

Second-Party Opinion

VakıfBank Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the VakıfBank Sustainable Finance Framework is credible, impactful and aligns with the Green Bond Principles 2018 (GBP), Green Loan Principles 2018 (GLP), and Social Bond Principles 2018 (SBP). This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Pollution Prevention and Control, (iii) Green Buildings, (iv) Affordable Housing, and (v) Employment Generation – are aligned with those recognized by both the GBP, GLP and SBP. Sustainalytics considers that the eligible categories will foster local renewable energy investments, promote sustainable resource management, and support employment generation in Turkey while contributing to the UN Sustainable Development Goals (SDGs), specifically SDG 7, 8, 9, 11 and 12.



PROJECT EVALUATION / SELECTION The project evaluation and selection process will be managed by the VakıfBank Sustainability Working Group (the “Group”), which is comprised of a wide range of cross-functional representatives. The Group will monitor and evaluate the asset pool regularly to ensure the alignment of the assets with the eligibility criteria. Additionally, the Group will meet at least bi-annually to review the project evaluation and selection process. Sustainalytics considers this process in line with market practice.



MANAGEMENT OF PROCEEDS Eligible assets will be managed by the Group on a portfolio basis. The Group will track the proceeds through a Sustainability Financing Register which will be adjusted bi-annually in line with the eligibility criteria under the Framework. Any existing projects that no longer meet the eligibility criteria will be substituted with new projects on a best-efforts basis. Pending allocation, unallocated proceeds will be temporarily held in cash, cash equivalents, and marketable securities. This is in line with market practice.



REPORTING VakıfBank intends to publish allocation and impact reports on its website on an annual basis until full allocation. Regarding allocation reporting, VakıfBank intends to disclose the amount or percentage of allocation, examples of financed projects, the amount of proceeds allocated by project category, distribution of projects by region, the share of financing and refinancing, and the balance of unallocated proceeds. Where feasible, VakıfBank is committed to reporting on relevant impact metrics. Sustainalytics views this reporting process as aligned with market practice.

Evaluation date	June, 2020
Issuer Location	Istanbul, Turkey

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Introduction

Headquartered in İstanbul, Türkiye Vakıflar Bankası T.A.O. (“VakıfBank”, the “Bank” or the “Issuer”) is a state-owned bank providing retail, private, corporate, commercial, and small business banking, as well as investment banking and capital market activities. In addition, VakıfBank offers insurance, leasing and factoring services through its financial subsidiaries, mainly in Turkey. As of 2020, VakıfBank has 10 affiliates, 15 subsidiaries, and 940 branches domestically and internationally, serving approximately 23.4 million customers.

VakıfBank has developed the VakıfBank Sustainable Finance Framework (the “Framework”) under which it intends to issue green, social and sustainability bonds and loans, and other debt or financing instruments which will fund eligible green and social projects under the Framework, using the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that facilitate local renewable energy investments, promote resource efficiency, and support employment generation in Turkey. The Framework defines eligibility criteria in three green and two social areas:

Green Eligible Categories:

1. Renewable Energy
2. Pollution Prevention and Control
3. Green Buildings

Social Eligible Categories:

1. Affordable Housing
2. Employment Generation

VakıfBank engaged Sustainalytics to review the VakıfBank Sustainable Finance Framework, dated May 2020, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG)¹ and Green Loan Principles 2018 (GLP).² This Framework has been 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 categories are credible and impactful.

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

- The Framework’s alignment with the ICMA Sustainability Bond Guidelines 2018
- The credibility and anticipated positive impacts of the use of proceeds
- 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 1.3.2, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of VakıfBank’s management team to understand the sustainability impact of their business processes and planned use of

¹ The Sustainability Bond Guidelines 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 are administered by the International Capital Market Association and are available at: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA_Green_Loan_Principles_Booklet-220318.pdf

³ The VakıfBank Sustainable Finance Framework is available on VakıfBank’s website at: <https://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

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.

