

Second-Party Opinion

Türkiye İş Bankası Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Türkiye İş Bankası A.Ş. (İşbank) Sustainability Bond Framework is credible and impactful, and aligns with the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Eco-efficient and/or Circular Economy Adapted Products, (iv) Green Buildings, (v) Clean Transportation, (vi) Pollution Prevention and Control, (vii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (viii) Access to Essential Services, and (ix) Employment generation, including through the potential effect of SME financing – are aligned with those recognized by both the Green Bond Principles 2018 and Social Bond Principles 2018. Sustainalytics considers the eligible projects to have positive environmental or social impacts and to advance several of the UN Sustainable Development Goals.



PROJECT EVALUATION / SELECTION İşbank has a dedicated Sustainability Bond Working Group (the “SBWG”) to assess and determine eligible projects. The SBWG consists of representatives from various departments, including Investor Relations who are responsible for İşbank’s sustainability oversight. This is in line with market practice.



MANAGEMENT OF PROCEEDS İşbank will allocate to a portfolio of loans and ensure that the Sustainable Loan Portfolio is adjusted periodically in order to match the amount of net proceeds of outstanding bonds issued under the Framework. Pending allocation, proceeds may be temporarily invested in cash and/or cash equivalent, and/or liquid marketable instruments. Sustainalytics considers this to be in line with market practice.



REPORTING İşbank intends to publish a report on its website annually until full allocation. The allocation reporting will include the total amount of proceeds allocated to eligible loans, the number of eligible loans, the balance of unallocated proceeds and the portion of new financing and refinancing. İşbank will also report on the environmental and social impacts of the projects, where feasible. İşbank’s allocation and impact reporting is aligned with market practice.

Evaluation date	January 23, 2020
Issuer Location	İstanbul, Turkey

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For inquiries, contact the Sustainable Finance Solutions project team:

Zach Margolis (Toronto)
Project Manager
zach.margolis@sustainalytics.com
(+1) 647 695 4341

Begum Gursoy (Amsterdam)
Project Support
begum.gursoy@sustainalytics.com
(+31) 20 205 00 82

Jean-Claude Berthelot (Amsterdam)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

Türkiye İş Bankası A.Ş. ("İşbank", the "Bank, or the "Issuer") is the largest private bank by assets in Turkey, with its history dating back to 1924. İşbank operates over 1,200 branches and serves approximately 15 million customers across its corporate, commercial, SME, retail and private banking segments.

İşbank has developed the İşbank Sustainability Bond Framework (the "Framework") under which it intends to issue green, social and/or sustainability bonds and use the net proceeds to finance and/or refinance, in whole or in part, loans to existing and/or future projects that have positive environmental or social impacts.

The Framework defines eligible green categories in the following seven areas:

1. Renewable Energy
2. Energy Efficiency
3. Eco-efficient and/or Circular Economy Adapted Products
4. Green Buildings
5. Clean Transportation
6. Pollution Prevention and Control
7. Environmentally Sustainable Management of Living Natural Resources and Land Use

Additionally, the Framework defines the eligible social categories in the following two areas:

1. Access to Essential Services
2. Employment generation including through the potential effect of SME financing

İşbank engaged Sustainalytics to review the İşbank Sustainability Bond Framework, dated January 2020, and provide a second-party opinion on the Framework's environmental and social credentials and its alignment with the Green Bond Principles (2018)¹, Social Bond Principles (2018)² and Sustainability Bond Guidelines 2018 (SBG).³ This Framework will be published on the İşbank website.⁴

As part of this engagement, Sustainalytics held conversations with various members of İşbank'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. Sustainalytics also reviewed relevant public documents and non-public information.

