

# IMPACT ASSESSMENTS

# METHODOLOGY

The logo for MARC, featuring the word "MARC" in a bold, red, serif font, centered between two horizontal blue lines.

## OVERVIEW

This document outlines MARC Solutions' methodology for assessing sustainable financing, encompassing both green, social, and sustainability (GSS) financing, and sustainability-linked financing (SLF). This methodology applies to a range of sustainability financing frameworks and instruments, including bonds, sukuk, and loans, that aim to mobilise private capital for positive environmental and/or social (E&S) benefits.

MARC Solutions uses this methodology to assign grades and provide second party opinions (SPO) on the sustainability quality of financing instruments and frameworks. Our assessment considers both the significance of their E&S impact and their alignment with relevant standards, guidelines, and frameworks. We employ a distinct approach in assessing GSS and SLF instruments as the former is intended to raise capital for projects with a defined sustainability impact, while the latter is linked to the achievement of specific sustainability targets. This methodology also addresses frameworks that support the issuance of both GSS and SLF instruments, as well as frameworks with climate transition considerations. Social impact bonds, which are essentially pay-for-success obligations, are excluded from the scope of these criteria.

### Contacts:

**Jong Vui Min (Leslie)**  
Head, ESG/Sustainability  
[vuimin@marc.com.my](mailto:vuimin@marc.com.my)

**Vivian Tan Wei Xin**  
Analyst, ESG/Sustainability  
[viviantan@marc.com.my](mailto:viviantan@marc.com.my)

+603 2717 2963  
[www.marc.com.my](http://www.marc.com.my)

**Contents**

OVERVIEW ..... 1

REVISION OF THE METHODOLOGY ..... 3

ANALYTICAL FRAMEWORK ..... 3

    Assessing Integrated Sustainable Financing Frameworks Incorporating GSS and  
    SLF Features ..... 4

IMPACT SIGNIFICANCE ANALYSIS ..... 4

    Materiality to the Issuer ..... 5

    Alignment to International Frameworks and Local Context ..... 5

    Magnitude and Scale ..... 6

    Level of Clarity ..... 6

    Additional Considerations for Sustainable Projects ..... 7

COMPLIANCE EVALUATION ..... 8

    Compliance Evaluation of Green, Social and Sustainable Financing ..... 9

    Compliance Evaluation of Sustainability-Linked Financing ..... 10

    Climate Transition Financing ..... 11

SUSTAINABILITY PERFORMANCE ASSESSMENT ..... 12

ASSIGNING THE FINAL GRADING ..... 15

APPENDIX 1: GSS - Requirements and Recommendations ..... 16

APPENDIX 2: SLF - Requirements and Recommendations ..... 18

Continued from page 1

MARC Solutions' Impact Assessment is not an evaluation of credit quality and should not be confused with MARC Ratings Berhad's credit ratings. Unlike credit ratings, Impact Assessments will not be monitored continuously nor updated unless explicitly requested. While our Impact Assessments are intended to be forward-looking, they are point-in-time assessments based on information available at the time of assessment and should not be interpreted as guarantees of future sustainability performance. As such, the sustainability performance of funded projects and their compliance with applicable guidelines may change over time. These assessments are made public only at the issuer's discretion.

## REVISION OF THE METHODOLOGY

MARC Solutions' "Impact Assessment Methodology" builds on the most recent 2024 version of the "Impact Bond Assessment Methodology". This revised methodology supersedes the previous version.

Previous SPOs or impact bond assessments that have applied the preceding methodology will continue to be valid.

## ANALYTICAL FRAMEWORK

MARC Solutions' analytical framework for evaluating the sustainability credentials of the instruments or frameworks consists of three components: (1) an impact significance analysis (ISA) or benefit assessment of the underlying funded project(s) and/or the corresponding Key Performance Indicator(s) (KPI); (2) an assessment of compliance with the applicable principles, frameworks, and guidelines; and (3) an evaluation of the issuer's sustainability performance.

MARC Solutions' Impact Assessments are assigned based on a descriptive scale and are expressed using a "Gold-Silver-Bronze" grading system. The sustainable financing instruments or frameworks will have to meet the minimum thresholds in each of the specified analytical components to be graded Gold, Silver or Bronze. Our methodology references market guidelines as well as sector-appropriate sustainability standards and practices as the baseline of performance.

### Exhibit 1: Impact Assessment Analytical Components



## Assessing Integrated Sustainable Financing Frameworks Incorporating GSS and SLF Features

The growing sophistication of the market has led to a notable rise in integrated sustainable financing frameworks, offering issuers greater flexibility in their financing approaches. Given that these frameworks support the issuance of both GSS and SLF instruments, MARC Solutions performs independent impact assessments and compliance evaluations for each type.

Acknowledging the fundamental variations in the impact significance and compliance considerations for GSS and SLF instruments, our Impact Assessment reports for integrated frameworks will present two separate ISA scores and compliance evaluation scores, with our opinions detailed separately. The frameworks will then be assigned two separate overall scores to reflect our opinions on the two different types of instruments.

### IMPACT SIGNIFICANCE ANALYSIS

This component assesses the significance level of the E&S benefits generated by the underlying projects for GSS financing, and/or an issuer's KPIs selected for SLF. The ISA seeks to complement investors' evaluation of an issuer's sustainability claims, in terms of how funds are intended for initiatives that demonstrably contribute to meaningful sustainability outcomes.

MARC Solutions recognises that due to foreseeable differences between the sustainable financing instruments in terms of size, themes, funded projects or corresponding KPIs, and expected sustainability outcomes, each ISA requires careful consideration of the projects' or KPIs' economic, social, environmental and institutional contexts. In arriving at the ISA score, we will consider the extent to which the underlying projects or corresponding KPIs support a bigger-picture global perspective to sustainability issues, as reflected in global sustainability goals such as the United Nations' Sustainable Development Goals (UN SDGs).

