

Towards a Greener Financial System

The financial sector is a key enabler to Malaysia's just and orderly transition. With a robust ecosystem largely in place, efforts have been intensified to translate policies into actionable steps. Focus was accorded to climate disclosure, development of climate finance solutions, enhancing data accessibility and capacity-building to unlock growth opportunities to support sustainable development. These efforts are beginning to yield progressive outcomes, reinforcing the financial sector's role in fostering a resilient and sustainable economy.

Introduction

Malaysia, like many other countries, continues to face a range of climate-related events. Floods, heatwaves and extreme weather patterns are some of the common ones. These events have affected businesses and households in many ways. In some cases, they have caused substantial losses and displacement. With climate-related events rising in frequency and severity over the years, the economic and financial stability impacts are likely to be more significant going forward. BNM plays a pivotal role in fostering a climate-resilient financial system. Our aim is for financial institutions to be able to manage climate risks while supporting the economy to adapt to climate change. Since embarking on this journey in 2018, we have strengthened our climate actions for the industry and our organisation. Key pillars are in place to serve as a strong foundation for climate risk management. In building the capabilities of the financial sector, we remain focused on actions that drive impactful outcomes (Diagram 1).

In 2024, we stepped up efforts to further improve and integrate the climate agenda into our internal operations and in delivering BNM's functions and mandates. This

includes committing to improve our climate-related reporting and disclosures. Efforts on this front are guided by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).¹

Strengthening Our Climate Governance

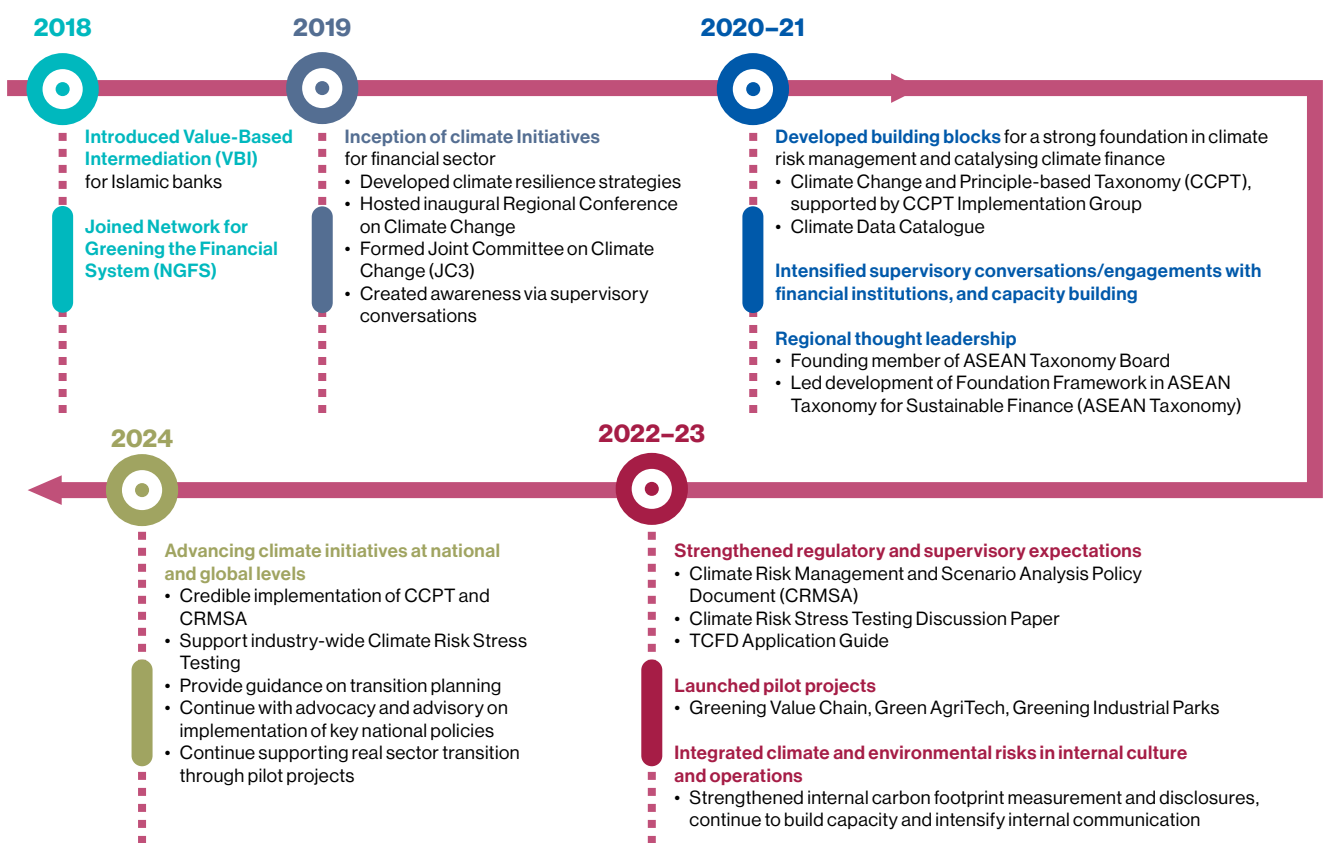
Climate and environment-related goals are organisational priorities for BNM. To help achieve this, we have put in place a clear and robust governance structure and framework (Diagram 2).

Climate matters are integrated into board-level oversight. The board provides strategic guidance and monitors our efforts to build our climate resilience as well as that of the financial sector. Twice yearly, the board receives updates on progress of BNM's plans and management of our climate and environment-related risks and initiatives across its various roles and functions. From the guidance provided by the board, we can also better allocate our budget and resources in response to the evolving climate landscape.

