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# Sustainability Sukuk Progress Report 2023

29 August 2023

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# 1.0 Executive summary

Small-medium enterprises (SMEs) are the backbone of the nation. 97.4% of Malaysia's business establishments are SMEs, and they contributed to 38.4% of Malaysia's gross domestic product, 48.2% to employment, and 10.5% to exports in 2022<sup>1</sup>.

As Malaysia looks toward a post-pandemic recovery, the importance of sustainability has been brought into sharp focus. This heightened focus on ESG underpins the goal of the 12th Malaysia Plan to revitalize socioeconomic development, with long-term sustainability and prosperity serving as the foundation for improving the people's wellbeing.

Small Medium Enterprise Development Bank Malaysia Berhad ("SME Bank") is committed to support the nation's sustainable development in driving essential change within the SME landscape towards greater adoption of sustainability tenets. Our Sustainability Sukuk demonstrates our commitment to positively impact society and the environment, by supporting 11 out of 17 SDGs, through the financing of green and social-related projects.

These projects are an integral part of SME Bank's overall target of achieving RM1.8 billion ESG-related financing approvals in 2023.

This document provides an update on SME Bank's Sustainability Sukuk and highlights the use of proceeds as at 30 June 2023. Details of SME Bank's Sustainability Sukuk Framework, use of proceeds, process for project evaluation and reporting are also available in this report.

<sup>1</sup>Source: Department of Statistics Malaysia Official Portal ([dosm.gov.my](https://dosm.gov.my))

## 2.0 Introduction

### 2.1 BACKGROUND OF SME BANK

SME Bank is a Development Financial Institution (DFI) that was established in 2005. It is wholly-owned by the Ministry of Finance (MOF), regulated by Bank Negara Malaysia (“BNM”) and supervised by the Ministry of Entrepreneur Development and Cooperatives (“MEDAC”).

SME Bank is fully committed to driving Malaysia's economic growth by providing financial assistance and playing the developmental role of SMEs through providing professional advisory services and capacity building programmes. SME Bank aims to nurture the advancement of SMEs nationwide and their ecosystem.

**Vision:**

Leader in the SME Ecosystem Value Creation beyond Financial Services

**Mission:**

To be the Center of Excellence (CoE) for SME Development

**Mandate:**

Providing financing and advisory services activities to SMEs involved in manufacturing, services and construction sectors

SME Bank plays a vital role in supporting the Malaysian Government's economic and development initiatives such as the National Entrepreneurship Policy 2030 to develop an entrepreneurial ecosystem in Malaysia that will enhance the country's competitiveness in the global economy.

As a specialized financial institution, SME Bank plays an essential role in bridging financing gaps by participating in markets or sectors that are not adequately served by the private sector. In the financial year 2022, SME Bank supported 1,565 SMEs with a total financing approval of RM3.5 billion during the year, of which 51.8% was for small sized businesses and 35.0% was for medium sized businesses. The remaining balance of 2.8% and 10.4% was for micro enterprises and large enterprises respectively.



1,565

SMEs supported in 2022



RM 3.5 billion

Approved financing for SMEs for 2022

## 2.2 SME BANK SUSTAINABILITY STRATEGY

SME Bank's sustainability approach focuses on sustainable development, where we strive to balance the economic, social and environmental impacts in all our business decisions. We shall focus on strengthening our primary role in supporting the development of SMEs and contributing to sustainable growth while creating long-term value for our stakeholders, including customers, employees, and society. In line with our official sustainability tagline "*Think Sustainably, Act Responsibly*", our ESG imperatives are based on three pillars:

- **Responsible banking** – Delivering products and services that promote sustainable development and conducting business in a fair and responsible manner
- **Responsible business practices** – Doing the right thing by employees and taking into account environmental and societal considerations in day-to-day business operations
- **Creating social impact** – Being a Force for Good by offering innovative financing solutions as well as intervening as a supportive partner to ensure SMEs' success and becoming the nation's engine of growth – contribute positively to the economy, creating employment and ultimately positive spillover to society.

Supporting the three pillars are:

- **Risk & governance** - Our identified ESG priorities are aligned with our enterprise risk appetite to ensure we identify and manage the top and emerging risks and incorporate them into our existing risk management processes.
- **Stakeholder engagement** – We engage and interact with parties who have an interest in the way we conduct our business and share the same goals of advancing SME development.

SME Bank's sustainability agenda is in line with BNM's Performance Measurement Framework, which emphasizes the importance of DFIs to incorporate additionalities as part of their business operations to promote greater development outcomes and strengthen their accountability as public institutions. Indicators identified to develop sustainable impacts, include financing approved to underserved segments, financial inclusion for social empowerment, job creation and green technology.



