

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Sustainable Finance Framework

DenizBank  
20 November 2023

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated

- Sustainable Finance Instruments
- Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
- Social Bond Principles, as administered by the ICMA (as of June 2023)

Relevant standards

- Sustainability Bond Guidelines, as administered by the ICMA (as of June 2021)
- Green Loan Principles, as administered by the LMA (as of February 2023)
- Social Loan Principles, as administered by the LMA (as of February 2023)

Scope of verification

- DenizBank's Sustainable Finance Framework (as of October 20, 2023)
- DenizBank's Eligibility Criteria (as of October 20, 2023)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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## SCOPE OF WORK

DenizBank (“the Issuer” or “the Bank”) commissioned ISS Corporate Solutions (ICS) to assist with its Sustainable Finance Instruments by assessing three core elements to determine the sustainability quality of the instruments:


1. DenizBank’s Sustainable Finance Framework (as of October 20, 2023) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), and the Loan Market’s Association’s (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transaction(s) to DenizBank’s overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.

## DENIZBANK’S BUSINESS OVERVIEW

DenizBank AS engages in the provision of banking services. It operates through the following segments: Wholesale Banking, MSME & Agricultural, Retail Banking, and Treasury, Project Finance and Other Banking. The Wholesale Banking segment offers financial and banking solutions to large-scale local and international corporate and commercial customers. The MSME & Agricultural segment covers producers including farmers who earn a living from agricultural activities as well as agricultural organizations with legal entity status and agribusinesses.<sup>1</sup> The Retail Banking segment offers loan products, distinctive credit cards, investment, deposit and insurance products. The Treasury and Other Banking segment offers foreign exchange transactions, trading of treasury bills, bonds and other securities and derivative instruments. The company was founded in 1997, witnessed three acquisitions in his history: Dexia in 2006, Sberbank, and Emirates NBD in August 2019. It is headquartered in Istanbul, Türkiye.

<sup>1</sup> The client confirms that, while referred customers are considered under this framework, DenizBank serves customers without these qualifications (SMEs include more than just farmers and agricultural organizations).

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>2</sup>
<p><b>Part 1:</b></p> <p><b>Alignment with GBP/SBP/SBG/GLP/SLP</b></p>	<p>The Issuer has defined a formal concept for its Sustainable Finance Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA’s Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines, and the LMA’s Green Loan Principles and Social Loan Principles.</p>	<p><b>Aligned</b></p>
<p><b>Part 2:</b></p> <p><b>Sustainability quality of the Eligibility Criteria</b></p>	<p>The Sustainable Finance Instruments will (re)finance eligible asset categories which include:</p> <p>Green categories: Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, Pollution Prevention and Control, and Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use</p> <p>Social categories: Employment Generation and Programs Designed to Prevent and/or Alleviate Unemployment Stemming from Socioeconomic Crises Including through the Potential Effect of MSMEs Financing, Food Security and Sustainable Food Systems, Access to Essential Services.</p> <p>Product and/or service-related use of proceeds categories<sup>3</sup> individually contribute to one or more of the following SDGs:</p> 	<p><b>Positive</b></p>

<sup>2</sup> ISS ESG’s evaluation is based on DenizBank’s Sustainable Finance Framework (October 2023 version), on the analyzed Eligibility Criteria as received on October 20, 2023, and on the Indicative Corporate Rating and applicable at the SPO delivery date.

<sup>3</sup> Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, Pollution Prevention and Control, and Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use, Employment Generation and Programs Designed to Prevent and/or Alleviate Unemployment Stemming from Socioeconomic Crises Including through the Potential Effect of MSME Financing, Access to Essential Services.

	<p>Process-related use of proceeds categories <sup>4</sup> individually improve (i) DenizBank’s Borrowers’ operational impacts and (ii) mitigate their potential negative externalities on one or more of the following SDGs:</p> <div data-bbox="611 472 1077 589" style="text-align: center;"> </div> <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	
<p><b>Part 3:</b> <b>Linking the transaction(s) to DenizBank’s ESG profile</b></p>	<p>The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by DenizBank. The majority of the project categories considered are in line with the sustainability objectives of DenizBank.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	<p><b>Consistent with Issuer’s sustainability strategy</b></p>

<sup>4</sup> Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Pollution Prevention and Control.

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH THE ICMA'S GREEN BOND PRINCIPLES, SOCIAL BOND PRINCIPLES, SUSTAINABILITY BOND GUIDELINES AND THE LMA'S GREEN LOAN PRINCIPLES AND SOCIAL LOAN PRINCIPLES

This section evaluates the alignment of the DenizBank's Sustainable Finance Framework (as of October 20, 2023) with the ICMA's GBP, SBP, SBG and the LMA's GLP and SLP.

GBP, SBP, SBG, GLP AND SLP	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by DenizBank's Sustainable Finance Framework is <b>aligned</b> with the ICMA's GBP, SBP and SBG and the LMA's GLP and SLP.</p> <p>The Issuer's green and social categories align with the project categories as proposed by the ICMA's Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and the LMA's Green Loan Principles and Social Loan Principles. Criteria are defined in a clear and transparent manner. Disclosure of an allocation period and commitment to report per use of proceeds category has been provided and environmental and social benefits are described. The Issuer defines exclusion criteria for harmful projects categories.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by DenizBank's Sustainable Finance Framework is <b>aligned</b> with the ICMA's GLP, SLP and SBG and the LMA's GLP and SLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer and clearly show the intended benefit to the relevant population.</p> <p>The Issuer involves various stakeholders in this process, in line with best marked practice.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds provided by DenizBank's Sustainable Finance Framework is <b>aligned</b> with the ICMA's GLP, SLP and SBG and the LMA's GLP and SLP.</p>

		<p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Sustainable Finance Instruments (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The Issuer discloses ESG criteria and/or the nature of temporary investments, in line with best market practice.</p>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting provided by DenizBank's Sustainable Finance Framework is <b>aligned</b> with the ICMA's GLP, SLP and SBG and the LMA's GLP and SLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer's website. DenizBank explains that the level of expected reporting will be at category level and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>The Issuer is transparent on the level and the information reported in the impact report, as well as the frequency and the duration of impact reporting, in line with best market practices. Moreover, the Issuer structures and defines the reporting process and commits to getting the allocation report audited by an external party, in line with best market practices.</p>

## PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

### A. CONTRIBUTION OF THE SUSTAINABLE FINANCE INSTRUMENTS TO THE UN SDGs<sup>5</sup>

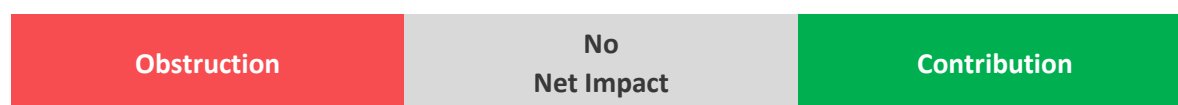
Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

#### 1. Products and services


The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



Each of the Sustainable Finance Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

#### Green Categories

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Renewable Energy</b></p> <p><i>The equipment, development, manufacturing, construction, operation and maintenance of renewable energy generation sources and their related components:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Solar power: Photovoltaics (PV), concentrated solar power (CSP) and solar thermal facilities</i></li> <li>▪ <i>Wind power: Onshore and offshore wind energy generation facilities and other emerging technologies, such as wind tunnels and cubes</i></li> </ul>	<b>Contribution</b>	

<sup>5</sup> The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.



- *Hydropower: Small scale and large scale hydropower projects (Larger than 25MW are excluded) with either lifecycle emissions of less than 100g CO<sub>2</sub>e/kWh Power density greater than 5W/m<sup>2</sup> or the electricity generation facility is a run of river plant and does not have an artificial reservoir*
- *Geothermal power: Geothermal energy projects with life cycle emissions of less than 100g CO<sub>2</sub>e/kWh*
- *Bioenergy: Bio-waste anaerobic digestion projects with resulting production and energetic utilization of biogas (electricity/heat generation)*
- *Green hydrogen: Storage and refueling infrastructure and fuel production by electrolysis that is 100% powered by renewable energy sources<sup>6</sup>*

### Renewable Energy

*Transmission systems: Development of new, or improvement of existing, transmissions systems (or other infrastructure) to facilitate the integration of electricity from renewable energy sources into the grid:*

- *Construction, renovation, and refurbishment of electricity grids that transmit electricity generated by renewable power plants to the national grid<sup>7</sup>*
- *Investments enhancing energy efficiency in respect of the distribution and transmission of electricity<sup>8</sup>*
- *Smart grids, storage facilities*

### Renewable Energy

*Transmission systems: Development of new, or improvement of existing, transmissions systems (or other infrastructure) to facilitate the integration of electricity from renewable energy sources into the grid:*

- *Metering systems serve to increase the share of renewable energy in total energy consumption*

Contribution



Contribution



<sup>6</sup> DenizBank confirms that the renewable energy sources are limited to sources eligible for financing under this framework.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

### Energy Efficiency

Energy efficiency enhancement:

- Installation, maintenance, or repair of specific energy efficiency equipment such as energy efficient windows, HVAC systems, LED lights etc. which are rated in the highest two classes of the applicable national energy efficiency labelling system in Türkiye<sup>9</sup>

Contribution



### Energy Efficiency

- Financing of companies manufacturing eligible products under the EBRD green technology selector<sup>10</sup>

Contribution



### Green Buildings

New and existing residential, commercial or mixed-use buildings that meet the minimum external green building certification level of either:

- LEED "Gold" or above
- BREEAM "Very Good" or above
- ÇEDBİK Green Building certification "Very Good" or above

Contribution



### Green Buildings

New and existing residential, commercial or mixed-use buildings that meet the minimum external green building certification level of either:

- BEP-TR "A" or above energy label provided by the energy performance certificate issued in accordance with the related Turkish Building Code<sup>11</sup>

Contribution



### Clean Transportation

Zero direct (tailpipe) CO<sub>2</sub> emissions vehicles, public and mass transportation as well as related components and infrastructure<sup>12</sup>:

- Fully electric, hydrogen or otherwise zero direct (tailpipe) CO<sub>2</sub> emissions vehicles<sup>13</sup>

Contribution



<sup>9</sup> DenizBank follows the [Turkish National Energy Labelling Framework regulation](#) which is aligned with the EU regulation.

<sup>10</sup> Products listed in the country-specific Green Technology Selector meet technical performance criteria and are considered pre-approved for green financing via local financial institutions. The issuer confirms that such projects require a performance improvement of at least 20% beyond the baseline, thereby only promoting the higher performing segment of technologies available on local markets. More information available at <https://techselector.com/ts-en/gtc-info-page>

<sup>11</sup> Building permit licenses are not issued for those households whose energy certificate is rated below C, see [here](#)

<sup>12</sup> Dedicated transportation and storage of fossil fuels are excluded from this category.

<sup>13</sup> Vehicles including but not limited to buses, trucks, trains, personal mobility devices and cars, passenger transport, freight transport, marine transport and personal mobility devices.

- Fully electric, hydrogen or otherwise zero direct (tailpipe) CO<sub>2</sub> emissions vessels for the transportation of passengers or freight
- Infrastructure related to zero direct (tailpipe) CO<sub>2</sub> emissions vehicles including, but not limited to, EV charging stations, hydrogen fueling stations and infrastructure dedicated to non-motorized mobility e.g., cycle paths

**Pollution prevention and control**

Establishment, acquisition, capacity expansion and upgrades of facilities to treat, distribute and conserve waste:

- Waste reduction
- Waste recycling
- Development, operation and upgrade recycling plants and recycling activities such as for metals, paper, Single use plastic and plastics

**Sustainable water and wastewater management**

The management of water and/or wastewater in a sustainable way including the following:<sup>14</sup>

- Industrial wastewater treatment and water recycling facilities
- Water desalination projects running on reverse osmosis technology with a carbon intensity of less than 100gCO<sub>2</sub>e/kWh over the residual asset life<sup>15</sup>

**Environmentally sustainable management of living natural resources and land use**

Sustainable agriculture and forestry:

- Environmentally sustainable agriculture (Certified agricultural practices under sustainable certification schemes, including EU Organic, Global G.A.P., Better Cotton Initiative, Cotton Made in Africa, Global Good Agricultural Practices)<sup>16</sup>
- Sustainable forestry, including afforestation, reforestation and rehabilitation of degraded forests (certified under eligible third-party schemes such as Rainforest Alliance, Forest

Contribution



Contribution



Contribution





<sup>14</sup> The review is limited to certifications spelled out in the Framework.

