

INVITATION FOR PUBLIC COMMENTS PSX SUSTAINABILITY INDEX (PSI) - CONCEPT PAPER

Pakistan Stock Exchange Limited (PSX) is pleased to release the Concept Paper on the development of the PSX Sustainability Index (PSI). The PSI is a proposed benchmark designed to measure the total return performance of companies that integrate material, financially relevant, sector-specific ESG risks and opportunities into their business models. By doing so, the PSI aims to strengthen Pakistan's sustainable finance ecosystem.

The PSI is relevant mainly for:

- listed companies seeking recognition and access to responsible capital
- asset managers and institutional investors building ESG-aligned products on a credible benchmark
- investors seeking exposure to responsible companies

In line with its commitment to transparency, market consultation, and international best practice, PSX invites comments from stakeholders on the Concept Paper. All stakeholders and interested parties are invited to provide written comments no later than **July 17, 2026**, via email to pd@psx.com.pk.



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PAKISTAN
STOCK EXCHANGE



PSX SUSTAINABILITY INDEX (PSI)

Concept Paper
July 2026



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Section 1: Understanding Sustainability Indices

In today's evolving financial landscape, a sustainability index represents far more than a simple stock market benchmark. The most common and widely recognized form assesses companies based on Environmental, Social, and Governance factors.

Unlike traditional indices that focus solely on market capitalization, liquidity, and financial returns, a sustainability index evaluates companies through a multidimensional lens encompassing their environmental stewardship, social responsibility, and governance practices. These specialized benchmarks spotlight firms that are not only expected to deliver financial performance but also manage risks effectively, contribute positively to society, and demonstrate accountability to a broader set of stakeholders beyond shareholders.

Sustainability is the ability to maintain or support economic, environmental, or social processes over time without depleting natural resources. Companies that demonstrate strong performance across these dimensions are generally considered candidates for inclusion in a sustainability index.

(Investopedia)

By blending sustainability metrics with traditional financial parameters, a sustainability index provides investors with a more complete picture of a company's durability and potential for sustained value creation.

Sustainability indices serve practical purposes for today's investors. They enable the construction of investment portfolios - whether through exchange-traded funds, index funds, or actively managed strategies - that align financial objectives with broader values and long-term stability considerations. As global challenges intensify, from climate disruption to social inequality, sustainability indices offer tools for navigating these complexities while assessing how well companies are positioned to thrive amid regulatory changes, shifting consumer preferences, and evolving stakeholder expectations.



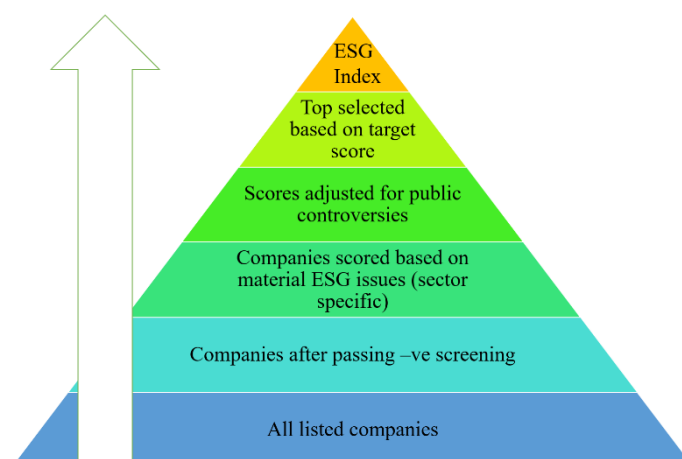
Section 2: How Sustainability Indices Screen Companies

Sustainability indices use practical yet rigorous methods to identify businesses that can withstand uncertainty and seize opportunities in the shift to a greener and more inclusive economy. Providers such as MSCI, S&P Global, FTSE Russell, and Sustainalytics rely on hundreds of data points drawn from company reports, regulatory filings, and independent assessments to arrive at that conclusion.

Generally, four broad steps are involved:

- **Negative Screening:** Companies engaged in activities inconsistent with sustainable investment principles are excluded. These include thermal coal power, fossil fuel extraction, tobacco, controversial weapons, and other high-risk sectors.
- **Positive Screening:** Firms with strong ESG scores relative to their peers are highlighted. Criteria vary by sectoral materiality:
 - Energy companies are judged on carbon efficiency and renewable transition plans.
 - Technology firms face scrutiny on data privacy, cybersecurity, and ethical AI.
 - Financial institutions are evaluated on responsible lending and climate risk integration.
- **Controversy Deductions:** Companies with serious ESG controversies are penalized by the index committee.
- **Best-in-Class Selection:** Indices balance sustainability goals with investment factors such as liquidity and market capitalization.

Sustainability indices increasingly assess companies on their preparedness for climate transition. This includes decarbonization strategies, alignment with science-based targets, renewable energy procurement, and exposure to stranded asset risks. By combining current ESG performance with future-oriented positioning, sustainability indices highlight companies that manage today's risks and are well placed to thrive in tomorrow's economy.



Section 3: Global Sustainable Investment Trends

The global sustainable investment landscape has demonstrated remarkable growth and resilience despite regional variations and periodic market volatility. As of March 2026, global sustainable fund assets reached approximately USD 3.51 trillion, down from USD 3.90 trillion at year-end 2025 (Morningstar Sustainalytics, Q1 2026 Global Sustainable Fund Flows Report). After a year marked by persistent outflows and shifting investor sentiment, sustainable open-end funds and ETFs attracted USD 3.5 billion in net inflows during the first quarter of 2026 (Morningstar Sustainalytics, Q1 2026). However, much of the decline in assets under management is attributed to market volatility, as investors reacted to trade tensions, geopolitical uncertainty, and broader equity market weakness (Morningstar Sustainalytics, Q1 2026). The important point is that assets have grown nearly sixfold since 2018, from approximately USD 600 billion to USD 3.51 trillion (Morningstar Sustainalytics, Q1 2026).

While the United States continued to experience political and regulatory headwinds with persistent outflows, Europe, which accounts for approximately 85% of global sustainable fund assets, returned to positive momentum with net inflows in the first quarter of 2026 (Morningstar Sustainalytics, Q1 2026). Other regions, including Canada and Australia/New Zealand, maintained modest growth, even as Asia-Pacific markets remained mixed (Morningstar Sustainalytics, Q1 2026).

