

ALLOCATION & IMPACT REPORTING 2018

TSKB SUSTAINABLE BOND FRAMEWORK

Reviewed by Sustainalytics
Assured by EY



TSKB - Türkiye Sınai Kalkınma Bankası A.Ş.

March 22, 2018

Type of engagement: Annual Review

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Introduction

In May 2016 and March 2017, TSKB issued two sustainability bonds aimed at financing (i) Direct and Indirect Climate Change Mitigation projects, (ii) Climate Change Adaptation projects and (iii) Sustainable Infrastructure projects. In February 2018, TSKB engaged Sustainalytics to review the projects funded through the issued sustainability bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the TSKB Sustainability Bond Framework¹.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2016 and 2017 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Sustainability Bond Framework; and
2. Reported on at least one of the eleven Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Sustainability Bond Framework.

Table 1 lists all the Use of Proceeds and Eligibility Criteria (available in Appendix 1), while Table 2 lists the associated KPIs (Appendix 2).

Issuing Entity's Responsibility

TSKB is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of TSKB's Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from TSKB employees and review of documentation to confirm conformance with the Sustainability Bond Framework.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted², nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the TSKB Sustainability Bonds, are not in conformance with the Use of Proceeds and Reporting Criteria outlined

¹ TSKB Sustainability Bond Framework Overview and Second-Party Opinion document available at:

http://www.sustainalytics.com/sites/default/files/tskb_sustainability_bond_framework_and_second_opinion_by_sustainalytics_final.pdf

² Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

in the Sustainability Bond Framework. TSKB has disclosed to Sustainalytics that the proceeds of the Tier II Sustainable Bond executed in March 2017 were fully allocated as of December 31, 2017.

Detailed Findings

Table 1: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the 40 projects funded by the sustainability bonds in 2016 and 2017 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Sustainability Bond Framework and below in Appendix 1.	All projects reviewed complied with the Use of Proceeds Criteria.	None
Reporting Criteria	Verification of the 40 projects funded by the sustainability bonds in 2016 and 2017 to determine if impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and below in Table 2. For a list of KPIs reported please refer to Appendix 4. Additionally, for the allocation of proceeds by eligibility criteria, please consult Appendix 3.	All projects reviewed reported on at least one KPI per Use of Proceeds Criteria.	None

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 28 February 2018
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Appendix 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria
Direct and Indirect Climate Change Mitigation (category)	
Energy Efficiency	<ul style="list-style-type: none"> Any reconstruction, expansion, renovation or refurbishment measure implemented within the premises of a business entity or relocation of any production facility and aimed at investing into fixed assets that are designed to decrease energy consumption for every unit of service output of the business entity or using renewable or waste energy. Projects will have the primary objective of improving the efficiency of energy use (or reducing specific energy consumption) of the system directly affected by the project and meet at least one of the following criteria: <ul style="list-style-type: none"> (i) at least fifteen per cent (15%) reduction in energy consumption measured for the specific investments which are financed; or (ii) at least fifteen per cent (15%) reduction of CO²-emissions measured for the specific investments which are financed; or (iii) show at least 50% of the incremental benefits (by incremental benefit, it is meant all benefits gained with the investment project such as raw material savings, labor cost savings, maintenance cost savings, increase in revenues etc.) from the investment project come from cost reduction in energy consumption provided that minimum five hundred (500) tons of CO² reduction per annum is achieved. Investments in Green Buildings (minimum certification levels of BREEAM Good, LEED SILVER and DGNB SILVER).
Resource Efficiency	<ul style="list-style-type: none"> Any greenfield, reconstruction, expansion, renovation or refurbishment investments aimed to increase resource efficiency, including but not limited to a reduction in: <ul style="list-style-type: none"> water consumption (m³), non-recoverable waste (tonnes), raw material/auxiliary chemicals (tonnes)
Wind Power Plants (onshore only)	<ul style="list-style-type: none"> The development, construction and operation of wind farms Operational production or manufacturing facilities wholly dedicated to wind energy development Wholly dedicated transmission infrastructure for wind farms
Solar Power (Photovoltaic)	<ul style="list-style-type: none"> Solar electricity generation facilities Wholly dedicated transmission infrastructure for solar electricity generation facilities
Hydro Power Plants	<ul style="list-style-type: none"> The development, construction and operation of hydro power plants Operational production or manufacturing facilities wholly dedicated to hydro energy development Wholly dedicated transmission infrastructure for hydro power plant

Biomass, waste to energy, biogas	<ul style="list-style-type: none"> Technologies and projects for the conversion of organic matter to energy
Clean Transport projects	<ul style="list-style-type: none"> promotion of lower-carbon fuels electric or hydrogen technologies in existing vehicles, rail or boat fleets promoting urban mass transit, non-motorized transport (e.g. pedestrian mobility) improvement of the general transport logistics to increase energy efficiency of infrastructure and transport. a shift of freight and/or passenger transport from road to rail or waterways
Indirect mitigation: Manufacture and sale of finished products, when in use result in renewable energy generation, energy efficiency of GHG emission reductions	<ul style="list-style-type: none"> specific project loans going to specific products improving renewable energy generation, energy efficiency or GHG emission reduction
Climate Change Adaptation (category)	
Climate Change Adaptation Projects	<p>Adaptation-related projects need to demonstrate that they potentially contribute to reducing vulnerability to climate change identified in the project area. Projects should include:</p> <ul style="list-style-type: none"> Description of the context of climate vulnerability of the project based on an investigation of the vulnerabilities of the project’s geographical area to climate change. Analysis of the project’s planned activities to decipher a positive list of actions that contribute to reducing vulnerability, or increase the resilience of communities, goods or ecosystems to climate change. Provision of a clear link between the climate vulnerability context and the specific project activities. Evidence that the project does not have negative impacts in terms of climate change mitigation (e.g. enhancing carbon intensive infrastructures).
Sustainable Infrastructure (category)	
Social Infrastructure (Health and Education)	<p>Projects should improve access to public services for the wider population and promote inclusiveness. High standards in technology, health and safety as well as management processes should be provided in the project selection. Project location criteria can</p>

	potentially promote inclusiveness and the avoidance of environmental risks. A formal Environmental and Social Impact Assessment should be carried out for each project.
Electricity Distribution Networks	Projects should aim at retro-fitting transmission lines or substations to reduce energy use and/or technical losses and to avoid electricity cuts. Projects can also aim at improving existing systems to facilitate the integration of renewable energy sources into the grid or Scada System to improve effectiveness. If possible, projects selection can also incorporate geographical aspects and favor projects in areas where electricity losses are high and a large number of customers/households would benefit from modernization. If new transmission systems are installed, these should facilitate the integration of renewable energy sources into the grid or extensions to serve the additional population growth due to urbanization.
Ports	The building or modernization of ports should promote the modal shift of freight and/or passenger transport from road to waterways and ensure the resilience of ports to climate change risks. Eligible investments could include port integration, renovation and capacity increases and infrastructure and superstructure investments into existing ports.

Appendix 2: Key Performance Indicators

Key performance indicators	
Energy Efficiency	<ul style="list-style-type: none"> Annual CO₂ emission reduction/avoidance (ton/year)
Resource Efficiency	<ul style="list-style-type: none"> Annual savings of relevant resource amounts (e.g. kWh/year and/or m³ water/year and/or ton raw material/year and/or ton CO₂/year),
Wind Power Plants	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO₂ emission reduction (ton/year)
Solar Power Plants	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO₂ emission reduction (ton/year)
Hydro Power Plants	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO₂ emission reduction (ton/year)
Biomass, waste to energy, biogas	<ul style="list-style-type: none"> Annual Electricity Generation amount (MWH), Annual Production amount (kWh/year), Annual CO₂ emission reduction (ton/year)
Clean Transportation Projects	<ul style="list-style-type: none"> Freight transported, what the transport route will be used for, GHG emission of rail route/ water route in comparison to road transport
Indirect Mitigation Projects	<ul style="list-style-type: none"> Production capacity of the produced component (unit/year); narrative reporting on the project

Social Infrastructure (health and education)	<ul style="list-style-type: none"> Narrative reporting on the projects
Electricity Distribution Networks	<ul style="list-style-type: none"> Investment per subscriber, investment per population
Ports	<ul style="list-style-type: none"> Narrative reporting on social and environmental impact of investment

Appendix 3: Allocation of Proceeds by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category (2016)	Number of Projects	Total Allocated in 2016 (USD)
Energy Efficiency	4	7.3%
Resource Efficiency	0	0%
Renewable Energy	7	37.5%
Social Infrastructure (Health and Education)	1	14.2 %
Electricity Distribution Networks	5	22%
Ports	3	19.1%
TOTAL	20	100%

Use of Proceeds and Eligibility Criteria Category (2017)	Number of Projects	Total Allocated in 2017 (USD)
Energy Efficiency	6	20.3%
Resource Efficiency	1	1.4%
Renewable Energy	8	40.9 %
Social Infrastructure (Health and Education)	1	23%
Electricity Distribution Networks	2	10.7%
Ports	2	3.7%
TOTAL	20	100%

Appendix 4: List of Projects Reviewed and Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Environmental Impact Reported by Eligibility Criteria
Energy Efficiency	<p>2016 issuance³</p> <ul style="list-style-type: none"> • Construction of an efficient cold rolling line which helped reduce 1,394 tons of GHG emissions in 2017 • Modernization of an arc-furnace waste-to energy facility which helped reduce 51,017 tons of GHG emissions in 2017 • Platinum LEED certified green buildings which helped avoid 10,412 tons of GHG emissions in 2017⁴ • Gold LEED certified green buildings which helped avoid 937 tons of GHG emissions in 2017⁵ <p>2017 issuance</p> <ul style="list-style-type: none"> • Replacement of old production machineries which helped reduce 566,605 tons of GHG emissions in 2017 • Replacement of old machineries in an existing feed manufacturing facility helped reduce 797 tons of GHG emissions in 2017 • The replacement of a total of 19 carburizing and nitriding furnaces with 9 energy efficient furnaces helped reduce 7,118 tons of GHG emissions • Platinum LEED certified green buildings which helped avoid 10,412 tons of GHG emissions in 2017⁶ • Gold LEED certified green buildings helped avoid 937 tons of GHG emissions in 2017⁷ • Impact reporting is not available for another fleet of Gold LEED green buildings because their certification process is still ongoing
Resource Efficiency	<p>2016 issuance</p> <ul style="list-style-type: none"> • No funds were allocated for resource efficiency projects from the 2016 issuance <p>2017 issuance</p>

³ TSKB confirmed that the Turkish grid emission factor was 0.569 for the 2016 actualizations, while the 2017 grid emission is still under evaluation, with the final outcomes expected for end of February 2018. Therefore, TSKB considered the 2016 emission factor for its calculations.

