

Second-Party Opinion

Kuveyt Türk Katılım Bankası A.Ş.

Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, and Social Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Pollution Prevention and Control, Energy Efficiency, Green Buildings, Clean Transportation, Environmentally Sustainable Management of Living Natural Resources and Land Use, SME financing / employment generation, Affordable Housing, Access to Essential Services: Education & Healthcare – are aligned with those recognized by both the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental and/or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 7, 8, 11, 12, and 15.



PROJECT EVALUATION / SELECTION Kuveyt Türk's Sustainable Finance Working Group comprised of members from various departments are responsible for selecting and approving eligible projects. Kuveyt Türk's due diligence processes to manage and mitigate environmental and social risks are applicable for all allocations under the Framework. Sustainalytics considers the risk management processes to be adequate and the project selection to be in line with market practice.



MANAGEMENT OF PROCEEDS The Sustainable Finance Working Group is responsible for tracking allocations to eligible projects. Kuveyt Türk has defined a lookback period of three years for refinancing and intends to fully allocate within three years of each issuance. Pending allocation, the proceeds may be held in line with internal liquidity policies. This is in line with market practice.



REPORTING Kuveyt Türk intends to report on the allocation of proceeds on its website annually until full allocation. In addition, the Bank is committed to reporting on relevant impact metrics. Sustainalytics views the allocation and impact reporting as aligned with market practice.

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Issuer Location	Istanbul, Turkey

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For inquiries, contact the Sustainable Finance Solutions project team:

Ijeoma Madueke (Toronto)
Project Manager
ijeoma.madueke@sustainalytics.com
(+1) 647 317 3631

Amala Devi (Toronto)
Project Support

Snehal Suryawanshi (Mumbai)
Project Support

Darshna Jha (Mumbai)
Project Support

Enrico Tessadro (Amsterdam)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

Kuveyt Türk Katılım Bankası A.Ş. (“Kuveyt Türk”, or the “Bank”) is a financial institution that provides commercial and investment banking services in Turkey. Founded in 1989, the Bank is headquartered in Istanbul and as of the end of 2020 operated via 435 branches with over 6,000 employees.

Kuveyt Türk has developed the Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework (the “Framework”) under which it intends to issue sustainability certificates/financings and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that are expected to have positive environmental and social impacts such as the reduction of GHG emissions and the empowerment of vulnerable in Turkey.

The Framework defines green eligibility criteria in the following six areas:

1. Renewable Energy
2. Pollution Prevention and Control
3. Energy Efficiency
4. Green Buildings
5. Clean Transportation
6. Environmentally Sustainable Management of Living Natural Resources and Land Use

The Framework defines social eligibility criteria in the following three areas:

1. SME financing / employment generation
2. Affordable Housing
3. Access to Essential Services: Education & Healthcare

Kuveyt Türk engaged Sustainalytics to review the Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework, dated August 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP)¹, Green Loan Principles 2021 (GLP), and Social Loan Principles 2021 (SLP)². This Framework will be published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021 and Social Loan Principles 2021, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.10.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

¹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

³ Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework will be available on Kuveyt Türk Katılım Bankası A.Ş.’s website at: <https://www.kuveytturk.com.tr/en/investor-relations>

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

As part of this engagement, Sustainalytics held conversations with various members of Kuveyt Türk's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Kuveyt Türk representatives have confirmed (1) they understand it is the sole responsibility of Kuveyt Türk to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

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

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Kuveyt Türk.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Kuveyt Türk has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework

Sustainalytics is of the opinion that the Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP, and SLP. Sustainalytics highlights the following elements of Kuveyt Türk's Sustainable Finance Framework:

- Use of Proceeds:
 - The eligible categories – Renewable Energy, Pollution Prevention and Control, Energy Efficiency, Green Buildings, Clean Transportation, Environmentally Sustainable Management of Living Natural Resources and Land Use, SME financing / employment generation, Affordable Housing, Access to Essential Services: Education & Healthcare – are aligned with those recognized by the GBP, SBP, GLP, and SLP.
 - Within the Renewable Energy category, Kuveyt Türk intends to finance projects that generate electricity using onshore or offshore solar, wind, bio-energy, hydropower and geothermal sources. In addition, the Company contemplates expenditures related to research and development (R&D), production and/or supply of equipment related to the above-mentioned renewable energy sources.
 - Bio-energy projects financed under this category will have a direct emissions threshold less than or equal to 100 gCO₂e/kWh. This threshold is in line with market practice. Furthermore, the Bank intends to finance projects that only use waste feedstock such as forestry and agricultural residues, domestic sewage, animal manure, and waste plantal oils.⁵
 - Hydropower projects will be subject to a capacity of less than 25 MW and direct emissions threshold less than or equal to 100 gCO₂e/kWh. This is aligned with market

⁵ The Bank has confirmed the exclusion of non-RSPO certified palm oil.

