



Global Compact COP Report

Industrial Development Bank of Turkey

August, 2013

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A. INDUSTRIAL DEVELOPMENT BANK OF TURKEY

1. ASSESSMENT OF CEO

Esteemed stakeholders,

As in many areas, TSKB is currently the role model for the banking sector in “sustainable banking”

Our sustainable banking activities, which have been on our agenda since early 2000 and became official through the “TSKB Environment Management System” in 2005, have yielded results in a short pace of time: the ISO 14001 certification and the ERET Model, in which environmental and social issues are questioned within a metric structure during the loan evaluation process, have become our first significant implementations. This model is a milestone in terms of the banking sector.

During this period, we have become renowned for a number of sustainability-related activities. We became the first carbon-neutral bank, we published the first Sustainability Report in the sector, we announced our Environmental Policy to the public, we became a member of the Carbon Disclosure Project, we declared our commitment to the UNEP FI the UN Global Compact and we established the first and only Sustainability Management System in the Turkish banking industry.

Today, TSKB is a bank which has adopted the sustainability concept in economic, environmental and social dimensions and implemented a number of sustainability-related initiatives. Thanks to the steps it has taken in the field of sustainability, TSKB has become a reputable brand, not only in Turkey but also abroad as apioneering bank in Europe when it comes to sustainability.

TSKB realized a major part of its sustainability agenda in the changing and volatile period after the global financial crisis. During this period, our Bank exhibited its endurance and responded to the challenging market conditions of the present time through accurate approaches.

Not satisfied merely with achieving consistent financial results, our Bank has also played an active role in issues that are vitally important for the future of our country and has strongly supported the private sector. Our efforts in such areas as environmental protection, tackling climate change, switching to a low carbon economy, supporting renewable energy investments and raising social awareness on energy efficiency are all of great importance not only to TSKB, but also in Turkey's sustainable development and the future of our customers and the world.

Codes of the future

We predict that our sustainable banking strategy will maintain its validity in the periods to come. We make use of the findings – which we achieve as a result of the interactive communication we conduct with our stakeholders – in order to revise the required elements of this strategy, while continuing our path with determination.

At this point, I would like to summarize my observations under the following headings:

- **A positive and consistent human resources experience**

We owe our presence and endurance to our employees. We equip our employees with the competencies required in a changing and developing economy. Moreover, we view individual satisfaction and the prosperity of our human resources as critically important parameters in terms of the future of our sustainability. In our Bank, we attach special importance to protecting the motivating climate and developing team spirit at all times. All of our measurable performance criteria indicate that TSKB has successfully continued to offer a positive and consistent HR experience during the reporting period.

- **A sustainable and long-term performance**

We must utilize all of our investments with an approach that considers operational costs and efficiency in order to ensure sustainable and profitable growth. During the reporting period, we successfully kept our cost basis under control and have pressed ahead in our efforts to diversify our income resources under the current competitive environment.

- **Corporate governance and shareholder participation**

Appropriate corporate governance practices are of great importance in creating, protecting and maintaining value for shareholders. Our Bank has achieved corporate governance ratings in the top three among Turkish companies for the last three years in a row. As a bank which believes in the significance of communicating with its stakeholders, we listen to all respective parties, particularly our

customers, employees and shareholders. We continue to focus on understanding social expectations, while also developing our business manners.

- **The environment and climate change**

Data collected from all over the world shows that climate change and other environmental problems have a much more pronounced impact on emerging economies. As a bank operating in one of the world's fastest growing economies, we try to direct our customers' relations with the environment and help them find the right solutions. We are aware that we have an important role in Turkey's transition to a low carbon economy. I am pleased to say that TSKB, the only example in Turkey with zero carbon banking, has managed its environmental impact successfully and maintained its consistent performance during the reporting period.

Our sector's responsibility

The sustainability process is something which requires a union of forces, rather than competition. As long as we adopt and popularize sustainability, our contributions to Turkey's development efforts will increase.

Our Bank is ready to share its environment and sustainability experience and capacity, which it has built within years and strengthened by the recent foundation of Escarus-Sustainable Consultancy Inc.

We believe that as long as we share our experience in this process, we will have a much greater positive impact on the future of our world.

Thank you.

We would like to thank our customers, employees, shareholders and other stakeholders for their continuous support. As TSKB, we will continue unwaveringly to create long-term value for our country and the world through accurate strategies.



Özcan Türkakın

CEO

2. CORPORATE PROFILE

Being the first private investment and development bank of Turkey, TSKB was founded in 1950 with the support of the World Bank and with the cooperation of the Government of the Turkish Republic, the Central Bank of the Turkish Republic and the commercial banks in Turkey.

TSKB continues to generate value for its stakeholders, contributing to macroeconomic developments under all market circumstances, through an unparalleled corporate strategy that focuses on Turkey's economic potential.

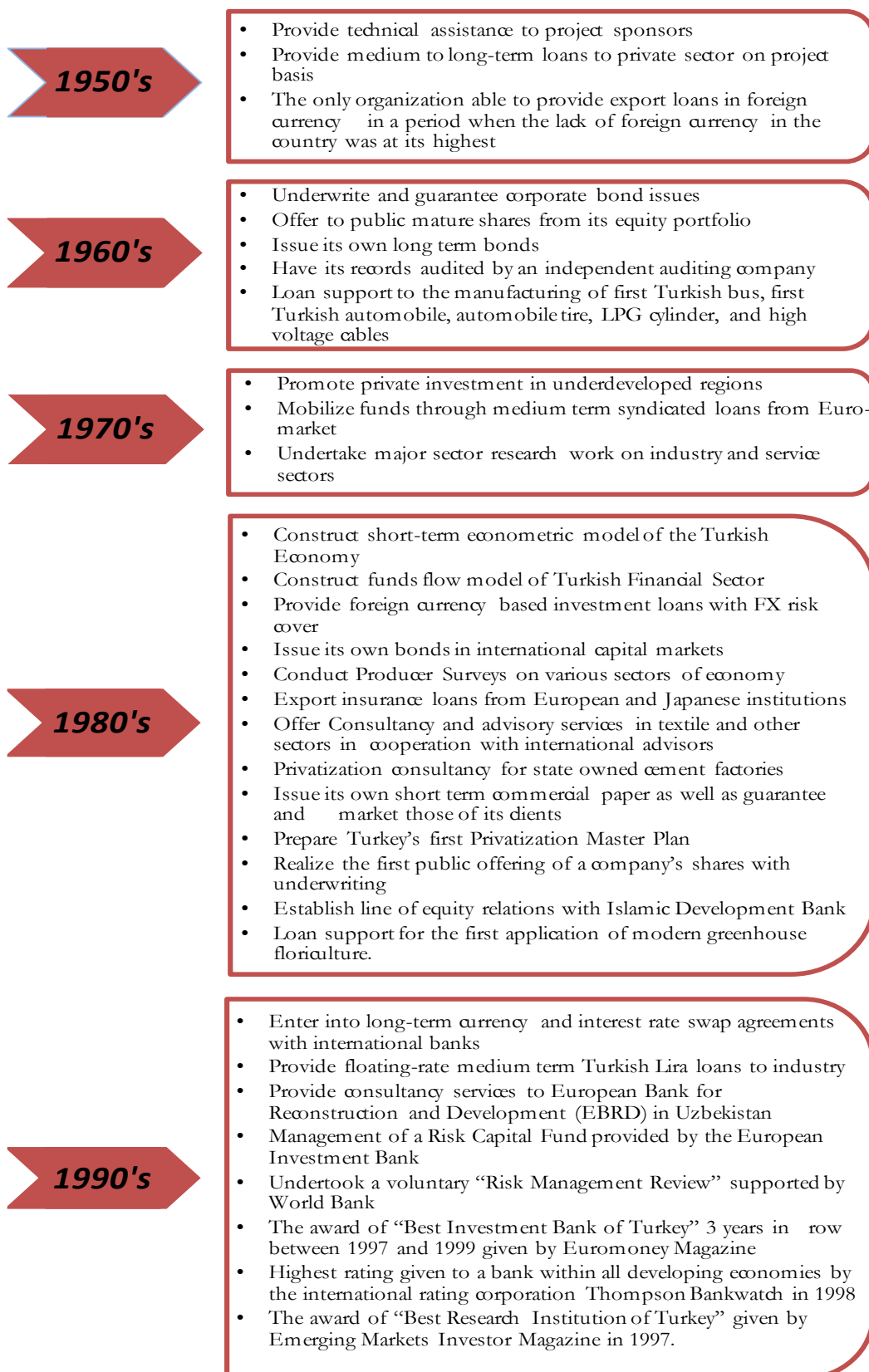
TSKB complements its superior success in accessing mid- and long-term resources with its strong performance in resource allocation. The Bank, while providing loan support and project finance to the investments in many different sectors, especially the energy sector, offers mediation and consultancy services in a wide array of different business lines with respect to public offering, the issue of debt securities, acquisitions and mergers, strategic consultancy, assessment and financial structuring.