⁴ Platinum LEED certified green buildings are financed by both 2016 and 2017 sustainability bond issuances.

⁵ Gold LEED certified green buildings projects are financed by both 2016 and 2017 sustainability bond issuances.

⁶ Platinum LEED certified green buildings are financed by both 2016 and 2017 sustainability bond issuances.

⁷ Gold LEED certified green buildings projects are financed by both 2016 and 2017 sustainability bond issuances.

	<ul style="list-style-type: none"> 725,000 m³ of annual water savings at a waste water treatment plant in a sugar production facility
Wind Power Plants	<p>2016 issuance</p> <ul style="list-style-type: none"> Combined installed capacity of 84 MW for two wind power plants Combined annual production of 250,185,970 kWh in 2017 from the two wind power plants Annual CO₂ emissions of 142,356 tons avoided in 2017 <p>2017 issuance</p> <ul style="list-style-type: none"> Combined installed capacity of 273.9 MW for five wind power plants Combined annual production of 686,187,000 kWh in 2017 from the five wind power plants Annual CO₂ emissions of 390,440 tons avoided in 2017
Solar Power Plants	<p>2016 issuance</p> <ul style="list-style-type: none"> No funds were allocated for solar power plants from the 2016 issuance <p>2017 issuance</p> <ul style="list-style-type: none"> Combined installed capacity of 2 MW for two solar power plants Combined annual production of 3,346,645 kWh in from the two wind power plants Annual CO₂ emissions of 1,904 tons avoided in 2017
Hydro Power Plants	<p>2016 issuance</p> <ul style="list-style-type: none"> Combined installed capacity of 522.9 MW for five hydropower plants Combined annual production of 756,391,259 kWh in 2017 from the 5 hydropower plants Annual CO₂ emissions of 430,387 tons avoided in 2017 <p>2017 issuance</p> <ul style="list-style-type: none"> No funds were allocated for hydropower plants from the 2017 issuance
Biomass Plants	<p>2016 issuance</p> <ul style="list-style-type: none"> No funds were allocated for biomass plants from the 2016 issuance <p>2017 issuance</p> <ul style="list-style-type: none"> Total installed capacity of 5.6 MW for one biomass plant Total annual production of 30,008, 416 kWh Annual CO₂ emissions of 17,075 tons avoided

Social Infrastructure (health and education)	<p>2016 issuance</p> <ul style="list-style-type: none"> Establishment of a city general hospital in Ankara with 3,566 beds (under a PPP scheme) which will be operated starting in 2019. The health facility, in operation as of April 2017, is expected to be visited by 100,000 people daily and aims to enhance Ankara's currently insufficient healthcare infrastructure and increase health service quality and efficiency in Turkey. The project has directly created job opportunities for 359 people and indirectly for another 2,784 people via subcontractors by the end of 2017. <p>2017 issuance</p> <ul style="list-style-type: none"> Establishment of a city general hospital in Isparta with 755 beds under a PPP scheme. The health facility is expected to be visited by about 10.000 to 12.000 people daily and aims to enhance the region's currently insufficient healthcare infrastructure and increase health service quality and efficiency in Turkey. The project has directly created total job opportunities for 2.160 people (1.260 health service and 900 service employees). Exact annual in-patient data visit numbers for 2017 will be made available after a one-year full operation of the hospital.
Electricity Distribution Networks	<p>2016 issuance</p> <p>Modernization, rehabilitation and extension of electricity distribution network in the:</p> <ul style="list-style-type: none"> (i) Marmara Region – USD 75 investment/ subscriber and USD 47 investment / person⁸ (ii) Central Anatolia Region – USD 130 investment/ subscriber and USD 75 investment/ person (iii) Black Sea Region - USD 105 investment/ subscriber and USD 70 investment/ person (iv) Eastern Anatolia Region – USD 133 investment/ subscriber and USD 68 investment/ person (v) Aegean Region – USD 101 investment/ subscriber and USD 56 investment/ person <p>2017 issuance</p> <p>Modernization, rehabilitation and extension of electricity distribution network in the:</p> <ul style="list-style-type: none"> (i) Marmara Region (1st project) – USD 187 investment/ subscriber and USD 110 investment/ person (ii) Marmara Region (2nd project) – USD 75 investment / subscriber and USD 47 investment/ person⁹

⁸ This project is financed by both 2016 and 2017 sustainability bond issuances.

⁹ This project is financed by both 2016 and 2017 sustainability bond issuances.

	<p>In addition to regular expansion, modernization and maintenance, the investments from both issuances served to keep network losses at a minimum, thus contributing to the networks' overall energy efficiency and carbon reduction.</p> <p>Moreover, TSKB confirmed that the provision of high quality electricity distribution services in the Black Sea Region and Eastern Anatolia Region, brings supplementary benefits as the two regions are one of Turkey's least developed provinces.</p>
Ports	<p>2016 issuance</p> <ul style="list-style-type: none"> • 3 projects targeting infrastructure improvements, renovation and capacity increases for ports in the Marmara Region by the Marmara Sea and the Black Sea. • TSKB confirmed that the ports' modernization increased their efficiency, it facilitated a shift from land transport to sea transport, with the container handling providing a dust free mode of cargo management. <p>2017 issuance</p> <ul style="list-style-type: none"> • 1 greenfield infrastructure investment project for a Ro-Ro terminal in a port in the Marmara Region. TSKB confirmed that the terminal is facilitating a shift from land transport to sea transport between Asia and Europe and reduced the traffic, fuel use and carbon emissions. • 1 project targeting the renovation and capacity increase of a port in the Aegean region. TSKB confirmed that the investment consists of a rail system reinforcement on the pier and the purchasing of two fixed cranes providing increased efficiency, productivity, operational streamlining and the provision of a dust-free mode of cargo handling.

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The Opinion was drawn up with the aim to explain why the analyzed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

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Sustainalytics

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For more information, visit www.sustainalytics.com

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Independent Assurance Statement

To the Board of Directors and Management of Türkiye Sinai Kalkınma Bankası A.Ş., Istanbul, Turkey

This Assurance Statement ('hereinafter 'Statement') is intended solely for the management of Türkiye Sinai Kalkınma Bankası A.Ş. (hereinafter 'TSKB' or 'the Company') for the purpose of reporting on the 'Selected Information' in its Allocation & Impact Reporting 2018 (hereinafter 'the Report') that has been prepared by the Company for the year ended 31 December 2017.

Subject Matter Information and Applicable Criteria

We were engaged by the Company to provide limited Post-issuance Assurance for the allocation and impact of its 2016 Green/Sustainable Bond and 2017 Sustainable Tier-II Bond for the 12-month report period to 31 December, 2017 (hereinafter 'Sustainable Bonds').

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 Company's internally developed criteria, as listed on page 26 of its 'Allocation & Impact Reporting 2018' and The Green Bond Principles 2017 published by ICMA¹.

Selected Information:

- Table: Allocation of the Proceeds: (page 29 of the Company's Report) that shows which projects the proceeds have been fully allocated to.
- Tables: Impact Reporting of Sustainable Bonds Utilization - Renewable Energy (page 30 and 31 of the Company's Report) that shows the amounts committed to each project and their estimated environmental and social impacts (excluding the column 'employment created by the investment').
- Tables: Impact Reporting of Sustainable Bonds Utilization - Energy & Resource Efficiency (page 32 of the Company's Report) that shows the amounts committed to each project and their estimated environmental and social impacts (excluding the column 'employment created by the investment').
- Tables: Impact Reporting of Sustainable Bonds Utilization - Electricity Distribution (page 33 of the Company's Report) that shows the amounts committed to each project and their estimated benefits.
- Tables: Impact Reporting of Sustainable Bonds Utilization - Ports (page 34 of the Company's Report) that shows the amounts committed to each project and their estimated benefits.
- Tables: Impact Reporting of Sustainable Bonds Utilization - Health (page 35 of the Company's Report) that shows the amounts committed to each project and their estimated benefits.

The Company's Responsibilities

The Company's management is responsible for the preparation, collection and presentation of the Selected Information in accordance with The Green Bond Principles 2017 and the Company's Eligibility Criteria as explained in the Company's Sustainable Bond Framework and its Report. In addition, the Company's management is responsible for ensuring that the documentation provided to the practitioner is complete and accurate. The Company'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 International Assurance Standards, particularly International Standard for Assurance Engagements Other than Audits or Reviews of Historical Financial Information ISAE 3000 (revised) and International Standard on Assurance Engagements on Greenhouse Gas Statements ISAE 3410. These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Selected Information.

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.

We apply 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 in law or regulation.

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 behaviour.

In respect of the Selected Information mentioned the procedures performed included the following procedures:

1. Assessed policies and procedures established by TSKB related to the issuance of the Sustainable Bonds.
2. Evaluated the eligibility of nominated projects for inclusion in the Company's Sustainable Bond portfolio.
3. Interviewed select key senior personnel of the Company to understand the current processes in place for capturing the Selected Information pertaining to the reporting period;
4. Reviewed information for nominated projects and documentation supporting assertions made in the subject matter on a sample basis;
5. Undertook substantive testing, on a sample basis, of the Selected Information;
6. Used the Company's internal documentation to evaluate and measure the Selected Information;
7. Evaluated the design and implementation of key processes and controls over the Selected Information;
8. Re-performed, on a sample basis, calculations used to prepare the Selected Information for the reporting period.
9. Evaluated the disclosure and presentation of Selected Information in the Report.

The limitations of our review

Our assurance scope excludes:

- Aspects of the Report and data/information other than those mentioned above;
- Data and information, including estimated impacts, that are outside the defined reporting period i.e. 1st January 2017 to 31st December 2017.

Conclusion

As a result of our procedures, nothing has come to our attention that indicates that the Selected Information for the year ended 31 December 2017 is not prepared in all material respects in accordance with the Company's Eligibility Criteria as explained in the Report (page 26).

We permit this report to be disclosed in Türkiye Sinai Kalkınma Bankası A.Ş. Allocation and Impact Reporting for the year ended 31 December 2017, to enable the Directors of Türkiye Sinai Kalkınma Bankası A.Ş. to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Türkiye Sinai Kalkınma Bankası A.Ş. for our work or this report except where terms are expressly agreed between us in writing.

