

Towards a Greener Financial System

We remain committed in our climate journey and that of the financial industry. Our approach focuses on strong governance, adaptive strategies, and practical measures. One key initiative is the Climate Finance Innovation Lab (CFIL) to fast-track climate and nature-positive projects in Malaysia. This and other efforts support a stable financial system and enable a smooth and credible transition for the economy.

Introduction

In 2025, global political shifts and renewed debates on climate commitments created uncertainty. At the same time, climate impacts became more visible domestically. Floods, heatwaves and other extreme events damaged homes and businesses, putting lives and livelihoods at risk. These events reminded us to stay focused on building a climate-resilient financial system.

Our approach in 2025 centred on driving innovation and collaboration (Diagram 1). We placed attention on transition and adaptation solutions. We continued to build climate resilience across the financial system. During Malaysia's ASEAN Chairmanship, we also provided platforms to develop avenues that support funding of regional projects.

Diagram 1: BNM's Climate Approach Over the Years



Source: Bank Negara Malaysia

We also promoted financing models that can speed up transition, including for the ASEAN Power Grid (APG).¹ These efforts reflect our commitment to shaping credible climate strategies for Malaysia and the region at large.

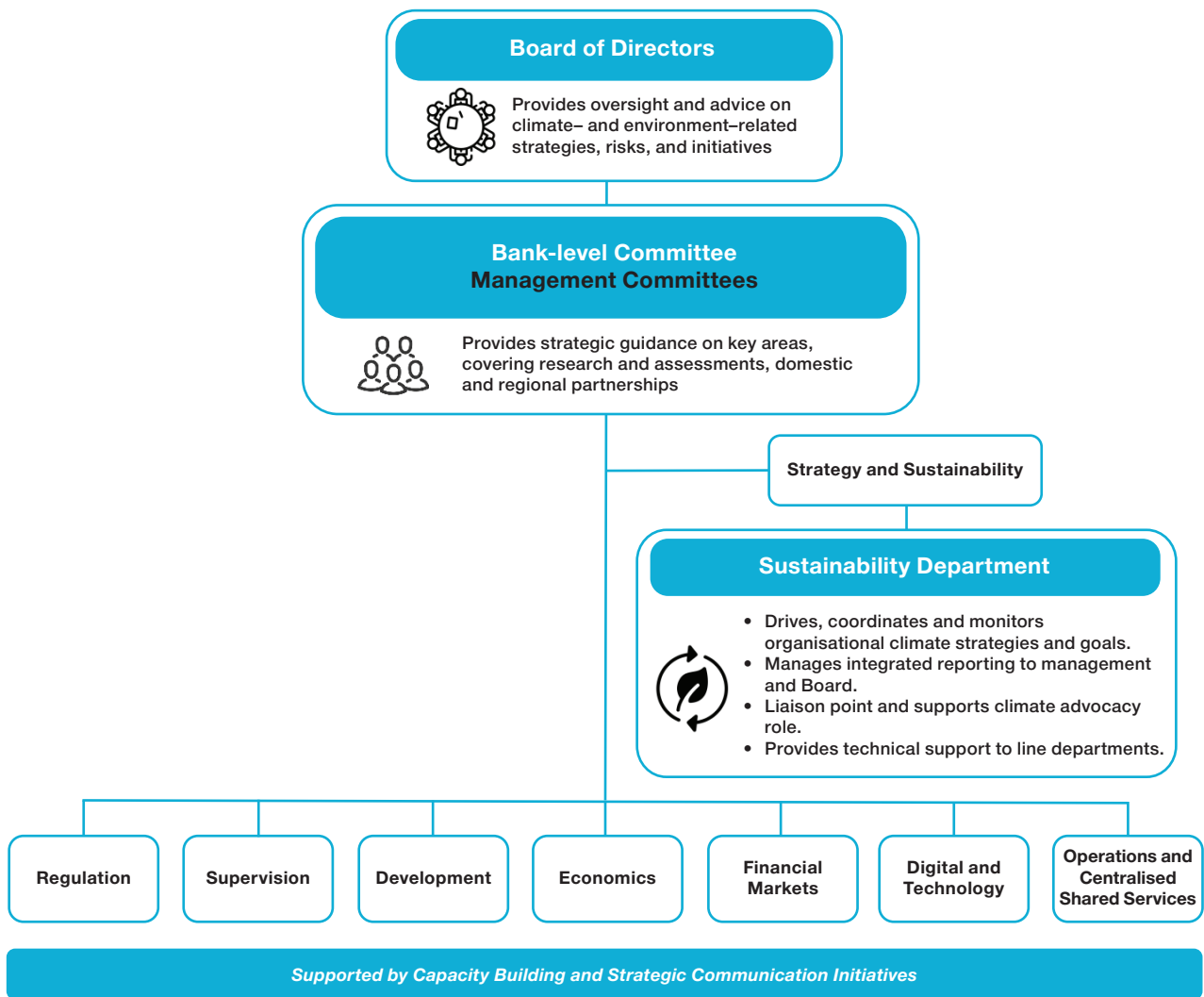
As an organisation, we also ramped up efforts to green our operations. This included improving how we measure our emissions and strengthening its disclosure. We are guided by the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)² and the Guide on Climate-related

Disclosure for Central Banks³ by the Network for Greening the Financial System (NGFS) to ensure credible and transparent disclosure.