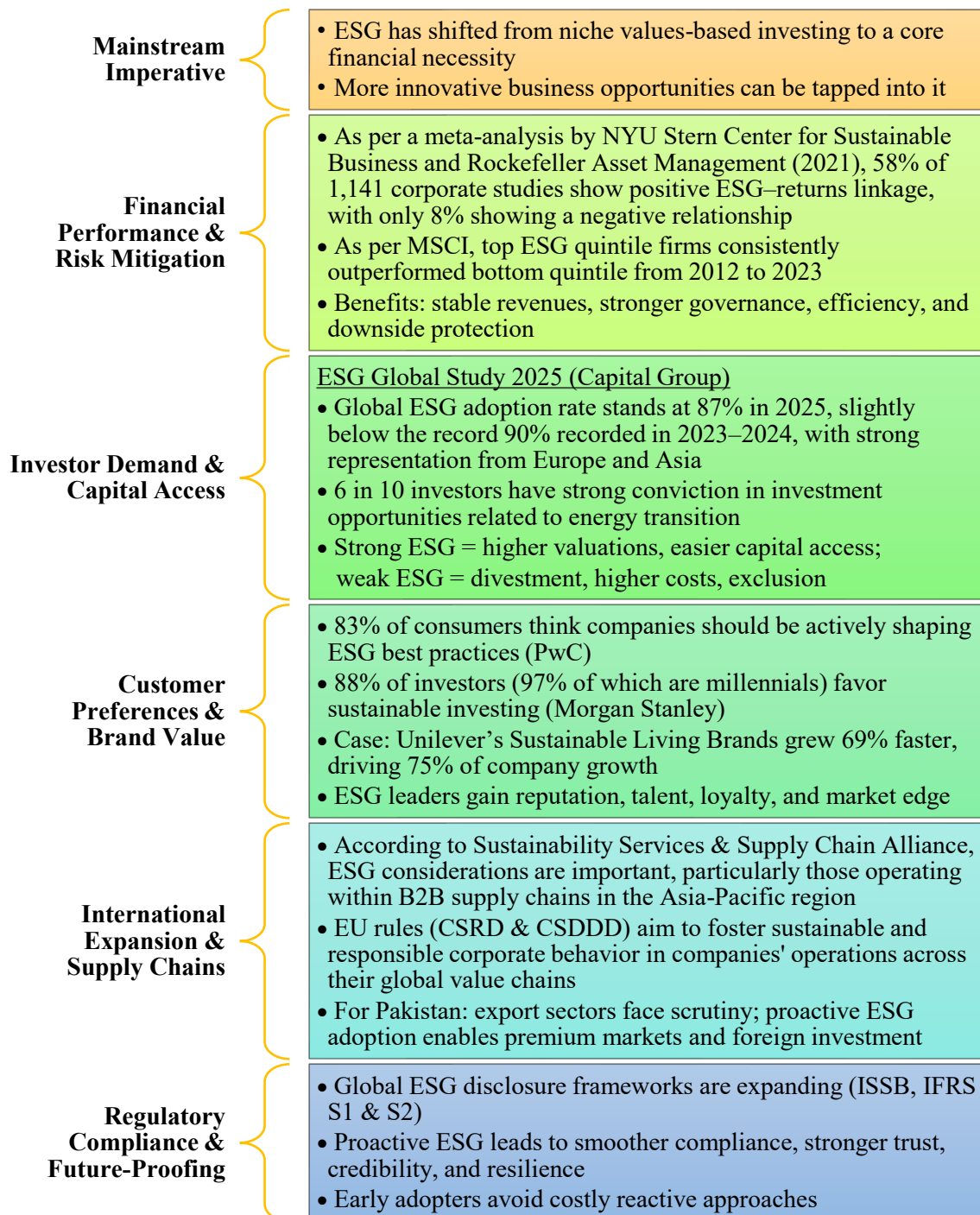
Investor Commitment to ESG

- 79% of investors now consider ESG risk factors *critical* in investment decision-making. (PwC Global Investor ESG Survey, 2021)
- 73% of businesses remained steady with their sustainability commitments despite major political shifts, such as from the US. (MIT Sustainable Supply Chain Lab, State of Supply Chain Sustainability Report, 2025)
- 88% of global individual investors showed interest in sustainable investing, including nearly all surveyed Gen Z (99%) and Millennial (97%) investors.
- Confidence in performance is the top reason for 59% of investors who plan to increase sustainable investments in the next year. (Morgan Stanley Sustainable Signals: Individual Investors, 2025)

Broader ESG assets under management covering different themes are projected to reach between USD 35 and USD 40 trillion by 2030 globally. This represents approximately 25% of total projected global AUM despite regulatory headwinds, US market contraction, and a projected CAGR of approximately 3.5% - well below the pace recorded between 2016 and 2020.

Irrespective of these challenges, the ESG market is expected to mature and align with global regulation by the end of this decade (Bloomberg Intelligence, ESG AUM Forecast, 2024; Bloomberg Intelligence, ESG Market Outlook, 2025).

Section 4: The Strategic Importance of Sustainability



Section 5: The Pakistan Context - Climate Vulnerability and Strategic Imperative

Pakistan is one of the most climate-vulnerable countries in the world. The Germanwatch Climate Risk Index 2025 ranked Pakistan first among 171 countries for climate-related losses in 2022. The floods that year inflicted unprecedented devastation, causing damages and economic losses estimated at nearly 10 percent of GDP. More than 9 million acres of agricultural land were destroyed, crippling food security and livelihoods, while over 8 million people were displaced and 33 million affected overall. This catastrophe struck a nation contributing less than 1 percent to global greenhouse gas emissions, underscoring the injustice of climate vulnerability borne disproportionately by those least responsible (World Bank, 2022).



Credit: Business Recorder

The tragedy also serves as a reminder for businesses to embed sustainability not as a trending word but as a means to strengthen business resilience and contribute meaningfully to society. Governance and corporate responsibility are indispensable. Pakistan requires an estimated USD 348 billion between 2023 and 2030 to

implement its climate commitments and build resilience, roughly USD 50 billion annually, against a national budget that struggles to fund basic services (Government of Pakistan, Updated NDC 2021). Public finance cannot close that gap alone.