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

¹ ICMA's Green Bond Principles 2018: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² ICMA's Social Bond Principles 2018: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

³ 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/>

⁴ The İşbank Sustainability Bond Framework will be available on the İşbank's website at:

<https://www.isbank.com.tr/contentmanagement/IsbankInvestorRelationsGeneric/prospectuses-and-offering-circulars/sustainability-bond-framework.pdf>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the İşbank Sustainability Bond Framework

Summary

Sustainalytics is of the opinion that the İşbank Sustainability Bond Framework is credible and impactful, and aligns with the SBG 2018 and the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2018 (SBP). Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The seven green categories and the two social categories eligible for the use of proceeds are recognized as impactful by the GBP 2018 or SBP 2018.
 - The Renewable Energy category includes loans to wind, solar, geothermal, biomass energy:
 - Regarding geothermal power, Sustainalytics highlights that İşbank limits projects selected to those with direct emissions of less than 100 gCO₂/kWh, which is in line with market practice.
 - Regarding energy from biomass, although İşbank has not defined an emissions intensity threshold,⁵ Sustainalytics views positively the inclusion of sustainably sourced feedstock,⁶ and encourages the Bank to provide further disclosure on sourcing and, where possible, emissions intensity in its annual reporting.
 - İşbank's Energy Efficiency category includes provision of loans for projects which comprise of installations of equipment, systems and technologies, such as energy storage, district heating, smart grids, and energy savings products, which will increase overall energy efficiency related to facilities/buildings by at least 15%. Sustainalytics views positively the use of a quantitative threshold in determining eligibility.
 - As part of the Eco-efficient and/or Circular Economy Adapted Products category, İşbank intends to provide loans to recycling companies and finance activities which may reduce the carbon footprint of products, technologies and processes through the reduction of emissions, waste, material and water use. Sustainalytics encourages İşbank to provide further disclosure on the financed assets and report on the impact achieved in its annual reporting. Sustainalytics considers positively the objectives of this category, while noting the wide range of potential applications and encouraging (i) robust screening to ensure net-positive outcomes and (ii) project-level reporting to provide assurance to investors of the environmental benefits.
 - İşbank's eligibility criteria for Green Buildings are based on the following: (i) third-party certification standards, building energy performance certificates, or quantitative improvements.
 - Sustainalytics views positively the use of internationally recognized schemes such as LEED and BREEAM, and considers the minimum levels specified (Gold and Very Good, respectively, or above) as indicative of strong performance. Regarding the ÇEDBİK Green Building Certification, Sustainalytics views positively the ambitions of the programme, while noting the limited amount of data regarding uptake and achievements. Appendix 1 provides additional details on the certification schemes.
 - Regarding BEP-TR, Sustainalytics views positively that this programme is aligned with the EPRD⁷. According to publicly available data, buildings rated B or above make up the top 34% of those assessed under the scheme.⁸ However, it is noted that only approximately 10-15% of Turkey's building stock has been evaluated using this methodology,⁹ and that the buildings assessed are generally newer, and therefore can reasonably be assumed to be higher-performing than the overall stock. Market practice is to finance only the top 15% of buildings, and Sustainalytics encourages İşbank to ensure that the selected rating level aligns with that approach.

⁵ Sustainalytics regards a lifecycle emissions threshold of less than 100g CO₂/kWh as credible and aligned with market practice for biomass projects.

⁶ Sustainalytics encourages İşbank to ensure that for any biomass-to-energy projects the feedstock should either be waste/residues or sourced sustainably, as evidenced by credible certifications.

⁷ EPRD is the EU's Energy Performance of Buildings Directive, which has been implemented by many countries in the form of EPCs.

