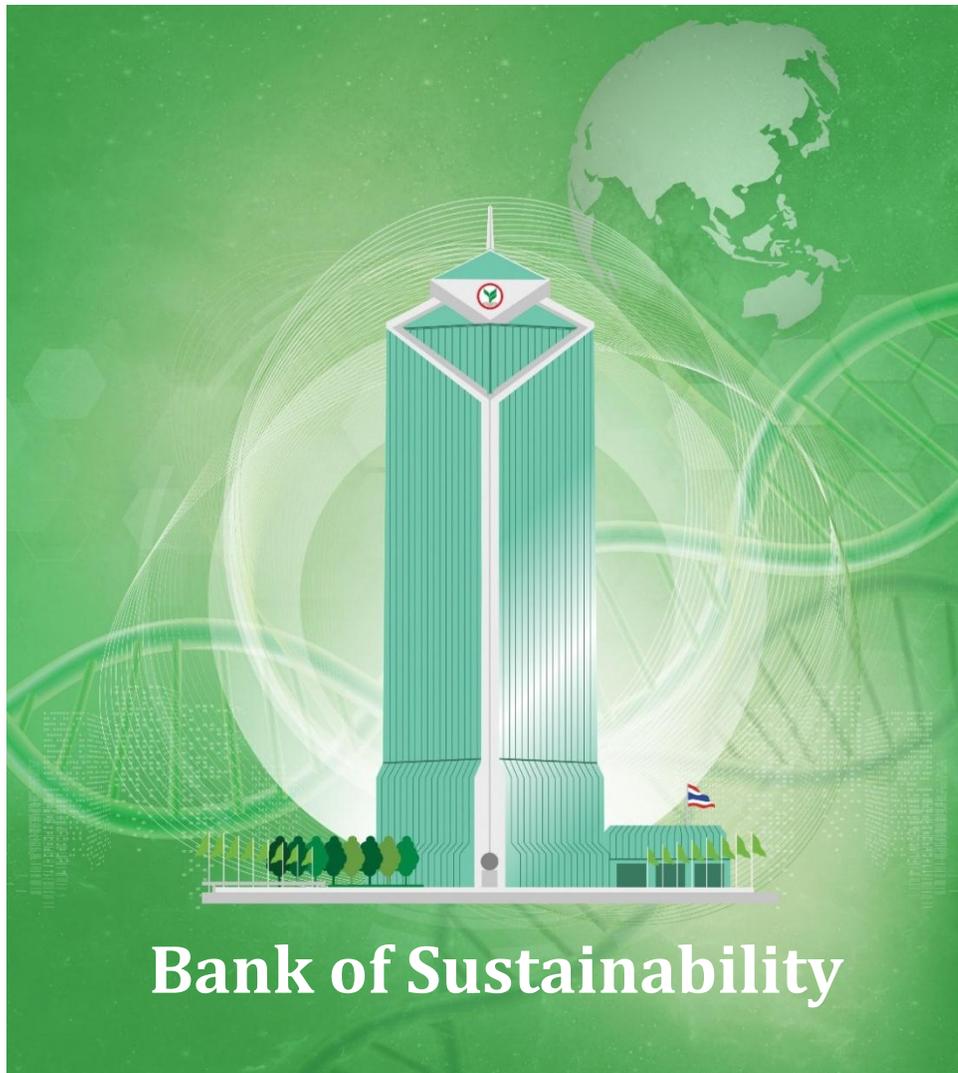


ธนาคารกสิกรไทย  
开泰银行 KASIKORNBANK



# KASIKORNBANK Sustainability Bond Framework

June 2020



# Bank of Sustainability

*KBank conducts business with the foundation of Bank of Sustainability, and appropriate risk management and good corporate governance principles.*

*We strive to balance economic, social, and environmental dimensions to achieve goals and create sustainable long-term returns.*

*The philosophy of sustainable development is instilled in all our operations as part of our Green DNA, ensuring maximum benefit for all stakeholders and paving the way for sustainable growth.*

