Operating Principles for Impact Management Impact Report

Development and Investment Bank of Türkiye

September 2022

DEVELOPMENT INVESTMENT BANK OF TÜRKİYE

Operating Principles for Impact Management

DISCLOSURE STATEMENT
OPERATING PRINCIPLES FOR IMPACT MANAGEMENT
Development and Investment Bank of Türkiye

Development and Investment Bank of Türkiye became the first and only signatory from Türkiye to the Operating Principles for Impact Management (Impact Principles) on 23.09.2021. With this report, the Bank confirms that it is a signatory to the Impact Principles. In line with the global standards of the principles; the Bank will manage its corporate banking, project finance, venture capital and private equity investment activities through the “impact lens” by providing greater discipline, transparency and measurability. The Impact Principles aim to be a framework for investors to design and implement impact management systems and to ensure that impact considerations are integrated throughout the investment lifecycle. This report transparently explains the impact management systems and processes of Development and Investment Bank of Türkiye. As of December 31, 2021, the Bank's total assets, which are managed in compliance with the principles, are approximately USD 3.7 billion.

İbrahim H. ÖZTOP
CEO and Board Member
23.09.2022

Content

Impact Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

Development and Investment Bank of Türkiye is a joint stock company subject to the provisions of private law, providing financing support to companies operating in priority sectors of strategic importance for Türkiye's sustainable development, particularly industry, energy, education, health and infrastructure, since 1975. 99.08% of Development and Investment Bank of Türkiye's capital is owned by the Republic of Türkiye Ministry of Treasury and Finance and the remaining 0.92% of its shares are traded on Borsa Istanbul.

Development and Investment Bank of Türkiye, whose main function is to finance sustainable development, also plays a leading role in helping companies access domestic and international funding sources through merger and acquisition advisory, capital market advisory and financial advisory services.

The main objective of Development and Investment Bank of Türkiye is to provide development and investment banking activities to reduce external dependency and current account deficit, increase domestic production capacity, support competitive and efficient production and support the sustainable development of our country, within the framework of Türkiye's 11th Development Plan.

The Bank has placed sustainability at the centre of its business model, with the awareness of its responsibility to help Türkiye achieve the United Nations Sustainable Development Goals, fulfil its 2053 net-zero target for the Paris Agreement, of which it is a signatory, and develop the impact investing ecosystem. To this end, the Bank is directly and indirectly contributing to the 15 of the 17 Sustainable Development Goals. As of the end of 2021, approximately 81 percent of the Bank's portfolio consists of sustainability-themed loans, amounting to 2.3 billion USD.

The Bank's "Environmental and Social Policy" has been in effect since January 2020. All loan applications and projects evaluated since this date have been subjected to the environmental and social impact assessment ("ESIA") processes within the framework of this policy. In this context, environmental and social impact assessments are made for all loan applications, including working capital, regardless of the loan amount, loan subject and maturity, and the results of the assessment are included in the "Credit Assessment Report". In these reports, investments that are planned to be financed are foreseen with their contribution to the UN Sustainable Development Goals. In 2021, there have been environmental and social impact assessments conducted for nearly 100 projects. Performance evaluation for environmental and social impact assessment studies, which are integrated into all evaluation, disbursement and monitoring processes of the credit processes, is monitored by the Sustainability Committee, that has also members of the Bank's Board of Directors.

TKYB's Sustainable Finance Framework is in line with International Capital Market Association (ICMA) Green Bond Principles, ICMA Social Bond Principles, Loan Market Association (LMA) Green Loan Principles and LMA Social Loan Principles and Second Party Opinion (SPO) has been obtained. For each project financed under the Sustainable Finance Framework, environmental and social impacts will be monitored throughout the loan term according to the key performance indicators defined in this framework.

Impact Principle 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Development and Investment Bank of Türkiye mobilizes the financing necessary to achieve its commitment to "keep the global temperature rise below 1.5°C", through its activities supporting sustainable development, strong environmental and social impact assessment practices, and the technical advice of its expert staff. In 2021, ESG-themed loan agreements with the World Bank, Asian Infrastructure Investment Bank, Japan Bank for International Cooperation and China Development Bank have been established. As a signatory to the United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Responsible Banking, the Bank continuously analyses its loan portfolio and measures its interactions with the Sustainable Development Goals. The Bank also develops its impact investing mission with an international perspective through strategic collaborations. The Bank is a member of the Global Impact Investing Network (GIIN), which is a leader in its field and works to promote impact investing in this direction. The Bank, as a member of GIIN; aims to provide financial, social and environmental gains with impact investments to companies, organizations and funds. Development and Investment Bank of Türkiye is a founding member of the Impact Investment Advisory Board (EYDK), which aims to develop the impact investment model and create a well-functioning impact investment ecosystem in Türkiye.