TSKB's client portfolio covers Turkey's largest corporations and organizations as well as many SMEs that are the vital point of the Turkish economy. The Bank provides its customers services with high added value in such business lines as capital market brokerage operations, asset management and financial leasing.

TSKB is one of the most recognized Turkish brands in the global market. The Bank maintains strong relations with many international financial institutions, especially the World Bank which played a key role in TSKB's foundation, but also the European Investment Bank, the KfW, the Council of Europe Development Bank, the International Finance Corporation, Agence Francaise de Developpement, the European Bank for Reconstruction and Development (EBRD) and the Islamic Development Bank.

As the first bank in Turkey to adopt the Sustainability Management System, TSKB closely follows its sustainable banking mission not only in resource allocation but in projects that aim to raise social responsibility and social awareness. TSKB takes into account environmental and social impact dimension when granting loans and supports investments in various sectors with renewable energy, energy efficiency, environment and APEX (Wholesale Banking) loans procured from international institutions.

3. HIGHLIGHTS OF TSKB



2000's

- Provision of a credit line specifically for a healthier environment
- First bank to establish a real estate appraisal company with Capital Market Board Approval
- First Turkish Bank to receive a loan from Agence Française de Développement
- First and only Turkish Bank to become a shareholder of European Investment Fund
- The first Turkish Bank to calculate and neutralize its carbon footprint
- The first Turkish owned bank to obtain the ISO 14001 Environment Management Certificate
- The first and only Turkish bank which was awarded Sustainable Bank of the Year of Eastern Europe in 2008, 2009 and 2010 in the event organized by Financial Times and International Finance Corporation.
- Euromoney – “European Utilities Deal of the Year” Uludağ Elektrik Dağıtım A.Ş. (UEDAŞ) and Çamlıbel Elektrik Dağıtım A.Ş. (ÇEDAŞ) Equisition Project Finance
- European Renewables Geothermal Deal of the Year" given by Euromoney in 2008 (Gürmat)
- The award of “European Transport Deal of the Year ” given by Euromoney Magazine in 2007 (Mersin Port)
- The award of “EMEA Infrastructure Deal of the Year” given by PFI in 2007 (Mersin Port)
- The award of "Best M&A - Best mergers and acquisitions" given as part of “Awards for Excellence-2005” by Euromoney Magazine in 2005
- The award of "Best Local Partner" given as part of “Awards for Excellence-2004” by Euromoney Magazine in 2004

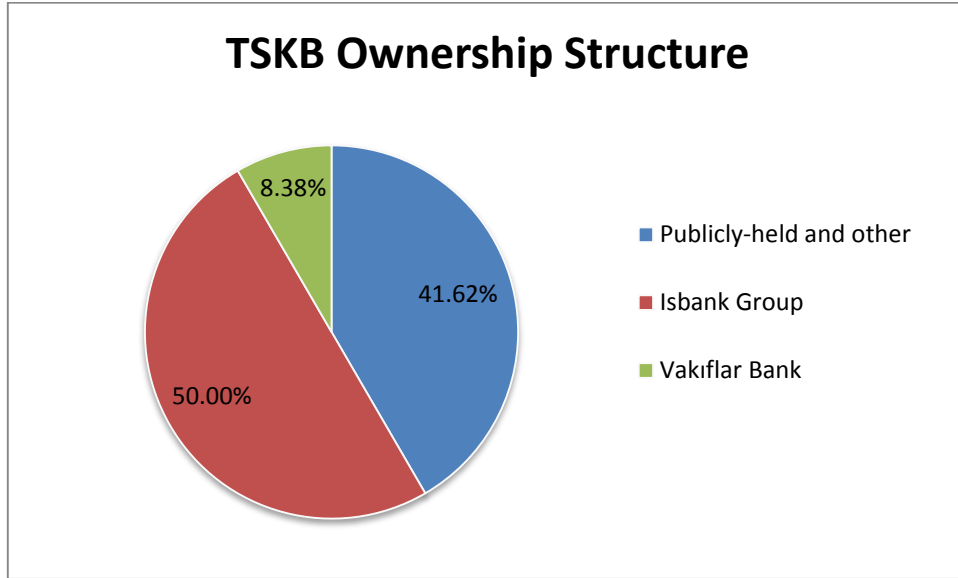
2010's

- The first Turkish bank to release the GRI approved sustainability report
- Membership of the UNEP FI and Global Compact
- The first and only Turkish bank to have been granted membership of the Long-Term Investors' Club (LTIC)
- Securing the first EBRD credit which aims to finance SME's industrial projects based on agriculture.
- Corporate Governance Association of Turkey (TKYD) – 4th Corporate Management Summit, 1st Corporate Management Awards/ Corporation with the 2nd Highest Corporate Governance Rating
- Euromoney – “European Hydro Power Deal of the Year”/Boyabat Dam and Hydro Power Finance
- The first Turkish bank that was granted the ISO 14064 certification and became the first bank in its sector to reach this standard
- TSKB launched its website on energy efficiency (www.tskbenerjiverimliligi.com) to the service of its stakeholders
- Astrid Awards 2012-Bronze Award-TSKB November 2011 Sustainability Report
- Stevie Awards-Bronze Award-2011 Printed Annual Report
- TSKB won the Financial Times-International Finance Corporation (IFC) Sustainable Bank of the Year Award in the category of Eastern European countries for three years in a row in 2008, 2009 and 2010. The Bank also succeeded in attaining a place in the Europe shortlist in 2011.

4. FINANCIAL HIGHLIGHTS

As of 31 December 2012.

4.1. Ownership



4.2. Highlights from Our Economic Performance

TSKB continues to achieve the right blend of its competitive advantages and corporate ability to generate added value. Having concentrated on accurately interpreting market dynamics and opportunities, TSKB completely fulfilled its 2012 targets through robust services processes and modern risk management practices.

