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Project Document
of the Asian Infrastructure Investment Bank

Sovereign-backed Financing

Republic of Turkey
COVID-19 Credit Line Project

(Under the COVID-19 Crisis Recovery Facility)

Currency Equivalents
(May 1, 2020)

Currency Unit – Turkish Lira (TRY)
TRY1.00 = USD0.14
USD1.00 = TRY7.00

Fiscal year
January 1–December 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank
BRSA	Banking Regulation and Supervision Agency
BIST	Borsa Istanbul (Istanbul Stock Exchange)
CAPEX	capital expenditures
CBRT	Central Bank of the Republic of Turkey
DFI	development finance institution
E&S	environmental and social
ESMS	Environmental and Social Management System
ESP	Environmental and Social Policy
EU	European Union
EUR	Euro
FCIDD	Financial Crime and Integrity Due Diligence
FI	financial intermediary
FM	financial management
FX	foreign exchange
IFRS	International Financial Reporting Standards
KYC	Know Your Client
MDB	multilateral development bank
MoTF	Republic of Turkey, Ministry of Treasury and Finance
NACE	Nomenclature statistique des activités économiques dans la Communauté Européenne (Statistical Classification of Economic Activities in the European Community)
NPL	nonperforming loan
OPEX	operating expenditures
OPS	other productive sectors
PFI	partner financial institution
POM	Project Operational Manual
SME	small and medium-sized enterprise
SOE	state-owned entity
TKYB	Türkiye Kalkınma ve Yatırım Bankası (Development and Investment Bank of Turkey)
TSKB	Türkiye Sınai Kalkınma Bankası (Industrial Development Bank of Turkey)
TRY	Turkish Lira
USD	United States Dollar
WHO	World Health Organization

CONTENTS

1. Summary Sheet

Republic of Turkey
COVID-19 Credit Line Project

Project No.	000381
Borrowers / Project Implementation Entities	Türkiye Kalkınma ve Yatırım Bankası (TKYB) Türkiye Sınai Kalkınma Bankası (TSKB)
Guarantor	Republic of Turkey
Sector / Subsector	FI / Financial Intermediaries
Project Objective	To reduce liquidity constraints caused by the COVID-19 crisis and increase access to finance to corporates and small and medium-sized enterprises (SMEs) operating in eligible infrastructure and other productive sectors (OPS) in Turkey.[1]
Project Description	The proposed COVID-19 Credit Line Project will provide sovereign-backed short-term credit lines to two of Turkey's development banks (TKYB and TSKB). The Borrowers are existing AIIB clients that will on-lend the proceeds from the AIIB Credit Line in the form of short-term loans (under 36 months tenor) to corporates and SMEs in the infrastructure sectors, including transport, energy, water, sustainable cities, healthcare, information and communications technologies (ICT), as well as eligible OPS (Project, Credit Line). The Project will have three components, financed separately under the two loans: (a) direct on-lending to new/existing TKYB clients; (b) Apex lending to SME Sub-borrowers through TKYB's partner financial institutions (PFIs) like banks and factoring companies; and (c) direct on-lending to new/existing TSKB clients. Components (a) and (b) will be financed under the loan to TKYB; and component (c) will be financed under the loan to TSKB. The Credit Line will provide liquidity for the payment of operating expenses (OPEX), short-term assets (inventories, trade receivables, other) and short-term liabilities. The Credit Line will not support major project finance investments and capital expenditures (CAPEX), which are covered by other AIIB facilities.[2] This project will be processed under AIIB's COVID-19 Crisis Recovery Facility[3] (Facility).

[1] "SMEs" are defined by the European Commission as enterprises presenting the following characteristics: (a) fewer than 250 employees; and either (b) an annual turnover below or equal to EUR50 million or (c) an annual balance sheet total below or equal to EUR43 million.
[2] Asian Infrastructure Investment Bank (AIIB). 2018. TSKB Sustainable Energy and Infrastructure On-lending Facility (Link). 2019. TKYB Renewable Energy and Energy Efficiency On-Lending Facility (Link).
[3] AIIB. 2020. The Crisis Recovery Facility was approved by the AIIB Board of Directors on April 16, 2020. See Link.

Implementation Period	Start Date: July/August 2020 End Date: Dec. 18, 2021
Expected Loan Closing Date	Dec. 18, 2021
Cost and Financing Plan	USD500 million, inclusive of: • TKYB direct on-lending: USD150-200 million • TKYB Apex on-lending: USD100-150 million • TSKB direct on-lending: USD200 million
Size and Terms of AIIB Loans	• USD 500 million • End of disbursement availability: Dec. 18, 2021 • Each disbursement amount: USD15–100 million • Sub-loans tenor: up to 36 months • Final Maturity Date: Oct. 15, 2024 • Interest payment dates: April 15 and Oct. 15 • Principal repayment dates: Oct. 15, 2023; April 15, 2024; and Oct. 15, 2024. Repayment will be disbursement-linked, on the sixth interest payment date following the Maturity Fixing Date for each disbursed amount.[4] • Average maturity of the AIIB Loan: between 36-52 months • AIIB's standard interest rate for sovereign-backed financing (SBF) loans
Environmental and Social	FI
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	• Adoption of the Project Operational Manual[5] (POM) by each Borrower, satisfactory to AIIB • Acceptable legal opinions for each loan agreement • Audited IFRS Financial Statements of the Borrowers • Maintenance of acceptable Environmental and Social Management Systems (ESMS) of both Borrowers
Covenants and Conditions	• Acceptable Project Operational Manual (POM) defining eligibility criteria for Sub-loans, Sub-borrowers and PFIs • Maintenance of acceptable Environmental and Social Management Systems (ESMS) • Qualification record for each PFI • Updated TKYB's Corporate Strategy Development Plan[6] • Evidence of utilization of prior disbursements (for subsequent disbursement under the advance method)
Key Covenants	• Borrowers and PFI compliance with Banking Regulation and Supervisory Agency (BRSA) prudential regulations • Borrowers, PFI, and Sub-borrower compliance with Turkish law and AIIB policies

[4] "Maturity Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which the Disbursed Amount is withdrawn. AIIB. 2020. General Conditions for Sovereign Backed Loans. Link.
[5] A new Project Operational Manual covering working capital facilities and Apex facilities is being developed by AIIB together with each of TKYB and TSKB.
[6] AIIB and TKYB have agreed on a number of corporate development milestones which include: (i) number of staff: 200 by year-end 2020, and 250 by year-end 2021; (ii) improve core IT process by June 2020; (iii) develop a sustainability management system by Dec 2020; and (iv) establish a new core banking system by June 2021.

	• Sub-loan limits per Sub-borrower:
	  ○ Direct non-SME: USD30 million per Sub-borrower.
	  ○ Direct SME: USD5 million per Sub-borrower
	  ○ Apex: USD50 million per PFI.
	  ○ Apex: USD5 million per Sub-borrower.
	• 70% allocation of each component to key target infrastructure and OPS sectors (Groups 1 and 2, see **Annex 5**).
	• PFIs to have previous Apex experience, where possible.
	• Prohibited uses: retrenchment payments, dividends/share buyback, payments for land, among others to be defined.

Retroactive Financing	The Borrowers may finance Retroactive Payments from the date COVID-19 was declared a Public Health Emergency by the World Health Organization (WHO) (i.e. Retroactive Financing Date: January 30, 2020,) until the date of signing of the Loan Agreement up to an aggregate maximum of 20 percent of each component.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Project.

Project Approval	Board
President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Najeeb Haider
Manager (acting)	Stefen Shin
Project Team Leader	Stefen Shin, Principal Investment Officer
Co-Project Team Leader	Francisco Fortuny, Private Sector Operations Specialist
Team Members (in alphabetical order)	Aiden Patterson, Investment Associate Henri de Branche, Senior Environmental Specialist Irem Kızılca, Economist Liu Yang, Counsel Marcin Sasin, Senior Economist Monisha Hermans, Senior Client Relationship Officer Sanjung Ha, Strategy and Policy Officer Shonell Robinson, Financial Management Specialist Xiaowei Guo, Procurement Specialist Yunlong Liu, Procurement Specialist

2. The Project Description

A. Project Fit under the COVID-19 Crisis Recovery Facility

1. **Background.** COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization (WHO) on Jan. 30, 2020, and a pandemic on March 11, 2020. COVID-19 has precipitated a global economic and financial market crisis.

2. **Crisis Impact on the Country.** The Republic of Turkey is an upper-middle-income country, and a regional Member of the Asian Infrastructure Investment Bank (AIIB). While signs of economic expansion were evident in the second half of 2019 in the form of growing exports and tourism, COVID-19 has occurred at a time when the Turkish economy was recovering from the 2018-2019 recession. **Annex 3** provides an overview of the macroeconomic situation and the potential impact of the current crisis on the Turkish economy.

3. **Crisis Impact on Corporates and SMEs.** The effects of the lockdown measures, supply chain disruptions and the global downturn are particularly severe in the private sector, and especially among small and medium-sized enterprises (SMEs), which employ 74 percent[1] of the workforce in Turkey. Businesses across multiple sectors are losing revenue and cash flow. They may be unable to meet their financial obligations to their suppliers, landlords, and other creditors, therefore placing them at risk of underperformance or failure. This spills over to broader socio-economic impacts, such as job losses. The pandemic has also triggered a financial market meltdown: in emerging economies like Turkey, where capital markets are relatively shallow, companies risk facing funding difficulties.

4. **Crisis Impact on the Banking Industry.** The domestic banking industry is one of the credit pillars of Turkey's real economy and the infrastructure sector. Banks account for over 70 percent of all financial services as of 2018, according to Turkey's Investment Office. As of today, Turkey has 54 banks, including 32 deposit banks, 14 development and investment banks, 6 participation banks and 2 banks under the portfolio of the Saving Deposit Insurance Fund.[2] The crisis is expected to aggravate the financial institutions' funding and liquidity vulnerabilities at a time when they are critically needed to smooth the financial impact from the COVID-19 mitigation measures. Furthermore, the impending economic downturn is likely to increase the credit risk of borrowers and may result in a decline of asset quality and profitability for Turkey's banks, and therefore reduce their incentives to continue lending at the same pace as before the COVID-19 crisis.

