Türkiye Sınai Kalkınma Bankası

Type of Engagement: Annual Review
Date: 13 April 2023
Engagement Team:
Ananth Sai Reddy Eragam, ananth.eragam@morningstar.com, (+31) 20 797 1577
Ayushi Agrawal, ayushi.agrawal@morningstar.com

Introduction

In January 2021, Türkiye Sınai Kalkınma Bankası ("TSKB" or the "Issuer") issued a sustainability bond (the "2021 Sustainability Bond") to finance projects intended to provide social and environmental benefits.[1] In April 2023, TSKB engaged Sustainalytics to review the projects financed with proceeds from the 2021 Sustainability Bond and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the TSKB Sustainable Finance Framework (the "Framework").[2] Sustainalytics provided a second-party opinion on the Framework in December 2020.[3] This is Sustainalytics' second annual review of the allocation and reporting of the 2021 Sustainability Bond issued under the Framework, following a previous review in April 2022.[4]

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2021 Sustainability Bond based on whether the projects and programmes:

1. Met the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported, in aggregate, by use of proceeds category outlined in the Framework, on at least one key performance indicator (KPI).

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Renewable Energy	Renewable Energy Generation: Loans aiming at (re)financing the equipment, development, manufacturing, construction, operation and maintenance of renewable energy generation sources from: • Wind power: Onshore • Solar power: Photovoltaics, concentrated solar power and solar thermal facilities • Hydro power: Small hydro-power facilities (<25 MW) • Bio energy: Facilities producing biofuel and	• Annual renewable energy installed capacity (MW/year) • Annual electricity generation amount (MWh/year) • Estimated annual CO_2 emissions avoided (in tCO_2e/year)

[1] TSKB, "TSKB issued its third and this year's first Sustainable Eurobond out of Türkiye", at: https://www.tskb.com.tr/en/about-us/about-us/news/tskb-issued-its-third-and-this-years-first-sustainable-eurobond-out-of-turkiye#:~:text=TSKB%20continues%20this%20journey%20with,Nikko%20and%20Standard%20Chartered%20Bank.
[2] In December 2020, TSKB updated its 2016 Sustainable Bond Framework, at: https://www.tskb.com.tr/uploads/file/tskb-sustainable-finance-framework.pdf
[3] TSKB, "Second-Party Opinion, TSKB Sustainable Finance Framework", (2020), at: https://www.tskb.com.tr/uploads/file/tskb-sustainable-finance-framework-second-party-opinion-2020.pdf
[4] TSKB, "Allocation & impact reporting 2022", at: https://www.tskb.com.tr/uploads/file/impact-report-2022.pdf

	biomass and facilities for electricity generation, heating or both (CHP) from waste/residues that do not compete with food sources (limited to projects with emissions less than that of the Turkish Grid emission Factor)	
Energy Efficiency	**Energy Efficiency Projects:** Loans aiming at (re)financing any reconstruction, expansion, renovation or refurbishment measure implemented at a business entity aimed at: • Reducing energy consumption by at least 15% measured for the specific investments which are financed or; • Reducing CO_2 emissions by at least 15% measured for the specific investments which are financed or; • Achieving at least 50% of the incremental benefits[5] from the investment project come from cost reduction in energy consumption provided that minimum 500 tonnes of CO_2 reduction per annum is achieved **Smart technologies:** Smart grids, storage facilities, metering systems and other intelligent electricity systems managing the intermittency of renewable energy production	• Energy Efficiency Projects: ○ Estimated annual CO_2 emissions reduced/avoided (in tCO_2e/year) ○ Estimated annual energy savings (MWh/year) • Smart Technologies: ○ Number of smart grid components installed ○ Estimated annual energy savings (MWh/year)
Clean Transportation	Loans aiming at financing or refinancing of production, establishment, expansion, upgrades, maintenance and operation of low carbon vehicles and related infrastructure: • **Low carbon public transportation:** Electric or other low carbon (hybrid with direct emissions below 50 gCO_2e/pkm, biogas or hydrogen) public transportation such	• Low carbon public transportation and vehicles ○ Number of vehicles ○ GHG savings (in tCO_2e/year) • Low carbon transportation infrastructure ○ GHG savings (in tCO_2e/year) due to the installed

[5] TSKB defines incremental benefit as all benefits gained with the investment project such as raw material savings, labor cost savings, maintenance cost savings, increase in revenues, etc.

	as busses, trains, trams, ferries, subways • **Low carbon vehicles:** Electric, plug-in hybrid electric with direct emissions below 50 gCO_2e/pkm for passenger vehicles and below 25 gCO_2/tkm for freight vehicles or hydrogen passenger, light commercial and freight vehicles such as cars, vans, trucks, vessels • **Low carbon transportation infrastructure:** 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	technology (direct), by transferring freight or passenger transport from road to e.g. railway (indirect) or both (as applicable) ○ Number of units installed
Green Buildings	• Loans to (re)finance new or existing public, commercial and residential buildings that meet the following criteria: • Buildings rated B 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: ○ LEED (min. Gold)	• Estimated annual CO_2 emission reduction (in tCO_2e) • Estimated annual energy savings (MWh) • Overview of sustainable labels and certificates for Green Buildings