The outcome of our ISA is expressed on a five-level "impact significance" scale. By design, this ordinal scale accommodates sustainable financing of various themes.

#### Exhibit 2: Impact Significance Scale

Impact Significance Level	Description
<b>Very Significant</b>	This level of impact significance is assigned where underlying projects or corresponding KPIs are expected to demonstrate transformative impact, in line with the issuer's long-term sustainability focus. Projects or KPIs 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.
<b>Significant</b>	This level of impact significance is assigned where underlying projects or corresponding KPIs are expected to generate direct and tangible impact while advancing the issuer's sustainability progress. Projects or KPIs at this level have the potential to facilitate adjustments towards a more sustainable development trajectory and to meaningfully advance sustainable development goals.
<b>Moderate</b>	This level of impact significance is assigned where underlying projects or corresponding KPIs are expected to generate noteworthy positive impact, although at a lower magnitude. Projects or KPIs at this level demonstrate reasonable alignment with best practices and sustainable development goals.

<b>Marginal</b>	This level of impact significance is assigned where underlying projects and corresponding KPIs are expected to generate a positive but limited impact.
<b>Not Significant</b>	This level of impact significance is assigned where underlying projects and corresponding KPIs are expected to have minimal impact or pose unmanaged sustainability-related risks.

Our ISA considers data and information obtained from an issuer's public disclosures, specifically their sustainability financing framework, financial instrument documentation, and sustainability disclosure. We also engage with the issuer to obtain non-public information through questionnaires, interviews, or site visits. Additionally, we may utilise published research or information from relevant third-party sources to supplement our assessment.

We conduct our ISA based on four main factors: (1) materiality to the issuer; (2) alignment to international frameworks and local context; (3) magnitude and scale; and (4) level of clarity.

### Materiality to the Issuer

Our ISA seeks to determine the extent to which the projects/KPIs address sustainability challenges pertinent to the issuer's specific industry. We consider both sector-wide and issuer-specific data, including insights gained from the issuer's materiality matrix, established sustainability reporting standards and frameworks, reputable industry associations and organisations, regulatory bodies, and other relevant third-party sources. For example, a green building project would typically demonstrate a higher impact significance for a real estate developer than for an agricultural enterprise.

Furthermore, we assess the alignment of the projects/KPIs with the issuer's business objectives and their integration into operational workflow. An integrated approach ensures strategic relevance, efficient resource utilisation, and effective coordination among the issuer and its stakeholders. To illustrate, a development financial institution's framework that includes microfinancing as its social project will likely result in a greater impact compared to a purely philanthropic initiative.

For SLF, we also evaluate the strategic significance of the selected KPIs based on their operational scope, i.e. the proportion of the operations covered by the KPIs. KPIs that encompass the entirety, or a substantial portion of the issuer's business operations are deemed more material. Using the real estate sector as an example, a KPI targeting the reduction of energy intensity across the issuer's entire building portfolio would have a considerably higher impact significance than to a KPI solely focusing on reducing the energy intensity at its management building.

### Alignment to International Frameworks and Local Context

Our ISA is conducted in the context of the UN SDGs. The 17 UN SDGs and their 169 underlying targets provide investors with guidance on aligning their investments with positive E&S impact.

In addition, we assess if the projects/KPIs align with sustainability priorities at international, regional, national, and industry levels. This includes evaluating whether addressing specific E&S challenges would evidently contribute to the sustainable development of the local community, based on a comprehensive review of relevant policies, frameworks, and reports published by governmental bodies, ministries, industry associations, and intergovernmental organisations. For example, when analysing frameworks developed by an issuer in the palm oil industry, we examine if the projects incorporate the standards and requirements of the Roundtable on Sustainable Palm Oil (RSPO) and Malaysian

Sustainable Palm Oil (MSPO). In the case of SLF, an important point of reference for our assessment will be International Capital Market Association's (ICMA) Illustrative KPIs Registry which provides overarching recommendations and demonstrative examples for the selection of KPIs.

Our assessment of social projects typically considers the socioeconomic and geographical contexts, analysing a project's relevance to the intended beneficiaries and its interplay with other E&S dimensions of the framework. An impactful social project should demonstrably support local policies and address specific communities' needs, for example, providing affordable housing to the lower income group, such as the B40 community in Malaysia, in line with government-supported schemes.

In the evaluation of SLF, we also determine whether the targets set in relation to the KPIs are benchmarked against relevant industry standards and peer performance, where available. Targets that exceed industry peer performance and surpass sector standards are expected to yield a greater sustainability impact. For KPIs associated with climate objectives, such as reduction of greenhouse gas (GHG) intensity, we assess if the targets are consistent with the Paris Agreement, Nationally Determined Contributions (NDCs) and/or the Science Based Targets initiative (SBTi) requirements.

## **Magnitude and Scale**

Our ISA determines a project's or KPI's potential for generating substantial, enduring, and wide-ranging positive impacts. Projects involving a broad spectrum of stakeholders are considered to have a higher impact significance. For green projects, we prioritise solutions that prevent carbon lock-in, leverage the latest available technology, and demonstrate replicability, proven efficacy, with the capacity to generate significant, long-term positive effects throughout the issuer's value chain.

Acknowledging that social projects yield impacts across varied time horizons, we differentiate between immediate, short-term outcomes (such as employment generation) and sustained, medium- to long-term effects (such as intergenerational social mobility). We also distinguish between direct and indirect impacts to provide a comprehensive evaluation. Given the inherent challenges in quantifying social impact, we employ a multi-faceted assessment approach. This includes incorporating issuers' estimations of social value creation, specifically relating to opportunities, income, security, and quality of life, and reference credible third-party studies. Projects that articulate clear and measurable social value indicators aligned with their objectives are given preferential consideration.