⁸ BEP-TR: <http://www.bep.gov.tr/BEPTRWEB/istatistikler.aspx#.Xc7trdpYbop>

⁹ 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-son-viraj/1546712#>

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- Sustainalytics views positively the inclusion of a minimum threshold of 30% for commercial and residential energy efficiency improvement projects and considers this to be in line with market practice.
- İşbank intends to finance energy efficient public transport, aiming to convert conventional bus fleets to alternative-fuel bus fleets, as well as electric and hybrid vehicles. Sustainalytics notes that the Bank has established a quantitative threshold of $<75\text{gCO}_2/\text{p-km}^{10}$ for electric and hybrid vehicles and considers the inclusion of this emissions intensity threshold to be aligned with market practice.
- The Pollution Prevention and Control category includes financing of reconstruction, expansion, renovation, or refurbishment activities that aim to increase resource use efficiency, such as the reduction in non-recoverable waste. As part of the category, İşbank also intends to provide loans related to soil remediation, waste prevention, waste reduction, waste recycling and waste to energy.
 - Sustainalytics recognizes the potential of waste-to-energy facilities to address environmental challenges in waste management, as well as to generate lower-emissions energy. Nevertheless, in some circumstances, waste-to-energy facilities may result in substantial carbon emissions and release other pollutants. Sustainalytics considers best practices in relation to waste-to-energy to include: (i) ensuring waste streams are properly managed and that robust diversion programmes are in place, (ii) implementing technologies that reduce particulate and other non-GHG pollutants, and (iii) mitigating carbon emissions by ensuring high conversion efficiency rates and/or lifecycle emissions intensities,¹¹ and encourages İşbank to strive for these outcomes where feasible.
- Within the Access to Essential Services category, the Framework allows for the provision of loans to public education and healthcare institutions including through infrastructural and operational costs. Sustainalytics considers the outlined areas to provide important social benefit, and views positively that the services in this category will be publicly available, and thus accessible to the general public in Turkey, including disadvantaged individuals.
- İşbank intends to provide loans to small- and medium-enterprises (SMEs), by following one of the two eligibility criteria: (i) companies with fewer than 250 employees and turnover or total assets below TL125 million,¹² or (ii) SMEs where at least 51% shares belong to women or where the company has at least 20% female ownership and women occupy at least one managerial role or where the overall operational management responsibility is held by a woman (or women). Sustainalytics believes that İşbank's lending to SMEs, particularly the women-owned businesses, promotes gender equality in business leadership and female entrepreneurship in general, as well as promoting employment and economic growth.
- All of İşbank's lending is subject to an Exclusion List,¹³ per the Bank's Environmental and Social Impact Policy, as well as specific exclusions specified in the Framework, namely "nuclear power generation" and "fossil fuel"; the latter of which applies to all aspects of the supply chain, including extraction, production, refining, transmission and distribution. Sustainalytics views positively this screen, highlighting that exclusionary lists are of particular importance when considering SME financing.
- Project Evaluation and Selection:
 - İşbank has a dedicated Sustainability Bond Working Group (the "SBWG") in place in order to assess and determine eligible projects. The SBWG will be responsible for approval of the final portfolio of loans, the Sustainable Loan Portfolio. The SBWG consists of representatives from İşbank's Corporate, Commercial and SME Loans Underwriting Divisions, Commercial Banking Product, Corporate Banking Marketing and Sales, Commercial Banking Marketing, Credits Portfolio Management, International Financial Institutions Divisions and Investor Relations

¹⁰ The threshold is aligned international trajectories for low-carbon transportation, namely that of the IEA Mobility Model, which is reflected in the standards of the Climate Bond Initiative.

¹¹ Sustainalytics considers a conversion efficiency of $>25\%$ and/or an emissions intensity of $\leq 100\text{g CO}_2\text{e/kWh}$ to represent this best practice, based on the work of the EU Technical Expert Group and the Climate Bonds Initiative. Conventional incineration technology generally has a conversion efficiency in the range of 15-27%.

¹² As of 2018, Turkey's legislation for SMEs considers medium-sized enterprises with total assets less than TRY 125 million and less than 250 employees. OECD iLibrary, SME Policy Index: Western Balkans and Turkey 2019 - Chapter 19. Turkey: Small Business Act profile: <https://www.oecd-ilibrary.org/sites/f565e33c-en/index.html?itemId=/content/component/f565e33c-en&mimeType=text/html>

¹³ İşbank's Exclusion List can be found in its Environmental and Social Impact Policy of İşbank: https://www.isbank.com.tr/EN/about-isbank/sustainability/Documents/environment_and_social_impact_policy.pdf

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Division which is responsible for İşbank's sustainability oversight. The SBWG is also responsible for reviewing the Framework on a regular basis and updating when necessary. This is in line with market practice.

