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LEADER ENERGY SDN BHD

ASEAN GREEN SRI SUKUK WAKALAH PROGRAMME OF UP  
TO RM260.0 MILLION

PRE-ISSUANCE EXTERNAL REVIEW REPORT

ASEAN GREEN SRI SUKUK ASSESSMENT



GREEN SUKUK ASSESSMENT

Malaysian Rating Corporation Berhad has been engaged by Leader Energy Sdn Bhd as an independent external reviewer for its proposed ASEAN Green SRI Sukuk Wakalah of up to RM260.0 million. This external review was conducted according to the analytical framework in MARC's Impact Bond Assessment (IBA) methodology that is published on its website.

Publication date: 9 April 2020



MALAYSIAN RATING CORPORATION BERHAD  
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## SUMMARY

Leader Energy Sdn Bhd (LESB), the issuer of the proposed ASEAN Green Sustainable and Responsible Investment (SRI) Sukuk Wakalah, is a holding company of the project entities that are operating two solar photovoltaic (PV) power projects totalling 49 MWac under concessions awarded pursuant to Malaysia's Large-Scale-Solar LSS1 and LSS2 energy bidding programmes. In both projects, the operation and maintenance (O&M) of the plants are undertaken in-house; in the O&M role, the project entities are expected to draw upon ultimate parent HNG Capital Sdn Bhd's (HNG Capital) two over decades of experience as an independent power producer in Southeast Asia. LESB and its project entities are expected to demonstrate alignment with HNG Capital's sustainability framework and its vision of building a balanced portfolio of generation projects in a safe, sustainable and environmentally responsible manner.

LESB plans to use the proceeds from the issuance to part-finance and/or part-reimburse the total development costs of the two solar projects, both of which are sited in Kuala Muda, Kedah. The first project, a net 29MWac solar PV power plant under Leader Solar Energy Sdn Bhd (LSE I) achieved commercial operation in 2018. The second project, a net 20MWac solar PV plant under Leader Solar Energy II Sdn Bhd (LSE II), achieved commercial operation on February 11, 2020. The proceeds shall also be used to pre-fund the Finance Service Reserve Account (FSRA) minimum required balance and pay all fees and expenses in relation to the issuance of the ASEAN Green SRI Sukuk Wakalah. The nominated projects are aligned with the renewable energy category of eligible SRI projects identified by Securities Commission Malaysia's (SC) SRI Sukuk framework. As the sukuk proceeds will be fully allocated to physically completed projects, the issue of post-issuance tracking of underlying project eligibility will not arise.

Energy generated by the solar projects, both of which are sited in Kuala Muda, Kedah and utilise commercially proven PV panel and inverter technology, will be sold to Tenaga Nasional Bhd (TNB) under 21-year power purchase agreements. MARC is of the view that the sustainability activities that will be refinanced/financed would result in clearly identifiable environmental benefits. These projects provide measurable environmental benefits to the state of Kedah and the country in meeting specific long-term environmental and resource related goals.

LESB's ASEAN Green SRI Sukuk Wakalah Framework aligns its management of proceeds and reporting with the ASEAN Green Bond Standards (ASEAN GBS) and SC's SRI Sukuk Framework. Designated accounts will be established into which net proceeds will be credited and managed by the Security Trustee in accordance with the terms and conditions of the SRI Sukuk. The allocations to the nominated projects after the pre-funding of the FSRA will match the balance of the net proceeds from the outstanding sukuk. The issuer has committed to annual reporting of the original amount allocated to the nominated projects, the amounts disbursed, the unutilised amount and where such unutilised amount is placed or invested pending utilisation, if applicable, as well as the impact of nominated projects on a designated website.

Based on our review of the relevant documentation and assessment as per our IBA methodology, we propose to assign LESB's ASEAN Green SRI Sukuk Wakalah a "Gold" IBA. MARC opines that the sukuk issuance is correspondingly aligned with the core components of ASEAN GBS and SC's SRI Sukuk framework.

## Introduction

The solar projects to be refinanced by the proposed SRI Sukuk Wakalah consists of LSE I (operational since October 2018) and LSE II which became operational since February 2020. LSE I, LESB's first solar project in Malaysia is a 29MWac solar PV power plant. The 21-year Power Purchase Agreement (PPA) concession was granted in December 2016 through a competitive public tender. LESB was awarded a second 21-year PPA concession for 20MWac greenfield solar PV power plant under its wholly-owned subsidiary Leader Solar Energy II Sdn Bhd in Malaysia's LSS2 bidding programme. In addition to the two solar projects in Malaysia, HNG Capital's power division manages thermal and hydropower plants in Cambodia and Vietnam respectively, and a power transmission line in Cambodia.

The LSE I and LSE II project sites occupy areas of 49.23 hectares in Mukim Sungai Pasir and 29.12 hectares at Bukit Selambau respectively. As neither project was sited in a particularly environmentally sensitive or vulnerable location, an Environmental Impact Assessment (EIA) was not considered necessary for both solar PV developments. Project sites selected for LSE I and LSE II were predominantly flat agricultural land considered to pose no significant environmental and socioeconomic impact. The Solar Environmental Mitigation and Protection (EMP) reports submitted in support of both solar development bids concluded that the proposed developments would not pose any significant environmental impacts and offered benefits for the local communities in addition to greening the country's energy supply.

The two projects in the portfolio utilise commercially proven technology with large installed bases of utility-scale solar panels and inverters globally. LSE I uses polycrystalline modules supplied by Canadian Solar South East Asia Pte Ltd mounted on fixed tilt structures and central inverters from SMA Solar Technology AG (SMA) with string-based maximum power point tracking (MPPT) to allow for the harvesting of maximum energy from shaded arrays. The direct current (DC) electricity generated by the solar panels is converted by central inverters into alternating current (AC) and stepped up to a higher voltage for transmission over TNB's power grid. LSE II uses relatively newer technology in high-efficiency monocrystalline silicon modules from Hefei JA Solar Technology Co. Ltd (JA Solar), a space-efficient solution given its project site. LSE II's inverters were supplied by Power Electronics Espana, S.L. (Power Electronics).

