ASIAN INFRASTRUCTURE INVESTMENT BANK

May 27, 2025

Sovereign-backed Financings

Project Document
P000958 Republic of Türkiye:
TSKB Sustainable Energy and Infrastructure On-lending Facility, Phase 3

(Approval Project Document)

Currency Equivalents

(As of May 25, 2025)
Currency Unit – Turkish Lira (TRY)
USD 1.00 = TRY 39.00
TRY 1.00 = USD 0.0256

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
CI	Climate Industries
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
EV	Electric Vehicle
FI	Financial Intermediaries
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
LARP	Land Acquisition and Resettlement Plan
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
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
SBTi	Science-based Targets IWnitiative
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. Executive Summary

1.1. A loan facility in the amount of USD200 million to Türkiye Sinai Kalkinma Bankasi A.Ş. (TSKB or the Borrower). The loan is a 15-year (3.5-year grace) sovereign-backed multi-sector on-lending facility available in USD and EUR (the Project).

1.2. The objective of the Project is to support Türkiye's climate mitigation and adaptation commitments under the Paris Climate Agreement (PCA) (ratified in October 2021) by financing private sector investments in renewable energy, energy efficiency, climate adaptation, climate-related industries, 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), climate-related industries (CI), as well as digital infrastructure (DI) in Türkiye, as described in this Approval Project 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, 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 the financing of DI as an eligible use. The Project is therefore aligned with the Bank's thematic priorities, namely Green Infrastructure, Technology-enabled Infrastructure, and Mobilizing Private Capital.

1.4. The Borrower, TSKB, is the Project implementation entity and the primary source of repayment of the facility. Founded in 1950, TSKB is Türkiye's first and sole privately-owned development and investment bank with a development banking mission. As of year-end 2024, TSKB reports total consolidated assets of USD6.5 billion, total loans of USD4.8 billion, and equity of USD921 million equivalent. The Borrower is an existing client of the Bank. Since 2018, TSKB has managed three on-lending facilities from AIIB for a total combined amount of USD600 million (i.e., P000132 TSKB Sustainable Energy and Infrastructure On-lending or the Phase 1 facility; P000546 TSKB Sustainable Energy and Infrastructure On-lending, Phase 2 or the Phase 2 facility; and P000381 COVID-19 Credit Line Project) with a satisfactory implementation track record. TSKB's strong relationships with major industrial groups in Türkiye, its expertise in infrastructure and energy finance, and its robust operational framework are expected to contribute to the effective implementation and monitoring of the Project.

1.5. AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (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 TSKB 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.

1.6. The Vice President, Policy and Strategy, has also provided assurance that the Bank is in compliance with the policies applicable to the Project. The negotiation completion note was circulated to the Investment Committee on May 21, 2025.

Project No. and Name	P000958 TSKB Sustainable Energy and Infrastructure Facility, Phase 3		
AIIB Member	Türkiye		
Borrower[1]	Industrial Development Bank of Türkiye (TSKB)		
Guarantor	Republic of Türkiye		
Proposed Amount of AIIB Financing (USDm)	USD200 million	Instrument type (Instrument Subtype)	Loan (Sovereign Guarantee)
		Currency of Financing	USD
Sector (Subsector)	Multi-sector (Multi-subsector)	E&S Category	FI
Project Objective	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, climate-related industries, digital infrastructure, and strengthening private capital mobilization.		
Project Description	A 15-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 TSKB (the Project or the Phase 3 Facility) to support Türkiye's climate mitigation and adaptation commitments under the Paris Climate Agreement (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), climate-related industries (CI), as well as digital infrastructure (DI) in Türkiye.		
Lead Financier	AIIB	**Following other organizations' E&S Policy?**	No
Co-Financing Type	Stand-alone	**Following other organization's Procurement Policy?**	No
Implementation Period	From June 2025 until June 2028	**Expected Loan Closing Date**	June 2028
Financing Plan	Uses: USD 200 million / Sources: USD 200 million		

[1] Also, the Project Implementation Entity.

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 USD loan amount in aggregate.
Policy Waivers	Not required.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank Financing complies with the applicable Bank operational policies.

Risk	
Key risks	**Mitigation Measures**
Financial risks, economic vulnerabilities stem from the environment in which TSKB operates and bank-specific conditions	The Project is designed to adapt to a dynamic economic environment, providing counter-cyclical lending throughout market fluctuations. TSKB 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 government guarantee, 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 the 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 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 TSKB's implementation capacity through the ongoing engagement and performance monitoring of previous phases.
Economic Capital (Ecap) Consumption (USDm)	USD 13.23 million (as of April 9, 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)	10 (2028)
Private Capital Mobilization	Amount of private capital mobilized (indirect)	USD million	0 (2024)	50 (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	Rajat Misra, acting
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, Environment & Social Development Specialist Jingrong He, Procurement Specialist, SFS Julija Kuklyte Polycarp, Climate Specialist, STF Liu Yang, Project Counsel, LEG Mengmeng He, Finance Officer, Loan Management, CTL Rui Xiang, Financial Management Specialist, SFD 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. As of 2024, its Gross Domestic Product (GDP) is approximately USD1.34 trillion, equating to a per capita GDP of USD15,666. When adjusted for purchasing power parity (PPP), its GDP per capita stands at USD40,283. The country's population is estimated at 85.7 million.

2.2 Between 2021 and 2023, Türkiye's accommodative monetary policy, with high and accelerating inflation, resulted in capital outflows and sharp currency depreciation. The Turkish lira (TRY) lost approximately two-thirds of its nominal value, while inflation peaked at 85.5 percent in October 2022. In response, complex macroprudential measures were introduced to counter depreciation pressures, guide credit allocation, and sustain high growth. Despite these challenges and economic imbalances, growth remained robust at 5.1 percent in 2023. Following the 2023 elections, a policy normalization process began under a new economic team. The Central Bank of the Republic of Türkiye (CBRT) increased interest rates to 50 percent and started unwinding several macroprudential regulations. Besides a tight monetary stance, fiscal measures have been implemented. As a result, the rebalancing in the economy has occurred, and Türkiye’s economy grew by 3.2 percent in 2024, while domestic demand contributed 2.1 points to growth and net foreign demand contributed 1.1 points. Inflation decelerated since mid-2024, domestic credit growth softened, and market participants' 12-month-forward inflation expectations declined to 25.6 percent as of April 2025.

2.3 The fiscal deficit widened in recent years, primarily due to *earthquake* reconstruction spending. However, in mid-2024, the government announced a fiscal tightening program, including a freeze on some non-essential construction projects, cuts in current spending, and a phased reduction of energy subsidies. Fiscal reforms are planned to broaden the tax base and reduce budget deficits, aiming to arrest fiscal deterioration, improve debt sustainability, and aid disinflation efforts. The total debt-to-GDP ratio remains low at 93 percent. Türkiye's resilience and reduced external vulnerability are evident as the current account deficit has narrowed significantly. This improvement reflects a combination of falling global energy prices, lower domestic demand for gold, and strong export and tourism performance. Foreign currency (FX) reserves stand at around USD140 billion, spreads have declined, and external financing has increased.

2.4 In a positive development, 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 May 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*). The economic environment has improved considerably, with the TRY stabilizing since Q1 2024, supported by disinflationary policies. 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. Overall, Türkiye's recent policy shifts toward orthodox economic management have led to improved macroeconomic indicators and restored investor confidence. However, sustaining these gains requires continued commitment to prudent fiscal and monetary policies amidst potential external and internal challenges. See **Annex 5** for further information.

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 approximately 45 percent of the banking assets. As of March 2025, Türkiye's banking sector exhibited notable growth: the total banking assets reached approximately USD958 billion, reflecting an increase from previous years. The loan portfolio expanded to about USD467 billion by March 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 64 percent of total liabilities. FX-denominated deposits continued to play a significant role, representing approximately 42.6 percent of total deposits, marking a decrease in dollarization from the peak levels 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. Despite the challenging operating environment, 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 18 percent as of year-end 2024, reflecting strong capitalization levels. The Non-Performing Loan (NPL) ratio stood at a low 1.9 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 515 billion as of the end of 2024

2.6 **Addressing Key Development Challenges; Project Contributions.** Türkiye emits approximately 1 percent of the global CO_2 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. 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. See **Annex 4** for further information.

3. Rationale

3.1 **Project Objective (PO).** To contribute to the Republic of Türkiye's climate mitigation and adaptation goals in line with the PCA by financing private sector investments in renewable energy, energy efficiency, climate adaptation, climate-related industries, 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 energy efficiency (EE); (iv) enterprises enhancing climate resilience and reducing operational risks through CA investments; (v) manufacturers and service providers in CI expanding their operations to meet growing demand for their products and services; (vi) enterprises leveraging DI to accelerate their digital transformation and efficiency; (vii) electricity consumers benefiting from cleaner energy; and (viii) 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, CI 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 PCM, facility-level non-performing loan rates, and gender-specific data (amount of loans to women-inclusive or female-managed businesses). See **Annex 1** for an overview of the proposed 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 Facility 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, CA, and CI across multiple industries; (ii) *Technology-enabled Infrastructure*, by supporting the manufacturing and 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;[2] and (iii) *Private Capital Mobilization (PCM)*, by contributing to the indirect mobilization of equity capital into Sub-projects. This new Facility 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) 6: *Clean Water*, SDG 7: *Sustainable Energy for All*, SDG 7: *Responsible Consumption and Production*, and SDG 13: *Climate Action*.

