An aerial photograph of a river winding through a dense, lush green forest. The water is a vibrant turquoise color. A small boat is visible in the middle of the river, leaving a white wake. The forest is thick and covers both banks of the river.

Sustainability Sukuk Framework

31st MAY 2021



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1.0 INTRODUCTION

1.1 EXECUTIVE SUMMARY

Small and medium enterprises (“SMEs”) are the backbone of the nation. 98.5% of Malaysia's business establishments are SMEs, and they contributed to 38.9% of Malaysia's gross domestic product, 48.4% to employment, and 17.9% to exports in 2019¹.

Small Medium Enterprise Development Bank Malaysia Berhad (“SME Bank”) is committed to supporting the nation's economic recovery and contributing to Malaysia's sustainable development. Hence, SME Bank's Sustainability Sukuk Framework (“Sustainability Sukuk Framework”) is a step forward to demonstrate its commitment to creating positive impacts on society and the environment, which is aligned with the United Nations' Sustainable Development Goals (“UN SDGs”). The UN SDGs are a collection of 17 interlinked global goals designed to be a blueprint to achieve a better and more sustainable future for all². SME Bank's Sustainability Sukuk (“Sustainability Sukuk”) contributes to 11 of the global goals, as follows:



¹ Source: [Department of Statistics Malaysia](#)

² Source: [United Nations](#)

1.2 BACKGROUND

SME Bank was established in 2005 as a development financial institution wholly-owned by the Ministry of Finance, regulated by Bank Negara Malaysia (“BNM”) and supervised by the Ministry of Entrepreneur Development and Cooperatives.

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.

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 specialised 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 2020, SME Bank supported 2,055 SMEs with a total financing approval of RM2,796.8 million during the year, bringing the total outstanding financing for SMEs to RM7,294.1 million.

2,055

SMEs supported in 2020

RM 7,294.1 million

Total outstanding financing for SMEs as at 31 December 2020

Vision

Leader in SME Ecosystem Value Creation Beyond Financial Services

Mission

To be the Center of Excellence for SME Development

Mandate

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

1.3 OUR SUSTAINABILITY APPROACH

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. Our approach to sustainability is based on three pillars:

1. **Responsible banking** - Delivering products and services that promote sustainable development and conducting business in a fair and responsible manner.
2. **Responsible business practices** - Doing the right thing by employees and taking into account environmental and societal considerations in day-to-day business operations.
3. **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.

SME Bank's sustainability agenda is in line with BNM's Performance Measurement Framework, which emphasises the importance of Development Financial Institutions (“**DFIs**”) to incorporate additionalities as part of their business operations to promote greater development outcomes and strengthen their accountability as public institutions.

1.4 SUSTAINABILITY SUKUK FRAMEWORK

For the purpose of issuing the Sustainability Sukuk, we have developed our Sustainability Sukuk Framework that serves as the guideline for all our Sustainability Sukuk issuances.

Our Sustainability Sukuk Framework is aligned with the following guidelines and standards:

1. Sustainable and Responsible Investment Sukuk Framework, issued by the Securities Commission Malaysia (“**SC**”)³;
2. ASEAN Sustainability Bond Standards, ASEAN Green Bond Standards and ASEAN Social Bond Standards, issued by the ASEAN Capital Markets Forum (“**ACMF**”)⁴; and
3. Sustainability Bond Guidelines, Green Bond Principles, Social Bond Principles, issued by the International Capital Market Association (“**ICMA**”).

Our Sustainability Sukuk Framework comprises the following core components:

1. Use of proceeds;
2. Process for project evaluation and selection;
3. Management of proceeds;
4. Reporting; and
5. External review.

³ Chapter 7 of Part 3 of Section B of the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by the SC on 9 March 2015 and revised on 26 April 2021 (“**LOLA Guidelines**”)

⁴ Chapter 8 of Part 3 of Section B of the LOLA Guidelines

2.0 USE OF PROCEEDS

2.1 ELIGIBLE CATEGORIES

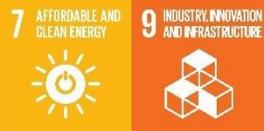
The net proceeds of the Sustainability Sukuk issued under the Sustainability Sukuk Framework will be used to finance and/or refinance⁵, in part or in whole, new or existing assets, businesses and/or projects (collectively, “**Eligible Assets**”) that promote the categories outlined below (“**Eligible Categories**”).

