Executive Summary

A USD300 million sovereign-backed financing to VakifBank, a state-owned financial institution and Türkiye's second-largest bank by assets, totaling approximately TRY 5 trillion (USD 120 billion-equivalent).

The objective of the Project is to support the Republic of Türkiye's resilient recovery from the 2023 earthquakes and to accelerate its climate transition. The facility will consist of two tranches, each aligned with the Member's key priorities: (i) Tranche 1 (USD 200 million, seven-year tenor) will fund the reconstruction of affordable housing and social infrastructure in regions affected by the earthquakes; and (ii) Tranche 2 (USD 100 million, ten-year tenor) will finance climate-aligned investments by private small and medium enterprises (SMEs), particularly those focused on climate mitigation in support of the country's net-zero emissions target for 2053. All sub-loans will be in accordance with the Paris Climate Agreement and AIIB's Environmental and Social Policy.

As a universal bank, it offers a comprehensive suite of banking services and operates both domestically and internationally. VakifBank's strong risk management practices, high asset quality, extensive branch network, and advanced Environmental and Social Management System underscore the Project's readiness. The facility will provide substantial liquidity, support vulnerable populations, and enable SMEs to invest in and adopt green technologies. This initiative is fully aligned with AIIB's climate and sustainable infrastructure strategies and draws on lessons learned from previous post-disaster recovery and climate finance operations through financial intermediaries in Türkiye.

Project No. and Name	P000962 Vakifbank Climate Transition and Reconstruction Facility		
AIIB Member	Türkiye		
Borrower	Türkiye Vakıflar Bankası T.A.O. (VakifBank)		
Guarantor	Ministry of Treasury and Finance, Türkiye		
Project Implementation Entity	Türkiye Vakıflar Bankası T.A.O. (VakifBank)		
Proposed AIIB financing (USDm)	USD300.00	**Instrument type/subtype**	Loan/Sovereign Guarantee
		Currency of financing requested	US Dollar
Sector (Subsector)	Multi-sector (Multi-subsector)	**E&S Category and Comments (if any)**	FI
Project Objective	To support Türkiye's resilient recovery and climate transition through financing for green and inclusive post-earthquake housing, educational and healthcare facilities, as well as climate-aligned small and medium enterprise investments, delivered via a sovereign-backed facility implemented by VakifBank.		
Project Description	A sovereign-backed, multi-sector on-lending facility of up to USD300 million to VakifBank, structured in two components: (i) Component A: Post-Earthquake Reconstruction (USD200 million). An up to seven-year loan (including an up to 2.5-year grace period) to support post-earthquake reconstruction in 11 affected regions through financing of affordable housing and social infrastructure (schools, healthcare). Housing will target the affordable housing segment, including low-income families, and comply with Toplu Konut İdaresi Başkanlığı (TOKI)'s earthquake resilience standards and national energy efficiency certifications. (ii) Component B: SME Climate Finance (USD100 million): an up to 10-year loan (including an up to 2.5-year grace period) to finance climate mitigation investments by SMEs, including renewable energy, battery storage, energy efficiency upgrades, and circular economy solutions. A minority portion may support climate-adaptive investments and water efficiency. Established in 1954, VakifBank is Türkiye's second-largest bank by assets (TRY5 trillion or USD120 billion). It offers a full suite of banking services and operates internationally. VakifBank is majority-owned by the state.		
Implementation Period	Start Date: January 01, 2026 End Date:	**Expected Loan Closing Date**	September 01, 2028

	December 31, 2028		
Co-financing type	Standalone	**Following other Financier's E&S Policy?**	No
Lead financier		**Following other Financier's Procurement Policy?**	No
Financing Plan	Sources: USD 300 million Uses: USD 300 million - Component A: USD 200 million, Post-earthquake reconstruction, Affordable Housing and Social Infrastructure - Component B: USD 100 million, SME Climate Finance		
Policy Assurance	The Project has passed a policy compliance review. No derogation or exception to the Bank's operational policies is required.		

Risk	
Key Risks	**Mitigation Measures**
Asset Quality and Credit Risk	VakifBank faces medium-level risks from foreign exchange (FX) volatility, credit losses, inflation, and potential deterioration in asset quality and capitalization. Additional risks include rising NPLs, sector concentration (notably energy), and long-term project finance exposures. To mitigate these, VakifBank employs FX hedging and maintains capital adequacy above regulatory thresholds. It applies rigorous credit assessments, monitors loan performance, and provisions for expected credit losses. The bank uses stress testing and scenario analysis, manages concentration risks through portfolio diversification, and regularly reviews large exposures. VakifBank's strong underwriting and alignment of funding with asset profiles support resilience in a challenging operating environment.
Environmental and Social (E&S) Risk	VakifBank is expected to carry out a rigorous E&S assessment of the sub-projects under AIIB's E&S Framework requirements. No Category A or high-risk sub-projects, nor any involving involuntary resettlement or land acquisition, are expected under the Facility. Precedent transactions with other development finance institutions provide comfort that VakifBank has the required competence to implement its E&S Management System (ESMS) and the Project Operations Manual (POM).

Foreign Exchange (FX) and Interest Rate (IR) Risk	VakifBank faces medium-level risks from FX-denominated loans, funding mismatches, and exposure to TRY depreciation, inflation, and tightening global credit conditions. These factors heighten refinancing risks, VakifBank faces medium-level risks from FX-denominated loans, funding mismatches, and exposure to TRY depreciation, inflation, and tightening global credit conditions. These factors heighten refinancing risks, asset quality concerns, and economic vulnerabilities. To mitigate these, VakifBank employs a comprehensive risk management framework, including FX hedging via derivatives and hedge accounting. It actively monitors liquidity using ratios (liquidity-coverage ratio), stress testing, and scenario analysis, and maintains a liquidity action plan. IFI finance supports funding diversification and continuity. Asset-liability management helps offset monetary policy impacts, while pricing adjustments and credit assessments ensure resilience against FX and inflation shocks. Close coordination with the Central Bank of the Republic of Türkiye (CBRT) supports inflation monitoring.
ECap	23.98USDm 7.99%

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; Water Strategy; Digital Infrastructure Sector Strategy; Sustainable Energy for Tomorrow Strategy

Key Outcomes			
Indicator	**Unit of measure**	**Baseline (Year)**	**Target (Year)**
Greenhouse Gas emission reduction (tCO2eq/year)	tCO_2e/year	(2025)	32,500 (2028)
Number of affordable housing units built	Number	(2025)	3,225 (2028)
Renewable energy generation capacity installed	MW	(2025)	35 (2028)

Climate Action		
Climate Finance	Adaptation Finance	USD0.00
	Mitigation Finance	USD100.00
	Dual Benefit	USD0.00
	Total	USD100.00

Other Key Financing Requirements	
Conditions of Effectiveness	Agreement on the general sub-loan terms and adoption of the project operations manual (POM).
Key Conditions for 1st Disbursement	As per the general conditions.
Key Covenants	As per the general conditions.

President	Liqun Jin
Chief Investment Officer	Kim-See Lim
Director General	Gregory Liu
Manager	Asim Rana
Project Team Leader	Francisco-José Fortuny Carod
Co-PTL	Elif Sel-Freischlager
Project Team Members	Alberto Alcubilla Arribas, Climate Specialist Ebrima Ceesay, Project Lawyer Elif Sel-Freischlager, Investment Associate Ji Huang, Procurement Specialist Rafael Noronha, Social Development Specialist Rui Xiang, Financial Management Specialist Vladimir Hecl, Environment Specialist

ASIAN INFRASTRUCTURE INVESTMENT BANK

Sovereign-backed Financings

Approval Project Document
P000962 Republic of Türkiye:
VakifBank Climate Transition and Reconstruction Facility

Currency Equivalents

(As of November 25, 2025)

Currency Unit – Turkish Lira (TRY)
USD 1.00 = TRY 42.5
TRY 1.00 = USD 0.0235

Fiscal Year

January 1 – December 31

Abbreviations

AFD	Agence Française de Développement
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
CAR	Capital Adequacy Ratio
CBAM	Carbon Border Adjustment Mechanism
CBRT	Central Bank of the Republic of Türkiye
CM	Climate Mitigation
CO2	Carbon Dioxide
CRET	Climate Risk Evaluation Tool
DA	Designated Account
DL	Disbursement Letter
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECM	External Communications Mechanism
EE	Energy Efficiency
ELTI	European Association of Long-term Investors
EMRA	Energy Market Regulatory Authority
EPC	Energy Performance Certificate
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 Institutions
FX	Foreign Exchange
GDP	Gross domestic product
GFI	Financial Intermediaries
GHG	Greenhouse gas
GRI	Global Reporting Initiative
GRM	Grievances Redress Mechanism
GW / GWh	Gigawatt or Gigawatt-hour
IBRD	International Bank for Reconstruction and Development

IDFC	International Development Finance Club
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IRI	Intermediate Result Indicator
kWh	Kilowatt-hour
LARP	Land Acquisition and Resettlement Action Plan
LTIC	Long-Term Investors Club
MDB	Multilateral Development Bank
MENR	Ministry of Energy and Natural Resources
MOTF	Ministry of Treasury and Finance
MW / MWh	Megawatt or Megawatt-hour
NACE	Nomenclature of Economic Activities
NDC	National Defined Contribution
NEEAP	National Energy Efficiency Action Plan
NPL	Non-performing Loans
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
POI	Project Objective Indicator
POM	Project Operations Manual
PP	Procurement Policy
PPP	Policy on Prohibited Practice
PRB	Principles of Responsible Banking
RWA	Risk-weighted Assets
SA	Sub-loan Account
SBF	Sovereign-backed financing
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SMS	Sustainability Management System
SOE	Statement of Expenditures
TCFD	Task Force on Climate-related Financial Disclosures
tCO2eq	Tonnes of Carbon Dioxide Equivalent
TKYB	Türkiye Kalkınma ve Yatırım Bankası
TOKI	Housing Development Administration of Türkiye
TPES	Total Primary Energy Supply
TRY	Turkish Lira
TSKB	Türkiye Sınai Kalkınma Bankası A.Ş.
TW / TWh	Terawatt or Terawatt-hour
UNEP-FI	United Nations Environment Program Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar
YEKDEM	Renewable Energy Support Mechanism
ZDHC	Zero Discharge of Hazardous Chemicals

Table of Contents

2. Context

2.1 **Country and Macroeconomic Overview.** Türkiye is a diversified and dynamic upper-middle-income economy. Its Gross Domestic Product (GDP) is nearly USD1.6 trillion, equating to a per capita GDP of around USD18,000, or around 44,000 when adjusted for purchasing power parity (PPP), according to the International Monetary Fund (IMF) World Economic Outlook (WEO) 2025 projections. Türkiye's population is about 86 million, according to the Turkish Statistical Institute (Turkstat). Between 2021 and 2023, Türkiye's economy had been subject to macroeconomic volatility, including high inflation, capital outflows, and sharp currency depreciation. Additionally, the economy has suffered from several exogenous shocks, such as a surge in global energy prices and two large earthquakes. However, despite these challenges, growth remained robust at 5.0% in 2023 (IMF). Since mid-2023, policy normalization and tightening have been taking place to address macroeconomic imbalances. Measures include tighter and steadier monetary policy (with the Central Bank of the Republic of Türkiye or CBRT's policy rate peaking at 50%), to help control inflation, and a fiscal tightening program (with expenditure restraint, and plans for broadening the tax base), to reduce budget deficits, prevent fiscal deterioration, and improve debt sustainability. As a result, the economic environment has improved considerably. Türkiye's economy grew by 3.3% in 2024 (IMF). Inflation has declined significantly, the current account deficit has narrowed, the currency has stabilized, bond spreads and credit default spreads have declined significantly, external financing has increased, and foreign exchange (FX) reserves at the Central Bank increased to above USD180 billion. The policy shift has also restored investor confidence. All three major credit rating agencies upgraded Türkiye for the first time in a decade, reflecting confidence in the ongoing policy normalization. As of November 2025, Türkiye's long-term sovereign credit rating is affirmed at BB- by Standard & Poor's (S&P) and Fitch (outlook: *stable*), and Ba3 by Moody's (outlook: *stable*). However, sustaining these gains requires a continued commitment to prudent fiscal and monetary policies, amid potential external and internal challenges.

2.2 **Sector Overview: Financial Institutions (FI).** Türkiye has a developed and competitive FI sector with 68 active banks, including 46 domestic and 22 foreign-controlled banks. 21 development and investment banks provide financing for private sector infrastructure and energy investment needs. Despite the large FI number, the sector remains relatively concentrated, with a few large institutions dominating the market—state-owned FIs hold 47.6% of the banking assets. As of September 2025, Türkiye's FI sector exhibited notable growth: the total banking assets reached approximately USD1.1 trillion. The loan portfolio expanded to about USD512.7 billion by September 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 57% of total liabilities. FX-denominated deposits continued to play a significant role, representing approximately 38.7% of total deposits, marking a decrease in dollarization from the peak level of 68.4%. In recent years, the FI sector's profitability, especially that of private banks, presented high, double-digit return on equity levels and was supported by CPI-linked securities, which account for a substantial portion of their topline revenue. As of year-end 2024, Turkish FIs have approximately USD88 billion exposure to project finance across infrastructure, energy, and real estate, with energy accounting for nearly half of the amount.

2.3 The banking sector has navigated through turbulence, with temporary forbearance measures sustaining capital adequacy and allowing financial institutions to recover. 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. Notwithstanding, FI liquidity and funding may be constrained by global macroeconomic conditions. The FI sector presents robust capital adequacy ratios (CAR) of 18.5% as of September 2025, reflecting strong capitalization levels. The Non-Performing Loan (NPL) ratio stood at a low 2.3%, 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 USD548 billion as of Q2 2025.

2.4 **Addressing Key Development Challenges; Project Contributions.**

2.4.1 Component A. Post-Earthquake Reconstruction. The 2023 earthquakes in Türkiye, particularly the 7.8 magnitude[1] quake on February 6, inflicted severe damage across 11 provinces, leading to profound developmental challenges in housing and social services. Approximately 680,000 homes were either destroyed or rendered uninhabitable, displacing millions and creating an acute housing crisis. An estimated 650,000 new homes need to be constructed in the region, according to the Disaster and Emergency Management Presidency, and only about 350.000 units were delivered two years after the disaster, leaving many in temporary shelters. A significant number of displaced individuals, including children, continued to live in temporary accommodations. Numerous hospitals and clinics were destroyed or severely damaged, disrupting healthcare delivery. Many educational institutions were damaged, leading to prolonged closures and disrupted learning for thousands of students. The destruction of schools forced students to relocate or attend classes in temporary facilities, affecting educational continuity. These challenges underscore the persistent need for comprehensive reconstruction efforts and support for affected communities to restore essential services and infrastructure. In addition to its devastating physical and social impacts, the earthquake placed significant strain on Türkiye's public and financial sector, particularly in the affected regions, by elevating credit risk, eroding investor confidence, constraining access to capital for vulnerable populations and critical sectors, and diverting public resources to emergency reconstruction activities. AIIB's on-lending through a state-owned financial institution, VakifBank, will help restore liquidity, support targeted lending —especially for housing, healthcare, education, and strengthen the financial sector's capacity to respond to future shocks.

2.4.2 Component B. SME Climate Finance. Türkiye emits approximately 400 million tonnes of carbon dioxide (CO_2)-equivalent per year (MtCO2e/year), representing 1% of the global CO_2 output.[2] On Oct. 21, 2021, Türkiye's General Assembly unanimously voted in favor of the ratification of the Paris Climate Agreement (PCA) of December 12, 2015, setting Türkiye 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

[1] Source: United States Geological Survey (UGS).
[2] Source: International Energy Agency (IEA).

reducing its greenhouse gas emissions (GHG) by 41% to 695 Mt CO_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. Small and medium-sized enterprises (SMEs) are pivotal to Türkiye's climate objectives. Given their importance in the economic context of Türkiye, SMEs' transition to sustainable practices is essential for national decarbonization efforts. Their widespread presence across sectors like manufacturing, agriculture, and services positions them to significantly influence emissions reductions and bolster climate resilience. The ability of SMEs to contribute to climate mitigation has diminished in the current macroeconomic environment, highlighting the need for government support. AIIB's on-lending through VakifBank is designed to help bridge this gap by providing access to finance for SMEs and enabling targeted investments in green technologies and climate-resilient practices. This support will help reintegrate SMEs into Türkiye's climate agenda. In line with precedent transactions, the official SME definition for Türkiye will be used (i.e. enterprises with 250 or fewer employees and assets or revenue below the stipulated regulatory thresholds, as adjusted from time to time for inflation).[3]

[3] According to the definitions used by the Turkish Ministry of Industry and Technology. The latest regulatory amendment was published in the Official Gazette on 7 August 2025.

3. Rationale

3.1 **Project Objective (PO).** To support Türkiye's resilient recovery and climate transition through financing for green and inclusive post-earthquake housing, educational and healthcare facilities, as well as climate-aligned small and medium enterprise investments, delivered via a sovereign-backed facility implemented by VakifBank.