At the management level, the Management Committee oversees the implementation and coordination of BNM's climate and environment-related strategies and goals. This is supported by the Sustainability Unit, formed in 2021. Updates to the Management Committee happen twice yearly, covering progress, issues and challenges in relation to the identified strategies and initiatives. The fast-evolving nature of this topic also requires us to adjust our responses from time to time. This is based on the collective inputs from the cross-functional teams within BNM to implement and monitor progress. Climate and environment-related issues are also discussed within the scope of key policy committees when strategic guidance is needed. This includes the Financial Stability Committee, the Risk Management Committee and the Financial Policy Working Group. In 2024, we began climate reporting for our physical operations to the Operations Management Committee.

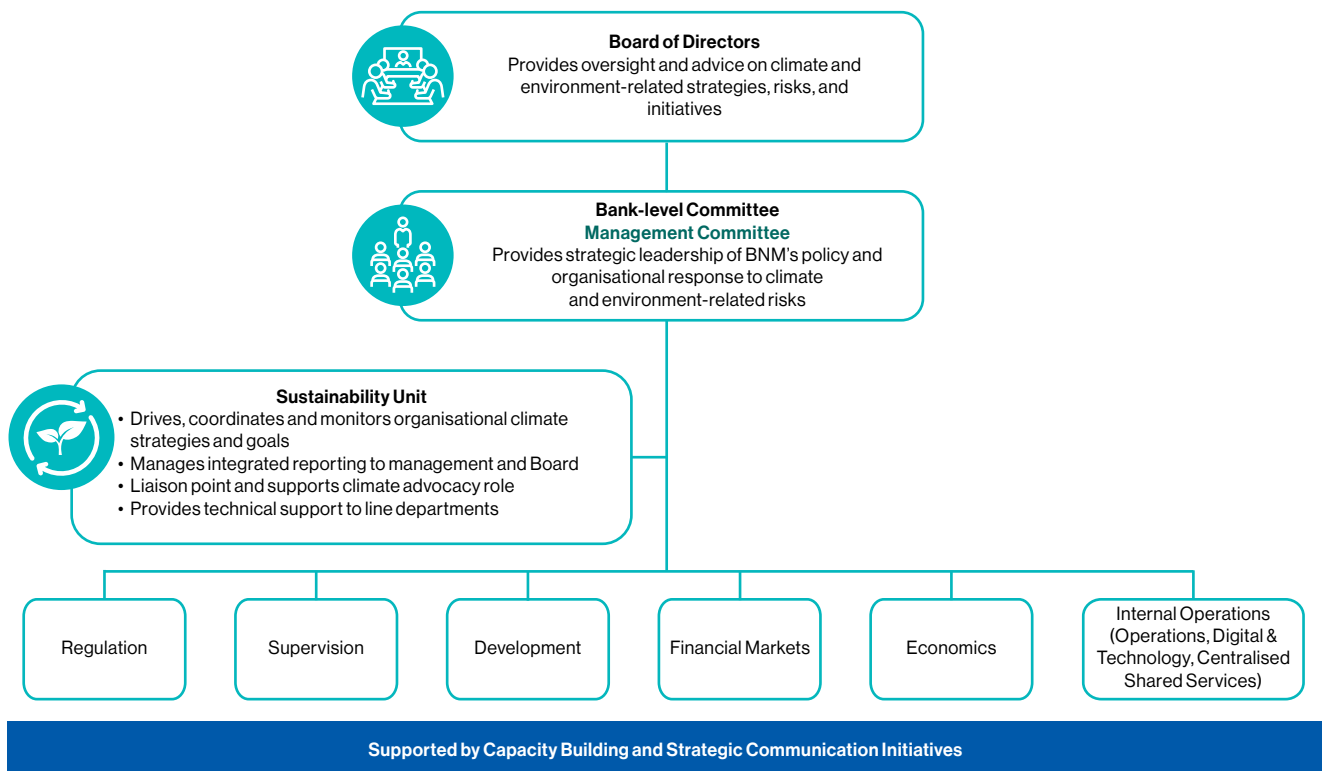
¹ A globally recognised framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

Diagram 1: BNM's Climate Journey



Source: Bank Negara Malaysia

Diagram 2: BNM's Climate Governance Structure



Source: Bank Negara Malaysia

During the year, the Sustainability Unit also worked on improving communication to help staff be better informed and understand our climate and sustainability initiatives. This includes issuing newsletters, podcasts and forum posts. We observe increasing appreciation and understanding on climate and environment-related risks, and the role of BNM in managing the risks. The Climate Change Directors Forum is another platform that meets twice a year. It keeps senior officers updated on national and organisational climate and environment-related developments. The Forum enables senior officers to discuss issues and challenges faced in pursuing climate and environment-related initiatives within their respective areas. This also helps the different teams to better align and work together on their climate and environment-related initiatives.