Strengthening Our Climate Governance and Driving BNM’s Climate- and Environment-Related Strategies Forward

Climate considerations are well-integrated within BNM. Our governance structure ensures that we stay ahead of climate- and environment-related risks⁴ (Diagram 2).

Diagram 2: BNM’s Climate Governance Structure



Source: Bank Negara Malaysia

¹ The ASEAN Power Grid (APG) is the shared vision of ASEAN Member States (AMS) for fully integrated grid operations in Southeast Asia by 2045. The APG holds great promise for promoting regional economic integration and growth, enhancing energy security and accelerating clean energy transition.

² A globally recognised framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

³ A guide that serves as a complement to the TCFD recommendations, providing additional guidance for central banks that are taking their first steps in climate-related disclosure.

⁴ More information on BNM’s climate governance structure and the role of the Board and senior management can be found in the ‘Strengthening Our Climate Governance’ section in chapter on ‘Towards a Greener Financial System’ of Bank Negara Malaysia’s Annual Report 2024.

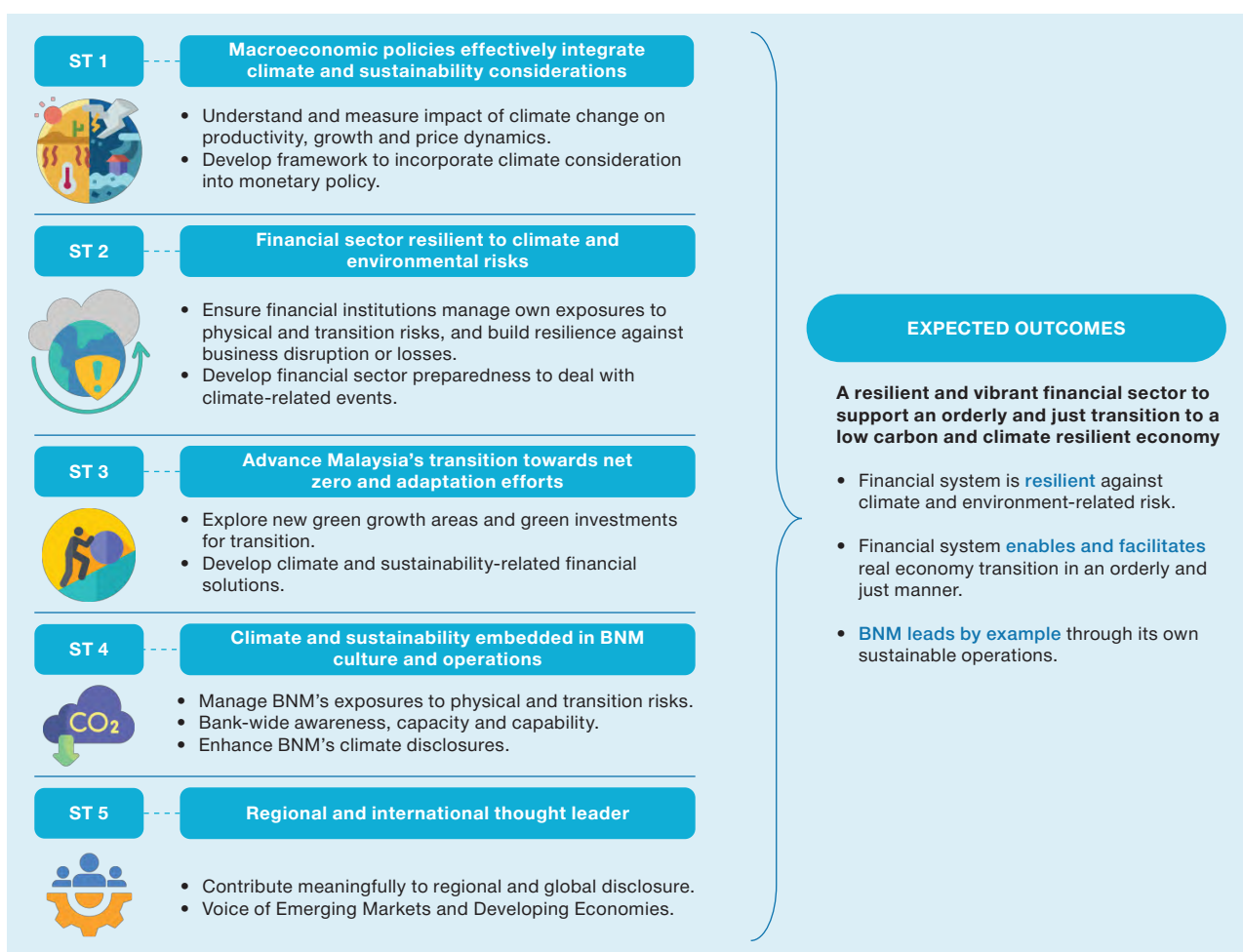
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In 2025, we made further progress on our climate- and environment-related initiatives across our core functions. Five strategic thrusts guided our work (Diagram 3). This is also aligned with BNM's Business Plan and the Financial Sector Blueprint 2022–2026.

Our strategies cover macroeconomic policies, financial sector resilience, national transition, internal initiatives and thought leadership (Diagram 4). These align closely with BNM's mandates and national climate and environmental plans. Internationally, BNM continued to advocate for global collective action through the NGFS and other global platforms (Diagram 5). Through these engagements, BNM consistently highlights the unique transition challenges faced by emerging economies. This ensures greater inclusivity when global commitments or best practices are discussed.

