

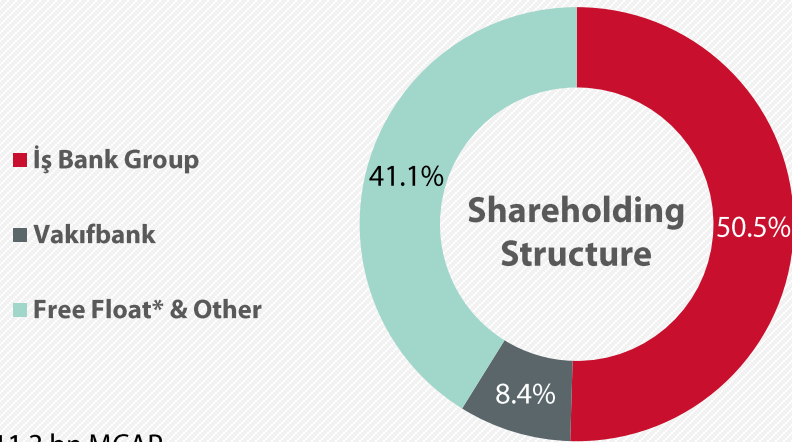
# *The Industrial Development Bank of Türkiye*

*FI&IR Presentation*

*4Q-22 Bank-only Results*



## TSKB at a Glance



TRY 11.3 bn MCAP  
As of February, 6th 2023

Ratings	TSKB	Turkey Sovereign
Fitch LTFC	B-	B
Moody's LTIR	B3	B3
SAHA Corporate Governance Rating	9.59/10	
Sustainalytics ESG Risk Rating	7.9 Negligible Risk	

### CORPORATE BANKING

**Loan products that contribute to sustainable development of Turkish economy**

- Corporate Loans
- Project Finance
- Other Loan Products

### INVESTMENT BANKING

**Products and services that create tailor-made value for its clients**

- Corporate Finance
- Money and Capital Markets Advisory Services
- Derivates

### ADVISORY SERVICES

**Products and services driven by "Information-based Banking"**

- Economic Research
- Financial Advisory Services
- Engineering and Technical Advisory Services





# A Unique Business Model

## Long Term Funding and Strong Liquidity

- Long term tenor in liabilities: 11 years
- Medium term in assets: 5 years
- Diversified funding tools
- Amortized loan book

## Sustainable Relationship with Stakeholders

- Long-lasting relationship with DFIs\* and FIs
- Ministry of Treasury and Finance
- DFI Mission Clubs
- Policy Makers
- Investors

✓ **Identifying the actual and future needs for sustainable development**

✓ **Sustainable Banking Income Generation**

✓ **Solid & Consistent Financial Ratios**

✓ **Securing those by way of utilization of existing resources and of reaching out potential ones**

## Prudent Credit Risk Assessment

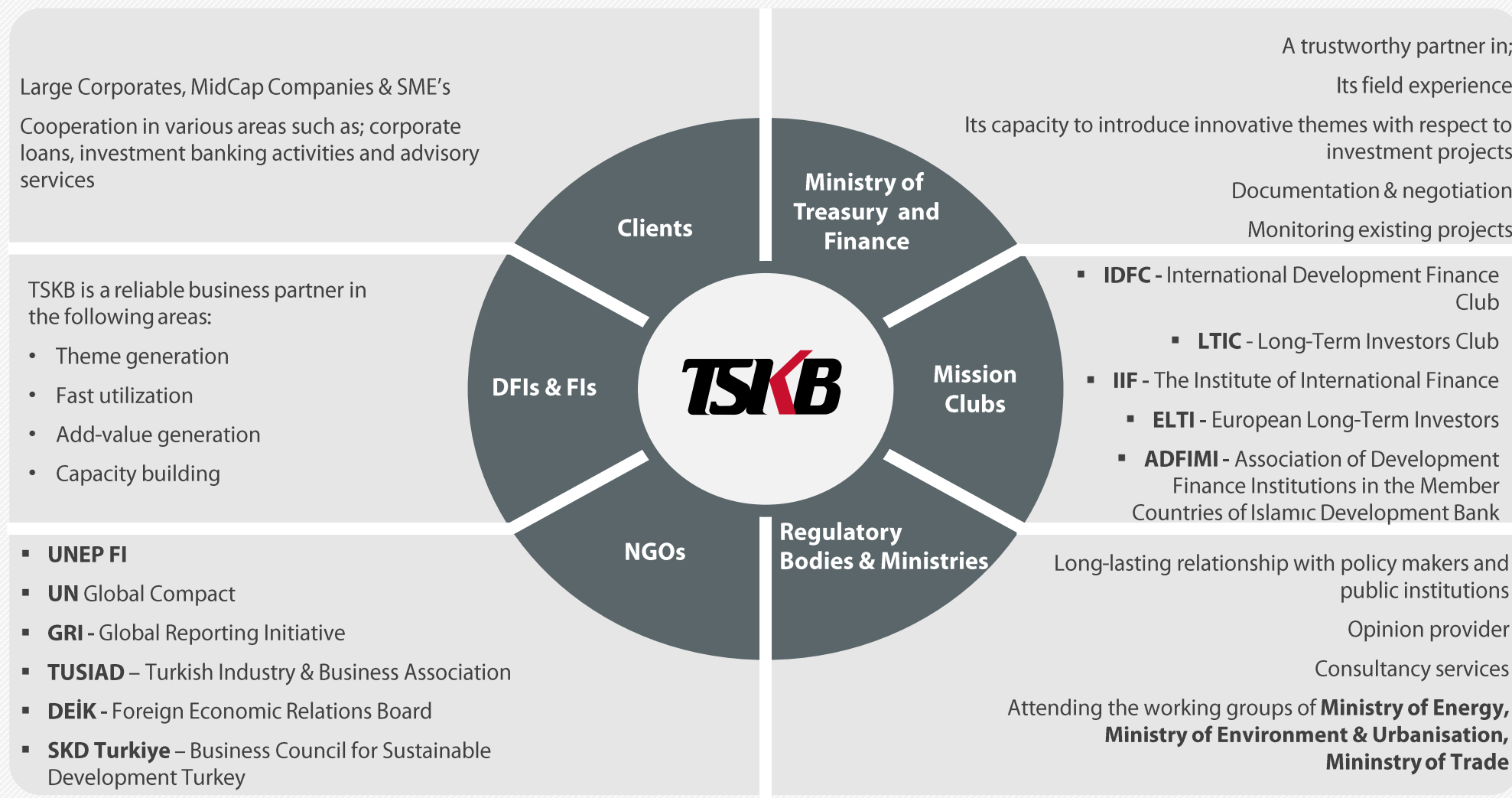
- Multi-disciplinary assessment during allocation
- Sector specific research analysts during allocation and monitoring period
- Strong collateralization
- Well capture of clients

## "Knowledge Banking"

- A strong technical team:
  - Economic research
  - Engineers
  - Financial Analysts
- Constant investment for the capacity expansion
- Advisory and investment banking teams



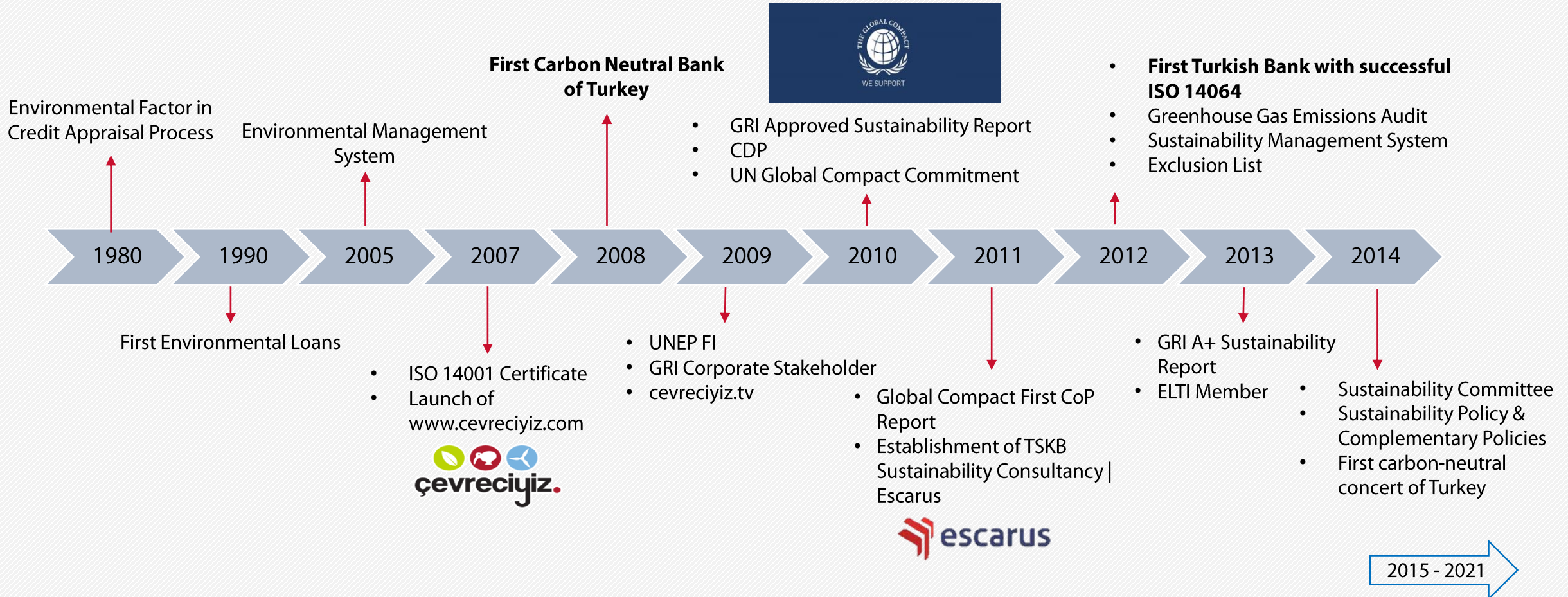
## Main Stakeholders of the Bank



# >> Sustainability is Well Integrated into Our Business Model



# TSKB Sustainability Journey - I



# TSKB Sustainability Journey – II



- Signatory of IDFC Climate declaration
- BIST Sustainability Index
- Women's Empowerment Principles

