
Sustainability Sukuk Progress Report 2024

29 August 2024

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1.0 Executive Summary

Micro small-medium enterprises (MSMEs) are the backbone of the nation and they contributed to 39.1% of Malaysia's gross domestic product, 48.5% to employment, and 12.2% to exports in 2023¹.

The 12th Malaysia Plan (12MP) has integrated sustainability agenda with equal emphasis on economic growth and social development and cohesion, towards a more sustainable, prosperous and inclusive Malaysia.

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. In line with our mission to support the development of small and medium enterprises (SMEs) and our commitment to sustainable development, we have embarked on a comprehensive sustainability roadmap.

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.

This Sustainability Sukuk Progress Report 2024 (“Report”) provides an update on SME Bank’s Sustainability Sukuk and highlights the use of proceeds as at 30 June 2024. Details of SME Bank’s Sustainability Sukuk Framework, use of proceeds, process for project evaluation and reporting are also available in this report.

This Report is prepared in accordance with SME Bank’s Sustainability Sukuk (“SS”) Framework. SME Bank to best of our knowledge has complied with the relevant environmental, social and governance (“ESG”) standards during the tenure of the SS, including:

- 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”).

For more information on our SS Framework and third-party external review report, kindly visit our website at www.smebank.com.my

¹Source: Department of Statistics Malaysia Official Portal (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 and Cooperatives Development (“MECD”).

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 2023, SME Bank supported 990 MSMEs with a total financing approval of RM2.52 billion during the year, of which 53.3% was for small sized businesses and 43.1% was for medium sized businesses. The remaining balance of 3.6% for micro enterprises.



990

MSMEs supported in 2023



RM 2.52 billion

Approved financing for SMEs for 2023

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”).

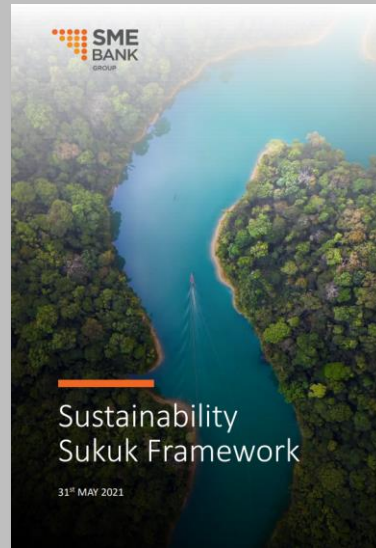
In August 2021, SME Bank successfully issued its first RM500.0 million Sustainability Sukuk where it marked the market as the first ever Sustainability Sukuk issued by a DFI in Malaysia. Subsequently the second tranche amounting to RM500.0 million has been issued in August 2022 and the third tranche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



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

- **Best Sustainability Sukuk-SMEs Under the Islamic Finance Award 2023** 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 Southeast Asia, a Hong Kong-based institutional investment publication
- **Best SRI Sukuk Award 2021** by Alpha Southeast 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

Issuer	SME Bank
Issuer ratings	AAA (Malaysian Rating Corporation Berhad)
Offering	Sustainability Islamic Medium-Term Notes (IMTNs)
Size	Up to RM3.0 billion
Use of proceeds	<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"> 1. Renewable energy 2. Clean transportation 3. Green building 4. Energy efficiency 5. Sustainable water and wastewater management 6. Waste and pollution control 7. Affordable basic infrastructure 8. Access to essential services: Healthcare 9. Access to essential services: Education and vocational training 10. Socioeconomic advancement and empowerment 11. Pandemic outbreak socioeconomic impact mitigation <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"> i. Criteria for Non-Shariah Compliant Business Activities / Products / Goods: ii. Criteria for Aesthetic Business iii. Criteria of Mixed Activities Business
Process for project evaluation and selection	<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 Management Committee (“SMC”) will review and endorse the Eligible Assets periodically to ensure they meet the eligibility criteria.</p> <div style="text-align: center; margin-top: 20px;"> <pre> graph LR A[Receive financing application] --> B[Evaluation and selection] B --> C[Approval] C --> D[Supervision and monitoring] D --> E[Governance] A1[Potential or existing customer] --- A B1[Business Division (financing)] --- B C1[Relevant Approving Authority] --- C D1[Sustainability Management Committee (SMC)] --- D E1[Executive Committee (EXCO) Board of Directors (BOD)] --- E </pre> </div>

