

Garanti Bank SA

Environmental and Social Loan Policies (ESLP)

October 2023

Disclaimer: The text below is an abbreviated and summarized version of Garanti BBVA Romania's Environmental and Social Loan Policies.

INTRODUCTION

Garanti Bank SA has issued and implemented its Sustainability Policy to improve basic banking perception by integrating Sustainable Development Goals and the Paris Agreement into its strategies and activities.

The Environmental and Social Loan Policies (“ESLP” or “Policy”), which are in accordance with the sustainability principles set forth in the Sustainability Policy and the strategic priorities of our Bank, constitute a risk management framework that serves to identify, evaluate and manage non-financial risks of loan processes such as environmental, social, governance and occupational health and safety risks as well as their potential impacts in consideration of local legislation and internationally accepted guidelines and standards.

ESLP is the first step in the process of identifying environmental and social impacts of loan activities. The Policy’s principles are categorized in three main categories as given below:

1. Control of Prohibited Activities and Customers
2. Identification of Non-financial Performance and Potential Risks
3. Management of Non-financial Performance.

1. Control of Prohibited Activities and Clients

Garanti Bank SA considers its core responsibility to ensure that the activities it finances comply with national legislation and the international conventions to which Romania is a signatory.

Accordingly, Garanti Bank SA does not participate in the financing of any activity (particularly the ones involving the below mentioned areas) that is prohibited or restricted by national legislation and the international conventions to which Romania is a signatory, without the need for further assessments and regardless of amount.

- The transactions, institutions and organizations prohibited due to their connection to military industry :
 - Activities connected with arms trade with countries where a weapons embargo is declared by the United Nations, the European Union and/or the United States.
 - Companies selling weapons to countries where an arms embargo by the United Nations, the European Union and/or the United States is in place.
 - Activities connected with weapons trade with countries that represent a high risk of human rights violation.
 - Transactions in which the intermediary or the end user is not one of the organizations below:
 - Romanian Armed Forces, its subsidiaries or government agencies and/or organizations that provide service to Romanian Armed Forces
 - Public or private enterprises producing for the Ministry of National Defense or the General Directorate of Security and/or organizations that provide service to Romanian Armed Forces

- Organizations that supply material or services to the government agencies in Romanian
- Organizations that supply material or services to the national armies or security forces of EU or NATO member states
- o Production and sales of 'controversial'¹ weapons such as landmines², including anti-personnel mines, biological weapons, chemical weapons, cluster munitions, nuclear weapons, depleted uranium and white phosphorus, as well as key components thereof.
- o Companies that operate in countries that are not signatories of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) or countries that act in violation of the NPT, and are involved in the production or sale of nuclear weapons or their components.
- o Producers of military assault weapons for civilian applications.
- o Companies that do not have relevant export licenses.
- Cases that constitute a violation of environmental, occupational health and safety legislation of the European Union and / or international conventions to which EU is a signatory ;
- Companies with concrete evidence (based on court decisions and related legal disputes) that proves the violation of existing laws and regulations or human rights regardless of country,
- Individuals and organizations that employ children and / or young workers against the working procedures established within the scope of national legislation and are engaged in forced labor,
- Individuals and entities that violate the principles of human rights as defined by the labor legislation in Romania and the following principles:
 - o The United Nations Universal Declaration of Human Rights,
 - o The requirements set forth by the international conventions to which Romania is a signatory, particularly the core principles of International Labor Organization, a United Nations agency whose mandate is to advance human rights, social justice and promote decent work
 - o The United Nations Global Compact, an international initiative to encourage companies to adopt ten principles that address all aspects of sustainability, including human rights, across their business cycles and strategies.
- Individuals and entities that contravene the legislation on misconduct or non-ethical conduct that covers deceit, fraud, embezzlement, bribery, corruption and all other unlawful acts,
- Production or trading of any product that is declared illegal pursuant to national legislation or international conventions, and / or pharmaceutical products that are subject to international prohibitions, such as like insecticides / herbicides, ozone depleting substances, or PCB's,
- Fisheries that use drift nets longer than 2,5 km and considered illegal³ and overfishing,

¹ The term 'controversial weapons' denotes weapons considered controversial by international opinion, governments or organizations such as the United Nations due to their capacity to inflict disproportionate number of casualties or their potential impact on the civilian population.

² Landmines are generally categorized into the two main groups of anti-personnel (AP) and anti-tank (AT) mines.

³ By international conventions signed by Romania/EU.

