

SECOND-PARTY OPINION REPORT

PERBADANAN BEKALAN AIR PULAU PINANG SDN BHD

External Review Parameters

Scope of review	❖ Perbadanan Bekalan Air Pulau Pinang Sdn Bhd's Sustainable Finance Framework
Instrument types	❖ Green, Social or Sustainability Bond/Sukuk ❖ Green or Social Loan
Relevant guidelines	Securities Commission Malaysia (SC) ❖ Sustainable and Responsible Investment (SRI) Sukuk Framework ASEAN Capital Markets Forum (ACMF) ❖ ASEAN Green Bond Standards (GBS) ❖ ASEAN Social Bond Standards (SBS) ❖ ASEAN Sustainability Bond Standards (SUS) International Capital Market Association (ICMA) ❖ Green Bond Principles (GBP) ❖ Social Bond Principles (SBP) ❖ Sustainability Bond Guidelines (SBG) Loan Market Association (LMA) ❖ Green Loan Principles (GLP) ❖ Social Loan Principles (SLP)
Validity	Valid as long as the cited framework and relevant guidelines remain unchanged from the publication of this report

Sustainable Finance Rating



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EXECUTIVE SUMMARY

RAM Sustainability has assigned a **Gold** Sustainable Finance Rating (SFR) to the Sustainable Finance Framework (the Framework) prepared by Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP or the Issuer). The Framework comprehensively describes the four core components which lay down guidelines for all green, social and sustainability bonds/sukuk/loans (herein referred to as Sustainable Finance Transactions or SFTs) to be issued/drawn by PBAPP. These four core components are Use of Proceeds, Project Evaluation & Selection, Management of Proceeds, and Reporting.

The **Gold** SFR is driven by the strong alignment of the Framework with the transparency and disclosure requirements of the relevant guidelines indicated. We also view PBAPP's sustainability governance and management to be robust considering that it is a subsidiary of a company listed on Bursa Malaysia. PBAPP also carries relevant certifications such as *ISO 14001:2015 Environmental Management Systems*, *ISO 9001:2015 Quality Management Systems*, *ISO 45001:2018 Occupational Health & Safety Management Systems*, and *ICO/IEC 17025:2017 Competent Testing Laboratory: Chemical*.

The rating is also supported by the expected contribution of its eligible project categories to a range of positive net environmental and socio-economic impacts. These projects are aligned with PBAPP's sustainability strategies as well as the Penang state sustainability agenda. Considering PBAPP's role as a state water operator, these projects will directly contribute to Penang's continued water security and resilience.

PBAPP is the licensed water supply operator for the state of Pulau Pinang (or Penang) in Malaysia, federally regulated by the National Water Services Commission (SPAN). It is wholly owned by PBA Holdings Bhd (PBAHB or the Group) which, in turn, is majority-held by the Penang state government. In 2024, PBAPP served 705,528 consumers – domestic (85.7%), non-domestic (13.7%) and others (0.6%) – with a water supply coverage of 100% in urban areas and 99.8% in rural areas. Penang's population size is about 1.8 mil.

Proceeds from PBAPP's SFTs will be utilised by PBAPP for new and/or existing specific eligible investments, assets and projects under the Sustainable Water and Wastewater Management, Climate Change Adaptation, Green Building, Renewable Energy, Energy Efficiency, Clean Transportation and Affordable Basic Infrastructure categories. PBAPP aims to fully allocate the proceeds of any issuance of SFTs within 36 months.

In the immediate term, PBAPP will issue Islamic medium term notes (Sustainability Sukuk) under a proposed Islamic medium term notes programme of up to RM5.0 bil in nominal value (the Sukuk Programme). Proceeds from the first issuance from the Sukuk Programme is expected to be utilised for eligible Sustainable Water and Wastewater Management projects. The eligible projects are the construction of the Mengkuang and Sungai Kerian water treatment plants (WTPs) and laying of about 14 km of 1.8-m pipelines in Penang, with total projected investment of RM824 mil. Upon expected completion of the plants in 2028, they will provide the state with an additional 228 mil litres of treated water per day (MLD).

These projects are part of PBAPP's Water Contingency Plan 2030 (WCP 2030) which lists eight projects to address the increase in Penang's water consumption since 2019 and ensure sufficient water supply to the state until 2030, with a planned total additional capacity of 602 MLD and 17 km of laid pipelines. According to the Issuer, PBAPP is currently establishing interim net zero targets and action plans and aims to disclose its full net zero commitment and roadmap in its Annual Report and Sustainability Statement 2025.

While the Sukuk Programme also allows for the issuance of sustainability-linked sukuk, the Framework, and our assessment herewith, is currently limited to green, social and sustainability bonds/sukuk/loans. The Issuer may update the Framework to include other sustainable debt instruments that may be issued in the future or expand the eligibility criteria under the use of proceeds, which we may not have reviewed as at the date of this report.

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RAM Sustainability is not aware of any conflict of interest relating to the opinion it provides in this report. RAM Sustainability will adequately disclose all relevant information in the report if there is any such instance.

METHODOLOGY

RAM Sustainability's Second-Party Opinion independently assesses an issuer/borrower's Framework for bond, sukuk, loan or other relevant financial instruments against market best practices in adherence to regulations and guidelines, namely that of the SC, ACMF, ICMA and/or the LMA.

Our analytical process also examines the contribution of eligible projects to environmental and social benefits as well as climate change resilience and adaptation, and the issuer/borrower's sustainability governance. In most situations, we would further consider technological advancements, relevant peer comparisons, evolving best practices and, ultimately, the environmental and/or social impact created. As sustainable finance continues to evolve, RAM Sustainability will stay updated with new considerations and adapt accordingly to ensure our approach stays current and consistent with prevailing best practices.

After considering the above, our opinion is consolidated into a Sustainable Finance Rating – **Bronze, Silver, Gold or Platinum**.

The Framework reviewed by RAM Sustainability may meet the market or regulatory requirements to label bond, sukuk, loan and other sustainability-related instruments as 'green', 'social', 'sustainability', 'sustainability-linked', 'blue' or climate' or meet United Nations Sustainable Development Goals (SDGs).

RAM Sustainability's Second-Party Opinion Report will display opinion on the Framework's characteristics and the current/future impacts of eligible projects to the environment, social and/or SDG as follows:







Alignment to Relevant Guidelines

RAM Sustainability classifies the transparency and disclosure strength of green, social or sustainability bond/sukuk frameworks in comparison to applicable guidelines or best practices.

Level	Framework Characteristics
Weak	Not observable in the framework.
Aligned	Observable in the framework but is below best practice.
Strong	Observable in the framework and in line with best practice.
Advanced	Observable in the framework and is more stringent, comprehensive and establishes a new benchmark and new best practice.

Environmental and Social Benefit Assessment

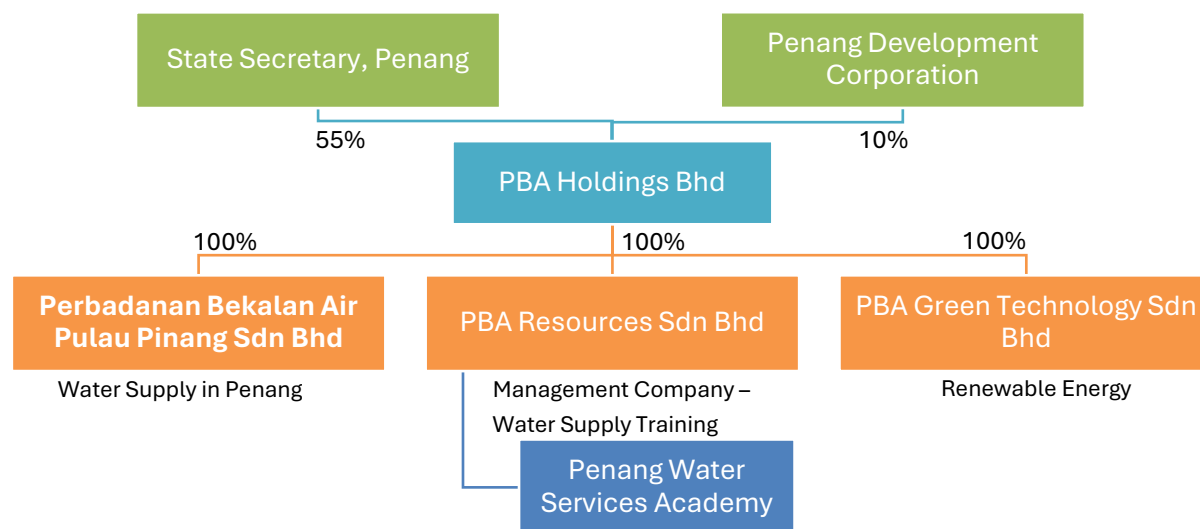
RAM Sustainability provides qualitative and quantitative assessments on the net impact – both green and social dimensions – of eligible projects, assets and/or categories and their contribution to a low-carbon future or social solutions, respectively. EB and Social Benefit (SB) tiers are assigned to individual eligible projects and/or categories, indicating the potential environmental and/or social impact.

