

YAPI KREDİ SUSTAINABILITY BOND FRAMEWORK JUNE 2020





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1. Introduction

Established in 1944 as Turkey’s first retail focused private bank with a nationwide presence, Yapı ve Kredi Bankası A.Ş. [hereinafter referred to as “Yapı Kredi”] has always played a pioneering role in the banking sector. As one of the largest private banks in Turkey, Yapı Kredi’s strategic business unit-based service model consists of Retail Banking [comprising of individual banking, Small and Medium Size Enterprises (SME) banking and card payment systems, private banking and wealth management], as well as, Corporate and Commercial Banking. Through a customer-centric approach and focus on innovation, Yapı Kredi aims to contribute to financing the Turkish economy.

Yapı Kredi believes sustainable economic development cannot be achieved without social and environmental development. Guided by the United Nations (UN) Sustainable Development Goals (SDGs) adopted in 2015 by all United Nations Member States, Yapı Kredi seeks to provide innovative financial services and products to solve global challenges. To that end, Yapı Kredi’s Sustainability Committee co-chaired by a Board Member and the Corporate Communications Director, oversees Yapı Kredi’s overall sustainability strategy.

As part of Yapı Kredi’s Environmental and Social Risk Assessment (ESRA) Model, all new investment and project financing loan requests, and project finance advisory services with an investment amount USD 10 million and above are subject to environmental and social risk assessment. The assessment model has been established based on local legislation as well as the International Finance Corporation (IFC) Environmental and Social Performance Standards.

In line with Yapı Kredi’s sustainability vision and principles; green, social and/or sustainability bonds issued under this framework will contribute towards Yapı Kredi’s efforts to support Turkey’s transition to low-carbon economy and achieve the United Nations Sustainable Development Goals.

2. Yapı Kredi’s Sustainability Bond Framework

Yapı Kredi’s Sustainability Bond Framework [“Framework”] is aligned with the International Capital Market Association (ICMA) Green Bond Principles¹ (GBP) and the ICMA Social Bond Principles² (SBP) [“Principles”], and the ICMA Sustainability Bond Guidelines³ for issuance of green, social and/or sustainability bonds. Yapı Kredi’s framework is built on the four key pillars of the Principles and Sustainability Bond Guidelines: 1) Use of proceeds, 2) Project evaluation and selection, 3) Management of proceeds, and 4) Reporting.

Yapı Kredi’s Sustainability Bond Framework also follows the recommendations of the Principles regarding External Review.

This Framework may be updated or revised in line with the Principles and the Sustainability Bond Guidelines to reflect the development and growth of the global green, social and sustainability bond markets.

¹The Green Bond Principles (GBP), updated as of June 2018
[\[https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles--June-2018-140618-WEB.pdf\]](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles--June-2018-140618-WEB.pdf)



²The Social Bond Principles (SBP), updated as of June 2020
[\[https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf\]](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf)

³The Sustainability Bond Guidelines, as of June 2018
[\[https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Sustainability-Bond-Guidelines--June-2018-140618-WEB.pdf\]](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Sustainability-Bond-Guidelines--June-2018-140618-WEB.pdf)

2.1 Use of Proceeds

The net proceeds of the green, social and/or sustainability bonds issued by Yapı Kredi under this framework will be allocated to finance and/or refinance, in whole or in part, a portfolio of eligible assets ["Eligible Sustainability Asset Portfolio"]. Eligible assets fall within certain eligible categories ["Eligible Sustainability Asset Categories"] defined by Yapı Kredi in accordance with the Principles, Sustainability Bond Guidelines and best market practice.

Eligible Sustainability Asset Categories broken down by eligible green and social assets are defined as follows:

Eligible Green Asset Category	Contribution to UN SDG
<p>Renewable Energy</p> <p>Financing or refinancing the acquisition, procurement, development, construction, operation, transmission and maintenance of new and/or existing renewable-energy power plants. Eligible renewable-energy power plants are as follows:</p> <ul style="list-style-type: none">• Solar Power: Solar photovoltaic (PV), Concentrated solar power (CSP) and solar thermal power plants,• Wind Power: On and off-shore power plants,• Hydro Power: Hydropower plants⁴,• Geothermal Power: Geothermal power plants⁵,• Bio Power: Biofuel and/or biomass power plants⁶.	
<p>Commercial or Residential Green Buildings</p> <p>Financing or refinancing new and/or existing commercial and/or residential buildings that meet one of the following criteria:</p> <ul style="list-style-type: none">• Buildings rated B or above in terms of energy performance in the local context, as determined via Energy Performance Certificate (BEP-TR) issued in accordance with the Turkish regulation and/or via Turkish Building Code,• Buildings that meet at least any of the following external certifications for green buildings:<ol style="list-style-type: none">i. LEED ["Gold"],ii. BREEAM ["Very Good"],iii. ÇEDBİK⁷ Green Building certification,iv. Any equivalent Green Building certification.• Refurbished commercial and residential building energy efficiency projects that reduce energy consumption by at least 30%.	

