

Second-Party Opinion

VakıfBank Sustainable Finance Framework

Evaluation Summary

Sustainalytics is of the opinion that the VakıfBank Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds¹ are aligned with those recognized by 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 or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3, 4, 7, 9, 11 and 12.



PROJECT EVALUATION AND SELECTION VakıfBank's Sustainability Committee, which includes members from the Investor Relations, Environmental Management Service, and Environmental and Social Impact Analysis departments, will evaluate and select eligible projects in line with the Framework's eligibility criteria. VakıfBank has in place an environmental and social risk management system tool to address environmental and social risks associated with projects financed. Sustainalytics considers the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS VakıfBank's Sustainability Committee will manage the net proceeds using a portfolio approach and track allocation of net proceeds using a sustainability financing register. VakıfBank intends to allocate all proceeds to eligible projects within 24 months of the respective issuance date of the instrument. Pending allocation, VakıfBank will temporarily hold proceeds in cash and invest in other short-term liquid instruments. This is in line with market practice.



REPORTING VakıfBank commits to report on the allocation of proceeds via allocation reports on an annual basis until full allocation. Allocation reporting will include the amount or percentage of allocation to the eligible green and social portfolio, examples of projects being financed, allocation by category and geographic distribution, share of financing versus refinancing and balance of unallocated proceeds. Additionally, VakıfBank commits to report on relevant impact metrics on a best-effort basis. This is aligned with market practice.



Evaluation Date	August 31, 2023 ²
Issuer Location	Umraniye, Turkey

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¹ Renewable Energy, Green Buildings, Clean Transportation, Energy Efficiency, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Affordable Housing, Employment Generation and Programmes Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises, Food Security and Sustainable Food Systems, and Access to Essential Services.

² This report updates the Second-Party Opinion dated June 2020.

Introduction

Turkey Vakıflar Bankası T.A.O. (“VakıfBank”, the “Bank” or the “Issuer”), headquartered in İstanbul, is a state-owned bank that provides retail, private, corporate, commercial and small-business banking services, as well as investment banking and capital market services. The Bank operates mainly in Turkey, along with international operations in Austria, Bahrain, Germany, Iraq, Qatar and the US. As of 2023, VakıfBank has 26 affiliates and subsidiaries, 943 branches domestically and internationally, 16,792 employees and 21.4 million customers.

VakıfBank has developed the VakıfBank Sustainable Finance Framework dated August 2023 (the “Framework”), under which it intends to issue green, social and sustainability bonds and loans and use the proceeds to finance or refinance, in whole or in part, existing and future projects that are expected to deliver positive environmental and social impacts. The Framework defines eligibility criteria in 10 areas:

1. Renewable Energy
2. Green Buildings
3. Clean Transportation
4. Energy Efficiency
5. Pollution Prevention and Control
6. Sustainable Water and Wastewater Management
7. Affordable Housing
8. Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises
9. Food Security and Sustainable Food Systems
10. Access to Essential Services

VakıfBank engaged Sustainalytics to review the VakıfBank Sustainable Finance Framework 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 2023 (SBP),³ Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP).⁴ The Framework has been published in a separate document.⁵

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ 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 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, 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 1.14, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

³ 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/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁴ 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/>

⁵ The VakıfBank Sustainable Finance Framework is available on VakıfBank’s website at: <https://www.VakifBank.com.tr/sustainable-finance.aspx?pageID=3907>

⁶ 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 VakifBank'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. VakifBank representatives have confirmed (1) they understand it is the sole responsibility of VakifBank to ensure that the information provided is complete, accurate and 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 VakifBank.

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. Upon twenty-four (24) months following the evaluation date set stated herein, VakifBank is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

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 VakifBank has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

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

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

- Use of Proceeds:
 - The eligible categories – Renewable Energy, Green Buildings, Clean Transportation, Energy Efficiency, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Affordable Housing, Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises, Food Security and Sustainable Food Systems, and Access to Essential Services – are aligned with those recognized by the GBP, SBP, GLP and SLP and are expected to advance the transition to a low-carbon and sustainable economy and lead to a positive environmental and social impact in Turkey.
 - Sustainalytics notes that financing will go towards loans to: i) corporations for project- and asset-specific financing that are eligible as per criteria laid out below; ii) pure play companies that derive 90% or more of their revenues from activities eligible under the Framework; and iii) retail customers.⁷ Sustainalytics further notes that the assets financed may include letters of credit and revolving credit facilities⁸ in addition to the loans previously specified.

⁷ Retail loans are limited to the Green Buildings, Affordable Housing and Access to Essential Services categories.

⁸ This only applies to pure play companies under the Clean Transportation category.