During Malaysia's ASEAN Chairmanship, we supported the development of the ASEAN Taxonomy for Sustainable Finance Version 4. As in the past, we led the work on setting thresholds – this time for the manufacturing sector. The taxonomy remains a key framework that provides consistent definition and application of green and transition finance across the region. We also directed focus on improving access to finance to support a just and climate-resilient transition. We secured strong interest to fund the ASEAN Power Grid, including support from financial institutions, multilateral development banks, philanthropic capital providers and other partners. We also expanded the Greening Value Chain (GVC)⁵ programme to ASEAN member states to help SMEs in the region transition. Specifically, we partnered with the Asian Development Bank and United Nations Development Programme

Diagram 3: Strategic Thrusts (ST) of BNM's Climate and Environment-Related Strategies



Source: Bank Negara Malaysia

⁵ Supports SMEs in reducing their carbon footprint through technical training, emission reporting tools and financing.

Diagram 4: Progress of Key Initiatives in 2025

STRATEGIC THRUST 1

Macroeconomic policies effectively integrate climate and sustainability considerations



Enhanced understanding of the impact of climate-related shocks and risks on the macroeconomy and implications for monetary policy.



Continued strengthening of modelling capabilities to assess climate-related impacts on the macroeconomy.

STRATEGIC THRUST 2

Financial sector resilience to climate- and environment-related risks



Enhancing management of climate- and environment-related risks

- Analysed CRST¹ submissions from Cohort 1² financial institutions and facilitated peer learning³ with Cohort 2⁴. Insights will inform capacity-building initiatives and guide refinements for future CRST exercises.
- Revised CRMSA⁵ on 17 March 2025, mandating all financial institutions to produce climate-related disclosures aligned with the National Sustainability Reporting Framework (NSRF) in phases starting 2025, enhancing transparency and comparability of disclosures.

Supporting understanding of nature-related risks

- Piloted the TNFD LEAP⁶ approach with three financial institutions and two corporates from the agriculture and construction sectors to understand current state of nature-related risk assessments and disclosures in Malaysia. Further details in the section on Addressing Nature-Related Financial Risks.

Development of Malaysia Taxonomy

- BNM and Securities Commission Malaysia (SC) are jointly developing the Malaysia Taxonomy to guide financial sector players in mobilising climate and sustainable finance.

STRATEGIC THRUST 3

Advance Malaysia's transition towards net zero and adaptation efforts

Advocacy and advisory on execution of national policies

- Conducted internal research on current challenges that affect effective implementation of adaptive policies.
- Advocated nature-based solutions to complement Government's existing flood mitigation plans and strengthen community resilience to floods.



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.
- Hosted closed-door roundtable session between iron and steel industry players, financial sector and Ministry representatives to discuss and enhance transition finance solutions for the industry.

STRATEGIC THRUST 4

Climate and sustainability embedded in BNM culture and operations

Reducing energy usage



Set indoor air-conditioning temperature at 24°C–25°C for main and selected premises.



Lights off at 7:00 p.m. for main premises (manually switch on if needed).



Limit operational duration of 296 water dispensers at main premises to 12 hours daily.



Greening our currency operations



Issued fit notes during festive seasons, supplemented by new notes when necessary (as much as 67% fit notes issued in 2025).

Captured about 360 MWh energy generated from waste-to-energy⁷ method for disposal of banknotes.



Successfully conducted proof of concept exercise for the recycling of polymer and paper banknotes.



Implemented incentive programme for coin processing to increase efficiencies in coin recirculation, with an increase of 72% of coins recirculation compared to 2024.

Working to produce a product carbon footprint for the entire currency ecosystem to better understand and manage currency emissions. Inputs received from currency suppliers, financial institutions and registered currency processors.

Recycling of electronic waste



Recycled over 216.5 kg of electronic waste, 17.3% increase from 2024.

Factoring in sustainability in our investments

- 1 Portfolios are internally measured across ESG metrics (i.e. ESG and carbon emission scores).
- 2 Gradual increase in exposure to ESG-label instruments.
- 3 Keeping abreast with latest market landscape and actively engaging with NGFS and BIS.

Increasing internal technical expertise

- Continuation of climate as a learning topic in programme for new hires (Taking Off Programme) and supervisors (Supervisory School).
- Continuation of Climate Change e-Module training for staff to better understand climate risk.



Active internal communication on climate and sustainability



Brown bag session on Switching to Green: The Journey of an Eco-friendly F&B Operator, to educate BNM F&B vendors on eco-packaging



Forum posts and quizzes

STRATEGIC THRUST 5

Regional and international thought leader

Plenary member in the Network for Greening the Financial System (NGFS)

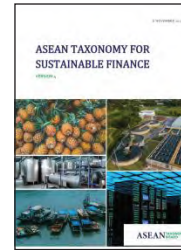
- Continued to offer valuable insights into transition challenges faced by emerging economies to shape NGFS guidance to central banks.



Sustainability Director, Shasha Kartini Ridzam highlighted BNM's initiatives in assessing and managing nature-related financial risk as a panellist at the ECB-NGFS Workshop: *Vanishing Nature, Rising Risk: A Central Banking and Supervisory Lens on Ecosystem Degradation*

Member of ASEAN Taxonomy Board

Published Version 4 of the ASEAN Taxonomy in November, which includes the complete Foundation Framework and technical screening criteria for all six focus and three enabling sectors of the Plus Standard.