In the context of SLF, we analyse the issuer's KPI targets, making comparisons against baseline, historical performance, peer benchmarks, and pertinent industry standards. Targets that demonstrably surpass business-as-usual (BAU) trajectories, coupled with substantiated evidence of dedicated resource allocation and strategic implementation, signify a heightened level of commitment. Consequently, such ambitious targets are deemed to have a more substantial and impactful influence on sustainability outcomes.

## **Level of Clarity**

Our ISA incorporates an examination of the clarity and articulation of the issuer's sustainability strategy relating to the projects/KPIs, as it underscores the potential for tangible impact delivery. We prioritise frameworks where issuers demonstrate the alignment between a project/KPI and their overarching sustainability strategy, alongside their commitment in achieving specified objectives. We also take into consideration the maturity of the strategies, whereby strategies that have been strategically

implemented or supported by detailed execution plans and timelines are favoured over abstract notions and ad-hoc actions. Projects/KPIs lacking well-defined strategies, or those with strategies without sufficient concrete milestones and ambitious targets, are generally viewed unfavourably in our evaluation.

Due to inherent variations in terms of size, themes, and expected sustainability outcomes, we consider the projects/KPIs' institutional context in our assessments. In this regard, our assessments rely on the issuer's established baseline or historical performance, independent third-party verification, environmental impact assessments, and other pertinent proprietary studies or management plans to determine the potential positive and negative impact arising from the projects/KPIs.

We acknowledge that pre-issuance assessments are inherently forward-looking and often rely on sustainability assertions that are, at that juncture, unverifiable. Actual project impacts may deviate from the intended outcomes due to unforeseen events or conditions. Therefore, we consider the commitment to post-issuance impact reporting as essential for issuers to demonstrate their achievement of sustainability objectives. Frameworks that feature clear and measurable impact indicators, supported by robust calculation methodologies and applicable assumptions are viewed favourably in our assessment.

### **Additional Considerations for Sustainable Projects**

We recognise that green projects can generate social co-benefits, and social projects can contribute to environmental improvements. Sustainability financing, which enables issuers to allocate proceeds across E&S projects, offers the opportunity to achieve a broader range of positive impacts. To determine the ISA score for a sustainability financing framework, E&S components are evaluated separately. We acknowledge that these elements vary considerably depending on the project's nature and the issuer's operational context. Both the environmental and social impact assessments are accorded equal weight in our overall evaluation.

The combined assessment delves into the interplay between the E&S aspects. While each component undergoes independent analysis, we also examine how they might mutually reinforce or potentially contradict each other. For instance, a project designed to deliver positive environmental impact could inadvertently trigger adverse social consequences, such as community displacement. Our assessment identifies these critical interdependencies and evaluates the adequacy of mitigation measures. Based on the previous example given, this would include the provision of resettlement areas and employment opportunities. This integrated approach aims to derive an ISA score that reflects a holistic evaluation of a project's E&S contributions.

## COMPLIANCE EVALUATION

This component assesses the issuer’s compliance with relevant standards and guidelines, including but not limited to those published by International Capital Market Association (ICMA), ASEAN Capital Markets Forum (ACMF), Securities Commission Malaysia (SC), Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA), and Loan Syndications and Trading Association (LSTA).

Compliance with the core components of the applicable guidelines is assessed by evaluating the extent to which a sustainable financing framework or instrument aligns with the relevant requirements and recommendations. Our Impact Assessment Methodology defines requirements as the fundamental principles a framework or instrument should fulfil, while recommendations are considered best practices an issuer could satisfy to demonstrate its commitment to sustainability advancement. The compliance score will be supplemented with our opinions regarding the issuer’s alignment with these guidelines. A list of requirements and recommendations applicable to GSS and SLF are provided in the appendix.

### Exhibit 3: Core Components of the Compliance Evaluation

Green, Social, and Sustainability (GSS) Financing	Sustainability-Linked Financing (SLF)
Utilisation of Proceeds (UoP)	Selection of KPIs
Process for Project Evaluation and Selection	Calibration of Sustainability Performance Targets (SPT)
Management of Proceeds	Financing Characteristics
Reporting	Reporting
	Verification/External Review

MARC Solutions uses a scoring approach to evaluate an instrument’s or framework’s conformance with each of the aforementioned principles. We will assign one of the four following levels based on our evaluation of the bond’s adherence to each of the four aforementioned principles: “High”, “Good”, “Satisfactory” and “Low”. Each assigned grade is converted to a numerical value based on the scale in Exhibit 4.

### Exhibit 4: Compliance Score for Each Component

Compliance Level	Numerical Score	Description
High	3	Aligns with all requirements and most recommendations
Good	2	Aligns with most requirements and some recommendations
Satisfactory	1	Aligns with few requirements
Low	0	Does not align with the requirements

Equal weighting is given to each of the four core components in arriving at the total score which will then be expressed on a four-point descriptive scale as shown in Exhibit 5.

### Exhibit 5: Compliance with Relevant Principles — Assessment Scale

Overall Compliance Level	GSS Total Compliance Score	SLF Total Compliance Score
High	10 - 12 points	12 - 15 points
Good	7 -9 points	8 - 11 points
Satisfactory	4 – 6 points	5 - 7 points
Low	Below 4 points	Below 5 points

An overview of our compliance evaluation for GSS and SLF frameworks and/or instruments is provided as follows.

## **Compliance Evaluation of Green, Social and Sustainable Financing**

### **Utilisation of Proceeds**

Proceeds from a GSS instrument may be used to finance different stages of a green and/or social project, from the acquisition or development of assets to the operation of underlying project assets and/or refinancing of such assets. Where proceeds are to be used for refinancing, we will assess if the issuer has provided information such as the look-back period, estimated share of financing vs refinancing, and projects to be refinanced.