The corporate sector is therefore essential, not as philanthropy but as a structural necessity. Companies that ignore these risks misjudge their own exposure: flooding disrupts supply chains, heatwaves reduce productivity, water scarcity threatens manufacturing, energy volatility raises costs, and social insecurity fuels political instability. ESG adoption in Pakistan is not about virtue but survival and continuity. Private capital directed toward adaptation eases public burdens, responsible footprint management reduces aggregate risk, and transparent ESG disclosure attracts international flows.

Recognizing these challenges, Pakistani regulators have embarked on an ambitious sustainability reform agenda to strengthen corporate resilience and align the private sector with national climate objectives.

Section 6: Pakistan's ESG Regulatory Framework

Pakistan's corporate ESG regulatory framework is evolving under SECP's leadership, which has introduced a comprehensive roadmap and guidelines to align capital markets with global best practices while addressing local priorities.



Source: SECP ESG Sustain

The SECP has issued revised ESG Disclosure Guidelines (2025), creating a standardized reporting framework that remains voluntary for easy adaptation before mandatory implementation in 2029. It has also announced the phased adoption of IFRS S1 and S2, enhancing the credibility and comparability of sustainability disclosures.

A key milestone in SECP's ESG roadmap is the launch of an Index by the Pakistan Stock Exchange, showcasing listed companies that assess, embed and publicly report sustainability-related risks and opportunities pertinent to their nature of business.

A key milestone is the Pakistan Green Taxonomy (2025), developed with the Ministry of Climate Change and the State Bank of Pakistan, to classify sustainable activities across major sectors using a traffic-light system.

Supporting infrastructure such as the ESG Sustain Platform centralizes resources, training, and corporate reporting, while a collaborative ecosystem, including the State Bank's Green Banking Guidelines and Environmental and Social Risk Management (ESRM) manual, ensures integration of sustainability across capital markets, banking, and financial services.

Additionally, PSX has published its ESG Primer, providing companies with practical guidance to begin producing high-quality sustainability reports.

SECP has also issued guidelines for ESG mutual funds, which require equity investments to be anchored in the PSX Sustainability Index, ensuring capital flows toward companies demonstrating credible sustainability practices.

Section 7: PSX Sustainability Index

The PSX Sustainability Index (PSI) benchmarks listed companies that demonstrate effective management of financially relevant or material environmental, social, and governance risks and opportunities. Strong ESG performers gain improved visibility to domestic and international capital markets, a lower cost of capital over time, and a demonstrable competitive edge in an increasingly sustainability-conscious investment landscape.

The PSI delivers five practical outcomes for the Pakistani market:

- **Pakistan-relevant focus:** Screening on issues that directly shape business risk: GHG emissions, water scarcity, waste management, labor standards, diversity, human rights, and governance
- **Performance transparency:** Enabling companies to benchmark themselves, set credible targets, and demonstrate measurable progress to investors and regulators
- **Competitive recognition:** Giving strong ESG performers a reputational and market standing that translates into tangible business value
- **Market infrastructure:** Providing a reliable, index-grade foundation for ESG-focused investment products, including mutual funds, ETFs, and structured instruments
- **Sustainable Tool:** Provides investors with a tool to identify companies that are effectively addressing the sustainability risks most relevant to their sector and business model

In doing so, the PSI strengthens Pakistan's sustainable finance ecosystem, channels domestic and international capital toward responsible listed companies, and builds the institutional credibility that long-term investment flows require.

Index Objective:

The PSX Sustainability Index (PSI) is designed to measure the total return performance of companies that integrate material, financially relevant, sector-specific ESG risks and opportunities into their business models.

Recognizing that Pakistani companies are at different stages of sustainability reporting, and that SECP's disclosure guidelines remain voluntary while IFRS S1 and S2 are being phased in, PSX will apply a tiered approach to the PSI selection criteria. This means the Index will use basic, moderate, and advanced level questions for each metric. The approach ensures the Index is both credible and inclusive, rewarding current leaders while providing a clear pathway for wider market participation as reporting standards and corporate practices evolve.

Section 7A: PSI Index Methodology

→ Top 100 listed companies based on free-float market capitalization, excluding the following:

- Tobacco (revenue share greater than 5%)
- Alcohol
- Adult Entertainment
- Controversial Weapons
- Conventional Weapons (revenue share greater than 10%)
- Companies subject to a verified ongoing severe ESG controversy, as determined by the Index Committee, are ineligible until the controversy is resolved

Businesses within Fossil Fuel Extraction or Power Generation shall remain eligible and screened based on their transition readiness, carbon intensity reduction, and renewable energy targets.

→ No defaulter, suspended, or non-compliant/winding up companies

→ A minimum of six calendar months must have elapsed since the company's listing date

→ Company should have published the Sustainability Report in its latest annual/fiscal review period

→ Company must achieve an overall ESG score greater than 50% to qualify for inclusion in the index

→ In addition, the company must obtain a minimum score of 40% in each of the three pillars: Environmental (E), Social (S), and Governance (G)

→ All companies meeting the above-mentioned criteria shall then be ranked based on a 30% weight to free-float market capitalization and 70% to aggregate ESG score

→ No floor or ceiling is proposed for any index constituent's weightage

→ The Index shall be recomposed twice a year, with each company receiving its screening score annually based on its latest sustainability report

→ Corporate actions shall be accounted for on a day-to-day basis to maintain the total return performance of the index

Section 7B: PSI Financially Relevant Material Issues

Companies are assessed against 21 material ESG issues/metrics (8 Environmental, 8 Social, and 5 Governance) identified through research conducted on leading international methodologies such as MSCI, FTSE Russell, S&P Global, and SASB Standards.

Each company is mapped to its PSX sector classification, with only sector-relevant metrics applied. This ensures scores reflect what truly matters for each business and avoids penalizing companies for disclosures not material to their operations.