- Management of Proceeds:
 - İşbank's Framework outlines that the proceeds will be allocated to a portfolio of loans. The Bank will monitor the Sustainable Loan Portfolio, and make periodic adjustments as needed in order to ensure that the net proceeds of the outstanding bonds issued under the Framework matches the total allocation. Pending allocation, the proceeds may be temporarily invested in cash and/or cash equivalent, and/or liquid marketable instruments. Sustainalytics considers this to be in line with market practice.
- Reporting:
 - İşbank intends to publish a report on its website annually, until full allocation. İşbank's proposed allocation and impact reporting is aligned with market practice.
 - The allocation reporting will include the total amount of proceeds allocated to eligible loans, the number of eligible loans, the balance of unallocated proceeds and the portion of new financing and refinancing.
 - The impact reporting may include qualitative and quantitative indicators, where feasible, such as installed renewable energy capacity; expected annual renewable energy generation; estimated annual GHG emission avoided or reduced; annual energy savings; energy storage and distribution capacities; annual resource savings; number of transport (passenger/public passenger); type and amount of waste recycled, organic certifications achieved; number of beneficiaries financed, including SMEs and number of women-owned businesses financed.

Alignment with Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018

Sustainalytics has determined that the İşbank Sustainability Bond Framework aligns to the four core components of the Green Bond Principles 2018 and Social Bond Principles 2018. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of Framework to Issuer's sustainability strategy

İşbank has stated that it strives to integrate sustainability considerations into its core business operations and its governance structure. The Bank has demonstrated a commitment to mitigate climate change and create positive social impact through its Sustainability Policy ("the Policy")¹⁴ and its İşbank 2018 Integrated Report ("the Report")¹⁵ and through the following efforts:

- Within its Policy, İşbank adopted the Sustainability Principles¹⁶ to help facilitate the transition to a low-carbon and sustainable economy while minimizing the negative environmental and social impacts of the business. Additionally, the Bank adopts medium and long-term sustainability strategies and discloses its progress with its stakeholders.
- According to İşbank's sustainability governance structure, all employees are responsible for internalizing and applying sustainability related policies and objectives. Key performance indicators of the implementation are monitored through regular audits and evaluated by top management during management review processes.¹⁷
- As part of the Sustainability Management System,¹⁸ İşbank tracks the environmental impact of its facilities, manages environmental and social impacts caused by credit allocation services, develops capability through sustainability trainings, and monitors key performance indicators of sustainability by conducting regular audits.
- İşbank provides disclosure on the progress of its environmental financing efforts. In 2018, 16.9 million MWh of clean energy was generated by projects financed by the Bank, 182 tons of CO₂ were

¹⁴ İşbank, İşbank Sustainability Policy: https://www.isbank.com.tr/EN/about-isbank/sustainability/our-policies/Documents/sustainability_policy.pdf

¹⁵ İşbank, İşbank 2018 Integrated Report: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-reports/Documents/IntegratedReport2018.pdf>

¹⁶ İşbank, İşbank Sustainability Policy: https://www.isbank.com.tr/EN/about-isbank/sustainability/our-policies/Documents/sustainability_policy.pdf

¹⁷ İşbank, İşbank Sustainability Process: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-processes/Pages/our-processes.aspx>

¹⁸ İşbank, İşbank 2018 Integrated Report: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-reports/Documents/IntegratedReport2018.pdf>

avoided by clean transportation developments,¹⁹ and 87 renewable energy projects (biomass, solar energy, hydroelectric and wind) were financed with a total installed capacity of 617 MWh.²⁰

- İşbank's efforts to carry its SME financing effectively relates to its collaborations with various SME development institutions, such as KOSGEB (Small and Medium Enterprises Development Organization). As part of these efforts, total lending to SMEs provided by the Bank increased by 7.1% compared to 2017 baseline. Moreover, the Bank offers dedicated startup and entrepreneurship programs such as (i) Technology Entrepreneur Package, which provides free or discounted banking services for innovative, and technology-based startups, and (ii) Women Entrepreneurs Awareness e-Training, which was developed as part of the Bank's initiatives targeting women entrepreneurs.²¹

Given İşbank's sustainability strategy, efforts, policies and governance structure, Sustainalytics considers İşbank well positioned to issue green, social and/or sustainability bonds. Sustainalytics also believes that İşbank's Framework is aligned with its overall sustainability efforts and can support its financing of and investments in the transition to low-carbon and inclusive economy.

