SUSTAINABLE FINANCE FRAMEWORK

DEVELOPMENT INVESTMENT BANK OF TURKEY

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1. Introduction

Development and Investment Bank of Turkey (TKYB) has contributed to the development and growth of Turkey since its establishment in 1975. TKYB, where the Turkish Ministry of Treasury and Finance holds 99.08% of the shares, is driven by solid public support, assurance, and trust. With its strong foundations and stable structure, the Bank has assumed an important mission in Turkey's progress towards its development targets.

Throughout its deep-rooted history, the bank was a market maker in different areas. TKYB's some of the major milestones are:

- obtained first ISO 14001 environment management certificate among public banks,
- reported to CDP (Carbon Disclosure Project) Climate Change Program on a voluntary basis (CDP is the largest climate action movement in the world with 50 signatories from Turkey),
- first and only Bank who applied the World Bank's grant program RSM (Risk-Sharing Mechanism) to geothermal exploration projects,
- became an affiliate member of EIF-NPI (National Promotional Institutions) Program,
- founding signatory to the UNEP-FI Responsible Banking Principles
- signatory to the UN Global Compact Turkey Declaration on Sustainable Finance and signed the renewed Statement from Business Leaders for Renewed Global Cooperation, issued asset-backed securities secured by the mortgage loans of the sector's leading banks,
- received the "Climate Friendly Institution" certificate from the Turkish Standards Institute
- issued Turkey's first social sukuk
- provided financial consultancy services for the issuance of Turkey's first transition bond to low-carbon economy
- first institution in Turkey to sign up to the Operating Principles for Impact Management.

Over the last 47 years, TKYB has played a key role in supporting the investments of a wide range of companies from diverse sectors by providing long-term resources; the most basic requirement of sustainable economic development. Having a reputable position and strong relations built on mutual trust with the world's leading funding institutions, the Bank offers financing to the business world via either direct lending or wholesale banking in various sectors, led by energy, energy efficiency, industry, tourism, finance, healthcare, and manufacturing with an aim to boost the employment, income and prosperity levels across Turkey. The Bank focuses on financing sustainable development in light of the UN Sustainable Development Goals (SDGs) by 2030.

1.1. TKYB's mission

TKYB's main goal is to meet the financing and consultancy needs of investors in line with the sustainable development priorities of Turkey, to contribute to the dissemination of capital to the base and to the structural transformation, to cooperate with domestic and foreign organizations. In line with this goal, the Bank considers environmental and social sustainability as a fundamental component of sustainable and inclusive development. The Bank is aware of the need to address three aspects of sustainable development - economic, social and environmental - in a balanced and integrated manner. Therefore, TKYB determined its main mission as '' to contribute to the structural transformation and fair capital distribution in our country in accordance with sustainable development priorities by meeting the financial and advisory needs of customers; to add value to employees and all other stakeholders with its dynamic, innovative, environmentally and socially responsive banking approach''.

1.2. Operations and the Bank's Strategy

TKYB integrated a specific sustainability strategy into our banking operations, centered on two focal points. It is an inherent element of development banking culture and provides the revised mission, vision, and main strategic objectives of the Development and Investment Bank of Turkey in light of changes and modernizations. The Bank's sustainability strategy is developed around a model banking structure which invests in the future by supporting Turkey's sustainable development and which stands firm in its decisive and responsible banking approach on this matter. The priorities defined, the targets established and the performance achieved by the Development and Investment Bank of Turkey within the framework of its "Role in Supporting Sustainable Development" and "Responsible Banking Approach" contribute to the Bank's ultimate strategy of sustainability and also help overcome global and national challenges in this area.

Our Role in Supporting Sustainable Development

Our role in supporting sustainable development is shaped by our strategic objectives and our mission in development banking. We are encouraged to maintain our global, industry-specific, national outlook in order to continue to provide inclusive and strategic financing and support the financial efforts being made to fight against climate change.

The strategy developed by the Development and Investment Bank of Turkey, in light of its Role to Support Sustainable Development, focuses on four important areas:

- Transition to a low-carbon economy combating climate change, conscious production-consumption, eliminating poverty, protecting our planet, etc. in order to realize the Sustainable Development Goals.
- Access to finance compatible with Turkey's priorities for sustainable development
- The Bank's environmental and social impact
- Providing support and making contributions to industrial organizations and SMEs in priority sectors and employment creation

Responsible Banking Approach

As a Bank with a history of 47 years and a renewed identity, we aim to continue to work towards a bright future with our employees, maintain our environmentally sensitive approach, choose and guide our customers accordingly, and proceed with our digital journey that will contribute to our strength.