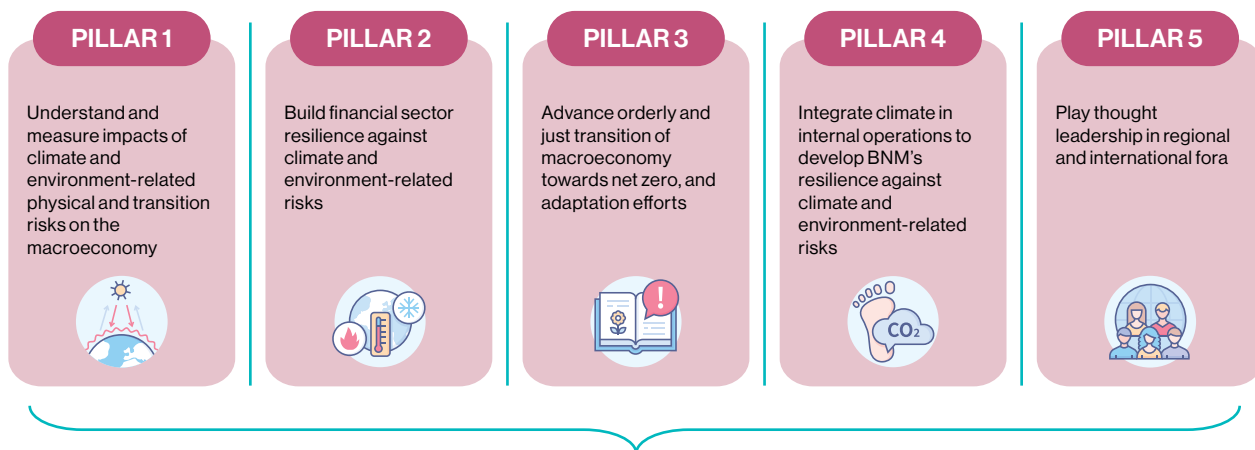
Steady Progress in BNM's Climate and Environment-related Strategies

Our climate and environment-related strategies are guided by five key pillars (Diagram 3) that cover the core functions of BNM. They are also aligned to BNM's business plans and long-term strategic plans such as the Financial Sector Blueprint 2022–2026. A dashboard is used to monitor progress of these strategies and identify challenges that may impact our climate and environment-related deliverables. It is shared with senior management and issues are discussed where further guidance is needed.

In 2024, our regulatory focus was to support the effective implementation of standards and supervisory expectations on managing climate risks. Through the Joint Committee on Climate Change (JC3) platform, we continued to improve the credibility and consistency of financial institutions' reporting under the Climate Change and Principle-based Taxonomy (CCPT). The CCPT Due Diligence Questions (DDQ) and Guidance Notes were issued in January. During the year, the third cohort of the Value-based Intermediation (VBI) sectoral guides was also issued. This comprises guidance for agriculture, mining and quarrying, road transportation and waste management activities. The guidance serves to reduce the risk of greenwashing by financial institutions by providing additional guidance on climate and environmental metrics for specific economic sectors and activities. We also actively engaged with the industry to assess their readiness in implementing the climate risk management standards (i.e. Climate Risk Management and Scenario Analysis Policy Document, CRMSA). In 2025, financial institutions will conduct the first industry-wide climate risk stress testing exercise. In preparation for the climate risk stress testing, we engaged with the industry and partnered with the World Bank to run workshops. Guidance on development of transition plans by financial institutions was also issued in 2024 to assist financial institutions in developing credible transition strategies. We also supported transition of the real sector through pilot projects² such as Greening Value Chain, Green AgriTech and Greening Industrial Parks.

² Implementation via the Joint Committee on Climate Change (JC3). Details of pilot projects are in Diagram 6: Progress and Deliverables of JC3 in 2024.

Diagram 3: Key Pillars of BNM’s Climate and Environment-related Strategies



EXPECTED OUTCOMES



A resilient and vibrant financial sector to support an orderly and just transition to a low carbon economy

- Financial system is **resilient** against climate and environment-related risks
- Financial system **enables and facilitates** real economy transition in an orderly and just manner
- **BNM leads by example** through its own sustainable operations

Source: Bank Negara Malaysia

Diagram 4: Climate Change and Principle-based Taxonomy (CCPT) Classification Table

CLASSIFICATION		Economic Activity		Overall Business	
		GP1	GP2	GP3	GP4
Supporting Activities with positive impact on climate change, and causing no significant harm to the environment	C1	GP1 and/or GP2		✓	
Transitioning Activities causing significant harm to the environment, but remedial measures taken to reduce harm	C2	GP1 and/or GP2		X	✓
	C3	X		X	✓
Watchlist Activities causing significant harm to the environment, and no remedial measures taken to reduce harm	C4	GP1 and/or GP2		X	X
	C5a	X		X	X
	C5b	X		✓	

Note: GP1 – Climate change mitigation
 GP2 – Climate change adaptation
 GP3 – No significant harm to the environment
 GP4 – Remedial measures to transition

Source: Bank Negara Malaysia

Diagram 5: Progress of Key Initiatives in 2024

PILLAR 1**Understand and measure impacts of climate and environment-related physical and transition risks on the macroeconomy****Enhancing macroeconomic surveillance and forecasting**

Deepened understanding of physical and transition risks impact on macroeconomic variables that matter for monetary policy.



Developed country-level modelling tools to support assessment and scenario analysis of climate change impact on the macroeconomy.