<sup>15</sup> The asset may be fully or partially powered by renewables as long as it meets the 100gCO<sub>2</sub>e/kWh threshold

<sup>16</sup> The review is limited to certifications spelled out in the Framework

Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC)

## Social Categories

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of MSME financing</b></p> <p><i>Financing or refinancing of MSMEs as per KOSGEB definition<sup>17</sup>, meeting any of the following criteria:</i></p> <p><i>MSMEs must be located in the most economically disadvantaged areas of Türkiye. Disadvantaged areas are defined as NUTS 2 (2021) regions<sup>18</sup>, meeting the following criteria:</i></p> <ul style="list-style-type: none"> <li><i>The GDP per capita is lower than the national average</i></li> </ul> <p><i>MSMEs or businesses involved in DenizBank Exclusion List Activities<sup>19</sup> will not be financed under the Framework.</i></p> <p><i>Target: MSMEs in areas with high unemployment or low income</i></p>	<p>Contribution</p>	
<p><b>Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of MSMEs financing</b></p> <p><i>Financing or refinancing of MSMEs as per KOSGEB definition<sup>20</sup>, meeting any of the following criteria:</i></p> <ul style="list-style-type: none"> <li><i>MSMEs in priority investment areas<sup>21</sup></i></li> </ul>	<p>Contribution</p>	

<sup>17</sup> KOSGEB definition to be found [here](#)

<sup>18</sup> NUTS 2 (2021) regions: The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU and the UK, and also of EU candidate countries. The currently valid NUTS 2021 classification is valid from 1 January 2021. To be found [here](https://ec.europa.eu/eurostat/web/nuts/background) (<https://ec.europa.eu/eurostat/web/nuts/background>)

<sup>19</sup> To be found [here](#)

<sup>20</sup> KOSGEB definition to be found [here](#)

<sup>21</sup> The priority investment areas are defined in the Decree No 2012/3305 on State Aids for Investments, which aims to regulate the principles and procedures for directing savings to investments with high added value, increasing production and employment, encouraging strategic investments. Definition of Priority Investment Areas: The regions (3-4-5-6) specified in the Decree No 2012/3305 (as amended from time to time) taking into account their socioeconomic development levels.

- MSMEs facing natural disasters or health pandemics

MSMEs or businesses involved in DenizBank Exclusion List Activities <sup>22</sup> will not be financed under the Framework.

**Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of MSME financing**

Financing or refinancing of MSMEs as per KOSGEB definition<sup>23</sup>, meeting any of the following criteria:

- MSMEs where the majority of employees are women (at least 51%) or with 50% or more shareholding owned by women

MSMEs or businesses involved in DenizBank Exclusion List Activities <sup>24</sup> will not be financed under the Framework.

Target: Female-owned businesses owned businesses

**Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of MSME financing**

Financing or refinancing of micro enterprises as per KOSGEB definition<sup>25</sup>, meeting any of the following criteria:

- Youth-owned micro enterprises<sup>26</sup>

Micro enterprises involved in DenizBank Exclusion List Activities<sup>27</sup> will not be financed under the Framework.

Target: Youth-owned businesses

**Food security and sustainable food systems**

Financing or refinancing of farmers<sup>28</sup>, meeting the following criteria:

Contribution



Contribution



Contribution



<sup>22</sup> Exclusion list available at <https://www.denizbank.com/en/investor-relations/sustainability>

<sup>23</sup> KOSGEB definition to be found [here](#)

<sup>24</sup> Exclusion list available at <https://www.denizbank.com/en/investor-relations/sustainability>

<sup>25</sup> KOSGEB definition to be found [here](#)

<sup>26</sup> Entrepreneurs up to 30 years old are considered to be included in the “youth” eligible group.

<sup>27</sup> Exclusion list available at <https://www.denizbank.com/en/investor-relations/sustainability>

<sup>28</sup> Farmers will also meet the MSME criteria as per KOSGEB definition available at <https://en.kosgeb.gov.tr/site/tr/genel/detay/5667/definitions-and-regulations>

- *Agri loans disbursed in the low-income areas<sup>29</sup>*

### **Food security and sustainable food systems**

*Financing or refinancing of farmers, meeting the following criteria:*

- *Clients contributing to food security through purpose-made financial products (“Producer card”<sup>30</sup> and/or other agriculture products) pertaining to the production of basic food products<sup>31</sup>*
- *Increase production of basic food products based on DenizBank’s in-house scoring system which is capable to determine how much working capital farmers need for production of all crop types in Türkiye*

*Exclusion: Loans are subject to negative screening as per DenizBank Exclusion List Activities, additional Denizbank Exclusion List Activities for Agricultural Segment and exclude livestock production*

*Target: Smallholder farmers*

### **Access to essential services (healthcare, education, disaster relief and financial services)**

*Financing or refinancing of loans to expand access to public, free, subsidized, or non-profit healthcare and education services as well as the related infrastructure, meeting the following criteria:*

- *Construction, maintenance or refurbishment of hospitals or healthcare centers*
- *Infrastructure for the provision of emergency medical response, disease control services, medical supplies, and vaccines to prevent the spread of infectious diseases or health disasters*
- *Provision and service of emergency medical response, disease control services, medical*

**Contribution**



**Contribution**



<sup>29</sup> DenizBank defines low-income threshold as NUTS 2 regions with poverty threshold less than Türkiye’s national average based on poverty rate relative to 50% of median income provided by TurkStat Income and Living Conditions Survey. Poverty threshold is calculated for each region by using median value of equalized household disposable individual income, taking into account household size and composition. Poverty and living conditions statistics provided by TurkStat to be found [here](#)

<sup>30</sup> To be eligible for Producer card, DenizBank’s customer(s) should be registered farmer with the Turkish government’s national farmers database called the Farmers Registration System (FRS). All farmers are required to register in the FRS to benefit from the subsidized loans and grants provided by the Turkish government. DenizBank automatically draws documents and information from the FRS to determine customer’s credit limit. DenizBank’s obtains operational information including (i) the size of the land, (ii) type of the crop and (iii) all the required documents to register in the FRS. This comparison between customer statements and information from the FRS serves to assess customer’s Environmental and Social Risks in line with DenizBank’s Sustainability Management System and Exclusion List

<sup>31</sup> The list of basic food products eligible under this category is precised in the Sustainable finance Framework.

