



**BANKING
REGULATION AND SUPERVISION
AGENCY**

SUSTAINABLE BANKING IN TURKEY

Department of Strategy Development

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Agenda

I. Climate-related Risks and Opportunities

II. Financial Sector Initiatives and Challenges

III. BRSA's Strategy

IV. Participation Banks and Sustainability

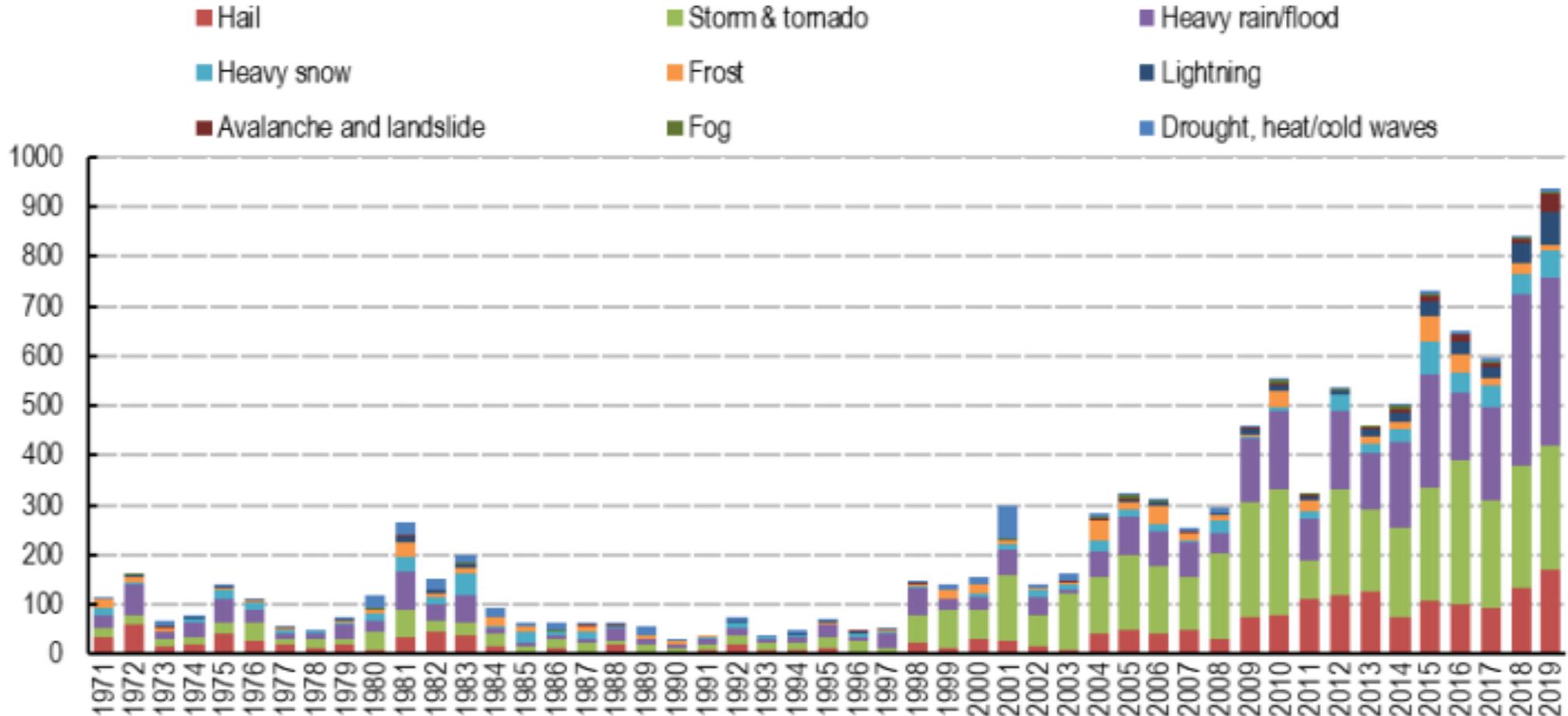


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I. Climate-related Risks and Opportunities



Annual Number of Climate-related Events in Turkey



Source: World Bank, "New Opportunities to Drive Capital Towards Climate Solutions", CMB & WB Green Bonds And Green Sukuk Workshop, June 2021