The results of the Environmental and Social Risk Assessment study for each loan request are presented to the Credit Evaluation Committee, which is chaired by the CEO, and it is composed of relevant Executive Vice Presidents and relevant unit managers, who determines the principles regarding the Bank's general loan and subsidiary policy. The Bank considers the SDGs that each investment will contribute to, in the Credit Evaluation Committee. After the approval of the Credit Evaluation Committee and/or the Board of Directors, the relevant resource institution is informed. The detailed consideration of environmental, social and governance issues in the credit assessment reports submitted to the Credit Evaluation Committee and the Board of Directors is one of the important indicators that sustainability and ESG issues are at the centre of decision-making processes at Development and Investment Bank of Türkiye.

Development and Investment Bank of Türkiye finances projects that will increase the positive impact on the transition to a net-zero economy, increasing employment, protecting natural resources and ensuring equal opportunities by International Financial Institutions' thematic loans and expands its customer portfolio in this direction.

While shaping the Bank's portfolio, national development goals have been taken into account; the Bank have supported the goals of increasing Türkiye’s renewable energy supply and reducing the use of fossil fuels and foreign dependency in energy, and have planned for the financing of investments with renewable energy production licenses. In 2021, 48% of TKYB's loan portfolio is comprised with renewable energy projects. In 2021, 690,274 tons of CO_2e emissions was prevented by financing renewable energy facilities with an installed capacity of 1,816 MWe. As of the end of 2021, the installed power of these projects in our portfolio corresponds to 7.15% of Türkiye's renewable energy capacity. The Bank also obtained an I-REC clean energy certificate for 2021 Scope 2 emissions and neutralized these emissions. It also neutralized its Scope 1 and Scope 3 emissions by obtaining a Gold Standard certificate worth 2,672 tons of carbon dioxide equivalent. Thus, the Bank continues its operational activities as carbon-neutral.

Impact Principle 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

The Environmental Social Policy and Environmental Social Risk Assessment Procedure, which was created in line with the World Bank standards and by examining the policies and procedures of international development institutions and Environmental Social Policy and Environmental Social Risk Evaluation Procedure applied in credit evaluation processes was published with the approval of the Bank's Board of Directors.

The Environmental and Social Impact Specialist conducts the impact assessment using the Environmental and Social Risk Assessment Model and, if necessary, additional documents and environmental and social analyses are requested from the Corporate Banking and Project Finance Unit. The Sustainability, Environmental and Social Impact Management Manager finalizes the E&S risk category of the loan as a result of the checks made by taking into account the requirements of national legislation, the E&S Standards of the originating institution and IFC Performance Standards. The Environmental and Social Action Plan (ESAP), which determines the actions to be taken by the client to minimize the environmental and social impacts of projects in categories A, B+, B- and C, and includes a monitoring program, is prepared by Impact Specialists. Based on the ESAPs, the Sustainability, Environmental and Social Impact Management Manager ensures that additional actions are requested from customers to increase the positive impact, if necessary. The results of the Environmental and Social Assessment are presented to the Credit Evaluation Committee. The Credit Evaluation Committee reviews the Environmental and Social Assessment and receives information by Impact Specialist if necessary. After the approval of the Credit Evaluation Committee and/or the Board of Directors, the relevant resource institution is informed.

Development and Investment Bank of Türkiye is not only a financial resource provider to its customers in a conventional way, but also a driving force to support sustainable development in line with its mission. The Bank creates a "additionality" for all its customers by improving the environmental, social and corporate governance procedures and practices of its customers through ESAPs, which are the annexes of the loan agreements, which are prepared for each customer regardless of the loan type, maturity and amount.

Within the scope of ESAP, the adequacy of the necessary documents prepared to define and minimize environmental and social impacts and the appropriateness of environmental and social activities are monitored. In this context, the impact of financed projects on renewable energy generation, energy efficiency, biodiversity, air quality, noise, wastewater, solid waste, carbon footprint, working conditions, employment of women and men, occupational health and safety, socioeconomic contribution, complaints mechanism and education are monitored and recorded through Monitoring Reports. During the monitoring phase, document review studies, field visits, stakeholder interviews, evaluation and finding transfer meetings are held with the authorities. The ESAP is also positioned as an annex to the Loan Agreement and compliance with the criteria within the ESAP is a prerequisite for loan disbursement and non-compliance is associated with events of default. Therefore, environmental and social risk assessment studies within Development and Investment Bank of Türkiye is efficiently legally secured through loan agreements.

