Sustainable Finance Framework

Public Bank Berhad
Public Islamic Bank Berhad

Version I 2024

PUBLIC BANK

Contents

1. Purpose of this Framework

The Public Bank Berhad and Public Islamic Bank Berhad (collectively, "Public Bank Group" or "PBG" or "the Group") Sustainable Finance Framework (SFF) summarises our approach towards sustainable financing opportunities and safeguards.

We are committed to promoting sustainability in businesses and managing environmental, social and governance (ESG) risks from financing activities through ESG due diligence and customer engagement. The evaluation of prospective customers' management of ESG risks, wherever applicable, capitalises on internal Group's processing procedure for application of financing facilities.

Implementation of the SFF supports our ambition to finance priority ESG growth areas, sectors and economic activities to accelerate the achievement of national agenda towards a sustainable and low-carbon economy. Capitalising on market opportunities to finance viable ESG projects and activities also caters to the increasing market demand for ESG-related financing products.

We aim to manage financial and sustainability risks by ensuring operational practices and financing for customers are in alignment with the Group's sustainability commitments.

Notwithstanding the SFF, the Public Bank Group's financing approach is governed by the internal Public Bank Group Credit Policy. The SFF governs the classification of the financing as sustainable financing upon approval.

2. Scope

The SFF covers corporate and retail financing originating from Public Bank Bhd and Public Islamic Bank Bhd, including but not limited to business or consumer loan/ financing, mortgage, overdraft, and trade finance instruments[1].

3. Sustainable Financing Classification Criteria

We classify sustainable financing based on three parameters, namely (1) Use of proceeds, (2) Business profile, or (3) Sustainability linked financing.

[1] The SFF excludes advisory services (i.e. underwriting), equity investments, fund management, and deposits. We practice thematic financing in equity investment & fund management to identify ESG friendly investing opportunities, as well as subject the investments and funds managed to assessment of local taxonomies where applicable such as the Bank Negara Malaysia's Climate Change and Principle-based Taxonomy (CCPT) assessment.

A transaction shall be classified as sustainable finance if one of the three parameters is fulfilled, through process as illustrated in the diagram below:

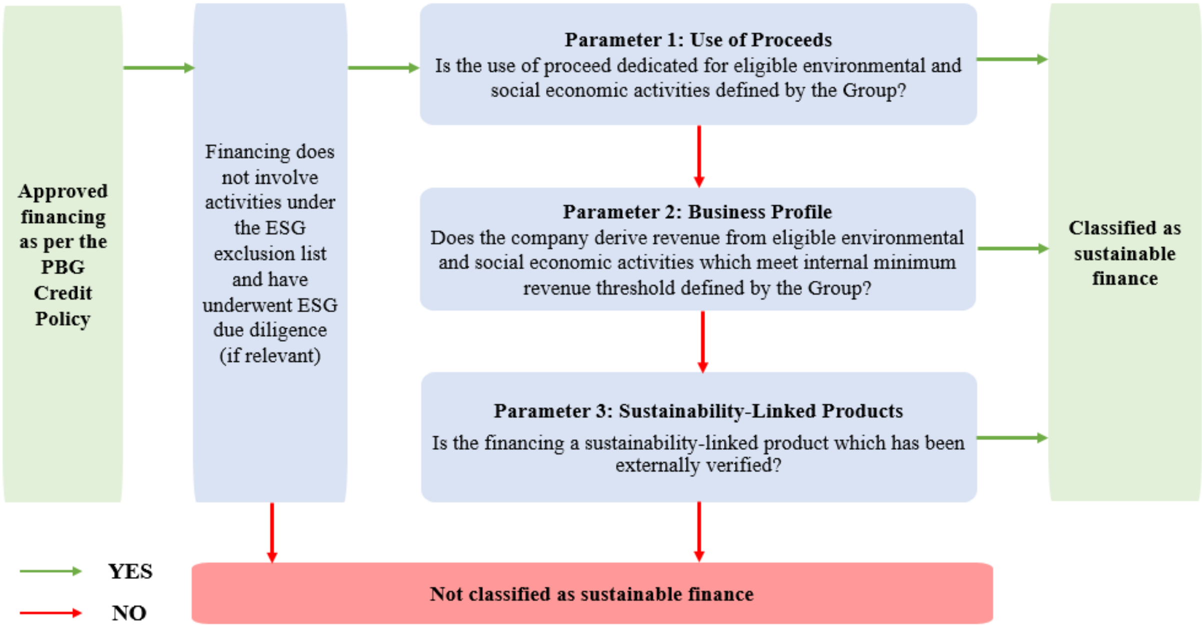

Figure 1: Public Bank Group's classification logic for sustainable financing

3.1 Use of proceeds

To support industry movement towards sustainable practices, we finance environmental and social economic activities which are classified under the 11 eligible environmental and 7 eligible social categories which contribute to environmental agenda, climate change mitigation, climate change adaptation, or social agenda to support low income, underserved communities and disadvantaged groups.

