Sustainability Guidelines for The Banking Sector

TÜRKİYE BANKALAR BİRLİĞİ

ABOUT THESE SUSTAINABILITY GUIDELINES

This document has been prepared by the Banks Association of Turkey (BAT) Role of The Financial Sector In Sustainable Growth Working Group as a guide and reference setting out good practices in the contributions that the banking and finance sector makes to sustainable development. This document is of an informational nature only.

Intended to be an informational guide and reference concerning sustainability good practices in the banking and finance sector, these guidelines's structure are informed by seven main principles:

Principle 1: Survey and management of environmental and social risks arising from banking activities (Page:7)

Principle 2: Management of the banking industry's internal effects (Page:10)

Principle 3: Human rights and employee rights (Page:11)

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This guideline consists of an executive summary, a detailed discussion, and appendix.

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DEFINITIONS

Project (or investment project): Irrespective of the amount of the investment, any expansion and/or development plan and/or fixed capital investment whose aim is to increase the production of goods and/or services and which is financed with bank-provided credit.

Low risk (Category C): A level of environmental and social risk with no or minimal adverse impact on human beings and the environment and is manageable without additional effort.

Medium risk (Category B): A level of environmental and social risk with a moderately adverse impact on human beings and the environment, whose effects are confined to a specific area and are temporary or short-term and are generally easy to manage without the need for an additional budget expenditure.

High risk (Category A): A level of environmental and social risk with a severe impact on human beings and the environment and whose effects are critical, unique, and difficult to keep under control.

Action plan: A written plan formulated by management in order to define and obviate previously identified problems or risks (as referred to in this guideline: environmental and social risks).

Gap analysis: A technique for identifying (1) the differences between a situation that exists and a situation that is desired and (2) the steps that need to be taken to get from the former to the latter.

Environmental and social management plan: A management plan containing details of all measures planned to prevent, mitigate, and compensate for environmental and social effects.

Cumulative impact: The environmental and social effects that an action (project, project activity) has or will have in conjunction with other past, present, or future activities.

Natural resources: All natural resources (metals, minerals, fuels, timber, fish, water, soil, clean air, biomass, biodiversity, sea, land, etc) that serve as economic inputs.

Ecological footprint: The amount of biologically productive land and sea area necessary to supply all the resources an individual, an organization, a community, or an activity consumes and to deal with associated waste given existing technologies and resource-management methods. The ecological footprint is measured in terms of "global hectares" (gha).

Carbon footprint: A measure of the amount of carbon dioxide released into the atmosphere by an individual, an organization, a community, or an activity as a result of associated transportation, heating, electrical consumption, or product purchases.

EXECUTIVE SUMMARY

"Banking Sector Basic Sustainability Principles" has been prepared to provide banks with guidance on issues they need to be mindful of by taking the environmental and social dimensions of development into account in the conduct of their business activities. The intention is that, with the assistance of these banking sector basic sustainability principles, banks will be able to more systematically manage the environmental and social predictability, transparency, and monitoring of their activities. The basic principles that have been formulated with this approach in mind are summarized below.

Principle 1: Survey and Management of Environmental and Social Risks Arising From Banking Activities

1.a. Environmental and Social Risk Management Related to Lending Activities (Banking Sector-External Impact)[1]

- Determine that the investing firm (investor) is acting in compliance with all national environmental and social laws and regulations.
- Assess environmental and social risks for all investment projects that are to be financed, irr spective of the amount of the investment.
- Define environmental and social (including occupational health & safety issues) impacts that may arise through projects whose financing is being planned, and formulate action plans for systematically managing that impact, and for minimizing the environmental effects.
- Include commitments pertaining to environmental and social issues in lending agreements.

1.b. Taking Sustainability Parameters Into Account In Other Banking Products and Services

Principle 2: Manage the Impact of Banks' Internal Activities

- Identify and monitor ecological footprint-related issues in all associated bank management units (headquarters, regional departments, branches).
- Set up a structure for measuring and reporting internal effects and for improving them.
- Formulate actions to reduce carbon footprints and resource consumption.
- Take the environmental and social issues involved in procurement & supply processes into account.

Principle 3: Human Rights and Employee Rights

- Comply with the principles of the United Nations' "Universal Declaration of Human Rights" and with globally-recognized human and labor rights principles such as those of the International Labour Organization.
- Ensure equality of opportunity in human resources management processes; refrain from discrimination based on gender, sexual preference, religion, language, race, age, etc. and support diversity.
- Make environmental and social due diligence processes integral to dealing with human rights issues.

Principle 4: Stakeholder Engagement and Communication

- Ensure communication with employees and all other stakeholders.
- Be transparent in providing stakeholders with information about issues involving financing and sustainability.
- Encourage participation in and compliance with international sustainability-related standards and initiatives such as United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Global Compact, Carbon Disclosure Project, Global Reporting Initiative (GRI), etc.
- Engage in sustainability reporting.
- Increase awareness of and support for social responsibility issues through social responsibility projects.

Principle 5: Corporate Governance

- Seek to achieve continuous and full compliance with corporate governance principles published by the Capital Markets Board.
- Have corporate governance performance reviewed by outside organizations.
- Integrate sustainability and sustainability-related issues into the corporate governance strategy.

Principle 6: Capacity Improvement

- Identify roles and responsibilities related to the conduct of sustainable banking activities.
- Prepare training packages and conduct training concerned with sustainable banking issues.

Principle 7: Monitoring and Reporting

- Report on sustainability-related activities.
- Identify performance indicators.
- Integrate performance indicators into the bank's performance management and management reporting processes.
- Publicly disclose annual performance results.

Banking Sector Basic Sustainability Principles

Principle 1: Survey and Management of Environmental And Social Risks Arising From Banking Activities

1.a. Environmental and Social Risk Management Related to Lending Activities (Banking Sector-External Impacts)[2]

Failure to properly manage environmental and social effects may give rise to reputational and/or financial risks in the banking sector. For this reason, firstly it is important to give consideration to environmental and social impact issues just as one does to financial, technical, and economic matters in credit assessment processes and secondly to make them subject to executive-level decisions. Environmental and social risk management involves defining the environmental and social risks that arise in the conduct of the banking sector's core business activities, analyzing them during assessment processes, identifying the dimensions of potential effects and risk, determining the obligations and practices needed to minimize risk, and taking these last into account in the decision-making process. Sustainability Guidelines for The Banking Sector (the guidelines) suggests ways in which banks may internalize the environmental and social risk assessment process by incorporating it into their lending policies. Banks may also identify sectors and/or activities that they will not finance in the form of an "Exclusion List" to be appended to their lending policy.

