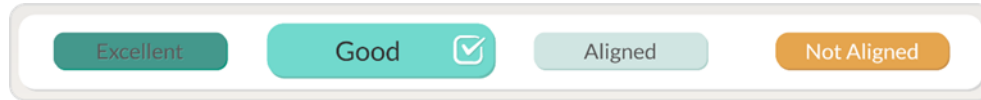




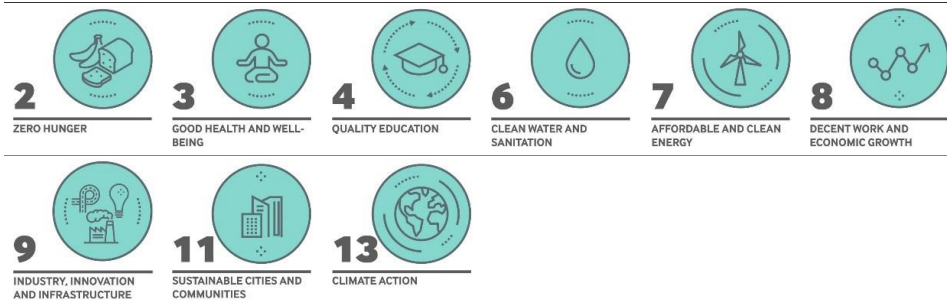
Ziraat Katilim Bankasi A.S.

Second-Party Opinion – Sustainable Sukuk Framework



Pillar	Opinion	Key Drivers of Opinion
Use of Proceeds	Good	<ul style="list-style-type: none"> The use of proceeds (UoP) criteria describe projects with clear environmental and social benefits. Some of the sub-categories detailed under the green projects are aligned with specific thresholds under science-based taxonomies, such as the refurbishment of green buildings which demonstrates a clear contribution to climate change mitigation. Some social categories specifically focus on target populations, which helps increase the impact.
Use of Proceeds – Other Information	Good	<ul style="list-style-type: none"> Ziraat Katilim Bankasi A.S. (Ziraat Katilim or the bank) has established a clear exclusion list, avoiding the financing of controversial sectors that would have an adverse environmental and/or social impact. The bank clarifies that the uses of proceeds will finance existing and new eligible assets. Committing to funding new projects would increase the level of additionality that the bond brings.
Evaluation and Selection	Excellent	<ul style="list-style-type: none"> Sustainable Fitch considers the bank’s governance model and processes established for the evaluation and selection of green and social eligible assets to be well explained and meet the current best practice and international recommendations by the ICMA.
Management of Proceeds	Good	<ul style="list-style-type: none"> The bank will manage unallocated proceeds based on the virtual segregation method. The current framework provides the power of removal of assets that no longer meet the green or social eligibility criteria, and the substitution with new eligible projects is in line with current best practice.
Reporting and Transparency	Excellent	<ul style="list-style-type: none"> The issuer’s allocation and impact reporting will be provided at the UoP category level, on an annual basis until full allocation, which is in line with market practice. There are measurable indicators in the impact report, in line with best practice outlined in the ICMA Harmonised Framework for Impact Reporting.

Relevant UN Sustainable Development Goals



Framework Type	Sustainability
Alignment	<ul style="list-style-type: none"> ✓ Green Bond Principles 2021 (ICMA) ✓ Social Bond Principles 2023 (ICMA) ✓ Sustainability Bond Guidelines 2021 (ICMA) ✓ Green Loan Principles 2023 (LMA/LSTA/APLMA) ✓ Social Loan Principles 2023 (LMA/LSTA/APLMA)
Date assigned	21 March 2024
See Appendix B for definitions.	

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Use of Proceeds Summary

Green	<ul style="list-style-type: none"> Renewable energy Green buildings Energy efficiency Clean transportation Sustainable water and wastewater management
Social	<ul style="list-style-type: none"> Employment generation, and programmes designed to prevent and/or alleviate unemployment including SME financing and microfinance Access to essential services Socioeconomic advancement and empowerment Affordable housing Food security

Source: Ziraat Katilim sustainable sukuk framework 2024

Framework Highlights

Sustainable Fitch considers the sustainable sukuk framework of Ziraat Katilim to be aligned with the ICMA Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2023 and Sustainability Bond Guidelines (SBG) 2021, as well as the Loan Market Association (LMA), Loan Syndications and Trading Association (LSTA) and Asia Pacific Loan Market Association (APLMA) Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023. The sustainable sukuk framework clearly details the processes for evaluation and selection, and management of proceeds, and it provides satisfactory reporting commitments.

Ziraat Katilim has established its first sustainable sukuk framework, which aims to attract various types of funding for loans. The eligible projects that can be financed by the issuance of sustainable bonds and/or sukuk that are environmental and social.