5. **Alignment with AIIB COVID-19 Crisis Recovery Facility.** The COVID-19 Credit Line Project is aligned with the Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility[3], specifically in respect of paragraphs 14.3 on "financings to address liquidity constraints for clients in infrastructure and other productive sectors" and 15.1 on sovereign-backed and non-sovereign-backed financing for regular investment projects ("provision of working capital and liquidity support to borrowing banks' clients"). This Project will support two of Turkey's development banks in their efforts to maintain the availability and accessibility of short-term

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[1] TSKB. 2019. Trickle-down Financing as An Alternative to Direct Financing of SMEs. Istanbul. Link.
[2] Banking Regulation and Supervision Agency (BRSA). Banking Indicators. Link.
[3] AIIB. 2020. Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility as approved by the AIIB Board of Directors on April 16, 2020. Link.

financing to the country's infrastructure and other productive sectors (OPS). AIIB's financing will support Turkey's efforts by supplying short term liquidity to the real economy. The Project will contribute to improving the resilience of infrastructure-related and OPS companies, thereby facilitating the Member's recovery and long-term sustainable development.

6. **Government's Response.** The Project is consistent with the emergency response policies of the Government of Turkey and the Central Bank of the Republic of Turkey (CBRT), whose measures are aimed at mitigating the impacts of the crisis on the banking and real sectors. In March 2020, Turkey's government announced a TRY100 billion (USD15 billion) stimulus package to help cushion the economic downturn. The CBRT has cut interest rates and injected liquidity into financial markets to support economic activity and lending (see **Annex 3** for further information). Turkey is a strategic AIIB regional Member that connects Europe and Asia and holds strong economic and cultural ties with both regions. Over the past decades, Turkey has become closely integrated with the economies of the European Union (EU) and Asia. The signing of the Customs Union Agreement between Turkey and the EU in 1996 set the foundation of Turkey's economic relations with its western partners. It also contributed to the transformation of Turkey into the biggest manufacturing export hub of the Eurasia region. In addition to trade, Turkey has become more integrated with Europe and Asia through increased flows of inward and outward foreign direct investments, approximately 75 percent of which came from EU countries.[4]

7. **Lessons Learned from Previous Projects with the Borrowers**. The Project will build on two prior financings with the same Borrowers. This experience will allow the AIIB to resolve critical due diligence questions swiftly and build on the substantial work to date and the lessons learned from the management of financial intermediary (FI) projects. AIIB has developed a strong relationship with both Borrowers and contributed to their growth in recent years (see **Sections 4.C** and **4.D** of this document).

8. **Lessons Learned from Previous Projects by Other IFIs.** AIIB has also drawn on lessons learnt from similar projects by other international financial institutions (IFIs) in Turkey. Some lessons which have instructed the design of the Credit Line include:

(i) **<u>Need for an experienced Apex lending partner</u>**. AIIB will carry out its first Apex lending through Türkiye Kalkınma ve Yatırım Bankası (TKYB). The latter has significant experience with Apex lending and dedicated staff. TKYB has engaged in Apex lending since 2008, with 15 different partner financial institutions (PFIs) in its lending network and has lent to over 3,000 SME beneficiaries. See **Annex 4** and **Section 4.A**.

(ii) **<u>Ensuring the commercial viability of Apex and direct Sub-loans</u>**. The Borrowers must ensure that AIIB funds do not result in excessive nonperforming loans (NPLs). AIIB has provided quantitative eligibility criteria around size and tenor to mitigate concentration, and places reliance on the Borrowers' assessment of Sub-borrower creditworthiness and foreign exchange position.

(iii) **<u>Identifying positive externalities</u>**. Credit line projects by peer multilateral development banks (MDBs) have highlighted that positive externalities (e.g. support for innovation, job creation, new business models) are core features of these projects, and recommend defining these clearly at inception, as well as having a well-designed result monitoring framework. AIIB has interpreted this considering the COVID-19 pandemic,

[4] EY Attractiveness Survey 2019. Link.

where pertinent positive externalities include supporting priority sectors (Groups 1 and 2 activities, see **Annex 5**) from a mandate standpoint, while expanding the scope of the facility to accommodate Turkey's diverse economic structure (Group 3 activities) and large SME population. The proposed Results Monitoring Framework is presented in **Annex 1**.

(iv) **Site visits**. Recommendations from other MDB's projects suggest that ongoing field visits and interviews with beneficiary Sub-borrowers are useful tools to assess the efficacy of credit lines, like the Project. Their frequency will depend on the evolution of the COVID-19 pandemic, and the normalization of travel to the country (see **Section 3**).

(v) **Non-competing PFIs** Other similar projects have faced issues when selected PFIs and Borrowers competed for the same market space. This situation limits the willingness of the PFIs to share critical portfolio information with the Borrower and reduce the overall efficacy of the Project. AIIB has circumvented this issue by allowing TKYB to select PFIs from its current lending network and include noncompeting partners, such as retail commercial banks and factoring companies. The eligibility criteria for PFIs will be captured in the POM (see **Annex 5** for an overview).

B. Project Objective and Expected Results

9. **Project Objective.** To reduce liquidity constraints caused by the COVID-19 crisis and increase access to finance to corporates and SMEs operating in eligible infrastructure and OPS in Turkey.

10. **Expected Results.**

(i) **Direct Results**

- Short-term financing provided to infrastructure and eligible OPS companies
- Short-term financing provided to SMEs
- Number of total Sub-borrowers and number of SME Sub-borrowers
- Limited percentage of nonperforming loans of each Borrower

(ii) **Indirect Results**

- Maintenance of infrastructure and productive capacity by the portfolio companies
- Maintenance of employment by the portfolio companies

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

(i) **Direct beneficiaries**

- Turkish financial institutions: TKYB, Türkiye Sınai Kalkınma Bankası (TSKB), and PFIs that will channel funds to their client base through Apex lending
- Turkish corporates and SMEs involved in the supply, development, operation, and maintenance of infrastructure and eligible OPS that face liquidity and working capital challenges under the current environment

(ii) **Indirect Beneficiaries**

- Other companies in the value chain in Turkey that will see the potential disruption to their business mitigated
- Direct and indirect employees, as the Project will help mitigate the unemployment generated by the crisis
- Users of the infrastructure and products provided by the companies, as disruption of service and productive activity will be avoided by the provision of working capital

C. Description and Components

12. **Overview**. The proposed Project will provide sovereign-backed short-term credit lines to two of Turkey's development institutions that are existing AIIB clients, hence alleviating liquidity constraints faced by companies and SMEs operating in the infrastructure and eligible OPS at these extraordinary circumstances. The approach presents important benefits, as outlined in **Table 1** below. See **Table 2** for an overview of the Project implementation parties.

Table 1. AIIB Channels of Intervention

	Direct Channel	Financial Intermediaries
Description	▪ AIIB works directly with infrastructure project finance sponsors and infrastructure-related corporates ▪ Funds provided directly to beneficiaries after full AIIB assessment, of compliance with policies	▪ AIIB works through FI to reach FI's infrastructure project finance sponsors and infrastructure related corporates ▪ Lending is delegated to the FI which allocates funds to sub-borrowers based on client relationships and lending criteria, under AIIB oversight
Benefits	✓ More control over lending decisions and use of proceeds ✓ More information over existing financing and potential new clients ✓ Building of new client relationships	✓ Wider reach (works well for smaller companies and projects) ✓ FI have greater knowledge of their own existing client base ✓ Faster deployment of funds once projects are identified
Challenges	? Due to limited reach of AIIB, limited number of engagements ? Consequent limited impact at a juncture where time is critical ? Resource intense approach	? Less control over the lending process ? Dependency on FI's E&S, procurement and financial assessment ? Reliance on FI's management and monitoring systems

Table 2. TSKB and TKYB Overview

	KALKINMA YATIRIM BANKASI	TSKB
Description	▪ TKYB is a state-owned development bank established by law (Law no. 7147). Its mission is to increase economic growth and contribute to both employment and the population's welfare ▪ TKYB conducts development banking activities by supplying long-term finance for sustainable development and investment banking activities. TKYB manages the Development Fund of Turkey ▪ TKYB predominantly provides foreign currency (EUR, USD) loans to strategic sectors and regions both directly and through Apex lending	▪ TSKB was established in 1950 with the support from the World Bank, the Turkish Central Bank, and commercial banks ▪ It is Turkey's first privately-owned development and investment bank. Its mission is to support the sustainable development of Turkey by providing corporate banking, investment banking and advisory services ▪ TSKB provides medium- and long-term funding to Turkish companies, through corporate and project loans in foreign currency (EUR, USD) both directly and through Apex lending
Headquarters	▪ Istanbul (s. June 2019)	▪ Istanbul
Employees	▪ 263 (as of Jun. 18, 2020)	▪ 375
Size and Scale	▪ 4th-largest development and investment bank in Turkey (share 6.4%) ▪ c. USD 3.3 billion in assets	▪ 2nd-largest development and investment bank in Turkey (share: 13.9%) ▪ c. USD 7.1 billion in assets
Ownership	▪ c. 99.1% government-owned, c. 0.99% listed on Istanbul stock exchange (BIST), to maintain market transparency and reporting 	▪ c. 50.9% owned by İş Group, Turkey's largest private bank, c. 8.4% by Vakıfbank, Turkey's 5th-largest bank. Remainder 44.7% is free float 
Credit Rating	▪ Fitch (LTFC): BB-	▪ Fitch (LTFC): B+ / Moody's (LTIR): B3
Loan Book	▪ FY19: TRY 15.1bn or USD 2.9bn (56% USD, 44% EUR) ▪ 45% Energy Production, 8% Energy Distribution, 25% Financial Institutions, 11% Manufacturing, 9% Tourism, 2% Other	▪ FY19: TRY 31.4bn or USD 6.31bn (48% USD, 43% EUR, 9% TRY) ▪ 36% Electricity Generation, 14% Financial Institutions, 3-9% each for Energy Distribution, Logistics, Chemistry and Plastics, Construction, Tourism, Real Estate, Food and Beverage, Education, Health

TKYB = Türkiye Kalkınma ve Yatırım Bankası, TSKB = Türkiye Sınai Kalkınma Bankası. Source: Banks Association of Turkey. 1963-2020. Statistical Reports; TKYB. 2019. 4Q19 Presentation. Link; TSKB 4Q19 Presentation. Link.

13. **Components.** The proposed Project has three components, as presented in **Table 3** below: (a) direct lending to new and existing TKYB clients; (b) Apex lending to TKYB Sub-borrowers through eligible PFIs such as banks and factoring companies;[5] and (c) direct lending to new and existing TSKB clients. See **Annex 4** for further information about TKYB's Apex lending capabilities. See **Annex 5** for the Sub-borrower eligibility criteria.

Table 3. Project Components

Bank	Financing	Component	Description
KALKINMA YATIRIM BANKASI	USD 150-200 million	A	▪ Direct Lending to New and Existing TKYB Clients
	USD 100-150 million	B	▪ APEX Lending through PFI to New and Existing PFI Clients
TSKB	USD 200 million	C	▪ Direct Lending to New and Existing TSKB Clients

D. Cost and Financing Plan

14. **Amount.** The two sovereign-backed loans would equal a combined total of up to USD500 million in favor of TKYB (up to USD300 million) and TSKB (up to USD200 million). The amounts are comparable in size to the facilities previously provided to the Borrowers by other MDBs and development finance institutions (DFIs), including AIIB. The Borrowers have presented pipelines of direct loans to substantiate the quantities requested. The Borrowers have confirmed that there is enough demand and absorption capacity by the two banks for the proposed amounts.