- expectations. Kuveyt Türk has confirmed that all new hydropower plants financed under the Framework will have undergone environmental and social impact assessments in accordance with local regulations and would not involve significant controversies.
- Eligible geothermal projects will be subject to direct emissions threshold less than or equal to 100 gCO₂e/kWh.
 - Kuveyt Türk has confirmed that expenditures towards R&D, production or supply of renewable energy equipment would be directed towards facilities dedicated solely to renewable energy.⁶
 - Sustainalytics considers these investments as aligned with market practice.
- The Pollution Prevention and Control category contemplates investments in projects related to recycling of metals, plastic and paper, projects aimed at waste prevention, reduction and management or treatment, projects that reduce end-of-pipe air pollution and soil remediation.
 - Eligible facilities may include those that process recyclable plastic into secondary raw materials, as well as plastic production plants that use recycled plastic as a raw material. The Bank has confirmed that it does not intend to finance the chemical recycling of plastic. All eligible plastic production projects are required to meet one of the following conditions: (i) at least 90% of the raw material used for production is recycled plastic; (ii) at least 90% of the products made are not intended as single-use consumer products; and/or (iii) all the products made are recyclable. Sustainalytics views activities that extend the life cycle of products as aligned with market practice.
 - The Bank has confirmed that waste management or treatment projects that are eligible under the Framework will support the source segregation of waste. While Kuveyt Türk does not intend to focus on electronic waste, the Bank has specified that when included, e-waste projects will be subject to waste management processes to mitigate any associated risks. This is aligned with market expectations.
 - For eligible projects that reduce end-of-pipe air pollution, investments will not be made into equipment and/or technology that runs on fossil fuels. The Bank has also confirmed that it does not intend to finance projects where the air pollution is related to fossil fuel operations or the use of fossil fuel-powered technology.
 - Soil remediation projects under the Framework will not include investments towards projects or activities responsible for the contamination. This is aligned with market practice.
 - Under the Energy Efficiency category, Kuveyt Türk intends to finance projects that improve energy efficiency by at least 15%. These technologies may include smart grids, energy storage and metering systems, R&D projects that aim to increase energy efficiency and projects that support energy saving measures among households. Eligible projects financed under this category will not relate to fossil fuel operations, technologies and/or processes.
 - Sustainalytics views positively the Framework's inclusion of a defined improvement threshold for the installation of energy-efficient systems, equipment and technologies. Furthermore, while noting the variety of definitions and applications of smart grid technology, Sustainalytics views positively investments that are designed to improve grid efficiency and encourages Kuveyt Türk to select projects that are clearly anticipated to deliver tangible efficiency improvements.
 - The Green Buildings category includes expenditures in residential and commercial buildings that meet at least one of the following standards: (i) Existing buildings that achieve at least 30% energy efficiency gains when compared with a baseline of ASHRAE 90.1 2010; (ii) Buildings rated B or above as per the Turkish Energy Performance Certificate BEP-TR ("BEP-TR") or belonging to the top 15% low-carbon buildings in Turkey, and/or (iii) Buildings achieving minimum LEED "Gold" or BREEAM "Excellent" or the ÇEDBİK Green Building Certification "Very Good" levels. Please refer to Appendix 1 for an overview of Sustainalytics' assessment of these certifications.

⁶ Kuveyt Türk has communicated that financing for wind turbine manufacturing facilities would not include those using balsa wood as a raw material.

- Regarding BEP-TR, Sustainalytics views positively that this program is aligned with the EPBD.⁷ As of 2020, buildings rated “B” or above account for the top 34.26% of those assessed under the scheme. While Sustainalytics recognizes that market practice is to finance only the top 15% of buildings, it is noted that only approximately 10-15% of Turkey’s building stock has been evaluated using this methodology and that the buildings assessed are generally newer. Therefore, Sustainalytics considers buildings with BEP-TR “B” or above to perform better than the overall stock. Furthermore, Sustainalytics notes that Kuveyt Türk will prioritize buildings that fall under the top 15% of buildings, which is in line with market practice.
- Within the Clean Transportation category, the Bank intends to finance expenditures related to fully electric vehicles as well as hybrid vehicles with direct emissions below 50 gCO₂e per passenger-kilometer. In addition, Kuveyt Türk contemplates investments in: (i) public transport that are electric, hybrid or biofuel-based public transport with direct emissions below 50 gCO₂e/passenger-kilometer; and/or (ii) fully electric rail infrastructure.
 - For hybrid vehicles, Kuveyt Türk has communicated that it intends to report on the lab test procedure used to determine compliance with the mentioned threshold.
 - Kuveyt Türk has confirmed that investments in rail infrastructure would be made towards fully electrified rail projects with direct emissions below 50 gCO₂e per passenger-kilometer for passenger rail and below 25 gCO₂ per tonne-kilometer for freight. Furthermore, the Bank has communicated that freight rail activities would exclude fossil fuel transportation.
 - Sustainalytics considers investments under this category as well as the specified thresholds as aligned with market practice.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, Kuveyt Türk intends to finance certified agricultural projects, land restoration, conservation and reforestation projects as well as projects that promote sustainable farming practices such as drip irrigation and local seed projects, in accordance with local regulations.
 - This category may include agricultural projects that are certified under EU Organic or Rainforest Alliance. These certification schemes are credible and impactful. Please refer to Appendix: 2 for Sustainalytics’ assessment of these certifications.
 - The Bank also intends to finance land restoration, conservation and reforestation projects that are Forest Stewardship Council (FSC), or Programme for the Endorsement of Forest Certification (PEFC) certified. Investments under these schemes are aligned with market practice (see Appendix 3 for Sustainalytics’ assessment).
- The SME Financing/Employment Generation category targets financing and/or refinancing activities aimed at Small and Medium-sized Enterprises (SMEs) and micro enterprises or startups in Turkey.⁸
 - Kuveyt Türk has specified that these SMEs meet at least one of the following criteria: (i) majority owned or managed by women; (ii) majority owned or managed by migrants,⁹ youth or any other vulnerable groups; and/or (iii) facing the effects of natural disasters. Sustainalytics considers these investments as aligned with market practice.
- Affordable Housing expenditures may relate to financing consumer mortgages to low- and middle-income groups under the social housing programs of the Housing Development Administration of Turkey (TOKİ).
 - TOKİ defines income and other requirements (such as verification of land ownership) for applicants to ensure that its social housing program is targeted towards low- and medium-income groups. These requirements are defined on a project-by-project basis, depending on the location of the project and the time of construction. TOKİ acts as a guarantor for the repayment of the debt and sets the sale price of the houses on a non-