2015

2016

2017

2018

2019

2020

2021

2022

- First Integrated Report of the Turkish finance sector
- Globally first Sustainable Tier II Bond Issuance
- First Allocation and Impact Reporting published in Türkiye for the green and sustainable bond

- "Equal Steps", equal opportunity digital platform
- Founding Signatories of the 'Principles for Responsible Banking' developed by UNEP FI
- 10th member of the Steering Committee of the IDFC

- New structure of the Sustainability Committee
- TSKB 3<sup>rd</sup> Sustainable Bond issuance
- Participation in the TCFD Phase 3 Banking Pilot Program
- Publication of the Climate Change Combat and Adaptation Policy
- Publication of the Climate Risk Report
- Plastic Footprint Reduction Target

- First ever green/sustainable bond out of Türkiye & CEEMEA
- Publication of TSKB Declaration on Climate Change

- Gender Equality Certification by KAGDER and IBRD
- "Social Impact Assessment Analysis" and "Gender Equality" Working Groups

- First women CEO appointment
- Green Swan Platform establishment
- SDG Mapping Project for the loan portfolio
- Best ESG Risk Rating Score in Türkiye by Sustainalytics
- First new loan disbursement with SDG Loan Model
- First club loan linked to ESG Risk Rating
- World's first Sustainable Lease Certificate
- Founding of Climate Risks Working Group

- Chair of TBA Sustainability Committee
- Application of CRET Model to investment loans analysis and allocation processes
- Being located among the top 50 global corporations with our Sustainalytics ESG Risk Score
- NZBA signatory, founded by UNEP FI
- Publication of Responsible Sustainability Communication Policy



2023



# Sustainability Developments and Future Agenda

## Net Zero Pathway

### Net-Zero Banking Alliance (NZBA) Membership

- Setting targets before 2030
- Alignment of loan and investment portfolio with zero emissions targets by 2050
- “Financed Emissions” inclusion into the emission calculation and verification processes
- In the process of the verification of our long-term emission targets at SBT-i

## Stakeholder Engagement

- Stakeholder and Materiality Analysis update with the double materiality concept
- Reporting in line with WEF Stakeholder Capitalism Metrics
- Early Adopter on the UNGC Communication on Progress (CoP)

## Strong ESG Risk Management

- *Sustainalytics ESG Risk Rating Score*
  - 7.9 ESG Risk Score
  - Negligible risk category
  - First place in Türkiye
  - 12<sup>th</sup> place among global development banks
  - 15<sup>th</sup> place among global banking sector
- *CDP Climate Change Score*
  - A- Leadership
  - %21 percentile
- *Refinitiv ESG Score : A*

## Sustainable Financing Targets

USD 8 billion

SDG-linked financing by 2030 **Realized so far: 28%**

90%

Ratio of SDG-linked-loans by 2025 **On track: 91%**

60%

Ratio of climate and environment focused SDG-linked loans by 2025 **On track: 60%**





## ➤ 4Q-22 At a Glance

### Intact Asset Quality & Strong Front Loaded Provisioning

- Intact asset quality, with elevated coverages and extra free provisions
- NPL: down to 2.9%
- No change in the loan classifications

### Strong FX Liquidity

- FX LCR: 322%
- ~80% ESG-linked funding
- Additional ~USD 280 mio new loan agreements

### Profitability Above Expectations

- ROE: 41.1%
- NIM: 6.9%
- Stellar core banking income growth

### Sustainable Internal Capital Generation Capacity

- CAR: 17.9%
  - Tier-I: 16.7%
- \*Excluding BRSA's temporary measures*

- Intact **asset quality**, no change in the loan classifications
- **One of the highest coverages** among the sector with further elevated coverages
- TL 180 million of **additional free provisions**, making the total stock TL 900 million.
- **Strong liquidity**, backed by new loan agreements with DFIs amounting to USD 280 mio
- Continuous **SDG focused development contribution** to Turkish economy
- **Resilient business model** that enables **successful management of security portfolio**
- **Sound profitability** backed by stable and robust core spreads, with ongoing CPI-linker contribution
- **Investment banking and advisory fees** continues to contribute banking income
- **Solvency ratios above regulatory levels** given the strong capital generation capability



## 2022YE Performance & 2023YE Guidance

Financial Guidance (Bank Only)	2022YE (%) Guidance	2022YE (%) Figures	2023YE (%) Guidance
<b>Growth</b>			
FX Adjusted Loan Growth	Contraction	-6	~5
<b>Profitability</b>			
Net Interest Margin (*)	>6	6.9	>5
Fees & Commissions Growth	~80	124	~100
Return On Equity **	>40	41.1	~35
<b>Efficiency</b>			
OPEX Growth	In line with CPI	90	~90
Cost/Income Ratio	~7.0	6.6	<13
<b>Solvency***</b>			
Capital Adequacy Ratio	13	17.9	~17.0
Tier I Ratio	12	16.7	~16.0
<b>Asset Quality</b>			
NPL Ratio	~3.0	2.9	~2.5
Net Cost of Risk (including currency impact) ****	~250 bps	329 bps	<100 bps

\*Excluding FX Gains /Losses.

\*\*When free provisions set aside during 2022 are adjusted, ROE reaches up to 44.7%

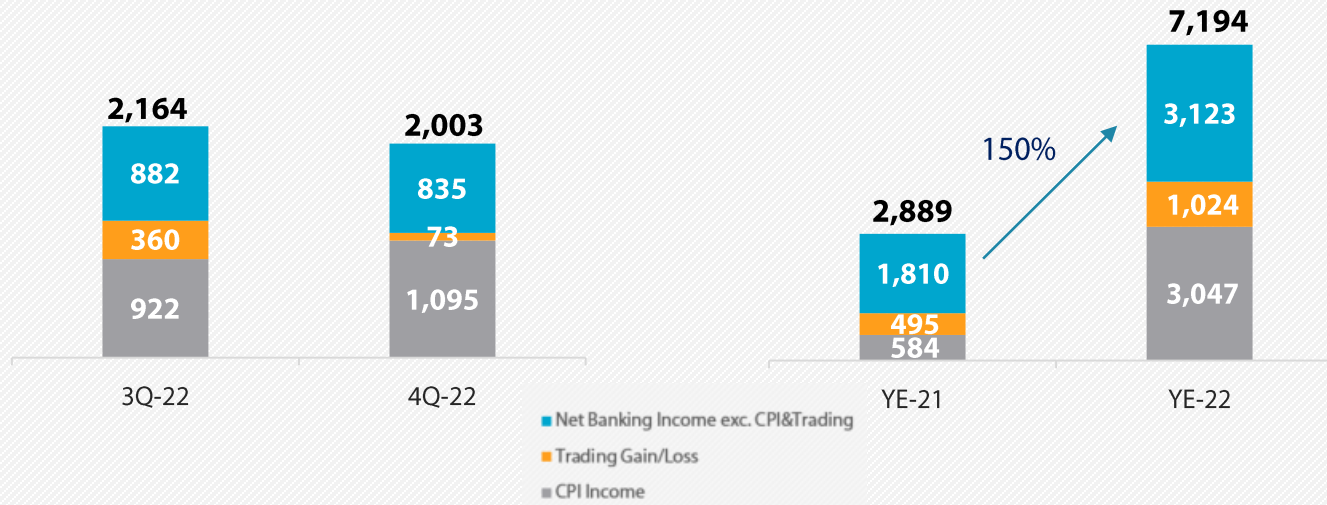
\*\*\*Excluding BRSA's temporary measures.

\*\*\*\* Currency impact adjusted Net COR is around 200 bps

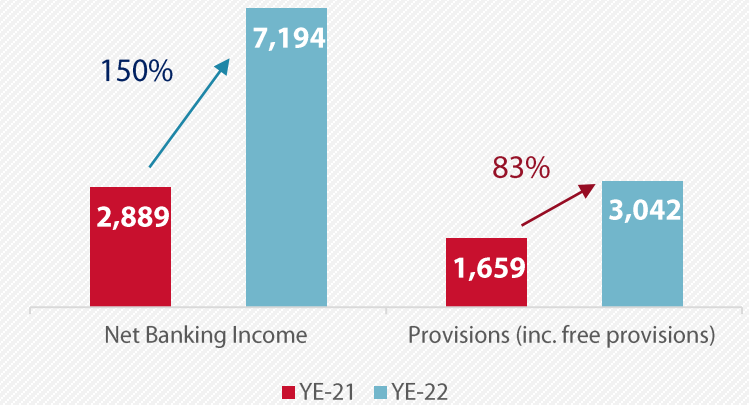


## Stellar core revenue expansion continues

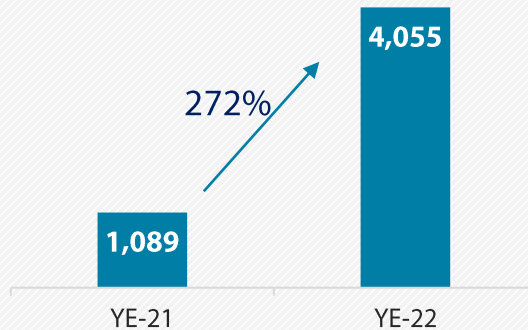
Net Banking Income - TL mn



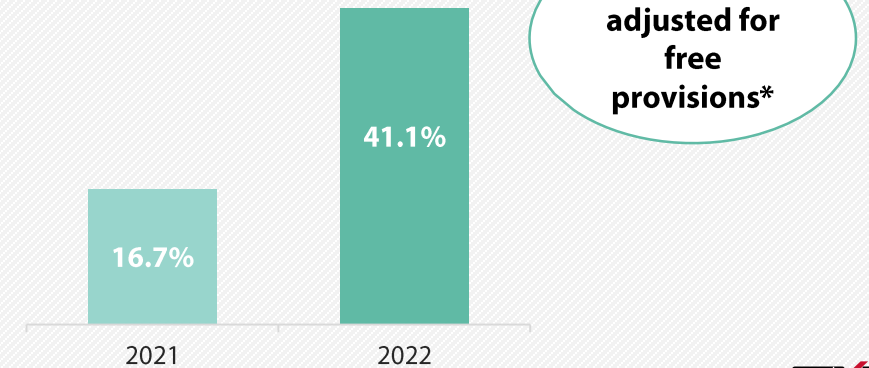
Annual Evolution of Net Banking Income vs Provisions  
TL mn



