



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

PD000447-TUR
May 20, 2021

**Project Document
of the Asian Infrastructure Investment Bank
Sovereign-Backed Financing
Republic of Turkey
Eximbank COVID-19 Credit Line Project
(under the COVID-19 Crisis Recovery Facility)**

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Currency Equivalents

(As at 31 March 2021)

Currency Unit – Turkish Lira (TRY)

USD 1.00 = TRY 8.3246

TRY 1.00 = USD 0.1201

Fiscal Year

1 January-31 December

Abbreviations

AIIB	Asian Infrastructure Investment Bank (the “Bank”)
BRSA	Banking Regulation and Supervision Agency
CAR	capital adequacy ratio
CAPEX	capital expenditure
CBRT	Central Bank of the Republic of Turkey
COVID-19	coronavirus disease
E&S	environment and social
ESEL	Environmental and Social Exclusion List
ESP	Environmental and Social Policy
ESS	environmental and social standards
EU	European Union
FI	financial intermediary
FX	foreign exchange
GDP	gross domestic product
IFI	international financial institution
IFRS	International Financial Reporting Standards
KGf	Turkish Credit Guarantee Fund (Kredi Garanti Fonu)
KYC	know-your-customer
MDB	multilateral development bank
NPL	nonperforming loan
SME	small and medium-sized enterprise
MoTF	Republic of Turkey, Ministry of Treasury and Finance,
OPEX	operating expenditure
OPS	other productive sectors
PEP	politically-exposed person
POM	Project Operations Manual
PMU	Project Management Unit
SMS	Sustainability Management System
TSKB	Türkiye Sınai Kalkınma Bankası (Industrial Development Bank of Turkey)
TKYB	Türkiye Kalkınma ve Yatırım Bankası (Development and Investment Bank of Turkey)
TRY	Turkish lira
USD	United States dollar
WHO	World Health Organization

CONTENTS

1. SUMMARY SHEET	1
2. PROJECT DESCRIPTION	3
A. Project Overview.....	3
B. Rationale.....	3
C. Components.....	5
D. Cost and Financing Plan	6
E. Implementation Arrangements.....	7
3. PROJECT ASSESSMENT	9
A. Technical.....	9
B. Economic and Financial Analysis	9
C. Fiduciary and Governance.....	16
D. Environmental and Social.....	18
E. Operational Policy on International Relations.....	20
F. Risks and Mitigation Measures.....	20
Annex 1: Results Monitoring Framework	23
Annex 2: Detailed Economic and Financial Analysis.....	24
Annex 3: Turkey: Sovereign Credit Fact Sheet	25
Annex 4: Eximbank Organization Chart.....	29
Annex 5: Sub-Loan and Sub-Borrower Eligibility Criteria	30

1. Summary Sheet
Republic of Turkey
Eximbank COVID-19 Credit Line Project

Project No.	000447-TUR
Borrower	Türkiye İhracat Kredi Bankası A.Ş.
Guarantor	Republic of Turkey
Project Implementation Entity	Türkiye İhracat Kredi Bankası A.Ş.
Sector	Finance or Financial Sector
Subsector	Financial Intermediary (FI)
Project Objective	To increase access to finance of firms in Turkey's export sector that face liquidity constraints caused by the coronavirus disease (COVID-19) pandemic.
Project Description	The proposed Eximbank COVID-19 Credit Line Project will provide a sovereign-backed credit line (Credit Line) to Türkiye İhracat Kredi Bankası A.Ş. (Export Credit Bank of Turkey, Eximbank). Eximbank will then on-lend the proceeds from the Credit Line to sub-borrowers operating in the export sector in Turkey, providing working capital support to alleviate the liquidity constraints caused by the COVID-19 pandemic. This project will be processed under AIIB's COVID-19 Crisis Recovery Facility, ¹ a framework designed to assist members to respond to the COVID-19 pandemic.
Implementation Period	Start Date: June 2021 End Date: September 30, 2022
Expected Loan Closing Date	September 30, 2022
Cost and Financing Plan	Project Cost: USD250 million Financing Plan: AIIB Credit Line of USD250 million
Size and Terms of AIIB Loan	USD250 million Single disbursement amount: 100% of the Credit Line, i.e., USD250 million. Sub-loans tenor: Up to 36 months. Credit Line will have a bullet maturity at 54 months (4.5 years) and will be made on standard Fixed Spread Loan terms for sovereign-backed loans.
Environmental and Social Category	FI
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	To include: <ul style="list-style-type: none"> – Adoption of Project Operations Manual (POM). – Execution of an in-house representation letter, in form and substance satisfactory to the Bank. – Project-level External Communication Mechanism is adopted in the form and substance in a manner satisfactory to the Bank.

¹ The Facility was approved by the Bank's board on April 16, 2020 ([link](#)).

Key Covenants	<ul style="list-style-type: none"> – Borrower to undertake the Project in accordance with the POM. – Sub-loan limits per borrower: <ul style="list-style-type: none"> ○ SME: USD5 million ○ Non-SME: USD30 million – Prohibited uses: dividends, share buybacks, retrenchment payments, capex, payments for land. – Exclude financing any activity under AIIB's ESEL, Higher E&S Risk Activities which would include all Category A activities and selected Category B activities, coal-related activities, and other sectors and activities as listed in Figure A5.2: Excluded Sectors and Activities within Sectors.
Retroactive Financing (Loan % and dates)	Up to 20% of the Credit Line may be used for retroactive payments made within 12 months prior to the date of the Loan Agreement.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Project.

President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Najeeb Haider
Manager (Acting)	Stefen Shin
Project Team Leader	Dominic Richards, Senior Investment Officer
Team Members	Changyu Sun (Cassie), Investment Associate Chee Wee Tan, Senior Environmental and Social Specialist - Private Sector Irem Kızılca, Economist Liu Yang, Counsel Yunlong Liu, Procurement Specialist Shonell Robinson, Financial Management Specialist

2. Project Description

A. Project Overview.

1. **Project Objective.** Eximbank COVID-19 Credit Line Project targets to increase access to finance of firms in Turkey's export sector facing liquidity constraints caused by the coronavirus disease (COVID-19) pandemic.

2. **Project Description.** The proposed Eximbank COVID-19 Credit Line Project will provide a sovereign-backed credit line (Credit Line) to Türkiye İhracat Kredi Bankası A.Ş. (Export Credit Bank of Turkey, Eximbank). Eximbank will then on-lend the proceeds from the Credit Line to sub-borrowers operating in the export sector in Turkey, providing working capital support to alleviate the liquidity constraints caused by the COVID-19 pandemic.

3. This project will be housed under AIIB's COVID-19 Crisis Recovery Facility, a framework designed to assist members to respond to the COVID-19 pandemic, and will closely follow the "Turkey COVID-19 Credit Line Project", which extended an aggregate USD500 million credit line to two of Turkey's largest development banks. For more details, please refer to Section B: Rationale.

4. **Expected Results.** The results of the Project are expected to be monitored through the following indicators:

- (i) Short-term financing provided to export companies.
- (ii) Number of sub-borrowers.
- (iii) Amount of financing provided to women-inclusive enterprises.
- (iv) Limited non-performing loans.
- (v) Number of employees retained by sub-borrowers.
- (vi) Export volumes undertaken by sub-borrowers.

5. **Expected Beneficiaries.** The Project is expected to benefit several key stakeholders:

- (i) Eximbank, who will channel funds to its client base.
- (ii) Turkish firms operating in the export sector, who face liquidity and working capital challenges in the current environment.

B. Rationale

6. **Strategic Fit for the Asian Infrastructure Investment Bank.** COVID-19 was declared a pandemic on March 11, 2020 by the World Health Organization (WHO). The Asian Infrastructure Investment Bank (AIIB) launched a COVID-19 Crisis Recovery Facility (the Facility) to offer up to USD13 billion of financing to public and private sector entities facing severe adverse impacts as a result of the pandemic during the period April 2020 to October 2021. The proposed Credit Line is to be processed under the Facility and the use of proceeds of the proposed Credit Line is aligned with the AIIB COVID-19 Crisis Recovery Facility Paper² in respect of the scope outlined in paragraph 14.3 of the paper ("to address liquidity constraints for clients in infrastructure and other productive sectors").

7. **Value Addition by AIIB.** Provision of financing to its banking industry and export sector is critical to the Turkish economy. The country was emerging from a crisis episode in

² AIIB Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility ([link](#))

2018–2019 and had not fully recovered. While signs of economic expansion were evident in 2H 2019 in the form of growing exports and tourism, COVID-19 has occurred at a time when the Turkish economy is still fragile. Annex 3: provides an overview of the macroeconomic situation and the potential impact of the crisis on the Turkish economy.

8. **Impact of the Crisis on the Turkish Banking Industry.** Banks account for over 70 percent of all financial services, according to Turkey’s Investment Office. As of March 2021, Turkey had 54 banks, including 34 deposit banks, 14 development and investment banks, and 6 participation banks.³ The TRY has been volatile since the outbreak of the pandemic, depreciating by over 20 percent since March 11, 2020 when the WHO declared COVID-19 to be a pandemic. Although the Turkish banking sector has sustained healthy capital ratios to date, according to Eximbank, many exporters struggle to access capital from private sector banks. In addition, the depreciation of the currency could lead to liquidity pressures on the banking sector.

9. **Relevance of the Turkish Export Sector.** The export sector in Turkey has been a key contributor to economic growth, with exports increasing from USD28 billion in 2000 to USD170 billion in 2020,⁴ representing a 9.5 percent compound annual growth rate and amounting to 24 percent of gross domestic product (GDP) today. National economic strategy documents also highlight exports as a priority for future growth,⁵ as well as a driver for further competitiveness and productivity enhancements: “On the basis of policies that increase competitiveness and productivity, the solid foundations of export-oriented transformation that will enable more exports with a production structure that is less dependent on imports will be revealed.” Indeed, the export sector was highlighted as important in driving productivity improvements in Turkey by the World Bank, with larger and small and medium-sized enterprise (SME) exporters being 25 percent and 8 percent more productive than domestic-only counterparts respectively.⁶ The export sector is deeply integrated into the wider economy, with supply chains throughout the country providing inputs for key export sectors such as textiles, automobiles, apparel, and machinery. The sector is also important in the Turkish economy due to its resilience during periods of weaker domestic economic growth or downward pressure on the currency. During 2018 and 2019, when the country saw an economic contraction, exports continued to grow, helping to avoid a deeper recession.

10. **Impact of the Crisis on the Turkish Export Sector.** COVID-19 led to a global economic slowdown and decline in demand for exports, including among some of Turkey’s largest export partners (the European Union, the United Kingdom, and Russia). There was a marked decline during April and May 2020, with monthly export figures approximately 40 percent below 2019 levels. However, the Turkish export sector subsequently rebounded with fourth quarter 2020 volumes higher than 2019.⁷ While there has been a recovery in the export market, there remains a need for liquidity among many exporters, particularly SMEs, as a number of these firms have yet to return to pre-pandemic levels of activity and are seeking financing to cover operating expenses as the market starts to recover.