⁷ EPBD is the EU’s Energy Performance of Buildings Directive, which has been implemented by many countries in the form of EPCs. Refer to https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en

⁸ SMEs defined per the Turkish Official Gazette dated 18.11.2005, according to which medium enterprises have less than 250 employees and turnover or asset size equal to or below TL 125 million; Small enterprises have less than 50 employees and turnover or asset size equal to or below TL 25 million; Micro enterprises have less than 10 employees and turnover or asset size equal to or below TL 3 million. For further details, refer to: <https://www.mevzuat.gov.tr/mevzuat?MevzuatNo=20059617&MevzuatTur=3&MevzuatTertip=5>

⁹ Kuveyt Türk has communicated that this group refers to marginalized communities such as migrants from Syria and the investments aim to support their economic independence and adapting to the community.

profit basis, taking into consideration only the costs of land, construction, social facilities etc.

- Under the Access to Essential Services: Education & Healthcare category, Kuveyt Türk intends to finance the construction, maintenance or operation of public education and healthcare institutions. The Bank has confirmed that given the nature of free healthcare and education in Turkey, access is guaranteed for all regardless of ability to pay. Given this context, Sustainalytics views investments under this category as aligned with market practice.
- Sustainalytics notes positively that Kuveyt Türk provides framework level exclusions for coal-related projects, projects that fall under its List of Unfunded Activities, and projects that don't comply with its Credit Policy, Sustainability Policy and minimum environmental and social requirements according to national regulations. See Section 2 for additional details.
- Project Evaluation and Selection:
 - Kuveyt Türk intends to set up a Sustainable Finance Working Group (the "Working Group") comprised of members from the Treasury, Corporate and Commercial Marketing, SME Marketing, Credits, Risk Management, Strategy and Innovation as well as other relevant departments. The Working Group will be chaired by the Group Head of SME Marketing and will report to Kuveyt Türk's Sustainability Committee. The Working Group will be responsible for the selection and approval of eligible projects and will meet on at least a semi-annual basis.
 - The Bank has in place due diligence processes to manage and mitigate environmental and social risks, which are also applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional details refer to Section 2.
 - Based on the allocation of the establishment of a dedicated committee and risk management processes, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Working Group will track allocations and ensure that the proceeds are allocated to eligible projects. Kuveyt Türk has set a lookback period of three years for refinancing and intends to fully allocate all proceeds within three years of each issuance. Pending allocation, the proceeds may be held in line with the Bank's liquidity guidelines.
 - Based on the processes for tracking, allocation timeframe and disclosure around temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Kuveyt Türk intends to publish allocation and impact reports on an annual basis until all proceeds have been allocated or there are no outstanding certificates/financings. The allocation report will include information such as the total amount of proceeds allocated, allocation by category, the share of financing to refinancing and the unallocated balance.
 - Impact reporting will cover key impact metrics on the environmental and/or social impacts of the projects to which proceeds are allocated. This may include the amount of renewable energy generated or used (MWh), amount of energy saved (MWh), amount of GHG emissions avoided/reduced (tCO₂e), estimated annual CO₂ emissions avoided (tCO₂e), number of SMEs financed with breakdown by target population, and number of beneficiaries targeted by various programmes.
 - Based on the commitments for allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP, and SLP. For detailed information please refer to Appendix 4: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Kuveyt Türk

Contribution of Framework to Kuveyt Türk Katılım Bankası A.Ş. 's sustainability strategy

Kuveyt Türk sustainability strategy is articulated across its Environmental, Social and Governance (ESG) Principles. The Bank has established the Sustainability Policy in accordance with the ESG Principles, which is

overseen by its Sustainability Committee.¹⁰ Under the ESG principles, the Bank aims to provide products and services that have minimal negative impact on the environment, increase environmental awareness through conducting regular trainings for employees, customers, shareholders, and business partners, and increase financial literacy through expanding educational activities, amongst others.¹¹

Kuveyt Türk has established the implementation procedures within its credit policies to ensure that the credit activities comply with the ESG principles adopted by the Bank.¹² In addition, the Bank prioritizes the financing of projects it considers to have positive environmental impact by virtue of technology, waste transformation, carbon emissions reduction, energy efficiency as well as those providing access to basic services.¹³ Furthermore, the Bank has carried out technical and financial infrastructure studies aimed at improving its capacity to increase the share of biomass projects within its portfolio.¹⁴ In 2021, Kuveyt Türk signed cooperation protocols with project partner, Generalsolar Enerji to provide financing support for rooftop solar projects.¹⁵

Through its SME Banking division, Kuveyt Türk supports entrepreneurs through leasing and subsidized transactions.¹⁶ In 2020, Kuveyt Türk's SME Banking segment raised TL 28 billion (USD 3.80 billion) in funds.¹⁷ In 2020, the Bank also signed a Debtor-in-Possession agreement with Emlak Konut REIC to support Phase 4 of the social housing project, undertaken by İstanbul Konut İmar Plan Sanayi ve Ticaret A.Ş. ("KIPTAS") in Silivri.¹⁸ KIPTAS is a subsidiary of İstanbul Metropolitan Municipality, working for the construction of residences in different districts of İstanbul that are affordable to all income groups.¹⁹ As part of the Debtor-in-Possession agreement, the Bank has provided housing finance at affordable rates to 263 low-income families.²⁰

Sustainalytics is of the opinion that the Kuveyt Türk's Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities. While Sustainalytics notes the ongoing initiatives of the Bank, Sustainalytics encourages Kuveyt Türk to set and communicate timebound quantitative targets to strengthen their sustainable financing ambitions.