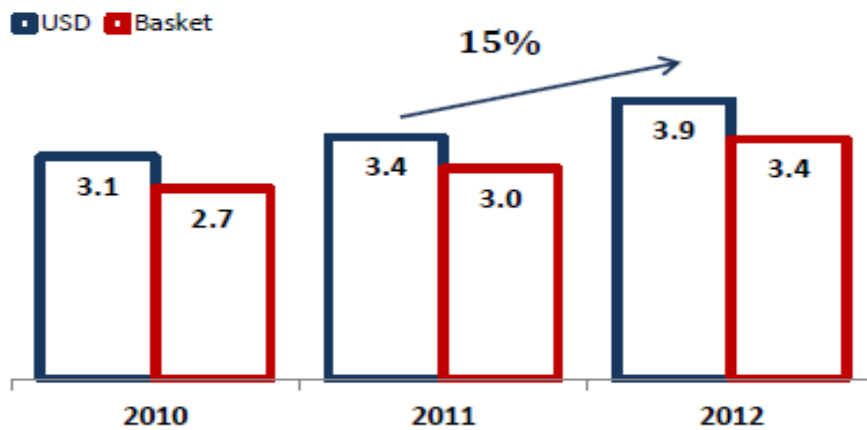
In 2012, TSKB successfully offered products and services with high added value to its customers. TSKB continued to support its real sector clients in a wide array of areas from project finance to foreign trade mediation and allocated resources to them under the most favorable conditions. The Bank also reinforced its presence in the economic and trade cycle by serving its corporate and individual customers in areas like securities, treasury and asset management, in which the Bank boasts extensive knowledge and a wealth of market experience.

As a bank committed to upholding its mission of uninterruptedly supporting Turkish industry and investors under all circumstances, TSKB is determined to reinforce its strong presence and market position in investment and development banking in 2013 and beyond.

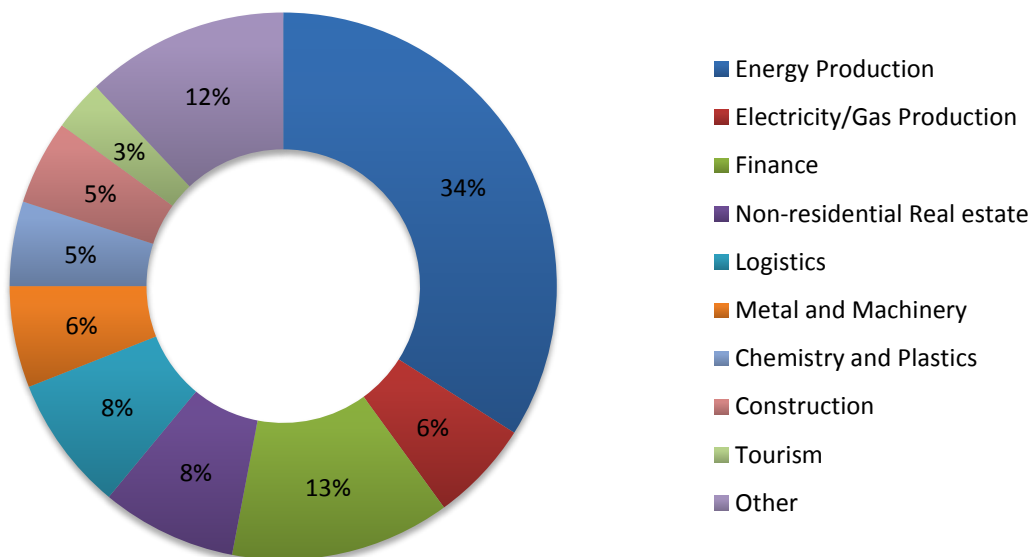
(TRY million)	2009	2010	2011	2012	% Change
Total Assets	6,905	7,912	9,456	10,290	9
Loan Portfolio	3,955	4,843	6,395	6,895	8
Shareholders' Equity	1,041	1,264	1,366	1,755	28
Net Profit	175	212	255	307	20

4.3. Loans

Loans (bn)



Sectoral Breakdown of Loan Portfolio



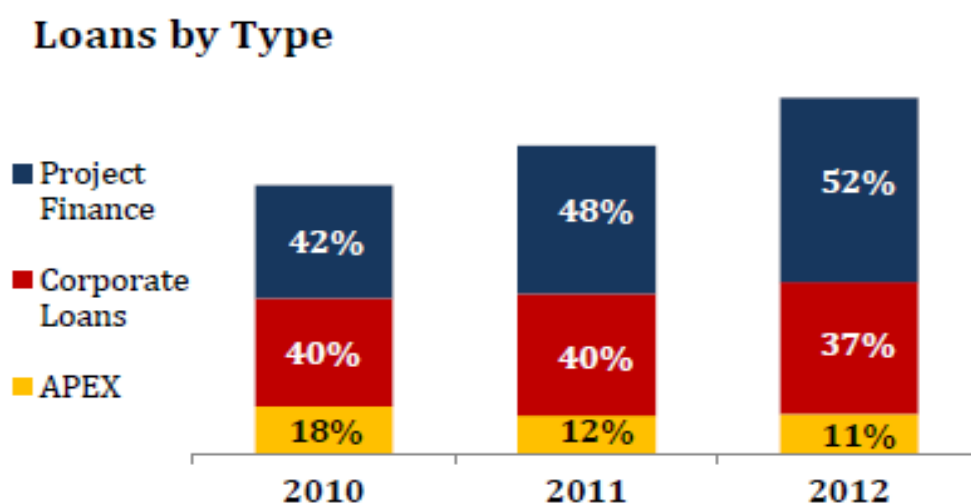
Backed by strong and long-term customer relationships, the Bank's credit portfolio maintains its healthy and efficient composition. TSKB, which provides services to business world with long term and reliable term and reliable funds, continues to enhance its performance with new finance sources.

In 2012, TSKB stepped up its support to the business world. In this context, the Bank continued to finance real sector investment projects – requiring medium and long-term funds – of its customers from different sectors and offered its customers with mass products and services of high added value.