The construction works for LSE I was divided into two packages: (a) the solar package and (b) the transmission line package, and awarded to two local contractors on a turnkey basis. The arrangement for LSE II is similar to LSE I except LSE II undertook the procurement of key equipment (i.e. modules and inverters) in-house. Selected technologies reflect an appropriate balance of environmental, social and governance (ESG) risk and return on investment (ROI) considerations. The selection of technology had been determined on the basis of appropriateness for the project sites and potential energy generating capacity, and corresponding implications for ROI, and overall economic feasibility.

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## APPENDIX

ASEAN GREEN SRI SUKUK COMPLIANCE REVIEW FORM

## 01 IMPACT SIGNIFICANCE ANALYSIS

### POSITIVE IMPACTS

Our quantitative analysis of impact is conducted in the context of the United Nations Sustainable Development Goals (SDGs). As a globally accepted guidepost for transition to sustainable development, the SDGs serve as a useful framework of reference for project impact analysis. The 17 SDGs are at the heart of a global sustainability agenda, covering three broad areas of economic, social and environmental development to be reached by 2030.

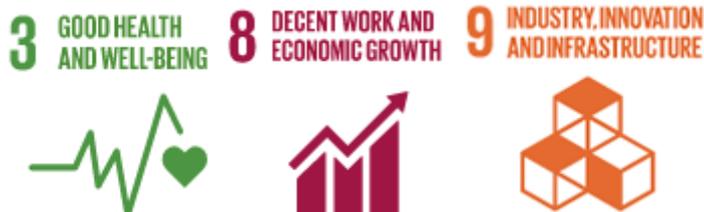
Fundamental to the delivery of the following identified positive impacts would be the assessed sustainability of the projects, in terms of project economics as well as climate change resilience (weather risk). In this regard, the projects' negligible marginal costs of dispatch and high dispatch certainty provide important support. Electricity utility Tenaga Nasional Berhad has committed to purchase solar energy under 21-year power purchase agreements, providing a stable flow of long-term revenues.

#### SDG Impact Assessment: Primary SDG

<p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p> 	<p>The projects will provide a long-term source of clean energy at a stable cost. Increased domestic deployment of renewable energy is essential for the government to build a sustainable energy supply system, enhance national energy security and curtail fossil fuel dependency. Fuel prices are a major component and determinant of electricity tariffs where electricity generation from fossil fuels is concerned.</p> <p>The projects will have a direct positive impact on the achievement of SDG 7: target 7.2 – increase the share of renewable energy in the global energy mix by 2030. The projects will also contribute to Malaysia's target of generating 20% of its electricity with renewable sources by 2025.</p>
<p><b>13 CLIMATE ACTION</b></p> 	<p>According to the International Energy Agency (IEA), energy production and use is the largest source of global greenhouse-gas (GHG) emissions, driven largely by fossil fuel use. The energy sector was the largest single source of national greenhouse gas emissions in 2014. Between the years 2005 and 2014, emissions in the energy sector increased by 28%. Electrification with renewable power is paramount to mitigating climate change given its significant potential for GHG emissions reduction. For solar projects, the lifecycle global warming emissions come from the manufacturing, materials transportation, installation, maintenance, and decommissioning and dismantlement stages of the project. There are no emissions associated with generating electricity from solar energy. Still, research findings suggest that the carbon footprint of solar is many times lower than coal or gas with carbon capture and storage even after accounting for indirect lifecycle emissions.</p> <p>In helping to decarbonise the national electricity grid, the project will contribute towards Malaysia's delivery of the emissions reductions required by the Paris climate agreement to keep temperature increases resulting from heat-trapping emissions to less than 2°C.</p>

	The projects will also have a direct positive impact on meeting the aspirations of SDG 13: target 13.3 on building knowledge and capacity on climate change mitigation, adaptation and impact reduction.
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## SDG Impact Assessment: Related SDGs



The projects will foreseeably have indirect positive impacts on the achievement of other SDGs as follows:

SDG 3: target 3.9 - reduce illnesses and death from hazardous chemicals and pollution;

SDG 8: target 8.4 - improve resource efficiency in consumption and production to decouple economic growth from environmental degradation; and

SDG 9: target 9.4 - promote inclusive and sustainable industrialization and raise industry's share of employment and gross domestic product (GDP).

The projects will also stimulate private sector investment, new job creation and economic growth. Employment is generated during plant installation as well as in operations and maintenance.

**NEGATIVE IMPACTS**

Properly sited large-scale solar projects can benefit local economies and communities with negligible or little environmental impacts where environmental and social considerations are integrated into the site selection criteria, along with solar resource potential, current land use, existing transmission infrastructure and tradeoffs into account, to minimise the project's impact on local communities and the environment. In this regard, we note that both project sites are predominantly flat agricultural land of low environment concern. We believe that the siting of LSE I and LSE II significantly mitigates the risk of direct negative impacts arising from potential biodiversity loss and degradation of natural habitats.

MARC notes that affected communities have been properly informed and consulted on LSE I. In the case of LSE II, there was no surrounding community that had to be consulted. This mitigates the risk of counterproductive contributions to the SDGs in the form of community displacement, undermined access to food and livelihoods. LESB also promotes sustainable relations with the communities in the vicinity of its plants by carrying out goodwill projects such as upgrading village roads and undertaking the resurfacing of the ground surrounding a local prayer house and kindergarten. It also makes charitable contributions to community organisations that are helping to develop the community and serve the local people.

Site-specific assessments are necessary to analyse the context dependent impacts of ground-mounted PV panels on local ground-level microclimate, plant-soil carbon cycling, greenhouse gas emissions and existing flora and fauna. In general, shading and changes to wind flow are anticipated which, and in principle, will likely affect temperature and rainfall distribution over the land.