**ASEAN 2025 Chairmanship**

Supported Malaysia's ASEAN Chairmanship and Priority Economic Deliverables (PEDs) through initiatives to catalyse access to finance for a just and climate-resilient transition.

- Garnered interest to participate in the ASEAN Power Grid Project (APG) given substantial investments needed to upgrade and modernise the infrastructure. This was done through the organisation of two investor roundtables in Kuala Lumpur and Hong Kong.
- Collaborated with multilateral stakeholders to advance the Greening Value Chain (GVC) programme within ASEAN and published a playbook to assist in decarbonisation of small and medium enterprises.
- Conducted a series of technical workshops (in collaboration with Asian Development Bank and United Nations Development Programme) as part of ASEAN regional roll-out of GVC pilot, commencing with Cambodia and Indonesia.

¹ Climate Risk Stress Testing.

² Cohort 1: Domestic banking groups, selected locally incorporated foreign banks, and insurers and takaful operators (submission by 30 June 2025).

³ Further details on capacity building initiatives relating to CRST are in the chapter on 'Promoting Financial Stability' of Bank Negara Malaysia's Annual Report 2025.

⁴ Cohort 2: Other banks, development financial institutions, and insurers and takaful operators (submission by 31 December 2025).

⁵ Climate Risk Management and Scenario Analysis.

⁶ Locate, Evaluate, Assess and Prepare.

⁷ 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' of Bank Negara Malaysia's Annual Report 2025.

Source: Bank Negara Malaysia

in developing the playbook for ASEAN GVC.⁶ The rollout of the GVC pilots in Cambodia and Indonesia indicates growing interest in facilitating SMEs in the region to stay competitive and build resilience within the global supply chain.

Enhancing our regulatory focus

A strong regulatory foundation is critical for managing climate-related risks. In 2025, we enhanced supervisory expectations and guidelines to strengthen how financial institutions identify and manage climate risk. We continued to improve the credibility and consistency of financial institutions' reporting under the Climate Change and Principle-based Taxonomy (CCPT). Supplementary documents for the CCPT issued

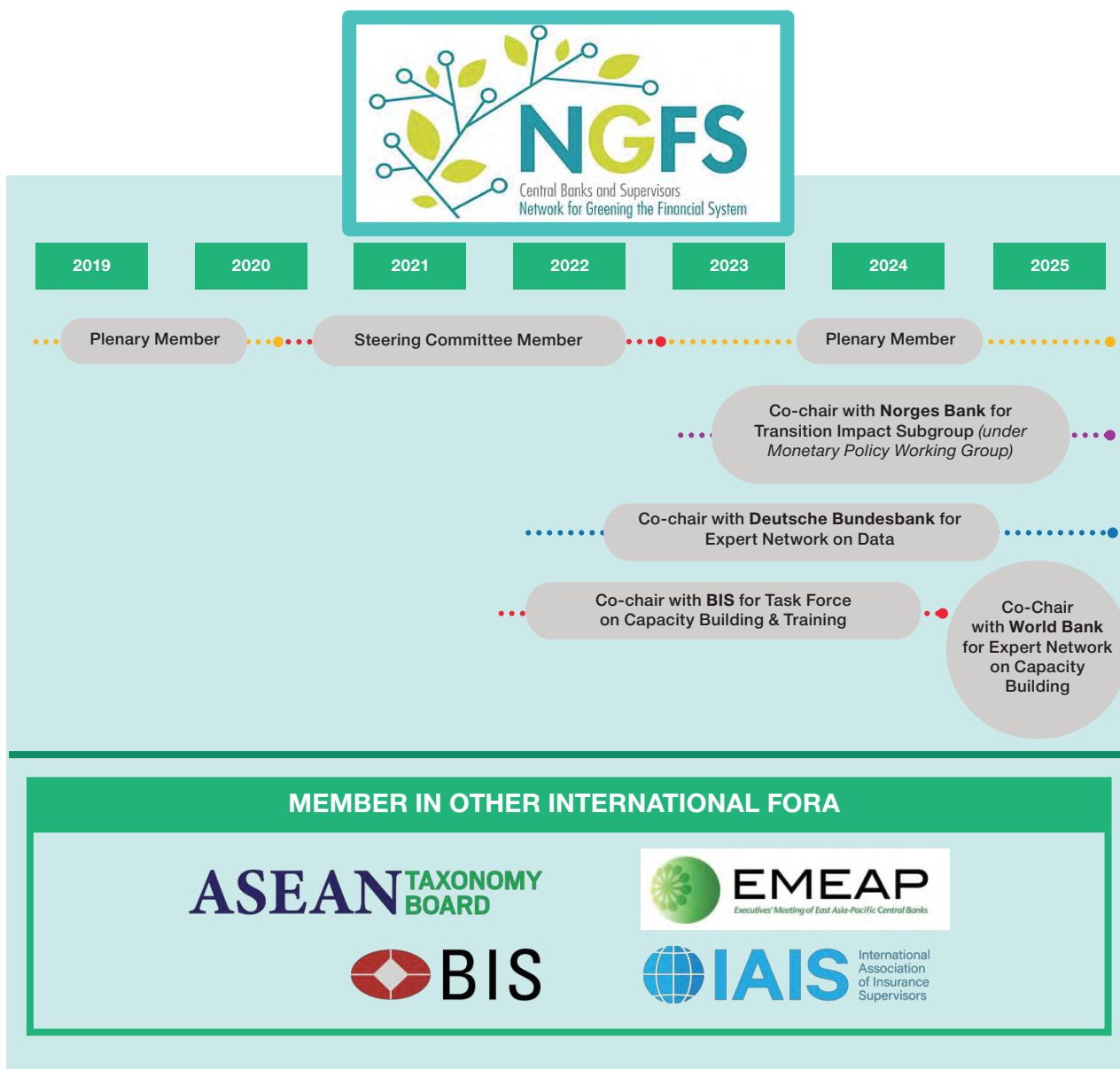
⁶ Further details on Priority Economic Deliverables (PEDs) are in the chapter on 'International Engagements' and the feature article on 'Malaysia's 2025 ASEAN/ASEAN+3 Chairmanship: Advancing Inclusive and Sustainable Economic Growth for ASEAN and Malaysia' of Bank Negara Malaysia's Annual Report 2025.