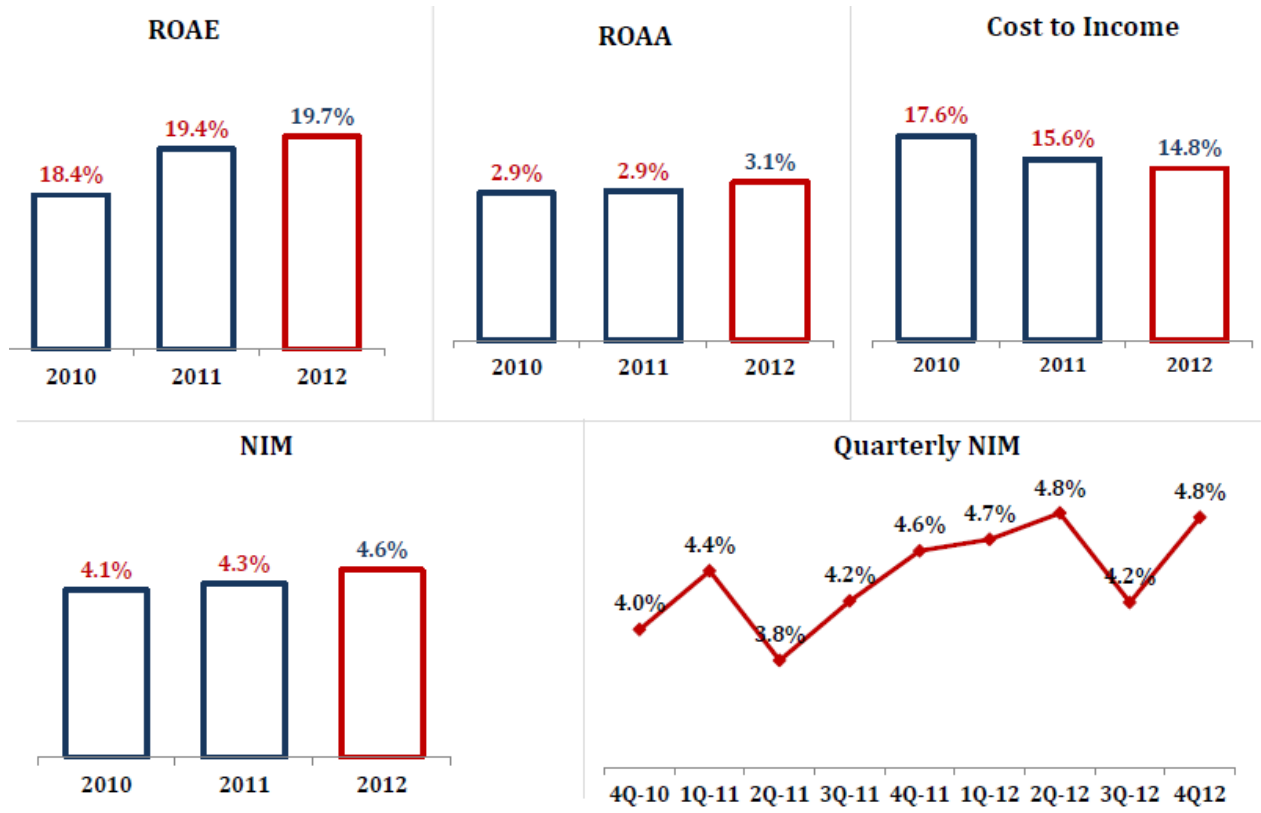
Acting in line with its strategic targets during this period, the Bank carefully protected the healthy and efficient composition of its credit portfolio, which is deeply rooted in its strong and long-term customer relationships.

TSKB's total credit volume grew by 15% in USD terms to reach USD 3.9 billion, with a 67% ratio of total loans/total assets in 2012.

Attaching tremendous importance to the sectorial diversity of its credit portfolio, TSKB pursued a marketing strategy focused on further improvement of the multi-sectorial nature of its investment portfolio. The Bank, while aiming to attract customers from different sectors, also carried out efforts to deepen its relations with existing customers. TSKB concentrated on and supplied funds to new projects in such areas as iron-steel, cement, petrochemicals and automotive subsidiary industry throughout the year. The Bank, while providing loan support and project finance to the investments in many different sectors, especially the energy sector, offers mediation and consultancy services in a wide array of different business lines with respect to public offering, the issue of debt securities, acquisitions and mergers, strategic consultancy, assessment and financial structuring.



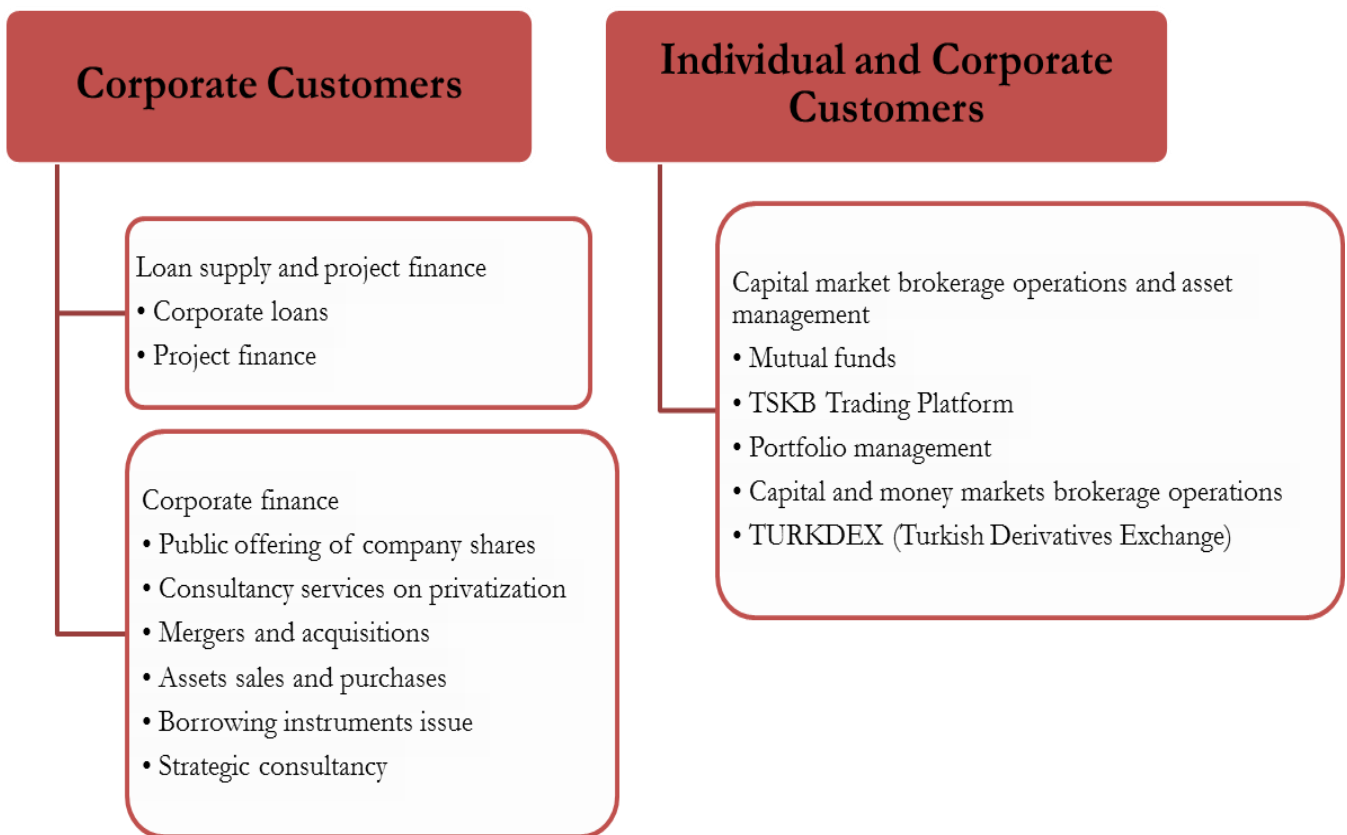
4.4. Key Performance Indicators



5. PRODUCTS AND SERVICES

TSKB is a development and investment bank. The main business lines of TSKB are;

- mid and long term loan supply and project finance,
- corporate finance including comprehensive consultancy services, and
- capital market brokerage services for individual and corporate investors.



6. SUSTAINABLE BANKING

TSKB's sustainability strategy is established on the belief that the key to sustainable development is sustainable banking. The Bank has adopted sustainability as an unaltered target, because it sees sustainability as an extremely valuable instrument which can be used to create permanent and long-term value to all of its stakeholders.

