

# Second-Party Opinion

## TSKB Sustainable Finance Framework



### Evaluation Summary

Sustainalytics is of the opinion that the TSKB Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention and Control, Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, Access to Essential Services (Healthcare), Access to Essential Services (Education), Employment Generation and Sustainable Infrastructure – are aligned with those recognized by the Green Bond Principles 2018, Social Bond Principles 2020 and Green Loan Principles 2020. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically Goals 3, 4, 7, 8, 9, 10, 11 and 12.



**PROJECT EVALUATION / SELECTION** Türkiye Sinai Kalkınma Bankası's Technical Analysis Team, comprised of members from the Bank's Engineering Department and Financial Analysis Department, will be responsible for overseeing the project evaluation and selection process. The Bank's Credit Evaluation Committee must sign off on all projects. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Türkiye Sinai Kalkınma Bankası will track the net proceeds of the issuances under the Framework using a portfolio approach, whereby proceeds will be allocated to a portfolio of loans that meet the use of proceeds eligibility criteria. Pending allocation, TSKB will hold and/or invest the balance of net proceeds in a treasury portfolio in cash or cash equivalents and/or in money market funds. The Bank intends to fully allocate within 24 months of any issuance. This is in line with market practice.



**REPORTING** Türkiye Sinai Kalkınma Bankası intends to provide allocation and impact reporting on an annual basis, until full allocation. Allocation reporting will be conducted at the aggregate level, and will include the total amount of proceeds allocated, the balance of unallocated proceeds and the amount of new financing vs. refinancing. In addition, Türkiye Sinai Kalkınma Bankası will report on relevant quantitative and qualitative impact metrics, where feasible. Sustainalytics views Türkiye Sinai Kalkınma Bankası 's allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	December 21, 2020
<b>Issuer Location</b>	Istanbul, Turkey

#### Report Sections

Introduction.....	2
Sustainalytics' Opinion .....	3
Appendices .....	13

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## Introduction

Headquartered in Istanbul, Türkiye Sınai Kalkınma Bankası (“TSKB”, or the “Bank”) was established in 1950 as Turkey’s first private development and investment bank, with the support of the World Bank, the Central Bank of Turkey, and the shareholding of commercial banks. TSKB provides medium-to-long-term financing products tailored to sustainable investment projects in various sectors with a wide range of options, with a focus on corporate loans and project financing. The Bank manages over TRY 52,4 bn (USD 6.67 bn) in assets and has 377 of employees as of September 30<sup>th</sup>, 2020.

TSKB has developed the TSKB Sustainable Finance Framework (the “Framework”) under which it intends to issue green, social and sustainability finance bonds and loans (collectively referred to as “Sustainable Finance Instruments”) and use the proceeds to finance and/or refinance existing and/or future projects that have positive environmental or social impact. The Framework defines eligibility criteria in ten areas:

1. Renewable Energy
2. Energy Efficiency
3. Clean Transportation
4. Green Buildings
5. Pollution Prevention and Control
6. Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes
7. Access to Essential Services - Health
8. Access to Essential Services - Education
9. Employment Generation
10. Sustainable Infrastructure

TSKB engaged Sustainalytics to review the TSKB Sustainable Finance Framework, dated December 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA and the Green Loan Principles, as administered by LMA, APLMA and LSTA<sup>4</sup>;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of TSKB’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. TSKB representatives have confirmed (1) they understand it is the sole responsibility of TSKB to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The TSKB Sustainable Finance Framework is available on Türkiye Sınai Kalkınma Bankası ’s website at: <http://www.tskb.com.tr/en/financial-institutions/publications>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

<sup>4</sup> The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

(3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and TSKB.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that TSKB has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the TSKB Sustainable Finance Framework

Sustainalytics is of the opinion that the TSKB Sustainable Finance Framework is credible, impactful and aligns with the four core components of the GBP, SBP and GLP. Sustainalytics highlights the following elements of TSKB's Sustainability Bond Framework:

#### Use of Proceeds:

- The eligible categories – Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention and Control, Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, Climate Change Adaptation, Access to Essential Services (Healthcare), Access to Essential Services (Education), Employment Generation and Sustainable Infrastructure – are aligned with those recognized by the GBP, SBP and GLP. Sustainalytics is of the opinion that the investments financed and/or refinanced under this Framework may contribute to positive environmental and social impacts, including the transition to a low-carbon economy in Turkey.
- TSKB intends on investing in eligible categories by disbursing loans to borrowers as project-based lending or to 'pure play' companies as general corporate financing. Pure play companies are defined as enterprises that derive over 90% of its revenues from assets in eligible categories highlighted in the Framework.
- The 'Renewable Energy' category includes financing or refinancing of wind, solar, hydro power and bio energy projects:
  - For hydro power, Sustainalytics highlights that TSKB intends on financing only small-scale hydropower plants (<25 MW), which is in line with market practice.
  - Regarding energy from biomass, TSKB has confirmed that it is only considering facilities producing bioenergy from waste/residues that do not compete with food sources. Sustainalytics views this to be in line with market practice while encouraging the Bank to provide further disclosure on sourcing, where feasible, in order to ensure that the feedstock is coming from sustainable sources and that it is well managed.
- The Energy Efficiency category includes financing or refinancing of loans to business entities for projects aimed at reducing the energy intensity or CO<sub>2</sub> emissions of their operations or towards technologies such as smart grids, and metering systems aimed at managing intermittency of renewable energy production.