Validation or certification of the climate effects of the project are excluded from the scope of MARC's external review.

## Overall Impact Significance

<input checked="" type="checkbox"/>	Very Significant	This level of impact significance is assigned where underlying projects are expected to generate very visible positive ground level impact. Projects at this level support the realisation of long-term integrated visions of sustainable development that are consistent with global sustainability goals, as well as national sustainable development goals and priorities.
<input type="checkbox"/>	Significant	This level of impact significance is assigned where underlying projects are expected to generate a visible positive ground level impact. Projects at this level have the potential to facilitate adjustments towards a more sustainable development trajectory and to meaningfully advance national level sustainable development goals.
<input type="checkbox"/>	Fairly Significant	This level of impact significance is assigned where underlying projects are expected to generate a ground level impact which, although at a lower magnitude than that expected for higher assessment levels, is still considered noteworthy.
<input type="checkbox"/>	Marginal	This level of impact significance is assigned where underlying projects are expected to generate a positive but limited ground level impact.
<input type="checkbox"/>	Not Significant	This level of impact significance is assigned where underlying projects are expected to have negligible ground level impact.

LSE I and LSE II support national priorities to increase the share of renewable energy in the energy mix. The National Renewable Energy and Action Plan set a target of 2,065 MW of RE installations by 2020. Large Scale Solar or LSS, a competitive bidding programme to drive down the Levelized Cost of Energy (LCOE) for the development of large-scale solar PV plants targets 2,200 MW of utility-scale solar installations by 2030.

LSE I and LSE II will collectively add 49MWac to power generation capacity in the country, approximately 5.1% of the total planned capacity of 958MWac under the LSS1 and LSS2 schemes. The issuer has estimated that the LSE I and LSE II will respectively save 33,120 tonnes and 26,910 tonnes of CO<sub>2</sub> emissions per year compared to fossil fuel fired power plants based on 0.69 kg of CO<sub>2</sub> per kWh<sup>1</sup>. In addition to facilitating renewable energy's (RE) contribution in the national power generation mix, the nominated projects will also support the objectives of reasonable RE generation costs and the conservation of the environment for future generations. The aforementioned considerations and the prominence given to renewable energy generation in the national development agenda and the national planning framework leads us to assign an overall "Very Significant" assessment to underlying funded projects.

<sup>1</sup> Based on expected annual electricity generation of 48,000MWh and 39,000MWh respectively by LSE I and LSE II and estimated emission factor provided by Malaysia Green Tech Corporation.

## 02 ALIGNMENT WITH ASEAN GREEN BOND STANDARDS AND SRI SUKUK FRAMEWORK

A summary of the findings of our review is given below. The detailed review is attached in the report's appendix.



Utilisation of Proceeds

The sukuk fall into the category of Green Use of Proceeds. The proceeds of bonds issued under the ASEAN Green SRI Sukuk Wakalah will be used to part-finance and/or part-reimburse the total development costs of LSE I and LSE II. The sukuk proceeds will be applied exclusively for funding of the two eligible SRI projects, in line with provisions 7.02 and 7.10 of the SRI Sukuk Framework.

LSE I and LSE II are renewable energy projects with positive environmental benefits falling into the category of eligible SRI projects under Securities Commission Malaysia's Guidelines on the Lodge and Launch (LOLA) Framework. As eligible green (climate change mitigation) projects, the sukuk falls into the category of Standard Green Use of Proceeds Bond under ICMA's Green Bond Principles.



Aerial view of LSE I

**Exhibit 1: Nominated projects**



Aerial view of LSE II

The designated green projects will contribute to Malaysia's target of generating 20% of its electricity with renewable sources by 2025. LSE I and LSE II will supply cost-competitive clean energy and contribute towards reducing the carbon footprint of electricity generation and Malaysia's delivery of the emissions reductions required by the Paris climate agreement to keep temperature increases resulting from heat-trapping emissions to less than 2°C.

In MARC's opinion, the defined use of proceeds meets the criteria for use of proceeds as set forth in the ASEAN GBS and SC's SRI Sukuk Framework.



Process for Project  
Evaluation and Selection

The issuer's ASEAN Green SRI Sukuk Wakalah is essentially a project sukuk with underlying projects that have achieved physical completion. Our review of lenders' technical advisors' reports for LSE I and LSE II leads us to conclude that all the normal technical, legal, financial criteria have been accounted for in the development process of both projects. Additionally, Health, Safety and Environment (HSE) considerations are incorporated into the evaluation and selection of project sites, technology, contractors and suppliers, as with project planning and implementation. The decision-making process draws upon relevant internal and external expertise and includes consultation with EIA consultants and lenders' technical advisors as needed.

LESB's ASEAN Green SRI Sukuk Wakalah Framework outlines how HSE considerations are integrated within HSE management plans and programmes. For example, contractors are evaluated based on their HSE management plans in addition to technical capability, track record and financial strength. The aforementioned disclosures provide a high level of assurance that both project entities have performed the requisite due diligence on potential social and environmental risks during the projects' construction and operation phases that is required to achieve alignment with the "Process for Project Evaluation and Selection" component of the ASEAN GBS and SC's SRI Sukuk Framework. This is corroborated by technical due diligence reports by lenders' technical advisors' reports for LSE I and LSE II. As the underlying projects financed have achieved physical completion, post-issuance tracking of project eligibility will not be required.



Management of  
Proceeds

Designated accounts will be established into which net proceeds will be credited and managed by the Security Trustee in accordance with the terms and conditions of the sukuk. The sukuk proceeds will be disbursed to the designated accounts to ensure proceeds can only be used for defined eligible activities. The allocations to LSE I and LSE II after the pre-funding of the FSRA will match the balance of the net proceeds from the outstanding sukuk.

As the nominated projects are already operational, full deployment of the net proceeds for refinancing and/or part-financing and/or part-reimbursement of total development costs of the eligible projects is expected to occur upon issuance of the sukuk.