Net Profit- TL mn

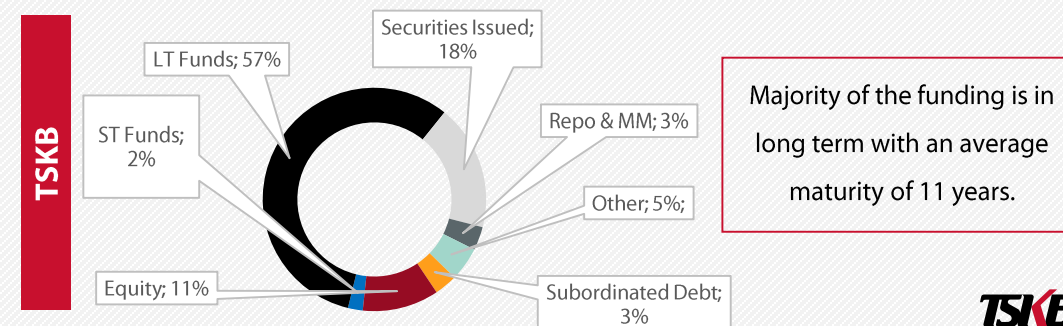
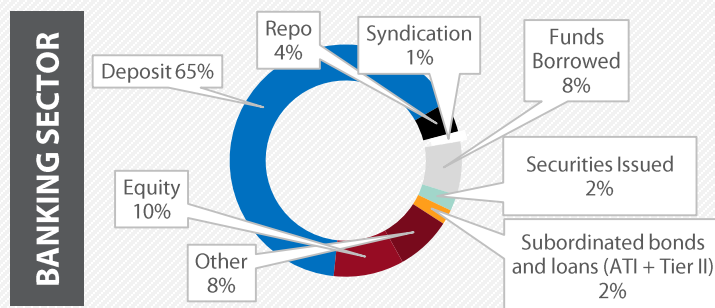
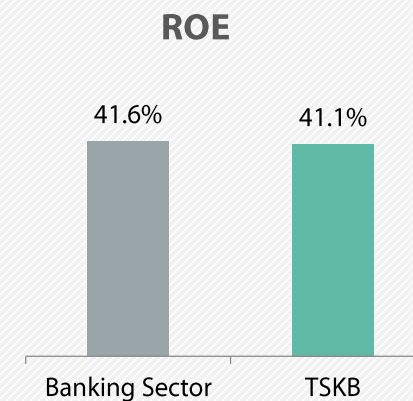
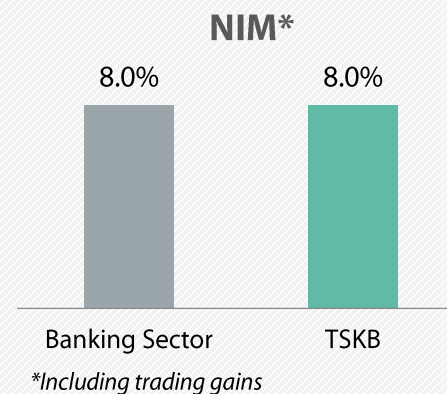
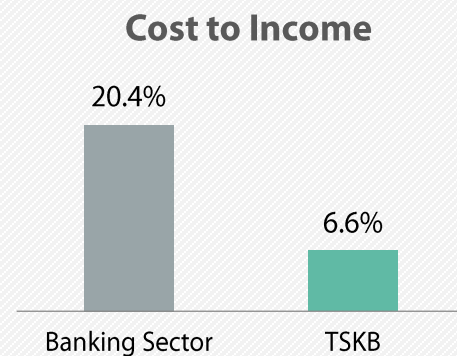
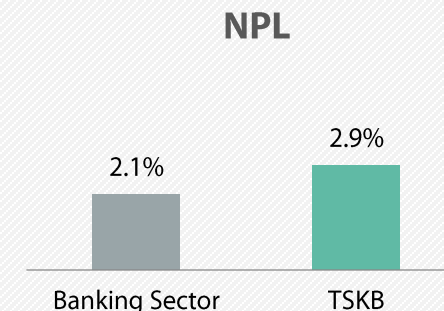
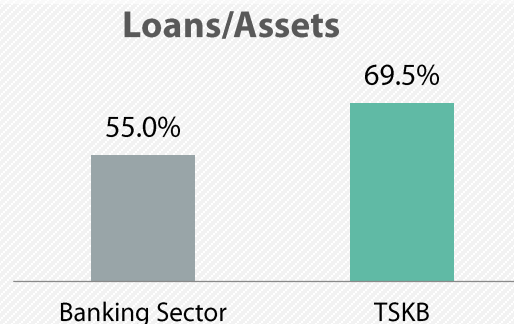
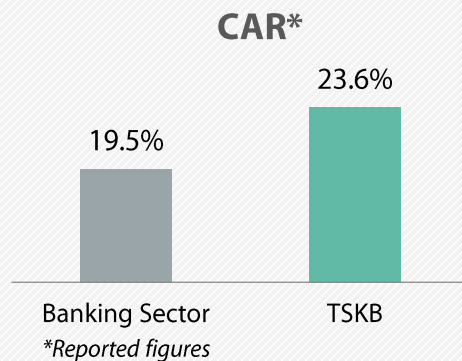


ROE



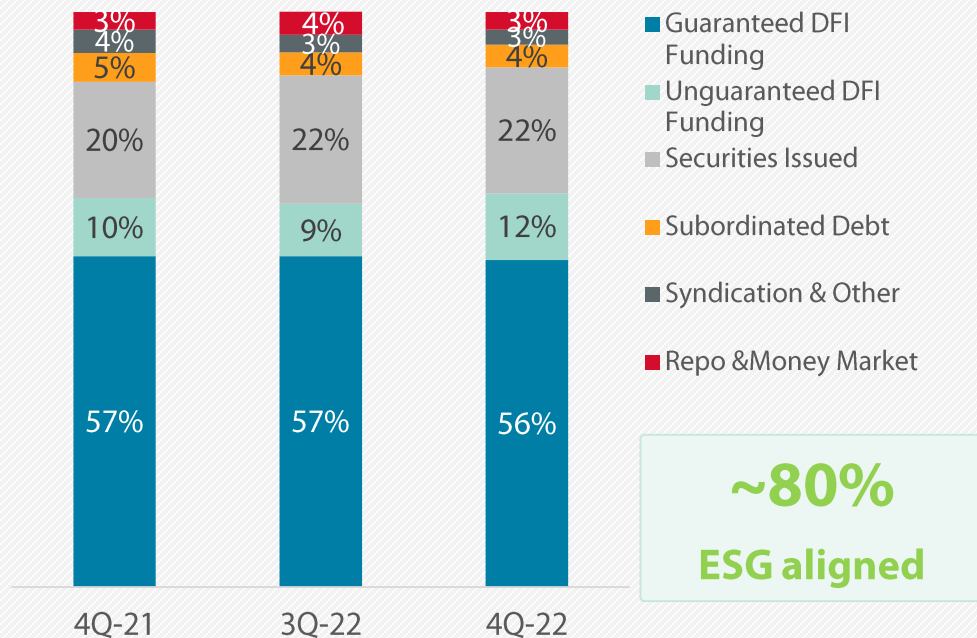
\*Excluding the extra provisions set aside in 2022

