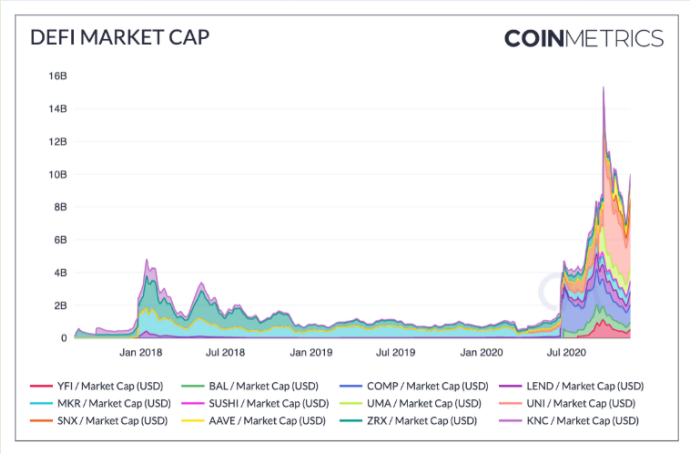
Emerging Risks

KBank regularly conducts risk assessment to identify emerging risks that may occurred in the future and evaluate the potential impacts from those risks. Hence, KBank has prepared and established mitigation measures to prevent and minimize the impacts on our business operations.

Decentralized Finance (DeFi)	
Description	Decentralized Finance or DeFi is a form of finance based on Blockchain and Smart Contract technology. DeFi enables people to do financial transactions without intermediaries such as banks but rather with the decentralized application (dApp). Many traditional financial activities such as lending, borrowing, and asset exchange can partially be achieved on DeFi. Since 2020, the DeFi market has started to gain market share from the traditional financial ecosystem. DeFi market capitalization has grown significantly and started to show a sign of acceptance by early adopters in public. This may lead the impact to KBank in term of market share and revenue in the future. 
Impact	The main impact of DeFi on banks is customers' ability to do any financial transactions without financial intermediaries. Thus, DeFi can have both direct and indirect implications to KBank in term of market share, revenue and business model as the following details: • Reduced transaction fee: - With broader adoption and more accepted cryptocurrencies as a means of payment people might shift to do transactions via blockchain, which could be cheaper and faster. • Higher funding cost: - In the case of higher acceptance of DeFi, money might shift from traditional banking into blockchain to be utilized in the DeFi ecosystem. Such a phenomenon would lead to more difficulty for the bank to get deposits to fund lending businesses. • Less customer engagement to the banks: - The K-Strategy aims to empower every customer's life and business. Therefore, we want to be a part of customer's everyday activities. On DeFi, the transaction would not be through intermediaries such as a bank; this would also indirectly

	lead to less customer engagement with the bank and lower insight to customer understandings. • Lesser bank role in the global financial system, hence poor ability to govern: - As financial activities migrate onto DeFi, different DeFi drivers and ecosystem enablers would start building traction and network effect. The late participation of financial institutions in the game would greatly diminish their role in the new economy. - Such shrinkage in the ability to participate and see the transactions would significantly limit the central banks' capability to govern and exercise domestic monetary policy and/or understand the risk within the system.
Mitigation	As the K-Strategy to support and empower our customers in every moment of their lives, KBank aims to be a vital part of allowing our customers to do any financial transactions in the most efficient and trustworthy way. KBank is fully aware that DeFi might open opportunities for people to have a better, cheaper, and faster way to do a financial transaction. On the other hand, DeFi can be a double-edged technology, which in many cases could lead to a loss for people participating. KBank aims to empower our customers while maintaining the standard as a highly trusted financial institution. Whereas KBank has been exploring the DeFi opportunities, we are mindful of the possible downside and proceed with full cautions. KBank has established KASIKORN X (KX) as a new S-Curve Factory which has a dedicated team exploring innovations within CeFi and DeFi space. In 2021, KX has recently launched KUBIX to operate as an Initial Coin Offering (ICO) portal to facilitate our customer demand other than traditional investment offering.

Climate Change Risk	
Description	Climate risk refers to consequences and responses from climate change and climate-related events. It emerges as a challenge for business sectors and banking sector due to the complexity and the uncertainty of climate impacts to manifest over time and over economic channels. According to the Task Force on Climate-related Financial Disclosure, the climate-related risks can materialize in a form of physical risk and transition risk. Transition risks emerge when new policy, regulations, technology, and market changes are introduced to aid the decarbonization and the transition to low-carbon economy. On the other hand, physical risks arise when business operations are disrupted by extreme weather events or long-term shifts of climate patterns. Both types of climate risks may trigger a material financial loss to banks if clients in the lending portfolio are affected by either or by both types of climate risks. Potential financial implications to clients could be materialized as revenue losses, declining asset values, and increasing operational costs. Consequently, clients' repayment ability and asset quality could be deteriorated. Thus, a surge in non-performing loan and a subsequent financial loss to KBank are expected as consequences of climate change on banking operation.

Impact	KBank is aware of climate risks and their impacts on business operations. For instance, the impact of climate transition risk to KBank's portfolio will transpire if clients fail to properly and timely adapt to transitioning regulations including but not limited to emission policies, carbon taxation, and land use restriction. As a result, the financial position and repayment ability of these customers will be at risk. Consequently, this may represent a potential climate-related portfolio loss to KBank. In addition, the impact of severe weather events and natural disasters remains significant to the business of KBank's clients and the bank's own operation alike. On one hand, a flood may cause property destruction, material shortage, and power surge. All of which may interrupt and damage business operations of the customers. Thus, potential declining repayment ability and deteriorated asset quality would be expected as results of climate physical risks on lending portfolio. On the other hand, the flood may also interrupt KBank's own operation by flooding and damaging the data centers and banking branches. To mitigate the operational risk to the Bank, preventive measures are formulated and placed to mitigate interruptions to banking operation and to minimize financial losses.
Mitigation	KBank has identified and assessed both types of climate-related risks to formulate mitigation plans in accordance with KBank's policy of supporting Thailand's ratification of the Paris Agreement and KBank's commitment to UN Principles for Responsible Banking guidelines. The mitigation measures are as the following: • Assess climate-related risks and opportunities via qualitative and quantitative methodologies, such as climate scenario analysis, to estimate climate-related financial losses under various climate assumptions as recommended by the Task Force on Climate-related Financial Disclosure. • Analyze portfolio impact to identify the most significant impact areas of KBank lending activities. • Determine and prioritize key impactful sectors for further investigation and engagement with relevant parties such as business units and clients. • Set relevant targets to maximize positive impact and minimize negative impact of KBank's lending portfolio in alignment with UN Principles for Responsible Banking guidelines. • Address climate change issues in Business Continuity Management (BCM). • Review climate-related regulations and standards on regular basis to ensure environmental and climate compliance in a timely manner. • Integrate ESG factors into credit and lending processes as a part of active portfolio management. • Collaborate with customers to mitigate climate risks in alignment with KBank's policy of supporting Thailand's ratification of the Paris Agreement.