TSKB acknowledges its responsibilities for a sustainable future not just for Turkey but for the whole world. Within the framework of project finance and lending activities which form a major part of its product and service cycle, the Bank continues to contribute to sustainability by extending financial support to those investments that protect the environment and reduce the impacts of climate change. TSKB works with those customers who adopt and share the Bank's sustainability policy and targets.

The Bank aims to manage the legislative, environmental and social risks by collaborating with its customers. Moreover, the Bank encourages its stakeholders to produce an increasing amount of value for the community. The Bank considers protecting the environment, tackling climate change and contributing to social development as its primary targets.

Supporting the low-carbon economy is one of the cornerstones of TSKB's sustainable banking strategy. The vision of TSKB is being the sustainability leader of Turkey.



B. UNGC PRINCIPLES

TSKB has accumulated a great amount of leading and pioneering achievements for the Turkish banking sector in its 62-year corporate history. Since 1950, TSKB has played a pioneering role in Turkey's banking sector and continues to work for the sustainable development of Turkey.

TSKB systematically contributes to the continuous development of the Turkish economy through provision of long-term resources for the business world, mainly through investment projects and customer specific consultancy and brokerage services. TSKB takes into account the environmental and social impact dimension when granting loans.

TSKB has structured its sustainability approach at four dimensions;

- Minimizing environmental risks arising from lending activities: External environmental impacts of TSKB,
- Defining, controlling and reducing internal environmental impacts of TSKB arising from operational services: systematic management of electricity, water, natural gas usage, paper consumption and CO2 emission,
- Emphasizing products and services of TSKB on sustainable banking: financing renewable energy, energy efficiency and environment investments,
- Informing all TSKB employees and stakeholders on a continuous basis and encouraging them to actively participate in the processes and increasing their awareness on environment, encouraging them to participate the combat against climate change and promoting low carbon economy.

Environment and sustainable banking

TSKB thinks globally and always performs its best in order to devise and conform to best practices whenever addressing and dealing with environment- and sustainability-related issues. For this reason, climate change, the environment, and sustainability are all strongly integrated into TSKB's corporate strategy and business principles. Sustainability journey has started in 1980 for TSKB and not only integrated into its strategy, but also interiorized within its employees. Important highlights of this journey are presented below:

1980

TSKB introduced its first environmental initiatives and sowed the seeds of the first models of today's sustainable banking in the 1980s. Since then it has been a financial services provider which, on its own initiative, regularly takes environmental factors into account as part of its credit assessment processes and is especially careful that the projects it finances fulfill their environmental obligations.

1990

In the 1990s, TSKB began tapping international markets for resources with which to finance environment-related investments and became the first bank to extend environment-related loans to Turkish industry.

2005

In 2005 TSKB took an important step in the direction of sustainable banking with the establishment of its Environment Management System.

2006

In 2006 TSKB passed another milestone on its journey towards sustainable banking by issuing formal statement in which its environment policy was publicly announced to all stakeholders. TSKB started to calculate its carbon footprint.

2007

In early 2007 TSKB's Environment Management System was awarded ISO 14001 certification. The same year, the Bank launched its www.cevreciyiz.com internet portal with the aim of informing the public about environmental issues. Another important development in 2007 was the introduction of the environmental risk evaluation tool (ERET) as part of the Bank's project assessment model.

2008

TSKB received the “Sustainable Bank of the Year Award” in the “Eastern Europe” category for the first time in 2008. TSKB began to neutralize its carbon footprint. TSKB broke further ground in the sector by becoming a carbon-neutral bank.

2009

TSKB received the “Sustainable Bank of The Year Award” in the “Eastern Europe” category for the second time in 2009 and also became Turkey’s first carbon-neutral bank. Another important development took place in 2009 when TSKB joined UNEP FI. The same year, the Bank joined the Global Reporting Initiative as an organizational stakeholder by adopting that initiative’s principles as its fundamental guide in the conduct of its own sustainability reporting. TSKB also score another social responsibility first this year by inaugurating cevreciyiz.TV broadcasts. Since 2009, TSKB has been using clean energy generated by a hydroelectric power plant.

2010

TSKB received the “Sustainable Bank of The Year Award” in the “Eastern Europe” category for the third time in 2010. At the very beginning of the year the Bank became the first member of the Turkish financial services industry to supply its stakeholders with a GRI-checked sustainability report. Another important step forward taken by TSKB in 2010 was its participation in the Carbon Disclosure Project. The Bank also signed the UN Global Compact this year as well.

2011

TSKB has reported its 2nd Sustainability Report in 2011 covering the period of 2009 and mid 2010. It has been prepared in accordance with Level B of the version of the GRI Reporting Guide that was released at the beginning of 2011. TSKB became one of the two financial institutions to sign the Water Disclosure Project.

One of the best three banks of the year as part of the "Sustainable Banking Awards" given by IFC (International Finance Corporation) and Financial Times in 2011.

TSKB launched its website on energy efficiency (www.tskbenerjiverimliligi.com) to the service of its stakeholders in June 2011.

TSKB announced its support of the Water Disclosure Project.

TSKB published its first Global Compact COP.

2012

TSKB was granted the **ISO 14064-1 certification** and became the first bank in its sector to reach this standard.

TSKB's Environmental Management System was turned into the **Sustainability Management System**. Operating since 2007 under the Bank's organization, the Environmental Management Team was expanded and renamed as the **Sustainability Management Team**.

TSKB published its second Global Compact COP.

Social contribution

In the conduct of all of its activities, TSKB is always mindful of human resources, public benefit, and social responsibility.

Being an employer that people continuously prefer and are happy to work for is one of the most important social criteria that TSKB is mindful of. TSKB contributes directly and indirectly to the economic environment and society in which it operates through its products and services as well as through the employment that is created by the projects it finances. TSKB strives to mitigate any adverse social impact that may arise because of the projects that it finances.

TSKB Business Principles

The business principles that TSKB developed through the last 62 years include compliance with laws and regulations, strong, respected and consistent relationships with clients, ethical values, satisfaction of its employees, sensitivity to environmental issues and social responsibility.

TSKB believes that its sustainable economic and social contributions are shaped along dimensions of employee and community as well as that of its banking activities. One of the basic aims of our Bank is to maintain a modern work environment with full respect to human rights and encourage participation of employees. Through its business processes, TSKB has the main target of fully complying with laws, corporate governance principles and ethical principles. TSKB supports the 10 principles of United Nations Global Compact consisting of human rights, work force, environment and anti-corruption which totally corresponds to its ethical values.

1. HUMAN RIGHTS AND EMPLOYEES

One of the basic aims of our Bank is to maintain a modern work environment with full respect to human rights and encourage participation of employees. TSKB's main effort is to enable its employees to realize their full potential and to create a work environment and corporate culture that reflect the bank's values.

Human Resources and Work Environment

TSKB is focused on maintaining a working environment that is progressive, continuously encourages participation among personnel, and is fully respectful of human rights. One of the foundations of TSKB's sustainability is to have and maintain a working environment which rewards success, which encourages individual development and initiative, and which is safe.

An interactive and participatory workplace not only supports employees' personal development but also makes it possible for the social and cultural diversity embodied in TSKB's human resources to emerge as a positive value.

TSKB seeks to have and maintain a sustainable workplace environment that:

- Rewards success;
- Encourages individual development and initiative;
- Is safe.