The strategy developed by the Development and Investment Bank of Turkey in light of its Responsible Banking Approach focuses on six important areas:

- Comprehensive environmental and social risk management and integration of ESG (Environmental, Social and Governance) Criteria into banking operations
- Responsible human resources approach and equality of opportunity (Diversity, ethics and human rights)
- Focus on information security and digital transformation
- Customer experience management
- Safe and healthy working environment
- Employee development and talent management

1.3. Rationale for TKYB's Sustainable Financing

In line with its aim to build a strong funding structure that supports the Bank's sustainable asset growth, TKYB has obtained funds from international development finance institutions to provide financing to projects in priority sectors that are contributing to the sustainable development of Turkey. In addition to the funds obtained from DFIs, TKYB decided to diversify its funding base, tap capital markets and therefore reach broader investor base by providing financing for its Eligible Sustainable Projects. In this context, Sustainable Finance Framework is published to allow the Bank for the issuance of broader finance instruments under sustainability structure.

1.4. TKYB's Sustainability Approach

The Development and Investment Bank of Turkey has made significant contributions to the development and growth of Turkey, and continues to implement its financial and crediting activities for further contributions to the country's economy, with a specific focus on sustainable development since the first day of its establishment.

The Bank settled its sustainability strategy on two focal points, namely "role in supporting sustainable development" and "responsible banking approach" and these focal points have led the Development and Investment Bank of Turkey in its goal to work towards a brighter future by supporting Turkey's sustainable development.

The Bank's focal areas in terms of its contribution to the UN SDGs under its development banking strategy are shaped around the activities it carries out and the projects it funds by taking into account Turkey's objectives. The Bank supports global goals set for the year 2030 through its contributions towards the main

SDG focused areas, helping Turkey to achieve its targets for renewable energy production, industrial efficiency, increased employment, and inclusive economic growth.

To contribute to measurable positive social or environmental impact alongside financial returns, the Bank continues strategic cooperation with national and international institutions. The Development and Investment Bank of Turkey is one of the founding signatories of the Principles for Responsible Banking. The Bank has also committed to the Ten Principles of the UN Global Compact in the areas of human rights, labor, the environment and anti-corruption. In addition, TKYB is the first institution in Turkey to sign up to the Operating Principles for Impact Management which is a global initiative coordinated by the International Finance Corporation (IFC).

In 2021, Sustainability and Environmental Social Impact Management Department has been established for the purpose of developing sustainability strategy and policies and carrying out the necessary studies in order to manage the Bank's direct and indirect environmental and social impacts that may arise as a result of its operational activities and financial services. The Sustainability and Environmental Social Impact Management Department is responsible for fulfilling the duties defined in accordance with the Environmental and Social Risk Evaluation in Credit Process, integrating Environmental Social and Governance matters into all financing processes of the Bank, contributing towards Turkey's path to sustainable development and achieve SDGs, following the internal and international developments in the field of sustainability, carrying out Sustainability and Integrated Management System activities and memberships, preparing sustainability, integrated and carbon transparency project reports of TKYB, carrying out the requirements of the Sustainability Committee.

The Bank believes that environmental and social risk assessment should be a part of routine decision-making processes in all investment and loan practices. For this reason, Environmental and Social Management System (ESMS) has been developed. This system is applied throughout the loan term and aims to protect against the credit, reputational, environmental and social risks of the investment. The Bank evaluates all lending activities in accordance with national, environmental and social laws and regulations, the Bank's policies and procedures, the other relevant international environmental and social standards such as IFC (International Financial Corporation) Performance Standards, World Bank Environmental and Social Standards and AIIB (Asian Infrastructure Investment Bank) Environmental and Social Standards, as well as ratified international conventions including Paris Agreement currently applicable in the Republic of Turkey which the Bank has committed to comply with.

The Development and Investment Bank of Turkey has been implementing the requirements of "Environmental and Social Policy" and "Procedure on Environmental and Social Risk Evaluation in Credit Process" which were established by the approval of the Board on January 2020, for effective management of the potential direct and indirect environmental and social impacts of the Bank's operational activities and financial services. The Sustainability and Environmental Social Impact Management Department is main responsible for implementing requirements of Environmental and Social Policy and Procedure on Environmental and Social Risk Evaluation in Credit Process. The Bank applies environmental and social risk assessment process to all projects that the Bank provides finance or fund independent of the type of sector or the amount of finance.
The Sustainability Committee, established on 2020, is responsible for the follow-up and updating of the Environmental and Social Policy, while the Board of Directors is responsible for its approval and repeal. In line with its Environmental and Social Policy, the Bank does not support or finance the investments that

may have unacceptable effects on the environment and society. The Bank is committed to protecting biodiversity and cultural heritage in the investments it finances. Additionally, The Bank does not knowingly finance the activities that are prohibited in accordance with the national legislation or international conventions to which Turkey is a party, that are comprised in the Exclusion List attached to Environmental and Social Policy.

For all its financing activities, the Bank requires compliance of the investments with all applicable environmental, health, safety and social (issues which pertain to project affected people, communities and workers and related to socioeconomic status, land acquisition, vulnerability, gender identity, human rights, cultural resources/heritage, labor and working conditions, community health and safety and participation in decision making) laws, regulations and standards as well as ratified international conventions currently applicable in the Republic of Turkey.