Generally, we consider if projects provide clear E&S benefits which have been assessed and quantified by the issuer pre-issuance. We will make note of any ambiguities in the documentation of the UoP and draw attention to the same in the Impact Assessment.

### **Process for Project Evaluation and Selection**

This component aims to examine the issuer's disclosure about its process in selecting projects for GSS financing. Our review focuses on the clarity, comprehensiveness and transparency of eligibility criteria as defined in the sustainable financing framework and/or legal documentation for the issuance of such instruments. Any supplementary information regarding the issuer's processes for identifying and mitigating E&S risks related to the projects, such as E&S impact assessments, are viewed favourably.

### **Management of Proceeds**

The applicable standards stipulate that the spending of sustainable financing proceeds and related investment earnings must be tracked to ensure they are directed towards Eligible Projects. We assess the adequacy of the issuer's process for tracking the allocation and the use of the instruments' proceeds. We will also consider the process in place to periodically reconcile the proceeds to allocations for Eligible Projects, and administration of proceeds and unallocated proceeds.

### **Reporting**

In our assessment, we evaluate the issuer's commitment in terms of reporting on the allocation and use of issuance proceeds. This aims to address the risk that the proceeds will be used for purposes other than the Eligible Projects. We will also consider the issuer's use of qualitative and quantitative performance indicators to measure the impact of the funded projects. As part of our assessment, in addition to confirming whether annual verification of proceeds will be performed by the issuer's appointed auditor, we also assess whether external or third-party reviews of the reported information will be conducted, in line with current best practice.

## Compliance Evaluation of Sustainability-Linked Financing

### Selection of Key Performance Indicators

In assessing SLF, a crucial factor is an issuer's selection of KPIs, which should be relevant, core and material to the issuer's business and sustainability strategy. We will evaluate whether the KPIs are in line with or benchmarked against the industry standards or recognised targets, ensuring a clear alignment of the KPIs to relevant sustainability objectives.

Our review of the KPIs' verifiability is determined by the issuer's disclosures and/or third-party verification of the KPIs' historical performance. We will consider if the KPIs have been appropriately defined by reviewing the clarity of the scope, perimeter, calculation methodology and baseline as disclosed in the sustainable financing framework.

### Calibration of Sustainability Performance Targets

We assess the issuer's disclosure regarding their calibrated SPTs and evaluate their ambition level by appraising how the SPTs provide for a significant improvement beyond a BAU trajectory. Ideally, issuers should calibrate SPTs towards meaningful progress in their sustainability journey, but at the same time, ensure that the SPTs are achievable within the predefined timeline. In this regard, we will review the issuer's strategies outlined in the framework and how likely they will drive the achievement of the SPTs.

The credibility of the SPTs can be further established through the rationale of the baseline selected, target observation dates, trigger events and the frequency of the SPTs. We deem the external verification of the SPTs' baseline values necessary. Situations in which recalculations or adjustments of baselines are required should also be disclosed, if applicable.

### Financing Characteristics

SLFs are defined by the variations of the instruments' characteristics based on the issuer's achievement or non-achievement of the predefined SPTs. These variations may include coupon rate adjustments, maturity extensions, or other predefined financial incentives or penalties. We will review the disclosures of such potential variations to determine if they are explicit and high in impact.

It is also considered best practice for issuers to outline the relevant fallback mechanisms in the event that the KPIs' actual performance cannot be calculated or observed in a satisfactory manner due to potential exceptional or extreme events.

### Reporting

In our assessment, we will evaluate the issuer's commitment to reporting on the performance against the KPIs and SPTs. The issuers are expected to commit to having the pertinent information available and updated, including performance of the KPIs, verification assurance report, and any revision on the issuer's sustainability strategies or related governance. Such disclosure should be made at least annually throughout the financing tenure. Additionally, we will review the intended scope and granularity of reporting.

## Verification/External Review

Post-issuance verification is a required element for the issuance of SLF. We expect to see issuers' commitment to seek independent external verification of their performance against each SPT for each KPI annually until the maturity of the bond/loan. The issuer shall ensure that such verification is publicly available and easily accessible. The commitment to disclose the external review provider's credentials and expertise, and their scope of review, is considered best practice for the verification component of SLF.

## Climate Transition Financing

We note that some issuers may choose to align their sustainable financing framework with additional references, including climate-focused guidelines such as ICMA's Climate Transition Finance Handbook (CTFH), Bank Negara Malaysia's Climate Change and Principle-based Taxonomy (CCPT) and the Security Commission Malaysia's Sustainable and Responsible Investment Taxonomy (SRI Taxonomy).

Where applicable, MARC Solutions will provide an assessment on the issuer's adherence to these frameworks or taxonomies, embedded in the existing analysis.

ICMA's CTFH provides guidance for issuers on how to raise funds in the debt market for climate transition-related purposes. In this regard, our compliance evaluation focuses on the issuer's transparency and credibility in climate transition finance based on the issuers' alignment to recommendations outlined in CTFH, which can be applied to both GSS and SLF issuances.

### Element 1: Issuer's Climate Transition Strategy and Governance

We consider an issuer's credibility in reducing GHG emissions by reviewing its climate transition strategy, to assess if it aligns with the Paris Agreement and other international or national targets. An issuer's overarching strategic approach to addressing climate change risks and opportunities is essential to support its selected climate-related projects or KPIs. In this regard, we view issuers who have conducted scenario analyses and devised its strategies based on science-based targets to have a stronger commitment.