The projects that can be financed under this framework include eligible categories that will have a positive environmental impact (eg renewable energy, green buildings, energy efficiency). Projects to be financed will also strengthen Türkiye's decarbonisation efforts, through investment in vehicles with low or zero tailpipe emissions and essential infrastructure to support low-carbon transportation and housing.

We also consider that the allocation of proceeds to social categories, such as access to essential services, unemployment alleviation and food security, will support the national measures to combat key social issues such as high unemployment for women and low female labour participation, consequences of recent natural disasters and pandemics, as well as the development of essential infrastructure for the well-being of the broader population. These categories will contribute to the universal UN Sustainable Development Goals (SDGs).

We consider the framework to be detailed and provide transparency based on the four key components recommended by the aforementioned principles and guidelines: use of proceeds, project evaluation and selection process, management of proceeds and reporting.

The ICMA GBP, SBP and SBG, and the LMA, LSTA and APLMA GLP and SLP recommend that eligible projects are clearly described in the legal documentation for transactions. We have only reviewed the sustainable sukuk framework for this Second-Party Opinion and have not reviewed any transaction legal documents or marketing materials; however, the framework provides the description of the projects.

Source: Sustainable Fitch, Ziraat Katilim sustainable sukuk framework 2023

Entity Highlights

Ziraat Katilim is a public participation bank founded in 2014 in Türkiye, with total assets of almost TRY348 billion as at 3Q23. It focuses on retail, commercial and private banking. The bank is part of Ziraat Finance Group and its main shareholder is T.C. Ziraat Bankasi A.S. (Ziraat Bank), one of the largest banks in the country, with almost a 100% share. The bank's capital was increased significantly to TRY7,350 billion in 3Q23 compared to TRY2,650 billion at end-2022.

Ziraat Katilim is headquartered in Istanbul, and it had 2,397 employees as at 3Q23, across 179 branches, including two overseas branches.

The bank's retail activities include current, participation and gold accounts; cards; and insurance and pension services and products. Its commercial activities comprise financial leasing, non-cash and cash financing, and foreign trading, while its private banking consists of consultancy services, cards and accounts, as well as of other services and products.

The highest concentration of the bank's financing is on TRY-denominated consumer loans, mainly housing and vehicle loans; and the highest exposure on commercial loans is also on vehicle loans. Overall, domestic loans equalled TRY185 million as at 3Q23.

Within its offering, the bank provides products and services with environmental and social impact across the banking service cycle, such as profit and loss partnerships, investment loans, project finance, and financing packages for SMEs and entrepreneurs.

Ziraat Katilim's sustainability strategy is underpinned by its vision to achieve the national goals under Türkiye's net-zero targets for 2053 and Green Deal Action Plan, which further seeks to put the country in line with the EU's Green Deal. In that context, the bank underlines its commitment to managing and reducing its carbon footprint and strengthening energy efficiency in its buildings, as well as limiting its impact on, and the consumption of, natural resources such as water, though there is limited information on its pathway and timeline to reach its commitments.

The sustainability strategy and related practices are coordinated by the bank's sustainability committee, which is responsible for revising and approving the policy at least once a year. This committee is supported by working groups, which are established to monitor the bank's performance, and by the strategy planning department, which monitors the implementation of sustainability activities.

The bank has introduced a policy for the management of environmental and social impact on financing activities, which includes a detailed list of prohibited activities that are not allowed to be financed. It has also introduced environmental and social criteria in its supply chain (business relationships and selection process).

Source: Sustainable Fitch, Ziraat Katilim sustainability policy 2023, environment and climate change policy 2023, policy for the management of environmental and social impacts on financing activities 2023, consolidated financial statements as of 30 September 2023

Use of Proceeds – Eligible Projects

Opinion: Good

Company Material

Sustainable Fitch’s View

Renewable energy

- This UoP covers the financing or refinancing of the construction, operation, maintenance and development of equipment for renewable energy generation assets and related infrastructure.
- Financed assets include onshore and offshore wind power plants and solar power plants. Hydro and geothermal plants may also be financed upon meeting the criteria for life-cycle assessment of emissions of less than 100gCO₂/kWh.
- The UoP also covers the financing of projects resulting in the production of hydrogen by electrolysis (powered by renewable energy) where the life-cycle GHG emissions of financed projects shall be lower than 3tCO₂e/tH₂ as well as electric heat pumps dedicated to renewable electricity.