- The Framework sets forth a criterion of at least 15% improvement in energy consumption or CO<sub>2</sub> emissions avoidance to determine project eligibility.
  - The Bank also contemplates investments wherein the principal invested leads to energy efficiency benefits measuring at least 50% of the loan amount and CO<sub>2</sub> emissions avoidance of at least 500 tons.
  - Sustainalytics notes that the Framework excludes energy generation that uses solid fossil fuels. This is in line with market expectations.
- In the Clean Transportation category, TSKB may finance or refinance low carbon public transportation, low carbon vehicles, related transportation infrastructure and improvements in transport logistics.
  - Sustainalytics notes that the Bank has established a quantitative threshold of <50gCO<sub>2</sub>/p-km for electric and hybrid vehicles (including public transportation and passenger vehicles) and a threshold of <25gCO<sub>2</sub>/t-km for freight vehicles such as vans, trucks, and vessels. Sustainalytics considers the inclusion of these emissions intensity thresholds to be aligned with market practice.
  - Sustainalytics notes that the Framework only contemplates electrified infrastructure. This is in line with market practice.
  - TSKB has communicated to Sustainalytics that investments in transport logistics may include pedestrian and bike lanes. This is in line with market practice.
  - Sustainalytics recognizes that infrastructure investments for transport logistics support the optimization of transport use, duration and/or distance in many cases, thereby holding potential to reduce fuel consumption. However, Sustainalytics encourages TSKB to prioritize financing of those projects that remove barriers to modal shift to public transit, and/or incentivize the use of low-carbon vehicles.
- Within the Green Buildings category, TSKB may finance/refinance new or existing public, commercial and residential buildings that meet the following criteria: (i) building energy performance certifications; (ii) third-party certification standards; or (iii) quantitative performance improvements.
  - In regard to the building energy performance certificate criterion (BEP-TR), Sustainalytics views positively that this programme is aligned with the EU's Energy Performance Building Directive.<sup>5</sup> According to publicly available data, buildings rated B or above make up the top 34% of those assessed under the scheme.<sup>6</sup> However, it is noted that only approximately 10-15% of Turkey's building stock has been evaluated using this methodology,<sup>7</sup> and that the buildings assessed are generally newer, and therefore can be reasonably be assumed to be higher-performing than the overall stock. Market practice is to finance only the top 15% of buildings, therefore Sustainalytics encourages TSKB to ensure that the selected rating level aligns with that approach.
  - Sustainalytics views positively the use of internationally recognized schemes such as LEED, BREEAM and DGNB, and considers the selected minimum levels (Gold, Very Good and Gold, respectively, or above) to be in line with market expectations. Sustainalytics views positively the ambitions of the ÇEDBİK Green Building Certification, while noting the limited amount of data regarding uptake and achievements. See Appendix 1 for more information on each certification scheme.
  - Sustainalytics notes that refurbished buildings (commercial and/or residential) must achieve a 30% energy efficiency improvement. This is in line with market practice.
- The Pollution Prevention and Control category includes financing and/or refinancing of projects aimed at enhancing raw material efficiency or reducing water consumption and waste generation of the borrower's business processes.
  - TSKB has confirmed that fossil-fuel activities are excluded from this category. This is in line with market practice.

<sup>5</sup> EPBD is the EU's Energy Performance of Buildings Directive, which has been implemented by many countries in the form of EPCs.

<sup>6</sup> BEP-TR: <http://www.bep.gov.tr/BEPTRWEB/istatistikler.aspx#.Xc7trdpYbop>

<sup>7</sup> The BEP-TR scheme has been in force since 2011. Refer to <https://www.aa.com.tr/tr/ekonomi/binalar-icin-enerji-kimlik-belgesi-aliminda-sonviraj/1546712#>

- The Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes category includes specific products aimed at improving renewable energy generation, energy efficiency or GHG emission reduction.
  - This may include projects that support energy efficiency and circular economy, such as energy efficient building components or renewable power plant products, such as wind turbine components or mounting systems for solar power plants. Sustainalytics views these activities to be in line with market expectations.
- For the Access to Essential Services categories, TSKB intends to finance activities that support public, free and/or subsidized health and social care as well as activities that expand access to free and/or subsidized primary, secondary, adult and vocational education in Turkey.
  - Healthcare activities include the construction and equipment for hospitals, clinics and healthcare centers and the acquisition of medical equipment or provision of diagnostic services, energy medical response and disease control. Sustainalytics notes that all eligible healthcare projects are accessible to the general population, including vulnerable groups such as the elderly, physically or mentally dependent persons. This is in line with market practice.
  - Education activities include the construction of kindergartens, schools, university campus buildings and/or facilities at any public and non-profit university campus, as well as student housing. Sustainalytics notes that these services will be accessible to the general population, including minority groups. This is in line with market practice.
- The Employment generation through SME Companies category includes the provision of loans to small-and-medium enterprises (SMEs) which are: (i) supporting employment comprising of women and/or youth labour force; and/or (ii) facing natural disaster (e.g., earthquakes or floods), or health pandemics (such as COVID-19).
  - Sustainalytics notes that within the Framework SMEs are defined as companies with less than 250 employees and turnover or total assets equal to or below TL 125 million, in underdeveloped regions in Turkey. Sustainalytics views this definition to be in line with market practice and believes that TSKB's lending to SMEs that meet any of the criteria outlined above will yield positive social impact and economic growth.
- All of TSKB's lending is subject to Exclusionary Criteria as outlined in the Framework. While the list does not include fossil fuel-related activities, the Framework explicitly excludes companies engaged in fossil fuel production when assessing eligibility for SMEs and MidCaps. Sustainalytics views this to be in line with market expectations.
- Within the Sustainable Infrastructure category, TSKB intends to finance and/or refinance the following types of projects
  - Energy distribution network and renewable energy transmission activities including retrofitting transmission lines or substations to reduce energy use and/or technical losses and to avoid electricity cuts, as well as projects aimed at improving existing systems to facilitate the integration of renewable energy sources. TSKB has confirmed that the intent of these projects is to reduce the curtailment of renewable energy into the grid.
  - TSKB has shared with Sustainalytics that due to the centralization of electricity distribution in Turkey, it is hard to measure specific electricity distribution percentages. TSKB has confirmed that it will allocate against a portion of relevant loans using a pro-rata approach to ensure that allocation is in proportion to the percentage of renewable energy produced. This is in line with market practice.

