



39th ABA Conference
Sustainability in Turkish Banking Sector

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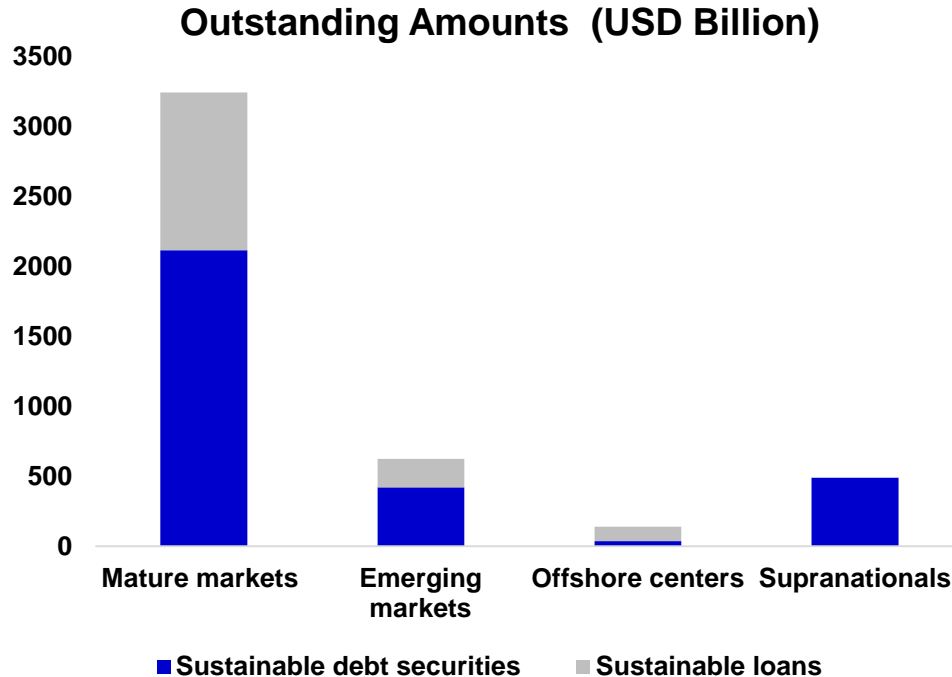


Part I. Sustainable Finance

General Overview



Sustainable Finance



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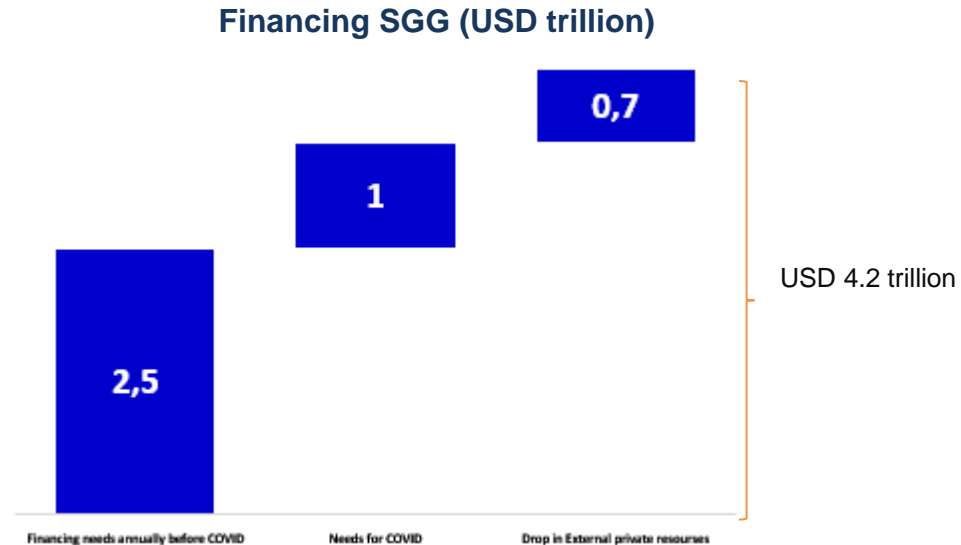
- Environmental, social and governance (ESG- Environmental, Social and Governance) investments have turned into the mainstream all over the world. In this process, the development of a strong 'green finance' and a low-carbon economy model with the said ESG investments are determined as priority targets. Banks and related organizations have increasingly incorporated ESG factors into their overall operations and governance.
- The market size reached near \$4.5 trillion in Q3 2022, up from \$3 trillion a year ago and \$1.5 trillion in Q3 2020. Expected market size is USD 30.9 trillion by 2032.
- ESG debt issuance in emerging markets remained strong.
- Global sustainable finance product issuance totalled USD 717 billion in the first half of 2023. Although this volume registered a 7% year-on-year decrease, it is higher than the second half of 2022 and the whole year's volume for 2023 still has the potential to exceed 2022's volume.



