

TURKIYE SINAI KALKINMA BANKASI A.S

SUSTAINABILITY BOND COMPLIANCE REVIEW

March 31st, 2017

Introduction

In May 2016, Turkiye Sinai Kalkinma Bankasi A.S (TSKB) issued a sustainability bond aimed at funding green and social projects in sectors such as renewable energy, waste and water management and infrastructure, and social infrastructure. In March 2017, TSKB engaged Sustainalytics to review the projects funded during 2016 through the issued sustainability bond, and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting Commitments outlined in the [Sustainability Bond Framework Overview and Second-Party Opinion](#) provided by Sustainalytics.

Compliance Evaluation Criteria

Sustainalytics evaluated 19 projects funded in 2016 for compliance based on whether the projects:

1. Met one of the twelve Use of Proceeds and Eligibility Criteria outlined in the Sustainability Bond Framework Overview; and
2. Reported on one of the eleven Key Performance Indicators (KPIs) outlined in the Sustainability Bond Framework Overview.

Table 1 lists all the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated the KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds and Eligibility Criteria	
Direct and Indirect Climate Change Mitigation	Energy efficiency
	Resource efficiency
	Wind power plants (onshore only)
	Solar power (Photovoltaic)
	Hydro power plants
	Biomass, waste to energy, biogas
	Clean transportation
	Indirect mitigation: Manufacture and sale of finished products, when in use result in renewable energy generation, energy efficiency or GHG emission reductions.
Climate Change Adaptation	Climate change adaptation projects.
Sustainable Infrastructure	Social infrastructure (health and education)
	Electricity distribution networks
	Ports

Table 2: Key Performance Indicators

Key Performance Indicators	
Energy Efficiency	<ul style="list-style-type: none"> Annual CO2 emission reduction/avoidance (ton/year)
Resource Efficiency	<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),
Wind Power Plants	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (Kwh/year), Annual CO2 emission reduction (ton/year)
Solar Power (PV)	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (Kwh/year), Annual CO2 emission reduction (ton/year)
Hydro Power Plants	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (Kwh/year), Annual CO2 emission reduction (ton/year)
Biomass, waste to energy, biogas	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (Kwh/year), Annual CO2 emission reduction (ton/year)
Clean Transport Projects	<ul style="list-style-type: none"> Freight transported, what the transport route will be used for, GHG emission of rail route/ water route in comparison to road transport
Indirect Mitigation Projects	<ul style="list-style-type: none"> Production capacity of the produced component (unit/year); narrative reporting on the project
Social infrastructure (health and education)	<ul style="list-style-type: none"> Narrative reporting on the project
Electricity Distribution Networks	<ul style="list-style-type: none"> Investment per subscriber, investment per population Narrative reporting that shows environmental and social impacts of modernized grid, such as reduced network losses, integration of renewable energy into grid, energy efficient grid management, and access to electricity in less developed regions in Turkey.
Ports	<ul style="list-style-type: none"> Narrative reporting on social and environmental impact of investment that demonstrates modal shift of freight and/or passenger transport from road to waterways

Issuing Entity's Responsibility

TSKB is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact. This information was provided to Sustainalytics to support its review.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of TSKB's sustainability bond and provided an independent opinion. The work undertaken as part of this engagement included conversations with relevant TSKB employees and review of relevant documentation to confirm the alignment with the Sustainability Bond Framework. 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 over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted¹, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of TSKB's Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the TSKB Sustainability Bond Framework. TSKB has disclosed to Sustainalytics that the proceeds of the TSKB Sustainability Bond were fully allocated as of December 31, 2016.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of 19 projects funded by the sustainability bond in 2016 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Sustainability Bond Framework and above in Table 1.	All 19 projects reviewed complied with the Use of Proceeds Criteria	None
Reporting Criteria	Verification of 19 projects funded by the sustainability bond in 2016 to determine if impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and above in Table 2.	All 19 projects reviewed complied with the Reporting Criteria	None