[2] 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 PCA, the Project is assessed as aligned. Details of the assessment are provided in **Section 5.E**. Based on the proposed pipeline and in line with the joint MDB methodology for tracking mitigation finance, it is estimated that at least USD170 million of the Project cost contributes to support mitigation and, in line with the joint MDB methodology for tracking adaptation finance, it is estimated that USD10 million of the project cost contributes to support adaptation.

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 investment may be constrained by global macroeconomic conditions. The Project is inherently counter-cyclical by supporting investment and PCM into the country's decarbonization and digitalization through its Sub-projects.

3.7 **Value Addition to AIIB.** The new facility represents a continuation of the Bank's long-standing relationship with TSKB, which started in 2018 with the Phase 1 loan (P000132). The Project will contribute to the Bank's strategic goals in terms of climate finance and apply the learnings from the Phase 1 and Phase 2 (P000546) facilities, as summarized below. The proposed structure will fine-tune the Bank's on-lending approach, creating space for previously under-explored investment areas like CI and DI. This Project will help the Bank to continue building its knowledge of the local market.

3.8 **Lessons Learned.** The Bank is building on the experience of executing similar sovereign-backed financings with the same Borrower and other FI partners in Türkiye, notably:

3.8.1 P000132 / P000546 TSKB Sustainable Energy and Infrastructure On-lending, Phases 1 and 2. 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 generation 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 (ELA) of the project was conducted in 2021, and a second comprehensive Project Learning Review (PLR) is currently underway. 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 Sub-projects in RES generation, EE, CA, and CI.

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, TSKB and TKYB, to address liquidity challenges faced by infrastructure-related companies, mid-caps, and SMEs during the COVID-19 pandemic. 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 environmental and social policies and the need for capacity building to ensure effective deployment of similar loans.

4. Project Description

4.1 **Project Description.** The proposed Phase 3 Facility considers Türkiye's current energy and industrial landscape and will respond to the demand for long-term investments in the areas of CM, CA, CI, and DI. The Facility builds on the experience, procedures, and systems already used during the implementation of the Phase 1 and Phase 2 Facilities. By providing long-term financing (Sub-loans), the Phase 3 Facility 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 Facility will be aligned with the principles of the PCA, under the Multilateral Development Banks (MDB) methodology[3] and the Bank's guidelines.[4]

4.2 **Eligible Sub-projects.** Eligible Sub-projects under the Facility will be defined in the Project Operations Manual (POM) and align with the Facility outcomes, as outlined below.

4.2.1 Climate mitigation:

(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 Facility 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 BESS. Captive RES plants associated with industrial processes will be included under this category.

(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. *Industrial processes.* Investments in industrial and manufacturing operations 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 per the POM.

b. Buildings. Investments in green buildings and retrofits (e.g., insulation, heating) across multiple eligible industries (excluding real estate and hospitality). Sub-projects under this category will contribute towards the attainment of environmental certifications (e.g., LEED-Silver, BREEAM-Good), under specific criteria under the POM and 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 over the network's performance.

[3] IDFC. Common Principles for Climate Mitigation Finance Tracking. v3 (Oct. 18, 2021).
[4] 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.[5] 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 or 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 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 use of loan proceeds.

4.2.3 Climate Industries (CI). Investments in eligible activities that contribute to the supply of goods and services that align with the Member's CM and CA goals. The Bank and the Borrower will agree on a list of eligible industries that will include, among other, e-mobility (e.g., EV and charging infrastructure), RES technology (e.g., solar panels, inverters, trackers, wind turbines, BESS), grid technologies (e.g., smart meters, smart grid equipment), and clean hydrogen among others.

4.2.4 Digital Infrastructure (DI). Investments in areas that promote 5G deployment, internet of things (IoT), 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 the Member's CM and CA efforts.

4.3 To facilitate the selection of Sub-projects, the POM will refer 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.

4.4 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.

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

Table 1. TSKB Phase 3 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 and uses include wind onshore and offshore, utility-scale and decentralized solar PV, BESS, hybrid power plants (RES only), and selected biogas/landfill gas operations.*
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. *Examples of eligible uses:* • *Processes: EE investments resulting in increased output volume/capacity expansion with lower energy consumption 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 and hospitality).* • *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, and flood protection. disaster prevention. passive cooling, insulation.*
Climate-related industries	Investments in eligible activities that contribute to the supply of goods and services that align with the country's CM and CA goals. These investments may be classified as climate finance, subject to the Bank's criteria. *Examples: EV charging infrastructure, EV, RES (wind, solar), BESS, smart network technologies, clean hydrogen.*
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, IoT, cloud computing services, and cybersecurity frameworks.*

4.5 **Eligible Sub-borrowers**. Eligible Sub-borrowers under the Project are private entities (not directly or indirectly controlled by the state or its subdivisions),[6] 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.

4.6 **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 an adequate profit margin for the Borrower.

4.7 Sub-loans will have a minimum tenor of 48 months and a loan maturity date no longer than the final maturity of the facility. The maximum allocation per Sub-loan is USD30 million unless specifically authorized by the Bank on a case-by-case basis. A maximum allocation of USD60 million 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 authorized by the Bank on a case-by-case basis.

4.8 Proceeds of the Sub-loans to support solely Eligible Investments as regulated by the POM and the Loan Agreement. Sub-loan 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.

4.9 **Cost and Financing Plan.** The indicative financing plan is presented in **Table 2** below. A minimum of 90 percent of the Facility proceeds will be allocated to climate finance uses, mainly CM through RES. A minimum of 10 and 5 percent will be allocated to the EE and CA categories, respectively. Up to 10 percent of the proceeds may support CI and DI uses, without these amounts being required to qualify as climate finance. During the implementation phase, the Bank will maintain the flexibility to adjust the allocation between categories to ensure full allocation of the facility, especially to maximize climate finance investments.

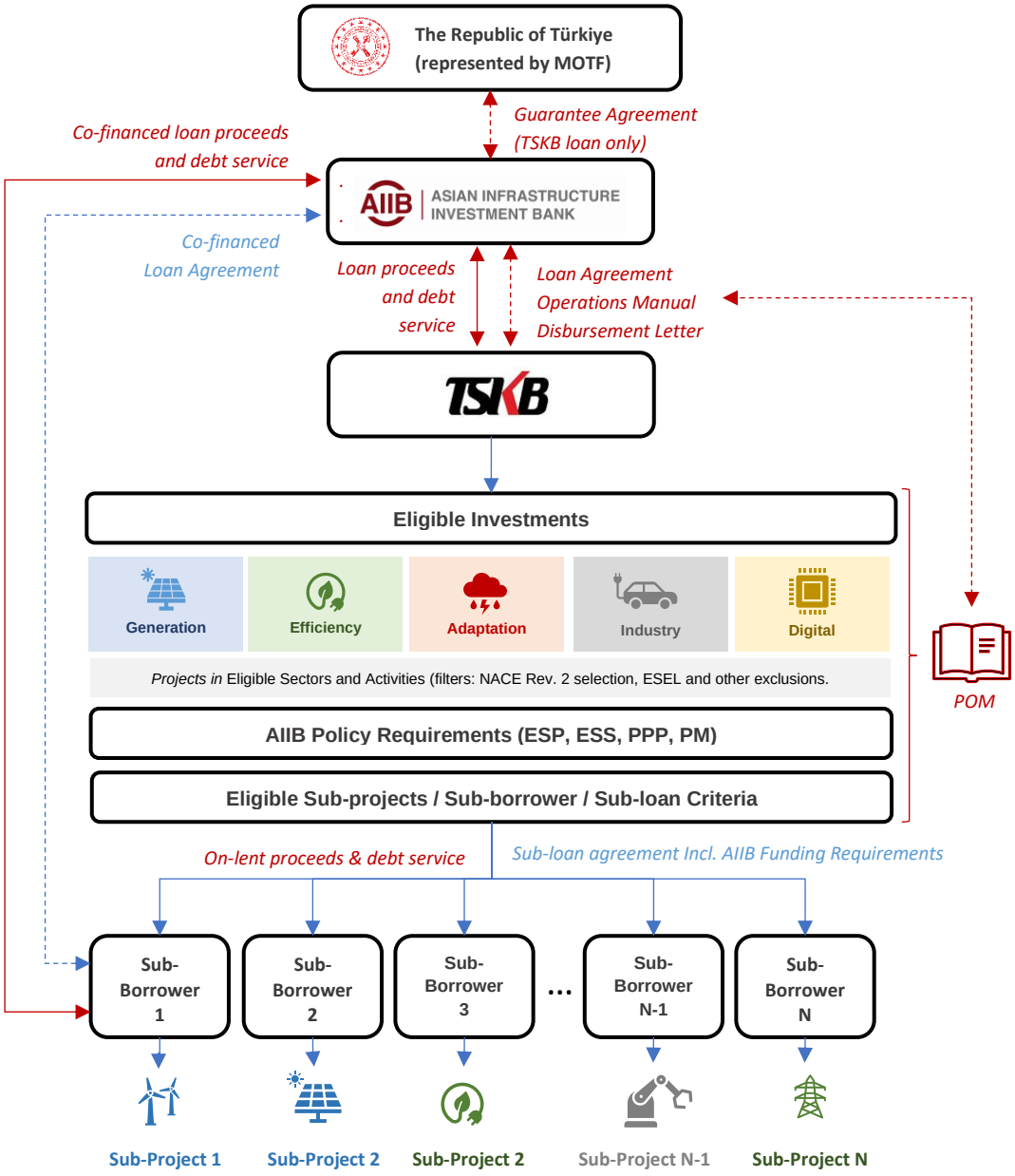
4.10 **Retroactive Finance.** The Project will include retroactive financing for Eligible Sub-projects already financed by the Borrower. The Loan Agreement will provide for the financing of a Retroactive Amount, a Retroactive Financing Date, and a Retroactive Financing Limit. In the context of this transaction, Eligible Expenditures are the disbursements made by the Borrower to the Sub-borrower for the financing of Sub-projects. The retroactive financing portion is, in any case, limited to 20 percent of the loan proceeds (across all components) and Eligible Sub-project commitments made no earlier than 12 months before the signing date of the Loan Agreement.