3.2 **Expected Beneficiaries.** The Project will impact direct and indirect beneficiaries:

3.2.1 The direct beneficiaries of Component A will be financially viable and privately-owned construction developers executing residential and social infrastructure projects in the earthquake-affected region, who can access the necessary liquidity to bring the assets to completion and indirectly benefit: (i) people affected and displaced by the earthquake, who can access affordable long-term housing solutions through the government-sponsored programs, including female home owners; (ii) the general population in the earthquake affected region, who can access improved social infrastructure; and (iii) the public administration who can outsource the financing of the post-earthquake reconstruction and direct resources to other activities.

3.2.2 Direct beneficiaries of Component B include private SMEs reducing their carbon footprint and improving their energy efficiency and competitiveness, enhancing climate resilience, and reducing operational costs through mitigation and projects.

3.3 **Expected Results.** The Project's results will be tracked through measurable indicators. PO Indicators (POI) and Intermediate Results Indicators (IRI) related to Component A will include affordable homes, hospitals, and schools built, and amounts lent for affordable housing and social Infrastructure construction in the earthquake-affected region. POI and Intermediate Results Indicators related to Component B will consist of a measure of climate mitigation impact (e.g., estimated GHG avoidance), amounts lent to SMEs for energy efficiency and renewable energy. VakifBank will separately track gender- /inclusion-related indicators, such as loans to women-inclusive[4] SMEs and SMEs in the earthquake-affected region. The facility will include non-performing loans (NPL) as a measure of underwriting quality. See **Annex 1**.

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% 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 green certified buildings for housing and social infrastructure, and climate investments for eligible industries; (ii) *Technology-enabled Infrastructure*, by supporting the adoption of climate-related technologies such as battery energy storage systems (BESS), e-charging infrastructure, smart grids/meters, and other technological solutions, and promoting investments in the digital

[4] Women-inclusive enterprises are defined as: (i) owned by women (i.e., with at least one female shareholder with a properly documented representative and managing powers); or (ii) managed by women (i.e., with at least one female C-level manager or with at least 25% female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector; or (iv) has increased the share of women employment by at least 5% in the previous year. This definition aligns with precedent World Bank/IBRD financings received by VakifBank.

economy;[5] and (iii) *Private Capital Mobilization*. This new Facility delivers on the objectives of the Bank by providing a substantial volume of climate financing through FI on-lending, a product that has proven effective and competitive, as the implementation of precedent SBF facilities in Türkiye has demonstrated. The Project is broadly in line with the Bank's key strategies, notably: (i) the Energy Sector Strategy: Sustainable Energy for Tomorrow (November 2022), in particular, Principle 1 "promote energy access and security", Principle 2 "support transition to a clean energy system", and Principle 3 "realize energy efficiency potential";, (ii) the Sustainable Cities Strategy (December 2018), which contemplates financing affordable housing with substantial social value, and "building freestanding health and education facilities"; (iii) the Water Sector Strategy (September 2022), in respect of its guiding principles "promoting sustainable infrastructure", "mobilizing private capital and efficiencies" and "adopting innovative technology"; (iv) the Health Strategy (December 2024), in respect of its strategic priorities "enhancing infrastructure for the health services value chain", "green and climate-resilient health systems" and "improving health through technology based solutions"; (v) the Digital Infrastructure Sector Strategy (October 2022), and its investment principles (i.e., inclusiveness, competitiveness and efficiency); and (vi) the Strategy on Mobilizing Private Capital, due to the Project's potential indirect mobilization of sponsors' equity to SME climate investments. The Project also contributes to the Sustainable Development Goal (SDG) 3: *Good health and well-being*, SDG 4: *Quality Education*; SDG 6: *Clean Water*, SDG 7: *Affordable Clean Energy*, SDG 8: *Decent work and economic growth*, SDG 9: *Industry, Innovation and Infrastructure*, SDG 11: *Sustainable Cities and Communities*, SDG 12: *Responsible Consumption and Production*, SDG 13: *Take urgent action to combat climate change and its impacts*, SDG 17: *Partnerships for the Goals.*

3.5 **Paris Agreement Alignment and Climate Finance.** In line with the AIIB methodology for assessing the alignment with the mitigation and adaptation goals of the Paris Climate Agreement, the project is assessed as aligned. In line with the joint MDB methodology for tracking mitigation finance, it is estimated that USD100 million of the project cost contributes to support mitigation. Details on these estimates are provided in **Section 5.E**.

3.6 **Value Addition by AIIB.** The Bank has an established history and experience of working with the Turkish public and development banks. Beyond the provision of financing, AIIB's participation will contribute a substantial amount of long-term capital in support of the PO at a time when liquidity in the Turkish FI sector and international foreign investments are being constrained by global macroeconomic conditions. The financing is inherently counter-cyclical: financing Türkiye's post-earthquake reconstruction aligns with AIIB's mission to support members in building resilient infrastructure, promoting inclusive growth, and improving quality of life in affected regions. While AIIB has supported several post-earthquake reconstruction projects in Türkiye, such as P000834 Türkiye: Türk Eximbank Earthquake Response Project and the P000848 Türkiye: Emergency Road Rehabilitation and Reconstruction Project, this facility, channeled through one of its largest state-owned FIs, represents a complementary intervention. It expands the reach of AIIB's support by leveraging the FI's extensive network and implementation capacity, enabling broader access to finance for reconstruction and recovery. This approach not only avoids duplication with existing efforts but also enhances the overall impact of AIIB's engagement in Türkiye's long-term recovery and resilience-building

[5] While the exact amount of investment in technology-enabled capex is uncertain and will be determined during the Project implementation, it is estimated that approximately 10% of the Facility proceeds will support technology-enabled infrastructure according to the relevant AIIB methodology.

agenda. In addition, AIIB's support will help enhance the capacity of SMEs to engage in climate mitigation efforts, which so far have been significant. AIIB can apply its experience in financing similar emergencies in the past (see paragraph 3.8 below).

3.7 **Value Addition to AIIB.** By financing VakifBank's initiatives in both post-earthquake reconstruction and SME-driven climate mitigation, AIIB addresses two distinct priorities—disaster recovery and climate resilience—that are fully aligned with its strategic objectives. This collaboration with a new state-owned FI allows AIIB to deepen its engagement in Türkiye, a founding member, by supporting projects that address two distinct but interconnected challenges: enhancing climate resilience and mitigating the impacts of the recent disaster. AIIB will gain experience in financing the reconstruction of social infrastructure, such as schools and hospitals, providing a form of long-term support that is suitable for its mandate. This partnership also enhances AIIB's institutional knowledge in disaster risk mitigation and climate-resilient development, providing valuable insights for future projects. It also reinforces AIIB's reputation as a responsive and impactful multilateral development bank, capable of addressing urgent infrastructure needs in members. Simultaneously, by supporting SMEs in adopting climate mitigation measures, AIIB will expand its FI franchise and foster sustainable economic growth aligned with AIIB's climate goals.

3.8 **Lessons Learned.** The Facility is built on AIIB's experience of executing similar facilities in Türkiye, as well as on the lessons learned from peer institutions that have collaborated with VakifBank before, notably:

(i) AIIB Projects:

3.8.1 P000132 TSKB Sustainable Energy and Infrastructure On-lending and P000546 TSKB Sustainable Energy and Infrastructure On-lending, Phase 2. Approved in 2018, the first project was AIIB's inaugural FI transaction in Türkiye. AIIB extended a USD200 million loan to Türkiye Sınai Kalkınma Bankası A.Ş (TSKB) to support sustainable infrastructure development in Türkiye. The facility was designed to promote infrastructure development primarily in renewable energy and energy efficiency, as well asl investments in transport, power transmission, water management and treatment, and telecommunications. The facility was fully disbursed and closed in April 2022. A detailed Early Learning Assessment (ELA) was conducted in 2021, and a second comprehensive Project Learning Review (PLR) was completed in 2025. Overall, the project has been assessed as successful by the two reviews. In December 2022, the Bank approved a second USD200 million loan (P000132) to TSKB to support Türkiye's climate goals by financing private sector projects in renewable energy, energy efficiency, climate adaptation, and climate-related industries. The second project was executed during the ELA of the first facility and already incorporated several of the lessons learned. A third project (P000546) was approved and signed in May 2025 and declared effective in September 2025.

3.8.2 P000381 Türkiye: COVID-19 Credit Line Project. The Project provided sovereign-backed short-term credit lines to Türkiye's development banks, TSKB and Türkiye Kalkınma ve Yatırım Bankası (TKYB), to address liquidity challenges faced by infrastructure-related companies, mid-caps, and SMEs during the COVID-19 pandemic. This was the first project where the Bank supported SMEs in the context of

Türkiye and served as the basis for the development of practices and approaches now used in this loan (e.g., the eligible activities list). The project successfully met its goals, exceeding expectations in areas such as the number of qualified SME sub-borrowers and maintaining zero non-performing loans. Despite the difficult macroeconomic conditions, the project portfolio demonstrated strong financial resilience. The borrower adhered to environmental and social (cility) requirements, with no grievances reported. Key lessons learned include the importance of early-stage training and capacity building of the Borrower on E&S policies to ensure effective deployment of similar facilities in the future, and the need for synchronized reporting schedules to ensure smooth facility deployment. SBF FI loan reporting practices have evolved based on this and other precedents and will be used in this new transaction.

3.8.3 P000834 Türkiye: Turk Eximbank Earthquake Response Project. AIIB's collaboration with Türkiye İhracat Kredi Bankası A.Ş. (Türk Eximbank) on the USD100 million Earthquake Response Project offers valuable insights for future post-disaster reconstruction and SME climate resilience initiatives. The Loan was fully disbursed in January 2024. As of 1Q25, all proceeds have been utilized and allocated to 25 eligible sub-borrowers with 31 sub-loans (including eight sub-loans to SMEs and six sub-loans to women-inclusive enterprises), demonstrating the effectiveness of streamlined financial structures in emergency contexts. Like the case of VakifBank, Türk Eximbank's Environmental and Social Management System (ESMS), aligned with OECD approaches and IFC Performance Standards, contributed to the rapid approval and deployment of the facility. A portion of the funding was earmarked for women-inclusive enterprises, highlighting the importance of integrating gender considerations into infrastructure financing—a feature also followed by this Project. The project established clear indicators, such as the number of infrastructure facilities financed and the percentage of sub-loans provided to women-inclusive enterprises, facilitating effective monitoring and accountability, and setting an example for subsequent FI projects. The partnership with Türk Eximbank demonstrated the benefits of leveraging a state-owned FI's local knowledge and networks to efficiently channel funds to eligible sub-borrowers, enhancing the impact of international financing. The Bank is expecting a similar positive experience from working with VakifBank.

(ii) International Bank for Reconstruction and Development (IBRD) Projects:

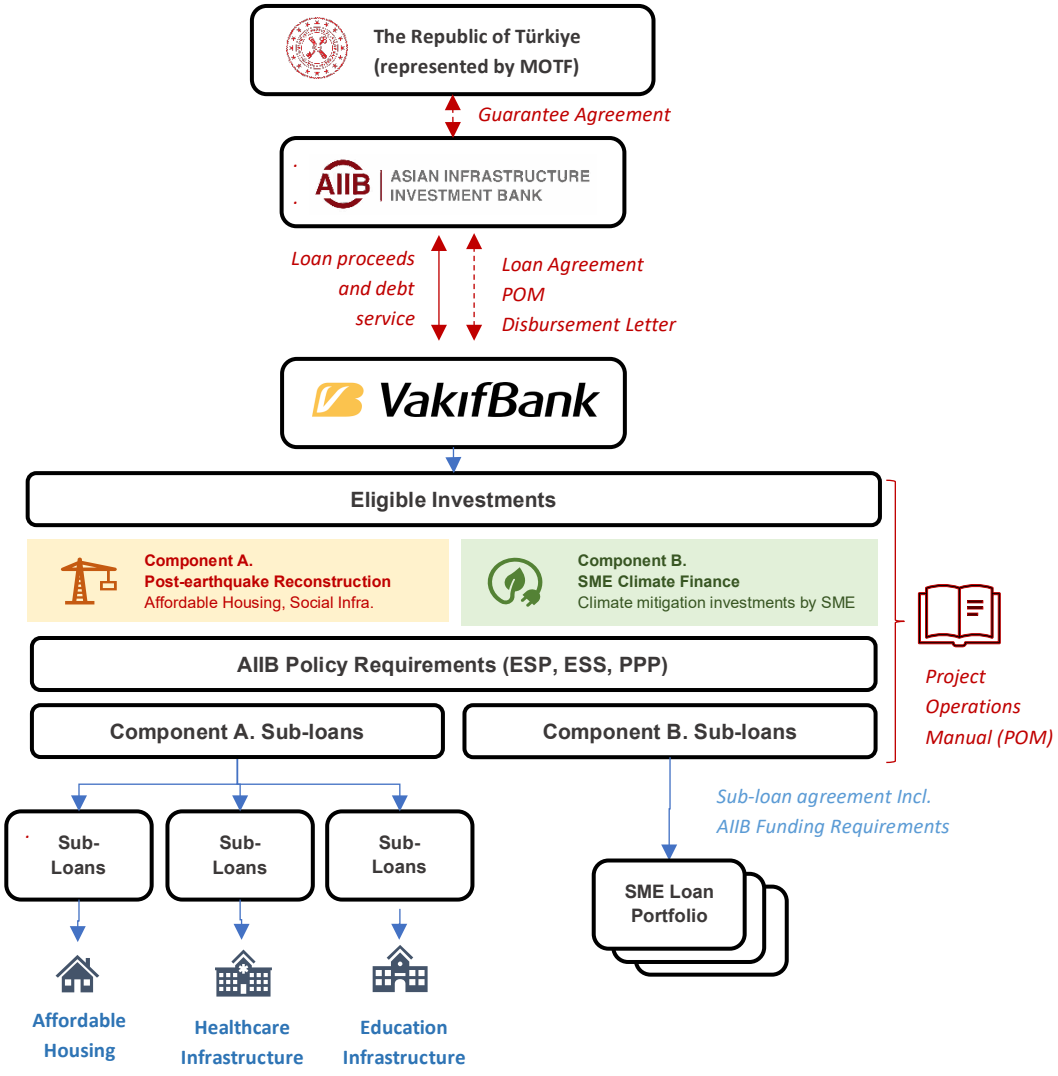
3.8.4 P174112 Türkiye: Emergency Firm Support Project. IBRD provided a USD500 million IBRD loan to support SMEs affected by COVID-19, through on-lending by VakifBank and TKYB. The project demonstrates VakifBank's readiness to work with MDBs like IBRD or AIIB. Despite the difficult macroeconomic conditions, the project portfolio demonstrated strong financial resilience. The borrower adhered to E&S requirements, with no grievances reported, according to the information available. Key lessons learned include the importance of early-stage training on E&S policies and the need for capacity building for both the borrower and sub-borrowers to ensure effective deployment of similar facilities in the future.[6]

[6] IBRD. Türkiye - Emergency Firm Support Project (English). http://documents.worldbank.org/curated/en/123821598925756490.

4. Project Description

4.1 **Project Description.** The proposed facility considers Türkiye's current context and challenges related to post-earthquake reconstruction and SME climate finance, as described in **Section 2**. The facility builds on the experience, procedures, and systems already used in similar SBF FI facilities. By providing long-term financing (sub-loans), the facility will focus on supporting private sector borrowers (sub-borrowers) with Eligible Loans that are aligned with the PO. All sub-loans will be aligned with the principles of the PCA, the Multilateral Development Banks (MDB) methodology[7] and the Bank's guidelines.[8]

Figure 1. Overview of Project Structure



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

4.2.1 Component A. Post Earthquake Reconstruction, Component A consists of a seven-year loan of up to USD200 million to finance the construction of affordable

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

residential housing and social infrastructure facilities by private developers in the 11 regions affected by the 2023 earthquake. Affordable housing will follow a definition in the POM (e.g., benefit low-income families, including households below the poverty line under the Confederation of Turkish Trade Unions' or Türk-İş definition or similar criteria) and in compliance with standards for earthquake resilience and structural integrity set by the Housing Development Administration of Türkiye (Toplu Konut İdaresi Başkanlığı, or TOKI). Residential buildings financed by the proceeds of the facility will conform to the standards of affordable housing under the relevant energy performance certifications (e.g., BEP-TR with energy performance certificates showing energy use and GHG emissions of at least C-level or above). Proceeds from the loan will also support the construction of educational facilities (schools and associated facilities) and healthcare facilities (hospitals, clinics, and daycare centers), with emphasis on low-income areas and underserved groups. The buildings will conform to TOKI standards of earthquake resilience, as well as a minimum energy performance rating of "C" under the Building Energy Performance Türkiye Regulation label requirements.[9]

4.2.2 Component B. SME Climate Finance. Component B consists of a loan of up to 10 years and up to USD100 million to support climate mitigation investments by private sector SME, according to national parameters (see 2.4.2 above). Climate mitigation investments include renewable energy generation, adoption of climate-related technologies such as BESS, as well as demand-side solutions that reduce energy consumption or waste in buildings, equipment, systems, and industrial processes, with emphasis on decarbonizing energy-intensive industries potentially affected by the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM). The Bank may consider supporting climate adaptation investment will enhance the resilience and resource efficiency of production processes, equipment, buildings, and infrastructure to climate impacts, including investments that promote environmental sustainability and mitigate water pollution.[10] The facility may also support circular economy and nature-based solutions (NBS) if determined feasible during the implementation phase.

