

# **Kuveyt Türk Katılım Bankası A.Ş.**

## **Sustainable Finance Allocation and Impact Report**

**2022**

## Contents

<b>Kuveyt Türk's Commitment to Sustainability.....</b>	<b>3</b>
<b>Sustainability Governance at Kuveyt Türk.....</b>	<b>3</b>
<b>Kuveyt Türk's Sustainable Sukuk Issuance .....</b>	<b>5</b>
<b>Allocation and Impact of Proceeds .....</b>	<b>6</b>
<b>Second Party Opinion.....</b>	<b>9</b>
<b>Third Party Verification.....</b>	<b>12</b>

### Kuveyt Türk's Commitment to Sustainability

Kuveyt Türk undertakes various sustainability efforts, from sustainable improvement of service infrastructure and continuous training courses to efficient use of natural resources.

Kuveyt Türk conducts all its activities by observing its impact on the environment. Accordingly, the Bank has opened the Banking and Life Base in Şekerpınar in line with the BREEAM environmental standards.

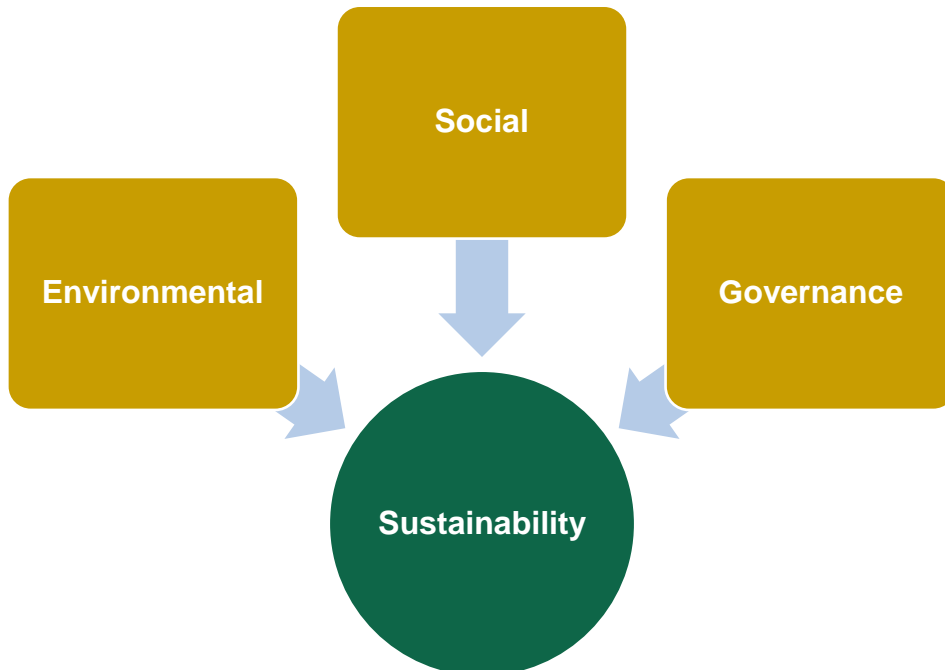
- Environmental Sustainability Courses for All Employees
- BREEAM “Very Good” Certification for Kuveyt Türk Banking and Life Base

Kuveyt Türk allocates a considerable degree of sources for social responsibility activities every year, with a corporate social responsibility policy predicated upon preserving national and moral values.

### Sustainability Governance at Kuveyt Türk

Kuveyt Türk's sustainability strategy is driven around its mission “We grow with our values”. Our values are in harmony with Turkey's deepened culture and are shaped to contribute to the country's social and economic development. In that regard, Kuveyt Türk as a participation bank, adopts sustainability for its practices not only targeting company-level gain but also a wider achievement. With this larger view, it embraces an inclusive approach comprising all its stakeholders and targeting national economic growth in a broader perspective.

Kuveyt Türk constitutes its Sustainability Policy (approved by the Board of Directors) with its values and long term development vision. To assure sustainability in all parts of its business, Bank structures its activities based on 3 main pillars that are aligned with its Sustainability Policy. Backed by a strong support from its shareholders and senior management, 3 pillars are:



To effectively apply the Bank's approach that is structured in its Sustainability Policy and coordinate its sustainability practices, the Sustainability Committee has been established with the below members and committee structure.

