



# Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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## TSKB's Sustainability Management System (SMS): managing climate change-related risks and opportunities

Institution      Principle      Related Work Stream(s)



PRINCIPLE 1:  
COMMIT  
to Climate  
strategies



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Date Policy/Tool Established	Additional Capacity Required (e.g., staff, resources, other)	How Implemented?
2005 (formalized as Environmental Management System) 2007 (ISO 14001 certified) 2012 (evolved to become Sustainability Management System)	Roles and responsibilities are distributed to the Sustainability Sub-Committee and various working groups by the Sustainability Committee, which are all three separate entities, to achieve the Committee's targets. This team attends climate related trainings regularly. Also, the Engineering team including three environmental engineers, play an active role for the system performance.	TSKB's top management and staff from different functional departments were involved to support the design, development and implementation of the SMS. To manage, maintain and continually improve the SMS, documents, records and procedures are used as the fundamental structure of the system.  The top management constituted the Sustainability Committee consisting of Board Members and Executive Vice Presidents. The Committee is in charge of the management of the system and building the sustainability strategy of the Bank.
Monitoring, reporting tools		How Established?
N/A		Established by Board approval.

## Key Lessons

- Forming the SMS with TSKB top management and staff from different departments resulted in higher sense of ownership by the various employees having different perspectives – building on past initiatives, such as the 2005 ERET and the 2007 ISO 14001 Environmental Management System & 14064 GHG Emissions Inventories and Verification.
- Strong partnership with international finance institutions on topics such as environmental and social risk assessment and sustainable finance products was helpful.
- The SMS has helped support the development of new sustainable finance products, including: thematic loans for renewable energy, energy efficiency (EE) and resource efficiency (RE) finance, and green bonds..

## Introduction

Within the last decade TSKB has covered substantial ground with regards to sustainability. Long before establishment of any environmental legislation in Turkey, TSKB started to include environmental due diligence as a part of its project appraisal activities. TSKB prepared its first Environmental Management System (EMS) in 2005, which has later evolved to become the Sustainability Management System (SMS). Holding the ISO 14001 Environmental Management System and ISO 14064-1 Verification of Greenhouse Gas Emissions certificates, TSKB is Turkey's first carbon-neutral bank.

TSKB integrated the sustainability concept in its internal operations through the Sustainability Policy and Supplementary Policies of which final versions were approved by the Board of Directors on February 26th, 2015. Fundamentally, the Sustainability Management System is designed to ensure that all of the internal and external impacts of TSKB including environmental and social risks & opportunities, greenhouse gas emissions, client risks, legal requirements and internal audit are managed via system's internal processes.

The highest level of direct responsibility for SMS is the Board Members of TSKB via Sustainability Committee, who coordinates all of TSKB's sustainability-related activities. The Committee's mission is to integrate sustainability into bank's business processes, to develop new products and business opportunities in sustainable banking area, and to increase the level of sustainability awareness. The Sustainability Committee consists of two members of the Board of Directors and two Executive Vice Presidents. The committee has a sub-committee consisting of 15 members from various departments. Under the sub-committee, various working groups are constituted to perform sustainability related activities.

## Development and Design

TSKB's road map while designing SMS consisted in;

- Identifying sustainability-related risks and opportunities.
- Developing sustainability-related strategies.
- Identifying and reporting on sustainability-related performance criteria and targets.
- Setting up an integrated environment and sustainability management system.

SMS was set up to achieve the following six objectives, each of which includes specific climate-related components:

- Systematically assess and manage environmental risks arising from the bank's lending activities;
- Measure and systematically manage the internal environment Development and Design impact (electricity, water, natural gas, paper consumption; CO2 emissions, etc) caused by TSKB's operational services;
- Develop the sustainable-banking aspects of TSKB's products and services and support their use in renewable energy, energy efficiency, resource efficiency and environmental protection Project finance;
- Increase all TSKB employees' and other stakeholders' awareness of sustainability issues through ongoing communication and by encouraging active involvement in sustainability processes;
- Prepare and publish internationally compliant sustainability reports or integrated reports and make them accessible to all bank stakeholders at regular intervals; support stakeholders in their own efforts to abide by good sustainability practices;

- Periodically calculate TSKB's carbon footprint as per the ISO 14064 standard and engage in efforts to neutralize the bank's carbon footprint and conduct its banking operations on a carbon-neutral basis.