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through the Joint Committee on Climate Change (JC3) facilitated more effective assessments by financial institutions. We also simplified and harmonised information submission to financial institutions to ease the burden of customers. We ran the first industry-wide climate risk stress testing exercise in 2025. To support this exercise, we issued reporting templates to capture how financial institutions apply the Climate Risk Stress Testing (CRST) Methodology Paper released in 2024.

A credible plan is key to a smooth climate transition. We worked with financial institutions to better understand their challenges in developing credible transition strategies. We held technical clinics that zoom in on various aspects of the transition plan. These include implementation strategies, governance and engagement, and metrics and science-based targets. These clinics helped build the capacity of staff in financial institutions who are responsible for their institutions' transition plans.

Diagram 5: Evolving Role of BNM in the NGFS and Other International Fora



Note: Further details on role of BNM in international fora are in the chapter on 'International Engagements' of Bank Negara Malaysia's Annual Report 2025.

Source: Bank Negara Malaysia



Governor Rasheed encouraged the mobilisation of different pools of capital to fund climate projects through his keynote address at the AVPN Global Conference 2025, Hong Kong



Assistant Governor Madelena Mohamed emphasised the importance of robust climate protection solutions in her keynote address at the Institute and Faculty of Actuaries (IFoA) Asia Conference 2025, Kuala Lumpur



Yuki Yasui, Managing Director of GFANZ Asia Pacific Network sharing insights on the inclusion of metrics and targets in transition plan frameworks for financial institutions at the Transition Planning Clinic 4, Kuala Lumpur

Enhancing awareness and understanding

Issues surrounding climate and sustainability continue to evolve rapidly. This requires us to engage widely to keep pace with what is happening on the global and domestic fronts. This included speaking to external experts who shared practical industry insights. Within BNM, to keep everyone abreast, we issued postings, conducted brown-bag sessions and e-learning modules. These efforts helped deepen understanding of climate- and environment-related risks and BNM's role in managing them.

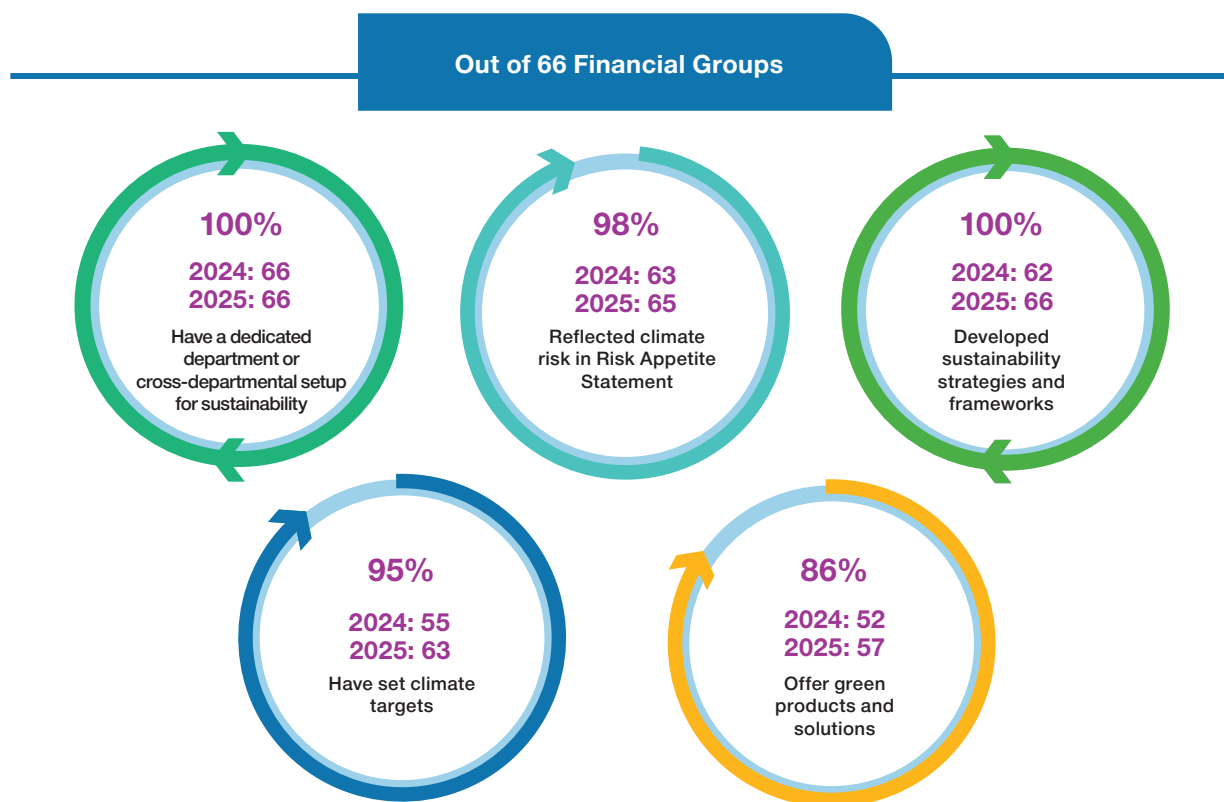
Advancing Climate Action in the Financial Sector

