Case Study:

TSKB Leverages History, Relationships and Expertise in Pursuit of Sustainable Finance

"TSKB continues to enhance its focus on investing in sustainable growth, energy and resource efficiency, and renewable energy investments. We are very proud to be the first bank to open up a new market in Turkey by issuing the country's first ever green bond."

-- Suat İnce, TSKB Chief Executive Officer

Abstract

The Green Bond issued by Turkish bank TSKB in 2016, the first ever such instrument out of the Turkish banking universe, was over-subscribed a whopping 14 times. A year later, the bank issued a Sustainable Tier II Bond, the first ever globally, which achieved its target four times over. Significant to note, the bank was able to raise $300 million from each of its two issuances separately and disbursed the funds to the financed assets at the latest by one year after the issue, in each case.

This Case Study seeks to document the TSKB Green Bond issuance journey from the time it was conceptualized to its eventual presentation to the market. It examines the internal factors that motivated TSKB to pioneer the issuance of Turkey's first Green Bond. It also documents the bonds' uptake and absorption by the portfolio of assets linked to them. Critical to this analysis are the two issues' success factors and some of the challenges experienced by the issuer along the way, and how it was able to navigate and innovate around these, to ensure success.

Background

Formed in 1950 with support from the World Bank and the Turkish Central Bank, and with significant shareholding from commercial banks, Türkiye Sınai Kalkınma Bankası (TSKB) is Turkey's first privately-owned development and investment bank. The Türkiye İş Bankası (İşbank) Group controls a 50.92 percent stake in TSKB. Some 40.7 percent of the bank's shares are traded on the Borsa İstanbul (BIST) Star Market under the "TSKB" symbol. The bank conducts its business from its head office in İstanbul and through its Ankara branch.

TSKB has always had an institutional imprint of promoting and financing sustainable development, right from its inception and through its various services: corporate banking, investment banking and consultancy services. Its stated goal is to promote the economic, environmental and social development of Turkey.

Its business model has been executed through partnerships with global supranational financial institutions, international development agencies, and banks and financial institutions all over the world, through which it brings qualified and themed global funds together with investments by Turkish businesses.

Its mission is to focus on creating value for the inclusive and sustainable development of Turkey through financing and consultancy solutions powered by TSKB's experience in development and investment banking, as well as its strategic international partnerships.

When the bank sought to take to market Turkey's first Green Bond, it was largely to finance an existing, internal portfolio. Says a bank official: "Proceeds from the issuance were mostly used to re-finance existing projects on the bank's portfolio. This speeded up the issue and ensured the bank had a deep knowledge of the assets being financed."

Money raised through TSKB's Sustainability Bonds were used to finance some 41 projects up to December 2018. These projects are situated in several sectors: Energy Efficiency, Resource Efficiency, Wind Power, Solar Power, Hydro Power, Biomass, Clean Transport, Indirect Mitigation, Climate Change Adaptation, Social Infrastructure (Health and Education), Electricity Distribution and Ports.

The TSKB Sustainable Bond

The whole process of conceptualizing the TSKB Sustainable Bond and bringing it to the market took two and a half months for the 2016 issuance. The Tier II issuance, which happened a year later in 2017, took about one and a half months to be ready for market.

These tight timelines were achieved on the back of two factors. For starters, most of the cash raised from the Sustainable Bond issue was being used to re-finance available projects, which were already sitting on the bank's portfolio. This ensured that TSKB already had critical knowledge and data about these assets and their operations. Also helpful in this pursuit was the bank's "highly experienced and dedicated staff."

Internally, the issue was championed by the bank's Financial Institutions Department, which is responsible for Debt Capital Markets issuances of the bank. The other units whose input was critical to the issue include Engineering, Economics Research, Financial Analysis, Financial Control, Budget Planning and Investor Relations. Experts from the Engineering, Financial Analysis, Corporate Marketing and Financial Institutions were especially key in evaluating and deciding on the assets to be financed.