## 2.2 SME BANK SUSTAINABILITY STRATEGY (CONTINUED)

In 2021, we introduced our 3-Year Sustainability Roadmap 2021-2023 which sets out clear targets to achieve sustainability through appropriate ESG considerations in our business strategies. Each phase of the roadmap takes a progressive approach to identifying and integrating policies, frameworks and alignment of services throughout the value chain.



## 3.0 About SME Bank's Sustainability Sukuk

To drive our sustainability agenda, we established our Sustainability Sukuk Framework in 2021 to serve as a guideline for all our Sustainability Sukuk issuances.

The framework is aligned with the following guideline and standards:

- Sustainable and Responsible Investment Sukuk Framework, issued by the Securities Commission Malaysia ("SC");
- ASEAN Sustainability Bond Standards, ASEAN Green Bond Standards and ASEAN Social Bond Standards, issued by the ASEAN Capital Markets Forum ("ACMF"); and
- Sustainability Bond Guidelines, Green Bond Principles, Social Bond Principles, issued by the International Capital Market Association ("ICMA").

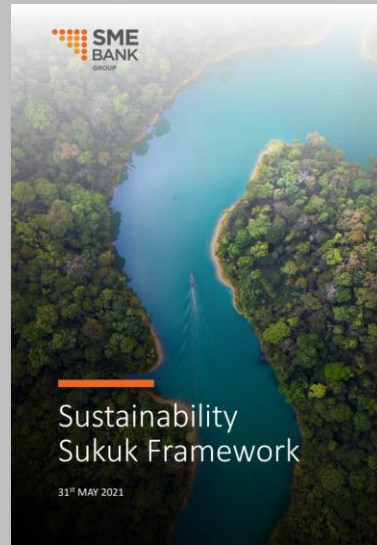
In August 2021, SME Bank successfully issued its first RM500.0 million Sustainability Sukuk where it marked the market as the first ever Sustainability Sukuk issued by a DFI in Malaysia. Subsequently the second tranche amounting to RM500.0 million has been issued in August 2022 and the third tranche amounting to RM1.0 billion has also been issued in May 2023.



SME Bank's Sustainability Sukuk has been recognized both locally and internationally, winning multiple awards:

- **Best Sustainability Sukuk Award 2022** by the Asset Triple A Sustainable Capital Markets Country & Regional Awards
- **Sustainability Award 2021** by Malaysian Rating Corporation Berhad (MARC)
- **Best Sustainability Sukuk Award 2021** by the Asset Triple A Sustainable Capital Markets Country & Regional Awards
- **SRI & ESG Deal of the Year Award 2021** by Islamic Finance News (IFN)
- **Best ASEAN Green Sustainable and Responsible Investment (SRI) Sukuk 2021** by Alpha South East Asia, a Hong Kong-based institutional investment publication
- **Best SRI Sukuk Award 2021** by Alpha South East Asia, a Hong Kong-based institutional investment publication

### Our reports



[SME Bank's Sustainability Sukuk Framework](#)



[External Review Report by MARC on SME Bank's Sustainability Sukuk Framework](#)

