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ASIAN INFRASTRUCTURE INVESTMENT BANK

P000959
August 28, 2025

Sovereign-backed Financings

Approval Project Document
P000959 Republic of Türkiye:
TKYB Climate and Digital Transition On-Lending Facility

Currency Equivalents

(As of June 30, 2025)
Currency Unit – Turkish Lira (TRY)
USD 1.00 = TRY 39.83
TRY 1.00 = USD 0.0251
USD 1.00 = EUR 0.8529
EUR 1.00 = USD 1.1725

Fiscal Year

January 1 – December 31

Conversions

1 Terawatt (TW) = 1,000 Gigawatt (GW)
1 Gigawatt (GW) = 1,000 Megawatt (MW)
1 Megawatt (MW) = 1,000 Kilowatt (kW)

Abbreviations

AIIB	Asian Infrastructure Investment Bank
BAT	Best Available Techniques
BESS	Battery Energy Storage Systems
BIST	Borsa Istanbul Stock Exchange
BRSA	Banking Regulation and Supervision Authority
CA	Climate Adaptation
CBAM	Carbon Border Adjustment Mechanism
CBRT	Central Bank of the Republic of Türkiye
CM	Climate Mitigation
CO2	Carbon Dioxide
CRET	Climate Risk Evaluation Tool
DA	Designated Account
DI	Digital Infrastructure
DL	Disbursement Letter
E&S	Environmental and Social
ECM	External Communications Mechanism
EE	Energy Efficiency
ELTI	European Association of Long-term Investors
ESEL	Environmental and Social Exclusion List
ESF	Environmental and Social Framework
ESMS	Environmental and Social Management System
ESS	Environmental and Social Standards
EU	European Union
EUR	Euro
EV	Electric Vehicle
FI	Financial Intermediary
FX	Foreign Currency
GBV	Gender-based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRI	Global Reporting Initiative

GRM	Grievances Redress Mechanism
GWh	Gigawatt-hour
H&S	Health and Safety
IDFC	International Development Finance Club
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IPP	Independent Power Producer
kWh	Kilowatt-hour
LTIC	Long-Term Investors Club
LWC	Labor and Work Conditions
MDB	Multilateral Development Bank
MENR	Ministry of Energy and Natural Resources
MOTF	Ministry of Treasury and Finance
MWh	Megawatt-hour
NACE	Nomenclature of Economic Activities
NDC	National Defined Contribution
NEEAP	National Energy Efficiency Action Plan
NPL	Non-performing Loans
NSBF	Non-sovereign-backed financing
OPIR	Operational Policy on International Relations
PAP	Project-affected People
PCA	Paris Climate Agreement
PCM	Private Capital Mobilization
PIR	Procurement Instructions for Recipients
PO	Project Objective
POM	Project Operations Manual
PP	Procurement Policy
PPM	Project-affected Peoples' Mechanism
PPP	Policy on Prohibited Practice
PRB	Principles of Responsible Banking
RES	Renewable Energy Sources
RWA	Risk-weighted Assets
SA	Sub-loan Account
SBF	Sovereign-backed financing
SDG	Sustainable Development Goal
SMS	Sustainability Management System
SOE	Statement of Expenditures
tCO2eq	Tons of Carbon Dioxide Equivalent
TFCD	Task Force on Climate-related Financial Disclosures
TKYB	Türkiye Kalkınma ve Yatırım Bankası A.Ş.
TPES	Total Primary Energy Supply
TRY	Turkish Lira
TSKB	Türkiye Sınai Kalkınma Bankası A.Ş.
TWh	Terawatt-hour
UNEP-FI	United Nations Environment Program Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar
YEKDEM	Yenilenebilir Enerji Kaynakları Destekleme Mekanizması

Table of Contents

1. Summary Sheet

1.1. A 15.5-year (up to 3.5-year grace) loan facility to Türkiye Kalkınma ve Yatırım Bankası A.Ş. (TKYB or the Borrower) in the aggregate amount of USD200 million-equivalent, provided in two tranches of USD100,000,000 and EUR 85,291,484, respectively (the Project).[1]

1.2. The objective of the Project is to contribute to the Republic of Türkiye's climate mitigation and adaptation goals in line with the Paris Climate Agreement (PCA) (ratified in October 2021) by financing private sector investments in renewable energy, energy efficiency, climate adaptation, digital infrastructure, and strengthening private capital mobilization (PCM). Proceeds from the facility will be on-lent as Sub-loans to eligible private sector entities or Sub-borrowers to finance investments in climate mitigation (CM), climate adaptation (CA), as well as digital infrastructure (DI) in Türkiye, as described in this Project Approval Document.

1.3. The Project is well-aligned with Türkiye's strategic goals for sustainable development under the PCA, as enshrined in the Nationally Determined Contributions (NDCs), which aim to achieve a reduction of Greenhouse Gas (GHG) emissions by 41 percent to 695 million tons of carbon dioxide ($MtCO_2$) equivalent by 2030 compared to the business-as-usual (BAU) scenario. This alignment supports Türkiye’s climate targets while enhancing its energy security and economic resilience. Additionally, the Project introduces as an eligible use for the first time in an on-lending facility to TKYB, the financing of DI. The Project is therefore aligned with three out of four of the Bank’s thematic priorities, namely Green Infrastructure, Technology-enabled Infrastructure, and Mobilizing Private Capital for infrastructure.

1.4. The Borrower, TKYB, is the Project implementation entity and the primary source of repayment of the facility. Established in 1975, TKYB is Türkiye’s state-owned development and investment bank, mandated to support the country’s sustainable and inclusive economic growth. As of year-end 2024, TKYB reports total consolidated assets of TRY154 billion (USD4.4 billion equivalent), net loans of TRY93 billion (USD2.6 billion), and equity of TRY20 billion (USD566 million equivalent). The Borrower is an existing client of the Bank since 2019 and has received two on-lending facilities from AIIB for a total combined amount of USD600 million (i.e., P000132 Türkiye: TKYB Sustainable Energy and Infrastructure On-lending; and P000381 COVID-19 Credit Line Project). Both facilities present a satisfactory track record of implementation. TKYB has strong relationships with key local industrial groups, expertise in infrastructure and energy finance, and a robust operational framework, all of which are expected to contribute to the effective implementation and monitoring of the Project.

1.5. AIIB’s Environmental and Social Policy (ESP), including the ESEL, and Environmental and Social Standards (ESS) apply to this Project. The Project is placed in Category FI, as the financing structure involves the provision of funds to TKYB pursuant to which AIIB delegates the decision-making related to the use of AIIB’s funds insofar as the Sub-projects meet the conditions of the Project Operations Manual (POM). The Policy on the Project-affected People’s Mechanism (PPM) applies to the Project.

[1] EUR amount based on the EUR/USD rate of the last day of the month before negotiations (June 30, 2025: 0.85291484).

<table>
<tr><td>Project No., Name</td><td colspan="3">P000959 TKYB Climate and Digital Transition On-Lending Facility</td></tr>
<tr><td>AIIB Member</td><td colspan="3">Türkiye</td></tr>
<tr><td>Borrower[2]</td><td colspan="3">Development and Investment Bank of Türkiye (TKYB)</td></tr>
<tr><td>Guarantor</td><td colspan="3">Republic of Türkiye</td></tr>
<tr><td rowspan="2">Proposed Amount of AIIB Financing (USDm)</td><td rowspan="2">USD200 million-equivalent, provided in two tranches of USD100 million and EUR85.3 million, respectively.</td><td>Instrument type (Instrument Subtype)</td><td>Loan (Sovereign Guarantee)</td></tr>
<tr><td>Currency of Financing</td><td>USD, EUR</td></tr>
<tr><td>Sector (Subsector)</td><td>Multi-sector (Multi-subsector)</td><td>E&S Category</td><td>FI</td></tr>
<tr><td>Project Objective</td><td colspan="3">To contribute to the Republic of Türkiye’s climate mitigation and adaptation goals in line with the Paris Climate Agreement (PCA) by financing private sector investments in renewable energy, energy efficiency, climate adaptation, digital infrastructure, and strengthening private capital mobilization.</td></tr>
<tr><td>Project Description</td><td colspan="3">A 15.5-year (up to 3.5-year grace) sovereign-backed multi-sector on-lending facility, available in USD and EUR, for a total amount of up to USD 200 million equivalent to TKYB (the Project) to support Türkiye's climate mitigation and adaptation commitments under the PCA (ratified in October 2021) while advancing the integration of climate and digital agendas as a strategic pathway for sustainable and resilient development.

Proceeds from the facility will be on-lent as Sub-loans to eligible private sector entities (Sub-borrowers) to finance investments in climate mitigation (CM), adaptation (CA), as well as digital infrastructure (DI) in Türkiye.</td></tr>
<tr><td>Lead Financier</td><td>AIIB</td><td>Following other organizations' E&S Policy?</td><td>No</td></tr>
<tr><td>Co-Financing Type</td><td>Stand-alone</td><td>Following other organization's Procurement Policy?</td><td>No</td></tr>
<tr><td>Implementation Period</td><td>From September 2025 until December 2028</td><td>Expected Loan Closing Date</td><td>December 2028</td></tr>
</table>

[2] Also, the Project Implementation Entity.

Financing Plan	Uses: USD 200 million-equivalent. Sources: USD 200 million-equivalent provided in two tranches: - USD-denominated tranche: USD100,000,000; and - EUR-denominated tranche: EUR85,291,484.
Risk	Low
Retroactive Financing	Eligible expenditures according to the proposed pipeline and, in any case, incurred not earlier than 12 months before the signing date by the Borrower, representing not more than 20 percent of the loan amount in aggregate.
Policy Waivers	Not required.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB complies with the applicable Bank operational policies.

Risk	
Key risks	**Mitigation Measures**
Financial risks and economic vulnerabilities stem from the environment in which TKYB operates and bank-specific conditions	The Project is designed to adapt to a dynamic economic environment, providing counter-cyclical lending throughout market fluctuations. TKYB has demonstrated the capacity to navigate financial turbulence while maintaining its asset quality and credit risk. The Borrower presents adequate risk management systems and monitoring, proactive capital management, strong historical collections, strategic focus on USD-denominated and government-backed sustainable sectors, prudent underwriting, limited reliance on short-term wholesale foreign currency (FX), and expanded FX liquidity through long-term funding from IFI partners under sovereign guarantees, well-spaced client redemptions, high loan loss coverage ratios, conservative provisioning, and stable pre-impairment profits that provide a buffer to absorb losses.
E&S risks and impacts during Sub-projects construction and operation	The project selection and appraisal are delegated to the Borrower, while AIIB will retain an oversight role throughout implementation. This includes conducting selected prior reviews of Sub-projects. Each Sub-project will be evaluated based on the eligibility criteria set out in the Project Operational Manual (POM) using a standardized Project Appraisal Form (PAF) to ensure alignment with the Project's objectives and AIIB's Environmental and Social (E&S) framework. AIIB has confirmed TKYB's implementation capacity through the ongoing engagement and performance monitoring of previous phases.

Economic Capital (Ecap) Consumption (USDm)	USD15.99 million (as of June 30, 2025)

Strategic Alignment	
Alignment with AIIB's Thematic Priorities	Green infrastructure, Technology-enabled Infrastructure, Private Capital Mobilization
Alignment with AIIB's Strategies	Strategy on Mobilizing Private Capital for Infrastructure, Sustainable Cities Strategy, Digital Infrastructure Sector Strategy, Sustainable Energy for Tomorrow Strategy

Key Outcomes	**Indicator**	**Unit of Measure**	**Baseline (Year)**	**Target (Year)**
Green Infrastructure	Amount of renewable energy installed capacity	MW	0 (2024)	300 (2028)
Technology-enabled infrastructure	Amount of digital infrastructure investments	USD million	0 (2024)	20.0 (2028)
Private Capital Mobilization	Amount of private capital mobilized (indirect)	USD million	0 (2024)	50.0 (2028)

Other Key Financing Requirements	
Conditions of Effectiveness	Agreed Project Operations Manual (POM).
Key Conditions for 1st Disbursement	No special conditions for Disbursement.
Key Covenants	Standard covenants for an SBF FI facility, including compliance with applicable prudential regulations established by the Banks Regulation and Supervision Authority (BRSA).

President	Liqun Jin
Chief Investment Officer	Kim-See Lim
Director General, FIF	Gregory Liu
Manager, FIF	Asim Rana

Team Leader	Francisco Fortuny, Senior Investment Officer, FIF
Back-up Team Leader	Elif Sel-Freischlager, Investment Associate, FIF
Team Members	Ercan Ozbulut, Social Development Specialist, SFD Vladimir Hecl, Senior Environment Specialist, SFD Jingrong He, Procurement Specialist, SFD Rui Xiang, Financial Management Specialist, SFD Wenchao Cao, Investment Solutions Specialist, Climate, STF Liu Yang, Project Counsel, LEG David Hartcher, Senior Finance Officer, CTL Ying Shen, Portfolio Officer, PMD
Credit Officer	Wei Zhang, Senior Credit Risk Officer Xiaomeng Zhang, Sovereign Risk Analyst

2. Context

2.1 **Country and Macroeconomic Overview.** Türkiye is a diversified and dynamic upper-middle-income economy. Its Gross Domestic Product (GDP) is around USD1.4 trillion, equating to a per capita GDP of around USD16,000, or around 45,000 when adjusted for purchasing power parity (PPP). The country's population is 85.7 million.

2.2 Between 2021 and 2023, Türkiye's economy had been subject to macroeconomic volatility, including high inflation, capital outflows, and sharp currency depreciation. Additionally, the economy has suffered from several exogenous shocks, such as a surge in global energy prices and a large earthquake. However, despite these challenges, growth remained robust at 5.1 percent in 2023. The banking sector has navigated through turbulence, with temporary forbearance measures sustaining capital adequacy and allowing financial institutions to recover.

2.3 Since mid-2023, a policy normalization and tightening has been taking place to address macroeconomic imbalances. Measures include tighter and steadier monetary policy (with the policy rate peaking at 50 percent), to help control inflation, and a fiscal tightening program (with expenditure restraint, and plans for broadening the tax base), to reduce budget deficits, prevent fiscal deterioration, and improve debt sustainability. As a result, the economic environment has improved considerably. Türkiye's economy grew by 3.2 percent in 2024, inflation has declined significantly, the current account deficit has narrowed, the currency has stabilized, bond spreads and credit default spreads have declined significantly, external financing has increased, and foreign exchange (FX) reserves at the central bank increased to above USD160 billion.