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

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key risks associated with the eligible projects, could include land use issues associated with large-scale infrastructure development, effluents, and waste generated in construction, exacerbating social inequalities, and occupational health and safety.

Sustainalytics is of the opinion that Kuveyt Türk is able to manage and/or mitigate potential risks through implementation of the following:

- Kuveyt Türk has communicated in the Framework that it has an environment and social risk due diligence process in place in addition to its credit policy for all its lending activities. The Bank ensures that the credit activities comply with national and international legislation and standards on ESG-related issues. For renewable energy project financing, the Bank requires an Environmental Impact Assessment (EIA) report to ensure proper management of the risks associated with the projects. In addition, the Bank has established the List of Unfunded Activities in which the Bank refuses the provision of financing.²¹

¹⁰ Kuveyt Türk's Sustainability Policy which has been shared with Sustainalytics and reviewed confidentially.

¹¹ *Ibid.*

¹² Kuveyt Türk's Annex-11 Environmental, Social and Governance Principles Implementation Procedures which has been shared with Sustainalytics and reviewed confidentially.

¹³ *Ibid.*

¹⁴ Kuveyt Türk, "Annual Report 2020", at: <https://www.kuveytturk.com.tr/medium/document-file-4532.vsf>

¹⁵ Kuveyt Türk, "Kuveyt Türk and Generalsolar Enerji enter into cooperation in Roof SPP", at: <https://www.kuveytturk.com.tr/en/about-us/about-kuveyt-turk/news/kuveyt-turk-and-generalsolar-enerji-enter-into-cooperation-in-roof-spp>

¹⁶ Kuveyt Türk, "Annual Report 2020", at: <https://www.kuveytturk.com.tr/medium/document-file-4532.vsf>

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ World Architecture, "Kiptas Silivri 4th Stage Social Housing", at: <https://worldarchitecture.org/architecture-projects/hgpzz/kiptas-silivri-4th-stage-social-housing-project-pages.html>

²⁰ Kuveyt Türk, "Annual Report 2020", at: <https://www.kuveytturk.com.tr/medium/document-file-4532.vsf>

²¹ The List of Unfunded Activities includes projects involving forced child labor, the production or trade of weapons of mass destruction or land mines, activities carried out in wetlands designated as RAMSAR (Wetlands of International Importance) area, activities that do not comply with local legislation and international treaties for the protection of biodiversity resources and cultural heritage, amongst others.

- The Bank has a Corporate Governance Policy in place to protect the rights and interests of all stakeholders, partners, customers, and employees.²² In addition, Kuveyt Türk also ensures that all services and activities are aligned with regulations regarding environment, customers and public health.²³ Furthermore, the Bank has established a Corporate Social Responsibility Committee, which assesses and selects the social responsibility projects in accordance with internal policies as well as regulations developed by public authorities and institutions.²⁴
- Under Article 10 of the Turkish Environmental Law No. 2872, the institutions, agencies, and establishments that can lead to environmental issues due to their planned activities are required to prepare an Environmental Impact Assessment report.²⁵ In addition, the Environmental Permits and Licenses Regulation requires companies to obtain an integrated environmental permit which covers air emissions, environmental noise, wastewater discharge and deep-sea discharge.²⁶ Furthermore, under Article 11 of the Environmental Law No. 2872, all institutions, agencies and enterprises are obliged to establish waste treatment facilities or systems individually or collectively that are indicated in the legislation. Moreover, the operational and utilization licenses will not be granted unless waste treatment facilities or systems are established.²⁷ Kuveyt Türk has confirmed that it ensures compliance with these and other applicable environmental regulations for all projects financed under the Framework.
- Kuveyt Türk has confirmed that all projects financed under the Framework will comply with applicable laws and regulations regarding occupational health and safety. The Law on Turkish Occupational Health and Safety (Law No. 6331) requires all employers to have an accident prevention policy, risk assessments, on-site occupational safety experts, and periodic medical examinations for employees. The Law also requires all employers to provide employees with information and training on health and safety issues.²⁸

Based on these policies, processes, and regulations, Sustainalytics is of the opinion that Kuveyt Türk has implemented adequate measures and is well-positioned to manage and mitigate environmental risks commonly associated with the eligible categories. However, Sustainalytics encourages Kuveyt Türk to monitor and report on its responsible lending processes to mitigate the risk of predatory lending.