- We consider this UoP to be aligned with the ICMA GBP as well as the LMA, APLMA and LSTA GLP.
- The UoP for the financing of renewable projects, including the production, maintenance and development of essential equipment for such projects, supports SDG 7 (affordable and clean energy). In previous years, renewable energy sources constituted a significant and growing portion of Türkiye's electricity generation, with hydropower being the largest contributor, followed by wind, solar and geothermal energy.
- We consider the financing of renewable energy projects, such as those detailed in the eligibility criteria, to have a positive environmental impact and contribute to climate change mitigation.
- In addition, these activities are covered by major taxonomies such as the EU taxonomy, and the bank has aligned most of its criteria with the taxonomy's technical screening criteria (TSC) for substantial contribution. For geothermal and hydropower, the thresholds have been met; however, verification by an independent party is required to be fully aligned.
- We positively view that for the production of green hydrogen, the bank has aligned its eligibility criteria to the EU taxonomy's TSC for substantial contribution to climate change mitigation.
- However, the issuer does not provide adequate information regarding meeting the thresholds for aligning to the EU taxonomy's TSC for substantial contribution to climate change mitigation for the financing of electric heat pumps (eg meeting refrigerant thresholds or energy-efficiency requirements).



Green buildings

- This UoP covers the financing and/or refinancing of new, existing or refurbished commercial and residential green buildings. Eligible assets shall have energy performance rated B or above, as determined by the Energy Performance Certificate (BEP-TR), which is issued based on the national regulation or the national building code.
- Eligible assets to be financed also include buildings that have acquired, or are expected to acquire, any of the following certifications: LEED (Gold and above); BREEAM (Very Good and above); DNGB (minimum Gold); YES-TR (minimum Very Good); and ÇEDBiK Green Building Certification (B.E.S.T Building Certificate minimum Very Good).
- In regard to renovation or upgrade of existing buildings, eligible assets may be financed when the financing will result in at least 30% improvement in energy efficiency.

- We consider this UoP to be aligned with the ICMA GBP, and the LMA, APLMA and LSTA GLP. Commercial and residential buildings are key contributors to the GHG emissions on a global scale according to the UN Environment Programme Finance Initiative, as the sector was responsible for 40% of total emissions at end-2022.
- We expect the investment in green buildings to positively contribute to climate change mitigation through increased energy and resource efficiency, supporting SDGs 7, 11 (sustainable cities and communities) and 13 (climate action).
- The current criteria set by the sustainable sukuk framework underline the need for buildings to meet the eligibility criteria, such as LEED and BREEAM certifications. We consider this as positive in our assessment, as such certifications require buildings to fulfil environmental criteria in areas such as energy performance, water use and waste reduction.
- The bank's criteria for renovations are aligned to the substantial contribution criteria in major taxonomies such as the EU taxonomy; however, there is insufficient information to determine whether the certifications listed would meet other criteria such as being in the top 15% of buildings in terms of primary energy demand in Türkiye.



Energy efficiency

- This UoP covers the financing or refinancing of the establishment, acquisition and upgrade of existing transmission lines, distribution and energy storage facilities, smart technologies and/or the installation of associated infrastructure, projects and investments improving energy efficiency.
- Eligible assets to be financed include projects related to the refurbishment, rehabilitation and renovation investments in non-fossil fuel technologies that increase energy efficiency by at least 20% and/or reduce GHG emissions by at least 20%.

- We view this UoP to be aligned to the ICMA GBP as well as the LMA, APLMA and LSTA GLP.
- We positively assess that it will support the efforts for the reduction of energy consumption, contributing to SDG 7 and the national objectives for more energy-efficient equipment in buildings. Enhanced energy efficiency plays an important role in bolstering a nation's energy supply security by diminishing its reliance on fuel imports from foreign nations.
- We view upgrading transmission lines, energy storage, infrastructure and smart technology-related activities, as positive, as they aim to increase renewable energy usage and





- Additional eligible assets for financing under this category, comprise energy-efficiency improvements and network renewals, including investments and/or expenditures to increase the flexibility and technical availability of the network, and investments to reduce and/or mitigate energy losses.
- This UoP may also finance smart metering systems and other intelligent electricity systems that increase the share of intermittent renewable energy in total energy consumption.

energy efficiency. However, there is limited information related to the applicable performance requirements regarding the deployment of the technologies that will be deployed as part of this UoP (products, equipment and systems).

- For example, to be fully aligned to international taxonomies, such as the EU taxonomy, the products and systems need to comply with the EU Directives, and it is not possible to determine whether Ziraat Katilim applies these requirements.
- Overall, we consider the financing of such transmission and distribution networks to be essential for the effective transmission and management of electrical power, integrating renewable energy sources, to the end users with high reliability and safety. The stability of these networks is also key for avoiding power shortages and enabling the expansion of renewable energy usage.

Clean transportation

- This UoP covers the financing or refinancing of the production, establishment, acquisition, expansion, upgrades, maintenance and operation of low-carbon vehicles and related private or public infrastructure.
- Eligible assets include fully electric vehicles, hybrid vehicles emitting less than 50gCO₂e/p-km, high-efficiency public transport vehicles using alternative fuels (25gCO₂e/t-km for freight vehicles).
- Investments related to the development of public transport infrastructure and services including electrified railways and railway extensions, as well as infrastructure for electric vehicles (eg charging stations) and bike lanes may also be financed.

