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Krungsri Women Bond Framework

Environmental, Social and Governance Division
Email: KrungsriESG@krungsri.com
Tel: +66 2 296-3935
Fax: +66 2 683-1341

Krungsri Women Bond Framework

I. Krungsri Introduction

A. History of Krungsri

The Bank of Ayudhya Public Company Limited (Krungsri) has been playing a vital role in the financial sector and Thai economic development for over seven decades. Since its inception in 1945, the Bank has grown solidly and listed on the Stock Exchange of Thailand on September 26, 1977.

The Bank's steady growth has continued unabated to the present day. With more than 30,000 employees, based in 4 ASEAN countries, Krungsri services more than 8.8 million clients. As of June 2019, Krungsri Group had a total registered capital of THB 75,741 million and THB 73,558 million in paid-up capital.

In recognition of its key role in driving the country's economic engines and financial system, Krungsri has been entrusted to become one of Thailand's Domestic Systemically Important Banks. Today, the Bank is ranked fifth in terms of assets, loans and deposits amounting to THB 2,277 billion, THB 1,756 billion, and THB 1,497 billion, respectively.

Krungsri is a strategic member of the Mitsubishi UFJ Financial Group (MUFG), Japan's largest financial group and among the world's largest.

Krungsri and 20 subsidiaries and joint ventures (Krungsri Group) constantly strive to meet the ever-changing needs of our broad customer base by offering a comprehensive range of universal banking products and services to key target groups: commercial banking (Thai, Japanese, multinational corporations, and SMEs) and retail customers. The Bank also provides related financial services through subsidiaries and joint ventures, including wealth management, credit cards, non-life insurance, asset management, securities trading, auto hire purchase loans, equipment leasing, factoring, microfinance, and installment loans.

Krungsri is the leading player in consumer finance, commanding 30% and 16% market shares in personal loans and credit cards, respectively. The Bank also has the second-largest market share of 27% in the auto hire-purchase lending segment. Meanwhile, market shares for corporate and SME segments stand at 5% each.

Krungsri's mission is to be a leading regional financial institution with a global reach, committed responsibly to meeting the needs of our customers and serving society through a sustainable growth.

B. Commitment to ESG

In recognition of our responsibilities as a Domestic Systemically Important Bank (D-SIB), our goals extend beyond economic and financial dimensions, to include environmental, social, and governance challenges. Observing the principles of sustainable banking, Krungsri, as a responsible financial intermediary, aims to promote the United Nations' Sustainable Development Goals (SDGs) through both our provision of products and services and our business operations, all undertaken with a sense of social and environmental responsibility and stewardship.

Krungsri holds strong to our conviction in continuing to grow our business, while fulfilling broader development goals which include financial inclusion ranging from the underserved to the women SME and retail segments. The Women Bond issuance reaffirms Krungsri corporate citizenship practices towards sustainable development with positive impacts on women clients and is part of our broader ambition to meet the Sustainable Development Goals defined by the United Nations.

C. Focus on underserved and women segments

The SME sector is one of Thailand's key engines of growth, with the country's economic future hinging on contributions of small and medium-sized enterprises. Thanks to over three million SME entities, the sector drives the economy forwards with vital impacts while generating over 12 million jobs for the Thai population.

Key issues related to SMEs and entrepreneurship development includes their access to finance, which is critical to the creation, growth and productivity of overall SMEs. Although SME access to finance largely improved in the recent years, market failures and structural challenges remain, including information asymmetries, high transaction costs in servicing SMEs, and lack of financial skills and knowledge among small business owners.

There is a need to broaden the range of financing instruments available to SMEs and women entrepreneurs in particular, in order to address diverse financial needs in varying circumstances, increase SMEs' resilience to changing conditions in the credit market, and improve their contribution to economic growth.

Krungsri is committed to supporting Thailand's economic development by serving SMEs meet their diversified business requirements. Guided by our customer-centric approach, we have undertaken various transformative initiatives, including a new operating model and the new Business Banking unit to ensure that all SMEs are adequately served.

Established in June 2017, the Business Banking (SME-BB) aims to services the Bank's smallest SME segments. Customers under this segment is defined as businesses with commercial credit limits of up to 15 million baht for self-employed individuals and audited sales turnover of up to 20 million baht for juristic persons, using both product programs and credit write-ups to suit various SME Business Banking needs. The segment is serviced through the Bank's branches nationwide.

Women Bond issuance as a financing instrument will not only meet but also enhance opportunities for Krungsri to meet the needs of the women segment and actively contribute to the achievements of United Nations' Sustainable Development Goals (SDGs).

In addition to the Business Banking (SME-BB) segment, Krungsri also serves in the micro and retail segments through its Retail & Consumer Banking Division. This mirrors our efforts in improving financial access in the underserved segments and our responsible lending practices and adhering to our corporate and social responsibility business practices and objectives.

II. Women Bond Framework

Furthering Krungsri's commitment to social responsibility and in providing greater access to the underserved women segments, Krungsri plans to issue Women Bonds.