Environmental Pillar	Social Pillar	Governance Pillar
GHG Emissions	Diversity, Equity & Inclusion	Board Diversity & Independence
Efficient Energy Management	Labor Standards	CEO & Executive Compensation Structure
Pollutants & Waste Management	Employee Health & Safety	Sustainability Reporting & Disclosure
Water Stewardship	Community & Human Rights	Business Resilience & Risk Preparedness
Nature & Ecosystem	Broad Accessibility	Business Ethics
Responsible Product Design [^]	Product Quality & Safety	
Sustainable Finance [^]	Product Labeling	
Physical Risk	Data Management	
8 metrics 45 Questions	8 metrics 42 Questions	5 metrics 25 Questions

[^] cross-connect between environment and social

To understand each of these material issues/metrics, along with the key questions an analyst should consider when reviewing an annual sustainability report, please refer to Annexures A and B.

Index Governance & Data Source

Sustainability is a complex and rapidly evolving discipline that requires a structured and credible review. To ensure the long-term rigor and adaptability of the PSX Sustainability Index, the Exchange shall establish an Index Committee comprising independent members. In addition, the Exchange may appoint a third-party ESG consultant to conduct company screenings on a periodic basis.

PSX's Sustainability Index scoring is based solely on information companies disclose in their own annual and sustainability reports. These reports represent a board-endorsed account of a company's environmental, social, and governance practices, making them the most appropriate foundation for the initial scoring phase.

Section 7C: Sector-Specific ESG Weightage

Materiality is not uniform across sectors, and this section reflects that reality directly. A cement manufacturer's environmental footprint carries a different weight than that of a bank; a bank's exposure to data privacy and financial inclusion carries a different weight than that of a textile exporter's labor practices. The scores below reflect that logic. For each sector, the Environmental, Social, and Governance pillar scores are built bottom-up: individual metric scores, each calibrated to its financial materiality within that sector, roll up into a single pillar score.

Annexure C carries the full breakdown, metric-by-metric relevance and weightage, sector by sector, for complete understanding.

Sector	Environment	Social	Governance	TOTAL
Automobile Assembler	29.0%	31.0%	40.0%	100.0%
Automobile Parts & Access.	25.0%	32.0%	43.0%	100.0%
Cable & Electrical Goods	27.0%	32.0%	41.0%	100.0%
Cement	45.0%	23.0%	32.0%	100.0%
Chemical	36.0%	33.0%	31.0%	100.0%
Commercial Banks	20.0%	40.0%	40.0%	100.0%
Engineering	33.0%	33.0%	34.0%	100.0%
Fertilizer	46.0%	29.0%	25.0%	100.0%
Food & Personal Care	32.0%	36.0%	32.0%	100.0%
Glass & Ceramics	38.0%	26.0%	36.0%	100.0%
Insurance	23.0%	38.0%	39.0%	100.0%
Inv. Banks / Securities	17.0%	39.0%	44.0%	100.0%
Leather & Tanneries	43.0%	33.0%	24.0%	100.0%
Miscellaneous (Healthcare)	18.0%	52.0%	30.0%	100.0%
Modarabas	18.0%	38.0%	44.0%	100.0%
Oil & Gas Exploration	45.0%	26.0%	29.0%	100.0%
Oil & Gas Marketing	42.0%	31.0%	27.0%	100.0%
Paper, Board & Packaging	45.0%	23.0%	32.0%	100.0%
Pharmaceuticals	16.0%	52.0%	32.0%	100.0%
Power Generation & Dist.	45.0%	25.0%	30.0%	100.0%
Refinery	42.0%	30.0%	28.0%	100.0%
Sugar & Allied Industries	41.0%	31.0%	28.0%	100.0%
Synthetic & Rayon	35.0%	29.0%	36.0%	100.0%
Tech & Communication	21.0%	44.0%	35.0%	100.0%
Textile Composite	43.0%	32.0%	25.0%	100.0%
Textile Spinning	36.0%	28.0%	36.0%	100.0%
Textile Weaving	32.0%	29.0%	39.0%	100.0%
Transport	39.0%	36.0%	25.0%	100.0%
REIT	42.0%	26.0%	32.0%	100.0%
Property	38.0%	31.0%	31.0%	100.0%
Apparel	34.0%	35.0%	31.0%	100.0%

ANNEXURES

Annexure A: Explanation of Material ESG Issue

Environment Pillar	
GHG Emissions	<p>This category refers to the total greenhouse gases (GHG) released directly or indirectly by a company.</p> <p>Scope-1: Emissions from sources the company owns or controls, such as fuel combustion, captive power plants, flaring, and fleet vehicles.</p> <p>Scope-2: Emissions from grid electricity or steam the company buys.</p> <p>Scope-3: Upstream/downstream emissions such as supply chain, logistics, product use, employees' commuting.</p>
Efficient Energy Management	<p>This category checks whether a company treats energy as something to be measured and managed rather than simply paid for. It looks at consumption tracking, efficiency gains, the shift toward renewable sources, and readiness for a lower-carbon operating environment.</p> <p>It applies to all sectors that consume significant energy in their operations.</p>
Pollutants and Waste Management	<p>'Pollutants and waste management' is about how companies deal with harmful substances and leftover materials from their operations. Pollutants include oil spills, toxic chemicals, and combustion gases. Left unmanaged, they contaminate air, water, or soil, and airborne pollutants specifically can trigger smog and respiratory illness.</p> <p>Waste includes both dangerous materials (like chemicals) and regular trash (like packaging or food scraps). Companies are expected to treat, store, and dispose of these materials safely and legally.</p> <p>This metric does not cover greenhouse gases, wastewater, or trash from customers.</p>
Water Stewardship	<p>'Water Stewardship' asks whether a company treats water as a shared, finite resource rather than a free input. Beyond basic regulatory compliance, it covers how responsibly the company draws from local water sources, how it treats wastewater before discharge, and how it manages risk to both the surrounding ecosystem and the communities that depend on the same supply.</p>
Nature and Ecosystem	<p>This category examines a company's footprint on land, biodiversity, and natural habitats, whether through direct land use, deforestation-linked sourcing, or disruption of local ecosystems. It checks whether the company assesses and discloses these impacts and whether it takes active steps toward restoration or mitigation rather than passive risk acknowledgment.</p>
Responsible Product Design[^]	<p>Product Design is about whether a company creates products that are safe, eco-friendly, and built to last, and whether it takes responsibility for what happens to those products after they are used.</p>
Sustainable Finance[^]	<p>Sustainable Finance is about how a financial institution uses its core product (money) to support a lower-carbon, more socially inclusive economy.</p> <p>For a bank, modaraba, leasing company, or asset manager, this is not about its own office or operations; it is about what it finances.</p> <p>It looks at how much of the institution's lending, leasing, premiums, or assets under management is directed toward environmentally or socially beneficial activity (renewable energy, electric vehicles, climate-smart agriculture, affordable housing, or financial inclusion) and whether the institution also screens out and limits exposure to risky or high-impact borrowers before money goes out the door.</p>
Physical Risks	<p>It checks how acute climate events like storms and floods, and chronic shifts like prolonged heatwaves or water stress, can hurt a company's operations, assets, and workforce, and whether the company has a credible plan to withstand both.</p>
[^] cross-connect with some points in social	