¹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by TSKB. TSKB is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix 1: Allocation of Proceeds by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Number of Projects	Total Allocated in 2016 (USD\$)
Energy and Resource Efficiency	2	2%
Energy Efficiency	1	
Resource Efficiency	1	
Renewable Energy	7	43%
Social Infrastructure (Health)	1	11%
Electricity Distribution Networks	5	25%
Ports	4	20%
TOTAL	19	100%

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Number of Projects	Environmental Impact Reported by Eligibility Criteria
Energy and Resource Efficiency	2	
Energy Efficiency	1	Annual CO ₂ emission reduction/avoidance (ton/year) derived from bond allocation: 4,694 tons/year.
Resource Efficiency	1	24,500 tonnes of rolling liquid saved per year.
Renewable Energy	7	Annual CO ₂ emission reduction (ton/year) derived from bond allocation: 126,238 tons/year
Social Infrastructure (Health)	1	<ul style="list-style-type: none"> • TSKB has disclosed that the hospital funded is expected to be visited by 100,000 people daily. • TSKB has also disclosed that that the district population the hospital is expected to serve can be characterized as mainly lower middle class • TSKB has also disclosed that the hospital project has created jobs for 291 people directly and 1564 indirectly by the end of 2016
Electricity Distribution Networks	5	<ul style="list-style-type: none"> • TSKB has disclosed that modernization of electricity distribution networks has improved efficiency of networks by keeping losses at a minimum, facilitated integration of renewable energy into the grid, and provided electricity to less developed regions of Turkey. • 2016 Investment (USD\$) per Subscriber: \$87.9/subscriber • 2016 Investment (USD\$) per Population: \$50.4/person
Ports	4	<ul style="list-style-type: none"> • TSKB has disclosed that the ports funded through bond proceeds have facilitated a shift from land transport to sea transport, and have thus reduced fuel use and carbon emissions.
TOTAL	19	

Appendix 3: List of Projects Reviewed

Direct and Indirect Climate Change Mitigation		
1	Resource Efficiency	Construction of an efficient cold rolling line.
2	Energy Efficiency	Energy Production Project from Waste Heat and arc-furnice modenization.
3	Renewable Energy: Hydro Power Plants	120 MW Hydro power plant in Eastern black Sea Region of Turkey
4	Renewable Energy: Hydro Power Plants	131.2 MW Hydro power plant in Eastern Anatolia Region of Turkey.
5	Renewable Energy: Hydro Power Plants	130.2 MW Hydro power plant in Eastern Anatolia Region of Turkey.
6	Renewable Energy: Hydro Power Plants	81.25 MW Hydro power plant in Mediterranean Region of Turkey.
7	Renewable Energy: Hydro Power Plants	60.25 MW Hydro power plant in Mediterranean Region of Turkey.
8	Renewable Energy: Wind Power Plants	39 MW Wind Power Plant in Mediterranean Region of Turkey.
9	Renewable Energy: Wind Power Plants	45 MW Wind Power Plant in Aegean Region of Turkey
Sustainable Infrastructure		
10	Social Infrastructure: Health	Establishment of a city general hospital with 3,566 beds under a PPP scheme with an investment amount of 1.1 billion Euro.
11	Electricity Distrubtion Networks	Modernisation, rehabilitation and extension of electricity distribution network in Marmara Region of Turkey.
12	Electricity Distrubtion Networks	Modernisation, rehabilitation and extension of electricity distribution network in Central Anatolia Region of Turkey.
13	Electricity Distrubtion Networks	Modernisation, rehabilitation and extension of electricity distribution network in Black Sea Region of Turkey.
14	Electricity Distrubtion Networks	Modernisation, rehabilitation and extension of electricity distribution network in Eastern Anatolia Region of Turkey.
15	Electricity Distrubtion Networks	Modernisation, rehabilitation and extension of electricity distribution network in Aegean Region of Turkey.
16	Ports	Renovation and capacity increase in port at the Marmara Region by the Marmara Sea.
17	Ports	Port Entegration of ports at the Marmara Region by the Marmara Sea.
18	Ports	Renovation and capacity increase in port at the Marmara Region by the Marmara Sea.
19	Ports	Infrastructure Investment for port at the Marmara Region by the Black Sea.

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