TSKB's most precious assets are its human resources.

TSKB advances confidently towards its goal of sustainable banking thanks to employees who are broad of vision, who are models of professionalism for others in the market, who seek to satisfy customers' needs and expectations, and who are open to improvement. The members of TSKB's staff distinguish themselves from their peers in the sector by virtue of the quality of their educational backgrounds, their expertise, and their sense of identification with the Bank. TSKB employees are results oriented, efficient in analyzing and problem solving and able to think strategic.

In order to achieve and ensure its sustainable corporate success, TSKB focuses on the following issues in the conduct of its human resources practices:

- Manage human resources in line with Bank policy;
- Discover and develop employee potential at the group level as well as individually;
- Engage in an interactive and in-depth dialogue with human resources concerning TSKB's activities and objectives.

In order to sustain TSKB's continuous development, human resources policy of the Bank foresees having broad vision employees who are open to innovation and improvement and aim to satisfy client needs and expectations.

At the focal point of TSKB's human resources strategy is the concept of maintaining a productivity-minded workplace which seeks to:

- Ensure that employees are fully involved in their work;
- Strengthen employees' sense of corporate membership;
- Maximize employees' satisfaction.

Performance Management System at TSKB

The principles of Performance Management System based on competencies and goals, follow the process of

- identifying and rating competencies,
- making corporate objectives meaningful at the individual employee level,
- engaging one on one discussions,
- preparing personal development plans.

The results of the Performance Management System are used to determine bank employees' training needs, career progressions, and merit raises. A sense of corporate identity is an essential part of the elements of productivity and competency that are the foundation of TSKB's performance-based culture. When evaluating a bank employee's performance, attention is given as much to how success was achieved as to the actual success itself.

Health and Safety at TSKB

Occupational health and safety are basic elements that have been adopted in TSKB's HR policies and practices. At its headquarters in Istanbul and in its branches, the Bank seeks to ensure full compliance with the occupational health and safety legislation in effect in Turkey. TSKB also considers modern occupational health and safety practices and current global trends.

TSKB Human Resources Unit is responsible for health and safety matters at the Bank's workplaces. This unit takes a direct interest in TSKB employees' health and safety issues and ensures that all necessary measures and precautions are taken.

The Bank's physical conditions and technical infrastructure are monitored on a regular basis within the scope of efforts to ensure occupational safety. The Bank's physical conditions and technical infrastructure are monitored on a regular basis within the scope of efforts to ensure occupational safety. Information and warning systems are developed by the Bank to tackle various emergency situations and necessary measures are taken after the possible sources of problems are identified. The Bank has developed information and warning systems to deal with a variety of emergencies. Locations where problems may occur are identified and measures are taken as need to be.

Sustainability and Leadership on Social Security: Trust of TSKB

TSKB has established two Pension and Assistance Funds in 1964 and in 1994. TSKB has built its social security systems in the first hand, based on "best practices" of the world and provided comparable benefits. The systems work successfully under the principles of "sustainability" and "leadership" as applied in investment and development banking.

The PRS (Personal Retirement Scheme) which is active in Turkey since 2002 is applied at TSKB trusts since 1964. Under this system the trusts serve the members with a lifetime retirement salary and retirement bonus and in the case of their departure the same products are served to their families.

Having established its own social security scheme 46 years ago, TSKB has been meeting its commitments accurately on health and retirement to a total of 1450 members including their dependents and the trusts have been meeting their commitments on retirement to 500 members.

TSKB's Ethos of human rights and work life respect to human rights is the base of all kinds of social interaction.

As a responsible corporate citizen, TSKB acts with complete coherence and compliance to the UN Human Rights Declaration and the legal frame which regulates the work environment and human rights in Turkey.

Employees – Diversity and Equal Opportunity

TSKB seeks to achieve full and essential compliance with the Universal Declaration of Human Rights, with the United Nations Global Compact, and with the laws and regulations pertaining to labor and human resources in Turkey in the conduct of all of its activities.

TSKB is mindful of providing equal opportunity to all employees in the design and implementation of all of its human resources management processes. TSKB supports diversity in terms of gender, faith, and age.

Number of Personnel (Banking)	Number	%
Female	166	56
Male	133	44
Total	299	100
Average length of service	8.21	

The fact that women outnumber men among its personnel and the high proportion of women among its senior management are two concrete indications of the Bank's commitment to diversity.

Senior Management According to Gender	Female	Male
CEO	-	1
Deputy CEOs	2	4
General Secretary	-	1
Chairman of the Inspection Board	1	-
Group Manager	-	1

TSKB perceives employee diversity as an important base of its organizational structure and a valuable element of its intellectual capital. Acting with this notion, TSKB encourages its employees to think different, act different and develop personal competencies.

Education background of personnel (banking personnel)	Female	Male	Total
PhD	1	3	4
Postgraduate	47	41	88
University Degree	106	86	192
Professional College Degree	8	1	9
High School Graduates	4	2	6
Total	166	133	299

TSKB also opposes all forms of forced or compulsory labor as well as child labor both in Turkey and elsewhere in the world and it supports initiatives to prevent such illegal practices. Employees age ranges are shown in the table below.

Age	Year End of 2012
< 18	0
18-20	0
21-30	118
31-40	119
41-50	58
51-55	2
>55	2
	299

2. ENVIRONMENT

TSKB is determined to be the leading and continuous supporter of all environmental initiatives such as climate change and to fulfill its responsibilities on the efficient, effective and fair consumption of natural resources. TSKB is a corporate citizen believing in implementing a worldwide, efficient and coordinated framework to combat against environmental problems especially the negative results of greenhouse emissions as soon as possible.

2.1. The Connection of Banking and Environment

One of the strongest trends in the banking sector is being shaped around the requirement of sustainable environment for sustainable economy which result in banking and environment meeting at many points.

In banking environmental and thus social issues are considered in two dimensions:

- Forming systematic structures to consider environmental and social issues and risks in the process of lending decision; financing the projects with negative impacts after the necessary measures are taken with related action plans.
- As banks, creating services and products with positive contribution to environmental and social issues; financing environment, renewable energy and energy efficiency investments; creating environment sensitive funds, real estate and consumer loans with environment theme.

The most important business line where banking-environment connection appears is corporate lending. Banks acting as “environment agents” consider environmental issues and finance the projects with the required environmental permits and action plans supporting the formation of sustainable development model.

Environmental risk for banking sector arises when the necessary environmental measures are not taken in the financed project. The financial risk of the investor is either directly or indirectly reflected to the lending bank. Beyond financial risk, “reputational risk” of the Bank as a result of financing an insensitive investment is much more critical. When a bank is subject to reputation risk it is very hard to define and calculate the possible outcomes.

Source: TBB Banking Magazine, September 2009, Issue: 70

2.2. Sustainability Policy of TSKB

Since the day it was established, TSKB has always shown special care to public interest and social responsibility in its activities. Environmental awareness and sensitivity to environmental issues continue to be among the foremost elements in its business principles.