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proceeds, as well as management of proceeds and reporting aspects of the Framework. VakıfBank representatives have confirmed (1) they understand it is the sole responsibility of VakıfBank 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 this Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and VakıfBank.

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 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 intended allocation of proceeds but does not guarantee the realized allocation of the bond 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 favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that VakıfBank has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the VakıfBank Sustainable Finance Framework

Sustainalytics is of the opinion that the VakıfBank Sustainable Finance Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP), Green Loan Principles 2018 (GLP), and Social Bond Principles 2018 (SBP). Sustainalytics highlights the following elements of VakıfBank's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories in the Framework – (i) Renewable Energy, (ii) Pollution Prevention and Control, (iii) Green Buildings, (iv) Affordable Housing, and (v) Employment Generation – are aligned with those recognized by the GBP, GLP and SBP. Sustainalytics believes that VakıfBank's use of proceeds will foster local renewable energy investments, promote sustainable resource management, and support employment generation in Turkey.
 - While VakıfBank does not indicate a look-back period for its refinancing activities, the Bank commits to report on the portion of financing vs refinancing in its allocation reporting.
 - The Renewable Energy category includes investments in onshore and offshore wind, solar, geothermal, waste biomass to energy, and small-scale (<25MW) run-of-river hydropower projects, as well as the manufacture of components wholly dedicated to the generation of renewable energy.
 - Regarding geothermal power, Sustainalytics highlights that VakıfBank limits projects selected to those with direct emissions of less than 100gCO₂/kWh, which is in line with market practice.
 - Regarding waste biomass to energy, VakıfBank confirmed that projects use forestry and agricultural residues. Sustainalytics notes that VakıfBank explicitly excludes palm oil operations and encourages the Bank to favour projects which are sourced by well-managed forests and agricultural production.

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- The Employment generation category includes business loans to small and medium-sized enterprises (SMEs)⁵ and business continuity support loans to SMEs affected by natural disasters and pandemics, particularly coronavirus disease 2019 (COVID-19).
 - Regarding business loans, Sustainalytics highlights that VakıfBank limits its lending to SMEs that operate in the manufacturing and service industry and are located in cities with a GDP per capita below the national average. Sustainalytics believes that VakıfBank's lending will promote employment generation and increase access to finance for SMEs in Turkey.
 - Regarding business continuity support loans aimed at reducing the economic impact of natural disasters and pandemics, particularly COVID-19, Sustainalytics recognizes the importance of ensuring business and employment continuity to address the adverse impacts of pandemics and natural disasters, and encourages VakıfBank to ensure the adequate targeting of SMEs, transparently disclose the SMEs financed, and report on the impact achieved.

(Please see Section 3: Impact of Use of Proceeds for additional details)

- The Green Buildings category includes investments to new and/or existing commercial and/or residential buildings with third-party certification standards and labels, namely LEED Gold or above, BREEAM Very Good or above, BEP-TR B or above, and ÇEDBİK Green Building certification.
 - Regarding LEED and BREEAM, Sustainalytics has conducted an evaluation of these standards and considers the minimum levels specified as indicative of strong performance.
 - Regarding BEP-TR, Sustainalytics views the alignment of the programme with the European Union's Energy Performance of Buildings Directive positively.⁶ As of 2020, buildings rated B or above account for the top 34% 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 be higher-performing than the overall stock and encourages VakıfBank to favour buildings that fall under the top 15% of buildings to align with market practice.
 - Regarding ÇEDBİK Green Building Certification, Sustainalytics views the inclusion of the programme positively, while noting the limited amount of data regarding coverage and achievements.

(Please see Appendix 1 for an overview and comparison of green building certification schemes.)