4.3 To facilitate the selection of sub-projects or sub-loans under Component B, 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 of eligible activities based on a well-known classification of industries and economic activities (e.g., NACE Rev. 2 or similar),

[9] The Energy Performance Certificate (EPC) rates a building's energy efficiency and environmental impact and is required under the Turkish Energy Performance regulation (updated 2022). These standards promote climate-aligned housing by improving thermal performance and reducing operational energy costs. The energy classes of buildings are shown as A, B, C, D, E, F, and G. The classification is made by taking into consideration the minimum conditions defined by the legislation of the year in which the building was built. The energy class of a building is determined by proportioning the consumption values calculated for the existing building and the consumption values obtained for the same place, with the assumption that if it will be manufactured within the framework of the law. Class A is the most efficient, while Class G refers to the least efficient level. In Türkiye, homes must achieve a minimum "C" rating under the BEPTR system, ensuring reduced energy consumption, lower emissions, and better insulation. C-class EPC buildings are ~20% more energy-efficient than reference buildings, equipped with better building envelope insulation, improved heating/cooling systems, and energy-saving lighting. These buildings contribute to lower energy consumption and reduced carbon emissions. EPCs are issued through the BEP-TR2 system and authorized by the Ministry of Environment, Urbanization, and Climate Change. EPC certificates are valid for 10 years.

[10] An example of such interventions includes projects falling under the scope of the Zero Discharge of Hazardous Chemicals (ZDHC) Foundation, a global non-profit initiative that promotes sustainable chemical management in the textile, apparel, leather, and footwear industries. It sets guidelines—like the Manufacturing Restricted Substances List (MRSL)—to eliminate toxic chemicals from production, aiming for safer processes, cleaner outputs, and environmental protection.

including CBAM-affected and hard-to-abate activities to be detailed in the POM, and (iii) the Bank's Environmental and Social Exclusion List (ESEL). In the POM, SME activities will be divided into groups in terms of priority to account for the alignment of the underlying portfolio to variables such as alignment with the Bank's green infrastructure mandate and potential for climate benefits. 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, including but not limited to the Bank's Environmental and Social Framework (ESF), the Environmental and Social Exclusion List (ESEL), the Policy on Prohibited Practices (PPP), the Procurement Policy (PP), and the Procurement Instructions for Recipients (PIR). See **Section 5** for further details on the safeguards and fiduciary aspects of the transaction.

4.5 **Sub-borrowers**. Eligible sub-borrowers under the facility are private entities (not directly or indirectly controlled by the state),[11] operating autonomously on a commercial basis and registered in the Republic of Türkiye, as per the requirements to be 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. Eligible sub-borrowers must undertake activities that are eligible in accordance with the NACE list or similar criteria, and the priorities set by the Bank (e.g., sub-borrowers vulnerable to Carbon Border Adjustment Mechanism or CBAM). Eligible sub-borrowers under Component B should be SMEs in accordance with the agreed definition at the POM, which will exclude micro-enterprises.

4.6 **Sub-loans.** sub-loans will 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. To avoid market distortion, the sub-loan pricing and maturity will (i) be consistent with the market conditions and (ii) provide adequate returns to cover the Borrower's risk and operating costs while ensuring an adequate profit margin for the Borrower. The key market advantage of the sub-loans will be the availability of medium-term affordable funding to the beneficiary client segments (i.e., developers and SMEs).

4.7 Sub-loans will have a minimum tenor of 12 months and a loan maturity date no longer than the final maturity of the relevant tranche. The maximum allocation per sub-loan is USD5 million-equivalent under Component A, and USD3 million-equivalent under Component B, unless specifically authorized by the Bank on a case-by-case basis. A maximum allocation of USD10 million per economic group under Component A; and USD6 million per economic group under Component B will apply unless authorized by the Bank (i.e., economic group is understood as entities controlled by the same holding and representing a consolidated group exposure under the Borrower's credit procedures). Sub-loan reflows may be lent again to eligible sub-borrowers and sub-projects to maximize the impact of the facility.

[11] Entities where more than 50% of their shares are private and operating on a commercial, for-profit basis.

4.8 Proceeds of the sub-loans to support solely eligible investments as regulated by the POM and the Loan Agreement. Legal terms and documentation must protect the interests of the Borrower, the Guarantor, and the Bank, including terms and conditions aligned with the PPP, and include requirements under the AIIB loan agreement, as set out in the POM.

4.9 **Prior review.** The Bank reserves the right to conduct prior review of projects under the facility, as regulated in the POM—see **Section 5.A**. All sub-loans may be subject to ex-post review and supervision through spot-checks. The reporting obligations will cover all sub-loans.

4.10 **Retroactive Finance.** The Project will include retroactive financing for eligible sub-projects already financed by the Borrower, subject to the Bank's relevant policies. The loan agreement will provide for the conditions and requirements for financing a retroactive amount of incurred expenditures, a retroactive financing date, and a retroactive financing limit. In the context of this transaction, eligible sub-projects may involve either the commitments or the disbursements made by the Borrower to sub-borrowers for the eligible sub-projects. In line with the AIIB's policies, the retroactive financing portion is limited to 20% of the loan proceeds (across all components) and to eligible sub-loan disbursements made no earlier than 12 months before the signing of the Loan Agreement.

4.11 **Cost and Financing Plan.** The financing plan is presented in **Table 1** below. During the implementation, the Bank will maintain the flexibility to adjust the allocation between categories to ensure full allocation of the facility.

Table 1. Facility Allocation

Item	**Project Cost (USD m)**	**AIIB Financing**	
		USD million	***%***
A. Post-earthquake Reconstruction	200.0	200.0	*66.7%*
B. SME Climate Finance	100.0	100.0	*33.3%*
Grand Total	**300.0**	**300.0**	***100.0%***

4.12 **Implementation Arrangements.** The Borrower will be responsible for implementing the Facility through the selection, analysis, and monitoring of all sub-projects, as outlined in the POM. The Borrower has established a fully funded and staffed Project Implementation Unit (PIU) with representatives from various departments (i.e., Investor 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 compliance with Turkish legislation and standards by the Borrower and sub-borrower, including relevant FX lending provisions, as well as AIIB's fiduciary and safeguard requirements, such as the ESF, the PPP, the PP, and the PIR. The PIU will coordinate with the Borrower's lending department for the execution and disbursement of the sub-loans, and with the loan allocation and loan monitoring departments, their implementation, and reporting.

4.13 **Implementation period.** Based on the experience of rapid allocation and absorption of the Bank's commitment to other similar facilities, this facility will have an implementation period of three years, from January 2026 until December 2028, as a single phase.

4.14 **Implementation readiness.** All necessary approvals required for the Sovereign Guarantee will be obtained within the proposed time for signing and effectiveness. The Project supports an ongoing operation across its two components, which facilitates execution.

4.15 **Financial Management and Disbursements**. The disbursement arrangements from the Bank to the Borrower will be communicated in a letter of disbursement. Both the advance and reimbursement methods will be contemplated in the disbursement letter. 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. Disbursements will be for a minimum of USD2 million and a maximum of USD50 million. sub-loan disbursements will be made by the Borrower to the sub-borrower upon confirmation that the sub-loan meets the requirements under the AIIB loan agreement. Interim Unaudited Financial Reports (IUFRs) for the Project will be prepared and submitted semi-annually within 45 days of the end of each semester. IUFR formats have been agreed with AIIB and are included in the POM. Both entity-level and project annual financial statements will be submitted to AIIB within six months after the fiscal year-end.

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 monitoring missions (physical or virtual) are expected to take place annually.

5. Project Assessment

A. Technical

5.1 **Project Design and Implementation Track Record.** VakifBank has a long track record of managing FI facilities funded by various supranational IFIs and foreign banks. The Borrower's FI investments focus particularly on the areas of infrastructure and energy, where it has developed strong in-house expertise. VakıfBank has a proven track record in its niche market and has established long-lasting relationships with Türkiye's largest industrial groups. Based on precedents, the Borrower has hitherto demonstrated a strong capacity to implement FI loans and act as a strategic partner in the pursuit of common climate goals.

5.2 **Implementation Track Record**. VakıfBank has demonstrated it has both the institutional capacity and historical experience required to finance infrastructure projects in health, education, and housing, as well as to support SMEs in climate finance:

5.2.1 Component A. Post-Earthquake Reconstruction. VakifBank's current outstanding loan exposure related to these types of projects in the earthquake-affected region is approximately USD500 million. VakifBank has a documented history of financing affordable housing and social infrastructure projects, including schools and hospitals. These include Agence Française de Développement (AFD) Green Project (2020) an EUR200 million loan from AFD to increase residential energy efficiency by supporting the acquisition of energy-efficient homes (rated Energy Performance Certificate (EPC) A or B); and World Bank Seismic Resilience and Energy Efficiency in Public Buildings Project: a USD265 million loan to Türkiye to support the strengthening and reconstruction of over 140 public buildings, benefiting more than six million citizens. VakifBank is also an important mortgage retailer: it offers Yeni Evim (My New Home) loans, targeting first-time home buyers. This program provides favorable terms, including lower interest rates and flexible repayment options, to facilitate homeownership for low- and middle-income families.

5.2.2 Component B: SME climate finance. VakifBank's SME loan portfolio is approximately USD5 billion, equivalent to Q1 2025. The Borrower's capacity to on-lend under this Facility significantly exceeds the size of the proposed funding envelope. With approximately 940 domestic bank branches, VakifBank has an extensive office network and can serve SME clients across Türkiye. VakifBank has implemented several IFI-supported credit lines focused on renewable energy, energy efficiency, and sustainable practices targeting SMEs. It has worked extensively with the World Bank, AFD, European Investment Bank (EIB), and others on green and inclusive finance initiatives for SMEs. Examples include the European Bank for Reconstruction and Development's (EBRD) SME Energy Efficiency Project (USD67 million, 2013), and the Turkish Sustainable Energy Financing Facility (USD60 million, 2020) for SME investments in renewables and energy efficiency. VakifBank collaborates to promote the adoption of sustainable chemical management and water pollution reduction with the ZDHC Foundation. VakifBank has a dedicated internal Environmental and Social Due Diligence unit that performs risk assessments for SMEs financed through international credit lines to ensure E&S compliance.

5.3 **Operational Sustainability.** The facility's design is considered strong compared to alternative structures. VakifBank has a local presence and extensive corporate relations and can undertake due diligence, credit analysis, and monitoring of sub-loans efficiently and cost-effectively. VakıfBank can cater to the needs of fragmented sub-projects like CA and EE, and lend in TRY if needed, but also participate in large project finance transactions. As confirmed through the monitoring of the two previous facilities (P000132 and P000381), the Borrower has adequate staff, resources, management systems, and organization to undertake the Project and monitor the sub-projects. VakifBank has experienced loan officers, environmental specialists, engineers, and legal teams that ensure adequate execution of the financings. After disbursement, the loan monitoring team takes over the management of the sub-loan and oversees the credit ratings, ownership, collateral, and performance of the sub-projects. VakıfBank presents a conservative financial profile, as presented in **Section 5.B** below.

B. Economic and Financial Analysis

5.4 **Economic Analysis.** The Project is expected to generate economic benefits by promoting Türkiye's post-earthquake reconstruction efforts and climate change mitigation investments for SMEs. Sub-projects will be aligned with PCA and are expected to entail positive economic impacts, chiefly in terms of access to affordable housing and social infrastructure, and climate mitigation or adaptation benefits. The facility excludes high-risk investments that entail complex cost-benefit assessments and hybrid solutions involving fossil fuels. The current pipeline is still under development and is expected to be very fragmented due to the nature of the loans. A high-level analysis has been carried out based on input from the Borrower, and conservative imputed rental value assumptions indicate economic justification. Component A (post-earthquake housing reconstruction) yields an Economic Internal Rate of Return (EIRR) of ~9% under conservative assumptions and significantly higher when accounting for the substantial social, resilience, and welfare benefits of safe post-earthquake housing. Component B (SME climate mitigation finance) delivers annual energy savings and GHG reductions, resulting in an EIRR of ~10% under conservative assumptions (see **Annex 2**). Overall, the Project is economically justified, potentially providing social and climate mitigation benefits that contribute to Türkiye's decarbonization and energy-efficiency objectives, and aligned with AIIB's infrastructure and climate priorities. VakıfBank and AIIB will undertake a more detailed economic assessment of the Project during its implementation and develop more precise methodologies for each component. The assessment at closing will confirm the economic rate of return above the estimated baseline. The approach will be developed in the POM. See **Table 2** below for an indicative scope of analysis.

Table 2. Economic Analysis Scope, Implementation Phase

Component A. Post-earthquake Housing Reconstruction	
Amount	USD200 million
Beneficiaries	Eligible private-sector developers
Sub-loan	Working capital facilities to housing and infrastructure developers
Method	Aggregate cost-benefit analysis
Assumptions	• Appraisal horizon: 7 years (loan life) or 25 years (useful life of housing units) • Types of construction: residential, health, and education. • Timing of allocation during implementation period (1st, 2nd or 3rd year). • Discount or hurdle rate (e.g., 9%), or social discount rate.
Benefits	• Net annual housing service value (% of economic cost per unit). • Employment creation (wages, jobs) and associated multiplier.

	• Construction value added multiplier. • Economic return from housing, health, and education (as per the literature). • Disaster risk avoidance and resilience.
Costs	• Costs can be modeled as the outlay of the loan. • Default and credit loss.
Sensitivities	• Increases/decreases to the discount rate (e.g., 5%) • Distribution of loans by type of construction (residential, health, education).
Component B. SME Climate Mitigation	
Amount	USD100 million
Beneficiaries	Eligible private-sector SMEs
Method	Aggregate cost-benefit analysis or representative sub-loan analysis
Assumptions	• Appraisal horizon: 10 years. • SME size (small or medium) in activity groups (1, 2, or 3). • Type of investment (energy efficiency, renewable energy) • Climate Mitigation: CO2 emissions saved, harmonized IFI grid emission factor • Timing of allocation during implementation period (1st, 2nd or 3rd year). • Other value added of adaptive investments. • Discount or hurdle rate (e.g., 9%).
Benefits	• Increased profitability, monetary savings from reduced water and energy use. • Reduced climate impact risks.
Costs	• Costs can be modeled as the outlay of the loan. • Default and credit loss.
Sensitivities	• Increases/decreases to the discount rate (e.g., 5%) • Distribution of loans by type of SME (type, size, activity, region).

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

5.5.1 Profile. VakifBank is Türkiye's second-largest bank in terms of total assets. Established on January 11, 1954, VakıfBank offers a wide range of financial services, including consumer banking, corporate banking, investment banking, mortgage loans, and private banking. Headquartered in Istanbul, VakifBank operates 974 branches across Türkiye and has international branches in New York, London, Dubai, Bahrain, Erbil, and Qatar. VakifBank is known for its robust distribution network, featuring 4,149 ATMs and 3,705,993 Point of Sales (POS) units. VakifBank also operates a subsidiary in Austria, VakifBank International AG, with branches in Vienna and Cologne. The Turkish Ministry of Treasury and Finance (MOTF) controls VakifBank, holding most of its shares directly and through the Türkiye Wealth Fund. The Türkiye Wealth Fund owns 73,26% of VakifBank's shares, while the MOTF directly holds 14,75%. Vakıfbank Pension Fund holds 4%, and the remaining shares are floating on the Istanbul Stock Exchange. As of June 30, 2025, VakifBank reported total assets of USD 117.1 billion and a net income of USD 365 million on a consolidated basis. VakifBank employs approximately 18,653 staff globally.

5.5.2 Loan portfolio**.** VakifBank's consolidated total assets have surged from TRY1.03 trillion (USD77.9 billion) in 2021 to TRY4.09 trillion (USD 115.7 billion) by the end of 2024, achieving a compound annual growth rate (CAGR) of 58% (see Figure 2). This remarkable growth is largely driven by a robust increase in loans, which have a CAGR of 52%. Over the past four years, net loans have expanded from TRY582.2 billion (USD44.1 billion) to TRY2.05 trillion (USD57.3 billion), accounting for 50% of the total assets. As of December 2024, 80% of VakifBank's loans were corporate, with the largest

sectoral distributions being 27% in manufacturing, 13% in wholesale trade, 9% in logistics and transportation, and 6% in construction, among others. As of June 30, 2025, VakifBank's consolidated total assets reached TRY4.66 trillion (approx. USD117.1 billion), while net loans rose to TRY2.49 trillion (approx. USD62.5 billion), maintaining their share at 53% of total assets. The loan portfolio remained predominantly corporate, representing 80% of total loans, with the largest sectoral allocations being 26% in manufacturing, 12% in wholesale and retail trade, 7% in construction, 10% in transportation and telecommunication, 7% in financial institutions, and 6% in real estate and renting services, with the remainder distributed across other sectors including agriculture, education, and health (see **Figure 6** for loan breakdown by maturity).