- Production or trading of wood products and other forestry products that are derived from forestry practices⁴ that are not managed in a sustainable manner and violate the EU legislation and international conventions to which EU is signatory.
- Commercial activities that adversely affect tropical rainforests
- Production, storage, transportation and trading of hazardous chemicals (including petroleum, kerosene and petrochemicals) in large quantities⁵
- Activities carried out in or threatening RAMSAR⁶ (Wetlands of International Importance),
- Activities with an impact area that jeopardize cultural heritage characteristics of UNESCO World Heritage Sites⁷
- Activities in breach of the provisions of CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)⁸
- Activities in regions designated by the Alliance for Zero Extinction⁹,
- Activities in regions designated under Categories 1 to 4 of the International Union for the Conservation of Nature (IUCN)¹⁰
- Activities carried out in areas where Indigenous Communities¹¹ without the written consent of these communities and / or against their will without informing them or including them in the decision-making process causing displacement or violation of their rights,
- Extraction, processing, sales and import of any form of asbestos, import or sales of any product that contains asbestos, production and processing or trading of asbestos products or asbestos-added products,
- Companies that engage in or are found to be involved with the production and/or trading of radioactive substances¹² (excluding power plants that meet the highest international standards built to meet the essential energy needs of a country and are essential for the national economy, medical equipment, quality control devices, and other cases where the radioactive substances are used in a limited manner, in negligible quantities and with appropriate protection in place).

⁴ The definition of Sustainable Forestry Management (SFM) is as stated in the resolutions of the Ministerial Conference on Protection of Forests in Europe, which was held in Helsinki in 1993 as part of the Pan-European regional process following the Environment and Development Conference in Rio in 1992. Forestry operations include the first link in the value chain that directly involves forestry activities, such as lumber and pulp wood production.

⁵ Applicable to microfinance activities.

⁶ For a list of RAMSAR sites, see <https://www.ramsar.org/country-profile/romania>

⁷ For the current list of heritage sites, see <https://whc.unesco.org/en/statesparties/ro>

⁸ For further information on species, see <https://cites.org/eng/app/appendices.php> The requirements of the “Regulation on the Implementation of the Convention on International Trade in Endangered Species of Wild Animals and Plants” are taken into account.

⁹ For the current list, see <https://zeroextinction.org/site-identification/2018-global-aze-map/>

¹⁰ For the current category descriptions of nature reserves, see <https://iucn.org/resources/conservation-tool/iucn-green-list-protected-and-conserved-areas>

¹¹ “Indigenous People” is a broad term that refers to ethnic groups that display the following characteristics in varying degrees and are significantly distinct in terms of their society and culture:

- Identification with distinct and unique local culture and being acknowledged as such by others;
- Communal dependence on different geographical habitats or ancestral territories and natural resources in these;
- Traditional, cultural, economic, social or political institutions that differ from those established by the prevalent society or culture; or
- An original language or dialect that is distinct from the official language or languages of the country or region.

¹² It is essential that such person or organization has an efficient control over the specified activities. Subcontractors undertaking the necessary work for the continuity of these activities are excluded.

- Persons and institutions mentioned in the black lists published by national and international authorities on money laundering and terrorism financing
- Companies whose headquarters located in countries sanctioned by the EU, the USA or the United Nations¹³

The list of prohibited and restricted activities and institutions / organizations / companies above applies to all internal financing transactions and to all corporate, commercial, SME and retail customers of the Bank. Unless otherwise stated, the definition and scope of the activities are determined based on national legislation and international conventions to which Romania is a signatory.

Coal Policy

BBVA Group committed to reduce its exposure to coal-related activities to zero by 2040 and the following actions will be implemented to achieve this goal :

- No new coal fired power plant will be financed by the Bank.
- No new coal mine will be financed.
- No limit increase on coal related business will be provided.

The list of prohibited and restricted activities and institutions / organizations / companies above applies to all internal financing transactions and all corporate, commercial, SME and retail customers of the Bank. Unless otherwise stated, the definition and scope of the activities are determined based on national legislation and international conventions to which Romania is a signatory.

All projects are assessed to check compliance with Bank policies and Garanti Bank SA's sectoral principles.

Garanti Bank SA's Sectoral Principles are established taking into consideration the highest risk sectors in terms of sustainability and the sectors that constitute the majority of the Bank's credit portfolio and are applicable only for Corporate and Commercial Customers. The norms are presented as follows under the headings:

- General provisions for all sectors
- Energy investments,
- Manufacturing sector investments with high impacts
- Transportation-infrastructure/housing-tourism sector investments
- Mining and gas investments
- Agribusiness investments
- Defense Sector

The measures set forth in the norms include recommendations for best practices alongside prohibited activities and prohibited customers.