Tiering	Definition
 Environmental Benefit Tier-1	Proceeds toward eligible project, asset or category has significant contribution towards climate and environmental benefit(s).
 Environmental Benefit Tier-2	Proceeds toward eligible project, asset or category has some contribution towards climate and environmental benefit(s).
 Environmental Benefit Tier-3	Proceeds toward eligible project, asset or category has small contribution towards climate and environmental benefit(s).
 Social Benefit Tier-1	Proceeds toward eligible project, asset or category provides significant social benefit(s) by contributing to measurable societal solutions on a significant scale, depth and duration.
 Social Benefit Tier-2	Proceeds toward eligible project, asset or category has considerable social benefit(s) by contributing to measurable societal solutions on a sizeable scale, depth and duration.
 Social Benefit Tier-3	Proceeds toward eligible project, asset or category has demonstrable social benefit(s) by contributing to measurable societal solutions on a minor scale, depth and duration.
Not Applicable	Unclear purpose of proceeds that may cause significant harm to the environment or directly cause social harm will not be assigned an EB or SB rating, respectively.

SECOND-PARTY OPINION ON THE FRAMEWORK

1. Corporate Profile

PBAPP has been the licensed water supply operator in the state of Penang since 1999, following its corporatisation to replace the Penang state government statutory body, Pihak Berkuasa Air. PBAPP's operations include raw water abstraction, water treatment, distribution of treated water and water supply services billing. Its engineering division manages four dams, nine WTPs, 60 treated water reservoirs, 43 treated water towers, 98 booster pump stations and 4,776 km of public water supply pipelines (with diameter of 100 mm and above)¹. In 2024, PBAPP supplied 1,208 MLD of treated water to Penang consumers.



Source: [PBAHB Annual Report 2024](#)

Figure 1: PBAHB corporate structure

PBAPP is wholly owned by PBAHB, a corporate holding company listed on the Main Market of Bursa Malaysia, based in Penang. PBAHB's substantial shareholders are State Secretary, Penang Incorporation (55%) and Penang Development Corporation (10%).

The Group's training and human resource development subsidiary, PBA Resources Sdn Bhd, manages the Penang Water Services Academy that has provided water supply training and human resource development training to personnel of water supply operators in Malaysia, Indonesia, the Maldives, Myanmar and Nepal. According to the Issuer, renewable energy subsidiary PBA Green Technology Sdn Bhd (PBA Green Technology) remains dormant.

¹ PBA Holdings Bhd Annual Report 2024

2. Alignment to Relevant Guidelines

Our review examines the four core components under the Framework in accordance with the relevant guidelines:

- (i) Use of Proceeds
- (ii) Project Evaluation and Selection Process
- (iii) Management of Proceeds
- (iv) Reporting Commitments

We find the Framework to have a *Strong* level of disclosure. Table 1 shows the assessment of each component's alignment to relevant guidelines. For a detailed review, see Appendix 1 for the SRI Sukuk Framework Checklist, Appendix 2 for the ASEAN SUS Checklist and Appendix 3 for the ICMA External Review Form.

Table 1: RAM Sustainability's Assessment of PBAPP's Framework

Components	GBP/SBP	GLP/SLP	GBS/SBS	SRI Sukuk Framework
Use of Proceeds (By Asset/Project Category):	Strong	Strong	Strong	Strong
i) Indicative Proceeds Allocation	<i>Aligned</i>	<i>Aligned</i>	<i>Aligned</i>	<i>Aligned</i>
ii) Exclusion List:				
- Issue Transaction-level	Strong	Strong	Strong	Strong
- Group-level	<i>PBAHB is a holding company with subsidiaries in water supply, water management & training, and renewable energy</i>			
Project Evaluation & Selection Process	Strong	Strong	Strong	Strong
Management of Proceeds	Strong	Strong	Strong	Strong
Reporting Commitments:				
i) Allocation reporting	Strong	Strong	Strong	Strong
ii) Impact reporting	Strong	Strong	Strong	Strong

2.1 Use of Proceeds

Broadly defined, green projects refer to innovative, climate-friendly solutions that help deliver clear environmental benefits. Social projects refer to solutions that are geared towards positive societal outcomes for a target population group. The eligible categories outlined in the Framework are eligible activities as per the relevant guidelines (see Section 3.1).

Proceeds from PBAPP's SFTs will be exclusively used to finance and/or refinance eligible green, social or sustainability projects, in whole or in part, assets or activities including the value of fixed assets, investments and capital expenditure (capex) and/or operating expenditure (opex). Research and development expenditures may count as opex. For any refinancing of eligible projects, asset value and capex require no look-back period while the look-back period for opex is no longer than 36 months prior to issuance year.

The SFTs may be issued in any jurisdiction, market or currency and for any tenure, should the need arise. However, according to the Issuer, no issuances originating outside of ASEAN member countries are foreseen at this juncture.

For the avoidance of doubt, PBAPP will comply with internationally recognised sustainability best practices on the use of proceeds arising for such SFTs – subject to the exclusion list described in the Framework – and for sukuk issuances, ensure that the proceeds are utilised for shariah-compliant purposes only.

Ineligible Projects

The Framework incorporates a list of activities for which the use of SFT proceeds is prohibited, consistent with the relevant guidelines, which are as follows:

- i. Luxury sectors (precious metals/precious minerals/artworks and antiques, wholesale or brokerage);
- ii. Child labour or forced labour;
- iii. Gambling;
- iv. Adult entertainment;
- v. Weapons and military contracting;
- vi. Alcohol;
- vii. Tobacco;
- viii. Fossil fuel power generation-related activities (including extraction, exploration, production, power generation or transport of fossil fuels); and
- ix. Production of or trade in any product or activity deemed illegal under international conventions and agreements, or subject to international bans.

2.2 Project Evaluation and Selection Process

The Framework describes an evaluation and selection process where PBAPP's Sustainability Steering Committee (SSC) evaluates and selects eligible projects through a systematic process. Eligibility considerations include project adherence to the eligibility criteria and environmental and social risk assessments.

The SSC is guided by PBAPP's environmental and social policies such as Occupational Safety & Health Policy, Environmental Policy and Risk Management Policy. According to the Issuer, PBAPP also conducts Environmental Impact Assessments and Social Impact Assessments prior to the development of projects to identify and manage any potential risks. PBAPP is committed to complying with relevant ESG standards and recognised best practices relating to the eligible projects.

Table 2: PBAPP SSC's Composition and Responsibilities with respect to the Framework

Sustainability Steering Committee	
Composition	
<ul style="list-style-type: none">• Chief Operating Officer• Chief Financial Officer• Head of Division – Corporate Affairs• Head of Division – Human Resource• Secretariat – Sustainability Officer• Other Subsidiaries/Business Units involved, relating to specific project(s).	
Responsibilities w.r.t the Framework	
<ul style="list-style-type: none">• Overseeing framework implementation and allocation process• Reviewing the allocation to the projects to ensure it meets the eligibility criteria set forth in the Framework• Validating annual reporting referring to the eligible project• Ensuring the appointment of an independent auditor to provide an annual assurance report.	

Source: The Framework

The SSC will review the identified assets/projects and confirm their eligibility on a half-yearly basis. Should a project no longer be eligible, or in case of divestment, the proceeds will be allocated to other eligible projects as soon as practicable. Any changes to the Framework will be under the purview of the SSC with the assistance of the Finance Department to ensure the amendments are financially sound and align with the Issuer's strategic objectives. These changes will be approved by the SSC and published on PBAPP's website.

In our view, the processes employed by PBAPP are consistent with best practices observed for the evaluation of eligible green and social financing.

2.3 Management of Proceeds

PBAPP has defined the internal processes linked to the management of proceeds. Proceeds from SFTs will be deposited in the general funding account and be earmarked for eligible projects. In case of asset divestment or the cancellation of a project, PBAPP will aim to fully allocate the proceeds within 36 months. PBAPP's Finance Department will track proceeds allocation via a register as long as the offering remains outstanding. This register will include the following information:

- i. Type of funding transaction, including:
 - a. Issuer/borrower entity
 - b. Transaction date
 - c. Tranche(s) information
 - d. Principal amount of proceeds
 - e. Repayment or amortisation profile
 - f. Maturity date
 - g. Interest or coupon (in case of bonds, the ISIN number)
- ii. Allocation of use of proceeds, including:
 - a. Name and description of eligible projects to which the proceeds of the SFTs have been allocated in accordance with the Framework
 - b. Amount of SFT proceeds allocated to each project
 - c. Remaining balance of unallocated proceeds
 - d. Other relevant information such as information of temporary investment for unallocated proceeds

While the Framework does not describe the intended types of temporary placement of unallocated proceeds, the Issuer will conduct this in accordance with its liquidity policy i.e., Money Market Placement Standard Operation Procedure (SOP), as well as track and report this information. The Principal Terms & Conditions of the Sukuk Programme also lists the permitted types of investment of unallocated proceeds.

According to the Issuer, any unallocated proceeds will be held in cash, cash equivalents and/or short-term securities. We have looked at PBAPP's Money Market Placement SOP for the management of short-term money market placements in which this is defined as financial instruments with high liquidity and short maturity period. Payment of principal and interest on any SFTs may be made from general funds and will not be directly linked to the performance of any eligible projects.

We note that the permitted investment clause under the Principal Terms & Conditions of the Sukuk Programme also include sukuk issued by corporations. While the Money Market Placement SOP does not include ESG considerations, PBAPP's Enterprise Risk Management activities includes considerations of material ESG risks, as described in its Risk Management Policy.

In our view, the processes employed by PBAPP are consistent with best practices observed for the management of proceeds.