2.4 The policy shift has also restored investor confidence. All three major credit rating agencies upgraded Türkiye's credit rating for the first time in a decade, reflecting confidence in the ongoing policy normalization. As of June 2025, Türkiye's long-term sovereign credit rating is affirmed at BB- by Standard & Poor's (S&P) and Fitch (outlook: stable), and B1 by Moody's (outlook: positive). However, sustaining these gains requires a continued commitment to prudent fiscal and monetary policies, amid potential external and internal challenges.

2.5 **Sector Overview: Financial Institutions (FI).** Türkiye has a developed and competitive financial sector with 67 active banks, including 45 domestic and 22 foreign-controlled banks. 20 development and investment banks provide financing for private sector infrastructure and energy investment needs. Despite the large number of FI, the sector remains relatively concentrated, with a few large institutions dominating the market: state-owned FI hold 46 percent of the banking assets.

2.6 As of May 2025, Türkiye's banking sector exhibited notable growth: the total banking assets reached approximately USD976 billion, reflecting an increase from previous years. The loan portfolio expanded to about USD485 billion by May 2025, according to the Regulation and Supervision Agency (BRSA). The loans-to-GDP ratio experienced a slight decline, indicating efforts to address economic imbalances and the impact of inflation. Customer deposits remained the primary funding source for Turkish FI, constituting around 58 percent of total liabilities. FX-denominated deposits continued to play a significant role, representing approximately 40.04 percent of total deposits, marking a decrease in dollarization from the peak level of 68.4 percent. In recent years, the FI sector's profitability, especially that of private banks, presented high, double-digit return on equity (ROE) levels and was supported by CPI-linked securities, which account for a substantial portion of their topline revenue. As of year-end 2024, Turkish FIs have approximately USD88 billion exposure to project finance across infrastructure, energy, and real estate, with energy accounting for nearly half of the amount.

2.7 The banking sector has navigated through turbulence, with temporary forbearance measures sustaining capital adequacy and allowing financial institutions to recover. CBRT has accumulated substantial international reserves, and a sharp reduction in credit default spreads has been observed. Türkiye's banking sector remains resilient, though asset quality and capitalization face pressures. Banks manage liquidity and refinancing risks due to reliance on external FX wholesale funding, while TRY depreciation has impacted FX borrowers. The FI sector presents robust capital adequacy ratios (CAR) of 17.5 percent as of May 2025, reflecting strong capitalization levels. The Non-Performing Loan (NPL) ratio stood at a low 2.1 percent, supported by TRY credit expansion, FX-driven loan growth, and restructuring efforts. Over the past decade, Türkiye's reliance on USD-denominated debt has contributed to the buildup of external obligations, with the gross external debt stock reaching USD 527.5 billion as of Q1 2025.

2.8 **Addressing Key Development Challenges; Project Contributions.** Türkiye emits approximately 1 percent of the global CO2 output. On October 21, 2021, Türkiye's General Assembly unanimously voted in favor of the ratification of the Paris Climate Agreement (PCA) of December 12, 2015, setting the country on its path to achieve net-zero emissions by 2053. At the 28th Conference of the Parties (COP28), on April 13, 2023, Türkiye announced an update to its Nationally Determined Contribution (NDC) under the PCA, committing to reducing its greenhouse gas emissions (GHG) by 41 percent to 695 $MtCO_2$ equivalent by 2030 compared to the business-as-usual (BAU) scenario. The updated NDC encompasses comprehensive mitigation and adaptation actions across all sectors of the economy. Additionally, Türkiye intends to peak its emissions by 2038 at the latest and achieve its net-zero target by 2053.

2.9 Türkiye is also embracing its digital transformation across multiple sectors, enhancing the efficiency of energy supply and demand through smart technology applications in industries, systems, and processes, while also fostering innovation and sustainable practices. Investments in digital infrastructure (DI) and information technologies, such as artificial intelligence (AI), data acquisition, storage, and analytics, indirectly strengthen Türkiye's climate resilience by optimizing resource management and improving demand forecasting. DI initiatives, such as expanding 5G, optic fiber, hyperscaler data centers, and smart energy solutions, bolster Türkiye's competitiveness and efficiency, potentially helping decarbonize the economy.

3. Rationale

3.1 **Project Objective (PO).** To contribute to the Republic of Türkiye's climate mitigation and adaptation goals in line with the Paris Climate Agreement (PCA) by financing private sector investments in renewable energy, energy efficiency, climate adaptation, digital infrastructure, and strengthening private capital mobilization.

3.2 **Expected Beneficiaries.** Beneficiaries of the Project include: (ii) electricity producers accessing long-term capital and liquidity; (iii) enterprises improving their efficiency and competitiveness through investments in renewable energy sources (RES) and EE; (iv) enterprises enhancing climate resilience and reducing operational risks through CA investments; (v) enterprises leveraging DI to accelerate their digital transformation and efficiency; (vi) electricity consumers benefiting from cleaner energy; and (vii) end consumers benefiting from greener products.

3.3 **Expected Results.** The Project will seek to finance projects in the overlap of two or more Project areas for greater impact. The project's results will include specific, measurable indicators, which include investments in key thematic areas (CM, CA, and DI), total renewable energy generation capacity installed (MW), battery energy storage systems (BESS) capacity installed (MW/MWh), GHG reduction or avoidance through CM investments in RES and EE (tCO2e/year), primary energy saved through EE (MWh/year), kilometers of electricity transmission and distribution (T&D) lines financed, indirect private capital mobilization (PCM), facility-level NPL rates, and gender-specific data. See **Annex 1** for an overview of the results.

3.4 **Strategic Fit for AIIB.** The Bank's vision for climate action is rooted in and guided by its Corporate Strategy (2020), which established a threshold of at least 50 percent of climate finance over the total volume of operations by 2025—this target has been achieved. AIIB supports its members in delivering on their net-zero commitments under the PCA and promoting their transition toward green and sustainable development. The Project is therefore aligned with the Bank's thematic priorities, namely: (i) *Green Infrastructure*, by supporting CM in the form of RES generation and EE investments, and CA across multiple industries; (ii) *Technology-enabled Infrastructure*, by supporting the adoption of climate-related technologies such as BESS, electric vehicles (EV), charging infrastructure, smart grids and meters, among other solutions, and promoting investments in the digital economy;[3] and (iii) *Mobilization of Private Capital*, by contributing to the indirect mobilization of equity capital and debt into Sub-projects. This new Project delivers on the objectives of the Bank by providing a substantial volume of climate financing and indirect PCM through FI on-lending, a product that has proven effective and competitive, as the implementation of precedent facilities demonstrated. The Project is aligned with the Bank's key strategies, notably: (i) Energy Sector Strategy, (ii) Sustainable Cities Strategy, (iii) Transport Strategy, (iv) Water Sector Strategy, and (v) Digital Infrastructure Strategy. The Project also contributes to several of the Sustainable Development Goal (SDG) 7: *Affordable and Clean Energy*, SDG 9: *Industry, Innovation and Infrastructure*, and SDG 13: *Take urgent action to combat climate change and its impacts*.

[3] The exact amount of investment in technology-enabled capex is uncertain and will be determined during the Project implementation. It is estimated that up to 10 percent of the Facility proceeds will support technology-enabled infrastructure according to the relevant AIIB methodology.

3.5 **Paris Agreement Alignment (PAA) and Climate Finance.** In line with AIIB methodology for assessing the alignment with the mitigation and adaptation goals of the Paris Agreement, the Project is assessed as aligned. Details on the assessment are provided in **Section 5.E**. Based on indicative cost allocations for the Project's eligible Sub-projects and in line with the joint MDB methodologies for climate mitigation and adaptation finance tracking, it is estimated that USD 180 million (90 percent of the AIIB loan proceeds) is considered as climate finance. This includes USD 170 million (85 percent) contributing to mitigation and USD 10 million (5 percent) contributing to adaptation, provided that the eligibility criteria of these climate mitigation and adaptation sub-projects meet the joint MDB methodologies for climate mitigation and adaptation and finance tracking.

3.6 **Value Addition by AIIB.** Beyond the provision of financing, AIIB's participation will contribute a substantial amount of long-term capital in support of the PO at a time when liquidity in the Turkish FI sector and international foreign investments are constrained by global macroeconomic conditions. The Project is inherently counter-cyclical by supporting investment and PCM into the country's decarbonization through CM and CA Sub-projects.

3.7 **Value Addition to AIIB.** The new Project represents a continuation of the Bank's long-standing relationship with TKYB, which started in 2019 with the P000141 TKYB Renewable Energy and Energy Efficiency Facility, subsequently expanded in 2021 (see below). The Project will contribute to the Bank's strategic goals in terms of climate finance and to applying the learnings from the previous facilities with TKYB, as well as with similar borrowers, as summarized below. The proposed structure will fine-tune the Bank's on-lending approach, creating space for previously under-explored investment areas like DI. This Project will continue building the Bank's knowledge of the local market.

3.8 **Lessons Learned.** The Bank is building on the experience of executing similar facilities with the same Borrower and other FI clients in Türkiye, notably:

3.8.1 P000132 Türkiye: TKYB Sustainable Energy and Infrastructure On-lending. Approved in 2019, the project was AIIB's second FI transaction in Türkiye. AIIB extended a USD 200 million loan to support sustainable energy development in Türkiye. The facility was designed to promote infrastructure development primarily in renewable energy and energy efficiency. The facility was fully disbursed and allocated before the end of the implementation period. Given its rapid absorption and positive implementation track record, the facility was expanded in 2021 by an additional USD100 million within the same scope of investment and objective. The facility reached closing in 2024, and several lessons learned were captured in the project completion note, including the importance of partner selection, emphasis on climate finance, selective use of Sub-project prior reviews, institutional capacity enhancement, and local market awareness as important factors of implementation success.[4]

3.8.2 P000381 COVID-19 Credit Line Project. The project aimed to provide sovereign-backed short-term credit lines to Türkiye's development banks, Türkiye Sinai Kalkınma Bankası (TSKB) and TKYB, to help address liquidity challenges faced

[4] P000141 Türkiye: TKYB Renewable Energy and Energy Efficiency On-Lending Facility: https://www.aiib.org/en/projects/details/2019/approved/Türkiye-TKYB-Renewable-Energy-and-Energy-Efficiency-On-Lending-Facility.html.

by infrastructure-related companies and small and medium enterprises (SMEs) during the COVID-19 pandemic. Under the project, TKYB received an allocation of USD300 million out of the total USD500 million approved. A USD30 million portion was on-lent through other partner financial institutions (apex lending), a first-of-a-kind for the Bank. The project successfully met its goals, exceeding expectations in areas such as the number of qualified sub-borrowers and maintaining zero non-performing loans at the facility level. Key lessons learned include the importance of early-stage training on E&S policies and the potential need for capacity building to facilitate the effective deployment of similar facilities.[5]

3.8.3 P000132 / P000546 / P000958 TSKB Sustainable Energy and Infrastructure On-lending, Phases 1, 2, and 3. Approved in 2018, the Project was AIIB's inaugural FI transaction in Türkiye. AIIB extended a USD200 million loan to support sustainable infrastructure primarily in RES and EE, but also in transport, power transmission, water management and treatment, and telecommunications. The facility was fully disbursed and allocated during the implementation period and closed in April 2022. A detailed early learning assessment of the project was conducted in 2021, and a second comprehensive Project Learning Review (PLR) has been completed.[6] Overall, the Project has been assessed as *successful*. In December 2022, the Bank approved a second USD200 million loan to TSKB. Building on the lessons of the first facility, the Phase 2 facility aims to support Türkiye's climate goals by financing private sector projects in RES, EE, CA, and climate-related industries. Building on the experience and capacity built through the first two financings, an additional USD200 million Phase 3 facility was approved and signed in May 2025 and expanded the scope of the previous loans by including DI investments for the first time.[7]

3.8.4 P000447 Türkiye: Eximbank COVID-19 Credit Line Project. The Bank provided a sovereign-backed credit line to Türkiye İhracat Kredi Bankası A.Ş. (Türk Eximbank), which on-lent the proceeds to sub-borrowers in the export sector to alleviate their liquidity constraints caused by the COVID-19 pandemic. The project achieved its objectives, surpassing targets such as the number of qualified sub-borrowers and the percentage of loans provided to women-inclusive enterprises. Despite the challenging macroeconomic environment, the sub-loan portfolio exhibited resilient financial performance with zero NPLs. The borrower has maintained compliance with E&S requirements, and no grievances were reported. The facility closed in 2023. Lessons learned include the need for synchronized reporting schedules and capacity building for both the borrower and sub-borrowers to ensure smooth deployment of similar facilities in the future.[8]

[5] Türkiye: COVID-19 Credit Line Project: https://www.aiib.org/en/projects/details/2020/approved/Türkiye-COVID-19-Credit-Line-Project.html.

[6] Project Learning Review (PLR) Report: TSKB Sustainable Energy and Infrastructure On-lending Facility (August 27, 2025): https://www.aiib.org/en/about-aiib/who-we-are/complaints-resolution-evaluation-integrity-unit/news-publications/_download/AIIB_CEIU_Project-Learning-Review-03_TSKB-Onlending-Facility.pdf

[7] Türkiye: TSKB Sustainable Energy and Infrastructure On-lending Facility: https://www.aiib.org/en/projects/details/2018/approved/Türkiye-TSKB-Infrastructure-On-lending-Facility.html.
Türkiye: TSKB Sustainable Energy and Infrastructure On-lending Facility, Phase 2: https://www.aiib.org/en/projects/details/2022/approved/Türkiye-TSKB-Sustainable-Energy-and-Infrastructure-On-lending-Facility-Phase-2.html.
Türkiye: TSKB Sustainable Energy and Infrastructure Facility, Phase 3: https://www.aiib.org/en/projects/details/2025/approved/Türkiye-tskb-sustainable-energy-and-infrastructure-facility-phase.html.

[8] Türkiye: Eximbank COVID-19 Credit Line Project: https://www.aiib.org/en/projects/details/2021/approved/Türkiye-Eximbank-COVID-19-Credit-Line-Project.html.

4. Project Description

4.1 **Project Description.** The proposed Project considers Türkiye's current energy and industrial landscape and will respond to the demand for long-term investments in the areas of CM, CA, and DI. The Project builds on the experience, procedures, and systems already used during the implementation of the precedent facility. By providing long-term financing (Sub-loans), the Project will focus on supporting private sector borrowers (Sub-borrowers) with Eligible Investments that are aligned with the PO (Sub-projects). All Sub-projects under the Project will be aligned with the principles of the PCA, under the Multilateral Development Banks (MDB) methodology[9] and the Bank's methodology guidelines.[10]

4.2 **Eligible Sub-projects.** Eligible Sub-projects under the Project will be defined in the POM and align with the target outcomes, as outlined below.