It is recommended that the effects and risks that need to be taken into account when assessing environmental and social impact be addressed in two steps:

1. Consideration should be given to the environmental and social effects and risks arising from the existing activities of the proposed borrower and to all of their potential banking transaction implications.

In order both to ascertain whether or not a firm applying for a bank loan is currently complying with environmental and social laws and regulations and to assess the firm's environmental and social impact, the following issues should be analyzed:

- Has the firm obtained all of the official licenses and approvals (operating licenses, workplace permits, etc) that it ought to have on account of its current activities?
- Is the firm complying with locally applicable environmental and social laws and regulations and also international good practices insofar as applicable?
- Is the firm complying with locally applicable laws and regulations and with international good practices related with occupational health and safety issues?
- What, if any, reactions have the firm's existing activities provoked among local inhabitants or by non-governmental organizations (NGO)?

2. If the loan application is concerned with financing an investment, the environmental and social effects and potential risks that might arise from such an investment project need to be defined and managed[3].

The environmental and social effects and their dimensions should be analyzed in light of the particulars of each project.[4] Irrespective of a project's dimensions or capacity or the cost of the investment involved, its environmental and social impact will vary depending on the project's sector,[5] the nature of its productive output, the technologies it uses, its location, the nature of the local ecosystem, the effect the project has on natural resources, its proximity to residential areas, its proximity to and impact on vulnerable and protected areas, and the investor's existing knowledge and diligence concerning the management of such issues. Thus for each project it may be necessary to undertake a study that is informed by that project's unique dynamics.

Irrespective of the amount of the investment involved, it is recommended that banks have environmental and social impact assessments performed for every project being considered for possible financing. This means that:

a) All documentation and reports that environmental impact assessment regulations[6] require should be obtained.

b) Based on all environment-related documentation, including on-site visits[7] and observations if such should be deemed necessary, the project should be assessed in light of the following criteria:

i) Are the adverse environmental and social effects of the investment project unacceptably too high?
ii) To what degree are the project's environmental and social effects significant and manageable?
iii) What are the dimensions of the adverse effects that the investment project will have on the natural environment and human life outside the area where the investment is to be undertaken?
iv) What are the regional extent and duration of the adverse effects of the investment on people and the environment and are these effects physically and financially manageable?

In a broad sense, environmental and social risk management may be summed up as balancing and managing all of the environmental and social issues to which attention ought to be given. Examples are using resources effectively and preventing pollution;[8] employment and working conditions;[9] public health, safety, and security;[10,11] public engagement and information disclosure;[12] involuntary resettlement;[13,14] protecting biodiversity, natural resources, ecosystems, vulnerable areas,[15] and the cultural heritage.[16]

It is recommended that the potential environmental, occupational health & safety, and social effects of investment projects that are being considered for financing be defined and systematically managed and that action plans[17] be formulated so as to minimize their impact. When formulating such plans, attention should be given to the following matters:

1. Having examined and analyzed the information and documentation set out above and having used their own methods to determine the existing and potential environmental and social effects of an investor's existing activities and projects, banks should categorize all such projects according to their risk levels as follows:[18]

Category C: Low risk. | **Category B:** Medium risk | **Category A:** High risk[19]

For each level of risk, at least the following actions should be taken.

Category C:

- The investment project's potential environmental and social risks and effects are either nonexistent or else so minimal that they are manageable without the need for special measures.
- Lending may take place provided that the firm is in possession of all of the permissions and licenses that environmental laws and regulations[20] require it to have within the framework of its own sector and capacity.
- When firms holding provisional permits or licenses are lent to, their compliance with the terms thereof should be monitored.

Kategori B:

- The investment project's potential environmental and social effects are moderately adverse.
- The firm must be in possession of all of the permissions and licenses that environmental laws and regulations require it to have within the framework of its own sector and capacity.
- If a firm holding provisional permits or licenses is lent to, its compliance with the terms thereof must be monitored.
- An environmental impact assessment study or report (Project Information File (PIF)[21] etc) must exist for the project and it must be analysed in detail.
- Once lending takes place, attention must be given so as to ensure that environmental management and control measures are being taken and complied with.

Category A:

- The investment project's potential environmental and social effects are severe.
- The firm must be in possession of all of the permissions and licenses that environmental laws and regulations require it to have within the framework of its own sector and capacity.

If a firm holding provisional permits or licenses is lent to, its compliance with the terms thereof must be monitored. An environmental impact assessment study or report (EIA report[22] etc) must exist for the project and it must be examined in detail.

- Attention must be given to ensure that environmental management and control measures aplicable both to existing activities and to the investment project are being taken and complied with.
- Gap analysis must be performed if circumstances warrant.
- For investments that are to be financed, an Environmental and Social Management Plan in which environmental and social effects are stated and which says how these effects and potential risks are to be reduced or eliminated must be prepared; an Environmental and Social Monitoring Report must also be issued at regular intervals, but not less than once every six months. In this context, the following studies are also recommended:

i) Current situation analysis
ii) Gap analysis
iii) Comprehensive environmental and social risk assessment
iv) Cumulative impact assessment[23]
v) Ecological impact reports etc.

2. Include environmental and social-issue commitments in lending terms:

It is recommended that banks include the action and monitoring plans that are formulated for the particular environmental and social category identified based on analyses of environmental and social risks as a separate clause in the bank's lending agreement.[24]

3. Consider environmental monitoring and reporting issues within the framework of principles set out for each environmental and social category:

Banks should monitor compliance with the action plans formulated for the particular category of environmental and social risk identified as a result of their environmental and social analyses. Based on the findings of on-site visits carried out if warranted by the dimensions of the environmental and social risks identified in the PIF, EIA Report, and/or Gap Analysis Report, banks may require investors to take additional measures going beyond the issues referred to in those reports.