A desktop application Environmental Risk Evaluation Tool (ERET) is used by the Bank to categorize and evaluate the environmental and social risks associated with credits and lending activities. Environmental and social risk categorization is determined based on the social and environmental criteria including but not limited to resource efficiency, wastes/waste water, air emissions, soil and water quality, noise, occupational health and safety, community health and safety, land acquisition, biodiversity and stakeholder engagement. According to the defined environmental and social risk category, the Bank develops action plans to mitigate the risks and impacts and monitors the performance throughout the term of the credit. Site visits may be conducted during the appraisal of a credit to ensure an effective understanding of environmental and social risks and impacts, and to support the preparation of a management plan specific to the site where appropriate. Environmental and social monitoring is conducted for all TKYB's investment activities during the term of the credit. Details of the Environmental and Social Risk Assessment and Monitoring Process is given below:

I. **Exclusion List Check:** During the credit application, exclusion list check is conducted, if the activity is included in the Exclusion List, the credit application is rejected, and the process does not proceed.
II. **Gathering Project Documentation:** Relevant information and documents necessary for the evaluation of the compliance of the investment / project with the national legislation and the examination of the investment / project environmental and social performance are requested from the Client.
III. **Environmental and Social Risk Assessment and Categorization**: Environmental and Social Risk Categorization is conducted by using the Environmental and Social Risk Evaluation Model (ERET), which references the Applicable Environmental and Social Standards. Environmental and social risk categorization is determined based on the social and environmental criteria including but not limited to resource efficiency, wastes/wastewater, air emissions, soil and water quality, noise, occupational health and safety, community health and safety, land acquisition, biodiversity and stakeholder engagement.
IV. **Environmental and Social Due Diligence and Preparation of the Environmental and Social Action Plan:** Higher Risk Transactions (Category A and Category B+ Projects)

    In case the environmental and social risk category of the project is determined as A, the due diligence report prepared by the independent consultant should include a proposed Environmental and Social Management Plan compiling the mitigation measures that are necessary to reduce any environmental and social risks that are identified. ESAP is prepared in line with TKYB's own Environmental and Social Policy, the Applicable Environmental and Social Standards and the

requirements of TKYB's Lenders applicable to the transaction. This will generally include the preparation of environmental and social impact assessment and management reports to international standards, their disclosure for consultation, extensive stakeholder engagement and the establishment of a Grievance Redress Mechanism.

If the environmental and social risk category of the loan is determined as B+, Environmental and Social Specialist decides whether an independent Environmental and Social Consultant should carry out an Environmental and Social Due Diligence against the applicable Environmental and Social Standards and report the environmental and social risks and impacts.

Other Transactions (Category B- and Category C Projects)

If the environmental and social risk category of the loan is defined as B- and C, compliance controls are carried out and ESAP is prepared by the Environmental and Social Specialist. ERET Model evaluation results, final risk category, ESAP and additional notes are included in the loan agreement.

V. **Credit Approval and Integration of Action Plan to Loan Agreement:** The Credit Committee reviews the Environmental and Social Assessment. After the approval of the loan by the Credit Committee and / or Board of Directors, Bank's Lenders are informed on the project evaluation process. Standard environmental and social covenants are included in all loan agreements, with additional covenants reflecting the specific findings of the environmental and social assessment if required, and the ESAP and Monitoring Plan. It is required from the Client to fulfill these covenants before the first disbursement. These covenants are mainly related with obtaining environmental permits necessary to obtain before the investment/project and initial requirements, which is defined in ESAP.

VI. **Environmental and Social Monitoring:** Environmental and social monitoring continues throughout the loan period.

2. Basis of the TKYB Sustainable Finance Framework

In line with TKYB's commitment to contributing to combating climate change and promoting sustainable development, TKYB has established this Sustainable Finance Framework under which it intends to issue Sustainable Finance Instruments (which include Green/Social/Sustainability Finance Instruments) to finance and/or refinance Eligible Projects, identified via the compliance with the Eligibility Criteria outlined in the Framework.

The Sustainable Finance Instruments that can be issued under this Framework are defined below:

- **Green Finance Instruments**: bonds in order to finance and / or refinance Eligible Green Projects (as defined in the Use of Proceeds section under **Eligible Green Project Categories**);
- **Social Finance Instruments**: bonds to finance and / or refinance Eligible Social Projects (as defined in the Use of Proceeds section under **Eligible Social Project Categories**);
- **Sustainability Finance Instruments**: bonds to finance and/or refinance a mix of Eligible Green Projects (as defined in the Use of Proceeds section under **Eligible Green Project Categories**) and / or Eligible Social Projects (as defined in the Use of Proceeds section under **Eligible Social Project Categories**).

3. Use of Proceeds

3.1. Consistency of the Framework, Alignment with Existing Standards

TKYB's Sustainability Bond Framework has been designed in accordance with the ICMA[1] Green Bond Principles ("GBP", 2021 version[2]), the Social Bond Principles ("SBP", 2021 version[3]) and Sustainability Bond Guidelines ("SBG", 2021 version[4]) and Loan Market Association ("LMA") Green Loan Principles ("GLP", 2021 version[5]) and Social Loan Principles ("SLP", 2021 version[6]).