#### Project Evaluation and Selection:

- TSKB's Technical Analysis Team, comprised of members from the Engineering Department and Financial Analysis Department, will be responsible for assessing and determining each individual loan's eligibility against the criteria outlined in the Framework and subsequently recommending an allocation of proceeds to Eligible Loans.
- The Banks Credit Evaluation Committee must sign off on all projects and, if required depending on the size of the loan, the Board is required to sign off as well. The Technical Analysis Team will be responsible for tracking all proceeds in accordance with the Bank's internal systems.
- Based on the clear delegation of responsibilities and appropriate oversight, Sustainalytics considers this process to be in line with market practice.

**Management of Proceeds:**

- The Bank will manage the net proceeds of Sustainable Finance Instruments using a portfolio approach, whereby proceeds will be allocated to a portfolio of loans that meet the use of proceeds eligibility criteria. The Bank will aim to ensure that the size of the portfolio matches or exceeds the total balance of all outstanding Sustainable Finance Instruments. Where necessary, additional eligible loans will be added to the portfolio to ensure the sufficient and timely allocation of the incremental net proceeds. If a loan becomes ineligible during the life of the Sustainable Finance Instrument, TSKB will remove the loan, and where necessary, replace it with one that meets the eligibility criteria.
- Pending full allocation, TSKB will hold and/or invest the balance of net proceeds in its treasury portfolio in cash or cash equivalents and/or money market funds.
- The Bank intends to fully allocate an amount equal to the net proceeds within 24 months from the date of any Sustainable Finance Instrument issuance.
- Based on the presence of internal tracking systems and disclosure on temporary allocation of proceeds, Sustainalytics considers this process to be in line with market practice.

**Reporting:**

- TSKB is committed to providing allocation and impact reporting on an annual basis. The report will be published on the Bank's website and will be made available to investors within one year from the date of issuance and annually thereafter until the proceeds have been fully allocated.
- Majority of the allocation reporting will be conducted at the aggregate level, and where feasible, TSKB will include category-level descriptions as well. The reporting will include indicators such as the size of the identified eligible loan portfolio, the total amount of proceeds allocated, the balance of unallocated proceeds, the amount or percentage of new financing and refinance and the geographic allocation of the assets (at the country level).
- Impact reporting may include a description of the eligible projects and where feasible, quantitative and qualitative impact metrics (as per the Framework).
- Based on TSKB's commitment to allocation and impact reporting on an annual basis, Sustainalytics considers this process to be in line with market practice.

**Alignment with Sustainability Bond Guidelines 2018**

Sustainalytics has determined that the TSKB Sustainable Finance Framework aligns to the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020). For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

**Section 2: Sustainability Performance of TSKB****Contribution of Framework to Türkiye Sınai Kalkınma Bankası 's sustainability strategy**

Sustainalytics is of the opinion that TSKB demonstrates a long-standing commitment to sustainability with an integrated banking model that aims to provide financial solutions to tackling climate change and supporting the transition to a low-carbon economy. The Bank has developed an internal 'Sustainability Management System' with the goal of systematically managing its environmental impact and developing products and services to support its clients in improving their overall environmental performance through investments in renewable energy, energy efficiency, resource efficiency.<sup>8</sup> In 2006, the Bank started measuring its carbon footprint, and shortly after in 2008, became Turkey's first carbon-neutral bank.<sup>9</sup> Since then, TSKB has regularly calculated greenhouse gas emissions from its operational activities and offset them through voluntary carbon markets.<sup>10</sup>

The Bank has identified five overarching goals related to the following: 1) Support sustainable development; 2) Provide entrepreneurs with money and capital market brokerage and advisory support; 3) Ensure sustainable profitability and growth; 4) Strengthen the corporate structure; and 5) Communicate effectively with stakeholders. In order to actualize these goals, TSKB enacted a Sustainability Policy (the "Policy") which sets forth the fundamental principles that inform the Bank's activities.<sup>11</sup> The Policy outlines the Bank's

<sup>8</sup> TSKB, 'TSKB Sustainability Management System', at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-sustainability-management-organization/tskb-sustainability-management-system>

<sup>9</sup> TSKB, 'TSKB and Sustainable Banking', at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-and-sustainable-banking>

<sup>10</sup> TSKB, 'TSKB and Sustainable Banking', at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-and-sustainable-banking>

<sup>11</sup> TSKB, 'TSKB Sustainability Policy', at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-surdurulebilirlik-yonetim-organizasyonu/our-sustainability-policy>

commitment to “playing an active role in the transition to a low-carbon economy by making use of existing and new forms of credit in order to respond to social demands concerning sustainability issuers”.<sup>12</sup> Through its Sustainability Management System, TSKB has taken steps to measuring its own environmental impact caused by its operational services, with a focus on reducing electricity, water, natural gas, and CO<sub>2</sub> emissions. In order to monitor this work, TSKB established a Sustainability Subcommittee in 2015 to oversee the Bank’s sustainability activities to set clear and measurable annual targets.<sup>13</sup>

By the end of 2019, approximately 74% of TSKB’s total loan portfolio was comprised of sustainability loans, with over 294 renewable energy projects funded.<sup>14</sup> Through these projects, TSKB has helped avoid approximately 11.2 million tons of carbon emissions in Turkey.<sup>15</sup> In addition, in 2019 TSKB became the first Turkish Bank to provide Ministry of Treasury and Finance Guaranteed loans when it secured a USD 200 million loan from the China Development Bank (CDB).<sup>16</sup> Through these loans, TSKB has helped support the financing of SMEs, healthcare and education projects. In regard to its own operations, since launching its environmental management system, the Bank has successfully reduced its CO<sub>2</sub> emissions by 41% and has improved its electrical energy, natural gas, paper, and water consumption by 28%, 44%, and 22% respectively.<sup>17</sup>

Sustainalytics is of the opinion that the TSKB Sustainable Finance Framework is directly aligned with the Bank’s ongoing sustainability efforts and will further its action on key environmental and social priorities. While Sustainalytics notes TSKB’s robust reporting commitments to date, it also encourages the Bank to set quantitative, time-bound environmental targets, where feasible.