11. **Government Response.** Travel bans, quarantines, and curfews were introduced in mid-March, in line with the broader global response to the pandemic. As of February 2021, majority of restrictions had been lifted, including the phased resumption of international flights and reopening of most land borders.

³ The Banks Association of Turkey ([link](#)).

⁴ Eximbank, Turkish Statistical Institute, based on contemporaneous exchange rates ([link](#)).

⁵ Turkey Eleventh Development Plan 2019-23 ([link](#)).

⁶ World Bank Country Economic Memorandum, 2019 ([link](#)).

⁷ Source: Turkish Statistical Institute ([link](#)).

12. In terms of fiscal measures, in March 2020, a TRY100/USD15.4 billion stimulus package was announced, including TRY75/USD 11.5 billion in fiscal measures and TRY25/USD3.9 billion in credit guarantees. The measures included a number of support mechanisms including (i) raising pension and cash assistance for qualifying families, (ii) employment protection, (iii) a reduction in the corporate tax rate for affected industries (e.g., tourism), (iv) a temporary prohibition on redundancies, among others. As of early January 2021, Turkish authorities indicated that total economic support in response to COVID-19, when including other specific measures, totaled TRY646 billion,⁸ or 12.8 percent of GDP. Other measures introduced since the initial package include the reduction in consumption tax on education from 8 percent to 1 percent, and additional state payments to health sector workers and their families.

13. In monetary measures, the Central Bank of the Republic of Turkey (CBRT) cut its one-week repo rate (the policy rate) by 150 basis points (bps) (from 10.75 percent to 8.25 percent) at the outset of the pandemic.⁹ Due to pressure on the Turkish lira, CBRT increased its policy rate 875 bps to 17 percent in December 2020, and subsequently to 19 percent in March 2021.

14. From a regulatory standpoint, measures have been introduced for the banking sector to relieve pressure on metrics and lower the risk of regulatory threshold breaches. Measures include, (i) the relaxation of the definition of Stage 2 and 3 loans (90–180 days past due and more than 180 days past due respectively under Banking Regulation and Supervision Agency (BRSA) reporting),¹⁰ (ii) extension of maturities for loans due in 2Q20 until year-end, (iii) use of December 2019 exchange rates in the calculation of capital adequacy (pre-empting significant exchange rate fluctuation),¹¹ (iv) suspension of mark-to-mark losses on securities portfolios, and (v) 0 percent and 50 percent risk weightings on Turkish foreign currency securities and bank receivables (regardless of maturity) in the calculation of risk-weighted assets.

15. **Value Addition to AIIB.** The Project will constitute the first export credit agency transaction undertaken by AIIB and will represent a COVID-19 Crisis Recovery Facility being undertaken with a new client. Turk Eximbank is 100% owned by the Ministry of Treasury and Finance (MoTF) of Turkey, and the Project will enhance further AIIB's relationship with MoTF. Furthermore, AIIB has already engaged in COVID-19 Crisis Recovery Facility transactions in Turkey with other financial intermediary (FI) clients, and the envisaged transaction represents an opportunity to build new relationships and diversify AIIB's lending portfolio in the member country.

16. **Lessons Learned from Previous Projects.** The AIIB Project Team has employed a similar framework to that utilized in the recent AIIB sovereign-backed loans for Turkish banks TSKB and TKYB (see Turkey COVID-19 Credit Line Project, 000381) for sub-borrower industry grouping and other implementation arrangements. In addition, the Project Team has made use of Eximbank's Environmental and Social (E&S) framework and POM undertaken in a transaction with the World Bank.

C. Components

⁸ According to IMF ([link](#)).

⁹ Source: CBRT ([link](#)).

¹⁰ IFRS reporting basis of Turkish banks, including Eximbank, remains unchanged, using 30 and 90 days respectively.

¹¹ For (iii), instead of December 2019 exchange rates, banks may calculate FX credit risk applying 252 business days average before the calculation date since December 2020. Eximbank does not apply measures (iv) and (v).

17. The proposed project will provide direct lending to new and existing Turk Eximbank clients operating in eligible sectors. See Annex 5: Sub-Loan and Sub-Borrower Eligibility Criteria for eligibility criteria.

D. Cost and Financing Plan

18. Amount.

- (i) The Project is a sovereign-backed loan for USD250 million being provided to Eximbank. The Borrower has provided an estimated pipeline which exceeds to the amount of the loan (see Paragraph 22). Sub-loans will be made in USD or EUR.
- (ii) Sub-loans to non-SME borrowers will have a maximum size of USD30 million and sub-loans to SME borrowers will have a maximum size of USD5 million.

19. Maturity.

- (i) The loan from AIB to Eximbank will have a maturity of 54 months (4.5 years). The loan will allow for a 100% drawdown, based on the advance method, and will have a bullet maturity.
- (ii) The maturity of sub-loans from Eximbank to the sub-borrowers will have a maximum duration of 36 months.

20. Pricing.

- (i) The AIB loan to Eximbank will be fixed-spread and follow the General Conditions for Sovereign-backed Loans¹² and pricing¹³ applicable to sovereign-backed financing loans.
- (ii) The sub-loans' pricing and maturity will be determined by Eximbank based on their assessment of the sub-borrowers. The interest rate will be equal to the cost of funds to the Borrower plus a margin reflecting operating costs and credit risk.

21. **Sub-borrower Eligibility.** Proceeds from the loan will be available to the Borrower in accordance with the selection criteria and parameters to be defined in the POM. Sub-borrowers will be private companies¹⁴ domiciled in Turkey (including free trade zones in Turkey), operating in the export sector as per Eximbank's criteria, not involved in Excluded Activities, in compliance with the law, meeting the Borrower's criteria in terms of creditworthiness', foreign exchange position, E&S risk profile, procurement, and know-your-customer (KYC) requirements. The proposed criteria are presented in Annex 5.

22. **Pipeline.** Eximbank has provided a USD334 million¹⁵ pipeline outlining on a no-names basis, by subsector, potential loans that could be deployed under the Credit Line.¹⁶ The pipeline includes companies in transportation, telecommunications, and manufacturing sectors and shows Eximbank's capacity to deploy the total amount of the Credit Line.

¹² General Conditions for Sovereign Backed Loans (2020). ([link](#)).

¹³ Sovereign-backed Loan and Guarantee Pricing (December 2019). ([link](#)).

¹⁴ Please refer to Annex 5 for eligibility criteria of Sub-Borrowers. Conditions include requiring more than 50% of sub-borrowers' shares to be owned privately (not directly or indirectly by any Governments nor Government-owned entities).

¹⁵ Excluding ineligible activities; including the latter, the pipeline amounts to USD 398 million.

¹⁶ The pipeline provided is a preliminary indication from Eximbank of estimated demand. Eximbank will screen pipeline sector eligibility before applying for disbursement.

E. Implementation Arrangements

23. The Project will be implemented with (i) Loan Agreement between AIIB and Eximbank, and (ii) Guarantee Agreement between AIIB and Republic of Turkey.

24. **Implementation Period.** The implementation period is expected to be from June 2021 (estimated loan effective date) to September 2022.

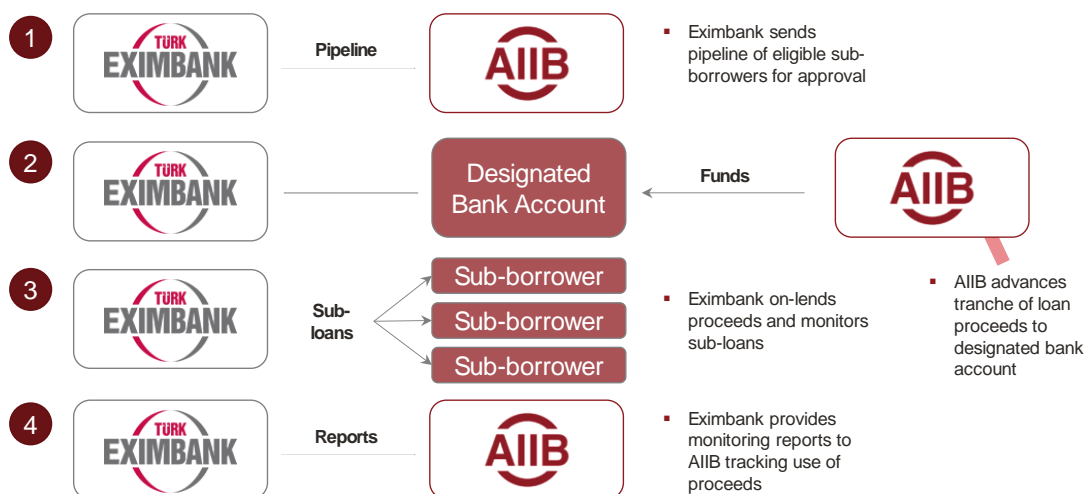
25. **Implementation Management.** Eximbank will be responsible for the implementation of the Project, which will be guided by a POM agreed with AIIB. Eximbank has authorized the establishment of a Project Management Unit (PMU) to oversee the on-lending to sub-borrowers, including the selection, appraisal, monitoring, record keeping, information management and reporting to AIIB. The PMU will ensure that Eximbank and the sub-borrowers comply with applicable laws, including the relevant BRSA prudential rules and the laws regulating lending activities in foreign currency as well as AIIB's fiduciary and E&S requirements as stated in AIIB's Environmental and Social Policy (ESP), Procurement Policy, and Policy on Prohibited Practices. The PMU will consist of representatives from Eximbank's Funding Department, Credit Allocation Department, Marketing Department, Strategy Department, and Financial Affairs Department. For Eximbank's organization chart, please refer to Annex 4: Eximbank Organization Chart.

26. **Sequencing Disbursement and Sub-Loan Dissemination.** The process of Credit Line disbursement is anticipated to be conducted as follows.

- (i) Eximbank will submit to AIIB a request for advancing the entire USD250 million credit line via a single disbursement, setting out a list of sub-borrowers, amounts forecast to be required over a defined period specifying those to be retroactively financed based on eligibility criteria to be set out in the POM, including satisfactory E&S risk assessments and monitoring, acceptable industry sectors, KYC elements, use of proceeds and sub-loan limits.
- (ii) AIIB will disburse funds against such request for advance to a segregated designated account maintained by Eximbank at the Citibank NY financial institution.
- (iii) Funds will then be transferred to a pooled USD operating account, also maintained at Citibank, for dissemination to sub-borrowers in USD, when the disbursement is about to be made.¹⁷ Eximbank will disseminate proceeds to eligible sub-borrowers in the form of sub-loans. Dissemination to sub-borrowers should be effected within under 1 year.
- (iv) Eximbank's PMU will monitor its sub-loans and will provide to AIIB quarterly withdrawal applications and summary of expenditures reports, to record with the Bank expenditures incurred. In addition, the PMU will provide periodic, unaudited and audited financial statements, auditors' management letters, and E&S reports. AIIB will reserve the right to review all sub-loans and conduct supervisory visits.
- (v) Eximbank may utilize principal repayments made by sub-borrowers to further finance other sub-loans as long as such activity does not impede the ability of Eximbank to repay the Credit Line at maturity.

¹⁷ EUR disbursements to sub-borrowers will be effected from Eximbank's pooled EUR account.