The financial sector plays an important role in Malaysia's shift towards a greener economy. Thus far, financial institutions have made inroads in embedding climate considerations in risk management, business strategies, operations and product development (Diagram 6). This shift has been supported by practical tools and frameworks that help financial institutions and their clients manage the transition with more confidence. These resources also catalysed change by supporting businesses as they adapt and tap into new opportunities for sustainable growth.

Greater consistency in reporting

Reporting standards under the Climate Change and Principle-based Taxonomy (CCPT) have strengthened across institutions. This improves how financial institutions engage with and advise their clients. The quality of assessment continues to improve. This is also supported by enhanced classifications introduced in 2024.

Diagram 6: Progress Observed in the Financial Industry in 2025



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

The new C5b category allows financial institutions to better identify economic activities that are neither climate-positive nor pose significant harm to the environment.

In 2025, financial institutions also began to implement the National Sustainability Reporting Framework (NSRF). The NSRF builds on the TCFD disclosure recommendations and is aligned with the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB). This strengthens climate-related disclosures across the financial sector. To further support implementation by financial institutions, a guidance document on NSRF is being developed alongside planned training sessions.

JC3 as a platform for innovation and collaboration

The JC3 continued to play an important role in accelerating climate action within the financial sector (Diagram 7). The launch of the Climate Finance Innovation Lab (CFIL) marked a key

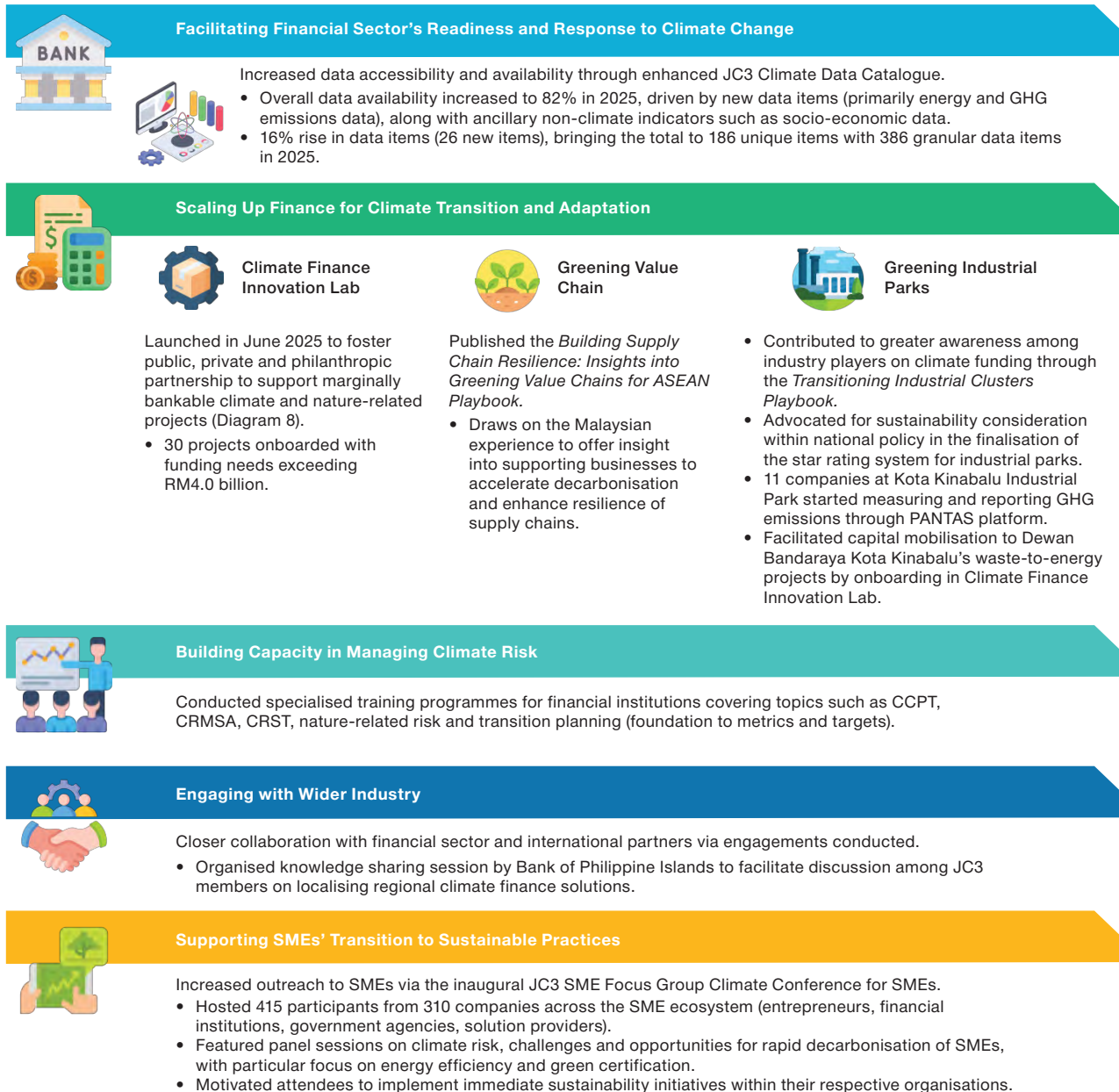
milestone. CFIL connects project developers with potential funders to turn ideas into viable projects. It focuses on creating practical and innovative financing solutions. Qualifying projects gain access to funding, expert guidance, and a strong partner network to help them scale (Diagram 8).

