

TSKB Sustainable Finance Framework

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1. Introduction

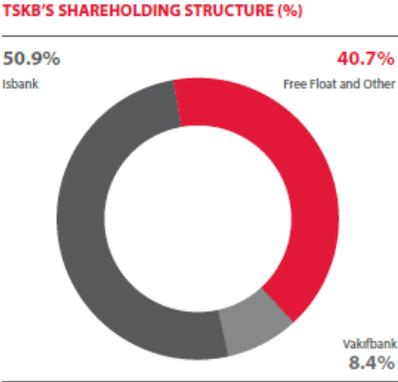
Türkiye Sınai Kalkınma Bankası (TSKB), celebrating its 70th year in the Turkish banking sector in 2020, was established in 1950 in Istanbul as Turkey’s first private development and investment bank with the support of the World Bank, the Central Bank of Turkey and the shareholding of commercial banks. Its main activity segments are Corporate Banking, Investment Banking and Advisory Services. TSKB has its headquarters in Istanbul with one branch in Ankara.

Since its establishment, the Bank has been providing an increasing contribution to promoting sustainable growth, development and the transformation of the manufacturing economy in Turkey with its extensive knowledge through its corporate banking, investment banking and advisory services capacities which it offers to a wide range of customers.

TSKB provides medium to long-term financing products tailored to sustainable investment projects in different sectors with a wide range of options, particularly corporate loans and project financing. The Bank also increases its sphere of influence by offering loans to SMEs, exporters and to the refugee impacted regions to support workforce imbalances. Both directly and indirectly through financial leasing and factoring companies, commercial banks and participation banks within the scope of wholesale banking (APEX banking).

Distinguishing itself in the finance sector with its unique banking model which provides solutions to tackle with the threat of climate change and supports the transition to a low-carbon economy as well as extending sustainability themed loans, TSKB’s support for investments such as renewable energy and resource efficiency, environmental protection, women empowerment, occupational health and safety and access to inclusive finance accounts for three quarters of its total loan portfolio.

TSKB’s market capitalisation stands at TRY 2.8 bn. The main shareholder is İşbank Group, which holds a 50,9% stake. Vakıfbank holds 8,4%, while the remaining 40,7% of the shares are traded publicly on the Borsa İstanbul. Due to its development and investment bank-status, TSKB does not collect deposits and meets its need for medium and long-term funds through the funds it obtains from national, regional and supranational financial institutions and bond issues.



1.1 TSKB’s strategy

TSKB’s strategy is based on creating value for the inclusive and sustainable development of Turkey through the financing and consultancy solutions powered by the experience in development and investment banking as well as the visionary approach and well-established international collaboration initiatives.

TSKB has identified five goals:

1. Support sustainable development: TSKB's corporate goal of supporting sustainable development is what enables it to contribute to the sustainable growth of the Turkish economy by further strengthening its own position and profitability in the project finance and investment banking business lines.

2. Provide entrepreneurs with money- and capital market brokerage and advisory support: When entrepreneurs wish to tap capital markets, TSKB seeks to be an active player, to ensure the continuity of its investment advisory services, and to provide corporate customers and major private investors with superior-quality money- and capital market brokerage services.

3. Ensure sustainable profitability and growth: TSKB seeks to increase its return on equity and assets performance, to constantly improve its cost controls, to expand its own market value and its customer base, to safeguard the quality of its loan portfolio, and to effectively manage its liquidity and positions.

4. Strengthen the corporate structure: TSKB seeks to constantly create sustainable value for all of its stakeholders by carrying out full compliance with corporate governance principles as an ongoing and dynamic process and to remain a trailblazer in corporate governance practices.

5. Communicate effectively with stakeholders: TSKB seeks to continuously improve its perception among all of its stakeholders' as a brand, to be a sectoral pioneer in dealing with sustainability and environmental issues, to provide all regulatory, supervisory, and auditing authorities with accurate, timely information, and to pursue growth by collaborating and creating synergies through its subsidiaries.