### **Well-positioned to address common environmental and social risks associated with the projects**

Sustainalytics recognizes that the proceeds from TSKB’S Sustainable Finance Instruments will be directed towards eligible projects that generally provide environmental and social benefits. However, by offering lending and financing services, banks are exposed to risks associated with controversial companies and/or projects that they may finance, and as such, may inadvertently finance activities that have negative environmental or social impacts. These risks include, but not are limited to, workers’ health and safety, community relations, biodiversity and ecological risks related to the construction, renovation, expansion and reconstruction of large-scale infrastructure, land-use change as well as predatory lending. Sustainalytics is of the opinion that TSKB is able to manage and/or mitigate potential risks through implementation of the following:

- TSKB relies on its in-house Environmental and Social Risk Evaluation Tool (ERET) to identify and manage external risks related to all project finance and corporate loans.<sup>18,19</sup> ERET is a detailed questionnaire that evaluates environmental and social risks associated with clients and their projects in 45 key areas such as emissions, energy consumption, health and safety, child labor etc.<sup>20</sup> In the event that a project scores above average or high on environmental and/or social impact, the Bank is responsible for developing an Action Plan with clients outlining processes to monitor and mitigate such risks.<sup>21</sup> As part of this process, TSKB may require its clients to hire an independent environmental and social consultant to monitor performance on an ongoing basis. The ERET Tool also clarifies limits for the risks involved and ensures that the project(s) are in compliance with the general lending policies of TSKB, all of which are subject to the Bank’s exclusionary criteria.
- In 2006, TSKB’s environmental management system was awarded the ISO 14001 certification and in 2012 the Bank was awarded the ISO 14064-1 Greenhouse Gases certification in recognition of its efforts to control its greenhouse gas emissions.<sup>22</sup> The Bank’s environmental management system is reviewed annually, and the results are submitted to the TSKB Sustainability Committee. The ISO

<sup>12</sup> TSKB, ‘TSKB Sustainability Policy’, at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-surdurulebilirlik-yonetim-organizasyonu/our-sustainability-policy>

<sup>13</sup> TSKB, ‘TSKB and Sustainable Banking’, at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-and-sustainable-banking>

<sup>14</sup> TSKB, ‘2019 Integrated Annual Report’, at: [http://www.tskb.com.tr/i/content/4202\\_1\\_Integrated%20Report%202019.pdf](http://www.tskb.com.tr/i/content/4202_1_Integrated%20Report%202019.pdf)

<sup>15</sup> TSKB, ‘2019 Integrated Annual Report’, at: [http://www.tskb.com.tr/i/content/4202\\_1\\_Integrated%20Report%202019.pdf](http://www.tskb.com.tr/i/content/4202_1_Integrated%20Report%202019.pdf)

<sup>16</sup> TSKB, ‘2019 Integrated Annual Report’, at: [http://www.tskb.com.tr/i/content/4202\\_1\\_Integrated%20Report%202019.pdf](http://www.tskb.com.tr/i/content/4202_1_Integrated%20Report%202019.pdf)

<sup>17</sup> TSKB, ‘TSKB and Sustainable Banking’, at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-and-sustainable-banking>

<sup>18</sup> TSKB, ‘Environmental and Social Risk Evaluation’, at: <http://www.tskb.com.tr/en/sustainable-banking/sustainability-finance/environmental-and-social-risk-evaluation>

<sup>19</sup> TSKB, ‘Environmental and Social Risk Evaluation’, at: <http://www.tskb.com.tr/en/sustainable-banking/sustainability-finance/environmental-and-social-risk-evaluation>

<sup>20</sup> TSKB, ‘Environmental and Social Risk Evaluation’, at: <http://www.tskb.com.tr/en/sustainable-banking/sustainability-finance/environmental-and-social-risk-evaluation>

<sup>21</sup> TSKB, ‘Environmental and Social Risk Evaluation’, at: <http://www.tskb.com.tr/en/sustainable-banking/sustainability-finance/environmental-and-social-risk-evaluation>

<sup>22</sup> TSKB, ‘TSKB Sustainability Management System’, at: <http://www.tskb.com.tr/en/sustainable-banking/tskb-sustainability-management-organization/tskb-sustainability-management-system>

Management Standards Working Group monitors the Bank on a regular basis to ensure that it successfully completes its audits on an annual basis.

- The Bank applies the following policies: Environmental and Social Impact Policy,<sup>23</sup> Occupational Health and Safety Policy,<sup>24</sup> Human Rights Policy,<sup>25</sup> Sustainable Procurements Management Policy.<sup>26</sup> As part of its Occupational Health and Safety Policy, TSKB formulates and implements annual occupational health & safety training and operations plans to help mitigate potential risks. In addition, the Bank, and its employees, are required to adhere to 'The Banks Association of Turkey Principles of Banking Ethics'.<sup>27</sup>
- To mitigate predatory lending, TSKB applies an Anti-Bribery and Anti-Corruption Policy<sup>28</sup> and runs an Anti-Bribery and Anti-Corruption Program<sup>29</sup> which is overseen by the Bank's Board of Directors.
- In addition to the above, TSKB is a signatory to several recognized climate action declarations, including, the UNEP FI Responsible Banking Principles, which aims to ensure that the banking industry is aligned with the UN SDGs and the Paris Climate Agreement.<sup>30</sup> TSKB also supports the IDFC's climate pledge and leads several United Nations Global Compact Groups, including the Sustainable Finance Working Group.
- TSKB's due diligence requirements are informed by international best practices from organizations such as the World Bank, European Investment Bank, Council of Europe Development Bank, and International Finance Cooperation, amongst others.
- TSKB has established a list of activities that are excluded from receiving financing.<sup>31</sup> Sustainalytics considers the Bank's reliance on an exclusionary list to be indicative of a proactive approach to mitigating environmental and social risk in the context of the financing provided, while noting that certain sectors which may be linked to increased environmental risk are not excluded, specifically those related to fossil fuel activities.