1.b. Take sustainability parameters into account in other banking products and services

When supplying other banking products and services other than lending, under such rubrics as investment, commercial, or retail banking, they should formulate processes consistent with their own internal policies within the framework of the sustainability principles set forth in these guidelines. If necessary, reference may be had to other criteria[25] such as responsible investment principles, etc if need be.

Principle 2: Manage the Impact of Banks' Internal Activities

This principle is concerned with defining, measuring, reducing, and reporting the effects, which is to say the ecological (water, carbon, etc) footprints,[26] that financial institutions create through the conduct of their own internal activities.

It is expected that the world's population will reach eight billion people by 2050. The global demand for natural resources continues to grow steadily in parallel with both population growth and improvements in living standards. While the world's population has increased fourfold over the last hundred years, total economic output has expanded by 23 times. Based on such trends, it is projected that the consumption of fossil fuels, water, and natural resources will increase by 12, 9, and 8 times, respectively.

Like the increase in global demand, competition for natural resources also exerts pressure on the environment. This is why efficient use of natural resources is a matter of critical concern to sustainable development in the private sector. This situation also entails certain other risks such as a loss of competitive strength in the private sector and heightened precautions to ensure supply security. For such reasons, firms need to lower their costs, prevent the accumulation of waste, and reduce greenhouse gas emissions in order to make more effective use of natural resources.

The environmental impact resulting from banks' internal activities consists of the aggregate effects arising from their back office, travel, and procurement functions and processes. The principal adverse effects of financial institutions' banking activities arise from the consumption of water, energy (electricity, natural gas, fuel oil), and paper; the generation of electronic and other waste; and the greenhouse gas emissions (mainly CO2) that these activities cause.

Insofar as is possible, banks should seek to reduce or eliminate the environmental impact and the carbon footprint arising from their own banking activities. This involves addressing the following issues and developing the in-house procedures and measures needed to deal with them.

- Identify ecological footprint issues in headquarters, regional department, and branch units and determine how they are to be monitored[27]
- Create a structure for measuring and reporting internal impact and for managing/reducing it
- Formulate action plans to reduce carbon footprints and resource consumption
- Set up systems for taking into account, monitoring, and me suring the impact that suppliers and subcontractors have on the bank's ecological footprint by virtue of their own processes.

Principle 3: Human Rights and Employee Rights

BAT members acknowledge that full compliance with the United Nations Universal Declaration of Human Rights, with ILO conventions[28] ratified by Turkey, and with legal frameworks and laws and regulations governing human rights and employee rights in Turkey is a constant objective that underlies all of their activities. Banks address the following human rights and employee rights issues and they develop the in-house procedures and measures needed to deal with them.

- They formulate and implement a Corporate Human Rights and Employee Rights Policy[29] in which they commit themselves to complying fully with the United Nations Universal Declartion of Human Rights, with ILO conventions ratified by Turkey, and with legal frameworks and laws and regulations governing human rights and employee rights in Turkey.
- They clearly define the roles and responsibilities of those at the bank who are involved in the implementation of this policy.
- They ensure that training on such matters is provided at the bank. Such training consists of:

i) General training provided to all bank personnel
ii) Implementation process training provided to bank personnel responsible for implementation.

- They create and manage structures and mechanisms capable of handling employee grievances and disputes.
- They ensure equality of opportunity in human resources management processes; they refrain from discrimination based on gender, sexual preference, religion, language, race, age, etc and support diversity with respect to these..
- They abide by all laws and regulations applicable to occupational health & safety issues and to working hours.
- They make human rights issues integral to their approaches for dealing with environmental and social due diligence processes.
- They require their subcontractors to pledge to abide by the same rules as they do in the conduct of their own operations.

Principle 4: Stakeholder Engagement and Communication

It is essential that sustainability-related activities be conducted by taking into account the needs and priorities of all bank stakeholders including, but not limited to, employees, customers, the community, government agencies and organizations, stakeholders, and NGOs.

In order to identify such needs and priorities, to determine one's own shortcomings and where improvements are needed, and to provide guidance for the conduct of sustainability activities, it is important to engage in transparent, two-way communication with stakeholders but in such a way as not to violate laws pertaining to privacy, confidentiality, etc.

A bank's stakeholders include, but are not limited to, the groups identified below. It is recommended that banks develop stakeholder communication strategies[30] for addressing these groups and that they create and make stakeholders aware of the channels through which they may communicate with the bank.

Stakeholders

- Employees
- Public institutions and enterprises
- Financial institutions
- Media
- Customers
- Trade unions and employee organizations
- Non-governmental organizations
- Society
- International sustainability initiatives
- Suppliers and support service providers
- Universities and academicians
- Investors and shareholders.

It is recommended that stakeholder engagement[31] be dealt with as a component of sustainability practices. That way it will be possible to link stakeholder engagement with strategies and to incorporate it into policy and procedure development where appropriate.

In order to facilitate stakeholder engagement, clear and transparent communication channels should be identified and stakeholders should be made aware of them. Additionally and in order for this process to be more effective, suggestions, observations, complaints, and criticisms[32] received from stakeholders should be duly considered by appropriate bank personnel in the regular conduct of internal processes; stakeholders should also be provided with feedback about the results. Sustainability reports[33] serve as an important platform for informing stakeholders about action that the bank has taken on issues identified as important through stakeholder engagement processes. Detailed information about such reporting is provided in this guideline under "Principle 7".

In order to ensure that stakeholder engagement is conducted effectively, it is important to clearly define which stakeholders are to be communicated with, for what purpose, on what issues, and with what frequency. In order to identify possible stakeholders and decide which ones are a more important audience, attention should be given to a host of criteria such as stakeholders' knowledge, experience, and influence[34] concerning a particular issue, the degree to which stakeholders are affected by the bank's activities, the bank's existing communication practices, and what communication is expected to achieve.

Having identified both a topic for stakeholder engagement and the stakeholders who are the most important for that topic, the most effective communication method/methods should be selected.[35] When carrying out the stakeholder engagement activity thus identified, information should be provided not just about the topic as it affects stakeholders but also about what the bank is doing about the matter, what is the expected outcome of the activity, and so on.