*supplies, and vaccines to prevent the spread of infectious diseases or health disasters*

*Target: General public, Aging population*

**Access to essential services (healthcare, education, disaster relief and financial services)**

*Financing or refinancing of loans to expand access to public, free, subsidized, or non-profit healthcare and education services as well as the related infrastructure, meeting the following criteria:*

- *Construction, maintenance or refurbishment of public schools, universities, training for educational professionals*

**Contribution**



**Access to essential services (healthcare, education, disaster relief and financial services)**

*Financing or refinancing of loans to expand access to public, free, subsidized, or non-profit healthcare and education services as well as the related infrastructure, meeting the following criteria:*

- *Construction, maintenance or refurbishment of cultural facilities*

*Target: General public*

**Contribution**



**Access to essential services (healthcare, education, disaster relief and financial services)**

*Financing or refinancing of loans to expand access to basic needs, services and infrastructure in the impacted cities or provinces during a disaster relief, meeting the following criteria:*

- *Reconstruction of basic infrastructure (e.g., housing, electricity transmission network, water distribution network)*
- *Financial support for retail and commercial activities disrupted by the disaster*
- *Financial support or programs to support persons who are unemployed because of the disaster*
- *Temporary housing and financial support for persons who are displaced because of the disaster*

*Target: General public*

**Contribution**





**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer’s clients.

DenizBank finances operations/processes in third-party sectors which are not listed in the Issuer’s Framework. As such, ISS ESG is not in a position to display the exposure to negative externalities linked to the sector of the operations/processes financed. Negative externalities, if present, could have an impact on the overall sustainability quality of the issuance.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>32</sup>	SUSTAINABLE DEVELOPMENT GOALS
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**Renewable Energy**

*The equipment, development, manufacturing, construction, operation, maintenance of renewable energy generation sources and their related components:*

- *Solar power: Photovoltaics (PV), concentrated solar power (CSP) and solar thermal facilities*
- *Wind power: Onshore and offshore wind energy generation facilities and other emerging technologies, such as wind tunnels and cubes*
- *Hydropower: Small-scale and large <sup>33</sup> hydropower projects with either Life cycle emissions of less than 100g CO<sub>2</sub>e/kWh Power density greater than 5W/m<sup>2</sup> or the electricity generation facility is a run of river plant and does not have an artificial reservoir*
- *Geothermal power: Geothermal energy projects with life cycle emissions of less than 100g CO<sub>2</sub>e/kWh*
- *Bioenergy: Bio-waste anaerobic digestion projects with resulting production and energetic utilization of biogas (electricity/heat generation)*



<sup>32</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.  
<sup>33</sup> Hydropower plants larger than 25MW are excluded.



- *Green hydrogen: Storage and refueling infrastructure and fuel production by electrolysis that is 100% powered by renewable energy sources*

**Energy Efficiency**

*Energy efficiency enhancement:*

- *Installation, maintenance or repair of specific technologies, systems or energy efficiency equipment which improve the efficiency of energy consumption by at least 20% and/or reduce greenhouse gas emissions by at least 20%*
- *Installation, maintenance, or repair of specific energy efficiency equipment such as energy efficient windows, HVAC systems, LED lights etc. which are rated in the highest two classes of the applicable national energy efficiency labelling system in Türkiye*



**Energy Efficiency**

*Energy efficiency enhancement<sup>34</sup>:*

- *Installation, maintenance, or repair of eligible products under the EBRD green technology selector<sup>35</sup>*



**Pollution prevention and control**

*Establishment, acquisition, capacity expansion and upgrades of facilities and technologies to treat, distribute and conserve waste:*

- *Waste prevention, waste reduction*
- *Waste recycling*
- *Development, operation and upgrade recycling plants and recycling activities such as for metals, paper, Single use plastic and plastics*



**Sustainable Water and Waste Water Management**



<sup>34</sup> The Issuer will provide financing exclusively to companies aiming to enhance their energy efficiency through the eligible products listed below.

<sup>35</sup> Products listed in the country-specific Green Technology Selector meet technical performance criteria and are considered pre-approved for green financing via local financial institutions. The issuer confirms that such projects require a performance improvement of at least 20% beyond the baseline, thereby only promoting the higher performing segment of technologies available on local markets. More information available at <https://techselector.com/ts-en/gtc-info-page>

The management of water and/or wastewater in a sustainable way including, but not limited to, the following:

- Improvements to water infrastructure that increase water use efficiency through replacements and upgrading of inefficient systems that reduce water loss rate by 25% in all municipalities and 10% in local administrations<sup>36</sup>
- Industrial waste water treatment and water recycling facilities

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. The entirety of the assets will be located in Türkiye, Austria and Germany.

### ASSESSMENT AGAINST KPIs

#### ESG guidelines into financing process

DenizBank has an Environmental & Social Management System (ESMS) in place to identify, monitor and mitigate social and environmental risks based on International Finance Corporation (IFC) Performance Standards, European Bank for Reconstruction and Development (EBRD) Performance Requirements and local legislation. It describes the environmental and social risk assessment steps, responsible departments and their duties in the lending processes within DenizBank Sustainability Management System (SMS). The procedure applies to the requests for loans to be lent by DenizBank within Agriculture, SME, Commercial and Corporate segments. For all loans financed under the framework, DenizBank conducts an initial assessment to determine whether the borrower of the bank complies with the Exclusion List<sup>37</sup>. If the borrower of Denizbank does not comply with the Exclusion list, the loan is terminated. For companies that are not engaged in the activities listed in the Exclusion List, the Environmental and Social Risk Assessment is made to continue the process.

The E&S Risk Assessment is conducted by the Branch Portfolio Manager using the DenizBank Environmental and Social Risk Assessment (ESRA) Model. The Model distinguishes loans into 3 categories:

<sup>36</sup> These targets are set in the Türkiye's Water Efficiency/Productivity and Water Sustainability Action Plan (2023-2033) and by 2040 for reduction in local administration, available at [https://clicktime.symantec.com/15tSySivQQz9FLkt6gW7?h=UbbFU\\_coz4wX9RCBT\\_nmL59DXteemH3oWK7hsWjw460=&u=https://www.suverimiligi.gov.tr/degisen-iklime-uyum-cercevesinde-su-verimiligi-strateji-belgesi-ve-eylem-plan-2023-2033-cumhurbaskanligi-genelgesi-yayimlandi/](https://clicktime.symantec.com/15tSySivQQz9FLkt6gW7?h=UbbFU_coz4wX9RCBT_nmL59DXteemH3oWK7hsWjw460=&u=https://www.suverimiligi.gov.tr/degisen-iklime-uyum-cercevesinde-su-verimiligi-strateji-belgesi-ve-eylem-plan-2023-2033-cumhurbaskanligi-genelgesi-yayimlandi/) and [https://clicktime.symantec.com/15tStcYdwntPjJWqLYHVMV?h=91c3zNsFSX25a8MC3Zbly0YBMWSG0awGbWofOo3G\\_70=&u=https://www.resmigazete.gov.tr/eskiler/2023/05/20230504-6.pdf](https://clicktime.symantec.com/15tStcYdwntPjJWqLYHVMV?h=91c3zNsFSX25a8MC3Zbly0YBMWSG0awGbWofOo3G_70=&u=https://www.resmigazete.gov.tr/eskiler/2023/05/20230504-6.pdf)