### Element 2: Business Model Environmental Materiality

Climate transition financing should be utilised to reduce GHG emissions from an issuers' primary business activities or invest in new low-carbon ventures. As industries with substantial GHG emissions and complex transition challenges would have a higher need for climate transition financing, we will assess the robustness of the issuers' climate transition strategy. Ideally, this strategy should be science-based, addressing the material environmental matters of the issuer's core business while minimising negative E&S risks. We will also assess if an issuer has disclosed its Scope 3 emissions, or a timeline for reporting if these have not yet been quantified.

### Element 3: Climate Transition Strategy and Targets to be Science-Based

Science-based targets aim to limit global warming to 1.5°C or at least well below 2°C. An issuer's SPTs should align with the Paris Agreement and market expectations, taking the issuer's transition stage and historical performance into account. We will evaluate if relevant benchmarks and sector-specific GHG emission reduction trajectories have been referenced to formulate the issuer's short-, medium-, and long-term GHG emission reduction targets that cover Scope 1, 2, and 3.

#### **Element 4: Implementation Transparency**

To ensure successful implementation of their climate transition strategy, issuers should be transparent about their capital allocation plans and the expected qualitative and quantitative outcomes. We will determine if an issuer has detailed its internal carbon pricing, research and development (R&D) expenses, beyond-BAU investments, divestments, and governance or process changes, where relevant. Where applicable, we will review the absolute amount of green/sustainability spending and their relative share to an issuer's total spending.

Additionally, we consider the social implications of an issuer's transition strategy, including potential impacts on workers, communities, and the environment. A just transition approach that mitigates negative impacts and supports affected groups is viewed favourably.

### **SUSTAINABILITY PERFORMANCE ASSESSMENT**

While documented frameworks and processes are a necessary foundation, MARC Solutions recognises that these alone are insufficient to guarantee an issuer's ongoing compliance with its sustainable finance framework. Therefore, our Impact Assessment Methodology's final component involves a qualitative evaluation of the issuer's sustainability performance, focusing on their demonstrated reputation and commitment to E&S sustainability.

To gauge the extent to which sustainability is integrated throughout an organisation's strategy and operations, MARC Solutions examines several key areas. These include the Board of Directors' oversight in assessing ESG governance practices, the delegation of accountabilities for sustainability matters, and how sustainability issues, risks, and opportunities are managed and integrated into the organisation's core business processes and long-term strategy.

MARC Solutions perceives robust documentation — encompassing written policies, processes, and procedures for identifying, assessing, managing, and reporting material sustainability risks and opportunities — coupled with clear accountability at all levels is fundamental to an effective sustainability financing programme. We contend that an integrated and holistic approach to managing material ESG risks, particularly those impacting the funded projects and associated KPIs, significantly mitigates compliance risks related to the issuers' sustainability financing instruments and frameworks.

ESG disclosures in corporate sustainability reports or corporate websites serve as important primary sources for understanding an issuer's sustainability performance metrics. While reporting depth varies, an issuer's sustainability reporting tends to include the qualitative and quantitative performance indicators, as well as the management, strategies and targets for the applicable ESG matter. In examining the issuer's sustainability reports, MARC Solutions assesses if the issuer has disclosed ESG matters material to their industries and sectors, established sufficient policies and processes to manage climate and other sustainability risks and opportunities, and implemented measures and initiatives to demonstrate their efforts towards achieving corporate sustainability goals and targets.

In analysing an issuer's sustainability performance, MARC Solutions considers the ESG issues deemed most material to the issuer's operations and the mitigation measures implemented for key sustainability risks. For instance, our analysis of an infrastructure project would address nature protection, health impacts, and community engagement. For corporates, potential performance dimensions include renewable energy adoption, energy efficiency improvements, resource conservation, waste reduction,

and human capital management, tailored to each issuer's specific context. These sustainability performance indicators will be benchmarked against industry best practices.

Driven by increasing regulatory and stakeholder demands for transparency, sustainability reporting has evolved to adopt nationally and internationally recognised frameworks and standards. Such frameworks may include those published by the national regulatory body and stock exchange, such as Securities Commission Malaysia (SC) and Bursa Malaysia, as well as global standards such as Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD), IFRS Sustainability Disclosure Standards (ISSB Standards S1 and S2), and Sustainability Accounting Standards Board (SASB). MARC Solutions views the adoption of these standards as an indication of mature and comprehensive integration of sustainability in a company's operations. Additionally, we view obtaining third-party verification as best practice in sustainability reporting.

To deepen our understanding and substantiate our sustainability performance evaluations, MARC Solutions conducts management and employee interviews or site visits. These discussions provide insights into historical and potential sustainability risks and challenges, offering an in-depth view of the business and facilitating benchmarking against peers. This bespoke review of the issuer's sustainability policy and performance assists in achieving our desired confidence level for a forward-looking assessment of an issuer's sustainability credentials.

Acknowledging the issuing entities are often newly established special purpose vehicles (SPVs) fulfilling specific business purposes, MARC Solutions' review of an issuer's sustainability performance may extend to the conglomerate or holding company that an SPV belongs to. This is to mitigate the limited scope of operations, oversight, and management within an SPV, which often rides on and benefits from its parent company's more established processes. When assessing a newly established company with limited reporting and policies, MARC Solutions may focus solely on its business model, core values, and early commitments to sustainable conducts, to determine its sustainability credentials.

Recognising the potential for discrepancies between an issuer's stated sustainability plans and their actual performance, MARC Solutions considers any publicly available negative press coverage or ESG controversies as a critical element of the assessment. We also examine the issuer's compliance and adoption of relevant standards and commitments, including but not limited to those set by International Organization for Standardization (ISO) and Science Based Targets initiative (SBTi), as well as industry-specific certifications such as Forest Stewardship Council (FSC), Roundtable on Sustainable Palm Oil (RSPO), various green building certifications (GBCs) and other applicable certifications.