#### Committee Members

<b>Chairman of the Committee:</b>	CEO (BOD Member)
<b>Members:</b>	Executive VP, Strategy Executive VP, Treasury and International Banking Executive VP, Credits Executive VP, Banking Services Group Executive VP, CRO
<b>Secretary:</b>	Strategy and Innovation Group Head

#### Committee structure:



With its decision making mechanism powered by Board of Directors, Sustainability Committee assures that Kuveyt Türk puts Sustainability Policy as well as 3 pillars above into practice.

**Kuveyt Türk's Sustainable Sukuk Issuance**

<b>Issuer</b>	<b>Kuveyt Türk Katılım Bankası A.Ş.</b>
<b>ISIN</b>	XS2384355520
<b>Type</b>	Tier II Sustainability Sukuk
<b>Listing</b>	Regulated Market of Euronext Dublin
<b>Structure</b>	Sukuk based on the principles of Wakala and Murabaha
<b>Format</b>	RegS
<b>Issue Date</b>	16 September 2021
<b>Maturity Date</b>	16 December 2031
<b>Amount</b>	US\$ 350 Million
<b>Profit Rate</b>	6.125% p.a.
<b>Use of Proceeds</b>	An amount equal to the net proceeds will be applied to finance and/or refinance eligible green and/or social projects in accordance with Kuveyt Türk's Sustainable Finance Framework
<b>Allocation as of 31.12.2021</b>	%100

## Allocation and Impact of Proceeds

### Green Allocations:

Project Category	Number of Projects	Number of Customer	Installed Peak Power (MW DC)	Investment Amount (USD)	Total Utilization (USD)	Outstanding Risk (USD)
Solar Power Plant	357	110	273	306,092,402	163,578,450	134,276,225
Wind Power Plant	12	5	77	122,895,573	56,476,367	53,484,123
Hydro Power Plant	24	6	53	66,208,000	27,187,652	27,605,028
<b>Grand Total</b>	<b>393</b>	<b>121</b>	<b>403</b>	<b>495,195,976</b>	<b>247,242,469</b>	<b>215,365,376</b>

### Social Allocations:

Project Category	Number of Projects	Number of Customer	Total Utilization (USD)	Outstanding Risk (USD)
Women Entrepreneurship	5,865	2,343	258,269,380	205,367,307
Young Entrepreneurship	167	102	2,738,232	2,128,146
<b>Grand Total</b>	<b>6,032</b>	<b>2,445</b>	<b>261,007,613</b>	<b>207,495,453</b>

### Distribution Across Categories:

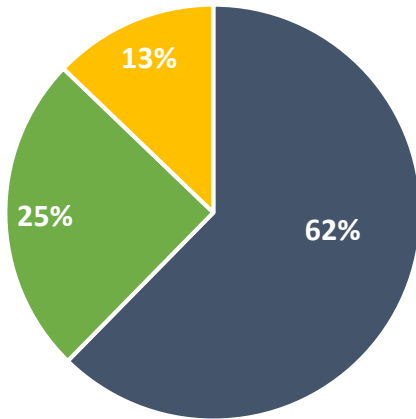
Category	Outstanding Risk (USD)	Distribution (%)
Green	215,365,376	51%
Social	207,495,453	49%
<b>Grand Total</b>	<b>422,860,829</b>	<b>100%</b>

### Allocation Percentage:

Allocation Percentage	
Total Risk to be Allocated (Issuance Amount) (USD)	350,000,000 USD
Total Allocation as of 31.12.2021 (USD)	422,860,829 USD
<b>Total Allocation</b>	<b>121%</b>