Figure 1: Disbursement and Sub-Loan Dissemination



AIIB = Asian Infrastructure Investment Bank.
Source: Eximbank.

27. **Monitoring and Evaluation.** During the loan implementation period, AIIB retains the right to review all sub-loans and conduct supervisory visits, including visits to the sub-borrowers at its discretion. Eximbank will regularly provide AIIB with reports including statement of expenditure forms, audited financial statements, auditors' management letters, certificates of compliance with national financial regulations and E&S reports, to be set out in the POM. Eximbank will be required to provide audited financial reports for the financial year and unaudited interim reports during the life of the loan.

28. An annual project audit will be executed by an external audit firm approved by BRSA and acceptable to AIIB. The audit report comprising of the Project audited financial statements and the management letters will become due to AIIB within six months of Eximbank's financial year-end (December).

29. **AIIB's Implementation Support.** Subject to travel restrictions resulting from the pandemic, AIIB will carry out an annual monitoring visit to Eximbank to oversee implementation of the Project. No technical assistance is envisaged.

30. **Procurement.** AIIB will provide financing to Eximbank as the FI borrower, which will on-lend the loan proceeds directly to eligible private companies in the export sector of Turkey in accordance with the POM which will be prepared. The Credit Line will provide liquidity for the payment of operating expenses, short-term assets (inventories, trade receivables, others) and short-term liabilities. It shall not support capital infrastructure investment financing. It is anticipated that the bulk of the loan utilization may not be relevant to procurement. In such a case, AIIB Procurement Policy does not apply. However, the AIIB loan might be used by the sub-borrowers/beneficiaries for procurement of goods, services for the purpose of operating expenses, and short-term assets. Under such circumstances, the private entities provisions for financial intermediaries in AIIB's Procurement Policy and Section III Procurement by Private Entities under the associated Interim Operational Directive on Procurement Instructions for Recipients shall apply to the Project. Eximbank should establish that sub-borrowers carry out the procurement of goods or services in accordance with the normal procurement practices of the private entities, including established commercial practices or appropriate procurement methods that are acceptable to AIIB, which is aimed to ensure that

the costs are in line with the fair market price. Public entities will not be financed, as will be provided for in the POM.

31. **Financial Management.** The financial management responsibility of the Project will be led by assigned finance and accounts officers within the PMU. The staff are professionals, experienced in managing the financial management function of projects financed by other multilateral development banks (MDBs) such as the World Bank and the European Investment Bank. In addition, they have substantial experience with the implementation of on-lending facilities of this nature.

32. Eximbank utilizes a range of financial systems and software to support its operations. However, the core financial system that will be used for the accounting and reporting of project transactions is the comprehensive loan system called “New Loan Project” adopted by Eximbank approximately 3 years ago. This comprehensive system will capture transactions from loan initiation, through to the accounting and reporting of sub-loans. This will enable the proper monitoring, and timely preparation of financial information on each sub-loans and project implementation overall.

33. The financial management and internal controls procedures will be guided by the POM and existing accounting and financial procedure manuals of Eximbank. The control environment is further enhanced by the existing Internal Audit and Internal Controls Directorates, which both report directly to the Board through the Audit Committee.

34. Eximbank will be required to provide to AIIB, annual entity and project-specific audit reports. The external audit of the Project will be executed by an independent external audit firm approved by BRSA and deemed acceptable AIIB. The audit will be executed in accordance with a term of reference agreed with AIIB. The project-specific audit report will cover the commencement of the retroactive financing period to the closing date of the Project. The report will become due within 6 months of the project closing date. The entity audited financial statements will become due within 6 months of Eximbank’s financial year end. An abridged version of the Project audited financial statements and Eximbank’s entity financial statements will be published on Eximbank’s website.

3. Project Assessment

A. Technical

35. AIIB has reviewed Eximbank’s capacity to implement the loans. Eximbank has a track record of managing MDB-funded facilities and on-lending to sub-borrowers and this format represented approximately 14 percent of its total debt funding as of December 2020. The Project Team has undertaken an assessment of the technical aspects of the Borrower’s loan review process, which are outlined in Eximbank’s financing approval and monitoring procedures. These segregate the duties of separate departments involved in identification, screening, evaluation, monitoring and recovery of loans. The staff are professional, highly responsive and technically capable of performing the sub-loan assessments, monitoring and E&S supervision.

B. Economic and Financial Analysis

36. The economic and financial analysis focuses on the financial soundness, portfolio quality, and risk management capabilities of the Borrower, and the initial review of the proposed preliminary pipeline (see Paragraph 22). The Project Team has completed its business and financial due diligence on Eximbank. Overall, Eximbank presents a solid and conservative approach to lending. The bank has a 100 percent collateralized loan book, minimal nonperforming loans, a high capital adequacy ratio and a strong liquidity position.

37. **The Borrower.** Eximbank was established in 1987 as Turkey’s official export credit agency. Eximbank is fully owned by the Turkish Ministry of Treasury and Finance, and operates out of its headquarters in Istanbul, with 3 regional directorates, 11 liaison offices, and 20 branches across the country. Its primary objectives comprise increasing export volumes, diversifying export goods and services, developing new export markets, increasing Turkish exporters’ share of international trade, promoting and supporting the production and sale of investment goods for export, and gaining competitiveness.

38. Through its Corporate Banking segment, Eximbank supports exporters with financing for both pre- and post-shipment periods. During 2019, approximately 10,500 firms benefited from these loan programs, with priority being given to SMEs.¹⁸ Eximbank’s Pre-Export Credit Program provides short-term financing to exporters and manufacturers producing goods for export, thereby providing confidence to buyers that exporters have the liquidity needed to get goods ready for shipment. Eximbank also provides confidence and assurance to exporters, overseas contractors and international investors through its insurance products. For example, the receivables insurance product allows exporters to offset the customer payment risk when they commence exporting to new markets. Through these activities, Eximbank supported 25 percent–30 percent¹⁹ of Turkish exports in 2019–2020.

39. Eximbank’s 2021 Annual Program targets providing approximately USD51 billion in support to the Turkish export sector, comprising USD30 billion in loans and USD21 billion in insurance and guarantee programs up from USD28.5 billion and USD17.1 billion respectively in 2020.

40. **Eximbank Support for Clients.** Eximbank implemented various measures to support its clients during the pandemic, including extension of credit repayment terms, extension of the maximum maturity available for Rediscount Credit Program,²⁰ and extension of maturity for insurance products without additional premium cost.

41. **Sovereign Support and Ratings.** Eximbank benefits from a range of support provisions. These include the full reimbursement of any losses realized as a result of political risk,²¹ exemption from corporate and stamp duty tax, exemption from the reserve requirement ratio and guarantees from the Ministry of Treasury and Finance for borrowings from international finance institutions (IFIs). The definition of political risk includes transfer restrictions, foreign exchange restrictions, and war, and claims made in relation to this must be addressed to the Treasury.

42. Eximbank has a long-term issuer rating of B2 (negative outlook) from Moody’s and B+ by Fitch and benefits from a rating uplift from the assumption of government support.

Table 1: Credit Ratings

	Moody’s	Fitch	S&P
Eximbank Long-Term Foreign Currency	B2 (neg)	B+ (stable)	Not Rated
Turkey Sovereign Rating	B2 (neg)	BB- (stable)	B+ (stable)

¹⁸ Defined by Eximbank as firms with less than 250 employees and neither revenue nor assets in excess of TRY125 million (approximately USD15 million).

¹⁹ Eximbank investor presentation.

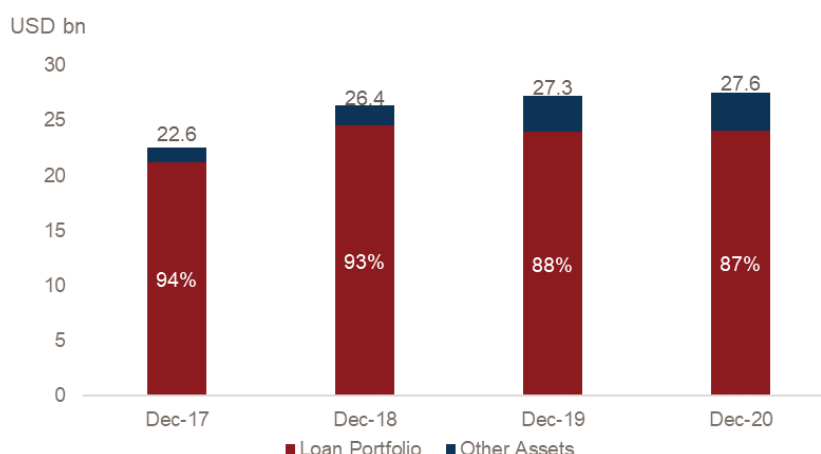
²⁰ Rediscount credits are effectively a financing product provided by CBRT to exports, where Eximbank acts an agent. They are available in TRY and foreign currency.

²¹ Under Article 4(C) of Law No. 3332 dated March 31, 1987 under which the bank was founded.

Source: rating agencies.

43. **Portfolio Size.** As of December 2020, Eximbank has total assets of USD27.6 billion, and is the largest investment and development bank in Turkey, as well as the ninth largest bank in the country overall.²² Total assets have grown at a compound annual growth rate of 6.9 percent since 2017 in USD terms. Total assets remained flat in 2020 due to the devaluation of the Turkish lira.

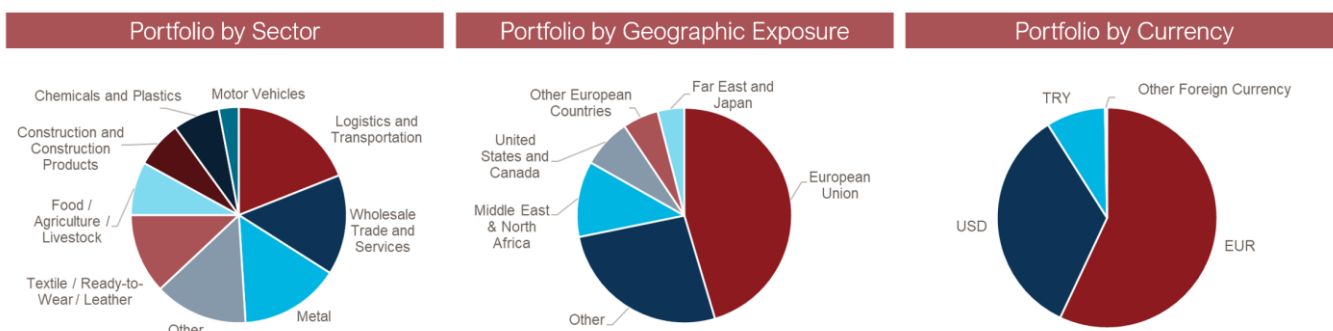
Figure 2: Eximbank Total Assets 2017-2020



Note: Where applicable, fourth quarter 2020 data is updated per unaudited interim financials provided by Eximbank. The audited full set of 2020 financials should be publicly available in the second quarter of 2021. TRY/USD of 7.3647 (Dec-20), 5.9407 (Dec-19), 5.2801 (Dec-18), and 3.7750 (Dec-17). Source: Eximbank financial reports.