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

Zeynep Okuyan, SMMM
Partner
Istanbul, 27.03.2018

¹ ICMA - International Capital Market Association

CEO's MESSAGE



Distinguished Shareholders,
Customers,
Business Partners and
Esteemed Members of TSKB Family,

TSKB, a fundamental element in development banking in Turkey, completed its 67th year of operations contributing tangibly to the country's development, reinforcing its reputation domestically and internationally, and further strengthening its position in the industry. Using its innovative approach, qualified workforce, expertise and experience to create added value for all its stakeholders, our Bank maintained a healthy growth and increased the added value for the sustainable and inclusive development of Turkey thanks to a successful financial and operational performance in 2017. The successful operations we delivered during 2017 enabled us to expand our assets by 20% year on year to TL 28.9 billion. We are delighted to have successfully attained our updated annual loan growth target of 15%, revised after we accomplished, as of the end of the third quarter, our year-end fx-adjusted loan growth target of 10-13% which was announced at the beginning of the year. In 2017, our Bank widened the number of its active customers by 25% year on year, and provided its customers with cash and non-cash loans totaling USD 2.5 billion. Our total cash loan portfolio rose by 29% to TL 22.3 billion. Having increased its loan volume while maintaining its healthy and sound asset quality at the same time, our Bank recorded a further decrease in the rate of non-performing loans, which dropped down to 0.2% compared to 2016 year-end.

As of January 1, 2018, the Bank completed its transition to IFRS 9 in accordance with the legislation, proving the soundness of its portfolio once again. The Bank has no additional provision requirement within the framework of the amendments set forth in IFRS 9. Our Bank continues to strengthen its capital structure through a stable growth. Despite increasing its general and free provisions by 60% at 2017 year-end in order to support growth in the upcoming period, TSKB posted a net income of TL 596 million with an annual increase

of 25%. Our Bank's total equity rose by 21% to TL 3.5 billion. At 2017 year-end, our return on equity and return on assets were 18.4% and 2.3% respectively.

New grounds broken in sustainability bolster our leading position

Our Bank places sustainability at the heart of its business model, thus maintaining its leadership in the field. TSKB broke a new ground in the world when it issued its "Subordinated Sustainable Bond" in 2017, proving once again how much it deserved emerging as a brand synonymous with sustainability. Our issuance totaling USD 300 million on a 10-year maturity was four times oversubscribed by international investors. Such demand was highly welcome as an indicator of the confidence in Turkey's economy as well as our Bank. TSKB's firsts in sustainability also had their repercussions in strategy and reporting. Adopting an approach that went beyond performance reporting and providing information on our economic, social and environmental strategies as well as our forward looking expectations and guidances, TSKB published its Integrated Report at the beginning of 2017. This is the first Integrated Report in Turkish private sector and is included in the integrated reporting examples database of the International Integrated Reporting Council (IIRC), thus earning a place as a new milestone that cements our leadership in sustainability.

In 2017, we offered our contribution, together with TSKB Sustainability Consultancy (Escarus), an affiliate of our Bank, to the Ministry of Development project called "Due Diligence for Turkey Under the UN Sustainable Development Goals", a proud involvement by us in a sustainable development initiative. TSKB is the only representative of the Turkish financial sector at the International Development Finance Club (IDFC) and is among the first to support the Climate Action in Financial Institutions Initiative launched in 2015. In 2017, our Bank hosted the distinguished representatives of this major initiative in our country for their annual meeting. Furthermore, TSKB shared its experience in financing sustainability with the world's leading financial institutions during the One Planet Summit held by the IDFC in Paris to

keep bolstering the recognition it receives and the brand value it has on international platforms.

Our innovative and leading efforts continued to attract interest and acknowledgment on international platforms in 2017. It took a very short time for Turkey's first Green/Sustainable Bond that we issued in 2016 to receive five awards on prestigious platforms such as Thomson Reuters, Bonds&Loans and EMEA Finance.

TSKB not only plans the next 5 to 10 years but also takes crucial steps to prepare for the future

The transition of the business world to more efficient and flexible models has accelerated recently when technology advances at an astounding, blistering pace. On the other hand, life-enriching investments which place humans at their core attract more and more attention each day. TSKB made considerable progress last year under its transformation program, "A Prospective Glance", which was started in 2016 with a view to extending the Bank's current success into the future which will be shaped by high technology, new business models and the expectations of the younger generations.

"A Prospective Glance" enabled significant improvements in 2017 in organizational structure, customer management, provision and management of funds, lending processes, brand recognition, internal customer satisfaction and performance management.

2017 was also a significant year for emphasizing TSKB's identity as a advisor bank, a factor positively differentiating our Bank in the banking sector. For the future, it is our ultimate goal to reinforce our identity as "an advisor bank as well as a financial lender." It is a key focus for us to utilize all collaboration opportunities to the fullest to diversify and mobilize collective intelligence on our way to becoming "the first advisor bank that comes to customers' minds".

Updated mission and vision, brand-new values

Under the program "A Prospective Glance", TSKB updated its mission and vision in line with the new fields it focused on, and put its values shaped by collective intelligence down in black and white for the first time. Other major projects completed in 2017 included increasing our brand visibility and reflecting our common values through architectural work launched in our buildings and workspaces in order to physically strengthen our corporate transformation.

Exponentially increasing contribution to inclusive economic growth
The involvement of people from all walks of life in economic activity introduces both qualitative and quantitative contribution to development. The banking sector has an important role in rendering growth an inclusive one. TSKB attaches a special importance to the concept of inclusion and particularly underlines it in its updated mission. Inclusion will become a most essential component of our business model in the future. It is among our priority goals to facilitate the transformation of our country's potential into production. To this end, our Bank will exponentially increase its contribution to inclusive economic growth through its support to qualified development investments such as those in energy, infrastructure, education, healthcare, efficiency, women's employment and technological transformation.

Women driving sustainable development

Female workforce has a significant potential in emerging economies such as Turkey. Any support for female workforce thus contributes

directly to the country's growth. Equal opportunities are an indispensable element of inclusive development and have been among the policies of our Bank for years.

At the beginning of 2017, TSKB availed itself of the loan for social development it secured from AFD to create a new funding opportunity for "women-friendly" firms, a vital step to ensure women join the labor force and be empowered socially and economically. In a time frame as short as a year, significant developments took place at firms to which we provided loans, including additional employment of women and the launching of exemplary projects to introduce more favorable working conditions for women.

Our Bank is willing to assume more responsibility to realize this potential for Turkey's development and has made a decision to support women's employment through social responsibility projects in addition to loans. Given the fact that a qualified education is a must for joining the workforce, the "Empower Through Education" scholarship fund has been established for female university students in collaboration with the Turkish Education Foundation (TEV). The scholarship fund aims to support more women in joining the workforce.

Our Bank develops in-depth expertise in any field it focuses on. We are fully confident that we will deliver many more investments and projects in the field of women's employment.

I would like to take this opportunity to thank our female employees who hold 55% of our executive positions, drive development through their successful work and inspire us regarding the design of our 2017 annual report.

We are hopeful for the future

We believe the Turkish economy will maintain its positive course in 2018 and our Bank will fulfill all its goals of attaining growth and profitability rates which are almost parallel with the previous year. In the period ahead, we will continue to strengthen our funding structure and exponentially increase our support to the country's sustainable development with both the funding we will obtain from development finance institutions under various themes and the bond issuances and other kinds of borrowings we will be involved in international markets. We are fully confident that our Bank will deliver further successful and seminal results for Turkey thanks to the dedicated contribution of our best-in-the-sector employees, the uninterrupted support of our shareholders and business partners, and the strong synergy we have created together with all our stakeholders.

On behalf of TSKB, I hereby thank our shareholders for their endless support, our customers and business partners for their confidence, and our employees for their efforts.

Sincerely,

Suat INCE
CEO

TSKB at a glance

TSKB was established in 1950 in Istanbul as Turkey's first private development and investment bank with the support of the World Bank and the Central Bank of the Republic of Turkey and with the shareholding of a group of commercial banks.

The Bank operates in three main fields, namely Corporate Banking, Investment Banking and Consultancy Services. TSKB has its headquarters in Istanbul with two branches in Ankara and Izmir. Extending medium and long-term loans for financing investment projects to support the sustainable development of Turkey. TSKB's loans have a concentration on production and services sectors. TSKB not only extends direct loans to finance the investments of private sector organizations, but also supports SMEs and exporters with indirect loans through leasing and factoring companies, commercial banks and participation banks within the scope of wholesale banking (APEX banking). In alignment with its mission, TSKB has been extending its capacity for the development of renewable energy, energy efficiency, resource efficiency, socially responsible investments such as healthcare facilities, education, women's employment and occupational health and safety. TSKB is not allowed to collect deposits and meets its need for medium and long term funds through the funds it obtains from national, regional and supranational financial institutions and bond issuances.

Mission

Is to focus on creating value for the inclusive and sustainable development of our country through the financing and consultancy solutions powered by our experience in development and investment banking as well as the visionary approach and well-established international collaboration initiatives we maintain.

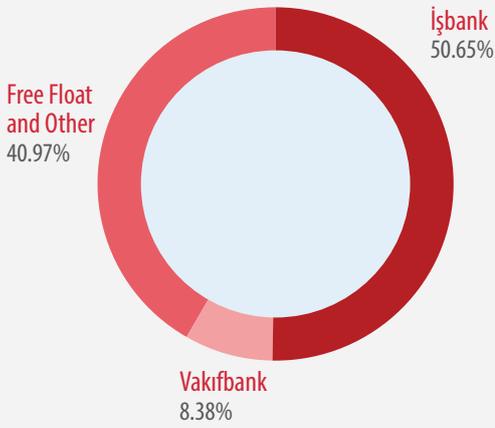
Vision

Is to be the business partner that stakeholders consult and prefer as the first choice towards the economic, environmental and social development of Turkey.