5.5.3 Asset Quality**.** In 2024, VakifBank showcased strong asset quality, maintaining a low Non-Performing Loan (NPL) ratio of 1.83%. This low NPL ratio is a testament to VakifBank's effective underwriting policies, cautious lending practices, and efficient collection practices. Despite a general decline in the NPL ratio over the past four years, there was a slight increase from 1.33% in 2023 to 1.83% in 2024. This uptick was likely influenced by the deteriorating macro-economic conditions, especially in the southern region of Türkiye, which experienced a high-magnitude earthquake in 2023. Alongside low NPL ratios, VakifBank also has a high loan loss coverage ratio. These elements have collectively contributed to VakifBank's robust and stable asset quality. By the end of 2024, VakifBank reported a Stage-2 loan ratio of 9%, with loss allowances covering 1.83 times its NPLs, highlighting VakifBank's conservative provisioning strategy.

5.5.4 As of June 30, 2025, VakifBank's NPL ratio stood at 2.53%, reflecting a moderate increase compared to year-end 2024, in line with sector trends and ongoing macroeconomic pressures (see Figure 4). The Stage-2 loan ratio remained at 9%, while VakifBank's loan loss coverage ratio was 1.56 times, indicating that total loss allowances continue to provide a substantial buffer against potential credit losses. VakıfBank's free provision stock is TRY4 billion (approximately USD113 million) as of mid-2025, following the reversal of TRY11 billion in free provisions during the first half of the year, down from TRY15 billion at year-end 2024. These figures underscore VakifBank's continued prudent risk management and conservative provisioning approach, supporting its resilient asset quality despite a challenging operating environment.

5.5.5 Profitability**.** During the review period of 2021 to 2024, VakifBank's net interest income increased from TRY20.3 billion (USD2.4 billion) to TRY107.4 billion (USD3.3 billion), reflecting its ongoing profitability. In 2024, VakifBank's return on average equity (ROAE) was 25.7%, while its return on average assets (ROAA) was 1.6%, indicating adequate financial health. VakifBank's cost-to-income ratio reached 51.1%, reflecting an upward trend since 2022, which can be attributed to the high inflation environment in Türkiye. In 2024, VakifBank's net interest margin was 3.3%, while net interest income constituted 65% of its operating income. As of June 30, 2025, VakıfBank continued to demonstrate solid profitability, with a return on average equity of 21.75% and a return on average assets of 1.27% (see Figure 5). VakifBank's cost-to-income ratio stood at 53.6% (including trading income), reflecting persistent cost pressures in a high-inflation environment. The net interest margin was 2.82% as of mid-2025. These figures indicate that, despite a challenging macroeconomic backdrop and rising costs, VakıfBank maintained resilient core profitability and operational efficiency through H1 2025.

5.5.6 Capitalization. In 2024, VakifBank demonstrated a strong capital position, with a Common Equity Tier 1 (CET1) ratio of 11.4% and a Capital Adequacy Ratio (CAR) of 16.3%. As of June 30, 2025, VakifBank's CET1 ratio was 10.5%, the Tier 1 ratio was 12.8%, and CAR stood at 15.1% (see **Figure 7**). While these ratios reflect a moderate decline compared to year-end 2024, mainly due to ongoing loan growth and the impact of inflation, they still significantly exceed the regulatory requirements set by the Banking Regulation and Supervision Agency (BRSA) in Türkiye, which stipulate a minimum CET1 ratio of 6% and a CAR of 12% for banks to engage in certain activities. The slight decrease in capital ratios during the first half of 2025 is consistent with sector trends and reflects VakifBank's commitment to supporting credit expansion while maintaining prudent capital buffers. VakifBank's solid capitalization is reinforced by regular Additional Tier 1 (AT1) and subordinated debt issuances. VakifBank's proactive capital management, including regular AT1 and subordinated debt issuances, continues to underpin its resilience and capacity to support sustainable growth in a dynamic environment.

5.5.7 Funding. VakifBank is a deposit-taking financial institution with a stable and diversified funding base, supported by an extensive network for external wholesale funding. VakıfBank's funding mainly relies on customer deposits, which accounted for 64% of total funding at the end of 2024. Over the review period, long-term borrowing steadily increased from TRY339.6 billion (USD25.7 billion) in 2021 to TRY1.1 trillion (USD31.4 billion) in 2024. As of June 30, 2025, customer deposits further increased to TRY2.95 trillion (USD 70.6 billion), representing 63% of total financial liabilities (TRY4.18 trillion, USD105.0 billion) (see Figure 3). Long-term borrowings, including senior debt, reached TRY1.12 trillion (USD 28.0 billion), reflecting continued access to international markets and a prudent funding strategy. VakifBank maintains a proven track record of working with development finance institutions (DFIs) such as the World Bank Group, EBRD, EIB, KfW Development Bank, and AFD, securing over USD1.5 billion in FX funding from DFIs since 2010. In the first half of 2025, VakıfBank continued to diversify its funding sources, securing a sustainability-themed syndicated loan totaling USD1 billion (USD472 million and EUR 487.2 million) with the participation of 50 banks from 21 countries, and rolling over its syndicated loan at a 110% rate year-on-year. The total amount of non-deposit funding obtained from international markets exceeded USD5.6 billion in the first half of 2025. VakifBank also maintains a robust presence in the international capital markets, with a total outstanding securitization balance of USD3.57 billion and EUR487 million as of June 30, 2025. VakıfBank's proactive approach to funding, including regular issuances of Additional Tier 1 (AT1) and subordinated debt.

5.5.8 Liquidity. As of June 30, 2025, VakıfBank reported total consolidated assets of TRY4.66 trillion. Liquid assets, primarily consisting of cash, balances with the CBRT, and Turkish government securities, accounted for approximately 23% of total assets. In H1 2025, VakıfBank's Loans to Deposits ratio was 83.44%, compared to 79.18% at the end of 2024. This increase reflects a period of strong loan growth relative to deposit inflows, consistent with sector and macroeconomic trends. By mid-2025, VakifBank maintained a liquidity coverage ratio of 164% for total liquidity and 238% for foreign currency liquidity, both above regulatory requirements. The Net Stable Funding Ratio (NSFR) was 130.3% at mid-year, compared to 140.2% at the end of 2024. The changes in these ratios reflect VakifBank's active balance sheet management and funding

strategy during a period of dynamic market conditions. VakifBank continues to manage its liquidity position in line with regulatory standards and sector practices, maintaining access to a diversified funding base and a substantial liquidity buffer.

5.5.9 Currency. As of June 30, 2025, VakıfBank's balance sheet remained predominantly in local currency, with 62% of total loans and 72% of total deposits denominated in Turkish lira (TRY) 1. This currency composition is consistent with VakifBank's strategy of borrowing and lending primarily in local currency. The foreign currency loan portfolio, which represents 38% of total loans, is mainly composed of loans for corporate and commercial clients. Within the foreign currency loan book, project finance loans account for 37%, export loans for 27%, and other corporate and commercial loans (including working capital and other types) for 36%. On the deposit side, 28% of total deposits are denominated in foreign currency, with most of these deposits sourced from residents in Türkiye (85% of FX deposits), and the remainder from non-residents (15%). VakıfBank continues to utilize hedging strategies to manage currency risk and prioritizes clients' ability to generate foreign exchange revenue when providing foreign currency funding. VakifBank conducts regular analyses to evaluate the currency risks associated with its clients and maintains a prudent approach to risk management in line with sector practices.

5.5.10 Credit Rating. Moody's Investors Service upgraded VakifBank's Long Term Foreign Currency deposit rating from "B1" to "Ba3", also with a stable outlook. These upgrades were in response to the enhancement of Türkiye's long-term foreign and domestic currency ratings and resulting from the agency's assumption of a very high probability of support from the Turkish government. In 2025, Fitch Ratings also upgraded VakifBank's Long-Term Foreign-Currency Issuer Default Rating (IDR) to BB- and the Long-Term Local-Currency IDR to BB-.

Figure 2. Assets (TRY million, 2021-H1 2025)

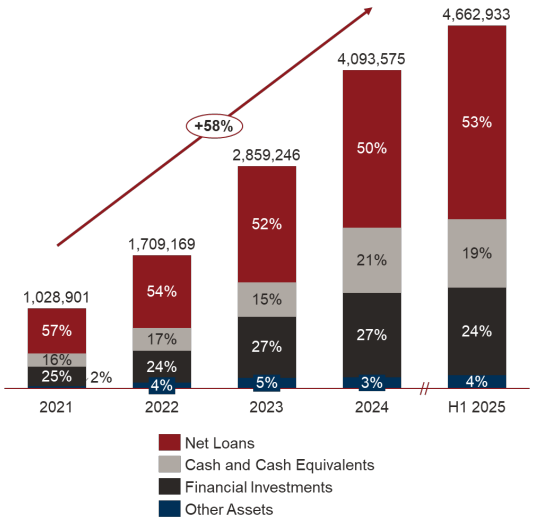


Figure 3. Liabilities (TRY millions, 2021-H1 2025)

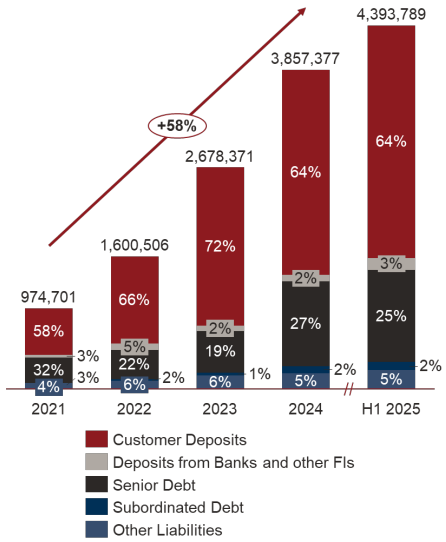


Figure 4. NPL and LCR (%, x, 2021-H1 2025)

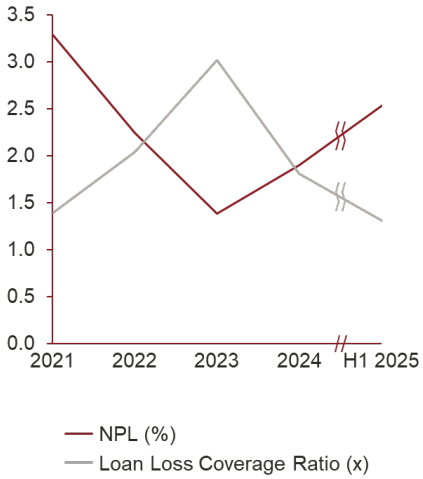


Figure 5. Profitability Ratios (%, 2021-H1 2025)

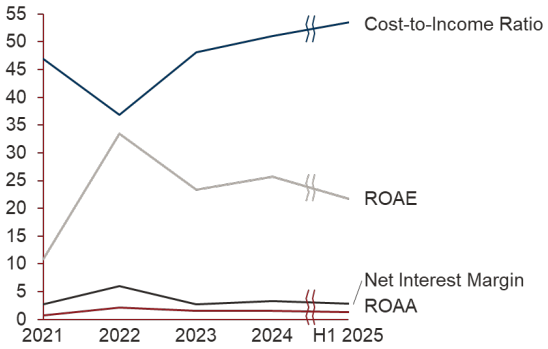


Figure 6. Loan Breakdown by Maturity (%, H1 2025)

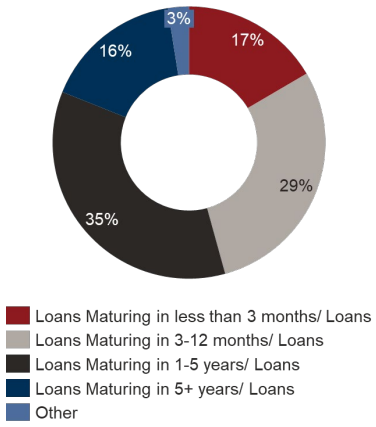
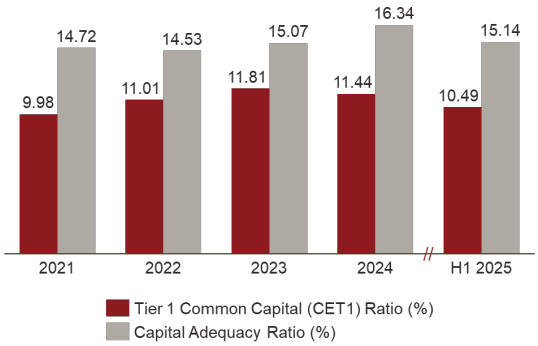


Figure 7. Capital Adequacy (%, 2021-H1 2025)



C. Fiduciary and Governance

5.6 **Procurement**. The procurement of goods, works, and services to be financed by the sub-loans will follow the PP and PIR as applicable to private sector beneficiaries through FI.[12] 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. Based on the monitoring and reporting of prior facilities, the Borrower has adequate capacity to ensure the PP and PIR are followed.

5.7 **Financial Management.** The Borrower has experience in implementing IFI-financed projects. The Project's financial management will be integrated into VakifBank's own system, which is expected to monitor sub-loans throughout the process from initial application to approval and disbursement. VakifBank's accounting and reporting system can accurately

[12] 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.

record and document sub-loan transactions at all levels, in line with domestic prudential regulations. The annual audit reports are prepared under International or Turkish Financial Reporting Standards (IFRS/TFRS) and subjected to an independent audit. sub-borrowers are required to submit supporting documentation demonstrating the use of funds, with invoices certified by independent certified public accountants or financial advisors. This provides an additional layer of verification in line with Turkish accounting standards and ensures proper monitoring of sub-loan utilization. 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 designated account (DA) and the sub-loan accounts (SA). Project-related transactions will also be subject to internal audit as part of VakıfBank's audit program, while entity-level financial statements are prepared in accordance with IFRS/TFRS and audited under ISA. The annual end-of-year audited financial statements would be made publicly available within six months following the end of the financial year.

5.8 **Disbursements.** Disbursement terms will be detailed in a Disbursement Letter, covering both advances and reimbursements. 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. Disbursements will be for a minimum of USD2 million and a maximum of USD50 million. Sub-loan disbursements will be made by the Borrower to the sub-borrower upon AIIB funding eligibility being confirmed.

5.9 **Fund flow**. The Borrower will open and maintain a USD-denominated DA to receive funds, which will thereafter be transferred for on-lending and deposited into the accounts of eligible sub-borrowers. Each SA will also be used for the purpose of receiving payment of interest, charges, and principal repayments from the sub-borrower. Exchange gains or losses arising from the transfer of loan proceeds between the DA and SA cannot be absorbed by the Facility. The Borrower shall separately report 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 in accordance with the POM. All funds of the DA and SA will be recorded in a Statement of Expenditure (SOE) with supporting documents available upon request.

5.10 **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.

5.11 **Governance.** The Borrower adheres to best market practices in corporate governance, as evidenced by its inclusion in Borsa Istanbul's Corporate Governance Index. As of February 2024, JCR Eurasia Rating assigned VakifBank an overall corporate governance compliance score of 9.38 out of 10, with a convergence level of AAA (Trk) and a notch degree of (aa), indicating "Distinctive Compliance" and a "Superior" level of adherence to corporate governance principles. In December 2020, VakıfBank became the first deposit bank in Türkiye to issue a sustainable Eurobond, amounting to USD750 million with a five-year maturity. This issuance attracted significant international investor interest, underscoring VakifBank's pioneering role in sustainable finance. VakifBank has established a comprehensive ESMS, as described in **Section 5.D** below. Additionally, VakifBank has implemented a Climate Change Mitigation and Adaptation Policy, integrating climate risk screening tools into its Sustainability Management System. VakifBank is also a signatory to several international sustainability

initiatives, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Banking. These affiliations reflect VakifBank's commitment to aligning its operations with global best practices in sustainability and responsible banking.

5.12 **Anti-corruption**. The Borrower is committed to preventing fraud and corruption across its operations. It shall therefore be required that its sub-loans remain 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.

5.13 **Cybersecurity.** The infrastructure financed is not considered Critical Infrastructure. VakifBank is subject to cybersecurity risks, as are all FIs. VakifBank has established a comprehensive Information Security Management System (ISMS) aligned with the ISO/IEC 27001 standard. This system ensures adherence to legal and sectoral regulations, contractual obligations, and business requirements. VakifBank is dedicated to maintaining and continuously improving its ISMS to effectively manage information security risks and safeguard sensitive data.

D. Environmental and Social

5.14 **Environmental and Social Policy and Categorization.** The ESP, including its ESEL and ESS1, applies to this Project. The Project is placed in Category FI, as the financing structure involves the provision of funds to VakifBank 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 ESP requirements. Category A and Higher Risk activities,[13] as well as sub-projects that will cause involuntary land acquisition or resettlement, are excluded. sub-project eligibility criteria will require sub-projects to comply with VakifBank's ESMS procedures and will be defined in the POM. sub-projects with legacy issues or high-risk locations will be excluded

5.15 **Environmental and Social Instruments.** VakıfBank's ESMS is materially aligned with AIIB's ESP and will be used as the project's E&S instrument together with the POM. The Bank is satisfied that VakıfBank's ESMS is robust enough in design and implementation. sub-projects may still be subject to the Bank's prior review and approval as contemplated in the POM. To this end, AIIB may review the initial appraisal form of the selected sample sub-project to confirm the appropriateness of the ES categorization by VakifBank. Specifications for implementing AIIB E&S requirements will be defined in the POM, including the ESEL adoption.