MARC is of the view that the process established by the issuer for the management of proceeds is aligned with the requirements of the ASEAN GBS and SC's SRI Sukuk Framework.



Principle Four:  
Reporting

The issuer intends to provide annual reporting to the sukukholders via its website on the following:

- The original amount allocated for the Eligible Green SRI projects;
- The amount utilised for the Eligible Green SRI projects;
- The balance of unallocated proceeds and where such amount is placed or invested pending utilisation, if applicable, and
- The list of the Eligible Green SRI projects in which the ASEAN Green SRI Sukuk Wakalah proceeds have been allocated to and a brief description of the said Eligible Green SRI Projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact.

The issuer intends to report on the environmental impacts of the project. The indicator that it will report on added generation capacity and tonnes of CO2 emissions avoided per year for LSE I and LSE II.

In MARC's opinion, the reporting commitments are aligned with the requirements of the ASEAN GBS and SC's SRI Sukuk Framework, and market practice.

### Overall Assessment

	Clarity of Issuance Process and Disclosure	Total Score
<input checked="" type="checkbox"/>	High	10- 12 points
<input type="checkbox"/>	Good	7 -9 points
<input type="checkbox"/>	Satisfactory	4 – 6 points
<input type="checkbox"/>	Low	Below 4 points

Equal weighting is given to each of the four principles in arriving at the total score which is then expressed on the above four-point descriptive scale which ranges from High to Low.

Assessment Grade	High	Good	Satisfactory	Low
	3	2	1	0

## 03 ANALYSIS OF SUSTAINABILITY PERFORMANCE

As LSE I and LSE II are fairly newly established project entities, analysis of their prospective sustainability performance is primarily informed by documents provided by the issuer. In its ASEAN Green SRI Sukuk Wakalah Framework, LESB has provided information on how it manages HSE risks and embeds HSE considerations in project development and operation. In the planning of the projects, LESB has demonstrated awareness of and active mitigation of the environmental and social impacts of its operations. In the framework, LESB also articulates its sustainability priorities and actions that have been or will be taken to achieve corporate HSE objectives and commitments during the projects' construction and operational phases. MARC is of the view that these disclosures are sufficiently transparent to allow investors to evaluate the effect of LSE I and LSE II on the environment, society, and regulatory compliance.

At the project level, MARC notes that HSE considerations are coherently embedded into project siting decisions and in the construction and operation of LSE I and LSE II. Processes and procedures have also been put in place to communicate important HSE-related issues (including expectations for compliance) to relevant stakeholders which include employees, suppliers, nearby residents and contractors. It is noted that both projects were physically completed without incidents, suggesting effective management of work-related injuries, accidents, regulatory violations, and near misses. Measures implemented at LSE I and LSE II to manage potentially material E&S project risks during the operation phase appear to be adequate overall.

Ultimate project sponsor, HNG Capital has articulated a commitment to offer environmentally responsible energy options as a private developer and operator of power plants. HNG Capital's power division will, as a minimum, comply with local environmental codes and standards. The company has established HSE procedures and policies to guide its commitment and compliance with all applicable environmental and occupational safety and health laws and regulations.

The reviewed Environmental Mitigation and Protection (EMP) reports on LSE I and LSE II and environmentally sound approach of ultimate project sponsor, HNG Capital to power project development provides assurance of continued compliance with national environmental codes and standards for projects of this type and all project development phases and operational phases from design to decommissioning and dismantling. All operations and maintenance activities, which may have an impact on EHS are to be undertaken in a manner that meets or exceeds the intent of local regulations. Furthermore, the EMP reports advise that potential impacts to the surrounding environment would occur mainly during the construction stage, mainly due to site clearing and preparations. During operation, negligible potential impact is expected due to the passive nature of solar plant operation.

HNG Capital's power division, currently represented by LESB and its sister company Leader Energy Pte. Ltd, voluntarily publishes its sustainability priorities and strategy on its corporate website at <https://www.leaderenergy.net/environmental/> website. LESB has also committed to report on the impacts of the eligible ASEAN Green SRI Sukuk projects. Importantly, MARC believes that LESB's sustainability commitments under its ASEAN Green SRI Sukuk Wakalah Framework are coherent with the E&S issues of projects of this type and its sustainability performance to date.

## Sustainability Performance Assessment

<input type="checkbox"/>	Excellent/Highest Assurance	The issuer positions itself as a sustainability leader in its industry, ranking in the "top tiers" of performance across multiple categories of engagement, ranging from supply chain management to environmental performance. Sustainability-related risks and opportunities are integrated with the business strategy. Well-defined sustainability policies and practices are augmented by strong accountability systems which allow for a benchmarking of the issuer's performance against stated objectives and the incorporation of external assurance in its sustainability reporting framework.
<input checked="" type="checkbox"/>	Very Good/High	The issuer has integrated risk-based sustainability considerations in its operations and has a robust process for assessing significant sustainability risks exposures to minimise adverse impacts on its business. The focus of the issuer's sustainability performance monitoring and evaluation is on managing risk exposures to minimise downside risk. Globally-recognised best practice reporting frameworks guide the issuer's sustainability reporting.
<input type="checkbox"/>	Good/Medium	The issuer has adopted a CSR-centric sustainability strategy that prioritises stakeholder engagement and goodwill building. Sustainability is a small part of the issuer's business strategy, nonetheless there is evidence to suggest that its sustainability performance has progressed beyond maintaining regulatory compliance. The issuer has implemented general sustainability reporting to investors.
<input type="checkbox"/>	Fair/Basic	The issuer has a policy of regulatory compliance but has yet to incorporate sustainability considerations into its business operations. At this performance level, the goal of sustainability management is to achieve and maintain compliance with health, safety, and environmental requirements mandated by government laws and regulations.
<input type="checkbox"/>	Poor/Weak	The issuer has a record of poor sustainability performance or operates in unsustainable industries.