- Sustainalytics further notes that for all MSME financing under the Framework, such entities are defined as per the Small and Medium Enterprises Development Organization of Turkey (part of the Ministry of Industry and Technology).⁹
- VakifBank applies a look-back period of 36 months from the date of issuance in case of refinancing.
- Regarding loans, the Bank has confirmed the following: i) in case of loans that consist of multiple tranches, facilities that contain thematic and non-thematic tranches, only the specific thematic tranches that align with the Framework's eligibility criteria will be labelled as such; ii) if the loan instrument includes contingent facilities (e.g. bonding lines, guarantees and letters of credit), the underlying assets are aligned with the eligible categories defined in the Framework; and iii) for revolving credit facilities, reporting will continue until the loan maturity.
- Under the Renewable Energy category, VakifBank may finance or refinance the development, construction and maintenance of, renewable energy infrastructure and manufacture of components related to the following renewable energy sources for the purpose of electricity or heat generation:
 - Onshore and offshore wind.
 - Solar photovoltaic and concentrated solar power with a minimum of 85% of power generation derived from solar sources.
 - Geothermal energy with direct GHG emissions below 100 gCO₂/kWh.
 - Biomass and biogas from waste and non-waste feedstock. Regarding waste feedstock, VakifBank has confirmed that this is limited to agricultural and forestry residues and that waste from non-RSPO-certified palm oil operations is excluded. Electricity and heat generation from non-waste feedstock will result in a life cycle emissions reduction of 80% compared to the fossil fuel baseline, and VakifBank has confirmed that feedstock from energy crops will meet the following criteria: i) the production of biofuel feedstock does not take place on land with high biodiversity; ii) such crops will not compete with food and feed; and iii) feedstock will be certified through a credible third-party certification scheme. Sustainalytics encourages VakifBank to report on the certification schemes used for such feedstock. VakifBank has further confirmed the exclusion of peat as feedstock. In addition, VakifBank may finance or refinance R&D on bioenergy from novel feedstocks, such as algae and other aquatic plants and microbial biomass.
 - Hydropower facilities at or smaller than 25 MW that meet one of the following criteria:
 - Life cycle GHG emissions below 100 gCO₂e/kWh or a power density greater than 5 W/m² for plants in operation before 31 December 2019.
 - Life cycle GHG emissions below 50 gCO₂e/kWh or a power density greater than 10 W/m² for plants in operation after 31 December 2019.
 - Run-of-river facilities without an artificial reservoir.
 - VakifBank has confirmed that for all new hydropower plants, each project will go through an environmental and social impact assessment by a credible body and that only projects with no significant risk or expected negative impact will be financed. The Bank has further confirmed that projects with significant controversies will not be eligible for financing.
 - Green hydrogen and green ammonia produced via electrolysis that has either life cycle GHG emissions at or below 3 tCO₂e/tH₂ or is powered by 100% renewable energy.
 - Sustainalytics considers financing under the Renewable Energy category to be in line with market practice.
- Under the Green Buildings category, VakifBank may finance or refinance the construction or acquisition of new or existing commercial or residential buildings that have or will meet one of the following certification levels: i) LEED¹⁰ Gold or above; ii) BREEAM¹¹ Excellent or above; iii)

⁹ As of August 2023, the thresholds are: i) micro enterprises with less than 10 employees and revenue and net sales less than or equal to TRY 5 million; ii) small enterprises with less than 50 employees and revenue and net sales less than or equal to TRY 50 million; and iii) medium enterprises with less than 250 employees and revenue and net sales less than or equal to TRY 250 million. The Bank has communicated that the monetary thresholds may fluctuate due to inflation. KOSGEB, "SME definition in Turkey", at: <https://en.kosgeb.gov.tr/site/tr/genel/detay/5667/definitions-and-regulations>

¹⁰ LEED: <https://www.usgbc.org/leed>

¹¹ BREEAM: <https://bregroup.com/products/breeam/>

BEP-TR¹² B or above; iv) ÇEDBİK¹³ Very Good or above; or v) EDGE¹⁴ (all levels, including Certified, Advanced and Zero Carbon). Sustainalytics is of the opinion that buildings with BEP-TR B or above can be assumed to have a substantially higher performance than the overall building stock and encourages VakıfBank to favour those that fall under the top 15% of buildings to align with market practice. VakıfBank may further finance or refinance renovation costs for residential or commercial buildings that either lead to an energy efficiency improvement of at least 30% or to one of the aforementioned certification levels. VakıfBank may also finance or refinance the installation of equipment that enhances energy efficiency in buildings by 30%. Regarding the equipment, the Bank has confirmed that the equipment for processes that are carbon intensive, or primarily driven by fossil fuels are excluded. Examples include LED lighting and roof insulation. Sustainalytics considers financing under the Green Buildings category to be aligned with market practice.

- Under the Clean Transportation category, VakıfBank may finance or refinance the production, purchase, R&D, development or maintenance of low-carbon vehicles and related infrastructure:
 - Passenger and light commercial vehicles with direct emissions below 50 gCO₂e/pkm until 31 December 2025 and 0 gCO₂e/pkm after, and freight vehicles with direct emissions below 25 gCO₂e/tkm until 31 December 2025 and 0 gCO₂e/tkm after. Regarding freight, VakıfBank has confirmed that freight vehicles dedicated to the transport of fossil fuels or fossil fuels blended with alternative fuels are excluded from financing under the Framework.
 - Public transportation with zero tailpipe emissions, such as electric trains and metro. This includes the expansion of train and metro networks.
 - Infrastructure for vehicles with zero tailpipe emissions or non-motorized forms of transport, such as charging stations for electric vehicles and construction of bicycle paths. VakıfBank has confirmed the exclusion of financing parking facilities.
 - Sustainalytics considers financing under the Clean Transportation category to be aligned with market practice.
- Under the Pollution Prevention and Control category, VakıfBank may finance or refinance the following:
 - Waste prevention and waste reduction, such as recovery facilities or waste collection for the purpose of recycling or recovery, for which the Bank has confirmed that financing will only go towards projects or pure play companies whose sole purpose is to reduce or prevent waste. VakıfBank has confirmed that end-of-life disposal and treatment, as well as the development of eco-friendly products, are excluded from financing. VakıfBank may also finance waste recycling facilities where segregation at source is supported, excluding recycling of electronic waste and chemical recycling of plastic. The Bank has confirmed that such activities only relate to non-hazardous waste, and that landfills and incineration are excluded from financing under the Framework. The Bank may also finance electric waste collection vehicles with zero tailpipe emissions.
 - Measures and technologies to reduce air pollution, such as the installation of smokestack scrubbers or sensors to monitor and test emission control. The Bank has confirmed that equipment that is inherently reliant on fossil fuels or used in fossil fuel and hard-to-abate industries is excluded.
 - Construction, operation and maintenance of waste-to-energy facilities for the generation of electricity or heat with life cycle GHG emissions lower than 100 gCO₂e/kWh. VakıfBank has confirmed that waste will be managed in accordance with the national waste management hierarchy and that the majority of recyclables are segregated before energy conversion. Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine two of the main objectives of a zero-waste circular economy, i.e. waste prevention and recycling. Additionally, for such projects to have low emissions intensities, the composition of residual waste, particularly fossil carbon content, is a crucial

¹² BEP-TR: <https://beptr.csb.gov.tr/>

¹³ ÇEDBİK: <https://cedbik.org/>

¹⁴ EDGE: <https://edgebuildings.com/>

consideration. However, Sustainalytics also notes that due to constraints on recycling in many parts of the world, energy from waste can offer a better residual waste management option than landfills in many cases. Sustainalytics recommends VakıfBank to promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of thermal efficiency of the financed facilities.

