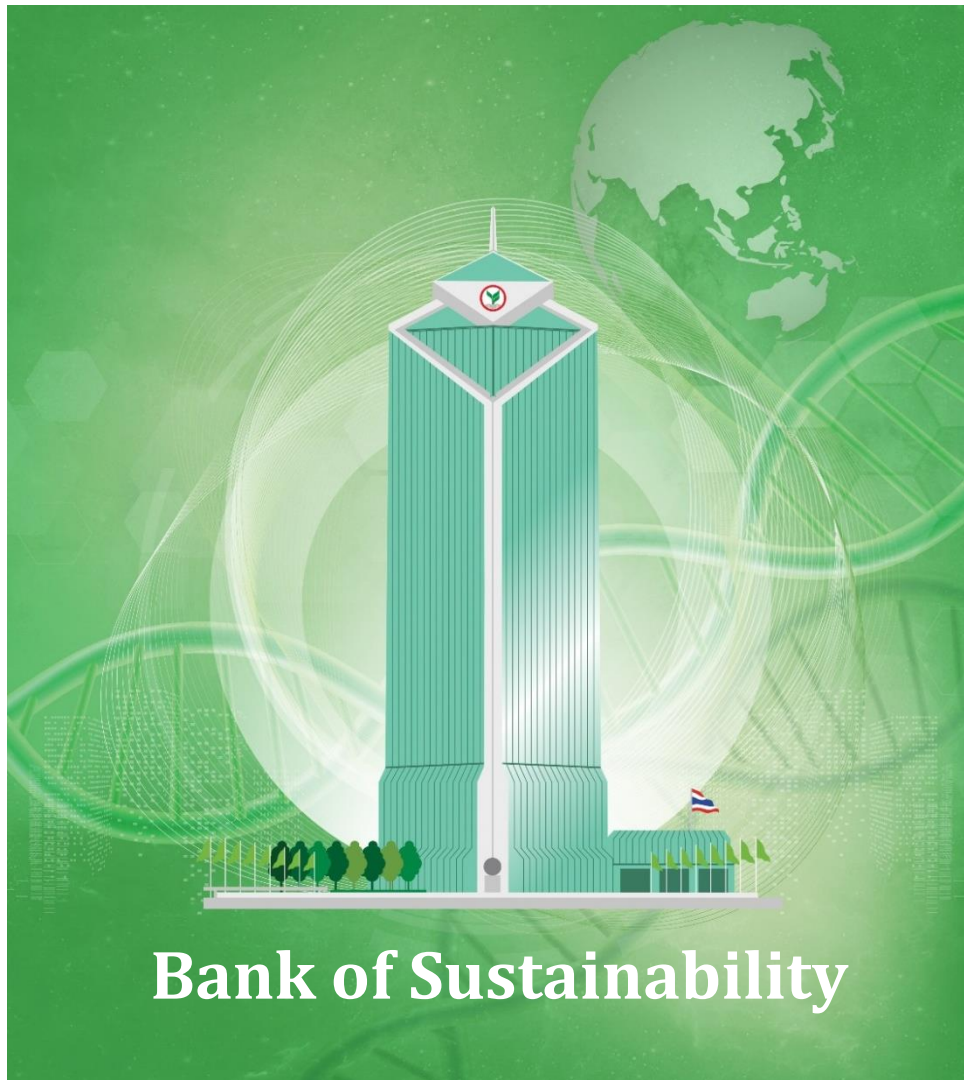


ธนาคารกสิกรไทย  
开泰银行 KASIKORNBANK



# KASIKORNBANK Sustainability Bond Framework

October 2018



# Bank of Sustainability

*KBank embraces sustainable development in the economy, society, and environment as the foundation of our operations. This guiding concept enhances our business innovation and ensures maximum benefit to all stakeholders, thus paving the way towards being a “Bank of Sustainability” for our society and nation.*

## 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 over the last 73 years. Over the years, with “Customer Centricity” at the heart of its business strategy, it 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 2017, it has 35 subsidiaries, a service network of 1,026 domestic branches, including 121 SME business centers across Thailand and 17 overseas offices in 9 countries.

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

KASIKORNBANK’s business operations are guided by our intent to become a “Bank of Sustainability”, balancing economic, social and environmental dimensions. We adhere to Good Corporate Governance principles and appropriate risk management, based on the strategy to achieve our goals and create long-term, sustainable returns. This sustainability development philosophy has been implanted in every single business process as the “Green DNA” of the organization with the aim to create maximum benefits for all stakeholders and sustainable growth of Thailand.

