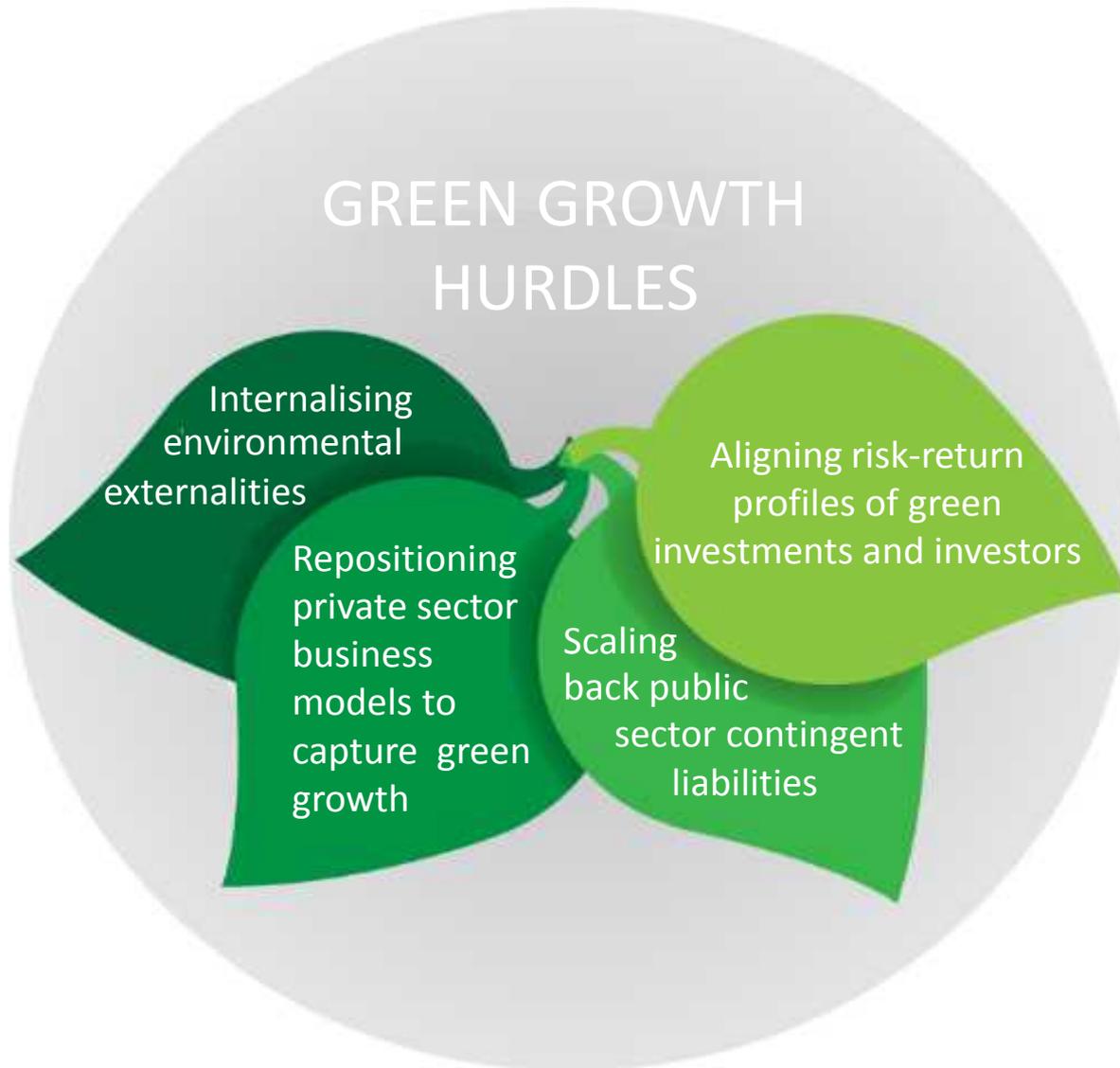
	2017
Sukuk approved/lodged	
Number of sukuk	4
Size of sukuk (RM billion)	3.50
Size of total corporate sukuk (RM billion)	94.15
% of sukuk to total sukuk approved/lodged	3.72%
Total issuance	
Sukuk issuance (RM billion)	1.94
Total corporate sukuk issuances (RM billion)	87.65
% of sukuk to total sukuk issuances	2.21%
Total sukuk outstanding	
Sukuk outstanding (RM billion)	1.94
Total corporate sukuk outstanding (RM billion)	454.49
% of sukuk to total sukuk outstanding	0.43%

https://www.sc.com.my/wp-content/uploads/eng/html/icm/17_vol12_no2_msianicm.pdf

Comparisons: GBP, Green SRI Sukuk Framework, AGBS

Features within the Principles and Sukuk Framework	Green Bond Principles	Green SRI Sukuk Framework	ASEAN GB Standards
Geographical or economic connection - based issuer eligibility	None	None	Yes, ASEAN region
Explicit exclusion of fossil fuel power generation projects from eligible green projects	None, specifies broad categories of eligible green projects	None, efficient power generation projects are considered eligible projects	Yes
Publicly accessible information on use of proceeds, project evaluation and selection, and proceeds management from a designated website throughout bond tenure	Voluntary	No explicitly required	Yes, on issuer-designated website
Reporting on the allocation of proceeds at more frequent intervals than annually	Annual disclosure is required until full allocation	Not explicitly required	Encouraged by the AGBS
Publicly accessible external reviewers' credentials and scope of review	Voluntary disclosure	Not explicitly required	Yes, on issuer-designated website

State of Play: Hurdles to Green Growth



Sustainability Reporting and Readiness

The majority of domestic companies today are early in their sustainability transformation.