According to an official of TSKB, neither the local Turkish nor the global regulators had any prerequisites for the issuance of Green Bonds or Sustainable Bonds in general. In the absence of these, the issuer followed the Green Bond Principles issued by International Capital Market Association (ICMA), while designing key performance indicators or KPIs for the Sustainable Bonds it would later issue to the market.

To give the issuer an additional stamp of approval and give the requisite comfort to investors, TSKB engaged Sustainalytics to provide third party opinion. Equally critical to the issue was a robust allocation and impact reporting component, which has been undertaken by Ernst & Young (EY) for the last two years.

Proceeds from the two issuances were used to finance a slew of projects in diverse areas such as renewable energy, energy efficiency projects, ports, health facilities and electricity distribution lines. Most of the projects funded were from an internal TSKB pipeline for re-financing, with new projects being added every year as old ones are redeemed.

Opportunities and Limitations

Despite its proximity to Europe and the presence of an established capital market, Turkey-based TSKB did not have the benefit of any institutionalized local or global prerequisites for the issuance of Green Bonds. TSKB therefore had to rely on ICMA's Green Bond Principles (GBP), while setting out the KPIs for its Sustainable Bond.

Initiated by ICMA and updated in June 2018, The Green Bond Principles (GBP), are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible Green Bond; they aid investors by ensuring availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards standard disclosures which will facilitate transactions.

For second party verification and validation, TSKB relied on Sustainalytics, which describes itself as a global leader in ESG research, ratings and analytics. The organization screens investments for their impact on stakeholders and the environment, in line with global norms and conventions.

One factor that TSKB heavily leveraged in its stated goal to realize Turkey's first green issuance is its close relationship with Development Finance Institutions (DFIs). Says a bank official: "Being Turkey's sustainable development and investment bank, we targeted to realize the first green issuance out of Turkey. We had an accumulated knowhow and enormous experience in sustainable/green lending through our DFI relations. Moreover, we have experienced teams composed of financial analysts, engineers and sectoral analysts who are used to working with these DFIs."

Due to the bank's close relationship with DFIs, TSKB personnel already had experience in preparing due diligence reports for projects financed by the bank, considering their social and environmental impacts. Typically, post-financing, the bank would also monitor the performance of such projects against a slew of sustainability KPIs. It is a playbook not too dissimilar to what is deployed for Green Bonds.

Outcomes

TSKB was able to raise a total of $300 million from each of its two issuances separately, with the key investors being fund managers, responsible investors and DFIs. By December 2018, all the funds raised through the two issuances had been disbursed to the 41 projects (assets) that were linked to the instruments.

Both issues achieved their objective of creating awareness around sustainable finance instruments in Turkey. The issuances were also critical in putting TSKB's name on the map as a demonstrable expert in ESG (environmental, social and governance)-focused investment, the knowledge gained being used on consultancy jobs.

Lessons Learnt

The TSKB Sustainable Bond program presents several lessons.

- **In-house expertise and experience:** One of the factors that stood TSKB in good stead when it set out to float a Sustainable Bonds is the fact that its staff already had experience in similar investments and investor relations.
- **Collaboration with DFIs:** Through its legacy work and age-old relationship with DFIs, the bank had a very clear appreciation of the nexus between financial returns and sustainability.
- **Monitoring and Evaluation:** The issues have benefited from regular and robust Allocation and Impact Reporting by auditing firm Ernst & Young (EY). This was important in determining whether the use of proceeds and impact were aligned with set KPIs. An initial KPI-setting process by the bank and other participants in the issues was key to this entire process.
- **Additionality:** Proceeds from the issuance were mostly used to re-finance existing projects on the bank's portfolio. This speeded up the issue and ensured the bank had a deep knowledge of the assets being financed.
- **Sound Financials of the Bank:** TSKB's strong balance sheet and other fundamentals provided an added layer of confidence to investors in Sustainable Bonds overall – and Green Bonds in particular.
- **Identification of Assets:** The bank invested time and resources in identifying the right mix of assets that would enable investors to tick the ESG box, while making financial returns in the process. This was exacting work, considering the number of assets involved, at 41.