MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS

SUSTAINABLE CITIES PROJECT II - ADDITIONAL FINANCE

Implemented by

ILLER BANKASI A.S.

Financed Under International Bank for Reconstruction and Development (IBRD) Loan Agreement Numbered 8974-TR

As of December 31, 2025 and For the Year Then Ended

Prepared by

Ali ÇALIŞKAN
Senior Treasury Controller

Ezel Malik ZENGİN
Treasury Controller

Oğulcan ÇOLAK
Treasury Controller

Rumeysa İZGİ
Treasury Controller

Report's Number

185/6 – 106/21 – 69/21 –57/17

INDEPENDENT AUDITOR'S REPORT

June 16, 2026

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

A. Project Summary

The Loan Agreement between the Iller Bankası A.Ş. (ILBANK) and International Bank for Reconstruction and Development (IBRD-World Bank) for Sustainable Cities Project – II (AF) was signed on 10.07.2019. With the Loan Agreement, numbered 8974-TR, ILBANK received a loan of 500.000.000,00 Euro.

Project is implemented by Project Management Unit (PMU) under ILBANK International Relations Group.

The objective of the Project is to improve the planning capacity of, and access to targeted municipal services in, participating municipalities and utilities.

The Project consists of the following parts:

- **Part A: Municipal Investments**

1. Financing of demand-driven municipal infrastructure investments, through the provision of Sub-loans to Sub-borrowers to finance the cost of goods, works, non-consulting and consulting services that are required for the carrying out of Sub-project investments in eligible sectors and services, including, inter alia: (a) water and wastewater services, (b) public transport, (c) solid waste management, (d) energy efficiency and renewable energy, (e) municipal social infrastructure and services, (f) municipal firefighting services, (g) municipal building reconstruction or retrofitting for resilience, and (h) pollution reduction, through marine litter management, plastic waste reduction and implementing clean air compliance plans.

2. Provision of technical consulting services for: (a) the Sub-borrowers' supervision of design and construction activities carried out under Sub-projects, including municipal studies and analysis to inform Project investment planning, assessment of disaster and climate risk and gender gaps for Sub-projects, feasibility studies, technical designs and construction supervision; and (b) the capacity development of Sub-borrowers in support of the functions set forth in (a) of this sub-Part, including preparation and implementation of environmental and social safeguard policies (including for occupational health and safety).

- **Part B: Project Management**

Provision of goods, non-consulting and consulting services in support of the Borrower in Project management, including, inter alia, monitoring and evaluation, reporting, public outreach, and communications.

B. Objectives of Audit

The objective of the audit is to express an opinion on the Financial Statements of the Sustainable Cities Project – II (AF) for the period ended 31 December 2025. The audit includes but not limited to the following tasks.

In evidencing compliance with agreed project financing arrangements, we are expected to carry out tests to confirm that:

(a) All funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements include the Loan Agreement numbered 8974-TR.

(b) Goods, works, and services financed have been procured in accordance with relevant financing agreements, including specific provisions of the World Bank Procurement Guidelines.

(c) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) method of reporting.

(d) Respective reports issued during the period were in agreement with the underlying books of account.

C. Scope of Audit

The audit was conducted in accordance with International Standards on Auditing. Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

There was no limitation in our scope for the Project's audit. ,

D. Audit Methodology

Financial Statements

Verified that the financial statements have been prepared in accordance with International Public Sector Accounting Standards.

Audited all SOE submitted to the World Bank in support of requests for periodic replenishment of the project-designated account.

Examined expenditures for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. In addition, we have examined whether;

(a) the SOEs have been prepared in accordance with the provisions of the relevant financing agreement;

(b) expenditures have been made wholly and necessarily for the realization of project objectives;

(c) information and explanation necessary for the purpose of the audit have been obtained;

(d) supporting records and documents necessary for the purpose of the audit have been retained, and

(e) the SOEs can be relied upon to support the related withdrawal applications.

Review of Designated Accounts

During the audit of the project financial statements, we reviewed the activities of the project's designated account such as payments made and reconciliation of period-end balances.

Internal Controls

Evaluated significant internal controls to obtain a sufficient understanding of the design of relevant controls, policies and procedures and whether they have been in operation during the period under review.

Compliance with Agreement Terms and Applicable Laws and Regulations

Reviewed, assessed and reported on compliance with the terms and conditions of the Loan Agreement numbered 8974-TR.

Representations by Implementing Agency

Obtained specific written representations from management.

E. Audit Results

For the financial statements of the project; our audit resulted with an unmodified opinion. In addition, other reporting responsibilities about the project is included under the "Report on Other Legal and Regulatory Requirements" heading of the report.

F. Management Recommendation

A management letter containing comments and recommendations related to internal control deficiencies and other matters dated 16.06.2026 has been prepared and shared with Iller Bankasi A.S. We believe these matters warrant management's attention.

INDEPENDENT AUDITOR'S REPORT & FINANCIAL STATEMENTS OF THE PROJECT

INDEPENDENT AUDITOR'S REPORT

TO ILLER BANKASI A.S.

Opinion

We have audited the Statement of Sources and Uses of Funds, Statement of the Comparison of Budget and Actual Amount, Statement of Withdrawal Application Summary, and Statement of Designated Account of the Sustainable Cities Project – II (AF) as of December 31, 2025, and for the period then ended, and notes to the financial statements including a summary of significant accounting policies. The financial statements have been prepared by Iller Bankasi A.S. in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Loan Agreement Numbered TR-8974.

