

Garanti BBVA

Environmental and Social Loan Policies (ESLP)

June 2021

Disclaimer: The text below is an abbreviated and summarized version of Garanti BBVA's Environmental and Social Loan Policies.

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Introduction

Garanti BBVA has issued and implemented its Sustainability Policy to improve basic banking perception by integrating Sustainable Development Goals and the Paris Agreement into its strategies and activities. The Environmental and Social Loan Policies (“ESLP” or “Policy”), which are in accordance with the Sustainability Principles set forth in Sustainability Policy and the Strategic Priorities of our Bank, constitute a risk management framework that serves to identify, evaluate and manage non-financial risks of loan processes such as environmental, social, governance and occupational health and safety risks as well as their potential impacts in consideration of local legislation and internationally accepted guidelines and standards.

ESLP is the first step in the process of identifying environmental and social impacts of loan activities. The Policy’s principles are categorized in three main categories as given below:

- (1) Control of Prohibited Activities and Customers,
- (2) Identification of Non-financial Performance and Potential Risks and
- (3) Management of Non-financial Performance.

1. Control of Prohibited Activities and Clients

Garanti BBVA considers it its core responsibility to ensure that the activities it finances comply with national legislation and the international conventions to which Turkey is a signatory.

Accordingly, Garanti BBVA does not participate in the financing of any activity (particularly the ones involving the below mentioned areas) that is prohibited or restricted by national legislation and the international conventions to which Turkey is a signatory, without the need for further assessments and regardless of amount.

- The transactions, institutions and organizations that are included in the Defense Norms and prohibited due to their relevance to the defense industry across Garanti BBVA Group are as follows:
 - Activities connected with arms trade with countries where an arms embargo by the United Nations, the European Union and/or the United States is in place.
 - Companies selling weapons to countries where an arms embargo by the United Nations, the European Union and/or the United States is in place.
 - Activities connected with arms trade with countries¹ that represent a high risk of human rights violation.
 - Transactions in which the intermediary or the end user is not one of the organizations below:
 - Turkish Armed Forces, its subsidiaries or government agencies and/or organizations that provide service to Turkish Armed Forces
 - Public or private enterprises producing for the Ministry of National Defense or the General Directorate of Security and/or organizations that provide service to Turkish Armed Forces
 - Organizations that supply material or services to the government agencies in Turkey
 - Organizations that supply material or services to the national armies or security forces of EU or NATO member states

¹ Determined with an independent consultant services provided on a quarterly basis. Decisions on this issue are taken by the Responsible Banking and Sustainability Committee.

- Production and sales of ‘controversial’² weapons such as landmines³, including anti-personnel mines, biological weapons, chemical weapons, cluster munitions, nuclear weapons, depleted uranium and white phosphorus, as well as key components thereof.
 - Companies that operate in countries that are not signatories of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) or countries that act in violation of the NPT, and are involved in the production or sale of nuclear weapons or their components.
 - Producers of military assault weapons for civilian applications.
 - Companies that do not have relevant export licenses.
- Cases that constitute a violation of environmental, occupational health and safety legislation of the Republic of Turkey and / or international conventions to which Turkey is a signatory,
 - Companies with concrete evidence (based on court decisions and related legal disputes) that proves the violation of existing laws and regulations or human rights regardless of country,
 - Individuals and organizations that employ children and / or young workers against the working procedures established within the scope of national legislation and are engaged in forced labor,
 - Individuals and entities that violate the principles of human rights as defined by the labor legislation in our country and the following principles:
 - The United Nations Universal Declaration of Human Rights,
 - The requirements set forth by the international conventions to which Turkey is a signatory , particularly the core principles of International Labor Organization, a United Nations agency whose mandate is to advance human rights, social justice and promote decent work,
 - The United Nations Global Compact, an international initiative to encourage companies to adopt ten principles that address all aspects of sustainability, including human rights, across their business cycles and strategies.
 - Individuals and entities that contravene the legislation on misconduct or non-ethical conduct that covers deceit, fraud, embezzlement, bribery, corruption and all other unlawful acts, as well as the Bank’s Ethical and Good Conduct Principles,
 - Production or trading of any product that is declared illegal pursuant to national legislation or international conventions, and / or pharmaceutical products that are subject to international prohibitions, such as like insecticides / herbicides, ozone depleting substances, or PCB’s,
 - Fisheries that use drift nets longer than 2,5 km and considered illegal⁴ and overfishing,
 - Production or trading of wood products and other forestry products that are derived from forestry practices⁵ that are not managed in a sustainable manner and violate Turkish legislation and international conventions to which Turkey is signatory.
 - Commercial activities that adversely affect tropical rainforests,
 - Production, storage, transportation and trading of hazardous chemicals (including petroleum, kerosene and petrochemicals) in large quantities ⁶,
 - Activities carried out in or threatening RAMSAR⁷ (Wetlands of International Importance),