44. **Portfolio Maturity.** The maturity profile of the loan portfolio is similar to that of Eximbank’s own debt funding. The majority (67%) of the portfolio has a tenor of less than 2 years, with approximately 45 percent of the loan book having less than 1-year maturity, mirroring Eximbank’s use of the Rediscount Credit Program. The long-term portfolio mostly has maturities of greater than 5 years, with relatively fewer loans maturing in the 2–5 year period.

Figure 3: Eximbank Loan Portfolio



²² Ranking based on total assets as of December 30, 2020. Banks Association of Turkey ([link](#)).

Note: Eximbank’s loan portfolio as of 2020 year end.
 Source: Eximbank investor presentation.

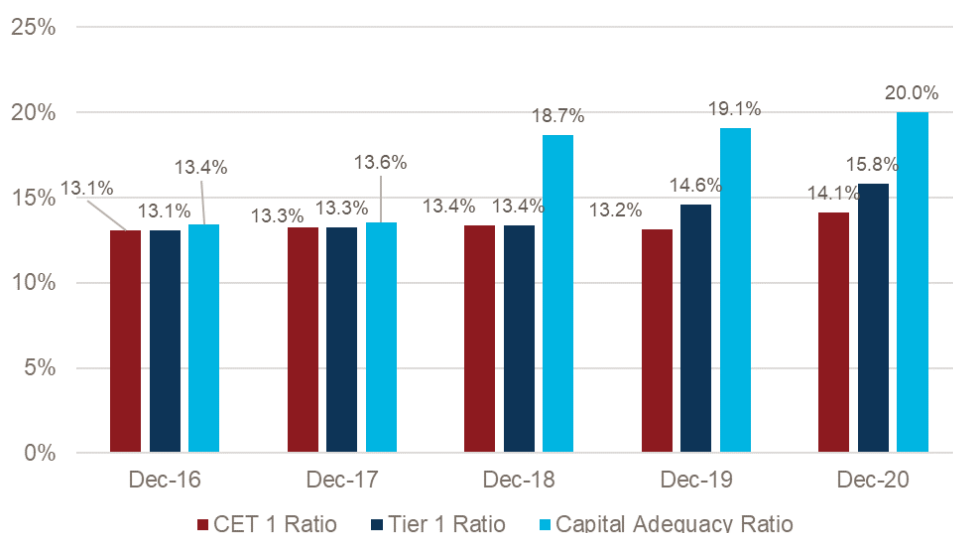
45. **Customer Types.** Majority of Eximbank’s customers are corporates (93 percent), with the remaining balance comprising foreign financial institutions under buyers’ credit program and domestic financial institutions for indirect lending business.

46. **Eximbank Currency Exposure/Hedging.** Majority of Eximbank’s lending is undertaken in foreign currencies. More than 90% of Eximbank’s loan portfolio is denominated in USD and EUR, with majority of financing provided by CBRT loans (rediscount credits), IFI loans, bonds, and other borrowings mostly denominated in foreign currency. Borrowers are encouraged to borrow in the currency in which they generate revenue, and all loans are extended with a policy of 100 percent export commitment utilization.²³ Assets denominated in TRY are predominantly funded by equity. As of December 2020, foreign currency liabilities were 100 percent covered by foreign currency assets. Eximbank’s policy is to currency-match assets with liabilities and use derivatives to hedge exposures where this is not possible. Foreign exchange positions are monitored daily and managed within limits set out in policies approved by the Board of Directors.

47. **Strategy.** Eximbank’s current portfolio is weighted toward short-term loans. However the bank aims to increasingly focus on medium- and long-term lending, as well as broadening its activities toward more insurance and guarantee programs, as well as other products (for example, since 2011 Eximbank has offered foreign currency options to assist Turkish exporters manage exchange rate risk).

48. **Capital Adequacy.** As of December 2020, the capital adequacy ratio (CAR) and the common equity tier 1 ratio stood at 20.0% and 14.1% respectively. CARs have generally increased over time due to greater growth in equity capital than risk-weighted assets. Eximbank has experienced profitable operations and has made minimal dividend payments.

Figure 4: Eximbank Capital Ratios Over Time

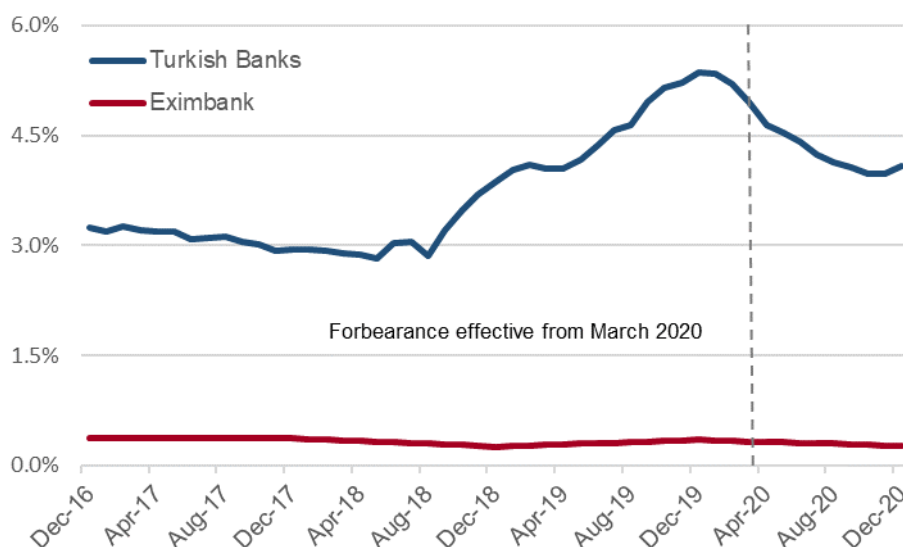


Source: Eximbank investor presentation.

²³ That is, if a borrower seeks to borrow USD1 million, they must generate at least USD1 million plus interest equivalent in foreign currency export or foreign currency earning services over the life of the loan. For this project, only sub-loans financing eligible foreign currency exports will be considered.

49. **Asset Quality.** Eximbank's nonperforming loan (NPL) ratio is significantly lower than other banks in Turkey at 0.27 percent as of December 2020 relative to 4.08 percent in the broader Turkish banking industry. This is driven by the bank's risk assessment methods and use of commercial bank guarantees as collateral to cover 100% of all payment obligations underlying loans.²⁴ In the event of non-payment by a borrower, Eximbank has the right to liquidate the letter of guarantee.

Figure 5: Eximbank Nonperforming Loan Ratio versus the Turkish Banking Sector



Source: Eximbank investor presentation, BRSA.

50. Debts are classified as NPLs by Eximbank²⁵ if (i) overdue by more than 180 days, or (ii) it is determined the debt will not be paid off regardless of overdue days. The recovery process begins with a demand letter sent to the borrower. Eximbank will seek to negotiate restructuring and repayment schedule. If the borrower fails to pay, Eximbank will apply for the collateral, which is either guarantee from commercial banks or the Turkish Credit Guarantee Fund (Kredi Garanti Fonu (KGF)).

51. Under BRSA regulations, Eximbank is exempt from the requirement to undertake provisioning in its BRSA financial statements. However, Eximbank has chosen to engage in provisioning within its BRSA financial reporting. In addition, Eximbank complies with International Financial Reporting Standards (IFRS) 9 rules for provisioning irrespective of the exemption. As loans are 100 percent collateralized by guarantee from either Turkish commercial banks or KGF, Eximbank incorporates Probability of Default of both underlying borrower and guarantor into its Expected Credit Loss model.

52. **Loan Concentration.** Eximbank's loan concentration is relatively low with the top 10 clients representing 18.4 percent of the current loan portfolio as of September 2020. All these exposures are 100 percent collateralized by commercial bank or KGF's guarantees.

²⁴ Around 98% covered by commercial banks and 2% by the government-funded KGF.

²⁵ Nonperforming loan is also expressed as loans under follow-up by Eximbank.

53. **Management.** Eximbank is led by its general manager (equivalent to chief executive officer), Mr. Ali Güney, who graduated with a degree in Economics and Administrative Sciences and started his career in finance in 1990. Before moving to Eximbank in 2019, Mr. Güney was the deputy general manager responsible for Treasury and Strategy at Vakıf Participation Bank. Eximbank has six deputy general managers, each responsible for different business divisions of the bank as listed in Annex 4: Eximbank Organization Chart. All deputy general managers have been in the banking industry for at least 20 years.

54. The current chair of the Board of Directors is deputy minister of Treasury and Finance, Mr. Şakir Ercan Gül. Except for the Eximbank's general manager, who is appointed by the Board of Directors, other board members, including the chair, are elected by the General Assembly. Eximbank is subject to BRSA prudential oversight.

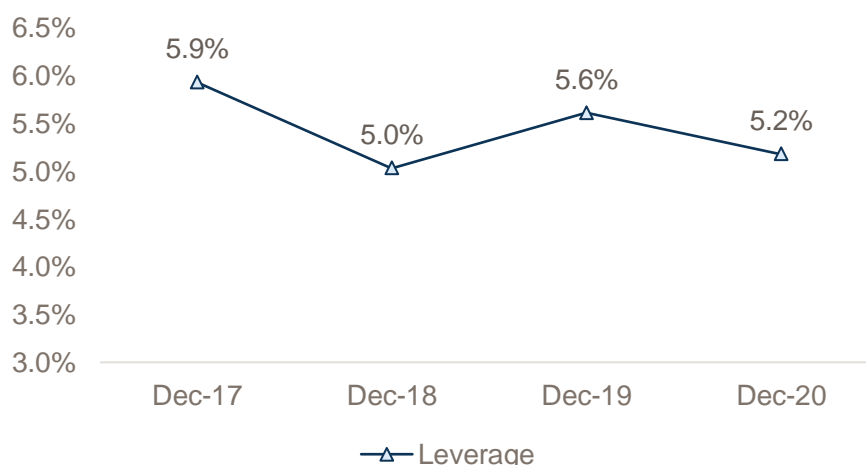
55. **Profitability.** Eximbank's return on average equity (ROE) stood at 16.5 percent for 2020, ahead of the median of the Turkish banking sector at about 11 percent over the same period²⁶ and compared to 18.7 percent for Eximbank in 2019. The decrease in Eximbank's ROE resulted from the expansion in Eximbank's shareholders' equity due to a capital injection from MoTF during 2020. On an absolute basis, Eximbank's net profit increased by 5.6% in 2020.

56. Eximbank's client base benefits from the export-oriented nature of its business, with cash flows predominantly in foreign currencies, providing a hedge against the currency devaluation which has impact other areas of the Turkish economy in recent years.

57. Eximbank's cost-to-income ratio was lower than the broader banking sector in Turkey, reflecting a lower number of branches and staff relative to banks with retail operations.

58. **Leverage Ratio.** Eximbank has a relatively high leverage ratio,²⁷ at 5.17 percent as of June 2020, compared to the broader industry, particularly compared with non-stated-owned entities. This reflects the large contribution of CBRT rediscount loans within Eximbank's capital structure; for CAR calculations these assets are assigned a zero weighting.

Figure 6: Eximbank Historical Leverage Ratio



Source: Eximbank investor presentation.