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. 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 to be a technology-driven business leader. We affirm standards and security measures that have garnered customers' trust, and widespread use of our K PLUS mobile application continues to surge. It provides more accessible banking services to customers, empowering the ones in remote areas. This is evidenced by an 85 percent year-over-year increase in the number of transactions, 59 percent growth in the number of users, and 46 percent rise in transaction value in 2017. We now enjoy leadership in mobile banking services, having attained the highest mobile banking application download volume with our K PLUS. Other applications have been introduced as well, such as our K PLUS SHOP with a QR code payment function and e-Wallet features to facilitate merchants and customers alike. We also have our K PLUS SME application, enabling SMEs to gain access to useful information that can help them manage their enterprises better, with greater convenience and speed. All the above implementations are founded in our "Customer Centricity" strategy and our aspiration to become our "Customers' Life Platform of Choice", wherein we deploy leading-edge technologies to enhance our service quality in our customers' everyday lives; these changes are the most extensive, swifter in operation, and most secure.

## **Social Dimension**

Improving 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. This is one of the guidelines of inclusive development that KBank has adopted in the following products; K PLUS Beacon - A mobile banking application for visually impaired, fund transfer services such as K-Bank to Post, K-Bank to 7-Eleven, K-Bank to mPAY and Myanmar remit card, K-eSavings Account Opening via K PLUS (No minimum amount required), K-Personal Loan for Pensioners, Super Senior Fixed Deposit and Soft Home Loan Program for Seniors and Seniors' Children and a number of special payment deferral arrangements were introduced to assist borrowers who are heavily affected by natural disasters such as floods and typhoons.

## **Environmental Dimension**

KBank is committed to supporting a transition to a low carbon society for its clients and its own operations, and sees this as a priority agenda for the bank. 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. KBank provides financial support to renewable energy projects and environmentally-friendly businesses. 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 addition, a target has been set to reduce greenhouse gas emissions from its operations by 20 percent by 2020 (versus 2012 base year). In 2017, an 8-percent reduction (versus 2012 base year) was realized.

As of December 2017, 100% of project finance requests were processed through the Environmental, Social and Governance (ESG) assessment procedure. Loan value of renewable energy projects was Baht 16 billion, enabling 3,547 megawatts of clean energy generation. It also actively financed Baht 656 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.



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 adherence to Sustainable Development concepts has earned us membership in the Dow Jones Sustainability Indices (DJSI) 2018- measuring the sustainability of businesses. These indices are recognized by leading companies globally. We are proud that KBank is the first bank in Thailand and ASEAN to be selected as a member of the DJSI, with placement in both their DJSI World Index and DJSI

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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.

Emerging Markets Index for the third consecutive year. It has also been selected as a constituent of FTSE4Good Emerging Index 2018 for the third year. In addition, KBank was selected by the Stock Exchange of Thailand to be included in the Thailand Sustainability Investment (THSI) for three consecutive years (2016-present). Moreover, the Bank is the first and only commercial bank in Thailand to be granted the Carbon Neutral Certification (2018) by Thailand Greenhouse Gas Management Organization (Public Organization). KBank is committed to transparent communications on their sustainability efforts, and has been publishing its annual sustainability report since 2012.<sup>2</sup>



## 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 Bond Standards](#) in terms of internal governance and eligible green 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 and waste to energy projects can be included.

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

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

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

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 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.
- Social Security Office (SSO) Soft Loans program. This program aims to support the country's employment by providing SMEs which have already registered and paid for SSO at least 3 months with a special rate working capital. This program could support the borrowers' ability to raise minimum wages of their workers and to maintain or increase their employment rates.



### Socioeconomic advancement and empowerment

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<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 USD 500 and 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#>

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

**Special Rate Loan for Tenant in New Mega Shopping Mall to be located on Chao Phraya Riverside program.** This program could enhance liquidity and expand marketing opportunities for OTOP entrepreneurs. One Tambon One Product (OTOP) is a local entrepreneurship stimulus program designed by Thailand's previous government administration, which aims to support locally made and marketed products of each of Thailand's sub-districts.

**Investment in technology that will have clear environmental or social benefits**

KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG) works together with KBank to research and develop new technologies by which we can innovate financial products and services to satisfy our customers' needs. For example, KBank and Beacon Interface Co., Ltd. – a fintech startup which is a joint venture set by KBank – worked together to develop the K PLUS Beacon application, Thailand's first application for the visually-impaired, allow these customers to conduct online transactions with confidence.

**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 for a period of 24 months. 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.

**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

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



<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.

- 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 2017 Sustainability report

[https://www.kasikornbank.com/en/sustainable-development/SDAnnualReports/2017\\_SD\\_EN.pdf](https://www.kasikornbank.com/en/sustainable-development/SDAnnualReports/2017_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/>

### **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/>

### **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/>