² The term ‘controversial weapons’ denotes weapons considered controversial by international opinion, governments or organizations such as the United Nations due to their capacity to inflict disproportionate number of casualties or their potential impact on the civilian populace.

³ Landmines are generally categorized into the two main groups of anti-personnel (AP) and anti-tank (AT) mines.

⁴ By international conventions signed by Turkey, such as the Agreement on Port State Measures to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing and the Agreement for the Establishment of the General Fisheries Commission for the Mediterranean (GFCM), among others.

⁵ The definition of Sustainable Forestry Management (SFM) is as stated in the resolutions of the Ministerial Conference on Protection of Forests in Europe, which was held in Helsinki in 1993 as part of the Pan-European regional process following the Environment and Development Conference in Rio in 1992. Forestry operations include the first link in the value chain that directly involves forestry activities, such as lumber and pulp wood production.

⁶ Applicable to microfinance activities.

⁷ For a list of RAMSAR sites, see <https://www.ramsar.org/wetland/turkey>.

- Activities with an impact area that jeopardize cultural heritage characteristics of UNESCO World Heritage Sites⁸,
- Activities in breach of the provisions of CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)⁹,
- Activities in regions designated by the Alliance for Zero Extinction¹⁰,
- Activities in regions designated under Categories 1 to 4 of the International Union for the Conservation of Nature (IUCN)¹¹,
- Activities carried out in areas where Indigenous Communities¹² live without the written consent of these communities and / or against their will without informing them or including them in the decision-making process causing displacement or violation of their rights,
- Extraction, processing, sales and import of any form of asbestos, import or sales of any product that contains asbestos, production and processing or trading of asbestos products or asbestos-added products,
- Companies that engage in or are found to be involved with the production and/or trading of radioactive substances¹³ (excluding power plants that meet the highest international standards built to meet the essential energy needs of a country and are essential for the national economy, medical equipment, quality control devices, and other cases where the radioactive substances are used in a limited manner, in negligible quantities and with appropriate protection in place).
- Persons and institutions mentioned in the black lists published by national and international authorities on money laundering and terrorism financing,
- Companies whose headquarters is located in countries sanctioned by the EU, the USA or the United Nations¹⁴.

Coal Policy

In addition to the above listed prohibited activities & clients, Garanti BBVA makes the following commitments in line with its Coal Policy, which aims to combat climate change and transition to a low-carbon economy:

- No new coal fired power plant will be financed.
- No new coal mine will be financed.
- No limit increase on coal related business will be provided.
- All coal exposure except NPL projects will be closed by 2040.

The list of prohibited and restricted activities and institutions / organizations / companies above applies to all internal financing transactions and all corporate, commercial, SME and retail customers of the Bank. Unless

⁸ For the current list of heritage sites, see <https://whc.unesco.org/en/statesparties/tr>.

⁹ For further information on species, see <http://www.cites.org/eng/app/appendices.php>. The requirements of the "Regulation on the Implementation of the Convention on International Trade in Endangered Species of Wild Animals and Plants" are taken into account.

¹⁰ For the current list, see http://www.zeroextinction.org/pdf/2010_AZE_Data.pdf.

¹¹ For the current category descriptions of nature reserves, see <https://www.iucn.org/theme/protected-areas/about/protected-area-categories>.