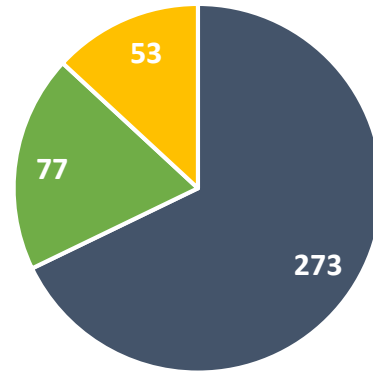
### Green Asset Pool Statistics

Green Asset Distribution



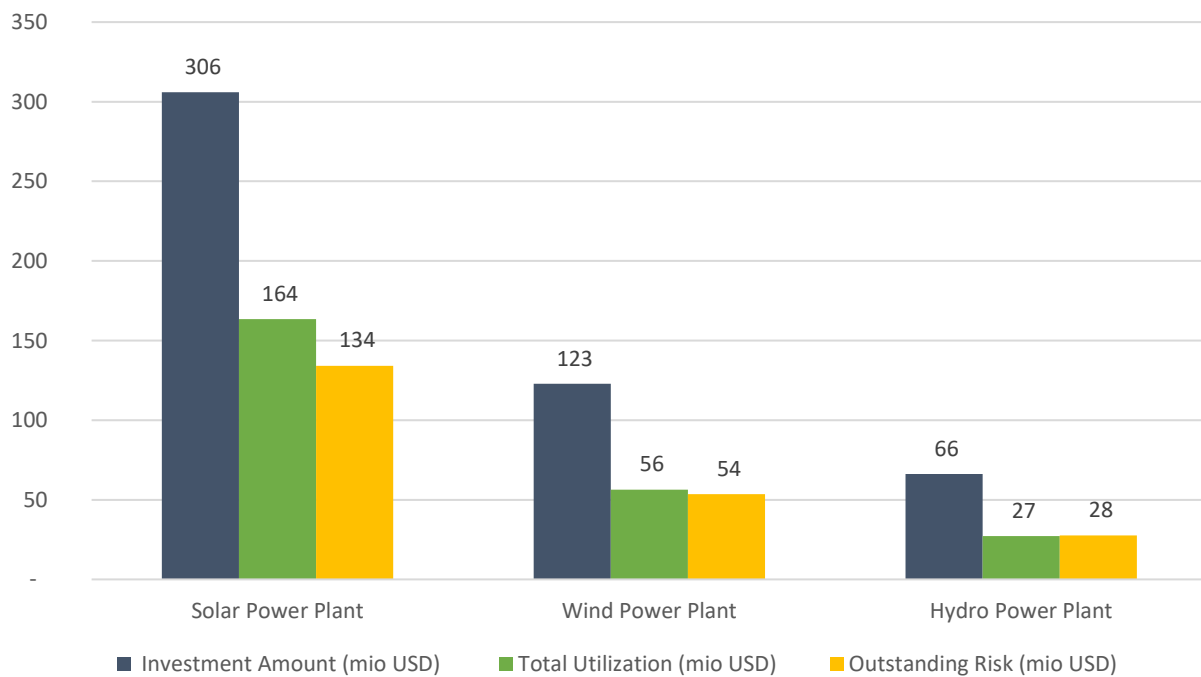
■ Solar Power Plant ■ Wind Power Plant  
■ Hydro Power Plant

Installed Peak Power (MW DC)