# Banking Sector vs TSKB



# Comfortable FX Liquidity and Maturity Profile

Funding / Total Liabilities (exc. Equity & Oth.) – USD mn



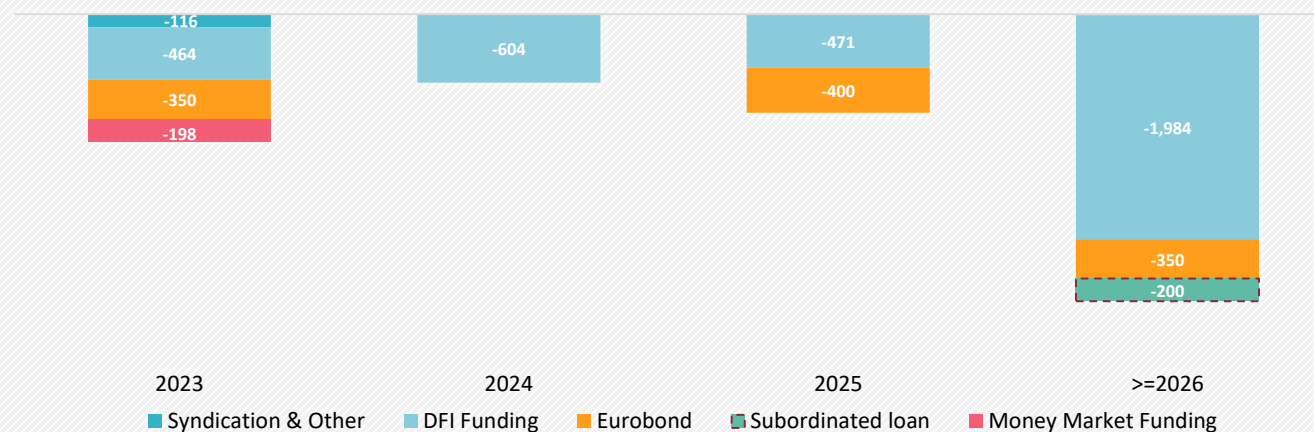
~ USD 600 mn Non-Withdrawn DFI Funding

Climate + Environment 100%

**FX Liquidity Coverage Ratio**

322%

Maturity Profile of External Debt - USD mn

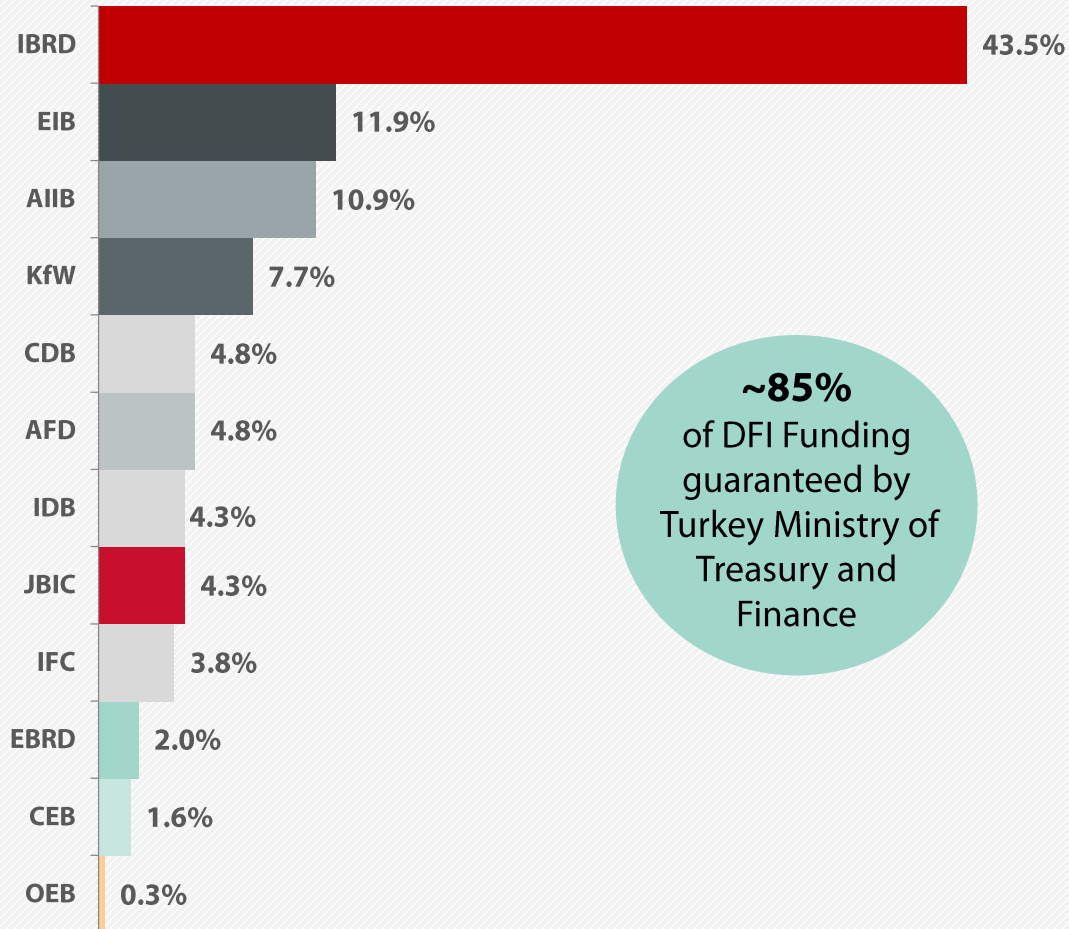


\* USD 200 million AT-I loan has a call option in 2027.

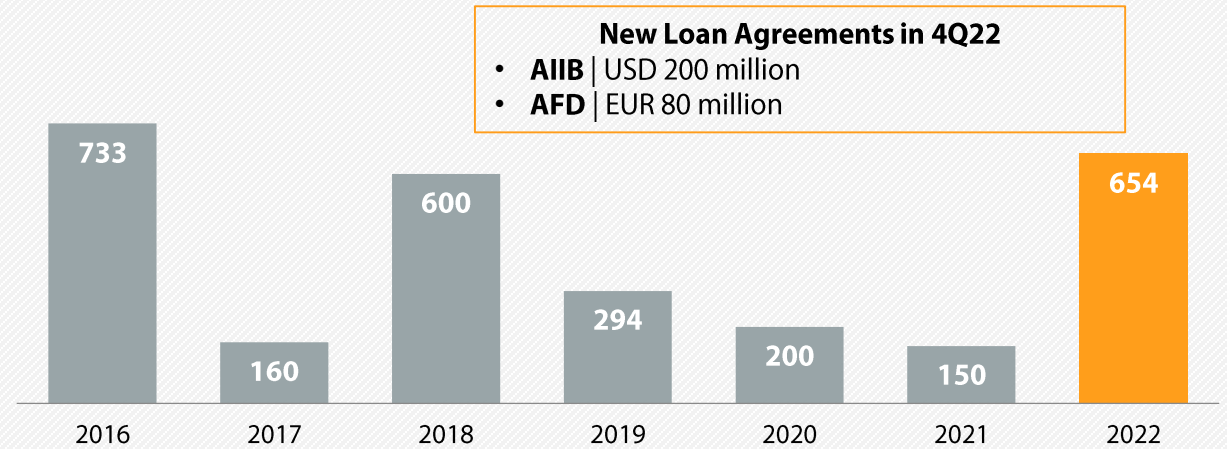


## Long Term DFI Funding Base

Outstanding DFI Funding Base – 4Q-22



Yearly Multilateral Funding Agreements – USD mn



## Outstanding Project Themes Shaping Future Loan Book

**Energy and Resource Efficiency**



**Women's Employment and Equal Opportunity**



**Renewable Energy**



**Midcap Financing**



**Supporting Exporters**



**Regional Development**



**Supporting Employment**



**Sustainable Agriculture**



**Industrial Development**



**Sustainable Tourism**



**Occupational Health and Safety**



**Environmental Pollution Abatement in Industry**



**Innovation**



**Social Infrastructure**

Health, Education & Clean Transportation



**SME Support**



**Research Development**



**Infrastructure**

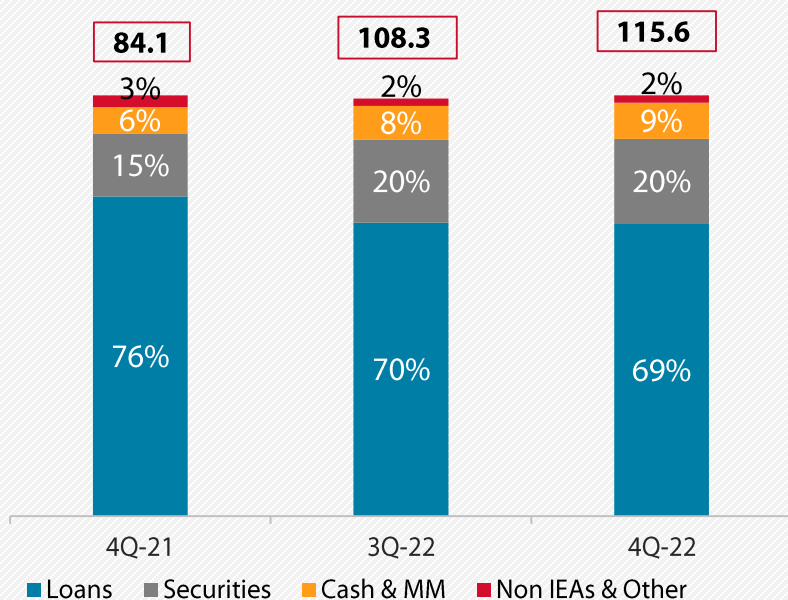


**Covid-19**

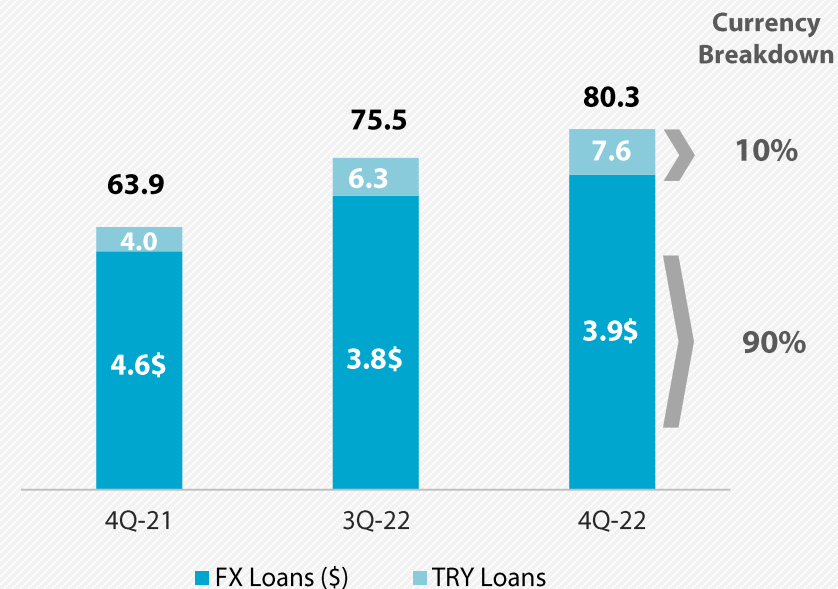


# Resilient Asset Composition

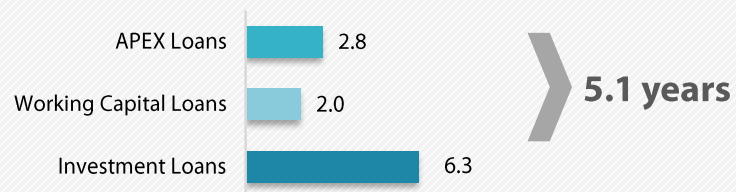
Asset Composition – TL bn



Total Loans – TL bn



Remaining Average Maturity - Years



4Q-22 Loans by Currency & Type



\*DFI Linked working capital loans are 7%





## Risk Management Pillars

### Credit Risk

- Monitoring the clients individually with analysing the financials
- Preparing monitoring reports for the clients at least once a year
- Keeping track of internal and external (if it is done) ratings of the customers, reviewing the internal ratings annually
- Actively managing the companies that are categorized in watch list (defined as loans that are 30 to 90 days delinquent)
- The value of the collateral taken is generally above the value of the loan
- Bank's lending is subject to the principles and internal limits set by the Board of Directors