<sup>37</sup> DenizBank, Sustainability, <https://www.denizbank.com/en/investor-relations/sustainability>

- For loans less than TL 5 million, E&S risk is determined according to the borrower's NACE code and loan maturity. DenizBank confirms that an action plan is not extended to the borrower due to the small size and short maturity of the loan.
- For loans more than TL 5 million, a questionnaire is given to the borrower as part of the E&S due diligence. In this case, risk level is determined according to the borrower's response to the questionnaire, borrower's NACE code, and loan maturity. A Risk Category (Low, Medium, High) is assigned to each assessed loan. The ESRA model creates a customized Environmental and Social Action Plan (ESAP) to mitigate ES risks faced by the borrowers. This action plan is created and submitted to the customer before the loan utilization. The ESRA is obligatory for each loan proposal whereas the risk category that is determined has no determination on the limit allocation directly. Once ESRA process is completed, the loans are sent to a department with an approval authority. A credit decision is then made in line with DenizBank credit methodology. For the loans which are lent, the E&S risk monitoring takes place once every six months or once a year depending on the RS risk category throughout the loan maturity. In case of retail loan, Risk Category Low is assigned with annual monitoring conducted.

In addition to the aforementioned primary checks, E&S due diligence is performed by Project Finance (PF) Department to new project finance loans/clients over USD 10 million and tenor over 5 years. The due diligence process categorizes loans to four risk categories (C, B, B+ and A, with A being the highest risk category), with the aim of minimizing the environmental and social impacts of Category A, Category B+ and Category B- activities. ESAP is created by the Bank for projects with risk category A, B+ and B-. Borrowers are required to follow the ESAP to mitigate the environmental and social impact of the project. For projects/clients with risks category C and B-, the E&S risk assessments are carried out by the PF E&S Expert. Additionally, the Bank monitors the performance annually and may hire independent consultant to conduct due diligence and develop ESAP. For projects/clients with Risk Category A and B+, the Bank hires an independent consultant to conduct due diligence, develop an ESAP, and monitor and review the project.

However, it is worth noting that while the Issuer will hire external consultant to conduct and monitor E&S risk management procedures for high-risk projects, E&S risks will not affect the credit decisions.

#### **ESG Guidelines into financing process for most sensitive sectors<sup>38</sup> financed under the Framework**

DenizBank does not have tailored guidelines and E&S assessment methodology for sensitive sectors financed under the Framework. It utilizes the general assessment approach described in the previous section to conduct E&S assessment for forestry projects.

However, the Bank confirms that it only plans to finance forestry projects that has acquired Sustainability Certificates (i.e., Rainforest Alliance, FSC, PEFC). In terms of agricultural projects, DenizBank confirms that agriculture loans are for micro or small farmers in the form of retail loans, which will go through the assessment process mentioned in the section above. Further, according to the Issuer, the questionnaire provided by DenizBank to its borrowers are prepared in accordance with IFC performance standards, EBRD performance requirements, national laws, and international regulations, which covers questions related to forestry and agriculture sectors. The Issuer confirms

<sup>38</sup> The categorization of a sector as 'most sensitive' follows an evaluation of the number of controversies prevalent in the context of the financing operations of a financial institution.

that a subject specialists or external consultants are assigned for project finance loans with topics related to Biodiversity Assessment and Climate Risk to participate in project specific due diligence, assessment, management and monitoring. In addition, Borrowers of DenizBank are also required to comply with its Exclusion Lists, national laws, and international regulations<sup>39</sup> as part of the General Credit Agreement<sup>40</sup>.

### Labour, Health and Safety



The Issuer does have policies and measures in place systematically ensuring that assets financed under this framework provide for high labor and health and safety standards. DenizBank's E&S Risk Assessment model adheres to the guidelines set forth by the IFC performance standards 2 and 4 and with national labor and health and safety requirement (i.e., Labor Law, Occupational Health and Safety (OHS) Regulations). Moreover, within its ESG Due Diligence Questionnaire process, the Issuer asks the borrowers of the bank to be able to provide legal required and/ or necessary documents to support their position, such as ISO 45001 certificates.

The Bank also confirms that that borrowers are all located in countries that adhere to the ILO core conventions (Türkiye, Austria, Germany). However, it should be noted that according to ISS ESG Country rating for Türkiye, it has been noted that prohibition of child labor is not effectively enforced, and the respective ILO conventions are frequently violated in Türkiye. This holds true also for the right to freedom of association and collective bargaining where majority of the Banks assets have been located.

### Biodiversity



The Issuer has policies and measures in place to ensure that assets financed under this framework feature the respect of biodiversity as an integral part of the planning process. DenizBank approach begins with its exclusion list control mechanism and a firm commitment abstain from financing activities that may potentially endanger biodiversity. These activities include sourcing biomass from primary moist tropical forests or natural forests, involvement in activities within Ramsar areas (wetlands), and participation in the production or trade of wood or other forestry products not originating from sustainably managed forests. The exclusion list is embedded within DenizBank's General Credit Agreement, obliging customers to adhere to the prescribed restrictions outlined in the DenizBank Exclusion List.

Moreover, DenizBank has developed its Sustainability Management System in collaboration with an external consultancy firm under the sponsorship of the European Fund for Southeast Europe (EFSE). The SMS integrates an

<sup>39</sup> DenizBank has recently become a member to UN Global Compact where it has publicly declared to comply with 10 UN Global Compact Principles which are derived from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

<sup>40</sup> DenizBank, 2022, General Credit Agreement, <https://www.denizbank.com/medium/document-file-7916.vsf>

Environment and Social (E&S) Risk Management procedure, extending beyond project finance loans to encompass all eligible loans funded within this Framework. DenizBank's E&S Risk Assessment model adheres to the guidelines set forth by the IFC Performance Standards, addressing Biodiversity, Conservation, and Sustainable Management of Living Natural Resources aspects incorporating the IFC Performance Standard 6 and the European Bank for Reconstruction and Development (EBRD) Performance Requirement 6. Following the E&S Risk Assessment, DenizBank proceeds to classify projects based on their identified risk levels. For projects deemed high-risk, a designated third-party advisor is appointed. Subsequently, an Environment and Social Action Plan, along with a Monitoring Plan, is devised for medium to high-risk projects, with monitoring frequencies tailored to the specific risk category, ranging from annual to semi-annual intervals. These measures ensure the effective mitigation of all identified biodiversity risks and diligent monitoring throughout the entire lifecycle of the project.