PILLAR 2**Build financial sector resilience against climate and environment-related risks****Building a facilitative regulatory landscape and enhancing climate resilience in the financial sector**

- Enhancing management of climate and environment-related risks
 - Issued guidance on development of transition plans by financial institutions.
 - Continued improving credibility and consistency of CCPT¹ reporting.
 - Developed guiding questions for CRMSA² supervisory review and conducted targeted engagements with financial institutions on implementation of CRMSA.
 - Issued and socialised the Methodology Paper on CRST³ and conducted workshop to accelerate preparations for upcoming industry-wide CRST.
- Facilitating management of exposures to borrowers
 - Issued the Large Exposures Limit Exposure Draft. Proposed requirements include allowing banks to take on an additional 10% of Tier 1 Capital (on top of the allowed Large Exposure Limit of 25% of Tier 1 Capital) for exposures to TNB and Petronas and their connected counterparties.⁴
- Increasing understanding on flood risk
 - Published a research report on managing flood risk, in collaboration with the World Bank.
- Supporting understanding of nature-related risks
 - Initiated pilot application of the nature-related assessment framework issued by TNFD⁵ jointly with the World Bank and UNDP Malaysia to support financial institutions and businesses to identify impact, risks and opportunities.

**Joint Committee on Climate Change (JC3)**

- Continued to support the financial sector's response to climate change through collective efforts in capacity building, data initiatives, and the development of implementation guidance for financial institutions (Diagram 6).
- Coordinated initiatives between BNM, Securities Commission Malaysia (SC), industries and relevant Government ministries and agencies in scaling up climate finance.

PILLAR 3**Advance orderly and just transition of macroeconomy towards net zero, and adaptation efforts****Advocacy and advisory on execution of national policies**

Provide financial sector perspectives to better align efforts and support national climate priorities via:

- Member of Technical Working Committees for:
 - Long-term Low Emission Development Strategy (LT-LEDS)
 - Nationally Determined Contribution (NDC) Roadmap
- Member of Technical Working Groups for:
 - National Carbon Pricing Policy
 - Climate Change Bill
 - 13th Malaysia Plan
 - Circular Economy

Green finance and investment

Facilitated financial flows towards green and climate-related initiatives, including support for small and medium enterprises (SMEs) in their transition to sustainable practices.



Diagram 5: Progress of Key Initiatives in 2024



Diagram 5: Progress of Key Initiatives in 2024

PILLAR 5

Play thought leadership in regional and international fora

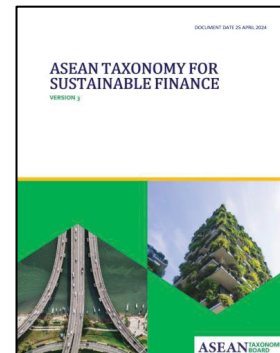
Plenary member in Central Banks and Supervisors Network for Greening the Financial System (NGFS)



- Active participation in NGFS, offering valuable insights into transition challenges faced by emerging market economies (Diagram 7).
- Hosted the NGFS Asia Pacific Plenary Outreach on 5 December.
- Discussions on issues such as emerging areas of focus, progress and challenges faced, and regional priorities for NGFS.
- Sharing of experience on role of central bank in managing climate risk, and macroeconomic impacts of climate change.
- Sharing of supervisory experience, observations and insights from on-site reviews and climate-risk stress testing.

Founding member of ASEAN Taxonomy Board

- Published an updated version of the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy) Version 2 in February with final set of Technical Screening Criteria (TSC) for electricity, gas, steam and air conditioning supply sector (energy sector).
- Published version 3 of the ASEAN Taxonomy in March, with two more focus sectors - transportation and storage, and construction and real estate (Diagram 8).
- BNM led development of thresholds for the construction and real estate focus sector.
- In November, an integrated energy group secured the first domestic sustainability-linked loan designed in accordance with the ASEAN Taxonomy.



Participation at 16th United Nations Biodiversity Conference (CBD COP16) in Cali, Colombia



- Shared BNM's experience in exploring nature-related risks and opportunities using the TNFD LEAP[®] approach.
- Showcased BNM's thinking and explored partnerships with peer regulators and knowledge experts.

Assistant Governor Madelena Mohamed as a panelist at COP16

¹ Climate Change and Principle-based Taxonomy.
² Climate Risk Management and Scenario Analysis.
³ Climate Risk Stress Testing.
⁴ For exposures that meet certain requirements, i.e. (1) Exposures related to certain energy transition projects (specified in Appendix 1 of the Large Exposures Limit Exposure Draft) that are classified as C1/C2 in the CCPT, and (2) Must be incurred no later than 31 December 2030. (<https://www.bnm.gov.my/-/expo-sure-draft-on-large-exposure-limit>)
⁵ Task Force on Nature-related Financial Disclosures.
⁶ Waste-to-energy (WTE) method converts solid waste into usable forms of energy, such as heat and electricity. Further details on sustainability initiatives on currency are in the chapter on 'Issuing Currency'.
⁷ As recognised by the International Capital Market Association.
⁸ Locate, Evaluate, Assess and Prepare.