### Market Risk

- Matching policy of assets and liabilities with fixed and floating interest rates in different currencies. Close matching structure of loans and funding for interest and currency risks
- Utilising derivative instruments, such as currency and interest rate swaps, as well as forward, futures and options transactions, for general hedging purposes
- Monitoring market risk on the Bank's trading book on a monthly basis with standard method and on a daily basis with VaR which does not exceed 1% of equity
- While the BRSA maximum ratio of Net foreign exchange position / (Tier I + Tier II Capital) is set at 20%, TSKB maintains a much more conservative ratio

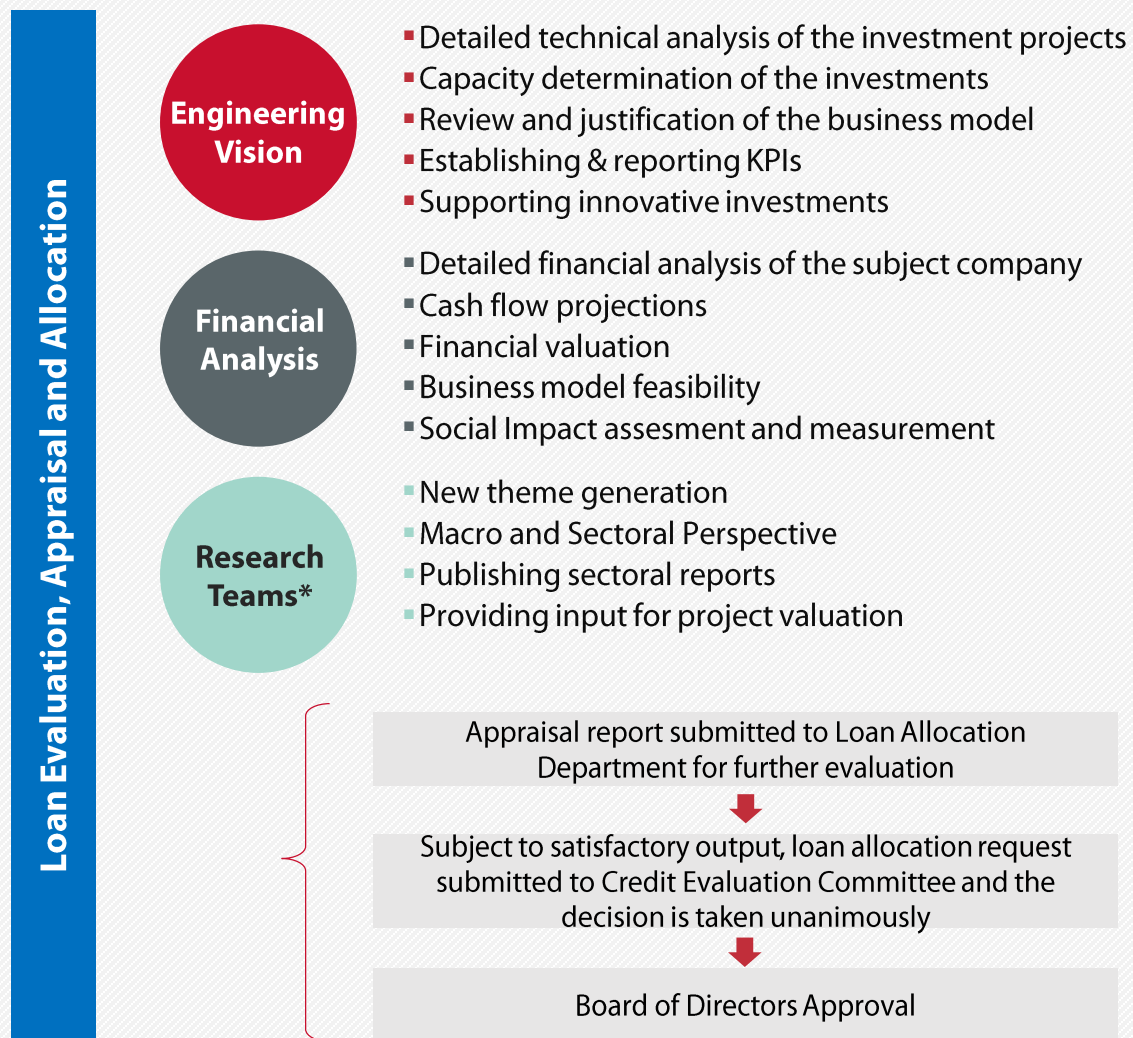
### Operational Risk

- Effective internal control systems to prevent, detect and manage the operational risks which results in a very low level of losses in connection with operational risk
- In compliance with the regulations, holding capital for operational risk equal to the average over the previous three years of a fixed percentage (15%) of positive annual gross income
- Setting maximum limit for the operational risk exposure calculated according to the Basic Indicator Approach, of 10% of the Bank's total risk weighted assets
- Risks identified are reported to the Audit Committee and Board of Directors and "Monitoring Action Plans" are prepared accordingly

### Liquidity Risk

- Liquidity ratios above the minimum regulatory levels proscribed by BRSA are maintained
- A policy of close matching of loans and funding maturities is adhered to liquidity risk
- Projections of Turkish Lira and foreign currency cash flows are produced

# Strong Risk Management Perspective

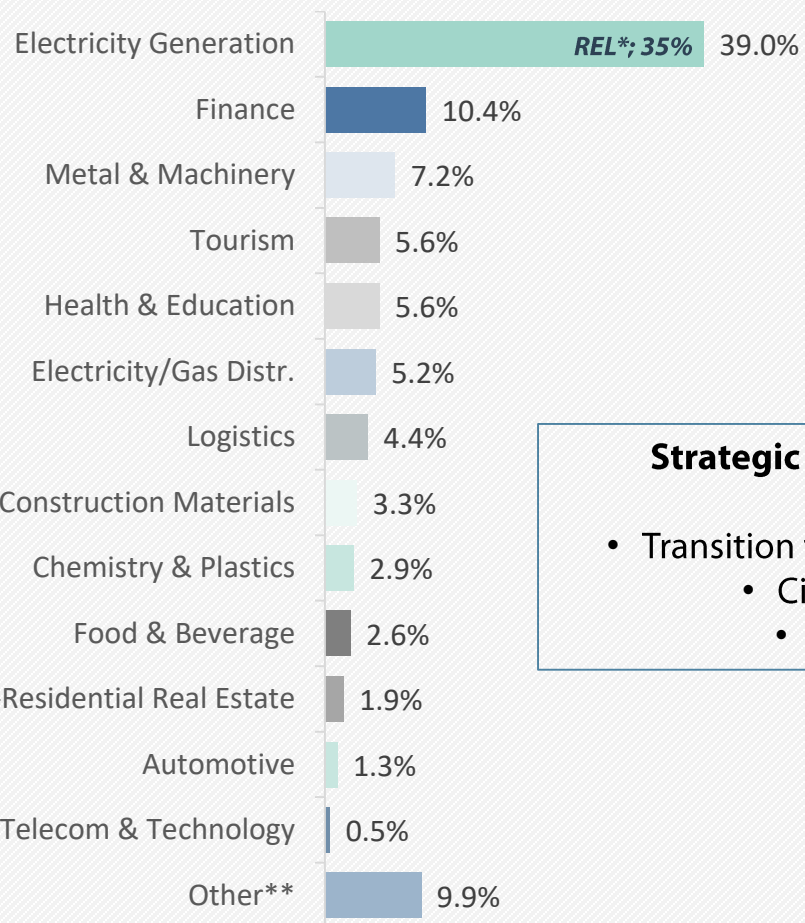


## Monitoring and Collateralization

- Loan concentration is prudently watched during loan allocation and monitoring processes, and is also limited by internal ratios through Risk Management.
- TSKB has a comprehensive monitoring process involving
  - Compliance rules.
  - Credit risk monitoring for borrower and its group,
  - Collateral package monitoring,
  - Sectoral and regional analysis,
  - NPL management
- Collateral package for project finance loans includes
  - pledges over the shares,
  - mortgages over immovable
  - commercial enterprise pledges
  - pledges over bank accounts
  - project completion guarantees
  - assignment of receivables.