3.1 SME BANK SUSTAINABILITY SUKUK SUMMARY (CONTINUED)

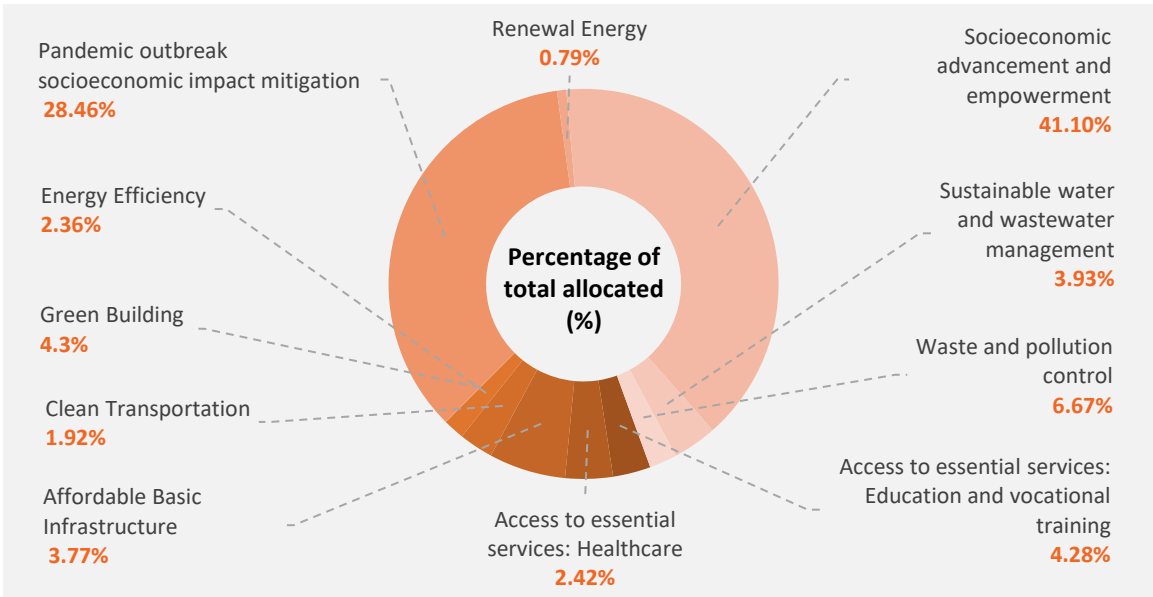
<p>Management of proceeds</p>	<ul style="list-style-type: none"> • The Sustainability Sukuk proceeds will be managed in a portfolio approach, where SME Bank will monitor the allocation to the Eligible Assets to ensure the Eligible Assets' aggregate asset value is at a level that is equal to or greater than the net proceeds raised from the outstanding Sustainability Sukuk upon full allocation. • Allocation of the proceeds and the portfolio of the Eligible Assets will be tracked by SME Bank via its established internal reporting systems. • 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. • 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.
<p>Reporting</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>Allocation Reporting:</p> <ul style="list-style-type: none"> • Net proceeds raised from each Sustainability Sukuk issuance • Aggregate amounts of proceeds allocated to each of the Eligible Categories • 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 • Removal or substitution of the Eligible Assets • The composition of proceed utilisation for new financing and refinancing. <p>Impact Reporting:</p> <ul style="list-style-type: none"> • Examples of the Eligible Assets financed or refinanced by the Sustainability Sukuk issued • Impact metrics arising from the assets financed for each of the Eligible Categories

4.0 Eligible Assets and Allocation of Proceeds

As of 30 June 2024, the net proceeds of SME Bank’s Sustainability Sukuk of RM2 billion (1st Tranche RM500 million, issued in August 2021, 2nd Tranche RM500 million, issued in August 2022 and 3rd Tranche, RM1 billion issued in May 2023) have been allocated to refinance in part or in whole, 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.


