



# Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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## TSKB's Turkey & CEEMEA regional Green/Sustainable Bond and Sustainable Subordinated Tier-II

TSKB issued the first Green/Sustainable Bond in the Turkey & CEEMEA region and the world's first Sustainable Subordinated Tier-II

Institution Principle Related Work Stream(s)



PRINCIPLE 3:  
PROMOTE  
Climate  
Smart  
Objectives



Publication date: 2018

Date Policy/Tool Established	Additional Capacity Required (e.g., staff, resources, other)	How Established?
2014 (Sustainability Committee)  2016 (Sustainalytics' opinion on Sustainability Bond Framework)	Sustainalytics held conversations with members of TSKB's Corporate Marketing Department, Economic Research Department, Engineering Department, Financial Analysis Department, Financial Institutions Department, Loan Monitoring Department, Project Finance Department, and Sustainability Committee	Established by Board approval.
Monitoring, reporting tools		How Implemented
<p>In 2017, TSKB has published the Allocation &amp; Impact Report of the existing Green/Sustainable Bond, which contains information related to the projects financed by the Bond, their CO2 emissions and KPI's.</p> <p>In 2018 TSKB published an annual review for the Allocation &amp; Impact Report that covered both 2016 and 2017 issuances which was also reviewed by Sustainalytics and insured by E&amp;Y.</p>		<p>The top management constituted a Sustainability Committee -consisting of Board Members and Executive Vice Presidents- in charge of setting Bank's sustainability vision and strategy and formulating applicable action plans.</p> <p>TSKB engaged Sustainalytics to provide a second party opinion on its Sustainability Bond Framework prior to the issuance. Sustainalytics, further to this analysis, issued the "Sustainability Bond Framework for TSKB".</p>

## Key Lessons

- Ongoing communication and encouraging active involvement in sustainability process increased the awareness of TSKB employees' and other stakeholders' sustainability scope.
- The Green/Sustainable Bond and Sustainable Tier-II issuances helped TSKB diversify its funding base and ensured that a wider investor base was reached.
- The proceeds are used to fund climate change mitigation, adaptation and sustainable infrastructure projects. Thus, from the investors' point of view investing in a green bond and sustainable tier-II allows to invest in the future of Turkey in a reliable and stable way, different from other investment instruments.

## Introduction

Within the last decade, TSKB has covered substantial ground with regards to sustainability. Long before the establishment of any environmental legislation in Turkey, TSKB started to include environmental due diligence as a part of its project appraisal activities.

TSKB has had a Sustainability Management System (SMS) in place since 2005, supervised by an internal Sustainability Committee consisting of two board members and two executive vice presidents. The SMS, which is certified to ISO14001 and ISO14064 standards, aims to manage both TSKB's own environmental impact as well as the environmental impact of its lending activities. Internally, the SMS evaluates TSKB's environmental performance, by measuring the bank's carbon footprint and preparing an annual GHG inventory report. TSKB is Turkey's first carbon-neutral bank and won the CDP's Turkey Climate Change Leaders award in 2015.

TSKB integrated sustainability issues in its internal operations through the Sustainability Policy and Supplementary Policies. Final versions were approved by the Board of Directors on February 26th, 2015.

As the first green/sustainable bond in Turkey and CEEMEA region and as the first sustainable tier-II in the world, these issuances were in line with the Sustainability Committee's targets as TSKB has encouraged the industry in tackling climate change by these new products.

The proceeds from the issuances have been used to support renewable energy and resource efficiency investments addressing climate change as well as healthcare and education projects for social good. TSKB also promised to submit an Impact Report to its investors annually to provide them an insight of the impacts of the projects financed through the funds from this bond issuance.

The Allocation & Impact Report of the green/sustainable Bond was released in April 2017.

In March 2017, TSKB engaged Sustainalytics to review the projects funded through the issued sustainability bond and verified that the projects

met the *Use of Proceeds* criteria and the *Reporting Commitments* outlined in the Sustainability Bond Framework Overview.