# SDG-Linked Loans Account for 91% of the Portfolio

Loans by sector 4Q-22



REL\*, 35%



91% of which is Renewable Energy, where 82% benefits from Feed in Tariff

Outstanding Risk  
256 Projects  
6,766 MW

WPP	HPP	GPP	BIO	SPP
36%	23%	19%	11%	11%

## Strategic themes to stand out

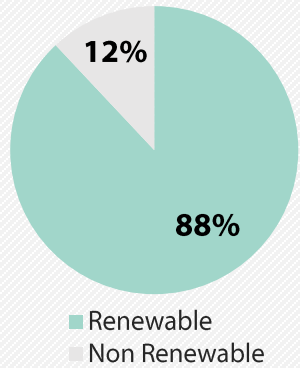
- Transition to Low Carbon Economy
  - Circular Economy
  - Inclusiveness

## Substantially Supported SDGs through Loan Activities



# Our Renewable Energy Focus

## Energy Portfolio Risk Breakdown



In terms of outstanding risk, **84%** of the operating energy projects are backed by Feed-in Tariff Mechanism (Yekdem).

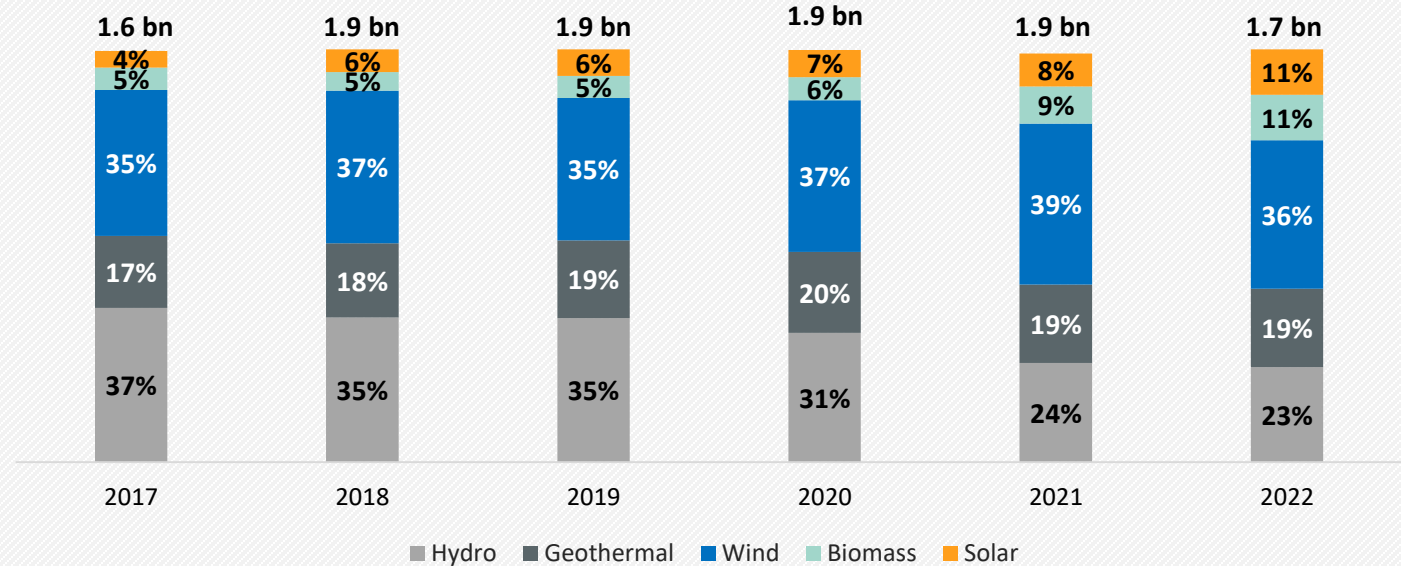
**84%** of non-renewable projects (in MWs) are under capacity enhancement mechanism supporting their cash flows.



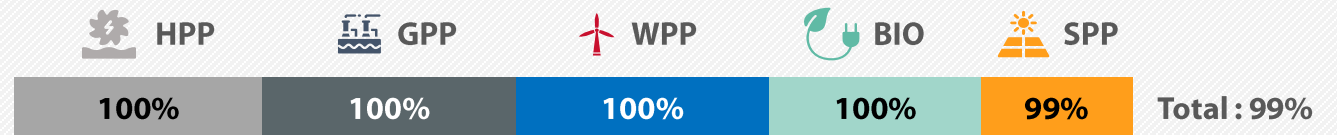
- With respect to number of projects, **99%** is **in operation**.
- With respect to their installed capacity (MW), **99%** is **in operation**.

\*Number of renewable energy projects in the outstanding portfolio

## Renewable Energy Portfolio (Outstanding - \$)

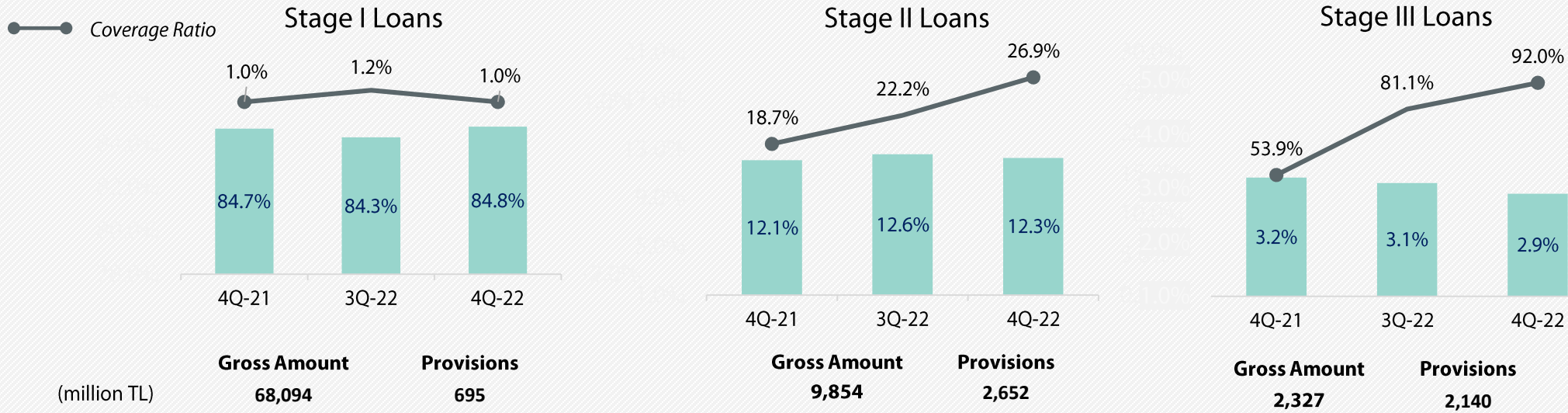


## Operating Projects in the Energy Loan Book (In terms of Number)





## Asset quality remains intact, coverages further elevated thanks to strong profitability



Total NPL Coverage:  
**187%\***

Total Stage 2 Coverage:  
**115%\***

Total Coverage:  
**6.8%**

Total Free Provisions:  
**TL 900 million**  
**(Additional TL 180 million in 4Q)**

\* Hard collateral & provisions are taken into consideration

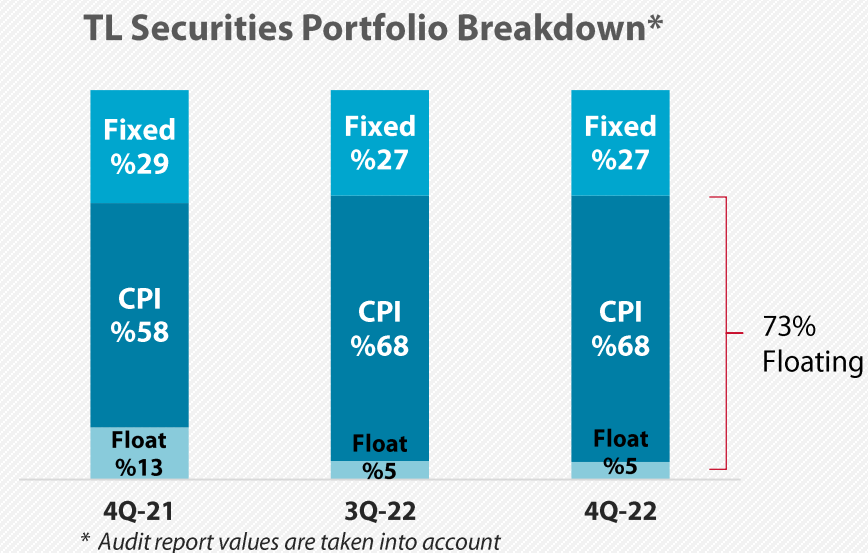
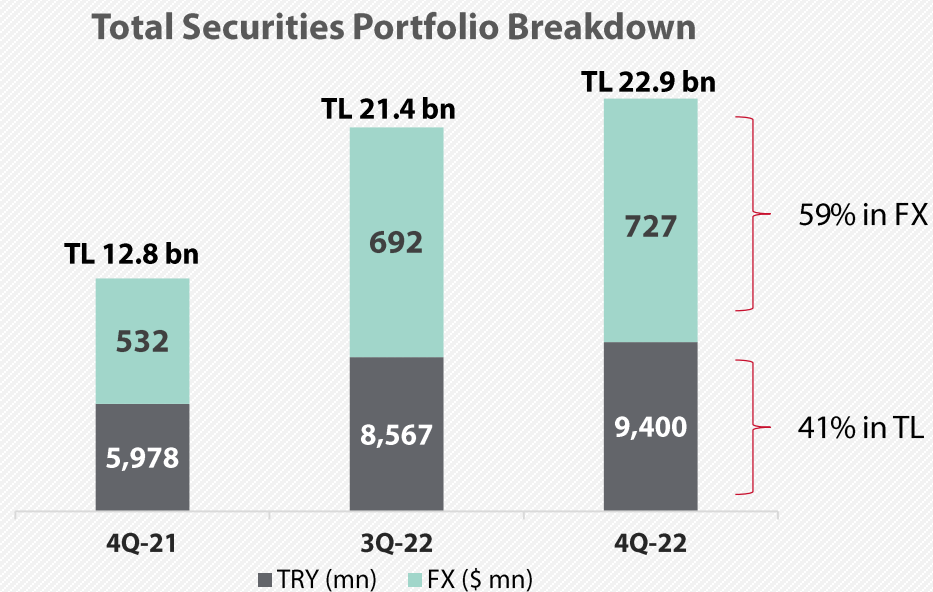
Stage 2 Loans		
Sector	%	Coverage (%)
Tourism	29	33.5
Health	17	14.0
Electricity/Gas Distribution	15	45.5
Electricity Generation	14	19.8
Renewables ( %100 YEKDEM guarantee)	69	14.5
Non Renewables	31	31.5
Non-residential Real Estate	7	29.1
Telecom/Logistics	5	8.8
Metal and Machinery	5	21.0
Other	9	22.1
<b>TOTAL</b>	<b>100</b>	<b>26.9</b>