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 set out below.

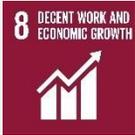
SME Bank may include additional green and/or social eligible categories from time to time. The additional eligible categories shall be aligned with the SC’s SRI Sukuk Framework, the ICMA’s Sustainability Bond Guidelines, the ICMA’s Green Bond Principles, the ICMA’s Social Bond Principles, the ACMF’s ASEAN Sustainability Bond Standards, the ACMF’s ASEAN Green Bond Standards and the ACMF’s ASEAN Social Bond Standards.

Category	Eligibility criteria
<p>Renewable energy</p> 	<ul style="list-style-type: none"> 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 (≤ 25 MWh or power density $> 10W/m^2$ or greenhouse gas (“GHG”) emissions intensity $< 50gCO_2e/kWh$) Geothermal (with direct emissions of less than $100gCO_2e/kWh$) Bio-energy including connections of renewables into the grid and investments to enhance transmission capacity of the grid; or Manufacturing, trading and/or import of components of renewable energy technology (including but not limited to wind turbines, solar panels, inverters, storage batteries)
<p>Clean transportation</p> 	<ul style="list-style-type: none"> Acquisition, construction, research, development, maintenance, and/or operation of electric vehicles (“EV”), bicycles, and associated infrastructure (including EV charging and alternative fuel infrastructure); or Acquisition, construction, research, development, maintenance, and/or operation of: <ul style="list-style-type: none"> Electrified and/or low-emission passenger vehicles Public/mass transportation systems and/or of equipment for such systems (e.g. Mass Rapid Transport, Bus Rapid Transit)

⁵ Eligible Assets are considered to be “financed” from the net proceeds of a Sustainability Sukuk when the relevant Eligible Asset is financed after the Sustainability Sukuk’s issuance. Eligible Assets are considered to be “refinanced” from the net proceeds of a Sustainability Sukuk when the relevant Eligible Asset was financed before the Sustainability Sukuk’s issuance. Accordingly, net proceeds raised through the issuance of the Sustainability Sukuk under the Sustainability Sukuk Framework can be used to finance new Eligible Assets or to refinance existing Eligible Assets.

Category	Eligibility criteria
<p>Green building</p> 	<ul style="list-style-type: none"> • Construction, research, development, renovation, maintenance and/or purchase of commercial or residential buildings that: <ul style="list-style-type: none"> – Meet recognised green certification standards such as: <ul style="list-style-type: none"> – Green Building Index (“GBI”) (Gold and above) – Leadership in Energy and Environmental Design (“LEED”) (Gold and above) – GreenRE (Gold and above) – Building Research Establishment Environmental Assessment Method (“BREEAM”) (Excellent and above); or – Achieve a minimum of 20% improvement in energy use or carbon emission as a result of renovation
<p>Energy efficiency</p> 	<ul style="list-style-type: none"> • Facilities and equipment that reduce energy consumption or improve the efficiency of resources, including: <ul style="list-style-type: none"> – Installation of energy efficient heating, ventilation, air conditioning, refrigeration, lighting and electrical equipment – Systems for capture and recycling of waste heat such as district heating and heat recovery – Projects that improve efficiency in the delivery of bulk energy services such as energy storage, smart grids, demand response – Projects that enable monitoring and optimisation of the amount and timing of energy consumption such as smart meters, load control systems, sensors or building information systems
<p>Sustainable water and wastewater management</p> 	<ul style="list-style-type: none"> • Acquisition, construction, research, development, operation, renovation and/or maintenance of facilities, systems or equipment used for sustainable water and wastewater management, including: <ul style="list-style-type: none"> – Collection, treatment, recycling and reuse of water and wastewater – Flood prevention, flood defense or storm water management – Improvement to water infrastructure that increases water efficiency (e.g. Water saving systems, technologies and water metering) – Wastewater treatment infrastructure with the objective of reducing pollutant discharge load or improving plant efficiency
<p>Waste and pollution control</p> 	<ul style="list-style-type: none"> • Acquisition, construction, development, operation, renovation and/or maintenance of facilities, systems or equipment used for: <ul style="list-style-type: none"> – 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 (e.g. circular economy, water and energy conservation)

