Turkiye Sinai Kalkinma Bankasi A.S. Sustainability Bonds

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Introduction

In May 2016 and March 2017, Turkiye Sinai Kalkinma Bankasi A.S. (TSKB) issued two sustainability bonds aimed at financing (i) Direct and Indirect Climate Change Mitigation projects, (ii) Climate Change Adaptation projects and (iii) Sustainable Infrastructure projects. In March 2019, TSKB engaged Sustainalytics to review the projects funded through the issued sustainability bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the TSKB Sustainability Bond Framework.[1]

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded up to December 31, 2018 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Green Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Green Bond Framework.

A list of the Use of Proceeds and Eligibility Criteria is available in Appendix 1, while the associated the KPIs are available in Appendix 2.

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.

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 Bonds' Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from TSKB employees and review of documentation to confirm the conformance with the Sustainability Bond Framework.

Sustainalytics has relied on the information and the facts presented by TSKB with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct 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 over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,[2] 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 Bonds, are not in conformance with the Use of Proceeds and Reporting Criteria outlined

[1] TSKB Sustainability Bond Framework Overview and Second-Party Opinion document available at: http://www.sustainalytics.com/sites/default/files/tskb_sustainability_bond_framework_and_second_opinion_by_sustainalytics_final.pdf
[2] 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 the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

in the Sustainability Bond Framework. TSKB has disclosed to Sustainalytics that the proceeds of the sustainability bonds have been fully allocated as of December 31, 2018.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the 41 projects[3] funded by the sustainability bonds up to December 2018 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Sustainability Bond Framework and in Appendix 3.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the 41 projects funded by the sustainability bonds up to December 2018 to determine if impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and in Appendix 4.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

[3] 22 projects received allocations from the 2016 bond and 20 from the 2017 bond; one project received allocations from both the 2016 and 2017 bonds.

Appendix 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria
Direct and Indirect Climate Change Mitigation (category)	
Energy Efficiency	• Any reconstruction, expansion, renovation or refurbishment measure implemented within the premises of a business entity or relocation of any production facility and aimed at investing into fixed assets that are designed to decrease energy consumption for every unit of service output of the business entity or using renewable or waste energy. Projects will have the primary objective of improving the efficiency of energy use (or reducing specific energy consumption) of the system directly affected by the project and meet at least one of the following criteria: (i) at least fifteen per cent (15%) reduction in energy consumption measured for the specific investments which are financed; or (ii) at least fifteen per cent (15%) reduction of CO^2-emissions measured for the specific investments which are financed; or (iii) show at least 50% of the incremental benefits (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.) from the investment project come from cost reduction in energy consumption provided that minimum five hundred (500) tonnes of CO^2 reduction per annum is achieved. • Investments in Green Buildings (minimum certification levels of BREEAM Good, LEED SILVER and DGNB SILVER).
Resource Efficiency	• 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)
Wind Power Plants (onshore only)	• The development, construction and operation of wind farms • Operational production or manufacturing facilities wholly dedicated to wind energy development • Wholly dedicated transmission infrastructure for wind farms
Solar Power (Photovoltaic)	• Solar electricity generation facilities • Wholly dedicated transmission infrastructure for solar electricity generation facilities
Hydro Power Plants	• The development, construction and operation of hydro power plants • Operational production or manufacturing facilities wholly dedicated to hydro energy development • Wholly dedicated transmission infrastructure for hydro power plant
Biomass, waste to energy, biogas	• Technologies and projects for the conversion of organic matter to energy
Clean Transport projects	• promotion of lower-carbon fuels • electric or hydrogen technologies in existing vehicles, rail or boat fleets • 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.