The Framework aligns with the following four common core components:

- Use of proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting

3.2. Eligible Types of Investment

The proceeds of Sustainable Finance Instruments issued under this Framework will be used to finance or refinance eligible social projects and eligible green projects. Eligible social and green project categories are listed in the Eligible Sustainable Projects section. TKYB aims to contribute to sustainable development with these social and green investments in line with the Bank's strategy and all of the project categories are aligned with the UN Sustainable Development Goals. In order to determine the eligible social and green projects, eligibility checks defined in the Process for Evaluation and will be performed. In addition, for all of the social and green projects, in line with the TKYB's Environmental and Social Policy and Procedure environmental and social categorization, Environmental and Social Action Plan preparation and monitoring studies will be conducted.

1 The ICMA Principles are available on ICMA's website (www.icmagroup.org, Section "Sustainable Finance", Sub-Section "The Principles, Guidelines and Handbooks").

2 Available here.

3 Available here.

4 Available here.

5 Available here.

6 Available here.

The use the proceeds of Sustainable Finance Instruments issued under this Framework, will be allocated to finance and/or re-finance, partly or as a whole, sustainable projects is subjected to the following eligibility criteria, to be applied to new or existing projects.

3.3. Lookback Period

The proceeds of Sustainable Finance Instruments issued under this Framework may be used to finance loans, which are associated with Eligible Projects and extended up to 36 months before issuance of Green/Social/Sustainability Finance Instrument in subject.

3.4. Eligible Sustainable Projects

Projects financed with the sustainable finance instruments will comply with at least one of the following eligible project categories and technical eligibility criteria which has been determined in line with the ICMA Green Bond Principles (2021 version), the Social Bond Principles (2021 version) and Sustainability Bond Guidelines (2021 version) and LMA Green Loan Principles (2021 version) and Social Loan Principles (2021 version).

Eligible Social Project Categories

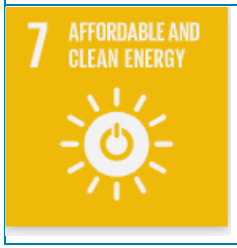
UN SDG	Eligibility Criteria	ICMA SBP Category	Target Population
	• Construction and operation projects that aim to improve health care services • Projects that aim to increase public access to health care services • Construction, operation and supply of equipment to, public hospitals and healthcare facilities • Construction and operation of childcare facilities to support women employment	Access to Essential Services	- Underserved individuals lack of access to healthcare - Underserved individuals lack of access to education - Individuals in need of medical care - Youth and general population including people from low income individuals and/or from disadvantaged backgrounds; people with disabilities, the unemployed, refugees under temporary protection - Women, women who balance work and childrearing/long-term caregiving from low income individuals and/or from disadvantaged backgrounds - Children

	• Construction and operation or supply equipment to public education facilities and related infrastructure		
   	• Support growth of digital start-ups, entrepreneurships, SMEs[1] having a positive social/environmental impact including: - Women-inclusive enterprise that: (i) has at least one female shareholder with properly documented representative and managing powers; or (ii) has at least one female C-level Manager or with at least 25-percent female representation in Mid-level Managerial position; or (iii) employs and/or aiming to employ a ratio of women that is higher than the average ratio observed in the respective sector, - Aiming to increase job creation for low income individuals and/or from disadvantaged backgrounds;, people with disabilities, the unemployed, refugees under temporary protection, - Operating in economically underperforming areas and/or areas affected by natural disasters - Aiming to reduce inequalities, promote human development, financial inclusion	Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality	- Women, women who balance work and childrearing/long-term caregiving - Unemployed people and people living below poverty line - Companies and residents in geographically and socio-economically disadvantaged areas - Local business and residents - Low-income individuals and/or from disadvantaged backgrounds;, people with disabilities, the unemployed, refugees under temporary protection,

[1] SMEs are defined as: https://en.kosgeb.gov.tr/site/tr/genel/detay/5667/definitions-and-regulations

	• Projects that aim to increase employment especially, women and/or youth labor force • Sustainable tourism facilities that increase the local employment and support local cultural activities with the sustainable tourism certification • Projects aiming to sustain employment for the areas where affected by the spread of infectious diseases and natural disasters	Employment Generation, and Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance	- Women, women who balance work and childrearing/long-term caregiving - Unemployed people and people living below poverty line - Companies and residents in geographically and socio-economically disadvantaged areas - Local business and residents - Vulnerable groups that have negatively affected by the spread of infectious diseases and natural disasters including people from low income individuals and/or from disadvantaged backgrounds;, people with disabilities, the unemployed, refugees under temporary protection
	• Construction and operation of food production, processing and storage facilities aiming to increase access to sufficient, safe, nutritious food ;facilities to help prevent food loss and waste provide adequate storage, improve food conservation or improve connectivity in the food chain to avoid food losses. • Projects aiming to reduce food loss and waste before expiry and (financing projects using edible food as animal feed will be excluded)	Food security and sustainable food systems	- Low-income individual - Underserved individuals lack of access to financial services - Smallholder farmers