[6] 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.

Table 2. TSKB Phase 3 Facility, Indicative Allocation (subject to negotiations)

Item	Project Cost (USD m)	AIIB Financing	
		USD million	%
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 Other uses (CI, DI)	20.0	20.0	*10%*
Grand Total	200.0	200.0	*100%*

Figure 1. Overview of Project Structure



4.11 **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 facility 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 Framework (ESF), 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 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.

4.12 **Implementation period.** Based on the experience of rapid allocation and absorption of the Bank's commitment in the Phase 1 and Phase 2 Facilities, the new Facility will have an implementation period of 3 years, door-to-door, from June 2025 (expected date of effectiveness) until June 2028 as a single phase.

4.13 **Implementation readiness.** The Project is part of the Multi-Year Rolling Pipeline (MYRP) agreed between the Bank and the Ministry of Treasury and Finance in February 2025. All the approvals necessary for the procurement of the Sovereign Guarantee have been obtained in line with the proposed time for signing and effectiveness. A preliminary indicative pipeline has been submitted to the Bank and presented in **Annex 2**. The pipeline remains subject to further adjustment by the Borrower during the implementation.

4.14 **Disbursements**. The disbursement arrangements from the Bank to the Borrower will be communicated in a Disbursement Letter (DL). Both the advance and reimbursement 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.

4.15 **Co-financing opportunities.** AIIB has traditionally used FI on-lending to invest in smaller Sub-projects that it would not finance directly. While this approach suits smaller and fragmented RES, EE, and CA investments, the Bank's experience from the Phase 1 and 2 facilities shows that opportunities for co-investment in larger and more challenging private sector projects may emerge during the implementation. AIIB may co-finance sizeable opportunities with the Borrower on a case-by-case basis. The Bank will process any co-financed projects as standalone or separate operations.

4.16 **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-phase monitoring missions (physical or virtual) are expected to take place annually.

5. Project Assessment

A. Technical

5.1 **Project Design; Operational Sustainability.** The Facility design is considered adequate compared to alternative structures. TSKB has a local presence and extensive corporate relations and can undertake due diligence, credit analysis, and monitoring of Sub-loans efficiently and cost-effectively. TSKB can cater to the needs of fragmented Sub-projects like CA and EE, and lend in various currencies, including EUR and TRY. As confirmed by the monitoring of the two previous facilities, the Borrower has adequate staff, including experienced loan officers, environmental specialists, engineers, and legal teams. In addition, the Borrower has the necessary resources, management systems, and organization to undertake the Project and monitor the Sub-projects after their disbursement, including its internal credit ratings, ownership, collateral, and performance. TSKB presents a conservative financial profile, as presented in **Section 5.B** below.

5.2 **Implementation Track Record**. TSKB has a long track record of managing FI on-lending facilities funded by various DFIs and foreign banks. The Borrower focuses particularly on the areas of infrastructure and energy, where it has developed strong in-house expertise. TSKB has a proven track record in the project finance market and has established long-lasting relationships with Türkiye's largest industrial groups. Based on a seven-year cooperation, the Borrower has hitherto demonstrated a strong capacity to implement FI loans and act as a strategic partner in the pursuit of common goals through three precedents:

5.2.1 P000132 TSKB Sustainable Energy and Infrastructure On-lending Facility (Phase 1 Facility, closed April 2022). On September 28, 2018, the AIIB approved a USD200 million sovereign-backed financing, whose objective was to support Türkiye's sustainable infrastructure development by providing a long-term source of financing for RES and EE sub-projects. The Phase 1 Facility reached its closing on April 1, 2022. The Project Completion Note (PCN) confirming the project's satisfactory performance was circulated to the Board of Directors on September 26, 2022. Between 2019 and 2022, the Phase 1 Facility supported eight (8) sub-projects for a total cost of approximately USD1.2 billion, which included 480MW of new RES installed capacity (wind and geothermal), as well as EE and electricity distribution investments.

5.2.2 P000546 TSKB Sustainable Energy and Infrastructure On-lending Facility, Phase 2 (Phase 2, 99 percent disbursed). Phase 2, approved on November 23, 2022, is currently under implementation and has supported several sub-projects, including RES, EE, and CA. The Phase 2 Facility provided counter-cyclical support to Türkiye's strategic climate goals throughout a period marked by economic uncertainty.

5.2.3 Türkiye: COVID-19 Credit Line Project (P000381). In 2020, the Borrower also benefited together with TKYB from a USD500 million credit line aimed at mitigating the liquidity constraints caused by the COVID-19 crisis and facilitating access to finance for corporates and small and medium-sized enterprises (SMEs). 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 Facility will exclude investments that entail complex cost-benefit assessments, such as geothermal, hydropower, and hybrid solutions involving fossil fuels. Projects will be aligned with PCA and are expected to entail positive economic impacts, chiefly in terms of climate mitigation. TSKB and AIIB have agreed to develop an economic analysis approach in the POM to demonstrate the positive economic impact of the Facility, 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 renewable energy and estimated positive economic benefits based on assumptions regarding avoided GHG emissions and the carbon intensity of the grid.

5.4 **Financial Analysis.** The Facility is expected to achieve positive financial outcomes, underpinned by the credit quality of the Borrower, the first source of repayment of the loan:

5.4.1 **Profile.** Founded in 1950 with the support of the World Bank, CBRT, and commercial banks, both local and global. TSKB is Türkiye's first and sole privately-owned development and investment bank. It pursues a development banking mission extending medium to long-term investment loans while securing its funds mainly from international finance institutions (IFI) with the capacity to access the guarantee of the MOTF. Its main goal is to support the sustainable and inclusive growth of Türkiye's private sector. TSKB provides corporate and investment banking, as well as consultancy services. It is a non-deposit institution, and it occupies a niche position within the FI sector. TSKB is non-systemic—it represents approximately 1 percent of the FI sector's assets as of the end of 2024, which provides it with flexibility to pursue its mandate. As of March 31, 2025, TSKB's largest shareholder is İşbank Group (51.4 percent control), Türkiye's third-largest banking group. Türkiye Vakiflar Bankasi T.A.O (Vakifbank), Türkiye's second-largest banking group and a state-owned institution, controls 8.4 percent. The remaining shares are in free float or in the hands of minorities. TSKB is headquartered in Istanbul and has a branch in Ankara. The bank employs over 650 staff.

5.4.2 **Loan portfolio.** As of December 31, 2024, TSKB maintains robust asset quality, attributed to its focus on large corporate clients, investment projects with varying degrees of government support and guarantees, and prudent underwriting standards. The bank's loan portfolio exhibited a high concentration in the energy sector, reflecting its policy role. Approximately 82 percent of TSKB's loan book consisted of project finance loans with long-term maturities. Notably, 60 percent of the loan portfolio was allocated to RES projects, many of which benefit from the government's incentive scheme (YEKDEM), including priority dispatch and USD-linked tariffs. Other significant exposures included electricity distribution (6.2 percent), financial sector (8.8 percent), and tourism (4.9 percent). The share of loans linked to SDGs in TSKB's loan portfolio is 92 percent, while the share of loans contributing to the climate and environment-focused SDGs is 58 percent in 2024. TSKB's total consolidated assets have grown from TRY86,093 million (USD6.5 billion) in 2021 to TRY237,529 million (USD6.7 billion) by the end of 2024, reflecting a CAGR of 40 percent in TRY terms, driven by loan growth. Over the past four years, net loans have risen from TRY61,344 million (USD4.6 billion) to TRY169,284 million (USD4.6 billion), making up 71 percent of total assets in 2024.

5.4.3 **Asset Quality.** TSKB demonstrates robust asset quality in 2024, maintaining a low NPL ratio of 2.17 percent, down from 3 percent in 2022. This reflects TSKB's robust underwriting policies, prudent lending approach, and the long-term profile of its loans. In addition to low NPL ratios, TSKB boasts a high loan loss coverage ratio. These factors have collectively supported TSKB's strong and stable asset quality. As of the end of 2024, TSKB reported a Stage-2 loan ratio of 6.8 percent and its loss allowances covered 1.8 times its NPLs, underscoring the bank's conservative provisioning approach. Additionally, the bank's total outstanding free provision stock reached TRY2.05 billion (USD58 million), with an extra TRY300 million (USD8.5 million) being set aside in the current period.