	• a shift of freight and/or passenger transport from road to rail or waterways
Indirect mitigation	• specific project loans going to specific products improving renewable energy generation, energy efficiency or GHG emission reduction
Climate Change Adaptation (category)	
Climate Change Adaptation Projects	Adaptation-related projects need to demonstrate that they potentially contribute to reducing vulnerability to climate change identified in the project area. Projects should include: • Description of the context of climate vulnerability of the project based on an investigation of the vulnerabilities of the project's geographical area to climate change. • Analysis of the project's planned activities to decipher a positive list of actions that contribute to reducing vulnerability, or increase the resilience of communities, goods or ecosystems to climate change. • Provision of a clear link between the climate vulnerability context and the specific project activities. • Evidence that the project does not have negative impacts in terms of climate change mitigation (e.g. enhancing carbon intensive infrastructures).
Sustainable Infrastructure (category)	
Social Infrastructure (Health and Education)	Projects should improve access to public services for the wider population and promote inclusiveness. High standards in technology, health and safety as well as management processes should be provided in the project selection. Project location criteria can potentially promote inclusiveness and the avoidance of environmental risks. A formal Environmental and Social Impact Assessment should be carried out for each project.
Electricity Distribution Networks	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 favor 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.
Ports	The building or modernization of ports should promote the modal shift of freight and/or passenger transport from road to waterways and ensure the resilience of ports to climate change risks. Eligible investments could include port integration, renovation and capacity increases and infrastructure and superstructure investments into existing ports.

Appendix 2: Key Performance Indicators

Key performance indicators	
Energy Efficiency	• Annual CO_2 emission reduction/avoidance (ton/year)
Resource Efficiency	• Annual savings of relevant resource amounts (e.g. kWh/year and/or m^3 water/year and/or tonne raw material/year and/or tonne CO_2/year),
Wind Power Plants	• Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO_2 emission reduction (ton/year)
Solar Power Plants	• Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO_2 emission reduction (ton/year)
Hydro Power Plants	• Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO_2 emission reduction (ton/year)
Biomass, waste to energy, biogas	• Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO_2 emission reduction (ton/year)
Clean Transportation Projects	• 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	• Production capacity of the produced component (unit/year); narrative reporting on the project
Social Infrastructure (health and education)	• Narrative reporting on the projects
Electricity Distribution Networks	• Investment per subscriber, investment per population
Ports	• Narrative reporting on social and environmental impact of investment

Appendix 3: Allocation of Proceeds by Eligibility Criteria

	2016 Issuance		2017 Issuance	
	Amount allocated (USD)	Number of Projects	Amount allocated (USD)	Number of Projects
Renewable Energy	132,003,042	9	123,307,974	8
Energy Efficiency	26,548,073	4	61,809,584	6
Resource Efficiency	0	0	5,713,496	1
Health	56,366,419	1	69,100,630	1
Electricity Distribution	83,221,942	5	31,370,704	2
Ports	70,888,000	3	18,961,456	2
Total	**369,027,476**	**22**	**310,263,843**	**20**

Appendix 4: Impact Reporting by Eligibility Criteria

	2016 Issuance	2017 Issuance
Renewable Energy	• 1,238,384,161 kWh energy generated • 888,919 tonnes CO_2e avoided[4]	• 665,143,818 kWh energy generated • 379,797 tonnes CO_2e avoided
Energy Efficiency	• 97,301,883 kWh energy saved • 55,558 tonnes CO_2e avoided	• 55,852,522 kWh energy saved • 29,919 tonnes CO_2e avoided
Resource Efficiency	N/A	• Reduction in raw materials use of 214 kg/tonne produced anticipated (project not yet operational)
Health	• Hospital funded in Ankara will open in 2019	• Hospital in Isparta served 53,369 patient-days in 2018, primarily to local residents. Opened in 2017, the hospital improved service quality in the region.
Electricity Distribution	• 37,291,062 MWh energy distributed • 9,793,878 subscribers served • Investment of 52 TL per person in regions in which projects were undertaken	• 19,354,802 MWh energy distributed • 4,279,078 subscribers served • Investment of 55 TL per person in regions in which projects were undertaken
Ports	• Three ports funded • Combined capacity of 3,930,416 tonnes of general cargo, 1,091,000 tonnes of container cargo, 378,443 tonnes of liquid cargo, and 362,000 container units	• Two ports funded • Combined capacity of 483,071 container units and 23,736 tonnes general cargo

[4] Estimated emissions avoided is calculated using the 2017 Turkish grid emissions factor of 0.571, as the 2018 value is not yet available

Disclaimer

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

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