## 1. Introduction and Background

### 1.1 KASIKORNBANK (KBank) Introduction

KASIKORNBANK (KBank), formerly known as Thai Farmers Bank, is a market leading commercial bank, headquartered in Bangkok, Thailand. It was established in 1945, and has been offering comprehensive financial solutions through its commercial banking business, securities business and other related businesses to its retails, Small and Medium Enterprises (SMEs), large corporates and institutions clients throughout 75 years. KBank has been widely recognized for our responsibility towards society and the environment, and as a customer centric financial conglomerate. Guided by our commitment to deliver service excellence, we aim “To Empower Every Customer’s Life and Business”. It has thus improved strategic capabilities in order to drive the business forward. KBank has been providing innovative financial products to its customers, and has been recognized for the excellence of its services on the basis of good corporate governance and sound risk management to attain sustainable advancement and create benefits for all stakeholders.

As of December 2019, it has 40 subsidiaries, 886 domestic branches, 16 overseas offices in 8 countries and 12.1 million mobile banking users (K PLUS).

### 1.2 KASIKORNBANK (KBank)’s commitments to sustainable development

KASIKORNBANK conducts business with the foundation of Bank of Sustainability, and appropriate risk management and good corporate governance principles. We strive to balance economic, social, and environmental dimensions to create sustainability for all stakeholders and to be consistent with the United Nations’ Sustainable Development Goals (SDGs). The philosophy of sustainable development is instilled in all our operations as part of our Green DNA, ensuring maximum benefit for all stakeholders and paving the way for sustainable growth.

The Sustainable Development Policy has been established as a set of guidelines for the operating processes of all KBank units under the sustainable development structure, which cascades the long-term sustainability targets to the implementation level. In 2019, KBank reviewed the

Sustainable Policy to comply with the Bank's major issues and global trends, by adopting new policies related to the adaptation and mitigation of the impacts of climate change. The Bank has also revised and clarified our policies related to environmentally friendly businesses, to bring them into compliance with KBank's key issues and global sustainability directions. Action plan integration has created operationalization of the concept, which in turn generates the maximum benefits to all stakeholders. KBank's Board of Directors has assigned the Corporate Governance Committee to supervise the Bank's sustainable development operations and to report respective results regularly. With the commitment, we are focusing on stakeholder participation and determining key elements for implementation based on feedback from stakeholders on their views and expectations. In response to stakeholder expectations, the notable operations include:

### **Economic Dimension**

KBank aspires for sustainable profitability. The Bank upholds the "Customer Centricity" strategy with an aim "To Empower Every Customer's Life and Business". The Bank offers total service solutions through the synergy of cooperation among companies within KASIKORNBANK FINANCIAL CONGLOMERATE, startup businesses, and business partners. We also join with KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG) to innovate financial products and services, along with efficient risk management and digital security. We are emphasizing risk management and cyber security along with maintaining growth and our position as a leader in digital banking services in Thailand, while focusing on data management and data analytics for decision-making towards enhancing our competitiveness and business efficiency for sustainable growth under our resolution to offer excellence in service. We are innovative in our development of new products and services, developing K PLUS mobile application to match the lifestyle of each individual user and connect them with platforms of various business partners. It provides more accessible banking services to customers, empowering the ones in remote areas. This is evidenced by 12.1 million K PLUS users in 2019, with transactions of 8,477 million items per year or 63 percent year-over-year increase. Development has been finalized for a payment platform that links large companies with retail customers and financial innovations for SME customers. The Bank has also offered electronic letters of guarantee via blockchain, MADHUB – a comprehensive solutions center for online shops, promotion of efficient use of financial resources, and enhancement of service channels to meet the requirements of all customer segments. In addition, a wide variety of service channels are offered to cater to all customer segments across Thailand. Regarding global business undertakings, KBank has adhered to the strategy of becoming a "Regional Digital Bank" through the three-track regional digital expansion.