The provisions given in Sectoral Principles Garanti Bank SA are applicable for Corporate and Commercial Customers.

The Bank may evaluate the environmental, social and governance criteria in more detail in activities where coal use is intense (i.e. cement industry, iron and steel industry, etc.).

¹³ International financial sanctions are coercive measures against States, non-State entities or individuals that pose a threat to international peace and security. Chapter VII of the United Nations Charter provides the legal basis for the imposition of coercive measures within the United Nations. At EU level, restrictive measures are defined as a key tool of the Common Foreign and Security Policy (CFSP) under Article 21 of the EU Treaty. The U.S. Treasury Department, and in particular the Office of Foreign Assets Control (OFAC), enforces and administers economic sanctions against certain countries, jurisdictions, individuals and institutions in order to protect national security and U.S. foreign policy

In these activities, Garanti Bank SA will encourage the investor to set emission reduction targets and to use applicable alternative technologies within fight with climate change.

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Specific examples of Sectoral Principles are provided below.

Energy Projects

Exclusions:

- New coal-fired power plants and expansion of existing power plants will not be financed.
- Arctic exploration, production and transport of oil and gas projects will not be financed.
- Exploration, production and transport of tar sands will not be financed.
- Single hull oil transport vessels will not be financed.
- Large dams that are required to be built under the World Commission on Dams (WCD) framework.
- New hydroelectric plants are required to have an adequate environmental and social risk management systems in relation to dam safety, environmental impact, labor regulations and population resettlement.
- Oil and gas extraction operations in areas of armed conflict will not be financed.

Environmental flow water is regarded as one of the critical issues in hydroelectric power projects.

Garanti Bank SA places emphasis on ensuring that basin water rights are observed and that environmental flow is sufficient to sustain the basin ecosystem and preserve river hydrology. It should be ensured that environmental water is meeting minimum standards set by official authorities. Furthermore, based on the results of these studies, the Bank may request that the project technical design be amended.

In order to preserve groundwater equilibrium, 100% reinjection is required in geothermal projects. In addition, necessary precautions should be taken during the process to prevent contamination of groundwater in relation to reinjection.

Transportation/ infrastructure Projects:

- Facilities are required to comply with the Ship Recycling adopted by EU
- Desalination plants are required to have adequate measures to mitigate the impact of brine removal and/or extraction of sea water.
- Impacts on aquatic / marine ecosystem should be assessed, and should be included in the mitigation and monitoring plan.
- Oceanographic/hydrographic reports should be prepared for ports/coastal facilities, filling/ dredging impacts should be assessed.

- Emergency Action Plans should be prepared for events like as accidents, collisions or leakages to the sea and systems to prevent dispersion of contaminants in the marine environment such as barriers, foams, etc. should be in place in case of any such event.

Mining Projects

- New coal mines or expansion of coal mines will not be financed.
- Water management strategies are prioritized. Reduction measures regarding project water requirements as well as recycling and re-use strategies are assessed. Prevention of acid rock drainage needs to be assured through a water management plan.
- Producers for whom there is evidence of controversies related to Mountaintop Removal mining will not be financed.
- Companies for whom there is evidence of controversies related to artisanal or small-scale mining will not be financed.
- Extraction, processing and marketing of asbestos will not be financed.
- Mines are required to have site closure and recovery plans.
- Mines are required to have occupational health and safety management plan.
- Mining waste is required to be managed according to industry best practices.
- Mine projects that dispose of tailings in coastal or shallow waters will not be financed.
- Seabed mines will not be financed.
- Mines in areas of armed conflict will not be financed.

Agribusiness Projects

- Clients for whom there is evidence of controversies related to the production or trade of substances subject to international prohibitions will not be financed.
- Clients engaged in the production, processing and marketing of palm oil through companies that are not members or are not in the process of becoming members of the Roundtable for Sustainable Palm Oil (RSPO) will not be financed.
- Clients engaged in non-health related animal testing will not be financed.
- Clients for whom there is evidence of controversies related to the production or trade of products regulated by the Convention on International Trade in Endangered Species of Wild will not be financed.
- Projects including burning of natural ecosystems to clear land for the development of agricultural projects will not be financed.
- Projects clearing of high conservation value and high carbon forests will not be financed.
- Production of first generation biofuels will not be financed.
- Use of substances prohibited by the Stockholm Convention, chemicals listed in Annex III to the Rotterdam Convention, WHO Class 1A or 1B or listed in the SIN list will not be financed.
- Exploitations of palm oil not certified or in process of certification by the Roundtable on Sustainable Palm Oil (RSPO) will not be financed.
- Palm oil exploitation in swamps and peat-rich areas will not be financed.