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

While the eligible categories are recognized as impactful by the GBP 2018 and SBP 2018, Sustainalytics recognizes that like all initiatives, the projects financed may pose potential environmental and social risks. For the categories of the Framework, relevant risks may include those related to workers' health and safety, community relations, biodiversity and ecological risks related to the construction, renovation, expansion and reconstruction of large-scale infrastructure and land use change. Sustainalytics highlights the following risk mitigation processes of İşbank:

- As part of the Environmental and Social Risk Evaluation Tool (ERET), all new investment projects worth more than USD 10 million are assessed based on potential environmental and social impact including the use of natural resources, solid waste, air, soil and water quality, occupational health and safety, public health and safety, involuntary resettlement, and stakeholder engagement. After the initial assessment, all such investments are evaluated against national legislation and international best practices such as International Finance Corporation (IFC), Performance Standards, European Bank for Reconstruction and Development (EBRD)'s requirements, and the Equator Principles. For high-risk projects, the Bank requires an additional Environmental Impact Assessment Report (EIA) and Environmental and Social Management Plan (ESMP) in order to ensure proper management of the risks associated with the investments. In 2018 the Bank utilized ERET to assess 25 projects and extended financing of 15 projects that were considered as eligible.²²
- İşbank's risk mitigation requirements from financed companies include the following considerations; (i) facilitating forestation efforts to reduce and offset carbon emissions, and use of indigenous species, (ii) protecting biodiversity in specific and protected areas, (iii) adopting a "Stakeholder Engagement Plan" for investments in order to take into consideration the opinions of locals and other stakeholders, (iv) promoting cumulative impact analyses and ecological impact assessment, and (v) ensuring the compliance with the Occupational Health and Safety (OHS) legislation while developing emergency action plans.²³
- İşbank's company-wide exclusion list designates the activities in which the Bank refuses the provision of loans. The exclusion list includes investments involving forced child labor, the production of weapons of mass destruction and land mines, the production and trading of internationally prohibited chemicals, drugs or substances that are harmful to the ozone layer.

Considering the above policies, systems and processes, Sustainalytics believes that İşbank is well positioned to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Section 3: Impact of Use of Proceeds

All nine eligible categories are recognized as impactful by the GBP 2018 or the SBP 2018. Sustainalytics has focused below on areas where the impact is specifically relevant in the local context.

The importance of financing public education and healthcare facilities in Turkey

¹⁹ Emissions caused by transportation are reduced using systems such as WebEx and Telepresence for in-house meetings

²⁰ İşbank, İşbank 2018 Integrated Report: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-reports/Documents/IntegratedReport2018.pdf>

²¹ İşbank, İşbank 2018 Integrated Report: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-reports/Documents/IntegratedReport2018.pdf>

²² İşbank, İşbank 2018 Integrated Report: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-reports/Documents/IntegratedReport2018.pdf>

²³ İşbank, İşbank 2018 Integrated Report: <https://www.isbank.com.tr/EN/about-isbank/sustainability/our-reports/Documents/IntegratedReport2018.pdf>

According to the OECD,²⁴ Turkey has experienced steady economic and social growth in the last couple of decades with the annual GDP growth rate averaging nearly 7% from 2010 to 2017. Furthermore, public expenditures on primary, secondary and tertiary educational institutions in the country increased by 24% (as % of GDP) between 2010 and 2016.²⁵ Despite such growth in spending as a share of GDP, 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 USD10,502.²⁶ 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.²⁷ 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.²⁸ 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.