5.4.4 **Profitability.** As of December 31, 2024, TSKB continued to demonstrate consistent performance, reporting a net income of TRY10.4 billion (approximately USD316 million) underpinned by nominal loan growth and gains on inflation-linked assets. The bank’s cost-to-income ratio stands at 13.8 percent, reflecting its efficient operations. TSKB's return on average equity (ROAE) stood at 38 percent, and its return on average assets (ROAA) was 4.9 percent. Both metrics indicate sustained profitability and align with or surpass industry levels. TSKB has historically outperformed the banking sector in terms of its profit-to-risk-weighted assets (RWA) ratio (6.7 percent), underpinned by a high net interest margin, above its year-end guidance. This margin benefits from the bank's effective asset-liability management, access to sovereign-guaranteed funding from IFIs, and its predominant exposure to FX interest rates. The income structure is solid, with net interest income being the largest component and fee income continuing to expand. Net interest income drives total income, supported by strong loan growth and a relatively high net interest margin. TSKB's operating income on a consolidated basis increased from TRY3,935 million (USD298 million) in 2021 to TRY17,039 million (USD442 million) by the end of 2024, reflecting a CAGR of 63 percent in TRY terms. This growth is primarily driven by strong net interest income growth, which has a CAGR of 76 percent. Over the past four years, net interest income has risen from TRY2,893 million (USD219 million) to TRY15,866 million (USD412 million), making up 93 percent of total operating income in 2024. TSKB maintains stringent cost control and operates with a lean expense base.

5.4.5 **Capitalization**. As of the end of 2024, TSKB's total assets reached TRY237.5 billion (approximately USD6.7 billion), and its total equity was TRY33.15 billion (approximately USD937 million). TSKB maintains a robust capital position, with a Common Equity Tier 1 (CET1) ratio of 19.1 percent and a Capital Adequacy Ratio (CAR) of 26.4 percent. In Türkiye, banks are required to maintain a total regulatory CAR above 8 percent. However, following a decision on November 16, 2006, the BRSA set a target CAR of 12 percent for the banks to open new branches and issue bonds in the market. TSKB’s CAR surpasses the regulatory requirements and demonstrates its strong capitalization. To further strengthen its capital base, TSKB successfully issued USD300 million in Additional Tier 1 (AT1) capital in March 2024, replacing an AT1 loan worth USD200 million and an earlier Tier 2 Eurobond that was called in March 2022. The Borrower presents moderate core capitalization levels, above regulatory requirements, and sensitivity to TRY depreciation due to FX portfolio concentration and inflation.

5.4.6 **Funding**. TSKB is a non-deposit FI and depends on a stable and diversified external funding base: 95 percent of its funding is comprised of FX-denominated credit lines and on-lending facilities from various DFIs and other international financial institutions (IFI) benefiting from preferred creditor status and sovereign guarantees (85 percent of DFI funding) and long-dated maturities (11-12 years on average); 27 percent of the funding accounts for securities issued and subordinated debt. ESG-related funding constitutes approximately 80 percent of TSKB's liabilities. TSKB also uses short-term borrowings to finance bridge loans, as well as equity and repos to fund TRY loans and securities. Once a year, TSKB taps the syndicated loan market for diversification of its funding base. In 2024, TSKB secured over USD1.7 billion in FX funding from various IFI.

5.4.7 **Liquidity**. As of December 31, 2024, TSKB reported total assets of TRY237 billion (approximately USD6.7 billion). Liquid assets, primarily consisting of Turkish government securities, accounted for approximately 20 percent of total assets, totaling around TRY40.8 billion (USD1.1 billion). The liquidity portfolio's duration was approximately 3 years. About 51 percent of this portfolio was invested in TRY-denominated securities, including inflation-linked securities and fixed-rate bonds, amounting to TRY22.2 billion (USD577 million). The remaining 47 percent comprised FX securities, mainly fixed-rate Turkish sovereign Eurobonds, totaling around USD550 million. FX loan reflows from sub-loans serve as a significant source of FX liquidity to maintain its development banking mission. The bank's funding maturities are well-diversified with evenly spaced repayment schedules, effectively mitigating refinancing risks. TSKB's collection ratio exceeds 85 percent. In 2024, TSKB disbursed over USD1.8 billion in long-term cash loans to clients as part of its lending activities. As of December 31, 2024, TSKB's FX liquidity coverage ratio stood notably at 467 percent.

5.4.8 **Currency**. As of December 31, 2024, TSKB maintains a highly dollarized balance sheet. Most of its assets and liabilities are denominated in FX, primarily USD and EUR. This aligns with TSKB's strategy of borrowing and lending predominantly in hard currencies. The bank employs hedging strategies to manage FX risk and emphasizes the importance of clients' FX revenue generation capabilities when providing FX funding. Regular analyses are conducted to assess the FX risks.

5.4.9 **Credit Rating**. In 2024, Moody's upgraded TSKB's long-term issuer and senior unsecured debt ratings to B1, with a *positive* outlook, reflecting a moderate probability of affiliate support from İşank (B1/*positive*) and a high probability of government support. Moody's baseline credit assessment was raised to B2, indicating improvements in TSKB's capitalization and a stable funding profile, further complemented by the bank's low level of problem loans, recovering profitability, and favorable term structure of wholesale funding. Fitch Ratings also upgraded TSKB's long-term foreign currency issuer default rating to B+ with a *positive* outlook. Fitch cited the bank's niche policy role, development focus, and improved capital and FX liquidity buffers as factors commensurate with the risks of the Turkish operating environment.

Figure 2. Asset Composition (TRY million, 2021-24)

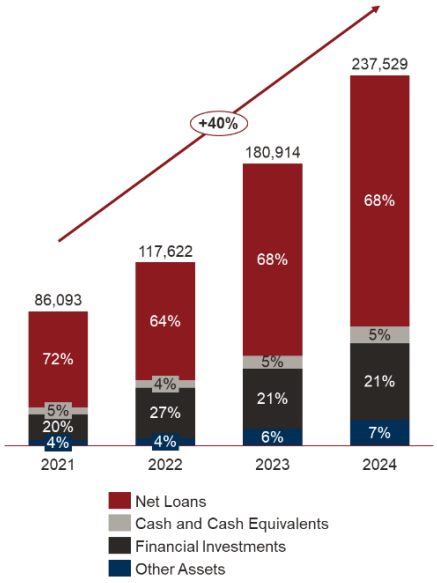


Figure 3. Operating Income Composition (TRY million, %)

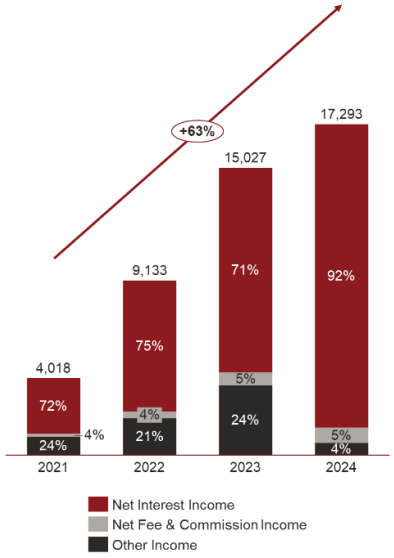


Figure 4. NPL and Loss Coverage Ratio (%, x, 2021-24)

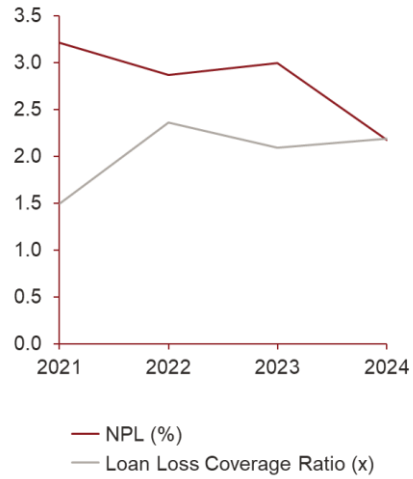


Figure 5. Profitability Ratios (%, 2021-24)

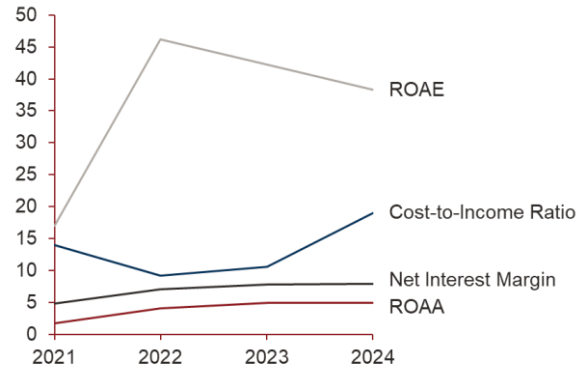


Figure 6. Loan Breakdown by Maturity (%, 2024)

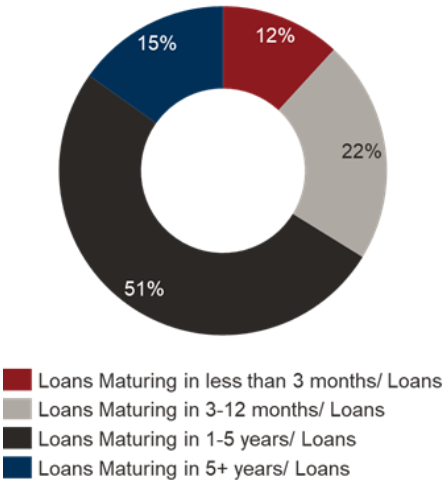
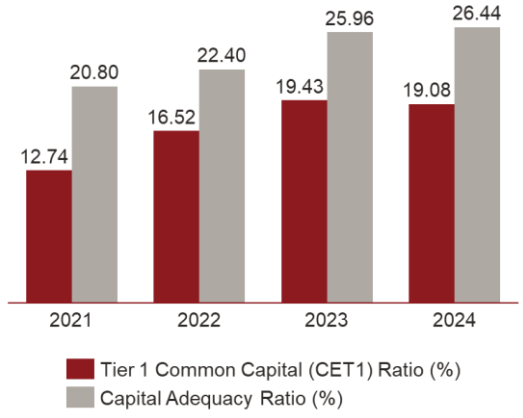


Figure 7. Capital Adequacy Ratios (%, 2021-24)



C. Fiduciary and Governance

5.5 **Procurement**. Based on the monitoring and reporting of prior facilities, the Borrower has adequate capacity to ensure that 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 procurement of goods, works, and services to be financed by the Sub-loans will follow the Bank's PP and PIR as applicable to private sector beneficiaries through FI.[7] 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 International Financial Reporting Standards (IFRS) or Turkish Financial Reporting Standards (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 Facility. 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.