- Sustainalytics considers financing under the Pollution Prevention and Control category to be aligned with market practice.
- Under the Energy Efficiency category, VakıfBank may finance or refinance installation of energy-efficient appliances limited to appliances that are within the top two classes of the EU Energy Label and fall under the Turkish National Energy Labelling Framework.¹⁵ Sustainalytics considers financing under the Energy Efficiency category to be in line with market practice.
- Under the Sustainable Water and Wastewater Management category, VakıfBank may finance or refinance: i) wastewater treatment infrastructure where wastewater from fossil fuel and carbon-intensive processes is excluded; ii) rainwater harvesting systems; and iii) energy-efficient water irrigation systems where farming activities related to livestock production or cattle breeding are excluded. Sustainalytics considers financing under the Water and Wastewater Management category to be aligned with market practice.
- Under the Affordable Housing category, VakıfBank may finance or refinance the development, construction, refurbishment, operation and maintenance of affordable and social housing, as follows:
 - Affordable housing projects include development programmes for the supply of affordable housing, as well as home-purchase and homeownership programmes for individuals, such as the Yeni Evim housing loan.¹⁶ All financing will be targeted at moderate- to low-income individuals or families defined as per Turkish national legislation. Sustainalytics highlights the Housing Development Administration of Turkey's (TOKİ) definition of the target population, which focuses on low- and middle-income groups, based on the public-sector wage index and maximum net monthly household income. Sustainalytics further notes that TOKİ ensures that the sales price and repayment conditions are defined according to the income and saving patterns of the target groups, and the terms do not apply to the private sector.¹⁷ The Bank has also confirmed that the schemes that will be financed are reasonably priced housing to ensure that housing costs do not excessively financially strain the beneficiaries.
 - Regarding the homeownership programmes, financial advantages include lower interest rates, longer-term repayment options, more flexible payment plans, lower down payment options and tax benefits to ensure affordability.¹⁸ The Bank has confirmed to Sustainalytics that responsible lending practices are in place to understand the borrowers' financial situation, mitigate risk for borrowers and help ensure that they understand loan terms (for more details, refer to Section 2).
 - Regarding affordable housing development projects, Sustainalytics notes the rent cap of no more than 30% of the monthly household income going towards rent and that the Bank has confirmed that housing will remain affordable after retrofits.
 - Social housing projects include shelters; halfway homes, such as dormitories; and community housing, such as dormitories and shelters for natural disaster victims. The Bank has communicated to Sustainalytics that social housing projects are designed and funded by the government, primarily through the Ministry of Environment and Urbanization and TOKİ. The target population for social housing projects are beneficiaries defined per Turkish national legislation (as above). To ensure the

¹⁵ Resmî Gazete, "Elektronik Ekranların Enerji Etiketlemesine Dair Tebliğ", at: <https://www.resmigazete.gov.tr/eskiler/2021/03/20210325M1-6.htm>

¹⁶ "Yeni Evim Kampanyası", at: <https://yenievimkampanyasi.com.tr/>

¹⁷ TOKİ, "Housing Programs", at: <https://www.toki.gov.tr/en/housing-programs.html>

¹⁸ The Bank has communicated to Sustainalytics that this includes the My First Home loan package, which targets those who have not previously owned a home. Under the package, citizens aiming to own their first home are offered a three-year payment convenience alongside a 10% down payment and the possibility for a term duration of 15 years at a starting interest rate of 0.69%. Furthermore, installments will be at 25-30% of household income and not exceed 40%.

affordability of social housing projects, Sustainalytics notes that shelters and halfway homes are free for the recipients. Regarding community housing, which includes dormitories and shelters for natural disaster victims, the Bank has confirmed that such financing relates to housing provided by TOKİ to individuals and families whose houses were destroyed by a natural disaster. VakıfBank has informed Sustainalytics that the costs of such housing for recipients were at or below the 10% of average rent in the respective area where financing took place in the current instance of such financing. Natural disasters in this case and under the scope of the whole Framework includes earthquakes and floods, and the areas will be those severely affected by the natural disaster. VakıfBank has confirmed that for the purpose of financing under the Framework, disaster areas are limited to those as defined by AFAD¹⁹ and officially published by the government. Sustainalytics notes that for the earthquake that occurred in February 2023, financing is limited to 11 cities: Adana, Adıyaman, Diyarbakır, Elazığ, Gaziantep, Hatay, Kahramanmaraş, Kilis, Malatya, Osmaniye and Şanlıurfa.^{20,21,22}

- Sustainalytics views such financing to be socially impactful.
- Under Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises, VakıfBank may finance or refinance:
 - General corporate purpose loans to MSMEs in natural disaster areas with the purpose of alleviating unemployment caused by a natural disaster.
 - MSMEs that need to reconstruct or refurbish their office buildings or support employment due to natural disasters or pandemics.
 - MSMEs in economically disadvantaged areas of Turkey (as defined by the surveys of the Turkish Ministry of Industry and Technology)²³ or those owned by women.²⁴
 - The Bank may also finance and refinance MSMEs owned by young entrepreneurs.²⁵ The Bank has communicated to Sustainalytics that the aim of financing youth-owned MSMEs is to reduce unemployment among this cohort.
 - The Bank has confirmed that all recipients of financing under this category will obtain advantageous lending terms, such as lower interest rates, higher grace periods, extended maturities and higher limits.
- Under the Food Security and Sustainable Food Systems category, VakıfBank may finance or refinance projects aimed at increasing access to food and improving food security, such as: i) development of rural areas for agricultural production by smallholder farmers;²⁶ ii) MSMEs²⁷ in the agricultural sector, such as companies active in fruit and vegetable growing and export and iii) procurement of farming equipment for smallholder farmers. Sustainalytics notes that any farming activities related to livestock production or cattle breeding will be excluded from financing under the Framework. Sustainalytics views such financing to be socially impactful.
- Under the Access to Essential Services category, VakıfBank may finance or refinance projects that expand access to public, free, subsidized and non-profit healthcare and educational services and related infrastructure. The Bank may also finance or refinance loans to expand access to basic needs, services and infrastructure in impacted cities or provinces during disaster relief for the general public. This may include the following:

¹⁹ Ministry of Interior, at: <https://en.afad.gov.tr/>

²⁰ AFAD, "About the Disaster Area Affecting General Life", at: <https://www.afad.gov.tr/genel-hayata-etkili-afet-bolge-hk>

²¹ AFAD, "Press Release Regarding the Most Affected Provinces in Disaster on the Subject of "Emergency Assistance Allowances for Disaster Victims", at: <https://www.afad.gov.tr/afetzedede-acil-yardim-odenekleri-konusuna-iliskin>

²² Resmî Gazete, at: <https://www.resmigazete.gov.tr/eskiler/2023/02/20230208-1.pdf>

²³ The six-tier scoring system is based on the following factors: i) demographics; ii) employment and social security; iii) education; iv) health; v) finance; vi) competitiveness; vii) innovation; and viii) quality of life. The scores are classified into six levels; the higher the score the higher the level of socio-economic development.

Government of Turkey, "Socio-Economic Development Ranking Studies (SEGE)", at: <https://www.sanayi.gov.tr/merkez-birimi/b94224510b7b/sege>

²⁴ At least 51%.

²⁵ Youth up to 29 years old as defined by the Turkish national legislation.

²⁶ Smallholder farmers are defined as farmers who manage areas of up to 10 hectares (as defined by the Food and Agriculture Organization).

Food and Agriculture Organization, "Smallholders and Family Farmers", at:

https://www.fao.org/fileadmin/templates/nr/sustainability_pathways/docs/Factsheet_SMALLHOLDERS.pdf

²⁷ As defined under the Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises category.

- Construction, maintenance or refurbishment of:
 - Hospital, clinics, healthcare centres, childcare facilities, elderly care centres, residential care centres or other social service centres for vulnerable groups, such as nursing homes and medical rehabilitation centres.
 - Laboratories and research facilities focusing on the R&D and manufacture of medicines or vaccines in the event of an epidemic that are accessible to all regardless of the ability to pay. Sustainalytics notes that VakifBank plans to finance the R&D and manufacturing of medicines that will be affordable to all. Sustainalytics recognizes that the provision of vaccines during an epidemic would address a gap in the availability of essential medicines,²⁸ while noting that the Framework does not state explicit criteria to determine what medicines will be eligible for financing. Sustainalytics encourages VakifBank to report on R&D projects financed and how they are expected to address gaps in availability.
 - Schools, universities, kindergartens or vocational training facilities and the development and operation of related educational services and programmes.
- Loans providing financial support for the following:
 - Commercial loans for reconstruction of basic infrastructure, such as housing, electricity transmission networks, water distribution networks and buildings in areas destroyed by natural disasters.²⁹ Regarding electricity distribution networks, the Bank has confirmed to Sustainalytics that connections to fossil fuel plants are excluded from financing under the Framework.
 - Retail loans to individuals for the purpose of retail and commercial activities disrupted by health pandemics or natural disasters.³⁰ VakifBank has confirmed that such individuals will receive financial advantages, including lower interest rates, grace periods, long-term maturity and higher credit limits.
- Sustainalytics views such financing to be socially impactful.
- Sustainalytics notes that all loans, including the general corporate purpose financing of MSMEs and commercial corporates, project-specific loans and loans to individuals, related to the following activities and industries are not eligible for financing under the Framework: i) payday loans; ii) adult entertainment; iii) manufacture and production of alcoholic beverages; iv) any activity or technology associated with the extraction, production, refining, transmission and distribution of fossil fuels; v) lethal defence goods; vi) gambling; vii) military contracting; viii) nuclear power generation; ix) manufacture and production of tobacco products; and x) child or forced labour.³¹
- Project Evaluation and Selection:
 - The Bank's Sustainability Committee (the "Committee") will be responsible for evaluating and selecting eligible projects and consists of representatives from the following departments: i) Investor Relations; ii) Environmental Management Service (part of Support Services); and iii) Environmental and Social Impact Analysis.
 - The Bank has an environmental and social risk management system tool in place to assess the environmental and social impacts of loans, categorize risks and implement risk mitigation and management measures. For additional details, refer to Section 2.
 - Based on the establishment of the Committee and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.

²⁸ Sustainalytics defines essential medicines as those that satisfy the regionally specific priority healthcare needs of a given population. In a functioning healthcare system, they are meant to be available at all times in appropriate dosage forms, assured quality and at affordable prices. Examples include insulin, tuberculin, antimalarial medicines and the dengue vaccine.

WHO, "Model Lists of Essential Medicines - 23rd list, 2023", at: <https://www.who.int/publications/i/item/WHO-MHP-HPS-EML-2023.02>

²⁹ As defined above under the Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises category.

³⁰ As defined above under the Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises category.

³¹ Sustainalytics notes that VakifBank has established an "Unfinanced Activities List" under its Environmental and Social Impacts Management Policy in Lending Process document.