The accompanying financial statements present fairly, in all material respects, the financial position and cash flows of the Sustainable Cities Project – II (AF) as of December 31, 2025 and for the period then ended in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Loan Agreement Numbered TR-8974.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of this report. We are independent of the Iller Bankasi A.S., the Project Management Unit, within the meaning of "IFAC Code of Ethics for Professional Accountants" and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter in the Financial Statement

Without modifying our opinion, we draw attention to Note "2" to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist Sustainable Cities Project – II (AF) Management Unit to comply with the financial reporting provisions of the Loan Agreement referred to above. As a result, the financial statements may not be suitable for another purpose.

Going Concern

The Projects financial statements have not been prepared using the going concern basis of accounting. The project will end November 30, 2027.

Responsibilities of Management and Those Charged with Governance or Other Appropriate Terms for the Financial Statements

Iller Bankasi A.S., the Project Management Unit is responsible for the preparation and fair presentation of these financial statements in accordance with Loan Agreement Numbered TR-8974, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Iller Bankası A.S. and the Project Management Unit's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

The conclusions drawn from the audits conducted within the scope of the other reporting requirements are as follows;

a) Iller Bankası A.Ş., as of December 31, 2025, has complied, in all material respects, with the requirements of Loan Agreement No. TR-8974, except for the procurement process relating to the Individual Consultant Selection (MASKI-C2), in which indicators of a potential conflict of interest were identified, as further detailed in Finding No. 1 of the Management Letter dated 16.06.2026, titled "Potential Conflict of Interest and Breach of Fair Competition Principles in Consultant Selection."

b) With respect to SOEs, adequate supporting documentation has been maintained to support claims to the IBRD for reimbursement of expenditures incurred, and these expenditures are eligible for financing under the Loan Agreement Numbered TR-8974.

Okan SÜLER
Chairman of
The Board of Treasury Controllers

Akif Bülent BOYACIOĞLU
(Audit Partner)
Vice Chairman

Ali ÇALIŞKAN Senior Treasury Controller	Ezel Malik ZENGİN Treasury Controller	Oğulcan ÇOLAK Treasury Controller	Rumeysa İZGİ Treasury Controller

Date: 16.06.2026
Address: Ministry of Treasury and Finance
The Board of Treasury Controllers, 06420, Devlet Mh, ANKARA/TÜRKİYE

ANNEX I: Financial Statements of the Project

ILLER BANKASI A.S.
SUSTAINABLE CITIES PROJECT - II Additional Finance
LOAN NO: 8974-TR
Withdrawal Application Summary
For the Year Ended December 31, 2025

Withdrawal Application Number	Date	Category 1: Goods, Works, Non-Consulting Services, and Consultants' Services	Category 2: Front end Fee	Total	Requested Advance Amount	Value Date	Rejected by WB	Net Reimbursed
In Designated Account Currency - Euro								
Section A: Payment method - Advance/Replenishment								
Approved Withdrawals				62.895.112,79	69.391.173,87			69.391.173,87
10 (Advance and Documentation)	27.01.2025	14.289.624,58	0,00	14.289.624,58	14.289.624,58	31.01.2025	0,00	14.289.624,58
11 (Advance and Documentation)	22.05.2025	15.239.338,54	0,00	15.239.338,54	15.239.338,54	30.05.2025	0,00	15.239.338,54
12 (Advance and Documentation)	02.10.2025	10.403.938,92	0,00	10.403.938,92	16.900.000,00	10.10.2025	0,00	16.900.000,00
13 (Advance and Documentation)	12.12.2025	22.962.210,75	0,00	22.962.210,75	22.962.210,75	18.12.2025	0,00	22.962.210,75
Pending Submission								
Sub-Total (A)		62.895.112,79	0,00	62.895.112,79	69.391.173,87		0,00	69.391.173,87
Section B: Payment method - Reimbursement								
Approved Withdrawals								
Pending Submission								
Sub-Total (B)		0,00	0,00	0,00	0,00		0,00	0,00
Section C: Payment method - Direct Payment								
Approved Withdrawals								
Pending Submission								
Sub-Total (C)		0,00	0,00	0,00	0,00		0,00	0,00
TOTAL (A+B+C)		62.895.112,79	0,00	62.895.112,79	69.391.173,87		0,00	69.391.173,87

Prepared by
Cenk USLUOĞLU
Expert
05.06.2026

Controlled by
Funda CANSU ÇETİN
Acting Manager
05.06.2026

Approved by
Gamze ASLAN
Head of Department
05.06.2026

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ
İLBANK

ILLER BANKASI A.S.
SUSTAINABLE CITIES PROJECT - II Additional Finance
LOAN NO: 8974-TR
STATEMENT of SOURCES and USES of FUNDS
For the Year Ended December 31, 2025
(In EURO)

	Notes	Current Period *(2025)*	Previous Period *(2024)*	Cumulative
I-SOURCES OF FUNDS				
A- IBRD Loan		**69.391.173,87**	**32.038.717,31**	**132.773.048,52**
1- Special Account	7	69.391.173,87	32.038.717,31	131.523.048,52
2- Front-end-Fee	2/f	0,00	0,00	1.250.000,00
TOTAL FUNDS RECIEVED		**69.391.173,87**	**32.038.717,31**	**132.773.048,52**
II-A USES OF FUNDS by COMPONENT				
I-INVESTMENT COST				
A- Municipal Investments		56.862.746,30	32.254.495,66	109.784.245,53
Total Investment Costs		**56.862.746,30**	**32.254.495,66**	**109.784.245,53**
II-RECURRING COST				
Front-end-Fee	2/f	0,00	0,00	1.250.000,00
Total Recurring Costs		**0,00**	**0,00**	**1.250.000,00**
TOTAL USES OF FUNDS by COMPONENT	7	**56.862.746,30**	**32.254.495,66**	**111.034.245,53**
II-B USES OF FUNDS by CATEGORY				
Category 1- Goods, Works, Non-Consulting Services, and Consultants' Services		56.862.746,30	32.254.495,66	109.784.245,53
Category 2- Front-end-Fee	2/f	0,00	0,00	1.250.000,00
TOTAL USES OF FUNDS by CATEGORY	7	**56.862.746,30**	**32.254.495,66**	**111.034.245,53**