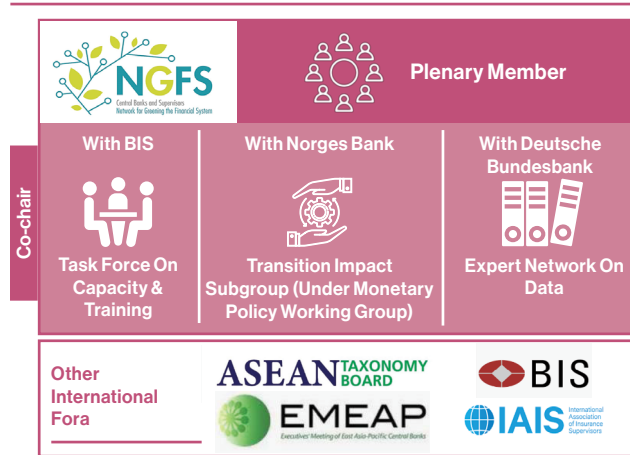
Source: Bank Negara Malaysia

Diagram 6: Progress and Deliverables of JC3 in 2024



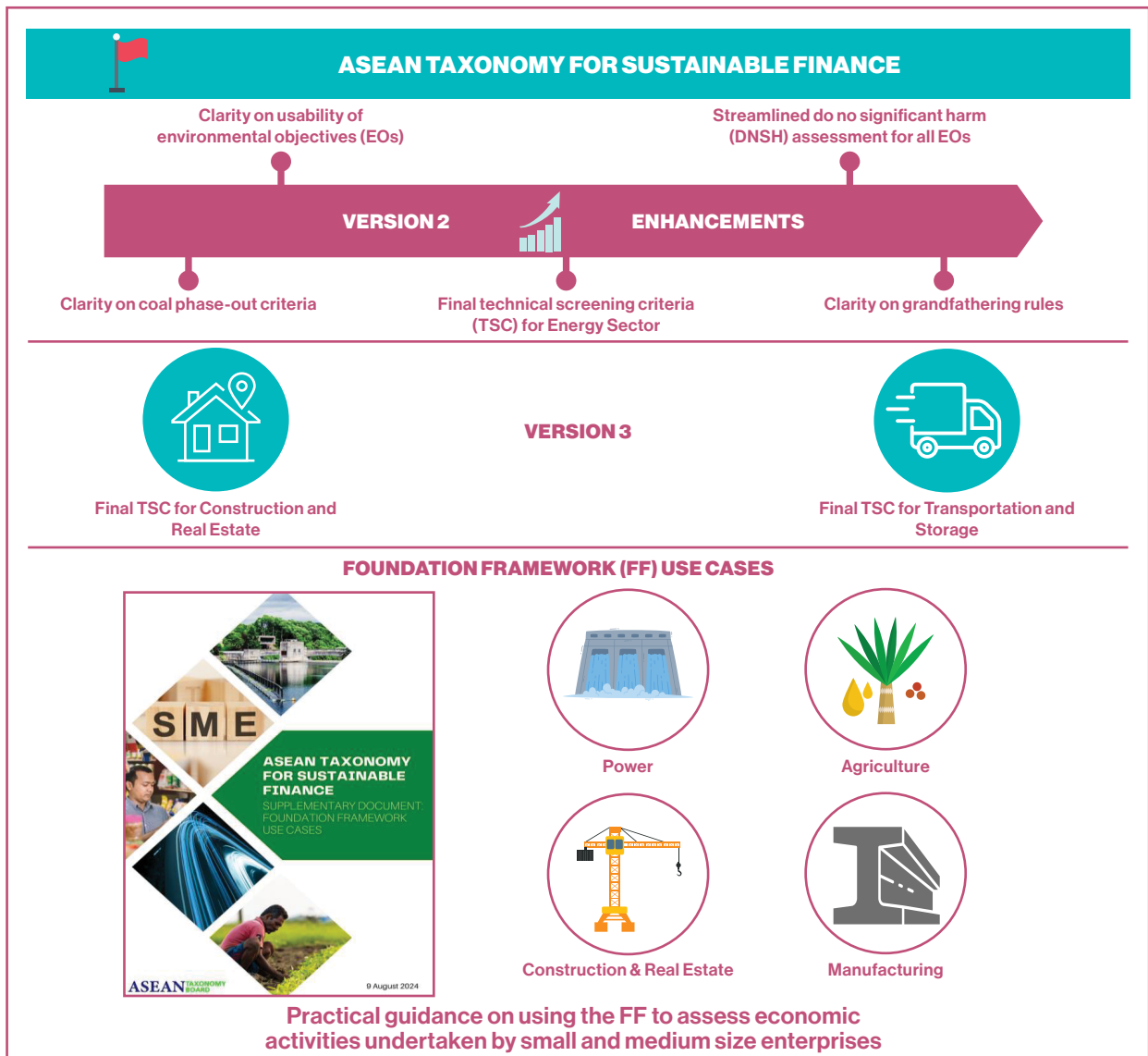
Source: Bank Negara Malaysia

Diagram 7: BNM's Participation in NGFS and Other International Fora



Source: Bank Negara Malaysia

Diagram 8: ASEAN Taxonomy for Sustainable Finance



Source: Bank Negara Malaysia



Deputy Governor Jessica Chew delivering the keynote address at the National Climate Governance Summit 2024



Assistant Governor Dr. Norhana Endut delivering the keynote address at the launch of the World Bank-BNM Joint Report on Flood Risk Management: Leveraging Finance for Business Resilience in Malaysia



Assistant Governor Madelena Mohamed delivering the welcoming remarks at the National Energy Transition Roadmap (NETR) Engagement Session (organised by JC3 and Kementerian Ekonomi)