⁴Eligible hydropower projects are limited to those that are small-scale dam type (maximum generation capacity of 25MW or under), or run-of-river plants.

⁵Eligible geothermal projects are limited to those with direct emissions lower than 100 g CO₂e/kWh.

⁶Eligible non-waste biomass energy projects are limited to feedstock obtained from sustainable sources for any kind of bio power projects.

⁷ÇEDBİK, Turkish Green Building Council (<https://cedbik.org/en>)

Clean Transportation

Financing or refinancing low-carbon vehicles and related infrastructure which meet one of the following criteria:

- Energy-efficient public transport with tailpipe emissions intensity of less than 75 g CO₂e/p-km,
- Development, operation and upgrade of electric-powered rail transport for both passengers and goods,
- Construction of bicycle paths,
- Electric vehicles and hybrid vehicles that have tailpipe emissions intensity of less than 75 g CO₂e/p-km,
- Design and manufacturing of clean transport components.



Energy Efficiency

Financing or refinancing projects for enhancing energy efficiency, energy transmission and storage infrastructure including:

- Refurbishment, rehabilitation and/or renovation investments in non-carbon intensive industries, which improve the efficiency of energy consumption by at least 15% and/or reduce greenhouse gas emissions by at least 15%,
- Construction, renovation and refurbishment of electricity grids that transmit electricity generated by renewable power plants to the national grid,
- Investments enhancing energy efficiency in respect of the distribution and transmission of electricity,
- Smart grids, storage facilities, metering systems and other intelligent electricity systems that serve to increase the share of renewable energy in total energy consumption.



Access to Essential Services

Financing or refinancing projects and initiatives to support the provision and development of public services in healthcare and education:

- Construction, provision, maintenance, modernization and equipment of healthcare services,
- Production of medical supplies and equipment needed for the prevention and/or treatment of health disasters including but not limited to coronavirus disease 2019 (COVID-19),
- Construction, rehabilitation, and maintenance of schools, universities and technical/vocational training centres,
- Development of technologies and programs to improve public education and training.

**Employment Generation and Programs Designed to Prevent and/or Alleviate Unemployment Stemming from Socioeconomic Crisis, Including Through the Potential Effect of SME Financing**

Providing financing or refinancing to SMEs. To be identified as an SME, the end client should have fewer than 250 employees and a turnover or total assets below TRY 125m.

To be eligible for this category, any one of the following criteria should be met:

- SMEs where at least 51% of shares are owned by women or where the company has at least 20% women's ownership with women occupying at least one managerial role, or where the overall operational management responsibility is held by one or more females,
- SMEs located in cities with lower income than the average GDP,
- SMEs owned by migrants and/or displaced persons,
- SMEs affected by natural disasters or health disasters including but not limited to coronavirus disease 2019 (COVID-19).



Yapı Kredi's Eligible Sustainability Asset Categories may be revised or expanded subject to a second party opinion.

2.2 Project Evaluation and Selection

The net proceeds of the green, social and/or sustainability bonds will be allocated to the eligible sustainability assets that will be reviewed, selected and approved by the Sustainability Bond Working Group. As an integral body of the Yapı Kredi's Sustainability Committee, the Sustainability Bond Working Group is comprised of representatives from the Treasury Department, the Corporate Communications Department-Sustainability Division, the Corporate and Commercial Banking Department, the Investor Relations Department, the Retail Banking Department and the Credits Department. Reviewed and selected assets are required to comply with the Yapı Kredi's Eligible Sustainability Asset Categories as defined in section 2.1 ["Use of Proceeds"].

Yapı Kredi endeavours to ensure that all selected eligible sustainability assets comply with the official standards and national regulations on a best efforts basis. It is part of the general transaction process to ensure that all selected assets comply with minimum environmental and social requirements based on Yapı Kredi's internal policy framework. The establishment and careful implementation of Yapı Kredi's sustainable lending policies and guidelines helps mitigate any environmental and social risk potentially associated with the eligible sustainability assets.

Exclusion List

Assets allocated under this framework will not be knowingly used to finance/refinance the activities listed below:

1. Any project or activity that does not comply with Yapı Kredi's Environmental and Social Exclusion List⁸,
2. Nuclear power plants,
3. Fossil fuel-related activities and products.