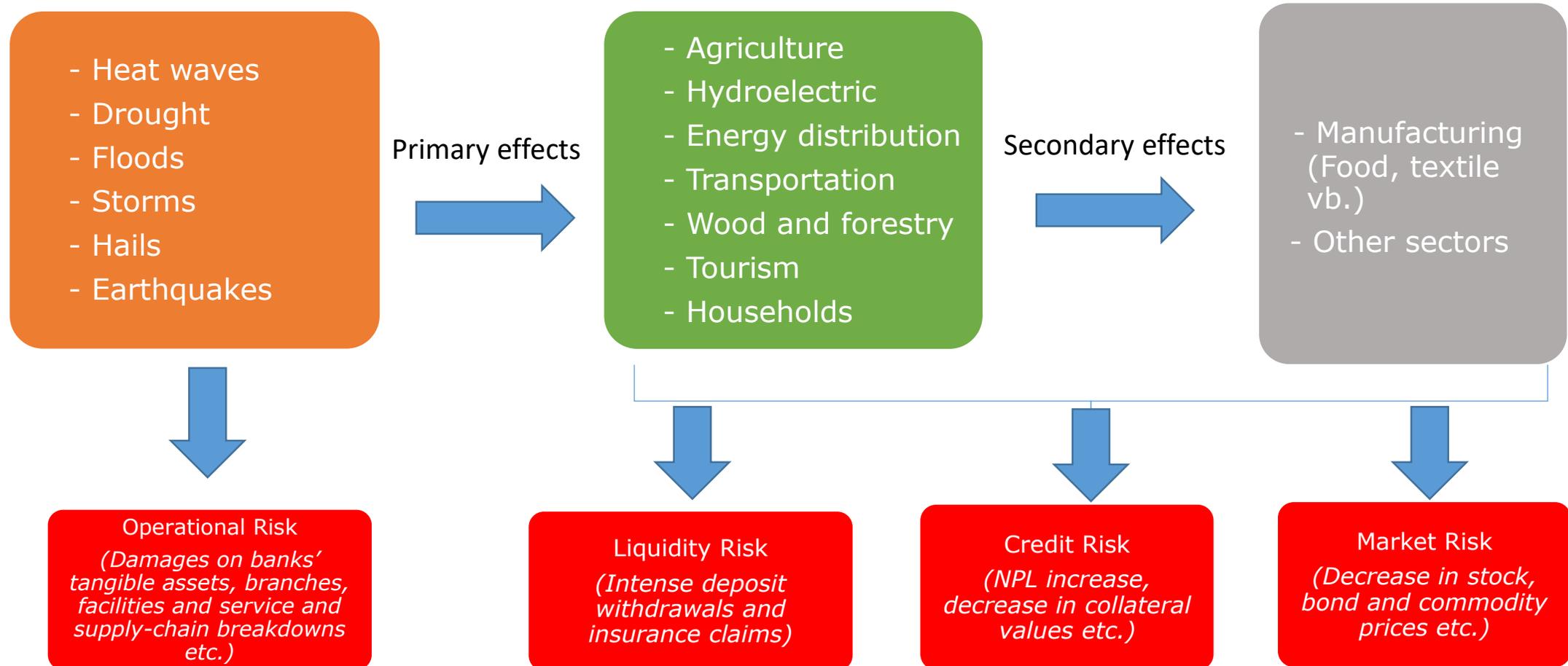
Turkey's Climate Change Outlook

The Notre Dame Global Adaptation Initiative (ND-GAIN) Ranking	Turkey's Ranking (*)	Number of Countries
ND-GAIN Ranking	54	182
Vulnerability	36	182
- Exposure	78	192
- Infrastructure	56	155
- Food	43	189
- Water	39	169
Readiness	69	192
- Economic	85	185
- Governance	122	188
- Social	32	186

(*) Lower rankings are better.