Managing Climate- and Environment-Related Risk Across BNM’s Operations

While much of our work focuses on climate action across the financial sector, it is equally important that we manage the climate- and environment-related risks within our own operations.

Climate- and environment-related risks can disrupt operations, damage assets and affect employee safety. For a central bank, managing these risks is critical to maintain operational continuity and uphold public trust. Our aim is to safeguard critical functions while reducing our environmental footprint in a credible and transparent manner.

Diagram 7: Progress and Deliverables of JC3 in 2025



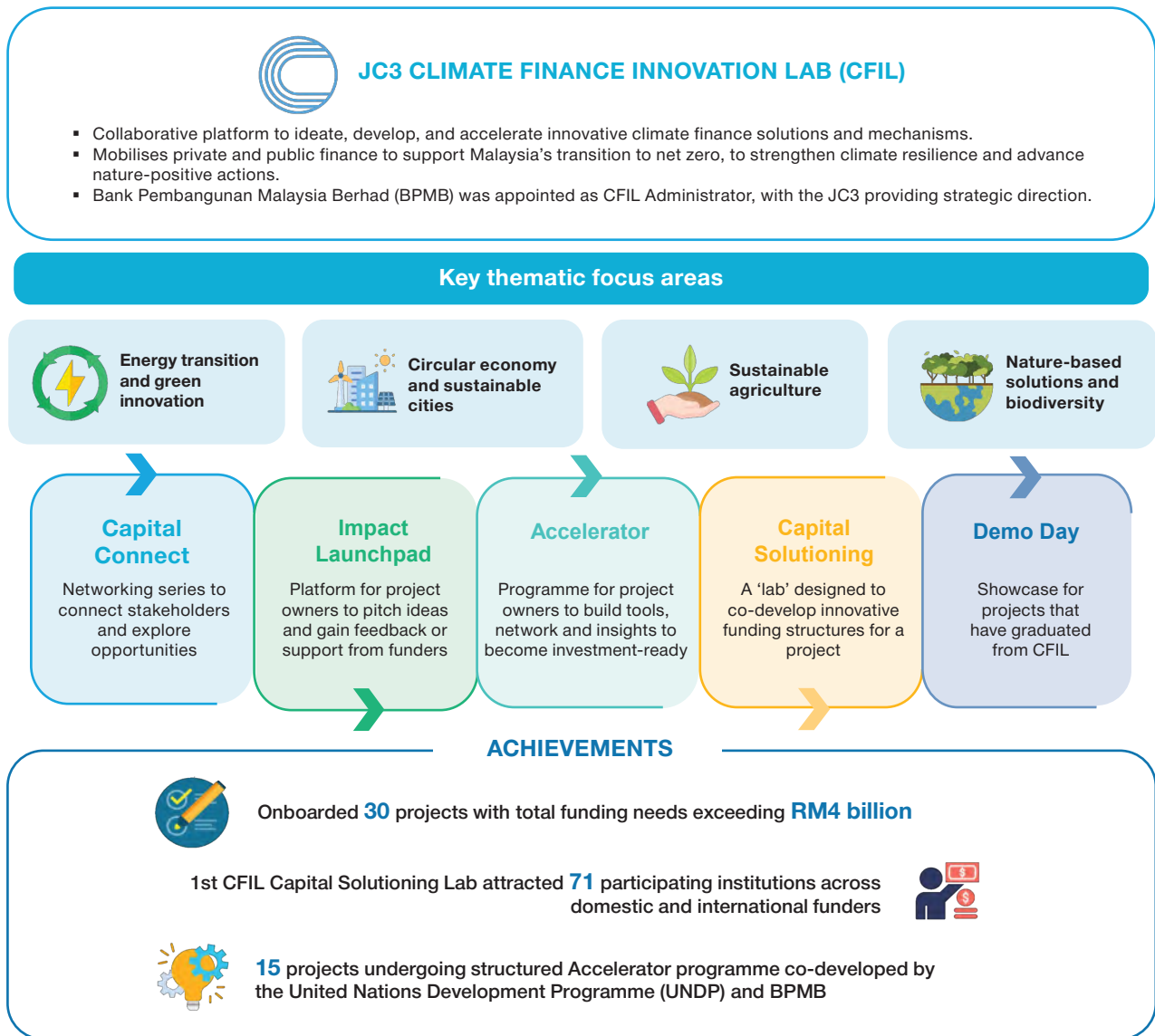
Note: More information on JC3 on the JC3 website (www.jc3malaysia.com).