VakifBank, "VakifBank Environmental and Social Impacts Management Policy in Lending Processes", at:

<https://www.VakifBank.com.tr/documents/Environmental%20and%20Social%20Impacts%20Management%20Policy%20in%20Lending%20Processes.pdf>

- Management of Proceeds:
 - The Committee will be responsible for the management of proceeds using a portfolio approach and will track the proceeds using a sustainability financing register.
 - VakifBank intends to allocate all proceeds to eligible loans within 24 months of the respective issuance date of the bond. Pending allocation, VakifBank will temporarily hold proceeds in cash and invest in other short-term liquid instruments. The Bank has confirmed that the exclusionary criteria apply to the temporary use of proceeds.
 - Based on the use of an internal tracking system and disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - VakifBank commits to report on the allocation via an allocation report on an annual basis until full allocation. In case of material developments, additional reports may be published.
 - Allocation reporting will include the amount or percentage of allocation to the eligible green and social portfolio, examples of projects being financed allocation by category and geographic distribution, share of financing versus refinancing and balance of the unallocated proceeds.
 - VakifBank will also report on the proceeds' impact on a best-effort basis,³² subject to availability of information and data, including: i) expected annual renewable energy generation (in MWh/year); ii) level of green building certification; iii) annual absolute (gross) amount of waste that is separated or collected, and treated and recycled; and iv) number of people with access to safe, affordable and sustainable housing. For a full list of impact indicators, refer to Appendix 1.
 - Sustainalytics encourages the Bank to report on the proceeds' impact on an annual basis and considers VakifBank's commitment to allocation reporting to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the VakifBank Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP and SLP. For detailed information, please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of VakifBank

Contribution to VakifBank's sustainability strategy

VakifBank has in place an ESG strategy that aims to: i) contribute to the European Green Deal; ii) support Turkey's Nationally Determined Contribution under the Paris Agreement; and iii) incentivize clients to create positive environmental and social impact through their borrowing.^{33,34}

VakifBank has established a policy on environmental and social impact management that lays out criteria for the sustainability commitments and processes in its lending activities. This includes: i) financing projects with positive environmental and social impacts; ii) working with clients to carry out action plans as part of loan agreements to increase positive impacts and limit negative impacts; and iii) hiring internal and external expertise to extend the Bank's competence in environmental and social matters.³⁵ In 2021, VakifBank established a Sustainability Committee, which implements, promotes and monitors the Bank's sustainability efforts and implements the Bank's Sustainability Policy.³⁶ The Bank also plans to sign the Principles of Responsible Banking for the United Nations Environment Programme Finance Initiative.³⁷

In 2022, the Bank financed more than 80 renewable energy projects worth TRY 3.6 billion (USD 135,636).³⁸ Additionally, the Bank has set the following GHG emissions reduction targets, that have been validated by the Science Based Targets initiative: i) reduce its real estate portfolio GHG emissions by 60% per square metre in its commercial real estate by 2032 from a 2021 base year; ii) reduce its electricity generation project finance

³² VakifBank has informed Sustainalytics that it has established the Environmental and Social Impact Analysis Department, which is dedicated to this purpose.

³³ VakifBank, "Integrated Annual Report 2022", (2022), at: https://www.VakifBank.com.tr/documents/finansal/VKF_FRAE_2022_MTB_uyg_22_SPREADS_.pdf

³⁴ UNCC, "Republic of Turkey Updated First Nationally Determined Contribution", (2023), at: https://unfccc.int/sites/default/files/NDC/2023-04/T%20C3%9CRK%20C4%B0YE_UPDATED%201st%20NDC_EN.pdf

³⁵ VakifBank, "Environmental and Social Risk Management System (ESMS)", at: <https://www.VakifBank.com.tr/Default.aspx?pageID=5150>

³⁶ VakifBank, "Committees", at: <https://www.VakifBank.com.tr/committees.aspx?pageID=2528>

³⁷ VakifBank, "Integrated Annual Report 2022", (2022), at: https://www.VakifBank.com.tr/documents/finansal/VKF_FRAE_2022_MTB_uyg_22_SPREADS_.pdf

³⁸ Ibid.

portfolio's GHG emissions by 52.7% per kWh by 2032 from a 2021 base year; iii) reduce GHG emissions from the electricity generation in its corporate loan portfolio by 42% per MWh by 2032 from a 2021 base-year; and iv) have 31.6% of its long-term debt portfolio set SBTi-validated targets by 2027. VakıfBank also targets to achieve net zero emissions by 2050.^{39,40}

Sustainalytics is of the opinion that the VakıfBank Sustainable Finance Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further its action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While the Bank plays a limited role in the development of the specific projects that it finances, by offering lending and financial services, it is exposed to risks associated with the companies and projects that it may finance. Some key environmental and social risks possibly associated with the eligible projects may include issues related to: i) occupational health and safety; ii) human rights violations; iii) land-use change and biodiversity associated with large infrastructure projects; iv) emissions, effluents and waste generated during construction; v) community relations; vi) bribery and corruption; vii) money laundering; viii) business ethics; and ix) predatory lending.

Sustainalytics is of the opinion that VakıfBank is able to manage or mitigate potential risks through the implementation of the following:

- In 2022, VakıfBank incorporated an environmental and social risk management system (ESMS) in its credit policy to manage non-financial risks for loans above USD 20 million.⁴¹ The ESMS establishes the use of an environmental and social assessment tool to determine the risks of potential lending opportunities and includes risks related to: i) occupational health and safety and non-compliance with regulations; ii) human rights violations; iii) water stress, climate and geological conditions; iv) impact on biodiversity, endemic species and regions' cultural heritage; v) consequences of land acquisition⁴²; and vi) public health and safety. The tool's assessment results in a classification of the loan into four categories: category A, considered high; category B, medium-high; category B- medium-low; and category C, low. Depending on the level of risk, an Environmental & Social Action Plan is defined and implemented. Loans classified as high are subject to an additional assessment and regular reports by an independent environmental and social consultant on risk management, while loans classified as medium-high risk and medium-low risk are monitored by an internal analyst. Loans classified as low require no specific analysis. In addition, the Bank has defined a list of activities that are excluded from financing. Such activities include: i) production or trade in wood or other forestry products other than from sustainably managed forests; ii) production or trade in weapons and land mines; iii) production or trade in tobacco; iv) illegal fishing; v) production or trade in radioactive material; and vi) production or activities violating human rights or involving harmful or exploitative forms of forced or child labour.⁴³
- VakıfBank's Anti-Bribery and Corruption Policy outlines the Bank's strategy to identify and manage bribery and corruption risks. The policy sets ethical principles and requirements that apply to all of the Bank's processes, systems and organizational structures, and that are mandatory for all of the Bank's employees, subsidiaries, affiliates, outsourcing companies and business partners.⁴⁴
- The Bank's Anti-Money Laundering Policy is informed by national laws and international agreements and initiatives and establishes procedures to avoid money laundering. This includes customer identification; a tracking policy related to client monitoring activities, such as for large transactions or inactive accounts; the definition of suspicious transactions; and training for employees on policy

³⁹ Ibid.

⁴⁰ Science Based Targets, "Türkiye Vakıflar Bankası T.A.O. (VakıfBank)", (2023), at: https://sciencebasedtargets.org/resources/files/Target-language-and-summary_Vakiflar.pdf

⁴¹ VakıfBank, "Environmental and Social Risk Management System (ESMS)", at: <https://www.VakifBank.com.tr/Default.aspx?pageID=5150>

⁴² This includes the risk of physical or economic resettlement.

⁴³ VakıfBank, "VakıfBank Environmental and Social Impact Management Policy in Lending Processes", at:

<https://www.VakifBank.com.tr/documents/Environmental%20and%20Social%20Impacts%20Management%20Policy%20in%20Lending%20Processes.pdf>

⁴⁴ VakıfBank, "Anti-Bribery and Corruption Policy", at: <https://www.VakifBank.com.tr/Default.aspx?pageID=2783>

and regulation awareness. The policy further establishes a sanction structure in case of violations.^{45,46}

- VakıfBank's Ethical Principles adhere to the Banks Association of Turkey's Banking Ethical Principles and the Public Officers Ethical Code of Conduct, among other regulations, establishing guidance on transparency and accountability, avoidance of conflicts of interest, respect to the environment and protection of human rights.⁴⁷
- Regarding predatory lending, VakıfBank commits to follow Turkish laws and regulations meant to protect consumers who take on credit obligations.⁴⁸ These include Turkey's Law on Consumer Protection^{49,50} and Banking Law No. 5411,⁵¹ among others, which require transparent disclosure of information on the benefits and risks of each product and service offered to consumers, and the protection of rights and interests of depositors and consumers.
- VakıfBank is a participant in the United Nations Global Compact, following the Ten Principles on human rights, labour, the environment and corruption.⁵²

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

Section 3: Impact of Use of Proceeds

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

Importance of facilitating investments in renewable energy and green buildings in Turkey

Turkey's total GHG emissions amounted to 524 MtCO₂e in 2020, increasing 3% against the previous year and 304 MtCO₂e compared to 1990.⁵³ In 2021, fossil fuels (oil, gas and coal) accounted for 85% of Turkey's overall energy supply, and renewables accounted for 14% decreasing by 2% from 2019. Also, Turkey's electricity and heat production power mix is made up of 64% fossil fuels (coal and fossil gas), and 35% renewables.⁵⁴

In 2021, Turkey committed to achieving nationwide net zero GHG emissions by 2053⁵⁵ and updated its National Determined Contribution in 2023, setting a target to reduce GHG emissions, including land use, land use change and forestry, by 41% compared to a business-as-usual scenario by 2030.⁵⁶ Turkey's 2022-2035 National Energy Plan aims to contribute to regional and global energy security, as well as increase the share of domestic and renewable energy in electricity production.⁵⁷ According to research conducted by the Climate Action Tracker, Turkey would need to phase out coal-fired power generation by 2030, increase renewable electricity generation to 80% by 2030 and fully decarbonize its electricity generation by 2050 to achieve its

⁴⁵ VakıfBank. "Policy Paper for the Prevention of Laundering of Criminal Proceeds and Terrorism Financing and Principles of Implementation", at: <https://www.VakifBank.com.tr/documents/yiliski/Anti-Money%20Laundering%20Policy.pdf>

⁴⁶ VakıfBank, "Anti-Bribery and Corruption Policy", at: <https://www.VakifBank.com.tr/Default.aspx?pageID=2783>

⁴⁷ VakıfBank, "Ethical Principles", at: <https://www.VakifBank.com.tr/Default.aspx?pageID=2794>

⁴⁸ Ibid.

⁴⁹ Government of Turkey, Ministry of Trade, "Law on Consumer Protection", (2013), at: <https://ticaret.gov.tr/data/5d42a9b313b87632542a2dae/LAW%20ON%20CONSUMER%20PROTECTION.pdf>

⁵⁰ Moroğlu Arseven, "The Regulation amending the Regulation on Consumer Loan Agreements has been Published", (2022), at: https://www.morogluarseven.com/news-and-publications/the-regulation-amending-the-regulation-on-consumer-loan-agreements-has-been-published/?utm_source=mondaq&utm_medium=syndication&utm_term=Finance-and-Banking&utm_content=articleoriginal&utm_campaign=article

⁵¹ Government of Turkey, "Banking Law No. 5411", (2008), at: <http://www.lawsturkey.com/law/banking-law-5411>

⁵² United Nations Global Compact, "VakıfBank", at: <https://unglobalcompact.org/what-is-gc/participants/135352>

⁵³ Turkish Statistical Institute, "Greenhouse gas emissions statistics, 1990-2020", (2022), at: <https://data.tuik.gov.tr/Bulten/Index?p=Greenhouse-Gas-Emissions-Statistics-1990-2020-45862>

⁵⁴ Ibid.