4.2.1 Climate mitigation (CM):

(i) *Renewable Energy Sources (RES).* To promote the rapid decarbonization and GHG emissions reduction in the energy sector, one of the key emitters in the context of Türkiye, the Project will continue to support investments in generation from RES, including onshore and offshore wind power plants, utility-scale and decentralized solar photovoltaic (PV) plants, hybrid solutions (e.g., floating solar, combined solar and wind), biogas or landfill gas, and associated technology solutions such as battery energy storage systems (BESS). Captive RES plants associated with industrial processes will be included under this category. The financing of geothermal operations will not be considered an eligible use under this Project.

(ii) *Climate mitigation: Energy Efficiency (EE).* To promote eligible investments in buildings, equipment, systems, processes, and networks that reduce the consumption or loss of primary energy or final electricity:

a. *Industry and Services.* Investments in industry, manufacturing, and services to achieve significant and measurable EE improvements in the form of higher energy savings ratios, reduced GHG emissions, and/or energy cost savings per unit of output above certain thresholds, as defined in the POM.

b. Buildings. Investments in green buildings and retrofits (e.g., insulation, heating) across eligible industries (excluding real estate and hospitality). Sub-projects under this category will contribute to the attainment of environmental certifications (e.g., LEED Silver, BREEAM Good) under specific criteria and in alignment with the Bank's Sustainable Cities Strategy.

c. Networks. Investments in utility networks to promote demand-side consumption management, smart grids, smart metering, electricity loss control or reduction, and maintenance investments with significant and measurable EE impacts on the network's performance.

[9] IDFC. Common Principles for Climate Mitigation Finance Tracking. v3 (Oct. 18, 2021).
[10] AIIB (2023). *Methodology for Assessing the Alignment of AIIB Investment Operations with the Paris Agreement.*

4.2.2 Climate Adaptation (CA). To promote investments in climate resilience of processes, equipment, buildings, and structures in eligible industries to mitigate the negative impacts or take advantage of positive impacts of climate change, in line with the country's adaptation strategies and the relevant MDB methodologies.[11] Sub-projects under this category are expected to benefit water-intensive eligible industries by promoting resource preservation and recycling. Other key areas under this category will include structure, building reinforcement, and disaster protection measures. Sub-borrowers in eligible industries are expected to adopt and integrate climate resilience measures into their processes and use the EU's Best Available Techniques (BAT) and other guidelines in the identification of such opportunities. Under this category, the Bank will finance CA measures added to make greenfield and brownfield assets climate-resilient, as well as standalone projects that promote CA. Given the fragmented nature of private sector investments in CA and the comparative difficulty of finding bankable CA projects, this category is expected to represent a small share of the Project.

4.2.3 Digital Infrastructure (DI). Investments in areas that promote 5G deployment, internet of things, expand optic fiber penetration, digitalize industrial processes, improve internet access, and integrate smart technologies into EE and RES projects. Uses under this category will follow the Bank's Digital Infrastructure Strategy and support both hard and soft digital assets. Hard infrastructure includes optical fiber networks, satellite systems, and data centers, while soft infrastructure comprises software platforms, cloud computing services, and cybersecurity frameworks. Digitalization initiatives supported under this category may contribute to CM and CA efforts.

4.3 Based on the proposed Sub-project pipeline, the proposed facility is not expected to include loans for manufacturing equipment and goods associated with CM and CA goals, such as RES technologies, e-mobility, or grid technologies in this facility. The Bank may consider expanding the use of proceeds to these areas during the implementation period at its sole discretion.

4.4 To facilitate the selection of Sub-projects, the POM will refer to up to three filters, namely: (i) a list of activities that are considered universally aligned with the PCA, under the relevant AIIB methodology; (ii) a list based on a widely-used classification of industries and economic activities (e.g., NACE Rev. 2 or similar), and (iii) the Bank's own Environmental and Social Exclusion List (ESEL). The Bank will maintain flexibility to apply alternative definitions and exclusions during the implementation phase.

4.5 Eligible Sub-projects must be located and undertaken in the territory of the Republic of Türkiye, have all necessary approvals, permits, and certifications, and comply with all applicable regulations and legislations. Eligible Sub-projects must also be compliant with AIIB's policies, as detailed below.

[11] IDFC. Common Principles for Climate Change Adaptation Finance Tracking (Mar. 31, 2015).

Table 2. TKYB Facility Scope

Renewable energy generation	Investment in electricity generation from renewable sources in eligible technologies. Grid-connected and captive RES plants will be included under this category. *Examples of eligible technologies: wind onshore and offshore, utility-scale and decentralized solar PV, battery energy storage systems (BESS), hybrid power plants (RES only), and biogas/landfill gas.*
Energy Efficiency and demand-side management	Investments in buildings, equipment, systems, processes, and networks that reduce the consumption or loss of primary energy or final electricity in eligible industries, including hard-to-abate sectors. *Specific uses:* • *Industry and services: EE investments in immovable or movable equipment resulting in increased output volume/capacity expansion with lower energy consumption or GHG per unit in eligible industries.* • *Buildings: Green buildings and retrofits that qualify towards environmental certifications (e.g., LEED-Silver, BREEAM-Good) in eligible industries (excluding real estate).* • *Networks: investments in demand side management, smart grids, smart metering, electricity loss reduction, and network efficiency.*
Climate Adaptation	Investments in climate resilience of processes, equipment, buildings, and structures in eligible industries to mitigate the negative impacts or take advantage of positive impacts of climate change, in line with the country's adaptation strategies and the relevant MDB methodologies. *Examples: urban water infrastructure, water efficiency in industry and agriculture, water resources and treatment, water transmission and drainage, biodiversity/nature-based solutions, coastal resilience, flood protection. disaster prevention. passive cooling and insulation.*
Digital Infrastructure	Investments in both hard and soft digital assets may contribute to bridging the digital divide, enhancing economic competitiveness, and increasing infrastructure efficiency. These investments may be classified as climate finance, subject to the Bank's criteria. *Hard infrastructure examples: optical fiber networks, satellite systems, green data centers, and smart grids. Soft infrastructure examples: software platforms and intelligent systems, Internet of Things, cloud computing services, and cybersecurity frameworks.*

4.6 **Eligible Sub-borrowers**. Eligible Sub-borrowers under the Project are private entities (not directly or indirectly controlled by the state or its subdivisions),[12] operating autonomously on a commercial basis and registered in the Republic of Türkiye, as per the requirements set out in the POM. Eligible Sub-borrowers must not be included in the AIIB Debarment List nor engage in activities listed in the Bank's ESEL.

[12] Entities where more than 50 percent of their shares and effective management control are private, and operate on a commercial, for-profit basis. For the avoidance of doubt, entities where more than 50 percent of their shares and effectively manage control are owned by foreign state-owned enterprises and operating in Türkiye on a commercial basis are also eligible.

4.7 **Eligible Sub-loans.** Eligible Sub-loans to be negotiated on a commercial basis between the Borrower and the Sub-borrowers based on sound banking and market principles. The Borrower is expected to conduct the necessary due diligence and review of each Sub-loan and Sub-borrower to ensure the financial and economic viability of the investment. The Sub-loan pricing and maturity will be (i) consistent with the market conditions and (ii) provide adequate return to cover the Borrower's risk and costs while ensuring profitability. Notwithstanding, Sub-loans will have a minimum tenor of 48 months and a loan maturity date no longer than the final maturity of the Project. The maximum allocation per Sub-loan is USD30 million-equivalent (or 15 percent of the total facility) unless specifically authorized otherwise by the Bank on a case-by-case basis. A maximum allocation of USD60 million equivalent (or 20 percent of the total facility) per economic group (i.e., entities controlled by the same holding and representing a consolidated group exposure under the Borrower's credit procedures) will apply unless otherwise agreed by the Bank on a case-by-case basis. Proceeds of the Sub-loans will support solely eligible investments as regulated by the POM and the Loan Agreement. Legal terms and documentation must protect the interests of the Borrower, the Guarantor, and the Bank, including terms and conditions aligned with the Bank's Policy Prohibited Practices (PPP) and include AIIB funding requirements to be agreed between the Borrower and AIIB in advance in the POM.

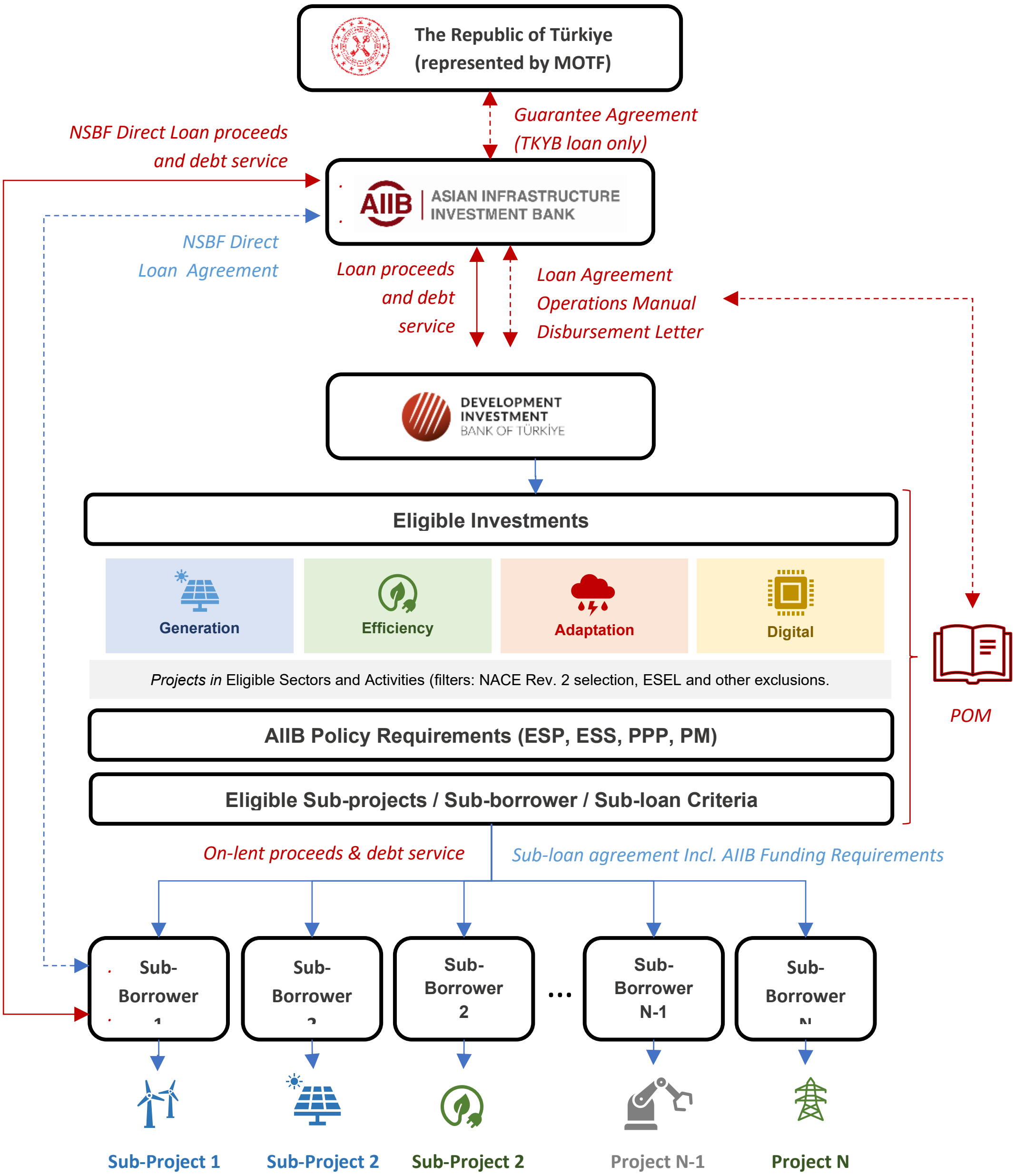
4.8 **Cost and Financing Plan.** The indicative financing plan is presented below. A minimum of 90 percent of the proceeds will be allocated to climate finance, mainly CM through RES generation. A minimum of 10 percent and 5 percent will be allocated to the EE and CA categories, respectively. Up to 10 percent of the proceeds may support DI uses, without these qualifying as climate finance under the relevant joint-MDB and AIIB methodologies. During the implementation phase, the Bank will maintain flexibility to adjust the allocation between categories to ensure full use of the facility, especially to maximize climate finance impacts.

Table 3. TKYB facility, Indicative Allocation, USD-equivalent amounts

Item	**Project Cost (USD m equivalent, unless otherwise stated)**	**AIIB Financing**	
		USD mio-equiv.	**%**
A. Climate Mitigation (CM)	170.0	170.0	85%
- *RES generation*	*Max. 150.0*	*Max. 150.0*	*75%*
- *Energy Efficiency (EE)*	*Min. 20.0*	*Min. 20.0*	*10%*
B. Climate Adaptation (CA)	Min. 10.0	Min 10.0	5%
C. Digital Infrastructure (DI)	20.0	20.0	10%
Grand Total	200.0	200.0	100%
- USD tranche amount	*USD 100.0*	*USD 100.0*	
- EUR tranche amount	*EUR 85.3*	*EUR 85.3*	

4.9 **Retroactive Finance.** The Project will include retroactive financing for Eligible Sub-projects already financed by the Borrower. The Loan Agreement will provide for the financing of a Retroactive Amount, a Retroactive Financing Date, and a Retroactive Financing Limit. Eligible Expenditures are the disbursements made by the Borrower to the Sub-borrower for the financing of Sub-projects. The retroactive financing portion is limited to 20 percent of the EUR and USD loan proceeds (across all components) and to Eligible Sub-loan disbursement made no earlier than 12 months before the expected signing date of the Loan Agreement.

Figure 1. Overview of Project Structure



4.10 **Implementation Arrangements.** The Borrower will be responsible for the implementation of the Project through the selection, analysis, and monitoring of all Sub-projects, as regulated in the POM. The Borrower has established a Project Implementation Unit (PIU) with representatives from various departments (i.e., DFI relations, Engineering, Environment, Portfolio) who will provide adequate human resource support to the management of the Project portfolio and pipeline. The PIU shall also oversee the compliance of the Borrower and Sub-borrower with the Turkish legislation and standards, including the relevant foreign currency lending provisions, and AIIB's fiduciary and safeguard requirements, including the Environmental and Social Policy (ESP), the PPP, the Procurement Policy (PP), and the Directive on Procurement Instructions for Recipients (PIR). The PIU will coordinate with the Borrower's lending department on the execution and disbursement of the Sub-loans, and with the loan allocation and loan monitoring departments, for the implementation and reporting of the facility.