Section 3: Impact of Use of Proceeds

All nine use of proceeds categories are aligned with those recognized by GBP, SBP, GLP or SLP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of financing renewable energy in Turkey

Turkey was considered as the 20th largest emitter of GHGs globally in 2018 and has the potential to triple its emissions over the next decade.²⁹ Between 2005 and 2019, Turkey's total final energy consumption increased by 74%, due to strong population growth and a rapidly growing economy.³⁰ To address its energy intensity, the Turkish government set a target to increase the share of renewable energy sources to 38.8%³¹ and reduce primary energy consumption by 14%³² by 2023, compared to a 2017 baseline. In addition, the country's government also set a reduction target of up to 21% in GHG emissions by 2030 compared to 2012 levels.³³

Renewable energy generation has grown significantly in Turkey since 2000, increasing from 0.3 terawatt-hours in 2000 to a peak of 45.3 terawatt hours in 2019.³⁴ As of May 2021, renewable energy accounts for around

²² Kuveyt Türk, "Corporate Governance Policy", at: <https://www.kuveytturk.com.tr/medium/document-file-719.vsf>

²³ *Ibid.*

²⁴ Kuveyt Türk, "Corporate Social Responsibility Policy", at: <https://www.kuveytturk.com.tr/medium/document-file-574.vsf>

²⁵ Laws Turkey, "Environmental Law No. 2872", at: <http://www.lawsturkey.com/law/environment-law-2872>

²⁶ Legal Office Faolex, "Environmental Permission and License Regulation", at: <http://extwprlegs1.fao.org/docs/pdf/tur151843.pdf>

²⁷ Laws Turkey, "Environmental Law No. 2872", at: <http://www.lawsturkey.com/law/environment-law-2872>

²⁸ ILO, "Act No. 6331 on Occupational Health and Safety", at:

<https://www.ilo.org/dyn/natlex/docs/MONOGRAPH/92011/106963/F1028231731/TUR92011%20Eng.pdf>

²⁹ Carbon Brief, "The Carbon Brief Profile: Turkey", (2018), at: <https://www.carbonbrief.org/carbon-brief-profile-turkey>

³⁰ IEA, "Key Energy Statistics", (2019), at: <https://www.iea.org/countries/turkey>

³¹ IEA, "Turkey 2021 Energy Policy Review", at: <https://www.iea.org/reports/turkey-2021>

³² IEA, "National Energy Efficiency Action Plan", (2020), at: <https://www.iea.org/policies/7964-national-energy-efficiency-action-plan-2017-2023>

³³ Republic of Turkey Ministry of Environment and Urbanization, "Seventh National Communication of Turkey Under the UNFCCC", (2018), at:

https://unfccc.int/sites/default/files/resource/496715_Turkey-NC7-1-7th%20National%20Communication%20of%20Turkey.pdf

³⁴ Statista, "Renewable energy generation in Turkey from 2000 to 2019", at: <https://www.statista.com/statistics/893494/renewable-energy-generation-turkey/>

52% of Turkey's total electricity generation, well exceeding its 2023 targets,³⁵ and is expected to grow steadily. During the first quarter of 2021 alone, over 1200 MW of renewables were added to Turkey's installed capacity, accounting for close to 98% of the new installed capacity added during that period.³⁶ Turkey aims to continue promoting the expansion of renewable energy resources and is expected to commission 10 GW each of solar and wind capacity by 2027.³⁷

Based on the above context, Sustainalytics is of the opinion that Kuveyt Türk's investments in renewable energy can positively contribute to Turkey achieving its national renewable energy and emission targets.

Impact of financing SMEs to support employment generation in Turkey

Small and medium-sized enterprises (SMEs) accounted for 99.8% of all enterprises in 2017 and 72.4% of total employment in Turkey in 2019.³⁸ Between 2006 and 2017, Turkey saw widening regional disparities, with the unemployment rate in the 20% best performing regions averaging 5.9% and the bottom 20% regions averaging 15.8%.³⁹ Since 2016, the Government of Turkey has adopted financial initiatives, including the Credit Guarantee Fund, support packages and tax initiatives to support SMEs which are an important source of development and employment in underdeveloped regions.⁴⁰

In March 2020, in response to the outbreak of the COVID-19 pandemic, the Government of Turkey launched an Economic Stability Shield package which involved a number of measures to mitigate the potential economic fallout of the pandemic and provide businesses with the liquidity required to continue operations.⁴¹ Despite these measures, access to finance for SMEs, especially women-owned businesses, remains a significant challenge for the growth and continuity of the enterprises.⁴² The International Finance Corporation estimates that increasing financial access for women-owned SMEs in Turkey can bring positive benefits for other underserved groups facilitating employment generation.⁴³

Based on this context, Sustainalytics is of the opinion that Kuveyt Türk's lending to SMEs owned or led by women and other vulnerable groups, is expected to support employment generation and result in positive social outcomes in Turkey.

The importance of investing in affordable housing in Turkey

Housing is a major sector in the Turkish economy, accounting for nearly 9% of the country's GDP since 2010.⁴⁴ According to a World Bank analysis, although Turkey has a well-developed housing construction industry that builds nearly 800,000 units every year, it caters largely to the high-end of the market where the housing prices are much higher, leaving out the lower and medium income populations. The analysis also shows that a majority of the lenders tend to finance loans that are only affordable to the top 20% of urban households, thereby pricing out low-and middle-income groups.⁴⁵

³⁵ Daily Sabah, "Renewables account for over 50% of Turkey's installed capacity", (2021) at: <https://www.dailysabah.com/business/energy/renewables-account-for-over-50-of-turkeys-installed-capacity>

³⁶ *Ibid.*

³⁷ IEA, "Turkey 2021 Energy Policy Review", at: <https://www.iea.org/reports/turkey-2021>