⁵⁵ UNDP, "UNDP supports Turkey in charting a course to net zero by 2053", (2021), at: <https://www.undp.org/turkiye/press-releases/undp-supports-turkey-charting-course-net-zero-2053>

⁵⁶ Climate Action Tracker, "Türkiye", (2023), at: <https://climateactiontracker.org/countries/turkey/targets/>

⁵⁷ Government of Turkey, Ministry of Foreign Affairs, "Türkiye's International Energy Strategy", at: <https://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>

climate targets.⁵⁸ Additionally, Turkey needs to invest an estimated USD 5.3 billion to USD 7 billion annually until 2030 to finance its energy transition.⁵⁹

The Turkish buildings sector has to reduce emissions by 90% compared to 2015 levels to achieve the Paris Agreement goals.⁶⁰ It accounted for 15% and 13.6% of total energy-related direct and indirect CO₂ emissions, respectively, while emissions per capita increased by 7% between 2016 and 2021.⁶¹ The Government of Turkey has established policies to measure and accelerate the energy performance of buildings, including the Energy Efficiency Law (2007), the Energy Efficiency Regulation (2011), the Energy Efficiency Strategy (2012), the Buildings Energy Performance Regulation (2017) and the Green Buildings Regulation (2017).⁶² It also created the National Energy Efficiency Action Plan (NEEAP), released in 2018, which: i) sets the target of upgrading at least one-fourth of the building stock in 2010 to sustainable buildings by 2030; ii) includes a goal of nearly zero-energy buildings for newly built private and public buildings; and iii) mandates an energy performance certificate of at least B for all new properties.^{63,64}

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

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

On 6 February 2023, 11 provinces of Turkey were struck by earthquakes of 7.8 and 7.5 magnitude, followed by more than 7,500 aftershocks. Two additional earthquakes occurred on 20 February and 27 February,⁶⁵ killing more than 46,000 people and displacing 20% of the country's population,⁶⁶ making it the biggest earthquake disaster to hit the country in 80 years.⁶⁷ Damages from the earthquakes in Turkey were estimated at USD 103.6 billion, equivalent to 9% of Turkey's forecasted GDP for 2023, as per the March 2023 Türkiye Earthquakes Recovery and Reconstruction Assessment conducted by the Turkish government with support from the UNDP, the World Bank and the European Union.^{68,69} The catastrophe affected 9 million and damaged homes, roads, schools, government and industry buildings, as well as infrastructure related to power, water, communications and health infrastructure.^{70,71} Broken down by sector of the Turkish economy, the total damage in the agriculture sector was estimated at USD 1.3 billion; in the industrial and technology sector USD 4.18 billion; and in the tourism industry USD 114.24 million.⁷² In addition, a total of 3.8 million or 13% of Turkey's employed population were affected.⁷³

The earthquake caused damages or loss of income to 132,092 MSMEs in the affected provinces. It also negatively impacted a total of 473,354 private enterprises in the country, 99% of which were MSMEs. Micro,

⁵⁸ Climate Action Tracker, "Scaling up climate action: Turkey", (2019), at: https://climateactiontracker.org/documents/672/CAT_2019-11-29_ScalingUp_TURKEY_FullReport_ENG.pdf

⁵⁹ Shura, "Financing the Energy Transition in Turkey", (2019), at: https://www.shura.org.tr/wp-content/uploads/2019/10/Financing_the_Energy_Transition_in_Turkey_Executive_Summary.pdf?_ga=2.198476841.762103424.1667371630-1005410882.1667282016

⁶⁰ Ibid.

⁶¹ Climate Transparency, "Turkey: Climate Transparency Report", (2022), at: <https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-Turkey-Web.pdf>

⁶² BPIE and Shura, "Enhancing Turkey's policy framework for energy efficiency of buildings, and recommendations for the way forward based on international experiences", (2019), at: <https://www.shura.org.tr/wp-content/uploads/2019/06/Buildings-Energy-Efficiency-Policy-Working-Paper.pdf>

⁶³ Ibid.

⁶⁴ Republic of Turkey: Ministry of Energy and Natural Resources, "National Energy Efficiency Action Plan", (2017), at <https://enerji.enerji.gov.tr/Media/Dizin/EVCED/tr/EnerjiVerimlili%C4%9Fi/UlusalEnerjiVerimlili%C4%9FiEylemPlan%C4%B1/Belgeler/NEEAP.pdf>

⁶⁵ World Bank, "Earthquake Damage in Türkiye Estimated to Exceed \$34 billion: World Bank Disaster Assessment Report", (2023), at: <https://www.worldbank.org/en/news/press-release/2023/02/27/earthquake-damage-in-turkiye-estimated-to-exceed-34-billion-world-bank-disaster-assessment-report>

⁶⁶ UNDP, "UNDP launches recovery activities in earthquake-hit Southern Türkiye", (2023), at: <https://www.undp.org/turkiye/press-releases/undp-launches-recovery-activities-earthquake-hit-southern-turkiye>

⁶⁷ World Bank, "Earthquake Damage in Türkiye Estimated to Exceed \$34 billion: World Bank Disaster Assessment Report", (2023), at: <https://www.worldbank.org/en/news/press-release/2023/02/27/earthquake-damage-in-turkiye-estimated-to-exceed-34-billion-world-bank-disaster-assessment-report>

⁶⁸ Government of Turkey, "Türkiye Earthquakes Recovery and Reconstruction Assessment", (2023), at: <https://www.sbb.gov.tr/wp-content/uploads/2023/03/Turkiye-Recovery-and-Reconstruction-Assessment.pdf>

⁶⁹ European Commission, "A Donors' Conference to raise funds", (2023), at: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/donors-conference-turkiye-and-syria_en

⁷⁰ Government of Turkey, "Türkiye Earthquakes Recovery and Reconstruction Assessment", (2023), at: <https://www.sbb.gov.tr/wp-content/uploads/2023/03/Turkiye-Recovery-and-Reconstruction-Assessment.pdf>