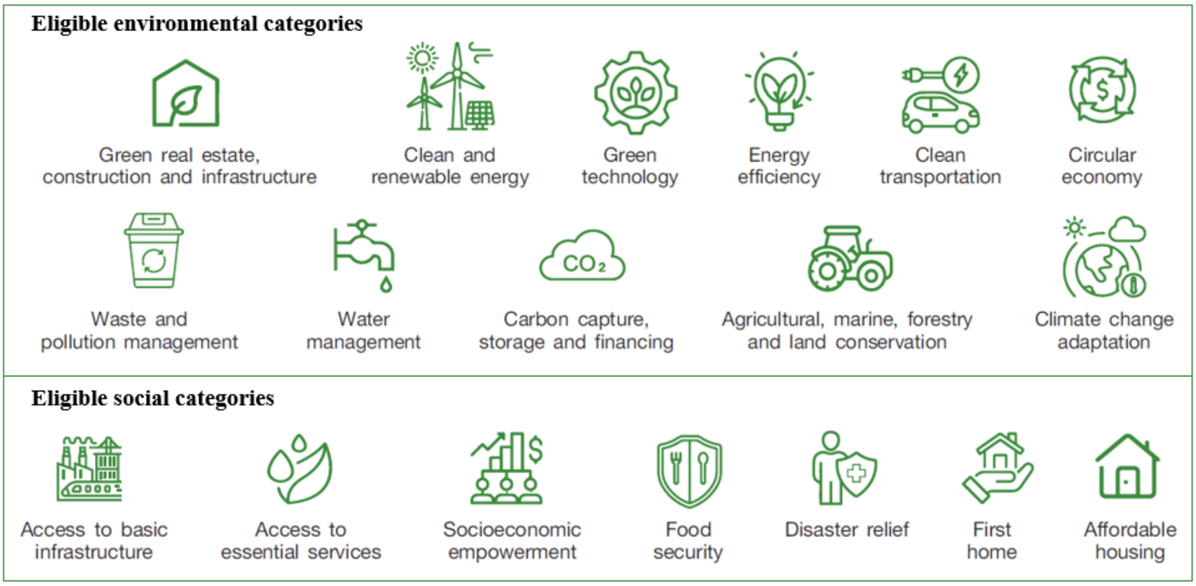

Figure 2: Public Bank Group's eligible categories for sustainable financing

The eligible economic activities are aligned on best effort basis with internationally recognised standards such as Loan Market Association (LMA), Loan Syndications & Trading Association (LSTA), Asia Pacific Loan Market Association (APLMA) Green/ Social Loan Principles and where relevant, eligible economic activities are adapted to the local context.

The list of eligible economic activities are captured under The Sustainable Products and Services Guideline (SPSG) to operationalise the classification process based on defined criteria[2] and to drive the Group towards its sustainable financing targets. The eligible economic activities in the SPSG consist of environmental and social economic activities guided by qualitative or quantitative criteria.

Sustainable financing which qualify under the use of proceeds criteria includes those which are certified or aligned with recognised loan/ financing standards. Such financing has developed loan/ financing framework aligned with recognised loan/ financing standards (i.e. LMA/ LSTA/ APLMA Green/ Social Loan Principles) and has obtained external review.

3.2 Business profile

In the event where financing is catered for general corporate purposes and the use of proceeds is not specified, sustainable financing will be assessed based on the customer's business profile.

Financing for companies which generate revenue from eligible economic activities shall meet the internal minimum revenue threshold to be classified as sustainable financing. PBB takes into consideration the intrinsic nature of businesses and core business offerings which create positive environmental and social impacts.

3.3 Sustainability-linked products

Sustainability-linked products refer to financing instruments (i.e. loan/ financing) for which the pricing, margin of advance and incentives offered to customers are linked to the customer's pre-determined sustainability performance targets (SPTs). There are no restrictions placed on the use of proceeds and financing is usually granted for general corporate purposes.

The objective of the sustainability-linked loan/ financing is to drive sustainable impacts within a defined timeframe within which customers must obtain external review of performance level against each SPT on an annual basis, conducted by a credible external provider.

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[2] The list of environmental economic activities and social economic activities is non-exhaustive. In event use of proceeds do not fall under the listed economic activities, classification as sustainable financing is subject to approval with technical review.