Besides ensuring the continuity and transparency of stakeholder communication, it is also important to monitor the conduct of such communication. Various performance criteria[36] may be identified in order to determine whether or not the stakeholder engagement process is functioning effectively. It is also recommended that attention be given to the following issues in order to determine how stakeholders' perceptions about the bank's sustainability performance are modified by communication:

- Issues which stakeholders are especially focused on and/or are criticized by them,
- Rating/ranking results based on assessments of matters affecting the bank's sustainability performance,
- The use of appropriate language in sustainability-related external communication; any mention of this issue in external communication,
- Inclusion of sustainability issues in internal communication with employees.

It is important to encourage the spread of sustainability-related activities throughout the entire banking sector. There is merit therefore in communicating with international sustainability initiatives and in becoming a member of such initiatives. Some of these initiatives are indicated below.

- United Nations Environment Programme Finance Initiative (UNEP FI)
- United Nations Global Compact
- World Business Council for Sustainable Development
- Equator Principles
- United Nations Principles for Responsible Investment (UN PRI)
- Global Reporting Initiative (GRI)
- International Integrated Reporting Committee (IIRC)
- Carbon Disclosure Project (CDP)
- Corporate Governance Association of Turkey
- Business Council for Sustainable Development Turkey (BCSD Turkey)
- Turkish Foundation for Combating Soil Erosion (TEMA Foundation)
- World Wildlife Fund (WWF-Turkey)
- Other national and international associations, organizations, etc that are dedicated to compliance with information transparency and corporate governance principles.

In parallel with and in addition to such memberships, banks should be mindful of taking part in activities that seek to inform the public about sustainability issues, to increase awareness of them, and to encourage others to do the same. Such activities[37] may be sector-specific training, seminars, and conferences etc but they may also take the form of social responsibility projects involving a much broader audience. It is essential however that banks quantify the results of the activities that they undertake in this direction and that they include them as an element of their stakeholder engagement reporting.

International rating agencies[38] evaluate firms on the basis of their sustainability performance and they also number among a bank's stakeholders. It is important to engage in continuous and open communication with such agencies in order to identify areas in which a bank needs to improve its sustainability performance.

Stock exchanges in some countries operate stock indexes that track firms on the basis of their sustainability performance.[39] Borsa İstanbul has also launched a similar index. Such indexes reflect objective assessments of firms' sustainability efforts; banks are therefore encouraged to have themselves listed in them.

Principle 5: Corporate Governance

Governance is one of the most fundamental elements of sustainability and it is therefore important that banks conform to internationally accepted standards[40] on governance-related issues. It is also recommended that banks internalize sustainability concepts throughout their organization so that they inform all of their decision-making processes and are taken into account in the conduct of their activities.[41]

Within this framework, banks should strive to be in complete and continuous compliance with statutorily mandated corporate governance regulations published by the Banking Regulation and Supervision Agency (BRSA) and the Capital Markets Board (CMB). Besides, the importance should be given to the establishment of governance structure needed for the integration of sustainability concept into all banking operations.[42]

Mention should be made of a bank's compliance performance in all sustainability reports that it regularly prepares pursuant to the Corporate Governance Principles published by CMB as well as to satisfy other requirements. Banks are encouraged to go beyond mere regulatory compliance and to have their corporate governance performance reviewed by independent bodies.

It is important that banks' corporate governance structures stipulate responsibilities on all sustainability-related issues, incorporate essential control mechanisms,[43] and make internal and external reporting a part of the corporate governance process. It is recommended that banks place responsibility for sustainability management at the highest possible level[44] and that they create a specific structure charged with responsibility for the conduct of sustainability-related issues.

Priority should be given to setting sustainable-banking targets and to identifying performance indicators and encouraging reporting on this matter. The targets that are set should be relevant to areas of improvement on issues that are of importance to the bank and its stakeholders and should be consistent with the bank's vision and strategies.

Duties and responsibilities related to the fulfillment of these targets should be determined so as to encompass all activities and they should be assigned to specific personnel. The benchmark indicators [45] according to which target fulfillment is to be measured should be identified. The association of such criteria with the performance of those responsible for target fulfillment is important from the standpoint of executive support. Banks are therefore advised to plan these functions accordingly.

Attention should be given to keeping stakeholders informed about these performance criteria as a way of ensuring transparency and accountability. Criteria-related developments should also be reported regularly. It is recommended that banks extend their sustainability structures so as to encompass their entire organization and ensure that all of their employees identify with them.

Banks' sustainability management may be enhanced by its being audited for compliance with such internationally recognized benchmarks as the ISO 14001 Environmental Management System, ISO 14064 Greenhouse Gas Inventory Management System,[46] ISO 50001 Energy Management System, [47] and OHSAS 18001 Occupational Health and Safety Management System[48] standards.

Principle 6: Capacity Improvement

"Capacity improvement" is a process embracing all the efforts that banks engage in order to develop their existing policies, corporate structures, systems, and human resources so as to enhance their sustainability management strategies and to maximize their operational effectiveness.[49] In this respect therefore, capacity improvement encompasses a bank's entire corporate, organizational, technological, material, and human resources capacity. For purposes of capacity development, use should be made of training opportunities[50] provided by the national and international initiatives with which the bank is in communication.

It should be a fundamental objective of every bank to help improve institutional and sectoral capacity so that the concept of sustainability is internalized by all stakeholders, including but not limited to bank employees and customers but also society as a whole, so that environmental and social risks may be properly identified, assessed, and managed, and so that environmental and social factors are fully integrated into bank processes and decision-making mechanisms. These efforts may be tracked under two main headings: "Internal Capacity Improvement" and "External Capacity Improvement".

Improving internal capacity

In order for a bank to conduct its activities in line with sustainability principles, to fully and properly understand and manage its own environmental and social impact, and to internalize sustainability concepts among all of its personnel, its employees must have sufficient awareness[51] of and training about such issues. The steps that are recommended for achieving this are as follows:

Awareness development activities

All employees should have a basic understanding as to why sustainability is important to the bank's activities. This understanding will broaden the base for the internalization of sustainability attitudes.