³⁸ Turkish Statistical Institute, "Small and Medium Sized Enterprises Statistics, 2019", at: <https://data.tuik.gov.tr/Bulten/Index?p=Small-and-Medium-Sized-Enterprises-Statistics-2019-37548&dil=2>

³⁹ OECD, "Regions and Cities at a Glance 2018 – Turkey", (2019), at: <https://www.oecd.org/cfe/TURKEY-Regions-and-Cities-2018.pdf>

⁴⁰ Erdin, C. et al., "Contribution of small and medium enterprises to economic development and quality of life in Turkey", (2020), at: <https://www.sciencedirect.com/science/article/pii/S2405844020300608>

⁴¹ EY, "Turkey introduces Economic Stability Shield Package to reduce the impact of COVID-19", (2020), at: <https://taxnews.ey.com/news/2020-0605-%20turkey-introduces-economic-stability-shield-package-to-reduce-the-impact-of-covid19?uAlertID=Sd%2fG8rua1oj6%2f58EZ2AiA%3d%3d#:~:text=%20The%20following%20measures%20are%20implemented%20by%20the,and%20rev%20%20shares%20related%20to%20hotel...%20More%20>

⁴² World Bank, "Gender Bias in SME Lending: Experimental Evidence from Turkey" (2019), at:

<http://documents.worldbank.org/curated/en/244611577766368167/pdf/Gender-Bias-in-SME-Lending-Experimental-Evidence-from-Turkey.pdf>

⁴³ IFC, "New Financing Tools Empower Turkey's Women Entrepreneurs", News, (2020), at:

https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/impact-stories/turkeywomenentrepreneurs

⁴⁴ Emekci, S.(2020) "How the pandemic has affected Turkish housing affordability: why the housing running cost is so important", City, Territory & Architecture, at: <https://cityterritoryarchitecture.springeropen.com/track/pdf/10.1186/s40410-021-00132-3.pdf>

⁴⁵ World Bank, "Challenges Ahead: Turkey's Housing Market", at: <https://www.worldbank.org/en/news/feature/2016/09/23/challenges-ahead-of-turkeys-housing-market>

In Turkey, home loans are relatively expensive, averaging about 25% annually and with short-term maturities of 3 to 8 years.⁴⁶ Moreover, data from the Central Bank of the Republic of Turkey shows that between 2010 and 2020, housing prices tripled across the country.⁴⁷ The lack of affordable housing combined with rising prices leaves low-income families vulnerable, a situation exacerbated by the COVID-19 pandemic.⁴⁸

In this context, Kuveyt Türk's investments in affordable housing programs with defined low- and middle-income target populations are expected to help address the affordable housing challenge in Turkey.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The certificates/financings issued under the Kuveyt Türk's Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements
SME financing / employment generation	8. Decent work and economic growth	8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors

⁴⁶ "Housing and Mortgage markets" at: <http://www.ecbc.eu/uploads/attachements/50/65/Turkey.pdf>

⁴⁷ Emekci, S.(2020) "How the pandemic has affected Turkish housing affordability: why the housing running cost is so important", City, Territory & Architecture, at: <https://cityterritoryarchitecture.springeropen.com/track/pdf/10.1186/s40410-021-00132-3.pdf>

⁴⁸ *Ibid.*

Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to essential services: Education & Healthcare	3. Good Health and Wellbeing 4. Quality Education	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all 4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes

Conclusion




Kuveyt Türk has developed the Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework under which it may issue green, social or sustainability certificates/financings and use the proceeds to finance projects that reduce GHG emissions, reduce waste, promote sustainable agriculture, improve financing for SMEs and affordable housing, and improve access to basic education and healthcare. Sustainalytics considers that the projects funded by the green, social or sustainability certificates/financings proceeds are expected to provide positive environmental and social impact.

The Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 7, 8, 11, 12, and 15. Additionally, Sustainalytics is of the opinion that Kuveyt Türk has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Kuveyt Türk Katılım Bankası A.Ş. is well-positioned to issue sustainability certificates/financings and that that Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2021), Green Loan Principles (2021), and Social Loan Principles (2021).

Appendices

Appendix 1: Overview of Referenced Green Building Certification Schemes

	LEED ⁴⁹	BREEAM ⁵⁰	CEDBIK ⁵¹	BEP-TR ^{52,53}
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED Building was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	Building Research Establishment Environmental Assessment Method (BREEAM) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK, BREEAM is used for new, refurbished and extension of existing buildings.	CEDBIK (Turkish Green Building Council) is a rating system for residential and commercial buildings that is used in Turkey.	Building Energy Performance of Turkey (BEP-TR) Certification is a building energy performance calculation methodology that focuses on district heating and/or renewable energy for buildings above a certain threshold. BEP-TR was developed in alignment with Turkey's regulations and based on the EU's Energy Performance of Buildings Directive (EPBD).
Certification levels/rating	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	Certified Good Very Good Excellent	A B C D
Areas of Assessment: Environmental Performance of the Building	Energy and Atmosphere Sustainable Sites Location and Transportation Materials and Resources Water efficiency Indoor Environmental Quality Innovation in Design Regional Priority	Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation	Energy Efficiency Water Efficiency Land use Health and Comfort Materials and Resources Life on Property Operation and Maintenance Innovation	Outdoor climatic conditions of a building's location Minimum energy performance (MEPs) of retrofits for existing buildings
Requirements	Prerequisites (independent of level of certification) + Credits with associated points These points are then added together to obtain the LEED level of certification There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).	Prerequisites depending on the levels of certification + Credits with associated points This number of points is then weighted by item ⁴⁸ and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score. BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.	Prerequisites (independent of level of certification) + additive Credits with associated points.	BEP-TR calculates the maximum energy needed for heating, cooling hot water, ventilation and illumination of new existing buildings using an hourly calculation. Building Energy Performance Certificates (EPCs) are granted under the "Regulation on Energy Performance in Buildings". An EPC will not be granted to buildings with less than a C rating.
Performance display				N/A