- This UoP is aligned with the clean transportation category of the ICMA GBP, and the LMA, APLMA and LSTA GLP.
- In particular, proceeds allocated to both low-carbon transportation and electric vehicle-related infrastructure support SDG 11. The result of such financing is expected to further contribute to the decarbonisation of the transport sector and provide public access to sustainable transport systems, as well as improve air quality in the areas where investments will take place.
- We positively assess the financing of urban, suburban and road passenger transport devices, where the direct (tailpipe) CO₂ emissions of the vehicles are zero, as well as of infrastructure dedicated to the use of bicycles or operation of vehicles with zero tailpipe CO₂ emissions such as electric charging points, which meet the EU taxonomy's TSC and underline the country's effort in aligning its decarbonisation plans to the wider EU efforts for low-carbon transportation on a broader, regional scale.
- This UoP also includes provisions for the financing of public transport infrastructure and services including electrified railways and railway extensions, which we score positively. For the financing of freight vehicles, the framework excludes the financing of the distribution and transport of fossil fuels, which we consider positive.



Sustainable water and wastewater management

- This UoP covers loans aimed at financing or refinancing of the development, construction, operation and maintenance of sustainable water and wastewater management projects and facilities.
- Eligible assets include water treatment facilities, activities and technologies that increase water quality, sanitation facilities, as well as upgrades to wastewater treatment plants to remove nutrients, and wastewater discharge infrastructure.
- This UoP may also finance technologies that increase water-use efficiency, water recycling and reuse, water saving systems and technologies, and water metering.

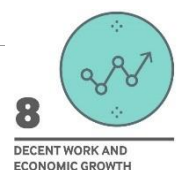
- We expect this UoP to be aligned with the sustainable water and wastewater management category of the ICMA GBP, and the LMA, APLMA and LSTA GLP.
- Improper treatment of wastewater and effluents from production processes can pollute nearby water sources, posing a risk to wildlife and local communities who rely on them. Therefore, water treatment plants have a positive impact on the environment. However, they have a high energy consumption; therefore, certain energy-efficiency requirements need to be met to positively affect the environment.
- Our assessment takes into consideration the limited availability of screening criteria in regard to the selection and evaluation process of eligible assets.
- The current UoP positively supports SDG 6 (clean water and sanitation), as it aims to ensure availability and sustainable management of water.



Employment generation and programmes designed to prevent and/or alleviate unemployment including SME financing and microfinance

- This social UoP aims to finance the generation of additional employment, to decrease unemployment in disadvantaged groups, and to support women empowerment and female-owned businesses, and young entrepreneurs, while also promoting social development in SMEs.

- The allocation of proceeds under this category is aligned to the ICMA SBP, and the LMA, APLMA and LSTA SLP, while the specific funding of SMEs and microfinance needs, positively supports SDG 8 (decent work and economic growth). This financing promotes job creation, entrepreneurship and the formalisation and expansion of SMEs, which stimulates local economic development.





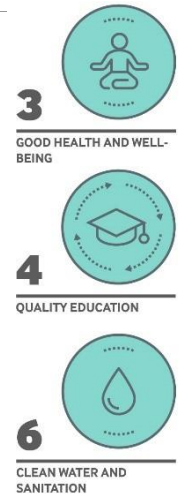
- The target population identified by the bank includes, among others, SMEs and micro-enterprises operating in provinces where the unemployment rate is higher than the Turkish average, and SMEs operating in developing and under-developed regions of the country or facing the effects of natural disasters, health pandemics and other such crises.
- Other eligible businesses that can be financed shall include businesses where 51% of the management and/or shares are owned by women and/or young people, enterprises operating in earthquake- and flood-affected areas and companies with practices that facilitate the working life of female employees.
- Proceeds may also be allocated for financing of businesses where legal immigrants account for at least 20% and no more than 50% of the total workforce.

- According to the IMF latest data (3Q23), the unemployment rate in Türkiye for 2024 is expected to reach 10.5%, while the World Bank data indicate that the labour force participation rate among women was 34.2% at end-2022.
- We positively assess the bank’s commitment to providing financing to specific target populations such as women, those affected by natural disasters (eg a 7.8-magnitude earthquake in February 2023 led to the evacuation of many homes, while also affecting the operations of SMEs and other businesses) and under-developed regions based on the ranking research carried out by the national ministry of industry and technology.
- We positively assess the financing of businesses that employ legal immigrants, as we recognise that the country is home to immigrants that have fled their home countries, especially from the neighbouring region. According to the UN High Commissioner for Refugees (UNHCR), more than 3.5 million UNHCR-registered Syrian refugees currently live in Türkiye, making up the largest registered refugee population in the world.