²⁶ Source: SNL Financials.

²⁷ Leverage ratio is defined as Tier 1 Capital as a percentage of total exposures (on-balance sheet items, derivatives, and off-balance sheet items).

59. **Liquidity.** Eximbank is exempt from the regulatory liquidity coverage ratio (LCR)²⁸ thresholds of 80 percent and 100 percent for foreign currency and overall respectively imposed on commercial banks in Turkey.²⁹ Nevertheless, Eximbank calculates and reports the figure, which stood at over 600 percent as of September 2020 on an overall basis. Besides LCR, Eximbank also closely monitors its liquidity adequacy ratio, which is calculated by dividing assets to liabilities (TRY and foreign currency-based separately) on different maturity tranches taking cash flows into consideration. Eximbank has maintained liquidity adequacy ratios of all maturity buckets over 100 percent as of December 2020.

60. **Funding Sources.** Eximbank's primary funding sources include short-term CBRT discount loans with 120- to 360-day maturities, short-term bank loans, medium- / long-term IFI loans, and capital market transactions. CBRT loans are back-to-back transactions where Eximbank acts as an agent between CBRT and the final beneficiary. Eximbank's capital structure management objectives include matching of assets and liabilities, tenor diversifying funding sources, and increasing its status as a frequent capital markets issuer, developing a liquid international bond yield curve. As of December 2020, Eximbank's debt funding maturity profile approximately matched that of its loan portfolio.

61. Eximbank has significant experience with international finance institutions, including the World Bank, European Investment Bank, Council of Europe Development Bank, and Islamic Development Bank, among others. Most recently, the IBRD approved a partial credit guarantee of EUR250 million to Eximbank as part of its Turkey Long-Term Export Finance Guarantee Project.

62. IFI funding is typically tied to either loans classified as working capital or investment loans (longer term expenditures such as machinery and equipment). Loans linked to IFI funding typically have much longer tenor than Eximbank's broader funding base.

63. Eximbank's Funding Department is responsible for all finance and borrowing transactions, including issuances and relationships with IFIs. The department sits under the Treasury/Finance deputy general manager (see Annex 4: Eximbank Organization Chart for organization chart) and consists of three sub-divisions: (i) Investor Relations, (ii) Structured Borrowings, and (iii) Borrowings from Financial Institutions. The Structured Borrowings sub-division is responsible for all transactions related to IFIs. The Funding Department consists of 10 employees, including one head of department, one manager, three assistant managers, and five specialists.

²⁸ LCR is calculated by dividing high-quality liquid assets by its total net cash flows as defined by Basel III.

²⁹ This is because Eximbank is not a deposit-taking bank; about 98 percent of loans are backed by commercial bank guarantees and about 65 percent of the loan portfolio reflects minimal risk back-to-back loans from the CBRT.

Figure 7: Summary of Eximbank International Finance Institution Funding as of December 2020

	Outstanding Amount (in Thousands)	Maturity
Loans Borrowed from IFIs		
Black Sea Trade and Development Bank	▪ EUR 25,008	▪ December 2022
Council of Europe Development Bank	▪ EUR 166,875	▪ February 2022 – August 2025
European Investment Bank	▪ EUR 305,873 ▪ USD 49,884	▪ December 2021 – December 2024
Islamic Development Bank	▪ USD 280,441	▪ April 2026 – October 2027
World Bank	▪ EUR 38,863 ▪ USD 447,033	▪ March – July 2038
Loans Guaranteed by IFIs		
Syndicated Loan with IBRD Guarantee	▪ EUR 380,047	▪ June 2030
Syndicated Loan with ICIEC Guarantee	▪ EUR 180,082	▪ June 2024
Syndicated Loan with MIGA Guaranteed	▪ EUR 641,087 ▪ USD 672,396	▪ March 2025 – June 2028
Total	USD 3,559,486	

EUR = Euro, IBRD = International Bank for Reconstruction and Development, ICIEC = The Islamic Corporation for the Insurance of Investment and Export Credit, IFI = international finance institution, MIGA = Multilateral Investment Guarantee Agency, USD = United States dollar. EUR/USD of 1.2140 (Dec-20).
Source: Eximbank financial reports.

64. Eximbank will be required to assess the financial viability of each sub-borrower and evaluate its fit with the Bank's eligibility criteria (see Annex 5: Sub-Loan and Sub-Borrower Eligibility Criteria). The proposed USD250 million credit line will expand the Borrower's balance sheet compared to its December 2020³⁰ level by 0.9 percent and will be backed by a sovereign guarantee. Overall, the Borrower presents a conservative approach to lending and a healthy balance sheet compared to peers and the wider banking sector. Its low NPL ratio, high CAR, liquidity and return on assets and equity confirm this view.

C. Fiduciary and Governance

65. **Financial Management.** The financial management assessment conducted concluded that Eximbank has adequate capacity to execute the required financial management responsibilities of the Project. The financial management arrangements and systems in place are also deemed to be adequate and should enable the timely and reliable financial reporting on eligible sub-loans financed under the Project.

66. The key risk factors identified are that the funds may be disbursed to ineligible sub-borrowers, or that the funds may not be used by eligible sub-borrowers for the purposes intended. These risks will be mitigated through the already existing review and approval process, through which sub-loan applications are screened against the eligibility criteria. In addition, to support the sub-loan amount, sub-borrowers will be asked to provide an expenditure listing based on actual invoices issued in the name of the sub-borrower. The

³⁰ Source: Banking Association of Turkey ([link](#)).

listing of expenditures is required to be certified by a Public Accountant, who would have reviewed invoices and other documentation underlying the expenditures. Ultimately, Eximbank will report to AIIB on the disbursement of funds made to sub-borrowers, through summary of expenditure reports, semi-annual interim financial reports, and annual audit reports.

67. While the PMU will monitor and oversee the Project, to ensure that the Project is implemented in accordance with the Project agreements and Operations Manual, the Project will be intertwined in the Eximbank's governance structure and respective processes and procedures.

68. Eximbank's organizational structure and procedures demonstrate the existence of a clear segregation of duties, proper review and authorization of transactions as well as oversight.

69. Eximbank has a systematic budgeting process in place, in which annual budgets are prepared by the Financial Affairs Department, and ultimately approved by the Budget Realization Committee. During the financial year, budget variance is analyzed monthly, ensuring proper monitoring of financing.

70. The existing Internal Audit Directorate and Internal Controls Directorate operate according to their respective charter approved by the Audit Committee. The directorates prepare risk-based annual audit and review plans that are approved by the Audit Committee each year. Upon the completion of these audits and reviews, the findings are reported to the committee, and follow-up reports are also provided indicating the implementation status of the audit recommendations. Within the last 3 years, there have not been any significant audit findings. During implementation, if there are any findings in respect to the Project, these will be shared with the Bank through project progress reports or otherwise requested by the Bank.

71. The Project will be accounted on an accrual basis and in accordance with the IFRS. However, the project reports presented to the Bank will be prepared using the cash-basis of accounting. A separate project profile will be designed in the New Loan Project system to capture project transactions by sub-loans. Semi-annual Interim financial reports will be submitted to the Bank within 45 days of the reporting period end. The format and content of reporting will be agreed upon with the Bank and included in the Project Operations Manual.

72. **Governance and Anticorruption.** Eximbank is subject to prudential regulatory oversight by BRSA, and its activities are overseen by the Government of Turkey via the Supreme Advisory and Credit Guidance Committee, which is currently chaired by the minister of trade. Eximbank is a state-owned entity, and all of its Board members are elected by the General Assembly (with the exception of the general manager, who is elected by the Board).

73. Eximbank does not accept time/on-demand deposits or open accounts for individuals or legal entities. Its money laundering and terrorism financing risk profile is therefore more limited. The bank has a number of listed Eurobonds outstanding. Eximbank also produces quarterly reports that are submitted to BRSA and published on their website. Audited financial statements are also produced in line with IFRS. As part of their mandate, external auditors report to the BRSA on Eximbank's compliance with both prudential requirements and its own internal risk management systems.

74. Eximbank is committed to preventing fraud and corruption in its lending activities and has agreed in principle that it will ensure that the Project is implemented in compliance with AIIB's Policy on Prohibited Practices. AIIB reserves the right to investigate alleged Prohibited Practices under the Policy on Prohibited Practices.

75. **Financial Crime and Integrity Due Diligence and Know-Your-Client.** The Project Team has conducted integrity diligence on the Borrower's directors and top management to ensure that their integrity was sound. Eximbank is a state-owned entity, and a number of members of its board of directors and executive management are as a result classified in market sanctions/anti-money laundering database, World-Check One, as politically exposed persons (PEP) due to their public status. No adverse news was found associated to the PEPs identified. The team has also conducted virtual due diligence on Eximbank's financial crime and integrity due diligence and KYC policies and procedures.

76. **Institutional Capacity.** The Bank has reviewed Eximbank's capacity to implement the Project. The Borrower will be responsible for project implementation, including selection, analysis, and monitoring of all sub-borrowers. As mentioned, Eximbank has engaged in IFI-funded facilities for many years, in the case of IFC since the early 2000s, and the targeted sector, exports, comprises its core operations. The loan review process is well-entrenched, with established procedures for financing approval and monitoring, which segregate the duties of separate departments involved in identifying, screening, evaluating, monitoring, and recovering loans after their financial close. The Project Team assessed the staff at Eximbank to be professional and technically capable.

77. **Reporting and Monitoring.** During loan implementation, it is anticipated that AIIB will retain the right to review all sub-loans and conduct supervisory visits, including visits to the sub-borrowers, where it deems appropriate. Eximbank will provide AIIB with reports from time to time including statement of expenditure forms, audited financial statements, auditors' management letters, certificates of compliance with national financial regulations, and E&S reports. Eximbank's internal audit department is anticipated to conduct risk-based audits of the Project's operations periodically. If there are any findings in respect to the Project during internal audits, these will be shared with AIIB through internal audits reports or otherwise requested by the Bank. It is also expected that Eximbank will provide unaudited and audited financial reports during the life of the Credit Line. The Project Team will also require an annual project audit to be executed by an external audit firm approved by BRSA.

D. Environmental and Social

78. **Environmental and Social Policy, Instrument and Categorization.** AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL), applies to this Project. Eximbank has in place a Sustainability Management System (SMS),³¹ which is materially consistent with AIIB's ESP requirements.

79. The Project is placed in Category FI as the financing structure involves the provision of funds through a Financial Intermediary (FI). AIIB delegates to Eximbank the on-lending of proceeds to sub-borrowers in the export sector, in so far as they meet the conditions of the POM. The POM details E&S processes and standards, applicable to this Project, including the selection, appraisal, approval and monitoring of sub-loans in accordance with AIIB's E&S requirements.

80. In meeting sub-borrowers' liquidity and working capital needs, these sub-loans' tenor will be short and not supporting CAPEX, long-term physical assets or specific operations. In this context,³² the Project is generally expected not to induce potentially adverse impacts that

³¹ Eximbank's Sustainability Management System. ([link](#)).

³² The ESS are deemed not applicable due to fact that these will be short-term (36 months and below) sub-loans that will not finance CAPEX or any Higher E&S Risk Activity.

would be unprecedented and can be successfully managed using good practice in an operational setting.