⁴⁹ USGBC, LEED, at: www.usgbc.org/LEED

⁵⁰ BREEAM, at: <https://breeam.com/>

⁵¹ Cedbik: <https://cedbik.org/>

⁵² BEP, Energy Performance of Buildings: <http://www.bep.gov.tr/default.aspx>



⁵³ International Partnership for Energy Efficiency Cooperation, Building Code Implementation – Country Summary: http://www.gbpi.org/sites/default/files/Turkey_Country%20Summary_0.pdf

Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework

Accreditation	LEED AP BD+C LEED AP O+M	BREEAM International Assessor BREEAM AP BREEAM In Use Assessor		Aligned with EU EPRD
Qualitative considerations	Widely recognised internationally, and strong assurance of overall quality.	Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (fewer minimum thresholds) than LEED certifications.	There has been one CEDBIK-certified project in Turkey since CEDBIK's launch in 2016 ⁵⁴	The application of BEP-TR is mandatory for all new buildings in Turkey except for industrial buildings, temporary buildings (used for less than 2 years), buildings with a total useful floor area of less than 50m ² , greenhouses, workshops, and stand-alone buildings with no heating or cooling requirements.

⁵⁴ DergiPark, Credit Success Rates of Certified Green Buildings in Turkey: <https://dergipark.org.tr/en/download/article-file/683057>

Appendix 2: Overview of Referenced Agricultural Certification Schemes

	EU Organic ⁵⁵	Rainforest Alliance ⁵⁶
Background	The EU Organic Farming is a European wide label organised under the European Commission's Council Regulation (EC) no 834/2007. The regulation covers the organic production and labelling of organic products including live or unprocessed agricultural projects, processed agricultural products for use of food, feed, and vegetative propagating material and seeds for cultivation.	The Rainforest Alliance Seal is a global certification system for Agriculture, Forestry and Tourism. The Rainforest Alliance certification indicates compliance with the organization's standards for environmental, social and economic sustainability. Rainforest Alliance merged with UTZ in January 2018.
Clear positive impact	Promotion of a sustainable management system that respects nature's systems, contributes to biological diversity, uses energy responsibly, respects high animal welfare standards.	Promoting sustainable practices in agriculture, forestry and tourism.
Minimum standards	The EU Organic Farming system prohibits the use of GMOs (minimum 95% GMO free), the use of ionising radiation and sets core requirements for plant production, production rules for seaweed, livestock production rules, production rules for aquaculture animals.	Rainforest alliance establishes a minimum threshold for impact through critical criteria, and requires farmers to go beyond by demonstrating improved sustainability on 14 continuous improvement criteria.
Scope of certification or programme	The EU Organic Farming system addresses key risks such as substance use (e.g. pesticides, soluble fertilisers, soil conditioners or plant protection products), the maintenance and enhancement of soil life, natural soil fertility, soil stability and biodiversity, preventing and combating soil damage (compaction, erosion).	Rainforest alliance addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.
Verification of standards and risk mitigation	Certified entities undergo audits to ensure compliance with criteria and continuous improvement at least once a year, or more often based on a risk assessment.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.
Third party expertise and multi-stakeholder process	The EU Organic Farming is a government-based standard resulting from public consultations and third-party deliberations in line with the European Commission's typical legislative approach.	Standard setting is aligned with the ISEAL Standard Setting Code.
Performance Display		
Qualitative considerations	The EU Organic Farming system is widely recognized across all 28 Member States. Currently, 11.9% million hectares are currently certified under the system, with the whole organic area representing 6.2% of the total utilized agricultural area in the European Union.	Global recognition across 76 countries around the world. There are 763 Rainforest Alliance certified products and more than 1,354,057 people which have conducted training, certification and verification under the Rainforest Alliance standard. Rigorous on the enforcement of minimum standards and strong governance over the implementation of social and environmental mitigation processes.

⁵⁵ European Commission, Organics at a glance: https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/organics-glance_en

⁵⁶ Rainforest Alliance, Sustainable Agriculture Certification: <https://www.rainforest-alliance.org/business/certification/>