### **Social Dimension**

KBank aims to be a good corporate citizen and create sustainable results for society and the country, focusing on cooperation with communities, public and private agencies, and all networks. We also help improve the livelihood of individuals, in particular the underprivileged, including those residing in remote areas, ethnic groups, disabled persons, low-income earners and those affected by economic fallouts by offering them greater access to financial service, fundamental financial knowledge and disciplines, is imperative. Our financial inclusion include personal loan via, K-eSavings Account Opening via K PLUS, KBank Service via banking agents K-

Personal Loan for Pensioners, Super Senior Fixed Deposit, Basic Banking Account for individual aged 65 years and older, etc.

### **Environmental Dimension**

In 2019, greenhouse gas emissions from KBank's operations decreased by 15.70 percent (with 2012 as the base year), comparing with the long-term target of reducing greenhouse gas emissions from our operations by 20 percent within 2020. KBank aims to help create a zero-carbon society. KBank's Chief Executive Officer has been assigned by the Board of Directors to act as the Chief Environmental Officer to drive forward the bank's environmental mission. Our business is geared towards financial product and service innovations that promote environmental conservation, including the extension of credits for energy and environmental conservation. Also, our environmental management is focused on achieving zero carbon emissions. We have mapped out risk management strategies and policies for the entire financial conglomerate in conformity with international guidelines and principles such as Equator Principle, International Finance Corporate (IFC) Guidelines, etc. We have integrated environmental, social and governance (ESG) factors into consideration of credits, products and financial services, as well as investment, to prevent risks that may adversely affect KBank's image and operations, and to enhance stable business advancement and sustainable returns for all stakeholders in the long term. The Bank also has the sector-specific policies related to high risk factors and the exclusion list to ensure that projects in which KBank is financially involved have a fair and appropriate management approach to prevent and minimize negative social and environmental impacts<sup>1</sup>.

In 2019, KBank signed a memorandum of agreement on Sustainable Banking Guidelines – Responsible Lending with member banks of the Thai Bankers' Association with the aim of upgrading sustainable lending guidelines of the Thai commercial banking system.

As of December 2019, 100% of project finance requests were processed through the Environmental, Social and Governance (ESG) assessment procedure. Loan outstanding of renewable energy projects was Baht 6,358 million, enabling 802 megawatts of clean energy generation. It also actively financed Baht 2,044 million to energy and environmental conservation projects to raise consumers' and businesses' awareness of the necessity to use eco-friendly products and innovations as a way to fight global warming.

KBank also supports the UN Sustainable Development Goals, and has selected below 9 goals that are aligned with KBank's material sustainability issues, while giving full support to other eight goals.

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<sup>1</sup> KBank has provision of credit for industries that are risk-prone to illegal labor, illegal migrant labor, slave labor, child labor that do not comply with relevant labor standard or are labor intensive industries such as, Fishery Industry, Seafood Processing Industry, Aquaculture Industry, Thai Garment Industry, Construction Industry, Tanning Industry, Furniture Production Industry, Toy Manufacturers, Shoes Manufacturers and Recruitment Agency.



Our performance, guided by “Sustainable Development” concepts in economic, social, and environmental dimensions, will create an atmosphere of balanced, flexible self-adjustment immunizing us against hardships. This, in turn, will lead to sustainable growth and the advancement of the UN Sustainable Development Goals (SDGs).

Our business operations in all above dimensions have earned recognition among leading Thai and international organizations. KBank is the first Thai and ASEAN bank to be selected as a component of the Dow Jones Sustainability Indices (DJSI), including the DJSI World Index and the DJSI Emerging Markets Index, for four consecutive years. It has also been included as a constituent of the FTSE4Good Emerging Index for four consecutive years. In 2019, KBank is the first and only Thai commercial bank to make it onto CDP’s A- list (Leadership Level) in climate change management. We have also been included in Thailand Sustainability Investment List of the Stock Exchange of Thailand for three years. Apart from this, our efforts were affirmed by many other accolades over the past year. Also, in 2019, KBank became the first and only commercial bank in Thailand to achieve “Carbon Neutral” status and the first Thai and ASEAN bank to launch sustainability bonds to finance projects that will provide environmental and social benefits. KBank is also committed to transparent communications on their sustainability efforts, and has been publishing its annual sustainability report since 2012.<sup>2</sup>