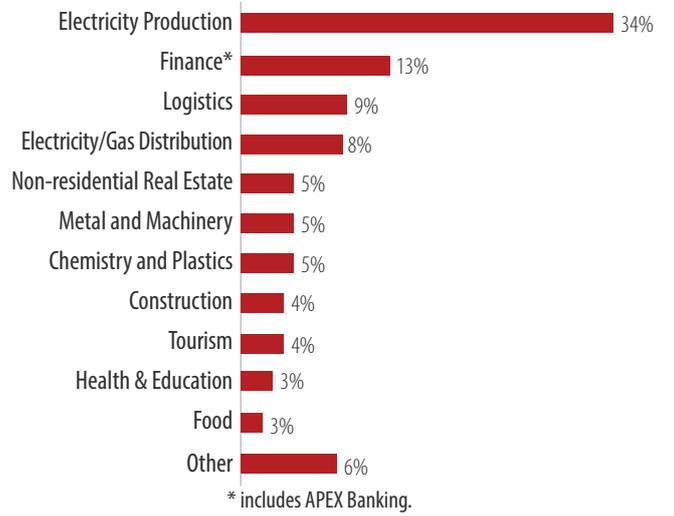
PIONEERING ROLE IN MULTIPLE AREAS OF THE TURKISH BANKING SECTOR

- › First development bank of Turkey
- › First equity participation of International Financial Corporation in Turkey
- › First issuance of private sector bonds
- › First issuance of bonds outside Turkey in Turkish Economic history
- › First bank in Turkey to have its accounts voluntarily audited by an independent audit company
- › First bank in Turkey to integrate environmental due-diligence in the credit appraisal process
- › First bank in Turkey to get ISO 14001 Certificate
- › First bank in Turkey to set-up an Environmental Management System
- › First carbon-neutral bank of Turkey
- › First bank to issue a Green/Sustainable Bond in Turkey
- › First Integrated Report of Turkish Finance Sector
- › Globally First Sustainable Tier II Bond Issuance

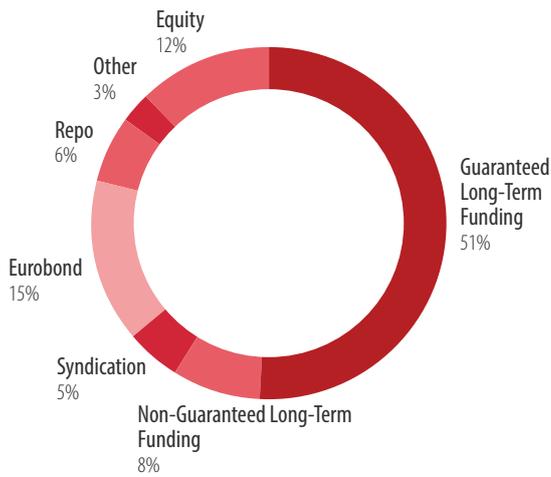
TSKB'S SHAREHOLDING STRUCTURE



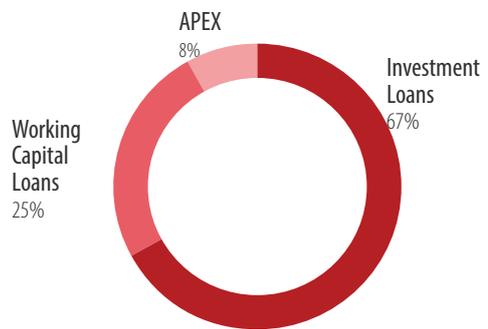
Sectoral Breakdown of Loans



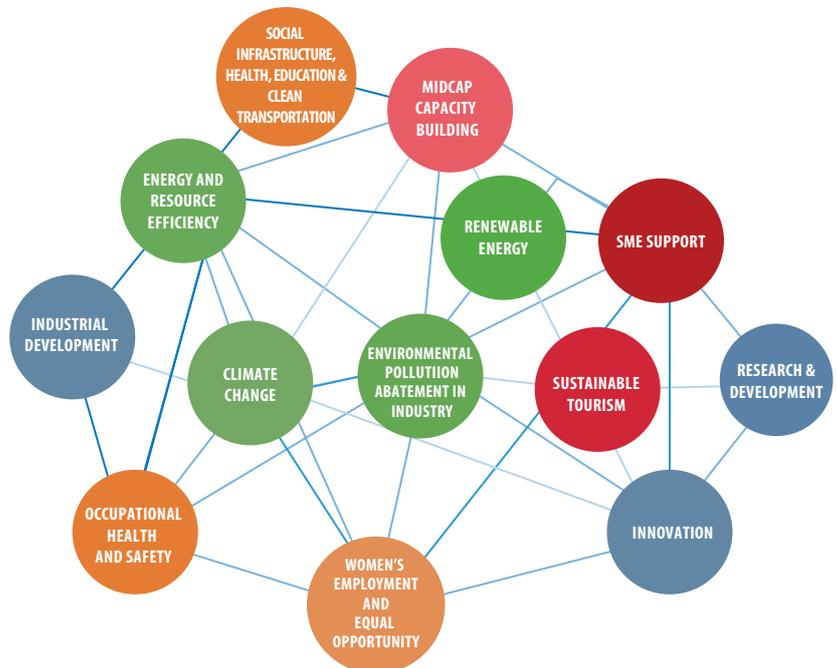
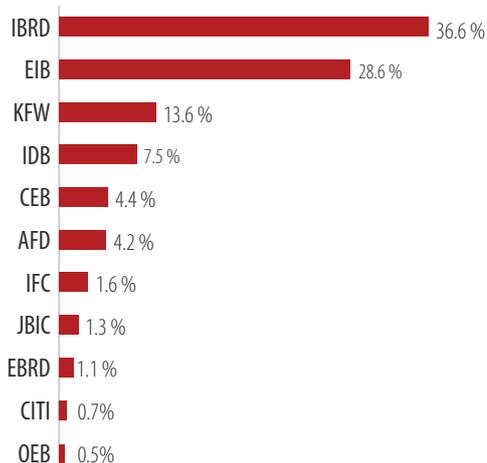
Composition of Liabilities



Loans by Type



Distribution of Thematic Long-Term Funds



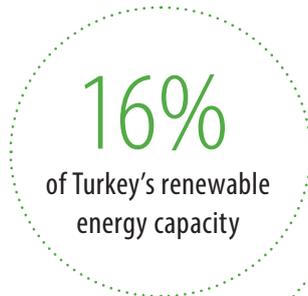
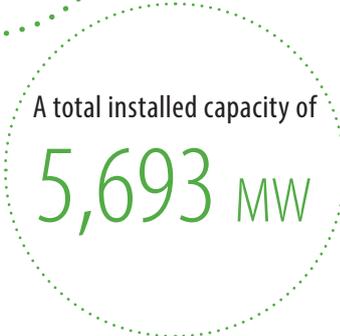
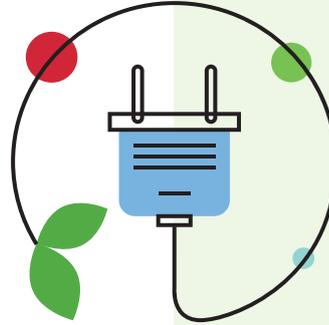
Renewable Energy Projects

SUPPORT TO TRANSITION TO LOW CARBON ECONOMY WITH SUSTAINABILITY INVESTMENTS

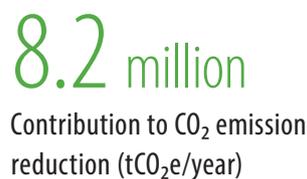
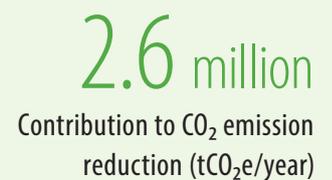
Since mid-2000s, TSKB has been contributing to the structuring of renewable energy and distribution sectors via the funding and provision of consulting services.

Renewable energy projects which TSKB has been providing substantial funding since 2002 continue to serve the transition of Turkey from the current fossil fuel-based power generation systems to clean and renewable energy resources. TSKB is among the Turkish banks that fund the highest number of renewable energy projects in the Turkish banking sector. The Bank has, so far, funded 245 renewable energy projects, thus contributing to a reduction of approximately 8.2 million tons in the total annual carbon emissions of Turkey.

Clean and renewable energy will continue to be a priority sector for TSKB in 2018 and beyond. In line with a directly proportional increase in the demand for energy with economic growth, it is among TSKB's priority goals to support investments based on renewable energy resources in terms of supply security and sustainable development in accessibility.



2017 TSKB Renewable Energy Portfolio in Numbers

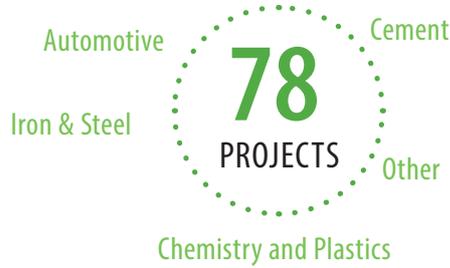


Energy & Resource Efficiency

The funding TSKB extends to the energy sector eventually benefits all sectors, the Turkish economy and the environment. Such projects contribute to developing energy/resource saving practices, ensuring energy diversity and reducing emissions. Loans for renewable energy and energy efficiency both contribute to eliminating the bottleneck in energy and support the reduction of current accounts deficit and ensure safe energy supply.

TSKB aims to maintain its portfolio rate in this field with its vision as a leading bank specialized in energy and resource efficiency.

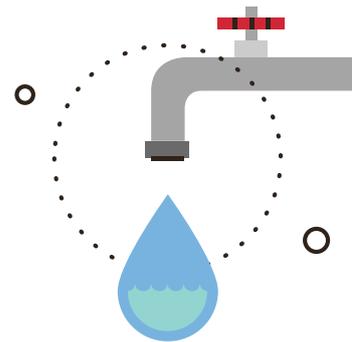
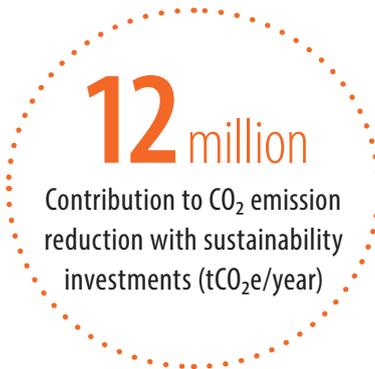
Energy Efficiency Projects



4.6 billion
Energy Savings (kcal/year)

2.4 million
Contribution to CO₂ emission reduction (tCO₂e/year)

Resource Efficiency Projects

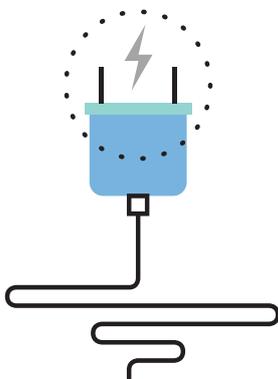


82,900
Raw Material Savings (ton/year)

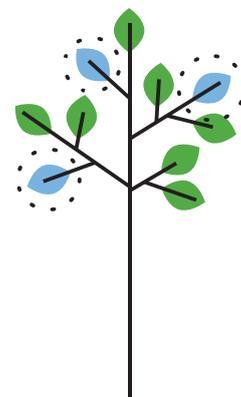
1,208,000
Water Savings (m³/year)

12,000
Waste Savings (ton/year)

1.47 billion
Energy Savings (kcal/year)



832,700
Contribution to CO₂ emission reduction (tCO₂e/year)



Women Employment

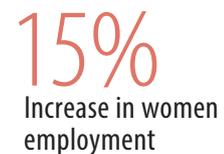


TSKB pursues a human resources policy that is based on diversity and equal opportunities and acts in accordance with technical and personal competence criteria at recruitment, training and development, performance and career management, compensation and promotion stages.