Access to essential services

- This UoP is envisaged to support increased access to essential services such as health, education and water treatment for vulnerable or disadvantaged populations.
- Eligible projects to be financed with the proceeds include public sector institutions and organisations investing in health services, research centres, care centres for the elderly and nurseries. Targeted training and education are also covered under this UoP.
- Proceeds may also be allocated to upgrading of infrastructure that will facilitate the disposal of polluted water and access to clean water.

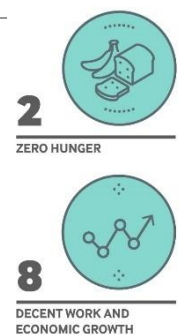
- This UoP is aligned to the ICMA SBP, and the LMA, APLMA and LSTA SLP.
- We view that the proceeds will support SDGs 3 (good health and well-being) through the contribution to increased access to healthcare, 4 (quality education) and 6 by promoting education and water-treatment-related facilities.
- We consider as positive the financing of medical care centres for the elderly people, which are considered a vulnerable population under the ICMA principles. For other financing, there does not appear to be a specific definition or methodology to determine vulnerable or disadvantaged groups, which would increase the impact of the category by ensuring it is targeting those most in need.



Socioeconomic advancement and empowerment

- This UoP includes aims to provide financing of general agricultural and livestock activities, support for farmers, strengthening of sustainable agricultural activities and financing to support agricultural development.
- Eligible loans will only be provided to farmers that provide evidence of holding a ÇKS (Farmer Registration System) certificate, a HAYBİS (Animal Information System) certificate or official registration documents (licence or identity card) for equipment and investments financed for agriculture and animal husbandry.

- This UoP is aligned to the ICMA SBP, as it addresses socioeconomic issues identified in the agriculture and farming sector by promoting the advancement and empowerment of small-scale farmers, strengthening resilience in the rural communities and safeguarding employment and income generation.
- We view this UoP as contributing to SDGs 2 (zero hunger) and 8, supporting the economic development and employment growth in the farming and agricultural sector, as well as contributing to an adequate food supply chain.





Affordable housing

- | | |
|--|---|
| <ul style="list-style-type: none"> This UoP will finance the support of low-income citizens who have not owned a house in the last 10 years, in order to support them in the acquisition of a new home. | <ul style="list-style-type: none"> This UoP is aligned with the categories under the ICMA and the LMA, APLMA and LSTA principles. Providing affordable housing enables people to be able to spend money on other essential needs, in turn promoting a better quality of life for the target population. The current framework relies on the local standards to determine a low-income population, which is positive, though it provides limited disclosure on the income thresholds for the target population; targeting only those in the lowest income bracket would increase the social impact. We view that this UoP contributes to SDG 11. |
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Food security

- | | |
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| <ul style="list-style-type: none"> This UoP covers investments to increase food life and enhance food security practices for small facilities sourcing from local producers. Eligible assets include facilities that source the main ingredients of the food to be processed from local producers or facilities that extend the life of the food as a result of the processes and/or storage facilities applied. | <ul style="list-style-type: none"> This UoP is considered aligned to the ICMA principles, as it aims to strengthen the sustainable development of food sources, while also facilitating access to adequate nutrition which is vital for good health, growth and development. The financing of such facilities will allow for increased access to food due to the extension of the life of food products, create new market opportunities and economic growth as well as address food shortages. Additionally, local producers who provide the main ingredients to facilities will also be indirectly supported, which constitutes a positive element for economic growth. We view that this UoP contributes to SDG 2. |
|--|---|



Source: Ziraat Katilim sustainable sukuk framework 2023

Source: Sustainable Fitch

Use of Proceeds – Other Information

Company Material

- The issuer is committed to allocate all net proceeds to finance or refinance, or both, eligible green and social projects.
- Ziraat Katilim intends to allocate the net proceeds generated from the issuance of sustainable finance instruments, as stipulated in the framework, towards the support of both capital and operational expenses.
- There is a lookback period of 36 months applicable to the refinancing of eligible green and social assets.
- The eligible green and social projects exclude any activity that is included in the bank's list of non-financed activities. Excluded activities include child labour, forced labour and human rights violations, production of weapons of mass destruction and landmines, fishing activities conducted with drift nets, explosives and hazardous chemicals, activities that may adversely affect cultural assets included in the UNESCO World Heritage List, gambling, and manufacturing and trading of tobacco products.