- The Affordable Housing category includes investments in social housing projects as defined by the Housing Development Administration of Turkey (TOKI).⁷ Sustainalytics highlights TOKI's definition of the target population,⁸ which focuses on low- and middle-income groups based on the public sector wage index and maximum net monthly household income. Additionally, TOKI ensures that the sales price and re-payment conditions are defined according to the income and saving patterns of the target groups, and the terms do not apply to the private sector.
- The Pollution Prevention and Control category includes investments to recycling, reuse, and waste management projects such as collection and sorting. Project examples include the recycling of ash to be used as soil regulator in agriculture and the collection of hazardous materials to be sent to the licensed recycling/disposal facilities⁹ during the construction stage of waste biomass to energy projects. Sustainalytics positively notes that VakıfBank excludes

⁵ SMEs are defined following the Union of Chamber and Commodity Exchanges of Turkey as companies with fewer than 250 employees and turnover or total assets below TL125 million. Details for each categorization (micro/small/medium-sized enterprises) can be found at:

<https://www.tobb.org.tr/KobiArastirma/Sayfalar/Eng/SMEsinTurkey.php>

⁶ European Union's Energy Performance of Buildings Directive, at: https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en

⁷ Housing Development Administration of Turkey (TOKI), at: <https://www.toki.gov.tr/en/>

⁸ TOKI's definition of target population for its social housing projects, at: <https://www.toki.gov.tr/en/housing-programs.html>

⁹ VakıfBank confirmed that minor maintenance activities are conducted in reinforced concrete areas at the construction site, by notifying the authorized services. If hazardous materials occur during these repairs, these materials are collected in the containers and delivered to the licensed waste disposal facilities authorized by the Ministry of Environment and Urbanization.

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electronic waste and landfill activities and encourages the Bank to limit its waste management projects to those that enable source segregation of waste.

- Project Evaluation and Selection:
 - VakifBank’s dedicated working group, The Sustainability Working Group (the “Group”), will manage the project evaluation and selection process. The Group is comprised of a wide range of cross-functional representatives such as Head of International Banking and Investor Relations, Head of Support Services, Head of Corporate Communication, Investor Relations Manager, Credit Risk and Operational Risk Management Manager, Construction Affairs Manager, Recruitment and Employee Operations Manager, Corporate Development Manager, Corporate Training Manager, Specialized Loans Project Development and Analysis Manager, Investment Loans Project Development and Analysis Manager, SME Banking Products Development and Management Manager, Strategy Development and Planning Manager, Internal Communication Manager, and Public Relations and Media Manager.
 - VakifBank has a two-step project evaluation and selection process. First, local banking teams will conduct an initial selection of eligible projects. Then, the Group will assess and approve the initial list of eligible projects aligned with the Bank’s relevant loan and investment approval processes. Eligible projects will be screened based on the criteria under the Framework, along with the Bank’s credit policy and its exclusions list. Assets refinanced by third parties, non-performing loans, and uncommitted transactions will be excluded from financing. The Group will review the project evaluation and selection process at least bi-annually.
 - Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Group will manage the net proceeds on a portfolio basis. Eligible assets will be tracked via a Sustainability Financing Register, and the balance of the net proceeds will be adjusted aligned with the eligibility criteria on a bi-annual basis. In case of existing financial instruments falling out of eligibility criteria, the assets will be replaced within a reasonable timeframe. Pending full allocation, unallocated proceeds will be temporarily held in cash, cash equivalents, and marketable securities.
 - Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Until full allocation, VakifBank commits to publishing annual allocation and impact reporting on its website. As part of the allocation reporting, VakifBank will report on the amount or percentage of allocation to the Eligible Green and Social Portfolio, examples of projects being financed, the amount of proceeds allocated by project category, distribution of projects by region, the portion of financing and refinancing, and the balance of unallocated proceeds.
 - Regarding impact reporting, where feasible, VakifBank will provide information on environmental and social impact indicators such as expected annual renewable energy generation (MWh/year), reduced and/or avoided GHG emissions (in tCO₂e/year), annual absolute (gross) amount of waste separated, collected, treated and recycled, level of green building certification, number of people with access to affordable housing, number of SMEs financed, and number of new jobs created.
 - To ensure alignment with the Framework eligibility criteria, VakifBank intends to engage an external reviewer to provide an annual assessment on the allocation of the proceeds.
 - Sustainalytics considers this reporting process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2018 and and Green Loan Principles 2018