1.2 TSKB's Commitment to Sustainability

As the pioneer of sustainable banking in Turkey, TSKB seeks to support the country's sustainable growth and development by defining the economic, environmental, and social aspects of sustainability.

TSKB has had a Sustainability Management System (SMS) in place since 2005, which is supervised by an internal Sustainability Committee consisting of two board members and two executive vice presidents. The SMS quantifies the environmental impact of all of its activities and identifies strategies to reduce it. In late 2006, TSKB became the first Turkish bank to be awarded ISO 14001 Environmental Management System certification. In 2008 it became Turkey's first carbon-neutral bank by effectively erasing its carbon footprint and has remained so ever since. In 2012 TSKB became the first member of the Turkish banking industry to be awarded ISO 14064-1 Greenhouse Gases certification on account of its efforts to control greenhouse gas emissions in line with its support for sustainable living. Since its launch of its environment management system, TSKB has reduced its

CO2 emissions by 41% and has improved its electrical energy, natural gas, paper, and water consumption performance by 28%, 48%, 44%, and 20% respectively.



TSKB has been quantifying the environmental and social risks inherent in every project to which it has supplied financing since 2005. The activities listed in the link below have been identified as “activities that are not to be financed by TSKB” effective the date on which the TSKB Sustainability Policy goes into effect.

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

The TSKB Environmental Risk Evaluation Tool (ERET) is an evaluation model that rates projects on the basis of five criteria under forty-five separate headings. The results of such evaluations are taken into account in the project assessment, financing, and investment monitoring processes. The tool has been applied to all investment projects to be potentially funded by TSKB irrespective of the investment amount and/or credit limit. TSKB adopts it as a principle to observe sustainability practices and principles which meet the environmental, social and occupational health and safety standards of the development finance institutions in all investment projects in finance.

Under “Our Priority Is Environment”, a social responsibility project that has been running since 2007, TSKB plays an active role on environment and sustainability platforms through the various activities that it organizes and the sponsorships that it undertakes. This project is carried out so as to foster awareness of environmental issues especially in the business and academic communities.

Next to sustainability policies and management, TSKB pursues sustainability finance in the areas of renewable energy, energy and resource efficiency, sustainable tourism and environmental protection investments, education and health investments and others. At 2019 year-end, 74% of TSKB's total loan portfolio is comprised of sustainability loans. TSKB is among the banks funding the highest number of renewable energy projects in the Turkish banking sector. As of 2019-year end, the Bank has 294 renewable energy projects it funded. TSKB has contributed to the mitigation of Turkey's total annual carbon emissions by about 11.2 million tons through these projects.

1.3 TSKB rationale for Sustainable Financing

TSKB has become the first Turkish bank to issue a "Green/Sustainable Bond" on international markets. In 2017, globally the first sustainable Tier II was executed by TSKB.

TSKB has received awards on various platforms; Best Green Bond in Central and Eastern Europe (2017) – EMEA Finance, Sustainable Bond Deal of the Year (2017) – IFR, Green/Sustainable Bond Issuance of the Year (2016) – Global Capital.

In 2020, TSKB has decided to update its Framework to allow for the issuance of a broader set of Sustainable Finance Instruments, whose proceeds will be used to finance and refinance projects aimed at mitigating climate change impacts and sustainable and social infrastructure.

2. Basis of the TSKB Sustainable Finance Framework

In line with TSKB's commitment to contributing to combating climate change and promoting sustainable development, TSKB has established this Sustainable Finance Framework under which it intends to issue Sustainable Finance Instruments (which include Green/Social/Sustainability Finance Instruments) to finance and/or refinance Eligible Loans, identified via the compliance with the Eligibility Criteria outlined in the Framework.