<sup>2</sup> <https://www.kasikornbank.com/en/sustainable-development/Report/Pages/report.aspx>

## 2. KBank Sustainability Bond Framework

In order to finance KBank's diverse activities that are directly supporting sustainability, KBank prepared this Sustainability Bond Framework ("the Framework"), with an intention of issuing multiple i) Green Bonds, or ii) Social Bonds, or iii) Sustainability Bonds under this Framework. It aspires to fully comply with the [ASEAN Green, Social and Sustainability Bond Standards](#) in terms of internal governance and eligible green and social project selection as applicable. The Framework was designed in line with [the Green Bond Principles 2018](#), [Social Bond Principles 2018](#) and [Sustainability Bond Guidelines 2018](#) by ICMA, with the following four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

### 2.1 Use of Proceeds

100% of the net proceeds of the bond will be used exclusively to finance or re-finance eligible green or social projects, in part or wholly as described below, and information on green and social project will be available for investors.

#### Renewable Energy

Financing for renewable energy projects, including the production and transmission of renewable energy, and the manufacturing of renewable energy appliances and products. Solar energy, biomass, biogas, and waste to energy projects can be included.

For biomass energy, only the projects that meet below criteria will be included:

- not grown in areas converted from land with previously high carbon stock such as wetlands or forests
- not obtained from land with high biodiversity such as primary forests or highly biodiverse grasslands -not suitable for human consumption



#### Energy Efficiency

Projects or investments that aim to improve energy efficiency of buildings or manufacturing factories by more than 15% compared to the baseline



## Green Buildings

Purchasing, construction or retrofitting building that meet national/international green building standards, such as TREES (Silver and above), LEED (Silver and above), BREEAM (Good and above) and DGNB (Silver and above).



## Clean transportation

Production and operation of clean transportation such as electric, hybrid, rail or non-motorized transportation.

Transportation infrastructure, supporting above clean transportation



## Access to essential services

**K-Personal Loan for Pensioners**<sup>3</sup> The government has assisted government retirees by amending laws allowing them to pledge their inheritance rights to obtain loans from financial institutions. In response to the government's move, KBank has introduced K-Personal Loan for Pensioners to help government retirees receiving monthly pensions. This helps retirees gain access to bank loans, helping them meet their urgent liquidity needs, while benefiting from long-term, fixed rate amortized loan products. This loan typically provides lower than market interest rate, and with up to 30 years of maturity, it helps them manage loan payment burden as well.



## Affordable Housing

**Special Rate National Housing Authority Home Loan Refinance Program.** The National Housing Authority<sup>4</sup> is state-owned enterprise under the Ministry of Social Development and Human Security of Thailand that aims to strengthen the security of housing and quality of life for low to middle income earners, as defined by the National Housing Authority<sup>5</sup>. Their mandate is to provide target households with an opportunity to have a standard residence located in a good environment community with the price level that the target group can afford to pay. This

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<sup>3</sup> <https://www.kasikornbank.com/en/personal/Loan/personal-loan/Pages/k-personal-pensioner.aspx>

<sup>4</sup> <https://www.nha.co.th/view/2/home>

<sup>5</sup> Target populations are carefully selected based on household income, and minimum threshold differs depending on the region. For example, for Rent house projects, household with monthly income between USD500-700 are eligible for properties in Bangkok metropolitan area, while household with monthly income between USD300-450 will be eligible for rural area. Please refer to the NHA website to find more information.

<https://www.nha.co.th/view/2/home#>

program could provide a special home loan rate for the borrowers seeking to refinance their existing debt obligation.