¹² "Indigenous People" is a broad term that refers to ethnic groups that display the following characteristics in varying degrees and are significantly distinct in terms of their society and culture:

- Identification with distinct and unique local culture and being acknowledged as such by others;
- Communal dependence on different geographical habitats or ancestral territories and natural resources in these;
- Traditional, cultural, economic, social or political institutions that differ from those established by the prevalent society or culture; or
- An original language or dialect that is distinct from the official language or languages of the country or region.

¹³ It is essential that such person or organization has an efficient control over the specified activities. Subcontractors undertaking the necessary work for the continuity of these activities are excluded.

¹⁴ International financial sanctions are coercive measures against States, non-State entities or individuals that pose a threat to international peace and security. Chapter VII of the United Nations Charter provides the legal basis for the imposition of coercive measures within the United Nations. At EU level, restrictive measures are defined as a key tool of the Common Foreign and Security Policy (CFSP) under Article 21 of the EU Treaty. The U.S. Treasury Department, and in particular the Office of Foreign Assets Control (OFAC), enforces and administers economic sanctions against certain countries, jurisdictions, individuals and institutions in order to protect national security and U.S. foreign policy

otherwise stated, the definition and scope of the activities are determined based on national legislation and international conventions to which Turkey is a signatory.

All projects are assessed to check compliance with Bank policies and also Garanti BBVA's sectoral principles where applicable.

2. Identification of Non-financial Performance and Potential Risks

2.1 Preliminary Customer ESG Assessment through Know Your Customer Procedures

Garanti BBVA has the screening questions regarding customer's environmental, social and governance (ESG) performance in Know Your Customer procedures.

2.2 Carbon Pricing

In terms of carbon pricing, Garanti BBVA reflects the cost of carbon to feasibility assessments of financing requests for projects that fall within the scope given below. This enables prioritization of renewable energy projects.

The scope of this practice is limited to new power plant investments (regardless of the amount) that are subject to project finance transactions satisfying the definition set forth in Garanti BBVA Asset and Project Finance Admission and Monitoring Procedure¹⁵.

The following guidelines explain the carbon pricing method for shadow price of carbon.

- Positive or negative shadow carbon pricing is applied to financial assessments of all projects for new fossil fuel-based¹⁶ and renewable energy investments / capacity increases.
- If the country where the project is implemented has an ongoing emission trade (both voluntary and mandatory) program or a carbon tax in place, the actual carbon price is used. Otherwise, current price in the EU Emissions Trading System per tonne CO₂ equivalent emitted will be taken into account in the feasibility.

2.3 Detailed Assessment

More comprehensive assessment processes are in place for project-related financing transactions that meet the following amount/transaction criteria, as per the "Sustainable Finance Risk Management Procedure" (SFRMP)¹⁷. These processes are developed for four separate groups, namely general environmental and social impact, Occupational Health and Safety (OHS) impact, risks driven by digitalization, and deforestation impact. The guidelines to be followed in the processes are indicated below.

¹⁵ It is an internal document expressing the internal processes of the BBVA Group.

¹⁶ For a period of 20 years, "Well to Tank" (WTT) carbon footprint of shale gas and natural gas are also to be considered, especially in scenarios where preproduction emissions are not retained and are released to the atmosphere. Therefore, Garanti BBVA also applies carbon pricing to this type of power plants, apart from coal-fired thermal power plants.

¹⁷ SFRYP is an internal procedure that determines the ESIAM implementation methodology and internal processes related to the scope and is accessible to the Bank's employees via the intranet.

2.3.1 Environmental and Social Impact Assessment Model (ESIAM)

Garanti BBVA employs the Environmental and Social Impact Assessment Model (ESIAM) for financing transactions that fall under the definitions of the following business scope. Under this process and model, the projects are categorized and rated based on their nature, scale, sensitivity, location and potential environmental, social and OHS impacts. Actions are taken on the basis of the risk score obtained under the model.

