

SUSTAINABLE SUKUK FRAMEWORK

1. INTRODUCTION

Bank Pertanian Malaysia Berhad was established in 1969. It is principally owned by Minister of Finance Incorporated. In 2008, it was corporatized and commercially known as Agrobank. It became a full-fledged Islamic Bank in 2015.

Agrobank recognizes that we have responsibilities not only towards our customers, employees and shareholders, but also the countries and communities in which we operate. This means understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve.

In September 2015, the UN General Assembly formally established 17 Sustainable Development Goals (SDGs) to be addressed by 2030. The goals set a common framework for public and private stakeholders to set their agendas and define their policies and strategies over the interim 15 years.

As part of our legacy as a strong corporate citizen, Agrobank recognizes the catalyzing role it can play through its financing activities and operations towards the achievement of the SDGs. The Agrobank Sustainable/Green Sukuk Framework is a step towards highlighting this impact, and mobilizing investors to contribute capital towards the significant investments needed to accomplish the 17 goals.

Agrobank intends to establish Sukuk Programme of up to RM1 billion in nominal value (“Sukuk Programme”) from time to time, under the Shariah principle of Wakalah Bi Al-Istithmar. The Sukuk Programme will incorporate features of SRI / ASEAN Green / ASEAN Social/ ASEAN Sustainable Sukuk (collectively referred to as the “Sustainable Sukuk”). The proceeds from the issuance of the Sustainable Sukuk shall be utilized for Shariah-compliant purposes, which are further detailed under Section 2 below.

This Sustainable Sukuk Framework sets out Issuer’s policy and internal organization in terms of the potential future issuance of the Sustainable Sukuk. It is developed in line with the Securities Commission SRI ASEAN Green Bond /ASEAN Social Bond/ ASEAN Sustainability Bonds Standards issued by the ASEAN Capital Markets Forum (ACMF)’s based on the International Capital Markets Association (ICMA)’s Green Bond Principles and it is the Issuer’s intention to apply best market practices as the standard develops from time to time.

2. UTILISATION OF PROCEEDS

The proceeds raised from the issuance of the Sustainable Sukuk shall be used by the Issuer solely to finance shariah compliant working capital of Agrobank that is within the criteria set out in this Sustainable Sukuk Framework.

As such, the proceeds of each Agrobank Sustainable Sukuk will be used to finance in whole or in part and/or refinance existing business and projects that promote any of the 17 Sustainable Development Goals (SDGs) as defined by the United Nations.

Specifically, the use of proceeds of any Agrobank Sustainable Sukuk will be applied to eligible businesses and projects.

Agrobank will determine eligibility based on assessment of whether the funds are applied to Eligible Categories, and, whether a significant positive sustainability net impact is achieved.

Businesses and projects may benefit the environment and society in important ways. Agrobank is to ensure that the financial services provided to customers to support economic development do not result in any adverse impact on people or the environment. Agrobank's assessment of environmental and societal benefits will consider the balance of impact in determining the overall net benefit. Moreover, Agrobank will exercise its professional judgments, discretion and sustainability knowledge in determining eligibility of businesses and projects for the Use of Proceeds of the sukuk issued.

Financing provided to any business or project that is not eligible within the criteria set out in this Sustainable Sukuk Framework will not be considered for the use of proceeds of Agrobank Sustainable Sukuk.

Agrobank will consider the following UN SDGs goals below with direct positive implication in promoting:

- 1) GOAL 2: Zero Hunger
- 2) GOAL 6: Clean Water and Sanitation
- 3) GOAL 8: Decent Work and Economic Growth
- 4) GOAL 9: Industry, Innovation and Infrastructure
- 5) GOAL 15: Life on Land

Eligible Categories: The criteria of eligible financing as per the example below:

Sustainable Development Goal	SDG Target	International Capital Market Association (ICMA) Green Bond Principles (GBP) / Social Bond Principles (SBP) Project Category	Description of Activities / Projects Funded	Examples of Eligible Projects
SDG 2: Zero Hunger	<ul style="list-style-type: none"> - To end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round. - To ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems. 	<ul style="list-style-type: none"> - Food security and sustainable food systems. - Environmentally Sustainable Agriculture. 	<ul style="list-style-type: none"> - Activities to increase food production. - Activities to increase agriculture productivity. - Activities that may increase farmers and fishermen income and productivity. 	<ul style="list-style-type: none"> - Financing sustainable plantation related to food industries. - Financing sustainable deep sea fisheries project.