Table 4. Project Cost and Financing Plan

Item	Current and Growth Pipeline (in USD millions)	AIIB Loan (in USD millions)
TKYB		
Component A – *Direct lending*	150-200	150-200
Component B – *Apex lending*	100-150	100-150
Sub-total	**300**	**300**
TSKB		
Component C – *Direct lending*	200	200
TOTAL	**500**	**500**

15. **Maturity**. The Credit Line will have its final maturity date on Oct. 15, 2024, and availability period until Dec. 18, 2021. All Sub-loans under the facility will have a maximum maturity of 36 months. The maturity is expected to accommodate the underlying direct and Apex Sub-loans. The

[5] Due diligence and eligibility criteria are presented in **Annex 5** and will be described in the Project Operational Manual, currently being developed by AIIB with each of TKYB and TSKB.

average maturity of the Credit Line is expected to be between 36 and 52 months. The loan will be repaid as per the terms presented in **Section 1**.

16. **Pricing**. The loans to the Borrowers will be fixed-spread and follow the general conditions[6] and pricing[7] applicable to sovereign-backed financing (SBF) loans, which are uniform. The Sub-loans' pricing and maturity will be determined by the Borrowers based on their commercial assessment of the Sub-borrowers and in line with market practice. The interest rate will be equal to the cost of funds to the Borrowers (i.e. LIBOR or applicable reference rate and a fixed spread), plus a risk-adjusted spread based on each Sub-borrower's risk classification.

17. **Sub-borrower eligibility.** Proceeds from the loans will be available to each Borrower in accordance with selection criteria and parameters to be defined in each Borrower's Project Operational Manual (POM), to be developed and agreed with AIIB. The POM will include the eligibility criteria for PFIs, Sub-borrowers, and Sub-loans (see **Annex 5**), and their management procedure (see **Sections 4.C** and **4.D** of this document). Sub-borrowers will be private companies domiciled in Turkey, operating in an Eligible Sector as per AIIB's criteria, not involved in Excluded Activities, in compliance with the applicable laws, meeting each Borrower's criteria in terms of creditworthiness, foreign exchange position, Environmental and Social (E&S) risk profile, procurement, and Know Your Client (KYC) requirements. The POM will also describe the disbursement and funds flow process and the required Project monitoring arrangements.

3. Implementation Arrangements

18. **Implementation period.** The implementation period is expected to be from July, 2020 to **December**, 2021.

19. **Implementation Management.** The Borrowers will be responsible for the implementation of the Project. Owing to the previous facilities with AIIB and with other MDBs and DFIs,[8] each Borrower has established a Project Implementation Unit (PIU), with adequate budgetary and human resources, ready to oversee the on-lending to Sub-borrowers, including the selection, appraisal, monitoring, record keeping, information management, and reporting to AIIB. Each PIU shall ensure the Borrowers, the PFIs and the Sub-borrowers comply with the applicable law, including the relevant Banking Regulation and Supervision Agency (BRSA) prudential rules and the laws regulating lending activities in foreign currency,[9] as well as AIIB's fiduciary and E&S requirements as stated in AIIB's Environmental and Social Policy (ESP),[10] the Procurement Policy (PP),[11] and Policy on Prohibited Practices (PPP).[12]

20. **Procurement.** AIIB will provide financing to two financial intermediaries (FI) Borrowers to support eligible private sector companies in Turkey, either directly or through PFIs (Apex loans),

[6] AIIB. 2020. General Conditions for Sovereign-backed Loans. Beijing.
[7] AIIB. 2019. Sovereign-backed Loan and Guarantee Pricing. Beijing.
[8] Both institutions have experience implementing short-term working capital finance lending and Apex lending, funded by other MDBs and DFIs, including the World Bank's International Bank for Reconstruction and Development (IBRD), Agence française de développement (AFD), Kreditanstalt für Wiederaufbau (KfW) and Council of Europe Bank (CEB).
[9] Government of Turkey, The Undersecretariat of Treasury, General Directorate of Banking and Exchange. 2015. Council of Ministers' Decree No. 32 on the Protection of the Value of the Turkish Lira. (June 11). Link.
[10] AIIB. 2016, amended 2019. Environmental and Social Policy. Link.
[11] AIIB. 2016. Procurement Policy. Link.
[12] AIIB. 2016. Policy on Prohibited Practices. Link.

in accordance with the respective POMs, which are currently under preparation. The Credit Line will provide liquidity for the payment of operating expenses (OPEX), short-term assets (inventories, trade receivables, others) and short-term liabilities. It will not support large capital infrastructure investment financing (CAPEX). Therefore, it is anticipated that the bulk of the loan utilization may not involve procurement and, in such a case, AIIB's PP would not apply. However, should the AIIB loan be used by the Sub-borrowers/beneficiaries for the procurement of goods and services, under such circumstances, the private entities provisions for financial intermediaries in AIIB's PP and the associated Interim Operational Directive on Procurement Instructions for Recipients[13] could apply to this Project. The Borrowers should establish that Sub-borrowers carry out procurement in accordance with the normal practices of private entities that are acceptable to AIIB. Public entities will not be financed as Sub-borrowers, as it will be provided in the POM.

21. **Retroactive Financing**. Sub-borrowers may request the Borrowers to finance eligible expenditures incurred before the date of signing of the Loan Agreement, from the date COVID-19 was declared a Public Health Emergency by the World Health Organization (WHO) (i.e., Jan. 30, 2020) on the basis of financial budgets, evidence of invoices, and details of the expenditures incurred, as reasonably required by AIIB, up to an aggregate maximum of 20 percent of the amount of each Project component. AIIB's E&S requirements applicable to the Project will apply to all retroactively financed expenditures.

22. **Financial Management**. The financial management function of Component 1 and Component 2 will be undertaken by TKYB, and Component 3 by TSKB, as presented in **Table 3**. The financial management responsibility of the Project will reside with each Borrower's PIU. These departments possess the necessary staff and experience—both Borrowers are long-established institutions, operating under the BRSA oversight as per Banking Law No. 5411, which issues specific rules governing internal controls and the external audit of banking institutions operating in Turkey. Both Borrowers are required to provide unaudited and audited financial reports during project implementation. The unaudited financial reports will cover a six-month period, (January-June and July-December of each year), commencing after the first disbursement of funds. Such will become due for submission to AIIB within 45 days of each reporting period end. The format and content of the reports will be agreed upon with AIIB. An annual project audit will be executed by an external audit firm deemed to be acceptable to BRSA and AIIB, in accordance with the Terms of Reference approved by AIIB. The audit report comprising of the Project audited financial statements and the management letters will become due for submission to AIIB, within six months of the financial year-end (December of each year) of TSKB and TKYB.

23. **Fund Flow and Disbursement.** The loan will adopt a combination of *advance* and *reimbursement* methods for payments. The advance method will be the main method of disbursement while the reimbursement method will be used to finance eligible payments already disbursed by the Borrowers. Under the advance method, AIIB will disburse funds to a segregated designated account maintained by each Borrower (Designated Account), in which funds will thereafter be transferred for on-lending and deposit to the accounts of eligible Sub-borrowers and PFIs. The Designated Accounts must be established at a financial institution acceptable to AIIB. Funds will be advanced against a submission of eligible Sub-borrowers approved by AIIB. Subsequent advances will be made upon confirmation that previous funds have been on-lent to beneficiaries and AIIB's approval of a new submission of eligible Sub-borrowers. The minimum

[13] AIIB. 2016. Interim Operational Directive on Procurement Instructions for Recipients. Link.

disbursement from AIIB to the Borrowers for both direct on-lending and Apex lending will be USD15 million, and the maximum USD100 million. Applications may bundle several requests. When funds are used to support the service of the Borrower's own loans to existing clients, the quantum thereof must be disclosed. Each Borrower will also open and maintain a segregated bank account for the payment and repayment of funds associated with each Sub-loan. The detailed disbursement arrangements have been set out in a Disbursement Letter, to which the Interim Disbursement Manual for Sovereign-backed loans is attached. Withdrawals for retroactive financing will be permitted, and subject to the date and limit specified in the legal agreements. The Borrowers will receive, maintain, and monitor AIIB loan proceeds using their own financial management systems.

24. **Accounting.** A separate Sub-loan account will be created in the accounting system and ledger of each Borrower, in which the chart of accounts will be designed by Sub-borrowers and PFIs to ensure the accuracy and completeness of Project transactions and financial reports. The Project's transactions will be recorded and reported on using the *cash basis* of accounting. All payments to and from eligible Sub-borrowers and PFIs will be recorded and tracked in Sub-loan accounts to be maintained in accordance with policies and procedures satisfactory to AIIB. Any foreign exchange gains and losses will be absorbed by each Borrower.

25. **Monitoring and Evaluation.** During the loan implementation period, AIIB retains the right to review all Sub-loans and conduct supervisory visits, including visits to the Sub-borrowers, at its discretion. TKYB and TSKB will each regularly provide AIIB with reports including utilization request forms, audited financial statements, auditors' management letters, certificates of compliance with national financial regulations, and E&S reports, as per the respective loan agreements. Both Borrowers will be required to provide unaudited and audited financial reports during the life of the loan. The unaudited financial reports will cover six months (i.e., January-June and July-December), commencing after the first disbursement and will be submitted semi-annually. An annual project audit will be executed by an external audit firm approved by BRSA and acceptable to AIIB and in accordance with Terms of Reference approved by AIIB. The audit report comprising of the project audited financial statements and the management letters will become due to AIIB, within six months of each Borrower's financial year-end (December).

26. **AIIB's Implementation Support.** Subject to travel disruptions caused by the COVID-19 pandemic, AIIB will carry out an annual monitoring visit to each of the Borrowers to oversee the implementation of the Project. No technical assistance is envisaged.