Moreover, in the early 2000s, Turkey underwent major health reforms, and with the support of the World Bank Group, introduced universal health coverage, which is commonly referred to as the Universal Health Insurance system (UHI).²⁹ 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 2014 suggests that Turkey still has a relatively high level of unmet medical needs due to reasons such as long waiting lists, distance and/or transportation problems.³⁰ Specifically, approximately 21% of the Turkey's population reported that unmet needs for healthcare were due to long waiting lists.³¹ With this in mind, Sustainalytics is of the opinion that İşbank financing for improvements in public healthcare services, including hospitals, clinics and health care centers, will provide a meaningful contribution to Turkey's healthcare system by helping serve populations with unmet needs.

The contribution of Renewable Energy, Energy Efficiency, Green Buildings and Low Carbon Transportation to Turkey's climate-related targets

In 2015, Turkey's fossil fuel energy consumption contributed approximately 87.59% (% of total).³² As part of its Tenth Development Plan (2014-2018), Turkey emphasized the critical importance of tackling environmental issues, including through the development of the country's renewable energy sector, particularly wind and geothermal power. As such, the government set a goal of increasing the ratio of renewable energy resources (RES) in total installed capacity to 30% by 2023.³³ To support the execution of these goals, the Turkish government has mandated a series of national climate-related strategies, including the National Energy Efficiency Action Plan (NEEAP) 2017-2023³⁴, which draws upon the National Climate Change Strategy of 2010-2023 and the Energy Efficiency Strategy of 2012-2023.

Under NEEAP, the government intends to increase energy efficiency and reduce greenhouse gas emissions across various sectors. Specifically, the strategy set the goal of reducing Turkey's primary energy consumption by 14% by 2023 as compared to a 2017 baseline. In order to reach this goal, NEEAP outlines 55 actions defined in various categories, including buildings and services, and transport. According to TURKSTAT data and Turkey's occupancy permit statistics, the rate of growth and transformation of Turkey's building stock indicates that there is an opportunity to save energy by making new buildings more energy-efficient, while improving existing structures. Turkey's Energy Efficiency Strategy aims to "introduce energy usage requirements for buildings and limits for maximum emissions". Under this strategy, goals have been underway to increase energy efficiency and reduce building-based energy consumption in Turkey, including issuing

²⁴ OECD, Turkey Economic Snapshot, 2019 Reform Priorities: <http://www.oecd.org/economy/turkey-economic-snapshot/>

²⁵ OECD, Educational At A Glance 2019, Turkey: https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_TUR.pdf

²⁶ OECD, Educational At A Glance 2019, Turkey: https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_TUR.pdf

²⁷ OECD, Economic Policy Reforms Going For Growth 2018: <http://www.oecd.org/economy/growth/TUR.pdf>

²⁸ OECD, PISA 2015, Results in Focus: <http://www.oecd.org/pisa/pisa-2015-results-in-focus.pdf>

²⁹ The World Bank, Turkish Health Transformation Program and Beyond: <https://www.worldbank.org/en/results/2018/04/02/turkish-health-transformation-program-and-beyond>

³⁰ 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

³¹ 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

³² Trading Economics, Turkey – Fossil fuel energy consumption: <https://tradingeconomics.com/turkey/fossil-fuel-energy-consumption-percent-of-total-wb-data.html>

³³ MDPI, Turkey's 2023 Energy Strategies and Investment Opportunities for Renewable Energy Sources: <https://www.azocleantech.com/article.aspx?ArticleID=571>

³⁴ Republic of Turkey Ministry of Energy and Natural Resources, National Energy Efficiency Action Plan (NEEAP) 2017-2023: http://www.yegm.gov.tr/document/20180102M1_2018_eng.pdf

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energy performance certificates to all buildings by 2017. İşbank intends to allocate a portion of its net proceeds to new and/or existing buildings which are/will be certified with recognized third-party standards, such as LEED, or BREEAM. Additionally, regarding Turkey's efforts towards transportation, data gathered for NEEAP suggests that the transport sector accounted for approximately 25% of total end-use energy, while road transportation accounted for approximately 91.6% of consumption in the transport sector. As part of the Transport and Communications Strategy Goals, Turkey aims to increase the share of railroad transport in freight transport beyond 15% and in passenger transport beyond 10%, thereby reducing road transport's share in freight to under 60% and passenger under 72% by the end of 2023. Thus, Sustainalytics is of the opinion that İşbank's intent to invest in rail transport for passengers and goods aligns well with Turkey's climate-related goals in the context of decreasing road transportation through an increase in the availability of railroad transport.