[7] 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 TSKB among the highest-rated companies in Türkiye (SAHA Corporate Governance rating: 9.67/10). The Borrower was also the first bank in Türkiye to issue green and sustainable infrastructure Eurobonds. 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). TSKB has published its Integrated Annual Report, which has been prepared in full compliance with the Türkiye Sustainability Reporting Standards (TSRS), which were enacted for the first time with the adoption of the IFRS S1 and S2 Standards issued by the International Sustainability Standards Board (ISSB) in 2024. The Bank also published its second Climate Report and has continued its Carbon Disclosure Project (CDP) reporting since 2013. TSKB 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 being financed is not considered Critical Infrastructure. TSKB, as an FI, is subject to cybersecurity risks. To address these risks, TSKB 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. TSKB 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 TSKB 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. This will include the selection, appraisal, approval, and monitoring of Sub-projects in accordance with AIIB's ESP requirements.

5.14 **Environmental and Social Instruments.** TSKB's Environmental and Social Management System (ESMS) is materially aligned with AIIB's ESP and will be used as the project's Environmental and Social (E&S) instrument together with the POM. Since 2012, TSKB's E&S policies, processes, and tools have been integrated into a Sustainability Management System. TSKB is also the first company in the Turkish finance industry to have

an ISO 14001 Environmental Management System and ISO 14064 GHG Accounting and Verification. At the corporate level, TSKB scored 7.4 in 2024 (the lower the better) for Sustainalytics ESG Risk rating, labeled as *Negligible Risk* and ranked first among Turkish banks. TSKB 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 jointly by the Engineering Department and Climate Change and Sustainability Management Department in TSKB at different levels, where the Engineering Department is responsible for carrying out Sub-project-based environmental and social risk assessment, management, and monitoring. The Climate Change and Sustainability Management Department, which is a newly structured department, is responsible for designing the climate change and sustainability strategy of the Bank and keeping the ESMS aligned with international standards, including AIIB's ESF. TSKB follows national and international developments in terms of inclusion, climate change, biodiversity, environmental, and social impact based on its activities and Sub-loan portfolio.

5.16 TSKB's Engineering Department is responsible for the environmental and social assessment and monitoring of each Sub-project to be financed by TSKB. The main responsibilities of this department are conducting site visits, assessing E&S documents, and preparing a project evaluation report, including information on the results of the assessment with Environmental and Social Risk Evaluation Tool (ERET) scores as well as necessary mitigation measures and Environmental and Social Action Plan (ESAP), where applicable. The risk assessment tool, ERET, enables the evaluation of investments in several aspects of environmental, social, and health & safety issues. The ERET has been developed with inspiration taken from international E&S frameworks and guidelines, including IFC Performance Standards.

5.17 **Experience with the Phase 1 and Phase 2 Facilities**. During the implementation of Phase 1 and Phase 2 Facilities, through AIIB's prior review and approval of Sub-projects, the Bank has provided feedback to improve the scope, depth, and evaluation of the ES due diligence. Over time, the Bank observed a gradual improvement in TSKB's ES capacity, due diligence, and documentation. The AIIB Project Team has been efficiently working with TSKB in recommending holistic and coherent solutions for the approval of Sub-projects and reporting requirements, and providing further guidance regarding E&S aspects. In this regard, TSKB has improved its capacity in annual E&S reporting, as well as preparing project appraisal forms and monitoring reports in good coordination with AIIB. As most of the Sub-projects under the Phase 1 and Phase 2 Facilities were renewable energy-related in Türkiye and had common E&S risks, TSKB built confidence in the identification and assessment of common implementation issues. For example, TSKB requires selected wind-related Sub-projects with significant biodiversity risks to have experts conduct ex-situ conservation studies before the construction phase, in-situ conservation studies during migration seasons, and bird and bat monitoring studies during the operational phase. For selected Sub-projects with land acquisition, where needed, TSKB will require a Land Acquisition and Resettlement Plan (LARP) that is commensurate with the extent of impact on both permanent and temporary land

acquisition. Features include and are part of the stakeholder engagement plan, having experts to conduct interviews with project-affected people (including informal settlers), survey the land and communicate the entitlement matrix, and post-acquisition, conduct a livelihood monitoring survey study.

5.18 **Environment and Social Aspects.** The preliminary pipeline comprises 16 Sub-projects across RES (e.g., wind, solar, BESS), EE (manufacturing), CI (solar manufacturing), and DI (optic fibre). The Facility will support Türkiye's ratification of the PCA on mitigation and adaptation in 2021 and will contribute positively to SDGs, such as SDG 7 *Renewable Energy* and SDG 13 *Climate Action*. Impacts on communities' health and safety (H&S), involuntary resettlement and land acquisition, sensitive habitats, ecosystems and their services, occupational H&S, and labor and working conditions 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. TSKB's E&S capacity is considered adequate for managing the subprojects anticipated under Phase 3. AIIB's supervision during Phases 1 and 2 confirmed that TSKB maintains a well-resourced E&S team, with environmental experts and social experts embedded within the Engineering Department and Climate Change and Sustainability Management Department. TSKB has robust internal procedures for project screening, due diligence, monitoring, and reporting, supported by the ERET 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 TSKB is considered appropriate under Phase 3. No additional capacity strengthening is deemed necessary at this stage.

5.19 **Labor and Work Conditions.** The Project Team has examined TSKB's ESMS concerning labor and working conditions (LWC), particularly in solar and wind energy projects. As part of the POM, all suppliers of the subprojects 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 H&S matters. Compliance with TSKB's ESMS is an essential part of the contract documents used in the procurement. The subprojects will also apply TSKB'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.** TSKB enables its borrowers to conduct equal-opportunity self-assessments and develop action plans to improve their current practices. In this context, TSKB supports the implementation of action plans such as implementing equal opportunities for employees from recruitment onwards, reviewing human resources, ethics, and disciplinary policies, improving or creating breastfeeding rooms in companies, reducing or eliminating the gender pay gap, and supporting gender equality training. In the field of gender equality, TSKB was evaluated by the Dutch-based independent data company Equileap and ranked first among 1,500 companies in emerging markets with a gender equality score of 71 percent. TSKB was the only institution from Türkiye in the Emerging Markets Gender Equality Index prepared by Equileap to track companies' gender equality activities. At the corporate level, TSKB has a gender equality policy and is committed to promoting gender equality in the workplace through its activities and all banking operations and human resource practices, including those of its subsidiaries, and aims to create opportunities to increase awareness of gender equality for all its stakeholders. TSKB offers a women-friendly working environment with its high rates of

female employees and managers. 51 percent of TSKB's total employees, 52 percent of TSKB's management, and 36 percent of TSKB's Board of Directors are female. TSKB will require Sub-projects to adopt or apply equivalent (i) Code of Conduct for Contractors' Workers to mitigate Sexual Exploitation, Abuse and Harassment and Gender-Based Violence (GBV) risks to be included in bidding documents and (ii) Code of Conduct for E&S Consultants to be included in terms of reference on the E&S assessment of Sub-projects, with an emphasis on gender aspects, including preventing GBV. At the Project level, TSKB will incorporate the above-mentioned gender activities and report on gender-disaggregated data at the Sub-project level.

5.21 **Stakeholder Engagement, Consultation, Information Disclosure.** TSKB maintains and publishes its ESMS overview in both Turkish and English. At the facility level, TSKB will continue to disclose the required ES documentation for higher-risk Sub-projects[8] in line with Section 21 of AIIB's ESS1. These documents will be disclosed in English or local language(s) understandable to project-affected people (PAP), and made available on TSKB's website and, where relevant, on the websites of sub-borrowers or in the subproject area. At the corporate level, TSKB will continue to disclose its annual integrated report, which includes IFRS S1 and S2 Standards issued by ISSB, PRB, Global Reporting Initiative (GRI), and TCFD requirements.

5.22 **Project Grievance Redress Mechanism.** TSKB 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 PAP and project-contracted workers. Under the POM, TSKB 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 ESF and ESEL. TSKB will rely on information provided directly by the Sub-projects to conduct both E&S assessment and ongoing monitoring. TSKB will be required to maintain a

[8] 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.

comprehensive database comprising all relevant E&S information and report semi-annually to AIIB during the implementation phase, providing a summary of the E&S aspects and an overview of the E&S performance of the portfolio. AIIB will conduct post-reviews of the selection and implementation of Sub-projects as part of its regular supervision, including regular engagement with TSKB, sample site visits, and review of the E&S documentation.