### 3.1 SME BANK SUSTAINABILITY SUKUK SUMMARY

<b>Issuer</b>	<b>SME Bank</b>
<b>Issuer ratings</b>	AAA (Malaysian Rating Corporation Bhd)
<b>Offering</b>	Sustainability Islamic Medium-Term Notes (IMTNs)
<b>Size</b>	Up to RM3.0 billion
<b>Use of proceeds</b>	<p>New or existing assets, businesses and/or projects (collectively, “Eligible Assets”) that promote the categories outlined below (“Eligible Categories”):</p> <ol style="list-style-type: none"> <li>1. Renewable energy</li> <li>2. Clean transportation</li> <li>3. Green building</li> <li>4. Energy efficiency</li> <li>5. Sustainable water and wastewater management</li> <li>6. Waste and pollution control</li> <li>7. Affordable basic infrastructure</li> <li>8. Access to essential services: Healthcare</li> <li>9. Access to essential services: Education and vocational training</li> <li>10. Socioeconomic advancement and empowerment</li> <li>11. Pandemic outbreak socioeconomic impact mitigation</li> </ol> <p>SME Bank has developed a list of exclusionary criteria on the use of the Sustainability Sukuk proceeds. In this regard, we will not knowingly finance any of the projects included in the exclusionary criteria:</p> <ol style="list-style-type: none"> <li>i. Criteria for Non-Shariah Compliant Business Activities / Products / Goods:</li> <li>ii. Criteria for Aesthetic Business</li> <li>iii. Criteria of Mixed Activities Business</li> </ol>
<b>Process for project evaluation and selection</b>	<p>SME Bank’s Business Division will perform an initial selection and evaluation according to the Eligible Categories and eligibility criteria. They will then propose recommendations on the Eligible Assets to the respective Approving Authority for review and approval based on the relevant Authority Limit (“AL”). The Sustainability Sukuk Working Committee (“SSWC”) will review the Eligible Assets periodically to ensure they meet the eligibility criteria and report to the Compliance and Risk Management Committee (“CRMC”).</p> <div style="text-align: center; margin-top: 20px;"> <pre> graph LR     A[Receive financing application] --&gt; B[Evaluation and selection]     B --&gt; C[Approval]     C --&gt; D[Supervision and monitoring]     D --&gt; E[Governance]     </pre> <p><i>Potential or existing customer</i>      <i>Business Division (financing)</i>      <i>Relevant Approving Authority</i>      <i>Sustainability Sukuk Working Committee (SSWC)</i>      <i>Sustainability Sukuk Governance (SSG)</i></p> </div>



### 3.1 SME BANK SUSTAINABILITY SUKUK SUMMARY (CONTINUED)

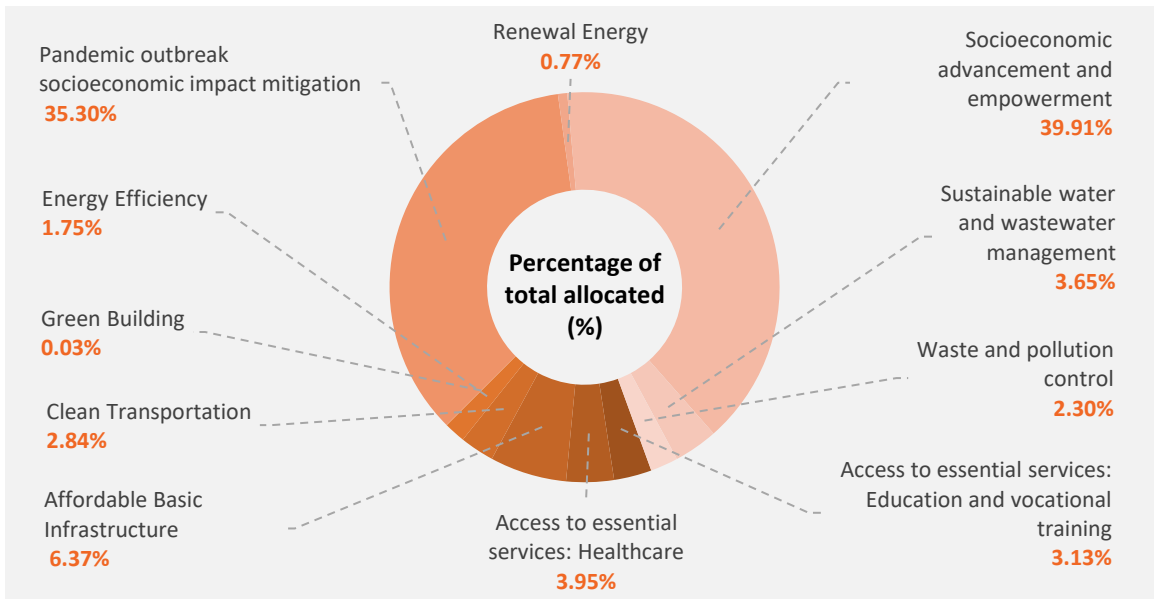
<p><b>Management of proceeds</b></p>	<ul style="list-style-type: none"> <li>• The Sustainability Sukuk proceeds will be managed in a portfolio approach, where SME Bank will monitor the allocation to the Eligible Assets to ensure the Eligible Assets' aggregate asset value is at a level that is equal to or greater than the net proceeds raised from the outstanding Sustainability Sukuk upon full allocation.</li> <li>• Allocation of the proceeds and the portfolio of the Eligible Assets will be tracked by SME Bank via its established internal reporting systems.</li> <li>• During the tenure of the Sustainability Sukuk, if any existing Eligible Assets no longer meets the eligibility criteria set forth in the Sustainability Sukuk Framework, new Eligible Assets will be identified, and the proceeds will be allocated to those assets as soon as is practicable.</li> <li>• Pending full allocation, an amount equivalent to the balance of unallocated Sustainability Sukuk proceeds will be allocated to temporary investments such as cash, cash equivalent and/or other liquid marketable investments in accordance with SME Bank's normal liquidity management policy.</li> </ul>
<p><b>Reporting</b></p>	<p>SME Bank will prepare and publish a sustainability sukuk report on its website annually, and on a timely basis in case of material developments ("Annual Sustainability Sukuk Report"). The report will be updated every year until allocation is completed, and thereafter, as necessary in case of any new developments.</p> <p><b>Allocation Reporting:</b></p> <ul style="list-style-type: none"> <li>• Net proceeds raised from each Sustainability Sukuk issuance</li> <li>• Aggregate amounts of proceeds allocated to each of the Eligible Categories</li> <li>• The outstanding amount of net proceeds yet to be allocated to the Eligible Assets at the end of the reporting period and where these have been invested</li> <li>• Removal or substitution of the Eligible Assets</li> </ul> <p><b>Impact Reporting:</b></p> <ul style="list-style-type: none"> <li>• Examples of the Eligible Assets financed or refinanced by the Sustainability Sukuk issued</li> <li>• Impact metrics arising from the assets financed for each of the Eligible Categories</li> </ul>