2.4 Reporting Commitments

Issuers are required to establish a formal process to communicate the allocation of proceeds and the positive impact created. PBAPP is committed to publishing allocation and impact reporting, consolidated into a progress report, on an annual basis, or in a timely manner in the case of material developments, and until net proceeds are fully allocated. The report may include the following information:

Table 3: PBAPP's Reporting Commitments

Allocation Reporting	<ul style="list-style-type: none"> ▪ The amount issued and outstanding for the SFTs ▪ The total value of eligible projects financed/refinanced ▪ Description of the portfolio of eligible projects including a breakdown of the allocated amounts by eligible project categories and by geographical region on an aggregated basis by year of implementation where appropriate ▪ The amount and/or percentage of new and existing projects (share of financing and refinancing) ▪ Any further information on how unallocated proceeds have been held.
Impact Reporting	<p>Where feasible, PBAPP may provide the following performance indicators for eligible projects, including respective calculation methodologies and key assumptions:</p> <ol style="list-style-type: none"> a. Sustainable Water and Wastewater Management <ul style="list-style-type: none"> ▪ Non-revenue water (NRW) percentage (%) ▪ Reduction/increase in NRW percentage (%) ▪ Volume of non-revenue real water losses (thousand m³) ▪ Avoided water leakage (m³) due to reduction in NRW % ▪ Water main replacement rate ▪ Volume of recycled water delivered to customers (thousand m³) ▪ Number of incidents of non-compliance associated with water effluent quality permits, standards and regulations ▪ Number of incidents of non-compliance associated with drinking water quality standards and regulations ▪ Number of water treatment residue plants built ▪ Percentage of WTPs equipped with water treatment residue plants, by number and design capacity (%) b. Climate Change Adaptation <ul style="list-style-type: none"> ▪ Number of raw water infrastructure upgraded (e.g., canals, intakes, aqueducts) ▪ Water resource safeguarded by upgrades to raw water infrastructure (MLD) ▪ Number of dams complying with Malaysia Dam Safety Management Guidelines (MyDAMS) c. Green building <ul style="list-style-type: none"> ▪ Details of green building certifications achieved for new/existing buildings ▪ Estimated annual energy consumption (kWh/m³) or savings (MWh) ▪ Estimated annual GHG emissions reduced and/or avoided (tCO₂e) ▪ Water consumption (m³) ▪ Waste generation (kg) ▪ Percentage of waste recycled (%) d. Renewable Energy <ul style="list-style-type: none"> ▪ Renewable energy installed capacity (MW) ▪ Percentage of renewable energy (%) ▪ Annual renewable energy generation (MWh)

	<ul style="list-style-type: none"> ▪ Annual GHG emissions reduced/avoided (tCO₂e)
e. Energy Efficiency	<ul style="list-style-type: none"> ▪ Total energy consumed (GJ) ▪ Percentage grid electricity (%) ▪ Energy intensity (kWh/m³) ▪ Number of high energy efficiency equipment/motors/pumps installed
f. Clean Transportation	<ul style="list-style-type: none"> ▪ Number of electric vehicles invested in ▪ Estimated annual GHG emissions reduced and/or avoided (tCO₂e) ▪ Number of supporting infrastructure units installed (e.g., number of charging points)
g. Affordable Basic Infrastructure	<ul style="list-style-type: none"> ▪ Number of water infrastructure projects built/upgraded (e.g. rooftop tanks and pumping systems) ▪ Number of WTPs built or upgraded ▪ Percentage/size of populations provided access to clean water and/or sanitation (%) ▪ Number of new household water connections ▪ Number of: (1) residential, (2) commercial, and (3) industrial customers served ▪ Average retail water rate for (1) residential, (2) commercial, and (3) industrial customers ▪ Reduction of domestic water consumption (litres/capita/day) ▪ Customer water savings from efficiency measures

Source: The Framework

Annual progress reports, along with this Second Opinion Report, will be made publicly available on PBAPP's corporate website (<https://pba.com.my/>). The Second Opinion Report will also be available on RAM Sustainability's website (<https://www.ram.com.my/sustainability>). Should the Issuer pursue post-issuance verification of the allocation of proceeds, impact reporting and its management of proceeds, the report will be included in the annual progress report.


In our view, the disclosure requirements prescribed in the Framework are clearly defined and in line with market practice.

3. Sustainability Impact

3.1 Environmental Benefit & Social Benefit Assessment

RAM Sustainability is of the view that the green and social projects defined in the Framework are eligible project categories. We have assigned EB and SB rankings to PBAPP's eligible project categories.

Table 4: RAM Sustainability's EB and SB Assessment of PBAPP's Eligible Project Categories

No.	Eligible Project Category under guidelines	PBAPP Eligible Projects	RAM Sustainability EB and SB Ranking
1	Sustainable Water and Wastewater Management	Sustainable Water and Wastewater Management	 Environmental Benefit Tier-1 to Tier-2

Rationale:

Proceeds from SFTs will be used to finance or refinance the construction, development, operation, maintenance, renovation and upgrade of water supply infrastructure. Sustainable water and wastewater management projects not only increase water supply but also improve water quality, elevate water supply and distribution efficiency, reduce energy use and protect water resources. This eligible project category is aligned with the goals of a low-carbon future and has demonstrable environmental benefits.

PBAPP has confirmed that fossil fuel-powered WTPs and pumping stations are not eligible for financing under the Framework. For desalination projects, only those with an energy consumption of ≤ 3.5 kWh per m³ of saline water abstracted and equipped with circular brine disposal management are eligible. Industrial applications of seawater desalination commonly use either distillation (thermal-based method) or reverse osmosis (membrane-based method), both of which are highly energy-intensive. Reverse osmosis has an energy consumption of 3-5.5 kWh per m³ of abstracted water,² which is relatively lower than that for thermal-based technologies. The Issuer is committed to improving desalination energy consumption in the long term, subject to technological advancement and commercial viability. That said, PBAPP has indicated that it does not envisage utilising proceeds of the Sustainability Sukuk for desalination projects at this juncture.

PBAPP will use proceeds of the first issuance under the Sukuk Programme to finance the projects listed below. These projects are part of PBAPP's WCP 2030, which are critical to ensuring sufficient water supply until 2030.




Table 5: Identified Eligible Projects to be financed by the first issuance of PBAPP's Sustainability Sukuk

Project	Projected Investment (RM mil)	Projected Maximum Yield (MLD)	Status (as of 8 January 2025) ³
Laying new 1.8-m pipelines: 13.0 km from Sungai Dua WTP to Butterworth	128	-	Commencing work in 2025
Laying new 1.8-m pipelines: 3.9 km from Macallum Area to Bukit Dumbar Reservoir and Pumping Station Complex	44	-	
Mengkuang Dam WTP	258	114	
Sungai Kerian WTP	403	114	
Total	833	228	

² [Energy Requirements of Desalination Processes](#) (Encyclopedia of Desalination and Water Resources)

³ [In The Pipeline: Multi-Billion Ringgit Water Projects for Penang](#) (PBAHB media release, 8 January 2025)

The extent of environmental benefits from these projects depends on the Issuer's commitment to financing the best available technologies such as that described for desalination projects. SPAN reported that Penang had the third lowest percentage of NRW in 2024 at 28.0%, behind Selangor's 27.0% and Johor's 24.1%, with a national average of 34.3%⁴. The Issuer has a target to achieve reduction of NRW to 23% and is committed to achieving the lowest possible levels by 2030 which may fall below 23%.


2	Climate Change Adaptation	Climate Change Adaptation	 Environmental Benefit Tier-1
Rationale: PBAPP may utilise SFTs for climate adaptation projects beyond business-as-usual renovations and retrofits, focusing on water resource resilience and availability. Eligible projects are based on climate change impacts identified in vulnerability assessments to be undertaken, including infrastructure and ecosystem resilience, and the required adaptations. Given the potential effects of climate change, it is critical to mitigate these climate risks to prevent large environmental and financial impacts.			
3	Green Building	Green Building	 Environmental Benefit Tier-1
Rationale: The Framework's eligibility criteria for Green Buildings are that buildings must be certified or are to be certified with Green Building Index (GBI) Gold, Leadership in Energy and Environmental Design (LEED) Gold, GreenRE Gold or Building Research Establishment Environmental Assessment Method (BREEAM) Excellent and above. This is applicable to all new and existing buildings/complexes, offices, and administrative buildings at WTPs. These are ambitious certification levels to ascertain a building's environmental performance against a baseline. Higher certification levels are typically associated with better environmental performance, particularly in energy performance and indoor environmental quality. We note the Framework does not address the building's energy use intensity. According to the International Energy Agency (IEA), building operations consumed 30% of global final energy and contributed to 26% of global energy-related emissions in 2022 ⁵ . A building's operational phase accounts for 80%-90% of its total lifecycle emissions due to required energy use ⁶ .			
4	Renewable Energy	Renewable Energy	 Environmental Benefit Tier-1 to Tier-3
Rationale: SFTs may be used to finance or refinance the construction, development, acquisition, maintenance and/or operation of solar and hydropower facilities, systems and equipment. The eligibility criteria for hydropower projects are clear and in line with best practices for climate change mitigation. Proceeds may also be utilised by way of direct and virtual long-term power purchase agreements (PPAs), the purchase of Renewable Energy Certificates (RECs) and subscription of the Green Electricity Tariff (GET). According to the Issuer, renewable energy projects will be implemented by PBA Green Technology. At this juncture, PBAPP has only begun engaging with potential consultants.			

