PNB Nature and Biodiversity Policy ("Policy")

Frequently Asked Questions ("FAQ")

1. What are the definitions of the Key Material Issues with examples?

- **Climate change impact on nature and biodiversity**
  This relates to how rising temperatures and changing weather patterns can damage forests and agriculture crops, which can lead to fewer pollinators, lower crop productivity and broader ecological and economic impacts.

- **Conservation in land, freshwater and ocean ecosystems**
  This relates to the conversion or modification of natural habitats. For example, land clearing for infrastructure development and agriculture, extraction of minerals from the ocean floor and other human activities that can have severe consequences for biodiversity and the health of ecosystems. This includes protecting High Carbon Stock (HCS) forest areas, High Conservation Value (HCV) areas and protected areas, as well as minimising impacts on groundwater levels and water quality.

- **Sustainable resource use and replenishment**
  This relates to responsible consumption practices to ensure natural resources are not depleted faster than they can be renewed in order to maintain the health and productivity of ecosystems. This also includes prohibition of harvesting and illegal trade of endangered species and their habitats.

- **Pollution reduction and biodiversity protection**
  This relates to efforts to minimise the release of harmful substances into the environment. Reducing all forms of pollution and protecting biodiversity by utilising the best available technologies can maintain healthy ecosystems, which are crucial to provide essential services such as air, water and fertile soil.

- **Management and control of invasive alien species**
  This relates to the introduction of plants and animals, either accidentally or intentionally, into habitats outside their natural range. Invasive alien species and can cause biodiversity loss, ecosystem disruption, economic impact as well as pose significant human health risks.

- **Upholding social equity in biodiversity conservation**
  This relates to measures to ensure the rights and needs of local and indigenous communities, including but not limited to land and customary rights, to access natural resources are protected. In addition, it is vital to ensure the benefits of conservation, such as ecosystem services and economic opportunities, are shared equitably among all stakeholders, including marginalised groups.

2. What is the scope of the Policy?

This Policy is applicable to PNB investee companies ("Companies"), both domestic and international, which identify "Nature", "Biodiversity" or any related themes as a priority for their business operations, determined from their own respective materiality assessments. Based on our internal assessment, we have identified sectors which are potentially exposed to nature-related risks. Primary sectors are those which have significant exposure to nature-related risks, whereas secondary sectors may face considerable nature-related risk exposure.

Primary Sectors
- Consumer Staples
- Materials
- Energy
- Industrials
- Utilities
- Real Estate

Secondary Sectors
- Consumer Discretionary
- Communications Services
- Information Technology
- Financials
- Healthcare

Companies operating within the relevant sectors should consider possible alignment with this Policy. This Policy will also apply to PNB and its group of companies, the entities that we own, and the facilities that we manage.

3. How does PNB evaluate compliance of Companies to the Policy?

The Policy outlines among others the Key Material Issues that will be the focus for PNB in its engagements with Companies. The Policy is primarily principle-based, allowing Companies the flexibility to develop their own nature and biodiversity strategies and approaches. We encourage Companies to conduct a materiality assessment to evaluate exposure across their operations and supply chain, identifying how their business activities may impact the Key Material Issues. We will evaluate our Companies' disclosures in the annual, integrated or sustainability reports against our Policy, industry and market trends and benchmarks, evolving regulatory requirements on nature and biodiversity as well as other relevant reference points. This policy will be periodically reviewed and refined, as necessary.

4. What will be the actions taken by PNB if Companies do not comply with the Policy?

PNB will engage with Companies to identify and understand the challenges in adopting the Policy. In line with PNB's Escalation Matrix, there are various investor touchpoints that will be applicable should there be any unaddressed or unmitigated Key Material Issues. In line with our Proxy Voting Guidelines, we may also vote against the re-election of Chairperson or the Chairperson of the Board Sustainability Committee or its equivalent, if the company has not adequately demonstrated appropriate actions and/or disclosed relevant strategies on how material biodiversity issues are managed, particularly if the company operates in an industry that is highly exposed to nature and biodiversity risks.

5. How does PNB conduct materiality testing for Companies?

We employ a range of sectoral, financial and locational materiality tests to ascertain Companies' exposure towards nature and biodiversity risks.