4.11 **Implementation period.** Based on the experience of rapid allocation and absorption of the Bank's commitments in the previous facility, the new one will have an implementation period of 3 years, door-to-door, from August 2025 until August 2028 as a single phase.

4.12 **Implementation readiness.** The approvals necessary for the effectiveness of the Sovereign Guarantee will be obtained within the proposed time for signing and effectiveness. The Guarantor will initiate the process to procure Ministerial Approval ahead of loan negotiations. The Project is part of the Multi-Year Rolling Pipeline (MYRP) agreed between the Bank and the Ministry of Treasury and Finance (MOTF) in February 2025.

4.13 **Disbursements**. The disbursement arrangements from the Bank to the Borrower will be communicated in a Disbursement Letter (DL). Both the advance and retroactive methods will be considered in the same document. Disbursements will be for a minimum of USD2 million and a maximum of USD50 million, or their EUR equivalent, as regulated by DL. Sub-loan disbursements will be made by the Borrower to the Sub-borrower upon confirmation that the Sub-loan meets the AIIB funding, except in cases of retroactive financing.

4.14 **Co-financing opportunities.** AIIB has traditionally used FI on-lending to invest in smaller projects that it would not finance directly. While this approach suits the fragmented nature of some RES, EE, and CA investments, the Bank's lending experience in Türkiye shows that opportunities for co-investment in larger and more challenging non-sovereign projects may emerge during the implementation phase. AIIB may co-finance sizeable opportunities with the Borrower on a case-by-case basis as standalone separate operations. An intermediate results indicator has been added to reflect the potential for co-financing during the implementation phase—see **Annex 1**.

4.15 **Monitoring and Evaluation.** Information about the Project's implementation, including details of the Sub-projects, will be periodically reported to AIIB through various reports at the stipulated frequency in the POM. In addition, AIIB shall retain the right to conduct supervision visits (including on-site visits to the Sub-borrowers and the Sub-projects) at its discretion and request. Implementation monitoring missions (physical or virtual) are expected to take place annually.

5. Project Assessment

A. Technical

5.1 **Project Design; Operational Sustainability.** The Project design is considered adequate compared to alternative structures. TKYB has a local presence and extensive corporate relations and can finance Sub-borrowers in fragmented investments like small RES generation, EE, and CA, and lend in different currencies, including USD, EUR, and TRY. The Borrower can undertake due diligence, credit analysis, and monitoring of Sub-loans efficiently and cost-effectively. Due to its capillarity, TKYB can extend both small loans as well as take part in larger project finance investments. As confirmed through the monitoring of the previous facility, the Borrower has adequate staff, resources, management systems, and organization to undertake the Project and monitor the Sub-projects. TKYB has experienced loan officers, environmental specialists, engineers, and legal teams. After disbursement, the loan monitoring team assumes the management of the Sub-loan and oversees the credit ratings, ownership, collateral, and performance of the Sub-projects. TKYB presents a strong financial profile, as presented in **Section 5.B** below, and an established sustainability profile. TKYB was recognized among the top 50 institutions in Sustainalytics' ESG Industry Top Rated and ESG Regional Top-Rated categories, earning a place on the Most Admired ESG Companies List. It has also signed the Operating Principles for Impact Management, an initiative led by the Global Impact Investing Network (GIIN).

5.2 **Implementation Track Record**. TKYB has a long track record of managing FI facilities funded by various supranational IFIs and foreign banks. The Borrower's FI investments focus particularly on the areas of infrastructure and energy, where it has developed strong in-house expertise. TKYB has a proven track record in its niche market and has established long-lasting relationships with Türkiye's industrial groups. Based on the five-year cooperation record, the Borrower has hitherto demonstrated a strong capacity to implement FI loans and to act as a strategic partner in the pursuit of climate finance goals. TKYB plays a significant role in Türkiye's sustainable finance landscape. It has financed over 410 RES and EE projects, contributing to close to 8 GW of installed capacity. Its credit portfolio is predominantly sustainability-themed, with 93 percent of loans aligned with environmental and social objectives. The proposed Project builds on two previous financings:

5.2.1 P000141 TKYB Renewable Energy and Energy Efficiency On-lending Facility (signed in 2019 and closed March 2024). The facility, originally USD200 million, was expanded in 2021 for an additional USD100 million. With the resources, TKYB supported 18 RES sub-loans, representing investments in excess of USD2 billion equivalent and 2 GW of installed RES capacity, primarily wind and solar farms.

5.2.2 P000381 Türkiye: COVID-19 Credit Line Project. In 2020, the Borrower also participated alongside TSKB in a USD500 million credit line aimed at mitigating the liquidity constraints caused by the COVID-19 crisis and facilitating access to finance of corporates and SMEs operating in eligible infrastructure and other productive sectors. Facility P000381 has been fully repaid.

B. Economic and Financial Analysis

5.3 **Economic Analysis.** The Project is expected to generate significant economic benefits by promoting Türkiye’s climate and digital transition. This Project will exclude investments that entail complex cost-benefit assessments, such as geothermal, hydropower, and hybrid solutions involving fossil fuels. Sub-projects will be aligned with the PCA and are expected to entail positive economic impacts in terms of climate mitigation. TKYB and AIIB have agreed to develop an economic analysis approach in the POM to demonstrate the positive economic impact of the Project, based on sampled representative Sub-projects to be selected based on their size, weight within the facility, impact, and other criteria. The analysis has evaluated a potential investment in RES generation and estimated positive economic benefits based on assumptions regarding avoided GHG emissions and the carbon intensity of the grid.

5.4 **Financial Analysis.** The Project is expected to achieve positive financial outcomes through commercially sound, profitable, and performing loans. The financial strength of the Project is underpinned by the credit quality of the Borrower, the first source of loan repayment:

5.4.1 **Profile**. The Borrower will be the primary source of repayment of the Project. Established in 1975, TKYB is Türkiye’s state-owned development and investment bank, mandated to support the country’s sustainable and inclusive economic growth. TKYB provides project finance, corporate loans, investment banking, and advisory services, with a focus on sectors such as energy, infrastructure, tourism, education, and health. As of April 2025, 99.1 percent of TKYB’s shares are held by the Ministry of Treasury and Finance (MOTF), and the remaining 0.9 percent is free float in the Borsa Istanbul Stock Exchange (BIST). TKYB is headquartered in Istanbul and employs approximately 348 staff. Additionally, TKYB manages the Türkiye Development Fund, overseeing resources from over 140 qualified investors totaling approximately TRY4.3 billion.

5.4.2 **Loan portfolio.** As of December 31, 2024, TKYB maintained a high-quality loan portfolio, reflecting its strategic focus on financing long-term, sustainability-linked projects. TKYB’s lending activities are predominantly directed towards sectors such as RES, EE, and industrial modernization, aligning with Türkiye's sustainable development goals. TKYB’s loan portfolio has a high sustainability focus, with 96 percent of the loan portfolio consisting of sustainability-themed loans, indicating a strong commitment to environmentally and socially responsible investments. Its total assets have grown significantly, from TRY48 billion (USD 1.37 billion) in 2021 to TRY154 billion (USD4.4 billion) by the end of 2024, representing a compound annual growth rate (CAGR) of 45 percent in TRY terms. Net loans rose from TRY37 billion (USD2.8 billion) to TRY93 billion (USD2.6 billion) over the same period, achieving a CAGR of 36 percent in TRY terms. By the end of 2024, net loans constituted about 61 percent of TKYB's total assets.

5.4.3 **Asset Quality.** TKYB has demonstrated robust asset quality, maintaining a low NPL ratio of 0.8 percent as of December 31, 2024. This is indicative of the bank's prudent underwriting standards and effective risk management. The NPL coverage ratio stands at 78.7 percent, ensuring adequate provisioning against potential credit losses. During the review period from December 2021 to December 2024, TKYB’s NPL levels continuously decreased.

5.4.4 **Profitability.** In 2024, TKYB reported a net income of TRY6.2 billion (USD188 million), reflecting consistent profitability. The bank's return on average equity (ROAE) and return on average assets (ROAA) stood at 40 percent and 4.3 percent, respectively, indicating strong financial performance. TKYB's cost-to-income ratio was 11.6 percent, showing high operational efficiency. The bank's profitability is underpinned by a high net interest margin of 7.8 percent, benefiting from effective asset-liability management and access to favorable funding sources.

5.4.5 **Capitalization**. As of December 31, 2024, TKYB maintained a solid capital position, with a Common Equity Tier 1 (CET1) ratio of 14.4 percent and a Capital Adequacy Ratio (CAR) of 17.9 percent. These figures are well above the regulatory requirements set by the BRSA in Türkiye, which mandates a minimum CET1 ratio of 6 percent and CAR of 12 percent for banks to undertake certain activities. TKYB's robust capitalization is consistently bolstered by regular capital infusions and subordinated debt from authorities. The latest contribution came from the Turkish government, which injected TRY3 billion in April 2024.

5.4.6 **Funding**. The Borrower is a non-deposit FI and occupies a niche position within Türkiye’s financial sector. It relies on a diversified funding base primarily composed of external wholesale funding. Approximately 84 percent of the bank's funding consists of FX-denominated credit lines and on-lending facilities from various international financial institutions (IFIs), many of which benefit from sovereign guarantees and preferred creditor status. Over time, TKYB has secured a total of USD6.4 billion in FX funding from institutions such as the World Bank, EBRD, KfW, AFD, EIB, IsDB, and AIIB, among others. TKYB has therefore stable access to low-cost, long-term funding from a well-diversified pool of IFI lenders that align with the Bank’s development objectives. As of December 2024, its average funding maturity is approximately 6.7 years.

5.4.7 **Liquidity**. As of December 31, 2024, TKYB maintained a strong liquidity position, with liquid assets accounting for approximately 25 percent of total assets. The bank's liquidity portfolio primarily consists of Turkish government securities, with a duration of approximately 3 years. The bank's funding maturities are well-diversified, effectively mitigating refinancing risks. TKYB’s liquidity coverage ratio stood at 347 percent for total loans and 144 percent for FX loans as of December 31, 2024. In comparison, the previous fiscal year's ratios stood at 196 and 102 percent, respectively, with both years' ratios being well above the regulatory minimum levels of 80 percent for FX outflows and 100 percent for total outflows. Additionally, TKYB’s Net Stable Funding Ratio (NSFR) stood at 136 percent in 2024 (2023: 102 percent), both exceeding the regulatory minimum (100 percent). As of December 31, 2024, TKYB’s off-balance sheet commitments and contingencies are TRY24.5 billion (USD 693 million).

5.4.8 **Currency**. TKYB's balance sheet is predominantly composed of FX-denominated assets and liabilities, primarily in USD and EUR. The bank's strategy is to borrow and lend in these currencies. TKYB employs hedging strategies to manage FX risks and emphasizes the importance of clients' FX revenue generation capabilities when providing funding. Regular analyses are conducted to assess the portfolio's FX risk.

5.4.9 **Credit Rating**. In 2024, Fitch upgraded TKYB's long-term issuer default rating (IDR) to BB-, with a *stable* outlook. As a state-owned development bank, TKYB's government support rating (GSR) is equal to the Turkish sovereign rating, underscoring TKYB's strategic importance in advancing Türkiye's long-term development goals.

Figure 2. Asset Composition (TRY million, 2021 – 2024)

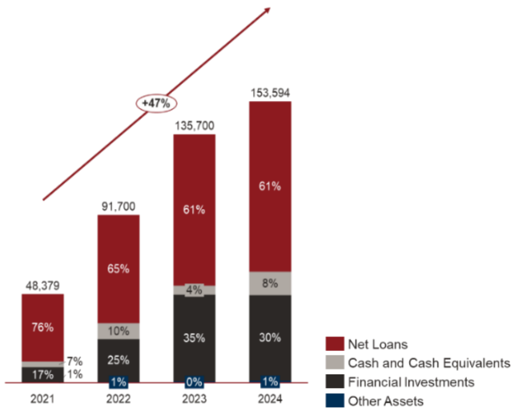


Figure 3. Operating Income Composition (TRY millions, %)

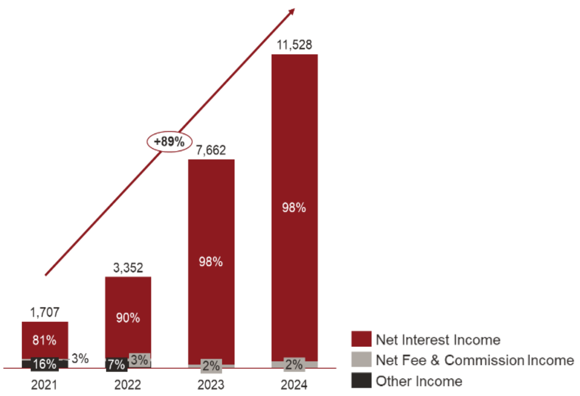


Figure 4. NPL and Loss Coverage Ratio (%, x, 2021 – 2024)

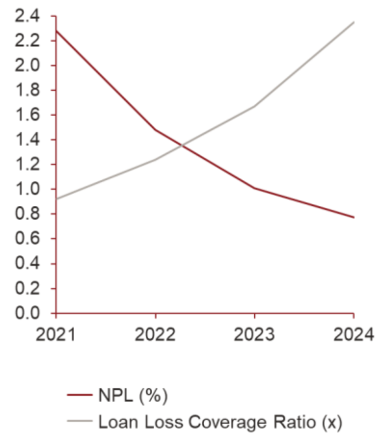


Figure 5. Profitability Ratios (%, 2021 – 2024)

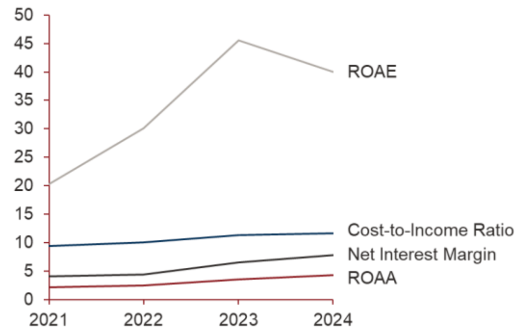


Figure 6. Loan Breakdown by Quality (%, 2021 - 2024)

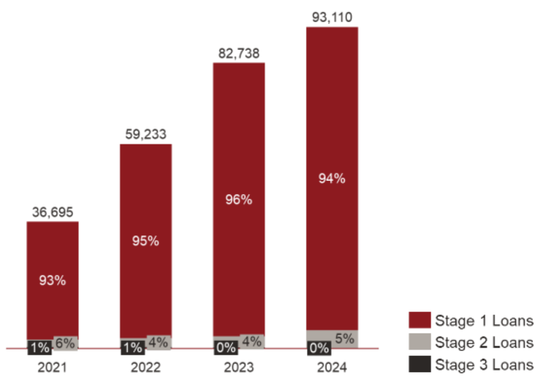
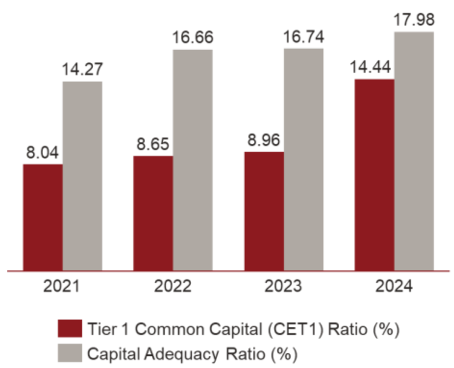


Figure 7. Capital Adequacy Ratios (%, 2021 – 2024)



C. Fiduciary and Governance

5.5 **Procurement**. Based on the monitoring and reporting of prior facilities, the Borrower has adequate capacity to ensure AIIB's Procurement Policy (PP) and its Directive on Procurement Instructions for Recipients (PIR) are followed. AIIB will provide the facility to the Borrower to finance eligible Sub-projects through the Sub-loans, under the POM. The Borrower will follow the Bank's PP and PIR on the FI procurement requirements. The procurement of goods, works, and services to be financed by the Sub-loans will need to meet the requirements applicable to private sector beneficiaries through the FI.[13] The Borrower will ensure that the procurement provisions are included among the funding requirements and are complied with by demonstrating that established commercial practices and appropriate procurement methods have been followed to achieve market pricing.