Social Pillar	
Diversity, Equity & Inclusion	This metric evaluates whether a company builds a workforce that reflects diverse backgrounds and provides equitable access to advancement, pay, and opportunity. It considers representation at different levels of seniority, pay equity practices, and whether employees have channels to raise concerns and be heard.
Labor Standards	Labor Standards assesses how a company governs its workforce, covering fair wages and benefits, prohibitions on child and forced labor, employee engagement through surveys and training, and the extension of these standards into the supply chain. Strong performance signals compliance, fairness, and durable workforce practices rather than one-off policy statements.
Employee Health & Safety	Employee Health & Safety evaluates whether a company safeguards the physical and mental well-being of its workforce. It considers the extent to which the company prevents injuries, promotes safe working conditions, supports employee well-being, and complies with relevant health and safety regulations.
Community & Human Rights	Community Engagement and Human Rights are considered critical social dimensions of corporate sustainability. They focus on how companies interact with local communities, respect human rights across operations and supply chains, and manage risks related to social license to operate.
Broad Accessibility	This category evaluates a company's success in providing essential services, including healthcare, finance, utilities, education, and telecommunications to populations that are underserved, rural, or low-income. It assesses whether a company ensures its products are both accessible and affordable for individuals often excluded from typical markets.
Product Quality & Safety	This category focuses on whether a company's products are free from defects or hazards that could cause unintended injury or harm to customers. It requires careful, responsible, and transparent risk management across design, manufacturing, and post-sale monitoring, including recalls where necessary.
Product Labeling	Selling Practices & Product Labeling is about whether a company sells its products honestly and labels them clearly to prevent customers from being misled or exploited. It checks if the company is following advertising standards, avoiding deceptive labeling, and preventing aggressive sales tactics in marketing its products to customers, particularly where mislabeling could affect a customer's health, finances, or safety.
Data Management	This category examines whether a company protects personal and sensitive customer data through secure practices, regulatory compliance, and transparency about how information is collected, used, and stored. Responsible data handling underpins customer trust and limits exposure to breach-related financial and reputational risk.
Governance Pillar	
Board Diversity & Independence	Board Diversity & Independence examines whether a company's board includes a range of backgrounds, experiences, and perspectives, and whether it maintains sufficient independence from management through non-executive representation, separation of chair and CEO roles, and directors free of material conflicts of interest.
CEO & Executive Compensation Structure	This metric ensures whether executive compensation is governed transparently and aligned with the organization's long-term performance and sustainability targets.
Sustainability Reporting & Disclosure	Ensures whether a company openly shares how it handles important sustainability-related issues, helping investors and other stakeholders make informed decisions.
Business Resilience & Risk Preparedness	<p>This metric evaluates whether a company is prepared for disruption at both the strategic and operational level.</p> <p>At the strategic level, it looks at whether the company's long-term strategy anticipates structural shifts, economic downturns, climate transition, and emerging technologies, and whether leadership is actively adapting the business model rather than reacting after the fact.</p> <p>At the operational level, it looks at the company's readiness for acute incidents, including emergency response plans, a documented Business Continuity Plan, stress testing, and preventive controls that allow the company to keep functioning under a worst-case scenario.</p>

Business Ethics	<p>This metric evaluates whether a company conducts itself with integrity across its internal operations, its dealings in the marketplace, and its engagement with lawmakers and regulators. It covers three areas:</p> <ol style="list-style-type: none">1) <i>Ethics & Anti-Corruption</i>: clear internal rules, effective training, and accountability systems designed to prevent bribery and corruption, and to safeguard whistleblowers who report misconduct.2) <i>Competitive Behavior</i>: adherence to fair competition laws, avoidance of market power abuse, and conduct toward competitors that is both legal and ethical.3) <i>Regulatory & Political Engagement</i>: transparency around lobbying activity, political contributions, and participation in shaping industry regulation, alongside a track record of compliance and responsiveness to new legal requirements.
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Annexure B: Scoring Questionnaire / Disclosures

Environmental Pillar

GHG Emissions

- 1) Disclosure of the Scope-1 absolute tCO_{2e} figure along with the methodology (GHG Protocol, etc) used. **(10 Marks for Yes; else Zero)**
- 2) Scope 2 is reported separately from Scope 1 **(10 Marks for Yes; else Zero)**
- 3) Scope 3 measured and disclosed in numbers **(10 Marks for Yes; else Zero)**
- 4) GHG Intensity per Revenue i.e., Scope 1 plus 2 divided by Net Revenue **(Better than the sector average: 10 Marks, less than average, Zero)**
- 5) Sector Physical Intensity (per ton / per BOE / per kWh / per vehicle) i.e., Emissions normalized by the company's actual physical output **(10 marks for disclosure AND highest marks for best output rate)**
- 6) Whether there is a stated base year, multi-year trend line, and a forward target (interim or SBTi-validated) - **(10 Marks for Yes; else Zero)**