Category	Eligibility criteria
<p>Affordable basic infrastructure</p> 	<ul style="list-style-type: none"> • Construction, development, operation, renovation and/or maintenance of facilities, services, systems or equipment used for: <ul style="list-style-type: none"> – 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
<p>Access to essential services: Healthcare</p> 	<ul style="list-style-type: none"> • Construction, development, operation, renovation and/or maintenance of facilities, services, systems or equipment for public, subsidised and/or non-profit healthcare that is accessible to all populations, including: <ul style="list-style-type: none"> – New infrastructure for or improvements to public and private hospitals, clinics, healthcare centre – Hospices, medical and diagnostic equipment – Aged care facilities and services – Mental health facilities and services – Public healthcare services, including emergency response and disease control services – Health and medical education, including emergency medical response training – Digital healthcare – Specialist disability accommodation
<p>Access to essential services: Education and vocational training</p> 	<ul style="list-style-type: none"> • Construction, development, operation, renovation and/or maintenance of facilities, services, systems or equipment for public and government-subsidised education that is broadly accessible to all populations, including: <ul style="list-style-type: none"> – New infrastructure for or improvements to universities, colleges, schools and early learning services – Activities that target inclusion of excluded and/or marginalised populations in the education system – Digital learning

Category	Eligibility criteria
<p>Socioeconomic advancement and empowerment</p> 	<ul style="list-style-type: none"> • Financing for startups and micro, small and medium-sized enterprises⁶. To be eligible for the use of proceeds, the assets should exhibit one (1) or more of the following characteristics: <ul style="list-style-type: none"> – Operate in sectors/activities that contribute to other UN SDGs in SME Bank’s Sustainability Sukuk Framework – Owned or operated by marginalised, unserved or underserved groups – Benefit low-income populations⁷ or areas in terms of employment and expanded access to basic needs such as food, healthcare and education • Development and support initiatives of women to improve economic opportunities through business interventions, including: <ul style="list-style-type: none"> – Financing for SMEs serving the women and/or disadvantaged community – Financing for women-led SMEs. To be eligible, at least one (1) of the following conditions must be met: <ul style="list-style-type: none"> – At least 51% of the shareholding is owned by a woman or by women – The chief executive officer or the president is a woman – At least 51% of top management are women – 30% of the board of directors are made up by women – Funding participation in women-led capital firms, startups, and organisations supporting women entrepreneurs – Training to help women job seekers enhance their skills – Funding to help improve women's access to education, equipment, and economic opportunities
<p>Pandemic outbreak socioeconomic impact mitigation</p> 	<ul style="list-style-type: none"> • 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; or • Financing or other financial services to support initiatives designed to prevent or alleviate unemployment

⁶ For the manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million OR number of full-time employees not exceeding 200. For the services and other sectors, SMEs are defined as firms with sales turnover not exceeding RM20 million OR number of full-time employees not exceeding 75. The definition of “SMEs” shall be updated from time to time to be consistent with the SME definition by SME Corporation Malaysia.

⁷ Low-income populations are defined as bottom 40 per cent of households with a monthly income of RM4,850 and below (“B40”). The definition of “B40” shall be updated from time to time to be consistent with the Household Gross Income definition by the Department of Statistics, Malaysia .

2.2 EXCLUSIONS

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 outlined below:

i. **Criteria for Non-Shariah Compliant Business Activities / Products / Goods:**