<p>SDG 6: Clean Water and Sanitation</p>	<ul style="list-style-type: none"> - Access to safe and affordable drinking water. - Access to adequate and equitable sanitation and hygiene. - Improve water quality. 	<ul style="list-style-type: none"> - Affordable basic infrastructure. - Sustainable water and wastewater management. 	<ul style="list-style-type: none"> - Activities that expand public access to safe and affordable drinking water. - Activities that provide access to adequate sanitation facilities. - Activities that improve water quality. - Activities that increase water-use efficiency through water recycling, treatment and reuse (including treatment of wastewater). 	<ul style="list-style-type: none"> - Water network construction, maintenance, equipment - Water supply & distribution. - Water supply infrastructure. - Water treatment facilities - Water saving systems, technologies and water metering.
<p>SDG 8: Decent Work and Economic Growth</p>	<ul style="list-style-type: none"> - Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. 	<ul style="list-style-type: none"> - Employment Generation. - Socioeconomic Advancement and Empowerment. 	<ul style="list-style-type: none"> - Activities that create jobs to the people. - Activities that encourages entrepreneurship. 	<ul style="list-style-type: none"> - Financing Small and Medium Enterprises (SMEs)¹ to expand business.

¹ SMEs are defined by the Central Bank of Malaysia as follows:

- Manufacturing: Sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers
- Services and Other Sectors: Sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers

SDG 9: Industry innovation and infrastructure	- Increase access of small scale industrial and other to financial services including affordable credit and their integration into value chains and markets.	- Access to essential services.	- Activities that develop small scale industrial and enterprises.	- Dairy processing facilities.
SDG 15: Life on Land	- Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.	- Environmentally sustainable management of living natural resources and land use. - Terrestrial and Aquatic Biodiversity Conservation.	- Activities that help to protect, restore and promote the natural environment i.e. forest, freshwater ecosystems, wetlands etc. - Activities that help to protect, restore and promote sustainable use of terrestrial ecosystems and resources.	- Financing hydroponic farming.

Apart from 5 SDGs mentioned above, the proceeds from the Agrobank Sukuk may be used to finance in whole or in part and/or refinance existing business and projects that promote any of the 17 Sustainable Development Goals (SDGs) as defined by the United Nations.

Business and projects that are involved in the following operations will be ineligible as use of proceeds of Agrobank Sukuk:

- Non-Shariah compliant activities
- Non-halal industries
- Weapons
- Alcohol
- Gambling / adult entertainment
- Fossil fuel power generation
- Tobacco related project/product

PROCESS FOR PROJECT EVALUATION & SELECTION

Eligible projects will be evaluated, selected and approved by the relevant business unit and financing committee at Agrobank. The relevant business unit select the projects, recommend to the financing committee for evaluations and approve the recommendations. Proceeds from the Sustainable Sukuk will be used exclusively to finance projects that meet Agrobank's strategy for social responsibility and the project eligibility criteria, as well as those that have a high likelihood of delivering positive net effects in the long term.

Example of illustration for the evaluation of the financing as set out below:



A definition of sustainable financing has been defined in this framework as per eligible categories above. Any potentially eligible businesses or projects will have already been evaluated for adherence to Agrobank Sustainable Sukuk Framework.

The relevant business unit and financing committee will evaluate the proposed Eligible Assets against the framework and ensure sustainability due diligence has been conducted on relevant assets. Where necessary, the Agrobank will consult with and obtain guidance from internal stakeholders including subject matter experts on their recommendations regarding the proposed assets.

Agrobank will comply with the relevant environmental, social and governance standards or recognized best practices relating to the Eligible SRI projects.

Ultimately the relevant business unit and financing will review and recommend the inclusion or exclusion of the Use of Proceeds of the respective Agrobank Sukuk. The recommendation will be made taking the following factors/considerations into account:

1. Adherence of the proposed assets against the Agrobank Sustainable Sukuk Framework.
2. An assessment of the business or projects against relevant available standards and benchmarks.
3. A consideration of the business or projects compared to feasible alternatives.
4. Lifecycle impacts and rebound effects over a timeline relevant to the business or project.
5. The intended beneficiaries of the proposed assets, where applicable.

4. MANAGEMENT OF PROCEEDS

The proceeds shall be fully utilized upon receipt. Agrobank will review the management and the allocation of the issuance proceeds from the Sustainable Sukuk from time to time.

Agrobank will establish a register, and record the facilities allocated as use of proceeds for the Sustainable Sukuk.