Being a signatory of UN's Women's Empowerment Principles (WEPs), TSKB aims to extend its approach on women employment throughout the country, in particular to increase the awareness of the real sector. The objective is to help the private sector to focus on key elements in promoting gender equality in the workplace, marketplace and community.

As being a member of International Development Finance Club (IDFC), TSKB has been volunteer to be a part of a newly established Working Group under IDFC in 2017, with a focus of "Gender Equality". TSKB also follows the activities of other initiatives, local NGOs, platforms within this focus.

TSKB has also been awarded by Gender Equality Certification ("Equal Opportunities Model (FEM)") of The Women Entrepreneurs Association of Turkey (KAGIDER) which is a non-governmental organization.



Being a signatory of UN's Women's Empowerment Principles (WEPs)



A part of a newly established Working Group under IDFC in 2017, with a focus of "Gender Equality"

Apex Banking



TSKB, as the leading practitioner of wholesale banking in Turkey, continued to extend financing to its customers through the international funding secured from the World Bank, CEB and other DFIs in 2017.

As part of the APEX banking activities, TSKB works with Participating Financial Institutions (PFIs) including commercial banks, leasing companies, factoring companies and participation banks, in order to indirectly fund investment projects undertaken by small- and medium-sized enterprises all over the country.

TSKB extends its Apex loans to SMEs and export-oriented enterprises, aiming mainly for improving their access to finance, supporting their export transactions and creating employment.



8%

the share of APEX loans in loan portfolio

30

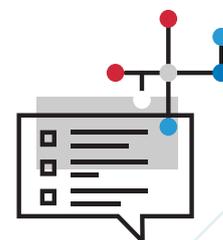
Number of PFIs cooperated

1,150

Number of SMEs financed

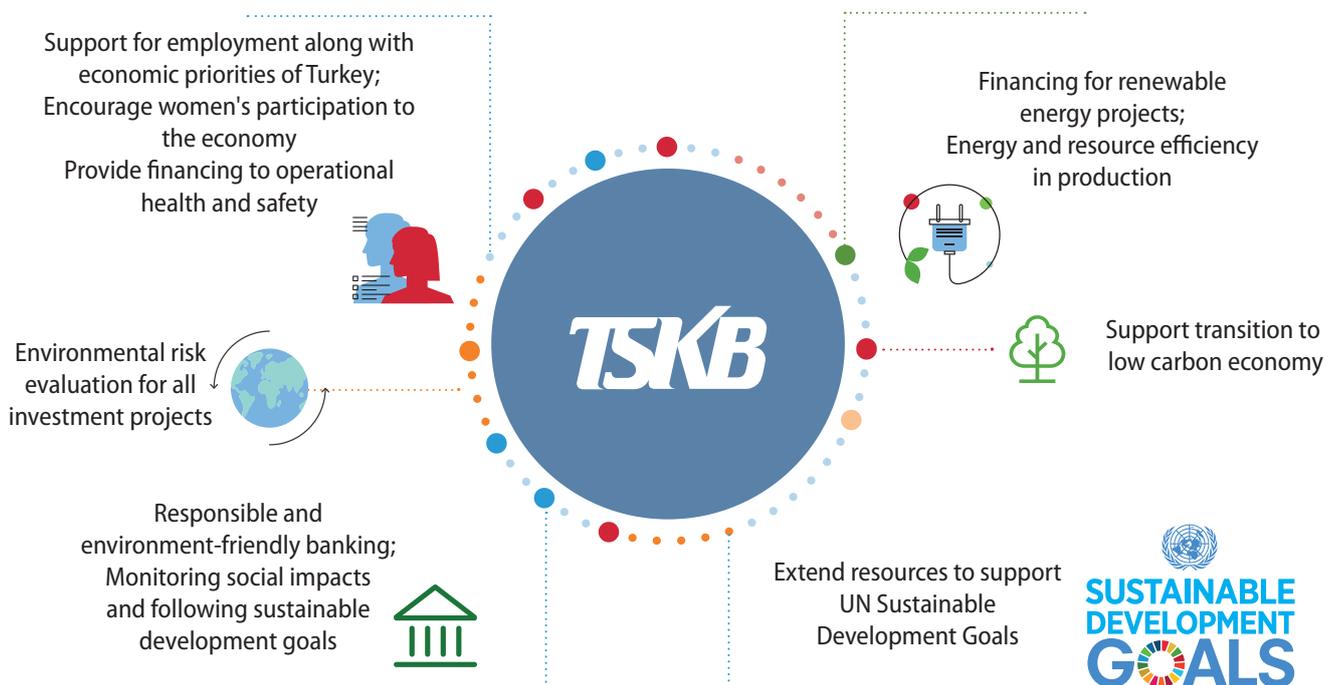
5900

Number of additional employment created



TSKB & SUSTAINABILITY

TSKB PURSUES A VISION TO BE TURKEY'S LEADING BANK IN SUSTAINABLE DEVELOPMENT and sets its goals and strategies with an integrated perspective which is natural part of its corporate culture and way of doing business. The Bank considers the support it extends to sustainable development to be a very valuable and continuous tool in creating longterm and permanent value for all stakeholders. The Bank's goals and strategy involves not only ensuring a sustainable income for its shareholders, but also using all of its resources in the most accurate, efficient and responsible manner to create value for internal and external stakeholders alike.



Business Model Goals

- > Supporting sustainable development
- > Providing entrepreneurs with brokerage and consultancy support on monetary and capital markets
- > Ensuring sustainable profitability and growth
- > Strengthening corporate structure
- > Developing in harmony with stakeholders

TSKB's Sustainability Strategy

is based on the approach that the key to qualified development is sustainable banking. The Bank's sustainable banking strategies are set in accordance with the following goals:

- > To support Turkey's sustainable development model,
- > To assume an active role in combating climate change,
- > To contribute to our country's transition to an industrial structure that is based on a low carbon economy.

TSKB Policies in accordance with its Sustainable Banking Mission

- > TSKB ENVIRONMENTAL AND SOCIAL IMPACT POLICY
 - LIST OF ACTIVITIES THAT ARE NOT TO BE FINANCED
- > TSKB OCCUPATIONAL HEALTH & SAFETY POLICY
- > TSKB HUMAN RIGHTS POLICY
- > TSKB SUSTAINABLE PROCUREMENTS MANAGEMENT POLICY
- > TSKB ANTI-BRIBERY AND ANTI-CORRUPTION POLICY
 - TSKB ANTI-BRIBERY AND ANTI-CORRUPTION PROGRAM

TSKB & SUSTAINABILITY



THE GLOBAL GOALS
For Sustainable Development

SUPPORT FOR SUSTAINABLE DEVELOPMENT GOALS

The United Nations Sustainable Development Goals which aim to end poverty by 2030, battle inequality and injustice and combat climate change, were accepted by world leaders during the United Nations Sustainable World Summit on September, 2015. The Sustainable Development goals are comprised of 17 goals and 169 targets under the goals. The Sustainable Development Goals espouse a more comprehensive and integrative approach than the Millennium Development Goals that covered the 2000-2015 period. In the context of the new approach, international cooperation, and coordination between public, private and non-governmental organizations at the national level acquire special emphasis.

TSKB, which has been contributing to Turkey's economic development since 1950 and has been a leader in sustainable development particularly in relation to environmental sustainability, is now integrating the contemporary approach to sustainable development with the year 2030 in the horizon. In this regard, the Current Situation Analysis of Turkey With Respect to the UN Sustainable Development Goals study prepared by TSKB in 2017 for the Ministry of Development of Turkey was a turning point, carrying TSKB to a focal point in intellectual capacity building and dissemination related to sustainable development goals.

With a strategic and integrated perspective, each project funded by TSKB is considered not just a banking transaction, but a milestone that contributes to the country's development and global sustainability. TSKB sets all its goals and makes all its decisions with an awareness that is part of a collective solidarity in terms of sustainability. TSKB contributes to the United Nations Sustainable Development Goals through both its lending and consulting services and its implementation of sustainability principles within its corporate structure. As an essential part of an integrative development approach, all of the Sustainable Development Goals are closely related with each other. TSKB's work supports sustainable development primarily in the areas of Industry Innovation and Infrastructure (SDG 9), Affordable and Clean Energy (SDG 7), Climate Action (SDG 13),