Eligible Green Project Categories

UN SDG	Eligibility Criteria	ICMA GBP Category	EU Environmental Objective2
	• Renewable energy projects including (reduction or avoidance of CO_{2eq}/year at least 10,000 tons): -Wind power plant -Solar power plant (SPP); photovoltaics (PV) energy projects (including combined renewable power generation plant[3] and rooftop SPPs) (SPPs on non-agricultural land), Concentrated Solar Energy (CSP) and solar heating and cooling projects -Biogas power plant (feedstock will be domestic organic waste, manure, sewage sludge[4]) • Renewable energy equipment -Manufacturing of products, key components and machinery that are essential for eligible renewable energy technologies • Later stage research and development projects related to renewable energy and related battery technologies	Renewable energy	**Climate change mitigation** **Substantial contribution to climate change** (1.a) Mitigation generating, transmitting, storing, distributing or using renewable energy in line with Directive (EU) 2018/2001, including through using innovative technology with a potential for significant future savings or through necessary reinforcement or extension of the grid.
	• Energy Efficiency Projects to reduce energy consumption and GHG emissions: - Buildings (achieves savings in net Primary Energy Demand of at least 20% in comparison to the baseline performance of the building before the renovation.) - Industrial energy efficiency projects aiming to reduce energy consumption and GHG emissions at least 15%[5]:	Energy efficiency	**Climate change mitigation** **Substantial contribution to climate change** (1.b) improving energy efficiency, except for power generation activities, as that use solid fossil fuels do not qualify as environmentally sustainable economic activities.

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC

[3] https://www.resmigazete.gov.tr/eskiler/2020/03/20200308-8.htm

[4] Feedstocks compete with food resources will be excluded.

[5] Activities/projects associated with hard-to-abate and carbon intensive sectors is excluded.

	- Transmission and distribution systems improvements in order to decrease technical losses and electricity transmission and distribution projects and smart grid technology projects (communication and sensor technologies, smart meters, monitoring and control automation devices, big data/ computing platforms) to support integration of renewable energy into power systems		
	• Projects aims to reduce waste production by at least 5% • Projects aiming to decrease air emissions, waste water discharge contaminant load[6] • Projects to increase resource efficiency at least 5%	Pollution prevention and control	**<u>Pollution prevention and control</u>** **Substantial contribution to pollution prevention and control** (1.a) preventing or, where that is not practicable, reducing pollutant emissions into air, water or land, other than greenhouse gasses
	• Terrestrial and aquatic biodiversity conservation - Sustainable fishery and aquaculture with certification to Marine Stewardship Council (MSC), Global Aquaculture Alliance (GAA) Best Aquaculture Practice, Aquaculture Stewardship Council (ASC). - Smart irrigation projects aim to decrease irrigation water consumption and equipment development for smart irrigation projects such as controllers and sensors • Certified sustainable agriculture projects (EU Organic, Turkish Organic Farming Certification, Global G.A.P., and/or equivalent national or international certification)	Environmentally sustainable management of living Natural resources and land use	**<u>The protection and restoration of biodiversity and ecosystems.</u>** **Substantial contribution to the protection and restoration of biodiversity and ecosystems** (1.a) nature and biodiversity conservation, including achieving favorable conservation status of natural and semi-natural habitats and species, or preventing their deterioration where they already have favorable conservation status, and protecting and restoring terrestrial, marine and other aquatic ecosystems in order to improve their condition and enhance their capacity to provide ecosystem services.

[6] Projects directly rely on fossil fuels and/or contribute to extend the life of fossil fuel usage is excluded.

 	• Production, development, operation and acquisition of low carbon vehicles: - Zero tailpipe emission vehicles (incl. hydrogen, fuel cell, electric). - Vehicles with tailpipe emission intensity of max 50 gCO2e/km • Production, development, operation, acquisition of public transportation[7] including railed vehicles (trains, trams), cars, trucks, buses, ships and boats - With zero direct emissions - With direct emissions are below 25 gCO_2e/km • Energy efficient transport infrastructure[8] - Infrastructure that is required for low emissions transport (e.g. electric charging points, electricity grid connection upgrades, hydrogen fueling stations or electric highways). - Infrastructure and equipment for active mobility (walking, cycling, e-bikes and e-scooters)	Clean transportation	**<u>Climate change mitigation</u>** **Substantial contribution to climate change mitigation** (1.c) increasing clean or climate-neutral mobility
	• Projects aiming to decrease water consumption at least 5% (Water consumption monitoring systems aiming to control and minimize water consumption, water reuse systems for dying process example for textile industry, as well as water leakage detection systems)[9]	Sustainable water and wastewater management	**<u>The sustainable use and protection of water and marine resources</u>** **Substantial contribution to the sustainable use and protection of water and marine resources** **(**1.a) protecting the environment from the adverse effects of urban and industrial waste water discharges, including from contaminants of emerging concern such as pharmaceuticals and micro plastics, for example by ensuring the adequate

[7] Transportation vehicles utilize fossil fuels or blended fossil fuels are not eligible.

[8] Infrastructure that is dedicated to the transport of fossil fuels or blended fossil fuels is not eligible.