## Implementation

The implementation of the Sustainability Management System (SMS) began in 2012 with a kick-off meeting and went on with the documentation and improvement of all processes influencing the sustainability performance of the Bank. The sustainability documentation was developed together with the staff of the sustainability team that consists of staff from different departments to make sure that all relevant processes and their interactions were taken into consideration.

In the following years, TSKB internalized the environmental and social consciousness by integrating sustainability into its operations and developed its business strategies in line with the goals of supporting sustainable development. In addition to that, TSKB has started to take part in various sustainable platforms, including UNEP FI, UN Global Compact, Carbon Disclosure Project, etc. and expand the product line.

Meanwhile, TSKB has adopted the approach that the organization should be able to;

- continuously improve its sustainability performance;
- improve the internal and external information flow;
- better control environmental and social risks related to TSKB products;
- comply with all relevant laws, standards etc.;
- avoid negative consequences from public attention; and
- calculate and reduce the carbon footprint of the Bank periodically and conduct the banking operations on a carbon-neutral basis.

## Experience and Impact

TSKB supports sustainable investments for a sustainable future. TSKB has integrated sustainability into all its business processes with the aim of creating value for all the stakeholders. TSKB plays a pioneer role in sustainable finance in Turkey. Being the first bank to take action in many different fields of sustainability, TSKB encouraged other banks to engage on sustainability and climate change.

### TSKB's Achievements:

- The first financial services company in Turkey to publish sustainability and integrated reports.

- Turkey's first Carbon-Neutral Bank.
- The first Green/Sustainable Bond issuance in Turkey and CEEMEA.
- TSKB issued Basel III Compliant Sustainable Tier II Bond.

### ERET also assesses environmental and social risks

Defined within a procedure of SMS, TSKB developed the ERET tool that includes a detailed query to determine the clients' and their projects' environmental and social risks. It classifies clients' and their projects' risks as A, B, B+ and C, where A is the highest. It is aligned with international environmental performance standards such as those used by the IFC, EBRD, etc. The risk category clarifies acceptable limits for risks involved and ensures that the project complies with general lending policies of TSKB. The risk score offers a proper action plan to minimize and manage environmental & social risks of projects.

### New Sustainability Products:

TSKB has gained the skills needed to evaluate investments according to their sustainability performance during sustainability journey. The developed SMS enables TSKB to set and track sustainability related targets for financed investments. These targets and the realized performance data are publicly available on TSKB's web site as well. Overall, TSKB has succeeded to support its clients by offering sustainable products and services that provide low carbon and high efficient solutions. Renewable energy, energy efficiency (EE) and resource efficiency (RE) finance thematic loans are constituted as sustainability products. The share of sustainability-themed loans was 57% of the portfolio as of 2016 year-end. TSKB financed various renewable energy projects from hydro to solar, wind, biomass and geothermal with a 5,332 MW total installed capacity representing 15% of Turkey's total installed capacity.

### Integrated Report:

TSKB's SMS "P13: Sustainability Reporting and Index Process" describes and supports its sustainability-based reporting. TSKB emerged as the first bank to issue an Integrated Report, also known as the next generation of reporting, in the Turkish finance industry. In its integrated report published based on 2016 results, TSKB offers its shareholders a holistic evaluation of its operations, funds and resources, products and services as well as the added value it has created and plans to create. The report especially focuses on the sustainable value TSKB created for the economy and the society through its business model.