The Sustainable Finance Instruments¹ that can be issued under this Framework are defined below:

- **Green Finance Instruments**: which may include, but are not limited to, bonds, including private placements, and loans in order to finance and / or refinance Eligible Green Loans (as defined in the Use of Proceeds section under **Direct and Indirect Climate Change Mitigation Criteria**);
- **Social Finance Instruments**: which may include, but are not limited to, bonds, including private placements, and loans to finance and / or refinance **Eligible Social Loans** (as defined in the Use of Proceeds section under **Sustainable and Social Infrastructure Criteria**);
- **Sustainability Finance Instruments**: which may include, but are not limited to, bonds, including private placements, and loans to finance and/or refinance a mix

¹ The "Sustainable Finance Instruments" definition also includes "Theme bonds", whose proceeds will be used to (re)finance loans / projects falling within one or more Green and/or Social Eligible Categories as set out in this Framework, focused on specific green, social or sustainable themes. This definition is in accordance with the definition of "Theme Bonds" included in the recently published ICMA Guidance Handbook (published in June 2020), available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Guidance-Handbook-April-2020-050620.pdf>

of **Eligible Green Loans** (as defined in the Use of Proceeds section under **Direct and Indirect Climate Change Mitigation Criteria**) and / or **Eligible Social Loans** (as defined in the Use of Proceeds section under **Sustainable and Social Infrastructure Criteria**).

The TSKB Sustainable Finance Framework is aligned to the ICMA Green Bond Principles² (GBP) 2018, Sustainability Bond Guidelines (SBG) 2018³, Social Bond Principles (SBP) 2020⁴ as well as the LMA Green Loan Principles (GLP) 2020⁵ edition, which provide guidelines in the form of four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

For each Sustainable Finance Instrument issued, TSKB asserts that it will adopt (1) Use of Proceeds; (2) Process for Project Evaluation and Selection; (3) Management of Proceeds; and (4) Reporting, as set out in this Framework. The TSKB Sustainable Finance Framework also follows the recommendations of the GBP 2018, SBG 2018 and SBP 2020 regarding External Review.

The Framework will apply to any Sustainable Finance Instrument issued by TSKB and will be in force as long as any Sustainable Finance Instrument is outstanding. Any future changes in the Green, Sustainability and Social Bond Standards⁶, may be implemented in future versions of this Sustainable Finance Framework. Any subsequent version of this framework that may exist, will either maintain or improve the current levels of granularity and transparency regarding project evaluation and selection process, management of proceeds and reporting disclosure.

3. Use of Proceeds

The net proceeds of the Sustainable Finance Instruments issued by TSKB will be used to finance and/or refinance Eligible Loans, in accordance with the Eligibility Criteria. TSKB has identified Eligible Loans within two main Business Activity Areas, outlined below:

- 1. Direct and Indirect Climate Change Mitigation;**
- 2. Sustainable and Social Infrastructure.**

² <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

³ <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁴ <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

⁵ <https://www.lsta.org/content/green-loan-principles/>

⁶ Standards related, but not limited to: Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, EU Green Bond Standards and green, social and sustainability market practices in general.

Under this Framework, loans may be for specific assets and projects or to 'pure play' companies, defined as enterprises that are expected to derive ≥90% of their turnover from assets/revenues aligned with defined eligibility criteria. For such enterprises, the entire loan by TSKB to such a borrower is 100% eligible as a use of proceeds for a Sustainability Finance Instrument.

2.1 Direct and Indirect Climate Change Mitigation

Direct and Indirect Climate Change Mitigation is an important sustainability goal for TSKB and is integrated into its business strategy. TSKB finances investments that will make direct contributions to combatting climate change and enabling the transition to a low-carbon economy, including: Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention and Control, Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes.

GBP / GLP Eligible Category	Eligibility Criteria	UN SDGs	EU Environmental Objectives ⁷
Renewable Energy	<ul style="list-style-type: none"> • Renewable Energy Generation⁸: Loans aiming at (re)financing the equipment, development, manufacturing, construction, operation and maintenance of renewable energy generation sources from: <ul style="list-style-type: none"> ▪ Wind power: Onshore ▪ Solar power: Photovoltaics (PV), concentrated solar power (CSP) and solar thermal facilities ▪ Hydro power: Small hydro-power facilities (<25MW) ▪ Bio energy: Facilities producing biofuel and/or biomass and facilities for electricity generation, heating or both (CHP) from waste/residues that do not compete with food sources (Limited to projects emissions of less than Turkish Grid emission Factor) 	 	<p>Environmental Objective: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.a): Generating, storing, distributing or using renewable energy in line with the Renewable Energy Directive, including through innovative technology with a potential for significant future savings or through necessary reinforcement of the grid</p>