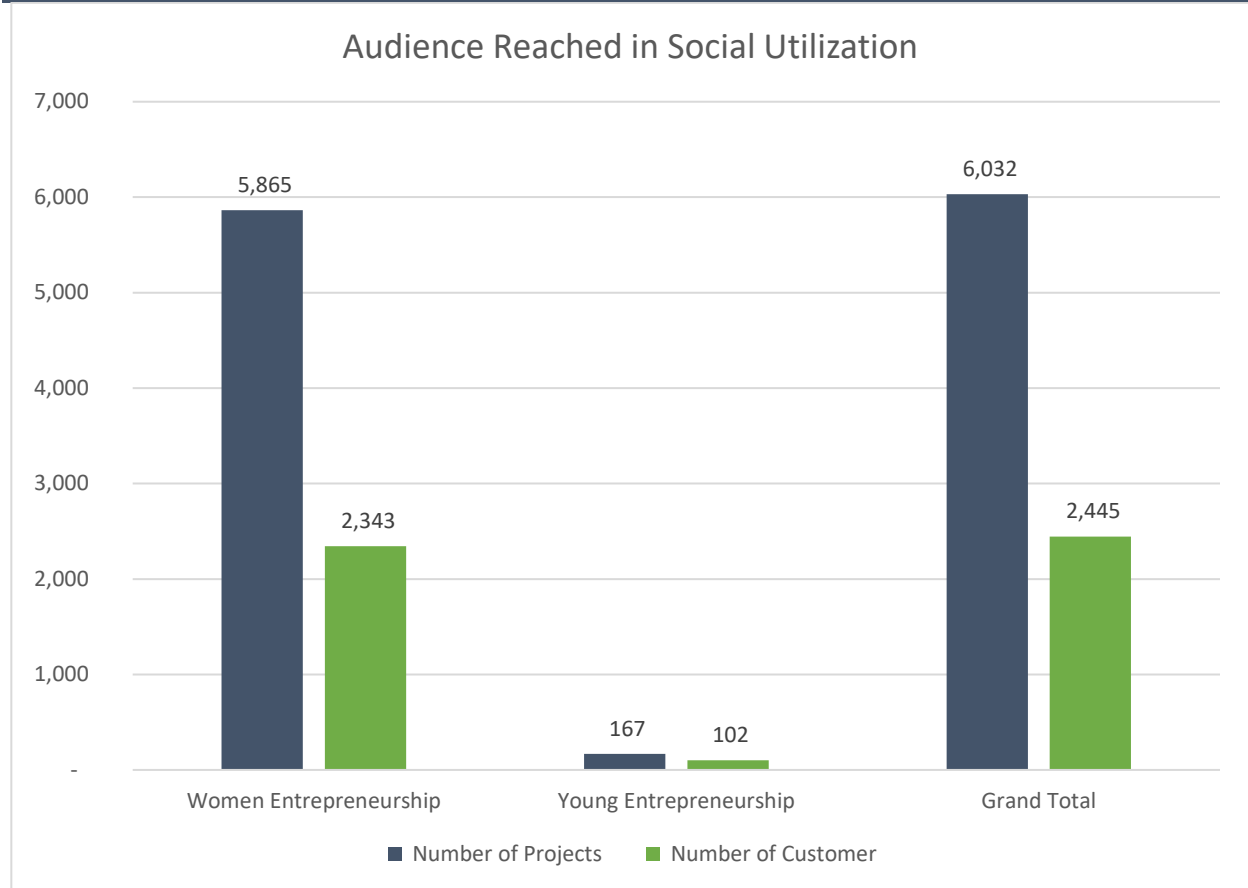


■ Solar Power Plant ■ Wind Power Plant  
■ Hydro Power Plant

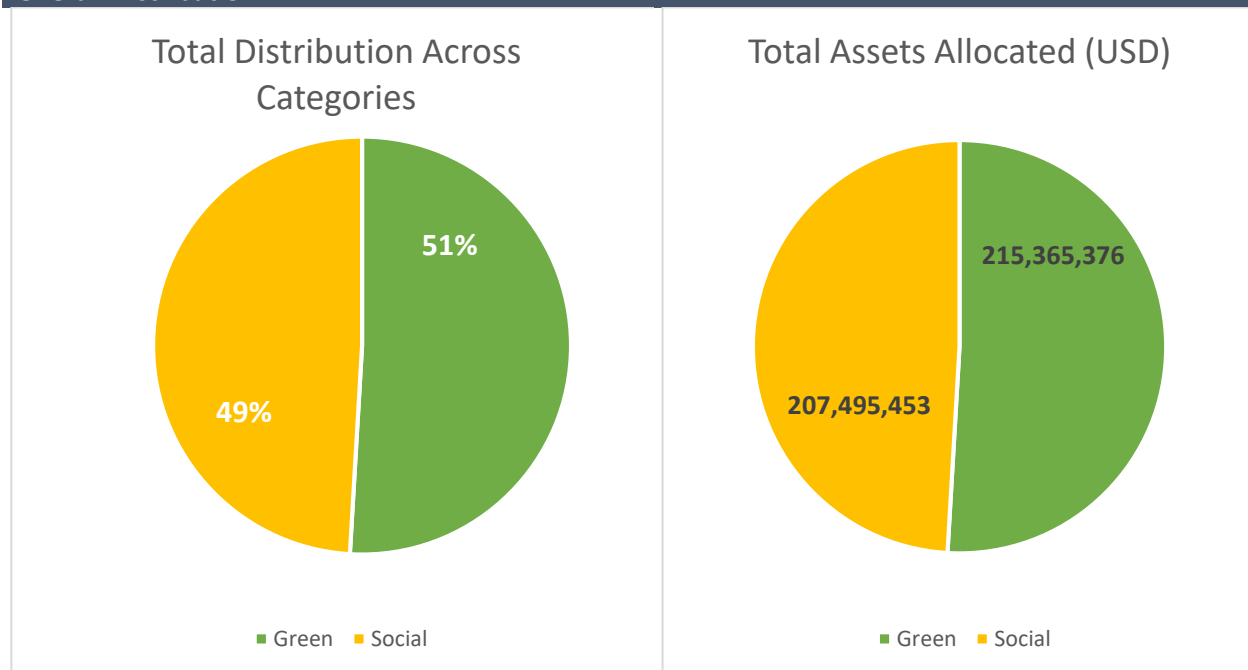
Investment/Credit Distribution  
Across Green Categories



## Social Asset Pool Statistics



## Overall Distribution





## Second Party Opinion

### Second-Party Opinion Kuveyt Türk Katılım Bankası A.Ş. Sustainable Finance Framework



#### Evaluation Summary

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



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



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



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



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

<b>Evaluation Date</b>	August 16, 2021
<b>Issuer Location</b>	Istanbul, Turkey

#### Report Sections

Introduction.....	2
Sustainalytics' Opinion .....	3
Appendices .....	12

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## Introduction

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

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

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

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

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

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

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

### Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>4</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

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

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

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

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

<sup>2</sup> 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/>

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

<sup>4</sup> 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.