81. **Environmental and Social Capacity and Resources.** Eximbank has technical teams comprising dedicated E&S specialists, has engaged external professional E&S consultants, and has developed the SMS to assess all operations following an integrated approach. Sustainability performance is regularly reviewed by the Sustainability Committee, which is chaired by the general manager. In addition, Eximbank personnel have significant experience with international finance institutions, including the Multilateral Investment Guarantee Agency and the International Bank for Reconstruction and Development.

82. **Environmental and Social Management.** Eximbank is required under its SMS to screen sub-loan proposals against its E&S exclusion list, assign an E&S risk rating, conduct an E&S assessment of contextual risks and current E&S performance, and conduct monitoring of sub-loans. The extent of the E&S assessment by Eximbank of sub-borrowers is proportional to the predetermined E&S risk ratings for various industries and other additional risk factors such as tenor and amount of the sub-loan.

83. The Project will support Eximbank in its lending to firms in the export sector through short-term working capital loans under the COVID-19 Response Facility. Activities included in AIIB's ESEL and those involving higher E&S risks and potential impacts, to be elaborated in a POM for the Project, will not be eligible for financing. The latter would include all Category A activities and selected Category B activities that present higher E&S risks and impacts, such as (i) involuntary physical or economic resettlement; (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity and cultural resources; (iv) significant retrenchment; or (v) significant occupational health and safety risks. In addition, other sectors and activities, as listed in Figure A5.2: Excluded Sectors and Activities within Sectors, will be excluded. Coal mining, coal transportation or coal-fired power plants, as well as infrastructure exclusively dedicated to support any of these activities will also be excluded.

84. Sub-borrowers will provide information to Eximbank in response to E&S questionnaires during the appraisal of sub-loans and through the course of their tenor. Sub-borrowers will be required to (i) demonstrate the compliance of their activities with applicable E&S regulatory requirements and commit to maintaining that status during the tenor of the sub-loan, (ii) undertake not to use the proceeds of the sub-loan to finance Higher E&S Risk Activities, (iii) represent not to have been determined to be in breach of E&S regulations or to be reported as having materially contravened E&S good practices including those related to labor management. Sub-borrowers will be contractually bound by E&S covenants to implement an Environmental and Social Action Plan (ESAP) to remediate any material gaps with the applicable standards defined in SMS and POM within an agreed time period, and will report to Eximbank on their E&S performance at least annually.

85. **Gender.** Eximbank has agreed to implement gender-based lending for this Project. A minimum 5% (with an additional 5% on a best-effort basis) of the loan value will be allocated to women-inclusive enterprises.³³

86. **Climate Change.** Eximbank has published a Climate Change Mitigation and Adaptation Policy, which states its support for promoting climate compatible development. It

³³ Enterprises that are (i) owned by women (i.e., with at least one female shareholder with a properly documented representative and managing powers); or (ii) managed by women (i.e., with at least one female C-level manager or with at least 25 percent female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector; or (iv) has increased the share of women employment by at least 5 percent in the previous year.

also states its intention to systematically consider climate and sustainability criteria in all investment decisions and across financial instruments. In addition to application of E&S international best practices, Eximbank aims to account for climate-related criteria (e.g., greenhouse gas emissions, energy efficiency, etc.), while considering potential transitional risks of its own and its borrowers' activities.

87. **Stakeholder Engagement, Consultation, and Information Disclosure.** Eximbank will continue to publish its E&S Policy and SMS on its website. In addition, Eximbank will publish retrospectively a summary of the E&S aspects and overview of the E&S performance of the Project subject to the regulatory requirements on information confidentiality applicable to the banking sector in Turkey.

88. **Project External Communication Mechanism.** Eximbank has set up an ECM³⁴ for the public to express any thoughts, opinions and suggestions including sustainability issues. We are working with Eximbank to provide Project-level ECM, including contacts and processes to receive and handle related matters. The Project-level ECM will be made available to Project-Affected People (PAPs) and will provide information on AIIB's Project-Affected People's Mechanism (PPM) as described in Paragraph 89.

89. **AIIB Independent Accountability Mechanism.** The Bank's Policy on the PPM applies to the Project. The PPM has been established by the Bank to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement its ESP in situations when their concerns cannot be addressed satisfactorily through the Project-level ECM or the processes of AIIB's Management. Information on the PPM is available at <https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html>

90. **Monitoring and Supervision Arrangements.** Eximbank will rely on information provided directly by the sub-borrowers to conduct both the initial E&S assessment and ongoing monitoring of the sub-loans. Eximbank will be required to maintain a comprehensive database comprising all relevant E&S information and report to AIIB a summary of the E&S aspects and overview of the E&S performance of the Project's portfolio on an agreed schedule and template. AIIB will conduct post-reviews of the selection and implementation of sub-loans as part of its regular supervision, comprising engagement with Eximbank, potential site visits and detailed review of the E&S documentation of selected sub-borrowers.

E. Operational Policy on International Relations

91. The sub-loans are targeted to finance the working capital of firms in the Turkish export sector and are not expected to trigger the operational policy on international relations. Nevertheless, the POM would exclude from use of the Bank's financing proceeds activities that would involve an international waterway, or de facto government (as defined in the operational policy on international relations), or a disputed area, or an entity or transaction that would be prohibited by a measure decided by the United Nations Security Council under Chapter VII of the Charter of the United Nations.

F. Risks and Mitigation Measures

³⁴ Eximbank's External Communication Mechanism. ([link](#)).

Table 2: Assessment of Risks and Mitigants

Risk Description	Assessment Rating	Mitigation Measures
<p>Implementation capacity</p> <p>Risk that the Borrower is unable to implement the Project as approved.</p>	Low	<ul style="list-style-type: none"> The Borrower has extensive experience and corporate capacity to undertake the Project and has a track record of implementing loans funded by international finance institutions (IFIs).
<p>Macroeconomic Risk</p> <p>Risk of a severe macroeconomic downturn induced by the coronavirus disease (COVID-19) pandemic. Turkey's fiscal buffers are eroding, with foreign currency reserves falling since the beginning of 2020. Deterioration in government finances limits the ability of the Turkish authorities to support the bank in the event of a severe downturn.</p>	High	<ul style="list-style-type: none"> In March 2020, Turkey engaged in a substantial fiscal and monetary stimulus to offset the impact of COVID-19, including financial support, credit support, and employment-related measures. The entire discretionary fiscal support package to combat COVID-19 will amount to about TRY646 billion (around USD85 billion), 12.8 percent of gross domestic product. Eximbank has a proven track record in the capital markets, having issued a number of debt securities in both the Eurobond and domestic Turkish market and Turkish banks have continued to maintain access to the syndicated loan market during the pandemic. Historically, Turkey has never defaulted on any IFI loans. Eximbank receives strong backing from the sovereign and is systematically important as the it is the largest development bank in Turkey in terms of assets. Following a substantial decline in Manufacturing Purchasing Managers' Index to 32 in April 2020, there has been a meaningful recovery to 52.6 in March 2021.
<p>Foreign Exchange Risk</p> <p>Risk that widening open unhedged foreign exchange (FX) exposures due to weaker TRY, lead to potential losses.</p>	High	<ul style="list-style-type: none"> FX risk (depreciation of the local currency) is associated with Turkey macroeconomic situation. However, Eximbank attributes high importance to currency-matching assets and liabilities, and uses currency swaps to manage its position, where appropriate. Use of local currency is small (9 percent of total loans) and the loan from AIIB will be on-lent either in USD or EUR to exporters with revenue in foreign currency. Eximbank has a strong capital adequacy ratio position that provides a line of defense in the event of a TRY depreciation and debt provisioning.
<p>Asset Quality</p> <p>Risk of deterioration of the quality of the portfolio as evidenced by nonperforming</p>	Medium	<ul style="list-style-type: none"> Eximbank presents a conservative lending profile and substantially lower-than-industry NPL ratios due to the nature of its lending and risk measures implemented.

Risk Description	Assessment Rating	Mitigation Measures
loan (NPL) ratio and other metrics.		<ul style="list-style-type: none"> • Low-risk collateral comprised fully of guarantees of banks deemed acceptable by Eximbank. • 100% of political risk losses are indemnified by the Ministry of Treasury and Finance. • For its insurance products, approximately 60 percent of insurance risk is transferred to reinsurers.
<p>Environmental and Social Risk</p> <p>Risk of mischaracterization or under reporting of environmental and social (E&S) risks and impacts.</p> <p>Risk of E&S underperformance of Borrower or sub-borrowers.</p>	Medium	<ul style="list-style-type: none"> • Eximbank has established Sustainability Management System, Eximbank Sustainability Management System, which is materially consistent with AIIB's Environmental and Social Policy requirements. • Eximbank possesses adequate in-house E&S resources, its employees understand, and sub-borrowers are generally aware of Eximbank's publicly available Sustainability Management System. • Eximbank is experienced in managing E&S risks and impacts associated with the use of MDB funds in line with their requirements. • Sub-loans will exclude capital expenditure, physical long-term assets, AIIB's ESEL, Higher E&S Risk Activities³⁵ which would include all Category A activities and selected Category B activities. In addition, other sectors and activities, as listed in Figure A5.2: Excluded Sectors and Activities within Sectors, will be excluded. Coal mining, coal transportation or coal-fired power plants, as well as infrastructure exclusively dedicated to support any of these activities will also be excluded. Through the screening, assessment and contracting of sub-loans and their monitoring, the number of potentially adverse E&S impacts and risks will be minimized to the extent possible using fit-for-purpose management measures in an operational setting. • Eximbank will maintain a database and records of their E&S assessment of sub-loans, and their monitoring of E&S commitments and performance throughout their tenor for reporting to AIIB. AIIB will conduct post-reviews and supervision when required.

³⁵ Higher E&S Risk Activities include (i) involuntary physical or economic resettlement; (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity and cultural resources; (iv) significant retrenchment; or (v) significant occupational health and safety risks.

Annex 1: Results Monitoring Framework

Project Objective:	To increase access to finance of firms in Turkey's export sector facing liquidity constraints caused by the coronavirus disease (COVID-19) pandemic.									
Indicator Name	Unit of measure	Base-line Data 1Q2021	Cumulative Target Values ¹					End Target	Frequency	Responsible
			YR1	YR2	YR3	YR4	YR5			
Project Objective Indicators										
1. Number of sub-borrowers	#	0	25	35	35	35	35	35	Annual	Borrower
2. Percent value of loans provided to women-inclusive enterprises ²	%	0	5%	5%	5%	5%	5%	5%	Annual	Borrower
3. Nonperforming loans (NPL) in the sub-portfolio	%	0%	<4%	<4%	<4%	<4%	<4%	<4%	Annual	Borrower
4. Utilization rate of the credit line provided by AIB	%	0%	70%	100%	100%	100%	100%	100%	Annual	Borrower
5. Number of employees retained by sub-borrowers	#	0	5,000	12,500	12,500	12,500	12,500	12,500	Annual	Borrower
6. Export volumes undertaken by sub-borrowers	USD million	0	50	125	200	275	350	350	Annual	Borrower

¹ For indicators #1 – #3, anniversary year-end values following the signing of Loan Agreement will be used for results monitoring purposes. For indicators #4 and #5, data as of June-end will be used.