[9] Projects that are related with operations using fossil fuels is excluded.

			collection, treatment and discharge of urban and industrial waste waters
	• Projects related to research, development, implementation and maintenance climate change adaptation, climate observation and early warning systems against extreme climate conditions and natural disasters • Projects for data-driven climate change monitoring solutions - Equipment and infrastructure where the main objective is an increase of the generation or use of renewable electricity generation and support integration of renewable energy into power systems	Climate change adaptation	**<u>Climate change adaptation</u>** **Substantial contribution to climate change adaptation** (1.a) includes adaptation solutions that either substantially reduce the risk of the adverse impact of the current climate and the expected future climate on that economic activity or substantially reduce that adverse impact, without increasing the risk of an adverse impact on people, nature or assets
	• Projects related to reduce use of raw materials, supporting resource efficiency and have positive impact on climate change mitigation, such as: - Projects aiming to increase the recyclability/reusability of products - Projects aiming to increase materials usage of waste and/or recycled materials that substitute raw materials in production for industries[10] • Projects aiming to digitalization of production systems to improve resource efficiency[11]	Eco-efficient and/or circular economy adapted products, Production technologies and processes	**<u>The transition to a circular economy</u>** **Substantial contribution to the transition to a circular economy** (1.a) uses natural resources, including sustainably sourced bio-based and other raw materials, in production more efficiently, including by: (i) reducing the use of primary raw materials or increasing the use of by-products and secondary raw materials; or (ii)resource and energy efficiency measures (1.b) increases the durability, reparability, upgradability or reusability of products, in particular in designing and manufacturing activities

10 Activities/projects associated with hard-to-abate and carbon intensive sectors will be excluded.

11 Projects that are related with operations using fossil fuels is excluded.

	• Construction, acquisition or development of green building projects achieving at least one of below criteria: -US Leadership in Energy and Environmental Design (LEED): Gold or above -Building Research Establishment Environmental Assessment Method (BREEAM): Excellent or above -Turkish Green Building Council (ÇEDBİK) Green Building Certification "very good" or above	Green buildings	**<u>Climate change mitigation</u>** **Substantial contribution to climate change mitigation** (1.b) improving energy efficiency, except for power generation activities as that use solid fossil fuels do not qualify as environmentally sustainable economic activities.

4. Process for Evaluation and Selection

4.1. Eligible Sustainable Projects Selection Process

Project Finance Team selects potential suitable projects and informs Project Evaluation Team. Eligible social and green projects are selected by Project Evaluation Team, which consists of technical evaluation, environmental and social risk evaluation, financial evaluation and valuation and economical & sectoral evaluation teams. Teams are responsible for preparation of the Credit Evaluation Report and these reports are presented to Credit Evaluation Committee (CEC) and Board of Directors for the final approval. After the final approval, allocation process runs in line with the internal procedures.

After Financial Analysis and Valuation Teams' evaluation of the projects, Sustainability and Environmental and Social Evaluation Department evaluates their compliance according to social and green bonds eligibility criteria, national environmental and social laws and regulations, TKYB's Environmental and Social Policy and Procedure and where applicable all other environmental and social standards to which the Bank is committed to meet. Projects that fall under the related Exclusion List are in no circumstance funded.

For each project, site-specific environmental and social risk categorization is performed according to the assessment made through Environmental and Social Risk Evaluation Model (ERET) of TKYB. According to the defined environmental and social risk category, the Bank develops action plans to mitigate the risks and impacts and monitors the performance throughout the term of the credit. Clients are supported to build capacity and effectively increase their environmental and social performance. The Bank also requires regular reporting and conducts environmental and social monitoring on all investments it finances during the loan tenor. Social and green projects performance according to eligibility criteria will be the part of the environmental and social monitoring reports. TKYB's Environmental and Social Policy and Procedure is published on:

https://kalkinma.com.tr/assets/uploads/pdf/TKYB-environmental-and-social-policy.pdf7

A dedicated Sustainable Finance Working Group has been established in order to manage project selection process and monitor allocation of proceeds. The Group is formed by members of Corporate Banking and Project Finance, Sustainability and Environmental Social Impact Management, Development Finance Institutions, Loan Allocation and Financial Institutions departments (The name, structure, functions, responsibilities and members of the Sustainable Finance Working Group may be altered at TKYB's own discretion).

4.2. Confidentiality

The Sustainable Finance Framework is a public document and will be available for review within TKYB's official website (www.kalkinma.com.tr).

Grievance Redress Mechanism (GRM)

The direct and indirect environmental and social performance of the activities of the TKYB is reviewed annually with the aim of continuous improvement. Where commercially and legally feasible, the financings approved in conformity with the Environmental and Social Management System (ESMS) are regularly shared with all stakeholders on the website of TKYB according to the risk categories. Any

party that is directly and/or significantly affected by TKYB's operations and financing activities may submit grievances to TKYB through its website at http://kalkinma.com.tr/ or by emailing to: surdurulebilirlik@kalkinma.com.tr. All received grievances are documented systematically, responded in a timely manner and reported to the upper management periodically. TKYB also may require from its Clients the disclosure of relevant E&S information and the establishment of a grievance redress mechanism associated with the activities it finances.