4. Project Assessment

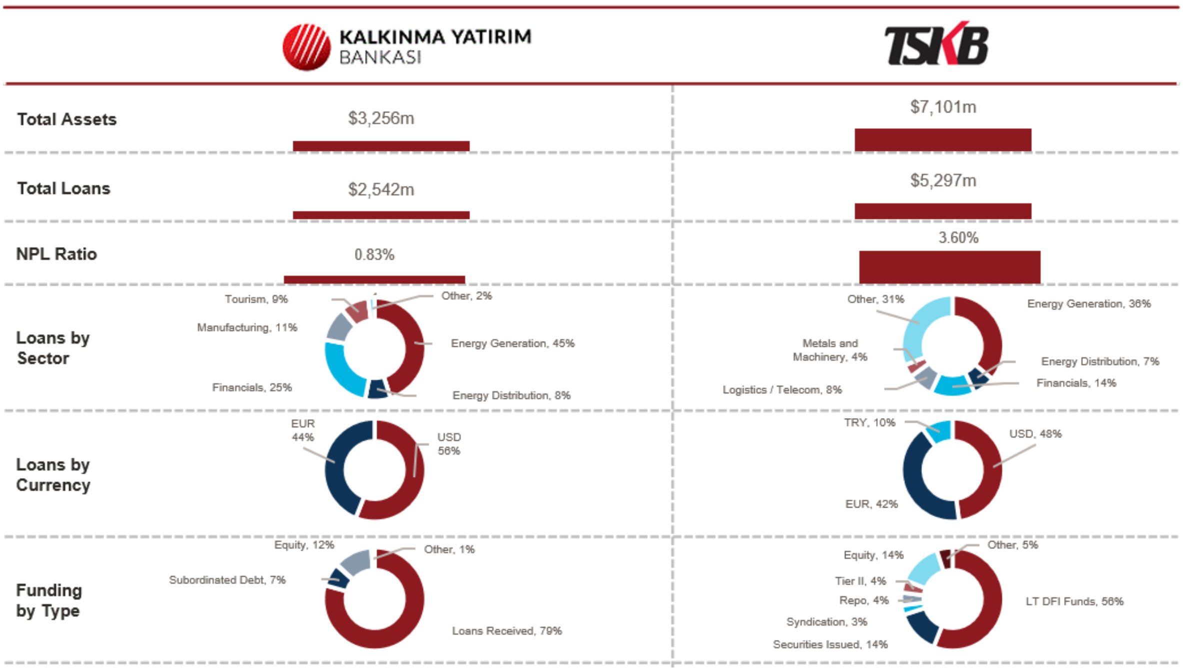
27. In view of the urgent situation, the assessment has been conducted based on the background and experiences of the two previous financings with the same Borrowers that are currently under implementation. AIIB had previously retained independent financial consultants to assist with the assessment of each Borrower and whose findings are still relevant today. AIIB has reviewed the previous assessments and gathered supplementary information through questionnaires and exchanges. Both Borrowers have an adequate financial review and administrative capacity in the form of policies, procedures, and structures; their financial, risk management, internal controls, compliance, and audit functions are well structured. Significant reliance will be placed on ex-post requirements for additional controls and reviews.

A. Technical

28. AIIB has reviewed the Borrowers' capacity to implement direct loans and Apex Sub-lending. Both Borrowers will be responsible for project implementation, including selection, analysis, and monitoring of all Sub-borrowers and, in the case of TKYB, PFIs under the credit line. Both banks have a track record of managing MDB- and DFI-funded facilities and lending to the sectors targeted by the Project. TKYB has ample experience with Apex lending, as this modality represents 26 percent of its loan portfolio. The technical aspects of the loan review process are enshrined in the Borrowers' financing approval and monitoring procedures, which segregate the duties of separate departments involved in the identification, screening, evaluation, monitoring, and recovery of loans after their financial close. The staff at each bank were assessed to be professional and technically capable of performing Sub-loan assessments, monitoring, and E&S supervision; the ongoing experience of working with both Borrowers supports this view.

B. Economic and Financial Analysis

Table 5. TKYB and TSKB Key Performance Indicators



LT DFI = Long-term Development Finance Institution, m= million. Source: SNL, company disclosures.

29. The economic and financial analysis focuses on the financial soundness, portfolio quality, and risk management capabilities of the Borrowers, and the initial review of the proposed preliminary pipelines. The Borrowers will be required to ensure the financial viability of each Sub-borrower and evaluate its fit with AIIB's sector eligibility criteria (see **Annex 5**). The proposed loans will expand the Borrowers' balance sheet compared to their year-end 2019 levels. AIIB completed its financial due diligence on the Borrowers in 2018 and 2019 and supplemented it with a review of their latest financial performance in 2020. Overall, the Borrowers present a conservative approach to lending and healthy balance sheets compared to their peers and the wider banking sector. Their limited open foreign currency positions, low NPL ratios, high capital adequacy ratios (CAR), liquidity, interest margin and returns on assets and equity support this view (see **Table 5**). Both Borrowers are relatively protected from the macroeconomic pressure described in **Section 2**.**A** and **Annex 3** of this document.

C. Fiduciary and Governance

30. **Financial Management (FM).** The FM function of the project will be intertwined in the current structure, processes, and procedures of both Borrowers, which have been previously assessed and deemed to be acceptable by AIIB under the previous facilities**.**[14] The FM risk assigned to these projects is **moderate,** given that both institutions have experience in the operation of on-lending facilities. In addition, the Borrowers have the required internal control environment to ensure that funds are used solely for the purposes intended and to enable the provision of timely and accurate financial information to AIIB.

31. The main risk factors identified for this operation are (a) the possibility of fund misuse by PFIs and Sub-borrowers, and (b) that funds may be disbursed to ineligible beneficiaries. These risks are, however, mitigated by the financial management monitoring and reporting mechanisms required from each Borrower, PFI, and Sub-borrowers. In addition, funds will be disbursed only after AIIB has received and vetted the required documentation with respect to new requests and confirmed that previous utilizations under the advanced method have been on-lent to beneficiaries. AIIB will also execute periodic reviews of unaudited and audited financial reports and complete periodic implementation and support monitoring missions.

32. Both institutions are adequately staffed with experienced professionals capable of performing the requisite financial management responsibilities. The existing loan management and accounting systems will be utilized. The entities have well-established internal controls in place in which there is a clear segregation of duties, proper review, and authorization of transactions. In addition to the existing internal controls, Project implementation and financial management procedures will be guided by the POM to be approved by AIIB. They may be updated throughout the life of the Project as needed to reflect any updates to the existing procedures and processes.

33. The financial statements for the financial year 2019 are prepared in accordance with BRSA rules and regulations. The financial statements were audited by external auditors. Overall, the Borrowers have adequate financial management systems and robust internal controls subject to further scrutiny by their respective internal audit departments, as previous due diligence on TSKB (2018) and TKYB (2019) confirmed.

34. **Procurement.** The Borrowers should establish that Sub-borrowers carry out procurement in accordance with the normal procurement practices of private entities, as acceptable to AIIB. See **Section 3.C** above.

35. **Governance and Anti-corruption.** The Borrowers are entities subject to the regulatory oversight that regularly report to the Financial Crimes Investigation Board of Turkey.[15] Neither of the Borrowers accepts time or on-demand deposits nor opens accounts for individuals or legal entities; their money laundering and terrorism financing risk profile is therefore limited. TKYB and TSKB are signatories of the United Nations Environment Program Finance Initiative (UNEP) FI Principles for Responsible Banking and the United Nations (UN) Global Compact. TSKB is subject

[14] Asian Infrastructure Investment Bank (AIIB). 2018. TSKB Sustainable Energy and Infrastructure On-lending Facility and AIIB. 2019. TKYB Renewable Energy and Energy Efficiency On-Lending Facility.
[15] Banks are supervised by the BRSA under Banking Law No. 5411. Other regulatory bodies are the Financial Crimes Investigation Board, the Savings Deposit Insurance Fund and the Deposit Insurance and Bank Resolution Authority.

to the Istanbul Stock Exchange (BIST) Sustainability Index and rated by SAHA for its Corporate Governance rating. TSKB has been issuing its sustainability reports since 2008 and produced its first integrated report for 2016. It has been publishing its Integrated Annual Report since 2018. Both Borrowers are listed in the BIST and subject to stock market reporting requirements.

36. Each one of the Borrowers is committed to preventing fraud and corruption in its lending activities. Each of the Borrowers will ensure that the Project is implemented in compliance with AIIB's Policy on Prohibited Practices. Implementation will be monitored regularly by each of the Borrowers and reported to AIIB. Each of the Borrowers and its Sub-borrowers will be required to report to AIIB any suspected Prohibited Practices in relation to the Project. AIIB will reserve the right to investigate—directly and indirectly through its representatives—alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project and to take necessary measures to address any issues in a timely manner, in coordination with the Borrowers, as appropriate.

37. **Financial Crime and Integrity Due Diligence (FCIDD) and Know Your Client (KYC).** Both Borrowers are existing counterparties of AIIB and were onboarded in accordance with the procedures applicable at the time. Integrity due diligence was previously undertaken by AIIB on the Borrowers, their shareholders, and senior management to ensure that their integrity was sound. TKYB is a state-owned entity (SOE) whereas TSKB is majority owned by İş Group (see **Table 2** above).

D. Environmental and Social

38. **E&S Policy, Standards and Categorization.** AIIB's ESP, including the Environmental and Social Exclusion List, applies to this Project. The Project has been placed in Category FI, because the financing structure involves the provision of funds through Financial Intermediaries (FI), whereby AIIB delegates to the Borrowers the decision-making on the use of AIIB's funds for Sub-loans in so far as the Sub-loans meet the conditions of the POM.[16] For Borrowers' direct and PFI's indirect liquidity and working capital financing, the Sub-loans' tenure will be short and the use of funds will not be tied to long-term physical assets or specific operations, thus the E&S impacts of the beneficiary's activities and E&S risk exposure of the lenders are deemed manageable using good practice in an operational setting. The POM will define the eligibility criteria for the use of proceeds of AIIB's funds and determine the applicability of the Borrowers' respective E&S policies and procedures, which have been determined to be materially consistent with the provisions of AIIB's ESP, and any additional requirement. Based on earlier due diligence and continuous engagement with the Borrowers, AIIB is also satisfied that the monitoring capacity and procedures of the two institutions are appropriate for the Project.

39. **Environmental and Social capacity and resources.** The earlier E&S due diligence conducted for the initial Projects with TKYB[17] and TSKB[18] and work with these to date has resulted in the refining, for TKYB, and continuous implementation for both of suitable Environmental and Social Management Systems (ESMS). Both institutions are deemed to have adequate resources for their implementation across their lending activities' transaction cycle. This has been confirmed during on-going engagements between AIIB and the Borrowers in the scope

[16] The E&S Standards are deemed not applicable due to the short-term (below 36 months) nature of working capital sub-loans not eligible for CAPEX expenses to be provided under this Project.
[17] AIIB. 2019. TKYB Renewable Energy and Energy Efficiency On-Lending Facility
[18] AIIB. 2018. TSKB Sustainable Energy and Infrastructure On-lending Facility

of TKYB's updating of its ESMS, prior reviews of Sub-loans proposed by TKYB and TSKB and monitoring jointly conducted by TSKB and AIIB on a co-financed project. Both Borrowers have technical teams comprising dedicated E&S specialists, established processes to present the due diligence findings to investment committees, and their personnel at large is familiar with AIIB's and other MDB or DFI's requirements applicable to on-lending activities. TKYB has managed International Bank for Reconstruction and Development (IBRD) funds in the scope of an Apex on-lending project and developed working relationships with PFIs, including strengthening, and monitoring their E&S risk management processes (see **Annex 4**).