⁴ [Water and Sewerage Fact Book 2024 \(Peninsular Malaysia & F.T. Labuan\)](#) (SPAN)

⁵ [Buildings Tracking Report – July 2023](#) (IEA, 2023)


⁶ [Common Carbon Metric for Measuring Energy Use & Reporting Greenhouse Gas Emissions from Building Operations](#) (UNEP SBCI)

The deployment of renewable energy solutions displaces the use of fossil fuel and decarbonises the energy system, demonstrating a clear climate mitigation benefit and alignment to the goals of a low-carbon future. That said, SFT proceeds may be used to purchase PPAs and RECs from any renewable energy source. The GET programme also allows for green electricity generated by any renewable energy source. The Framework lacks specific criteria to address the risks associated with other types of renewable energy projects, which may limit the net environmental benefit.

5	Energy Efficiency	Energy Efficiency	 Environmental Benefit Tier-3
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Rationale:

Energy efficiency projects demonstrate environmental benefits through carbon emissions avoidance via a reduction of energy use and indirect emissions. Proceeds from SFTs may be utilised for energy efficiency projects within PBAPP's operations. While the Issuer has not set a general threshold (i.e. minimum improvement in energy performance) in the eligibility criteria, it is committed to complying with the Energy Efficiency Conservation Act 2024 (EECA 2024) and reducing its energy intensity by 1% from the 0.470 kWh/m³ of water produced in 2023 to 0.465 kWh/m³. Under EECA 2024, heavy industrial users are required to submit annual energy efficiency and conservation reports and conduct energy audits every five years. Along with energy consumption data, the annual reports must include the registered energy manager's proposed improvements as well as reporting of energy saving measures implemented.

6	Clean Transportation	Clean Transportation	 Environmental Benefit Tier-1 to Tier-3
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Rationale:

Eligible proceeds utilisation includes use of zero and low-carbon emissions vehicles and related infrastructure. These are necessary elements to accommodate the build-out of clean energy transportation vehicles and a low-carbon future. However, vehicles utilising hybrid technologies have non-zero tailpipe emissions and may still consume fossil fuel. This may moderate the financing of hybrid vehicles to a lower EB ranking than electric vehicles with zero tailpipe emissions. PBAPP has assigned maximum thresholds of 100 gCO₂/km and 25 gCO₂/tonne-km to passenger vehicles and freight trucks, respectively.

7	Affordable Basic Infrastructure	Affordable Basic Infrastructure	 Social Benefit Tier-1
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Rationale:

Proceeds from SFTs may be utilised to develop, construct, install and maintain water distribution systems or programmes for underserved and unserved communities that lack quality access to potable water. The Tier-1 SB ranking is underpinned by PBAPP's role as Penang's water supply operator, reflecting the importance of reliable water services and their influence on the overall community's food security, water security, health and safety, among others. PBAPP serves about 600,000 domestic consumers (86% of total consumers) in a state with 1.8 million people.

Eligible projects may include:

- Installation of affordable water treatment facilities and sanitation systems
- Installation of water efficient fittings at high water consumption public facilities such as mosques and places of worship and schools and institutions of higher learning
- Development of water pumping systems and distribution networks

Despite SPAN raising water tariffs in February 2024, Penang’s water tariff rate is the second lowest in the country, at an average of RM0.86 per 1,000 litres (for first 35,000 litres per month) and under the national average of RM1 per 1,000 litres⁷. In FY 2024, PBAPP’s water supply coverage in urban and rural areas was 100% and 99.8%, respectively⁸, compared to 99.8% in rural areas between 2016 and 2022. This is still higher than the national average of 97.1% in 2023⁹.

The ranking is also driven by the socio-economic benefits PBAPP provides the state. PBAPP projects water demand to reach 1,483 MLD by 2030, 1,696 MLD by 2040 and 1,884 MLD by 2050¹⁰. Meeting these demands will support Penang’s, and indirectly the nation’s, economic growth.

3.2 State-Level Drivers, National-Level Drivers and High-Level Mapping to UNSDGs

As Penang’s licensed water operator, proceeds from PBAPP’s SFTs will directly support state-level climate adaptation, sustainable water and wastewater management, and green building objectives.

Table 6: State-Level Objectives and Plans

Category	State-Level Objectives and Plans
Climate Adaptation; Sustainable Water and Wastewater Management; Green Building	<p><u>Penang to invest in built environment for enhanced climate resilience</u></p> <p>Under the Penang Green Council’s Penang Green Agenda 2030, water and sanitation is one of 10 key focus areas to help realise the Penang2030 vision. Under Penang2030, the state targets a 20% reduction in domestic water consumption per capita per day by 2030 and GBI Gold certification for all new developments from 2020 onwards, as part of its strategy to improve climate resilience.</p> <p>SFT proceeds will directly finance climate change adaptation and sustainable water and wastewater management projects in Penang to ensure water resilience, availability and security. SFTs may also be utilised for green building projects with minimum GBI Gold certification, in line with the state’s agenda.</p>

RAM Sustainability is also of the view that PBAPP’s SFTs will support the following national-level objectives, plans and relevant UNSDGs¹¹ related to areas defined in the eligible asset/project category.

Table 7: National- and State-Level Drivers and PBAPP’s Green and Social Project Category Mapping to UNSDGs based on ICMA’s *Green, Social and Sustainability Bonds: A High-Level Mapping to SDGs*

Sustainable Water and Wastewater Management	<div> <div>6 CLEAN WATER AND SANITATION</div> <div>11 SUSTAINABLE CITIES AND COMMUNITIES</div> <div>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</div> </div>
<p><u>Supporting efficient water resource management</u></p> <p>In 1978, Malaysia implemented the National Water Resources Policy which aimed to promote sustainable water management through the integration of water resource planning and management across all sectors. Further to that, accelerating the adoption of Integrated Water Resources Management (IWRM) remains a key strategy in the Twelfth Malaysia Plan (12MP). The IWRM aims to</p>	

⁷ [New Domestic Water Rates for Penang with effect from 1.2.2024](#) (PBAPP press release, 7 February 2024)

⁸ PBAHB Annual Report 2024 [Source: <https://pbahb.com.my/pdf/annual-report/PBA-AR2024.pdf>]

⁹ [Opening Address at 2nd Sustainability Environment Asia \(SEA\) 2024](#) (Kementerian Peralihan Tenaga dan Transformasi Air, 2024) [Speech Transcript]

¹⁰ [Penang needs to source raw water from Sungai Perak by 2025](#) (New Straits Times, 27 August 2019)

¹¹ [Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals](#) (ICMA, 2023)

address water security challenges and maximise socioeconomic benefits while conserving the freshwater ecosystem. Efficient water resource management is in line with Malaysia's goals of reaching rural clean water access coverage of 98% and keeping the NRW level at a 25% threshold.

Water Sector Transformation 2040 is Malaysia's long-term agenda to turn water management into an economic growth driver by 2040. Under the first phase of this transformation plan, the implementation of a circular economy in the water sector and scaling up water efficiency are highlighted as key initiatives.

The first issuance of PBAPP's Sustainability Sukuk will be utilised to finance the construction of WTPs and laying of pipes that form part of PBAPP's WCP 2030. Under the Framework, SFTs may be utilised to finance sustainable water and wastewater management projects that are viewed to be in line with and contributing to the national level agenda.

Climate Change Adaptation	  
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Developing resilient cities

The Malaysia Smart City Framework (MSCF) is a national-level guide for local authorities, state governments and other stakeholders to develop smart cities throughout Malaysia. The MSCF highlights technological solutions to address urban challenges, improve quality of life, promote economic growth and create a sustainable and secure environment. The recently announced National Adaptation Plan (NAP) highlights measures to bolster adaptive capacities in priority areas and strengthen a climate-resilient society. According to the Minister of Natural Resources, Environment and Climate Change, the NAP would guide city design and planning to mitigate challenges resulting from climate change.



Proceeds from SFTs may be utilised to fund climate change adaptation projects that ensure water resource resilience and availability. This is supportive of the national agenda to develop resilient cities.

Green Building	
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Emphasis on green buildings

Under the National Energy Policy 2022-2040 (DTN), green buildings are included in the emphasis on low-carbon activities as part of Key Economic Growth Activities (KEGA) 12: Green Economy. The National Energy Efficiency Action Plan 2015 further identifies Energy Audits in Buildings and Industries and Energy-Efficient Building Design as key initiatives in the government's target to achieve an 8% reduction in energy demand from the baseline. The EECA will require the energy intensity performance of office buildings exceeding 8,000 sqm to comply with energy efficiency ratings prescribed by the Energy Commission, the failure of which would necessitate an energy audit and energy improvement plan.

With SFTs, the Issuer may finance the construction of green-certified buildings/complexes and offices, including administrative buildings at WTPs.

Renewable Energy	     
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Increasing renewable energy generation

Under the 12MP, the Government of Malaysia (GoM) targets achieving a 31% renewable energy share of total energy installed capacity by 2025. It has also introduced incentives for corporate consumers to buy green energy, such as the Green Tariff Rider and Renewable Energy Certificate.

Under the National Energy Transition Roadmap (NETR), the GoM commits to reaching a 70% RE installed capacity share by 2050, with a solar PV installation target of 59 GW of installed capacity. It also aims to increase bioenergy power generation capacity to 1.4 GW within the same timeframe.

The Issuer's investment in RE using SFT proceeds will focus on solar and hydro power systems. Renewable Energy Certificates are also eligible to be purchased for utilisation. This is viewed to be in line with and contributing to the national-level agenda.