- Vessels operating with drift nets longer than 2.5 km or using drift nets intended for the capture of species listed in Annex VIII of EU Regulation 1239/98 will not be financed.
- Deep Sea Bottom trawling (deeper than 600 m below sea level) will not be financed.

Other Projects

- In industrial projects, management plans are necessary for industrial effluent water discharge. Best Available Technologies (BAT) should be preferred with respect to treatment facilities. Projects that enable efficient use, recycling and re-use are prioritized.

2. Identification of Non-financial Performance and Potential Risks

2.1. Preliminary Customer ESG Assessment

Garanti BBVA Romania has the screening questions regarding customer's environmental, social and governance (ESG) performance in internal procedures.

2.2. Carbon Pricing

In terms of carbon pricing, Garanti Bank SA reflects the cost of carbon to feasibility assessments of financing requests for projects that fall within the scope given below. This enables prioritization of renewable energy projects.

The scope of this practice is limited to new power plant investments (regardless of the amount) that are subject to project finance transactions.

In terms of carbon pricing, Garanti Bank SA reflects the cost of carbon to feasibility assessments of financing requests for projects that fall within the scope given below. This enables prioritization of renewable energy projects.

The following guidelines explain the carbon pricing method for shadow price of carbon.

- Positive or negative shadow carbon pricing is applied to financial assessments of all projects concerning new fossil fuel-based and renewable energy investments / capacity increases.
- If the country where the project is implemented has an ongoing emission trade (both voluntary and mandatory) program or a carbon tax in place, the actual carbon price is used. Otherwise, the current price per tonne CO₂ equivalent available in EU Emission Trade System is taken into account while assessing feasibility.

2.3. Detailed Assessment

For project-related financing transactions that meet the following amount/transaction criteria, more comprehensive analysis are in place.

These processes are developed for four separate groups, namely general environmental and social impact, Occupational Health and Safety (OHS) impact, risks driven by digitalization, and deforestation impact. The guidelines to be followed in the processes are indicated below.

2.3.1. Environmental and Social Impact Assessment Model (ESIAM)

Garanti Bank SA employs the Environmental and Social Impact Assessment Model (ESIAM) process and model to categorize and rate the projects based on their nature, scale, sensitivity, location and potential environmental, social and OHS impacts. Actions are taken on the basis of the risk score obtained under the model.

ESIAM is performed for the five main financial transactions described below:

1. All project finance loans (included residential projects) that meet the criteria specified below:
 - i. For COR and commercial clients
 - ii. For large, complex and expensive facilities
2. Corporate Loans (Working Capital Loans) that involve construction of a new project or capacity increase of an existing one and that satisfy all of the following criteria¹⁴
 - The majority of the loan is related to a project over which the borrower has effective operational control directly or indirectly.
 - The total amount of the loan and the participation of Garanti Bank SA (before syndication sales) is USD 50 million or more.
 - A minimum tenor of two years at minimum.
 - The lender anticipates that the primary funds for repayment of the loan are derived from the project.
 - The scope also includes export financing¹⁵ to be granted as buyer credit to private sector or public enterprises. On the other hand, it does not apply to other financial instruments that are not linked to any project, such as asset finance, acquisition financing, hedging, leasing, letter of credits, general purpose corporate loans and general working capital expenditure loans (for a company to continue its operations).
3. Bridge loans that are intended to be refinanced by project finance or a project-related corporate loan in relation to a Project satisfying the criteria defined in the articles 1 and 2 above .
4. Project financing advisory services for project finance transactions defined in the article 1 above. : financial advisory work for projects that do not involve funding commitment.

¹⁴ As defined in the Equator Principles 4, 2020

¹⁵ Export financing (or export loans) involves supporting an exporter and / or a buyer to whom the exporter will ship goods, by means of financing and/or insurance during pre-shipment and / or post-shipment periods. Export financing is classified in various categories such as short, medium or long term according to its duration, buyer or seller credits according to the party whose risk is taken and pre-shipment or post-shipment financing depending on place and purpose of utilization.

Such support may be in the form of financial support, pure cover, etc.

5. Refinancing or acquisition loans used for a specific project or investment: Those projects that meet all of the following three criteria:
- Such Project has been financed in accordance with the Equator Principles framework.
 - There has been no significant change in the scale or scope of the Project.
 - Project Completion has not yet occurred at the time of the signing of the loan agreement.