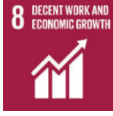

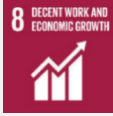
Reporting date	30 June 2024	
Geographic location	Malaysia	
Currency of eligible assets	Malaysian Ringgit (RM)	
Total allocated amount	RM1,888.18 million	
Removal or Substitution of assets <small>For 1 -year period under review</small>	Removal : RM560.8 million	Substitution : RM629.1 million

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 amounting RM111.82 million 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 (%)
Socioeconomic advancement and empowerment	  	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	776.12	41.10
Pandemic outbreak socioeconomic impact mitigation		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	537.47	28.46




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	125.87	6.67
Green Building	 	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") (Gold and above) or achieve a minimum of 20 improvement in energy use or carbon emission as a result of renovation	Malaysia	81.1	4.3

4.1 ALLOCATION OF PROCEEDS (CONTINUED)

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
Access to essential services: education and vocational training		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	80.79	4.28
Sustainable water and wastewater management	 	Acquisition, construction, research, development operation, renovation and/or maintenance of facilities, systems or equipment used for sustainable water and wastewater management	Malaysia	74.18	3.93

4.1 ALLOCATION OF PROCEEDS (CONTINUED)

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
Affordable Basic Infrastructure	 	Construction, development, operation, renovation and/or maintenance of facilities, services, systems or equipment used for development of infrastructure to provide communities that have limited access or no access to services such as transport and energy development of infrastructure to provide communities with increased affordable internet coverage and speed and/or mobile phone usage	Malaysia	71.21	3.77
Access to essential services: healthcare		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	Malaysia	45.76	2.42

4.1 ALLOCATION OF PROCEEDS (CONTINUED)

Eligible category under the Framework	SDG supported	Eligible asset description	Location	Financed amount (RM'mil)	Percentage of allocation (%)
Energy efficiency	 	Facilities and equipment that reduce energy consumption or improve the efficiency of resources	Malaysia	44.59	2.36
Clean transportation	 	Acquisition, construction, research, development, maintenance, and/or operation of: <ul style="list-style-type: none"> – electric vehicles (“EV”), bicycles, and associated infrastructure (including EV charging and alternative fuel infrastructure); or – electrified and/or low-emission passenger vehicles 	Malaysia	36.20	1.92
Renewable energy	 	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"> – Solar energy – Hydropower – Geothermal – Bio-energy 	Malaysia	14.89	0.79

5.0 Impact Report

SME Bank focuses on supporting SMEs that are sustainable and contributes to creating positive impact to the environment and society. The table below showcases the impact report on the Socioeconomic Advancement and Empowerment category that were financed from the proceeds of the Sustainability Sukuk:

UN SDG	IMPACT INDICATOR	IMPACT VALUE	
5, 8, 10	Number of jobs created and/or maintained by SMEs	1,596 job sustained and created	
	Amount of financing approved to SMEs	1,149 SMEs were supported with RM1,832.88 million financing approved	
	Amount of financing approved to SMEs that have at least 51% Bumiputera shareholding	872 Bumiputera SMEs were supported with RM1,358.33 million financing approved	
	Types of SME financed		101 Micro SMEs were supported with RM97.91 million financing approved
			805 Small SMEs were supported with RM950.58 million financing approved
			243 Medium SMEs were supported with RM784.38 million financing approved

Note: Data from the date of 1st tranche Sustainability Sukuk issuance until 30 June 2024

**SMALL MEDIUM ENTERPRISE
DEVELOPMENT BANK MALAYSIA
BERHAD**

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