ESIAM is performed for the five main financial transactions described below:

- **Project Finance:** All project finance loans that meet the criteria specified in the Asset and Project Finance Admission and Monitoring Procedure, regardless of cost,
- **Corporate Loans utilized for a Particular Project or Investment:** Corporate Loans (Working Capital Loans) that involve construction of a new project or capacity increase of an existing one and that satisfy all of the following criteria¹⁸
 - i. The majority of the loan must be linked with the project on which the debtor has effective operational control¹⁹ (directly or indirectly).
 - ii. The total amount of the loan and the participation of Garanti BBVA (before syndication sales) is USD 50 million or more.
 - iii. The term of the loan is two years at minimum.
 - iv. The lender anticipates that the primary funds for repayment of the loan are derived from the project.
 - v. The scope also includes export financing²⁰ to be granted as buyer credit to private sector or public enterprises. On the other hand; it does not apply to other financial instruments that are not linked to any project, such as asset finance, acquisition financing, hedging, leasing, letter of credits, general purpose corporate loans and general working capital expenditure loans (for a company to continue its operations).
- **Bridge Loans**²¹: Bridge loans with maturity less than two years, which are intended to be refinanced via Project Finance or Corporate Loans in relation to a Project satisfying the criteria defined in the articles 1 and 2 above, and
- **Consultancy Services**²²: Consultancy Services regarding Project Finance transactions defined in the article 1 above.
- **Refinancing or acquisition loans used for a specific project or investment:** Those projects that meet all of the following three criteria:
 - Such Project has been financed in accordance with the Equator Principles framework.

¹⁸ As defined in the Equator Principles 4, 2020

¹⁹ Effective Operational Control refers to the customer's power to intervene directly in the main elements of the project. This definition does not cover financing requests from subcontractors/suppliers of the main project (unless they are the main operator). Financing requests that do not meet this criteria include financing requests from subcontractors that supply equipment, perform construction, contracting or electricity works, etc. for the project.

- Example of Direct Effective Operational Control: If the customer is the main shareholder (>50%) or operator of the relevant project, then the customer is considered to have a direct Effective Operational Control on the relevant Project.

- Example of Indirect Effective Operational Control: If a subsidiary of the customer runs the entire operation, then this indicates that the customer has an indirect Effective Control on the Project.

²⁰ Export financing (or export loans) involves supporting an exporter and / or a buyer to whom the exporter will ship goods, by means of financing and/or insurance during pre-shipment and / or post-shipment periods.

Export financing is classified in various categories such as short, medium or long term according to its duration, buyer or seller credits according to the party whose risk is taken and pre-shipment or post-shipment financing depending on place and purpose of utilization.

Such support may be in the form of financial support, pure cover, etc.

²¹ Compliance with Equator Principles is not required due to the nature of the bridge loans. On the other hand, a commitment clause is inserted in the Bridge Loan Agreement for compliance of the Project with Equator Principles.

²² Due to the nature of consultancy services, compliance with Equator Principles is not required. However, a commitment clause stating that the Project will comply with the Equator Principles is included.

- There has been no significant change in the scale or scope of the Project.
- Project Completion has not yet occurred at the time of the signing of the loan agreement.

The model implemented on projects as part of the SFRMP results in one of three action scores (hereinafter “Final Grade²³”) from low to high, which informs the action to be taken. The relevant actions are explained in detail in SFRMP.

The standards adopted under ESIAM include but are not limited to the Core Principles²⁴ and are based at a minimum on the International Finance Corporation Performance Standards (IFC PSs) and/or the European Bank for Reconstruction and Development Performance Requirements (EBRD PRs).

The financial limit, policies and processes may be revised by Responsible Banking and Sustainability Committee as necessary.

2.3.2 OHS Risk Assessment (OHSRA) System

Garanti BBVA has established a more comprehensive OHS Risk Assessment (OHSRA) System for assessing Occupational Health and Safety (‘OHS’) performance of projects it finances. The assessment involves systematic analysis of OHS risks pursuant to the legal requirements in Turkey and in line with international standards.

This assessment system will be used in cases deemed necessary for those project finance loans granted to projects with an investment amount greater than USD 10 million that meet the definition outlined in the Asset and Project Finance Admission and Monitoring Procedure²⁵.

The risk assessment methodology is as follows:

- Specification of questionnaires to be used in each stage,
- Answering questionnaires,
- Determining the risk level of the project based on the answers given, and
- Assigning actions commensurate with the determined risk level.