² Enterprises that are (i) owned by women (i.e., with at least one female shareholder with a properly documented representative and managing powers); or (ii) managed by women (i.e., with at least one female C-level manager or with at least 25 percent female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector; or (iv) has increased the share of women employment by at least 5 percent in the previous year. Eximbank has agreed to have a minimum 5% of loans by value, with an additional 5% being targeted on a best-efforts basis.

Annex 2: Detailed Economic and Financial Analysis

Balance Sheet, USD millions	2016	2017	2018	2019	2020	CAGR '16-20
Cash and Due from Banks	925	939	802	1,681	1,586	14.4%
Net Loans	17,479	21,259	24,558	23,960	24,119	8.4%
Gross Customer Loans	17,520	21,310	24,603	24,032	24,186	8.4%
<i>% growth</i>		22%	15%	-2%	1%	--
Investment Securities	34	56	619	1,200	1,575	160.9%
Other Assets	917	326	390	438	293	-24.8%
Total Assets	19,356	22,581	26,370	27,279	27,573	9.2%
Funds Borrowed	14,715	17,846	20,593	21,430	21,738	10.2%
<i>% growth</i>		21%	15%	4%	1%	--
Debt Securities in Issue	2,223	2,723	3,254	3,163	3,117	8.8%
Other Liabilities	941	482	1,076	1,157	1,168	5.6%
Total Liabilities	17,878	21,051	24,922	25,751	26,023	9.8%
Shareholder Equity	1,477	1,530	1,448	1,529	1,550	1.2%
Income Statement, USD millions						CAGR '16-20
Net Interest Income	281	264	174	194	171	-11.6%
<i>% growth</i>		-6%	-34%	12%	-12%	--
Interest Income	537	583	685	846	702	6.9%
Interest Expenses	256	319	511	652	531	20.0%
Net Fees and Commissions Income	5	-2	29	31	31	62.3%
Trading Profit and Other Income	-65	-18	39	111	120	--
Total Operating Income	221	245	242	335	323	10.0%
<i>% growth</i>		11%	-1%	39%	-4%	--
Total Expense	83	96	77	86	112	7.7%
Impairment Loss on Loans and Advances	4	13	22	23	52	90.2%
Other Expenses	79	84	55	63	60	-6.8%
Net Operating Profit / Loss	138	148	165	249	212	11.4%
Taxes	0	0	0	0	0	--
Net Profit / Loss	138	148	165	249	212	11.4%
Key Ratios						
CET 1 Ratio	13.1%	13.3%	13.4%	13.2%	14.1%	
Tier 1 Ratio	13.1%	13.3%	13.4%	14.6%	15.8%	
Total Capital Ratio	13.4%	13.6%	18.7%	19.1%	20.0%	
Shareholder Equity / Total Assets	7.6%	6.8%	5.5%	5.6%	5.6%	
Borrowings / Total Assets	76.0%	79.0%	78.1%	78.6%	78.8%	
Net Loans / Total Assets	90.3%	94.1%	93.1%	87.8%	87.5%	
NPLs / Total Loans	0.4%	0.4%	0.3%	0.4%	0.3%	
ROAA	0.8%	0.8%	0.8%	0.9%	0.8%	
ROAE	8.4%	10.9%	13.1%	18.7%	16.5%	
Net Interest Income / Average Total Assets	1.6%	1.3%	0.7%	0.7%	0.6%	
Cost-to-Income (excluding Impairment Loss)	35.8%	34.2%	22.8%	18.7%	18.5%	
Liquidity Coverage Ratio	43.2%	74.9%	209.8%	675.4%	613.1%	

Source: Eximbank financial reports, investor presentations. TRY/USD of 7.36474325 (Dec-20), 5.94079510 (Dec-19), 5.28013199 (Dec-18), and 3.77507916 (Dec-17) for Balance Sheet, and average TRY/USD of the period for Income Statement.

Annex 3: Turkey: Sovereign Credit Fact Sheet
(Updated as of May 4, 2021)

Background

Turkey is an upper-middle-income country with a per capita income of about USD10,400 and a population of 82 million as of 2018. It is the 18th largest economy in the world.

When COVID-19 emerged in early 2020, Turkey was recovering from a sharp downturn that started in 2018. The slump followed an earlier period of expansionary policies, i.e., a large fiscal package (including sizable public-private partnership investments) and a policy-driven credit program. Growth was high, but resulted in growing macroeconomic imbalances. In late 2018, as the United States Federal Reserve tightened monetary policy, market sentiment deteriorated abruptly, leading to large capital outflows, a sharp lira depreciation, and a surge in inflation. Growth slowed to 2.8 percent in 2018 and further to 0.9 percent in 2019.

In 2019, market sentiment recovered and economic conditions started to improve, supported by coordinated fiscal and monetary stimulus. In parallel, imports contracted due to economic slowdown and currency depreciation. Turkey's current account balance reverted to a surplus, its first in over a decade. Capital flows returned, helping to rebuild international reserves. As a result of the fiscal expansion, the public debt-to-gross domestic product (GDP) ratio climbed to 33 percent of GDP in December 2019.

Table A3: Selected Turkey Macro Indicators¹

	2017	2018	2019	2020*	2021*
Real GDP growth ²	7.5	2.8	0.9	1.8	6.0
Inflation (average) ²	11.1	16.2	15.4	12.3	12.0
Current account balance	-4.8	-2.7	0.9	-5.1	-0.9
General government balance ³	-2.2	-3.7	-5.3	-8.4	-7.5
Nominal gross public debt	30.2	31.1	33.5	38.8	45.5
Public gross financing needs	5.0	6.5	7.5	12.2	12.7
Gross external debt	53.4	57.6	61.3	72.6	61.2
Gross external financing needs	25.0	26.8	23.5	28.7	19.5
Gross international reserves (USD billion)	107.7	93.0	106.3	93.3	92.3
Exchange rate (TRY/USD) ⁴	3.79	5.29	5.95	7.43	8.25

Source: Turkish Statistical Institute, CBRT, IMF Report 19/395, WEO Oct 2020, WEO Jan 2021 updates, Fitch, Moody's and AIIB staff projections based in IMF data; *some figures for 2020–2021 are estimates and projections, except where noted.

Notes:

¹ In percent of gross domestic product, except where noted.

² Percent change, year-on-year; 2020 are actuals.

³ International Monetary Fund definition (excluding one-offs).

⁴ TRY=Turkish lira, data is end of period; for 2021 as of May 4, 2021.

Recent Economic Developments

The COVID-19 pandemic was a major hit to the Turkish economy, with a decline in tourist arrivals, falling domestic activity due to social distancing, lower external demand for exports, and constrained liquidity. That said, Turkey has performed better than expected, and by the fourth quarter of 2020 the economy was already recovering at a rate of 5.9 percent. Growth for the whole

year on average was 1.8 percent, making Turkey one of few major economies that have managed to maintain positive annual growth rate, despite the pandemic.

Growth in 2020 was sustained by a decisive monetary easing, measures to push credit to the economy (mostly from state-owned lenders) and to boost demand. While the discretionary fiscal response was relatively modest, the deficit has increased nevertheless. Rapid credit expansion enabled a quick rebound in the second half of the year but has led to higher macroeconomic risks.

Key risks relate to external financing. A deterioration in external demand pushed Turkey's current account back into deficit, of almost 5 percent of gross domestic product deficit. A combination of a dim outlook for foreign exchange (FX) inflows, high external financing needs, expansionary policies, high inflation, negative domestic real interest rates, and the central bank's perceived preference for supporting the exchange rate has led to large capital outflows and a decline in international reserves. By the third quarter of 2020, CBRT's official reserve assets had fallen by almost a quarter, to a 20-year low of USD79.6 billion. Fitch changed the sovereign rating outlook for Turkey to 'Negative' in August, while Moody's downgraded Turkey to 'B2 Negative' in September. By early November 2020, the Turkish lira has depreciated 30 percent of its value, year-to-date, peaking at 8.5 TRY/USD.

In mid-November, the authorities overhauled its economic management team by appointing a former deputy minister Lutfi Elvan as finance minister and Naci Agbal as central bank governor. The new team signaled a turnaround in economic policies toward a more orthodox toolbox. They tightened the monetary policy with a 675-basis points interest rate hike, implemented measures to slow credit expansion and stated intentions to bring down inflation to a single digit, promote de-dollarization, and consolidate fiscal policy.

These actions have brought some tentative results: foreign portfolio investors returned cautiously, the lira recovered, while foreign currency reserves increased and stabilized, albeit at low levels. However, in March 2021, following another interest rate hike, the central bank governor was abruptly replaced with a presumably more dovish candidate. Market confidence collapsed again. The currency and the stock market lost most of the year-to-date gains.

Despite this policy uncertainty, domestic banks have generally been able to continue to tap their robust banking relationships to rollover maturing obligations, while the government has been successfully issuing bonds in international capital markets.

Economic Outlook and Risks

With a rapid roll out of vaccines and recovery in trade partners, the IMF expects the Turkish economy to rebound by 6 percent in 2021. However, the outlook remains fragile, and vulnerabilities persist, including the future course of the pandemic, large external financing needs, stressed bank and corporate balance sheets and low reserve buffers. Net international reserves excluding Central Bank of the Republic of Turkey's FX swaps remain negative. The near-term uncertainty also relates to whether the new, more orthodox policy mindset will continue.

Turkey's public debt is projected to increase to above 45 percent of the GDP in 2021 due to higher deficits resulting from the economic shock. A moderate fiscal consolidation may be necessary to stabilize public debt once the pandemic abates and the economy recovers. According to Moody's, external debt is projected to temporarily increase to 72.6 percent in 2020 (from 61.3 percent in 2019), about two-thirds of which is owed by the private sector, due to depreciation and a lower increase in nominal GDP.

Debt Sustainability

Two key strengths anchor Turkey's longer term debt sustainability

- A large, diversified economy with a young population and entrepreneurial spirit, which translates into sizable growth potential; and
- Moderate public debt.

Despite these strengths, since mid-2016, Turkey's sovereign credit ratings have slid below investment grade. Some of the quoted internal and external reasons behind this deterioration were:

- Increasing reliance on short-term stimulus directed credit, external and short-term debt and unorthodox policies, and a weakening fiscal discipline
- Rising vulnerability to external shock, both real and financial
- Rising global uncertainty and volatility; rising geopolitical risk, as well as the general regional instability

As of March 2021, Turkey is rated BB- Stable (Fitch), B2 Negative (Moody's) and B+ Stable (S&P). The most recent downgrade was by Moody's in September 2020, which cited balance of payments crisis fears, eroding fiscal buffers and delays by the authorities to tackle economic challenges.