TSKB's Sustainability Policy principles are shown at the following:

- Compliance with all national laws and regulations on environmental and social concerns,
- Going beyond the requirements of legal regulations and relevant statutes in the environmental and social impact assessments which are executed during project evaluation and crediting stages,
- Cooperation with the initiatives supporting sustainability in relevance to the operations fields of the Bank,
- Preparing sustainability reports according to the Global Reporting Initiative (GRI) standards to be presented to the stakeholders of the Bank periodically,
- Supporting transition to low-carbon economy in Turkey,
- Consideration of environmental and social impacts in the assessment process of investment projects and encouraging the project owners for taking the required measures for the reduction of such impacts,
- Briefing all stakeholders in accordance with Sustainability Principles and encouraging them for sustainability practices,
- Endeavor to minimize the environmental impacts (carbon emission, energy, water, paper, waste, transportation, etc.) stemming from the operations of the Bank, putting the improvement projects into practice,
- Purging the carbon foot-print of the Bank periodically and conducting the banking operations on a carbon-neutral basis,
- Institutionalization and interiorizing of sustainability within the Bank, fortification of it through implementations and offering periodic trainings to all employees in this respect.

These principles form the basis for the relevant decision processes of all the activities. As part of its social responsibility awareness, it has been decided to set up a Sustainability Management System conforming to ISO 14001 standards in order to effectuate the environmental sensitivity. This system will define the principles of TSKB's environmental sensitivity, and set forth the guidelines for the bank

personnel to monitor the environmental effects arising from organizational activities and to develop the environmental performance.

2.3. Sustainability Management System (SMS)

In 2005, TSKB interiorized the environmental and social consciousness by integrating sustainability into its operations and developed its business strategies in line with the goals of supporting sustainable development by establishing the Environmental Management System (EMS). In 2012, this system was upgraded to Sustainable Management System (SMS). TSKB uses its sustainability experience in its internal operations and documents both the internal and external results according to Sustainability Procedure and Sustainability Policy and Guide which were approved by the Board of Directors in 30th of November 2012.

TSKB's Sustainability Management System aims at the following six targets:

- Environmental risks arising from lending activities: evaluating and managing TSKB's external environmental impacts in a systematic manner,
- Defining, monitoring and reducing internal TSKB's environmental impacts arising from operational services: the monitoring and systematic management of operational impacts, such as electricity, water, natural gas usage, paper consumption and CO2 emissions,
- Emphasizing products and services of TSKB on sustainable banking: financing renewable energy, energy efficiency and environment investments,
- Continuously informing all TSKB employees and stakeholders and encouraging them to actively participate in the processes and increasing their environmental awareness,
- Preparing sustainability reports in accordance with Global Reporting Initiative (GRI) standards to be presented to the stakeholders of the Bank periodically, and encouraging them to follow sustainability practices, and
- Periodically calculating and neutralizing the Bank's carbon footprint within the scope of ISO 14064, and conducting banking operations on a carbon-neutral basis.

The SMS of TSKB ensures that the organization will be able to continuously improve its sustainability performance, to improve the internal and external information flow, to better control environmental risks related to TSKB products, to comply with all relevant laws and standards, to avoid negative consequences from public attention, to prepare sustainability reports according to the Global Reporting Initiative (GRI) standards to be presented to the stakeholders of the Bank periodically and encouraging

them for sustainability practices, to calculate and purge the carbon foot-print of the Bank periodically and to conduct the banking operations on a carbon-neutral basis. After establishing SMS, TSKB defined its environmental impacts and started to measure its performance indicators systematically. The Bank categorizes its impacts as internal and external, measures them and plans improving and developing activities by analytical methods.

2.3.1. Internal Environmental Impacts of TSKB

Since 2006, TSKB has been quantifying all forms of consumption arising from its activities, developing action plans to make improvements, and setting targets. To this end, the Bank regularly measures the electricity, water, fuel, paper, and other inputs that are used and the waste that is generated by the Bank's service units. Information and assessments concerning the Bank's environmental performance in 2008-2012 are presented below.

Indicator	2008	2009	2010	2011	2012
Electricity Consumption					
Electricity Consumption (kWh)	1,431,067	1,300,219	1,256,058	1,067,232	1,076,471
Electricity Consumption / m ²	84	76	74	62	61
Electricity Consumption / capita	4,631.28	4,140.82	3,727.18	3,125.13	3,254.64
Natural Gas Consumption					
Natural Gas Consumption (m ³)	95,872	86,615	78,857	84,668	75,484
Natural Gas Consumption / m ²	6	5	5	5	4
Natural Gas Consumption / capita	310.27	275.84	234.00	248	228
Water Consumption					
Water Consumption (m ³)	8,416	7,938	7,903	8,094	8,095
Water Consumption / m ²	0.49	0.47	0.46	0.47	0.46
Water Consumption / capita m ³	27	25	23	24	24
Paper Consumption					
Paper Consumption (kg)	9,800	8,450	9,137	6,541	7,195
Paper Consumption / capita kg	32	27	27	19	22
Waste Paper					
Waste Paper (kg)	4,000	4,070	5,125	5,100	9,600
Waste Paper / capita kg	13	13	15	15	29
CO2 Emission					
CO2 Emission (kg)	1,249,070	670,510	401,220	1,117,370	950,495
CO2 Emission / profit	0.016	0.006	0.003	0.0082	0.0055
CO2 Emission / capita	4,042.30	2,135.38	1,190.56	3,271.95	2,873.76
Carbon Footprint Distribution (%)					
Electricity	73.78%	46.22%	0.00%	0.00%	0.00%
Natural Gas	14.40%	24.23%	36.87%	15.16%	15.79%
Paper	2.09%	3.36%	6.08%	0.63%	0.82%
Total Transportation	9.72%	26.18%	57.05%	43.99%	45.82%
Buildings (m ²)	17,008	17,008	17,008	17,236	17,596
Employees (Average)	309	314	337	342	331
Income (USD)	78,484,000	115,401,000	136,535,000	135,460,000	172,321,000

TSKB has been verifying its greenhouse gas emissions according to the ISO 14064-1 in 2013. The external audit has been successfully completed on 24th-25th-26th of April. TSKB 2012 greenhouse gas inventory report has been certificated with 5% reasonable assurance for Scope-1 and 20% limited assurance for Scope-3. Compared to the base year of 2011, 2012 GHG emissions has been reduced from 1.117 ton CO₂e to 950 tons CO₂e due to the preventive actions and changes in operating conditions as follows;

1. Maintaining refrigerants pipelines periodically, HFC-22 leakage was reduced by 60 kg. Fugitive emissions in Scope-1 decreased by 92 ton CO₂e.
2. Since there have been changes in TSKB building area and personnel number, the emissions from natural gas consumption was abated by 19 ton CO₂e.

3. The considerable amount of GHG emissions from company cars was reduced by 23 ton CO₂e. This is achieved by the change in the number of company cars used in 2012.
4. Depending on the banking activities in the operating boundaries, the emissions from business travel and purchased goods and services was decreased by 32 ton CO₂e.

2.3.2. External Environmental Impacts of TSKB

In order to deal with its external environmental impact, TSKB seeks first to identify the environmental and social effects that may be caused by projects that it finances and second to support its credit customers by minimizing these effects by correctly managing them.

In 2005, TSKB pioneered the development in Turkey of a set of environmental risk evaluation tools (Environmental Risk Evaluation Tools - ERET) to be used in identifying the environmental risks that might arise from its lending activities as a bank.

2.4. Environmental Risk Evaluation Tool (ERET)

TSKB's environmental risk management policy constitutes the basis of decision-making processes as far as the credit appraisal process is concerned. Its own internal procedure, ERET), defines the environmental and social impact analysis and its methodology. With 35 subjects considered, ERET makes an assessment of E&S, as well as health and safety, for any project to be financed.