## 4.0 Eligible assets and allocation of proceeds

As of 30 June 2023, the net proceeds of SME Bank’s Sustainability Sukuk of RM2 billion (1<sup>st</sup> Tranche RM500 million, issued in August 2021, 2<sup>nd</sup> Tranche RM500 million, issued in August 2022 and 3<sup>rd</sup> Tranche, RM1 billion issued in May 2023) have been allocated to finance/refinance in part or in whole, new or existing assets, businesses and/or projects (collectively, “Eligible Assets”). General financing will qualify as the Eligible Assets if at least 80% of the financing recipient’s revenue is derived from sources that meet the relevant eligibility criteria.


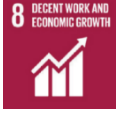

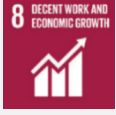
<b>Reporting date</b>	30 June 2023
<b>Geographic location</b>	Malaysia
<b>Currency of eligible assets</b>	Malaysian Ringgit (RM)
<b>Total allocated amount</b>	RM1,851.0 million

The section below outlines the Eligible Assets to which those proceeds were allocated:






Pending full allocation, an amount equivalent to the balance of unallocated Sustainability Sukuk proceeds is allocated to temporary investments such as cash, cash equivalent and/or other liquid marketable investments in accordance with SME Bank’s normal liquidity management policy.






## 4.1 ALLOCATION OF PROCEEDS

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
<b>Socioeconomic advancement and empowerment</b>	  	Financing for startups and micro, small and medium-sized enterprises that operate in sectors contributing to other UN SDGs, owned or operated by marginalized groups, benefit low-income populations	Malaysia	739	39.91
<b>Pandemic outbreak socioeconomic impact mitigation</b>		Financing or other financial services to support SMEs who have been assessed by SME Bank as facing financial stress as a result of the pandemic outbreak	Malaysia	653	35.30







## 4.1 ALLOCATION OF PROCEEDS (CONTINUED)

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
<b>Affordable Basic Infrastructure</b>	 	<p>Construction, development, operation, renovation and/or maintenance of facilities, services, systems or equipment used for</p> <p>Development of infrastructure to provide communities that have limited access or no access to services such as transport and energy</p> <p>Development of infrastructure to provide communities with increased affordable internet coverage and speed and/or mobile phone usage</p>	Malaysia	118	6.37
<b>Access to essential services: healthcare</b>		<p>Construction, development, operation, renovation and/or maintenance of facilities, services, systems or equipment for public, subsidized and/or non-profit healthcare that is accessible to all populations</p>	Malaysia	73	3.95





## 4.1 ALLOCATION OF PROCEEDS (CONTINUED)

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
<b>Sustainable water and wastewater management</b>	 	Acquisition, construction, research, development, operation, renovation and/or maintenance of facilities, systems or equipment used for sustainable water and wastewater management.	Malaysia	68	3.65
<b>Access to essential services: education and vocational training</b>		Construction, development, renovation and/or maintenance of facilities, services, systems or equipment for public and government-subsidized education that is broadly accessible to all populations	Malaysia	58	3.13
<b>Clean transportation</b>	 	Acquisition, construction, research, development, maintenance, and/or operation of: <ul style="list-style-type: none"> <li>– electric vehicles (“EV”), bicycles, and associated infrastructure (including EV charging and alternative fuel infrastructure); or</li> <li>– Electrified and/or low-emission passenger vehicles</li> </ul>	Malaysia	53	2.84