40. **Environmental and Social Management.** The Borrowers will be required under their ESMS to screen Sub-loan proposals against the E&S Exclusion List, assign an E&S risk ranking as per criteria defined in the POM, conduct an E&S assessment of contextual risks and current E&S performance, and conduct monitoring of Sub-loans and report to AIIB accordingly. As will be defined in the POM, the extent of the E&S assessment by Borrowers of direct Sub-borrowers will be proportional to the predetermined E&S risk ratings for various industries[19] and other additional risk factors such as tenure and amount of the Sub-loan, and proposed use of proceeds (together the Sub-loan characteristics). PFIs will not be allowed to extend Sub-loans to Sub-borrowers in high E&S risk sectors.

41. Beneficiaries will be required to (a) demonstrate the compliance of their activities with applicable E&S regulatory requirements and commit to maintaining that status during the tenure of the Sub-loan, (b) represent not having recently been administratively or judicially determined to be in material breach of E&S regulations, and (c) not be reported in mainstream or social media as materially contravening good E&S practices. Sub-borrowers will be bound to implement an Environmental and Social Action Plan (ESAP) to remediate any material gap with the applicable E&S standards defined in the Borrowers' ESMS and POM within an agreed period. Furthermore, beneficiaries in higher E&S risk industries that are engaged during the working capital Sub-loan's tenure in activities defined in the POM as potentially presenting higher E&S risks,[20] will be required to ensure appropriate E&S disclosure and stakeholder engagement of such activities, even though such activities will not be eligible for Sub-loans. In all instances, Sub-loans' proceeds shall not be used to finance CAPEX—i.e., investment into long-term tangible projects or activities—but shall only be used to finance OPEX. Sub-borrowers will provide information to the Borrowers (or to the PFIs on behalf of the Borrower) in response to E&S questionnaires during the appraisal of Sub-loans and through the course of their tenure. The Borrowers will use standard E&S covenants and reporting requirements for each tier of E&S ranking, and where necessary prepare an ESAP for inclusion in the Sub-loan documentation.

42. **Referral to AIIB for Prior Approval and Reporting**. Where a request for a Sub-loan and the Borrower's E&S assessment indicate that both the beneficiary's industry sector and other characteristics of the Sub-loan are respectively high E&S risk industry and potentially high E&S

[19] EBRD's E&S Risk Categorization List (Revised 2014), which uses the European Union's NACE classification (Link), is proposed. See EBRD. 2016. EBRD Environmental and Social Risk Management Manual. Link.

[20] Activities are deemed to present high E&S risks if they may induce: (a) significant adverse impacts to community health and safety as a result of construction/operation of the assets; (b) significant number of serious injuries and/or fatal accidents during construction and/or operation of the assets; (c) involuntary resettlement of people; (d) impacts on critical habitat and natural resources, vulnerable people and cultural resources, and (e) significant retrenchment.

risk transaction[21] as defined in the POM, the Borrowers may be required to conduct a site visit, as appropriate, as part of their Sub-loan assessment and submits to AIIB an Appraisal Form for review prior to allocating AIIB funds. The same referral requirement will apply in all instances whereby the use of funds is indicated to finance significant retrenchment,[22] or for use in relation to servicing debt for a Category A or B+ activity, as per their E&S management and categorization system, recently or currently undertaken by the beneficiary. In an instance where significant retrenchment occurs during the Sub-loan tenure, the Sub-borrower will have to notify the respective Borrower, submit an appropriate retrenchment plan, and commit to implementing it in accordance with good E&S practices. PFIs through the Apex component will not be authorized to extend working capital loans to Sub-borrowers in high E&S risk sectors or to finance activities predetermined to present high E&S risks as defined in the POM. The Borrowers will be responsible for maintaining a comprehensive database off all E&S information and assessments of Sub-loans; ensuring the PFI's appropriate screening, categorization, and assessment of their Sub-loans to ultimate beneficiaries; reviewing monitoring reports by PFIs on the E&S performance of their Sub-borrowers; and reporting to AIIB on a regular basis as per paragraph 46 below.

43. **Stakeholder Engagement, Consultation, and Information Disclosure.** The Borrowers will ensure that their Sub-borrowers disclose E&S information and conduct stakeholder engagement activities as per applicable regulatory requirements if engaging in higher E&S risk activities during the Sub-loan tenure, and to that effect shall include such requirements as covenants and disbursement conditions in Sub-loan agreements. Furthermore, the Borrowers will be required to publish retrospectively a summary of the E&S aspects and overview of the E&S performance of the Project in accordance with the regulatory requirements on information confidentiality applicable to the banking sector in Turkey.

44. **Project Level Grievance Redress Mechanism.** Both Borrowers' ESMS require them to address third-party views, enquiries or concerns regarding their own E&S processes and outcomes, as well as E&S impacts and performances of their portfolio loans, as defined in their information mechanism. Both Borrowers have established webpages where they disclose their contacts and process to receive and handle such complaints and inquiries. Furthermore, the Borrowers will be required to ensure that Sub-borrowers establish fit-for-purpose GRMs within an agreed timeframe to address concerns and grievances from both workers and external stakeholders. When activated, that GRM should explicitly indicate to grieving parties the potential recourse to the Borrower's information mechanism and to AIIB's Project-Affected People's Mechanism (PPM) (see paragraph 46 below).

45. **AIIB's Independent Accountability Mechanism.** AIIB's Policy on the PPM applies to this project. The PPM has been established by AIIB 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 GRM or the processes of Bank Management.[23]

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[21] Sub-loan tenure over 36 months, and amount threshold for corporates/mid-caps and SMEs are sub-loan characteristics that will determine the E&S risk profile of the transaction.

[22] A retrenchment plan affecting over 10 percent of the workforce of a group (multi-site), or over 20 percent of a single site company is considered significant.

[23] For information on how to make submissions to the PPM, please visit: https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html.

46. **Monitoring and Supervision Arrangements.** The Borrowers will have to rely on information provided directly by the Sub-borrowers or in the instance of Apex lending by the PFIs, themselves collecting it from the ultimate beneficiaries, and publicly available information capturing records of E&S performance and community sentiment toward a Sub-borrower to conduct both the initial E&S assessment and on-going monitoring of the Sub-loans. The Borrowers will be required to maintain a comprehensive database comprising all relevant E&S information, conduct sample-based E&S auditing of selected Sub-loans, and report to AIIB on the E&S characteristics of the Project's portfolio on a regular basis on an agreed template. Beside conducting prior review of proposed Sub-loans as described in paragraph 45 above, AIIB will conduct post-reviews of the selection and implementation of Sub-loans as part of its regular supervision, including engagement with the Borrowers, review of their records and potentially site visits and detailed review of the E&S documentation of selected Sub-borrowers.

E. Risks and Mitigation Measures

Table 6. Summary of Risks and Mitigating Measures

Risk Description	Assessment Rating	Mitigation Measures
Implementation capacity • *Risk that the Borrowers are unable of implementing the Project as approved.*	*Low-Medium*	• The Borrowers have experience and corporate capacity to undertake the Project • The Borrowers present positive track records with the management of MDB and DFI loans, including with the existing projects. • The Borrowers will maintain their respective commitments as per the existing facilities. • AIIB and TKYB agreed on a corporate strategic plan that included IT and process upgrades and staffing. The plan has been documented and approved by TKYB's Board. • AIIB reserves the right to conduct periodic discussions with the Borrowers' management and Board and visits to PFIs and Sub-borrowers.
Corporate Governance / Conflict of Interest • *Risk that the Borrowers come under undue influence or become conflicted during their operations.* • *Risk of integrity breaches and supervisory failures.* • *Both TSKB and TKYB receive substantial funding from MDBs and*	*Low*	• TKYB is exempt from BRSA regulations on provisioning, but has elected to follow them from 2019 onwards, including IFRS 9. • Both Borrowers are listed on the BIST and subject to transparency and reporting requirements. • Both Borrowers adhere to international compliance questionnaires and audit processes. • AIIB will obtain the annual letter to management from external auditors and keep examination rights.

DFIs under sovereign guarantee.		• AIIB will be informed of material events, e.g. changes of policies, management, or Board. • The decision-making processes for lending within the Borrowers are multi-layered and subject to scrutiny. This prevents the misuse of funds based on personal preference. • Financial, E&S, fiduciary, and FCIDD/KYC undertakings will be included in the POM. • Existing MDB and DFI relationships and compliance with their requirements provide additional comfort.
Macroeconomic Risk • *Risk of a severe macroeconomic downturn induced by the COVID-19 pandemic.* • *The outlook for the Turkish economy in the short term is largely dictated by the biological trajectory of the virus, and the response by authorities.*	*Medium*	• The government introduced its New Economic Program in September 2019. • The country is engaging in a substantial fiscal and monetary stimulus to offset the impact of the COVID-19 pandemic. • Turkey is a net energy importer and the low oil price environment is beneficial. • Turkey's financial sector has deleveraged considerably since the 2018-2019 recession, but still shows some vulnerability. • Both Borrowers have strong CAR positions that provide a first line of defense in the event of a TRY depreciation and debt provisioning. • Both Borrowers have credible access routs to capital markets and funding instruments. • TKYB's public institution's status is protected by public law.[24] • TSKB is substantially owned by the country's largest private financial institution (İş Group), has a policy mandate and 51 percent of its non-equity liabilities are MoTF-guaranteed funding from MDBs and DFIs.
FX Risk • *Risk that widening open unhedged FX exposures due to weaker TRY, lead to potential losses.*	*Medium*	• The Borrowers lend and fund themselves in hard currency and use FX derivatives to hedge their open FX positions. • The use of local currency by the Borrowers is limited. • Both Borrowers have strong CAR to withstand FX losses.
Asset Quality • *Risk of deterioration of the quality of the portfolio as evidenced*	*Medium*	• The Borrowers present diligent lending profiles and below-industry NPL ratios. • Under the Apex loan (Component 2), PFIs assume the full credit risk of Sub-projects,

[24] TKYB was established under Decree in Force Law No.13 in 1975. On Oct. 14, 1999, Decree in Force Law No.13 became Law No. 4456 (*Law on the Establishment of the Development Bank of Turkey*). On Oct. 11, 2018, Law No. 4456 was replaced by Law No.7147 (*Law on the Establishment of the Development and Investment Bank of Turkey*). Link.

by NPL ratio and other metrics.		and TKYB assumes the risk of the PFI balance sheet.
E&S Risk • *Risk of mischaracterization or underreporting of E&S risks and impacts.* • *Risk of E&S underperformance of Borrowers, PFIs or Sub-borrowers.*	*Medium*	• The Borrowers have established ESMSs in accordance with AIIB ESP requirements • The Borrowers both have in-house E&S resources and their personnel and clients are generally aware of their commitment to implement their publicly available respective E&S Policies. • Both Borrowers have extensive experience managing the E&S risks and impacts associated with the use of MDB funds in line with their requirements, including for FI and Apex facilities. • Working capital loans are short term (below 36 months) and not tied to physical long-term assets or specific operations. Through the screening, assessment and contracting of Sub-loans and their monitoring, the limited number of potentially adverse E&S impacts and risks will be minimized to the extent possible using fit-for-purpose management measures in an operational setting. • The Borrowers will submit to AIIB for prior review appraisal forms for Sub-loans contracted to Sub-borrowers active in higher E&S risk sectors or engaged, independently from the Sub-loan, in category A and B+ activities during the Sub-loan tenure as per their E&S risk management and categorization system. • The Borrowers will maintain a database and records of their initial E&S assessment of Sub-loans, and their monitoring of E&S commitments and performance throughout their tenure for reporting to AIIB. AIIB will conduct post-reviews and supervision when required.