Based on these policies, standards, and assessments, Sustainalytics is of the opinion that TSKB has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All ten use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

#### The importance of investing in renewable energy sources in Turkey

In 2019, Turkey's GHG emissions accounted for 383.3 Mt of CO<sub>2</sub> eq, which was 86% higher than 2000 levels.<sup>32</sup> In 2018, the country's emissions represented the twentieth largest source of global GHG emissions, which is expected to continue rising, potentially tripling in the next decade.<sup>33</sup> Despite this level of projected growth, Turkey has pledged to limit the growth rate of emissions, targeting a reduction up to 21% compared to Business-As-Usual by 2030.<sup>34</sup> It is estimated that the existing set of national policies are unlikely to achieve the reduction target by 2030.<sup>35,36</sup> The energy sector is key to achieving the emissions reduction target as it is

<sup>23</sup> TSKB, 'TSKB Environmental and Social Impact Policy', at: <http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf>

<sup>24</sup> TSKB, 'Occupational Health and Safety Policy', at: <http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Occupational-Health-and-Safety-Policy.pdf>

<sup>25</sup> TSKB, 'Human Rights Policy', at: <http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf>

<sup>26</sup> TSKB, 'Sustainable Procurements Management Policy', at: <http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf>

<sup>27</sup> TSKB, 'The Banks Association of Turkey Principles of Banking Ethics', at: [http://www.tskb.com.tr/i/assets/document/pdf/TBB\\_Principles\\_of\\_Banking\\_Ethics\(1\).pdf](http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf)

<sup>28</sup> TSKB, 'Anti-Bribery and Anti-Corruption Policy', at: [http://www.tskb.com.tr/i/assets/document/pdf/TSKB\\_anti\\_bribery\\_and\\_anti\\_corruption\\_policy.pdf](http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf)

<sup>29</sup> TSKB, 'Anti-Bribery and Anti-Corruption Policy', at: <http://www.tskb.com.tr/i/assets/document/pdf/anti-bribery-and-anti-corruption-programme-17-06-2016.pdf>

<sup>30</sup> TSKB, '2019 Integrated Annual Report', at: [http://www.tskb.com.tr/i/content/4202\\_1\\_Integrated%20Report%202019.pdf](http://www.tskb.com.tr/i/content/4202_1_Integrated%20Report%202019.pdf)

<sup>31</sup> TSKB, 'List of activities that are not to be financed', at: <http://www.tskb.com.tr/i/assets/document/pdf/TSKB-List-of-activities-that-are-not-to-be-financed.pdf>

<sup>32</sup> Statista, "Carbon dioxide emissions in Turkey from 2000 to 2019" (2019), at: <https://www.statista.com/statistics/449827/co2-emissions-turkey/#:~:text=Carbon%20dioxide%20emissions%20in%20Turkey%202000%2D2019&text=Emission%20levels%20increased%20during%20the,carbon%20dioxide%20emitted%20in%202019>

<sup>33</sup> Carbon Brief, "The Carbon Brief Profile: Turkey", (2018), at: <https://www.carbonbrief.org/carbon-brief-profile-turkey>

<sup>34</sup> Carbon Brief, "The Carbon Brief Profile: Turkey", (2018), at: <https://www.carbonbrief.org/carbon-brief-profile-turkey>

<sup>35</sup> Climate Action Tracker, "CAT Scaling Up Climate Action series", (2019), at: [https://climateactiontracker.org/documents/670/CAT\\_2019-11-29\\_ScalingUp\\_TURKEY\\_ExecSumm\\_ENG.pdf](https://climateactiontracker.org/documents/670/CAT_2019-11-29_ScalingUp_TURKEY_ExecSumm_ENG.pdf)

<sup>36</sup> Alkan, A., et al. (2018), "Achieving Turkey's INDC Target: Assessments of NCCAP and INDC Documents and Proposing Conceivable Policies", Sustainability, at: <https://www.mdpi.com/2071-1050/10/6/1722/pdf>

the largest emitter of GHG with a share of 72.8%.<sup>37</sup> In 2016 the energy sector emitted nearly 496.1 Mt of CO<sub>2</sub>eq.<sup>38</sup>

In order to address its energy related challenges, Turkey developed the “2019-2023 Strategic Plan for Energy”, which sets a target to increase installed electrical capacity from renewable sources by 33.8% by 2023.<sup>39</sup> As of 2019, electricity production in Turkey is almost evenly sourced from fossil fuels (51.4%) and renewables, namely hydropower (31.4%), wind (8%), solar (6%), and geothermal (1.5%).<sup>40</sup> While the Strategic Plan considers a large expansion of coal power plants to reduce the country’s dependence on imports,<sup>41,42</sup> Turkey nonetheless has one of the largest renewable expansion potentials among European countries.<sup>40</sup> Hydropower has the highest renewable energy potential in the country, with technically usable potential of 216 billion kWh, and a production potential of 140 billion kWh/year.<sup>43</sup> Wind energy has an estimated 48,000 MW potential.<sup>44</sup> Biomass potential totals 8.6 million tonnes of equivalent petrol (MTEP).<sup>45</sup>

It is estimated that a Paris Climate Agreement-compatible electricity sector, would require Turkey to phase out coal by 2030, significantly increase the role of renewables, and fully decarbonise electricity generation by mid-century.<sup>35</sup> This is also key for decarbonising end-use sectors, like residential buildings, through electrification.<sup>35</sup>

Sustainalytics believes that TSKB is well positioned to make a positive impact by financing equipment, manufacture of components, development, construction, operation and maintenance of power generation from renewable energy sources, including wind, solar and hydro as these investments are expected to contribute to decarbonizing Turkey’s electricity mix.