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

## Conclusion

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

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

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

## Third Party Verification



### Independent Assurance Statement

To the Management of Kuveyt Türk Katılım Bankası Anonim Şirketi  
İstanbul, Turkey

This Independent Assurance Statement (hereinafter "Statement") is intended solely for the Management of Kuveyt Türk Katılım Bankası Anonim Şirketi (hereinafter "the Bank") with the purpose of reporting on the "Selected Information" in its "Kuveyt Türk Katılım Bankası Anonim Şirketi Sustainable Finance Allocation and Impact Report" (hereinafter "the Report") that has been prepared by the Bank for the test period running from 1 July 2018 to 31 December 2021.

#### Subject Matter Information and Applicable Criteria

In line with the request of the Bank, our responsibility is to provide limited assurance for Selected Informations listed below and defined as 'sustainability' criteria to the Bank within the scope of annual revenue allocation reporting, prepared regarding the first Sustainability Tier 2 Bond issuance of the Bank worth USD 350 million, during the Green Bond Independent Third Party Verification process.

#### The Scope of Our Assurance

The scope of our assurance is limited to the indicators listed in the Selected Information shown below, which has been prepared based on the Bank's internally developed criteria, as listed on Second Party Opinion of its Report.

#### Selected Information

- Green Allocations and Social Allocations Tables (page 6 of the Report)
  - Project Category
  - Number of Projects
  - Number of Customers
  - Installed Peak Power (MW DC)
  - Investment Amount (USD)
- Testing on behalf of the issuer whether proceeds of the bond are used for intended suitable projects and funds are managed as promised during the reporting period,
- Examining compliance with guidelines/standards, including income use, in line with sustainability criteria,
- Auditing the Bank's notifications regarding the achievement and/or impact of the foreseen sustainability attributes

#### The Bank's Responsibilities

The Bank's management is responsible for the preparation, collection and presentation of the information in the Report for the Selected Information. In addition, the Bank's management is responsible for ensuring that the documentation provided to the practitioner (EY) is complete and accurate. The Bank's management is also responsible for maintaining the internal control system that reasonably ensures that the documentation and information described above is free from material misstatements, whether due to fraud or error.

#### Our Responsibilities

We conducted our assurance engagement in accordance with the International Assurance Standards, particularly International Standard on Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 (revised)) based on Green Bond Principles and IFAC Code of Ethics. These regulations require that we comply with the ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Selected Information.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

We apply the International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements of laws or regulations.

The assurance engagement performed represents a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with what is necessary in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower. The procedures selected depend on the practitioner's judgment. The procedures include, in particular, inquiry of the personnel responsible for collecting and reporting on the Selected Information and additional procedures aimed at obtaining evidence about the Selected Information.

#### Procedures Applied

In respect of the Selected Information mentioned above the procedures performed include the following procedures:

1. Interviewed select key senior personnel of the Bank to understand the current processes in place for capturing the Selected Information pertaining to the reporting period;
2. Reviewed Selected Information with online communications covering Bank locations; as well as reviewed pertaining to the Bank's other locations in Turkey, against evidence, on a sample basis;
3. Undertook substantive testing, on a sample basis, of the Selected Information;
4. Used the Bank's internal documentation to evaluate and measure the Selected Information;
5. Evaluated the design and implementation of key processes and controls over the Selected Information;
6. Re-performed, on a sample basis, calculations used to prepare the Selected Information for the reporting period.
7. Evaluated the disclosure and presentation of the Selected Information in the Report.

#### Our conclusion

Based on the procedures we have performed, nothing has come to our attention that causes us to believe that the Selected Information for the test period running from 1 July 2018 to 31 December 2021, has not met, in all material respects in accordance with the Bank's eligibility criteria as explained in the Report.

#### Limitations

We permit this report to be disclosed in addition to Kuveyt Türk Katılım Bankası Anonim Şirketi Sustainable Finance Allocation and Impact Report for the test period running from 1 July 2018 to 31 December 2021, to enable the Management of Bank to show they have addressed their governance responsibilities by obtaining an independent assurance statement in connection with the Selected Information. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than Bank for our work, for this independent limited assurance statement, or for the conclusions we have reached.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member firm of Ernst & Young Global Limited

  
Zeynep Özyan Özdemir, SMMM  
Partner  
İstanbul, 05.10.2022