High-risk infrastructure (highway, airport etc.) and mining projects with a Final Grade of 1 based on the result of ESIAM are appointed an independent occupational health and safety expert, limited to the construction phase of the project. The scope of such effort is determined by Garanti BBVA.

The financial limit, policies and processes may be revised by Responsible Banking and Sustainability Committee as necessary.

2.3.3 Deforestation Impact Management Process

The following measures are taken in financing activities in order to control deforestation. Identification and management of deforestation risks are explained in the Reforestation Procedure²⁶.

In case of financing new investments that fall within the scope of ESIAM and rated with a Final Grade of 1 and 2, especially in the case of those involving large swaths of land, a detailed due diligence is conducted to identify the deforestation impact of the project, and if such impact is identified, all necessary measures are made mandatory. These measures include the following:

²³ The Final Grade, which is calculated as a score between 1 and 3, informs the actions to be taken depending on the risk level of the project.

²⁴ The Core Principles cover the relevant legislation and Garanti BBVA Policies and Procedures requirements. More detailed information on the internal processes of the bank is included in the annex of SFRYP.

²⁵ It is an internal document expressing the internal processes of the BBVA Group.

²⁶ The Garanti BBVA Reforestation Procedure is included in the annex to the Sustainable Finance Risk Management Guideline (SFRMG).

- The sponsors are expected to use all their reasonable and necessary efforts to minimize the deforestation (rerouting, moving the trees, etc.).
- If such impact cannot be prevented, the debtor is required to give a Commitment of Reforestation for planting trees based on the environmental and social risk score of the project, unless approved otherwise by Garanti BBVA.
- This commitment includes both total area in hectares (ha) and total number of trees.
- Estimation methodology for number of trees/area (ha) must be defined in detail in the Commitment and approved by the Bank. The number of trees and reforestation area are determined in accordance with the risk level of the project. The Commitment must entail planting trees at least 4 or 5 times the number of trees impacted by the project and its auxiliary units, even if the relevant area is not considered a forest land under national and international definitions.
- As an alternative, the debtor may propose to offset carbon emission via conservation of biodiversity or buying carbon credit. Such proposals are evaluated by the Sustainable Finance Team and/or environmental consultant of the Bank, and may replace the commitments mentioned above if the Bank deems appropriate.

The progress of commitments is monitored in accordance with the rules and procedures set forth in the Reforestation Procedure.

3. Management of Non-Financial Performance

Garanti BBVA's General Loan Agreements (GLA) and Banking Services Agreements (BSA) include commitments related to compliance with environmental social legislation and Environmental and Social Loan Policies.

The Bank oversees whether the projects and / or entities financed meet social, environmental, OHS, etc. standards stipulated by the Bank's policies and the legislation, whether the project owners carry out impact assessments when required, implement defined measures and have efficient internal audit systems.

If the financing transaction falls within the scope mentioned in the Detailed Assessment sections, the Bank will implement the risk assessment process / processes explained in the related sections.

When deemed necessary based on the risk score obtained following this assessment, an Environmental and Social Action Plan is drawn up in collaboration with an independent consultant and / or the Bank's ESG²⁷ experts. The Action Plan is incorporated into the loan agreement and an Independent Consultant and/or the Bank's ESG experts monitor the execution of the steps indicated in the Action Plan during a time period to be specified by the Bank within the term of the loan.

The Environmental and Social Monitoring Plan is utilized at least semiannually during the construction period and annually during the operating period for high risk projects. The Sustainable Financing Team determines the timespan of monitoring during the term of the loan, based on the level of risks and whether such risks persist.

The items to be followed in the Action Plan consist of quantifiable outcomes that originate from the development of the project or activities of the entity and that are intended for recovering material residual negative impacts that remain after prevention, mitigation and reclamation measures and for protecting environmental and social interests. The main objective of Garanti BBVA while preparing and implementing the Plan is to develop protection mechanisms of its customers against non-financial risks and contribute to the Sustainable Development Goals.

²⁷ Environmental, Social, Governance.