Sustainalytics has determined that the VakifBank Sustainable Finance Framework aligns to the four core components of the Green Bond Principles 2018, and Green Loan Principles 2018, and Social Bond Principles 2018. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of VakıfBank

Contribution of Framework to VakıfBank 's sustainability strategy

VakıfBank has incorporated environmental and social sustainability considerations into its business operations through the establishment of the Value Creation Model,¹⁰ which is underpinned by the Bank's four fundamental values: (i) Widespread Access to Finance, (ii) Sustainable Development, (iii) Innovative Approach, and (iv) Capacity Building.¹¹ Under the model, VakıfBank prioritizes project financing of environmentally-friendly projects, with a particular focus on renewable energy projects.¹² Furthermore, as part of its commitment to address social impacts through its sustainable products and services, VakıfBank supports small and medium-sized enterprises (SMEs) and women entrepreneurs.

To identify and prioritize its material sustainability topics, VakıfBank conducted a materiality assessment through a stakeholder dialogue in 2019, engaging extensive stakeholders including public institutions, customers, investors, financial analysts, suppliers, non-governmental organizations, universities and the media.¹¹ Informed by the results of the assessment, VakıfBank has committed to advance its climate strategy, which is based on three pillars: (i) Sustainable Energy Finance, (ii) Reducing Environmental Impacts, and (iii) Raising Employee Awareness.¹³ Under the Sustainable Energy Finance pillar, the Bank has facilitated its investments in renewable energy by financing 37 renewable energy projects (TL 1.3 bn) in 2019.¹⁴ As part of the Reducing Environmental Impacts pillar, in 2019, the Bank has committed to reducing the environmental footprint of its operations under the Science Based Targets initiative.¹⁵⁻¹⁶ Regarding Employee Awareness, the Bank provides online and in-class training on sustainability issues to its employees.

VakıfBank has established a sustainability governance structure in order to coordinate the Bank's sustainability practices efficiently. Under the structure, VakıfBank's Sustainability Working Group is responsible for establishing the Bank's sustainability strategies while ensuring the adequate implementation of these strategies in the Bank's operations. The Group engages with a wide range of departments to promote sustainability practices throughout the Bank's operations and reports to the Corporate Governance Committee, which is the high-level decision-making authority of the Bank.

Given VakıfBank's sustainability strategy, commitments, performance, and governance structure, Sustainalytics is of the opinion that VakıfBank is well-positioned to issue green, social, and sustainability bonds and loans, and the financial instruments issued under the Sustainable Finance Framework will further advance the Bank's key sustainability priorities.

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

While eligible projects under the Framework are recognized by the GBP 2018, GLP 2018 and SBP 2018, Sustainalytics is aware that such projects can lead to adverse environmental and social outcomes. Major environmental and social risks associated with the eligible projects could include occupational health and safety, human rights, land-use change and biodiversity loss. Moreover, by offering lending services, banks are exposed to risks of financing environmentally and socially harmful activities. To mitigate these risks, VakıfBank has taken the below measures:

To evaluate and manage the environmental and social impact of the Bank's project financing and promote responsible banking, VakıfBank has incorporated "Environmental and Social Impact Assessment and Sustainability" under its Credit Policy.¹² To ensure the adequate implementation of credible standards into its responsible banking approach, VakıfBank collaborated with international organizations such as the World Bank, the European Bank for Reconstruction and Development, and the European Investment Bank.¹² Following the Policy, VakıfBank requires the relevant parties to conduct an Environmental Impact Assessment (EIA) while ensuring the mitigation of social risks such as employee and human rights, ethical values, child labour and forced labour.¹¹ Regarding the eligible assets which will be financed through the proceeds of bonds issued under this Framework, VakıfBank explicitly excludes any activity or technology associated with the extraction, production, refining, transmission, and distribution of fossil fuels, as well child labor and/or forced