MARC Solutions articulates its assessment of an issuer's sustainability implementation capabilities and performance using a five-level descriptive scale, ranging from "Excellent" to "Poor", which corresponds to five performance levels: Highest, High, Medium, Basic, and Weak. This scale reflects MARC Solutions' confidence in the issuer's consistent fulfilment of its sustainability obligations in line with market expectations and adherence to its sustainability financing framework.

Intuitively, stronger governance and accountability mechanisms for managing an enterprise's ESG risks translate to a higher level of investor confidence regarding the governance of the assessed frameworks/instruments. Consequently, the risk of greenwashing and/or social washing — where proceeds are directed to projects lacking meaningful environmental and/or social impact — is likely to be negligible when an issuer's sustainability performance is rated "Good" or higher.




**Exhibit 6: Sustainability Performance Assessment Scale**

Sustainability Performance Level	Description
<b>Excellent</b>	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.
<b>Very Good</b>	The issuer has integrated risk-based sustainability considerations in its operations and has a robust process for assessing significant sustainability risk 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.
<b>Good</b>	The issuer has adopted a Corporate Social Responsibility (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.
<b>Fair</b>	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.
<b>Poor</b>	The issuer has a record of poor sustainability performance or operates in unsustainable industries.

## ASSIGNING THE FINAL GRADING

In determining an impact assessment, MARC Solutions considers the outcomes of the three analytical components combined with judgements provided by members of MARC Solutions' Sustainability Committee. Where material concerns exist with respect to the issuer's ability to achieve and maintain a satisfactory level of sustainability performance going forward, the Sustainability Committee may employ its judgment of the specific circumstances in question to deviate from the scorecard-indicated impact assessment.

### Exhibit 7: Impact Assessments — Grading Scale

Grade	Description
	Instruments or frameworks assessed at this level are judged to offer very significant E&S sustainability impact based on the projects to be supported and/or the KPIs linked to the issuance. The relevant processes fully adhere to the core principles of the applicable guidelines with strong alignment to best practices, supporting high standards of accountability and transparency.
	Instruments or frameworks assessed at this level are judged to offer fairly significant E&S sustainability impact based on the projects to be supported and/or the KPIs linked to the issuance. The relevant processes are consistent with the core principles of the applicable guidelines, supporting satisfactory standards of accountability and transparency.
	Instruments or frameworks assessed at this level are judged to offer fairly significant E&S sustainability impact based on the projects to be supported and/or the KPIs linked to the issuance. The relevant processes are somewhat consistent with the core principles of the applicable guidelines but exhibit shortcomings in the areas assessed.

To determine the final Impact Assessment grade, we first evaluate the three assessment components separately. The sustainable financing instruments or frameworks will have to meet the minimum thresholds in each of the assessment components to be graded Gold, Silver or Bronze, as illustrated in Exhibit 8.

### Exhibit 8: Relationship between Assessment Components and Grading

Assessment Components	Threshold for Grade		
	Gold	Silver	Bronze
Impact Significance Analysis	Significant	Moderate	Marginal
Compliance Evaluation	High	Good	Unsatisfactory
Sustainability Performance Assessment	Very Good	Good	Fair

**APPENDIX 1: GSS - Requirements and Recommendations**

Core Component	Category	Items Applicable to GSS
Utilisation of Proceeds (UoP)	Requirement	<b>Description of the eligible project categories:</b> Clearly define the types of projects eligible for financing.
		<b>Contribution to sustainability objectives:</b> Detail the benefits of the projects and how they align with recognised sustainability goals. <sup>1</sup>
	Recommendation	<b>Quantification of sustainability benefits:</b> Where feasible, provide quantitative metrics for the E&S impact of projects.
		<b>Financing vs. refinancing:</b> Provide estimation of the proportion of new financing vs. refinancing, and where applicable, specify the project portfolios that may be refinanced.
		<b>Look-back period for refinancing:</b> State the maximum look-back period for refinanced projects.
		<b>Alignment with taxonomies and best practices:</b> Eligible projects align with relevant international/national taxonomies, nomenclatures, and industry best practices.
		<b>Target populations for social projects:</b> For social projects, identify the specific target populations.
Process for Project Evaluation and Selection	Requirement	<b>E&amp;S objectives:</b> Define the E&S objectives for Eligible Projects.
		<b>Disclosure of process:</b> Describe the issuer's process for determining if projects meet the eligibility criteria.
		<b>E&amp;S risk identification and management:</b> Explain the issuer's process for identifying and managing potential E&S risks associated with the projects.
		<b>Defined exclusion criteria:</b> Include clear exclusion criteria, such as fossil fuels, alcohol, gambling, tobacco, weaponry.
	Recommendation	<b>Sustainability context:</b> Position the project selection process within the issuer's overarching sustainability objectives, strategy, and policies.
		<b>Alignment with sustainability standards:</b> List any sustainability standards or certifications referenced in project selection.
Management of Proceeds	Requirement	<b>Proceeds management process:</b> Describe the process for managing net proceeds prior to issuance.
		<b>Internal tracking and allocation:</b> Commit to tracking net proceeds via a sub-account or sub-portfolio, through a formal internal process linked to eligible project financing.
		<b>Periodic adjustment of unallocated proceeds:</b> Commit to ensuring the balance of unallocated net proceeds is periodically adjusted to match allocations to Eligible Projects as long as the bond/loan is outstanding.
		<b>Temporary placement of unallocated proceeds:</b> State the intended types of temporary investments for any unallocated net proceeds.
	Recommendation	<b>External verification of tracking and allocation:</b> Commit to using an external auditor or other third party to verify the internal tracking method and allocation of proceeds.