KPMG Survey of Corporate Responsibility Reporting 2017



Sustainability Reporting

97% of the N100 companies reported on their corporate sustainability performance, compared to the global average of 72%.



Adoption of GRI Standards

25% of N100 companies prepare their sustainability report in accordance to the Global Reporting Initiative (GRI) guidelines or standards



Climate change risk

Only **3%** percent acknowledged climate change as a risk to their business compared to 28% percent globally.



Integrated Reporting

Only 5% of the N100 companies say their annual report is 'integrated' and only **9%** procure third-party assurance for their SR, compared to the global average of 45%.



Adoption of UN SDGs

12% of the N100 companies have aligned their sustainability effort to the United Nation's Sustainable Development Goals (SDGs). 36% percent of the N100 companies acknowledge human rights as a sustainability issue while 45% are looking to improve the ESG performance of their supply chain.

N100 refers to the Top 100 companies by revenue in Malaysia.

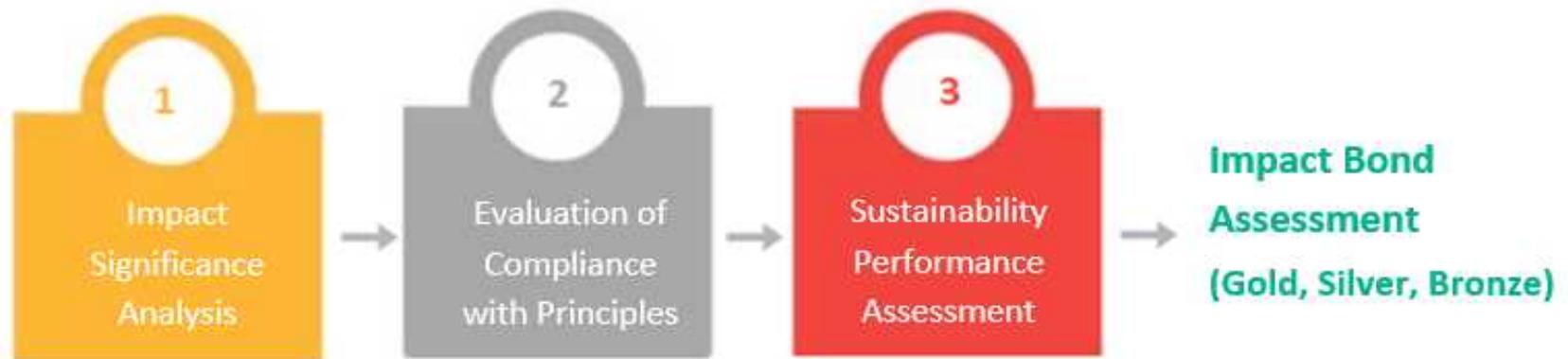
<https://hrasiamedia.com/malysias-top-100-leads-sustainability-reporting-practices-kpmg-survey-shows/>

MARC's Impact Bond Assessments: Key Features

- With sustainable investing on the rise, MARC launched Impact Bond Assessments (IBAs) this year.
- MARC's IBAs represent independent external reviews on alignment of the bonds with ICMA's Green Bond Principles (GBP) and Social Bond Principles (SBP) and/or Sustainability Bond Guidelines (SBG), as applicable prior to issuance.
- Our analysis entails a review of relevant documentation on the impact bond framework under which the issuer plans to issue the bonds, the issuer's sustainability or environmental, social and governance (ESG) disclosures, and conversations with relevant members of management.
- MARC's analytical framework for evaluating the green, social or sustainability credentials of impact bonds consists three analytical components.
- Our methodology references market guidelines and sector-appropriate environmental and social (E&S) standards as the baseline of performance.



Impact Bond Assessment Analytical Components



Evaluation of compliance with principles pertains to the four core components of GBP and SBP, as applicable:

- *use of proceeds,*
- *process for project evaluation and selection,*
- *proceeds management, and*
- *reporting)*

The IBA Grading System

Grade	Description
<p data-bbox="233 308 305 332">Gold</p> 	<p data-bbox="426 308 1647 522">Bonds assessed at this level are judged to offer very significant environmental and/or social sustainability impact based on the projects supported or expected to be supported by the bond issuance. The processes used or to be used for the allocation and administration of proceeds, decision making process of eligible projects and the reporting of performance indicators are consistent with the core principles of the GBP and/or SBP and applicable market guidance or standards and should support high standards of accountability and transparency.</p>
<p data-bbox="233 601 305 625">Silver</p> 	<p data-bbox="426 601 1647 815">Bonds assessed at this level are judged to offer significant environmental and/or social sustainability impact based on the projects supported or expected to be supported by the bond issuance. The processes used or to be used for the allocation and administration of proceeds, decision making process of eligible projects and the reporting of performance indicators are consistent with the core principles of the GBP and/or SBP and applicable market guidance or standards and should support good standards of accountability and transparency.</p>
<p data-bbox="224 893 314 918">Bronze</p> 	<p data-bbox="426 893 1647 1108">Bonds assessed at this level are judged to offer fairly significant environmental and/or social sustainability impact based on the projects supported or expected to be supported by the bond issuance. The processes used or to be used for the allocation and administration of proceeds, decision making process of eligible projects and the reporting of performance indicators are consistent with the core principles of the GBP and/or SBP and applicable market guidance or standards and should support satisfactory standards of accountability and transparency. Minor shortcomings exist in the areas assessed but none of major concern.</p>

Thank You

MALAYSIAN RATING CORPORATION BERHAD

19-07, Level 19, Q Sentral
2A Jalan Stesen Sentral 2
KL Sentral
50470 Kuala Lumpur
MALAYSIA

Phone : +603 2717 2900

Fax : +603 2717 2930

Website : www.marc.com.my