### Community dialogue

DenizBank ensures that all infrastructure loans financed within the framework undergo a thorough community dialogue process. Primarily, the bank underscores its commitment to ensuring that Borrowers adhere to the local regulations established by the Republic of Türkiye Ministry of Urbanization, Environment, and Climate Change, specifically regarding the Environmental Impact Assessment (EIA) Regulation. This commitment entails conducting an Environmental Impact Assessment when necessary, including the organization of public participation meetings and soliciting opinions under the oversight of the Ministry.



In addition to complying with national regulations, an Environmental and Social Action Plan (ESAP) is integrated into the credit agreement between the Bank and the Borrower. This plan encompasses considerations related to community and stakeholder engagement in accordance with IFC Performance Standards 1 and 5, thereby ensuring that the borrower actively engages with the local community. Consequently, borrowers are obligated to establish effective communication channels with local communities that might be affected by project-related risks or adverse impacts.

Furthermore, DenizBank has implemented a dedicated grievance mechanism for addressing sustainability issues, which is accessible directly through their website as part of their Sustainability Management System. Notably, for sustainable forestry projects, the Framework prioritizes certified sustainable projects under the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC), both of which mandate requirements pertaining to community relations, including annual audits. Consequently, no further community dialogue procedures are required for this specific project category.

## Inclusion

DenizBank highlights that, under this Framework, the 'access to essential service' category is solely dedicated to financing public infrastructure projects.

Delving into the healthcare sector, DenizBank emphasizes its support exclusively for public hospitals and healthcare centers that operate under Türkiye's universal public health insurance system, administered by the Social Security Institution, providing free healthcare to all citizens. In the education domain, DenizBank's commitment is directed towards funding public schools and cultural centres, aligning with the state's provision of free education in primary and secondary public schools in Türkiye. Additionally, the bank extends assistance through grants and loans to support underprivileged students. Within the disaster relief category, DenizBank's initiatives prioritize non-discriminatory benefits for the general public, focusing on aiding vulnerable groups such as youth, the elderly, women, low-income individuals, and Micro, Small, and Medium Enterprises (MSMEs), including farmers, through provisions like support for the unemployed, disrupted retail, and temporary housing. DenizBank emphasizes their Key Performance Indicators (KPIs) that emphasize increasing support for women-owned entities within their sustainability-linked syndication facilities. Furthermore, DenizBank affirms their commitment to fostering inclusive finance, articulating their vision in the upcoming Sustainability Report for 2022. This vision revolves around facilitating individual access to financial services and contributing to community well-being through integrated financial instruments, aligning seamlessly with their overarching sustainability strategy.

DenizBank has drafted a Policy on Commitments to Human Rights and Inclusive Banking, affirming their stance against discrimination based on language, religion, gender, ethnic origin, disability status, marital status, sexual orientation, age, or other criteria. The Bank is planning to publish such policy by Q2 2023.

## Data protection and information security

The Issuer has policies in place for systematically ensuring that data collection processes on borrowers meet minimum requirements for data and information security, and data security in outsourced data processing.

The Bank has information security and privacy policies that are aligned with the ISO 27001 management standard. Internal audits are taken place on a regularly basis by the internal Audit Department and external audits are also carried out annually by independent audit firms. The Issuer has also set a privacy policy to systematically ensure to maintain customer confidentiality



as well as the integrity of customer data.<sup>41</sup> When outsourcing data, the Issuer runs risk assessment and analyzes third parties' information security measures, through its DenizBank Outsource Project (DOP) process. The Bank has established audit process on site for all contractors and service providers, to verify that they align with the Bank's policies and standards and regulatory requirements. During the risk assessment, DenizBank asks to companies if they are ISO 27001 certified, however, it is not mandatory.

#### Responsible treatment of customers with debt repayment problems



The Issuer has implemented various measures to deal with clients having debt repayments problems. DenizBank has processes and policies in place to assess client's debt service capability and solvability before granting transactions. In cases a customer encounters debt repayment problem, DenizBank offers debt counselling to the client, by assigning non-executive and independent board member who is called ombudsperson. The Issuer offers additional measures such as extension of loan terms or lowering of the effective interest rates to ease the debt burden on the borrowers. In addition, the Issuer handles mortgages payment difficulties responsibly by guaranteeing that all alternative options are examined before undertaking foreclosure as a last resort.

#### Sales practices



The Issuer does have policies and measures in place systematically ensuring that assets financed under this framework provide for responsible sales practices.

The rewarding system for the sales team at DenizBank includes ethical considerations in the calculation of bonus payments since performance is assessed against a customer experience score. Moreover, the Bank states that it has dedicated trainings under employee development program, covering the main topics of responsible sales practices such as product transparency, information on cost and risks, ethical principles, and ethics in sales. This training ensures that products are only offered to client's needs and prevents the use of practices that are elusive, vexatious, or forcing clients' judgement or behavior. Finally, the Bank has audits systems in place to monitor and oversee responsible sales practices. Indeed, DenizBank states that the compliance of product with the customer profile and risk appetite is regularly controlled in audit engagements, especially for the private banking and investment banking customers. For example, the customer experience score developed by the Bank, considers the customer's satisfaction level post-sale.

#### Responsible marketing

<sup>41</sup> DenizBank's Privacy Policy, <https://www.denizbank.com/en/privacy-policy>

The Issuer does have policies and measures in place systematically ensuring that assets financed under this framework provide for responsible marketing.



The issuer complies with the Turkish Banking Law No. 5411,<sup>42</sup> which requires DenizBank's employees to accurately, consistently, completely, and timely informing customers of products and services. DenizBank also has internal policies and commitments in place about responsible marketing ensuring that the customers of the bank are informed in an open, easily understandable, and clear way regarding the rights and responsibilities, benefits and risks attached to the products and services offered to them. Moreover, DenizBank is committed to follow the national Law on Customer Protection,<sup>43</sup> which compels the Bank to be transparent regarding product risks and refrain from using misleading or small-print information and to inform clients about the rejection of loans.