- *Riba* bearing financial institutions
- Entertainment and gambling establishments
- Non-halal food, beverage and animal-based related activities
- Other suspicious/immoral related activities
- Unlicensed/illegal products including drugs, hazardous chemicals, weapons and explosive products
- Tobacco-based product or weed (including hookahs)
- Non-valuable asset, e.g. dirt except animal sourced organic fertilizer
- Musical instruments/equipment for non-shariah compliant activities
- Raw material or equipment for packaging of non Shariah compliant products
- Non-Shariah compliant swimming trunk and extreme non-covering aurah designed based clothes
- Idolatry and any ritual material for other religions than Islam

ii. **Criteria for Aesthetic Business**

- Tattoo
- Plastic surgery without any medical purpose/requirement e.g., breast enhancement, nose reshaping
- Waxing or grooming any private part hair i.e., Brazilian or boyzilian wax service
- Botox injection for beautification purposes
- Placenta injection using human and non-halal animal derived parts
- Lengthening hair using human's hair
- Total removal of eyebrows
- Any services or products that have been blacklisted or prohibited by Kementerian Kesihatan Malaysia or any related authorities i.e., National Pharmaceutical Control Agency

iii. **Criteria of Mixed Activities Business**

- Financing benchmark for company with mixed business activities; Revenue generated from the Shariah non-compliant activities shall be less than 33% from the total revenue of the company

iv. For clarification, the additional exclusion categories/ineligible project shall be aligned with the ACMF's ASEAN Green Bond Standards (eg. Fossil fuel generations projects) and the ACMF's ASEAN Social Bond Standards (eg. Activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry).

3.0 PROCESS FOR PROJECT EVALUATION AND SELECTION

The Sustainability Sukuk Governance (“SSG”) comprises:

- i. SME Bank’s Board of Directors, which will hold the ultimate responsibility for the Sustainability Sukuk Framework. Their responsibilities include:
 - Reviewing and approving the Sustainability Sukuk Framework and any subsequent changes to the Sustainability Sukuk Framework
 - Reviewing and approving the annual reporting as prescribed under the Sustainability Sukuk Framework
- ii. Compliance and Risk Management Committee (“CRMC”)
 - Approving any addition to or removal from the pool of the Eligible Assets
 - Reviewing and endorsing the Eligible Assets register

The SSG is supported by the Sustainability Sukuk Working Committee (“SSWC”), which comprises senior management from the Group Risk Division, Group Finance Management Division and Group Compliance Division.

SME Bank’s Business Division will perform an initial selection and evaluation according to the Eligible Categories and eligibility criteria described in the Sustainability Sukuk Framework. 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 SSWC will review the Eligible Assets periodically to ensure they meet the eligibility criteria and report to the CRMC.



SME Bank will maintain a register of the Eligible Assets and review it periodically to verify that all the Eligible Assets continue to meet the eligibility criteria set out in the Sustainability Sukuk Framework. If a project no longer meets the eligibility criteria set forth in the Sustainability Sukuk Framework, the SSWC will recommend to the CRMC that such project be removed from the pool of the Eligible Assets, and be replaced as soon as one (1) or more Eligible Assets have been identified. The evaluation of the environmental and social risks associated with credit and counterparty transactions and exposures is outlined under SME Bank’s Credit Risk Policy. All potential projects will be assessed based on SME Bank’s existing credit policies.

4.0 MANAGEMENT OF PROCEEDS

The Sustainability Sukuk proceeds will be managed in a portfolio approach. SME Bank will continuously 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. The register of the Eligible Assets will be reviewed and endorsed quarterly by the CRMC.

SME Bank will track the allocation of the proceeds and the portfolio of the Eligible Assets 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.

Any payment of principal and periodic distribution on any Sustainability Sukuk will be made from our general account and will not be linked to the performance of any eligible project.

5.0 Reporting

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 SME Bank's Annual Sustainability Sukuk Report will be updated every year until allocation is completed, and thereafter, as necessary in case of any new developments.

5.1 Allocation Reporting

Information on the amount that is equal to the net proceeds of the Sustainability Sukuk issued under the Sustainability Sukuk Framework will be provided, which includes the following:

- i. Net proceeds raised from each Sustainability Sukuk issuance
- ii. Aggregate amounts of proceeds allocated to each of the Eligible Categories
- iii. 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
- iv. Removal or substitution of the Eligible Assets

5.2 Impact Reporting

SME Bank intends to provide, where possible, examples of the Eligible Assets financed or refinanced by the Sustainability Sukuk issued under the Sustainability Sukuk Framework, as well as impact metrics for each of the Eligible Categories, which may include:

Category	Impact Indicators
Renewable energy	<ul style="list-style-type: none"> • Total installed capacity (MW) • Annual renewable energy generation (MWh) and/or capacity of renewable energy plants constructed or rehabilitated (MW) • Annual GHG emissions reduced/avoided in tonnes of CO₂ Equivalent • Number of people with access to clean energy services
Clean transportation	<ul style="list-style-type: none"> • Number of mass transit projects supported • Public transit passenger capacity • Annual GHG emissions reduced/avoided in tonnes of CO₂ Equivalent • Estimated reduction in car usage
Green building	<ul style="list-style-type: none"> • Number of solar panel installed on the customer's premise • Number of green buildings financed • Annual energy savings in MWh/GWh • Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent
Energy efficiency	<ul style="list-style-type: none"> • Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) • Annual GHG emissions reduced/avoided in tonnes of CO₂ Equivalent
Sustainable water and wastewater management	<ul style="list-style-type: none"> • Number of water treatment facilities built or upgraded • Number of flood mitigation projects financed
Waste and pollution control	<ul style="list-style-type: none"> • Amount of waste diverted from landfill (tonnes) • Amount of waste recycled (tonnes) • Amount of waste reused (tonnes) • Emissions or pollutant reduced or avoided
Affordable basic infrastructure	<ul style="list-style-type: none"> • Number of new household power connections • Number of first-time internet connections • Number of people benefited from the development of roads or installation of lights
Access to essential services: Healthcare	<ul style="list-style-type: none"> • Number of hospitals and other healthcare facilities financed • New or improved service provided by number of beds • Number of residents benefitting from healthcare which is otherwise not accessible
Access to essential services: Education and vocational training	<ul style="list-style-type: none"> • Number of businesses participated as an entity in specialised advisory programmes conducted for the year • Number of educational institutions funded by type • Number of students served

5.2 Impact Reporting

Category	Impact Indicators
Socioeconomic advancement and empowerment	<ul style="list-style-type: none">• Amount of financing approved to SMEs• Amount of financing approved to SMEs for export purposes• Amount of financing approved to SMEs that have at least 51% Bumiputera shareholding• Types of SME financed• Number of jobs created and/or maintained by SMEs• Amount of financing approved for women-led SMEs
Pandemic outbreak socioeconomic impact mitigation	<ul style="list-style-type: none">• Amount of financing approved to support SMEs facing financial stress as a result of the pandemic outbreak• Number of jobs protected

6.0 EXTERNAL REVIEW

SME Bank has obtained a second-party opinion from an appropriate provider to confirm alignment of the Sustainability Sukuk Framework with the standards and guidelines listed in section 1.4. The second party opinion will be published on the SME Bank's website at www.smebank.com.my.

SME Bank will engage an appropriate external assurance provider to independently verify the management of the proceeds of the Sustainability Sukuk issued under the Sustainability Sukuk Framework as and when required.

7.0 POTENTIAL EVOLUTIONS

As the sustainability Sukuk market is still in an early stage and is expected to evolve in the coming years, SME Bank will continuously enhance and improve the Sustainability Sukuk Framework and publish any refinements as a supplement to the Sustainability Sukuk Framework on SME Bank's website.

Disclaimer

The information and opinions contained in this SME Bank's Sustainability Sukuk Framework are provided as of the date of the Sustainability Sukuk Framework and are subject to change without notice. None of SME Bank, its subsidiaries or any of its affiliates assume any responsibility or obligation to update or revise any such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise. The Sustainability Sukuk Framework represents current SME Bank policy and intent and is not intended to, nor can it be relied on, to create legal relations, rights or obligations. The Sustainability Sukuk Framework may contain or incorporate by reference public information not separately reviewed, approved or endorsed by SME Bank and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by SME Bank as to the fairness, accuracy, reasonableness or completeness of such information.

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Providing the Sustainability Sukuk Framework does not mean that SME Bank certifies the materiality, the excellence or the irreversibility of the projects undertaken by the eligible projects. SME Bank is fully responsible for certifying and ensuring the implementation and monitoring of and compliance with the Sustainability Sukuk Framework.

**SMALL MEDIUM ENTERPRISE
DEVELOPMENT BANK MALAYSIA
BERHAD**

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An agency under the Ministry of Entrepreneur Development and Cooperatives (MEDAC)

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