<sup>1</sup> ICMA, ACMF and SC's SRI recognise the following sustainability objectives for GSS issuance purposes: climate change mitigation; climate change adaptation; natural resource conservation; biodiversity conservation; energy conservation; promoting the use of renewable energy; reduction of GHG emissions; pollution prevention and control; addressing or mitigating a specific social issue or seeking to achieve positive social outcomes especially but not exclusively for a target population; and improving a society's quality of life.

Core Component	Category	Items Applicable to GSS
Reporting <sup>2</sup>	Requirement	<p><b>Publication of framework details:</b> Commit to publishing the sustainable finance framework at issuance and maintaining its availability throughout the instrument's tenure.</p> <p><b>Annual reporting:</b> Commit to providing up-to-date information annually on the UoP on a designated website, until full allocation.</p> <p><b>Details of allocation of proceeds:</b> Commit to reporting on the amount of proceeds allocated to Eligible Projects, the unallocated amount, and the temporary placement or investment of any unutilised proceeds.</p> <p><b>Details of projects and impact:</b> The annual report will include a list of projects to which proceeds have been allocated, a brief description of each project, the respective allocated amounts, and their expected or achieved sustainability impact.</p>
	Recommendation	<p><b>Timely updates or more frequent reporting:</b> Commit to providing timely updates on material developments regarding the UoP, or more frequent periodic reporting as deemed necessary.</p> <p><b>Qualitative and quantitative impact indicators:</b> Utilisation of qualitative performance indicators and, where feasible, quantitative performance measures for impact reporting.</p> <p><b>Disclosure of impact methodology and assumptions:</b> Commit to disclosing the key underlying methodologies and/or assumptions used for quantitative impact determination.</p> <p><b>Alignment with ICMA impact reporting guidance:</b> Reference to and/or adoption of guidance and impact reporting templates from ICMA's Harmonised Framework for Impact Reporting.</p> <p><b>Publication of external reviews:</b> Commit to publishing external auditor reviews, where applicable, on a designated website and/or in annual reports throughout the instrument's tenure.</p>

<sup>2</sup> As MARC Solutions' Impact Assessment is conducted primarily at the pre-issuance stage, our assessment of the issuer's compliance with the reporting criteria relies on the issuer's commitment to provide the required and recommended information stated in the framework.

**APPENDIX 2: SLF — Requirements and Recommendations**

Core Component	Category	Items Applicable to SLF
Selection of KPIs	Requirement	<b>Relevance and materiality:</b> KPIs should be relevant, core, and material to the issuer’s overall business, addressing relevant ESG challenges of the industry sector and holding high strategic significance for current and/or future operations.
		<b>Management control:</b> KPIs must be demonstrably under the issuer’s management control.
		<b>KPI definition:</b> Provide a clear description and definition of each KPI, including its unit of measurement, applicable scope, perimeter, and calculation methodology.
		<b>Measurability:</b> KPIs are measurable or quantifiable using a consistent methodological basis.
		<b>External verifiability:</b> KPIs are externally verifiable.
		<b>Selection rationale:</b> Disclose the rationale and process for KPI selection, explaining how they fit into the issuer’s sustainability strategy.
	Recommendation	<b>Alignment with external standards:</b> KPIs should be science-based or benchmarked against industry standards or recognised international frameworks, such as NDCs and the UN SDGs.
		<b>Core vs. secondary KPIs<sup>3</sup>:</b> Where applicable, at least one of the KPIs selected should be a core KPI. Secondary KPIs may be used as complementary indicators or as part of a basket to holistically address the issuer’s material sustainability issues.
		<b>Prior disclosure:</b> KPIs should have been previously disclosed in the issuer’s annual reports, sustainability reports, or other non-financial disclosures.
		<b>Historical data:</b> Provide historical, externally verified KPI values covering at least the preceding three (3) years.
Calibration of SPTs	Requirement	<b>SPT definition:</b> Provide a clear description and definition of each SPT.
		<b>Strategic consistency:</b> Explain the motivation for the SPTs, including their ambition level and consistency with the issuer’s overall sustainability and business strategy.
		<b>Material yet realistic improvement:</b> SPTs should be ambitious yet realistic, representing material improvement in the respective KPIs, beyond a BAU trajectory.
		<b>Timing of SPT setting:</b> SPTs are set before, or concurrently with, the issuance of the SLF instrument.
		<b>Benchmarking:</b> SPTs are compared to a relevant benchmark, including the issuer’s past performance of a minimum of 3 years; the issuers’ peers, industry or sector standards; or reference to science-based scenarios, official targets or recognised best available technologies.
		<b>Baseline disclosure:</b> Disclose the verified baseline or reference point selected for KPI improvement, along with the rationale for its selection.
		<b>Timeline and trigger events:</b> Disclose the timelines for target achievement, including target observation date(s)/period(s), trigger event(s), and frequency of SPTs.
		<b>Means of achievement:</b> Detail the means for achieving the SPTs, including a description of the issuer’s ESG strategy, governance, investments, key levers and/or actions expected to drive performance, and their expected contribution, in quantitative terms wherever possible.

<sup>3</sup> The ICMA’s Illustrative KPI Registry that provides a non-exhaustive list of core and secondary KPIs in relation an issuer’s sector. Core KPIs are those deemed sufficiently material, mature, and holistic serve as standalone measures of sustainability performance. Conversely, secondary KPIs are those considered not robust enough to be used as standalone indicators for Sustainability-Linked Bond (SLB) issuances.