5.16 VakifBank has enhanced its E&S safeguards by launching a dedicated ESMS in December 2022. This system aligns with global standards and AIIB's Environmental and

[13] 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% of direct employees and recurrent contractors; and/or (iv) significant occupational health and safety risks.

Social Framework (ESF), focusing on project finance loans of USD10 million or more. All sub-projects are initially screened against the Unfinanced Activities List to prevent funding of prohibited activities. If a sub-project passes this check, a detailed E&S risk assessment follows, leading to risk categorization and the development of an action plan to address identified issues, with continuous monitoring throughout the loan period. For the current Project, every sub-project financed by AIIB loan proceeds must undergo ESMS screening, irrespective of the loan size. VakifBank's ESMS requires that sub-projects are (i) checked against an E&S exclusion list, (ii) assigned a risk category, (iii) subject to E&S risk assessments, (iv) continuously monitored, (v) reported to management, (vi) have E&S information disclosed, and (vii) undergo meaningful stakeholder consultation. The specific application of these rules to the proposed sub-loans (construction working capital or SME climate-related capex finance) will be detailed in the POM.

5.17 These functions are carried out by VakifBank's dedicated E&S team, which is responsible for the categorization and review of E&S instruments for all sub-projects. VakifBank also engages external consultants to provide additional technical expertise and ensure compliance with its ESMS requirements when necessary. VakifBank recognized the urgency of addressing environmental challenges and, in response, established the Environmental Management Service in 2015 under the Support Services Department. This unit of 10 full-time staff monitors resource consumption, implements savings measures, calculates carbon emissions and reduction plans, prepares Carbon Disclosure Project (CDP) Climate and Water Footprint reports, and ensures proper hazardous and non-hazardous waste management in line with regulations, contributing to VakifBank's broader environmental sustainability goals.

5.18 Aside from its financing activities, VakifBank has taken concrete steps toward environmental standardization and resource efficiency by adopting integrated ISO management systems and earning LEED Gold certification for its headquarters, emphasizing energy, water, and waste efficiency. VakifBank continues to innovate sustainable finance through Environmental, Social and Governance (ESG)-linked international transactions and unique practices like applying sustainability criteria to credit loss provisions under TFRS 9. These strategic actions reflect VakifBank's commitment to institutionalizing sustainability, minimizing environmental impact, and enhancing access to green finance.

5.19 VakifBank considers sustainability a fundamental part of its banking operations and risk management strategy. Oversight of sustainability is provided by a Sustainability Committee, chaired by the CEO and including senior executives, which meets quarterly. VakifBank aligns its practices with leading global sustainability initiatives, such as the UN Global Compact, the Women's Empowerment Principles, and the Science Based Targets Initiative (SBTI). Notably, VakifBank was the first Turkish public institution to commit to reducing carbon emissions.

5.20 **Environment and Social Aspects.** The Project is expected to yield meaningful E&S benefits by supporting climate-aligned investments in Türkiye's private sector, with a focus on post-earthquake reconstruction and SME climate finance. Socially, the Project will promote inclusive economic development through job creation, particularly in SMEs, and enhance community resilience in post-disaster areas. By fostering long-term investments in climate mitigation and sustainable reconstruction, the Project will strengthen Türkiye's climate and development goals while promoting private sector growth and innovation

5.21 E&S risks and impacts anticipated by the Project in component A are related to construction waste management, land use planning, air and noise pollution control, water resources protection, energy efficiency and green building standards, occupational health and safety, labor working conditions, and community health and safety. The Project is not expected to involve involuntary resettlement, as reconstruction activities will be limited to vacant government-owned land. E&S risks and impacts anticipated by the Project in component B are related to energy use, water management, solid and hazardous waste, air emissions, occupational health and safety, labor, and community health and safety.

5.22 **Land acquisition.** The Project is expected to generate significant social benefits for the local population, including the creation of employment opportunities, stimulation of local economic activities, and improvement in housing conditions. These positive outcomes are particularly relevant in risk areas, where the Project has the potential to contribute meaningfully to local development and social safety and well-being. Component A of the Project is not expected to cause any involuntary resettlement or land acquisition, as all activities will be implemented exclusively on government-owned vacant land. VakıfBank will verify the land acquisition process to ensure compliance with applicable requirements and confirm that no displacement of people, livelihoods, or income-generating activities occurs.

5.23 **Labor and Work Conditions.** The Project Team has examined VakifBank's ESMS concerning labor and working conditions (LWC) and has not identified red flags. Based on the review, the POM will require all suppliers of the sub-projects to 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 OHS matters. Component B may finance small-scale renewable energy projects, including rooftop solar. VakıfBank will ensure that solar panels are responsibly sourced, with this requirement formally incorporated into the POM. Compliance with VakıfBank's ESMS is an essential part of the contract documents used in the procurement. The sub-projects will also apply VakifBank'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.

5.24 **Gender.** VakıfBank promotes gender equality by enabling sub-borrowers to conduct self-assessments and develop action plans, supporting initiatives such as fair recruitment, policy reviews, breastfeeding rooms, addressing pay gaps, and training. At the corporate level, VakıfBank has a comprehensive Gender Equality Policy, ensuring equal opportunities across operations and subsidiaries, and raising stakeholder awareness. Currently, women make up around 50.6% of VakıfBank's workforce and 25.1% of its management, reflecting VakifBank's commitment to advancing gender equality internally and externally. VakifBank will require sub-projects to adopt or apply equivalent measures, including: (i) a code of conduct for contractors' workers, aimed at mitigating risks related to sexual exploitation, abuse, harassment and gender-based violence, to be included in bidding documents; and (ii) a code of conduct for E&S consultants, emphasizing gender aspects and the prevention of gender based violence, to be included in terms of reference for E&S assessments of sub-projects. At the Project level, VakıfBank incorporates these gender-focused activities and commits to reporting gender-disaggregated data for sub-projects, ensuring transparency and accountability in its gender equality initiatives.

5.25 **Stakeholder Engagement, Consultation, and Information Disclosure.** VakifBank maintains and publishes its ESMS in both Turkish and English. At the facility level, VakifBank will continue to disclose the E&S documentation promptly for all higher-risk sub-projects. At the corporate level, VakifBank will continue to disclose its integrated report, which includes Global Reporting Initiative (GRI), Principles for Responsible Banking, and TCFD requirements. In addition, VakıfBank will prepare a dedicated Stakeholder Engagement Plan specific to the AIIB loan.

5.26 **Grievance Redress Mechanism.** VakifBank has the external communications mechanism (ECM), including contacts and processes to receive and handle related E&S matters, and its information, including the Project-affected People's Mechanism (PPM) of AIIB, has been disclosed in both Turkish and English. The ECM will be available to project-affected people (PAPs) and project-contract workers. Under the POM, VakifBank will require its sub-borrowers to establish a suitable sub-project-level Grievance 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 sub-project's E&S impacts.

5.27 **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 https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

5.28 **Proposed Follow-Up**; **Monitoring and Supervision Arrangements.** VakıfBank will rely on information provided directly by the sub-projects to conduct both E&S assessment and ongoing monitoring. VakifBank will conduct annual site visits to selected sub-projects in accordance with its ESMS to verify implementation on the ground and will be required to maintain a comprehensive database comprising all relevant E&S information and report semi-annually to AIIB during implementation, providing a summary of the E&S aspects and an overview of the E&S performance of the Project's portfolio. AIIB will conduct post-reviews of the selection and implementation of sub-projects as part of its regular supervision, which will include engagement with VakıfBank, potential site visits once conditions allow, and a detailed review of the E&S documentation of selected sub-projects.

E. Climate Change

5.29 **Climate Change; Paris Alignment Assessment.** Given the uncertainty over the underlying sub-projects, the Bank has performed a counterparty-based assessment to determine the alignment of the Project with the mitigation and adaptation goals of the PCA in line with the Joint MDB methodology. This assessment has analyzed the Borrower's (i) transition and physical climate risk disclosure and reporting, (ii) climate risk management system, and (iii) commitment to a credible PCA alignment pathway.

A) Mandatory transition and physical climate risk disclosure and reporting.

5.29.1 Since 2020, VakifBank's Sustainability report forms part of its Integrated Annual Report (IAR) and is prepared in accordance with the GRI Standards, Sustainability Accounting Standards Board Provisional Standards, and recommendations of the TCFD. In the future, VakifBank is committed to aligning with the ISSB Sustainability Standards following Türkiye's legislation. Although there is currently no mandatory public climate risk disclosure requirement, the BRSA is actively working on a regulatory framework in this area. VakifBank submits regular reports to the BRSA on climate-related risks, even though these disclosures are not yet made public. Once the BRSA finalizes its work, public climate risk disclosures will be introduced in accordance with the new regulatory requirements.

5.29.2 VakifBank discloses its strategy and performance on water security and climate change, highlighting how it manages associated risks and opportunities to investors and the public. In 2024, the Bank maintained the 'A' rating in the Climate Change Program and improved to an 'A' in the Water Security Program in CDP assessments, earning a place on CDP's 2024 Global A List for both programs.

5.29.3 As of 2022, VakifBank became the first FI in Türkiye to apply a sustainability approach to expected credit loss provisions policies under TFRS 9. Considering the transition risks of manufacturers who export to EU countries in the cement, electricity, fertilizer, iron and steel, and aluminum sectors, and are unable to switch to low-carbon production methods and technologies, the Bank has increased the expected credit loss provisions for these customers within the framework of TFRS 9 regulations, considering carbon taxes. Additionally, for customers covered by the Renewable Energy Support Mechanism (YEKDEM), which aims to support renewable energy production, the Bank has lowered the expected credit loss provisions within the framework of TFRS 9 regulations. This allows for the positive differentiation of customers supporting renewable energy production, considering the positive impact they have on the environment. VakifBank plans to continue ensuring its positive differentiation in all processes.

5.29.4 As the applicable regulatory environment adequately covers the management of material, physical, and transition climate risks, AIIB investment through VakifBank is considered, therefore, aligned.

B) Assessment of the climate risk management system

5.29.5 **Portfolio.** As of Q1 2025, the sectoral and geographical distribution of VakifBank's portfolio shows a very low share of fossil fuels (approximately 1.68% and declining year-on-year) and little exposure to physical climate risk given its geographical diversification and the low climate risk of the sectors covered. Only Agriculture and Energy can be considered high-risk sectors, and their specific weight on the portfolio is less than 6% altogether. See **Table 3** below.

Table 3. VakifBank, Sectoral and Regional Loan Portfolio Distribution

Sector	Share	Region Name	Share
Manufacturing	26.24%	Marmara Region	40.61%
Global Project Classification (GPC)	18.34%	Central Anatolia Region	22.15%
Wholesale and Retail Trade	11.58%	Mediterranean Region	12.32%
Construction	6.56%	Aegean Region	10.34%
Other (including retail loans)	6.09%	Southeastern Anatolia	6.60%
Real Estate and Renting	5.53%	Black Sea Region	5.32%
Financial Institutions	3.44%	Eastern Anatolia Region	2.55%
Education, Health, and Social Services	0.59%	Abroad	0.12%
Auto	0.18%		
Energy	3.81%		
Agriculture, Hunting, and Forestry	1.81%		
Logistics, Warehousing, and Communication	9.63%		
Hotel and Restaurants (Tourism)	3.61%		
Mortgages	2.60%		

5.29.6 **Strategy.** The Bank has a net-zero target and a defined roadmap. In 2019, VakifBank became the first Turkish public institution to announce its carbon emission reduction commitment by joining the SBTI. In 2023, according to the targets approved by the SBTI, VakifBank aimed for a 51% reduction in scope 1 and 2 GHG emissions by 2032 to align them with the 1.5°C target.[14] Also, a strategic objective to actively manage exposure to physical climate risk is in place: as part of VakifBank's lending policy, the bank analyzes the risks caused by climate change, carrying out studies to determine and measure portfolio risks within the framework of both physical risks and transition risks related to climate risks and measuring the effects of physical risks such as excessive rainfall, floods, and droughts related to the places where operational activities are performed. VakifBank has developed a comprehensive Climate Resilience Strategy aimed at mitigating the impacts of climate-related risks on operations. This strategy focuses on strengthening infrastructure, enhancing supply chain resilience, and ensuring business continuity in the face of physical climate disruptions. VakifBank continuously updated this strategy based on evolving climate science and regulatory requirements to stay proactive in addressing climate challenges. The Bank's Sustainability Strategy explicitly outlines a commitment to climate resilience by integrating actions such as reducing carbon emissions, improving energy efficiency, and investing in climate-smart technologies. This strategy is aligned with global sustainability frameworks like PCA and SDGs. VakifBank prioritizes long-term climate resilience to ensure operations and products contribute to a sustainable future for both businesses and communities. VakifBank's ESG Strategy incorporates climate resilience as a key pillar, ensuring that environmental risks are fully integrated into the decision-making processes. This includes setting science-based targets for emissions reductions, investing in climate-adaptive solutions, and ensuring transparency in climate risk disclosures.

5.29.7 **Governance.** VakifBank has a clear governance arrangement in place, which includes dedicated personnel, a board of directors, a chief sustainability officer, etc. The Bank's overall sustainability governance is led by the Sustainability Committee, which brings together all the senior executives and is chaired by VakifBank's CEO.

14 https://files.sciencebasedtargets.org/production/files/Target-language-and-summary_Vakiflar.pdf

This committee meets on a quarterly basis. VakifBank has a Sustainability Banking Department, which acts as the main coordinator for all sustainability efforts. The department is made up of two specialized divisions: (i) the Sustainable Banking Division develops the Bank's overall sustainability strategy, coordinates TSRS-aligned disclosures, manages ESG data, and ensures consistency with international frameworks; and (ii) the Environmental Management Division focuses on managing the Bank's operational footprint — things like energy and resource efficiency, carbon tracking, and running our internal environmental management systems. At the same time, the Risk Management Department plays an important role in climate governance as it runs climate risk assessments across the Bank's entire portfolio through scenario analysis and stress testing. In addition, VakifBank's Environmental and Social Risk Analysis Directorate reviews E&S risks for all project finance loans above USD10 million and is gradually expanding this to corporate and SME segments. The governance roles are specified on VakifBank's TSRS-compliant sustainability report,[15] which outlines the management-level roles and committees responsible for overseeing climate-related risks and opportunities, as well as the oversight mechanisms in place.

5.29.8 **Risk Management.** Processes for identifying, assessing, and managing climate-related risks are partly integrated into the Borrower's financial risk management. As part of VakifBank's lending policy, the Bank analyzes the risks caused by climate change, carrying out studies to determine and measure portfolio risks within the framework of both physical risks and transition risks related to climate risks, and measuring the effects of physical risks such as excessive rainfall, floods, and droughts related to the places where operational activities are performed. VakifBank has an ESMS in place[16] in line with the IFC Performance Standards and employing experts to monitor the E&S impacts in the lending processes, carrying out a detailed assessment process with the support of external consultants, as needed. The ESMS includes an exclusion list, named Non-Financeable Activities (NFA), annexed to the Environmental and Social Impact Management in its Lending Policy. Although the exclusion list does not cover fossil fuels at present, VakifBank confirmed its intention to include them in the medium term. A Climate Risk Management Policy is in place, establishing a general framework for the identification, measurement, and monitoring of climate risk, and ensuring oversight by Senior Management. This document also includes internal procedures to support the implementation of these policies. Additionally, reporting is carried out within the scope of the Internal Capital Adequacy and Assessment Process (ISEDES). VakifBank confirmed that their ESMS is flexible to accommodate the climate requirements of AIIB. These will be included in the POM before the effectiveness of the Loan, specifying the climate mitigation and adaptation assessments to be carried out by VakifBank.

5.29.9 **Monitoring and Reporting.** Since 2020, VakifBank's Sustainability Report has been integrated into its IAR. The Sustainability report is prepared in accordance with the GRI Standards, Sustainability Accounting Standards Board Provisional Standards, and recommendations of the TCFD. In the future, VakifBank is committed to aligning with the ISSB Sustainability Standards following Türkiye's legislation.

15 https://www.VakifBank.com.tr/en/our-bank/sustainability/reports-and-certificates
16 https://www.VakifBank.com.tr/en/our-bank/sustainability/environmental-and-social-risk-management-system-esms

(iii) Commitment to Credible Paris Alignment Pathway.

5.29.10 As the assessment above determines that the FI client is not highly exposed to physical and/or transition climate risk and has an adequate climate risk management system, the third step on this assignment is not applicable, and a Paris Alignment Action Plan is not needed.