Impact Principle 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: "What is the intended impact?", "Who experiences the intended impact?", "How significant is the intended impact?". The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

The Bank determines its strategic goals and priority areas of focus in line with the United Nations Sustainable Development Goals. In this context, the Bank directly contributes to SDG 7: Affordable and Clean Energy, SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Innovation and Infrastructure, SDG 13: Climate Action and SDG 17: Partnership for the Goals. Having made direct and indirect contributions to 15 of the 17 SDGs, the Bank plans to expand this contribution to all 17 SDGs.

Direct and Indirect Contribution to 15 of the Sustainable Development Goals

Direct Contribution

Indirect Contribution

The positive impact expected to be created by the project planned to be financed with the requested loan is associated with the United Nations Sustainable Development Goals and it is written in the Credit Evaluation Report. Within the scope of the ESAP, which is annexed to each loan agreement, a "Stakeholder Engagement Plan and Grievance Redress/ Request Suggestion Evaluation Plan" is created for each project, regardless of the type and amount of the loan. In this context, the parties that may be affected by the project are identified and stakeholder interviews and stakeholder engagement meetings are organized to inform these parties about the investment. During the loan term, the records received in the complaint resolution mechanisms, established to collect the complaints and requests that may come from the local people and company employees located close to the main field of activity of the investment / company where the financing is provided, are reported to Development and Investment Bank of Türkiye throughout the loan term. Within the scope of these studies, complaints, requests, suggestions and concerns received from the parties are evaluated and measures to resolve them are requested from the company requesting the loan and their completion is closely monitored by TKYB.

Factors that pose risks for the impacts expected to be created by the financed project are evaluated at the lending stage and the risk categorization of projects / companies is determined. Environmental and social risk categorization takes into account, but is not limited to, the project's risks related to resource efficiency, waste/wastewater, pollutant air emissions, climate change, soil and water quality, environmental noise, occupational health and safety, labour and working conditions, community health and safety, land acquisition, biodiversity and stakeholder engagement.

Impact Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Carrying out its activities with a Responsible Banking approach, the Bank conducts Environmental and Social Risk Assessments within the scope of routine decision-making processes in all loan applications and analyses the risks of both its customers and projects separately. The ESIA, which is managed in accordance with the “"Environmental and Social Risk Evaluation in Credit Processes Procedure", covers the determination of environmental and social impacts (direct, indirect and cumulative) related to the construction and operation phases of an investment/project, evaluating these impacts and developing measures to mitigate adverse impacts, if any. The activity related to the requested loan, regardless of the loan amount, is checked according to the Exclusion List (EL) in the Bank's Environmental and Social Risk Policy. If the activity is included in the EL List, the loan request is rejected, and the process is stopped. If the activity is not included in the EL List, for all financing activities, the Bank requires that the investment/project complies with all applicable environmental, health, safety and social laws, regulations and standards and existing international conventions applicable in the Republic of Türkiye.

This process, which is implemented by the Bank, is a practice in which the company's current operations and the investment projects to be financed are scored with risk-based grading and reach a weighted risk categorization grade. This categorization is based on the determination of 4 different risk categories, namely Category A (High Risk), B+ (Moderate to High Risk), B- (Moderate Risk), C (Low Risk), which are fully consistent with the definitions in the World Bank's Environmental and Social Framework. The application of 4 different risk categories is in line with the World Bank Environmental and Social Standards.

Potential negative environmental and social impacts are not ignored for all categories of projects, including low-risk projects. An interactive process is carried out with project owners before and during the financing phase of the project. Project owners are informed and guided on good practices for identifying, measuring and managing risks. In addition, project owners are encouraged to collaborate with sector leaders, universities, R&D/P&D/ technology centres, and sector organizations. In risk assessment, environmental and social risks, the likelihood of these risks materializing, the company's governance capability, and the level of impact on the environment and society are evaluated.

The Environmental and Social Action and Monitoring Plan includes the gaps in the project's compliance with environmental and social standards, the necessary measures to close the gaps, timing and responsibilities. Contractual Environmental and Social Obligations are determined and added to the loan agreement. In addition, a Grievance Redress Mechanism is established, and Stakeholder Engagement Plans are prepared for all financed customers.