Efficient Energy Management

- 1) Evidence of Board level policy/oversight related to efficient and effective use of energy or a shift towards renewables. **(10 Marks for Yes; else Zero)**
- 2) Current Energy Mix Disclosure: Breakdown of energy sources i.e., fossil fuel type vs. renewable, often as a percentage split **(10 Marks for Yes; else Zero)**
- 3) Total Energy Consumption (GJ/kWh): **(10 Marks for Yes; else Zero)**
- 4) Total amount of direct energy usage per output revenue **(10 Marks if above sector average; else Zero)**
- 5) Sector Physical Energy Intensity i.e., Energy per unit of actual output (GJ/ton, GJ/KBOE, MMBTU/barrel, GJ/vehicle) **(10 Marks if above sector average; else Zero)**
- 6) Renewable Energy Share (%) i.e., What fraction of total energy actually comes from renewables? **(10 Marks for the leader and the rest are adjusted based on the percentile approach)**
- 7) Forward Energy/Renewable Target: A dated, quantified commitment with an actual number and year **(10 Marks for Yes; else Zero)**

Pollutants and Waste Management

- 1) Evidence of existence of Board level policy/oversight related to effective management and reduction of pollutants and waste **(10 Marks for Yes; else Zero)**
- 2) Evidence of concrete programs/initiatives (such as recycling, 3R/4R/5R systems, effluent treatment plants, EMS certification - ISO 14001, etc.) to prevent and reduce pollution and waste, including monitoring, treatment, and disposal methods **(10 Marks for Yes; else Zero)**
- 3) Disclosure of Hazardous vs. Non-Hazardous Waste (tonnes), i.e., the actual quantity of waste generated, split by hazard classification **(10 Marks for Yes; else Zero)**
- 4) Disclosure of Waste Diverted / Recycled (%) i.e., the share of total waste that avoided landfill or incineration **(10 Marks for Yes; else Zero)**
- 5) Air Pollutants such as NO_x/SO_x/VOC (with intensity) i.e., quantified gaseous pollutant releases, ideally normalized per unit of output **(10 Marks for quantified disclosures; else Zero)**
- 6) Forward Pollution/Waste Target i.e., A stated, quantified future reduction commitment with an actual goal, with a number and a date **(10 Marks for Yes; else Zero)**

Water Stewardship

- 1) Evidence of Board level policy/oversight related to efficient and alternative sources of water and water waste management, including the risks related to legal, compliance, community relations, and disruption in supply chain? **(10 Marks for Yes; else Zero)**

- 2) Disclosure of Water Withdrawal (by source) i.e., Total water drawn from surface, ground, produced, or third-party sources **(10 Marks for Yes; else Zero)**
- 3) Water Consumption/Intensity: Net water actually consumed (withdrawal minus discharge), ideally normalized per ton or per revenue. **(10 Marks if above sector average; else Zero)**
- 4) Water Recycled / Reused (%): Share of total water that is treated and reused rather than freshly withdrawn. **(10 Marks if above sector average; else Zero)**
- 5) Whether the company has formally assessed which of its sites sit in water-scarce regions, using a recognized tool such as WRI Aqueduct, and ideally holds Alliance for Water Stewardship (AWS) certification. **(10 Marks for Yes; else Zero)**
- 6) Whether effluent is treated to a regulatory standard such as NEQS/PEQS/SEQS before discharge, with actual treated volumes disclosed **(10 Marks for Yes; else Zero)**
- 7) Forward Water Reduction Target i.e., a dated, quantified commitment to reduce water use or withdrawal **(10 Marks for Yes; else Zero)**

Nature and Ecosystem

- 1) Whether the company states clearly if its operations sit in or near a biodiversity-sensitive zone? **(10 Marks for Yes; else Zero)**
- 2) Whether a formal Environmental Impact Assessment (EIA/IEE) was actually carried out before a major project started? **(10 Marks for Yes; else Zero)**
- 3) Quantified Ecological Restoration i.e., tree count, areas rehabilitated, species tracked, etc. **(10 Marks for Yes; else Zero)**
- 4) Forward Commitment/target quantified with a date. **(10 Marks for Yes; else Zero)**

Responsible Product Design

- 1) Does the company have a Board-level policy/oversight or framework for integrating environmental or social criteria into product/service design/development? **(10 Marks for Yes; else Zero)**
- 2) What % of revenue, units sold, or production volume comes from a defined green or social product line? **(Initially 10 marks for disclosure – will later screen companies performing best)**
- 3) Does the company have a quantified, dated target to grow or expand that green/social product line? **(10 Marks for Yes; else Zero)**

Sustainable Finance

Banks / Modarabas:

- 1) Does the institution disclose an ESRM framework categorizing financing into risk tiers? **(10 Marks for Yes; else Zero)**
- 2) If risk tiers are disclosed, what % of total financing falls in the High E&S-risk tier?
- 3) What % of total financing portfolio is green/social-labeled (computed as disclosed green amount ÷ own total portfolio)?
- 4) **Insurance:** What % of premiums/products are climate-linked (EV discounts, parametric climate cover, ESG-screened life/investment-linked plans)?
- 5) **Leasing:** What % of lease financing is for green assets (solar equipment, EVs, energy-efficient machinery)?
- 6) **Investment Cos./Securities/MF:** What % of AUM/funds under management OR total revenue is in ESG-screened or green-labeled instruments (Green Sukuk, ESG funds)?

(The above questions shall be marked based on the percentile approach or slab)

Physical Risks

- 1) Is Board or committee oversight of climate risk explicitly named? **(10 Marks for Yes; else Zero)**
- 2) Whether the company names *specific* physical risks relevant to its own operations, correctly split into acute (storms, floods) and chronic (drought, temperature rise) **(10 Marks for Yes; else Zero)**
- 3) Whether at least one named climate scenario (1.5°C, 4°C, IPCC SSP) is modeled across a defined time horizon. **(10 Marks for Yes; else Zero)**

- 4) Has the company assessed the vulnerability of its physical assets (e.g., factories, offices, infrastructure) to extreme weather events and rising sea levels? **(10 Marks for Yes; else Zero)**
- 5) Quantified Financial Exposure: A real number attached to the risk, such as capex at risk, NPL impact, insured-loss potential, etc. **(10 Marks for Yes; else Zero)**
- 6) How does the company ensure the safety and well-being of employees and local communities during and after climate-related disruptions? Indication of policy or allocated funds **(10 Marks for Yes; else Zero)**