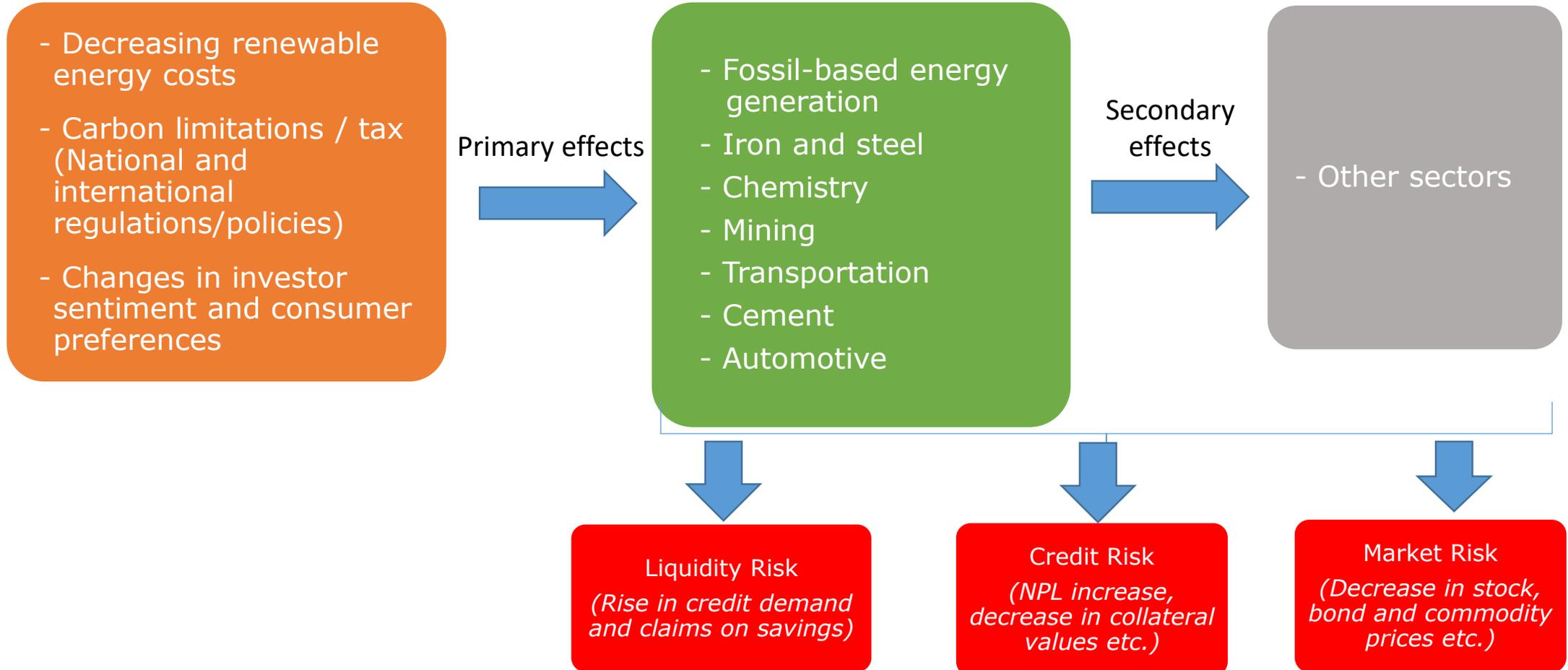
<https://gain.nd.edu/our-work/country-index/rankings/>

Physical Risks





Transition Risks





Opportunities

- A significant amount of funding to be mobilized for transition
 - New financial products and markets in transition process
 - Funding from segments having sensitivity to environmental and social issues
 - EU Green Deal
 - Image management
 - Potential incentives to be provided by public authorities (*capital adequacy, provisions, collaterals, intermediation costs etc.*)
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II. Financial Sector Initiatives and Challenges



Main Initiatives

- Sustainability Guidelines for Banking Sector (2014/2021) (Banks Association of Turkey)
 - Sustainability Index (2014) (Borsa Istanbul)
 - UN Global Compact Turkey “Declaration on Sustainable Finance” (2017) (8 banks)
 - Good practices by many banks
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Good Practices by Banks