⁷¹ United Nations, "Türkiye, Syria quake response continues, food security threat rising", (2023), at: <https://news.un.org/en/story/2023/03/1135212>

⁷² European Commission, "A Donors' Conference to raise funds", (2023), at: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/donors-conference-turkiye-and-syria_en

⁷³ Ibid.

small and medium-sized enterprises (MSMEs) accounted for 99.85% of all Turkish enterprises and represented 72% of the country's total employment in 2020.⁷⁴ MSMEs are the main source of income for poor households in Turkey and employ approximately 346,000 people.⁷⁵ Overall, damages from the earthquakes caused a 9.4% drop in the country's GDP, with the World Bank estimating recovery and reconstruction needs at USD 81.5 billion.^{76,77} The Small and Medium Enterprises Development and Support Organization (KOSGEB), a government entity established in 2009, prepared a USD 450 million post-earthquake MSME recovery project together with the World Bank to support the recovery and business continuity of MSMEs in earthquake-affected areas.⁷⁸

Based on this context, Sustainalytics is of the opinion that VakıfBank's business loans supporting businesses impacted by the natural disaster, and in particular MSMEs, are expected to contribute to the recovery and business continuity of MSMEs and support employment generation, in turn helping Turkey's recovery efforts.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the VakıfBank Sustainable Finance Framework are expected to help advance 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
Green Buildings	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
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
Pollution Prevention and Control	12. Responsible Consumption	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
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and

⁷⁴ OECD iLibrary, "Turkey: Economy Profile", at: https://www.oecd-ilibrary.org/sites/b47d15f0-en/1/3/5/7/index.html?itemId=/content/publication/b47d15f0-en&_csp_ =b5a16c86b95668086c3db0036af219ad&itemIGO=oeed&itemContentType=book

⁷⁵ Ibid.

⁷⁶ World Bank, "International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US\$450 Million to the Small And Medium Enterprises Development Organization Of Türkiye (KOSGEB) with a Guarantee from the Republic of Türkiye for the Türkiye: Post-Earthquake Micro, Small and Medium Enterprises (MSME) Recovery Project", (2023), at: <https://documents1.worldbank.org/curated/en/099061523062516981/pdf/BOSIB0fe4436d10fd0bc2708beddd2c69a5.pdf>

⁷⁷ World Bank, "World Bank Provides Financing for Viable Micro, Small and Medium Sized Firms in Türkiye", (2023), at: <https://www.worldbank.org/en/news/press-release/2023/06/27/world-bank-provides-financing-for-viable-micro-small-and-medium-sized-firms-in-turkiye>

⁷⁸ KOSGEB, "Post-Earthquake MSME Recovery Project", (2023), at: https://webdosya.kosg.gov.tr/Content/Upload/Dosya/Duyurular/2023/Stakeholder_Engagement_Plan.pdf

		substantially reduce the number of people suffering from water scarcity
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 and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises	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
Food Security and Sustainable Food Systems	2. Zero Hunger	2.1 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment
Access to Essential Services	3. Good Health and Well-being	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. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes

Conclusion

VakifBank has developed the VakifBank Sustainable Finance Framework, under which it may issue sustainability bonds and loans and use the proceeds to provide loans to corporations for project- and asset-specific financing, pure play companies and retail customers related to Renewable Energy, Green Buildings, Clean Transportation, Energy Efficiency, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Affordable Housing, Employment Generation and Programs Designed to Prevent or Alleviate Unemployment Stemming from Socioeconomic Crises, Food Security and Sustainable Food Systems, and Access to Essential Services. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impacts.

The VakifBank 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 VakifBank Sustainable Finance Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds categories will contribute to the advancement of UN Sustainable Development Goals 2, 3, 4, 7, 9, 11 and 12. Additionally, Sustainalytics is of the opinion that VakifBank has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that VakifBank is well positioned to issue sustainability bonds and loans and that the VakifBank Sustainable Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023.

Appendix

Appendix 1: Green/ Social Bond – Green/Social Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	VakifBank
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	VakifBank Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	August 31, 2023
Publication date of review publication:	
Original publication date:	June 2020

Section 2. Review overview

SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - Use of Proceeds
 - Process for Project Evaluation and Selection
 - Management of Proceeds
 - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Certification
- Verification
- Scoring/Rating
- Other (please specify):

Does the review include a sustainability quality score?

- Of the issuer
- Of the project
- Of the Framework
- Other (please specify):

No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed Review

1. USE OF PROCEEDS

Does the review assess:

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section:

The eligible categories for the use of proceeds are aligned with those recognized by 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 or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3, 4, 7, 9, 11 and 12.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones: *Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.*
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

VakifBank's Sustainability Committee, which includes members from the Investor Relations, Environmental Management Service, and Environmental and Social Impact Analysis departments, will evaluate and select eligible projects in line with the Framework's eligibility criteria. VakifBank has in place an environmental and social risk management system tool to address environmental and social risks associated with projects financed. Sustainalytics considers the project selection process to be in line with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

VakifBank's Sustainability Committee will manage the net proceeds using a portfolio approach and track allocation of net proceeds using a sustainability financing register. VakifBank intends to allocate all proceeds to eligible projects within 24 months of the respective issuance date of the instrument. Pending allocation, VakifBank will temporarily hold proceeds in cash and invest in other short-term liquid instruments. This is in line with market practice.

4. REPORTING

Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

VakifBank commits to report on the allocation of proceeds via allocation reports on an annual basis until full allocation. Allocation reporting will include the amount or percentage of allocation to the eligible green and social portfolio, examples of projects being financed, allocation by category and geographic distribution, share of financing versus refinancing and balance of unallocated proceeds. Additionally, VakifBank commits to report on relevant impact metrics on a best-effort basis. This is aligned with market practice.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social 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 Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the 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 social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the 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 Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social 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. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social 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 social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

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