Advancing Climate Agenda

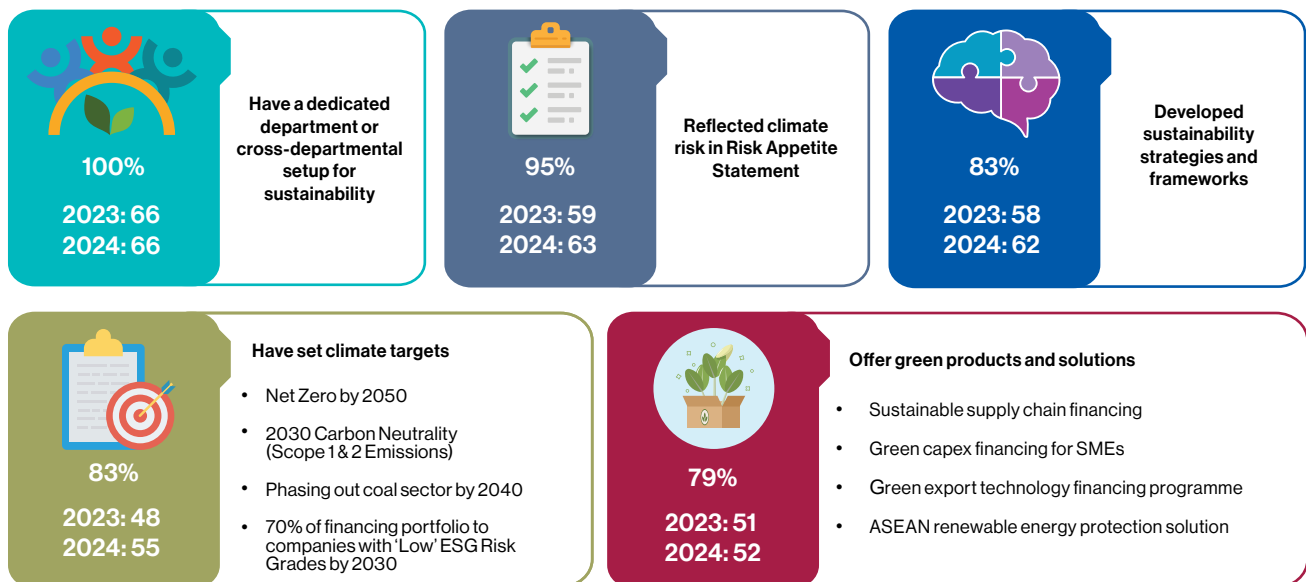
Financial institutions are making notable progress in driving the transition to a greener economy. We observe an increasing number of financial institutions considering climate factors in their risk management, strategies, internal operations, business decisions and product offerings (Diagram 9). There is a steady increase in the use of the tools and frameworks developed to help them and their clients to transition and to finance climate-related projects. We also observed improved accuracy and consistency in the clarification and reporting of climate impacts from financial institutions' exposures under the CCPT. This also improves the way financial institutions engage and advise their clients. The implementation of the National Sustainability Reporting Framework (NSRF) beginning in 2025 will drive financial institutions to continue to enhance their climate-related disclosures. The evolution of the JC3 as a knowledge sharing platform to a platform for development of solutions or tools for the financial sector further supports financial institutions in their climate agenda (Diagram 10).

Strengthening Climate and Environment-related Risk Management for BNM's Operations and Monitoring of Emissions

In 2024, we updated our Enterprise Risk Appetite Statement to better reflect how we are dealing with climate and environment-related risks. BNM faces these risks in both our physical and financial operations. This includes threats to our buildings and risks from our financial or investment activities. As such, we are committed to improving how we manage these risks. This is crucial to protect our buildings and financial assets, reduce operational disruptions from climate and environment-related events and ensure our employees' safety (Diagram 11).

We also focused on better managing emissions from our operations. We engaged an expert to build a more robust method for measuring, tracking and reporting our emissions from physical and currency operations. This will help us create a transition plan with strategies and actions to meet our climate and environment-related goals.

Diagram 9: Progress Observed in the Financial Industry in 2024



Note: 66 financial groups (seven groups comprising conventional and Islamic banks, four groups comprising conventional and Islamic banks, insurers and takaful operators, 12 groups comprising insurance and takaful operators, one group comprising development financial institutions, 42 standalone banks/development financial institutions/insurance and takaful operators).