Paris Alignment conclusion: The project is considered aligned with the mitigation and adaptation goals of the PCA, given that the applicable regulatory environment adequately covers the management of material physical and transition climate risks, and VakifBank is not highly exposed to physical and/or transition climate risk and has an adequate climate risk management system.

5.30 **Climate Mitigation Finance.**

5.30.1 Component A: After consultation with the Borrower, it was confirmed that the EPC rating required for the new buildings will be 'C', which is the minimum national standard for these buildings. Although a good outcome, this EPC rating is not enough to qualify as climate mitigation finance under category 9.2. *Measures that reduce net energy consumption, resource consumption, or CO2e emissions, or measures that increase plant-based carbon sinks in new or retrofitted buildings and associated grounds, enabling certification standards to be met*. This component does not qualify as climate mitigation finance.

5.30.2 Component B: The elements under this component will be covered under the POM. Only projects included under the Joint MDB common principles for tracking climate mitigation will be financed by VakifBank under this component. Component B qualifies as 100% climate mitigation finance. The total climate finance of the project would be (USD 100 million), equal to 33.3% of AIIB's investment.

5.31 **Climate Adaptation Finance.** The Project does not qualify as climate adaptation finance, based on the information available. A minority share of the facility may be open to adaptation finance investments, subject to review and approval.

5.32 **GHG analysis.** Given the lack of information beforehand on the use of proceeds, the GHG analysis of this project should not be applicable. An indicative projection has been included in the results monitoring framework in **Annex 1**.

F. Risks and Mitigants

Risk Description	Assessment (H/M/L)	Mitigation Measures
Program/Project Implementation Risks		
Asset Quality and Credit Risk		
▪ Greater-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*	▪ VakifBank employs hedging strategies and monitors its FX positions closely. ▪ VakifBank maintains CAR above regulatory requirements to absorb potential losses from FX fluctuations. ▪ VakifBank applies robust credit assessment procedures, monitors loan performance, and maintains adequate provisioning for expected credit losses. ▪ VakifBank has a risk management framework that incorporates stress testing and scenario analysis. ▪ VakifBank manages concentration risks, diversifies its portfolio, and engages in regular review of large exposures. ▪ VakifBank is an experienced project and corporate finance lender, with strong underwriting practices. ▪ Funding is generally aligned with the nature of the underlying assets financed.
Foreign Exchange and Interest Rate		
▪ High volume of FX denominated loan. Mismatch between funding and sub-loan commitments (USD, EUR, TRY). FX lending and funding exposed to volatility, refinancing risks, open exposure or limited hedging by clients, dependence on FX wholesale funding and reliance on FX reflows and IFI funding to cover short term FX wholesale borrowing needs. ▪ VAKIFBANK continues to exhibit sensitivity to TRY depreciation due to its	*Medium*	▪ The Borrower employs a comprehensive risk management framework to address challenges related to FX and inflation. ▪ VakifBank uses derivative instruments to hedge against currency risk. ▪ VakifBank applies hedge accounting in line with Turkish Accounting Standards (TAS39), ensuring hedging relationships are properly documented. ▪ VakifBank actively monitors its liquidity position employing tools such as LCR, stress testing, and scenario analysis. ▪ VakifBank maintains a liquidity action plan to respond to unforeseen liquidity crises, ensuring access to short-term FX.

Risk Description	Assessment (H/M/L)	Mitigation Measures
significant FX portfolio concentration and the impacts of inflation ▪ Further deterioration of the FI operating environment. ▪ Economic vulnerabilities amid accommodative monetary policy. ▪ Inflation more than CBRT targets. ▪ Devaluation and inflation impact on the FI sector's asset quality, profitability, and capital. ▪ Tighter global credit conditions.		▪ Funding from IFI lenders provides diversification and allows VakifBank to continue its activity through the cycle. ▪ VakifBank employs asset-liability management (ALM) to mitigate the impact of monetary policy \ on performance. ▪ VakifBank conducts regular assessments of its exposure to FX risk, employing internal models to quantify the impact on its position. ▪ VakifBank performs stress tests and scenario analysis to evaluate the resilience of its financial position under adverse conditions. ▪ VakifBank maintains close communication with CBRT, monitors inflation trends, and adjusts financial models. ▪ VakifBank swiftly adjusts the pricing of its products and services to ensure its offering remains competitive but sustainable. ▪ VakifBank employs credit assessment processes to ensure the borrowers can withstand economic FX and CPI shocks.
E&S risks and impacts		
▪ *E&S assessments of the sub-projects may not meet AIIB's ESF requirements.*	Medium	▪ No Category A sub-projects, nor any Higher Risk sub-projects involving involuntary resettlement or land acquisition, are expected under the facility. ▪ AIIB's ongoing engagement and performance monitoring of the Phases 1 and 2 Facility has confirmed the competence of VakifBank in implementing its ESMS and the POM.

G. Operational Policy on International Relations

5.33 **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 for this operation is not fully identified at present, and they may be in diverse regions within Türkiye. Consequently, AIIB will work with VakıfBank to screen sub-projects against the OPIR and exclude AIIB financing from any sub-project that would involve any of the matters covered in the OPIR. This will be spelled out in the facility documentation or the POM.

Annex 1: Results Monitoring Framework

Project Objective (PO):	To support Türkiye's resilient recovery and climate transition through financing for green and inclusive post-earthquake housing, educational and healthcare facilities, as well as climate-aligned small and medium enterprise investments, delivered via a sovereign-backed facility implemented by VakifBank.							
Indicator Name	**Unit of measure**	**Base-line Data YR0**	**Cumulative Target Values**			**End Target YRn+1**	**Data source / Methodology**	**Responsibility**
			YR1	**YR2**	**YR3**			
Project Objective Indicators:								
Component A								
1. People in new house units[17]	Number	-	3,700	7,500	11,300	11,300	Annual Report	Borrower
2. Non-performing loans	%	-	-	-	-	<7%	Annual Report	Borrower
Component B								
1. Estimated GHG avoided[18]	tCO2eq/yr	-	6,500	19,500	32,500	32,500	Annual Report	Bororwer
2. Renewable energy installed[19]	MW	-	7	21	35	35	Annual Report	Borrower
3. Electricity storage installed[20]	MW	-	-	-	-	5	Annual Report	Borrower

[17] Assumptions and calculations for Component A are based on two recently awarded TOKİ housing tenders in Kahramanmaraş, sourced from Türkiye's Electronic Public Procurement Platform (EKAP). Contract values were divided by the number of units to estimate per-dwelling costs, which include infrastructure and landscaping works. The two examples indicate an average construction value of TRY 2.6 million. Based on this, a USD 200 million loan could finance ~3,225 units, benefiting ~11,352 people. Beneficiary distribution is assumed evenly over three years. The average household size assumed is 3.52 persons per home, which is the average of the 11 earthquake-affected regions as per Turkstat, Statistics on Family, 2024, and Address Based Population Registration System, 2008-2024.

[18] The "End Target" column reflects the steady-state annual impact once the full USD 100 million portfolio has been committed and all RE and EE sub-projects are fully operational. At that stage, we estimate an annual GHG reduction of approximately 51,500 tCO_2e/year, combining around 24,700 tCO_2e/year from the RE sub-component and 26,800 tCO_2e/year from the EE sub-component.

[19] Based on a representative example of solar power plant sub-project: 1.18 MWp per UDS 1 million of capex; therefore, USD 30 million allocated to solar PV under Component B, yielding ~35 MWp total.

[20] No concrete electricity storage can be estimated. If BESS investments materialize, these will be added to the realized target. An indicative target of 5MW is provided.

4. Electricity savings[21]	MWh/year	-	11,600	34,900	58,100	58,100	Annual Report	Borrower
5. Non-performing loans	%	-	-	-	-	<7%	Annual Report	Borrower
Intermediate Results Indicators:								
Component A								
1. Sub-loans amount	USD mio	-	50	125	200	200	Annual Report	Borrower
2. Number of sub-loans	Number	-	400	600	800	800	Annual Report	Borrower
3. Residential units built[22]	Number	-	1,075	2,150	3,225	3,225	Annual Report	Borrower
4. Hospitals/schools built[23]	Number	-	-	-	-	5	Annual Report	Borrower
Component B								
1. Sub-loans amount, EE	USD mio.	-	20	40	70	70	Annual Report	Borrower
2. Sub-loans amount, RES	USD mio.	-	10	20	30	30	Annual Report	Borrower
3. Number of sub-loans	Number	-	200	400	600	600	Annual Report	Borrower

[21] Based on a representative EE project involving the replacement of ~750 kW of legacy machinery with high-efficiency motors, servo presses, and VSD compressors that delivers 830 MWh/year savings and 383 tCO_2e/year per USD 1 million of capex. Portfolio allocation of USD 70 million (70%) to EE under Component B.
[22] See description above. A USD 200 million loan could finance ~3,225 units, benefiting ~11,352 people (average household size: 3.52).
[23] Approximately 10% of component A funds could be used to support social infrastructure. The number of potential social infrastructure projects is unknown. An indicative target of 5 is provided.

Annex 2: Economic Analysis

Component A: Post-earthquake Affordable Housing Reconstruction

1. Scope and Methodology. Component A consists of a USD 200 million facility to support post-earthquake reconstruction in the form of working capital loans to developers. For simplicity, it is assumed that the proceeds are used to support housing projects only. Consistent with the AIIB's cost-benefit analysis (CBA) guidance, the economic analysis evaluates the full project costs and benefits over 25 years (a generally accepted useful life of housing assets). The "without-project" baseline is defined as "do nothing", reflecting persistent housing shortages and unsafe living conditions in earthquake-affected areas. Economic prices exclude taxes, subsidies, and transfer payments. In this high-level exercise, no financial distortions are assumed to require conversion factors.

2. Investment Costs and Phasing. Based on recently awarded TOKİ mass-housing contracts in Kahramanmaraş, the estimated economic cost per dwelling is TRY 2.6 million (USD62,000), inclusive of infrastructure and landscaping. A USD 200 million loan would support the construction of 3,225 units, resulting in a total economic cost of TRY 8.385 billion. Investment is assumed to occur over three years, evenly distributed (i.e., Year 0: TRY 2.795 billion, Year 1: TRY 2.795 billion, Year 2: TRY 2.795 billion), and unit completion follows the same phasing (i.e., Year 1: 1,075, Year 2: 2,150, Year 3: 3,225 units cumulative).

3. Economic Benefits. Housing benefits are valued in terms of the annual economic value of adequate, safe accommodation in a post-earthquake context. These benefits are proxied using a net annual housing service value expressed as a percentage of unit economic cost. Three scenarios are tested: low case: 8% of capex per year; base case: 10%; and high case: 12%.[24] These estimates are conservative but exclude positive externalities relating to seismic resilience, reduced morbidity, and social stability.

Table A. Cash Flow Structure (TRY million), Base Case

Year	Net Capex	Units Benefiting	Benefits	Net Flow
0	–2,795	0	0	–2,795
1	–2,795	1,075	280	–2,515
2	–2,795	2,150	559	–2,236
3–25	0	3,225	839/year	+839/year

4. Economic Internal Rate of Return (EIRR). Using a 25-year horizon, the resulting EIRRs are: *Low* (8% benefits): ~6%; *Base* (10% benefits): ~9%; *High* (12% benefits): ~11%. For social and resilience-driven projects, lower discount rates are used, given high social externalities, such as resilience, health, and welfare benefits. When partially accounting for this, the EIRR exceeds the economic hurdle rate, reaching above 10%. Given the Project's strong post-disaster relevance, high beneficiary impact, and contribution to housing safety and social recovery, the investment is economically justified and aligned with AIIB's principles for quality infrastructure investment.

[24] Imputed rental value is a standard method for monetizing the welfare impact of improved housing conditions in CBA, especially when direct rents are observed in the market or can be inferred from price–rent relationships. When direct rental data are unavailable, economic appraisal methodologies recommend using imputed rents via hedonic or comparable market analyses, anchored by local rental yields and price–rent ratios.

Component B: SME Climate Finance

1. Scope and Methodology. Component B consists of a USD 100 million facility, allocating 30% to renewable energy (RE) and 70% to energy efficiency (EE) as the working assumption. Economic analysis follows the AIIB internal guidance, including: (i) comparison against a "without-project" baseline, which contemplates continued reliance on grid electricity at current efficiency levels with higher electricity consumption and associated GHG emissions; (ii) use of economic prices; and (iii) explicit valuation of GHG externalities via a shadow carbon price (SCP). The typical lifetimes of solar PV and industrial EE investments the time horizon is 25 years. The grid emission factor (GEF) for firm electricity in Türkiye is 0.309 tCO_2/MWh, applied to both RE generation and EE savings to estimate avoided emissions.[25] The methodological parameters for RE and EE are taken from VakifBank's notes and one representative RE project. The following assumptions are used:

A) Renewable Energy Sub-Component (USD 30 million; solar PV)
Installed capacity coefficient: 1.18 MWp per USD 1 million
Annual generation coefficient: 1,680 MWh/year per USD 1 million
Installed capacity: ~35 MWp
Annual generation: 1,680 × 30 = 50,400 MWh/year
GHG reduction (0.309 tCO_2/MWh): 50,400 × 0.309 = 15,574 tCO_2e/year

B) Energy Efficiency Sub-Component (USD 70 million; industrial EE)

- Energy savings coefficient: 830 MWh/year per USD 1 million
- Annual energy savings: 830 × 70 = 58,100 MWh/year
- GHG reduction (0.309 tCO_2/MWh): 58,100 × 0.309 = 17,953 tCO_2e/year

Table B. Total energy and GHG savings per annum

Sub-component	Allocation (USD m)	MWh/year	tCO_2e/year
Renewable Energy	30	50,400	15,574
Energy Efficiency	70	58,100	17,953
Total Component B	**100**	**108,500**	**33,527**

C) Other quantified benefit assumptions

- Indicative economic tariff: USD 80/MWh (USD 0.08/kWh).[26]
- SCP mid-point of USD 75/tCO_2 (recommended 2030 range: USD 50–100/tCO_2).

2. **Illustrative Economic Valuation.** Under these assumptions, steady-state annual economic benefits are approximately: (i) Energy benefits: 108,500 MWh × USD 80/MWh = USD 8.7 million/year; and (ii) CO_2 benefits: 33,527 tCO_2 × USD 75/t ≈ USD 2.5 million/year, for a total quantified economic benefits: ≈ USD 11.2 million/year. Assuming: (i) the USD 100 million investment is disbursed evenly over three years; (ii) benefits ramp up proportionally and reach full level from Year 3; and (iii) benefits continue for 25 years, the Economic IRR of Component B is approximately 10%, which is conservatively within rage of the 9–12% real discount rate range typically applied by MDBs for infrastructure.

[25] International Financial Institutions Technical Working Group on Greenhouse Gas Accounting (IFI TWG) Harmonized IFI Default Grid Factors 2021 v3.2 (April 6, 2022). https://unfccc.int/documents/461676.
[26] Conservative relative to the 10 USc/kWh value used in the feasibility study of the representative solar project example.