### The role of SMEs in Turkey’s socioeconomic development

In 2017, small and medium-sized enterprises (SMEs) accounted for 99.8% of total Turkish enterprises and 73.9% of total employment in Turkey.<sup>46</sup> Due to the importance of SMEs in the local context, the Government of Turkey has been implementing financial initiatives to increase access to finance, including through increasing the budget for the *Credit Guarantee Fund (CGF)*<sup>47</sup> and adopting support packages.<sup>48</sup> Despite these efforts, Turkish SMEs are still challenged by a lack of access to finance, which was demonstrated by the increase in share of rejected loan applications, increasing from 4.3% to 18.9% between 2017-2018.<sup>49</sup> This is especially apparent in less developed regions where a high proportion of small businesses are excluded from access to banking services.<sup>50</sup> Moreover, research indicates a negative gender bias in SME financing in Turkey, as shown by an analysis finding that women receive loan amounts EUR 12,350 lower on average in comparison to men.<sup>51</sup>

In addition, as a result of the COVID-19 pandemic, 80% of SMEs in Turkey report suffering substantial negative impacts like temporary suspension of activities and a decline in revenues, while 71% identify financial support as necessary for business continuity.<sup>52</sup>

<sup>37</sup> Andalous Agency, “Turkey’s greenhouse gas emissions up 4.4% in 2016”, at: <https://www.aa.com.tr/en/energy/turkey/turkeys-greenhouse-gas-emissions-up-44-in-2016/19640#:~:text=The%20energy%20sector%20accounted%20for,represented%20a%203.3%20percent%20share>.

<sup>38</sup> Andalous Agency, “Turkey’s greenhouse gas emissions up 4.4% in 2016”, at: <https://www.aa.com.tr/en/energy/turkey/turkeys-greenhouse-gas-emissions-up-44-in-2016/19640#:~:text=The%20energy%20sector%20accounted%20for,represented%20a%203.3%20percent%20share>.

<sup>39</sup> Ministry of Energy and Natural Resources, “Strategic Plan 2019-2023”, at: <https://www.enerji.gov.tr/File/?path=ROOT%2f1%2fDocuments%2fStratejik%20Plan%2f2019-2023%20Stratejik%20Plan%2fc4%b1.pdf>

<sup>40</sup> Ministry of Energy and Natural Resources, “Electricity”, at: <https://www.enerji.gov.tr/en-US/Pages/Electricity>

<sup>41</sup> Ministry of Energy and Natural Resources, “Strategic Plan 2019-2023”, at: <https://www.enerji.gov.tr/File/?path=ROOT%2f1%2fDocuments%2fStratejik%20Plan%2f2019-2023%20Stratejik%20Plan%2fc4%b1.pdf>

<sup>42</sup> As of 2018, Turkey has around 18 GW of operating coal plants, making it the 13<sup>th</sup> largest fleet in the world. See more, at: Carbon Brief, “The Carbon Brief Profile: Turkey”, (2018), at: <https://www.carbonbrief.org/carbon-brief-profile-turkey>

<sup>43</sup> Ministry of Energy and Natural Resources, “Hydraulics”, at: <https://www.enerji.gov.tr/en-US/Pages/Hydraulics>

<sup>44</sup> Ministry of Energy and Natural Resources, “Wind”, at: <https://www.enerji.gov.tr/en-US/Pages/Wind>

<sup>45</sup> Ministry of Energy and Natural Resources, “Bio-Fuels”, at: <https://www.enerji.gov.tr/en-US/Pages/Bio-Fuels>

<sup>46</sup> European Commission, “2019 SBA Fact Sheet: Turkey”, (2019), at: [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2019\\_turkey.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2019_turkey.pdf)

<sup>47</sup> CGF is a Turkish Treasury-backed credit system providing loans dedicated to SMEs, at: <http://www.kgf.com.tr/index.php/en/about-us/mission-vision>

<sup>48</sup> OECD, “Turkey: Small Business Act profile”, (2019), at: <https://www.oecd-ilibrary.org/docserver/f565e33c-en.pdf?expires=1588758322&id=id&accname=quest&checksum=74B3C85D1B9AED39E47475D4ECF353E2>

<sup>49</sup> Ibid

<sup>50</sup> OECD, “Turkey Policy Brief”, (2016), at: <https://www.oecd.org/policy-briefs/turkey-improving-the-framework-conditions-for-SMEs.pdf>

<sup>51</sup> World Bank, “Gender Bias in SME Lending Experimental Evidence from Turkey”, (2019), at: <http://documents1.worldbank.org/curated/en/244611577766368167/pdf/Gender-Bias-in-SME-Lending-Experimental-Evidence-from-Turkey.pdf>

<sup>52</sup> UNDP, “Four in every five SMEs substantially impacted by COVID-19 crisis”, (2020), at: <https://www.tr.undp.org/content/turkey/en/home/presscenter/pressreleases/2020/04/B4G-anket.html>

Based on the above, Sustainalytics believes that TSKB’s financing of SMEs, which is supported by well-defined target population and/or areas, could lead to positive outcomes from an employment generation and prevent/alleviate unemployment stemming from socioeconomic crisis..