Energy Efficiency	<div data-bbox="422 593 566 739"> 7 AFFORDABLE AND CLEAN ENERGY  </div> <div data-bbox="574 593 718 739"> 8 DECENT WORK AND ECONOMIC GROWTH  </div> <div data-bbox="726 593 869 739"> 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE  </div>	
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Under the 12MP, the GoM plans to enhance energy efficiency by regulating high-intensity consumers in the industrial and commercial sectors. Energy audits and retrofits have been conducted for 18 government buildings labelled under the National Building Energy Intensity labelling initiative. Energy Audit Conditional Grants and Energy Performance Contracting are provided to support the National Energy Efficiency Action Plan 2016-2025 target of achieving electricity consumption savings of 8%. The Low Carbon Nation Aspiration 2040 initiative under the National Energy Policy 2022-2040 includes the target of achieve energy efficiency savings of 11% in industrial and commercial facilities.

Under the latest NETR, the GoM aims to achieve energy savings of 21% by 2040 and 22% by 2050. Key initiatives identified to achieve these targets are enforcing mandatory audits for large commercial and industrial buildings, establishing mandatory green building codes that outline energy efficiency parameters for energy-intensive residential and commercial buildings and launching a major energy efficiency retrofit initiative for government buildings.

SFTs will finance the delivery of energy monitoring and optimisation equipment/systems. The Issuer targets reducing its energy intensity by 1%. While this target is very conservative, efforts to reach it are supportive of national goals.

Clean Transportation	<div data-bbox="422 1400 558 1545"> 11 SUSTAINABLE CITIES AND COMMUNITIES  </div>	
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Promoting sustainable transportation systems

Under the DTN, the GoM has set a target of achieving a 38% share of electric vehicles as part of Low Carbon Nation Aspiration 2040. Electric vehicle charging infrastructure is identified as an enabler to hit this target.

The government's NETR targets which are aligned with the Low Carbon Mobility Blueprint include increasing the public transportation modal share to 60% and raising the share of electric vehicles in the market to 80% by 2050, among others. Currently, 85% of GHG emissions come from the land transport segment, equating to 55 MtCO₂eq.

PBAPP's SFTs will finance the purchase of electric and hybrid vehicles and related infrastructure. This is viewed to be in line with and supportive of the national-level agenda.

Affordable Basic Infrastructure	<div> <div>3 GOOD HEALTH AND WELL-BEING</div> <div>6 CLEAN WATER AND SANITATION</div> <div>11 SUSTAINABLE CITIES AND COMMUNITIES</div> </div>
<p>Ensuring sustainable and affordable water supply</p> <p>The GoM has set the following national KPIs – water supply coverage of 99%, sewerage service coverage of 80% and a 25% reduction in NRW – to be achieved by 2030. It also aims to reduce water consumption to 180 litres per person per day by 2025. The water tariff rates in Malaysia are currently determined by SPAN using its tariff setting mechanism whereby a water tariff review is conducted every three years. This is to ensure fair tariff adjustments for both water supply operators and consumers for long-term sustainability.</p> <p>The Issuer targets maintaining its water supply coverage in urban and rural areas at 100% and 99.8%, respectively. The SFTs will fund affordable basic infrastructure projects that provide affordable clean water for underserved and unserved communities.</p>	

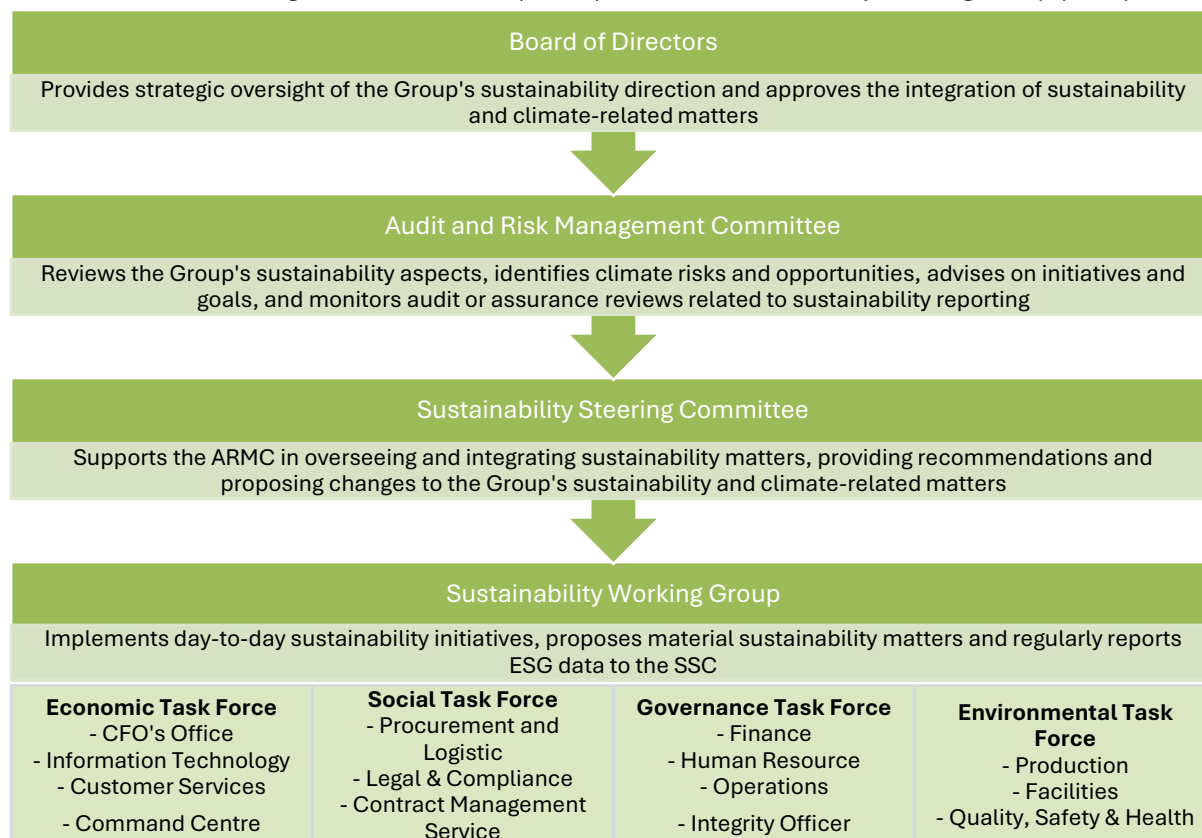
4. Sustainability Assessment

4.1 Group-Level Assessment

PBAHB is primarily engaged in investment holding activities, with PBAPP as its principal subsidiary. According to management representation, sustainability is governed and managed by PBAPP and is applicable to PBAPP and its group of companies, including PBAHB and its subsidiaries (PBAHB Group).

Sustainability Governance

PBAPP's board of directors ultimately governs sustainability matters for the PBAHB Group, supported by the Audit and Risk Management Committee (ARMC), SSC and Sustainability Working Group (SWG).










Source: [PBAHB Sustainability Statement 2024](#)

Figure 2: PBAPP's Sustainability Governance Structure

Sustainability Strategies

PBAPP integrates sustainability into its core operations, decision-making processes and overall business strategy, guided by its Sustainability Framework.

Vision	Meeting all your water supply needs			
Mission	PBAPP will be the leading organisation in water supply			
Commitment	We will be environmentally sensitive, responsible, proactive, professional, innovative and committed to excellence and sustainable development. We will be responsible for the development of water supply and delivering the best possible service by being customer oriented.			
Core pillars	Accountability	Teamwork	On-Going Learning	
	Communication	Integrity	New Ways of Improvement	
ESG Pillars	Strengthening Integrity and Governance	Ensuring Quality Product and Services	Protecting Our Environment	Caring for Our People
Our Promise	To ensure transparent and ethical decision-making, building trust and fostering accountability	To deliver safe, reliable and quality products and services.	To minimise our ecological footprint and work towards environmental conservation.	To create a supportive work environment and actively contribute to our communities.
Material Sustainability Matters	1) Corporate Governance & Anti-Corruption 2) Regulatory Compliance 3) Customer Service and Data Protection	1) Product Stewardship 2) Supply Chain Management	1) Energy, Emissions & Climate Resilience 2) Waste and Effluent Management 3) Water Consumption	1) Labour Practices & Standards 2) Occupational Health & Safety 3) Diversity & Inclusion 4) Community Engagement
Contribution to UN SDGs			  	 
Stakeholder Groups	Shareholders	Employees	Consumers	
	Government & Statutory Bodies	Local Communities & Special Interest Groups	Suppliers & Vendors	
Our Alignments	Bursa Malaysia	Global Reporting Initiative	UN SDGs	

Source: [PBAHB Sustainability Statement 2024](#)

Figure 3: PBAPP's Sustainability Framework

As the state's licensed water operator, PBAPP is responsible for ensuring water security in Penang. In 2019, PBAPP announced the Penang Water Supply Initiative 2050 (PWSI 2050) which is a contingency plan to ensure raw water security in Penang until 2050, citing the following as key risk factors¹²: (i) climate change causing depletion of effective capacities of two dams; (ii) Sungai Muda, the state's primary and singular primary raw water resource, may meet demand only until 2025; and (iii) delay in the Sungai Perak Raw Water Transfer Scheme's implementation. PWSI 2050 has three initial strategic projects:

1. Package 12A of the Sungai Dua WTP
2. Sungai Perai Water Supply Scheme
3. Phase 1 of the Penang Desalination Water Supply Scheme

Further to that, PBAPP has established WCP 2030, listing eight projects required to meet Penang's increasing water demand by 2030. The first two projects from PWSI 2050 are among WCP 2030's eight. WCP 2030's objectives¹³ are to:

1. Address a 10% surge in water consumption in Penang since 2019 and ensure water supply sufficiency until 2030;
2. Mitigate and reduce Penang's inherent water risks from limited raw water resources, climate change and growing water demand; and
3. Buy time for the implementation of the RM4 billion Perak-Penang Water Project, as announced by the federal government.