	Date	Notes	Amount
Cash at the Beginning of the Period	1.01.2025		**9.210.375,42**
Cash at the End of the Period	31.12.2025	5	**21.738.802,99**

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Head of Department
05.06.2026

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ILLER BANKASI A.S.
STATEMENT of COMPARISON BUDGET and ACTUAL AMOUNT
SUSTAINABLE CITIES PROJECT - II Additional Finance
LOAN NO: 8974-TR
For the Year Ended December 31, 2025
(In EURO)

	NOTES	Current Period				Cumulative		
		Actual	Final Budget	Original Budget	Progress (%)	Actual	Planned	Progress (%)
		1	2		3=1/2	4	5	6=4/5
Sources of Funds								
IBRD Loan	6/a	69.391.173,87	70.000.000,00	70.000.000,00	99%	131.523.048,52	498.750.000,00	26%
Front-end-Fee		0,00	0,00	0,00	0%	1.250.000,00	1.250.000,00	100%
Total Sources of Funds		**69.391.173,87**	**70.000.000,00**	**70.000.000,00**	**99%**	**132.773.048,52**	**500.000.000,00**	**27%**
Uses of Funds								
1 By Component								
A- Municipal Investments	6/b	56.862.746,30	65.000.000,0	65.000.000,00	87%	109.784.245,5	498.750.000,00	22%
Total Uses Of Funds By Component		**56.862.746,30**	**65.000.000,00**	**65.000.000,00**	**87%**	**109.784.245,53**	**498.750.000,00**	**22%**
2 By Expenditure Category								
Category 1 - Goods, Works, Non-Consulting Services, and Consultants' Services	6/b	56.862.746,30	65.000.000,0	65.000.000,00	87%	109.784.245,5	498.750.000,00	22%
Total Uses Of Funds By Component		**56.862.746,30**	**65.000.000,00**	**65.000.000,00**	**87%**	**109.784.245,53**	**498.750.000,00**	**22%**

Prepared by	Controlled by	Approved by
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Expert	Acting Manager	Head of Department
05.06.2026	05.06.2026	05.06.2026

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ILLER BANKASI A.S.
SUSTAINABLE CITIES PROJECT - II Additional Finance
LOAN NO: 8974-TR
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 00158048018623188
For the Year Ended December 31, 2025
(In EURO)

Opening Balance (01.01.2025)	Notes		9.210.375,42
Reimbursements to SA			69.391.173,87
Refunds to SA	7		7.416,00
Available Funds			78.608.965,29
Payments Made for Expenditures	7	56.870.162,30	
Service charges for the account		0,00	
Total Project Investments		56.870.162,30	
Closing Balance (31.12.2025)			21.738.802,99

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ILLER BANKASI A.S. Sustainable Cities Project – II (AF) No: TR-8974

NOTES TO THE PROJECT FINANCIAL TABLES

For the Year Ended December 31, 2025

1. THE OBJECTIVES and STRUCTURE of THE PROJECT

Within the scope of the Country Partnership Strategy (CPS), which sets the framework for the financial cooperation with World Bank between 2012 - 2016, and Country Partnership Framework (CPF) for the period 2018 – 2021, which sets the framework for financial partnership to be constructed between the Türkiye and the World Bank, loan for the Sustainable Cities Project (SCP) provided by ILBANK with World Bank financing is planned to be used for the need of the local governments.

Loan Agreement (TR-8974) is signed between the International Bank for Reconstruction and Development (the World Bank) and Iller Bankasi A.S. (ILBANK) under the guarantorship of the Ministry of Treasury and Finance of Türkiye (Formerly Undersecretariat of Treasury) on 10 July 2019. With the Sustainable Cities Project – II (AF); it is aimed to apply international experiences in Türkiye in the fields of environmental, financial and social sustainability, which are the three basic elements of sustainability.

The project includes financing projects in the environmental infrastructure, urban mobility and public transport, energy efficiency and renewable energy, social infrastructure and disaster risk management sectors.

The proposed loan amount is EUR 500.000.000,00 and support for infrastructure service investments will be provided to participating metropolitan municipalities. The proposed program is designed as a Series of Project (SoP), whereby municipalities' inclusion in the program and access to investment financing on a phased basis and at a pace consistent with their readiness and ability to meet the eligibility requirements under the sustainable cities approach.

Component A: Municipal Investments: This component will include a loan of EUR 498.750.000,00 to finance demand-driven municipal infrastructure investments to improve access to quality, sustainable and resilient public transport, water supply and wastewater, solid waste management and alternative energy sources, disaster risk management and energy efficiency, as well as urban environment, municipal firefighting

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Acting Manager

Cemize ASLAN
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services and social infrastructure. Component A will finance procurement of goods, works, and consulting and non-consulting services, including the engagement of local technical consultants for engineering design and construction supervision. Consulting services under Component A may also finance sub-project design and supervision activities of the Sub-Borrowers, including capacity building of administrations; planning, feasibility and technical designs, and environmental and social assessments; IT and data management systems, including urban data, geospatial information systems (GIS), municipal surveys and analyses to inform investment planning, assessment of disaster and climate risks and gender gaps, feasibility studies, technical designs and construction supervision. This component could support capacity building of municipalities for the above functions and assist in the preparation and implementation of protection policies, including on occupational health and safety.