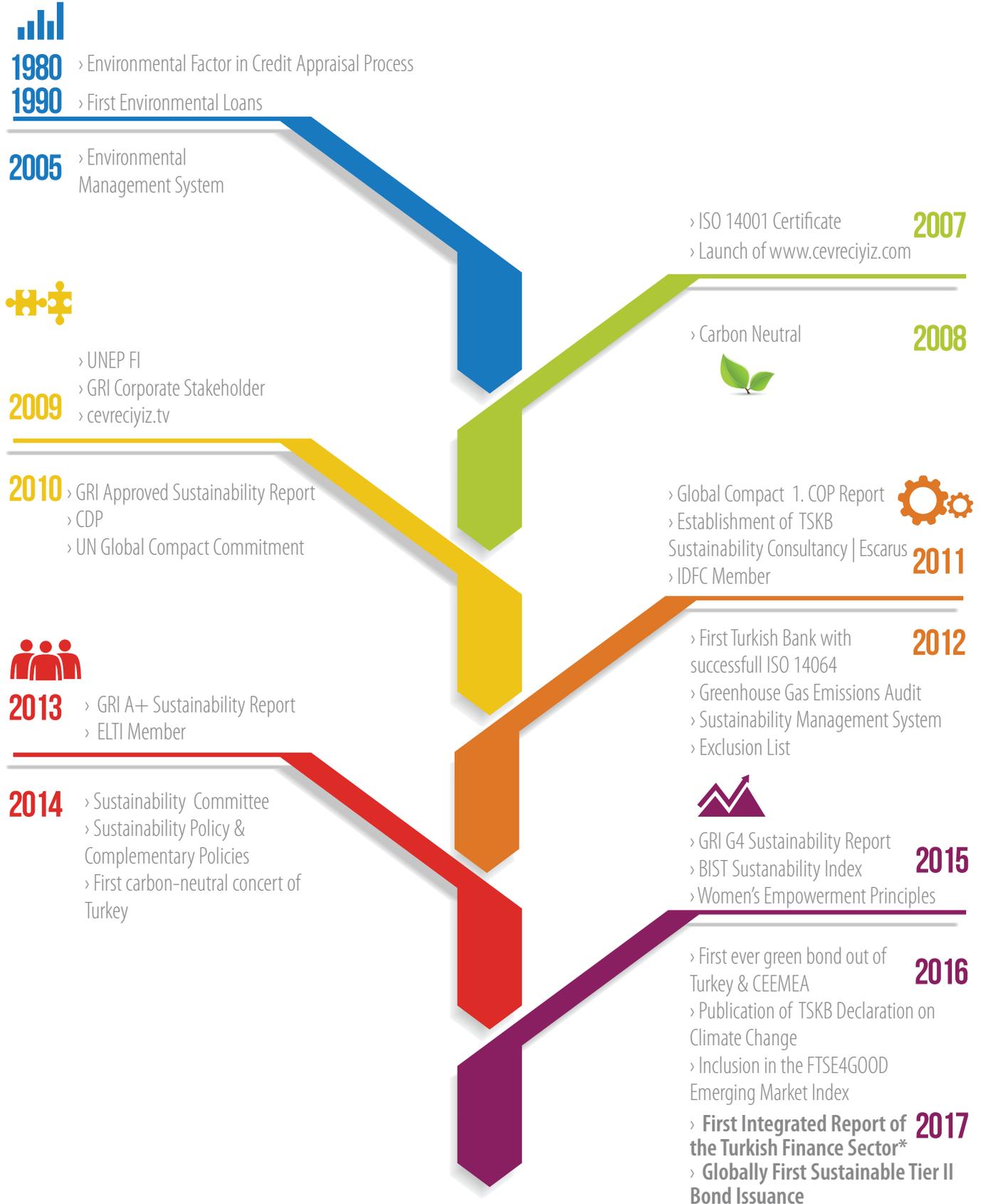
Decent Work and Economic Growth (SDG 8), Gender Equality (SDG 5) and Responsible Consumption and Production (SDG 12).

In 2017, TSKB in coordination with its subsidiary ESCARUS, prepared the Current Situation Analysis Report of Turkey With Respect to the UN Sustainable Development Goals for the Ministry of Development of Turkey. The study was the first of its kind in Turkey intended to form the baseline of Turkey's national strategy for the UN 2030 agenda for sustainable development. Original analysis and methodology were developed for relating the UN targets to Turkey, taking into account complex interactions among the targets.

A team of experts composed of TSKB economists and academics, specialists and researchers from universities and other organizations contributed to the report and analysis documents. In addition, roundtable meetings with relevant public, private, non-governmental and academic institutions were organized to provide input for qualitative analysis and policy recommendations. The report and the analysis documents prepared contain an in-depth evaluation of the current situation and policies of Turkey in a global context with respect to all 17 UN Sustainable Development Goals and provides recommendations for policies and the organizational framework to reach the 2030 targets. As part of the study, each SDG and 169 targets were analyzed and a unique methodology was developed for assessing national alignment with individual targets, as well as interlinkages between targets. In addition, a list of public, private and NGO projects related to SDG themes and their linkages to the targets was compiled. The final report is a synthesis of all the studies, qualitative and quantitative analyses performed with particular emphasis on proposals for policy and organizational structures. The study has enabled TSKB to become an integral part of policy and intellectual capacity built-up regarding sustainable development.



TSKB's Sustainability Journey



* http://www.tskb.com.tr/i/assets/document/pdf/TSKB_Integrated_Report_2016.pdf

TSKB SUSTAINABLE BOND ISSUES

Green/Sustainable Bond & Sustainable Tier II

TSKB engaged Sustainalytics to provide a second party opinion on its Sustainability Bond Framework prior to the Bank's Green / Sustainability Bond issuance in May 2016. Sustainalytics' opinion intended to provide an assessment on the Sustainability Bond Process to be in line with the ICMA Green Bond principles¹. To come to this result, Sustainalytics held conversations with members of TSKB's Corporate Marketing Department, Economic Research Department, Engineering Department, Financial Analysis Department, Financial Institutions Department, Loan Monitoring Department, Project Finance Department, and Sustainability Committee members. These conversations were held to understand the environmental and social impact of TSKB's business processes, and to understand the use and management of proceeds for the financial institution's issuance of a sustainability bond. Sustainalytics also reviewed several public and internal documents provided by TSKB in the context of sustainability and project evaluation criteria. Sustainalytics, further to this analysis, issued the Sustainability Bond Framework for TSKB in May 2016². After obtaining the second party opinion, TSKB has successfully issued the first Green/Sustainable Bond out of Turkey and CEEMEA region. In March 2017,

TSKB engaged Sustainalytics to review the projects funded during 2016 through the issued sustainability bond, and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting Commitments outlined in the Sustainability Bond Framework Overview and Second-Party Opinion. For that purpose, Sustainalytics evaluated all projects funded in 2016 for compliance based and published the Compliance Review Report stating that the reviewed bond projects are in conformance with the Use of Proceeds and Reporting Criteria. Pursuant to the existing framework, TSKB subsequently realized the globally first Sustainable Tier II Bond issuance in March 2017. TSKB has also committed to extend loans in accordance with the Eligibility Criteria as described in the Sustainability Bond Framework provided by Sustainalytics before. In March 2018, Sustainalytics published an Annual Review³ by evaluating the projects and assets funded through the issued two sustainability bonds of TSKB. In March 2018, it has been reported by Sustainalytics that projects and assets funded in 2016 and 2017 met the Use of Proceeds and Eligibility Criteria outlined in the Sustainability Bond Framework and reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria.

Use of Proceeds

Proceeds from Green / Sustainable Bond and Sustainable Tier 2 Bond should be allocated to a special sub-portfolio for lending process in accordance with TSKB Sustainable Bond Framework prepared by Sustainalytics. Eligible projects has been selected from the ones that meet one or more of the business activity criteria defined as direct and indirect climate change mitigation, climate change adaptation and sustainable infrastructure.



¹ <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/>

² <http://www.tskb.com.tr/i/assets/document/pdf/TSKBSustainabilityBond.pdf>

³ TSKB Annual Review 2018, page 1

Eligibility Criteria

Direct and Indirect Climate Change Mitigation

Especially after the Paris Agreement, the world has put its concentration and hope mainly in renewable energy and energy and resource efficiency, as the primary methods in tackling climate change. In transition to a low-carbon economy, for companies to be energy and resource efficient and intent to develop renewable energies will be of vital importance.

Energy & Resource Efficiency 	Renewable Energy 
<ul style="list-style-type: none"> Any reconstruction, expansion, renovation refurbishment investments of a business entity or relocation investments of any production facility aim to decrease energy consumption for every unit of their service outputs in the industrial sectors. Green Building investments that are certified with world widely known green building certification systems BREEAM, LEED or DGNB. Any industrial investments aim to increase resource efficiency, including but not limited to reduction in water consumption, non-recoverable wastes, and raw material/auxiliary chemicals. 	<ul style="list-style-type: none"> The development, construction and operation of the onshore wind power plants, solar power plants, hydropower plants and biomass, waste to energy, biogas projects.

Sustainable Infrastructure

To serve to aim of promoting sustainable growth and sustainable infrastructure improvements in Turkey; TSKB included the health sector, ports and electricity distribution network investments into the scope.

Electricity Distribution Networks 	Ports 	Social Infrastructure (Health and Education) 
<ul style="list-style-type: none"> Projects aim at retro-fitting and expansion of transmission lines or substations to reduce energy use and/or technical losses and to avoid electricity cuts. Besides, improving existing systems to facilitate the integration of renewable energy sources into the grid or Scada System to improve effectiveness is expected from the investment. 	<ul style="list-style-type: none"> Any building or modernization port projects with a primary objective of promoting the modal shift of freight and/or passenger transport from road to waterways are evaluated eligible for the issuance. It is also expected to ensure that the projects promote the resilience of ports to climate change risks. 	<ul style="list-style-type: none"> In the health and education infrastructure investments, expectations of improving access to public services for the wider population beside considering inclusiveness and increasing the technology standards in the field are intended to be satisfied. A formal Environmental and Social Impact Assessment should be carried out for each project.

Climate Change Adaptation³

³ Detailed information is available in the "TSKB Sustainability Bond Framework Overview and Second Opinion by Sustainalytics" Report.

Evaluation & Selection

TSKB's Technical Analysis Team, comprising of nominated members from the Engineering Department and Financial Analysis Department, assess and determine each individual project's eligibility; and, recommend an allocation of proceeds to eligible projects.

Having got the technical approval, the relationship managers propose the projects to be funded by the use of proceeds of the Bond. The projects are also regularly discussed at sub-committees reporting to the Liability Management Committee. At this point, Financial Institutions Department determines the final allocation of the projects under bond's proceeds. In the case of the respective internal procedures, including the Credit Evaluation Committee and, if required, Board's approval to have been finalized, the allocation of proceeds are tracked through the international on-line systems of the Bank.

All selected projects are previously assessed by TSKB's own Environmental and Social Risk Evaluation Tool (ERET), which aligns with the IFC Performance Standard, in order to identify and rate risks associated with clients and projects. All selected projects are subject to ongoing monitoring and supervision in terms of environmental and social impacts.

Environmental rating methodology for ERET Model is continuously reviewed by TSKB teams, and the weights of high risk issues in the calculation process are increased in line with changing conditions, thus highlighting the risky issues.



RESPONSIBLE BANKING WITH ERET

Determining the potential environmental and social risks and impacts that could arise in the implementation of projects bears special importance. According to the result additional measures for investors as well as monitoring responsibilities specific to the Bank might arise. TSKB which enjoys a specialized banking culture business model has undertaken another leading practice on the matter.

Developed to neutralize the difference in competence and experience among experts in the environmental and social risk appraisal of a project, to ensure the implementation of a consistent and standardized methodology, and to conduct performance assessment through cause and effect relations, ERET was first designed in 2005 and has been implemented gradually since then. Starting from 2007, the model has been applied to all investment projects to be potentially funded by TSKB irrespective of the investment amount and/or credit limit. TSKB adopts it as a principle to observe sustainability practices and principles which meet the environmental, social and occupational health and safety standards of the Development Finance Institutions in all investment projects it finances.