Source: Ziraat Katilim sustainable sukuk framework 2023

Opinion: Good

Sustainable Fitch's View

- We positively view the issuer's commitment to finance and/or refinance projects in line with the ICMA GBP, SBP and SBG, as well as LMA, LSTA and APLMA GLP and SLP. The lookback period of 36 months is aligned with the current market practice.
- The bank's framework provides adequate transparency regarding the activities that shall not be financed with the proceeds of the sustainable instruments. Activities prohibited for financing include both environmentally and socially controversial activities such as hazardous materials, gambling and forced labour. The list of activities is in line with the best industry practice for ensuring that proceeds from this issuance will not harm the broader environment or the society.
- The framework does not clarify the proposed ratio of financing versus refinancing for eligible green and social projects, which is recommended, though not required, for alignment to the ICMA and the LMA, LSTA and APLMA principles. However, it is recognised that this information may become available on the allocation report once an issuance has been made.

Source: Sustainable Fitch

Evaluation and Selection

Company Material

- Ziraat Katilim has deployed a governance framework to screen and select the eligible projects to be financed.
- The bank has established a sustainable sukuk working group (the working group) that comprises members of the treasury management, project financing, strategy planning, financial products management and international banking divisions.
- The working group shall convene at least four times a year to approve the eligible projects proposed by the business teams, ensure that all assets have been assessed against the framework's eligibility criteria, monitor the asset pool with power to replace if eligible projects cease to comply, while adhering to the reporting commitments of the bank and managing

Opinion: Excellent

Sustainable Fitch's View

- Ziraat Katilim's framework provides a clear governance model and process to describe the evaluation and selection of eligible green and social assets to be financed, which we consider to meet the current market practice as demonstrated by alignment to the ICMA and the LMA, LSTA and APLMA principles.
- The bank's sustainable sukuk working group consists of members from different business units across the bank. This diversity in experience and qualifications helps ensure that different perspectives and expertise are involved in the process of project evaluation and selection.
- There is a multi-layered structure regarding the evaluation and selection process, which implements appropriate checks and balances to ensure projects align with the criteria within the framework.

Evaluation and Selection

Company Material

- future updates. The working group shall perform its duties under the supervision of the bank's sustainability committee.
- The bank is committed to ensure that financed projects in the social or environmental field will not cause significant harm to other areas.
 - The bank underlines that if proceeds allocated to a project exceed USD20 million, a comprehensive assessment of environmental and social risks related to that transaction and financed asset will be carried out as part of its environmental and social risk management (ESRM) framework.

Source: Ziraat Katilim sustainable sukuk framework 2023

Opinion: Excellent

Sustainable Fitch's View

- The ESRM framework deployed by the bank to monitor environmental and social risks from its financing provides a layer of monitoring for potential adverse impacts from the uses of proceeds.

Source: Sustainable Fitch

Management of Proceeds

Company Material

- The bank will establish a sustainable financing register to manage its sustainable finance issuances and relevant proceeds from the issuances.
- Proceeds under each instrument will be earmarked against the pool of eligible projects and expenditures identified in the sustainable financing register.
- On an annual basis, the net proceeds will be reduced by the amounts invested in eligible green or social projects. Allocation will be monitored and accounted for by a dedicated tracking process in the bank's internal information system and database.
- Ziraat Katilim has underlined its commitment to reach full allocation within 36 months from the date of the issuance. In the event that funds cannot be immediately fully allocated or in the event of any early repayment, proceeds will be held in line with the bank's general liquidity guidelines.

Source: Ziraat Katilim sustainable sukuk framework 2023

Opinion: Good

Sustainable Fitch's View

- We consider the bank's expected method of earmarking proceeds within a sustainable financing register to meet the requirements under the ICMA GBP, SBP and SBG, and the LMA, LSTA and APLMA GLP and SLP. However, a separate bank account dedicated to depositing proceeds from sustainable finance instruments would prevent co-mingling of the proceeds with funds allocated to ineligible projects.
- We positively assess the commitment to reach full allocation of all proceeds within 36 months of the issuance, as we consider it to be in line with the ICMA recommendation.
- The ICMA and LSTA require disclosure of the intended types of temporary placement for unallocated proceeds. The bank discloses that proceeds will be held in line with the bank's general liquidity guidelines, which is in line with general market practices. Investing in instruments with similar green or social objectives to the framework would increase the impact of the issuance.

Source: Sustainable Fitch

Reporting and Transparency

Company Material

- Ziraat Katilim is committed to publish an allocation and impact report on an annual basis, until full allocation of the net proceeds of the sustainable sukuku governed by this framework, or until the instruments under this framework are no longer outstanding.
- The allocation and impact reporting of the bank will be disclosed on the bank's website and contains information, mostly on a portfolio basis.
- Allocation disclosure will provide information on the total amount of proceeds allocated to each eligible sustainable project category, list of eligible projects, as well as their locations and specific amounts when possible. The allocation report will also include any unallocated amounts and the share of new financing versus refinancing.
- To demonstrate the social and environmental impact of the financed projects, the bank provides impact reporting metrics for each UoP category. For example, impact reporting on projects related to renewable energy may include the expected annual renewable energy generation (MWh) or the estimated annual GHG emissions avoided or reduced (tCO₂e).
- The bank underlines that it will seek verification regarding the allocation of proceeds or impact by an external auditor or other qualified party, which may be conducted on an annual basis or until full allocation and made public on its website.