5. Management of Proceeds

5.1. Allocation Tracking and Monitoring

The net proceeds of Sustainable Finance Instruments issued under this framework will be managed by TKYB with an intention of allocating these proceeds to a loan portfolio that is in line with the Eligibility Criteria and subject to Eligible Sustainable Projects Selection Process as presented above, the Eligible Loan Portfolio. The net proceeds that will be issued under this Framework will be allocated to finance and/or refinance eligible green and social projects only.

TKYB intends to maintain an eligible portfolio that at least matches or exceeds the net proceeds from its outstanding Sustainable finance instruments issued under this Framework.

During the life of the Sustainable finance instruments issued under this Framework, if a business or project ceases to fulfil the eligibility criteria, TKYB, when necessary, will remove the same from the portfolio upon becoming aware of such ineligibility and replace it with another eligible loan, as soon as reasonably practicable. For any net proceeds of sustainable finance instrument issued under this Framework that remain unallocated, TKYB, at its own discretion will hold the proceeds in cash or cash equivalents, money market funds and/or in other short-term liquid instruments.

Environmental and Social Monitoring

As part of its ESMS, The Bank requires regular reporting and conducts environmental and social monitoring on all investments it finances in order to support its clients to operate their activities in compliance with national environmental and social laws and regulations, the Bank's own policy and procedures and all relevant environmental and social standards to which the Bank is committed to meet. Clients are supported to build capacity, effectively increase their environmental and social performance and improve their impacts.

5.2. External Review

Second Party Opinion

TKYB will obtain an independent Second Party Opinion (SPO) from Sustainalytics to confirm the validity of TKYB Sustainable Finance Framework. The SPO provider will review TKYB's Sustainable Finance Framework and confirm its alignment with the ICMA GBP and SBP, LMA GLP and SLP and best market practices.

Annual Review

TKYB may request from its external auditor to provide an annual, limited assurance report of the allocation of the Sustainable Finance Instruments' proceeds to Eligible Projects in order to reflect an annual assessment on the alignment of the allocation of funds with the Framework's criteria.

6. Reporting

Throughout the term of any Sustainable Finance Instrument issued, TKYB intends to publish an annual report on the allocation of the proceeds and impact of projects that have received allocations. This report will be published on the Bank's website (www.kalkinma.com.tr)

Reporting with respect to each Sustainable Finance Instrument will take place within 1 year following the funding date of such Sustainable Finance Instrument and annually thereafter until the proceeds have been fully allocated to eligible projects.

Allocation Reporting

TKYB intends to publish an annual report detailing the aggregate allocation of the proceeds. To the extent practicable, TKYB also intends to report the allocation to eligible projects at category level without referring to client names, along with a brief description of projects if possible. The allocation report, as much as practicable, will provide indicators such as:

- The amount or percentage of allocation to the Eligible Loan Portfolio from the proceeds of such Sustainable Finance Instrument;
- The balance (if any) of unallocated proceeds;
- The geographic allocation of the assets (at country level) ;
- The amount or the percentage of new financing and refinancing.

Impact Reporting

TKYB became the first organization in Turkey to sign the Operating Principles for Impact Management (OPIM) with effective as of 23 September 2021. In line with the global standards of the principles, TKYB will manage its project finance and Development Fund activities with the "impact lens" by providing more discipline, transparency and measurability. TKYB hereby affirms that so long as it remains a Signatory to the Impact Principles:

1. TKYB will accept the requirements and limitations that may be established from time to time in accordance with the Governing Provisions;

2. TKYB will publish on its website a disclosure statement ("Disclosure Statement") in accordance with the Governing Provisions and the Reporting Requirements and Template for Annual Disclosure Statement (or equivalent or successor requirements) issued by the Secretariat from time to time on or before the first anniversary of the date of Signatory Letter and on an annual basis thereafter disclosing, among other things:

a. Its status as a Signatory to the Impact Principles and a list of its Covered Assets;

b. The total value (USD) of the Signatory's Covered Assets;

c. How each Principle is incorporated into the Signatory's investment process and any areas where the Signatory believes in good faith that it may further align its investment processes with the Impact Principles; and

d. At regular intervals, the most recent independent verification that its impact management system is in alignment with the Impact Principles with respect to the Covered Assets.

Each project that will be financed under this framework will be monitored according to their key performance indicators and relevant SDG targets and impacts to the extent feasible. Project's environmental and social governance performance, grievances and suggestions received from the stakeholders, occupational incidents will be monitored according to TKYB Environmental and Social Policy and Procedure.