Sustainable Finance

USD 2.5 trillion in financing needs in developing countries to achieve the SDGs, with an additional projected shortfall of USD 1.7 trillion as a result of COVID-19. Aligning just 1.1 percent of global finance with the SDGs could potentially fill that gap.

Although the need is great, the opportunities are also significant. IFC estimates over USD 23 trillion in investment opportunities in green and climate-related sectors and activities that can help achieve national goals aligned with the Paris Agreement and accelerate the global transition to a low-carbon economy.



Global Trends Meet the Best Practices from Europe

- ❖ The discussion regarding the definition of greenwashing is abound.
- ❖ EU's Carbon Border Adjustment Mechanism (CBAM) and the European Union Emission Trading System were published in the EU Official Journal on 16 May 2023.
- ❖ The CBAM itself will enter into application in its transitional phase on 1 October 2023, with the first reporting period for importers ending 31 January 2024. It will initially apply to carbon intensive sectors: cement, iron and steel, aluminum, fertilizers, electricity and hydrogens.
- ❖ The development of “**sustainable finance products**” by the banking sector such as green bonds and green deposit product for corporate customers.



Global Trends Meet the Best Practices from Europe

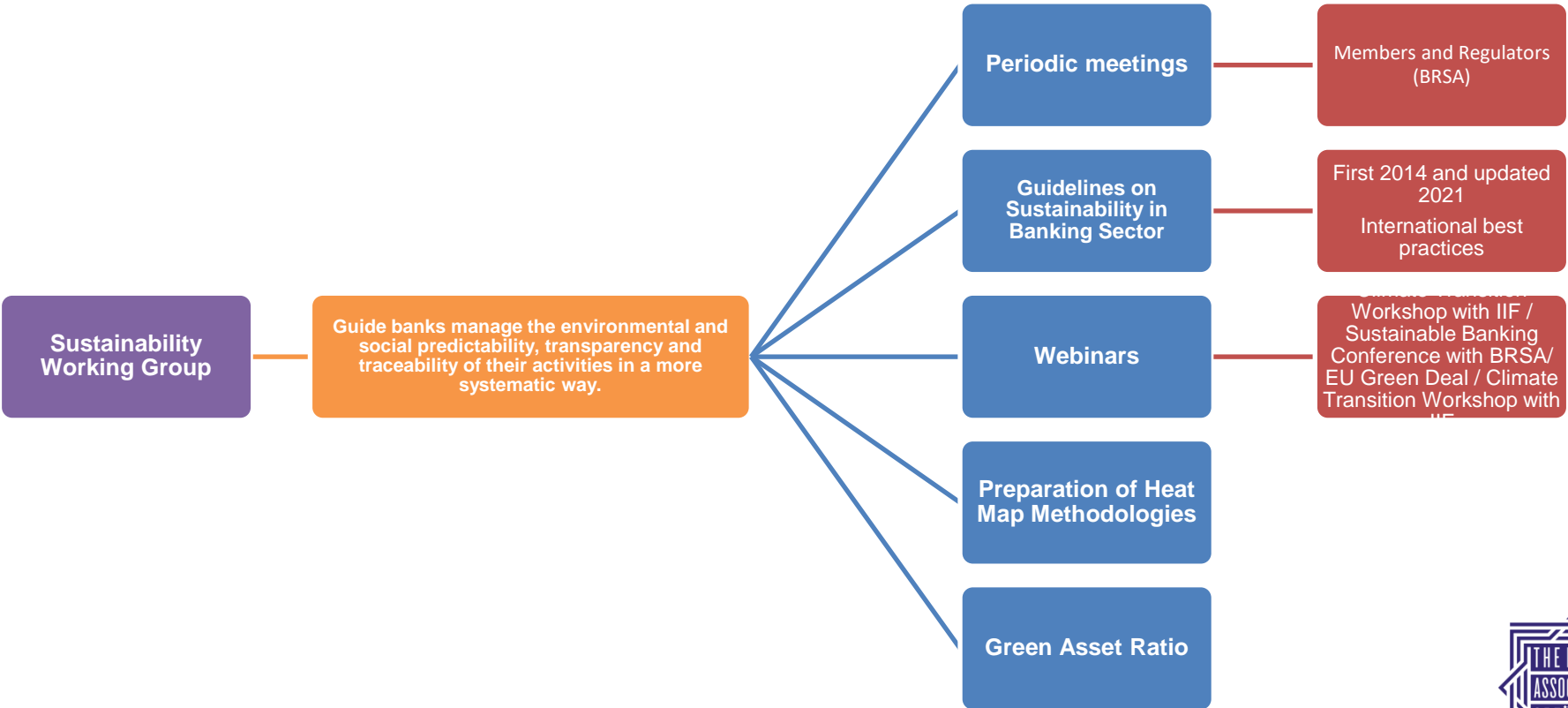


Part II. Sustainable Finance

Best Practices from Türkiye



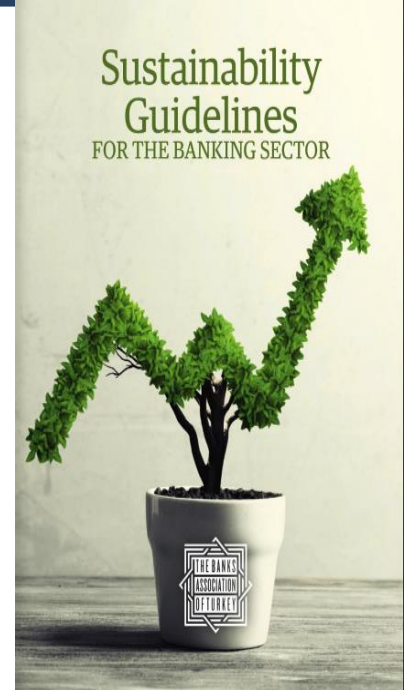
Sustainable Finance



Sustainable Finance

More and more international as well as regional initiatives are accelerating in terms of development finance with specific emphasis on sustainability and greener future. Türkiye having committed to international agreements such as Paris Agreement increasingly works on a greener future with all its aspects, facing challenges.