In conclusion, Sustainalytics is of the opinion that İşbank's use of proceeds for renewable energy, energy efficiency, green buildings and clean transportation will create positive environmental benefits and contribute to Turkey's national climate-related goals.

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 SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy Energy Efficiency	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix. 7.3 By 2030, double the global rate of improvement in energy efficiency.
Eco-efficient and/or circular economy adapted products, production technologies and processes 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. 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Green Buildings Clean Transportation	9. Industry, Innovation and Infrastructure 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. 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.
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.A Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.
Access to Essential Services	3. Good Health and Well-Being 4. Quality Education	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. 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical,

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		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.
Employee Generation including through the Potential Effect of SME Financing and Microfinance	8. Decent Work and Economic Growth 10. Reduced Inequalities	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. 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Conclusion

Türkiye İş Bankası has developed a Sustainability Bond Framework, under which it may issue Green, Social, or Sustainability Bonds to finance and/or refinance a broad range of Eligible Loans that intend to deliver positive environmental and social outcomes. Sustainalytics believes that İşbank's Framework is aligned with the Bank's sustainability strategy and that the environmental and social use of proceed categories will advance several key UN Sustainable Development Goals.

The use of proceeds categories specified in the Framework are aligned with those of the Green Bond Principles 2018 and/or the Social Bond Principles 2018. İşbank has described 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. Sustainalytics is of the opinion that İşbank has adequate measures in place to identify, manage and mitigate environmental and social risks commonly associated with Eligible Loans funded by the use of proceeds.

Based on the above, Sustainalytics is of opinion that İşbank's Framework is robust, transparent, and aligned with the Green Bond Principles 2018, the Social Bond Principles 2018, and the Sustainability Bond Guidelines 2018.

Appendices

Appendix 1: Certification Schemes for Green Buildings

	LEED ³⁵	BREEAM ³⁶	CEDBIK ³⁷	BEP-TR ^{38, 39}
Background	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.	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).
Certification levels/rating	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	Certified Good Very Good Excellent	A B C D
Areas of Assessment: Environmental Performance of the Building	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	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
Requirements	Prerequisites (independent of level of certification) + Credits with associated points These points are then added together to obtain the LEED level of certification	Prerequisites depending on the levels of certification + Credits with associated points This number of points is then weighted by item ⁴⁰ and gives a BREEAM level of certification, which is based on the overall score obtained	Prerequisites (independent of level of certification) + additive Credits with associated points	BEP-TR calculates the maximum energy needed for heating, cooling hot water, ventilation and illumination of new existing buildings using an hourly calculation. Building Energy Performance Certificates (EPCs) are granted under

³⁵ USGBC, LEED: www.usgbc.org/LEED

³⁶ BREEAM, Building Research Establishment LTD; <https://breeam.com/>

³⁷ Cedbik: <https://cedbik.org/>

³⁸ BEP, Energy Performance of Buildings: <http://www.bep.gov.tr/default.aspx>

³⁹ International Partnership for Energy Efficiency Cooperation, Building Code Implementation – Country Summary: http://www.gbpn.org/sites/default/files/Turkey_Country%20Summary_0.pdf

⁴⁰ 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

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	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).	(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. BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.		the "Regulation on Energy Performance in Buildings". An EPC will not be granted to buildings with less than a C rating.
Performance display				N/A
Accreditation	LEED AP BD+C LEED AP O+M	BREEAM International Assessor BREEAM AP BREEAM In Use Assessor		Aligned with EU EPRD
Qualitative considerations	Widely recognised internationally, and strong assurance of overall quality.	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.	There has been one CEDBIK-certified project in Turkey since CEDBIK's launch in 2016. ⁴¹	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 ² , greenhouses, workshops, and stand-alone buildings with no heating or cooling requirements.