5.6 **Financial Management.** Based on the monitoring and reporting of prior facilities, the Borrower's financial management systems are deemed satisfactory, with adequate systems and procedures in place to manage IFI-financed projects. The Borrower has a good track record in the management of disbursement applications and funds flow. AIIB will ensure the continued compliance of the Borrower with domestic prudential regulations through the annual audit reports, to be prepared under IFRS/TFRS and subjected to an independent audit. All Sub-loans would also be appropriately documented and accounted for in the unaudited financial reports on a semi-annual basis and the annual end-of-year audited financial statements denoting the activities of the DA and the SA. The annual audited financial statements are made publicly available within six months following the financial year end.

5.7 **Disbursements.** Disbursement terms will be detailed in a DL, covering both advances and reimbursements, as explained in **Section 4** above. Separate withdrawal applications will be submitted by the Borrower to the Bank for advances and reimbursements under the same disbursement, and will have two authorized signatories to be designated in advance.

5.8 **Funds flow.** The Borrower will open and maintain a Designated Account (DA) to receive funds in each currency (USD or EUR); funds will then be transferred to Sub-loan Accounts (SA) in the same currency. Each SA will also be used to receive payment of interest, charges, and principal repayments from the Sub-borrower. TRY loans, a possibility under the facility, may receive different treatment. Exchange gains or losses arising from the transfer of loan proceeds between the DA and SA cannot be absorbed by the Project. Under the POM, the Borrower shall separately report during the life of the loan the utilization of principal repayments made by Sub-borrowers under the Sub-loans to the extent not required for AIIB obligations, for financing additional Sub-loans. All fund flows of the DA and SA will be recorded in a Statement of Expenditure (SOE) with supporting documents available to AIIB upon request.

5.9 **Financial Crime and Integrity (FCI) and Counterparty Due Diligence/Know Your Counterparty (CDD/KYC).** The KYC review was completed with a risk rating of *Medium*. No significant red flags were identified during the review.

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[13] The rules applicable to public sector entities are not expected to apply to this financing as state-owned entities are not eligible Sub-borrowers under the loan.

5.10 **Governance.** The Borrower has adopted and follows best market practices in terms of corporate governance, as recognized by BIST in its Corporate Governance Index, which features TKYB among the highest-rated companies in Türkiye (SAHA Corporate Governance rating: 9.40/10). The Borrower has established an adequate E&S Management System (ESMS), and the Climate Change Mitigation and Adaptation Policy and related climate risk screening tools are implemented as part of its Sustainability Management System (SMS). TKYB is a member of mission clubs such as the Task Force on Climate Related Financial Disclosures (TCFD), the Principles of Responsible Banking (PRB), the International Development Finance Club (IDFC), European Association of Long-Term Investors (ELTI), and the Long-Term Investors Club (D20-LTIC).

5.11 **Anti-corruption**. The Borrower is committed to preventing fraud and corruption across its operations. It shall therefore ensure that its Sub-loans and Sub-projects are in strict compliance with AIIB's PPP. The implementation of the Sub-projects will be monitored regularly by the Borrower, and AIIB will be notified of any suspected prohibited practices and investigations on prohibited practices involving the Borrower, a Sub-borrower, or a Sub-project. The Bank reserves the right to investigate any prohibited practices involving the Borrower, a Sub-borrower, or a Sub-project.

5.12 **Cybersecurity.** The infrastructure financed is not considered Critical Infrastructure. TKYB is subject to cybersecurity risks, as are all FIs. To address these risks, TKYB has implemented a comprehensive Information Security Management System (ISMS) based on the ISO/IEC 27001 standard. This system ensures compliance with legal and sector regulations, contractual obligations, and business requirements. TKYB is committed to maintaining and continuously improving the ISMS. See **Section 5.G** below.

D. Environmental and Social

5.13 **Environmental and Social Policy and Categorization.** AIIB's Environmental and Social Policy (ESP), including the ESEL, and Environmental and Social Standards (ESS) apply to this Project. The Project is placed in Category FI, as the financing structure involves the provision of funds to TKYB pursuant to which AIIB delegates the decision-making related to the use of AIIB's funds insofar as the sub-projects meet the conditions of the POM. The POM will include selection, appraisal, approval, and monitoring of sub-projects in accordance with AIIB's ESP requirements.

5.14 **Environmental and Social Instruments.** TKYB's Environmental & Social Management System (ESMS) is materially aligned with AIIB's ESP and will be used as the project's E&S instrument together with the POM. In January 2020, TKYB's Environmental and Social (E&S) Policy was approved by the TKYB Board of Directors, followed by the implementation of Sustainability Principles and the enforcement of the Climate Change Mitigation and Adaptation Policy in June 2020. TKYB is the first state-owned bank to obtain ISO 14001 Environmental Management Systems and to publish a Green Human Resources Policy, a first in the Turkish Finance sector. Also, TKYB has an ISO 45001 Occupational Health and Safety Management System, ISO 9001 Quality Management System, ISO 10002 Customer Satisfaction Management System, and ISO 27001 Information Security Management System standard and earned the certification. TKYB is required under its ESMS to (i) screen the sub-project proposals against its E&S exclusion list, (ii) assign an E&S categorization, (iii) conduct E&S risk assessment, (iv) monitor E&S risks and impacts, (v) report to its management accordingly, (vi) disclose E&S information, and (vii) conduct meaningful consultation with stakeholders. Specifications for implementing AIIB E&S requirements will be defined in the POM, including the adoption of the AIIB's ESEL.

5.15 The ESMS is implemented by the Sustainability and Environmental Social Impact Management Unit. This unit supports TKYB's risk management and sustainability commitments by preparing Environmental and Social Risk Assessment Reports for projects in all lending processes. TKYB follows national and international developments in terms of inclusion, climate change, biodiversity, and environmental and social impact based on its activities and sub-loan portfolio. Currently, TKYB is working to strengthen its Environmental and Social Risk Assessment practices, in line with international standards, with a focus on climate change, benefiting from the technical assistance program of the KfW, and having several discussions and workshops with the World Bank, which is expected to be formally approved by TKYB's Board of Directors in 2025.

5.16 TKYB's Sustainability and Environmental Social Impact Management Unit is responsible for the environmental and social assessment and monitoring of each sub-project to be financed by TKYB. The main responsibilities of this department are (i) monitoring developments in the field of sustainability, (ii) advancing the impact investment ecosystem, (iii) Integration of environmental, social, and governance issues, (iv) E&S risk assessment, (v) compliance with international standards, (vi) reporting and sharing, and (vii) committee guidance. The Environmental and Social Risk Assessment and Monitoring Process includes a non-financed activities list check, environmental and social risk categorization, preparation of an environmental and social action plan and informing the client, identifying contractual environmental and social obligations, loan disbursement (based on environmental and social progress), environmental and social monitoring throughout the loan term and environmental and social assessment annual impact reporting. Moreover, the environmental and social risk categorization includes the Environmental and Social Risk Evaluation Tool (ESRET) process.

5.17 **Environment and Social Aspects.** The preliminary pipeline comprises 25 sub-projects across RES generation (e.g., wind and solar plants with battery energy storage systems) and EE (e.g., efficient machinery); CA and DI will be identified during the implementation phase. The Project will support Türkiye's ratification of the PCA on CM and CA in 2021 and will contribute positively to SDGs, such as SDG 6, SDG 7, and SDG 13. Impacts on communities' health and safety, involuntary resettlement and land acquisition, sensitive habitats, ecosystems and their services, occupational health and safety, and labor and working conditions (LWC) are potential E&S risks associated with such sub-projects. Every Sub-project will be screened to identify the risks, and following the assessment, appropriate mitigation measures will be adopted. TKYB is committed to protecting biodiversity and cultural heritage by supporting investments to minimize negative impacts on the environment and society. TKYB conducts detailed assessments of the projects it finances through site visits with expert biologists. These assessments comprehensively evaluate the potential impact of projects on biodiversity and cultural heritage. To manage any potential project risk effectively, TKYB requires its clients to submit biodiversity and cultural heritage management plans as appendices in their loan agreements.

5.18 TKYB's E&S capacity is considered adequate for managing the subprojects anticipated under the proposed facility. AIIB's supervision during the implementation of the previous facilities (P000132 and P000381) confirmed that TKYB maintains a well-resourced E&S team, with environmental experts and social experts embedded within the Sustainability and Environmental Social Impact Management Unit. TKYB has robust internal procedures for project screening, due diligence, monitoring, and reporting, supported by the ESRET and the application of sub-project-specific ESAPs. Given this institutional capacity and performance track record, the delegation of higher-risk Category B subprojects to TKYB is considered appropriate under the proposed facility. No additional capacity strengthening is deemed necessary at this stage.

5.19 **Labor and Work Conditions.** The Project Team has examined TKYB's ESMS concerning LWC. As part of the POM, all suppliers of the sub-projects will be advised of the importance of the implementation of appropriate management measures to identify and address issues related to E&S provisions of the ESMS, including LWC and health and safety (H&S) matters. Compliance with TKYB's ESMS is an essential part of the contract documents used in the procurement. The sub-projects will also apply TKYB's ESMS to its suppliers and contractors. Representations and warranties on LWC to be provided by suppliers and contractors to the sub-projects will be incorporated into sub-loan agreements and contracts.

5.20 **Gender.** TKYB applies a workplace culture that respects human and labor rights and actively supports women's participation in the workforce as a key pillar of sustainable development. As of 2024, 42.5 percent of TKYB's total employees and 50 percent of its managers are women. TKYB has adopted policies that promote gender balance, offer flexible working arrangements, and strengthen opportunities for women's professional development. Its Supplier Code of Conduct also includes specific provisions prohibiting discrimination, harassment, and LWC violations, and encourages equal treatment across the supply chain. TKYB has taken concrete steps to mainstream gender equality across its operations by integrating a structured gender analysis process into its Environmental and Social Risk Assessment framework. With support from the French Development Agency (AFD) and the Frankfurt School of Finance and Management, the TKYB has implemented a comprehensive program to institutionalize gender-responsive practices across its financing activities. This includes the development of a gender equality measurement process, incorporating the OECD Development Assistance Committee (DAC) gender scoring system, which is applied to all projects. The process involves detailed gap analyses, stakeholder engagement assessments, and policy reviews, as well as media scans to identify gender-related risks and opportunities at the sub-project level. Particular attention is given to topics such as women's participation in the workforce, management representation, access to grievance mechanisms, and gender-specific risks. Based on the outcomes of these assessments, gender-responsive actions are integrated into the ESAP and monitored throughout the sub-project lifecycle.

5.21 **Stakeholder Engagement, Consultation, and Information Disclosure.** TKYB maintains and publishes its E&S Policy and ESMS overview in both English and Turkish. At the facility level, TKYB will continue to disclose the E&S documentation promptly for all higher-risk sub-projects.[14] At the corporate level, TKYB will continue to disclose its integrated report, which is prepared in alignment with the Principles for Responsible Banking (PRB), the Global Reporting Initiative (GRI) Standards, and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The report also outlines TKYB's commitments and performance related to environmental, social, and governance (ESG) issues and serves as a key communication tool with its stakeholders.

5.22 **Project Grievance Redress Mechanism.** TKYB has the external communications mechanism (ECM), including contacts and processes to receive and handle related E&S matters, and its information, including the Project-affected People's Mechanism (PPM) of AIIB, has been disclosed in both Turkish and English. The ECM will be available to project-affected people (PAPs) and project-contracted workers. Under the POM, TKYB will require its Sub-borrowers to establish a suitable sub-project-level Grievances Redress Mechanism (GRM) or equivalent and inform people in the sub-project's footprint about its availability. The GRM will receive and facilitate the resolution of the concerns and complaints of people who believe they have been adversely affected by the project's E&S impacts.

5.23 **Bank's Project-Affected People's Mechanism.** The Policy on the Project-affected People's Mechanism (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 Policy on the Project-affected People's Mechanism – Operational Policies and Directives – AIIB.

5.24 **Proposed Follow-Up / Monitoring and Supervision Arrangements.** Eligible Sub-projects must be compliant with AIIB's E&S policies, including but not limited to the Bank's ESP and ESEL. TKYB will rely on information provided directly by the sub-projects to conduct both E&S assessment and ongoing monitoring. TKYB will be required to maintain a comprehensive database comprising all relevant E&S information and report semi-annually to AIIB, providing a summary of the E&S aspects and an overview of the E&S performance of the project's portfolio. AIIB will conduct post-reviews of the selection and implementation of sub-projects as part of its regular supervision, which will include engagement with TKYB, potential site visits once conditions allow, and a detailed review of the E&S documentation of selected sub-projects.

[14] Higher- risk transactions include the following activities financed by the Bank through the FI: (a) all Category A activities; and (b) selected Category B activities, as determined by the Bank, that may potentially result in: (i) land acquisition or involuntary 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/or cultural resources; (iv) significant retrenchment of more than 20 percent of direct employees and recurrent contractors; and/or (iv) significant occupational health and safety risks.

E. Climate Change

5.25 The Project is aligned with mitigation goals as it supports CM, CA, and DI in Türkiye, as outlined in the Eligible Sub-projects of Section 4.2. Detailed eligibility criteria of sub-projects will be specified in the POM to ensure all sub-projects meet the mitigation goals.