## Development and Design

TSKB engaged Sustainalytics to provide a second party opinion on its Sustainability Bond Framework prior to the Bank's Green / Sustainability Bond issuance in May 2016.

Sustainalytics' provided an assessment demonstrating that TSKB's green/sustainability bond process is in line with the International Capital Market Association (ICMA) Green Bond principles.

Sustainalytics held conversations with members of TSKB's Corporate Marketing Department, Economic Research Department, Engineering Department, Financial Analysis Department, Financial Institutions Department, Loan Monitoring Department, Project Finance Department, and Sustainability Committee members.

These conversations aimed to understand the environmental and social impact of TSKB's business processes, and to understand the use and management of proceeds for the financial institution's issuance of a sustainability bond.

Sustainalytics also reviewed several public and internal documents provided by TSKB in the context of sustainability and project evaluation criteria. Sustainalytics, further to this analysis, issued its opinion on the Sustainability Bond Framework for TSKB in May 2016.

## Implementation

TSKB's Sustainability Bond Framework::

- **Use of Proceeds (with both social and environmental uses of proceeds)**

Proceeds from green/sustainable bond and sustainable tier-II issuances should be allocated to a special sub-portfolio for lending process in accordance with TSKB Sustainable Bond Framework. Eligible projects would be selected from the ones that meet one or more of the business activity

criteria defined as direct and indirect climate change mitigation, climate change adaptation and sustainable infrastructure.

- **Evaluation & Selection**

TSKB's Technical Analysis Team, comprising of nominated members from the Engineering and Financial Analysis Departments, assess and determine each individual project's eligibility and recommend an allocation of proceeds to eligible projects. After the technical approval, the relationship managers propose the projects to be funded by the use of proceeds of the bond. The Financial Institutions Department determines the final allocation of the projects under bond's proceeds.

- **Management of Proceeds**

TSKB has fully disbursed the proceeds from the green / sustainable Bond issued on 18 May 2016. Moreover, TSKB will continue to finance new eligible projects for the redemption amounts out of the subject portfolio, on a best effort basis.

- **Reporting**

TSKB Impact Report is in line with the GBP's reference framework for reporting. The Impact Report includes the list of projects that are financed under the subject green/sustainable Bond proceeds, brief project descriptions, the amounts committed and the environmental and/or social impacts.

## Experience and Impact

TSKB supports sustainable investments for sustainable future, having integrated sustainability into all of its business processes with the aim of creating value for all stakeholders. As a leader in different fields of sustainability, TSKB envisages to foster other banks to integrate sustainability & climate change.

As part of its support to Turkey's transition to low carbon economy, TSKB has set the targets of financing solar power plants of minimum 50 MW and wind power plants of 100-150 MW capacity over the 2015 – 2016 period.

In 2016, TSKB financed solar power plant investments of 59 MW and wind power plant investments of 279 MW capacity. The target has been achieved successfully with 86 MW solar and 440 MW wind power installed capacities. Financing 5 new water efficiency projects along with 10 new energy and/or resource efficiency projects over the 2015 – 2016 period.

In 2016, TSKB also financed 31 energy efficiency and 7 resource efficiency projects, 5 of which are a water efficiency project. TSKB has achieved its goals and

plans to be one of the most effective players in the area of energy and resource efficiency with thematic funds it provides from supranational institutions.

In 2016, TSKB's green/sustainable bond was awarded with the 'EMEA Green/SRI Bond Deal of the Year Award' by GlobalCapital and the "Sustainable Bond of the Year Award" by the International Financing Review Magazine (IFR)/Thomson Reuters. In addition, Bonds & Loans Awards Turkey named the Bank's inaugural Green/Sustainable bond as the "Structured Finance Deal of the Year 2016". In 2017, EMEA Finance awarded the Bank with "Eastern and Central Europe Best Green Bond Deal".