- Sustainability / climate-related strategy or policy adopted by board of managers (26 banks, 87%)
 - Membership in, and/or commitment for, sustainability related national or international platforms, initiatives, organizations, standards etc. (16 banks, 81%)
 - Sustainability reporting through annual reports or separate reports (15 banks, 70%)
 - TCFD-aligned reporting (4 banks, 21%)
 - Environmental and Social Risk Assessment for project finance and large scale corporate lendings (15 banks, 62%)
 - Environmental /climate risk-related scenario analysis and/or stress testing (10 banks, 50%)
 - Measurement exposure to physical risks and transition risks at the portfolio level (8 banks, 27%)
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Climate-related Risk Profile of the Turkish Banking Sector (September 2021)

RISK LEVEL	AMOUNT (Million TL)	SHARE (%)
High	420,327	10.1
Medium- High	521,766	12.6
Medium	188,341	4.5
Medium-Low	2,217,341	53.5
Low	798,965	19.3
TOTAL	4,146,740	100.0



Main Barriers for Development of Green Finance

Structural

- A challenging macroeconomic environment (*high inflation and high nominal interest rates, and a volatile exchange rate*)
- Short-term funding structure of banks
- A low national savings rate
- Small institutional investor base

Institutional

- Lack of a national green taxonomy and definitions
- Insufficient disclosure practices in corporate sector (SMEs etc)
- Lack of a regulatory and supervisory framework
- Relatively low level of institutional capacities
- High level of second party opinion (SPO) and verification costs



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III. BRSA's Strategy



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Actions Taken by BRSA

- Sustainable Banking and Finance Network (SBFN) membership (2015)
 - Turkish Banking Sector Sustainability Survey (2018)
 - Preferential LTV ratios for loans extended to housings with high energy performance (2019)
 - BCBS - TCFR membership (2020)
 - Sustainable Banking Working Group (2021)
 - NGFS Membership (2021)
 - Guideline on Loan Origination and Monitoring (2021)
 - Sustainable Banking Strategic Plan (2022-2025)
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Sustainable Banking Strategic Plan

Vision:

A banking sector that effectively manages the environmental and social risks and opportunities including climate change, and provides the financing needed for the transition to a low-carbon economy on favorable terms.

Strategic Goals:

- Managing climate-related financial risks effectively
 - Developing sustainable finance flows
 - Improving cooperation between relevant parties on sustainable finance
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Managing Climate-related Financial Risks Effectively

- Establishing classification and data infrastructure
 - Increasing the climate risk management capacity of banks
 - Strengthening the supervision framework to ensure effective management of climate risks by banks
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Developing Sustainable Finance Flows

- Exploring incentive mechanisms for financing sustainability
 - Standardizing the policies implemented by banks to reduce activities with high GHG emissions
 - Mainstreaming ESG practices in the banking sector
 - Developing external evaluation services for verifying sustainability activities
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Improving Cooperation Between Relevant Parties

- Establishing working groups with the participation of banks to solve priority issues
 - Improving the communication channels between banking sector and public authorities
 - Developing dialog between financial and corporate sector
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IV. Participation Banks and Sustainability



Participation Banks and Sustainability

- ✓ Kuveyt Türk – World’s first sustainability-related Tier-2 sukuk issuance in 2021
 - USD 350 million
 - 10 year
 - fixed-rate 6.125%
 - to finance and/or refinance eligible green and social projects
 - ✓ Emlak Katılım – Turkey’s first green sukuk issuance in 2021
 - TL 52 million
 - 371 days
 - Private fund pools - mudaraba
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Participation Banks and Social Finance

- ✓ Vaqf of banks
 - Albaraka Bereket Vakfi
 - Vakıf Katılım
 - ✓ Qard - Karz-ı Hasen Vakfı
 - ✓ Donation and Aids by PBAT
 - ✓ Professional Code of PBAT
 - To not foreclose the wages and salaries deposited in the accounts of the debtors whose monthly income is at or below the minimum wage
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Actions of BRSA

✓ Medium Term Program (2022-2024)

- To comply with the EU Green Deal, guides will be prepared in the fields of strategy formulation, corporate structuring, and risk management, reporting and public disclosure for the development of green banking practices.
- Strategic planning and implementation of sustainability and social finance activities in the participation finance sector will be ensured.

✓ Sustainable Banking Strategic Plan (2022-2025)

- The Opportunities for the development of social finance activities will be explored, and efforts will be made to increase social finance practices within the scope of participation finance system and participation fintechs.
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Thanks..