MARC's assessment of the issuer's sustainability implementation capabilities and performance is expressed on a five-level descriptive scale that runs from "Excellent" to "Poor" which corresponds to five levels of assurance (Highest, High, Medium, Basic and Weak). The assurance level can be interpreted as a measure of MARC's confidence in the issuer's continuing performance of its sustainability obligations in line with marketplace expectations and in compliance with its sustainability framework for the bonds issuance.

## 04 RATING SCALE

GRADE	DESCRIPTION
	<p>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>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>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>

## MARC

Incorporated in October 1995, MARC is a full-service domestic credit rating institution. MARC's ratings are recognized and accepted in the Malaysian capital markets. MARC is recognized by Bank Negara Malaysia and Securities Commission, respectively, as an External Credit Assessment Institution (ECAI) under Basel II and as a bond rating agency regulated under the Guidelines on the Registration of Credit Rating Agencies issued by the Securities Commission on 30 March 2011. MARC adopts practices and procedures for Domestic Credit Rating Agencies based on the guidance on the Code of Conduct Fundamentals provided by the International Organisation of Securities Commissions (IOSCO) and the Association of Credit Rating Agencies in Asia (ACRAA). MARC has consulted international best practices and the International Capital Market Association's Guidelines for Green, Social and Sustainability Bonds External Reviews in its conduct of external reviews, particularly in relation to the organisation and content of external reviews.

Following a series of outreach and external reviewer capacity building initiatives jointly undertaken by domestic market regulators and World Bank Group, MARC published for public comment its proposed criteria for rating green, social or sustainability bonds in April 2018. The version that was adopted in July 2018 after public consultation can be accessed on MARC's website at [https://www.marc.com.my/images/Rating\\_Methodologies/8/Impact\\_Bond\\_Assessments\\_20180713.pdf](https://www.marc.com.my/images/Rating_Methodologies/8/Impact_Bond_Assessments_20180713.pdf). As explained in the criteria, MARC's analytical framework consists of three components that provide insight to the green, social and sustainability credentials of green, social and sustainability bonds: (1) an assessment of environmental and/or social benefits of the underlying funded project(s); (2) an assessment of compliance with internationally recognised principles and market standards for the evaluation of such bonds; and (3) an evaluation of the issuer's sustainability strategy and performance. Bonds which meet the minimum thresholds in each of the three analytical components will be rated Gold, Silver or Bronze.

For more information, visit <https://www.marc.com.my/> or contact us at [marc@marc.com.my](mailto:marc@marc.com.my).

## Review of Compliance with ASEAN Green Bond Standards and SC's Sustainable and Responsible Investment (SRI) Sukuk Framework

**Issuer: Leader Energy Sdn Bhd**  
**Proposed ASEAN Green SRI Sukuk Wakalah**

**Key Additional Features to be complied with:**

- The proceeds allocated for the Project must not be used for ineligible projects specified by the ASEAN GBS (i.e. fossil fuel power generation projects)
- Continuous accessibility of information on use of proceeds, process for project evaluation and selection, and management of proceeds to investors throughout the tenure of the Bonds.
- Periodic reporting on the allocation of the bond proceeds.
- The external reviewer's credentials and scope of review conducted to be made publicly accessible from a website designated by the issuer throughout the tenure of the Bonds.

<b>Criteria</b>	<b>Compliance with criteria</b>	<b>Remarks/Scope of Work Undertaken</b>
<p><b>Issuer</b>  <u>ASEAN GBS</u>            3.1  <i>The issuer must be an ASEAN issuer, or the eligible green project(s) must be in any of the ASEAN countries.</i></p> <p><u>SRI Sukuk Framework</u>            7.03  <i>An issuer must not–            (a) use or adopt the term “SRI sukuk”; or            (b) hold itself out as an issuer of such SRI sukuk, unless the issuance of the SRI sukuk has complied with these Guidelines.</i></p> <p>7.04  <i>An issuer who wishes to issue an SRI sukuk must establish policies and processes to ensure compliance with the SRI Sukuk Framework as set out in these Guidelines.</i></p>	<p><i>The issuer is a resident-controlled company.</i></p> <p><i>The issuer is a qualified issuer under provision 7.03 premised on the compliance of its proposed issuance with the Guidelines.</i></p> <p><i>The issuer has established an ASEAN Green SRI Sukuk Wakalah Framework which sets out processes to achieve and maintain compliance with the SRI Sukuk Framework as set out in these Guidelines.</i></p>	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p><b>Use of Proceeds</b> <u>ASEAN GBS</u></p> <p>4.1.1 <i>The utilisation of proceeds from the Bonds must be described in the documentation for issuance of the bonds.</i></p> <p>4.1.2 <i>The Issuer must disclose the following information: The categories of eligible green projects to which the bonds proceeds will be allocated; and/or the information on specific green projects in the case where the issuer has identified the specific green projects to which the bond proceeds will be allocated.</i></p> <p>4.1.3 <i>All designated green projects must provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.</i></p>	<p><i>The issuer's ASEAN Green SRI Sukuk Wakalah Framework describes the following use of proceeds:</i></p> <ol style="list-style-type: none"> <li><i>1) pre-fund the Finance Service Reserve Account (FSRA) minimum required balance,</i></li> <li><i>2) pay all fees and expenses in relation to the issuance of the ASEAN Green SRI Sukuk Wakalah, and</i></li> <li><i>3) part-finance and/or part-reimburse the total development costs of (a) 29MWac solar project in Kuala Muda, Kedah under Leader Solar Energy Sdn Bhd (LSE I) and (b) 20MWac solar project in Kuala Muda, Kedah by Leader Solar Energy II Sdn Bhd (LSE II).</i></li> </ol> <p><i>The issuer's ASEAN Green SRI Sukuk Wakalah Framework identifies LSE I and LSE II as the specific green projects to which the sukuk proceeds will be allocated.</i></p> <p><i>The designated green projects will contribute to Malaysia's target of generating 20% of its electricity with renewable sources by 2025. LSE I and LSE II will supply cost-competitive clean energy and contribute towards reducing the carbon footprint of electricity generation and Malaysia's delivery of the emissions reductions required by the Paris climate agreement to keep temperature increases resulting from heat-trapping emissions to less than 2°C.</i></p>	<p><i>The sukuk fall into the category of Green Use of Proceeds Bonds. Review of the ASEAN Green SRI Sukuk Wakalah Framework was undertaken.</i></p> <p><i>LSE I and LSE II will add 49MWac to power generation capacity in the country and respectively save 33,120 tonnes and 26,910 tonnes of CO2 emissions per year compared to fossil fuel fired power plants based on 0.69kg of CO2 per kWh. Potential savings in CO2 emissions are computed based on assumed annual electricity generation of 48,000 MWh and 39,000 MWh respectively from LSE I and LSE II, and emission factor from an established source, namely Malaysia Green Tech Corporation.</i></p>

