

Climate Change Position Statement & Action Plan

The increasing impact of climate change necessitates the timely transition to a low carbon economy. This urgency is reflected in the efforts of policy-makers, the needs of our clients and priorities of society.

For this reason, Garanti believes that climate change is a strategic issue that merits full integration with all business processes and decision-making mechanisms.

Garanti has acknowledged that the main climate change risks and opportunities lie with the downstream impacts arising from financing activities. Nevertheless, Garanti is also managing its climate related risks in its office buildings and upstream activities, i.e. supply chain.

The following principles are the cornerstones of how we integrate climate change to the way we do business.

I. Putting a shadow price on carbon

The phrase “put a price on carbon” has become increasingly common as discussions of how to address climate change move from concern to action.

Despite the difficulties in determining the cost of carbon in the absence of a regulatory framework, Garanti has been utilizing a fixed ‘forestation’ fee for carbon-intensive projects in order to reflect the cost of carbon in project financing. However, we are now enhancing our approach to better reflect the global trend on carbon pricing among the private sector and to further increase the share of low-carbon investments in our loan portfolio.

The principles below explain our new carbon pricing scheme in order to build on existing efforts about putting a shadow price on carbon.

- We apply our own shadow carbon price in evaluating the economics of all greenfield/brownfield fossil fuel¹ based and renewable energy production investments in our project finance activities.
- If the host country already implements an emissions trading scheme (both voluntary and regulatory) or a carbon tax, then we use the actual price for carbon. If not, we use a fixed price per tonne of CO₂e emitted. The price is determined taking into consideration the market dynamics and is reviewed by the Sustainability Team on a regular basis and updated when necessary.
- As a pioneer in financing renewable energy projects and being by far the largest lender for wind projects in Turkey, setting a carbon pricing scheme will allow us to further prioritize renewable investments. As a result, we expect that a minimum of 60% of the total funds allocated to greenfield energy production facilities will be directed to renewable investments. With the current 50% renewable investments ratio, this means an increase of at least 10% compared to BaU as of December, 2014.
- For the rest, we will implement our Environmental and Social Impact Assessment System including the following principles, allowing us to ensure highest environmental standards in thermal power plants;
 - implementation of BAT where applicable, to ensure minimum GHG emissions;
 - setting emission limits for sulphur dioxide, nitrogen oxides, and dust based on EU standards;
 - requiring the annual reporting of GHG emissions publicly based on the host-country’s regulational GHG reporting guidelines.
- We support the UN Global Compact’s Business Leadership Criteria on Carbon Pricing, which comprise three distinct but overlapping dimensions: integrating carbon pricing into long-term strategies and investment decisions, responsible policy advocacy, and communication on progress. All three dimensions of the criteria are aligned with limiting the increase in global mean temperature to 2° C above preindustrial levels.

II. Reduction of Deforestation

Forests are vital for life, home to millions of species, they protect soil from erosion, produce oxygen, store carbon dioxide, and help control climate.

¹ For a 20-year time horizon, Well to Tank (WTT) carbon footprint of shale gas and natural gas should also be taken into consideration, especially in a scenario where pre-production emissions are not captured and flared. As a result, we apply a carbon price to those power plants, besides coal fired power plants and we take into consideration the upstream emissions in all our calculations.

Therefore, we are taking the following measures to help control deforestation.

- As per our Environmental and Social Loan Policies, we are not involved in the financing of forestry activities which cannot be sustainably managed without implementing any monetary limit.
- Furthermore, when financing greenfield investments above a certain monetary threshold and a risk rating which are set and reviewed by our Sustainability Committee, we conduct a detailed due diligence about the impacts of the projects on deforestation and ask for measures to minimize the impacts if there are any, where applicable and necessary.
- Additionally, for projects that are subject to our Environmental and Social Impact Assessment Model;
 - We make sure that the borrowers make every effort to mitigate deforestation effects. In projects where these effects cannot be avoided, we ask the borrowers to plant 4 to 5² trees per each tree to be cut.
 - If the Project is a greenfield fossil fuel based power plant, we require the borrowers to plant one tree per 10 MWh annual gross energy production for at least 10 years after commissioning³.