Appendix 3: Overview of Referenced Forestry Certification Schemes

	Programme for the Endorsement of Forest Certification (PEFC) ⁵⁷	Forest Stewardship Council (FSC) ⁵⁸
Background	Founded in 1999, the Programme for the Endorsement of Forest Certification (PEFC) is a non-profit organization that promotes sustainable forest management through independent third-party certification, this includes assessments, endorsements and recognition of national forest certification systems. PEFC was created in response to the specific requirements of small- and family forest owners as an international umbrella organization.	The Forest Stewardship (FSC) is a non-profit organization established in 1993 that aims to promote sustainable forest management practice by evaluating forest management planning and practices independently against FSC's standards.
Basic Principles	<ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements 	<ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations
Types of standards/benchmarks	<ul style="list-style-type: none"> • Sustainable Forest Management benchmark – international requirements for sustainable forest management. National forest management standards must meet these requirements in order to obtain PEFC endorsement • Group Forest Management Certification – outlines the requirements for national forest certification systems who have group forest management certification • Standard Setting – covers the processes that must be adhered to during the development, review and revision of national forest management standards • Chain of Custody – outlines the conditions for obtaining CoC certification for forest-based products • PEFC logo Usage Rules – outlines the requirements entities must abide by when using the PEFC logo • Endorsement of National Systems – outlines the process that national systems must go through to achieve PEFC endorsement 	<ul style="list-style-type: none"> • Forest Management certification (for single/multiple applicant(s) – industrial or private forest owners, forest license holders, community forests, and government-managed forests) • Small and Low Intensity Management Forests (SLIMFs) program (for small forests and forests that are managed at low intensity would be eligible) • Chain of Custody (CoC) certification (for supply chain companies' planning, practices and products – all operations that want to produce or make claims related to FSC-certified products must possess this certificate) • Controlled Wood verification (for assurance that 100% virgin fiber mixed with FSC-certified and recycled fiber originates from a verified and approved source)
Governance	PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders. In general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups. Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.	The General Assembly is comprised of all FSC members and constitutes the highest decision-making body. Members can apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers. Each chamber maintains 33.3% of the weight in votes, and votes are weighted so that the North and South hold an equal portion of authority in each chamber, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.
Scope	Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59) ⁵⁹ and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.	FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.
Chain-of-Custody	<ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used 	<ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is

⁵⁷ PEFC, Standards and Implementation: <https://www.pefc.org/standards-implementation>

⁵⁸ Forest Stewardship Council, FSC Principles and Criteria for Forest Stewardship: <https://ca.fsc.org/preview.principles-criteria-v5.a-1112.pdf>

⁵⁹ ISO, ISO/IEC Guide 59:2019: <https://www.iso.org/standard/23390.html>

	<p>to implement the minimum requirements for chain-of-custody management systems required by PEFC</p> <ul style="list-style-type: none"> ● Only accredited certification bodies can undertake certification ● CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. ● The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials ● The CoC standard includes specifications for the physical separation of certified and non-certified wood ● The CoC standard includes specifications about procedures for dealing with complaints related to participant's chain of custody 	<p>accredited by FSC and compliant with international standards</p> <ul style="list-style-type: none"> ● CoC standard includes procedures for tracking wood origin ● CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products ● CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC
Non-certified wood sources	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> - operations and harvesting, including land use conversion, - management of areas with designated high environmental and cultural values, - protected and endangered species, including CITES species, - health and labour issues, - indigenous peoples' property, tenure and use rights, - payment of royalties and taxes. genetically modified organisms, forest conversion, including conversion of primary forests to forest plantations. 	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others, Wood harvested in violation of traditional and civil rights, Wood harvested in forests where high conservation values are threatened by management activities, Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses, Wood from management units in which genetically modified trees are planted.
Accreditation/verification	<p>Accreditation is carried out by an accreditation body (AB). In the same way that a certification body checks that a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process, PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>	<p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p>
Qualitative considerations	<p>Sustainalytics views both FSC and PEFC as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices⁶⁰ and both have also faced criticism from civil society actors.^{61,62} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>	

⁶⁰ FESPA, FSC, PEFC and ISO 38200: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

⁶¹ Yale Environment 360, Greenwashed Timber: How Sustainable Forest Certification Has Failed: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

⁶² EIA, PEFC: A Fig Leaf for Stolen Timber: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>

Appendix 4: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Kuveyt Türk Katılım Bankası A.Ş.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	August 16, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Renewable Energy, Pollution Prevention and Control, Energy Efficiency, Green Buildings, Clean Transportation, Environmentally Sustainable Management of Living Natural Resources and Land Use, SME financing / employment generation, Affordable Housing, Access to Essential Services: Education & Healthcare – are aligned with those recognized by both the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental and/or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 7, 8, 11, 12, and 15.

Use of proceeds categories as per GBP:

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

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

Use of proceeds categories as per SBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Kuveyt Türk's Sustainable Finance Working Group comprised of members from various departments are responsible for selecting and approving eligible projects. Kuveyt Türk's due diligence processes to manage and mitigate environmental and social risks are applicable for all allocations under the Framework. Sustainalytics considers the risk management processes to be adequate and the project selection to be in line with market practice

Evaluation and selection

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

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The Sustainable Finance Working Group is responsible for tracking allocations to eligible projects. Kuveyt Türk has defined a lookback period of three years for refinancing and intends to fully allocate within three years of each issuance. Pending allocation, the proceeds may be held in line with internal liquidity policies. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
|---|---|

- | | |
|--|---|
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Kuveyt Türk intends to report on the allocation of proceeds on its website annually until full allocation. In addition, the Bank is committed to reporting on relevant impact metrics. Sustainalytics views Kuveyt the allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): Financing vs Refinancing, Unallocated Balance | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input checked="" type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): Amount of waste prevented, reduced or recycled |

Frequency:

- ☒ Annual
 ☐ Semi-annual
☐ Other (please specify):

Means of Disclosure

- ☐ Information published in financial report
 ☐ Information published in sustainability report
☒ Information published in ad hoc documents
 ☐ Other (please specify):
☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

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

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines

specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

- iv.** Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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Named

2015: Best SRI or Green Bond Research or Rating Firm
 2017, 2018, 2019: Most Impressive Second Opinion Provider



The
Green Bond
 Principles



The
Social Bond
 Principles