Awareness development activities should draw attention to both the direct and the indirect impact that a bank may have and bank personnel at every level should be involved in them. During such activities, personnel should be made aware of all the dimensions of sustainability concept. To that end, sustainability awareness development should draw attention not just to environmental and social effects but also to corporate governance, stakeholder communication, and monitoring and reporting issues as well.

Mention should be made of the important role that identifying and managing environmental and social effects and being mindful of sustainability principles in products and services plays in the bank's risk and reputation management.

Training

The fulfillment of sustainable banking principles will require information and training that goes beyond this basic awareness. Such training should be designed and detailed on the basis of the duties and responsibilities of those involved in it.[52] In other words, training should be provided in such a way as to be compatible with the responsibilities incumbent upon all employees included in the governance structure detailed in the "Corporate Governance" section of this guideline.

In the conduct of in-house training on these issues, the highest priority should be given to environmental and social impact assessment (ESIA) and risk management. It is essential that all personnel–including sales and marketing staff–be given training about the ESIA model that the bank has adopted. The subjects that such training should cover include, but are not limited to, the following:

- The details of the ESIA model and how the model is to be employed
- Examples of the model in practice
- Internal and external resources to be referenced when using the model.

As a part of this training, employees should be informed about the in-house and external experts that they may consult on issues related to ESIA model implementation.

In addition to ESIA, it should also be a goal to make all bank employees knowledgeable about the basic elements of the concept of sustainability. To this end, they should also be informed about the basic principles contained in this guideline and they should be made aware of the importance of these principles from the standpoint of sustainability. Among the topics that should be dealt with are such issues as governance, stakeholder communication and engagement, and sustainable products and services.

Measurement and feedback

A fundamental tenet of sustainable banking is that all efforts on its behalf must be quantified and that internal and external feedback must be provided based on the results of such measurement. In line with this, employees should be kept regularly informed about sustainability-related systems, activities, and results. In that way, employees' personal involvement in these activities will also be supported.

Improving external capacity

Banks recognize both the benefits and the necessity of fostering an awareness of sustainability throughout their industry and among their customers and the public at large. In line with this, awareness-development and training activities may be organized targeting the sector as a whole as well as customers specifically. As a way of promoting participation, knowledge transfer, and diversity in these activities, preference should be given to collaboration with international organizations, public bodies, NGOs, development agencies, and similar outside parties.

Principle 7: Monitoring and Reporting

It is expected that banks will keep all of their stakeholders informed about their sustainability activities through communication carried out at regular intervals. Banks should report (within the framework of their applicable policies if any) their sustainability activities to their internal and external stakeholders [53,54] regularly and periodically. They should clearly state and publicly disclose the frequency of such reporting,[55] its subject matter, and its target audience.

As one aspect of their regular sustainability reporting, banks should also indicate the degree to which they are in compliance with this guideline. For this purpose, banks should use the reporting format provided in this guideline's appendix and they should publish the report annually or at least every other year on their corporate website. However such reporting will not be necessary in the case of banks that otherwise publish sustainability reports (such as GRI reports) that conform to internationally accepted reporting standards.

In order to indicate and track their sustainability performance and to periodically benchmark their progress and communicate it to stakeholders, banks should identify the key performance indicators (KPI) that are indicative of them. Where possible, they should also demonstrate the indicators' applicability by associating them with their employees' own performance.

The criteria so specified may be concerned with the direct effects of activities (carbon emissions, resource consumption, etc) and with targets for reducing them; they may also be concerned with indirect effects as measured by the number of sustainable products and

services developed or the number of people affected (as a result of job creation, youth education, etc) through social responsibility projects. Reports intended for internal stakeholders should be such as to affect the bank's internal decision-making processes. In a similar vein, performance indicators should also be integrated into the bank's performance management and management reporting processes.

In all reporting to external stakeholders, preference should be given to compliance with internationally accepted standards. This will make it possible for a bank's sustainability performance to be tracked and developed in accordance with such standards. Although sustainability reporting is entirely voluntary, there do exist a number of generally-accepted international standards for it:

Global Reporting Initiative (GRI): GRI provides the most comprehensive framework for sustainability reporting. A number of sector-specific appendices have also been developed. A set of G4 Sustainability Reporting Guidelines[56] have been published for 2013.

International Integrated Reporting Council:[57] Formerly known as the International Integrated Reported Committee, the council is working on a set of internationally acceptable criteria covering financial as well as environmental, social, and governance issues.

Communication on Progress (COP):[58] COP is a form of reporting to stakeholders about the progress that has been made in the implementation of the ten principles set forth in the UN Global Compact and in the support of UN goals through partnerships where possible.

Banks may also structure their sustainability reporting as an element of their annual reports. If they elect this option, attention should be given to ensuring consistency and continuity from one reporting period to the next. Similarly, care will also need to be given to devising a reporting format that takes sustainability targets and performance into account and conforms to standards.

Sustainability reporting should cover all sustainability-related activities of a material nature that the bank engaged in during the reporting period. Similarly, it should present the results of having attempted to fulfill targets set in the previous report while also setting out targets for the next reporting period.

In addition to the main sustainability topics that are referred to in these guidelines, the following points may be considered in sustainability reports:

- Principles and policies that are important to sustainability such as a code of ethics, human rights principles, corporate governance principles, etc.
- Short-medium and long-term action plans for integrating environmental and social awareness and issues into all activities, products, and services.
- The internal sustainability management structure, areas of responsibility, control structure, and other governance details.
- Current status about the integration of the sustainability-related criterias into processes and operations (in the form of environmental and social risk assessment systems, environment-related products and services, etc).
- The following points about the environmental impact (carbon emissions, energy, water, and other resource use, waste, etc) resulting from the bank's own activities,

i) Volume Data
ii) Periodical improvements
iii) Mitigation targets

- Details about the current status of any environmental and social management systems set up pursuant to these guidelines with the intention of managing the direct impact of the bank's activities.
- Employee satisfaction and other pertinent information about the bank's human resources.
- Efforts to communicate with the bank's internal and external stakeholders.
- Charitable donations and philanthropic activities.
- Social responsibility projects.