Source: Ziraat Katilim sustainable sukuk framework 2023

Opinion: Excellent

Sustainable Fitch's View

- We positively assess the clear commitment of the issuer to provide an allocation and impact report on an annual basis until full allocation of the proceeds of a sustainable sukuk, using an aggregate (portfolio) approach. This is in line with the ICMA GBP and SBP reporting requirements; however, providing allocation and impact information on a bond-by-bond basis would enable investors to directly identify the impact arising from their investments.
- The bank provides numerous impact indicators on which it will report. These include qualitative and quantitative metrics, which clearly demonstrate the social or environmental impact of the projects.
- The bank has underlined that proceeds may be used to finance both capital and operational expenses; however, there is no clear commitment to report on the share of financing allocated to these categories. This is not a requirement of the ICMA or the LMA, LSTA or APLMA; however, transparency on this information could be useful for investors when assessing the projects' impact.
- Ziraat Katilim will seek an external verification of its allocation and/or impact report, which we positively view, as it aligns this section of the framework to the supplementary recommendations of the ICMA.

Source: Sustainable Fitch



Relevant UN Sustainable Development Goals

2.1: By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.

2.3: By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.



3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all



4.2: By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education



6.3: By 2030, improve water quality by reducing pollution, eliminating dumping and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

6.4: By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

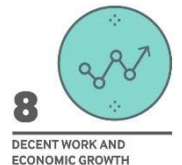


7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

7.3: By 2030, double the global rate of improvement in energy efficiency.



8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.



9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.



11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

11.2: By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.

11.3: By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries





Relevant UN Sustainable Development Goals

13.2: Integrate climate change measures into national policies, strategies and planning





Appendix A: Principles and Guidelines

Type of Instrument: Sustainability

Four Pillars	
1) Use of Proceeds (UoP)	Yes
2) Project Evaluation & Selection	Yes
3) Management of Proceeds	Yes
4) Reporting	Yes

Independent External Review Provider

Second-party opinion	Yes
Verification	Yes
Certification	No
Scoring/Rating	No
Other	n.a.

1) Use of Proceeds (UoP) – based on expected or actual instrument allocation

UoP as per Green Bond Principles (GBP)

Renewable energy	Yes
Energy efficiency	Yes
Pollution prevention and control	No
Environmentally sustainable management of living natural resources and land use	No
Terrestrial and aquatic biodiversity conservation	No
Clean transportation	Yes
Sustainable water and wastewater management	Yes
Climate change adaptation	No
Certified eco-efficient and/or circular economy adapted products, production technologies and processes	No
Green buildings	Yes
Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP	No
Other	n.a.

Use of Proceeds as per Social Bond Principles (SBP)

Affordable basic infrastructure	No
Access to essential services	Yes
Affordable housing	Yes
Employment generation (through SME financing and microfinancing)	Yes
Food security	Yes
Socioeconomic advancement and empowerment	Yes
Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP	No
Other	

Target Populations

Living below the poverty line	No
Excluded and/or marginalised populations and/or communities	No
People with disabilities	No
Migrants and/or displaced persons	Yes
Undereducated	No
Underserved, owing to a lack of quality access to essential goods and services	No
Unemployed and/or workers affected by climate transition	No
Women and/or sexual and gender minorities	Yes
Aging populations and vulnerable youth	No
Other vulnerable groups, including as a result of natural disasters, climate change, and/or climate transition projects that cause or exacerbate socioeconomic inequity	Yes
Other	

2) Project Evaluation & Selection

Evaluation & Selection	Yes
Credentials on the issuer's social and green objectives	Yes
Documented process to determine that projects fit within defined categories	Yes