E. Climate Change

5.25 **Climate Change.** Recognizing the ramifications of climate change, TSKB embraces an integrated strategy to enhance the resilience of its current loan portfolio. TKSB has demonstrated a strong commitment to climate change and has a comprehensive climate policy and strategy framework. The bank integrates climate risks into its decision-making tools and business processes from a holistic perspective, while concurrently addressing climate opportunities within various frameworks. The project's PA alignment is confirmed using both transaction-based as well as counterparty-based approaches, particularly for BB2. Based on the current pipeline and joint MDB methodologies, the proposed categorization of eligible Sub-projects would fall under the automatically Paris-aligned list under Building Block 1 (BB1, *mitigation*), as the on-lending is committed to delivering climate mitigation causes in several sub-sectors.

5.26 It is considered Paris-aligned under Building Block 2 (BB2) (adaptation) as TSKB has set up a comprehensive climate risk management system, comprising both Project-level procedures (climate risk evaluation tool or CRET for screening of Sub-projects)[9], assesses the potential impacts of climate change on all sectors at the portfolio level and is adhering to best practices and standards, such as Task Force for Climate Related Financial Disclosures as well as United Nations Environment Program Finance Initiative (UNEP-FI), and is committed to embark on a gradual and credible Paris alignment pathway. This is reflected through its becoming the first Turkish Bank to become the signatory of the Net-Zero Banking Alliance, and to include a set of sustainability and climate targets, aligned with Science-based Targets initiative (SBTi). The bank's CRET tool analyses the vulnerability of companies to climate hazards, and consequently, the assessment of risk severity is significantly influenced by the physical and geographical characteristics of the regions where they operate. The physical CRET evaluates potential climate hazards that firms may face and assesses how this exposure may evolve, with a focus on regional and provincial levels.

F. Operational Policy on International Relations

5.27 **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 TSKB to screen Sub-projects against the OPIR and exclude from AIIB financing any Sub-project that would involve any of the matters covered in the OPIR.

[9] See TSKB Climate report, 2023

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 large 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 are exposed to risks: volatility, refinancing, open exposure, or limited hedging by clients. ▪ Dependence on FX wholesale funding and reliance on FX reflows and IFI funding for short-term FX wholesale borrowing needs. ▪ TSKB continues to exhibit sensitivity to TRY depreciation due to its significant FX portfolio concentration and the impacts of inflation.	*Medium*	▪ Moderate GDP growth performance in 2024 driven by consumption and investment. ▪ Resilient Turkish FI sector, relative improvements in profitability and asset quality. ▪ The bank's proactive capital management strategies, including the recent AT1 issuance, aim to mitigate these risks and maintain financial stability. ▪ Relative improvements in FI funding; reduced reliance on short-term wholesale FX funding. ▪ Expanding FX liquidity and inflows. ▪ Firmer monetary stance with credit tightening. ▪ Pursuit of prudent fiscal policy over the medium term. ▪ Subdued market demand for long-term FX loans given TRY short-term weakness.

Risk Description	Assessment (H/M/L)	Mitigation Measures
▪ Risk of deterioration of the FI operating environment. ▪ Economic vulnerabilities following 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.		▪ TSKB 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 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 ESF 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 Phases 1 and 2 Facility has confirmed the competence of TSKB in implementing its ESMS and the agreed POM.

Annex 1: Results Monitoring Framework

The exact intermediate and end targets will depend on the specific projects to be financed by the Phase 3 Facility and will be finalized during the project's implementation. Indicative end 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, climate-related industries, digital infrastructure, and strengthening private capital mobilization.							
Indicator Name	**Unit of measure**	**Base-line Data YR0**	**Target Values[10]**			**End Target YR4**	**Data source / Methodology**	**Responsibility**
			YR1	**YR2**	**YR3**			
Project Objective Indicators:[11]								
1. RES, capacity installed	MW	-	The exact intermediate and end targets will depend on the specific projects to be financed by the Phase 2 Facility and will be finalized during the project's implementation			300	Annual report	Borrower
2. BESS capacity installed[12]	MW/MWh	-				15/15	Annual report	Borrower
3. RES, GHG avoidance[13]	tCO2e/yr	-				300k	Annual report	Borrower
4. EE Primary energy saved	GWh/year	-				15	Annual report	Borrower
5. EE GHG emissions reduced	tCO_2e/yr	-				5,000	Annual report	Borrower

[10] Target values will be determined during the life of the Facility.
[11] Outcome indicators measure each aspect of the PO statement and are to track progress toward the achievement of the PO).
[12] Under EMRA regulation, the ratio of total storage power (MW) to total storage capacity (MWh) is 1x. The proportion may be revised during implementation.
[13] To be calculated on the basis of Grid Emission Factor for intermittent energy, as provided by AIIB, in accordance with the POM. The level considers projected capacity usage ratios for RES.

Intermediate Results Indicators:[14]						
1. AIIB investment, RES	USD mio.	-	The exact intermediate and end targets will depend on the specific projects to be financed by the Phase 2 Facility and will be finalized during the project's implementation	150.0	Annual report	Borrower
2. AIIB investments, EE	USD mio.	-		20.0	Annual report	Borrower
3. AIIB investment, CA	USD mio.	-		10.0	Annual report	Borrower
4. AIIB investment, CI	USD mio.	-		10.0	Annual report	Borrower
5. AIIIB investment, DI	USD mio.	-		10.0	Annual report	Borrower
6. Private capital mobilization[15]	USD mio.	-		50.0	Annual report	Borrower
7. CI, solar output capacity[16]	MW/year	-		250	Annual report	Borrower
8. T&D lines financed, length	Km	-		25	Annual report	Borrower
9. AIIB co-financing amount	USD mio.	-		25.0	Annual report	Borrower
10. Non-performing loans[17]	%	-		< 5%	Annual report	Borrower
11. WIB/FM borrowers[18]	%	-		5%	Annual report	Borrower

[14] To measure key intermediate results under each component that are necessary for showing progress toward achieving PO. They can capture outputs or short-term outcomes.
[15] Indirect private capital mobilization through project-level equity is calculated as equity multiplied by the pro-rata share of the AIIB-backed loan over the total debt.
[16] Indicator remains subject to the financing of solar panel production under the Facility.
[17] Facility level indicator, expected to remain below 5 percent.
[18] 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, USD M	TSKB Sub-loan, USD M	AIIB Sub-loan USD M	Project Theme	Industry NACE Rev 2 Classification	Project Type	Installed Capacity
Project 1	USD	41.7	6.0	2.9	Mitigation - Generation	Production of electricity	Wind Power Plant - Capacity Extension	35 MW
Project 2	USD	97.3	14.0	6.8	Mitigation - Generation	Production of electricity	Wind Power Plant (80 MW)	80 MW
Project 3	EUR	10.7	9.7	4.2	Mitigation - Generation	Production of electricity	Wind Power Plant - Capacity Extension	9 MW
Project 4	EUR	10.8	9.8	4.7	Mitigation - Generation	Production of electricity	Wind Power Plant - Capacity Extension	9 MW
Project 5	EUR	12.2	10.2	4.5	Mitigation - Generation	Production of electricity	Wind Power Plant - Capacity Extension	9 MW
Project 6	EUR	7.0	5.9	5.5	Mitigation - Generation	Accommodation	Ground Mounted SPP	12 MW
Project 7	USD	28.4	8.0	8.0	Mitigation – Energy Efficiency	Manufacture of electric equipment[19]	Automation and CNC Investment	-
Project 8	USD	137.0	40.0	20.0	Mitigation - Generation	Production of electricity	Wind Power Plant with Storage	99 MW
Project 9	EUR	14.6	13.8	13.8	Mitigation - Generation	Textile	Ground Mounted SPP	25 MW
Project 10	USD	50.0	40.0	29.0	Mitigation - Generation	Production of electricity	Wind Power Plant	35 MW
Project 11	USD	33.0	28.0	20.0	Mitigation - Energy Efficiency	Warehousing and logistics	Electric equipment	-
Project 12	USD	37.5	30.0	8.5	Mitigation - Generation	Production of electricity	Solar Power Plant with Storage	40 MW
Project 13	USD	37.5	30.0	20.0	Mitigation - Generation	Production of electricity	Solar Power Plant with Storage	50 MW
Project 14	USD	100.0	84.0	20.0	Mitigation - Generation	Production of electricity	Wind Power Plant	70 MW
Project 15	USD	10.0	10.0	10.0	Digital Infrastructure	Telecommunications	Fiber Infrastructure Investment	-
Project 16	USD	206.0	75.0	20.0	Climate Industry	Production of electricity	Cell and Panel Manufacturing Facility	-

[19] Manufacture of electric motors, generators, transformers and electricity distribution and control apparatus

Annex 3: Financial Summary

Table A. TSKB Summary Key Financials (in USD thousands, source: S&P Capital IQ)