However in order to determine a report's content, it is essential that a prioritization analysis be carried out that includes findings from the stakeholder engagement process as well. If a particular issue has (or may have) an impact on one or more stakeholders' decisions, activities, behavior, and/or the bank itself, that issue should be regarded as being a priority for the bank and it should be included in the sustainability report. All reporting should be subject to the bank's own internal control mechanisms. On the other hand, verification by independent third parties is recommended. Reports prepared in accordance with international standardized reporting methods like GRI can be audited and verified by third parties.

It is expected that the prepared sustainability report and/or reporting on the Sustainability Guidelines for the Banking Sector will be publicly disclosed.

Appendix I

Recommended format for reporting pursuant to these guidelines

1. Has a policy been formulated to govern the bank's sustainability activities?
   a) Who approved this policy?
   b) Who has executive responsibility for policy compliance? Provide information about the sustainability structure (responsible bodies, coverage within the bank, integration with performance criteria).
   c) Has this policy been communicated to stakeholders? (Provide an internet link if one exists.)

2. Has an environmental and social impact assessment process been developed as part of the bank's lending activities?

   a) If so, outline the environmental and social impact assessment process and indicate any types of lending that the process does not apply to.
   b) Who approved this process?
   c) When did the process go into effect?
   d) Was the process modified in any way during the reporting period? If so, explain the changes.
   e) What are the duties and responsibilities of those in charge of process implementation?
   f) How many projects have been assessed in light of this process? Indicate the number of pro ects / the total amount of credit risk that changed on the basis of such assessments.
   g) Are measures that must be taken in line with this process included in lending agreements? Explain.
   h) Are measures that must be taken in line with this process followed up? Explain.

3. List measures that are taken to manage indoor environmental impact.

   a) Does the bank have an environment policy?
   b) Does the bank have an environmental management system?
   c) Does the bank hold ISO14064 or ISO14001 certification?
   d) Does the bank recycle paper, cardboard, plastic, metal, and/or composite waste?
   e) How does the bank manage its electronic waste, excavation waste, and hazardous waste?
   f) Indicate the bank's total greenhouse gas emissions as measured in CO_2-equivalent tons.
   g) Indicate any environment-related targets that have been set.

Provide current performance figures for at least two of these criteria and indicate what their targets are for the next reporting period.

4. Provide information about human rights and employee rights policies that apply to the bank's personnel, taking into account such issues as:

   a) Have declarations or commitments been made concerning human rights?
   b) Are employees provided with training on such matters?
   c) What percentage of the total workforce is female?
   d) What percentage of senior management and of those involved in decision-making mechanisms female?

5. Does the bank solicit feedback from stakeholders on sustainability issues? Explain any bank activities that are related to stakeholder engagement.

6. What training if any was provided during the reporting period on sustainability-related issues to bank personnel, customers, and other stakeholders?

7. Outline any sustainability-related social responsibility projects conducted on annual basis.

Notes:

[1] For additional information on this subject please refer to Environmental & Social Risk Management Guidelines published by the European Bank for Reconstruction and Development (EBRD).
http://www.ebrd.com/environment/e-guidelines/e010intr.html

[2] For additional information on this subject please refer to Environmental & Social Risk Management Guidelines published EBRD.
http://www.ebrd.com/environment/e-guidelines/e010intr.html.

[3] For additional information on this subject please refer to The Equator Principles - June 2013, a set of guidelines prepared by the International Finance Corporation, a private-sector agency of the World Bank. http://www.equator-principles.com/index.php/ep3/ep3.

[4] For information on this subject please refer to Finance of Investment Projects: ESIA and Public Consultation, published by EBRD. http://www.ebrd.com/environment/e-guidelines/r16eia.html.

[5] For additional information on this subject please refer to Sub-Sectoral Environmental and Social Guidelines (prepared by EBRD) and to the "Environmental and Social Risk By Industry Sector" page of the IFC's "FIRST (Financial Institutions: Resources Solutions and Tools) for Sustainability" portal located at http://firstforsustainability.org/risk-management/understanding-environmental-and-social-risk/risk-by-industry-sector.

[6] For additional information on this subject please refer to the website of the Ministry of Environment and Urban Planning's General Directorate for Environmental Impact Assessment, Licensing, and Inspection. Details may be found on the "Mevzuat" ("Legislation") tab. http://www.csb.gov.tr/gm/ced/index.php?Sayfa=sayfa&Tur=webmenu&Id=167.

[7] For additional information on this subject please refer to the IFC's "FIRST" portal located at http://firstforsustainability.org/risk-management/understanding-environmental-and-social-risk/risk-by-industry-sector.

[8] For additional information on this subject please refer to "IFC Performance Standard 3: Pollution Prevention and Resource Efficiency".
http://www.ifc.org/wps/wcm/connect/a03dcd804d8900248b44bf48b49f4568/PS3_Turkish_2012.pdf?MOD=AJPERES.

[9] For additional information on this subject please refer to "IFC Performance Standard 2: Labor and Working Conditions".
http://www.ifc.org/wps/wcm/connect/90b07d004d88ff6f8b26bf48b49f4568/PS2_Turkish_2012.pdf?MOD=AJPERES.

[10] For additional information on this subject please refer to please refer to "IFC Performance Standard 4:Community Health, Safety and Security".
http://www.ifc.org/wps/wcm/connect/8a4312004d8900e38b4dbf48b49f4568/PS4_Turkish_2012.pdf?MOD=AJPERES.

[11] For additional information on the matter of a possible complaint mechanism that could be used, please refer to "Good Practice Note: Addressing Grievances From Project-Affected Communities" published by the IFC and located at http://www.ifc.org/wps/wcm/connect/cbe7b18048855348ae6cfe6a6515bb18/IFC%2BGrievance%2BMechanisms.pdf?MOD=AJPERES&CACHEID=cbe7b18048855348ae6cfe6a6515bb18.

[12] For additional information on this subject please refer to "EBRD Performance Requirement 10:
Information Disclosure and Stakeholder Engagement".
http://www.ebrd.com/environment/eguidelines/performrequirements/turkish/EBRD_PR_10_Info_disclosure_TRY.pdf.