5.26 The Project is assessed as aligned with adaptation goals in accordance with the AIIB's methodology for Paris Alignment Assessment for FI investments. A counterparty-based approach is applied, focusing on assessing TKYB's internal climate risk management system. The Bank assessed information provided by TKYB through the AIIB's Adaptation FI Questionnaire and publicly available TKYB's reports and disclosures. TKYB has prioritized its Climate Change Mitigation and Adaptation Policy as a strategic tool to effectively manage risks and opportunities related to climate change and to ensure that climate change is considered in both its operations and decision-making. It has carried out the processes of identifying and managing climate change risks and opportunities guided by the TCFD (Task Force on Climate-related Financial Disclosures) in line with the Turkish Sustainability Reporting Standards (TSRS). Under the TCFD framework, TKYB has analyzed strategy, governance, risk management, and performance metrics related to climate risks and has taken proactive steps. A Sustainability Committee, chaired by senior executives, has been established to oversee its sustainability strategy and implementation.

5.27 TKYB aligns its climate-related disclosures with international standards, particularly the TCFD, reflecting its commitment to international best practices. As required by TSRS, TKYB discloses its climate risks, including both physical and transition risks. TKYB annually reports its GHG emissions performance to the Carbon Disclosure Project (CDP) Climate Change Program and has been recognized among Türkiye's top financial institutions for climate transparency. In recognition of its leadership, TKYB received the 'Best Green Project Financing Bank - Türkiye' award Türkiye 2023 and 2024 from International Finance and was certified as a "Climate-Friendly Institution" by the Turkish Standards Institution (TSE).

5.28 TKYB has committed to combating climate change and contributing to Türkiye's 2053 net-zero emission targets. A significant portion of its loan portfolio is directed toward green financing, particularly in RES generation and EE. It has developed a Sustainable Finance Framework to align its sustainable financing efforts with international standards and has issued Green and Sustainable Bonds to support the country's energy transition. TKYB actively participates in various international initiatives that support climate adaptation and promote low-carbon development. As a founding signatory of the UNEP FI Principles for Responsible Banking, TKYB demonstrates a strong institutional commitment to integrating ESG principles across its operations.

5.29 TKYB has provisionally committed to allocating USD 170 million (85 percent of the AIIB proceeds) to CM sub-projects (RES generation and EE sub-projects) and 5 percent to CA sub-projects. In accordance with the joint MDB methodologies for tracking climate mitigation and adaptation finance, USD 180 million (90 percent of the AIIB loan) is considered as climate finance, comprising USD 170 million (85 percent) for mitigation and USD 10 million (5 percent) for adaptation, providing that eligibility criteria for these mitigation and adaptation sub-projects meet the joint MDB methodologies for climate mitigation and adaptation finance tracking.

F. Operational Policy on International Relations

5.30 **Operational Policy on International Relations (OPIR).** The Sub-projects must not fall under the scope of the Bank's OPIR. Because the pipeline of Sub-projects is not fully identified yet, and they may be in diverse regions within Türkiye, the possibility that the OPIR might be applicable in each case cannot be ruled out. Consequently, AIIB will work with TKYB to screen potential Sub-projects against the OPIR and exclude Sub-projects that would involve any of the matters covered in the OPIR. This will be spelled out in the POM.

G. Risks and Mitigants

Risk Description	Assessment (H/M/L)	Mitigation Measures
Program/Project Implementation Risks		
Asset Quality and Credit Risk		
▪ Larger-than-expected deterioration in core capitalization or asset quality due to FX volatility, credit losses, and high inflation. ▪ Risk of increases in NPL, stage 2, and stage 3 loans. ▪ Further deterioration of the FI operating environment. ▪ Single-name and sector concentration, especially the energy sector. ▪ Slow long-term amortization profiles associated with project finance.	*Medium*	▪ Strong historical collections. ▪ Prudent risk management and strategic focus on sustainable sectors. ▪ High loan loss coverage ratios and conservative provisioning and risk appetite. ▪ Adequate risk management systems and monitoring. ▪ Loans are typically backed by corporations with strong fundamentals. ▪ Energy sector concentration is underpinned by a substantial share of USD-linked and government-backed projects. ▪ Pre-impairment profits provide a solid buffer to absorb losses through the income statement.
Foreign Exchange and Interest Rate		
▪ High volume of FX-denominated loans. ▪ Mismatch between funding and Sub-loan commitments (USD, EUR, TRY). ▪ FX lending and funding exposed to risks: volatility, refinancing, open exposure, or limited hedging by clients. ▪ Dependence on FX wholesale funding and	*Medium*	▪ Moderate GDP growth performance in 2024 driven by consumption and investment. ▪ Resilient Turkish FI sector, relative improvements in terms of profitability and asset quality. ▪ The bank's proactive capital management strategies aim to mitigate these risks and maintain financial stability. ▪ Relative improvements in FI funding; limited reliance on short-term wholesale FX.

Risk Description	Assessment (H/M/L)	Mitigation Measures
reliance on FX reflows and IFI funding for short-term FX wholesale borrowing needs. ▪ TKYB exhibits sensitivity to TRY depreciation due to its significant FX portfolio concentration and the impacts of inflation. ▪ Further deterioration of the FI operating environment. ▪ Economic vulnerabilities amid accommodative monetary policy. ▪ Risk of inflation above CBRT targets. ▪ FX and inflation impact on the FI sector's asset quality, profitability, and capital. ▪ Tighter global credit conditions.		▪ Expanding FX liquidity and inflows. ▪ Firmer monetary stance with credit tightening to curb inflation. ▪ Pursuit of prudent fiscal policy over the medium term. ▪ Subdued market demand for long-term FX loans given TRY weakness. ▪ TKYB is a non-deposit FI. It finances itself with long-term FX loans from IFIs. ▪ Strong Balance Sheet to accommodate the repayment of the FX loans. ▪ Government-guaranteed SBF funding mitigates dependence on the wholesale FX market. ▪ Well-spaced redemptions from clients versus repayments to fund providers. ▪ Capacity to develop new funding products. ▪ Longstanding relationship with IFIs.
E&S risks and impacts during construction and operation		
▪ *E&S assessments of the sub-projects may not meet AIIB's ESP requirements.*	Medium	▪ The Project Team will conduct prior review and approval for Category A sub-projects. ▪ AIIB's ongoing engagement and performance monitoring of the first facility has confirmed the competence of TKYB in implementing its ESMS and the agreed POM.

Annex 1: Results Monitoring Framework

The RMF indicators will be confirmed by the approval stage. The exact intermediate and end targets will depend on the specific projects to be financed by the facility and will be finalized during the project's implementation. Indicative target values are provided.

Project Objective (PO):	To contribute to the Republic of Türkiye's climate mitigation and adaptation goals in line with the Paris Climate Agreement (PCA) by financing private sector investments in renewable energy, energy efficiency, climate adaptation, digital infrastructure, and strengthening private capital mobilization.							
Indicator Name	**Unit of measure**	**Base-line Data YR0**	**Target Values[15]**			**End Target YR4**	**Data source / Methodology**	**Responsibility**
			YR1	**YR2**	**YR3**			
Project Objective Indicators:[16]								
1. RES, capacity installed[17]	MW	-	-	100	200	300	Annual report	Borrower
2. BESS capacity installed[18]	MW/MWh	-	-	-	15/15	15/15	Annual report	Borrower
3. RES, GHG avoidance[19]	tCO2e/yr	-	-	100k	200k	300k	Annual report	Borrower
4. EE, primary energy saved[20]	GWh/year	-	-	-	15	15	Annual report	Borrower
5. EE, GHG emissions reduced	tCO_2e/yr	-	-	-	5,000	5,000	Annual report	Borrower
6. Private capital mobilization[21]	USD mio.	-	-	25	25	50	Annual report	Borrower

[15] Given the FI nature of the Project, the values will be determined during the life of the facility.
[16] Outcome indicators measure each aspect of the Project Objective statement and are used to track progress toward the achievement of the Project Objective.
[17] Installed renewable energy capacity completed and operating, measured as MW.
[18] Installed BESS capacity completed and operating, measured as MW/MWh. Under EMRA regulation, the ratio of total storage power (MW) to total storage capacity (MWh) is 1x. The proportion may be revised during implementation.
[19] To be calculated based on the Grid Emission Factor for intermittent energy, as provided by AIIB, per the POM. The level considers projected capacity usage ratios for RES.
[20] Estimated primary energy saved and GHG emissions avoided per year from the point the Sub-project is completed.
[21] Indirect private capital mobilization through project-level equity is calculated as total Sub-project equity multiplied by the pro-rata share of the AIIB-backed loan over the total Sub-project debt.

Intermediate Results Indicators:[22]								
1. AIIB investment, RES[23]	USD mio.	-	25	100	125	150.0	Annual report	Borrower
2. AIIB investments, EE	USD mio.	-	-	10	10	20.0	Annual report	Borrower
3. AIIB investment, CA	USD mio.	-	-	5	5	10.0	Annual report	Borrower
4. AIIIB investment, DI	USD mio.	-	-	10	10	20.0	Annual report	Borrower
5. T&D lines financed, length[24]	Km	-	-	10	20	25	Annual report	Borrower
6. AIIB co-financing amount	USD mio.	-	-	-	25	25	Annual report	Borrower
7. Non-performing loans[25]	%	-	-	-	-	< 5%	Annual report	Borrower
8. WiBFM borrowers[26]	%	-	-	-	-	5%	Annual report	Borrower

[22] To measure key intermediate results under each component that are necessary for showing progress toward achieving the Project Objective. They can capture outputs or short-term outcomes.
[23] AIIB investments counted from the point of allocation of loan proceeds disbursed to TKYB.
[24] Transmission and distribution lines, standalone or associated with RES generation, financed by the Project.
[25] Facility level indicator, expected to remain below 5 percent.
[26] Percentage amount of loans to women-inclusive and female-managed businesses, as per POM definition.

Annex 2: Indicative Pipeline

This pipeline is indicative and provided for illustration purposes. The pipeline is subject to change during the implementation of the facility.

Sub-project	Currency	Investment, EUR M	TKYB Sub-loan, EUR M	AIIB, Sub-loan, EUR M	Project Theme	Industry[27]	Project Type	Installed Capacity
1	EUR	15,500,000	12,400,000	12,400,000	Climate mitigation	Energy	Solar Power Plant with BESS Battery Storage	20
2	EUR	100,000,000	80,000,000	30,000,000	Climate mitigation	Energy	Solar Power Plant Self-consumption	116.9
3	EUR	31,250,000	25,000,000	25,000,000	Climate mitigation	Metal	Solar Power Plant Self-consumption	98.45
4	EUR	50,000,000	40,000,000	30,000,000	Climate mitigation	Energy	Solar Power Plant Self-consumption	72
5	EUR	87,875,000	70,300,000	30,000,000	Climate mitigation	Shipyard	Solar Power Plant with BESS Battery Storage	135
6	EUR	37,500,000	30,000,000	30,000,000	Climate mitigation	Energy	Solar Power Plant with BESS Battery Storage	26
7	EUR	125,000,000	100,000,000	30,000,000	Climate mitigation	Energy	Wind Power Plant with BESS Battery Storage	55
8	EUR	62,500,000	50,000,000	30,000,000	Climate mitigation	Energy	Wind Power Plant with BESS Battery Storage	56
9	EUR	175,000,000	140,000,000	30,000,000	Climate mitigation	Energy	Wind Power Plant Extension	164
10	EUR	125,000,000	100,000,000	30,000,000	Climate mitigation	Energy	Solar Power Plant Greenfield	385
11	EUR	125,000,000	100,000,000	30,000,000	Climate mitigation	Energy	Wind Power Plant Greenfield	1000
12	EUR	50,000,000	40,000,000	30,000,000	Climate mitigation	Tourism	Wind Power Plant Self-consumption	50
13	EUR	32,500,000	26,000,000	26,000,000	Climate mitigation	Energy	Wind Power Plant and Hybrid SPP Green Field	30
14	EUR	7,500,000	6,000,000	6,000,000	Climate mitigation	Plastic	Solar Power Plant Self-consumption	15
15	EUR	125,000,000	100,000,000	30,000,000	Climate mitigation	Energy	Solar Power Plant Self-consumption	241
16	EUR	28,125,000	22,500,000	22,500,000	Climate mitigation	Iron and Steel	Solar Power Plant Self-consumption	45
17	EUR	25,000,000	20,000,000	20,000,000	Climate mitigation	Metal	Solar Power Plant Self-consumption	30
18	EUR	3,750,000	3,000,000	3,000,000	Climate mitigation	Aluminum	Solar Power Plant Self-consumption	3
19	EUR	3,000,000	2,400,000	2,400,000	Climate mitigation	Energy	Solar Power Plant Self-consumption	4.3
20	EUR	43,750,000	35,000,000	30,000,000	Climate mitigation	Energy	Solar Power Plant Self-consumption	120
21	EUR	25,000,000	20,000,000	20,000,000	Efficiency	Electric Motor Manufacturing	Efficient Machinery	N/A
22	EUR	12,500,000	10,000,000	10,000,000	Efficiency	Metal	Efficient Machinery	N/A
23	EUR	20,000,000	16,000,000	16,000,000	Efficiency	Cement	Efficient Machinery	N/A
24	EUR	46,250,000	37,000,000	30,000,000	Efficiency	Cement	Efficient Machinery	N/A
25	EUR	21,250,000	17,000,000	17,000,000	Efficiency	Cement	Efficient Machinery	N/A

[27] NACE Rev 2 Classification)

Annex 3: Financial Analysis

Table A. TKYB Summary Key Financials (in USD'000, source: S&P Capital IQ)