¹⁰ VakıfBank, "Value Creation Model", at: <https://www.vakifbank.com.tr/strategic-approach-.aspx?pageID=2443>

¹¹ VakıfBank, "Integrated Annual Report 2019", (2019), at: <https://www.vakifbank.com.tr/documents/finansal/20042020-Integrated%20Annual%20Report%202019.pdf>

¹² VakıfBank, "Responsible Finance", at: <https://www.vakifbank.com.tr/responsible-finance.aspx?pageID=2450>

¹³ VakıfBank, "Environmental Management", at: <https://www.vakifbank.com.tr/environmental-management.aspx?pageID=2449>

¹⁴ VakıfBank, "Integrated Annual Report 2019", (2019), at: <https://www.vakifbank.com.tr/documents/finansal/20042020-Integrated%20Annual%20Report%202019.pdf>

¹⁵ The Science Based Target Initiative, available at: <https://sciencebasedtargets.org/>

¹⁶ VakıfBank, "VakıfBank's Sustainability Milestones", at: <https://www.vakifbank.com.tr/Default.aspx?pageID=2769>

labor. Furthermore, VakıfBank is a signatory to the United Nations Global Compact,¹⁷ demonstrating the Bank's commitment to supporting higher environmental responsibility, human rights, and elimination of forced/child labour.

Based on these policies, standards, and assessments, Sustainalytics is of the opinion that VakıfBank has implemented sufficient measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

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

The importance of facilitating renewable energy and green building investments in Turkey

The energy supply of Turkey has increased by 58% between 2005-2018¹⁸ due to high population growth and industrialization. To meet this increasing demand, the primary energy supply has largely relied on imports, which increased by 15.6% in 2018 compared to 2017 levels.¹⁹ In 2018, fossil-fuel based resources (coal, oil and gas) accounted for nearly 88% of total primary energy supply,²⁰ demonstrating the importance of fostering local renewable energy investments. Despite this context, the Organization for Economic Co-operation and Development (OECD), considers Turkey as a country with high potential to facilitate the shift to a low-carbon economy through the investment into renewable energy.²¹ To utilize the full potential of renewable energy in Turkey, the Government has committed to increasing the share of local renewable energy in the Country's energy mix.²² Furthermore, the Climate Change Action Plan²³ of Turkey demonstrates its objective of increasing the share of renewable energy in electricity generation.

Between 2000 and 2015, end-use energy consumption in the building sector in Turkey has increased by 66%. The building sector is expected to have high potential to use renewable resources, as improving the existing buildings can considerably save energy while enabling new buildings to become more energy efficient.²⁴ Given this, the Government of Turkey has established the National Energy Efficiency Action Plan (NEEAP) of Turkey, indicating the importance of promoting environmental initiatives in the building sector.⁸ The NEEAP sets the target of "transforming at least one-fourth of the building stock in 2010 to sustainable buildings by 2023".²⁵

Based on the above, Sustainalytics is of the opinion that VakıfBank's investments in renewable energy and green building projects will facilitate domestic renewable energy generation, create environmental benefits, and contribute to Turkey's national climate-related goals.

Importance of financing SMEs to ensure business continuity and employment generation in Turkey

VakıfBank intends to provide "Employment Focused Business Loans" to SMEs which are located in cities with a GDP per capita below the national average. In 2017, small and medium-sized enterprises (SMEs) accounted for 99.8% of Turkish enterprises and 73.9% of total employment in Turkey.²⁶ Specifically, the manufacturing sector accounted for 24.1% of total SMEs employment.²⁶ Given SMEs' importance in ensuring business and employment continuity, the Government of Turkey has been adopting financial initiatives, including the Credit Guarantee Fund, support packages and tax initiatives, in order to support and scale-up Turkish SMEs since 2016.²⁷ Despite the government's efforts, Turkish SMEs are still facing a challenge in access to finance, which is demonstrated by the share of rejected loan applications rising from 4.3% to 18.9% between 2017-2018.