[13] For additional information on this subject please refer to "IFC Performance Standard 5: Land Acquisition and Involuntary Resettlement".
http://www.ifc.org/wps/wcm/connect/6e03ab804d89019d8b56bf48b49f4568/PS5_Turkish_2012.pdf?MOD=AJPERES.

[14] For additional information on this subject please refer to Handbook for Preparing a Resettlement Action Plan published by the IFC.
http://www.ifc.org/wps/wcm/connect/22ad720048855b25880cda6a6515bb18/ResettlementHandbook.PDF?MOD=AJPERES.

[15] For additional information on this subject please refer to "IFC Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources". http://www.ifc.org/wps/wcm/connect/3c8bee004d8902388b5fbf48b49f4568/PS6_Turkish_2012.pdf?MOD=AJPERES.

[16] For additional information on this subject please refer to "IFC Performance Standard 8: Cultural Heritage".
http://www.ifc.org/wps/wcm/connect/cd2d2d004d8904c98b76bf48b49f4568/PS8_Turkish_2012.pdf?MOD=AJPERES.

[17] For additional information on this subject please refer to Guidelines To Prepare Environmental And Socıal Management Plan published by the Ethiopian Federal Environmental Protectıon Authority. http://www.epa.gov.et/Download/Guidelines/Environmental_Management_Plans.pdf.

[18] For additional information on this subject please refer to "EBRD Environmental and Social Categorization List" and also to "Risk Categorization and Managing Portfolio Risks" and "Risk Categorization Table" on the FIRST For Sustainability website.
http://www.ebrd.com/environment/e-guidelines/documents/r031risk_(Categorisation_List).pdf.

[19] Supranational financial institutions like the World Bank, IFC, and EBRD as well as banks that recognized the Equator Principles use this "ABC" schema of risk classification.

[20] Additional and more detailed information on this subject may be obtained from the Ministry of Environment and Urban Planning's Legislation Information System located at http://www.csb.gov.tr/turkce/index.php?Sayfa=mevzuat.

[21] The Project Information File (PIF) is a document prepared for the investment projects that are included in EIA Regulations Annex List II.

[22] This is a document that is prepared for the investment projects that are included in EIA Regulations Annex List I.

[23] For additional information on this subject please refer to IFC Good Practice Handbook Cumulative Impact Assessment and Management: Guidance for the Private Sector in Emerging Markets and to Model Cumulative Environmental Impact Assessment Guide for Hydroelectric Power Plants in Turkey, prepared as part of the "Watershed Management in Turkey" study.
http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_cumulativeimpactassessment, http://www.enver.org.tr/UserFiles/Article/ac91112e-5071-4f43-9254-c1805a2806a9.pdf.

[24] For additional information on this subject please refer to Guidance For EPFIS On Incorporating Environmental and Social Considerations Into Loan Documentation prepared as an adjunct of the Equator Principles.
http://www.equatorprinciples.com/resources/ep_guidance_for_epfis_on_loan_documentation_march_2014.pdf.

[25] For additional information on this subject please refer to the UN Principles for Responsible Investment website located at http://www.unpri.org.

[26] For additional information on this subject please refer to Ecological Footprint Standards 2009.
http://www.footprintnetwork.org/en/index.php/GFN/page/application_standards.

[27] For additional information on this subject please refer to Measuring Environmental Footprint. A Financial Services Industry Case Study published by The University of North Carolina, Kenan-Flagler Business School.
https://extranet.kenanflagler.unc.edu/kicse/ORIG%20Shared%20Documents/Final_BAC_Footprint_Case_Study.pdf.

[28] For additional information on this subject please refer to the "ILO conventions to which Turkey is a party" page on the ILO's website.
http://www.ilo.org/public/turkish/region/eurpro/ankara/about/sozlesmeler.htm.

[29] For additional information on this subject please refer to A Policy Primer: Guide To Developing Human Rights Policies and Procedures published by the Ontario Human Rights Commission. http://www.ohrc.on.ca/en/policy-primer-guide-developing-human-rights-policies-and-procedures.

[30] For additional information on this subject please refer to Communication Strategies published by the US Environmental Protection Agency.
http://www.epa.gov/superfund/community/pdfs/toolkit/comstrats.pdf.

[31] For additional information on this subject please refer to AA1000 Stakeholder Engagement Standard 2011 published by Accountability, a consultancy; to The Stakeholder Engagement Guidelines, Volume 1: Practitioner's Handbook on Stakeholder Engagement and The Stakeholder Engagement Guidelines, Volume 2: Practitioner's Handbook on Stakeholder Engagement published by UNEP; and to Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets published by IFC.
http://www.accountability.org/images/content/3/6/362/AA1000SES%202010%20PRINT.PDF, http://www.accountability.org/images/content/2/0/207.pdf,
http://www.unep.fr/shared/publications/pdf/WEBx0115xPA-SEhandbookEN.pdfhttp://www.unep.fr/shared/publications/pdf/WEBx0115xPA-SEhandbookEN.pdf,
http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/

http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_stakeholderengagement__wci__1319577185063.

[32] For additional information on this subject please refer to Complaints Mechanism Principles: Terms of Reference and Rules of Procedure published by EIB. http://www.eib.org/attachments/strategies/complaints_mechanism_policy_en.pdf.

[33] Details about annual sustainability reporting may be found in the "Monitoring and reporting" section of this guidelines.

[34] For additional information please refer to Stakeholder Power Analysis published by the International Institute for Environment and Development.
http://www.policy-powertools.org/Tools/Understanding/docs/stakeholder_power_card_english.pdf.

[35] All the issues to which attention must be given in the stakeholder engagement process are presented in AA1000 Stakeholder Engagement Standard 2011 published by Accountability.
http://www.accountability.org/images/content/3/6/362/AA1000SES%202010%20PRINT.PDF.

[36] For additional information please refer to KPIs for Business Analysis provided by Enfocus Solutions Inc.http://blog.enfocussolutions.com/Powering_Requirements_Success/bid/151680/KPIs-for-Business-Analysis.

[37] For additional information on this subject please refer to Setting up a Multi-Stakeholder Panel as a Tool for Effective Stakeholder Dialogue published by United Nations Global Compact. http://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/Stakeholder_Panels_Good_Practice_Note.pdf.