USD million	***2020 FY***	***2021 FY***	***2022 FY***	***2023 FY***	***2024 FY***
Spot Exchange Rate	*0.1347*	*0.0757*	*0.0536*	*0.0343*	*0.0285*
Average Exchange Rate	*0.1437*	*0.1157*	*0.0534*	*0.0338*	*0.0282*
Accounting Principle	TFRS	TFRS	TFRS	TFRS	TFRS
Balance Sheet					
Total Assets ($M)	7,060	6,521	6,286	6,118	6,716
Net Loans to Customers ($M)	5,101	4,666	4,050	4,173	4,558
Total Deposits from Customers ($M)	-	-	-	-	-
Total Equity ($M)	826	532	694	738	937
Equity Attributable to Parent Company ($M)	818	525	682	724	921
Total Equity/ Total Assets (%)	11.69	8.16	11.05	12.06	13.96
Profitability					
Net Profit ($M)	102	127	251	310	316
ROAE (%)	*12.87*	*16.96*	*46.15*	*42.29*	*38.35*
ROAA (%)	*1.44*	*1.74*	*4.05*	*4.93*	*4.88*
Return on Avg Risk-weighted Assets (%)	*1.68*	*2.12*	*6.04*	*6.93*	*6.72*
Net Interest Margin (%)	*4.31*	*4.83*	*7.03*	*7.7*	*7.94*
Net Interest Income/ Avg Assets (%)	*4.12*	*4.60*	*6.78*	*7.39*	*7.47*
Cost-to-Income (%)	*17.28*	*14.00*	*10.58*	*10.58*	*13.80*
Asset Quality					
Non-performing loans ($M)	228	158	125	310	316
NPL / Gross Customer Loans (%)	*4.26*	*3.22*	*2.87*	*3*	*2.17*
NPL / Tangible Equity & Reserves (%)	*21.43*	*20.54*	*12.62*	*13.12*	*8.93*
NPL / Risk-weighted Assets (%)	*3.73*	*3.66*	*2.99*	*3.63*	*2.18*
Loan Loss Reserves/ NPL (%)	*104.04*	*149.83*	*235.98*	*209.23*	*219.08*
Loan Provision/ Avg Loans at Amortized Cost (%)	*2.52*	*3.12*	*3.68*	*3.04*	*-0.16*
Credit Costs/ Pre-impairment Operating Profit (%)	*51.88*	*50.57*	*29.97*	*22.39*	*-1.65*
Regulatory Capital (Basel III)					
Core Tier 1 Ratio (%)	*13.37*	*12.74*	*16.52*	*19.43*	*19.08*
Tier 1 Ratio (%)	*13.37*	*12.74*	*21.28*	*24.83*	*25.32*
Total Capital Ratio (%)	*19.37*	*20.80*	*22.4*	*25.96*	*26.44*
Basel III Leverage Ratio (%)	*9.41*	*7.63*	*11.57*	*12.98*	*15.28*
Liquidity & Funding					
Liquid Assets ($M)	967	1,projec t189	973	679	927
Liquid Assets/ Assets (%)	*13.69*	*18.23*	*15.48*	*11.1*	*13.8*
Liquid Assets/ Total Deposits & Borrowings (%)	*16.09*	*20.59*	*18.31*	*13.19*	*16.79*
Wholesale Funding ($M)	6,007	5,773	5,313	5,150	5,518
Wholesale Funding Maturing < 1 Year ($M)	1,410	1,268	1,273	1,047	1,445
Total Debt/ Total Equity (x)	*7.28*	*10.85*	*7.65*	*6.98*	*5.89*
Liquidity Coverage Ratio (%)	*231*	*286*	*268*	*561*	*485*

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

TRY million	***2020 FY***	***2021 FY***	***2022 FY***	***2023 FY***	***2024 FY***
Balance Sheet					
Total Assets ($M)	52,431	86,093	117,620	180,914	237,529
Net Loans to Customers ($M)	37,886	61,611	75,803	123,413	161,220
Total Deposits from Customers ($M)	-	-	-	-	-
Total Equity ($M)	6,131	7,022	12,992	21,825	33,153
Equity Attributable to Parent Company ($M)	6,077	6,933	12,774	21,421	32,575
Total Equity/ Total Assets (%)	*11.69*	*8.16*	*11.05*	*12.06*	*13.96*
Profitability					
Net Profit ($M)	709	1,097	4,106	7,150	10,357
ROAE (%)	*12.87*	*16.96*	*46.15*	*42.29*	*38.35*
ROAA (%)	*1.44*	*1.74*	*4.05*	*4.93*	*4.88*
Return on Avg Risk-weighted Assets (%)	*1.68*	*2.12*	*6.04*	*6.93*	*6.72*
Net Interest Margin (%)	*4.31*	*4.83*	*7.03*	*7.75*	*7.94*
Net Interest Income/ Avg Assets (%)	*4.12*	*4.60*	*6.78*	*7.39*	*7.47*
Cost-to-Income (%)	*17.28*	*14.00*	*10.58*	*10.58*	*13.80*
Asset Quality (%. unless otherwise stated)					
Non-performing loans ($M)	1,690	2,082	2,334	3,946	3,680
NPL / Gross Customer Loans	*4.26*	*3.22*	*2.87*	*3*	*2.17*
NPL / Tangible Equity & Reserves	*21.43*	*20.54*	*12.62*	*13.12*	*8.93*
NPL / Risk-weighted Assets	*3.73*	*3.66*	*2.99*	*3.63*	*2.18*
Loan Loss Reserves/ NPL	*104.04*	*149.83*	*235.98*	*209.23*	*219.08*
Loan Provision/ Avg Loans at Amortized Cost	*2.52*	*3.12*	*3.68*	*3.04*	*-0.16*
Credit Costs/ Pre-impairment Operating Profit	*51.88*	*50.57*	*29.97*	*22.39*	*-1.65*
Regulatory Capital (Basel III)					
Core Tier 1 Ratio (%)	*13.37*	*12.74*	*16.52*	*19.43*	*19.08*
Tier 1 Ratio (%)	*13.37*	*12.74*	*21.28*	*24.83*	*25.32*
Total Capital Ratio (%)	*19.37*	*20.80*	*22.4*	*25.96*	*26.44*
Basel III Leverage Ratio (%)	*9.41*	*7.63*	*11.57*	*12.98*	*15.28*
Liquidity & Funding					
Liquid Assets ($M)	7,180	15,695	18,206	20,080	32,773
Liquid Assets/ Assets (%)	*13.69*	*18.23*	*15.48*	*11.1*	*13.8*
Liquid Assets/ Total Deposits & Borrowings (%)	*16.09*	*20.59*	*18.31*	*13.19*	*16.79*
Wholesale Funding ($M)	44,611	76,218	99,412	152,292	195,170
Wholesale Funding Maturing < 1 Year ($M)	*10.474*	*16.741*	*23.826*	*30.959*	*51.100*
Total Debt / Total Equity (x)	*7.28*	*10.85*	*7.65*	*6.98*	*5.89*
Liquidity Coverage Ratio (%)	231	286	*268*	*561*	*485*

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

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 Sınai Kalkınma Bankası A.Ş.	26.9	26.2	14	12.1	

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**	**9.7**	**9.1**
Deposit Banks	65.5	63.2	62.9	57.9	6.9	6.2
Development and Investment Banks	47.7	46.3	46.9	43.8	47.3	51
Türkiye Sınai Kalkınma Bankası A.Ş.	21.9	21.5	16.4	14.3	53.6	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	**32.2**	**31.5**	**50.1**	**50.4**	**3.5**	**3.3**
Deposit Banks	32.2	31.7	49.7	50.2	3.7	3.6
Development and Investment Banks	31.5	27.9	61	60.7	1.2	1.2
Türkiye Sınai Kalkınma Bankası A.Ş.	15.3	15.4	72	73.6	4.2	3.9

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 Sınai Kalkınma Bankası A.Ş.	23.3	3	4.2	383.4	

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	**2.4**	**3.3**	**26.7**	**36**		**3**
Deposit Banks	2.1	3.3	24.4	35.3	1.1	2
Development and Investment Banks	5.5	3.9	41.5	34	3	1.6
Türkiye Sınai Kalkınma Bankası A.Ş.	4.9	4.9	38.5	42.1	6.4	5.1

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 2022, the industrial sector accounted for approximately 32 percent, the transport sector 26 percent, the residential sector 20.6 percent, and the services/other sectors 22 percent. 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.[20] In 2023, coal-fired power plants contributed 36.1 percent of this electricity, while natural gas accounted for 21.2 percent. Hydropower represented 20.6 percent of the total electricity generation. The share of wind energy increased to 10.8 percent, and solar energy contributed 4.7 percent. The installed electricity capacity rose from 49.5 GW) in 2010 to approximately 99.8 GW in 2021. Over the past decade, Türkiye has significantly increased its renewable energy capacity, particularly in hydro, wind, solar, and geothermal power. As of May 4th, 2025, total installed electricity generation capacity reached 118 GW, with renewable sources accounting for more than 60 percent. Hydropower constitutes 27 percent and wind power 11 percent. Solar installed capacity has reached 21.9 GW.[21].

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 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

[20] Source: https://www.teias.gov.tr/Türkiye-elektrik-uretim-iletim-istatistikleri;https://www.teias.gov.tr/aylik-elektrik-uretim-tuketim-raporlari
[21] Source: TEİAŞ.

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 May 4, 2025, the current capacity stands at 13.2 GW.[22] Energy efficiency, particularly for the industrial and building sectors, is also highlighted as an important means to achieve its climate objectives.[23] 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) 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;[24] (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.

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.

[22] Source: TEİAŞ.
[23] Türkiye's first NDC: https://unfccc.int/sites/default/files/NDC/2023-04/T%C3%9CRK%C4%B0YE_UPDATED%201st%20NDC_EN.pdf.
[24] Source: https://www.sbb.gov.tr/wp-content/uploads/2025/03/Twelfth-Development-Plan_2024-2028.pdf; Page, 112

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 GW achieved), 5 GW for solar (11.3 GW achieved), 1 GW for geothermal (over 1 GW achieved), and 1 GW for biomass (2 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 Electricity 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 capacity 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%, 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 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.[25] 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 additional 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.