Annex 3: Financial Analysis

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

USD million	***2020 FY***	***2021 FY***	***2022 FY***	***2023 FY***	***2024 FY***	***2025 H1***
Spot Exchange Rate	0.1346	0.0757	0.0534	0.0338	0.0282	0.02511
Average Exchange Rate	0.1436	0.1156	0.0611	0.0433	0.0304	0.02667
Accounting Principle	TFRS	TFRS	TFRS	TFRS	TFRS	TFRS
Balance Sheet						
Total Assets	95,885	77,929	91,337	96,689	115,739	117,128
Net Loans to Customers	57,595	44,093	49,745	50,692	57,294	62,542
Total Deposits from Customers	53,119	42,610	56,325	64,820	70,183	70,583
Total Equity	6,349	4,105	5,807	6,117	6,678	6,761
Equity Attributable to Parent Company	6,249	4,013	5,653	5,927	6,393	6,466
Total Equity/ Total Assets (%)	6.62	5.27	6.36	6.33	5.77	5.77
Profitability						
Net Profit	921	617	1,711	1,478	1,626	964
ROAE (%)	15.51	10.86	33.41	23.33	25.70	28.66
ROAA (%)	1.14	0.68	2.15	1.54	1.58	1.67
Return on Avg Risk-weighted Assets (%)	1.76	1.12	3.72	2.67	2.79	2.94
Net Interest Margin (%)	3.82	2.67	6.02	2.73	3.32	2.57
Net Interest Income/ Avg Assets (%)	3.62	2.60	5.81	2.60	3.18	2.48
Cost-to-Income (%)	36.46	47.00	36.91	48.16	51.10	46.29
Asset Quality						
Non-performing loans	2,414	1,450	1,113	702	1,086	1,633
NPL / Gross Customer Loans (%)	3.99	3.14	2.14	1.33	1.83	2.53
NPL / Tangible Equity & Reserves (%)	25.98	23.78	13.83	8.56	12.61	18.43
NPL / Risk-weighted Assets (%)	4.35	3.44	2.10	1.36	1.82	2.51
Loan Loss Reserves/ NPL (%)	123.51	138.95	203.79	302.05	181.70	131.10
Loan Provision/ Avg Loans at Amortized Cost (%)	1.94	1.07	2.62	2.08	0.36	1.54
Credit Costs/ Pre-impairment Operating Profit (%)	47.16	43.54	31.62	41.48	8.23	28.41
Regulatory Capital (Basel III)						
Core Tier 1 Ratio (%)	11.34	9.98	11.01	11.81	11.44	10.49
Tier 1 Ratio (%)	14.10	12.79	12.92	13.63	13.82	12.79
Total Capital Ratio (%)	16.05	14.72	14.53	15.07	16.34	15.14
Basel III Leverage Ratio (%)	6.82	5.56	6.13	5.54	5.34	4.79
Liquidity & Funding						
Liquid Assets	26,500	26,082	28,770	27,008	40,055	37,721
Liquid Assets/ Assets (%)	27.64	33.47	31.50	27.93	34.61	32.21
Liquid Assets/ Total Deposits & Borrowings (%)	30.89	36.81	35.73	31.75	38.62	36.02
Wholesale Funding	32,671	28,240	24,192	20,247	33,537	34,126
Wholesale Funding Maturing < 1 Year	21,599	17,608	15,550	11,716	20,756	19,452
Total Debt/ Total Equity (x)	4.66	6.27	3.45	2.96	4.69	4.51
Liquidity Coverage Ratio (%)	NA	NA	NA	NA	NA	NA

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

TRY million	***2020 FY***	***2021 FY***	***2022 FY***	***2023 FY***	***2024 FY***	***2025 H1***
Balance Sheet						
Total Assets	712,091	1,028,901	1,709,169	2,859,246	4,093,575	4,662,933
Net Loans to Customers	427,729	582,160	930,857	1,499,057	2,026,434	2,489,831
Total Deposits from Customers	394,489	562,582	1,054,000	1,916,830	2,482,303	2,809,963
Total Equity	47,152	54,200	108,662	180,876	236,199	269,144
Equity Attributable to Parent Company	46,405	52,985	105,780	175,268	226,102	257,406
Total Equity/ Total Assets (%)	6.62	5.27	6.36	6.33	5.77	5.77
Profitability						
Net Profit	*6,407*	*5,336*	*27,981*	*34,087*	*53,317*	14,156
ROAE (%)	*15.51*	*10.86*	*33.41*	*23.33*	*25.70*	*21.75*
ROAA (%)	*1.14*	*0.68*	*2.15*	*1.54*	*1.58*	*1.27*
Return on Avg Risk-weighted Assets (%)	*1.76*	*1.12*	*3.72*	*2.67*	*2.79*	*2.20*
Net Interest Margin (%)	*3.82*	*2.67*	*6.02*	*2.73*	*3.32*	*2.57*
Net Interest Income/ Avg Assets (%)	*3.62*	*2.60*	*5.81*	*2.60*	*3.18*	*2.82*
Cost-to-Income (%)	*36.46*	*47.00*	*36.91*	*48.16*	*51.10*	*49.50*
Asset Quality						
Non-performing loans	*17,930*	*19,140*	*20,836*	*20,766*	*38,426*	65,022
NPL / Gross Customer Loans (%)	*3.99*	*3.14*	*2.14*	*1.33*	*1.83*	*2.53*
NPL / Tangible Equity & Reserves (%)	*25.98*	*23.78*	*13.83*	*8.56*	*12.61*	*18.43*
NPL / Risk-weighted Assets (%)	*4.35*	*3.44*	*2.10*	*1.36*	*1.82*	*2.51*
Loan Loss Reserves/ NPL (%)	*123.51*	*138.95*	*203.79*	*302.05*	*181.70*	*131.10*
Loan Provision/ Avg Loans at Amortized Cost (%)	*1.94*	*1.07*	*2.62*	*2.08*	*0.36*	*1.66*
Credit Costs/ Pre-impairment Operating Profit (%)	*47.16*	*43.54*	*31.62*	*41.48*	*8.23*	*34.05*
Regulatory Capital (Basel III)						
Core Tier 1 Ratio (%)	*11.34*	*9.98*	*11.01*	*11.81*	*11.44*	*10.49*
Tier 1 Ratio (%)	*14.10*	*12.79*	*12.92*	*13.63*	*13.82*	*12.79*
Total Capital Ratio (%)	*16.05*	*14.72*	*14.53*	*15.07*	*16.34*	*15.14*
Basel III Leverage Ratio (%)	*6.82*	*5.56*	*6.13*	*5.54*	*5.34*	*4.79*
Liquidity & Funding						
Liquid Assets	*196,801*	*344,360*	*538,363*	*798,671*	*1,416,706*	*1,501,699*
Liquid Assets/ Assets (%)	*27.64*	*33.47*	*31.50*	*27.93*	*34.61*	*32.21*
Liquid Assets/ Total Deposits & Borrowings (%)	*30.89*	*36.81*	*35.73*	*31.75*	*38.62*	*36.02*
Wholesale Funding	*242,630*	*372,850*	*452,689*	*598,740*	*1,186,176*	*1,358,563*
Wholesale Funding Maturing < 1 Year	*160,406*	*232,482*	*290,984*	*346,456*	*734,104*	*774,412*
Total Debt/ Total Equity (x)	*4.66*	*6.27*	*3.45*	*2.96*	*4.69*	*4.51*
Liquidity Coverage Ratio (%)	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*

Table C. FI sector and VakifBank key ratios
(as of September 2024, latest data available source: the Banks Association of Türkiye)

Capital Adequacy						
	Capital Adequacy Ratio		Shareholders' Equity / Total Assets		(Shareholders' Equity-Permanent Assets) / Total Assets	
In % unless stated otherwise	2024	2023	2024	2023	2024	2023
Banking System in Türkiye	**18.2**	**18.3**	**8.7**	**9.2**	**5.2**	**6.1**
Deposit Banks	17.7	18.1	8.4	9.0	4.7	5.8
Development and Investment Banks	24.8	22.6	13.8	11.4	12.7	10.2
VakifBank	15.9	14.7	5.6	6.3	4.0	4.9

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	**61.9**	**61.9**	**59.8**	**57.0**	**9.9**	**8.6**
Deposit Banks	62.9	63.0	60.7	57.9	7.0	5.7
Development and Investment Banks	47.3	45.3	46.6	42.5	51.2	51.6
VakifBank	61.9	63.4	60.8	58.3	8.1	8.2
	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	**32.3**	**31.2**	**53.1**	**54.0**	**3.5**	**3.1**
Deposit Banks	32.6	31.3	52.4	53.4	3.7	3.2
Development and Investment Banks	28.6	29.3	64.3	63.1	1.2	1.3
VakifBank	35.6	28.1	52.9	57.3	1.6	1.4

Liquidity Ratios						
	Liquid Assets / Total Assets		Liquid Assets / Short-term Liabilities		TC Liquid Assets / Total Assets	
In % unless stated otherwise	2024	2023	2024	2023	2024	2023
Banking System in Türkiye	**20.8**	**19.9**	**35.0**	**34.5**	**9.4**	**8.0**
Deposit Banks	20.6	19.6	33.4	32.7	8.9	7.4
Development and Investment Banks	22.4	24.5	97.6	100.8	16.6	17.4
VakifBank	21.6	16.2	36.6	26.2	10.2	5.4

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**	**26.2**	**34.8**	**40.4**	**30.2**
Deposit Banks	2.2	3.3	25.0	35.0	1.4	1.4
Development and Investment Banks	4.8	3.6	37.3	31.8	4.6	2.5

Table D. VakifBank, Income Statement (USD million, 2021 – H12025)

Income Statement					
For the Fiscal Period Ending	**Restated 12 months Dec-31-2021**	**Reclassified 12 months Dec-31-2022**	**12 months Dec-31-2023**	**12 months Dec-31-2024**	**6 months June-30-2025**
Currency	***USD***	***USD***	***USD***	***USD***	***USD***
Total Interest Income	8,482	9,870	13,927	22,730	12,640
Total Interest Expense	6,129	5,235	11,433	19,453	11,205
Net Interest Income	**2,353**	**4,634**	**2,494**	**3,277**	**1,435**
Total Non Interest Income	988	1,731	3,735	2,920	2,383
Revenue Before Loan Losses	**3,342**	**6,366**	**6,229**	**6,198**	**3,818**
Provision For Loan Losses	1,381	1,663	2,180	1,400	1,279
Total Revenue	**1,961**	**4,703**	**4,049**	**4,798**	**2,539**
EBT Excl Unusual Items	**766**	**2,546**	**1,575**	**2,252**	**1,118**
Asset Writedown	NA	(1)	0	0	75
Other Unusual Items					
EBT Incl. Unusual Items	**766**	**2,545**	**1,575**	**2,252**	**1,193**
Income Tax Expense	149	834	97	626	229
Earnings from Cont. Ops.	**617**	**1,711**	**1,478**	**1,626**	**964**
Minority Int. in Earnings	(20)	(87)	(105)	(126)	(44)
Net Income	**597**	**1,624**	**1,373**	**1,500**	**920**
Currency	USD	USD	USD	USD	USD
Exchange Rate	0.075740362	0.053439643	0.033816229	0.028273427	0.025119

Table E. VakifBank, Income Statement (TRY million, 2021 – H12025)

Income Statement					
For the Fiscal Period Ending	**Restated 12 months Dec-31-2021**	**Reclassified 12 months Dec-31-2022**	**12 months Dec-31-2023**	**12 months Dec-31-2024**	**6 months June-30-2025**
Currency	***TRY***	***TRY***	***TRY***	***TRY***	***TRY***
Total Interest Income	73,340	161,444	321,211	745,480	473,803
Total Interest Expense	52,992	85,637	263,684	637,991	420,021
Net Interest Income	**20,349**	**75,807**	**57,527**	**107,489**	**53,782**
Total Non Interest Income	8,547	28,322	86,137	95,778	89,338
Revenue Before Loan Losses	**28,896**	**104,128**	**143,664**	**203,266**	**143,120**
Provision For Loan Losses	11,941	27,204	50,288	45,916	47,960
Total Revenue	**16,954**	**76,925**	**93,376**	**157,350**	**95,160**
EBT Excl Unusual Items	**6,623**	**41,642**	**36,320**	**73,860**	**41,911**
Asset Writedown	NA	(18)	(2)	(2)	2,802
Other Unusual Items					
EBT Incl. Unusual Items	**6,623**	**41,625**	**36,318**	**73,857**	**44,713**
Income Tax Expense	1,287	13,644	2,231	20,541	8,577
Earnings from Cont. Ops.	**5,336**	**27,981**	**34,087**	**53,317**	**36,136**
Minority Int. in Earnings	(170)	(1,418)	(2,431)	(4,124)	(1,649)
Net Income	**5,166**	**26,563**	**31,656**	**49,193**	**34,487**

Table F. VakifBank, Balance Sheet (USD million, 2021 – H12025)

Balance Sheet					
As of:	**Restated Dec-31-2021**	**Reclassified Dec-31-2022**	**Reclassified Dec-31-2023**	**Dec-31-2024**	**Jun-30-2025**
Currency	***USD***	***USD***	***USD***	***USD***	***USD***
Assets					
Cash and Equivalents	8,715	7,932	12,725	21,280	13,571
Investment Securities	16,173	18,566	20,500	26,248	27,200
Trading Asset Securities	1,777	1,856	2,174	822	971
Total Investments	**17,949**	**20,423**	**22,674**	**27,070**	**28,171**
Gross Loans	46,163	52,153	53,055	59,533	65,091
Allowance For Loan Losses	(2,014)	(2,269)	(2,121)	(1,974)	(2,141)
Other Adj. to Gross Loans	(55)	(139)	(241)	(265)	(408)
Net Loans	**44,093**	**49,745**	**50,692**	**57,294**	**62,542**
Gross Property, Plant & Equipment	498	776	1,020	1,281	
Accumulated Depreciation	(184)	(151)	(121)	(145)	
Net Property, Plant & Equipment	**314**	**624**	**899**	**1,136**	**1,091**
Goodwill	1	1	0	0	0
Other Intangibles	22	24	31	38	40
Investment in Real Estate	74	184	300	532	544
Other Receivables	NA	NA	0	25	55
Restricted Cash	4,365	8,625	4,860	6,133	8,619
Other Current Assets	57	22	9	30	70
Deferred Tax Assets, LT	6	164	376	139	347
Other Long-Term Assets	2,334	3,594	4,122	2,062	2,077
Total Assets	**77,929**	**91,337**	**96,689**	**115,739**	**117,128**
LIABILITIES					
Accrued Exp.					
Interest Bearing Deposits	41,405	55,219	61,849	66,226	66,811
Non-Interest Bearing Deposits	3,722	5,280	5,089	6,145	7,413
Total Deposits	**45,127**	**60,499**	**66,938**	**72,372**	**74,224**
Short-term Borrowings	1,491	1,362	1,324	1,600	1,480
Curr. Port. of LT Debt	NA	NA	NA	14,631	12,906
Curr. Port. of Leases	4	20	96	4	4
Long-Term Debt	24,575	18,853	16,903	15,157	16,174
Long-Term Leases	69	35	1	150	173
Curr. Income Taxes Payable	83	289	409	311	688
Other Current Liabilities					
Pension & Other Post-Retire. Benefits	135	201	244	306	294
Def. Tax Liability, Non-Curr.	1	3	4	61	60
Other Non-Current Liabilities	2,339	4,268	4,653	4,470	4,363
Total Liabilities	73,824	85,530	90,572	109,061	110,368
Equity ($M)					
Common Stock	296	380	335	280	249
Additional Paid In Capital	477	880	1,542	1,289	1,145
Retained Earnings	2,906	3,462	3,291	4,123	4,515
Treasury Stock					
Comprehensive Inc. and Other	334	930	759	701	556
Total Common Equity	**4,013**	**5,653**	**5,927**	**6,393**	**6,466**
Total Minority Interest	92	154	190	285	295
Total Equity	4,105	5,807	6,117	6,678	6,761
Total Liabilities And Equity	**77,929**	**91,337**	**96,689**	**115,739**	**117,128**
Total Liabilities And Equity	**77,929**	**91,337**	**96,689**	**115,739**	**117,128**
Supplemental Items					
ECS Total Shares Outstanding on Filing Date	3,905,622,490	7,111,364,117	9,915,921,523	9,915,921,523	9,915,921,523
ECS Total Common Shares Outstanding (act	3,905,622,490	7,111,364,117	9,915,921,523	9,915,921,523	9,915,921,523
Book Value per Share	1.03	0.79	0.60	0.64	0.65
Tangible Book Value	3,990	5,628	5,896	6,355	6,425
Tangible Book Value per Share	1.02	0.79	0.59	0.64	0.65
Average Assets					
Average Loans					
Total Debt	26,139	20,270	18,324	31,541	30,738
Cash Deposits Int. Bearing					
Debt Equiv. of Unfunded Proj. Benefit Obligation					
Net Debt	8,874	5,684	992	510	9,458
Equity Method Investments	214	269	271	318	313
Full Time Employees (actual)	16,929	16,961	17,263	18,209	18,653
Number of Branches (actual)	940	949	NA	NA	NA
Filing Date					
CIQ Restatement Type Code	RC	RS	RC	O	O
CIQ Calculation Type Code	REP	REP	REP	REP	REP
Interbank Data ($M)					
Federal Funds Sold & Related Trans. w/ Oth	1,637	1,536	1,787	2,019	2,145
Federal Funds Purch & Rel Trans. with Other	21,064	18,513	14,883	24,940	25,219
Currency	USD	USD	USD	USD	USD
Exchange Rate	0.075740362	0.053439643	0.033816229	0.028273427	0.025119
Conversion Method	H	H	H	H	

Table G. VakifBank, Balance Sheet (TRY millions, 2021 – H12025)