During this path towards a greener future, naturally our private sector institutions and the banking sector are leading several processes including contributing to government regulations as applicable. We see team work in this regard as the key to our success. This is also true internationally and we value international partnerships and projects as part of the overall team work required to accelerate our efforts.



Preparation of Sustainability Guidelines in Turkish Banking Sector

During the preparation of the guidelines,

- ❖ Consultative meetings were held with international organizations such as the World Bank, IFC, and UNEP FI.
- ❖ The Guidelines was finalized and made public after taking the opinions of the relevant Ministry and the public sector institutions.

The Guidelines is mainly based on following principles and regulations:

- ❖ The "Environmental & Social Risk Management Manual prepared by EBRD
- ❖ Equator Principles 4
- ❖ Sub-Sectoral Environmental and Social Guidelines” study prepared by the EBRD
- ❖ Sustainable Development Goals” by United Nations
- ❖ Turkish legislation, Environmental Impact Assessment (EIA) Regulation, etc.



Basic Principles of Guidelines

Principle 1	Assessment and Management of Environmental and Social Risks Arising from Banking Activities
Principle 2	Contribution to Sustainable Development Goals
Principle 3	Tackling Climate Change and Adapting to Climate Change
Principle 4	Financial Health and Inclusion
Principle 5	Human Rights and Employee Rights
Principle 6	Inclusion and Equal Opportunity
Principle 7	Stakeholder Engagement and Communication
Principle 8	Corporate Governance
Principle 9	Corporate Capacity Improvement
Principle 10	Monitoring and Reporting



Our Members' Best Practices

Our members considers sustainability as an integrated business model.