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p><i>Cont'd</i> <u>ASEAN GBS</u> 4.1.4 <i>In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that Issuers provide an estimate of the share of financing and refinancing, and where appropriate, also clarify which investments or project portfolios may be refinanced and, to the extent relevant, the expected look-back period for refinanced green projects.</i></p> <p><i>“Look-back period” refers to a maximum period in the past that an Issuer will look back to identify assets/earlier disbursements to such eligible green projects that will be included in the green bond reporting.</i></p> <p><u>SRI Sukuk Framework</u> 7.02 <i>SRI sukuk refers to sukuk in which its proceeds will be applied exclusively for funding of any activities or transactions relating to the Eligible SRI projects.</i></p> <p>7.10 <i>An issuer must ensure that the proceeds raised from the issuance of the SRI sukuk are utilised only for funding any activities or transactions relating to the Eligible SRI projects.</i></p> <p>7.07 <i>Eligible SRI projects refer to projects that aim to:</i> <i>(a) preserve and protect the environment and natural resources;</i> <i>(b) conserve the use of energy;</i> <i>(c) promote the use of renewable energy;</i> <i>(d) reduce greenhouse gas emission;</i> <i>or</i> <i>(e) improve the quality of life for the society.</i></p>	<p><i>The issuer has provided an estimate of the proportion of the proceeds that will be used to part-finance and/or part-reimburse the total development costs of LSE I and LSE II. The issuer estimates that up to RM12 million will be allocated to pre-fund the FSRA and up to RM2 million to defray the costs of issuing the sukuk. The balance, amounting to approximately RM246 million, will be utilised to refinance and/or part-finance and/or part-reimburse total development costs.</i></p> <p><i>The ASEAN Green SRI Sukuk Wakalah Framework provides sufficiently granular information on the green projects, allowing investors to establish the age of the projects.</i></p> <p><i>The sukuk proceeds will be applied exclusively for funding of activities or transactions relating to eligible SRI projects, as outlined in the ASEAN Green SRI Sukuk Wakalah Framework in line with provisions 7.02 and 7.10.</i></p> <p><i>Apart from (b), the nominated projects satisfy (a) through (e) of the aims listed in provision 7.07. LSE I and LSE II are eligible green projects to be financed with the sukuk proceeds in under the ASEAN Green SRI Sukuk Wakalah Framework.</i></p>	<p><i>Increasing the supply of renewable energy would allow replacement of non-renewable carbon-intensive energy sources. Even when “life cycle” emissions from the manufacturing, materials transportation, installation, maintenance, and decommissioning and dismantlement stages of the project are considered, the global warming emissions associated with renewable energy are minimal.</i></p>

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>Cont'd 7.08(a) Eligible SRI projects listed (amongst others) include green projects that relate to renewable energy.</p> <p><b>Process for Project Evaluation and Selection</b></p> <p><u>ASEAN GBS</u> 4.2.1 The issuer must clearly communicate to investors:</p> <p>(i) The environmental objectives;</p> <p>(ii) The process by which the Issuer determines how the projects fit within the identified eligible project categories; and</p> <p>(iii) The related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social (E&amp;S) risks associated with the selected projects.</p>	<p>LSE I and LSE II are renewable energy projects which are listed as eligible green SRI projects.</p> <p>The issuer's ASEAN Green SRI Sukuk Wakalah Framework identifies the following as the environmental objectives of its green SRI sukuk:</p> <ol style="list-style-type: none"> <li>1) Production of renewable energy (solar), in line with Malaysia's National Renewable Energy Policy and including Renewable Energy Transition Roadmap (RETR) and Shared Prosperity Vision 2030 which identifies renewable energy and green economy as key economic growth drivers;</li> <li>2) Reducing greenhouse gas emission;</li> <li>3) Pollution prevention and control.</li> </ol> <p>As the issuer's ASEAN Green SRI Sukuk Wakalah is essentially a project sukuk with underlying projects that have achieved physical completion, the issue of post-issuance tracking of project eligibility does not arise.</p> <p>The issuer has disclosed its overall environmental objectives and the process to manage environmental and social risks of LSE I and LSE II. It was concluded in the EMP reports submitted in support of both solar development bids that the proposed developments would not pose any significant environmental impacts, and indeed offered potential benefits for the local community in addition to greening the country's energy supply. MARC notes that affected communities have been properly informed and consulted on LSE I. In the case of LSE II,</p>	<p>In addition to facilitating renewable energy (RE)'s contribution in the national power generation mix, the nominated projects will also support the objectives of reasonable RE generation costs and the conservation of the environment for future generations.</p> <p>A review of the following documentation from the issuer was undertaken:</p> <ul style="list-style-type: none"> <li>• Lenders Technical Advisor as well as Environmental Mitigation and Protection (EMP) reports for Leader Solar Energy II 20 MWac Solar PV Power Plant and Leader Solar Energy 29 MWac Solar PV Power Plant Project</li> <li>• HNG Capital and LESB group-level corporate profiles</li> <li>• Issuer's ASEAN Green SRI Sukuk Wakalah Framework</li> </ul> <p>Neither LSE I or LSE II are sited in particularly environmentally sensitive or vulnerable locations. Land selected for LSE I and LSE II was predominantly flat agricultural land considered to pose no significant environmental and socioeconomic impact.</p> <p>The EMP reports submitted in support of both solar development bids identified potential environmental impacts and corresponding mitigation and control</p>