Component B: Project Management: This component consists of approximately EUR 1.000.000,00 counterpart financing to finance procurement of goods, consultancy services related to day-to-day project management, monitoring and evaluation, reporting and project communications.

The project is managed under the coordination of Project Management Unit (PMU) established under International Relations Group of ILBANK. The Operational Manual which is prepared for the purpose of carrying out the work and operations of the PMU in a healthy manner, entered into force with the decision of the Board of Directors of ILBANK dated December 20, 2018 and 31/851 numbered.

PMU is established with a Group Director and International Operations Department and Financial Institutions and Investor Relations Department.

PMU ensures the coordination between the team responsible for Sustainable Cities Project – II (AF) in World Bank and ILBANK; and carries out the selection of the Municipalities and/or Administrations, relations with the Ministry of Treasury and Finance and the Presidency of Strategy and Budget, and the selection of individual consultant and consulting firms, during the preparation and execution phases of the project; together with the Word Bank and ILBANK units assigned within the scope of the project. Coordination of procurements within the scope of the sub-projects, coordination of technical and environmental affairs of the sub-projects, and disbursement of loan proceeds and also debt service are also carried out by the PMU.

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2. ACCOUNTING POLICIES

The PMU, currently organized under the Group of International Relations of ILBANK in accordance with the provisions of the Loan Agreement, ensures that the sub-loans drawn from the Loan and disbursed to the Municipalities/Administrations are recorded on a "cash basis" within the ILBANK accounting system. On the other hand, PMU ensures that the records regarding:

- The amount of World Bank loan,
- The amount withdrawn from the loan,
- The amount paid to the suppliers/contractors/consultants and to the Municipalities/Administrations to be paid to the tax offices on behalf of them as per the provisions of the Sub-Loan Agreements,
- Accrued amounts such as credit fees and interest.

are kept within the accounting software of Department of Accounting and Financial Affairs of ILBANK, in order to monitor in terms of credit categories and expenditure items in euro and contract currency.

The Sustainable Cities Project – II (AF)'s bookkeeping is kept within the accounting system of Department of Accounting and Financial Affairs of ILBANK. With the current software, progress payment data is entered into to the software by the staff of Group of International Relations and the system automatically controls the accuracy of the calculations. The progress payments with correct calculations are sent to the Accounting and Financial Affairs Department for accounting by adding the value date and expenditure data after the payment is made.

The following policies shall be followed in accounting records of ILBANK:

a) ILBANK will use cash based accounting related to the Project. According to cash basis accounting the withdrawals form the Loan to the Special Account are recorded as a "Loan Liability" in Euro.

b) The amount of payments to the suppliers/contractors/consultants upon the request of the Municipalities/Administrations" as per the Sub-Loan Agreements will be debited to the loan account opened for each one of the Municipalities/Administrations, i.e. as a "Receivable".

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c) The amount determined after the required deductions for tax, stamp duty, decision tax, VAT withholding, etc., as per the local regulations and the conditions of the contract will be transferred directly to the account of the supplier/consultant/contractor providing the services/goods/works from the Special Account by International Operations Department. The total amount of the deductions will be paid to the related account of the Municipality/Administrations who are responsible to pay to the tax offices on behalf of the contractor.

d) The payments by ILBANK PMU for the objectives of the Project will be recorded as "Non-Interest Expenses" account in the ILBANK's accounts in local currency.

e) The amount of exchange rate gain or loss arising from the revaluation of the Euro dominated receivables and payables revalued using the Euro/TL exchange rate prevailing at the date of the balance sheet will be recorded as foreign exchange gain or loss.

f) The amount of sub-loan used by the Municipalities/Administrations based on Sub-Loan Agreements will be recorded to the following account:

1 - Loans

143 – Mid-Term and Long -Term Special Area Loan (Foreign Currency)

1430014 – World Bank Sustainable Cities Project – II AF

The total amount of expenses for the Sustainable Cities Project – II (AF) including the front-end-fee is **EUR 111.034.245,53** at the end of the year of 2025. Front-end-fee (**EUR 1.250.000,00**) was charged by the World Bank from the financing account by deduction at source; this amount was not transferred to the Project's Special Account.

g) The disbursements related to the sub projects will be recorded into the legal books of ILBANK and the Municipality/Administrations which are using the loan proceeds. A copy of the disbursement is received and reviewed by ILBANK upon submission by the Municipality/Administrations. Because the disbursements/expenses belong to the agency (ie., Municipality/Administrations) they will be recorded as "Loan Receivable" in ILBANK's books by Municipality/Administrations.

h) The Special Account with T.Vakıflar Bankası T.A.O. is in Euro. The prevailing selling exchange rate for Euro/TL of T.Vakıflar Bankası T.A.O. will applied for the above mentioned payments from the Special Account.

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Acting Manager

Gamze ASLAN
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i) Accounting transactions will be recorded in Euro as the currency of Loan Agreement. The collection in local currency is converted into Euro at the rate of T.Vakıflar Bankası T.A.O. prevailing at the date of collection for preparation of the Statement of Source and Use of the Funds. The payments in Euro are recorded using the exchange rate of Euro/TL prevailing at the date of payment.