⁷ In alignment with the EU Taxonomy Environmental Objectives defined in the EU Regulation: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0353>

⁸ Projects possessing Higher E&S Risk will not be financed through the proceeds, unless TSKB ensures that the investor has taken satisfactory precautionary measures and developed proper management plans. Such projects that E&S risks that may not be mitigated or minimized by any measures and result in (i) involuntary physical and economic resettlement; (ii) risk of adverse impacts on Indigenous People (IP) or vulnerable people ; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage; (iv) significant occupational health and safety risks; (v) significant security risks, and/or (vi) significant governance and reputational risks; (vii) impact international waterways, operate in disputed areas will not be financed by the proceeds.

<p>Energy Efficiency</p>	<ul style="list-style-type: none"> • Energy Efficiency Projects: Loans aiming at (re)financing any reconstruction, expansion, renovation or refurbishment measure implemented at a business entity aimed at: <ul style="list-style-type: none"> ▪ Reducing energy consumption at least by 15% measured for the specific investments which are financed or; ▪ Reducing CO2 emissions at least by 15% measured for the specific investments which are financed or; ▪ Achieving at least 50% of the incremental benefits⁹ from the investment project come from cost reduction in energy consumption provided that minimum five hundred (500) tons of CO2 reduction per annum is achieved • Smart technologies: <ul style="list-style-type: none"> ▪ Smart grids, storage facilities, metering systems and other intelligent electricity systems managing the intermittency of renewable energy production 	   <p>Environmental Objective: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.b): Improving energy efficiency in all sectors, except energy generation using solid fossil fuels, and at all stages of the energy chain, in order to reduce primary and final energy consumption</p>
<p>Clean Transportation</p>	<ul style="list-style-type: none"> • Loans aiming at financing or refinancing of production, establishment, expansion, upgrades, maintenance and operation of low carbon vehicles and related infrastructure: <ul style="list-style-type: none"> ▪ Low carbon public transportation: Electric or other low carbon (hybrid with direct emissions below 50 gCO2e/pkm¹⁰, biogas or hydrogen) public transportation such as busses, trains, trams, ferries, subways ▪ Low carbon vehicles: Electric, plug-in hybrid electric with direct emissions below 50 gCO2e/pkm for passenger vehicles and below 25g CO2/t-km for freight vehicles or hydrogen passenger, light commercial and freight vehicles such as cars, vans, trucks, vessels ▪ Low carbon transportation infrastructure: <ul style="list-style-type: none"> - Electrified infrastructure: infrastructure related to electric transportation of passengers and freight such as electrified railways and charging stations for electric vehicles ▪ Improvement of transport logistics: promoting urban mass transit, non-motorized transport (e.g. pedestrian mobility) improvement of the general transport logistics to increase energy efficiency of infrastructure and transport 	 <p>Environmental Objective: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.c): Increasing clean or climate-neutral mobility</p>

⁹ By incremental benefit, it is meant all benefits gained with the investment project such as raw material savings, labor cost savings, maintenance cost savings, increase in revenues, etc.

¹⁰ In line with the recommendation of the Technical Expert Group (TEG) report on the EU Taxonomy, March 2020.