Social Pillar

Diversity, Equity & Inclusion

- 1) Does the company have a formal policy/oversight or governance framework for diversity, inclusion, and employee engagement, and is oversight provided at the board or committee level? **(10 Marks for Yes; else Zero)**
- 2) Does the company have a formal sexual harassment, non-discrimination, diversity, and inclusion policy, and is there a named, accessible reporting channel for complaints? **(10 Marks for Yes; else Zero)**
- 3) What percentage of the total enterprise headcount is held by men versus women? **Higher marks (10) based on slabs.**
- 4) What percentage of Board seats and what percentage of senior/executive management positions are held by men versus women, disclosed separately? **Higher marks (10) based on slabs.**
- 5) What percentage (or absolute number) of the workforce is comprised of differently-abled men and women? **Higher marks (10) based on slabs.**
- 6) What is the company's disclosed gender pay gap (mean and/or median), and how close is it to parity i.e., scored on proximity to 0% (1:1 ratio) in either direction, not on which gender earns more? **Higher marks (10) based on slabs.**
- 7) Where a gender pay gap is disclosed, does the company explain its underlying drivers (e.g., seniority mix, role concentration, location) or provide a remediation plan? **(10 Marks for Yes; else Zero)**
- 8) Does the company disclose structured programs specifically designed to develop and advance underrepresented groups — women, differently-abled employees, or regionally diverse talent — into mid and senior-level roles, with a named program, participation numbers, or a dated target? **(10 Marks for Yes; else Zero)**
- 9) What measures are in place to ensure diversity in hiring and promotion decisions, ideally with a dated, quantified target? **(10 Marks for Yes; else Zero)**

Labor Standards

- 1) Does the company have a formal, Board-level governance framework/policy/oversight for labor practices, citing labor law and ideally ILO conventions? **(10 Marks for Yes; else Zero)**
- 2) Fair Wage Disclosure i.e., a real, quantified minimum-wage ratio or pay-floor commitment, not a general fairness claim. **(10 Marks for Yes; else Zero)**
- 3) A quantified training metric such as hours/employee, spend, or participation rate, ideally with a trend or target. **(10 Marks for Yes; else Zero)**
- 4) The actual % of workforce covered by a collective bargaining agreement or independent union, ideally proof of representation, not just a freedom-of-association statement. **(10 Marks for Yes; else Zero)**
- 5) Whether labor/human-rights standards are extended to and verified at suppliers, preferably via a named certification (SA-8000, SEDEX) or audit program, not just a contractual clause. **(10 Marks for Yes; else Zero)**

Employee Health & Safety

- 1) Existence of Board/Executive-Level H&S policy/oversight with a senior oversight, not just a general safety statement. **(10 Marks for Yes; else Zero)**

- 2) HSMS Certification i.e., a certification based on a recognized external standard such as ISO 45001, confirming a structured safety management system exists. **(10 Marks for Yes; else Zero)**
- 3) Quantified Incident Rate such as Total Recordable Incident Rate (TRIR) or Lost Time Injury Frequency Rate (LTIFR) i.e., the actual standardized rate, incidents per million hours worked, not just a certification claim. **(10 Marks for Yes; else Zero)**
- 4) Disclosure of near-miss/unsafe-act **(10 Marks for Yes; else Zero)**
- 5) Zero Recent Fatalities: Whether the company has avoided employee/contractor fatalities in the recent reporting period(s). **(10 Marks for Yes; else Zero)**
- 6) What percentage of employees are covered by health and safety insurance, and what programs (training, personal protected equipment, monitoring systems) are in place to safeguard both physical and mental well-being? **(10 Marks for Yes; else Zero)**

Community & Human Rights

- 1) Human Rights Policy/Commitment - A documented, named Human Rights policy/oversight (ideally referencing UNGP, OECD Guidelines, or ILO Conventions). **(10 Marks for Yes; else Zero)**
- 2) Grievance/Incident Disclosure - Does the company disclose an actual number, such as grievances filed, resolved, or incidents that occurred, rather than only stating a policy exists? **(10 Marks for Yes; else Zero)**
- 3) No Child/Forced Labor Confirmation: An explicit statement confirming no child or forced labor, ideally tied to ILO/GRI 408-409. **(10 Marks for Yes; else Zero)**
- 4) Quantified Community Investment: Real rupee figures with a named beneficiary count and/or category breakdown. **(10 Marks for Yes; else Zero)**
- 5) Does the company hold a verifiable, externally-conferred recognition of its human rights or social management practices? (UNGC signatory status, a formal third-party assessment against ISO 26000, SA-8000 certification, or an equivalent) **(10 Marks for Yes; else Zero)**

Broad Accessibility

- 1) Board-Level Accessibility Policy - A formal, named policy or governance mandate or oversight to extend products/services to underserved markets. **(10 Marks for Yes; else Zero)**
- 2) Quantified Reach to Underserved Segments - A real beneficiary count such as accounts opened, people served, students reached etc., preferably by named group (women, rural, unbanked, or other relevant categories). **(10 Marks for Yes; else Zero)**
- 3) Disability (PWD) Accessibility - Physical or digital product features specifically engineered for persons with disabilities. **(10 Marks for Yes; else Zero)**
- 4) Affordability/Pricing Innovation - A product specifically priced or structured to remove cost as a barrier - zero/low minimum balance, subsidized premiums, no-fee accounts. **(10 Marks for Yes; else Zero)**
- 5) Digital/Geographic Reach to Rural & Unbanked Areas - Physical branch presence or digital channel penetration specifically into rural, remote, or previously unbanked geography. **(10 Marks for Yes; else Zero)**

Product Quality & Safety

- 1) Does the company have a formal policy/oversight for managing product safety, quality, and customer welfare risks (including nutrition, antibiotic use, controlled substances where applicable), with oversight provided at the board or committee level? **(10 Marks for Yes; else Zero)**
- 2) Quality/Safety Certification: A named, recognized third-party quality standard — ISO 9001, FSSC 22000, BRCGS, ANCAP. **(10 Marks for Yes; else Zero)**
- 3) Quantified Recall/Incident Disclosure - A real number (ideally zero) for recalls, non-compliance incidents, or safety-defect complaints. **(slab based scoring)**
- 4) Product Safety Rating/Standard Met - An external, comparable safety rating specific to the product category (crash-test ratings for autos, contamination-detection tech for food). **(10 Marks for Yes; else Zero)**