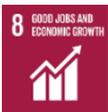


### Employment generation

#### Supporting Small and Medium Enterprises (SMEs)<sup>6</sup>

Loan given to SMEs, including, but not limited to, through below loan programs

- **Special Rate Overdraft for SMEs payroll program.** The program aims to increase liquidity of KBank's SMEs payroll clients by adding opportunity for the customers to access lower cost of funding for their payroll payments.
- **Overdraft or Loan program for SMEs.** The program will help entrepreneurs by providing credit limit more than their collaterals within the maximum credit limit of Baht 5 million.
- **Franchise Credit program.** The loan program for entrepreneurs, who want to start new franchise businesses. This program will select customers from their future cash flow and require no or less collaterals than usual loan program.
- **Overdraft program for SME retail shops,** who have credit limit less than Baht 3 million. The program is for SME retail shops, who need working capital for running their businesses but do not have collaterals. The program could help customers access to financial support easier, which could maintain their businesses to run smoothly and create value to SME retailers. The maximum OD limit is Baht 1 million.



### Socioeconomic advancement and empowerment

**Vidyasirimedhi Institute of Science and Technology (VISTEC):** KBank provides support for VISTEC to do research and development in the areas that are directly supporting sustainable development. The support is in a project to add value to organic waste, via waste-to-energy campaigns, that involve sorting of waste for conversion into energy for use in communities and for income generation in the future, with a support fund of Baht 9.5 million in 2018-2019. This project is aimed at addressing the garbage disposal problem that is one of the major causes of methane emissions and the increasing temperature of the planet. Both institutions will kick off the project in Nan.

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<sup>6</sup> SMEs is defined as an individual or company with annual sales does not exceed Baht 400 million.

## **Investment in startups that are working on solutions that will advance Sustainable Development**

Beacon Venture Capital Co., Ltd<sup>7</sup> is a wholly-owned venture capital fund of KBank, and it directly invests in domestic and foreign startups as well as overseas venture capital funds. Projects or startups that have clearly intended environmental or social benefits, including but not limited to eco-friendly products and services, products and services supporting circular economy, technologies or services connecting people in remote rural areas, can be included as Eligible Projects.



All designated green and social projects should provide clear environmental and social benefits, which will be assessed and, where feasible, quantified by KBank.

### **Exclusionary Criteria**

KBank credit policy also has an extensive list of activities for which credit approval will be rejected. Examples include any illegal activities, money laundering activities, illegal commercial use of natural resources, weapons, market speculation activities, activities that may encroach upon or potentially damage natural coastal wetlands. Full list of excluded activities can be found <https://www.kasikornbank.com/en/sustainable-development/Report/Pages/report.aspx>

Loans for borrowers operating in, and not limited to alcohol, tobacco, weapons, munitions and fossil-fuel based energy production, fossil fuel based transportation and related R&D activities will be excluded from the bond eligible project.

Also, following the ASEAN Green Bond Standards, projects for fossil fuel power generation or any supporting infrastructures will be excluded from eligible projects.

## **2.2 Process for project evaluation and Selection**

Project evaluation and selection is a key process in ensuring that the projects financed by the Sustainability Bond meet the criteria in the KBank's Sustainability Bond Framework.

### **Sustainability Bond Working Group (SBWG)**

In order to effectively manage Sustainability Bonds, KBank is launching a Sustainability Bond Working Group (SBWG) which is endorsed by the Bank's President. KBank's SBWG is comprised of senior representatives from the below departments, coordinated by the Central Treasury Department and Sustainable Development Unit, under the bank's Office of Corporate Secretary.

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<sup>7</sup> <http://beaconvc.fund/>

- Central Treasury Department
- Sustainable Development Unit, under the bank's Office of Corporate Secretary
- Credit Policy and Risk Management Department
- Credit Underwriting Department
- Corporate Credit Product Management Department
- SME Segment Management Department
- Corporate Segment Management Department

Eligible green and social projects will firstly be identified and sourced by the Credit Underwriting Department together with Corporate Credit Product Management Department, Corporate Segment Management Department and SME Segment Management Department, following the eligible project list specified in this Framework. The bank's Sustainability Bond Working Group (SBWG) is responsible for the review and approval of the assets or projects proposed to ensure compliance with the Framework. To make sure that all the projects demonstrate clear environmental and social benefits, in line with the Framework, the Sustainable Development Unit which operated under the bank's Office of Corporate Secretary will have a veto right on the approval.