<p>Green Buildings</p>	<ul style="list-style-type: none"> Loans to (re)finance new or existing <i>public, commercial</i> and <i>residential</i> buildings that meet the following criteria: Buildings rated B¹¹ or above in terms of energy performance in the local context, as determined via Energy Performance Certificate (BEP-TR) issued in accordance with Turkish regulation and / or via the Turkish Building Code Buildings with the following level of environmental certifications: <ul style="list-style-type: none"> LEED (min. Gold) BREAAM (min. Very Good) DNGB (min. Gold) ÇEDBİK Green Building certification Loans to refurbished commercial or residential buildings which achieved at least 30% energy improvement 	<p>Environmental Objective: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.b): Improving energy efficiency in all sectors, except energy generation using solid fossil fuels, and at all stages of the energy chain, in order to reduce primary and final energy consumption</p>  
<p>Pollution Prevention and Control</p>	<ul style="list-style-type: none"> Loans to (re)finance any greenfield, reconstruction, expansion, renovation or refurbishment investments aimed to increase resource efficiency, including but not limited to a reduction in: <ul style="list-style-type: none"> water consumption (m3), non-recoverable waste (tonnes), raw material/auxiliary chemicals (tonnes) 	<p>Environmental Objective: Pollution Prevention and Control</p> <p>Substantial contribution to Pollution Prevention and Control (1.a): Reducing air, water and soil pollutant emissions other than greenhouse gases</p> 
<p>Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes</p>	<ul style="list-style-type: none"> Loans to (re)finance project for specific products improving renewable energy generation, energy efficiency or GHG emission reduction 	<p>Environmental Objective: Transition to a circular economy, waste prevention and recycling</p> <p>Substantial contribution to Transition to a circular economy, waste prevention and recycling (1.a): improving the efficient use of raw materials in production, including through reducing the use of primary raw materials and increasing the use of by-products and waste;</p>  

¹¹ At this point in time, an official CBI (Climate Bond Initiative) baseline for the top 15% low-carbon residential and commercial buildings has not yet been established in Turkey. Only 10% to 15% of the total Turkish building stock is rated in accordance with the Energy Performance Certificate labels system. It is very likely to assume that buildings with EPC label “B” belong to the top 15% low-carbon buildings in Turkey.

<p>Alternative Maritime Power</p>	<ul style="list-style-type: none"> Loans to outlets, industrial stations/substations and electrical distribution and control systems for maritime vehicles and ports. 	 	<p>Environmental Objective: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.c): Increasing clean or climate-neutral mobility</p>
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2.2 Sustainable and Social Infrastructure

As a development and investment bank, TSKB aims to promote sustainable growth and sustainable infrastructure improvements in Turkey. In the field of health and education, TSKB’s agenda particularly includes public-private partnership projects (PPP).

SBP Category	Eligibility Criteria	UN SDGs
<p>Access to Essential Services (Healthcare)</p>	<ul style="list-style-type: none"> Loans for activities that support public/free/subsidised health and social care, in Turkey (e.g construction and equipment hospitals, clinics and healthcare centres for the provision of public/free/subsidised healthcare services, acquisition of medical equipment or provision of diagnostic services, emergency medical response and disease control, programmes for the promotion of health and well-being). Eligible projects will service all citizens, including vulnerable population groups such as the elderly, physically or mentally dependent persons and populations with limited access to essential services in Turkey and emerging countries 	
<p>Access to Essential Services (Education)</p>	<ul style="list-style-type: none"> Loans for activities that expand the access to free and/or subsidised primary, secondary, adult and vocational education in Turkey and in emerging countries (e.g. construction of kindergartens, schools, university campus buildings and/or facilities at any public and non-profit university campus, student housing). Eligible projects will include all populations, including minority groups (e.g. educational grants, educational and/or professional training) 	

<p>Employment generation through SME Companies¹²</p>	<ul style="list-style-type: none"> Loans to SMEs¹³ supporting employment comprising of women and/or youth labor force¹⁴ Loans to SMEs facing natural disaster (such as earthquakes, floods, etc.) or health pandemics¹⁵ (such as COVID-19 outbreak , etc.). 	  
<p>Sustainable Infrastructure</p>	<ul style="list-style-type: none"> Energy distribution network and renewable energy transmission: Projects should aim at retro-fitting transmission lines or substations to reduce energy use and/or technical losses and to avoid electricity cuts. Projects can also aim at improving existing systems to facilitate the integration of renewable energy sources into the grid or Scada System to improve effectiveness. If possible, projects selection can also incorporate geographical aspects and favour projects in areas where electricity losses are high and a large number of customers/households would benefit from modernization. If new transmission systems are installed, these should facilitate the integration of renewable energy sources into the grid or extensions to serve the additional population growth due to urbanization. TSKB will only select the portion of the loan that is aimed at integrating renewables in the Turkish electricity system, via a pro-rata approach based on the % of renewables installed capacity in the Turkish electricity grid. Public transport: Non-electric and non-hybrid means of public transport (passenger trains, busses, etc.) aimed at the public transport to ensure a modal shift from roads 	 

4. Process for Project Evaluation and Selection

The Bank's Technical Analysis Team, comprising of nominated members from the Engineering Department and Financial Analysis Department, will:

- (i) assess and determine each individual loan's eligibility; and,
- (ii) recommend an allocation of proceeds to Eligible Loans.