[38] For additional information on this subject please refer to such rating service providers as "Asset 4 Good (Thomson Reuters)", "MSCI", "CoValance Ethical Quote", "EIRIS", "Vigeo" and also to the "Rate the Raters" website, which rates their performance.
http://www.msci.com/products/indexes/esg/sustainability. https://www.ethicalquote.com/index.php/methodology/, http://www.eiris.org/asset-managers/products-services/sustainability-ratings/http://www.vigeo.com/csr-rating-agency/en/311-3-2-4-indices,http://www.sustainability.com/projects/rate-the-raters#projtab-0.

[39] For additional information on this subject please refer to Dow Jones Sustainability Indices, FTSE4Good, and Borsa İstanbul Sürdürülebilirlik Endeksi. http://www.djindexes.com/sustainability/,
http://www.ftse.com/Indices/FTSE4Good_Index_Series/, http://borsaistanbul.com/endeksler/bist-pay-endeksleri/surdurulebilirlik-endeksi.

[40] For additional information on this subject please refer to OECD Principles of Corporate Governance. http://www.oecd.org/daf/ca/corporategovernanceprinciples/31557724.pdf.

[41] For additional information on this subject please refer to FIRST for Sustainability published by IFC. http://firstforsustainability.org/sustainability/sustainability-and-finance/business-case.

[42] For additional information on this subject please refer to IFC Corporate Governance Guidelines. http://www.ifc.org/wps/wcm/connect/8a40ee804a81f904ad3dfdf998895a12/CG+guidelines+for+Vietnam-second+edition-Eng.pdf?MOD=AJPERES.

[43] For a number of tools useful in sustainability assessments and audits please refer to Sustainability Evaluation Checklist published by Western Michigan University and to The Sustainability Audit Tool used by Royal Bank of Scotland.
http://www.wmich.edu/evalctr/wp-content/uploads/2010/06/SEC-revised1.pdf, http://www.rbcroyalbank.com/commercial/advice/_assets-custom/pdf/HR-Sustainability-Audit-Table_v7.pdf

[44] For additional information on this subject please refer to A Guide To Sustainable Banking published by UNEP FI.
http://www.unepfi.org/bankingguide/department/board-ceo/fact-sheet.

[45] For additional information on this subject please refer to the fifth section of Reporting Principles & Standard Disclosures, which conforms to the GRI G4 reporting framework; to the GRI performance criteria section at kpilibrary.com (free registration required); to Reporting Guidance for Business on Environmental Key Performance Indicators: A Consultation on Guidance for UK Businesses published by UK Department for Environment, Food and Rural Affairs; to A Framework for Sustainability Indicators at EPA published by the US Environmental Protection Agency. https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf, http://kpilibrary.com/categories/gri. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82551/consult-kpi-document.pdf,http://www.epa.gov/sustainability/docs/framework-for-sustainability-indicators-at-epa.pdf

[46] For additional information on this subject please refer to the ISO 14000 family of standards published by the International Organization for Standardization located at http://www.iso.org/iso/home/standards/management-standards/iso14000.htm.

[47] For additional information on this subject please refer to the ISO 15001 energy management standard published by the International Organization for Standardization located at http://www.iso.org/iso/home/standards/management-standards/iso50001.htm.

[48] For additional information on this subject please refer to the BS OHSAS 18001 Occupational Health and Safety Management standard published by the British Standards Institute at http://www.bsigroup.com/en-GB/ohsas-18001-occupational-health-and-safety.

[49] For additional information on this subject please refer to Bank Group Capacity Development Strategy published by the African Development Bank Group and to Capacity Building/Assessment published by EBRD.
http://www.afdb.org/fileadmin/uploads/afdb/Documents/PolicyDocuments/Bank%20Group%20Capacity%20Development%20Strategy.pdf.
http://www.ebrd.com/pages/workingwithus/procurement/project/capacity.shtml.

[50] For additional information on this subject please refer to the e-learning services provided by such bodies as BAT, World Bank, and IFC.
https://www.tbb-bes.org.tr/tbb/DesktopDefault.aspx?tabid=1&tabindex=0, http://einstitute.worldbank.org/ei/,http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Training+Resources.

[51] For additional information on this subject please refer to If You Ask Us: Making Environmental Employee Engagement Happen published by UNEP FI.
http://www.unepfi.org/fileadmin/documents/ifyouaskus_engagement.pdf.

[52] For additional information on this subject please refer to E-learning Methodologies: A Guide for Designing and Developing e-learning Courses published by the German Ministry of Food Agriculture & Consumer Protection and to Training Material Development Guide published by the Swedish Civil Contingencies Agency. http://www.fao.org/docrep/015/i2516e/i2516e.pdf.
https://www.msb.se/RibData/Filer/pdf/26433.pdf.

[53] For additional information on this subject please refer to the relevant section of FIRST for Sustainability published by IFC and to Sustainability Reporting Tips published by PriceWaterhouseCoopers. http://firstforsustainability.org/sustainability/external-initiatives/sustainability-reporting.
http://www.pwc.com/en_GX/gx/audit-services/corporate-reporting/sustainability-reporting/assets/pwc-sustainability-reporting-tips-private-sector.pdf,http://firstforsustainability.org/sustainability/external-initiatives/sustainability-reporting.

[54] For additional information about the benefits of reporting please refer to Sustainability Management and Reporting: Benefits For Financial Institutions in Developing and Emerging Economies published by UNEP FI. http://www.unepfi.org/fileadmin/documents/smr_benefits_dec2006_01.pdf.

[55] It is recommended that preference be given to annual reporting.

[56] For additional information on this subject please refer to the relevant section of the Global Reporting Initiative's website. https://www.globalreporting.org/reporting/g4/Pages/default.aspx

[57] For additional information on this subject please refer to the relevant section of the International Integrated Reporting Committee's website. http://www.theiirc.org/international-ir-framework.

[58] For additional information on this subject please refer to the relevant section of the UN Global Compact's website.
http://www.unglobalcompact.org/COP/making_progress/index.html.

Adres: Nispetiye Cad. Akmerkez B3 Blok Kat 13 34340 Etiler/Istanbul
Telefon: 0212-282 09 73 | Faks: 0212-282 09 46 | www.tbb.org.tr