**Importance of facilitating investments in public education and healthcare facilities in Turkey**

According to the OECD,<sup>53</sup> Turkey has experienced steady economic and social growth in the last decade with the annual GDP growth rate averaging nearly 7% from 2010 to 2017. In line with this growth, public expenditures on primary, secondary and tertiary educational institutions in the country have increased by 24% (as % of GDP) between 2010 and 2016.<sup>54</sup> Despite this progress, spending per student in Turkey remains low. For example, in 2016, Turkey spent USD 5,633 per student, approximately half of the OECD average spending of USD10,502.<sup>55</sup> At approximately 3.46% in 2017, Turkey was also ranked second from last amongst OECD countries in allocating funds from national income towards education, while the average spending amongst OECD countries was approximately 6% in the same year. Additionally, the country’s education system has been adversely affected by obstacles such as a high costs and wide gaps in the quality of education among schools.<sup>56</sup> In the 2015 Programme for International Student Assessment (PISA) results, Turkey ranked second to last among OECD countries with 31.2% of the tested students underperforming in mathematics, sciences and reading.<sup>57</sup> Sustainalytics recognizes that increased funding for Access to Essential Services including public education infrastructure would help close the gap in the quality of, and access to, free or subsidized education.

Regarding healthcare, Turkey underwent major health reforms in the early 2000s, and with the support of the World Bank Group country introduced universal health coverage - commonly referred to as the Universal Health Insurance system (UHI).<sup>58</sup> Under UHI, residents who are registered with the Social Security Institution (SGK) can receive medical treatment free of charge from hospitals that have a contract with the SGK. However, data from 2017 suggests that Turkey still has a relatively high level of unmet medical needs (6.9%) due to reasons such as cost, long waiting lists, distance and/or transportation problems.<sup>59</sup> Specifically, approximately 21% of Turkey’s population reported that unmet needs for healthcare were due to long waiting lists.<sup>59</sup> Sustainalytics is of the opinion that TSKB’s financing for improvements in public healthcare, including construction, maintenance, modernization, equipment, operation of public healthcare services, will provide a meaningful contribution to Turkey’s healthcare system by helping serve populations with unmet needs.

Overall, Sustainalytics is of the opinion that TSKB’s Framework can contribute to enhancing access to public education and healthcare institutions’ ability to provide reliable and quality essential services in Turkey.

**Alignment with/contribution to SDGs**

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes		
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency

<sup>53</sup> OECD, Turkey Economic Snapshot, 2019 Reform Priorities: <http://www.oecd.org/economy/turkey-economic-snapshot/>

<sup>54</sup> OECD, Educational At A Glance 2019, Turkey: [https://www.oecd.org/education/education-at-a-glance/EAG2019\\_CN\\_TUR.pdf](https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_TUR.pdf)

<sup>55</sup> OECD, Educational At A Glance 2019, Turkey: [https://www.oecd.org/education/education-at-a-glance/EAG2019\\_CN\\_TUR.pdf](https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_TUR.pdf)

<sup>56</sup> OECD, Economic Policy Reforms Going For Growth 2018: <http://www.oecd.org/economy/growth/TUR.pdf>

<sup>57</sup> OECD, PISA 2015, Results in Focus: <http://www.oecd.org/pisa/pisa-2015-results-in-focus.pdf>

<sup>58</sup> The World Bank, Turkish Health Transformation Program and Beyond: <https://www.worldbank.org/en/results/2018/04/02/turkish-health-transformation-program-and-beyond>

<sup>59</sup> EuroStat 2017, “Unmet health care needs statistics”: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Unmet\\_health\\_care\\_needs\\_statistics#Unmet\\_needs\\_for\\_health\\_care](https://ec.europa.eu/eurostat/statistics-explained/index.php/Unmet_health_care_needs_statistics#Unmet_needs_for_health_care)

Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Green Buildings	11. Sustainable Cities and Communities	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
Pollution Prevention and Control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.
Access to Essential Services – Health	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
Access to Essential Services - Education	4. Quality Education	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university. 4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
Employment Generation	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
Sustainable Infrastructure	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.

## Conclusion

TSKB has developed the TSKB Sustainable Finance Framework under which it may issue Sustainable Finance Instruments and use the proceeds to finance and/or refinance existing and/or future projects that are expected to contribute to positive environmental and social impacts, including the transition to a low-carbon economy in Turkey.

The TSKB Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that TSKB Sustainable Finance Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 7, 8, 9, 11 and 12. Additionally, Sustainalytics is of the opinion that TSKB has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Türkiye Sınai Kalkınma Bankası is well-positioned to issue sustainability bonds and that that TSKB Sustainable Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018, Social Bond Principles 2020, and Green Loan Principles 2020.

## Appendices

### Appendix 1: Certification Schemes for Green Buildings

	LEED <sup>60</sup>	BREEAM <sup>61</sup>	DGNB <sup>62</sup>	CEDBIK <sup>63</sup>	BEP-TR <sup>64,65</sup>
<b>Background</b>	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	Building Research Establishment Environmental Assessment Method (BREEAM) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK, BREEAM is used for new, refurbished and extension of existing buildings.	DGNB was developed in 2007 by the non-profit German Sustainable Building Council in partnership with the German Federal Ministry of Transport, Building, and Urban Affairs in order to actively encourage sustainable building.	CEDBIK (Turkish Green Building Council) is a rating system for residential and commercial buildings that is used in Turkey.	Building Energy Performance of Turkey (BEP-TR) Certification is a building energy performance calculation methodology that focuses on district heating and/or renewable energy for buildings above a certain threshold. BEP-TR was developed in alignment with Turkey's regulations and based on the EU's Energy Performance of Buildings Directive (EPBD).
<b>Certification levels/rating</b>	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	Bronze Silver Gold Platinum	Certified Good Very Good Excellent	A B C D
<b>Areas of Assessment: Environmental Performance of the Building</b>	Energy and Atmosphere Sustainable Sites Location and Transportation Materials and Resources Water efficiency Indoor Environmental Quality Innovation in Design Regional Priority	Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation	Environment Economic Sociocultural and functioning aspects Technology Processes & Sites	Energy Efficiency Water Efficiency Land use Health and Comfort Materials and Resources Life on Property Operation and Maintenance Innovation	Outdoor climatic conditions of a building's location Minimum energy performance (MEPs) of retrofits for existing buildings
<b>Requirements</b>	Prerequisites (independent of level of certification) +	Prerequisites depending on the levels of certification + Credits with associated points	Percentage-based performance index.  The total performance index	Prerequisites (independent of level of certification) + additive Credits	BEP-TR calculates the maximum energy needed for heating, cooling hot water, ventilation