3. STATEMENT of FINANCE

The use of the funds in Special Account is limited by only project objectives in conformity with the provisions of the Loan Agreement between the World Bank and ILBANK. The unused project funds at the end of the project may be cancelled in accordance with the provisions of the related Loan Agreement. The assets obtained by using the Project funds are belong to the Municipality/Administrations and the usage of the assets limited by the project objectives until the project completion. The loan-user agencies keep the necessary records in accordance with the requirements of the Law no. 5018 to monitor/control the assets during period of the project and Sub-Projects.

4. WORLD BANK LOAN

The debt service (principal, interest, front-end-fee) will be made by ILBANK in accordance with the provisions of the Loan Agreement, concluded on 10 July 2019 between World Bank and İller Bank.

ILBANK required from all the Municipality/Administrations to open an "Escrow Account" to fulfill the debt service liability according to the provisions of the Sub Loan Agreements. The Municipality/Administrations are required to deposit the amounts determined by applying the rates as indicated in the Sub-Loan Agreements to the amount of the water bills collected by both their own collection offices and/or via the banks. The balance of the Escrow Accounts can not be withdrawn by the Municipality/Administrations without a written permission of ILBANK yet the Municipality/Administrations can use the account balances to earn revenues from the investment areas as specified in the Sub-Loan Agreement.

The required debt service shall be made by purchasing Euro with the amounts accumulated in the Escrow accounts and transferred to ILBANK before the due date of the debt service. In other words in essence the revenues from the water bills of the Municipality/Administrations constitute the security of the loan. In the case in which the amount transferred to the Escrow Account is not sufficient to pay for the debt service

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Acting Manager

Gamze ASLAN
Head of Department

ILBANK has the right to appeal to the Municipality/Administrations' general budget tax shares, rent incomes, etc. respectively.

5. CASH POSITION AT DECEMBER 2025

The cash position at 31 December 2025 means the balance between the withdrawals from the loan to the Special Account and the amount of disbursement from Special Account and it is **EUR 21.738.802,99**. Project funds are held only in the T.Vakıflar Bankası T.A.O.'s Special Account, no other accounts or cash other than the Special Account is used.

T.VAKIFLAR BANK T.A.O. SPECIAL ACCOUNT (ACCOUNT NO: 00158048018623188)	
31.12.2025 Balance	21.738.802,99 EURO

6. EXPLANATION on BUDGET REALIZATION

a) The original budget, final budget, and planned budget sections under the title "Sources of Funds" in "Statement of Comparison Budget and Actual Amount" are generated using the amounts projected in the Project Apprasial Document (PAD) and calculated in EUR based on the percentage of USD amounts projected over the years in the PAD.

b) The original budget and final budget sections under the title "Uses of Funds" in "Statement of Comparison Budget and Actual Amount" are the estimated expenditure amounts for the year 2025 disbursement projection included in the annex of the Aide-Mémoire document dated January, 2025. Planned budget section is calculated by adding the expenditure amount realized until the year 2024 to the estimated expenditure amount for the year 2025.

7. EXPLANATION on REFUNDS to SA

The amount of EUR 7.404,00 was refunded to the special account on January 15, 2025 and the amount of EUR 12,00 was refunded to the special account on December 12, 2025. These refunds relate to the reimbursement of an overpayment made during the current period and does not constitute an additional source for the special account. The difference between the expenditure amount in the Statement of Sources and Uses of

Funda ÇETİN
Acting Manager

ILBANK
Gamze ASLAN
Head Of Department

Funds Table and the amount shown in the Special Account Table is due to these refunds amount.

Funda ÇETİN
Acting Manager

Gamze ASLAN
Head Of Department

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ
İLBANK

MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS

SUSTAINABLE CITIES PROJECT – II ADDITIONAL FINANCE

Implemented by
ILLER BANKASI A.S.

Financed Under International Bank for Reconstruction and Development (IBRD) Loan Agreement Numbered 8974-TR

As of December 31, 2025 and For the Year Then Ended

Prepared by

Ali ÇALIŞKAN
Senior Treasury Controller

Ezel Malik ZENGİN
Treasury Controller

Oğulcan ÇOLAK
Treasury Controller

Rumeysa İZGİ
Treasury Controller

MANAGEMENT LETTER

Ref: Independent Auditor Report's dated June 16, 2026

REPUBLIC OF TÜRKİYE
MINISTRY OF TREASURY AND FINANCE
Board of Treasury Controllers

MANAGEMENT LETTER

TO ILLER BANKASI A.S.

We have audited the financial statements of the "Sustainable Cities Project – II Additional Finance" (Loan Agreement Numbered 8974 – TR) as of December 31, 2025 and for the year then ended.

According to International Standards on Auditing, the auditors are required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risk of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

We have prepared this Management Letter in order to communicate appropriately to those charged with governance and management deficiencies in internal control that we have identified during the audit and that, in our professional judgement, are of sufficient importance to merit their respective attentions. For this purpose, our recommendations in order of priorities are attached to this Letter.

Our letter is intended solely for Iller Bankası A.S., Ministry of Treasury and Finance, and IBRD, and should not be distributed or used by other parties.