Thanks to the ESIA studies conducted by the Bank, the Bank achieved an Environmental, Social and Governance (ESG) rating of 11.0 among all institutions in Türkiye, the Middle East and Africa, in the global assessment conducted by the independent sustainability rating agency Sustainalytics on April 12, 2022 and became the 1st institution that manages its risks the best. In Europe, the Bank ranked 4th in its sector after EIB, EBRD and KfW.

Impact Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

Environmental and social monitoring activities continue throughout the loan term. The frequency of monitoring increases according to the risk category of the project, the resource provider, the type of loan and the relevant legislation. For example, if the scope of the project includes construction activities, the monitoring frequency is carried out at a minimum of twice a year during the construction phase. For investments deemed risky in terms of OHS management, monitoring activities are increased to four times a year. In any case, monitoring is carried out at least once a year during the operation / activity period throughout the loan term.

In accordance with the requirements of the International Financial Institutions, periodic reports containing the Bank's Environmental and Social Assessment results are prepared and submitted to the relevant International Financial Institutions.

During the construction phase of the Project, E&S monitoring is conducted every six months. Environmental and Social Due Diligence (ESDD) Reference Framework are checked and verified for compliance with:

- TKYB Environmental and Social Policy and Exclusion List, Procedure for Environmental and Social Risk Assessment in the Credit Process,
- Applicable local, national and international environmental and social legislation and recognized conventions,
- Terms of E&S policies and standards of International Financial Institutions.

The Reference Framework, including but not limited to the following items:

- Conduct a comprehensive review of the project's E&S impacts and risks;
- Assessment of the Project's compliance with E&S regulatory requirements, IFC Performance Standards, and the International Financial Institutions' E&S policies and standards;
- Assessment of the client's capacity to fulfil E&S requirements under the project;
- Implementation of the Environmental and Social Action Plan;
- Review of changes and impacts on the initial plan for the operation.

Development and Investment Bank of Türkiye uses the "Impact Reporting and Investment Standards (IRIS)" Catalog of Metrics which is designed to measure the environmental, social and financial performance of an investment to determine impact KPIs.

The Bank has already reported the following IRIS metrics in this report:

- Value of Loans Disbursed (PI5476)
- Green Product/Service Type (PD5694)
- Greenhouse Gas Emissions Avoided (PI2764)
- Environmental Policies for Financial Services Clients (PD7932)
- Greenhouse Gas Emissions Avoided Due to Carbon Offsets Purchased (OI6774)
- Greenhouse Gas Emissions Scopes (OI5732)

Impact Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Almost all of the TKYB portfolio under the Principles consists of direct investment loans and indirect APEX loans in the form of maturing/ self-liquidating instruments without an exit decision. However, the due dates of the Bank's investment loans are mostly 8-10 years and the Bank ensures that positive environmental and social impacts are sustained through monitoring activities throughout the loan term. After the end of the loan terms, the Bank encourages its costumers to maintain their positive environmental and social impacts.

Impact Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

Impact results for thematic loans that are prepared by the Sustainability and Environmental Social Impact Management Department on an annual basis are subject to independent external audit. The impact performance indicators monitored include, but are not limited to, the installed capacity of the renewable energy projects financed, the share of TKYB in Türkiye's renewable energy capacity, the amount of financing provided for renewable energy, the amounts of emissions avoided by the renewable energy projects financed, the ratio of SDG-linked loans to the total portfolio, the amount of SDG-linked loans, the number of projects for which environmental and social risk assessments were conducted and their ratings. The results are presented to the Sustainability Committee chaired by the CEO, which meets four times a year. The Committee also includes an independent member of the Board of Directors. As a result of the Committee's evaluations, actions are taken to improve the environmental, social and governance impact performance of the organization. In addition, the Bank discloses its environmental, social and governance performance to the public annually through its Integrated Report, Carbon Disclosure Statement (CDP) and UNEP FI Responsible Banking Principles Impact Report.

Impact Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Statement affirms the alignment of the Development and Investment Bank of Türkiye's policies, procedures, and practices with the Impact Principles and will be updated annually. The Independent Assurance Report on the alignment of Bank's with the Operating Principles for Impact Management is available at https://www.kalkinma.com.tr//. Independent verification of the Bank's impact management systems will be conducted on a regular basis no later than at three-year intervals, or earlier if there is a significant change to Bank's impact management systems.

Information on the current independent verifier is as follows:

Name and Address:
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Qualifications:
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Development and Investment Bank of Türkiye

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