¹⁷ UN Global Compact, "United Nations Global Compact", at: <https://www.unglobalcompact.org/>

¹⁸ IEA, Key Energy Statistics, (2018), at: <https://www.iea.org/countries/turkey>

¹⁹ Turkish Statistical Institute, at: <http://tuik.gov.tr/UstMenu.do?metod=temelist>

²⁰ IEA, Key Energy Statistics, (2018), at: <https://www.iea.org/countries/turkey>

²¹ OECD, "OECD Environmental Performance Review", (2019), at: <https://www.oecd.org/env/country-reviews/Highlights-Turkey-2019-ENGLISH-WEB.pdf>

²² Republic of Turkey – Ministry of Foreign Affairs, "Turkey's Energy Profile and Strategy", at: <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>

²³ Republic of Turkey – Ministry of Environment and Urbanization, "National climate Change Action Plan 2011-2023", (2011), at:

<http://www.dsi.gov.tr/docs/iklim-degisikligi/%C4%B1depen.pdf?sfvrsn=2>

²⁴ Ibid

²⁵ Ibid

²⁶ European Commission, "2019 SBA Fact Sheet: Turkey", (2019), at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2019_turkey.pdf

²⁷ OECD, "Turkey: Small Business Act profile", (2019), at: <https://www.oecd-ilibrary.org/docserver/f565e33c-en.pdf?expires=1588758322&id=id&accname=quest&checksum=74B3C85D1B9AED39E47475D4ECF353E2>

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VakifBank intends to provide loans to SMEs affected by pandemics, such as COVID-19, and natural disasters in Turkey. As of March 2020, the World Health Organization (WHO) declared COVID-19 as a global pandemic, urging a prompt action to be taken.²⁸ On 18 March 2020, in response to the outbreak of the COVID-19 pandemic, the Government of Turkey announced an Economic Stability Shield package. As part of the package, the government has introduced several initiatives such as a three-month deferral of loan payments by companies, financial support to affected businesses, and additional liquidity to enterprises paying staff salaries.²⁹

Based on the above, Sustainalytics is of the opinion that VakifBank's lending will increase access to finance for SMEs and support employment generation while fighting against the adverse effects of COVID-19 and any future pandemics and natural disasters.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals 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
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
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
Employment Generation - Micro and small enterprises	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services.
	9. Industry, Innovation and Infrastructure	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

²⁸ WHO, "WHO Director-General's opening remarks at the media briefing on COVID-19 - 11 March 2020", (2020), at:

<https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19--11-march-2020>

²⁹ OECD, "COVID-19 SME Policy Responses", (2020), at: https://read.oecd-ilibrary.org/view/?ref=119_119680-d16h3qgi4x&title=Covid-19_SME_Policy_Responses

Conclusion

VakıfBank has developed the VakıfBank Sustainability Bond Framework under which it will issue green, social and sustainability bonds and use the proceeds to finance or refinance eligible project categories: (i) Renewable Energy, (ii) Pollution Prevention and Control, (iii) Green Buildings, (iv) Affordable Housing, and (v) Employment Generation. Sustainalytics considers that the projects funded by the bonds' proceeds will foster local renewable energy investments, promote sustainable resource management, and support employment generation in Turkey.

The VakıfBank Sustainability Bond 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 the VakıfBank Sustainability Bond Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals, particularly SDG 7, 8, 9, 11 and 12. Additionally, Sustainalytics is of the opinion that VakıfBank has sufficient 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 of the opinion that VakıfBank is well-positioned to issue sustainability bonds and that the VakıfBank Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018 (GBP), Green Loan Principles 2018 (GLP), and Social Bond Principles 2018 (SBP).