#### Exclusion criteria

The Issuer has created an exclusion list of all the activities that the company does not finance, it applies at the company level but also at the framework level.<sup>44</sup> The list includes the following projects:

- Production or trade in any product or activity subject to international bans, such as pharmaceuticals, pesticides/herbicides
- Co-firing of biomass with fossil fuels, peat, or hazardous waste (including waste wood that has been treated with wood preservation chemicals)
- Sourcing of biomass from primary moist tropical forests or from natural forests
- Activities related to pornography and prostitution
- Activities conducted in RAMSAR areas (wetlands)
- Real or legal persons' activities falling within the scope of prohibited activities mentioned in CITES convention
- Transportation of oil and hazardous substances via tankers that do not comply with the requirements of International Maritime Organization (IMO)
- Activities posing a threat to the areas in UNESCO World Heritage List
- Transboundary commerce of wastes and disposals not in compliance with Basel convention and related regulations
- Production or trade in any product or activity deemed illegal under host country laws and regulations or international conventions and agreements
- Drift net fishing in the marine environment using nets in excess of 2.5km in length by using explosives and toxic substances
- Production or trade in any product or activity containing/related to PCB's regardless of the sector
- Production or trade in wood or other forestry products other than from sustainably managed forests

<sup>42</sup> Banking Law No.5411, December 2013, Istanbul, [https://www.tbb.org.tr/en/Content/Upload/dokuman/130/Banking\\_Law\\_No\\_5411-3bsm.pdf](https://www.tbb.org.tr/en/Content/Upload/dokuman/130/Banking_Law_No_5411-3bsm.pdf)

<sup>43</sup> Law on Consumer Protection, Law No:6502, 2013, <https://ticaret.gov.tr/data/5d42a9b313b87632542a2dae/LAW%20ON%20CONSUMER%20PROTECTION.pdf>

<sup>44</sup> Denizbank's Exclusion List Activities, <https://www.denizbank.com/en/investor-relations/sustainability>.



- Production or activities violating human rights, involving harmful or exploitative forms of forced labor/child labor
- Production or trade in unbounded (prohibited) asbestos
- Production or trade in radioactive materials
- Production or trade in Ozone Depleting Substances
- Production or trade in weapons of mass destruction and land mines

Within the agricultural segment, DenizBank prohibits the following activities:

- Production or trade in alcoholic beverages (excluding beer and wine)
- Gambling, Casinos and equivalent enterprises
- Production or activities that imping on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such people
- Production or trade in tobacco

Moreover, the Bank has an internal Anti-bribery and corruption policy in place to prevent laundering, financing of terrorism, and other related crimes.

## PART III: LINKING THE TRANSACTION(S) TO DENIZBANK'S ESG PROFILE

### A. CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH DENIZBANK'S SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Issuer*

While the Issuer currently does not have a formal Sustainability Strategy, it is committed to developing one, with the support of an external consultant, by June 2024. According to the Issuer, DenizBank has been integrating sustainability in its business model since its foundation as it supports the development of the national economy with a specific focus on SMEs that represents approximately 27% of its loan portfolio as of 2023.

According to the non-public information shared by the Issuer, the Sustainability Strategy will include:

- the Bank's main "Value Proposition" consisting in facilitating sustainability transformation with innovative finance;
- its "Value Areas" (measurable targets and actions in a short, medium and long term focusing on "Priority Issues");
- its "Priority Issues" (identified through a Prioritization Analysis, which includes the results of a stakeholder analysis carried out with the participation from various groups of stakeholders) and
- its "Corporate Foundations" supporting the implementation of the Sustainability Strategy.

Also, the Bank aims at covering the following topics through its Sustainability Strategy:

- Sustainability Strategy Development (e.g., determining performance indicators for sustainability targets and actions related to senior management, establishing the monitoring and control structure of sustainability framework and providing trainings to the relevant business units on this monitoring and control structure);
- Climate Change-Induced risk opportunities (e.g., heatmap of physical and transition risks covering major sectors - such as the Power sector - of loan portfolio and guarantees) and;
- De-carbonization Strategy Development (e.g., emission map for the Bank activities and portfolio and planning mitigation strategies to understand, prevent, reduce and compensate future risks).

While the Bank is developing its Sustainability Strategy and will publish its ESG targets following the completion of such strategy, it has already computed key environmental indicators including its Scope 1, 2, and 3 emissions (excluding financed emissions) in line with ISO 14064 standards. Those data are validated by an external party and received an ISAE 3000 limited assurance report.

As mentioned above, the Bank confirms that it is in the process of (i) developing its decarbonization strategy and targets to be aligned with Türkiye's Net Zero ambition, which is proposed to be defined by March 2024 along with defining its Science-based targets and (ii) finalizing its 2022 Sustainability report which will be published in November 2023. The bank confirms to be reporting with respect to the Global Reporting Standards (GRI). Moreover, according to the Bank, the 2023 Sustainability report will be in line with the Taskforce on Climate related Financial Disclosures (TCFD) on ESG disclosures.

DenizBank, a member of the UN Global Compact, has a Direct Environmental Social Impacts Management Policy providing guidelines for monitoring and managing social and environmental risks, including climate change<sup>45</sup>. To oversee the company's sustainability efforts, DenizBank has a Sustainability Committee chaired by the CEO, a committee consisting of Board Members and Executive Vice Presidents of Administrative Services Group, Treasury, Project Financing, Financial Restructuring and Credit International Coordination Group, Financial Institutions Sustainability Coordination Group, CFO and Chief Risk Officer (CRO). The committee, responsible for overseeing the Bank's sustainability strategy and meets four times a year to discuss about the resources with sustainability and responsible banking approach, to ensure progress and continuous development and it meets once a year with the Board of Directors to discuss sustainability issues<sup>46</sup>.

As of year-end 2021, DenizBank had issued its first sustainability-related syndicated loan (USD 840 million), with proceeds used to finance sustainable agriculture loans and the accessible ATMs and branches. Additionally, in 2022, two loans (USD 453 million, in June, and USD 605 million, in November) were issued to respectively provide sustainability training to employees, increase the financing to women SMEs, measure the Bank's carbon footprint for the first time, and finance sustainable agriculture. Lastly, in 2023, DenizBank has secured USD 530 Million equivalent multi-currency ESG - linked syndicated loan<sup>47</sup> to support women SMEs and renewable energy investments.