93% of Stage 3  
Loans are  
restructured

67% of Stage 2&3  
Loans are  
Restructured

206 bps net CoR exc.  
currency impact

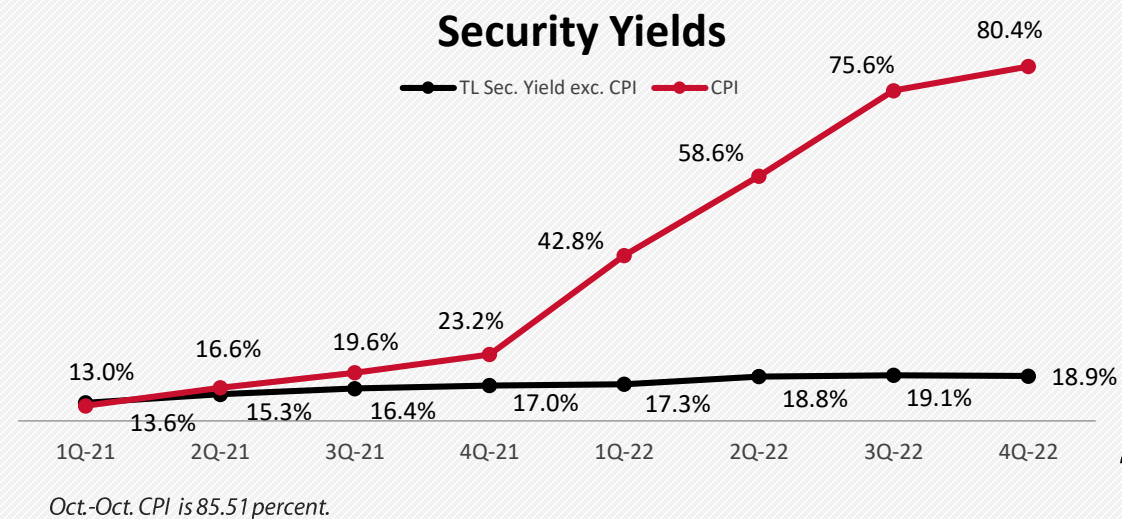
# Well-managed Security Book Supports our Bank's Profitability



## SECURITIES / ASSETS: 20%

Strategically managed securities portfolio

- Remaining Duration: **1.4 years** in Fixed bonds, **2.3 years** in Floating bonds, **4.2 years** in CPIs in TRY Sec. Portfolio.
- Investment in private sector bonds – 3.8% in TL securities book
- Redemptions were replaced with CPI linkers, fixed and floating high yield securities



## Income Statement Highlights

TL mn	YE-21	YE-22	YoY	3Q-22	4Q-22	QoQ
<b>Net Interest Income</b>	<b>2,529</b>	<b>6,415</b>	<b>154%</b>	<b>1,877</b>	<b>2,010</b>	<b>7%</b>
Trading Income	495	1,024	107%	360	73	-80%
Net Fees & Commissions	71	159	124%	37	39	6%
Other Income (Inc. Dividend)	61	102	67%	47	7	-85%
<b>Banking Income</b>	<b>3,155</b>	<b>7,700</b>	<b>144%</b>	<b>2,321</b>	<b>2,129</b>	<b>-8%</b>
OPEX (-)	266	505	90%	157	127	-19%
<b>Net Banking Income</b>	<b>2,889</b>	<b>7,194</b>	<b>149%</b>	<b>2,164</b>	<b>2,003</b>	<b>-7%</b>
Provisions (-)	1,659	3,042	83%	822	921	12%
Income From Participations	229	989	332%	115	645	463%
Tax Provisions (-)	369	1,086	194%	334	316	-6%
<b>Net Profit</b>	<b>1,089</b>	<b>4,055</b>	<b>272%</b>	<b>1,123</b>	<b>1,411</b>	<b>26%</b>

*Strong NII generation boosted by CPI-linkers and robust loan spread*

*Outstanding YoY increase in the fees & commissions*

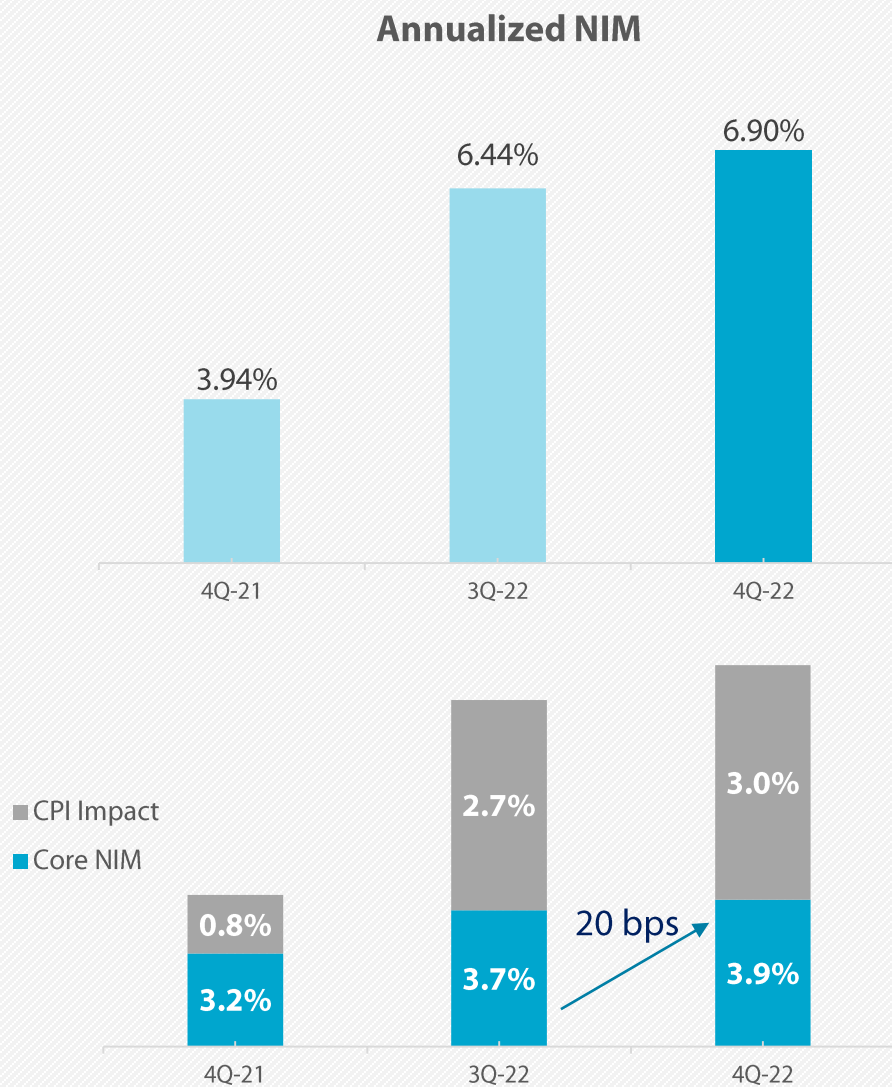
*Sustainable profitability performance supporting provisioning metrics*

*Continuous support from participations income*

*26% QoQ, 272% YoY expansion in the net profit*

- Based on MIS data
- Interest expense of long and short term swaps, valuations of hedge positions for Eurobonds issued and exchange differences arising from rediscounts are adjusted under NII
- Provisions include Expected Credit Losses in the audited P&L excluding impairment expenses of marketable securities

## ➤ Further enhanced core NIM performance

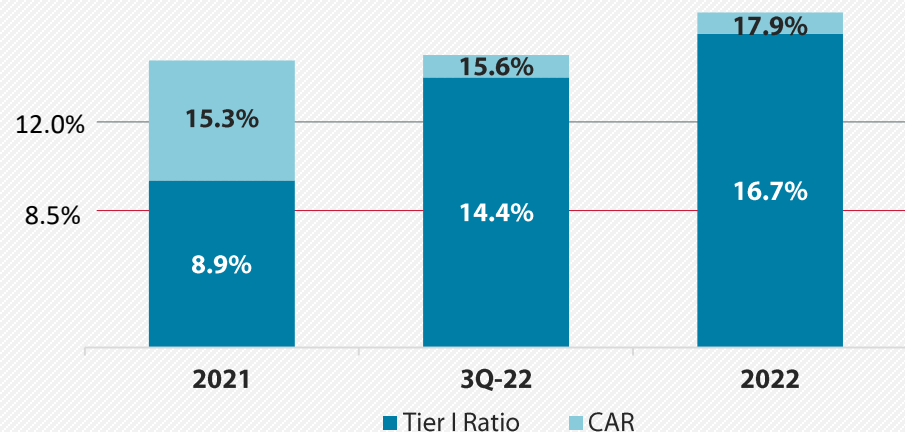


- Robust margin expansion continues excluding CPI linkers
- 2022 October - October CPI is 85.51%
- TL 1.5 bn of additional revenue generated from CPI-linker revaluations and new CPI-linker investments, making total CPI-linker revenue TL 3 bn in 2022
- Annualized NIM has elevated by 45 bps in the 4Q22
- Core NIM has expanded by 70 bps yoy