- ❖ An environmental and social risk assessment system has been established by our banks to conduct project and customer-specific risk assessments.
- ❖ Banks carry out their environmental and social risk assessments and monitoring processes in accordance with national and international legislation and global standards.
- ❖ By preparing environmental and social action plans, our banks act as an intermediary in the development of their customers' environmental and social capacities. It monitors the environmental and social performance of its customers throughout the loan term.
- ❖ Special credit rules for the companies financed, and credit products aimed at reducing foreign dependency on energy resources, which is a heavy burden on the national economy, and minimizing environmental damage, were implemented.
- ❖ More details are available on our web site (www.tbb.org.tr)



Our Members' Best Practices

Loan Facilities and Other Projects

- Long-term thematic loans are offered to support transition to a low-carbon economy.
- Banks purchase carbon credits to significantly reduce absolute carbon emissions and eliminate the remaining
- Investments in wind, geothermal, solar and biogas/biomass resources are supported in the segment of renewables
- Resource efficiency projects are financed to ensure efficient use of natural resources, reduction of waste, recycling of waste and reduction of carbon emissions.
- Projects for gender equality and employment of women have been supported.

Corporate Operations

- Efforts are in progress to build an environmental and social impact management system.
- Some of our members issue annual reports on their activities within the frame of CDP's Climate Change Program
- Some members are also members of United Nations Net-zero Banking Association established in 2021 based on the objectives of the Paris Agreement
- Our members are willing to do their share of work regarding the forest fires and mucilage in Turkey, which are the results of climate change

Disclosure and Partnership

- The Climate Change Action Plan has been issued to support Turkey's transition to a low-carbon economy and struggle with climate change.
- Our Association and Members take part in working groups and activities organized by the Ministry within the frame of the Green Deal Action Plan.
- Banks offer products and services with environmental and social impacts to raise awareness

International Activities

- United Nations Global Agreement, United Nations Environmental Program Finance Initiative, Sustainable Development Goals and Global Reporting Initiative.
- Members operating in South East Europe offer significant support to sustainable development through major green finance projects.
- Capital-equivalent sustainable bonds, Transition to Low-carbon economy bonds and other bonds related with sustainability as well as Sustainable Lease Certificates are issued in global markets



Sustainability

Work on sustainability continues successfully. Within this framework, Our Association;

- ▶ Prepared Guidelines on Establishment of Green Asset Ratio for the Turkish Banking Sector with our members and participation banks. BRSA drafted a Regulation based on this Guidelines.
- ▶ Started to prepare A Guidelines Regarding the Forming the Heat Map Methodology for the Turkish Banking Sector.
- ▶ Started ISO 14001 Certification and Carbon Footprint Calculation Process. Recently we published the Carbon Footprint Calculation Process Report on our website.
- ▶ Started to participate in Working Groups and Events established by the relevant Ministries.



Sustainability

- ❖ Periodic meetings are held with BRSA officials on a monthly basis, where presentations on our members' best practices on sustainability are held.
- ❖ BRSA's sector-specific “Sustainable Banking Strategic Plan 2022-2025” regarding sustainable finance highlights the recent holistic approach of the industry.
- ❖ BRSA published “Possible Effects of the European Union’s Carbon Border Adjustment Mechanism on the Turkish Banking Sector Credit Portfolio”.



Sustainability

Global Sustainability in Turkish Banking Sector

- ❖ Studies on the Creation of Institutional Regulation on the Establishment of the Environmental Management System within the Association are continuing.
- ❖ A Gap Analysis Report,
- ❖ A publication on Banking Sector Outlook Report (2022) and BAT Sustainability Report and BAT Sustainability Policy

have been prepared.

Plan for preparation of CBAM report is planned

- ❖ Reports have been published on the website of our Association, under the title of “Green Transformation and Energy” and Agriculture Sector.
- ❖ Conferences and webinars on Sustainable Finance are planned for Autumn 2023 and 2024.
- ❖ Association Training Catalog included trainings on “Climate Finance” and “Sustainable Financing Instruments” to raise awareness of the professionals on sustainability in the banking sector. The trainings planned for 2023 included various sustainability-related topics such as “Climate Finance”, “Assessing Environmental, Social and Governance Risks in Sustainable Finance”, “Sustainable Finance Instruments” and “European Green Deal.



Sustainability

Association Recommendations

In accordance with the United Nations Sustainable Development Goals and the country's 11th Development Plan (2019-2023) and in an effort to ensure;

- ❖ better management of risks and opportunities related with climate and environmental changes, supporting transition to low-carbon manufacturing and investments; and
- ❖ contributions to sustainable growth;

Our Association Board of Directors the has made an advisory decision on green finance to share with its members and encourage them to develop inclusive and extensive financial tools to help their clients increase their awareness in the areas and using the methodologies of their choice.



Thank you for your kind attention...