Okan SÜLER
Chairman of
The Board of Treasury Controllers

Akif Bülent BOYACIOĞLU
(Audit Partner)
Vice Chairman

Ali ÇALIŞKAN	Ezel Malik ZENGİN	Oğulcan ÇOLAK	Rumeysa İZGİ
Senior Treasury Controller	Treasury Controller	Treasury Controller	Treasury Controller

Date: June 16, 2026
Address: Ministry of Treasury and Finance
The Board of Treasury Controllers
06420, Çankaya, ANKARA/TÜRKİYE

AUDIT FINDINGS OF THE CURRENT YEAR

FINDING NUMBER :1	**Auditee (ILLER BANKASI AS)**
FINDING	Potential Conflict of Interest and Breach of Fair Competition Principles in Consultant Selection

CONDITION

During the review of the Individual Consultant Selection (MASKI C2) process conducted by Manisa Water and Sewerage Administration General Directorate (MASKI), several indicators suggesting a potential conflict of interest were identified.

The draft Terms of Reference (ToR) and candidate CVs were submitted to ILBANK on 25.11.2024. It was observed that the ToR was dated 21.11.2024 and that the CV of one of the candidates, Mr. Turabi İlker TUNCEL, carried the same date whereas the dates appearing on the other candidates' CVs ranged between 2020 and 2022. Further examination revealed that Mr. TUNCEL was working for MASKI and had been involved in the preparation of procurement documents for another consulting assignment (C1), which was also financed through the sub-loan provided by ILBANK.

Considering the connection between the candidate and the MASKI, metadata reviews were performed on the ToR and CV documents. The reviews indicated that the CV contained the name "Tuncel" in the *"Last Modified By"* field, while the ToR contained the same name in both the *"Author"* and *"Last Modified By"* fields. Therefore, there are strong indications that Mr. TUNCEL was involved in the preparation and/or revision of the Draft ToR. Similar findings were identified in subsequent versions of the ToR submitted during the procurement process.

On 27.11.2024, the draft ToR was circulated to all candidates to inquire about their interest in the assignment. A review of the metadata of the circulated ToR revealed that the name "Tuncel" appeared in both the *"Author"* and *"Last Modified By"* fields.

It was further determined that the ToR, which had reached its final form following the comments and revisions provided by ILBANK/IBRD, was transmitted by ILBANK to MASKI on 11.02.2025. It was observed that this e-mail was subsequently forwarded by a MASKI official, who was also a member of the Evaluation Committee, directly to Mr. Turabi İlker TUNCEL. The final version of the ToR was officially circulated to all candidates on 14.02.2025, including Mr. TUNCEL.

The Evaluation Report was submitted to ILBANK for review on 20.02.2025. Subsequently, ILBANK communicated its comments to MASKI on 26.02.2025. It was observed that the e-mail received from ILBANK was forwarded by the above-mentioned MASKI official, who was also a member of the Evaluation Committee, directly to Mr. Turabi İlker TUNCEL.

The draft contract was ultimately submitted by MASKI to ILBANK on 28.02.2025. A review of the metadata of the attached draft contract revealed that the name "Tuncel" appeared in the *"Last Modified By"* field.

Based on the metadata reviews and e-mail correspondence examined, significant indications were identified that one of the candidates, Mr. Turabi İlker TUNCEL, was involved in the preparation and/or revision of procurement documents, including the ToR and draft contract, while simultaneously participating in the selection process as a candidate.

CRITERIA – CAUSE – IMPACT

Criteria:

THE WORLD BANK PROCUREMENT REGULATIONS FOR IPF BORROWERS

Conflict of Interest

Consulting Services

3.14 The Bank requires that firms or individuals involved in Bank IPF procurement shall not have a conflict of interest.

...

3.17 Consultants shall not be hired for any assignment that would be in conflict with their prior or current obligations to other clients, or that may place them in a position of being unable to carry out the assignment in the best interests of the Borrower. Without limitation on the generality of the foregoing, Consultants shall not be hired under the circumstances set forth below:

...

d. Consultants (including their experts and other personnel, and sub-consultants), that have a close business or family relationship with a professional staff of the Borrower, or of the project implementing agency, or of a recipient of a part of the Bank's financing, or any other party representing or acting on behalf of the Borrower, that is directly or indirectly involved in any part of:

i. the preparation of the TOR for the assignment;

ii. the selection process for the contract; or

iii. the supervision of the contract, may not be awarded a contract, unless the conflict stemming from this relationship has been resolved in a manner acceptable to the Bank throughout the selection process and the execution of the contract.

...

Unfair Competitive Advantage

3.18 Fairness and transparency in the selection process require that Consultants or their affiliates, competing for a Consulting assignment do not derive a competitive advantage from having provided Consulting Services related to it. To that end, the Borrower shall make available to all short-listed Consultants, together with the request for proposals document, all information that would give a Consultant a competitive advantage.

...

Noncompliance

3.25 If the Bank determines that the Borrower has not complied with the procurement requirements set out in the Legal Agreement, the Bank may, in addition to exercising the legal remedies set out in the Legal Agreement, take other appropriate actions, ***including declaring misprocurement*** *(for example, due to the failure to address complaints in accordance with applicable requirements).*

3.26 Even once the contract is awarded after obtaining a no objection from the Bank, the Bank may still take appropriate actions and exercise legal remedies, regardless of whether the project has closed or not, ***if it concludes that the no objection or the notice of satisfactory resolution was issued on the basis of incomplete, inaccurate, or misleading information*** *furnished by the Borrower or the terms and conditions of the contract had been substantially modified without the Bank's no objection.*

Cause:
Insufficient controls were established to identify, disclose, and manage potential conflicts of interest during the consultant selection process. In addition, procurement-related documents and communications were shared with a candidate outside the formal procurement channels without adequate safeguards to ensure equal treatment of candidates and the integrity of the selection process.