After issuance, at least three times per year, all of the bank's potential eligible projects in the pipeline will be sourced and selected according to the above described Project Selection Process.

### **Environmental and Social Impact Assessment (ESIA)**

KBank has established procedures for assessing environmental and social impacts of project finance prior to credit underwriting processes to ensure that any probable concerns are properly managed. Projects identified as having possibly significant environmental and social impacts must be endorsed by Heads of the relevant business divisions and the Head of Enterprise Risk Management Division before initiating the credit underwriting process.

KBank may impose additional environmental and social covenants for credit requests of industries/businesses with certain potential environmental and social impacts. In case a credit applicant fails to comply with them or to correct violations, KBank shall take an action as deemed appropriate, including rejection of project finance requests, suspension of fund disbursement and cancellation of loans. Detailed information on how KBank monitors and manages Environmental and Social Risks in its lending activities can be found in the Risk Management chapter of its 2019 Sustainability report

[https://www.kasikornbank.com/en/sustainable-development/SDAnnualReports/2019\\_SD\\_EN.pdf](https://www.kasikornbank.com/en/sustainable-development/SDAnnualReports/2019_SD_EN.pdf)

## **2.3 Management of Proceeds**

An amount equal to these net proceeds from the bonds will be allocated to eligible green and social projects only. As long as the bond is outstanding, the Central Treasury Department, together with Sustainable Development Unit, under the bank's Office of Corporate Secretary, will

manage the project register through the bank's internal information system, and the balance of the tracked proceeds will be periodically monitored at least three times per year.

At least three times per year, the Sustainability Bond Working Group will review the allocation of the proceeds to the eligible projects and determine if any changes are necessary (for example, if a project has amortized, been prepaid, sold or otherwise become ineligible). The Sustainability Bond Working Group will decide any necessary update of the eligible projects list (such as replacement, deletion, or addition of projects) to maintain the eligibility of the Use of Proceeds.

If there is any unallocated amount, it will be invested in cash or cash equivalent following KBank's usual Banking Book Management Policy by the Central Treasury Department.

In case of divestments or if an eligible project no longer meets eligible criteria (as defined above), the funds will be re-allocated to other eligible projects, following the above described Project Selection Process.

## **2.4 Reporting**

Following the first bond anniversary, every year, until full allocation, KBank will update investors on how the bond proceeds are allocated and share below information financed by the bond.

The report will have below information, and it will be readily available at the KBank's website.

<https://www.kasikornbank.com/en/sustainable-development/sustainability-bond/Pages/Sustainable-Bond-Report.aspx>

### **2.4.1 Allocation report**

- List of projects and brief description of projects
- Total amount allocated to eligible project
- Portion of financing and refinancing
- Amount of unallocated proceeds and how they are managed

### **2.4.2 Impact Reporting**

KBank will also report on relevant environmental and social impact metrics where feasible, and it will transparently disclose measurement methodology for quantitative indicators. The report may include below impact indicators as follows:

- Renewable energy generated
- Green House Gas (GHG) emission avoided
- Number of people benefitted from social projects
- Number of SMEs, projects, farmers benefitted

### **3. External review**

#### **Pre-issuance**

KBank will engage an external reviewer to provide assurance on its Sustainability Bond Framework, and it will be shared at the at the company's website.

<https://www.kasikornbank.com/en/sustainable-development/sustainability-bond/SustainableBondFramework/Second%20Party%20Opinion%20from%20Sustainalytics.pdf>

#### **Post Issuance annual report**

KBank will engage an external reviewer on their post-issuance annual report, and the review will be available at the company's website.

[https://www.kasikornbank.com/en/sustainable-development/sustainability-bond/SustainableBondReport/Second\\_PartyOpinion\\_forAllocation\\_AndImpact\\_Report\\_2019.pdf](https://www.kasikornbank.com/en/sustainable-development/sustainability-bond/SustainableBondReport/Second_PartyOpinion_forAllocation_AndImpact_Report_2019.pdf)