Appendices

Appendix 1: Certification Schemes for Green Buildings

	LEED ³⁰	BREEAM ³¹	CEDBIK ³²	BEP-TR ^{33,34}
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED 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	Prerequisites depending on the levels of certification + Credits with associated points	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

³⁰ USGBC, LEED, at: www.usgbc.org/LEED

³¹ BREEAM, Building Research Establishment LTD, at: <https://breeam.com/>

³² Cedbik, at: <https://cedbik.org/>

³³ BEP, Energy Performance of Buildings, at: <http://www.bep.gov.tr/default.aspx>

³⁴ International Partnership for Energy Efficiency Cooperation, Building Code Implementation – Country Summary, at: http://www.gbpn.org/sites/default/files/Turkey_Country%20Summary_0.pdf

	<p>These points are then added together to obtain the LEED level of certification</p> <p>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).</p>	<p>This number of points is then weighted by item³⁵ 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.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>		<p>buildings using an hourly calculation.</p> <p>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.</p>
Performance display				N/A
Accreditation	<p>LEED AP BD+C LEED AP O+M</p>	<p>BREEAM International Assessor BREEAM AP BREEAM In Use Assessor</p>		<p>Aligned with EU EPBD</p>
Qualitative considerations	<p>Widely recognised internationally, and strong assurance of overall quality.</p>	<p>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.</p>	<p>There has been one CEDBIK-certified project in Turkey since CEDBIK's launch in 2016.³⁶</p>	<p>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 50m², greenhouses, workshops, and stand-alone buildings with no heating or cooling requirements.</p>

³⁵ BREEAM weighting: Management 12%, Health, and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

³⁶ DergiPark, Credit Success Rates of Certified Green Buildings in Turkey: <https://dergipark.org.tr/en/download/article-file/683057>

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Türkiye Vakıflar Bankası T.A.O.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	VakıfBank Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 26, 2020
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

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 GBPs and SBPs:

- | | |
|--|--|
| <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 – (i) Renewable Energy, (ii) Pollution Prevention and Control, (iii) Green Buildings, (iv) Affordable Housing, and (v) Employment Generation – are aligned with those recognized by both the GBP, GLP and SBP. Sustainalytics considers that the eligible categories will foster local renewable energy investments, promote sustainable resource management, and support employment generation in Turkey while contributing to the UN Sustainable Development Goals (SDGs), specifically SDG 7, 8, 9, 11 and 12.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input 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 (<i>please specify</i>): |

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 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 SBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Project evaluation and selection process will be managed by the VakıfBank Sustainability Working Group (the "Group"), which is comprised of a wide range of cross-functional representatives. The Group will monitor and evaluate the asset pool regularly to ensure the alignment of the assets with the eligibility criteria. Additionally, the Group will meet at least bi-annually to review the project evaluation and selection process. Sustainalytics considers this process 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 type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

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 (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Eligible assets will be managed by the Group on a portfolio basis. The Group will track the proceeds through a Sustainability Financing Register which will be adjusted bi-annually in line with the eligibility criteria under the Framework. Any existing projects that no longer meet the eligibility criteria will be substituted with new projects on a best-efforts basis. Pending allocation, unallocated proceeds will be temporarily held in cash, cash equivalents, and marketable securities. 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 (<i>please specify</i>): |

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

4. REPORTING

Overall comment on section (if applicable):

VakifBank intends to publish allocation and impact reports on its website on an annual basis until full allocation. Regarding allocation reporting, VakifBank intends to disclose allocation information on the amount or percentage of allocation, examples of financed projects, the amount of proceeds allocated by project category, distribution of projects by region, the share of financing and refinancing, and the balance of unallocated proceeds. Where feasible, VakifBank is committed to reporting on relevant impact metrics. Sustainalytics views this reporting process 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 (<i>please specify</i>): |

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (<i>please specify</i>): Examples of projects being financed; The amount of proceeds allocated by Project Category; Geographic distribution of projects; The portion of net proceeds used for financing vs. refinancing; The balance of unallocated proceeds | |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

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 (<i>please specify</i>): |

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Number of beneficiaries
 Target populations
 Other ESG indicators (please specify): Annual absolute (gross) amount of waste that is separated and/or collected, and treated and recycled, level of green building certification, number of new jobs created

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (please specify): corporate website
 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.)

<https://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

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

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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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Sustainalytics

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