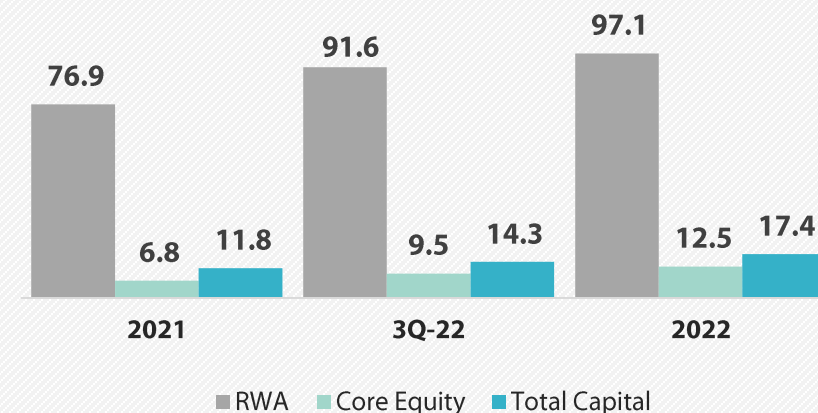
## Strengthened Solvency Metrics above regulatory levels

Capital Ratios Without BRSA Temporary Measures

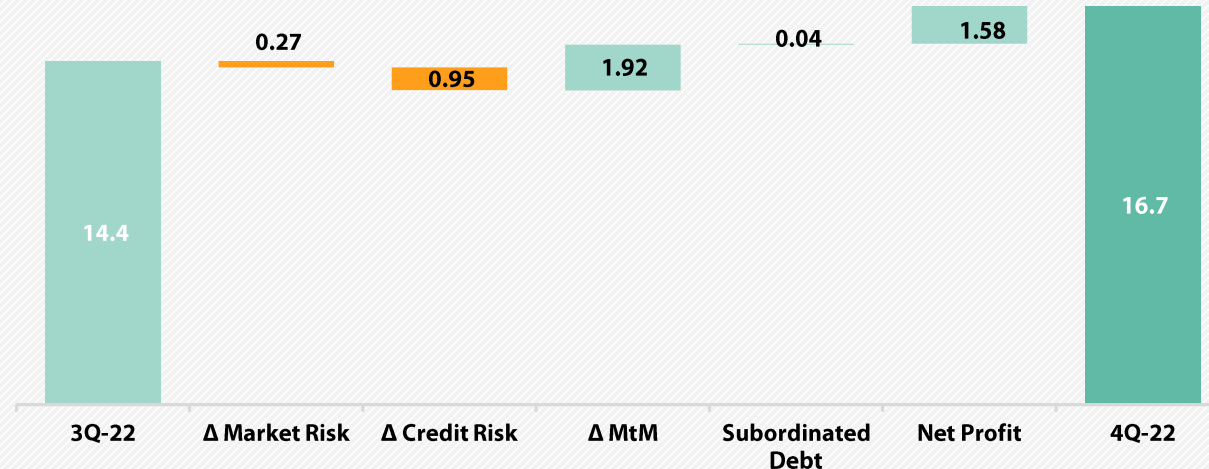


With BRSA Temporary Measures – CAR: 22.4% | Tier I: 21.3% | CET-I: 16.5%

Evolution of RWA and Equity – TL bn



Tier I Ratio Evolution



**Free Provision  
Adjusted  
CAR: 18.8%  
Tier I: 17.6%**



## *Appendix*

## TSKB's Policies

- **TSKB Sustainability Policy**
- Environmental and Social Management Impact Policy
- Climate Change Mitigation and Adaptation Policy
- List of Activities that are not to be financed
- Sustainable Procurements Management Policy
- Responsible Corporate Communications Policy
- Human Rights Policy
- Occupational Health & Safety Policy
- Equal Opportunities and Inclusion Policy
- Gender Equality Policy
- Female Participation in BoD Policy
- Remuneration Policy
- Gifts and Hospitality Policy
- Anti-Bribery and Anti-Corruption Policy
- Anti-Bribery and Anti-Corruption Programme
- Disclosure Policy
- Donation Policy

Revised to further align with international standards and published in September 2022

# TSKB Sustainable Finance Framework

- Updated in December 2020 in line with recent ICMA principles and global trends.
- Reviewed by Sustainalytics
- Align with ICMA Green Bond, Sustainability Bond, Social Bond and LMA Green Loan Principles

## Use of Proceeds – 2 Main business activity areas:

1. Direct and indirect Climate Change Mitigation
2. Sustainable and Social Infrastructure

Direct and Indirect Climate Change Mitigation	Sustainable and Social Infrastructure
Renewable Energy	Access to Essential Services (Healthcare)
Energy Efficiency	Access to Essential Services (Education)
Clean Transportation	Employment Generation through SME Companies
Green Buildings	Sustainable Infrastructure
Pollution Prevention and Control	
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	
Alternative Maritime Power	

TSKB Sustainable Finance Framework  
December 2020



## Balance Sheet

	31/12/2021			30/09/2022			31/12/2022			
	mn	TL	FX	TOTAL	TL	FX	TOTAL	TL	FX	TOTAL
Cash and Banks		1,526	3,715	5,241	4,227	5,243	9,469	5,758	4,130	9,888
Securities		5,896	6,730	12,626	8,664	12,766	21,430	9,868	13,534	23,401
Loans (Gross)		4,075	59,830	63,905	6,315	69,177	75,492	7,639	72,635	80,274
Provisions		-583	-2,530	-3,113	-2,043	-2,735	-4,777	-2,292	-3,207	-5,499
Subsidiaries		1,749	197	1,946	2,119	330	2,450	3,555	407	3,962
Other		2,441	1,051	3,492	2,158	2,063	4,221	2,015	1,533	3,548
Total		15,104	68,993	84,096	21,441	86,843	108,284	26,544	89,031	115,575
ST Funds		-	3,179	3,179	-	2,766	2,766	-	2,481	2,481
LT Funds		-	49,665	49,665	-	62,281	62,281	-	65,847	65,847
Securities Issued		-	14,928	14,928	-	20,506	20,506	-	21,048	21,048
Repo & MM		166	2,010	2,175	140	3,606	3,746	186	3,742	3,929
Other		1,671	1,509	3,180	1,935	3,730	5,665	2,067	3,593	5,659
Subordinated Debt		-	4,029	4,029	-	3,688	3,688	-	3,829	3,829
Equity		7,157	-217	6,941	10,396	-764	9,632	13,048	-266	12,782
Total		8,995	75,102	84,096	12,471	95,813	108,284	15,301	100,274	115,575

## Detailed Income Statement

TL mn	1Q-22	2Q-22	3Q-22	4Q-22	QoQ
<b>Net Interest Income inc. Swap Cost</b>	<b>1,092.9</b>	<b>1,434.4</b>	<b>1,877.4</b>	<b>2,010.1</b>	<b>7%</b>
Net Interest Income	1,197.4	1,536.3	1,908.4	2,078.3	9%
CPI Linkers	377.2	652.5	921.6	1,095.5	19%
Swap Costs (-)	104.5	101.9	30.9	68.2	121%
<b>Net Commissions</b>	<b>31.6</b>	<b>51.2</b>	<b>36.7</b>	<b>39.0</b>	<b>6%</b>
<b>Other Income</b>	<b>31.7</b>	<b>15.9</b>	<b>47.3</b>	<b>7.1</b>	<b>-85%</b>
Dividends	4.3	1.5	3.4	- 0.2	-106%
Other	27.4	14.4	43.9	7.3	-83%
<b>Trading &amp; FX gains/losses</b>	<b>376.5</b>	<b>215.4</b>	<b>359.5</b>	<b>73.0</b>	<b>-80%</b>
FX gains/losses	217.8	202.0	188.0	57.9	-69%
MtM gains/losses	2.6	- 39.0	37.3	15.0	-60%
Trading gains/losses	156.1	52.4	134.2	0.1	-100%
<b>Banking Income</b>	<b>1,532.7</b>	<b>1,716.9</b>	<b>2,320.9</b>	<b>2,129.2</b>	<b>-8%</b>
OPEX (-)	108.3	114.1	156.5	126.5	-19%
<b>Net Banking Income</b>	<b>1,424.4</b>	<b>1,602.8</b>	<b>2,164.4</b>	<b>2,002.7</b>	<b>-7%</b>
ECL (-)	677.1	622.1	821.9	920.6	12%
Stage I	99.8	16.0	65.6	-38.0	-158%
Stage II	170.2	246.3	266.2	532.1	100%
Stage III	72.4	302.0	484.7	245.7	-49%
Other Provisions	334.7	57.8	5.5	180.7	n.m.
<b>Income From Subsidiaries</b>	<b>74.6</b>	<b>154.9</b>	<b>114.5</b>	<b>644.7</b>	<b>463%</b>
<b>Pre-Tax Income</b>	<b>821.9</b>	<b>1,135.6</b>	<b>1,457.0</b>	<b>1,726.8</b>	<b>19%</b>
Tax (-)	216.0	220.3	334.2	315.8	-6%
<b>Net Income</b>	<b>605.9</b>	<b>915.3</b>	<b>1,122.8</b>	<b>1,411.0</b>	<b>26%</b>



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