Impact:
The circumstances identified by the audit indicate that a conflict of interest existed during the consultant selection process and that one candidate may have obtained an unfair competitive advantage. Consequently, the transparency, fairness and integrity of the procurement process were compromised.

RECOMMENDATION

Given the significant conflict of interest indicators identified during the audit, it is recommended that ILBANK formally communicate the matter to the World Bank and seek its guidance on the appropriate course of action. Considering the provisions of the World Bank Procurement Regulations relating to noncompliance and misprocurement, the Bank may assess whether the consultant selection process was conducted in accordance with the applicable procurement requirements and whether any further review is warranted.

Based on the outcome of the World Bank's assessment, appropriate corrective measures should be considered, including, where applicable, the review of the contract's eligibility for financing under the Loan Agreement.

Furthermore, ILBANK should strengthen its oversight controls to ensure that candidates are not involved in the preparation or revision of procurement documents and that procurement-related information is communicated simultaneously and through official channels to all candidates throughout the selection process.

RESPONSE OF THE AUDITEE IN 2026

Taking into consideration the seriousness of the finding, we would like to submit both MASKİ's and İLBANK's responses. Consequently, firstly MASKİ's responses are given below:

Within the scope of the Treasury Audit regarding the activities carried out in 2025 under the Sustainable Cities Project II – Additional Financing (SCP-II AF), the finding related to the Individual Consultant Selection (MASKI C2) has been reviewed in detail, and the explanations of our Administration are presented below.

First of all, it should be emphasized that the relevant consultant selection process was conducted in accordance with the World Bank's Procurement Regulations for IPF Borrowers and the Individual Consultant (IC) selection method. The evaluation of candidates was based on the criteria defined in the approved Terms of Reference (ToR) and was carried out by an Evaluation Committee composed of senior officials of the Administration.

Regarding the audit observation suggesting that Mr. Turabi İlker TUNCEL may have been involved in the preparation or revision of procurement documents, including the ToR and draft contract, it is important to clarify the following:

During the project preparation and implementation phases, procurement-related documents such as draft ToRs and contract templates are developed through iterative processes involving multiple stakeholders, including the Administration staff, consultants, and inputs from previous similar assignments. These documents are subsequently revised based on the comments and guidance provided by ILBANK and the World Bank until their final versions are approved.

The presence of the name "Tuncel" in the metadata fields such as "author" or "last modified by" is related to document handling or formatting processes and does not, in itself, demonstrate that the individual candidate had decision-making authority or played a determining role in defining the evaluation criteria or shaping the selection conditions in a manner that would provide a competitive advantage. Metadata records reflect technical document processing rather than formal authorship or ownership within the procurement process.

Furthermore, the ToR used in the procurement process was ultimately finalized based on the comments and approval of ILBANK and was formally communicated to all candidates simultaneously. Therefore, all candidates were provided with the same final ToR under equal conditions, in line with the principles of transparency and fairness.

With respect to the sharing of certain communications, it should be noted that occasional informal exchanges may occur during the coordination of complex, multi-stakeholder projects. However, these interactions did not result in any disclosure of non-public information that would materially affect the outcome of the selection process. All critical procurement documents, including the final ToR, were officially circulated to all candidates through formal channels.

In addition, the evaluation process itself constitutes the core safeguard of fairness. Each evaluation committee member conducted an independent assessment of all candidates based solely on the submitted CVs and the evaluation criteria defined in the ToR. The final scores were determined by averaging individual evaluations, ensuring objectivity and minimizing any potential bias.

The selected candidate, Mr. Turabi İlker TUNCEL, achieved the highest score due to his qualifications and direct experience in World Bank–financed projects, particularly in procurement processes, project implementation unit (PIU) coordination, and technical support functions, which are fully aligned with the requirements of the assignment.

Therefore, it is considered that:

The evaluation process was conducted in a transparent and objective manner,

- All candidates were treated equally and assessed against the same criteria,
- No intentional or material conflict of interest affected the integrity of the selection process,
- No unfair competitive advantage was granted that would have altered the outcome of the procurement.

In conclusion, while certain procedural weaknesses in document management and communication have been identified, it is our assessment that these issues did not materially affect the fairness, transparency, or outcome of the consultant selection process. The procurement was conducted in line with the applicable rules, and the selected candidate was determined based on merit and qualifications.

The above-mentioned response from MASKI have been evaluated by ILBANK, and our final opinions are stated below:

- It is clear that the risks related to transparency, unfair competition, and conflicts of interest identified as a result of the audit must be carefully considered in all procurement stages under ILBANK's review/approval process regardless of the Bank's review method (post-review or prior-review).
- ILBANK applies the most competitive method in all procurements within the scope of the projects and not to initiate any procurement process without fulfilling the relevant conditions in the World Bank Procurement Regulations.

- In our subsequent procurements, methods that will ensure a high level of competition will be determined for all services, including individual consultancy services and similar scope of services.
- Regarding the MASKI C2 project specifically, we would like to state that any applicants only have the right to request clarification or ask queries during the preparation of the Terms of Reference. We agree that if it is proven that any applicant was involved in the process of preparing or revising the Terms of Reference, the necessary procedures should be carried out in accordance with the World Bank Procurement Methods.

FINAL OPINION OF THE AUDITORS IN 2026

The responses provided by MASKI and ILBANK have been reviewed. The explanations submitted by MASKI are considered insufficient to address or mitigate the audit concerns identified with respect to the procurement process.

The audit identified clear indicators of a conflict of interest within the consultant selection process, whereby a candidate was involved in the preparation and/or revision of procurement documents while simultaneously participating in the selection process. Such circumstances fall within the prohibited conflict of interest provisions under Sections 3.14 and 3.17 of the World Bank Procurement Regulations for IPF Borrowers.

