KIATNAKIN PHATRA

Risk Management of Kiatnakin Phatra Financial Group

Risk management is a critical process essential for organizational management and for ensuring that an organization can achieve its set objectives. It includes establishing mechanisms for risk governance to ensure effective management, enabling business growth under transparent operations and good corporate governance principles.

Business Segments of Kiatnakin Phatra Financial Group

The group operates two main business segments: commercial banking, managed by Kiatnakin Phatra Bank, and capital market operations, managed by other group companies. The group recognizes the importance of holistic risk management by adopting a risk management framework that covers the entire organization. Each business line and unit is responsible for managing and controlling the risks arising from their activities within the established risk management policies and guidelines.

All employees play a crucial role in effective risk management, participating in managing risks to ensure the group has a robust and efficient risk management system that adequately addresses the volume and complexity of transactions and key risks. This approach aligns with the group's strategic goals and maintains risks within acceptable levels.

Key Risks

The group identifies and assesses key risks that could impact its business, including:

1. **Credit Risk:** The risk arising from borrowers failing to meet contractual repayment obligations, which could affect the group's income and capital.
2. **Concentration Risk:** The risk from high exposure to certain clients or sectors, which could significantly affect the group's performance if losses occur.
3. **Market Risk:** The risk of potential losses due to changes in the value of both on-balance sheet and off-balance sheet positions resulting from movements in interest rates, equity prices, exchange rates, and commodity prices. Changes in interest rates and equity prices may arise from general market factors (General Market Risk) and/or factors specific to the issuer (Specific Risk).

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4. **Liquidity Risk:** The risk arising from banks and companies within the business group being unable to meet their debts and obligations when due, due to an inability to convert assets into cash or to obtain sufficient funding, or being able to secure funding but at an unacceptably high cost, which may impact the income and capital reserves of the banks and business group both in the present and in the future.
5. **Interest Rate Risk:** The impact on income or economic value resulting from changes in interest rates affecting on- and off-balance sheet positions.
6. **Strategic Risk:** The risk from inappropriate business strategies or plans that do not align with internal and external factors, impacting income and the group's continuity.
7. **Reputation Risk:** The risk arising from the public perception including customers, partners, investors, and regulators of a negative image or lack of confidence in the business group, which may impact the income and/or capital reserves of the banks and business group both in the present and in the future. Reputational risk may stem from actions that do not align with ethical standards, societal expectations, or business service standards, or from failures to adhere to agreements or provide customer services.
8. **Legal and Regulatory Compliance Risk:** The risk that may arise from non-compliance with laws, regulations, standards, and practices applicable to financial transactions, including the fair treatment of customers, which could result in penalties, fines, or damages from complaints, lawsuits, or legal actions.
9. **Operational Risk:** The risk of losses from inadequate internal processes, personnel, systems, or external events affecting the group's financial stability.
10. **IT Risk:** Risks arising from technology use in business operations, including cyber threats that could disrupt services.

Risk Management Approach

The group integrates risk management from the strategic planning process, ensuring that potential risks are maintained within acceptable levels and align with relevant risk management policies and standards. The group establishes risk indicators, defines the risk appetite (acceptable risk levels), and sets risk tolerance (acceptable deviations from those levels).

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This approach is designed to ensure that executives and employees at all levels are aware of, understand, and are aligned with common goals and objectives, enforcing strict adherence to these standards. The ultimate aim is to strengthen the organization's long-term stability and operational effectiveness.

The Bank and the Group companies' principles of risk management are as follows:

1) A risk owner is primarily responsible for managing the risks arising from their business activities.
2) The risk owner and the independent departments cooperate to carry out risk control.
3) In order to control the risks to an acceptable level, the Group applies the model "**Three Lines of Defense**" to ensure the appropriateness and effectiveness of the Group's risk management.

Level 1: Risk Owner Level: The risk owner must monitor their own unit's risk to be within an appropriate level.

Level 2: Risk Management Group and Legal and Compliance Group Level: The Risk Management Group is responsible for monitoring and supporting tools and an effective risk management process to control the risks to be within an acceptable level. The Legal and Compliance Group is responsible for monitoring and reviewing the operations of the Group in compliance with the risk management policy and regulations. These two groups are independent of the risk owner.

Level 3: Internal Audit Level: The Internal Audit Office is responsible for auditing guidelines for risk management and internal control.

Apart from the mentioned principles of risk management, reducing the risk to an acceptable level and consistently monitoring risk levels are also crucial. The risk management process follows a systematic approach.

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The Risk Management Structure

The Board of Directors, via the Risk Oversight Committee, closely regulates the risk management policy, embracing the management of risks throughout the entire organization with emphasis on establishing, for each business group and unit, the roles and responsibilities of understanding the risks of its business activities and managing such risks under the risk management policies and guidelines of the Group. The Risk Management Group has roles and duties to regulate, monitor, and review the mechanics of risk management and control in each business unit and business group. Furthermore, each business group will be allocated capital in an amount depending on the level of its transaction risks and business operation losses.

The relevant committees, business groups, and risk management authorities are as follows:

1. Board of Directors
2. Risk Oversight Committee
3. Operational Risk Sub-committee
4. Risk Management Group
5. Internal Audit Office
6. Risk Owner

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