Project	Projected Investment (RM mil)	Projected Maximum Yield ¹ (MLD)	Status (as at 8 January 2025) ¹⁴
New Bukit Panchor WTP DAF module.	19 ¹	10	Commissioned in 2023 ¹³
Package 12A, Sungai Dua WTP (additional water treatment module).	31 ¹	114	Commissioned in 2024 ¹³
Laying 13.0 km of 1.8-m pipelines: Sungai Dua WTP to Butterworth (Seberang Perai).	128 ¹⁴		Commencing work in 2025
Laying 3.9 km of 1.8-m pipelines: Macallum Area to Bukit Dumbar Reservoir and Pumping Station Complex (Penang Island).	44 ¹⁴		Commencing work in 2025
Mengkuang Dam WTP	258*	114	Commencing work in 2025
Sungai Kerian WTP	403*	114	Commencing work in 2025
Sungai Perai Water Supply Scheme (including pre-treatment of raw water)	588 ¹⁴	136	
Sungai Muda WTP	435 ¹⁴	114	
Total	1906	602	

* Provided by the Issuer

Table 8: PBAPP's WCP 2030 Projects

In our view, the eligible projects outlined in the Framework are aligned with PBAPP's strategies and initiatives.

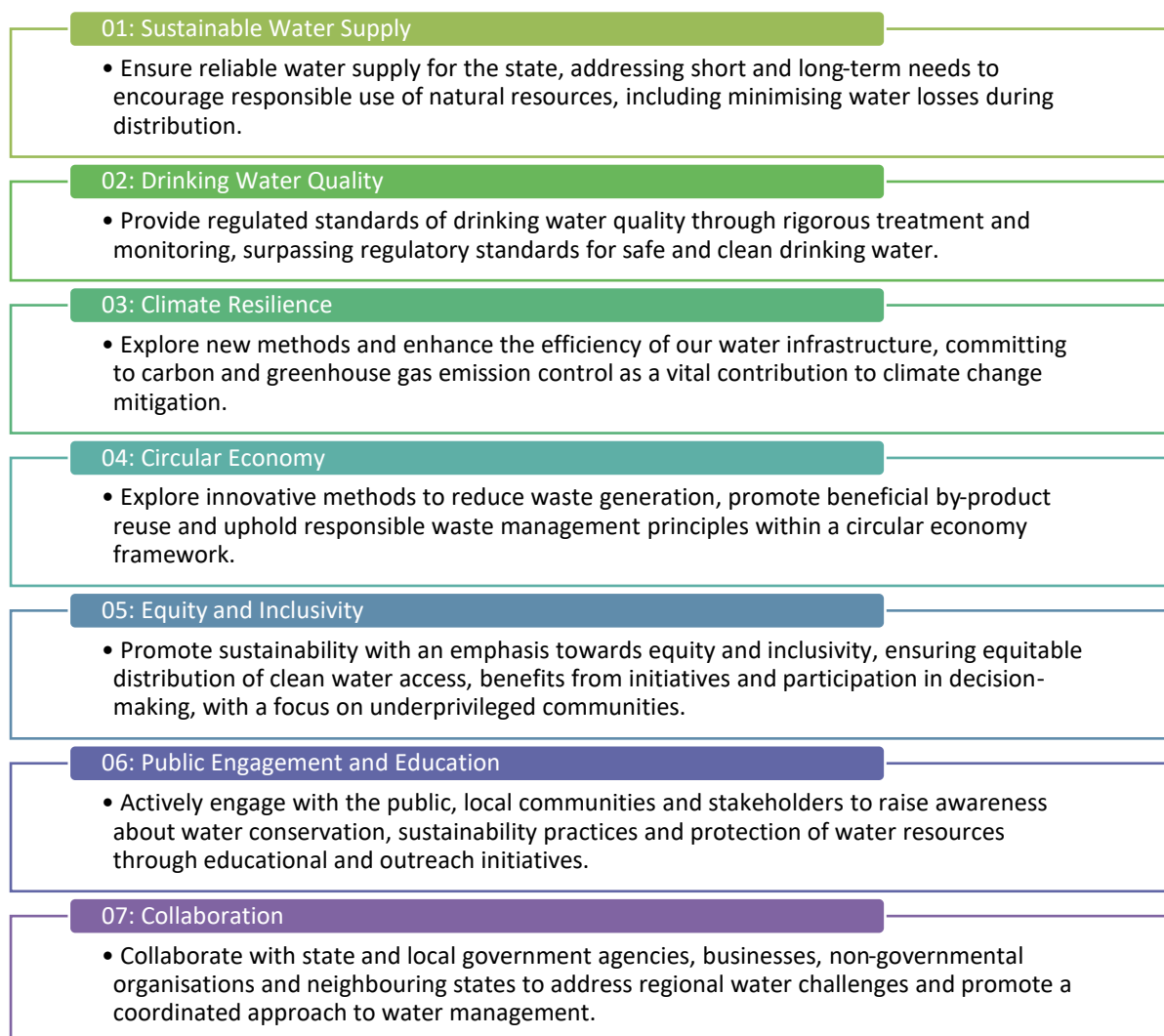
¹² [PWSI 2050: Penang's Contingency Plans to Address Raw Water Risks](#) (PBAPP media release, 8 September 2020)

¹³ [Penang's WCP 2030 Projects Progressing Well](#) (PBAPP media release, 17 July 2024)

¹⁴ [In The Pipeline: Multi-Billion Ringgit Water Projects for Penang](#) (PBAPP media release, 8 January 2025)

Sustainability Management

PBAPP is guided by its Sustainability Policy to ensure it aligns with its environmental and social responsibilities. In 2024, PBAPP maintained 100% compliance with the parameters of the Ministry of Health's Quality Assurance Programme. As part of the Issuer's *ISO 9001: Quality Management Systems* certification, its laboratory is also compliant with the technical competence requirements of *ISO 17025: Testing and Calibration Laboratories*. PBAPP also carries *ISO 45001:2018 Occupational Health & Safety Management Systems*, *ISO 14001:2015 Environmental Management Systems* and *ISO/IEC 27001:2013 Information Security Management System* certifications.



Source: [PBAHB Sustainability Statement 2024](#)

Figure 4: PBAPP's Sustainability Policy

Controversy Scan

Based on publicly available information on PBAPP and the PBAHB Group up to 8 July 2025, there were no controversies pertaining to the entities' ESG practices.

APPENDIX 1: SRI SUKUK FRAMEWORK CHECKLIST

Reference:

Guidelines on Unlisted Capital Market Products Under the SC's Lodge and Launch Framework

Part 3: Corporate Bonds and Sukuk

Chapter 7: SRI Sukuk

No.	Item	Requirement	Alignment	Comment
7.07 & 7.08	Eligible SRI Projects	<p>An Eligible SRI project refers to a project that seeks to achieve any one or a combination of the following objectives:</p> <ul style="list-style-type: none"> (a) Preserving and protecting the environment and natural resources. (b) Conserving the use of energy. (c) Promoting the use of RE. (d) Reducing greenhouse gas emissions. (e) Addressing or mitigating a specific social issue or seeking to achieve positive social outcomes, especially but not exclusively for a target population. (f) Improving society's quality of life. <p>Eligible SRI projects may include, but are not limited to, the following:</p> <ul style="list-style-type: none"> (a) Green projects that relate to: <ul style="list-style-type: none"> (i) Renewable energy. (ii) Energy efficiency. (iii) Pollution prevention and control. (iv) Environmentally sustainable management of living natural resources and land use. (v) Terrestrial and aquatic biodiversity conservation. (vi) Clean transportation. (vii) Sustainable water and wastewater management. (viii) Climate change adaptation. (ix) Eco-efficient and/or circular economy-adapted products, production 	Yes	<p>Proceeds from PBAPP's SFTs under the Framework may be allocated to partially or fully finance/re-finance new and/or existing eligible projects under the following categories:</p> <ul style="list-style-type: none"> i. Sustainable Water and Wastewater Management ii. Climate Change Adaptation iii. Green Building iv. Renewable Energy v. Energy Efficiency vi. Clean Transportation vii. Affordable Basic Infrastructure

No.	Item	Requirement	Alignment	Comment
		<p>technologies and processes.</p> <p>(x) Green buildings which meet regional, national or internationally recognised standards or certifications.</p> <p>(b) Social projects that relate to:</p> <p>(i) Affordable basic infrastructure.</p> <p>(ii) Access to essential services.</p> <p>(iii) Affordable housing.</p> <p>(iv) Employment generation, including the potential effects of SME financing and microfinancing.</p> <p>(v) Food security.</p> <p>(vi) Socioeconomic advancement and empowerment.</p> <p>(c) Projects which are the combination of green and social projects, as described in (a) and (b) above.</p> <p>(d) Waqf projects that relate to the development of waqf properties or assets.</p>		
7.10 & 7.11	Utilisation of Proceeds	An issuer must ensure that the proceeds raised from the issuance of the SRI sukuk are utilised only for the purpose of funding any activities or transactions relating to the Eligible SRI projects, as described in paragraph 7.08 above.	Yes	As in 7.07 & 7.08 above.
		In relation to the activities or transactions that involve the acquisition of a company undertaking Eligible SRI projects, an issuer must ensure that the company to be acquired does not carry on any other business or projects except the Eligible SRI projects.	Yes	The utilisation of proceeds may include the acquisition of or investment in a company undertaking eligible projects. PBAPP will ensure that the company to be acquired undertakes projects that meet the eligibility criteria outlined in the Framework, when required.