Source: Bank Negara Malaysia

Diagram 10: Evolution of JC3

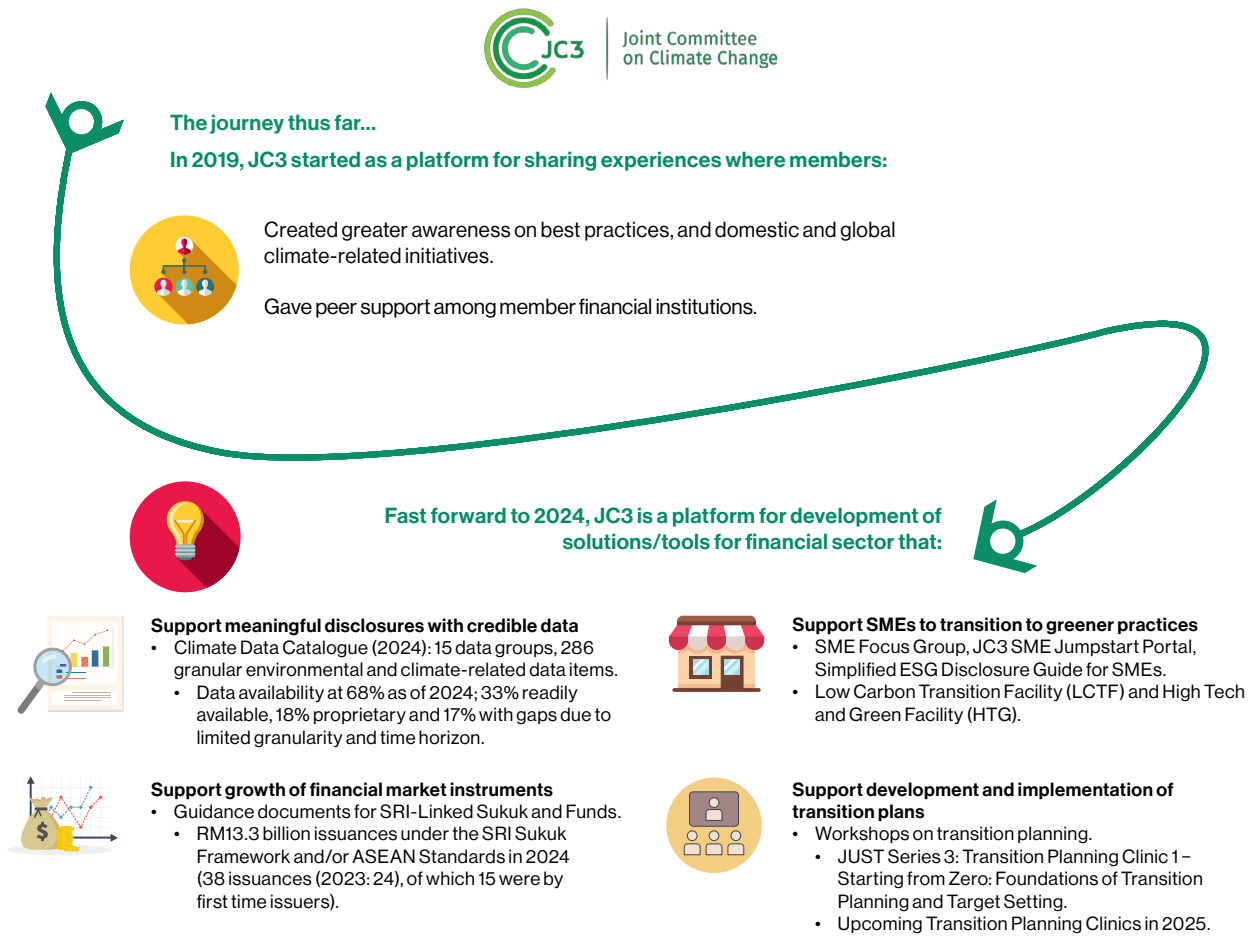
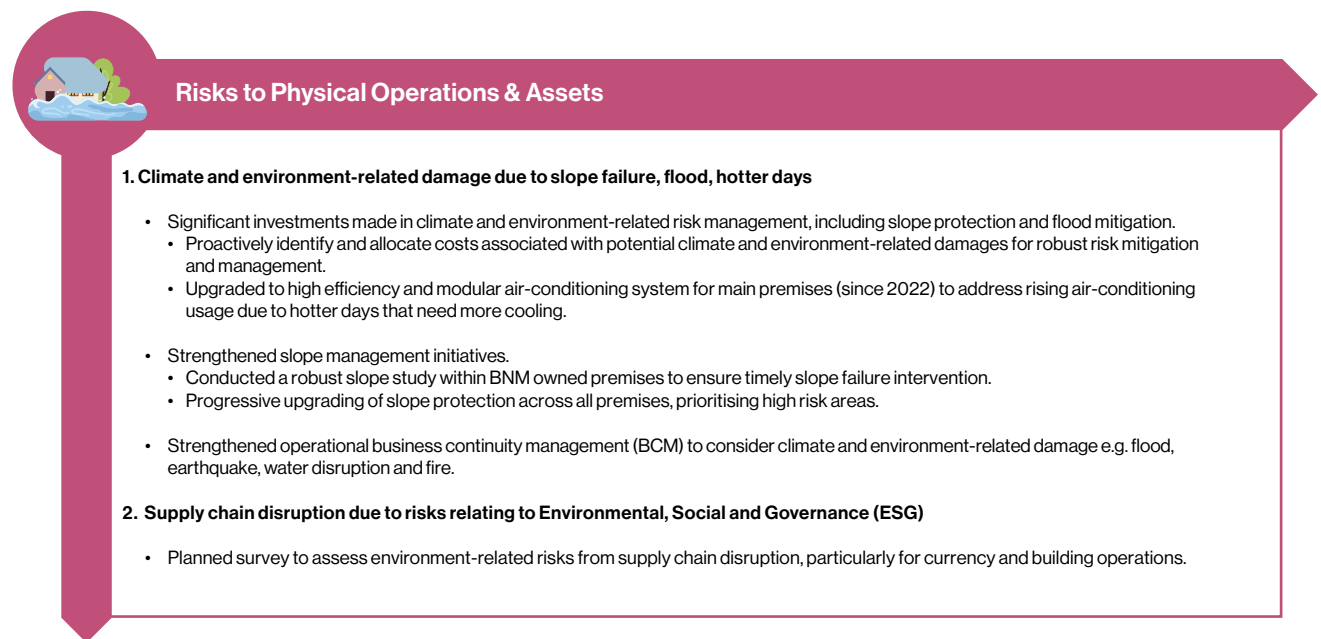


Diagram 11: Climate and Environment-related Risk Management Initiatives for BNM’s Operations



Source: Bank Negara Malaysia

In 2024, our emissions from mobile combustion of our fleet (Scope 1)³ and purchased electricity (Scope 2)⁴ is 41,308 tCO₂e⁵ (2023: 42,740 tCO₂e,⁶ 2022: 41,468 tCO₂e). The implementation of multiple carbon reduction initiatives across our organisation and disposal of assets have contributed to a reduction of 3.3% (1,431.4 tCO₂e) in our carbon footprint during the year (Chart 1).