<sup>60</sup> USGBC, LEED: [www.usgbc.org/LEED](http://www.usgbc.org/LEED)

<sup>61</sup> BREEAM, Building Research Establishment LTD; <https://breeam.com/>

<sup>62</sup> DGNB: <https://www.dgnb-system.de/en/system/index.php>

<sup>63</sup> Cedbik: <https://cedbik.org/>

<sup>64</sup> BEP, Energy Performance of Buildings: <http://www.bep.gov.tr/default.aspx>

<sup>65</sup> International Partnership for Energy Efficiency Cooperation, Building Code Implementation – Country Summary: [http://www.gbpn.org/sites/default/files/Turkey\\_Country%20Summary\\_0.pdf](http://www.gbpn.org/sites/default/files/Turkey_Country%20Summary_0.pdf)

	<p>Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>This number of points is then weighted by item<sup>66</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>(expressed as a percentage) is calculated by adding the six key areas of assessment.</p> <p>Depending on the total performance index, a DGNB award will be given to the project, starting from Silver. Bronze is awarded for existing buildings and is conferred as the lowest rank.</p>	<p>with associated points</p>	<p>and illumination of new existing buildings using an hourly calculation.</p> <p>Building Energy Performance Certificates (EPCs) are granted under the "Regulation on Energy Performance in Buildings". An EPC will not be granted to buildings with less than a C rating.</p>
<b>Performance display</b>					N/A
<b>Accreditation</b>	<p>LEED AP BD+C LEED AP O+M</p>	<p>BREEAM International Assessor BREEAM AP BREEAM In Use Assessor</p>	<p>DGNB Auditor DGNB Compliance Testing Team DGNB Certification Committee</p>	N/A	<p>Aligned with EU EPBD</p>
<b>Qualitative considerations</b>	<p>Widely recognised internationally, and strong assurance of overall quality.</p>	<p>Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (fewer minimum thresholds) than LEED certifications.</p>	<p>DGNB certification is based on current European Union standards.</p>	<p>There has been one CEDBIK-certified project in Turkey since CEDBIK's launch in 2016.<sup>67</sup></p>	<p>The application of BEP-TR is mandatory for all new buildings in Turkey except for industrial buildings, temporary buildings (used for less than 2 years), buildings with a total useful floor area of less than 50m<sup>2</sup>, greenhouses, workshops, and stand-alone buildings with no heating or cooling requirements.</p>

<sup>66</sup> BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

<sup>67</sup> DergiPark, Credit Success Rates of Certified Green Buildings in Turkey: <https://dergipark.org.tr/en/download/article-file/683057>

## Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

### Section 1. Basic Information

Issuer name:	Türkiye Sınai Kalkınma Bankası
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	TSKB Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	December 21, 2020
Publication date of review publication:	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention and Control, Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, Access to Essential Services (Healthcare), Access to Essential Services (Education), Employment Generation and Sustainable Infrastructure are aligned with those recognized by the Green Bond Principles 2018, Social Bond Principles 2020 and Green Loan Principles 2020. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically Goals 3, 4, 7, 8, 9, 10, 11 and 12.

### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency  |
| <input checked="" type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation   |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                  | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

### Use of proceeds categories as per SBP:

- |   |  |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure  | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing   | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment                                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Sustainable Infrastructure.            |

If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Türkiye Sınai Kalkınma Bankası's Technical Analysis Team, comprised of members from the Bank's Engineering Department and Financial Analysis Department, will be responsible for overseeing the project evaluation and selection process. The Bank's Credit Evaluation Committee must sign off on all projects. Sustainalytics considers the project selection process in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available                | <input type="checkbox"/> Other (please specify):  |

#### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Türkiye Sınai Kalkınma Bankası will track the net proceeds of the issuances under the Framework using a portfolio approach, whereby proceeds will be allocated to a portfolio of loans that meet the use of proceeds eligibility criteria. Pending allocation, TSKB will hold and/or invest the balance of net proceeds in a treasury portfolio in cash or cash equivalents and/or in money market funds. The Bank intends to fully allocate within 24 months of any issuance. This is in line with market practice.

#### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

#### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |

- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

#### 4. REPORTING

Overall comment on section (if applicable):

Türkiye Sınai Kalkınma Bankası intends to provide allocation and impact reporting on an annual basis, until full allocation. Allocation reporting will be conducted at the aggregate level, and will include the total amount of proceeds allocated, the balance of unallocated proceeds and the amount of new financing vs. refinancing. In addition, Türkiye Sınai Kalkınma Bankası will report on relevant quantitative and qualitative impact metrics, where feasible. Sustainalytics views Türkiye Sınai Kalkınma Bankası 's allocation and impact reporting as aligned with market practice.

##### Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

##### Information reported:

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (please specify):

##### Frequency:

- Annual
- Semi-annual
- Other (please specify):

##### Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

##### Information reported (expected or ex-post):

- GHG Emissions / Savings
- Energy Savings
- Decrease in water use
- Number of beneficiaries
- Target populations
- Other ESG indicators (please specify): Various impact metrics as outlined in the Framework.

##### Frequency:

- Annual
- Semi-annual
- Other (please specify):

### Means of Disclosure

- |   |   |
|---|---|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report     |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other (please specify): Bank's website. |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |   |

Where appropriate, please specify name and date of publication in the useful links section.

### USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<http://www.tskb.com.tr/en/investor-relations/financial-information>

### SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

#### Type(s) of Review provided:

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

#### Review provider(s):

#### Date of publication:

### ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance

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data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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