⁴¹ 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 İş Bankası (İşbank)
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	İşbank Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	January, 2020
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

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 GBPs and SBPs:

- | | |
|--|--|
| ☒ Use of Proceeds | ☒ Process for Project Evaluation and Selection |
| ☒ Management of Proceeds | ☒ Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| ☒ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification | ☐ Rating |
| ☐ Other (please specify): | |

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 – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Eco-efficient and/or Circular Economy Adapted Products, (iv) Green Buildings, (v) Clean Transportation, (vi) Pollution Prevention and Control, (vii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (viii) Access to Essential Services, and (ix) Employment generation, including through the potential effect of SME financing – are aligned with those recognized by both the Green Bond Principles 2018 and Social Bond Principles 2018. Sustainalytics considers the eligible projects to have positive environmental or social impacts and to advance several of the UN Sustainable Development Goals.

Use of proceeds categories as per GBP:

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

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

Use of proceeds categories as per SBP:

- | | |
|--|--|
| ☐ Affordable basic infrastructure | ☒ Access to essential services |
| ☐ Affordable housing | ☒ Employment generation (through SME financing and microfinance) |
| ☐ Food security | ☐ Socioeconomic advancement and empowerment |
| ☐ Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | ☐ Other (<i>please specify</i>): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

İşbank has a dedicated Sustainability Bond Working Group (the "SBWG") to assess and determine eligible projects. The SBWG consists of representatives from various departments, including Investor Relations who are responsible for İşbank's sustainability oversight. This is in line with market practice.

Evaluation and selection

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

Information on Responsibilities and Accountability

- | | |
|--|--|
| ☒ Evaluation / Selection criteria subject to external advice or verification | ☐ In-house assessment |
| ☐ Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

İşbank will allocate to a portfolio of loans and ensure that the Sustainable Loan Portfolio is adjusted periodically in order to match the amount of net proceeds of outstanding bonds issued under the Framework. Pending allocation, proceeds may be temporarily invested in cash and/or cash equivalent, and/or liquid marketable instruments. Sustainalytics considers this to be in line with market practice.

Tracking of proceeds:

- | |
|---|
| ☒ Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| ☐ Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| ☐ Allocations to future investments only | ☒ Allocations to both existing and future investments |
|---|---|

- | | |
|---|--|
| ☐ Allocation to individual disbursements | ☒ Allocation to a portfolio of disbursements |
| ☒ Disclosure of portfolio balance of unallocated proceeds | ☐ Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

İşbank intends to publish a report on its website annually until full allocation. The allocation reporting will include the total amount of proceeds allocated to eligible loans, the number of eligible loans, the balance of unallocated proceeds and the portion of new financing and refinancing. İşbank will also report on the environmental and social impacts of the projects, where feasible. İşbank's allocation and impact reporting is aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☒ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other (<i>please specify</i>): |

Information reported:

- | | |
|---|---|
| ☒ Allocated amounts | ☐ Sustainability Bond financed share of total investment |
| ☒ Other (<i>please specify</i>): number of loans, portion of refinancing vs new financing | |

Frequency:

- | | |
|---|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (<i>please specify</i>): | |

Impact reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☒ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other (<i>please specify</i>): |

Frequency:

- | | |
|---|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (<i>please specify</i>): | |

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): installed renewable energy capacity; expected annual renewable energy generation; energy storage and distribution capacities; annual resource savings; number of transports; type and amount of waste recycled and organic certification scheme achieved.

Means of Disclosure

- | | |
|---|---|
| ☐ Information published in financial report | ☐ Information published in sustainability report |
| ☐ Information published in ad hoc documents | ☒ Other (please specify): report on its website |
| ☐ 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.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| ☐ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification / Audit | ☐ Rating |
| ☐ Other (please specify): | |

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 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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For more information, visit www.sustainalytics.com

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