### *Rationale for issuance*

While DenizBank is still developing a formal Sustainability Strategy, it has established a Sustainable Finance Framework and commits to issue Sustainable Finance Instruments to finance and refinance projects which enable to support the transition to a low carbon and climate resilient economy, and/or provide positive societal impact. The Framework will enable to "incorporate ESG factors in the credit analysis" and "financing environmental impact" which have both been identified as "Priority Issues" by the Bank.

**Opinion:** *The key sustainability objectives and the rationale for issuing Green, Social and Sustainability Bonds are clearly described by the Issuer. The majority of the project categories financed are in line with the sustainability objectives of the Issuer.*

<sup>45</sup> Deniz Bank, Policy on the Management of Direct Environmental Social and Impacts, <https://www.denizbank.com/en/investor-relations/sustainability>

<sup>46</sup> Sustainability Committee at Deniz Bank 2022, <https://www.denizbank.com/en/investor-relations/corporate-governance/committees/sustainability-committee>

<sup>47</sup> Deniz Bank's ESG Syndicated loan issuance, 2023 Press release, <https://www.denizbank.com/medium/document-file-7878.vsf>

## B. DENIZBANK'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

### *ESG risks associated with the Issuer's industry*

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry. The issuer is classified under *Commercial Banks and Capital Markets* industry, as per ISS ESG's sector classification.

ESG KEY ISSUES IN THE INDUSTRY
Business ethics
Customer and product responsibility
Labour standards and working conditions
Sustainability impacts of lending and other financial services/ products
Sustainable investment criteria

### *ESG strengths and points of attention related to the issuer's disclosures*

Leveraging ISS ESG's Research, ISS ESG identified the following strengths and points of attention<sup>48</sup>:

STRENGTHS	POINTS OF ATTENTION
<p>The company has implemented elements of Information Security Management System (ISMS), including structure and responsibilities, targets and objectives, training and awareness-raising, and audits.</p> <p>Additionally, the company has responsible debt management options for its clients, including debt counselling, access to ombudsman, mortgage sale and foreclosure, and debt restructuring under non-detrimental conditions.</p>	<p>The company has provided a basic commitment to responsible marketing; however, a commitment to clear and correct pricing, transparency regarding product risks, and to refrain from using small prints is not available. Additionally, there is limited disclosure on responsible sales practices, provision of equal access to financial services, and information security on third-party data processing.</p> <p>Although the company do not offer offshore banking services, its position on tax evasion, tax evasion and tax compliance of wealth management client is missing. Further, there is no evidence of the company's Information</p>

<sup>48</sup> Please note that DenizBank AS is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Commercial Banks and Capital Markets industry. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

	<p>Security Management System being certified to an international standard, i.e. ISO 27001.</p>
<p>The company offers social financial services such as programmes for social entrepreneurship and enterprises with social goals. The company has provided social guidelines for lending and investment banking on elements such as social risk and impact management, human rights and livelihood, and labor rights and working conditions. It also excludes financing of controversial elements such as weapons, tobacco, alcohol and gambling.</p>	<p>The company has disclosed limited environmental guidelines for lending and investment banking. There is limited information on environmental and social application procedures and guidelines covering specific requirements for forestry and paper, and agriculture, fisheries, and aquaculture; no further information is available on guidelines covering energy generation, resource extraction and related infrastructure.</p> <p>There company provides green financial services such as financing of renewable energy for corporate, and public sector customers, however, its relevant business volume is estimated to be minimal. There is no information on green financial services for private customers, such as provision of loans for eco-efficient houses, eco-efficient household appliances, etc. Further, no information is available on environmental lending guidelines covering the retail credit rating processes.</p>
<p>The bank has a compliance procedure in place that includes publishing code of conduct in the local language, raising business ethics awareness among employees, and conducting due diligence on third parties. Further, it also facilitates anonymous and confidential non-compliance reporting channels.</p>	<p>The company’s policies address business ethics issues such as corruption, insider dealings, and gift and entertainment in general terms; however, other aspects such as anti-trust violations, money laundering, conflict of interest, and validity of financial information are not publicly disclosed<sup>49</sup>.</p>
	<p>The company offers workplace flexibility; however, further details on tenure and telecommuting options are missing. The company ensures health and safety of its employees; however, there is no evidence of the company’s Health and Safety Management System being certified to an international standard, i.e. ISO 45001 or OHSAS 18001. There is no disclosure of different types of employment. Further, company’s position on non-regular employment and its policy on employment security is not available.</p>

<sup>49</sup> Companies can retain private policies.

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

### *Sustainability impact of products and services portfolio*

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

#### *Social Impact of Product Portfolio:*

Products and services of this company has neither positive nor negative contribution to social sustainability objectives. Thus, the impact of the product portfolio on social sustainable development goals (SDG) is considered neutral.

#### *Environmental Impact of Product Portfolio:*

The company finances renewable energy projects, thereby positively contributing to the environmental SDG of mitigating climate change and contributing to sustainable energy use. However, contribution is estimated to be limited, therefore, the environmental impact of its product portfolio is considered neutral.

### *Breaches of international norms and ESG controversies*

#### At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

#### At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Commercial Banks & Capital Markets industry are as follows: Failure to mitigate climate change impacts, financial market irregularities and Failure to prevent money laundering.

Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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## ANNEX 1: Methodology

The ICS SPO provides an assessment of labelled transactions against international standards using ICS proprietary methodology. For more information, please visit:

<https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

## ANNEX 2: Quality Management Processes

### SCOPE

DenizBank commissioned ICS to compile a Sustainable Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the International Capital Market Association's (ICMA) Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines (SBG), and the Loan Market's Association's (LMA) Green Loan Principles and Social Loan Principles and to assess the sustainability credentials of its Sustainable Finance Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles
- ICMA Social Bond Principles
- ICMA Sustainability Bond Guidelines
- LMA Green Loan Principles
- LMA Social Loan Principles

### ISSUER'S RESPONSIBILITY

DenizBank's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ICS'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ICS is part, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainable Finance Instruments to be issued by DenizBank has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines, and the LMA Green Loan Principles and Social Loan Principles.

The engagement with DenizBank took place from August to November 2023

### ICS' BUSINESS PRACTICES

ICS has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure



that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

Companies turn to ISS Corporate Solutions (ICS) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

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