In managing our Scope 2 emissions from purchased electricity, we have implemented several carbon reduction initiatives. These include improving energy efficiency, running sustainability awareness programs, and investing in energy-saving technologies. With these, we reduced our Scope 2 emissions by 3.4% from 2023. Additionally, we are subscribing to the Green Electricity Tariff (GET) for several main premises including Sasana

Kijang, Automated Cash Centre, and BNM Headquarters. This subscription offsets our electricity emissions by 52% (21,478.14 tCO₂e of total offset) in 2024.

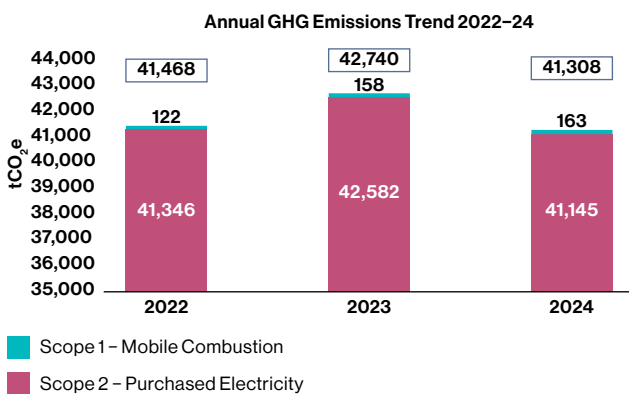
We have identified two challenges in reporting our emissions. First, the completeness of emission data. Second, the absence of data from subsidiaries that have yet to account for their emissions, which we are working to address. We are committed to minimising our carbon emissions and to fully disclose our Greenhouse Gas (GHG) emissions in accordance with the GHG Protocol. We will also continue to enhance our reporting as part of our efforts to manage in-house GHG emissions.

Going Forward

Malaysia remains committed and is steadily working towards its goal of reaching net zero emissions by 2050. Key policies such as the National Energy Transition Roadmap and the New Industrial Master Plan are progressively being implemented. These policies, alongside new national policies like the climate change legislation, the national carbon market policy and the thirteenth Malaysia plan, will facilitate Malaysia in meeting its climate goal. Across the country, it is anticipated that carbon emissions could decrease further with carbon tax starting in 2026 on a targeted basis.

The financial sector remains important in supporting the nation's policies and roadmaps through its key roles in developing new financing and protection solutions to fund initiatives that are climate- and environment-friendly or support green transition. Recognising that nature and biodiversity are deeply intertwined with climate, we will also continue to give focus on these areas. Our aim is to create an ecosystem that will deliver an orderly transition of the economy as a whole. We acknowledge that climate is an evolving and complex topic. As such, we are also committed to strengthening research, building our expertise and raising awareness to foster a sustainable culture within our operations.

Chart 1: BNM's Gross Carbon Footprint for Physical Operations (Scope 1 and Scope 2), 2022 to 2024



- Note:
1. BNM adopted an operational control-based approach to define the organisational boundary for its GHG emissions, aligned with methodology described in GHG Protocol. We are currently enhancing data collection process for GHG emissions.
 2. Our disclosed emissions data is limited to Scope 1 emissions from mobile combustion and Scope 2 emissions from purchased electricity (gross emissions without offsetting), due to data availability. Scope 1 emissions are calculated based on emission factors from Department for Environment, Food & Rural Affairs (DEFRA) 2024. Scope 2 emissions are market-based and calculated based on location specific emission factors.
 3. We are currently refining our methodology and data gathering.

Source: Bank Negara Malaysia

³ Scope 1 emissions are direct GHG emissions from sources owned or controlled by BNM (as per GHG Protocol).
⁴ Scope 2 emissions are indirect GHG emissions associated from the consumption of purchased electricity, heat or steam (as per GHG Protocol).
⁵ This figure represents the best available data that covers majority of emissions from both Scope 1 and Scope 2, as aligned with the SBTi target setting recommendation. It excludes certain emissions from Scope 1 due to data limitation.
⁶ The increase in emissions from 2022 to 2023 was primarily attributed to our new MyMint facility and changes in our working arrangements post-pandemic.

Diagram 12: BNM's Key Focus Areas for 2025



Build financial sector resilience against climate and environment-related risks

- Further enhance CCPT and explore threshold-based screening criteria.
- Ensure credible implementation of CCPT and CRMSA.
- Conduct industry-wide Climate Risk Stress Testing (CRST) including risk quantification and assessment.
- Strengthen climate and environmental surveillance and monitoring.
- Support credible transition planning by financial institutions.
- Review regulatory policies, where appropriate, to remove frictions to climate finance.



Understand and measure impacts of climate and environment-related physical and transition risks on the macroeconomy

- Continue to develop suitable models or tools to enhance forecasting and scenario analyses.
- Conduct research to deepen understanding of the interaction between climate, nature and economy, and nature-based solutions.



Advance orderly and just transition towards net zero

- Continue with advocacy, advisory and support on development and implementation of key national policies such as National Adaptation Plan, carbon pricing, circular economy, CCUS framework and etc.
- Continue to support real sector transition through pilot projects such as Greening Industrial Parks, Greening Value Chain, Green AgriTech and Protection Value Chain.
- Operationalise Climate Finance Innovation Lab (CFIL).
- Explore feasible financial structures for nature-based solutions.



Integrate climate and environment in internal operations

- Finalise and implement internal climate target and BNM's Transition Plan, including internal framework and policies for measurement and disclosures.
- Continue to build internal capacity on climate.
- Intensify internal communication and information flows on climate and sustainability initiatives.



Offer thought leadership in regional and international fora

Actively engage in international fora via NGFS, ASEAN Taxonomy Board, ASEAN Chairmanship etc.

Source: Bank Negara Malaysia