	○ 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	
Pollution Prevention & Control	• 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: ○ water consumption (m^3), ○ non-recoverable waste (tonnes), ○ raw material/auxiliary chemicals (tonnes)	• Annual savings of relevant resource amounts (e.g. kWh/year and/or m^3 water/year and/or ton raw material/year and/or ton CO_2/year)
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	• Loans to (re)finance project for specific products improving renewable energy generation, energy efficiency or GHG emission reduction	• Production capacity of the produced component (unit/year) • Narrative reporting on the project
Alternative Maritime Power	• Loans to outlets, industrial stations/substations and electrical distribution and control systems for maritime vehicles and ports.	• Low carbon maritime infrastructure • GHG savings (in tCO_2e/year) due to the installed technology (direct), by transferring freight or passenger transport from conventional to electric maritime transportation • Number of units installed
Access to Essential Services	• Loans for activities that support public/free/subsidised health and social care, in Turkey (e.g construction	• Number of hospitals, nursing homes, rehabilitation centers, patients or beds, and/or

	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	population of regions where hospital projects are located per country
Access to Essential Services (Education)	• 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)	• Number of hospitals, nursing homes, rehabilitation centers, patients or beds, and/or population of regions where hospital projects are located per country
Employment Generation including through the potential effect of SME financing and microfinance	• Loans to SMEs[6] supporting employment of women and/or youth labor force[7] • Loans to SMEs facing natural disaster (earthquakes, floods, etc.) or health pandemics[8] (COVID-19 outbreak , etc.)	• Number of loans to SMEs • Number of SMEs affected by natural disaster/ health pandemic financed • Number of loans to microenterprises
Sustainable Infrastructure	• **Energy distribution network and renewable**	• Ports: Narrative reporting on social

[6] TSKB defines SMEs as companies with a number of employees below 250 and turnover or total assets equal to or below TL 125 million.
[7] To be reported as additional or maintenance of respective labour force, which will be measured by a specific toolkit.
[8] TSKB will make sure to select only loans to SMEs directly linked to a specific event (natural disaster or pandemic), identifying loans granted after the specific event.

	energy transmission: Projects should aim at retrofitting transmission lines or substations to reduce energy use and 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	and environmental impact of investment • 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

Issuer's Responsibility

TSKB is responsible for providing accurate information and documentation relating to the details of the funded projects, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from the 2021 Sustainability Bond. The work undertaken as part of this engagement included collection of documentation from TSKB and review of said documentation to assess conformance with the TSKB Sustainable Finance Framework.

Sustainalytics relied on the information and the facts presented by TSKB. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by TSKB.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,[9] nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Framework. TSKB has disclosed to Sustainalytics that the proceeds from the 2021 Sustainability Bond were fully allocated by 31 December 2022.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded with proceeds from the 2021 Sustainability Bond to determine if projects aligned with the use of proceeds criteria outlined in the 2020 TSKB Sustainable Finance Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds from the 2021 sustainability to determine if impact of projects was reported in line with the KPIs outlined in the 2020 TSKB Sustainable Finance Framework.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

[9] Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendices

Appendix 1: Reported Allocation

Use of Proceeds	Use of Proceeds Category	No. of Projects	Net Proceeds Allocation (USD)
Green	Renewable Energy	15	120,861,299
	Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	2	28,545,069
	Green Buildings	2	5,238,998
	Clean Transportation	1	1,126,126
	Pure Play	4	75,427,693
	Total allocation to green categories	**24**	**231,199,185**
Social	Sustainable Infrastructure (Electricity Distribution)	6	60,781,371
	Access to Essential Services (Healthcare)	1	57,000,000
	Total allocation to social categories	**7**	**117,781,371**

Appendix 2: Reported Impact

Use of Proceeds Category	Impact Metric	Reported Impact
Renewable Energy	Installed Capacity (MW)	1,694.43
	Annual Electricity Generation (kWh)	2,551,655,828
	Total Annual GHG Emissions Reduced/Avoided FY 2022 (tonnes/year)	1,723,823
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	• Two projects funded to improve renewable energy generation and energy efficiency • Production of pluralised profile from carbon fiber material for wind turbine blades • Motor production in efficiency class IE3 and IE4	
Green Buildings	Overview of sustainable labels and certificates for Green Buildings	Project -1 holds LEED Gold certificate Project -2 holds LEED Platinum certificate
Clean Transportation	No. of vehicles	17 electric SUVs
	GHG savings (tCO_2/year)	81.6
Access to Essential Services (Healthcare)	Annual In-Patient Visitors FY 2022	130
	Annual Out-Patient Visitors FY 2022	1,932,616
Sustainable Infrastructure (Electricity Distribution)	Total Subscribers FY 2022	11,846,848
	Total Energy Distribution (MWh)	34,341,650

Disclaimer

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com