TSKB's Technical Analysis Team will then recommend those loans to the Financial Institutions Department for allocation of the Sustainable Finance proceeds. In the case of the respective internal procedures, including the Credit Evaluation Committee and, if required, Board's approval to have been finalised, the allocation of proceeds will be tracked through the internal systems of the Bank.

¹² Companies engaged in fossil fuel production is excluded from this category as well

¹³ Defined as companies with number of employees below 250 and turnover or total assets equal to or below TL 125 million.

¹⁴. To be reported as additional or maintenance of respective labor force which will be measured by specific toolkit.

¹⁵ TSKB will make sure to select only loans to SMEs directly linked to the specific event (natural disaster or health pandemic), via identifying loans granted after the specific event.

In identifying Eligible Projects and their non-financial impacts TSKB may rely on external consultants and their data sources.

The loans selection is based on the Eligibility Criteria defined in the section above (Use of Proceeds). TSKB ensures that all Eligible Loans comply with official national and international environmental and social standards and local laws and regulations on a best effort basis. It is part of TSKB's transaction approval process to ensure, that all its activities comply with internal environmental and social directives. TSKB takes into account minimum environmental and social requirements for all lending businesses, including those financed with the proceeds of the Sustainable Finance Instruments. These eligibility criteria and minimum requirements and ESG related matters are continuously developed and renewed via TSKB's Policies and Guidelines. TSKB's Environmental and Social Policies can be found on: <http://www.tskb.com.tr/en>.

The Eligible Projects are required to align with TSKB's related internal sustainability policy that sets forth the fundamental principles that inform TSKB's activities, including Environmental & Social Impact Policy, Human Rights Policy, Occupational Health & Safety Policy, Sustainable Procurements Management Policy, Anti-Bribery & Corruption Policy, Charitable Donations & Assistance Policy, and other policies addressing social, environmental, and corporate governance issues. Below are some examples of relevant codes and policies:

- Environmental and Social Impact Policy¹⁶
- List of activities that are not to be financed¹⁷
- Anti-Bribery and Anti-Corruption Policy¹⁸

Regarding minimum safeguards, TSKB respects fundamental principles such as human rights, labor rights, and social justice. TSKB takes care to abide by the requirements of international agreements such as International Labor Organization conventions and the United Nations Universal Declaration of Human Rights. TSKB's Human Right Policy¹⁹ can be found at within the Bank's [sustainable banking](#) webpage.

With a human-oriented approach for a qualified economic growth, TSKB contributes to employment, equal opportunities and social development through inclusive banking solutions. By implementing practices on an egalitarian basis without taking any differential approach in human resources processes, TSKB continues to be a pioneer in the financial sector, having published its Equal Opportunity Policy²⁰ at the beginning of 2019.

¹⁶ <http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf>

¹⁷ <http://www.tskb.com.tr/i/assets/document/pdf/TSKB-List-of-activities-that-are-not-to-be-financed.pdf>

¹⁸ http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf

¹⁹ <http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf>

²⁰ http://www.tskb.com.tr/i/assets/document/pdf/TSKB_Equal_Opportunities_Policy.pdf

TSKB regards risk management as a fundamental element both of corporate governance and of its own sustainable success. TSKB is committed to being in full compliance with current laws and regulations in Turkey pertaining to money-laundering and terrorism-financing. TSKB has completely incorporated all essential control, warning, and other mechanisms into its business processes. The TSKB Department of Internal Control is responsible for monitoring and checking the bank's day-to-day activities. This department checks the overall effectiveness and adequacy of the bank's Anti-Money-Laundering Compliance Program and reports any shortcomings to the Board of Directors. At the same time, customer transactions taking place at TSKB are also checked and reported on a daily, monthly, and quarterly basis.