- 5) Evidence of having processes in place to manage product recalls, market withdrawals, or safety incidents, and how quickly and transparently are these communicated to customers and regulators to mitigate significant financial impact and potential legal risks? **(10 Marks for Yes; else Zero)**

Product Labeling

- 1) Does the company have a formal policy/oversight for managing ethical selling practices and product labeling? **(10 Marks for Yes; else Zero)**
- 2) Any explicit mention of such policy covering Vulnerable Group Protection — protecting groups especially exposed to misleading marketing, such as children, first-time/low-literacy banking customers, patients, etc. **(10 Marks for Yes; else Zero)**
- 3) Recognized Labeling Certification/Standard: Whether product labeling complies with a named external standard such as Halal, BRCGS, PSQCA, Shariah Board review, etc., not just an internal claim of compliance. **(10 Marks for Yes; else Zero)**

Data Management

- 1) Governance Ownership: Does a named role or Board-level committee explicitly own cybersecurity/data risk? **(10 Marks for Yes; else Zero)**
- 2) External Certification: A recognized, verifiable third-party standard (ISO/IEC 27001, PCI DSS, SWIFT CSP). **(10 Marks for Yes; else Zero)**
- 3) Customer Data Privacy Policy: A standalone, named policy specifically governing customer data — distinct from a general IT security policy. **(10 Marks for Yes; else Zero)**
- 4) Quantified Incident Disclosure: A real number (even zero or Nil) for breaches, attacks, or substantiated complaints, rather than just a policy statement. **(10 Marks for Yes; else Zero)**

Governance Pillar

Board Diversity & Independence

- 1) Is there female representation on the board, and what % does it represent? **Higher marks (10) based on slabs.**
- 2) Is there any committee chaired by a female board member? **(10 Marks for Yes; else Zero)**
- 3) Is the CEO/Managing Director role separated from the Board Chair role? **(10 Marks for Yes; else Zero)**
- 4) What % of board seats are held by independent directors, including those from diverse professional backgrounds? **Higher marks (10) based on slabs.**
- 5) Is there any ESG-certified or ESG-trained board member, or has the Board received documented ESG/sustainability training? **(10 Marks for Yes; else Zero)**

CEO & Executive Compensation Structure

- 1) Is executive/CEO compensation overseen by a named Board-level Remuneration Committee, with a disclosed fixed + variable structure? **(10 Marks for Yes; else Zero)**
- 2) Is CEO or executive compensation explicitly tied to disclosed ESG/sustainability performance metrics? **(10 Marks for Yes; else Zero)**
- 3) Does the company disclose the absolute CEO compensation figure or the CEO-to-median-employee pay ratio? **(10 Marks for Yes; else Zero)**
- 4) Does the company disclose clawback/malus provisions allowing recovery of executive pay in cases of misconduct or financial restatement? **(10 Marks for Yes; else Zero)**

Sustainability Reporting & Disclosure

- 1) Does the company publish a Sustainability Report aligned with a recognized reporting framework such as GRI, SASB, IFRS S1/S2, or IIRC? **(10 Marks for Yes; else Zero)**

- 2) Does the company explicitly map its sustainability initiatives to specific UN Sustainable Development Goals (UN SDGs)? *(10 Marks for Yes; else Zero)*
- 3) Does the company disclose its total tax contribution (corporate tax paid, cash and/or accrued) and total payments/distributions to the national exchequer for the reporting period? *(10 Marks for Yes; else Zero)*

Business Resilience & Risk Preparedness

- 1) Is resilience to economic, political, and environmental shifts integrated into board-level oversight and long-term corporate strategy? *(10 Marks for Yes; else Zero)*
- 2) Does the company have a clear strategy, targets, and investments to align its operations and products with a low-carbon economy? *(10 Marks for Yes; else Zero)*
- 3) Does the company assess risks to its business model from evolving environmental and social realities through a described, structured process? *(10 Marks for Yes; else Zero)*
- 4) Does the company have formal risk assessments, emergency response plans, and preventive measures in place to address potential critical incidents? *(10 Marks for Yes; else Zero)*
- 5) Does the company have a documented Business Continuity Plan (BCP) to maintain operations during unforeseen disruptions? *(10 Marks for Yes; else Zero)*
- 6) Does the company prepare for worst-case scenarios through stress testing, contingency planning, and transparent reporting to regulators and stakeholders? *(10 Marks for Yes; else Zero)*

Business Ethics

- 1) Does the company follow a named Ethics and/or Anti-Corruption policy? *(10 Marks for Yes; else Zero)*
- 2) Does the company provide a named whistleblower protection mechanism (hotline, email, or independent committee) with regular employee training on ethical standards? *(10 Marks for Yes; else Zero)*
- 3) Does the company disclose a quantified outcome such as number of risk assessments conducted, employees trained, or whistleblower cases reported and resolved? *(10 Marks for Yes; else Zero)*
- 4) Does the company have policies and board-level oversight to prevent anti-competitive practices such as price-fixing, market manipulation, or abuse of market power? *(10 Marks for Yes; else Zero)*
- 5) Has the company faced any regulatory actions, fines, or investigations related to anti-competitive behavior, and does it disclose how such issues were identified and addressed? *(10 Marks for Yes; else Zero)*
- 6) Does the company have formal processes to monitor, anticipate, and adapt to changes in laws and regulations across its operating regions? *(10 Marks for Yes; else Zero)*
- 7) Does the company ensure that its interactions with regulators and government bodies are conducted transparently, fairly, and without undue influence? *(10 Marks for Yes; else Zero)*

Scoring Methodology Note

Each company is first screened against its PSX sector classification to identify the metrics that are material to its industry. Only material metrics are included in that company's scoring universe, and non-material metrics are excluded from both the score and the denominator.

Within the applicable metrics, each question is scored on a binary 10 or zero basis, except where slab-based or percentile scoring is specified. Scores are averaged at the metric level, then aggregated at the pillar level using sector-specific materiality weights. The three pillar scores are combined to produce a single composite ESG score.

The metrics, questions, and sectoral weights are to be reviewed by the PSX Index Committee periodically and published as part of the index methodology with due notification to the market.



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