Core Component	Category	Items Applicable to SLF
	Recommendation	<b>Contextual positioning:</b> Position the above information within the context of the issuer's overarching ESG objectives, strategy, policy, and/or processes.
		<b>Impactful strategic information:</b> Provide strategic information that would decisively impact the achievement of the SPTs.
		<b>External factors disclosure:</b> Disclose other factors beyond the issuer's direct control that may affect target achievement.
		<b>Baseline recalculation/adjustments:</b> Provide situations in which recalculations or pro forma adjustments of baselines will occur, where relevant.
<b>Financing Characteristics</b>	Requirement	<b>Disclosure of variation:</b> Disclose the potential variation of the SLF's financial and/or structural characteristics, contingent on SPT achievement, within the framework or the SLF documentation.
		<b>Fallback mechanisms:</b> Outline any fallback mechanisms in the event that SPTs cannot be calculated or observed satisfactorily.
	Recommendation	<b>Commensurate and meaningful variation:</b> The variation of the SLF's financial and/or structural characteristics should be commensurate and meaningful relative to the issuer's original financial characteristics.
		<b>Exceptional or extreme events:</b> Include language addressing potential exceptional events, such as significant changes in perimeters due to material mergers and acquisitions (M&A) activities or extreme events that could substantially impact KPI calculation, SPT restatement, and/or pro forma adjustments of baselines or KPI scope.
<b>Reporting</b>	Requirement	<b>Reporting frequency and location:</b> Disclose the location and frequency of reporting, which should be at least annually and as at the occurrence of trigger events.
		<b>Scope and granularity:</b> Describe the intended scope and granularity of reporting, including any applicable perimeters for the KPIs.
		<b>KPI performance information:</b> Provide up-to-date information on the performance of the selected KPI(s), including baselines where relevant.
		<b>Post-issuance external review disclosure:</b> Commit to disclosing the post-issuance external review, i.e. verification or assurance report.
		<b>Monitoring SPT ambition:</b> Commit to providing any information that enables investors to monitor the ambition level of the SPTs, such as updates to the issuer's sustainability strategy, KPI/ESG governance, and general information relevant to KPI and SPT analysis.
	Recommendation	<b>Explanation of performance evolution:</b> Commit to providing qualitative or quantitative explanations of the main factors, including M&A activities, contributing to KPI performance evolution on an annual basis.
		<b>Illustration of sustainability impacts:</b> Commit to illustrating the positive sustainability impacts resulting from performance improvement.
		<b>Disclosure of re-assessments/adjustments:</b> Commit to disclosing any re-assessments of KPIs, restatements of SPTs, and/or pro forma adjustments of baselines or KPI scope.
<b>Verification/External Review</b>	Requirement	<b>Pre-issuance external review:</b> Appoint an external reviewer pre-issuance to assess and report on the issuer's compliance with the framework's requirements.
		<b>Post-issuance verification:</b> Appoint an independent verifier post-issuance to provide a verification report on the issuer's performance level against each SPT for each KPI.
		<b>Public disclosure of verification report:</b> Commit to providing a publicly available verification or assurance report outlining verified SPT performance, related impact on financial and/or structural characteristics, and the timing of such impact.
	Recommendation	<b>Transparency of review provider:</b> Disclose the external review provider's credentials, expertise, and the scope of their review.

---

Disclaimer

---

Copyright © 2025 MARC Solutions Sdn Bhd and any of its subsidiaries or affiliates ("MARC Solutions") have exclusive proprietary rights in the data or information provided herein. This report is the property of MARC Solutions and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed, or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without MARC Solutions' prior written consent.

A Green Bond Assessment, Social Bond Assessment or Sustainability Bond Assessment, hereafter collectively referred to as Impact Bond Assessments, is not a credit rating. This assessment is based on the Impact Bond Assessment (IBA) criteria that MAR Solutions has published and continuously evaluates and updates. The IBA may be changed or withdrawn at any time for any reason in the sole discretion of MARC Solutions. IBAs are not a recommendation to buy, sell, or hold any security. IBAs do not comment on the adequacy of market price or the suitability of any security for a particular investor. The IBA does not constitute a recommendation to buy, sell or hold any security and/or investment. MARC Solutions receives fees from issuers, insurers, guarantors, other obligors, and underwriters for IBA.

Assessments are solely statements of opinion and therefore shall not be taken as statements of fact under any circumstances. The information which MARC Solutions relies upon to assign its assessments includes publicly available and confidentially provided information obtained from issuers and its advisers including third-party reports and/or professional opinions which MARC Solutions reasonably believes to be accurate and reliable to the greatest extent. MARC Solutions assumes no obligation to undertake independent verification of any information it receives and does not guarantee the accuracy, completeness, and timeliness of such information. MARC SOLUTIONS OR ITS AFFILIATES, SUBSIDIARIES, DIRECTORS AND EMPLOYEES DISCLAIM ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTY AS TO THE ACCURACY, COMPLETENESS OR TIMELINESS OF ANY INFORMATION CONTAINED HEREIN FOR ANY PARTICULAR PURPOSE AND SHALL NOT IN ANY EVENT BE HELD RESPONSIBLE FOR ANY DAMAGES, DIRECT OR INDIRECT, CONSEQUENTIAL OR COMPENSATORY, ARISING OUT OF THE USE OF SUCH INFORMATION. MARC Solutions will not defend, indemnify or hold harmless any user of this report against any claims, demands, damages, losses, proceedings, costs and/or expenses which the user may suffer or incur as a result of relying on this report in any way whatsoever. Any person making use of and/or relying on any assessment report produced by MARC Solutions and information contained therein solely assumes the risk in making use of and/or relying on such reports and all information contained therein and acknowledges that this disclaimer has been read and understood and agrees to be bound by it.

© 2025 MARC Solutions Sdn Bhd

Published by:

**MARC SOLUTIONS SDN BHD** 201001025092 (909006-W)  
19-07, Level 19, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 KUALA LUMPUR  
Tel: [603] 2717 2900 Fax: [603] 2717 2920  
Email: [solutions@marc.com.my](mailto:solutions@marc.com.my) Website: [www.marc.com.my](http://www.marc.com.my)