Annex 1: Results Monitoring Framework

Project Objective:	To reduce liquidity constraints caused by the COVID-19 crisis and increase access to finance to corporates and small and medium-sized enterprises (SMEs)[1] operating in eligible infrastructure and other productive sectors (OPS) in Turkey.									
Indicator Name	**Unit of measure -ment**	**Base -line Data 2020**	**Cumulative Target Values**					**End Target**	**Frequency**	**Responsible Party**
			YR1	**YR2**	**YR3**	**YR4**	**YR5**			
Portfolio Level Indicators (all components)										
1. Amount of financing[2]	USD	0	300	475	475	475	475	475	Annual	Borrowers
2. Amount of SME financing	USD	0	100	100	100	100	100	100	Annual	Borrowers
3. Nonperforming loans (each bank)	%	<5%	<5%	<5%	<5%	<5%	<5%	<5%	Annual	Borrowers
Direct lending (components 1 and 3)										
4. Number of Sub-borrowers	#	0	10	25	25	25	25	25	Annual	Borrowers
5. Utilization rate of the components	%	0%	60%	95%	95%	95%	95%	95%	Annual	Borrowers
6. Percentage of loan value in Group 1 and 2 sectors	%	0%	50%	70%	70%	70%	70%	70%	Annual	Borrowers
7. Nonperforming loans (NPL) in the Sub-portfolio	%	0%	<5%	<5%	<5%	<5%	<5%	<5%	Annual	Borrowers
Apex lending (Component 2)										
8. Number of partner financial institutions	#	0	2	3	3	3	3	3	Annual	Borrowers
9. Number of Sub-borrowers	#	0	10	20	20	20	20	20	Annual	Borrowers
10. Number of SME Sub-borrowers	#	0	10	20	20	20	20	20	Annual	Borrowers
11. Utilization rate of the component	%	0%	60%	95%	95%	95%	95%	95%	Annual	Borrowers
12. Percentage of loan value in Group 1 and 2 sectors	%	0%	50%	70%	70%	70%	70%	70%	Annual	Borrowers
13. Nonperforming loans (NPL) in the Sub-portfolio	%	0%	<5%	<5%	<5%	<5%	<5%	<5%	Annual	Borrowers

[1] "SMEs" are defined by the European Commission as enterprises presenting the following characteristics: (a) fewer than 250 employees; and either (b) an annual turnover below or equal to EUR50 million; or (c) an annual balance sheet total below or equal to EUR43 million. For the purposes of this Project, SMEs cannot be owned by more than 49% by a non-SME.
[2] 100 percent utilization may not be achievable given the variability of sub-project size. Target 95% utilization.

Annex 2: Financial Highlights

A. Key Financials: Türkiye Kalkınma ve Yatırım Bankası (TKYB)

Balance Sheet, USD millions	2015	2016	2017	2018	2019	CAGR 15-19
cash and cash equivalents	**192**	**363**	**441**	**308**	**416**	**21.3%**
Of which LC	*117*	*206*	*199*	*200*	*280*	*24.4%*
Of which FC	*75*	*157*	*241*	*108*	*136*	*16.0%*
net customer loans	**1,341**	**1,542**	**1,837**	**2,583**	**2,527**	**17.2%**
%growth	***(0.8%)***	***15.0%***	***19.2%***	***40.6%***	***(2.2%)***	--
Of which NPLs	*37*	*36*	*33*	*23*	*21*	*(13.2%)*
Other Assets	**103**	**97**	**104**	**84**	**319**	**32.7%**
Total Assets	**1,636**	**2,001**	**2,382**	**2,976**	**3,262**	**18.8%**
Customer Deposits	**0**	**0**	**0**	**0**	**0**	--
Of which LC	*0*	*0*	*0*	*0*	*0*	--
Of which FC	*0*	*0*	*0*	*0*	*0*	--
Borrowings	**1,357**	**1,644**	**1,940**	**2,570**	**2,587**	**17.5%**
%growth	***(0.2%)***	***21.1%***	***18.0%***	***32.5%***	***0.7%***	--
Of which LC	*0*	*0*	*0*	*0*	*0*	--
Of which FC	*1,357*	*1,644*	*1,939*	*2,570*	*2,586*	*17.5%*
Other Liabilities	**38**	**137**	**109**	**138**	**279**	***64.6%***
Total Liabilities	**1,395**	**1,781**	**2,049**	**2,707**	**2,865**	***19.7%***
Shareholder Equity	**241**	**220**	**333**	**268**	**397**	***13.3%***

Income Statement,USD millions	2015	2016	2017	2018	2019	CAGR '15 - 19
Interest Income	64	62	99	130	191	*31.4%*
%growth	*(5.7%)*	*(2.0%)*	*59.1%*	*31.2%*	*46.2%*	--
Interest Expenses	14	15	25	44	72	*50.6%*
Net İnterest Income	**50**	**47**	**74**	**86**	**119**	**24.2%**
Net Fees and Commissions	3	6	3	5	*2*	*(9.6%)*
Trading Profits and Other Income	4	3	1	2	*11*	*28.8%*
Total Operating Income/Expenses	**57**	**56**	**78**	**94**	**132**	**23.4%**
%growth	***(9.5%)***	***(2.4%)***	***39.6%***	***20.0%***	***40.8%***	--
Provisions	3	6	11	29	9	*31.6%*
Personnel Expenses	18	16	16	12	15	*(4.5%)*
Other Expenses	9	8	8	6	10	*2.7%*
Net Operating Profit/Loss	**27**	**26**	**44**	**46**	**99**	**38.4%**
Taxes	6	6	10	16	23	*39.9%*
Net Profit/Loss	**22**	**20**	**34**	**30**	**75**	**35.9%**

Key Ratios	2015	2016	2017	2018	2019
Tier 1 Ratio	16.9%	12.6%	15.8%	10.5%	19.5%
Total Capital Ratio	17.8%	13.4%	16.7%	14.2%	22.3%
Equity/Total Assets	14.7%	11.0%	14.0%	9.0%	12.2%
TRY Assets/Total Assets	16.3%	17.3%	15.5%	10.9%	13.0%
TRY Liabilities/Total Liabilities	16.9%	17.7%	15.7%	11.1%	13.1%
FX Assets/FX Liabilities	100.7%	100.4%	100.1%	100.2%	100.1%
Borrowings/Total Assets	82.9%	82.1%	81.4%	86.4%	79.3%
Total Loans/Total Assets	82.9%	77.8%	77.9%	87.3%	78.1%
NPLs/Total Loans	2.7%	2.3%	1.8%	0.9%	0.8%
Liquid Assets/Total Assets	15.2%	20.9%	21.4%	11.7%	16.8%
ROA	1.4%	1.3%	1.6%	1.3%	2.5%
ROE	9.3%	9.6%	11.0%	12.4%	22.9%
Net Interest Margin	3.1%	2.4%	3.1%	2.9%	3.9%
Cost to Income	71.6%	72.6%	68.7%	78.8%	63.8%
Liquidity Coverage Ratio	831.2%	332.0%	281.2%	496.8%	369.8%

Conversion rate 1 USD =5,95 TL

B. Key Financials: Türkiye Sınai Kalkınma Bankası (TSKB)

Balance Sheet, USD millions	2015	2016	2017	2018	2019	CAGR '15 - 19
Cash and Cash Equivalents	**899**	**419**	**313**	**367**	**267**	**(26.2%)**
Of which LC	*397*	*105*	*54*	*114*	*91*	*(30.9%)*
Of which FC	*502*	*314*	*259*	*254*	*176*	*(23.0%)*
Net Customer Loans	**4,686**	**4,921**	**5,894**	**5,248**	**5,297**	**3.1%**
% growth	***(0.7%)***	***5.0%***	***19.8%***	***(11.0%)***	***0.9%***	--
Of which NPLs	*20*	*14*	*13*	*112*	*191*	*75.0%*
Other Assets	**1,520**	**1,480**	**1,458**	**1,636**	**1,538**	**0.3%**
Total Assets	**7,106**	**6,820**	**7,665**	**7,252**	**7,101**	**(0.0%)**
Customer Deposits	**0**	**0**	**0**	**0**	**0**	--
Of which LC	*0*	*0*	*0*	*0*	*0*	--
Of which FC	*0*	*0*	*0*	*0*	*0*	--
Borrowings	**5,256**	**5,492**	**5,946**	**6,074**	**5,838**	**2.7%**
% growth	***14.4%***	***4.5%***	***8.3%***	***2.1%***	***(3.9%)***	--
Of which LC	*67*	*28*	*51*	*24*	*150*	*22.1%*
Of which FC	*5,188*	*5,464*	*4,902*	*6,050*	*5,688*	*2.3%*
Other Liabilities	**997**	**496**	**781**	**285**	**393**	***(20.8%)***
Total Liabilities	**6,253**	**5,988**	**6,728**	**6,358**	**6,231**	***(0.1%)***
Shareholder Equity	**853**	**832**	**937**	**894**	**870**	***0.5%***