ERET classification was revised and the result of this revision was a somewhat greater detailing of the “risk categories” in the ERET model. Instead of the old “A” (“High”), “B” (“Average”), and “C” (“Low”) risk category ratings, the new model uses “ A” (“High”), “B+” (“Moderately High”), “B -” (“Average”), and “C” (“Low”). That is why the scoring of 2011 and 2012 is different than the previous years.

At TSKB, our environmental methodology is above and beyond the Turkish official environmental and social requirement. A public participation meeting during the EIA stage is limited by the project capacity in official regulation. TSKB's understanding is not however limited. Although the regular monitoring stages regarding environmental and social aspects are not always compulsory, for TSKB it is a crucial component of E&S Risk Management strategy.

TSKB ERET RESULTS					
	2008	2009	2010	2011	2012
Risk Category (Client)					
A	-	-	-	2	-
B+	50	28	21	10	11
B-				7	12
C	37	30	30	25	15
Risk Category (Project)					
A	-	-	-	3	-
B+	12	18	13	4	13
B-				10	
C	75	40	38	27	38
Number of Projects	87	58	51	44	51

* The project and company risks calculated are categorized as **A**=very high risk **B+**=high risk **B-**=medium risk **C**=minimum risk, within the context of ERET environmental risk categorization of TSKB.

2.5. Carbon Disclosure Project

CDP was launched in 2000 to accelerate solutions to climate change by placing relevant information at the heart of business, policy and investment decisions.

CDP Turkey was launched in early 2010 by Sabancı University Institutional Management Fund with the support of Akbank. The first step for this initiative had been taken by sending letters to ISE-50 listed companies requesting them to disclose their greenhouse gas emissions and policies with respect to climate change.

11 of the ISE 50-listed companies responded to this call in the first year of CDP Turkey. Measuring its carbon footprint and disclosing the results since 2006, TSKB, having joined the project voluntarily, is happy to see the launch of the CDP in Turkey. The total number of companies which reported to CDP Turkey was 32 in 2011 and 2012. TSKB has reported to CDP Turkey in 2012.

2.6. TSKB Carbon Neutralization Project

TSKB has been calculating its carbon footprint since 2006. Since 2008, TSKB has offset its carbon footprint by purchasing 3670 tons of Gold Standard Carbon Credit. By implementing energy efficiency projects, TSKB's reduced its 2010 year carbon emission by 40% compared to 2009. In year 2012, TSKB has decided to verify greenhouse gas assertion for the organizational level by a third party.

TSKB has completed the audit on September 7th, 2012. The base year is selected as 2011 and total CO2 emission has been calculated as 1117 MT CO2e. TSKB inventory reports of 2011 and 2012 received 5% reasonable assurance for Scope-1 and 20% limited assurance for Scope-3. Carbon neutralization project covered:

- Detecting and auditing the carbon foot print of TSKB
- Realizing the process of purchasing carbon credit
- Consultancy services TSKB needed in the phase of being a carbon neutral bank.

A bank's carbon footprint is the total of all greenhouse gases emissions as a result of factors like transportation, heating and electricity. Another description of carbon foot print is: a climate change factor created by the CO2 emission as a result of burning fossil fuels.

TSKB preferred to purchase carbon credit from the ITC Mamak Integrated Domestic Waste Disposal Project which is also financed by the Bank.

2.7. Social Responsibility

For more than six decades TSKB has been a powerhouse driving Turkey's advance towards economic growth and development but it has also been an engine of the country's social progress as well. In 2011 and 2012, TSKB pressed ahead unstintingly in its social responsibility efforts that it has conducted with the motto of "The Environment: Our Priority". TSKB's social responsibility mission is structured around the basic principle of increasing social awareness and sensitivity over issues, including but not limited to climate change, which constitute risks for our world and its people. The Bank considers protecting the environment, tackling climate change and contributing to social development as its primary targets.

Since 2007, TSKB has been actively and effectively integrating its sustainable banking philosophy as a fundamental component of its social responsibility projects. In the conduct of such projects, the Bank also deals with environmental, energy, and sustainability issues and makes a significant contribution towards increasing public awareness about them.

CEVRECIYIZ.COM

In 2007, Bank launched the most comprehensive environment-related web portal of the country, cevreciyiz.com, with the aim of informing the public about environmental issues.

www.cevreciyiz.com contains a wide range of features and interactive sections such as current news; Turkey's and the world environment agenda; essays and research studies by academicians, NGOs, and professionals; special environment files; environment-related laws and regulations; corporate success stories; virtual photography exhibitions of work by famous nature photographers; and tools such as a carbon-meter that allows you to measure carbon footprints.

Broadcast of Cevreciyiz.tv

With its aim to increase the knowledge and awareness level by creating the feeling of embracing the nature and to support positive attitude among all ages and segments of the community, cevreciyiz.tv began broadcasting on November 23, 2009 and continued to grow and develop in 2012 and reached a broader audience.

TSKB intends to expand and enrich [cevreciyiz.TV](http://cevreciyiz.tv)'s video archive and to reach a larger social media audience of people who regard themselves as “environmentalists”.

TSKB Energy Efficiency

In 2011 TSKB undertook further efforts aimed at raising awareness and launched www.tskbenerjiverimliligi.com in a bid to draw attention to the importance of energy efficiency and to bring all groups dealing with this issue together on a joint platform. With increased visitor effectiveness in 2012, this website contributes significantly to raising awareness of energy efficiency.

Social Media

TSKB has used the social media on a regular basis to announce its sustainability-related projects and to provide information concerning the markets, in line with its investment banking mission. The number of visitors to the “cevreciyiz” social media pages, which have already been transformed into an effective awareness raising platform, is increasing with each passing day.

Workshop

In 2012, A “Sustainability Measurement Workshop” was organized by TSKB, bringing university students and businessmen from related sectors together. The students had ideas about industry sectors and developed their awareness about measurements of an investment project. They remembered and evaluated their theoretical information that they gained at the universities and turned them to practical thanks to this workshop arranged by TSKB.

TSKB’s voluntary memberships within the scope of sustainable banking



3. ANTI-CORRUPTION

In global money and capital markets, banks and other financial institutions may unconsciously act as intermediaries for the proceeds of crime by transferring or accepting these amounts as deposit. In order to prevent this situation new standards have been introduced against money laundering all around the world to improve the combat strength through cooperation. Also, rigid control and regulatory mechanisms are implemented by governments.

Laundering offence has been firstly identified as “money laundering offence” which was put into force in 1996 and “Prevention of Laundering Proceeds of Crime” law in 2006 in Turkish legal system. MASAK (Financial Crimes Investigation Board) has been carrying out its studies since 1997 in accordance with the related laws that draw the general framework of combating money laundering and preventing financing of terrorism.

In order to prevent laundering proceeds of crime via means of banking system, mandatory Compliance Program is introduced in Turkey.

TSKB has fully adopted the compliance regulations to prevent Laundering Proceeds of Crime and Financing of Terrorism and thereby has implemented necessary control alarms and other mechanisms in its business processes.

TSKB’s Internal Control Centre is responsible for monitoring the daily internal control activities. The efficiency and proficiency of the Compliance Program are inspected and short comings are reported to the Board of Directors. Also, client transactions are reported on a daily, monthly and quarterly basis.