No.	Item	Requirement	Alignment	Comment
7.12	Process for Project Evaluation and Selection	An issuer must establish internal processes for the evaluation and selection of the Eligible SRI projects, as identified in paragraph 7.08 above.	Yes	The Framework outlines the Issuer's evaluation and selection process for eligible projects, ensuring that chosen activities meet eligibility criteria. The SSC of PBAPP will evaluate and select eligible projects through a systematic process. For more details, see section 2.2.
7.13	Management of Proceeds	An issuer must ensure that the proceeds allocated to the Eligible SRI projects are deposited into a designated account or otherwise tracked in an appropriate manner.	Yes	The Issuer has defined the internal processes linked to the management of proceeds. Proceeds from the SFTs will be deposited in the general funding account and be earmarked for eligible projects. PBAPP's Finance Department will track proceeds allocation via a register as long as the offering remains outstanding. Any unallocated proceeds will be held in cash, cash equivalents and/or short-term securities in accordance with PBAPP's liquidity policy, i.e., Money Market Placement Standard Operation Procedure (see Section 2.3 Management of Proceeds).
7.14	Reporting	An issuer must provide the following information to the sukukholders, annually through a designated website: (a) The original amount allocated to the Eligible SRI projects. (b) The amount utilised for the Eligible SRI projects. (c) The unutilised amount and where such unutilised amount is placed or invested pending utilisation. (d) The list of Eligible SRI projects to which the SRI sukuk proceeds have been allocated, 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.	Yes	The Issuer is committed to publishing allocation and impact reporting, consolidated into a report, on an annual basis, or in a timely manner in the case of material developments, and until full allocation of net proceeds. The allocation and impact reports will be made publicly available on PBAPP's corporate website (https://pba.com.my/).

No.	Item	Requirement	Alignment	Comment
7.05 & 7.16	Disclosure Requirements	The information relating to the issuer and the details of the issuer's SRI Sukuk Framework must be made publicly accessible via a designated website to be disclosed by the issuer. Such information on the designated website must be made available at the point of issuance and throughout the tenure of the SRI sukuk.	Yes	The allocation and impact reports, along with this Second Opinion Report, will be made publicly available on PBAPP's corporate website (https://pba.com.my/). The Second Opinion Report will also be available on RAM Sustainability's website (https://www.ram.com.my/sustainability).
		<p>For the purpose of disclosure of the details of the issuer and the SRI Sukuk Framework under paragraph 7.05 above, the following information must be included:</p> <ul style="list-style-type: none"> (a) The overall SRI objectives that the issuer intends to achieve. (b) 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 allocated to refinancing and which Eligible SRI projects will be refinanced. (c) The Eligible SRI projects to which the proceeds will be allocated. (d) The details of the Eligible SRI projects and, to the extent possible, the impact objectives of the Eligible SRI projects. (e) The processes used by the issuer to evaluate and select the Eligible SRI projects. (f) The criteria used by the issuer to identify and manage material environmental or social risks associated with the Eligible SRI projects. (g) The processes used by the issuer to manage the proceeds from the issuance of the SRI sukuk. (h) A statement that the issuer has complied with the relevant environmental, social and governance standards or recognised 	Yes	<p>The Issuer has committed to publishing its Framework, which contains items (a) to (h), on its corporate website (https://pba.com.my/).</p> <p>For more detailed information on disclosure requirements, see Section 2.4 Reporting Commitments.</p>

No.	Item	Requirement	Alignment	Comment
		best practices relating to the Eligible SRI projects.		
7.17	External Review	If an external reviewer is appointed to assess and provide a 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.	Yes	<p>RAM Sustainability has been appointed as an independent expert to provide a second opinion on the Framework. RAM Sustainability's analysis covers an assessment of the Framework against the disclosure requirements of the relevant guidelines and the Issuer's sustainability responsibilities.</p> <p>RAM Sustainability's Second Opinion Report shall be publicly available on PBAPP's corporate website and RAM Sustainability's website.</p> <p>The Issuer may also appoint independent third parties to verify its allocation & impact reporting and management of proceeds post-issuance, the review of which will be included in the annual progress report.</p>

APPENDIX 2: ASEAN SUS CHECKLIST

Reference:

ASEAN Capital Markets Forum – ASEAN SUS

Item	No.	Requirement	Alignment	Comment
Eligible Issuers and Issuance	GBS 3.1 SBS 3.1	(i) Must be an ASEAN Issuer; or (ii) In the case of a Non-ASEAN Issuer, the eligible Green and Social Projects must be located in any of the ASEAN countries.	Yes	PBAPP is an entity incorporated in Malaysia and is therefore an ASEAN Issuer
	GBS 3.2 SBS 3.2	ASEAN Green and Social Bonds issuances must be originated from any of the ASEAN member countries.	Yes	The SFTs to be issued under the Framework may be issued in any jurisdiction, market, currency and for any tenure, should the need arise. However, according to the Issuer, no issuances originating outside of ASEAN member countries are foreseen at this juncture. The Sustainability Sukuk issued under the Sukuk Programme will originate from Malaysia.
Eligible Green Projects	GBS 4.1.5 SBS 4.1.6	There are several broad categories of eligibility for Green Projects which contribute to environmental objectives such as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. Social Projects directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for a target population(s).	Yes	Proceeds from PBAPP's SFTs under the Framework may be allocated to partially or fully finance/re-finance new and/or existing eligible projects under the following categories: <ul style="list-style-type: none"> i. Sustainable Water and Wastewater Management ii. Climate Change Adaptation iii. Green Building iv. Renewable Energy v. Energy Efficiency vi. Clean Transportation vii. Affordable Basic Infrastructure
Ineligible Projects	GBS 4.1.6 SBS 4.1.7	For clarification purposes, fossil fuel power generation projects are excluded from the ASEAN GBS. Projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry are excluded from the ASEAN SBS.	Yes	SFT proceeds, according to the Framework, will not be utilised to fund projects related to fossil fuel power generation, alcohol, gambling, tobacco and weaponry, among others. See section 2.1 for full exclusion criteria.

Item	No.	Requirement	Alignment	Comment
Continuous Accessibility to Information and Reporting	GBS 4.2.1 SBS 4.2.1	<p>The Issuer of ASEAN Green and Social Bonds must clearly communicate to investors –</p> <p>(i) The environmental sustainability and social objectives;</p> <p>(ii) The process by which the Issuer determines how the projects fit within the eligible Green and Social Projects categories identified above; 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 risks associated with the Green and Social Projects.</p>	Yes	Eligibility criteria for the use of proceeds and the process of evaluation and selection of eligible projects have been described in the Framework.
	GBS 4.2.5 SBS 4.2.5	<p>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 ASEAN Green and Social Bonds:</p> <p>(i) The process for project evaluation;</p> <p>(ii) The use of proceeds; and</p> <p>(iii) External review report on the process (if any).</p>	Yes	<p>The Issuer has committed to disclosing the necessary information on its corporate website. The Issuer will report on the allocation of proceeds and impacts of its eligible projects annually.</p> <p>For more details, see section 2.4.</p>
	GBS 4.3.1 SBS 4.3.1	Prior to the issuance of the ASEAN Green and Social Bonds, the Issuer must disclose to investors in the documentation for the issuance of the ASEAN Green and Social Bonds the process for managing the net proceeds from the ASEAN Green and Social Bonds.	Yes	The Issuer has disclosed the required information in the Framework which will be published on its corporate website.

Item	No.	Requirement	Alignment	Comment
	GBS 4.3.4 SBS 4.3.4	The Issuer must also disclose to investors in the documentation for the issuance of the ASEAN Green and Social Bonds the intended types of temporary placement for the balance of unallocated proceeds.	Yes	Any unallocated proceeds will be held in cash, cash equivalents and/or short-term securities in accordance with PBAPP's liquidity policy, i.e., Money Market Placement Standard Operation Procedure (see Section 2.3 Management of Proceeds). The process for managing net proceeds is described in the Framework.
	GBS 4.4.5 SBS 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 ASEAN Green and Social Bonds.	Yes	The allocation and impact reports will be made publicly available on PBAPP's corporate website (https://pba.com.my/).
Encourage More Frequent Reporting	GBS 4.4.1 SBS 4.4.1	Issuers must report to investors at least on an annual basis and encouraged to make more frequent reporting on the use of proceeds until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the projects to which the ASEAN Green and Social Bonds proceeds have been allocated, as well as a brief description of the projects and the amounts allocated and their expected impact.	Yes	The Issuer is committed to publishing allocation and impact reporting, consolidated into a report, on an annual basis, or in a timely manner in the case of material developments, and until full allocation of net proceeds.
External Review	GBS 5.1 SBS 5.1	Issuers are recommended to appoint external review providers for their ASEAN Green and Social Bonds issuances.	Yes	The Issuer has appointed RAM Sustainability as the independent external reviewer for its Framework.
	GBS 4.2.4 SBS 4.2.4	It is recommended that the Issuer's process for project evaluation and selection be supported by an external review.	Yes	The second opinion report by RAM Sustainability covers project evaluation and selection.
	GBS 4.3.5 SBS 4.3.5	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	Yes	The Issuer may appoint independent third parties to verify its allocation reporting and management of proceeds.