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>Cont'd</p> <p><u>ASEAN GBS</u></p> <p>4.2.2 The Issuer must establish the process for project evaluation and selection prior to the issuance of the Bonds and disclose the same to investors in the documentation for the issuance of the Bonds.</p> <p>4.2.3 Issuers are encouraged to position this information within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability. Issuers are also encouraged to disclose any green standards or certifications referenced in project selection.</p> <p>4.2.4 It is recommended that the Issuer's process for project evaluation and selection be supported by an external review.</p> <p>4.2.5 The Issuer must make the following publicly available on a website designated by the Issuer at the time of the issuance and throughout the tenure of the Bonds:</p> <ul style="list-style-type: none"> <li>(i) The process for project evaluation;</li> <li>(ii) The use of proceeds; and</li> <li>(iii) External review report on the process (if any).</li> </ul>	<p>there was no surrounding community that had to be consulted.</p> <p>The projects have been selected prior to the issuance of the sukuk as disclosed in the Issuer's ASEAN Green SRI Sukuk Wakalah Framework.</p> <p>The guiding principle of ultimate project sponsor HNG Capital pertaining to project development, ownership and operation is to meet or exceed both local environmental codes and standards in relation to air emissions, water conservation, effluent discharge and safeguarding biodiversity.</p> <p>The issuer has appointed MARC as external reviewer for the issuance.</p> <p>The issuer has committed to make the required information/documentation available on a designated website. More granular information about green projects can be found in the external review report.</p>	<p>measures to prevent or minimise those impacts during the construction and operational periods.</p> <p>All contractors and suppliers were required to comply with applicable laws, local health, safety and environmental (HSE) regulations and to take the necessary actions for the protection of the public, the environment and employees and assets.</p> <p>It is noted that both projects were physically completed without incidents, suggesting effective management of work-related injuries, accidents, regulatory violations, and near misses. Measures implemented at LSE I and LSE II to manage potentially material E&amp;S project risks during the operation phase appear to be adequate overall.</p> <p>Based on our review of Lenders Technical Advisor reports for LSE I and LSE II, we are of the view that the selected technologies reflect an appropriate balance of Environmental, Social and Governance (ESG) risk and Return on Investment (ROI) considerations.</p>

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p><b>Management of Proceeds</b></p> <p><u>ASEAN GBS</u></p> <p><b>4.3.1</b> Prior to the issuance of the Bonds, the Issuer must disclose to investors in the documentation for the issuance of the Bonds the process for managing the net proceeds from the Bonds.</p> <p><b>4.3.2</b> The net proceeds of the Bonds, or an amount equal to these net proceeds, must be credited into a sub-account, moved to a sub-portfolio or otherwise tracked by the Issuer in an appropriate manner and attested to by a formal internal process. The total amount deployed from the net proceeds for the eligible projects need not occur simultaneously.</p> <p><b>4.3.3</b> As long as the Bonds are outstanding, the balance of the tracked net proceeds must be periodically adjusted to match allocations to eligible projects made during that period.</p> <p><b>4.3.4</b> The Issuer must also disclose to investors in the documentation for the issuance of the Bonds the intended types of temporary placement for the balance of unallocated net proceeds.</p> <p><b>4.3.5</b> It is recommended that the Issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Bonds proceeds.</p>	<p>The process for managing the net proceeds from the sukuk is disclosed in the Issuer's ASEAN Green SRI Sukuk Wakalah Framework.</p> <p>Designated accounts will be established into which net proceeds will be credited and managed by the Security Trustee in accordance with the terms and conditions of the SRI Sukuk.</p> <p>The allocations to the nominated projects (LSE I and LSE II) after the pre-funding of the FSRA will match the balance of the net proceeds from the outstanding sukuk.</p> <p>The required disclosures will be provided in the terms and conditions of the ASEAN Green SRI Sukuk Wakalah.</p> <p>The appointment of an external auditor to review the allocation of funds until full allocation of the sukuk net proceeds is recommended but not mandatory. In this case, full deployment of the net proceeds for refinancing and/or part-financing and/or part-reimbursement of total development costs of the eligible projects is expected to occur upon issuance of the sukuk.</p>	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>Cont'd</p> <p><u>ASEAN GBS</u> 4.3.6 Where the Issuer appoints an auditor or other third party to verify the Issuer's management of proceeds, the Issuer must make the report produced by the auditor or other third party publicly available on a website designated by the Issuer at the time of the issuance of the Bonds.</p> <p><u>SRI Sukuk Framework</u> 7.13 An issuer must ensure that the proceeds allocated for the Eligible SRI projects are credited into a designated account or otherwise tracked in an appropriate manner.</p>	<p>Availability of the report verifying the Issuer's management of proceeds on a designated website is conditioned upon the appointment of an auditor or third party.</p> <p>The proceeds allocated for the Eligible SRI projects will be credited into designated accounts to be managed by the Security Trustee in accordance with the terms and conditions of the SRI Sukuk.</p>	
<p><b>Reporting</b></p> <p><u>ASEAN GBS</u> 4.4.1 Issuers must report to investors at least on an annual basis and are encouraged to make more frequent reporting 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 Bonds proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact.</p>	<p>The issuer intends to provide annual reporting to the sukukholders via its website. The annual report will provide:</p> <ul style="list-style-type: none"> <li>• The original amount allocated for the eligible green SRI projects;</li> <li>• The amount utilised for the eligible green SRI projects;</li> <li>• The balance of unallocated proceeds and where such amount is placed or invested pending utilisation, and</li> <li>• The list of the Eligible Green SRI projects in which the ASEAN Green SRI Sukuk Wakalah proceeds have been allocated to and a brief description of the said Eligible Green SRI Projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact.</li> </ul>	<p>A review of the ASEAN Green SRI Sukuk Wakalah Framework was undertaken.</p>