In the short and medium-term, key debt vulnerabilities are related to:

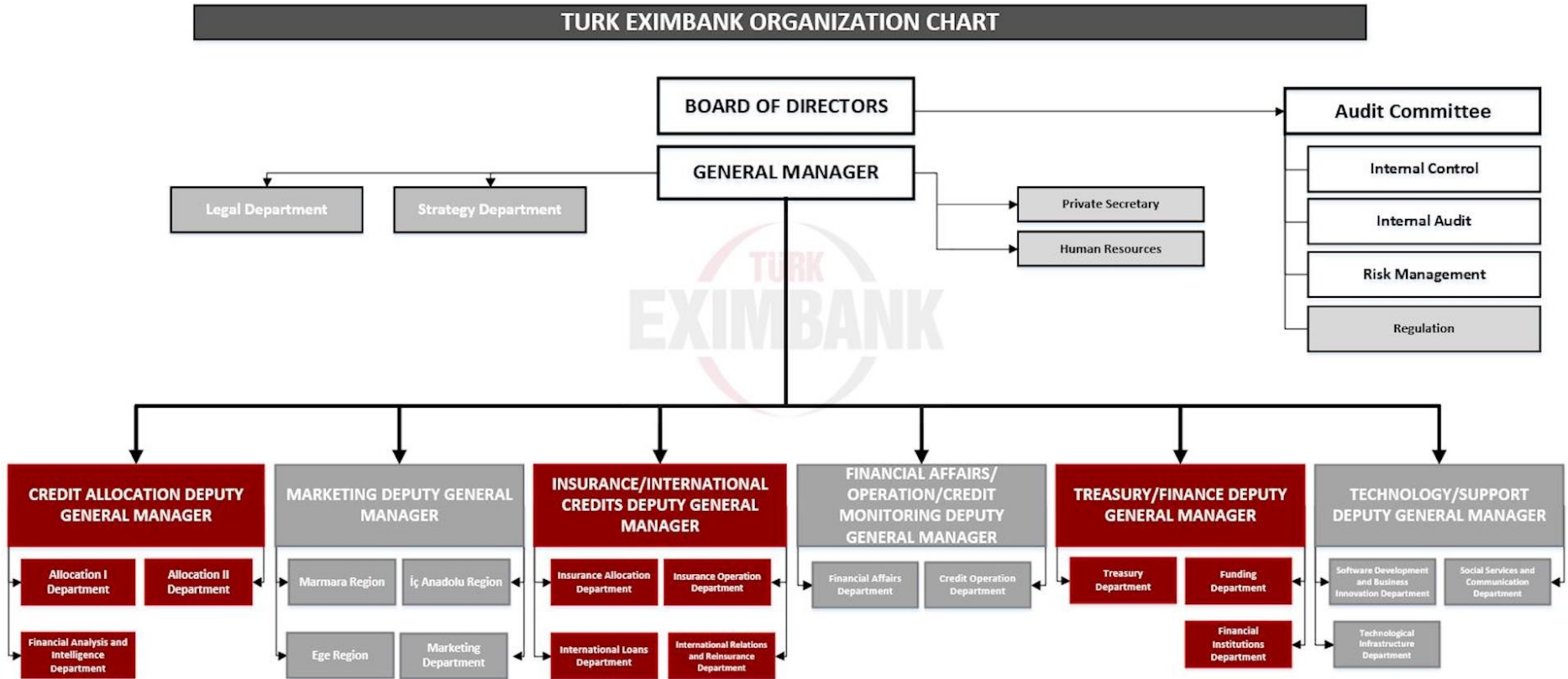
- Very high external gross financing needs—every year Turkey needs to roll over external debt equivalent to almost a quarter of GDP.
- Low FX reserves (in relation to the needs)—effectively usable FX reserves are very low in comparison with economy's short-term debt, which exposes Turkey to the destabilizing effect of capital outflows. It also reduces confidence in the stability of the economy.
- Private sector vulnerabilities which could morph into government debt. First, the external debt of corporations is high, which exposes their balance sheets to the risks of depreciation. Second, the banking sector's vulnerabilities include rising nonperforming loans (due to depreciation's effect on corporate performance) and dependence on wholesale FX funding and short-term deposits. Given the discretion in recognizing loan impairments, the IMF recommended a third-party asset review to strengthen banks' asset quality further. On the positive side, capitalization remains adequate (in both Government-owned and private banks), and profitability is reportedly high.

These risks need to be managed carefully to mitigate the intermittent balance of payment pressures.

The government's relatively strong balance sheet, moderate public debt (40–45 percent of GDP), and continued access to financial markets have softened sustainability concerns thus far. Over the longer term, Turkey's economy is expected to grow but will remain vulnerable to swings in confidence and external conditions. The International Monetary Fund notes that Turkey's public debt remains below vulnerability thresholds under the baseline and most shock scenarios. Similarly, Turkey's external debt remains sustainable under the baseline (although it is vulnerable to currency depreciation). At the same time, IMF warns that the public debt has accelerated

recently in a bid to support up the economy. Some measured fiscal consolidation may be necessary to stabilize public debt once the pandemic abates and the economy recovers.

Annex 4: Eximbank Organization Chart



Source: Eximbank.

Annex 5: Sub-Loan and Sub-Borrower Eligibility Criteria

Figure A5.1: Eligible Sectors

NACE Rev. 2	Category
Section C	Manufacturing
Section D	Electricity, gas steam, air conditioning
Section E	Water supply (sewerage, waste, remediation)
Section F	Construction
Section G	Wholesale and retail trade
Section H	Transport and storage
Section I	Accommodation
Section J	Information and communication
Section M	Professional scientific and technical activities
Section N	Administrative and support service activities
Section P	Education
Section Q	Human health and social work activities

Figure A5.2: Excluded Sectors and Activities within Sectors

NACE R2	Category
Section A	Agriculture, forestry, and fishing
Section B	Mining and quarrying
C10.91	Manufacture of prepared feeds for farm animals
C10.92	Manufacture of prepared pet foods
C11.1	Distilling, rectifying, and blending of spirits
C11.2	Manufacture of wine from grape
C11.3	Manufacture of cider and other fruit wines
C12	Manufacture of tobacco products
C14.2	Manufacture of articles of fur
C15.1	Tanning and dressing for leather, manufacture of luggage, handbags, saddlery, and harness; dressing and dyeing of fur
C15.11	Tanning and dressing of leather; dressing and dyeing of fur
C15.12	Manufacture of luggage, handbags and the like, saddlery, and harness
C15.2	Manufacture of footwear
C17.11	Manufacture of pulp
C18.1	Printing and service activities related to printing
C18.2	Reproduction of recorded media
C19.1	Manufacture of coke oven products
C19.2	Manufacture of refined petroleum products
C20.1	Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics, and synthetic rubber in primary forms (industrial gases, dyes and pigments, other inorganic and organic basic chemicals, fertilizers and nitrogen compounds, plastics in primary forms, synthetic rubber in primary forms)
C20.2	Manufacture of pesticides and other agrochemical products
C24.46	Processing of nuclear fuel
C25.4	Manufacture of weapons and ammunition
C27.1	Manufacture of transformers using PCBs is excluded
C28.25	Manufacturing of cooling equipment using ozone depleting substances and use of banned compounds (e.g. CFCs).
C28.3	Manufacture of agricultural forestry machinery
C30.11	Building of warships
C30.4	Manufacture of military fighting vehicles, Intercontinental ballistic missiles (ICBM)

NACE R2	Category
C33.15	Repair and maintenance of warships
D35.11	Production of electricity from coal, oil and diesel
G46.21	Wholesale of unmanufactured tobacco
G46.23	Wholesale of live animals
G46.3	Wholesale of food, beverages, and tobacco
G46.35	Wholesale of tobacco products
G47.11	Retail sale in non-specialised stores with food, beverages or tobacco predominating
G47.2	Retail sale of food, beverages, and tobacco in specialised stores
G47.6	Retail sale of cultural and recreation goods in specialised stores
I56	Food and beverage service activities (restaurants and bars)
J58	Publishing activities
J59	Motion picture, video and television programme production, sound recording and music publishing activities
J60	Programming and broadcasting activities
Section K	Financial and insurance activities (except PFI on-lending)
Section L	Real estate activities
M69	Legal and accounting activities
M70	Activities of head offices; management consultancy activities
M71	Architectural and engineering activities; technical testing and analysis
M72	Scientific research and development
M73	Advertising and market research
M74	Other professional, scientific, and technical activities
M75	Veterinary activities
N77.2	Renting and leasing of personal and household goods
N78	Employment activities
N80	Security and investigation activities
N82.91	Activities of collection agencies and credit bureaus
Section O	Public Administration and defence, social security
Section R	Arts, entertainment, and recreation (including R92 gambling and betting activities)
Section S	Activities of membership organisations
Section T	Activities of households as employers; undifferentiated goods and services producing activities of households for own use
Section U	Activities of extraterritorial organisations and bodies, e.g. diplomatic/consular missions, international organisations, etc.

Eligible Sub-Borrowers

An entity may be eligible to receive a sub-loan if it meets all the following requirements:

1. Its main activities in accordance with the EU NACE (Rev. 2)¹ or equivalent classification in Turkey are acceptable under the Eligible Sector Table.²
2. It does not engage directly or indirectly through its consolidated Sub-entities in any activities listed in the E&S Exclusion List of the AIIB ESP or the Excluded Activity List in the POM and does not intend to use the proceeds from the AIIB Sub-loan for such activities.
3. It is a private entity: (i) which is carrying out or is established for a business purpose, and is operating on a commercial basis; (ii) which has more than 50% of its shares owned privately (i.e. not directly or indirectly by any Governments nor Government-owned entities); (iii) which is financially and managerially autonomous from the Government; and (iv) whose day-to-day management is not controlled by the Government.

¹ Eurostat. List of NACE. [Link](#).

² The aggregate proceeds of the Sub-loans committed and classified as Group 3 cannot be higher than 30% of the Loan.

4. It is registered, operates primarily, and has a place of business in the Republic of Turkey.
5. It has obtained all the necessary approvals, certifications and permits to carry out its activities, and is in compliance with all applicable national environmental, social, health and safety legislations, and employment regulations and standards in effect in the Republic of Turkey;
6. It meets the Borrower's requirements and eligibility criteria including creditworthiness, foreign-exchange position, and financial risk.
7. It meets the Borrower's requirements in terms of its capacity to, inter alia: (i) ensure adequate and proper financial accounting of all incomes and expenditures, (ii) prepare audited (or certified by public accountants) financial statements relating to all its activities and the Sub-activities to be financed through the Loan, (iii) manage its financial position in a prudent and effective manner, (iv) ensure adequate and satisfactory E&S monitoring, (v) report the Sub-activities to be financed through the credit line, and (vi) ensure proper procurement procedures;
8. Meets the Bank's requirements in terms of Know-Your-Customer and financial crime and integrity due diligence, to be defined in the POM;
9. Itself, its parents, or subsidiaries are not included in the Bank's published Debarment List³.
10. (i) Demonstrates compliance of all its activities with applicable E&S regulatory requirements and commits to maintaining that status during the tenure of the Sub-loan; (ii) undertakes not to use the proceeds of the Sub-loan to finance Higher E&S Risk Activities to be defined in the POM; (iii) represent not having recently been administratively or judicially convicted of material breach of environmental and social regulations, and (iv) is not being reported in mainstream media as materially contravening good E&S practices.

³ AIB. Debarment List. [Link](#).

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