5. Management of Proceeds

The net proceeds of Sustainable Finance Instruments issued under this framework will be managed by TSKB in a portfolio approach.

TSKB intends to allocate the proceeds from the Sustainable Finance Instruments to a portfolio of loans that meet the use of proceeds Eligibility Criteria and in accordance with Project Evaluation and Selection Process presented above, the Eligible Loan Portfolio.

TSKB intends to designate sufficient Eligible Loans in the Eligible Loan Portfolio to ensure that the size of the Eligible Loan Portfolio matches or exceeds the total balance of all outstanding Sustainable Finance Instruments. When necessary, additional Eligible Loans will be added to the Eligible Loan Portfolio to ensure the sufficient and timely allocation of the incremental net proceeds.

During the life of the Sustainable Finance Instrument, and upon becoming aware, if a loan ceases to fulfil the eligibility criteria, TSKB will remove the loan from the Eligible Loan Portfolio and replace it, when necessary, as soon as reasonably practicable.

Pending the full allocation to the Eligible Loan Portfolio, TSKB will hold and / or invest the balance of net proceeds not yet allocated, at its own discretion, in its treasury liquidity portfolio (in cash or cash equivalents, money market funds, etc.).

6. Reporting

Throughout the term of any Sustainability Bonds issued, TSKB commits to publishing an annual report on the allocation of the proceeds and impact of projects that have received allocations. This report will be published on the bank's website (<http://www.tskb.com.tr/en/investor-relations/financial-information>). Report can be presented on aggregated basis for all the Sustainable Finance Instruments issued under this framework.

a) Allocation Reporting

TSKB commits to publishing an annual report detailing the aggregate allocation of the proceeds. To the extent practicable, TSKB also intends to report the allocation to eligible projects at category level and some geographical guidance without referring to client names. Allocation reporting will be available to investors within one year from the date of the Sustainability Bond's issuance and annually thereafter until the proceeds have been fully allocated to eligible projects. The allocation report will provide, on an aggregated basis, on indicators such as:

- the size of the identified Eligible Loan Portfolio;
- the total amount of proceeds allocated to Eligible Loans;
- the balance (if any) of unallocated proceeds;
- the amount or the percentage of new financing and refinancing;
- the geographic allocation of the assets (at country level).

b) Impact Reporting

TSKB commits to publishing annual updates on the environmental and social impacts of the projects funded with Sustainability Finance Instruments. Impact reporting may provide:

- A description of the Eligible Green and Social Projects;
- The breakdown of Eligible Green and Social Projects by nature of what is being financed (financial assets);
- Where relevant, metrics regarding projects' environmental and social impacts as described below:

GBP / GLP Eligible Category	Potential impact reporting indicators
Renewable Energy	<ul style="list-style-type: none"> • Annual renewable energy installed capacity (MW/year) • Annual electricity generation amount (MWh/year) • Estimated annual CO₂ emissions avoided (in tCO₂ eq./year)
Energy efficiency	<ul style="list-style-type: none"> • Energy Efficiency Projects: <ul style="list-style-type: none"> ▪ Estimated annual CO₂ emissions reduced/avoided (in tCO₂ eq./year) ▪ Estimated annual energy savings (MWh/year) • Smart Technologies: <ul style="list-style-type: none"> ▪ Number of smart grid components installed ▪ Estimated annual energy savings (MWh/year)
Clean transportation	<ul style="list-style-type: none"> • Low carbon public transportation and vehicles <ul style="list-style-type: none"> ▪ Number of vehicles (#) ▪ GHG savings (in tCO₂ eq./year) • Low carbon transportation infrastructure <ul style="list-style-type: none"> ▪ GHG savings (in tCO₂ eq./year) due to the installed technology (direct), by transferring freight or passenger transport from road to e.g. railway (indirect) or both (as applicable) ▪ Number of unites installed (#)
Green Buildings	<ul style="list-style-type: none"> • Estimated annual CO₂ emission reduction (in t CO₂eq.) • Estimated annual energy savings (MWh) • Overview of sustainable labels and certificates for Green Buildings
Pollution Prevention and Control	<ul style="list-style-type: none"> • Annual savings of relevant resource amounts (e.g. kWh/year and/or m³ water/year and/or ton raw material/year and/or ton CO₂/year)
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes (Indirect Mitigation)	<ul style="list-style-type: none"> • Production capacity of the produced component (unit/year) • Narrative reporting on the project