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>Cont'd</p> <p>4.4.2 Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the Issuer may present the information in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).</p> <p>4.4.3 It is recommended that Issuers use qualitative performance indicators, and where feasible, quantitative performance measures and disclose the key underlying methodology and/or assumptions used in the quantitative determination.</p> <p>4.4.4 It is recommended that the Issuer's annual reporting on the use of proceeds be supplemented by a confirmation of such use of proceeds by an external reviewer along with any relevant updates of the external review.</p> <p>4.4.5 The Issuer must provide to investors the annual reporting and the external review on the annual reporting, if any, through a website designated by the Issuer and/or annual reports throughout the tenure of the Bonds.</p>	<p>Not applicable, this issuance only concerns two projects.</p> <p>The issuer intends to report on the environmental impacts of the project. The indicator that it will report on added generation capacity and tonnes of CO2 emissions avoided per year for LSE I and LSE II.</p> <p>Updates of the external review are encouraged by the ASEAN GBS but are strictly voluntary.</p> <p>The issue has committed to annual reporting on a designated website. An external review on the annual reporting is encouraged by the ASEAN GBS but is strictly voluntary.</p>	
<p><u>SRI Sukuk Framework</u></p> <p>7.14 An issuer must provide the following information to the sukukholders annually through a designated website:</p> <ul style="list-style-type: none"> <li>a) The original amount allocated for the Eligible SRI projects;</li> <li>b) The amount utilised for the Eligible SRI projects;</li> <li>c) The unutilised amount and where such unutilised amount is placed or invested pending utilisation; and assumptions</li> </ul>	<p>The issuer has committed to make available the information as specified in paragraph 7.14 (a) through (d).</p>	

<b>Criteria</b>	<b>Compliance with criteria</b>	<b>Remarks/Scope of Work Undertaken</b>
<p><i>Cont'd</i> used to determine the impact or expected impact.</p> <p>d) <i>The list of the Eligible SRI projects in which the SRI sukuk proceeds have been allocated to and a brief description of the said Eligible SRI projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact or expected impact.</i></p> <p>7.15 <i>Where an issuer is unable to make available comprehensive information as specified in paragraph 7.14 above due to confidentiality agreements or competitive considerations, such issuer may provide the information in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories)</i></p>	<p><i>Issuer has committed to make available the information required in paragraph 7.14.</i></p>	
<p><b>Disclosure Requirements</b></p> <p><u>SRI Sukuk Framework</u></p> <p>7.16 <i>The following information must be included:</i></p> <p>a) <i>The overall SRI objectives that the issuer intends to achieve;</i></p> <p>b) <i>The utilisation of proceeds from the issuance of the SRI sukuk. Where all or part of the proceeds are used for refinancing, an issuer must provide the amount of proceeds being allocated for refinancing and which Eligible SRI projects to be refinanced;</i></p> <p>c) <i>The Eligible SRI projects in which the proceeds will be allocated;</i></p> <p>d) <i>The details of the Eligible SRI projects and to the extent possible, impact objectives from the Eligible SRI projects;</i></p> <p>e) <i>The processes used by the issuer to evaluate and select the Eligible SRI projects;</i></p>	<p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.2.1</i></p> <p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.1.1 and 4.1.4</i></p> <p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.1.2</i></p> <p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.1.3</i></p> <p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.2.1</i></p>	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p><i>Cont'd</i></p> <p>f) <i>The criteria used by the issuer to identify and manage material environmental or social risks associated with the Eligible SRI projects;</i></p> <p>g) <i>The processes used by the issuer to manage the proceeds from the issuance of the SRI sukuk; and</i></p> <p>h) <i>A statement that the issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the Eligible SRI projects.</i></p>	<p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.2.1</i></p> <p><i>Complied. Refer to assessment of compliance with ASEAN GBS 4.3.1</i></p> <p><i>Complied. The statement is provided in the ASEAN Green SRI Sukuk Wakalah Framework.</i></p>	
<p><b>External Review</b></p> <p><u>ASEAN GBS</u></p> <p>5.1 <i>Issuers are recommended to appoint external review providers for the bond issuances or programmes.</i></p> <p>5.2 <i>The external review may be partial, covering only certain aspects of the bonds framework or full, assessing alignment with all four core components as stated in the relevant standards.</i></p> <p>5.3 <i>The external review provider must have the relevant expertise and experience in the components of the Bonds which they are reviewing.</i></p> <p>5.4 <i>The external review provider must also disclose their relevant credentials and expertise, and the scope of the review conducted in the external review report.</i></p>	<p><i>Malaysian Rating Corporation Berhad (MARC) has been engaged as an independent external reviewer.</i></p> <p><i>The review conducted by MARC is a full review and addresses alignment with all four components of the relevant standards.</i></p> <p><i>MARC is registered with the Securities Commission Malaysia as a credit rating agency and has conducted the external review according to the analytical framework in MARC's Impact Bond Assessment (IBA) methodology.</i></p> <p><i>MARC will provide this in the external review report.</i></p>	<p><i>MARC has established a transparent score-based framework for its green, social and sustainability bond assessments analysis that is published on our website. The differentiated approach taken recognises that some projects offer more environmental and/or social benefits than others.</i></p>

<b>Criteria</b>	<b>Compliance with criteria</b>	<b>Remarks/Scope of Work Undertaken</b>
<i>SRI Sukuk Framework 7.17 If an external reviewer is appointed to assess and provide report on the Eligible SRI projects or the issuer's compliance with the requirements under these Guidelines, such external reviewer's report must be made available on the designated website.</i>	<i>The external review report will be made available on the designated website.</i>	

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