EXECUTION OF TSKB SUSTAINABLE BOND ISSUANCES

SUSTAINABLE TIER II

Date Issued

March 28, 2017

Amount

USD 300 million

First ever benchmark Sustainable Basel III Compliant Tier II bond offering

Maturity

10NC5

117 corporate investors on international markets

USD 1.1 billion demand

First ever subordinated bond offering by TSKB



Breakdown of incoming requests

- 63% UK
- 20% Continental Europe
- 10% Asia and Middle East
- 7% U.S. off-shore funds

GREEN/SUSTAINABLE BOND

Date Issued

May 18, 2016

Amount

USD 300 million

Covering Turkey, Eastern and Central Europe, Middle East and Africa

Breakdown of incoming requests

- 44% UK
- 39% Continental Europe
- 9% U.S. off-shore funds
- 8% Asia and Middle East

Maturity

5 years

First Green / Sustainable Bond Issue of the CEEMEA region

317 corporate investors on international markets

USD 4 billion demand

Largest demand in bond issuances by financial institutions in Turkey

13 times



International Financing Review IFR 2016 "SRI Bond of the Year" Award



Global Capital "EMEA Green/SRI Bond Deal of the Year" Award



Bonds & Loans International Bond Deal of the Year Award

Allocation & Impact Reporting

Review by Sustainalytics

Sustainalytics reviewed the projects funded through proceeds obtained from Green /Sustainable Bond issuance in 2016 and Sustainable Bond issuance in 2017 and provided an assessment as to whether the projects as of 2017 year end met the Use of Proceeds criteria and the Reporting Commitments outlined in the Sustainability Bond Framework provided by Sustainalytics. As per the Conclusion of the Annual Review⁵ issued by Sustainalytics nothing has come to Sustainalytics' attention that causes Sustainalytics to believe that, in all material respects, the reviewed bond projects, funded through proceeds of TSKB's Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the TSKB Sustainability Bond Framework.

Assurance by Ernst & Young

TSKB's sustainable bonds have also been verified by Ernst & Young (EY)⁶. EY has concluded that nothing has come to their attention indicating that the Selected Information for the year ended 31 December 2017 are not prepared in all material respects in accordance with the Company's Eligibility Criteria as explained in the Report.

Management of Proceeds

TSKB has fully disbursed the proceeds of the Green / Sustainable Bond issued on 18 May 2016 and the Sustainable Basel III Compliant Tier-II Bond issued on 28 March 2017. Moreover, TSKB will continue to finance new eligible projects for the redemption amounts out of the subject portfolio, on a best effort basis.

TSKB had a selection of existing projects to support the bond sizes and has aimed to re-finance the outstanding project flow with the use of proceeds of the Green / Sustainable Bond and Sustainable Tier-II Bond . Besides, new projects have been allocated to Sustainable Tier II Bond following the issuance in order to complete the first utilizations. As a result of the assesment of the subject project in accordance with ERET model, no individual action was required. Until when the full utilisation has got completed, the proceeds were held under a designated account, which is tagged within TSKB's accounting system for efficient monitoring of the related projects. TSKB has permitted transfers from this account to eligible projects only.

In some cases, the related component of a project supported by Green / Sustainable Bond and/or Sustainable Tier 2 Bond could be a part of a larger investment. In such cases the portfolio only finances the eligible portion of these larger investments.

The monitoring of the projects comprises regular reports by the Bank on project activities and performance throughout the lifetime of investment.

Allocation of the Proceeds

The whole amount of the subject Green / Sustainable Bond and Sustainable Tier-II Bond proceeds have been disbursed with the below percentages as of 31.12.2017.

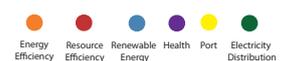
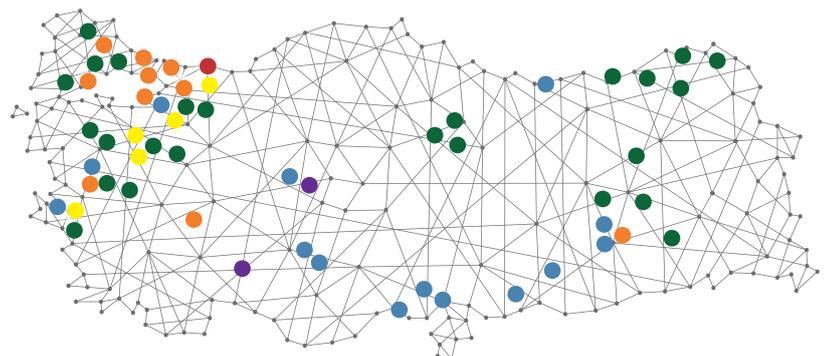
Green / Sustainable Bond

THEMES	# of PROJECT	PERCENTAGE
Energy Efficiency	4	7,3%
Renewable Energy	7	37,5%
Health	1	14,2%
Electricity Distribution	5	22,0%
Ports	3	19,1%
Total	20	100%

Sustainable Tier II Bond

THEMES	# of PROJECT	PERCENTAGE
Energy Efficiency	6	20,3%
Resource Efficiency	1	1,4%
Renewable Energy	8	40,9%
Health	1	23,0%
Electricity Distribution	2	10,7%
Ports	2	3,7%
Total	20	100%

Geographical Distribution^{7, 8}



⁵ TSKB Annual Review 2018, page 1

⁶ Independent Assessment Statement, page 13

⁷ Electricity Distribution projects are demonstrated on the map depending on their distribution areas

⁸ The figures are reflected based on their city centers

Allocation & Impact Reporting

Impact Reporting

TSKB Impact Report is in line with the GBP's reference framework for reporting . The Impact Report includes the list of projects that are financed under the subject Green / Sustainable Bond and Sustainable Tier II Bond proceeds, brief Project descriptions, the amounts committed and the environmental and/or social impacts. In the calculation of GHG emission reductions/avoidance, TSKB's internally and annually calculated Turkey's Green House Gas (GHG) Emission Factor (from Turkey's Electrical Energy Production) value is utilized. TSKB's emission factor calculation methodology is in line with United Nations Framework Convention on Climate Change (UNFCCC) tool to calculate the emission factor for an electricity system. In the calculations, Turkey's announced latest electricity statistics are used.

Impact of Green/Sustainable Bond Utilisation – Renewable Energy

Project Name	Project Description	Eligibility for Green Bonds	Renewable Energy Capacity Added (MW)	Total Investment Amount (USD)	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Annual Generation FY 2017 (Electricity)	Annual GHG Emissions Reduced/Avoided FY 2017 (ton/y)	Annual Allocated Amount from Bond / Total Annual GHG Emissions Reduced/Avoided FY 2017 (ton/year)	Employment created by the investment
1	Hydro Power Plant with 120 MW of installed power in Eastern black Sea Region of Turkey	Hydro Power Plants	120	170,000,000	31,111,111	295,000,000 kWh	167,855	30,719	23
2	131.2 MW Hydro power plant in Eastern Anatolia Region of Turkey	Hydro Power Plants	131.2	243,076,000	37,930,247	149,528,580 kWh	85,082	13,276	21
3	130.2 MW Hydro power plant in Eastern Anatolia Region of Turkey	Hydro Power Plants	130.2	249,778,000	37,930,247	136,595,873 kWh	77,723	11,803	21
4	81.25 MW Hydro power plant in Mediterranean Region of Turkey	Hydro Power Plants	81.25	163,657,240	15,066,292	119,808,906 kWh	68,171	6,276	20
5	60.25 MW Hydro power plant in Mediterranean Region of Turkey	Hydro Power Plants	60.25	68,839,000	8,458,270	55,457,900 kWh	31,556	3,877	16
6	39 MW Wind Power Plant in Mediterranean Region of Turkey	Wind Power Plants	39	66,089,032	4,074,947	89,526,930 kWh	50,941	3,141	12
7	45 MW Wind Power Plant in Aegean Region of Turkey	Wind Power Plants	45	76,157,792	454,087	160,659,040 kWh	91,415	545	12
				135,025,201					

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Impact of Tier II Utilisation – Renewable Energy

Project Name	Project Description	Eligibility for Green Bonds	Renewable Energy Capacity Added (MW)	Total Investment Amount (USD)	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Annual Generation FY 2017 (Electricity)	Annual GHG Emissions Reduced/Avoided FY 2017 (ton/y)	Annual Allocated Amount from Bond / Total Annual GHG Emissions Reduced/Avoided FY 2017 (ton/year)	Employment created by the investment
1	63 MW Wind Power Plant in Southeastern Anatolia Region of Turkey	Wind Power Plants	63	95,200,000	11,000,000	140,000,000 kWh	79,660	9,204	15
2	5.6 MW Biomass plant in Central Anatolia Region of Turkey	Biomass	5.6	6,000,000	4,200,000	30,008,416 kWh	17,075	11,952	40
3	32.4 MW Wind Power Plant in Marmara Region	Wind Power Plants	32.4	36,275,160	20,155,128	88,000,000 kWh	50,072	27,821	8
4	27.5 MW Wind Power Plant in Southeastern Anatolia Region of Turkey	Wind Power Plants	27.5	51,444,176	2,300,000	45,387,000 kWh	25,825	1,155	5
5	115 MW Wind Power Plant in Aegean Region of Turkey	Wind Power Plants	115	142,400,000	81,457,374	316,800,000 kWh	180,259	103,114	19
6	1 MW Solar Power Plant in Central Anatolia Region of Turkey	Solar Power Plant (Photovoltaic)	1	1,626,000	1,254,599	1,677,527 kWh	955	736	5
7	36.0 MW Wind Power Plant in Marmara Region	Wind Power Plants	36	28,083,333	1,619,609	96,000,000 kWh	54,624	3,150	8
8	1 MW Solar Power Plant in Central Anatolia Region of Turkey	Solar Power Plant (Photovoltaic)	1	1,650,000	1,264,635	1,669,118 kWh	950	728	2
					123,251,345				

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Impact of Green/Sustainable Bond Utilisation – Energy Efficiency

Project	Project Description	Eligibility for Green Bonds	Total Investment Amount (USD)	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Annual Energy Savings FY 2017 (Electricity/Other) (kWh/year)	Annual GHG Emissions Reduced/Avoided FY 2017 (ton/year)	Annual Allocated Amount from Bond / Total Annual GHG Emissions Reduced/Avoided FY 2017 (ton/year)	Employment created by the investment
1	Construction of an efficient cold rolling line	Energy Efficiency	7,890,400	1,600,000	2,450,000	1,394	283	5
2	Energy Production Project from Waste Heat and arc-furnace modernization	Energy Efficiency	45,900,000	4,223,077	89,660,000	51,017	4,694	16
3	*Platinum Leed Certified Building	Energy & Resource Efficiency	94,000,000	10,998,550	26,803,914	10,412	1,218	1200
4	*Gold Leed Certified Building	Energy & Resource Efficiency	30,000,000	9,333,333	2,134,883	937	292	1300
			26,154,960					