[25] Source: TEİAŞ.

Figure A. TPES (Terajoules or TJ), 1990-2023 (source: IEA)

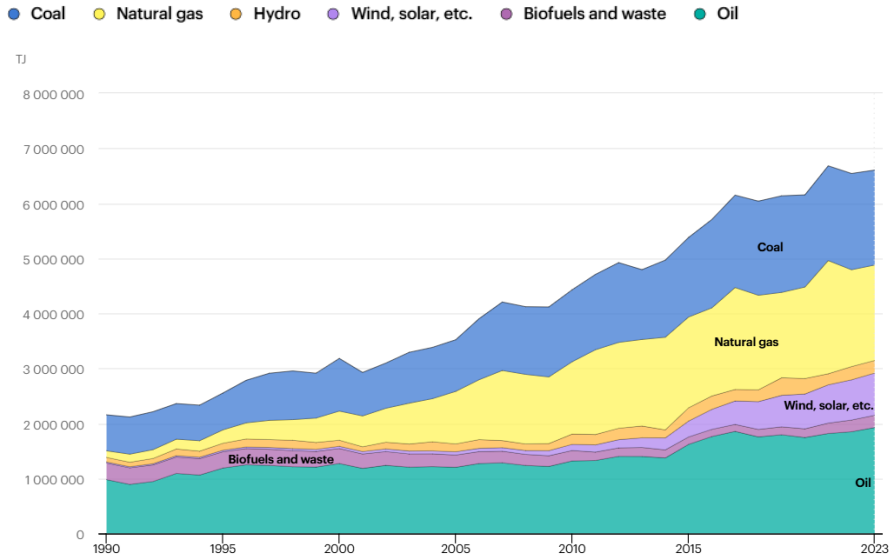


Figure B. Total final consumption by source (Terajoules or TJ), 1990-2022 (source: IEA)

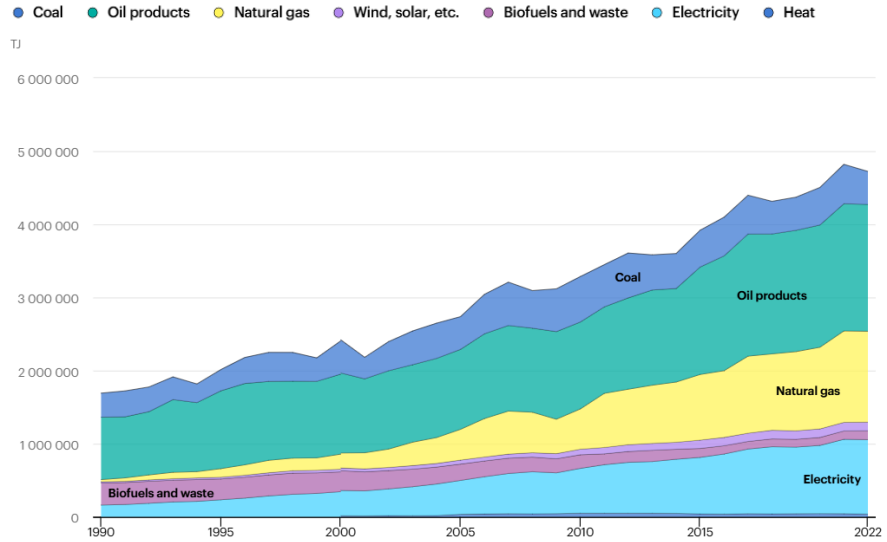
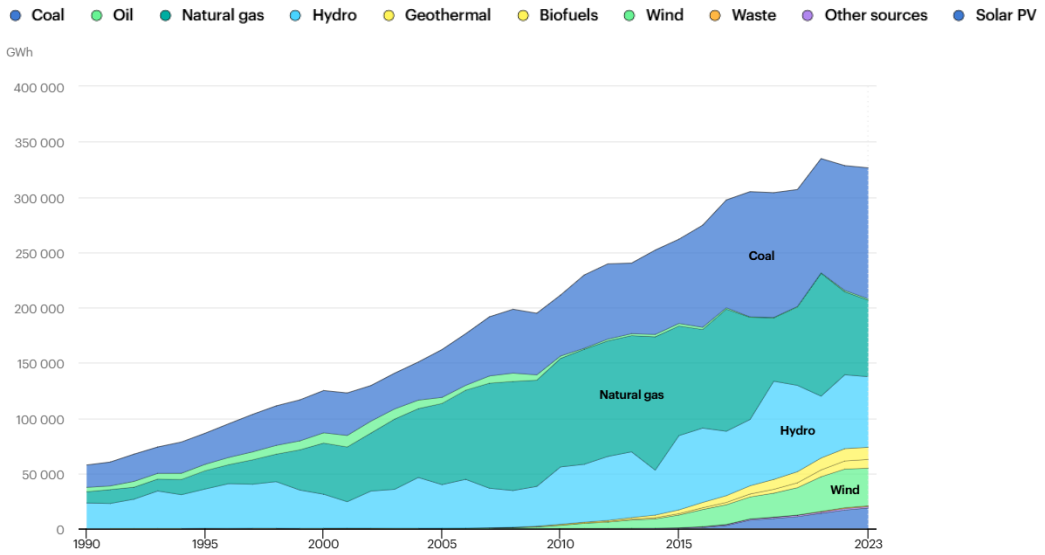


Figure C. Türkiye, Electricity generation by source, 1990-2020 (IEA)



Annex 5: Country Credit Fact Sheet

Background. Türkiye is an upper-middle-income country with an income per capita of around USD 15,500 (or around USD 40,500 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 5.6 percent per year, driven initially 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. 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, unorthodox and unpredictable 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 and macroeconomic instability.

Recent Developments. During 2021-23, the monetary policy was accommodative despite high and accelerating inflation, which led to capital outflows and sharp currency depreciation. The Turkish lira lost approximately two-thirds of its value in nominal terms, while inflation peaked at 85.5 percent in October 2022. In response, complex macro-prudential measures were introduced to counter depreciation pressures, guide credit allocation, and sustain high growth. Meanwhile, Türkiye faced several adverse shocks, including a surge in global energy prices and a devastating earthquake. Growth remained robust at 5.1 percent in 2023, but these developments resulted in large economic imbalances. Following the 2023 elections, policies have been normalized under a new economic team. The central bank has raised interest rates to a high of 50 percent and has been gradually unwinding numerous distortive macroprudential regulations. 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.

Selected economic indicators 1/	2022	2023	2024	2025*	2026*	2027*	2028*
GDP growth 2/	5.5	5.1	3.2	2.7	3.2	3.4	3.7
Inflation (end-of-period) 2/	64.3	64.8	44.4	31.0	19.0	15.3	15.0
Fiscal balance 3/	-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) 4/	128.7	140.9	155.2	141.1	..	..	..
Exchange rate (TRY/USD) 4/	18.7	29.4	35.3	38.6	..	..	..

Sources: IMF WEO Apr 2025, IMF Country Report No. 24/312, CBRT

Notes: 1/ In percent of GDP, except where noted; 2025-28 are projections; 2/ Percent change, year-on-year; 3/ Nonfinancial public sector, IMF definition; 4/ data from central bank, end-of-period, most recent as of May 8, 2025

One major driver of the upgrade is the return to orthodox monetary policy and a continued tight monetary policy stance that has started showing results. By December 2024, the annual rate of inflation has decreased to 44.4 percent, domestic credit growth has steadily softened to 37.5 percent as of October 2024, and market participants' 12-months-forward inflation expectations have declined to 25.6 percent as of April 2025.

Tighter fiscal policy is expected to contribute to these efforts. The deficit has widened in recent years, primarily reflecting earthquake reconstruction spending. However, in mid-2024, the government announced a fiscal tightening program, including a freeze on some non-essential construction projects, cuts in current spending, and a phased reduction of energy subsidies. Fiscal reforms are planned to broaden the tax base and reduce budget deficits. These measures will arrest fiscal deterioration, improve debt sustainability, and help disinflation.

Another factor behind the rating upgrades is Türkiye's resilience and reduced external vulnerability. The current account deficit has narrowed significantly to 0.8 percent of the GDP in 2024. This improvement reflects a combination of falling global energy prices, lower domestic demand for gold, and strong export and tourism performance. FX reserves have increased and stabilized at above USD150 billion, spreads have declined, and capital inflows have accelerated.

Outlook and Risks. With the economy gradually rebalancing, growth slowed in 2024, as anticipated, to 3.2 percent. In 2025, the economy is projected to grow at a similar rate, driven by continued tight policies, and converge to the medium-term potential of around 3.5–4.0 percent, as per the IMF's assessment. The shift toward orthodox policies has improved resilience and creditworthiness. Still, the policy tightening will likely need to be sustained for another year or more to accomplish full disinflation and restore external balances. With no national elections scheduled until 2028, the political environment provides space for reforms. Risks to this outlook include constrained external liquidity, volatile market sentiment, and geopolitical uncertainties.

Türkiye's private sector has shown resilience in navigating a 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 roll over their funding, even amid high market uncertainty. Financial stability is supported by sustained residents' confidence and a willingness to maintain significant dollar deposits in domestic banks.

According to the IMF, Türkiye's public debt is sustainable and is projected to stabilize at around 25 percent of the 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. Similarly, Türkiye's external debt is expected to remain sustainable over the medium term.