Item	No.	Requirement	Alignment	Comment
		tracking method and the allocation of funds from the ASEAN Green and Social Bonds proceeds.		
	GBS 4.3.6 SBS 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 issuance of the ASEAN Green and Social Bonds.	Yes	The Issuer has committed to including post-issuance reviews, if any, in annual reports which will be publicly available on PBAPP's corporate website.
	GBS 4.4.4 SBS 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.	No	This is a voluntary process. The Issuer has not made any commitment to appoint an auditor or other third party to verify annual reporting on the use of SFT proceeds.

APPENDIX 3: ICMA EXTERNAL REVIEW FORM



Green, Social and Sustainability Bonds

External Review Form

This form complements the Bond Information Template that should have been filled in by the issuer. It provides additional information on the role of the External Reviewer when assessing the issuer's sustainability framework. This form may be used or adapted, where appropriate, to summarise the scope of the review.

Section 1. Basic Information

Issuer name: Perbadanan Bekalan Air Pulau Pinang Sdn Bhd

Bond ISIN¹⁵: Not available

Independent External Review provider's name: RAM Sustainability

Completion date of this form: 8 July 2025

Date of the review: 8 July 2025

Section 2. Overview

SCOPE OF REVIEW

The review:

- ☒ assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP, SBP and SBG.
- ☐ assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - ☐ Use of Proceeds
 - ☐ Management of Proceeds
 - ☐ Process for Project Evaluation and Selection
 - ☐ Reporting
- ☒ assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones: **SC SRI Sukuk Framework, ASEAN GBS, ASEAN SBS, ASEAN SUS, LMA GLP, LMA SLP**

¹⁵ The ISIN code is mandatory for publishing the form in the Sustainable Bond Issuers Database.

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- | | |
|--|--|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Does the review include a sustainability quality score¹⁶?

- | | |
|--|--|
| <input type="checkbox"/> Of the issuer | <input checked="" type="checkbox"/> Of the project |
| <input checked="" type="checkbox"/> Of the framework | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> No scoring | |

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- ☒ The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- ☒ The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- ☒ The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- ☒ An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- ☒ An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- ☐ A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

¹⁶ The external review may indicate the provider's opinion of the overall sustainability quality of a bond or bond framework and assess whether it has a meaningful impact on advancing contribution to long-term sustainable development.

CLIMATE TRANSITION STRATEGY¹⁷

Does the review assess:

- ☐ The issuer's climate transition strategy & governance?
- ☐ The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- ☐ The credibility of the issuer's climate transition strategy to reach its targets?
- ☐ The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- ☐ If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- ☐ The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways ¹⁸ that are deemed necessary to limit climate change to targeted levels?
- ☐ The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically¹⁹?

Overall comment on this section:

Section 3. Detailed Review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Does the review assess:

- ☒ the environmental/social benefits of the project(s)?
- ☒ whether those benefits are quantifiable and meaningful?
- ☒ for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- ☒ the estimated proceeds allocation per project category (in case of multiple projects)?
- ☒ the estimated share of financing vs. re-financing (and the related lookback period)?

¹⁷ Where issuers wish to finance projects towards implementing a net zero emissions strategy aligned with the goals of the Paris Agreement, guidance on issuer level disclosures and climate transition strategies may be sought from the [Climate Transition Finance Handbook](#).

¹⁸ GHG emissions reduction targets that are in line with the scale of reductions required to keep the average global temperature increase to ideally 1.5°C, or at the very least to well below 2°C above pre-industrial temperatures. Science Based Targets Initiative (SBTi) is a branded verification body for science-based targets and SBTi verification is one way for issuers to validate the alignment of their emission reduction trajectories with science-based reference trajectories. In addition, ICMA has published a [Methodologies Registry](#) which includes a list of tools to specifically help issuers, investors, or financial intermediaries validate their emission reduction trajectories..

¹⁹ Including information such as the respective contribution (e.g. %) of the different measures to the overall reduction, the total expenses associated with the plan, or the issuer's climate policy engagement.

Overall comment on this section:

Proceeds from PBAPP's SFTs under the Framework may be allocated to partially or fully finance/re-finance new and/or existing eligible projects under the following categories:

- i. Sustainable Water and Wastewater Management
- ii. Climate Change Adaptation
- iii. Green Building
- iv. Renewable Energy
- v. Energy Efficiency
- vi. Clean Transportation
- vii. Affordable Basic Infrastructure

In the immediate term, PBAPP will issue Islamic medium term notes (Sustainability Sukuk) under a proposed Islamic medium term notes programme of up to RM5.0 bil in nominal value (the Sukuk Programme). Proceeds from the first issuance from the Sukuk Programme is expected to be utilised to finance the construction of four water supply infrastructure projects in Penang. For any refinancing of eligible projects, asset values and capex require no look-back period while opex qualify with a look-back period of no longer than 36 months prior to issuance year.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

☐ whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.²⁰

☒ whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?

☒ the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?

☒ the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?

☒ any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

The Framework outlines the Issuer's evaluation and selection process for eligible projects, ensuring that chosen activities meet eligibility criteria. The SSC of PBAPP will evaluate and select the eligible projects through a systematic process.

²⁰ The EU Taxonomy, CBI Taxonomy, UK Taxonomy, China catalogue, etc.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- ☒ the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- ☒ the intended types of temporary investment instruments for unallocated proceeds?
- ☒ Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

Proceeds from the SFTs will be deposited in the general funding account and be earmarked for eligible projects. PBAPP's Finance Department will track proceeds allocation via a register as long as the offering remains outstanding. Any unallocated proceeds will be held in cash, cash equivalents and/or short-term securities in accordance with PBAPP's liquidity policy, i.e., Money Market Placement Standard Operation Procedure.

4. REPORTING

Does the review assess:

- ☒ the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- ☒ the frequency and the means of disclosure?
- ☐ the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

The Issuer is committed to publishing allocation and impact reporting, consolidated into a report, on an annual basis, or in a timely manner in the case of material developments, and until full allocation of net proceeds. The allocation and impact reports will be made publicly available on PBAPP's corporate website (<https://pba.com.my/>).

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

The allocation and impact reports, along with the Framework and second opinion report, will be made publicly available on PBAPP's corporate website (<https://pba.com.my/>).

Analysis of the contribution of the project(s) to UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- 1) **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- 2) **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- 3) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- 4) **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

ABOUT RAM SUSTAINABILITY

RAM Sustainability is a provider of sustainability services and ESG analytics. Incorporated on 31 May 2000, RAM Sustainability is a wholly owned subsidiary of RAM Holdings Berhad (RAM Group). RAM Sustainability is the first ASEAN-based provider of ESG ratings and second opinions and has the distinction of being the first Registered Observer of ICMA's Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles in ASEAN. It was a member of ICMA's Advisory Council to the Green Bond Principle and Social Bond Principle Executive Committee for three consecutive terms. On 12 August 2020, RAM Sustainability became an Approved Verifier for the certification of climate bonds under the Climate Bonds Standard & Certification Scheme after having been awarded the status by the Climate Bonds Standards Board. For further details, please refer to <https://www.ram.com.my/sustainability>.

About RAM Group

The RAM Group, formerly known as Rating Agency Malaysia Berhad, is a leading provider of independent credit ratings, research, training, risk analysis and bond pricing. Established in November 1990 as Malaysia's first credit rating agency, RAM Group transferred its rating operations to RAM Rating Services Berhad (RAM Ratings) on 1 July 2007. RAM Ratings is a wholly owned subsidiary of the Group.

As the largest credit rating agency in Malaysia and ASEAN, RAM Ratings has assessed over USD 480 billion in bonds from more than 750 entities. Its diverse portfolio includes corporates, sovereign nations, financial institutions, insurance companies, project finance and structured finance obligations. Renowned for rating Islamic securities (sukuk), RAM Ratings has won numerous awards in this arena, including the GIFA Power Award (Islamic Rating) at the Global Islamic Finance Awards (GIFA) in 2021, 2022, and 2023, and The Best Islamic Rating Agency (Malaysia) award at The Asset Triple A Islamic Finance Awards 2022. It recently received FocusEconomics Analyst Forecast Awards for first place in Interest Rate Forecasting and second in Inflation Rate Forecasting.

On 26 May 2016, RAM Ratings joined the United Nations-supported Principles for Responsible Investment's Statement on ESG in Credit Ratings, committing to a systematic incorporation of ESG into credit ratings. RAM Group became a member of the United Nations Global Compact on 9 April 2024, reinforcing its dedication to sustainability and corporate responsibility.

RAM Solutions Sdn Bhd, effective from 1 March 2023, integrated sustainability solutions into its credit opinion business, operating independently of external reviewers. Another subsidiary, Bond Pricing Agency Malaysia Sdn Bhd, is the sole provider of bond-pricing and valuation data on the Malaysian bond market.

Bursa Malaysia RAM Capital Sdn Bhd (BR Capital), incorporated on 27 December 2022 as a joint venture between Bursa Malaysia Berhad (51%) and RAM Holdings Berhad (49%), is a recognised market operator registered with the Securities Commission Malaysia. BR Capital operates a digital platform that allows eligible issuers to raise debt financing through the issuance of investment notes.

For further details, go to <https://www.ram.com.my>.



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