For unallocated proceeds, pending the allocation or reallocation, as the case may be, of the net proceeds of the Sukuk issued, Agrobank will invest the balance of the net proceeds, at its own discretion, cash and/or cash equivalent and/or other liquid marketable instruments. Agrobank may assign specific department to oversee this function i.e. Treasury Department.

5. REPORTING & TRANSPARENCY

Agrobank will disclose information on use of issuance proceeds and management of proceeds to investors via a report and ensure that such information is made publicly available throughout the tenure of the Sustainable Sukuk.

Agrobank will also endeavour to provide annual reporting, via any communication channels that it may select, to investors.

Agrobank will provide and publish the Sukuk Progress Report on an annual basis via its website.

The report can be split into 2 sections:

1. Allocation Reporting – This section will report on the use of proceeds until full allocation, and on a timely basis in the case of material developments. The annual report should include a list of the projects to which the sukuk proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. The report may also include the aggregate amounts of funds allocated, the remaining balance of unallocated sukuk proceeds at the reporting period and confirmation that the use of proceeds of the sukuk issued conforms to the Green/Sustainable Sukuk Framework.
2. Impact Reporting – This section will report on qualitative performance indicators, and where feasible, quantitative performance measures and disclose the key underlying methodology and/or assumptions used in the quantitative determination. Agrobank recognises investors' preference for enhanced information on Use of Proceeds. Where possible, Agrobank will provide further information and examples of eligible businesses and projects financed by an Agrobank Sustainable sukuk.

Sustainable Development Goal Category	SBP Project Categories	GBP Project Categories	Indicative Reporting Criteria
SDG 2: Zero Hunger	- Food Security (Target 2.1 and 2.2)	- Climate Change Adaptation (Target 2.4) - Environmentally Sustainable Agriculture (Target 2.4)	- Number of projects financed. - Amount of food produced. - Number of small scale farmers with increased productivity. - Number of people provided with safe, nutritious and sufficient food. - Products with certified improvements in nutritional value.
SDG 6: Clean Water and Sanitation	- Affordable basic infrastructure (Target 6.1, 6.2, 6.3, 6.4, 6.a)	- Sustainable water and wastewater management (Target 6.1, 6.2, 6.4, 6.a)	- Number of water infrastructure projects built i.e. dam, reservoir. - Cubic meter of clean water provided. - Number of people provided with safe and affordable drinking water Number of people provided with adequate and equitable sanitation. - Volume of water saved.

			<ul style="list-style-type: none"> - Volume of wastewater treated for reuse. - Area covered by sustainable land and water resources management practices. - Potable water produced.
SDG 8: Decent Work and Economic Growth	<ul style="list-style-type: none"> - Employment generation (Target 8.3,8.5,8.6) - Socioeconomic advancement and empowerment (Target 8.3,8.5,8.6) 		<ul style="list-style-type: none"> - Number of SMEs financed. - Number of jobs created. - Number of jobs supported. - Number of SME or microfinance financings.
SDG 9: Industry innovation and infrastructure	<ul style="list-style-type: none"> - Access to essential services (Target 9.3) 		<ul style="list-style-type: none"> - Number of projects financed. - Number of microfinance or SME financings.
SDG 15: Life on Land		<ul style="list-style-type: none"> - Environmentally sustainable management of living natural resources and land use (Target 15.1, 15.2, 15.5) - Terrestrial and Aquatic - Biodiversity Conservation (Target 15.1, 15.2 15.5) 	<ul style="list-style-type: none"> - Number of projects financed. - Avoidance or reduction of land pollution (ecotoxicity, acidification, salinization, transformation) - Avoidance or reduction of biodiversity loss (# of species) - Certified afforested or reforested land.

			<ul style="list-style-type: none"> - Area covered by sustainable land and management practices. - Expenditure on conservation and sustainable use of biodiversity and ecosystems.
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6. EXTERNAL REVIEW

Agrobank will have its Sustainable Sukuk Framework reviewed by a second party opinion expert who will issue a report (“Second Opinion”) based on its own methodology. The Second Opinion shall be disclosed to the investors in an information memorandum and made available in the Issuer’s website throughout the tenure of the Sustainable Sukuk. The Second Opinion shall refer to the Issuer’s Sustainable Sukuk Framework and include every issuance that is made under the Sustainable Sukuk Programme. The annual progress report and related opinion will be made available, to the public at the Agrobank’s webpage.