Balance Sheet					
As of:	**Restated Dec-31-2021**	**Reclassified Dec-31-2022**	**Reclassified Dec-31-2023**	**Dec-31-2024**	**Jun-30-2025**
Currency	***TRY***	***TRY***	***TRY***	***TRY***	***TRY***
Assets					
Cash and Equivalents	115,071	148,430	376,302	752,635	540,262
Investment Securities	213,532	347,429	606,228	928,379	1,082,857
Trading Asset Securities	23,455	34,735	64,286	29,059	38,649
Total Investments	**236,987**	**382,164**	**670,514**	**957,437**	**1,121,506**
Gross Loans	609,485	975,915	1,568,917	2,105,611	2,591,312
Allowance For Loan Losses	(26,595)	(42,460)	(62,723)	(69,820)	(85,243)
Other Adj. to Gross Loans	(730)	(2,598)	(7,137)	(9,356)	(16,239)
Net Loans	**582,160**	**930,857**	**1,499,057**	**2,026,434**	**2,489,831**
Gross Property, Plant & Equipment	6,570	14,512	30,152	45,321	
Accumulated Depreciation	(2,429)	(2,829)	(3,577)	(5,130)	
Net Property, Plant & Equipment	**4,141**	**11,683**	**26,575**	**40,191**	**43,451**
Goodwill	15	15	10	3	3
Other Intangibles	285	455	911	1,346	1,605
Investment in Real Estate	972	3,444	8,871	18,804	21,660
Other Receivables	NA	NA	6	884	2,195
Restricted Cash	57,631	161,389	143,705	216,935	343,118
Other Current Assets	755	411	263	1,076	2,777
Deferred Tax Assets, LT	73	3,061	11,125	4,899	13,826
Other Long-Term Assets	30,812	67,259	121,908	72,931	82,700
Total Assets	**1,028,901**	**1,709,169**	**2,859,246**	**4,093,575**	**4,662,933**
LIABILITIES					
Accrued Exp.					
Interest Bearing Deposits	546,664	1,033,297	1,828,965	2,342,352	2,659,778
Non-Interest Bearing Deposits	49,146	98,801	150,501	217,358	295,133
Total Deposits					
Short-term Borrowings	19,688	25,492	39,139	56,579	58,928
Curr. Port. of LT Debt	NA	NA	NA	517,488	513,789
Curr. Port. of Leases	46	370	2,844	139	178
Long-Term Debt	324,469	352,797	499,857	536,077	643,899
Long-Term Leases	912	654	29	5,293	6,882
Curr. Income Taxes Payable	1,100	5,410	12,097	11,014	27,396
Other Current Liabilities					
Pension & Other Post-Retire. Benefits	1,783	3,768	7,223	10,810	11,699
Def. Tax Liability, Non-Curr.	15	56	118	2,166	2,407
Other Non-Current Liabilities	30,876	79,860	137,599	158,100	173,699
Total Liabilities	974,701	1,600,506	2,678,371	3,857,377	4,393,789
Equity ($M)					
Common Stock	3,906	7,111	9,916	9,916	9,916
Additional Paid In Capital	6,303	16,470	45,590	45,602	45,602
Retained Earnings	38,365	64,792	97,317	145,808	179,737
Treasury Stock					
Comprehensive Inc. and Other	4,411	17,407	22,445	24,776	22,152
Total Common Equity	**52,985**	**105,780**	**175,268**	**226,102**	**257,406**
Total Minority Interest	1,215	2,883	5,608	10,097	11,737
Total Equity	54,200	108,662	180,876	236,199	269,144
Total Liabilities And Equity	**1,028,901**	**1,709,169**	**2,859,246**	**4,093,575**	**4,662,933**
Total Liabilities And Equity					
Supplemental Items					
ECS Total Shares Outstanding on Filing Dat	3,905,622,490	7,111,364,117	9,915,921,523	9,915,921,523	9,915,921,523
ECS Total Common Shares Outstanding (act	3,905,622,490	7,111,364,117	9,915,921,523	9,915,921,523	9,915,921,523
Book Value per Share	14	15	18	23	26
Tangible Book Value	52,686	105,310	174,347	224,752	255,798
Tangible Book Value per Share	13	15	18	23	26
Average Assets					
Average Loans					
Total Debt	345,116	379,314	541,868	1,115,576	1,223,676
Cash Deposits Int. Bearing					
Debt Equiv. of Unfunded Proj. Benefit Obligation					
Net Debt	117,164	106,361	29,333	18,039	376,522
Equity Method Investments	2,826	5,029	8,027	11,231	12,449
Full Time Employees (actual)	16,929	16,961	17,263	18,209	18,653
Number of Branches (actual)	940	949	NA	NA	NA
Filing Date					
CIQ Restatement Type Code	RC	RS	RC	O	O
CIQ Calculation Type Code	REP	REP	REP	REP	REP
Interbank Data ($M)					
Federal Funds Sold & Related Trans. w/ Oth	21,612	28,751	52,855	71,417	85,382
Federal Funds Purch & Rel Trans. with Othe	278,104	346,419	440,101	882,104	1,003,983

Table H. VakifBAnk, Compliance with BRSA Regulatory Ratios (2023 – H12025)

Prudential Ratios	BRSA Requirement	Vakifbank (Previous Period, 31 Dec 2023)	Vakifbank (Previous Period, 31 December 2024)	Vakifbank (Current Period, 30 June 2025)
Capital Adequacy Ratio (CAR)	**> 8% with a target of >12%**, *in line with Basel III*	15.07%	16.34%	15.10%
Core Capital Adequacy Ratio	**>4.5%**, *in line with Basel III*	13.63%	13.82%	12.80%
Tier I Capital Adequacy Ratio	**>6%**, *in line with Basel III*	11.81%	11.44%	10.50%
LCR (Total TL+FC)	Development and investment banks are exempted from the minimum LCR requirements, which are otherwise **100% total** and 80% FX for commercial banks	372.20%	242.70%	164.00%
LCR (FC)	Development and investment banks are exempted from the minimum LCR requirements, which are otherwise 100% total and **80% FX** for commercial banks	198.60%	220.00%	240.00%
NSFR	**> 100%**, *in line with Basel III*	128.43%	140.18%	130.30%
Leverage Ratio	**>3%**, *in line with Basel III*	5.54%	5.34%	4.79%

Annex 4: Türkiye Energy Sector and Climate Context[27]

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 2024, Türkiye's TPES reached approximately 6.9 million terajoules. In terms of composition, oil and oil products remained the largest single source of energy at about 29%, followed by natural gas at around 27% of total primary energy supply in 2024, according to the IAE.[28] This underscores the dominance of hydrocarbons in Türkiye's energy mix. Türkiye remains highly dependent on imported fossil fuels, as the domestic production of natural gas covered only 4% of national consumption in 2024, with the rest supplied through imports, mainly from Russia, Azerbaijan, and Iran. In terms of total final energy consumption (TFC) by sector, the industrial sector continues to be the largest consumer, followed by transport, residential, and services.[29] Between 2000 and 2020, Türkiye's TPES per capita increased from about 50 GJ to 74 GJ. By 2023, it had risen to roughly 77 GJ per person, and preliminary 2024 estimates indicate a further modest increase to about 78–79 GJ per capita, in line with continued economic expansion and rising energy demand. Electricity consumption per capita followed a similar upward trajectory, increasing from 1.6 MWh in 2000 to 3.3 MWh in 2020. It reached approximately 3.5 MWh per capita in 2023, with 2024 data suggesting a slight rise toward 3.55–3.6 MWh per capita, reflecting higher electrification, industrial activity, and population growth dynamics.

2. **Generation.** According to the Turkish Electricity Transmission Corporation (TEİAŞ), gross national electricity generation amounted to 211.2 TWh in 2010, and it increased to 354.6 TWh by 2024.[30] In 2023, coal-fired power plants contributed 34.7% of this electricity, while natural gas accounted for 18.9%. Hydropower represented 21.1% of the total electricity generation.[31] The balance is represented by other forms of renewable energy. Türkiye has no operational nuclear capacity at the present time. The installed electricity capacity rose from 49.5 GW in 2010 to approximately 121.5 GW as of November 2025.[32] Over the past decade, Türkiye has significantly increased its renewable energy capacity, particularly in hydro, wind, solar, and geothermal power. Today, renewable sources account for more than 60% of the total. Hydropower constitutes approximately 26.6%, and wind power 11.8%. Solar installed capacity has reached 22.7 GW.[33]

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)

[27] This Annex includes updates based on various reports from TEIAS, MENR and IEA.
[28] Türkiye energy profile, IEA. https://www.iea.org/countries/Türkiye/energy-mix?utm.
[29] Source: MENR, https://enerji.gov.tr/eigm-raporlari.
[30] Source: TEİAŞ https://www.teias.gov.tr/aylik-elektrik-uretim-tuketim-raporlari.
[31] Source: TEİAŞ https://www.teias.gov.tr/aylik-elektrik-uretim-tuketim-raporlari.
[32] Source: TEİAŞ. https://www.teias.gov.tr/turkiye-elektrik-uretim-iletim-istatistikleri?utm.
[33] Source: TEİAŞ. https://www.teias.gov.tr/turkiye-elektrik-uretim-iletim-istatistikleri?utm.

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 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 a 21% reduction in GHG emissions from the Business-as-Usual (BAU) scenario by 2030. Accordingly, a longer-term vision is set out for renewable energy development, including setting up 10 GW of solar. According to the Updated First NDC, wind power capacity is expected to reach 18 GW by 2030. As of June 2025, the current capacity stands at 14.3 GW.[34] Energy efficiency, particularly for the industrial and building sectors, is also highlighted as an important means to achieve its climate objectives.[35] 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% 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 Türkiye'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% by generating 270 billion kWh of electricity annually from domestic sources; (ii) the 12th Development Plan sets ambitious targets for renewable energy, aiming to increase solar power capacity to 30 GW and wind power capacity to 18 GW by 2028.[36] (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.

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

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

7. **MENR Strategic Plan**. MENR's Strategic Plan 2024-2028 is aligned with the 12th Development Plan, and outlines seven primary goals for Türkiye's energy sector: (i) ensuring sustainable energy supply security, (ii) reducing dependency on foreign energy sources, (iii) transitioning to a net-zero carbon energy framework, (iv) enhancing safe and sustainable mining practices, (v) Increasing national and international effectiveness in energy and mining markets, (vi) supporting local technology development in energy and natural resources, (vii) strengthening institutional infrastructure and governance.

8. **National Renewable Energy Action Plan; Renewable Energy Roadmap.** The National Renewable Energy Action Plan (2014) set ambitious targets to increase Türkiye's renewable energy capacity to 61 GW by 2023, allocating 34 GW for hydropower (32 GW achieved), 20 GW for wind (11.8 GW achieved), 5 GW for solar (15.73 GW achieved), 1 GW for geothermal (over 1.7 GW achieved), and 1 GW for biomass (2.1 GW installed). As of the end of 2023, Türkiye has made significant progress toward these goals, surpassing its targets for solar, geothermal, and biomass energy ahead of schedule. Türkiye 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 USD28 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% 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 tonnes of CO2 equivalent greenhouse gas emissions and create new job opportunities in the green energy sector.

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

(i) Renewable Energy Support Mechanism (YEKDEM): Established in 2005, YEKDEM offers feed-in tariffs for electricity generated from renewable sources such as wind, solar, biomass, hydropower, and geothermal. Projects commissioned between July 1, 2021, and December 31, 2030, are eligible for

these tariffs, which are guaranteed for 10 years. Additional incentives are available for projects utilizing locally manufactured equipment.

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

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

(iv) Net Metering: Introduced in 2019, this scheme enables residential, commercial, and industrial consumers to offset their electricity bills by exporting surplus energy to the grid. Applicable to solar power systems ranging from 3 to 10 kWp with a self-consumption rate of at least 50%, 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 50.69 million, according to EMRA. Additionally, by the end of 2024, there were 557,438 transformers with a total capacity of 218,588 MVA in the distribution system, and the total length of distribution lines is close to 1.5 million kilometers, according to the Energy Market Regulatory Authority at the same time. Despite this extensive infrastructure, grid-connected energy storage remains underdeveloped. The rapid expansion of intermittent renewable energy has heightened the need for enhanced grid and storage solutions to maintain system stability and efficiency. In response, Türkiye has initiated significant investments to strengthen the electrical grid and integrate advanced technologies essential for a modern energy landscape. The sharp increases in electricity costs during 2021 and 2022 have further pressured both suppliers and consumers, underscoring the urgency for investments in energy storage and efficiency solutions.

12. **Energy Efficiency (EE)**. Türkiye's industrial sector relies heavily on imported fossil fuels, making it susceptible to supply disruptions and price volatility. Export-oriented, energy-intensive industries face mounting competitive pressures, particularly with the European Union's (EU) implementation of the Carbon Border Adjustment Mechanism (CBAM) in 2026. CBAM will impose carbon tariffs on imports, affecting sectors like iron, steel, aluminum, cement, fertilizers, and electricity generation. Notably, iron and steel are expected to be the most impacted, followed by the cement sector. To mitigate these challenges, Türkiye has initiated significant investments in EE. Between 2017 and 2021, Türkiye invested approximately USD6.44 billion in EE projects, resulting in savings of 4.45 million tonnes of oil equivalent (toe) and monetary savings estimated at USD1.62 billion. Building on this, the government announced a USD20.2 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.

14. **Climate Adaptation.** 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. It 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.

Annex 5: Country Credit Fact Sheet

1. **Background.** Türkiye is an upper-middle-income economy with an income per capita of around USD 18,000 (or around USD 44,000 in purchasing power parity) and a population of around 86 million. Türkiye is a large, diversified, dynamic, and business-oriented economy. Since the early 2000s, it has experienced robust growth, averaging around 5.4% per year, driven by a strong focus on development, macroeconomic stability, sound fiscal frameworks, trade openness, and institutional reform. Over that period, income per capita has tripled, and poverty levels have declined significantly. However, from 2016 until mid-2023, Türkiye's sovereign credit rating has deteriorated, which has been attributed to a reliance on short-term stimulus to boost growth, unconventional and unanticipated policies, declining fiscal and FX reserves, high dependence on external financing, perceived erosion of institutional checks and balances, and rising geopolitical risks. This has created financial vulnerability and led to periods of market volatility.

2. **Recent Developments.** During 2021-23, the monetary policy was accommodative despite high and accelerating inflation, leading to sharp capital outflows. The currency lost two-thirds of its value in nominal terms, while inflation exceeded 80% at the peak in late 2022. Additionally, Türkiye faced several adverse shocks, including a surge in global energy prices and two devastating earthquakes. While growth was still robust, these developments resulted in economic imbalances and poor market sentiment. Since mid-2023, policies have been normalized under a new economic team, and the interest rate has been hiked to a high of 50%. Monetary tightening has gradually brought results. Inflation has declined to 33%, and one-year-forward inflation expectations of market participants to 23.5%, allowing the Central Bank to restart monetary easing and reduce rates to 39.5%. Furthermore, tighter fiscal policy is expected to contribute to rebalancing. While the deficit has widened in recent years, reflecting earthquake reconstruction spending, the government has announced a fiscal tightening program, including a freeze on non-essential capital expenditures, cuts in current spending, and a phased reduction of energy subsidies. Measures are also planned to broaden the tax base. These measures are expected to arrest fiscal deterioration and improve debt sustainability.

Selected economic indicators	2022	2023	2024	2025*	2026*	2027*	2028*
GDP growth 1/	5.4	5.0	3.3	2.7	3.2	3.4	3.7
Inflation (end-of-period) 1/	64.3	64.8	44.4	31.0	19.0	15.3	15.0
Fiscal balance	-1.1	-5.3	-5.2	-4.3	-3.4	-3.2	-3.1
Gross public debt	30.2	28.7	24.0	24.3	25.1	26.0	26.1
Gross public financing needs	7.2	7.6	7.4	5.4	5.1	5.9	6.4
Current account balance	-5.0	-3.6	-0.8	-1.4	-1.3	-1.2	-1.3
Gross external debt	48.7	42.7	38.1	39.8	40.9	40.4	39.9
Gross external financing needs	22.9	21.2	19.1	20.0	20.5	20.1	20.0
Gross FX reserves (USD billion) 2/	128.7	140.9	155.2	180.6	..	..	..
Exchange rate (TRY/USD) 2/	18.7	29.4	35.3	42.4	..	..	..

Sources: IMF WEO Apr 2025, IMF country report 24/312, central bank; in percentage of GDP, except when noted; *' = projections. Notes: 1/ Percent change, year-on-year; 2/ data from central bank, end-of-period, most recent as of November 21, 2025

3. In response to these positive developments, over the past two years, S&P, Fitch, and Moody's each upgraded Türkiye's credit rating by two to three notches, to BB-/Ba3 with a stable outlook. The key factor behind the rating upgrades has been the strengthening track record of effective policymaking as well as Türkiye's resilience and reduced external

vulnerability. The current account deficit has narrowed significantly, to 1.3% (on a rolling 12-month basis, as of June 2025). This improvement reflects a combination of lower global energy prices as well as strong export and tourism performance. FX reserves have risen to over USD180 billion, spreads have declined, and external financing has increased.

4. **Outlook and Risks.** With the economy gradually rebalancing, growth slowed in 2024, as anticipated, to 3.3%. Despite continued tight policies, growth is expected to keep up in 2025, at 3.5%, according to the IMF, and increase towards 4.0% in the medium term. The shift towards more conventional policies has improved resilience and creditworthiness, but the policy tightening may need to be sustained to accomplish full disinflation. Risks to the outlook include global policy uncertainty, regional tensions, and the volatile market sentiment, which is sensitive to domestic and global political and policy developments. Türkiye's private sector has shown resilience in navigating the volatile environment. Large firms report adequate liquidity, positive short-term net FX positions, and sufficient natural hedges against currency volatility. In the banking sector, despite recent shocks, capitalization remains adequate, non-performing loans are low, and liquidity and profitability metrics are stable. Domestic banks have been able to rollover their funding, even amid high market uncertainty. Financial stability is supported by sustained residents' confidence and a willingness to maintain significant hard currency deposits in domestic banks. According to the IMF, Türkiye's public debt is sustainable and projected to stabilize at around 26% of GDP over the medium term. Key factors supporting debt sustainability include the government's strong balance sheet, continued access to financial markets, a proven track record of economic resilience, and a dynamic economy with substantial growth potential. Likewise, Türkiye's external debt is expected to remain sustainable over the medium term.