To facilitate the issue of Women Bonds, Krungsri has developed the Women Bond Framework ("Framework") under which such bonds will be issued. The Framework is aligned with the International Capital Market Association's Social Bond Principles 2018 ("SBP") and addresses the four core components of the SBP:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

A. Use of Proceeds

The proceeds from the Women Bonds will be used refinance existing facilities or finance new facilities that fund social projects of the following categories:

1. Employment generation through women-owned SME financing[1] and microfinance for women[2]. This aligns with UN Social Development Goals – No.5 Gender Equality, and No. 8 Decent Work and Economic Growth

2. Socioeconomic advancement and empowerment through financing to women with low income, or disadvantaged female groups. This aligns with UN Social Development Goals – No.5 Gender Equality and No.10 Reduced Inequalities

1. SME Financing is credit facilities to SMEs for productive purposes. SME are Small and Medium Enterprises with sales turnover of up to 150mio THB run by women
2. Such as loans no less than USD10,000

Social projects and financings that fall into Exclusionary Criteria outlined in the Framework will be excluded

The projects and financings that meet the categories outlined above will form the eligible assets for the Women Bonds (the "Eligible Assets").

An amount equal to the net proceeds from each Women Bond issue will be allocated to the finance or re-finance, in part or in full, new and / or existing Eligible Assets.

1. Exclusionary Criteria

Any new facilities are not provided to enterprises that engage in the following activities or used for the purposes of the following activities:

(i) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase outs bans, such as hazardous pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances, PCBs, wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES) of Wild Fauna and Flora.

(ii) Production or trade in weapons and munitions.

(iii) Production or trade in alcoholic beverages (excluding beer and wine).

(iv) Production or trade in tobacco.

(v) Gambling, casinos and equivalent enterprises.

(vi) Pornography and/or prostitution.

(vii) Racist and/or anti-democratic media.

(viii) Production or trade in radioactive materials.

(ix) Production or trade in unbonded asbestos fibers.

(x) Unsustainable fishing methods

(xi) Cross-border trade in waste and waste products, unless compliant to the Basel Convention and the underlying regulations.

(xii) Coal related sub-projects including coal mining, coal transportation or coal-fired power plants, as well as infrastructure services exclusively dedicated to support any of these activities.

(xiii) Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.

(xiv) Commercial logging operations for use in primary tropical moist forest.

(xv) Destruction of High Conservation Value areas

(xvi) Production or trade in wood or other forestry products other than from sustainably managed forests.

(xvii) When investing in microfinance activities, the production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.

(xviii) Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples without full documented consent of such peoples.

B. Process for Project Evaluation and Selection

Krungsri's SME Banking and Retail & Consumer Banking Divisions will assess its portfolio against the Eligibility Criteria to identify a potential pool of Eligible Assets. From the pool of Eligible Assets, the SME Banking and Retail & Consumer Banking Divisions will recommend to Krungsri's Women Bond Sub-Committee a selection of Eligible Assets to be allocated and tagged to each issue of a Women Bond.

Krungsri's Women Bond Sub-Committee is comprised of members of senior representatives of the following departments:

- Global Markets,
- Group Risk
- SME Banking
- Retail and Consumer Banking
- Finance under CFO's Office

Krungsri's Strategic Assets and Liabilities Management Department will be the secretariat for Krungsri's Women Bond Sub-Committee and will be responsible for coordination and organization of its meetings and discussions.

After issuance, on an ongoing basis the SME Banking and Retail & Consumer Banking Divisions will monitor the portfolio and new Eligible Assets will be identified.

Krungsri's Women Bond Sub-Committee is responsible for the initial review of the Eligible Assets which the net proceeds of the Women Bond will be allocated, to ensure compliance with the Framework. This process of review by the Krungsri's Women Bond Sub-Committee will be conducted quarterly

C. Management of Proceeds

Krungsri's Strategic Assets and Liabilities Management Department will manage on a quarterly basis, the allocation of the net proceeds from Women Bonds to Eligible Assets. The net proceeds from any Women Bond issue will be deposited in Krungsri's liquidity management account and an amount equal to the net proceeds will be earmarked for allocation to Eligible Assets in accordance with the Framework.

Any portion of the Women Bond net proceeds that have not been allocated to Eligible Assets will be invested in accordance with Krungsri Treasury's existing liquidity management procedures such as short term money market investments and government bonds

Payment of principal and interest on any Women Bond issuance will be made from Krungsri's liquidity management account and will not be directly linked to the performance of any Eligible Asset nor will there be Eligible Assets ring-fenced as collateral to the specified unsecured bonds.

D. Reporting

Following the issue of the Women Bond and as long as there are Women Bonds outstanding Krungsri will provide a report annually to investors on how proceeds are allocated and the impact it has had in helping develop the underserved women segment

The report will be published on Krungsri's website and available for down load at: https://www.krungsri.com/bank/en/InvestorRelations/sustainability

1. Allocation reporting

The reporting will include the allocation of proceeds per the Eligibility Criteria.

- Aggregate amount of funds allocated to the Eligible Assets
- Aggregate number of clients comprising the amount of funds allocated to the Eligible Assets
- Aggregate amount of funds allocated to replace or replenish Eligible Assets
- Amount of unallocated proceeds

2. Impact reporting

To the extent available, Krungsri will report on an annual basis:

- The year-over-year percentage change in the aggregate value of facilities to women that meet the Eligibility Criteria;
- The year-over-year percentage change in the number of clients that meet the Eligibility Criteria;

III. Amendments to the Framework

Krungsri's Women Bond Committee will review the Framework on an ongoing basis and will approve any ongoing amendments to the Women Bond Framework to ensure its suitability to Krungsri's overall objective.

Any changes to the Women Bond Framework will be published on the Krungsri Investor Relations webpage, found through https://www.krungsri.com/bank/en/InvestorRelations/sustainability

IV. Assurance

Krungsri will obtain a second party opinion from an appropriate provider to confirm the validity of the Krungsri's Women Bond Framework. The second party opinion will be published on the Krungsri Investor Relations webpage, found through https://www.krungsri.com/bank/en/InvestorRelations/sustainability