Income Statement, USD millions	2015	2016	2017	2018	2019	CAGR '15 - 19
Interest Income	370	391	484	575	557	*10.8%*
% growth	*7.4%*	*5.7%*	*23.8%*	*18.7%*	*(3.1%)*	--
Interest Expenses	(156)	(170)	(209)	(243)	(236)	*10.9%*
Net Interest Income	**214**	**221**	**276**	**332**	**321**	**10.7%**
Net Fees and Commisions Income	4	1	4	4	9	*21.9%*
Trading Profit and Other Income	25	(3)	2	(32)	(68)	--
Total Operating Income / Expenses	**243**	**220**	**281**	**304**	**262**	**1.8%**
% growth	***(11.0%)***	***(9.8%)***	***28.1%***	***7.9%***	***(13.8%)***	--
Provisions	(34)	(18)	(53)	(101)	(77)	*22.6%*
Personnel Expenses	(22)	(21)	(22)	(20)	(26)	*4.9%*
Other Expenses	(13)	(12)	(13)	(31)	(31)	*23.8%*
Net Operating Profit / Loss	**174**	**169**	**193**	**172**	**154**	**(3.1%)**
Taxes	(35)	(33)	(35)	(47)	(30)	*(3.8%)*
Net Profit / Loss	**139**	**135**	**158**	**125**	**124**	**(2.9%)**

Key Ratios	2015	2016	2017	2018	2019
Tier 1 Ratio	15.3%	13.8%	12.7%	11.0%	12.1%
Total Capital Ratio	16.0%	14.6%	17.0%	16.0%	17.4%
Shareholder Equity / Total Assets	12.0%	12.2%	12.2%	12.3%	12.3%
TRY Assets / Total Assets	32.9%	27.9%	28.0%	27.7%	27.6%
TRY Liabilities / Total Liabilities	25.1%	18.3%	17.7%	15.3%	17.5%
FX Assets / FX Liabilities	89.6%	88.3%	87.5%	85.4%	87.7%
Borrowings / Total Assets	64.1%	66.0%	64.6%	61.6%	63.0%
Total Loans / Total Assets	63.6%	69.5%	74.8%	72.8%	72.8%
NPLs / Total Loans	0.5%	0.3%	0.2%	2.2%	3.6%
Liquid Assets / Total Assets	27.0%	18.9%	14.8%	5.1%	--
ROA	2.0%	2.2%	2.2%	1.8%	1.8%
ROAE	16.4%	14.6%	17.8%	17.5%	15.9%
Net Interest Margin (adj)	3.4%	3.2%	3.7%	4.4%	4.1%
Cost-to-Income	19.6%	21.3%	15.9%	13.4%	15.7%
Liquidity Coverage Ratio	91.9%	175.5%	168.0%	262.5%	125.8%

Conversion rate 1 USD =5,95 TL

Net Interest Margin (NIM) = calculated by net interest income adjusted with swap costs, impairment exp. of mark. sec. with prov and trading income exc. derivative valuations

Annex 3: Sovereign Credit Fact Sheet and Debt Sustainability Analysis

Updated as of April 21, 2020

A. Background

1. Turkey is an upper-middle-income country with a Gross National Income per capita of USD10,420 and a population of 82 million as of 2018. It is the 18th largest economy in the world.

2. When the COVID-19 pandemic hit in early 2020, Turkey was recovering from a downturn that started in 2018.[1] The slump was precipitated by large macroeconomic imbalances due to earlier expansionary policies—namely, a large fiscal stimulus package [including sizable public-private partnership (PPP) investments] and a policy-driven credit program. Growth was high, above 7.0 percent in 2017, but at a price of large and widening twin deficits. In late 2018, as the US Federal Reserve was tightening monetary policy, the market sentiment deteriorated abruptly, leading to large capital outflows, large lira depreciation, a surge in inflation, and an economic recession. Growth slowed to 2.8 percent in 2018 and further to 0.9 percent in 2019.

3. During 2019, market sentiment recovered, and economic conditions started to improve, supported by another coordinated fiscal and monetary stimulus. The fiscal deficit widened to over 5.0 percent of gross domestic product (GDP), and the central bank (CBRT) cut interest rates several times. The banking sector resumed fast credit growth—led by major state banks, the share of which in the lira loan market reached almost 50 (most recent data), up from 32 percent in early 2016. A 15 percent hike in the minimum wage further stimulated private consumption.

4. As imports contracted due to recession and depreciation, Turkey recorded its first current account surplus in 15 years in 2019. This, and the returning capital flows, helped rebuild international reserves, which increased to USD106 billion by end-2019. As a result of the fiscal expansion, the public-debt-to-GDP ratio climbed to 32 percent of GDP in December 2019.

Table 7. Selected Macro Indicators for Turkey, 2017-2022

Economic Indicators	2017	2018	2019	2020*	2021*	2022*
Real GDP growth	7.5	2.6	0.9	-5.0	5.0	3.0
CPI Inflation (average, % change)	11.9	20.3	13.5	12.0	12.0	11.4
Current account balance (% of GDP)	-5.6	-3.5	1.1	0.4	-0.2	-1.7
General government balance (% of GDP) ***	-2.2	-3.7	-5.3	-7.5	-6.7	-5.7
Nominal gross public debt (% of GDP)	28.2	30.1	32.2	36.0	38.1	39.8
Public gross financing needs (% of GDP)	5.0	6.5	7.5	11.8	11.6	10.8
Gross external debt (% of GDP)	53.4	57.6	61.3	64.0	58.4	55.9
Gross external financing need (% of GDP)	25.0	26.8	23.5	24.8	23.0	21.7
Gross international reserves (USD billion)	107.7	93.0	106.3	87.6	92.3	101.7
Broad money growth (M2, %)	16.4	18.4	--	--	--	--
Exchange rate (TRY/USD, e.o.p.) **	3.79	5.29	5.85	6.80	--	--

CPI = Consumer Price Index, GDP = Gross Domestic Product. Notes: * projections, ** most recent data as of May 20, 2020, *** IMF definition (excluding one-offs), Source: CBRT, MoTF, IMF Country Report No. 19/395, World Economic Outlook 2020, AIIB staff projections.

[1] All figures in this factsheet are based on the most recent IMF report for Turkey (CR19/395), the IMF's World Economic Outlook April 2020 and AIIB staff estimations and projections.

B. Recent Economic Developments

5. COVID-19 will impact the entire economy, with a decline in tourist arrivals, falling domestic activity due to social distancing measures, lower external demand on export, and constrained liquidity—all contributing to the downturn. The most recent International Monetary Fund (IMF) projections see Turkey's economy contracting by 5 percent in 2020. Inflation is projected to remain stable, but in double digits, until 2022, which is well above the central bank's target.

6. Policy reaction to COVID-19 was a generically appropriate monetary easing, liquidity provision, and fiscal support. However, Turkey is not coming to the pandemic from the position of strength, and such policies may be less affordable than otherwise.

7. Deterioration in external demand pushed Turkey's current account into a USD4.9 billion deficit in March 2020, the widest deficit in almost two years. Large capital outflows have led to a decline in international reserves, as CBRT has been intervening to prevent a disorderly depreciation of the lira. Gross reserves fell by almost 20 percent to USD85.8 billion and remain some 30 percent below the minimum level recommended by IMF's adequacy metrics. Net reserves, excluding foreign liabilities and off-balance sheet swap positions, are reportedly close to zero or negative. To mitigate capital outflows, the Banking Regulation and Supervision Authority (BRSA) capped banks' swap positions to discourage shorting of the lira in the offshore market.

8. That said, so far the CBRT has had some success in securing foreign exchange (FX) swaps with foreign central banks, domestic banks have been able to tap their robust banking relationships to rollover maturing obligations, and the lira seems to have found a temporary respite.

C. Economic Outlook and Risks

9. The current calm remains fragile, and vulnerabilities persist, including low reserve buffers, large external financing needs, and stressed bank and corporate balance sheets. The IMF expects the Turkish economy to rebound by 5 percent in 2021. This outlook is conditional on COVID-19 being contained in the second half of the year, financing conditions easing as well as private consumption and investment recovering.

10. Going forward, Turkey's public debt is projected to increase in 2020 to about 36 percent, due to a higher fiscal deficit resulting from the economic shock and is not expected to come down over the medium term. Large quasi-fiscal operations in recent years, as well as ongoing financial stress, increase Turkey's exposure to a contingent liability shock, but this should be manageable. External debt is projected to temporarily increase to 64 percent in 2020 (from 61.3 percent in 2019) due to depreciation and a lower increase in nominal GDP.

D. Debt Sustainability

11. Regarding longer-term debt sustainability, there are two strong points to Turkey's position:
- A large diversified economy with a young population and entrepreneurial spirit indicating a lot of growth potential; and
- Relatively low public debt thanks to a fiscally conservative mindset that has originated from the experience of the 2001 crisis.

12. These two strengths had earned Turkey an investment-grade status from Moody's in 2013. However, since mid-2016, Turkey's creditworthiness has deteriorated, and the country's credit rating is now at B+. Some of the most cited internal and external reasons behind this deterioration were:

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

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

- Very high external gross financing needs—every year Turkey needs to roll over external debt equivalent to almost a quarter of GDP
- Low foreign exchange reserves (in relation to the needs)—effectively usable FX reserves (i.e., net of gold and commercial banks swaps/deposits) could be as low as 20 percent of short-term debt, which exposes Turkey to the destabilizing effect of capital outflows. It also reduces confidence in the stability of the economy.
- Private sector vulnerabilities which can morph into contingent liabilities (and ultimately government debt). First, the external debt of corporations is high, which exposes their balance sheets to the risks of depreciation. Second, the banking sector's vulnerabilities include rising nonperforming loans (due to depreciation's effect on corporate performance) and dependence on wholesale FX funding and short-term deposits. Given the discretion in recognizing loan impairments, the IMF recommended a third-party asset review in order to further strengthen confidence in banks' asset quality. On the positive side, capitalization remains adequate (in both Government owned and private banks), and profitability is high.

14. Depending on the severity of the impending recession and global conditions, one cannot rule out that the COVID-19 pandemic will push Turkey into balance of payment difficulties. Capital outflows have been large, the lira has depreciated by more than 15 percent by mid-May 2020, even though the CBRT has been intervening to defend the currency, which led to a decline in reserves.

15. That notwithstanding, the government's strong balance sheet, low debt (only about 30 percent of GDP), and continued access to financial markets seem to trump sustainability concerns so far. Over longer horizons, Turkey's economy is expected to grow but remain vulnerable to swings in confidence and external conditions. The IMF notes that Turkey's public debt remains below vulnerability thresholds under the baseline and most shock scenarios and, similarly, Turkey's external debt remains sustainable under the baseline (although it is vulnerable to lira depreciation). At the same time, IMF warns that public debt is on an upwards trajectory and is not expected to stabilize over the medium term.

Annex 4. TKYB Apex Lending

Apex lending is a form of lending to small and medium enterprises (SMEs) and exporters through partner financial institutions (PFIs), including leasing companies, factoring companies, and commercial banks. Both Türkiye Sınai Kalkınma Bankası (TSKB) and Türkiye Kalkınma ve Yatırım Bankası (TKYB) channel MDB and DFI loans to other institutions using the Apex lending approach. This strategy allows the Borrowers to expand their geographical footprint and reach to the SME segment more effectively, despite not having a branch network. TKYB's Apex capabilities were reviewed by AIIB in 2019[1] and the findings are summarized below.