III. Green Office Standards

In addition to our leading position in sustainable energy financing, we are committed to take action to further enhance our contribution to environmental sustainability by making progress on the following areas:

- 100% of our employees in Turkey are working at ISO14001 certified buildings. Thus each office sets its own GHG emission target.
- Garanti has been the first bank in Turkey to receive a Green Office Diploma from WWF Turkey and is committed to increase the number of offices having the Diploma moving forward.
- Garanti is building its Pendik Technology Campus under LEED Gold criteria. According to the US Green Building Council, LEED buildings typically save 18-39% of total energy use than comparable buildings. Garanti is also working on a project in order to certify its Zincirlikuyu Head Office according to LEED criteria for existing buildings.
- Garanti sets GHG emissions reduction targets and submits its annual progress report to CDP each year. By the end of 2015, our target is to reduce our Scope 1 and Scope 2 emissions by %5 per total assets under management compared to 2014 emissions.
- Garanti is also targeting to increase the number of supplier contracts which include specific provisions regarding compliance with Garanti Bank's Environmental Management System.
- Garanti has been implementing an internal communications strategy and training program for sustainability since 2012, and enables all employees to submit recommendations about increasing the environmental performance of the Bank's operations. These programs allow us to embed sustainable practices such as energy savings in our employees' daily life.

IV. Adaptation to Climate Change: Mitigation of Water risks

Impact on water cycle will be one of the major consequences of climate change in Turkey.

For example, individual regions (e.g., those prone to flooding or that experience climate change-led severe weather) and entire sectors of the economy (those unable to transition to a low carbon business model or dependent on stable weather patterns, such as agriculture) could suffer significant loss of income.

In order to manage our indirect water footprint, we ensure, request and monitor that appropriate measures are taken to minimize environmental impacts and to reduce the consumption of water and other resources, ensure recycling is undertaken and that negative impacts on water quality are minimized.

The following criteria are being considered in financing greenfield investments:

- Choice of location and project area: Location of the project with respect to protected areas under international or national regulations, important water sources, shores and ground water operations are assessed. Projects located in RAMSAR areas are not financed by Garanti Bank. Furthermore, if the project location is found to be in close proximity to residential areas, sensitive wetlands, protected areas and the like, re-locating the project may be requested.

² The exact number is determined depending on the environmental and social risk level of the Project.

³ The number of trees to be planted for a coal fired production facility with a total installed capacity of 1,230 MW is 9.5 million.

- Current properties of water: Prior to commencement of construction works, studies to measure and assess the quality and properties of water in the project location are requested. Based on the finding of these studies, preventive and/or minimization measures regarding project impact are implemented.
- Impact on ground water: Negative impacts of projects on ground water during the construction and operation phases are assessed. In case of any negative impact, use of alternative water sources would be considered.
- Impact on surface water: During the construction and operation phases of hydroelectric power plant projects, adverse changes to flow rate, drainage and flow are assessed. Preventive measures are requested for occurrences such as flow direction and flow rate changes, excavation in the water source, dredging and sediment accumulation due to possible adverse downstream effects.
- Water quality: Effluent water should be treated in treatment facilities. Furthermore, treatment systems should comply with discharge limits.
- Sector-based criteria: Each sector can have different effects on water sources in terms of consumption and quality. Accordingly, Garanti Bank has developed specific provisions in its Sectoral Principles and monitors and manages project impacts based on these principles.

In addition, Garanti Bank is supporting CDP Water. The Program was launched in Turkey with Garanti as the main sponsor in 2015. Through extending its support for CDP Water, Garanti Bank aims to help increase building the capacity of private sector in Turkey, especially large corporates, about the business risks associated to water.

Responsibility for this Declaration:

The Sustainability Committee is responsible for approving and putting into effect this declaration, its amendment and improvement.