The operations included in these five categories require the ESIAP analysis. The standards adopted under ESIAM include but are not limited to the Core Principles and are based at a minimum on the International Finance Corporation Performance Standards (IFC PSs) and/or the European Bank for Reconstruction and Development Performance Requirements (EBRD PRs).

2.3.2. OHS Risk Assessment (OHSRA) System

Garanti Bank SA has established a more comprehensive OHS Risk Assessment (OHSRA) System for assessing Occupational Health and Safety ('OHS') performance of projects it finances. The assessment involves systematic analysis of OHS risks pursuant to the legal requirements in Romania and in line with international standards.

This assessment system will be used in cases deemed necessary for all project finance loans

The risk assessment methodology is as follows:

- Specification of questionnaires to be used in each stage,
- Answering questionnaires,
- Determining the risk level of the project based on the answers given, and
- Assigning actions commensurate with the determined risk level.

For High-risk infrastructure (highway, airport etc.) and mining projects with a Final Grade of 1 based on the result of ESIAM it should be appointed an independent occupational health and safety expert, limited to the construction phase of the project. The scope of such effort is determined by Garanti Bank SA.

2.3.2. Deforestation Impact Management Process

The following measures are taken in financing activities in order to control deforestation. Identification and management of deforestation risks .

In case of financing new investments that fall within the scope of ESIAM and rated with a Final Grade of 1 and 2, especially in the case of those involving large swaths of land, a detailed due diligence is conducted to identify the deforestation impact of the project, and if such impact is identified, all necessary measures are made mandatory.

These measures include the following:

- The sponsors are expected to use all their reasonable and necessary efforts to minimize the deforestation (rerouting, moving the trees, etc.).
- If such impact cannot be prevented, the debtor is required to give a Commitment of Reforestation for planting trees based on the environmental and social risk score of the project, unless approved otherwise by Garanti Bank SA.
- This commitment includes both total area in hectares (ha) and total number of trees.
- Estimation methodology for number of trees/area (ha) must be defined in detail in the Commitment and approved by the Bank. The number of trees and reforestation area are determined in accordance with the risk level of the project. The Commitment must entail planting trees at least 4 or 5 times the number of trees impacted by the project and its auxiliary units, even if the relevant area is not considered a forest land under national and international definitions.
- As an alternative, the debtor may propose to offset carbon emission via conservation of biodiversity or buying carbon credit. Such proposals are evaluated by the ESG officer and/or environmental consultant of the Bank, and may replace the commitments mentioned above if the Bank deems appropriate.

3. Management of Non-Financial Performance

GCA (General Credit Agreement) and/or GBTC (General Business Terms and Conditions) of Garanti Bank include commitments related to compliance with environmental social legislation and Environmental and Social Loan Policies.

The Bank oversees whether the projects and / or entities financed meet social, environmental, OHS, etc. standards stipulated by the Bank's policies and the legislation, whether the project owners carry out impact assessments when required, implement defined measures and have efficient internal audit systems.

If the financing transaction falls within the scope mentioned in the Carbon Pricing and Detailed Assessment sections, the Bank will implement the risk assessment process / processes explained in the related sections.

When deemed necessary based on the risk score obtained following this assessment, an Environmental and Social Action Plan is drawn up in collaboration with an independent consultant and / or the Bank's ESG experts.

The Action Plan is incorporated into the loan agreement and an Independent Consultant and/or the Bank's ESG experts monitor the execution of the steps indicated in the Action Plan during a time period to be specified by the Bank within the term of the loan.

The Environmental and Social Monitoring Plan is utilized at least semiannually during the construction period and annually during the operating period for high risk projects. The ESG officers determines the timespan of monitoring during the term of the loan, based on the level of risks and whether such risks persist.

The items to be followed in the Action Plan consist of quantifiable outcomes that originate from the development of the project or activities of the entity and that are intended for recovering material residual negative impacts that remain after prevention, mitigation and reclamation measures and for protecting environmental and social

interests. The main objective of Garanti Bank SA while preparing and implementing the Plan is to develop protection mechanisms of its customers against non-financial risks and contribute to the Sustainable Development Goals.

Acronyms:

ESLP: Environmental and Social Loan Policies

ESG: Environmental, Social, Governance

OHS: Occupational Health and Safety

SME: Small and Medium Enterprises

COR: Corporate

GCA: General Credit Agreement

GBTC: General Business Terms and Conditions.

IFC: International Finance Corporation

EBRD: European Bank for Reconstruction and Development

GHG: Greenhouse Gas

CO2: Carbon dioxide