## 4.1 ALLOCATION OF PROCEEDS (CONTINUED)

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
Waste and pollution control		Acquisition, construction, development, operation, renovation and/or maintenance of facilities, systems or equipment used for treatment, collection, reuse, reduction of emissions, reduction of waste and hazardous waste or treatment of contaminated soil or diverting waste and/or hazardous waste away from landfill Research into and development of processes, infrastructure, technology and facilities that promote efficient resource use and management	Malaysia	43	2.30
					
					
					
Energy efficiency	 	Facilities and equipment that reduce energy consumption or improve the efficiency of resources	Malaysia	32	1.75

## 4.1 ALLOCATION OF PROCEEDS

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
<b>Renewable energy</b>	 	Acquisition, construction, research, development, operation, renovation and/or maintenance of one (1) or more of the following renewable energy generation sources: <ul style="list-style-type: none"> <li>- Solar energy</li> <li>- Hydropower</li> <li>- Geothermal</li> <li>- Bio-energy</li> </ul>	Malaysia	14	0.77
<b>Green Building</b>	 	Construction, research, development, renovation, maintenance and/or purchase of commercial or residential buildings that meet recognized green certification standards such as Green Building Index (GBI "A") (Gold and above) or achieve a minimum of 20 improvement in energy use or carbon emission as a result of renovation	Malaysia	1	0.03

# 5.0 Impact Report and project highlights

SME Bank focuses on supporting SMEs that are sustainable and contributes to creating positive impact to the environment and society. The section below showcases some of the eligible projects that were financed from the proceeds of the Sustainability Sukuk:

## 5.1 FEATURED PROJECTS

### Waste and pollution control + Renewable energy

**Project:** [1] Plastic recycling and [2] solar power system

Established in 2002, the client is a fully integrated plastic recycling company, being the FIRST company in the world to receive Ocean Bound Plastic (OBP) certification co-developed by NGO Zero Plastic Oceans and Control Union. The client collect used ocean plastics and transform them into manufacturable materials that are just as good as new. The client’s quality is recognized globally. Besides receiving ISO 9001, 14001 and 45001 certifications, the client is also Global Recycled Standard (GRS) certified for its 100% recycled materials, and SMETA certified for social compliance.

SME Bank has demonstrated its commitment to fostering sustainable development by providing tailored financing solutions to support its esteemed client in the acquisition of advanced equipment and machineries aimed at enhancing the crushing process of converting used plastics into high-quality manufacturable materials. The newly acquired equipment and machineries are projected to increase the client's daily crush capacity by an impressive 100%, thereby propelling them to the forefront of the industry. The client's innovative business model addresses the existing weaknesses in the industry by seamlessly integrating all the stages involved into a fully integrated, single-chain process that optimizes productivity, efficiency, and quality. Through the integration of cutting-edge technology and best practices, the client is poised to redefine the industry landscape, revolutionizing the way used plastics are converted into useful materials, while concurrently delivering superior value to its clients and contributing to a more sustainable future.

In addition, SME Bank has also approved financing to the client for its installation of a 955 kWp Photovoltaic Solar Power system on its rooftop. The solar power system will allow the client to reduce its carbon emissions from purchased electricity and reduce its energy cost.



Source: [HHL- Plastic Recycling Company in Malaysia \(henghiap.com\)](http://HHL-PlasticRecyclingCompanyinMalaysia(henghiap.com))

Financed installation of rooftop solar  
with a peak capacity of

**955 kWp**



## 5.1 FEATURED PROJECTS (CONT'D.)



### Renewable energy

**Project:** Biogas power plant

The client is an environmental engineering, wastewater treatment, and renewable energy solutions company. SME Bank supported the client by partly finance its acquisition of two(2) biogas power plants with a combined capacity of 3 MWhr.

The biogas plant represents a sustainable solution that addresses multiple environmental and social challenges, including waste management, renewable energy production, and soil health. The biogas power plants is expected to reduce carbon emissions by capturing methane gases (a potent greenhouse gas) from palm oil mill effluent (POME) and converting them into energy generation. By utilizing organic waste materials in a closed-loop system, the biogas plant helps to create a more sustainable and resilient future.

Financed two Biogas Power Plants with  
combined capacity of

**3 MWhr**

**SMALL MEDIUM ENTERPRISE  
DEVELOPMENT BANK MALAYSIA  
BERHAD**

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