Source: Bank Negara Malaysia

Assistant Governor and co-chair of Joint Committee on Climate Change Madelena Mohamed reinforced the pivotal role that SMEs play in the national decarbonisation journey in her keynote address at the JC3 SME Focus Group Climate Conference for SMEs, Kuala Lumpur



Diagram 8: Climate Finance Innovation Lab (CFIL)



Panel session featuring speakers representing diverse funding sources during CFIL Accelerator programme



Project owners pitching ideas to funders during CFIL Capital Solutioning Lab

Note: More information on CFIL on the CFIL website (<https://www.bpmb.com.my/mycfil/>).

Source: Bank Negara Malaysia

Enhancing internal risk management

The Board Risk Committee provides oversight on how we manage climate- and environment-related risks within our enterprise risk framework. This strengthens governance and accountability.

In 2025, we strengthened our internal approach to managing these risks. We updated the Enterprise

Risk Appetite Statement to better reflect how we assess and respond to climate- and environment-related risks across our assets and premises. A clearer statement helps protect our buildings, reduce operational disruptions and keep our employees safe.

We also began reviewing our business continuity management (BCM) plans to prepare for

disruptions, such as floods, water shortages and fires. These actions reduce operational vulnerabilities and protect critical financial infrastructure. They also allow us to set a strong example for the industry on good climate-related risk management.

Improving emissions monitoring and management

We are committed to strengthen how we manage emissions from our operations, address data gaps and enhance emissions reporting. With support from experts through technical engagement, we now have a method to measure, track and report emissions from our physical operations and currency-related activities. This has improved the accuracy of our emissions measurement and guided refinements to our internal sustainability dashboard. It is also aligned with global standards under the Greenhouse Gas (GHG) Protocol and considers various scenarios. Over time, we will expand these strategies to encapsulate other parts of our operations. These will inform the development of a credible transition plan for BNM.

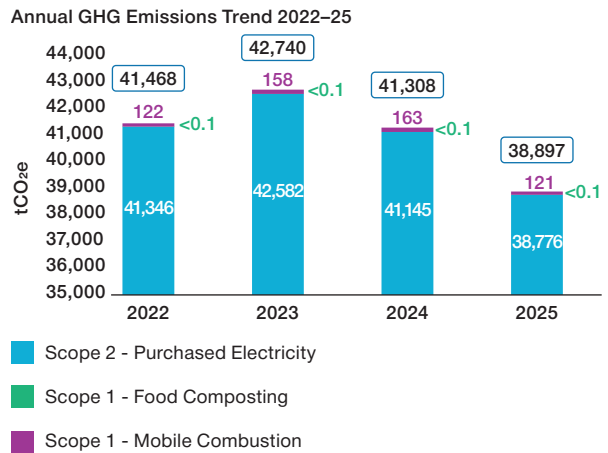
The targeted carbon reduction initiatives and asset rationalisation across our operations have begun to yield outcomes (Chart 1). To manage Scope 2 emissions, we rolled out measures such as using electricity more efficiently, raising staff awareness on sustainability, optimising building systems, and investing in energy-saving technologies. We also continued our subscription to the Green Electricity Tariff for key premises, including Sasana Kijang, the Automated Cash Centre, and BNM Headquarters. This helped us avoid the generation of fossil fuel electricity by 21,848 tCO₂e (56% of total Scope 2 emissions) in 2025.

Addressing Nature-Related Financial Risks

Nature-related risks, like climate risks, can lead to financial and economic losses. They can also worsen the effects of climate change. Building on our 2022 study with the World Bank on *An Exploration of Nature-related Financial Risks in Malaysia*, we continued to deepen our understanding of nature-related risks and opportunities. In 2025, we advanced to practical action.

Working with the World Bank and UNDP BIOFIN, we piloted the use of Taskforce on Nature-related Financial Disclosures (TNFD) LEAP

Chart 1: BNM's Gross Carbon Footprint for Physical Operations (Scope 1 and Scope 2), 2022 to 2025



Note: 1. BNM adopts an operational control-based approach to define the organisational boundary for its GHG emissions, aligned with methodology described in GHG Protocol.
 2. Our disclosed emissions data is limited to Scope 1 emissions from mobile combustion and food composting, 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.

Source: Bank Negara Malaysia

(Locate, Evaluate, Assess, Prepare) approach for assessing nature risk. Two economic sectors with strong value chains are used in this pilot.

Three financial institutions and two corporates participated in the pilot, generating practical insights and recommendations to improve nature-related risk and opportunity assessments in Malaysia. The full report will be published in 2026.

Going Forward

Malaysia is strengthening its pathway to net zero by 2050. Two key plans – the Long-Term Low Emissions Development Strategy and the NDC Roadmap – set the direction for emissions reductions and shifting to cleaner energy. New laws and policies, including the climate change legislation and the national carbon market policy, will create the frameworks needed for credible climate action and carbon trading systems.

For the financial sector, these developments signal new opportunities and responsibilities. BNM's priorities for 2026 reflect this, with a focus on nature, climate and institutional readiness to support a smooth transition for the whole economy (Diagram 9).

Diagram 9: BNM's Key Focus Areas for 2026



¹ Climate Risk Stress Testing.

² Joint Committee on Climate Change.

Source: Bank Negara Malaysia