USD million	***2020 ([28]) FY***	***2021 FY***	***2022 FY***	***2023 FY***	***2024 FY***
Spot Exchange Rate	0.1346	0.0757	0.0534	0.0338	0.0282
Average Exchange Rate	0.1436	0.1156	0.0611	0.0433	0.0304
Accounting Principle	TFRS	TFRS	TFRS	TFRS	TFRS
Balance Sheet					
Total Assets ($M)	3,780	3,664	4,900	4,589	4,343
Net Loans to Customers ($M)	2,701	2,779	3,165	2,798	2,632
Total Deposits from Customers ($M)	0	0	0	0	0
Total Equity ($M)	483	338	366	368	566
Equity Attributable to Parent Company ($M)	483	338	366	368	566
Total Equity/ Total Assets (%)	*12.78*	*9.23*	*7.47*	*8.02*	*13.02*
Profitability					
Net Profit ($M)	72	94	104	175	188
ROAE (%)	*19.5*	*20.2*	*31.1*	*45.7*	*38.2*
ROAA (%)	*2.2*	*2.4*	*2.4*	*3.6*	*4.3*
Return on Avg Risk-weighted Assets (%)	*2.37*	*2.39*	*2.64*	*4.06*	*4.68*
Net Interest Margin (%)	*3.5*	*3.9*	*4.1*	*6.5*	*7.7*
Net Interest Income/ Avg Assets (%)	*3.23*	*4.05*	*4.32*	*6.50*	*7.69*
Cost-to-Income (%)	*15.9*	*11.0*	*12.3*	*12.4*	*14.2*
Asset Quality					
Non-performing loans ($M)	29	65	48	29	21
NPL / Gross Customer Loans (%)	*1.07*	*2.28*	*1.48*	*1.01*	*0.77*
NPL / Tangible Equity & Reserves (%)	*5.58*	*16.34*	*11.26*	*6.91*	*3.38*
NPL / Risk-weighted Assets (%)	*0.86*	*1.59*	*1.15*	*0.72*	*0.54*
Loan Loss Reserves/ NPL (%)	*157.94*	*92.35*	*124.07*	*167.79*	*235.98*
Loan Provision/ Avg Loans at Amortized Cost (%)	*0.95*	*1.96*	*1.02*	*0.67*	*0.79*
Credit Costs/ Pre-impairment Operating Profit (%)	*20.18*	*31.55*	*16.43*	*7.59*	*7.42*
Regulatory Capital (Basel III)					
Core Tier 1 Ratio (%)	*14.12*	*8.04*	*8.65*	*8.96*	*14.44*
Tier 1 Ratio (%)	*19.54*	*12.18*	*14.43*	*14.37*	*15.55*
Total Capital Ratio (%)	*22.42*	*14.27*	*16.66*	*16.74*	*17.98*
Basel III Leverage Ratio (%)	*15.29*	*11.77*	*11.19*	*11.72*	*14.75*
Liquidity & Funding					
Liquid Assets ($M)	625	567	947	704	1,105
Liquid Assets/ Assets (%)	*16.54*	*15.48*	*19.33*	*15.33*	*25.45*
Liquid Assets/ Total Deposits & Borrowings (%)	*19.19*	*17.22*	*21.16*	*16.92*	*29.74*
Wholesale Funding ($M)	*3,259*	*3,293*	*4,477*	*4,159*	*3,716*
Wholesale Funding Maturing < 1 Year ($M)	345	463	1,154	927	531
Total Debt/ Total Equity (x)	6.75	9.73	12.22	11.30	6.57
Liquidity Coverage Ratio (%)	NA	NA	NA	196	347

[28] 2020 financials and ratios are provided on a non-consolidated basis.

Table B. TKYB Summary Key Financials (in TRY million, source: S&P Capital IQ)

TRY million	***2020 ([29]) FY***	***2021 FY***	***2022 FY***	***2023 FY***	***2024 FY***
Balance Sheet					
Total Assets (TRY M)	28,072	48,379	91,700	135,700	153,594
Net Loans to Customers (TRY M)	20,058	36,693	59,231	82,736	93,084
Total Deposits from Customers (TRY M)	0	0	0	0	0
Total Equity (TRY M)	3,588	4,466	6,854	10,883	20,005
Equity Attributable to Parent Company (TRY M)	3,588	4,466	6,854	10,883	20,005
Total Equity/ Total Assets (%)	*12.78*	*9.23*	*7.47*	*8.02*	*13.02*
Profitability (%, unless otherwise stated)					
Net Profit (TRY M)	502	816	1,700	4,043	6,176
ROAE	*19.5*	*20.2*	*31.1*	*45.7*	*38.2*
ROAA	*2.2*	*2.4*	*2.4*	*3.6*	*4.3*
Return on Avg Risk-weighted Assets	*2.37*	*2.39*	*2.64*	*4.06*	*4.68*
Net Interest Margin	*3.5*	*3.9*	*4.1*	*6.5*	*7.7*
Net Interest Income/ Avg Asset	*3.23*	*4.05*	*4.32*	*6.50*	*7.69*
Cost-to-Income	*15.9*	*11.0*	*12.3*	*12.4*	*14.2*
Asset Quality (%, unless otherwise stated)					
Non-performing loans (TRY M)	219	855	894	848	733
NPL / Gross Customer Loans	*1.07*	*2.28*	*1.48*	*1.01*	*0.77*
NPL / Tangible Equity & Reserves	*5.58*	*16.34*	*11.26*	*6.91*	*3.38*
NPL / Risk-weighted Assets	*0.86*	*1.59*	*1.15*	*0.72*	*0.54*
Loan Loss Reserves/ NPL	*157.94*	*92.35*	*124.07*	*167.79*	*235.98*
Loan Provision/ Avg Loans at Amortized Cost	*0.95*	*1.96*	*1.02*	*0.67*	*0.79*
Credit Costs/ Pre-impairment Operating Profit	*20.18*	*31.55*	*16.43*	*7.59*	*7.42*
Regulatory Capital (Basel III)					
Core Tier 1 Ratio (%)	*14.12*	*8.04*	*8.65*	*8.96*	*14.44*
Tier 1 Ratio (%)	*19.54*	*12.18*	*14.43*	*14.37*	*15.55*
Total Capital Ratio (%)	*22.42*	*14.27*	*16.66*	*16.74*	*17.98*
Basel III Leverage Ratio (%)	*15.29*	*11.77*	*11.19*	*11.72*	*14.75*
Liquidity & Funding					
Liquid Assets (TRY M)	4,644	7,487	17,724	20,807	39,087
Liquid Assets/ Assets (%)	16.54	15.48	19.33	15.33	25.45
Liquid Assets/ Total Deposits & Borrowings (%)	19.19	17.22	21.16	16.92	29.74
Wholesale Funding (TRY M)	24,205	43,472	83,773	122,975	131,418
Wholesale Funding Maturing < 1 Year (TRY M)	2,559	6,111	21,594	27,403	18,768
Total Debt/ Total Equity (x)	6.75	9.73	12.22	11.30	6.57
Liquidity Coverage Ratio (%)	NA	NA	NA	196	347

[29] 2020 financials and ratios are provided on a non-consolidated basis.

Table C. FI sector and TKYB key ratios (source: BRSA, TKYB)

Capital Adequacy				
	Capital Adequacy Ratio		Shareholders' Equity / Total Assets	
In % unless stated otherwise	**2024**	**2023**	**2024**	**2023**
Banking System in Türkiye	**19.7**	**19**	**8.9**	**9.3**
Deposit Banks	19.2	18.6	8.6	9.2
Development and Investment Banks	24.7	24	12.9	11.6
Türkiye Kalkinma ve Yatirim Bankasi A.S	18.0	16.7	11.5	7.1

Balance Sheet and Asset Quality						
	TC Assets / Total Assets		TC Liabilities / Total Liabilities		Funds Borrowed / Total Assets	
In % unless stated otherwise	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Banking System in Türkiye	63.5	61.6	61.3	56.7	12.2	11.5
Deposit Banks	65.5	63,3	63.0	57.9	10.5	9.7
Development and Investment Banks	47.7	46.3	47.0	43.8	47.3	51
Türkiye Kalkinma ve Yatirim Bankasi A.S	21.6	21.5	18.3	14.3	53.8	60.4
	Financial Assets (Net) / Total Assets		Total Loans / Total Assets		Permanent Assets / Total Assets	
In % unless stated otherwise	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Banking System in Türkiye	17.1	16.1	**50.1**	**50.4**	1.3	1.1
Deposit Banks	16.5	16.4	49.8	50.3	1.4	1.2
Development and Investment Banks	28.9	27.2	61	60.7	0.6	0.5
Türkiye Kalkinma ve Yatirim Bankasi A.S	30.1	24.6	63.8	67.9	0.1	0.1

Liquidity Ratios				
	Liquid Assets / Total Assets		TC Liquid Assets / Total Assets	
In % unless stated otherwise	**2024**	**2024**	**2023**	**2023**
Banking System in Türkiye	**20.7**	**9.1**	**8.5**	**35.4**
Deposit Banks	20.4	8.5	.8.1	33.8
Development and Investment Banks	25.8	18.5	15.5	96.2
Türkiye Kalkinma ve Yatirim Bankasi A.S	14.7	16	12.8	14.6

Profitability						
	Average Return on Assets		Average Return on Shareholders' Equity		Net Interest Income After Specific Provisions / Total Assets	
In % unless stated otherwise	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Banking System in Türkiye	2.3	3.3	30.5	42.7	2.6	2.7
Deposit Banks	2.1	3.2	27.5	41.6	2.3	2.6
Development and Investment Banks	5.4	3.9	50.4	40.2	6.3	3.8
Türkiye Kalkinma ve Yatirim Bankasi A.S	4.3	3.6	38.2	45.7	3.4	2.2

Annex 4: Türkiye Energy Sector and Climate Context

1. **Türkiye energy mix.** Over the past two decades, Türkiye has experienced significant economic growth, leading to increased total primary energy supply (TPES) and per capita electricity consumption. As of 2023, the country's TPES reached approximately 6.6 million terajoules, with oil accounting for the largest share, followed by coal and natural gas. Türkiye remains highly dependent on imported fossil fuels, with imports constituting around 84 percent of its fossil fuel consumption in 2022. This heavy reliance on external energy sources results in an energy self-sufficiency rate of approximately 31.9 percent, among the lowest among AIIB members. In terms of total final energy consumption (TFC) by sector in 2023, the industrial sector accounted for approximately 30 percent, the transport sector 27 percent, the residential sector 22 percent, and the services/other sectors 21 percent.[30] Between 2000 and 2020, Türkiye's Total Primary Energy Supply (TPES) per capita increased from 50 GJ to 74 GJ. By 2023, this figure rose further to approximately 77 GJ per capita, reflecting the country's ongoing economic growth and rising energy demand. Similarly, electricity consumption per capita grew from 1.6 MWh in 2000 to 3.3 MWh in 2020. In 2023, it reached approximately 3.5 MWh per capita, indicating an upward trend in electricity usage.

2. **Generation.** According to Turkish Electricity Transmission Corporation (TEİAŞ), gross national electricity generation amounted to 211.2 TWh in 2010, and it increased to 349 TWh in 2024.[31] In 2023, coal-fired power plants contributed 35.2 percent of this electricity, while natural gas accounted for 18.9 percent. Hydropower represented 21.5 percent of the total electricity generation.[32] The balance is represented by other forms of renewable energy. Türkiye has no operational nuclear capacity at the moment. The installed electricity capacity rose from 49.5 GW in 2010 to approximately 119 GW as of June 2025.[33] Over the past decade, Türkiye has significantly increased its renewable energy capacity, particularly in hydro, wind, solar, and geothermal power. Today, renewable sources account for more than 60 percent of the total. Hydropower constitutes 27 percent, and wind power 11 percent. Solar installed capacity has reached 22.7 GW.[34].

3. **Institutional framework.** The Ministry of Energy and Natural Resources (MENR) continues to oversee the formulation and implementation of energy policies in Türkiye. In 2018, the Electricity Generating Company (EÜAŞ), which owns publicly operated power plants, merged with the Turkish Electricity Trade and Contracting Company (TETAŞ), consolidating state-owned electricity generation and wholesale trading operations under EÜAŞ. The Turkish Electricity Transmission Company (TEİAŞ) remains the sole owner and operator of the transmission grid, responsible for maintaining and developing transmission lines, as well as system operation, including load dispatch and balancing. The Turkish Electricity Distribution Corporation (TEDAŞ) retains ownership of the distribution grid infrastructure. Between 2009 and 2013, TEDAŞ

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[30] Source: MENR, https://enerji.gov.tr/eigm-raporlari.
[31] Source: TEİAŞ https://www.teias.gov.tr/aylik-elektrik-uretim-tuketim-raporlari.
[32] Source: TEİAŞ https://www.teias.gov.tr/aylik-elektrik-uretim-tuketim-raporlari.
[33] Source: TEİAŞ https://ytbsbilgi.teias.gov.tr/ytbsbilgi/frm_istatistikler.jsf;jsessionid=2E16605C31B8B60FC998650FCAE96CBC.
[34] Source: TEİAŞ https://ytbsbilgi.teias.gov.tr/ytbsbilgi/frm_istatistikler.jsf;jsessionid=2E16605C31B8B60FC998650FCAE96CBC

transferred operational responsibilities—such as maintenance and new investments—to 21 privately owned regional entities under licenses from the Energy Market Regulatory Authority (EMRA). TEDAŞ continues to supervise and control investments within these distribution companies. EMRA serves as the independent regulatory authority overseeing Türkiye's electricity, natural gas, petroleum, and liquefied petroleum gas markets. Established in 2001 by Law No. 4628, EMRA is tasked with regulating and supervising these energy markets to ensure their operation in a competitive environment.

4. **Nationally Determined Contributions (NDC).** In September 2021, Türkiye announced its pledge to achieve net-zero emissions by 2053. In the following month, the parliament rectified its first NDC under the Paris Climate Agreement, establishing an unprecedented commitment to tackle climate change and energy-related emissions. The NDC set a target to deliver up to 21 percent reduction in GHG emissions from the Business-as-Usual (BAU) scenario by 2030. Accordingly, a longer-term vision is set out for renewable energy development, including setting up 10 GW of solar. According to the Updated First NDC, wind power capacity is expected to reach 18 GW by 2030. As of June 2025, the current capacity stands at 13.4 GW.[35] Energy efficiency, particularly for the industrial and building sectors, is also highlighted as an important means to achieve its climate objectives.[36] In April 2023, Türkiye submitted its updated First NDC to the United Nations Framework Convention on Climate Change (UNFCCC). This updated NDC outlines Türkiye's commitment to reducing GHG emissions by 41 percent by 2030 compared to the BAU scenario, with 2012 as the base year. This equates to limiting emissions to 695 million tonnes of CO_2 equivalent by 2030. The updated NDC encompasses economy-wide mitigation and adaptation actions, with a focus on sectors such as energy, industry, transportation, agriculture, and waste management. Key strategies include enhancing energy efficiency, increasing the share of renewable energy sources, promoting sustainable transportation, and implementing waste reduction measures. Furthermore, Türkiye intends to peak its GHG emissions by 2038 at the latest and has set a long-term goal of achieving net-zero emissions by 2053.

5. **12th Development Plan.** Türkiye has adopted its 12th Development Plan, covering the period from 2024 to 2028. This plan outlines the country's strategic objectives across various sectors, including energy. Key energy-related targets set for 2028 include: (i) increasing the share of domestic resources in electricity generation to 63 percent by generating 270 billion kWh of electricity annually from domestic sources; (ii) the 12th Development Plan sets ambitious targets for renewable energy, aiming to increase solar power capacity to 30 GW and wind power capacity to 18 GW by 2028.[37] (iii) Integrating nuclear energy, introducing 4,800 megawatts of nuclear energy capacity, is targeted to diversify the energy mix; (iv) enhancing energy efficiency by reducing energy demand and ensuring supply security through efficient cost management, contributing to the 2053 Net Zero Emission Target.