2.3 Management of Proceeds

The net proceeds of the green, social and/or sustainability bonds will be managed by Yapı Kredi's Treasury and Sales Departments in a portfolio-based approach.

Yapı Kredi intends to allocate the proceeds from the green, social and/or sustainability bonds to a portfolio of assets that meet the use of proceeds eligibility criteria in section 2.1 ["Use of Proceeds"] and are in accordance with the evaluation and selection process presented in section 2.2 ["Project Evaluation and Selection"].

Assets that are eligible to receive financing under Yapı Kredi's Sustainability Bond Framework will be tagged within Yapı Kredi's credit monitoring system. Allocation status of the bond will be monitored semi-annually to be utilised towards eligible sustainability assets approved by the Sustainability Bond Working Group.

Yapı Kredi will strive to achieve a level of allocation for the Eligible Sustainability Asset Portfolio that will, over time, match or exceed the balance of the net proceeds from its outstanding green, social and/or sustainability bonds. Eligible sustainability assets will be added to or removed from the Eligible Sustainability Asset Portfolio to the extent required.

Unallocated proceeds will be invested in short-term money market products in cash and/or cash equivalents, or in other liquid marketable instruments.

⁸Yapı Kredi's Exclusion List can be found in its Environmental and Social Policy:

https://assets.yapikredi.com.tr/WebSite/_assets/pdf/en/investor-relations/governance/corporate-governance/environmental_and_social_policy.pdf?v1

2.4 Reporting

Under this framework and in accordance with the Principles and the Sustainability Bonds Guidelines, Yapı Kredi intends to publish a green, social and/or sustainability bond annual report on its [website](#) on the allocation of the green, social and/or sustainability bond proceeds and their environmental and/or social impact. Reporting will be renewed annually until full allocation of the green, social and/or sustainability bond proceeds.

Yapı Kredi intends to show the allocation and impact of the green, social and/or sustainability bond proceeds to the Eligible Sustainability Asset Portfolio at least at the category level and on an aggregated basis for Yapı Kredi's entire green, social or sustainability bonds and other potential green, social or sustainability funding outstanding.

Allocation Reporting

The Allocation report will include:

- The total amount of proceeds allocated to eligible assets,
- The amount of the proceeds allocated to each eligible asset category,
- The share and/or amount of proceeds used for financing or re-financing,
- The total amount of unallocated proceeds.

Impact Reporting

Depending on the availability of the suitable data, Impact Reporting may include key performance indicators outlined below:

Eligible Green Asset Category	Key Performance Indicator (KPI)
Renewable Energy	<ul style="list-style-type: none">• Installed renewable energy capacity [MW],• Expected annual renewable energy generation [MWh],• Estimated annual GHG emission avoided or reduced [tCO₂e].
Green Buildings	<ul style="list-style-type: none">• Environmental certification,• Annual energy savings [MWh],• Estimated annual GHG emission avoided or reduced [tCO₂e].
Clean Transportation	<ul style="list-style-type: none">• Number of passengers/public passenger transports,• Estimated annual GHG emission avoided or reduced [tCO₂e],• Number of electric/low carbon vehicles financed,• Length of low carbon tracks built.
Energy Efficiency	<ul style="list-style-type: none">• Annual energy savings [MWh],• Estimated annual GHG emission avoided or reduced [tCO₂e],• Storage capacity [MW],• Distribution capacity [MW],• Distance of transmission [km].

Eligible Social Asset Category	Key Performance Indicator (KPI)
Access to Essential Services	<ul style="list-style-type: none"> • Number of facilities and/or programs financed, • Number of beneficiaries.
Employment Generation and Programs Designed to Prevent and/or Alleviate Unemployment Stemming from Socioeconomic Crisis, Including Through the Potential Effect of SME Financing	<ul style="list-style-type: none"> • Number of target group-owned SMEs financed, • Number of SMEs financed that are located in cities with an income below average GDP, • Number of SMEs financed that are affected by natural disasters or health disasters.

3. External Review

Second Party Opinion

Yapı Kredi has obtained a Second Party Opinion (SPO) from Sustainalytics to this Framework verifying its credibility, impact and alignment with ICMA Green Bond Principles (2018), ICMA Social Bond Principles (2020), ICMA Sustainability Bond Guidelines (2018) and best market practice.

This framework and the Second Party Opinion are publicly available on Yapı Kredi’s [website](#).

Verification

Yapı Kredi may request on an annual basis, starting one year after issuance and until full allocation, a limited assurance report of the allocation of the bond proceeds to the Eligible Sustainability Asset Portfolio, provided by a qualified external party.

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