Eligible Social Bond Category	Potential impact reporting indicators
Access to Essential Services (Healthcare)	<ul style="list-style-type: none"> • Number of hospitals, nursing homes, rehabilitation centers, patients or beds, and/or population of regions where hospital projects are located per country
Access to Essential Services (Education)	<ul style="list-style-type: none"> • Number of public education schools (including kindergarten, primary and/or secondary schools and universities) supported; and/or number of individuals benefiting from these schools per country
Employment generation including through the potential effect of SME financing	<ul style="list-style-type: none"> • Number of loans to SMEs • Number of SMEs affected by natural disaster/ health pandemic financed
Sustainable Infrastructure	<ul style="list-style-type: none"> • Electricity Distribution Network: Investment per subscriber, investment per population and Capacity of renewable energy production connected in the grid (in MW or in %) • Public Transport: Number of beneficiaries

Impact reporting for loans to pure players, will be done via output figures and if possible, via impact figures²¹.

7. External review

a) Second party opinion

TSKB will obtain an independent Second Party Opinion (SPO) from Sustainalytics to confirm the validity of TSKB Sustainable Finance Framework. The SPO provider will review TSKB's Sustainable Finance Framework and confirm its alignment with the ICMA Green/Social Bond Principles as well as the LMA Green Loan Principles. The SPO will be published on the TSKB website at: <http://www.tskb.com.tr/en/financial-institutions/publications>.

b) Verification

TSKB may request on an annual basis, starting one year after issuance and until maturity (or until full allocation), a limited assurance report of the allocation of the Sustainable

²¹ For instance, if TSKB provides lending to a monoline company only involved in Renewable Energy Production with X renewable energy assets on the balance sheet, TSKB will be able to provide impact figures at asset level, which will be aggregated per category level (in this case Renewable Energy).

Finance Instruments' proceeds to Eligible Loans, provided by its external auditor.

8. Appendix A: Exclusionary Criteria

TSKB commits itself not to knowingly be involved in directly financing any project or activity entailing:

- The production or trade of a product which is illegal under Turkish laws or regulations or according to international rules or agreements or which is subject to any international ban
- The production or trade of a product containing polychlorinated biphenyl PCB
- The production or trade of chemicals, pesticides, herbicides, or any other harmful substance that is internationally banned
- The production or trade in any internationally banned substance that is harmful to the terrestrial ozone layer
- Trade in wild fauna or flora, the manufacture of or trade in any product covered by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
- The cross-border movement of any forms of waste that is prohibited by Turkish law or international agreement
- The production of or trade in firearms and/or munitions
- The production of or trade in tobacco or tobacco products
- Any undertaking involving gambling, casino operations or management, or the like
- The production of or trade in any radioactive material
- The production of or trade in fibrous asbestos (does not apply to the use or procurement of cement slabs less than 20% of whose weight consists of non-fibrous or fibrous asbestos)
- The use of drift nets measuring more than 2,500 meters in length in sea fishing

- Any project involving forced labour, any project related to the production that involved the exploitation of child labour or employs children in potentially injurious or dangerous activities
- Any project that restricts individuals' personal rights or violates human rights
- Any project that involves commercial logging operations in any primary tropical rainforest
- Any activity that is prohibited by Turkish laws and regulations or by international agreements concerned with the protection of biodiversity resources or of the cultural heritage, any project located in any protected area, critical habitat area, or natural/cultural heritage area unless adequate compensatory/mitigatory measures can be taken

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