[35] Source: TEİAŞ https://ytbsbilgi.teias.gov.tr/ytbsbilgi/frm_istatistikler.jsf;jsessionid=2E16605C31B8B60FC998650FCAE96CBC.
[36] Türkiye's first NDC: https://unfccc.int/sites/default/files/NDC/2023-04/T%C3%9CRK%C4%B0YE_UPDATED%201st%20NDC_EN.pdf.
[37] Source: https://www.sbb.gov.tr/wp-content/uploads/2025/03/Twelfth-Development-Plan_2024-2028.pdf; Page, 112

6. **National Energy Plan.** The National Energy Plan 2023-2035 outlines Türkiye's commitment to significantly increasing its renewable energy capacity by 2035. The objectives include substantial expansions in solar, wind, and hydro power, aiming for renewables to comprise close to 65 percent of the total installed capacity. This initiative aligns with Türkiye's goal to achieve net-zero emissions by 2053.

7. **MENR Strategic Plan**. MENR's Strategic Plan 2024-2028 is aligned with the 12th Development Plan, and outlines seven primary goals for Türkiye's energy sector: (i) ensuring sustainable energy supply security, (ii) reducing dependency on foreign energy sources, (iii) transitioning to a net-zero carbon energy framework, (iv) enhancing safe and sustainable mining practices, (v) Increasing national and international effectiveness in energy and mining markets, (vi) supporting local technology development in energy and natural resources, (vii) strengthening institutional infrastructure and governance. MENR's previous Strategic Plan (2019-2023) provided a realistic roadmap, aiming for 32 GW of hydropower and 12 GW of wind power by 2023. The actual figures achieved by the end of 2023 closely align with these revised targets.

8. **National Renewable Energy Action Plan; Renewable Energy Roadmap.** The National Renewable Energy Action Plan (2014) set ambitious targets to increase Türkiye's renewable energy capacity to 61 GW by 2023, allocating 34 GW for hydropower (32 GW achieved), 20 GW for wind (11.8 GW achieved), 5 GW for solar (15.73 GW achieved), 1 GW for geothermal (over 1.7 GW achieved), and 1 GW for biomass (2.1 GW installed). As of the end of 2023, Türkiye has made significant progress toward these goals, surpassing its targets for solar, geothermal, and biomass energy ahead of schedule. The country has not fully met the 2023 goals for hydropower and wind energy. The Renewable Energy Roadmap 2035, announced in October 2024, aims to roll out renewables at a rate of at least 7.5–8 GW annually until 2035, quadrupling the wind and solar capacity to 120 GW. The Renewable Energy sector will be further supported by investments of USD 28 billion to upgrade the grid. This plan represents a sustainable approach to diversifying Türkiye's energy mix and increasing energy independence. This ambitious plan includes regulatory reforms to encourage private sector participation and aims to streamline the permitting process for renewable energy projects.

9. **Energy Efficiency Strategy; 2nd National Energy Efficiency Action Plan.** Launched to continue progress in EE, the Energy Efficiency 2030 Strategy sets forth 10 strategic goals and corresponding actions to enhance energy efficiency across various sectors. The 2nd National Energy Efficiency Action Plan (NEEAP) (2024-2030) aims for a 16 percent reduction in primary energy consumption by 2030, with an investment of approximately USD20.2 billion, which is expected to result in a reduction of energy consumption and up to 100 million tons of CO2 equivalent greenhouse gas emissions and create new job opportunities in the green energy sector.

10. **Renewable Energy Support Mechanisms.** Türkiye employs four primary mechanisms to promote renewable energy development.These mechanisms collectively aim to diversify Türkiye's energy mix, enhance energy security, and promote sustainable economic growth.

(i) Renewable Energy Support Mechanism (YEKDEM): Established in 2005, YEKDEM offers feed-in tariffs for electricity generated from renewable sources such as wind, solar, biomass, hydropower, and geothermal. Projects commissioned between July 1, 2021, and December 31, 2030, are eligible for these tariffs, which are guaranteed for 10 years. Additional incentives are available for projects utilizing locally manufactured equipment.

(ii) Renewable Energy Resource Areas (YEKA): Initiated in 2016, the YEKA strategy facilitates large-scale renewable energy projects through competitive auctions in designated zones. As of February 2025, Türkiye has conducted multiple YEKA auctions for solar and wind projects. For instance, in January 2025, six contracts totaling 800 MW were awarded for solar projects in Konya, Karaman, Malatya, Van, Antalya, and Kütahya, and agreements were signed for 1,200 MW of wind capacity across five locations, with a 20-year guaranteed price of USD 35 per MWh.

(iii) Unlicensed Generation Regime: This framework allows consumers to generate electricity without a license, primarily from renewable sources, to meet their own needs. Initially capped at 1 MW, the limit was increased to 5 MW. Recent regulatory amendments permit surplus energy exceeding the previous year's consumption to be transferred to YEKDEM without compensation.

(iv) Net Metering: Introduced in 2019, this scheme enables residential, commercial, and industrial consumers to offset their electricity bills by exporting surplus energy to the grid. Applicable to solar power systems ranging from 3 to 10 kWp with a self-consumption rate of at least 50 percent, net metering encourages small-scale renewable installations.

11. **Electricity distribution and storage**. By the end of 2023, the number of consumers using the distribution system was 49.73 million. Additionally, there are 540,669 transformers, and the total length of distribution lines is 1,446,215 kilometers, according to the Energy Market Regulatory Authority at the same time. Despite this extensive infrastructure, grid-connected energy storage remains underdeveloped. The rapid expansion of intermittent renewable energy has heightened the need for enhanced grid and storage solutions to maintain system stability and efficiency. In response, Türkiye has initiated significant investments to strengthen the electrical grid and integrate advanced technologies essential for a modern energy landscape. The sharp increases in electricity costs during 2021 and 2022 have further pressured both suppliers and consumers, underscoring the urgency for investments in energy storage and efficiency solutions.

12. **Energy Efficiency (EE)**. Türkiye's industrial sector relies heavily on imported fossil fuels, making it susceptible to supply disruptions and price volatility. Export-oriented, energy-intensive industries face mounting competitive pressures, particularly with the European Union's (EU) implementation of the Carbon Border Adjustment Mechanism (CBAM) in 2026. CBAM will impose carbon tariffs on imports, affecting sectors like iron, steel, aluminum, cement, fertilizers, and electricity generation. Notably, iron and steel are expected to be the most impacted, followed by the cement sector. To

mitigate these challenges, Türkiye has initiated significant investments in EE. Between 2017 and 2021, the country invested approximately USD6.44 billion in EE projects, resulting in savings of 4.45 million tons of oil equivalent (toe) and monetary savings estimated at USD1.62 billion. Building on this, the government announced a USD 20.2 billion investment plan for 2024-2030 to further enhance energy efficiency across various sectors, including industry. Industries encounter barriers to EE investments, such as high upfront costs, long payback periods, and limited access to long-term financing. The financial sector has historically focused on financing renewable energy projects, with limited product lines for EE investments.

13. **Emissions Trading.** Türkiye is preparing to implement a mandatory carbon trading system, aiming to align with global carbon pricing mechanisms and reduce the impact of CBAM on its exports. This system is expected to encourage industries to adopt cleaner technologies and improve energy efficiency, thereby enhancing their competitiveness in international markets.State Department

14. **Climate Adaptation (CA).** Türkiye's semi-arid climate and geographical position make it highly susceptible to climate change impacts, including increased frequency of floods, droughts, extreme temperatures, and forest fires. These climate events pose significant risks to ecosystem-dependent industries, particularly agriculture, which accounts for approximately two-thirds of the nation's water usage. Turkish farmers have reported diminishing harvests and yields due to climate change-related impacts, underscoring the vulnerability of the agricultural sector. Water scarcity is a pressing concern for Türkiye. The country has an estimated 1,500 cubic meters of renewable freshwater per capita annually, placing it in the 'water-stressed' category according to the Falkenmark Indicator. Projections indicate that, without significant mitigation efforts, per capita water resources could decline by one-third by mid-century. Industries such as food processing, textiles, paper, chemicals, non-metallic minerals (e.g., glass, cement, ceramics), and metals (e.g., iron, steel) are notably water-intensive. Investments in Organized Industrial Zones (OIZs) have the potential to benefit multiple industries by promoting efficient water use and sustainability practices. Timely investments in water resource management and resilience infrastructure are crucial to ensure the continuity of services and productive capacity amid escalating climate risks.

15. **Climate Industries.** Türkiye is rapidly advancing its manufacturing capabilities in clean technologies, positioning itself as a significant hub for climate-related industries. By early 2025, Türkiye's solar power capacity surpassed 22 GW as of May 4, 2025, exceeding its 2025 target ahead of schedule.[38] The country has become Europe's leading solar panel producer, with manufacturers expanding their capacities to meet both domestic and international demand. With an installed wind power capacity exceeding 13 GW, Türkiye ranks as the sixth-largest onshore wind market in Europe. Collaborations with companies like Enercon aim to add 2.5 GW of onshore wind capacity by 2029, further bolstering the sector. Türkiye's electric market is expanding rapidly, with sales increasing by nearly 46 percent in 2024. The government has introduced a USD5 billion incentive package to boost annual EV production capacity to at least one million units.

[38] Source: TEİAŞ.

Annex 5: Country Credit Fact Sheet

1. **Background.** Türkiye is an upper-middle-income country with an income per capita of around USD 16,000 (or around USD 45,000 in purchasing power parity) and a population of around 86 million. Türkiye is a large, diversified, dynamic, and business-oriented economy. Since the early 2000s, it has experienced robust growth, averaging around 5.5 percent per year, driven by a strong focus on development, macroeconomic stability, sound fiscal frameworks, trade openness, and institutional reform. Over that period, income per capita has tripled, and poverty levels have declined significantly.

2. However, from 2016 until mid-2023, Türkiye's sovereign credit rating has deteriorated, which has been attributed to a reliance on short-term stimulus to boost growth, unconventional and unanticipated policies, declining fiscal and FX reserves, high dependence on external financing, perceived erosion of institutional checks and balances, and rising geopolitical risks. This has created financial vulnerability and led to periods of market volatility.

3. **Recent Developments.** During 2021-23, the monetary policy was accommodative despite high and accelerating inflation, leading to sharp capital outflows. The currency lost two-thirds of its value in nominal terms, while inflation reached 85.5 percent at the peak in October 2022. Additionally, Türkiye faced several adverse shocks, including a surge in global energy prices and a devastating earthquake. While growth was still robust, at 5.1 percent in 2023, these developments resulted in economic imbalances and poor market sentiment.

4. Since mid-2023, policies have been normalized under a new economic team. The central bank raised interest rates to a high of 50 percent. In response to these positive developments, S&P, Fitch, and Moody's each upgraded Türkiye's credit rating by two notches, to 'BB- stable', 'BB- stable', and 'B1 positive', respectively.

5. Monetary tightening has gradually brought results. As of June 2025, the policy rate remains at 46 percent, inflation has declined to 35 percent, and one-year-forward inflation expectations have eased to 25 percent. Furthermore, tighter fiscal policy is expected to contribute to rebalancing. While the deficit has widened in recent years, reflecting earthquake reconstruction spending, the government has announced a fiscal tightening program, including a freeze on non-essential capital expenditures, cuts in current spending, and a phased reduction of energy subsidies. Fiscal reforms are planned to broaden the tax base and reduce deficits. These measures will arrest fiscal deterioration, improve debt sustainability.

Selected economic indicators	2022	2023	2024	2025*	2026*	2027*	2028*
GDP growth 1/	5.5	5.1	3.2	2.7	3.2	3.4	3.7
Inflation (end-of-period) 1/	64.3	64.8	44.4	31.0	19.0	15.3	15.0
Fiscal balance	-1.1	-5.3	-5.2	-4.3	-3.4	-3.2	-3.1
Gross public debt	30.8	29.3	26.0	26.7	27.1	27.1	26.5
Gross public financing needs	7.2	7.6	7.4	5.4	5.1	5.9	6.4
Current account balance	-5.1	-3.5	-0.8	-1.2	-1.2	-1.4	-1.4
Gross external debt	50.5	45.2	41.3	39.8	40.9	40.4	39.9
Gross external financing needs	22.9	21.2	19.1	20.0	20.5	20.1	20.0
Gross FX reserves (USD billion) 2/	128.7	140.9	155.2	154.4	..	..	..
Exchange rate (TRY/USD) 2/	18.7	29.4	35.3	39.8	..	..	..

Sources: IMF WEO Apr 2025, IMF country report 24/312, central bank; in percent of GDP, except where noted; '*' = projections
Notes: 1/ Percent change, year-on-year; 3/ data from central bank, end-of-period, most recent as of Jun 30, 2025

6. An important factor behind the rating upgrades has been Türkiye’s resilience and reduced external vulnerability. The current account deficit has narrowed significantly, to 0.8 percent of GDP in 2024. This improvement reflects a combination of lower global energy prices as well as strong export and tourism performance. FX reserves have risen to USD150-160 billion, spreads have declined, and external financing has increased.

7. **Outlook and Risks.** With the economy gradually rebalancing, growth slowed in 2024, as anticipated, to 3.2 percent. According to the IMF, in 2025, growth may further slow to 2.7 percent, due to continued tight policies, before increasing in the medium term to around 4.0 percent. The shift towards more conventional policies has improved resilience and creditworthiness. But the policy tightening may need to be sustained to accomplish full disinflation. Risks to the outlook include global policy uncertainty, regional tensions, and volatile market sentiment, sensitive to domestic and global political and policy developments.

8. Türkiye’s private sector has shown resilience in navigating the volatile environment. Large firms report adequate liquidity, positive short-term net FX positions, and sufficient natural hedges against currency volatility. In the banking sector, despite recent shocks, capitalization remains adequate, non-performing loans are low, and liquidity and profitability metrics are stable. Domestic banks have been able to rollover their funding, even amid high market uncertainty. Financial stability is supported by sustained residents’ confidence and a willingness to maintain significant hard currency deposits in domestic banks.

9. According to the IMF, Türkiye’s public debt is sustainable and projected to stabilize at around 26 percent of GDP over the medium term. Key factors supporting debt sustainability include the government’s strong balance sheet, continued access to financial markets, a proven track record of economic resilience, and a dynamic economy with substantial growth potential. Likewise, Türkiye’s external debt is expected to remain sustainable over the medium term.