Impact of Tier II Utilisation – Energy Efficiency

Project	Project Description	Eligibility for Green Bonds	Total Investment Amount (USD)	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Annual Energy Savings FY 2017 (Electricity/Other) (kWh/year)	Annual GHG Emissions Reduced/Avoided FY 2017 (ton/year)	Annual Allocated Amount from Bond / Total Annual GHG Emissions Reduced/Avoided FY 2017 (ton/year)	Employment created by the investment
1	Replacement of the old facility by renewing existing old machinery.	Energy Efficiency	108,698,534	17,732,219	995,791,708	566,605	92,432	30
2	Existing feed production plant is reconstructed in an organized industrial zone by renewing existing old machinery.	Energy Efficiency	6,362,841	5,698,206	1,400,000	797	713	0
3	The existing 15 carburization furnaces are replaced with 6 modern and technological furnaces. Furthermore, 4 nitration furnaces are also replaced with 3 modern and energy efficient furnaces.	Energy Efficiency	9,218,440	3,446,666	12,508,865	7,118	2,661	0
4	*Platinum Leed Certified Building	Energy & Resource Efficiency	94,000,000	4,621,038	26,803,914	10,412	512	1,200
5	Gold Leed Certified Building	Energy & Resource Efficiency	40,609,024	20,395,070		LEED Certification process is ongoing		479
6	*Gold Leed Certified Building	Energy & Resource Efficiency	30,000,000	9,333,333	2,134,883	937	292	1300
			61,226,532					

Impact of Tier II Utilisation – Resource Efficiency

Project	Project Description	Eligibility for Green Bonds	Total Investment Amount (USD)	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Annual Water Savings FY 2017 Description	Annual Water Savings FY 2017 (Water/Other) (m3/year)	Annual Allocated Amount from Bond / Total Annual Water/ Other Saved FY 2017 (m3/year)	Employment created by the investment
1	Waste water treatment plant in a sugar production facility	Resource Efficiency	4,109,335	4,109,335	Treated Waste Water Amount at 2017	725,000	725,000	5

*Same project financed by both bonds.

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Impact of Green/Sustainable Bond Utilisation – Electricity Distribution Projects

Project	Project Description	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Total Investments in 2017 (TL)	2017 Total Subscriber	Population of the Area - 2017	2017 Total Energy Distribution (MWh)	Benefits of the Investment
1	*Modernisation, rehabilitation and extension of electricity distribution network in Marmara Region of Turkey	40,323,438	232,731,922	3,092,199	4,923,247	12,373,510	In addition to regular expansion, modernization and maintenance, investments have served to keep network losses at a minimum level and adapting the networks to new requirements, such as distributed generation, integration of renewable energy into the grid, remote network operation and more energy efficient management. The investments have thus contributed to overall energy efficiency and carbon reduction.
2	Modernisation, rehabilitation and extension of electricity distribution network in Central Anatolia Region of Turkey	17,730,451	123,445,223	946,381	1,642,037	2,468,080	
3	Modernisation, rehabilitation and extension of electricity distribution network in Black Sea Region of Turkey	4,705,882	133,140,000	1,269,278	1,891,076	3,499,000	An added benefit for the 3rd and 4th projects have been the provision of high quality services in one of the less developed regions of Turkey covering provinces in Eastern Anatolia and Black Sea regions.
4	Modernisation, rehabilitation and extension of electricity distribution network in Eastern Anatolia Region of Turkey	4,705,882	117,878,000	888,000	1,726,199	2,452,000	
5	Modernisation, rehabilitation and extension of electricity distribution network in Aegean Region of Turkey	11,708,188	318,185,203	3,165,847	5,692,718	14,487,456	
		79,173,841					

Impact of Tier II Utilisation – Electricity Distribution Projects

Project	Project Description	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Total Investments in 2017 (TL)	2017 Total Subscriber	Population of the Area - 2017	2017 Total Energy Distribution (MWh)	Benefits of the Investment
1	*Modernisation, rehabilitation and extension of electricity distribution network in Marmara Region of Turkey	26,033,077	232,731,922	3,902,199	4,923,247	12,373,510	In addition to regular expansion, modernization and maintenance, investments have served to keep network losses at a minimum level and adapting the networks to new requirements, such as distributed generation, integration of renewable energy into the grid, remote network operation and more energy efficient management. The investments have thus contributed to overall energy efficiency and carbon reduction.
2	Modernisation, rehabilitation and extension of electricity distribution network in Marmara Region of Turkey	6,354,995	195,167,546	1,042,995	1,768,368	6,447,850	
		32,388,702					For the first project, benefits of the investments will be the same in both tranches because, in electricity distribution regions, most of the investments are made for the same purposes such as modernization, maintenance and minimizing network losses etc.

*Same project financed by both bonds.

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Impact of Green/Sustainable Bond Utilisation - Ports

Project	Project Description	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Handling Capacity Before Investments	2017 Handling Capacity	2017 Handling Amount	Benefits of the Investment
1	Infrastructure, renovation and capacity increase in ports at the Marmara Region by the Marmara Sea	13,516,050	600.000 TEU container handling 1.500.000 tons/year general cargo	1.200.000 TEU/year container handling 5.000.000 tons/year general cargo 845.000 m3/year liquid cargo 650.000 CEU/year Ro-Ro	474.000 TEU/year container handling 828.000 tons/year general cargo 195.000 m3/year liquid cargo 348.000 CEU/year Ro-Ro	The investment was two phased. First phase is building of a modern container and the other is for the modernization and integration with the adjacent port (phase 1) belonging to the same group of companies. Modernization and integrating container handling with the adjacent port increased port efficiency, additional benefits and synergy. Container handling also has facilitating shift from land transport to sea transport. Container handling also has environmental benefits as a dust-free mode of cargo handling. In addition, the investment enlarged operations of the port by providing liquid cargo services.
2	Renovation and capacity increase in port at the Marmara Region by the Marmara Sea	5,087,106	520.000 TEU/year container handling 4.000.000 tons/year general cargo 750.000 m3/year liquid cargo 450 bin vehicles (Ro-Ro)	1.000.000 TEU/year container 6.000.000 tons/year general cargo 1.000.000 m3/year liquid cargo	501.000 TEU/year container 1.667.000 tons/year general cargo 525.000 m3 liquid cargo	Additional cargo handling capacity in all services (especially in container handling) and increase in productivity will provide increase in port efficiency, facilitating shift from land transport to sea transport. Container handling also has environmental benefits as a dust-free mode of cargo handling.
3	Infrastructure Investment for port at the Marmara Region by the Black Sea	50,168,782	50.000 TEU/year container handling 1.500.000 tons/year general cargo	50.000 TEU/year container handling 1.500.000 tons/year general cargo	Not operated full year	The existing inactive port has been modernized and refurbished to accommodate Ro-Ro and container cargo. The port will facilitate shifting land transport to sea transport by increasing Ro-Ro and container shipping. An important additional benefit of the port is that Black Sea cargo can be shipped directly from this port instead of crossing the Bosphorus, thereby reducing fuel use and carbon emissions.
		68,771,937				

Impact of Tier II Utilisation - Ports

Project	Project Description	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Handling Capacity Before Investments	2017 Handling Capacity	2017 Handling Amount	Benefits of the Investment
1	Infrastructure Investment for port at the Marmara Region by the Marmara Sea	5,336,209	A greenfield investment	100.000 CEU/year Ro-Ro 25.000 TEU/year container	Not operated full year	The greenfield investment is a Ro-Ro terminal. The port is facilitating shift from land transport to sea transport between Asia and Europe continents. Also reduces traffic, fuel use and carbon emissions.
2	Renovation and capacity increase in port at the Aegean Region by the Aegean Sea*	5,865,400	450 thousand TEU/year container handling 500 thousand tons/year general cargo	450.000 TEU/year container 500.000 ton/year general cargo	313.220 TEU/year container 211.947 ton/year general cargo	The investment consists of rail system reinforcement on the pier and purchasing of two fixed cranes. The project provides ability to serve larger ships and efficiency in container handling which increases port productivity and profitability to serve to the region more effectively. Container handling also has environmental benefits as a dust-free mode of cargo handling.
		11,201,610				

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Impact of Green/Sustainable Bond Utilisation - Health

Project Description	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Benefits of the Investment
1 Establishment of a city general hospital with 3,566 beds under a PPP scheme with an investment amount of 1.1 billion Euro.	50,981,698	<p>The hospital project in Ankara aims to:</p> <ul style="list-style-type: none"> • Renovate the insufficient healthcare infrastructure that will serve increasing healthcare demands, • Bring smaller hospitals together under one campus, • Increase service quality and efficiency in Turkey. <p>The project is developed to provide service for Ankara and surrounding cities primarily Çorum, Kırıkkale, Kırşehir, Yozgat, Çankırı, Karabük, Kastamonu, Zonguldak, Bartın and Bolu. The region is expected to be visited by about 100,000 people daily. The district population can be characterized as mainly lower middle class and the district is readily accessible with public transport from the city center. Ankara is the capital and the second largest city in Turkey. Population has grown by 18%, exceeding the national growth rate of 13% since 2007. The project has directly created job opportunities for 359 people and indirectly 2,784 people via subcontractors by the end of 2017.</p>

Impact of Tier II Utilisation - Health

Project Description	Loan Amount Financed with the Proceeds of Bond (USD) (31.12.2017)	Benefits of the Investment
1 Establishment of a city general hospital with 755 beds under a PPP scheme with an investment amount of 390 million USD	69,501,985	<p>The hospital project in Isparta aims to:</p> <ul style="list-style-type: none"> • Renovate the insufficient healthcare infrastructure that will serve increasing healthcare demands, • Bring smaller hospitals together under one campus, • Increase service quality and efficiency in region. <p>The project is developed to provide service for Isparta and surrounding cities primarily Afyon, Burdur, Antalya and Konya. The Healthcare Facility will be used by local people and other people coming from neighbor cities. The Project would be covering an integrated health campus investment with a total capacity of 755 beds. It is expected to be visited by about 10.000-12.000 people daily. Isparta province is a small city with a good transportation system sufficient for the city, where the local people generally use the public transportation. Project should create a positive influence on the transportation activities. The project has created job opportunities for 2.160 people in total during the operation of the hospital. (1.260 health service and 900 service employees)</p>