Green Project Categories Key Performance Indicators

Eligible Green Project Category	**Key performance Indicator (KPI)**
Renewable energy	Annual GHG mitigation reduced/avoided (tCO_2e) Renewable energy production capacity constructed (MW) Renewable energy production (kWh/year)
Energy efficiency	Annual GHG mitigation reduced/avoided (tCO_2e) Annual energy saving (MWh/year and/or MWh/GWh) (electricity) Number of projects financed Distribution capacity (MW) Distance of transmission (km)
Pollution prevention and control	Waste reduction rate before and after the project in % of total waste Recycling amount of waste (tones or in % of total waste) Amount of wastewater treated (m^3/year) Discharged wastewater analysis
Environmentally sustainable management of living Natural resources and land use	Sustainable management certification Agricultural crop production yield (ton/year)
Clean transportation	Annual GHG mitigation reduced/avoided (tCO_2e)
Sustainable water and wastewater management	Annual water saving before and after the project (m^3/year) Water reduction rate (%) before and after the project Amount of wastewater treated (m^3/year) Discharged wastewater analysis
Climate change adaptation	Number of projects financed
Eco-efficient and/or circular economy adapted products, Production technologies and processes	Resource consumption reduction rate (ton raw material/year) Annual absolute (gross) amount of waste that is separated and/or collected, and treated and recycled

	GHG mitigation reduced/avoided (tCO_2e) (%) before and after the project
Green buildings	Green building certification

Social Project Categories Key Performance Indicators

Social Project Category	
Access to Essential Services	Number of hospitals and other healthcare services built/upgrade Number of patients benefitting of the project
	Number of education facilities financed Number of students that improved their access to education Number of children benefitting of the project
Employment generation	Number of SMEs financed Number of employments created Number of women employments
Food security and sustainable food systems	Number of projects Food loss/waste reduction rate Amount of prevented food waste (ton/year)

Appendix

TKYB Environmental and Social Policy

https://kalkinma.com.tr/assets/uploads/pdf/TKYB-environmental-and-social-policy.pdf

Additional information regarding E&S related policies can be found in Integrated Report / Annual Report of TKYB via https://kalkinma.com.tr/en/home.

Exclusion List

According to Development and Investment Bank of Turkey Environmental and Social Policy, the Bank will not knowingly finance projects/activities involving the following:

1. Forced labor[1] or harmful or exploitative forms of child labor[2];
2. The production of, or trade in, any product or activity deemed illegal under national laws or regulations of the country in which the Project is located, or international conventions and agreements, or subject to international phase out or bans, such as:
   a. Production of, or trade in, products containing polychlorinated biphenyl (PCBs)[3].
   b. Production of, or trade in, pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans (Rotterdam Convention, Stockholm Convention)[4].
   c. Production of, or trade in, ozone depleting substances subject to international phase out (Montreal Protocol)[5].

1 Forced labor means any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty (including any kind of forced or compulsory labor, such as indentured labor, bonded labor or similar labor- contracting arrangements, or labor by trafficked persons).

2 For purposes of this List, harmful or exploitative forms of child labor means the employment of children under the age of 18 for work which by its nature or the circumstances in which it is carried out is likely to jeopardize their health, safety or morals; but if the laws or regulations of the country in which the Project is located provide, in conformity with the International Labour Organization's Minimum Age Convention, 1973, that children at least 16 years of age may be employed for such work on condition that their health, safety and morals are fully protected and that they have received adequate specific instruction or vocational training in the relevant branch of activity, then child labor means employment of children for work that does not comply with these laws and regulations.

3 PCBs: Polychlorinated biphenyls are a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950 to 1985.

4 United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organization Recommended Classification of Pesticides by Hazard. A list of pharmaceutical products subject to phase outs or bans is available at http://www.who.int. A list of pesticides, herbicides and other hazardous substances subject to phase outs or bans is available at http://www.pic.int

5 Ozone Depleting Substances(ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized "ozone holes." The Montreal Protocol on Substances that Deplete the Ozone Layer lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents and fire protection agents, together with details of signatory countries and phase out target dates, is available from the United Nations Environment Programme, http://www.unep.org/ozone/montreal.shtml

3. Trade in wildlife or production of, or trade in, wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)[6].
4. Trans-boundary movements of waste prohibited under international law (Basel Convention).
5. Production of, or trade in, weapons and munitions, including paramilitary materials.
6. Production of, or trade in, alcoholic beverages, excluding beer and wine.
7. Production of, or trade in, tobacco.
8. Gambling, casinos and equivalent enterprises.
9. Production of, trade in, or use of unbounded asbestos fibres[7].
10. Activities prohibited by legislation of the country in which the Project is located or by international conventions relating to the protection of biodiversity resources or cultural resources, such as, Bonn Convention, Ramsar Convention, World Heritage Convention and Convention on Biological Diversity.
11. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.
13. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.
14. Shipment of oil or other hazardous substances in tankers that do not comply with IMO requirements (IMO, MARPOL, SOLAS and Paris MOU)[8].

6 The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). A list of CITES listed species is available from the CITES secretariat, http://www.cites.org.

7 This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.

8 Non-compliance with International Maritime Organisation (IMO) requirements: tankers that do not have all required International Convention for the Prevention of Pollution from Ships (MARPOL), International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation, International Safety Management Code compliance), tankers banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU), and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used. http://www.imo.org/About/Conventions/ListOfConventions/Pages/International-Convention-for-thePrevention-of- Pollution-from-Ships-%28MARPOL%29.aspx.