3.4 Monitoring & Disclosure

We practise due diligence when classifying a transaction as sustainable financing. Our relationship managers will liaise with customers to obtain relevant supporting documents for verification purpose and conduct periodic monitoring on the financing. The on-boarding of sustainable financing is subject to deliberations and approved by Credit Committee based on credit approving authority.

4. ESG Exclusion List & Due Diligence

It is our goal to screen financing from material risk of environmental or social impacts. We ensure that relevant transaction and business of the sustainable financing meet the following requirements and if required, additional due diligence based on the nature of financing.

a) Fulfil all national laws and legislative requirements

b) Do not engage in activities under the ESG exclusion list

c) Undergo ESG due diligence for selected non-retail customers

4.1 ESG Exclusion List

Aligned with our risk appetite, we refrain from engaging in financing of activities contained in the ESG Exclusion List and strive to engage with businesses generating positive sustainability impact. We will not knowingly finance business which engages in the following activities:

	Activities
Illegal activities	Individuals or corporations whose activities contravene the law
	Money laundering and/or terrorism financing and/or proliferation financing activities
	Illegal activities including, but not limited to illegal betting, drug trafficking and smuggling, human trafficking
Biodiversity loss, loss of High Conservation Value areas and deforestation[3]	Activities that could damage any World/National/UNESCO heritage sites[4]
	Activities that could damage any Wetlands on the RAMSAR list
	Activities that could damage any areas as per the International Union for Conservation of Nature (IUCN) categories I to IV
	Activities that could damage any Key Biodiversity Areas
	Activities that involve production and trading of or activities that result in loss of endangered species of wild flora and fauna as per Convention on International Trade in Endangered Species (CITES), Convention on the Conservation of Migratory Species of Wild Animals (CMS) and IUCN Red List of Threatened Species
	Logging of or trade in illegally harvested or uncertified timber as well as logging in uncertified primary forests
	Activities that could damage any high conservation value forests
Environmental Degradation	Coal mining, coal production activities and new coal fired power plants
	Activities which endanger local water security
	Activities that cause pollution beyond legally allowable limits
	New planting or development on peatlands
Human Rights	Activities causing human rights violations including child labour, forced labour and trafficked labour.
	Activities resulting in the infringement of the rights of indigenous and/or vulnerable groups without their Free, Prior and Informed Consent (FPIC)
	Activities that violate the rights of local communities or those that take place in locations of significant social conflicts

Figure 3: Public Bank Group's ESG Exclusion List

[3] Activities or projects approved by the Federal Government/ State Government are exempted from the exclusion list.

[4] Activities or projects which will not reduce the Outstanding Universal Value of a site with consent from government authorities and United Nations Educational, Scientific and Cultural Organization (UNESCO) are exempted from the exclusion list.

4.2 ESG Due Diligence

To manage ESG risks arising from our financing activities, customers are subjected to ESG due diligence process. The purpose of the ESG due diligence is to assess the vulnerability of customers to environmental, social, and governance pillar and to identify opportunities for remediation actions. The assessment is including but not limited to the following considerations:

Environmental	Social	Governance
• GHG emissions	• Health & Safety	• Legal compliance
• Resource efficiency	• Human rights	• Policies & guidelines
• Pollution management	• Community Engagement	• Certification
• Biodiversity		• Cybersecurity

Figure 4: Public Bank Group's ESG risk assessment criteria

5. HERS Position Statement

We have identified nine (9) High ESG Risk Sectors (HERS) guided by various international publications on climate risk taxonomies. These identified sectors have potential to effect adverse environmental and social impacts.

To showcase our approach towards the HERS, our HERS Position Statement is maintained in the Group's corporate sustainability website and will be updated periodically.

6. Governance over the Sustainable Finance Framework

The Board and Board Sustainability Management Committee (BSMC) provide oversight on the SFF while management committees strategise for effective operationalisation of the SFF.

7. References

The SFF is developed with reference to the following principles and standards, among others:

- Loan Market Association (LMA), Loan Syndications & Trading Association (LSTA) and the Asia Pacific Loan Market Association (APLMA) Green, Social, & Sustainability-linked Loan Principles [dated February 2023]
- United Nations Sustainable Development Goals (UNSDGs)
- Bank Negara Malaysia (BNM) Climate Change and Principle-based Taxonomy (CCPT) [dated 30 April 2021]
- Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Working Group VBIAF Sectoral Guide [dated 31 March 2021/ 22 March 2022]

8. Document Review

The SFF will be reviewed annually and updated as deemed necessary.