Defined and transparent criteria for projects eligible for sustainability bond proceeds	Yes
Documented process to identify and manage potential ESG risks associated with the project	Yes
Summary criteria for project evaluation and selection publicly available	Yes
Other	n.a.
Evaluation & Selection/Responsibility & Accountability	
Evaluation/selection criteria subject to external advice or verification	No
In-house assessment	Yes
Other	n.a.
3) Management of Proceeds	
Tracking of Proceeds	
Sustainability bond proceeds segregated or tracked by the issuer in an appropriate manner	Yes
Disclosure of intended types of temporary investment instruments for unallocated proceeds	Yes
Other	n.a.
Additional Disclosure	
Allocations to future investments only	No
Allocations to both existing and future investments	Yes
Allocation to individual disbursements	No
Allocation to a portfolio of disbursements	Yes
Disclosure of portfolio balance of unallocated proceeds	Yes
Other	
4) Reporting	
UoP Reporting	
Project-by-project	No
On a project portfolio basis	Yes
Linkage to individual bond(s)	No
Other	n.a.
UoP Reporting/Information Reported	
Allocated amounts	Yes
Sustainability bond-financed share of total investment	No
Other	n.a.
UoP Reporting/Frequency	
Annual	Yes
Semi-annual	No
Other	n.a.
Impact Reporting	
Project-by-project	No
On a project portfolio basis	Yes
Linkage to individual bond(s)	No
Other	n.a.
Impact Reporting/Information Reported (exp. ex-post)	
GHG emissions/savings	Yes
Energy savings	Yes
Decrease in water use	Yes
Number of beneficiaries	Yes
Target populations	Yes
Other ESG indicators	Number of charging station units installed
Impact Reporting/Frequency	
Annual	Yes
Semi-annual	No
Other	n.a.
Means of Disclosure	
Information published in financial report	No



Information published in ad hoc documents	Yes
Information published in sustainability report	No
Reporting reviewed	Yes
Other	n.a.
Source: Sustainable Fitch, ICMA	

Appendix B: Definitions

Term	Definition
Debt types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability-linked Bond Principles or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.
Standards	
ICMA	International Capital Market Association. In the Second-Party Opinion we refer to alignment with ICMA's Bond Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked bonds.
LMA, LSTA and APLMA	Loan Market Association (LMA), Loan Syndications and Trading Association (LSTA) and Asia Pacific Loan Market Association (APLMA). In the Second-Party Opinion we refer to alignment with Sustainable Finance Loan Principles: a series of principles and guidelines for green, social and sustainability-linked loans.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix C: Second-Party Opinion Methodology

Second-Party Opinion

Second-Party Opinions (SPO) are a way for issuers to obtain an independent external review on their green, social, sustainability and sustainability-linked instruments.

As per the ICMA Guidelines for External Reviewers, an SPO entails an assessment of the alignment of the issuer’s green, social, sustainability or sustainability-linked bond or loan issuance, framework or programme with the relevant principles. For these purposes, “alignment” should refer to all core components of the relevant principles.

Sustainable Fitch analysts vary the analysis based on the type of instruments, to consider whether there are defined uses of proceeds or KPIs and sustainability performance targets. The analysis is done on a standalone basis, separate to the entity.

Analytical Process

The analysis considers all available relevant information (ESG and financial). The reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed. The ESG analysts working on an SPO will also engage directly with the issuer to acquire any additional relevant information not already in the public domain or in instrument-related documentation.

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds. In addition to the alignment with ICMA Principle and Guidelines, the analysis may also refer to major taxonomies (eg the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects).

Once the analyst has completed the analysis, with commentary for the related SPO, it is submitted to the approval committee, which reviews it for accuracy and consistency. Based on issuer preference and mandate, an SPO can be monitored (annually or more frequently, if new information becomes available) or on a point-in-time basis.

Scale and Definitions

ESG Framework	
Excellent	Sustainable finance framework and/or debt instrument structure is fully aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet excellent levels of rigour and transparency in all respects and are well in excess of the standards commonly followed by the market.
Good	Sustainable finance framework and/or debt instrument structure is fully aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet good levels of rigour and transparency; in some instances, they go beyond the standards commonly followed by the market.
Aligned	Sustainable finance framework and/or debt instrument structure is aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet the minimum standards in terms of rigour and transparency commonly followed by the market.
Not Aligned	Sustainable finance framework and/or debt instrument structure is not aligned to relevant core international principles and guidelines. Practices inherent to the structure fall short of common market practice.

Source: Sustainable Fitch



SOLICITATION STATUS

The Second Party Opinion was solicited and assigned or maintained by Sustainable Fitch at the request of the entity.

A Sustainable Fitch ESG Analytical Product (ESG Product) provides an assessment of the Environmental, Social and/or Governance ("E", "S" and "G") qualities of an issuer and/or its securities. ESG Products provided by Sustainable Fitch include an ESG Entity Rating, ESG Framework Rating, ESG Instrument Rating, ESG Scores and ESG Second-Party Opinion, among other ESG analytical products. An ESG Product is not a credit rating. ESG Products are provided by Sustainable Fitch, a Fitch Solutions company, and an affiliate of Fitch Ratings. Sustainable Fitch has established certain policies and procedures intended to avoid creating conflicts of interest and compromising the independence or integrity of Fitch Ratings' credit rating activities and Sustainable Fitch's ESG Product generation activities. For a description of the methodology, limitations and disclaimers relating to Sustainable Fitch's ESG Products, please use this link: www.sustainablefitch.com.

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