- For sectoral materiality, we refer to multiple publicly available resources such as Science Based Targets Network ("SBTN") sectoral materiality tool, NatureAction100 assessment approach and other relevant guidelines.
- Financial materiality assessments leverage data on Companies' revenue streams to determine their exposure to nature and biodiversity-related activities, assessing the extent to which their business models are susceptible to these risks.
- Location significance is assessed using the Integrated Biodiversity Assessment Tool ("IBAT"), an online platform that maps Key Biodiversity Areas ("KBA") and other environmentally sensitive locations.

6. How did PNB determine the primary and secondary sectors outlined in the Policy?

The compilation of this list is informed by our research into publicly available resources such as the NatureAction100 assessment approach, SBTN, prevailing industry trends, common stakeholder expectations and interests as well as requirements of other institutional investors.

7. Is there a compliance timeline for the Policy?

We did not introduce a specific compliance timeline in this Policy. However, we expect Companies to progressively enhance their strategies, practices and disclosures to effectively manage material nature and biodiversity risks. As part of our stewardship efforts, we are committed to engaging with Companies to share our perspectives and expectations, where feasible.

8. What are the minimum requirements pertaining to nature and biodiversity that PNB expects from its Companies for when the PNB Voting Guidelines come into effect in 2026?

At the very minimum, by 2026 PNB expects public disclosures on the following, particularly for Companies that are highly exposed to nature and biodiversity risks:

- Integration of nature and biodiversity considerations into its sustainability governance structure
- Integration of nature and biodiversity considerations in its strategy, management and decision-making processes
- Acknowledgement and/or resolution of any nature and biodiversity-related controversies/issues faced by the company

9. How should Companies address assets or operations situated in KBAs or environmentally sensitive locations?

Companies should approach the management of such assets or operations in a structured and strategic manner, following the biodiversity mitigation hierarchy. This hierarchy emphasises the following sequential steps:

Avoidance: Prioritise the avoidance of activities that negatively impact sensitive ecosystems. This may involve altering project locations, designs, or schedules to prevent any detrimental effects on natural habitats, ecosystem services and biodiversity.

Minimisation: If avoidance is not feasible, efforts should be made to employ management measures to reduce adverse effects on nature and biodiversity to the lowest possible extent. This may include application of appropriate mitigation measures such as habitat management, controlled water usage, chemical use regulation, eco-friendly material use and other methods to preserve ecological integrity.

Restoration: Implement restoration initiatives to rehabilitate degraded environments and reinstate natural habitats to a state as close to their original condition as possible. This may include reforestation, wetland restoration, soil rehabilitation, erosion control measures and other restoration activities to ensure long-term sustainability of biodiversity in environmentally sensitive locations.

Compensation: As a last resort, if the previous steps cannot fully mitigate the impact, Companies may consider compensation measures that involves creating, restoring or protecting biodiversity in alternative locations to counterbalance the unavoidable impacts. However, it is imperative to acknowledge that Key Biodiversity Areas are highly distinct to specific locales, presenting challenges in precisely quantifying and demonstrating equivalence. Therefore, Companies must employ a rigorous, scientifically-grounded approach to ensure that the compensatory measures provide real, measurable and sustainable conservation outcomes that are equivalent to the biodiversity values impacted.

10. Do all Companies need to adopt an NDPE commitment?

No. We only expect Companies who operate within the Forests, Land and Agriculture ("FLAG") sectors (ie. Forest and Paper, Food Production and/or Food and Beverage Processing) to adopt an NDPE commitment that is in line with industry standards, including deforestation-risk sectors. This commitment should be publicly disclosed to external stakeholders. The scope of coverage for NDPE would include the following:

- **No deforestation**: Companies and their suppliers should commit to zero-deforestation, no-conversion and degradation of natural forests and ecosystems, including protected areas, HCS areas and HCV areas. This includes prohibition of the use of fire for land clearing purposes, and to establish a robust fire prevention and monitoring system.

- **No peat**: Companies and their suppliers should commit to no new development, including drainage or degradation of peatlands or wetlands for agricultural purposes and promoting best management practices for existing plantation on peat. Peat restoration should be considered where feasible.
- **No exploitation**: Companies and their suppliers should treat local communities and workers fairly, by respecting and supporting all internationally recognised human rights, the rights of all workers, children and their welfare throughout the supply chain. This includes zero tolerance towards violence and the criminalization of land, environmental, and human rights defenders.

11. Should Companies or any organisations have further queries on the Policy, how can they reach PNB?

Kindly reach out to sustainability@pnb.com.my for further clarification.