Portfolio. TKYB made its first Apex loan in 2008. Its Apex portfolio currently represents 25 percent of the loan book, up from 7 percent in 2017. TKYB's Apex network includes 4 banks and 11 leasing companies (15 PFIs) and has reached to over 3,000 beneficiary SMEs, contributing to the creation of more than 8,000 jobs. TKYB has worked with MDBs and DFIs like the International Bank for Reconstruction and Development, the Council of Europe Bank and the Agence Francaise de Development (AFD) Its Apex portfolio grew considerably in 2018 with the addition of a 5-year bullet USD400 million credit line from Industrial and Commercial Bank of China (ICBC) for on-lending through Ziraat Bankası to key sectors (energy, infrastructure, manufacturing, mining). Ziraat Bankası was deemed a right partner due to its creditworthiness, large asset base, and pipeline readiness. This transaction was reviewed during the due diligence of TKYB (July 2019). All Apex loans are fully disbursed as of the end of 2019.

[1] Source: TKYB due diligence report (August 2019) and TKYB's disclosures.

Annex 5: Sub-loan, Sub-Borrower and PFI Eligibility Criteria

Table 8. Sub-loan classification by Strategy

Group 1	Strong relationship with AIIB's key strategic sectors (energy, transport, water, sustainable infrastructure, healthcare, ICT)
Group 2	Generally, other productive sectors and activities that are eligible under the draft OPS strategy (5.1.1. Critical inputs to infrastructure development, management, and operation)
Group 3	Less strong link toward AIIB priorities, but not an Excluded Sector. Some of these sectors are important to safeguard employment and the productive capacity of infrastructure and OPS.
Not eligible	Weak or no link to infrastructure and OPS; Excluded Sector/Activity due to E&S and other challenges.

E&S = environment and social, ICT = information and communications technology, OPS = other productive sectors

Table 9. Sub-loan classification as per E&S activity risk

High Activity Risk	The customer's business activities may give rise to significant or long-term environmental and social risks and impacts. These may require more specialized risk assessment, and the customer may not have the technical or financial means to manage them.
Medium Activity Risk	The customer's business activities have limited environmental and social risks and impacts, and these are capable of being readily prevented or mitigated through technically and financially feasible measures.
Low Activity Risk	The customer's business activities have minor/few environmental and social risks and impacts associated with them.

Table 10. Eligible Sectors

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

Table 11. Excluded Sectors and Activities within Sectors

NACE R2	Category
Section A	Agriculture, forestry, and fishing
Section B	Mining and quarrying
C10.91	Manufacture of prepared feeds for farm animals
C10.92	Manufacture of prepared pet foods
C11.1	Distilling, rectifying, and blending of spirits
C11.2	Manufacture of wine from grape
C11.3	Manufacture of cider and other fruit wines
C12	Manufacture of tobacco products
C14.2	Manufacture of articles of fur
C15.1	Tanning and dressing for leather, manufacture of luggage, handbags, saddlery, and harness; dressing and dyeing of fur
C15.11	Tanning and dressing of leather; dressing and dyeing of fur
C15.12	Manufacture of luggage, handbags and the like, saddlery, and harness
C15.2	Manufacture of footwear
C17.11	Manufacture of pulp
C18.1	Printing and service activities related to printing
C18.2	Reproduction of recorded media
C19.1	Manufacture of coke oven products
C19.2	Manufacture of refined petroleum products
C20.1	Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics, and synthetic rubber in primary forms (industrial gases, dyes and pigments, other inorganic and organic basic chemicals, fertilizers and nitrogen compounds, plastics in primary forms, synthetic rubber in primary forms)
C20.2	Manufacture of pesticides and other agrochemical products
C24.46	Processing of nuclear fuel
C25.4	Manufacture of weapons and ammunition
C27.1	Manufacture of transformers using PCBs is excluded
C28.25	Manufacturing of cooling equipment using ozone depleting substances and use of banned compounds (e.g. CFCs).
C28.3	Manufacture of agricultural forestry machinery
C30.11	Building of warships
C30.4	Manufacture of military fighting vehicles, Intercontinental ballistic missiles (ICBM)
C33.15	Repair and maintenance of warships
D35.11	Production of electricity from coal, oil and diesel
G46.21	Wholesale of unmanufactured tobacco
G46.23	Wholesale of live animals
G46.3	Wholesale of food, beverages, and tobacco
G46.35	Wholesale of tobacco products
G47.11	Retail sale in non-specialised stores with food, beverages or tobacco predominating
G47.2	Retail sale of food, beverages, and tobacco in specialised stores
G47.6	Retail sale of cultural and recreation goods in specialised stores
I56	Food and beverage service activities (restaurants and bars)
J58	Publishing activities
J59	Motion picture, video and television programme production, sound recording and music publishing activities
J60	Programming and broadcasting activities
Section K	Financial and insurance activities (except PFI on-lending)
Section L	Real estate activities
M69	Legal and accounting activities
M70	Activities of head offices; management consultancy activities
M71	Architectural and engineering activities; technical testing and analysis
M72	Scientific research and development
M73	Advertising and market research
M74	Other professional, scientific, and technical activities
M75	Veterinary activities
N77.2	Renting and leasing of personal and household goods
N78	Employment activities
N80	Security and investigation activities
N82.91	Activities of collection agencies and credit bureaus
Section O	Public Administration and defence, social security
Section R	Arts, entertainment, and recreation (including R92 gambling and betting activities)
Section S	Activities of membership organisations
Section T	Activities of households as employers; undifferentiated goods and services producing activities of households for own use
Section U	Activities of extraterritorial organisations and bodies, e.g. diplomatic/consular missions, international organisations, etc.

NACE = Nomenclature statistique des activités économiques dans la Communauté Européenne (Statistical Classification of Economic Activities in the European Community)

A. Eligible Sub-borrowers

An entity may be eligible to receive a Sub-loan or an APEX Sub-loan if it meets all the following requirements, unless otherwise agreed:

1. Its main activities in accordance with the EU NACE (Rev. 2)[2] or equivalent classification in Turkey are acceptable under the Eligible Sector Table to be included in the POM.[3]

2. It does not engage directly or indirectly through its consolidated Sub-entities in any activities listed in the E&S Exclusion List of the AIIB ESP or the Excluded Activity List in the POM and does not intend to use the proceeds from the AIIB Sub-loan for such activities.

3. It is a private entity: (i) which is carrying out or is established for a business purpose, and is operating on a commercial basis; (ii) which has more than 50% of its shares owned privately (i.e. not directly or indirectly by any Governments nor Government-owned entities); (iii) which is financially and managerially autonomous from the Government; and (iv) whose day-to-day management is not controlled by the Government.

4. It is registered, operates primarily, and has a place of business in the Republic of Turkey.

5. It has obtained all the necessary approvals, certifications and permits to carry out its activities, and is in compliance with all applicable national environmental, social, health and safety legislations, and employment regulations and standards in effect in the Republic of Turkey;

6. It meets the Borrower's requirements and eligibility criteria including creditworthiness, foreign-exchange position, and financial risk.

7. It meets the Borrower's requirements in terms of its capacity to, inter alia: (i) ensure adequate and proper financial accounting of all incomes and expenditures, (ii) prepare audited financial statements relating to all its activities and the Sub-activities to be financed through the Loan, (iii) manage its financial position in a prudent and effective manner, (iv) ensure adequate and satisfactory E&S monitoring, (v) report the Sub-activities to be financed through the Facility, and (vi) ensure proper procurement procedures;

8. Meets the Bank's requirements in terms of KYC and FCIDD, to be defined in the POM;

9. Itself, its parents, or subsidiaries are not included in the Bank's published Debarment List[4].

10. (i) Demonstrates compliance of all its activities with applicable E&S regulatory requirements and commits to maintaining that status during the tenure of the Sub-loan; (ii) undertakes not to use the proceeds of the Sub-loan to finance high E&S risk activities to be defined in the POM[5]; (iii) represent not having recently been administratively or judicially convicted of material breach of environmental and social regulations, and (iv) is not being reported in mainstream or social media as materially contravening good E&S practices.

[2] Eurostat. List of NACE. Link.
[3] The aggregate proceeds of the Sub-loans committed and classified as Group 3 cannot be higher than 30% of the Loan.
[4] AIIB. Debarment List. Link.
[5] Higher environmental and social risk activities are those that may potentially result in: (1) involuntary physical or economic resettlement, (2) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups, (3) significant risks to or impacts on the environment, community health and safety, biodiversity, and cultural resources, or (4) significant occupational health and safety risks.

In addition to the above, an entity may be eligible to receive an APEX Sub-loan if it meets all the following requirements, unless otherwise agreed:

1. Is considered an SME in accordance with the relevant definition to be adopted in the POM.

2. Its capital is not owned more than 49% by a corporate entity that does not meet the relevant definition of SME to be adopted in the POM.

3. It does not not operate in a sector categorized as a High E&S risk, to be defined in the Eligible Sector Table of the POM and/or engages in higher E&S risk activities to be defined in the POM.

B. Eligible Partner Financial Intermediaries (PFIs)

A financial intermediary may be eligible to distribute Apex Sub-loans if it meets all the following requirements, unless otherwise agreed:

1. In the case of Banks, its total assets during the last two fiscal years exceeded USD 1.3 billion equivalent on average;

2. In the case of factoring companies, its total factoring receivables or new factoring volume during the last two fiscal years exceeded USD 50 million equivalent on average;

3. It meets the Bank's requirements in terms of KYC and FCIDD, to be defined in the POM;

4. It is registered and operates primarily in the Republic of Turkey;

5. It is in full compliance with all the prudential norms of the BRSA and the legal and regulatory requirements applicable to the banking industry, including, but not limited to, such prudential regulations as minimum capital adequacy ratio, maximum foreign currency exposure limits, maximum large exposure to single and connected clients and maximum insider lending limits, and so on, duly certified by the banks' auditors every year and confirmed annually through a letter from the management;

6. It prepares audited interim financial reports according to the requirements of the BRSA;

7. It is deemed to have the capacity to maintain good financial management system in accordance with consistently applied accounting standards and in a manner adequate to reflect the operations, resources and expenditures related to the Sub-loans;

8. It has adequate organization, management, staff, and other resources necessary for its efficient operation;

9. It applies E&S assessment procedures for screening, assessing, monitoring, and reporting as per TKYB ESMS and acceptable to TKYB and the AIIB.

10. It has previous experience with MDB Apex lending programs.