The existence of a conflict of interest constitutes noncompliance under the applicable procurement requirements, irrespective of its impact on the procurement outcome. Furthermore, the conditions identified are also inconsistent with the principles of fairness, transparency, and equal treatment of candidates.

Given the nature and severity of the findings, the procurement process is not considered fully compliant with the applicable procurement requirements, and the related expenditure is therefore not considered eligible under the Loan Agreement.

Accordingly, it is recommended that ILBANK initiate the necessary procedures for recovery of the relevant expenditure in line with the applicable contractual and financing arrangements, and consider the matter for communication to the World Bank for further action as deemed appropriate.

FINDING NUMBER :2	**Auditee (ILLER BANKASI AS)**
FINDING	Contract Award After Expiry of Bid Validity Period

CONDITION

For the contract "Construction of North Antalya Potable Water Transmission Line Project (ASAT W3-12)", it was observed that the contract was signed on 12.02.2025. The deadline for submission of bids was 31.10.2024, and the bid validity period was defined as 91 days in accordance with the tender dossier, resulting in an expiration date of 30.01.2025.

Based on the review of the procurement timeline, it was noted that the contract was signed after the expiration of the bid validity period.

CRITERIA – CAUSE – IMPACT

Criteria:

THE WORLD BANK PROCUREMENT REGULATIONS FOR IPF BORROWERS

Bid/Proposal Validity

5.39 The Bid/Proposal validity period specified in the request for bids/request for proposal document
shall be sufficient to enable the Borrower to:
a. complete the comparison and evaluation of Bids/Proposals;
b. obtain necessary approvals within the Borrower's entity;
c. allow for the Bank's prior review, if required in the Procurement Plan; and
d. award the contract.

Cause:
The delay in completing the procurement process within the bid validity period indicates weaknesses in procurement planning and contract award scheduling, as well as insufficient monitoring of key procurement timelines. In addition, there is no evidence that a formal bid validity extension was requested or obtained prior to contract signing.

Impact:
The contract was signed after the expiration of the bid validity period, which undermines the procedural validity of the award process and creates compliance risks with the procurement regulations. This may also affect the legal and financial robustness of the contract.

RECOMMENDATION

It is recommended that ILBANK issue a formal written notification to the Antalya Metropolitan Municipality Water and Sewerage Administration General Directorate (ASAT) drawing attention to the non-compliance with the bid validity requirements under the Procurement Regulations. ASAT should be requested to ensure strict adherence to procurement timelines in future processes and to obtain duly documented bid validity extensions from all bidders in cases where delays occur. Furthermore, ILBANK should reinforce its monitoring procedures to prevent recurrence of similar deviations.

RESPONSE OF THE AUDITEE IN 2026

With respect to the ASAT3-W12 Construction of North Antalya Potable Water Transmission Line Project, bids were received on 31 October 2024. No extension of the Bid Validity Period was requested during the evaluation process. Consequently, the Bid Validity Period expired on 30 January 2025. In light of the foregoing, the related procurement process are summarized below.

Following the completion of the Bid Evaluation Report, İlbank conveyed no-objection for the Award of Contract to the Lowest Evaluated Responsive Bidder with the e-mail dated 03 January 2025. Subsequently, ASAT Board Decision received for the contract award on 07 January 2025. In accordance with Clause 43 of the Instructions to Bidders (ITB), a Notification of Intention to Award was issued to all bidders on 09 January 2025.

Following the issuance of the Notification of Intention to Award , the standstill period, which expired on 22 January 2025, was observed in order to allow for the submission of any complaints or challenges in accordance with the applicable procurement procedures.

No complaints were received during the standstill period. Accordingly, pursuant to Clause 45.1 of the Instructions to Bidders (ITB), which provides that "the Letter of Acceptance shall be issued prior to the expiration of the Bid Validity Period and upon expiry of the complaint period specified in ITB Clause 42.1, or any extension thereof..." a "Letter of Acceptance" was issued to the Lowest Evaluated Responsive Bidder on 23 January 2025. The bidder was further notified that the Contract was required to be signed within twenty-eight (28) days of receipt of the Letter of Acceptance.

Regarding to the World Bank Procurement Regulations for theIPF Borrowers;

Bid/Proposal Validity

5.39 "The bid/proposal validity period specified in the request for bids/request for proposal document shall be sufficient to enable the Borrower to:

a) complete the comparison and evaluation of bids/proposals; For the Evaluation Report, No Objection from İlbank has been received on 03 January 2025

b) obtain necessary approvals within the Borrower's entity;, ASAT Board Decision has been received on 07 January 2025

c) allow for the Bank's prior review, if required in the Procurement Plan; Subject to post review of World Bank and No Objection from İlbank has been received on 03 January 2025

d) Award the Contract; "Letter of Acceptance regarding to Contract Award" and "Invitation For Signing of the Contract" was issued to the Lowest Evaluated Responsive Bidder on 23 January 2025.

As demonstrated above, all procedural steps required for the Award of the Contract were duly completed prior to the expiry of the Bid Validity Period on 30 January 2025.

The scope and effect on the bidding procedure of the Letter of Acceptance are expressly defined in ASAT3/W12 Bidding Documents, ITB Clause 45.4, Issuance of the Letter of Acceptance states that "until a formal Contract is prepared and executed, the Letter of Acceptance shall constitute a binding Contract."

Furthermore, upon the Successful Bidder's receipt of the Letter of Acceptance, the correspondence and submission of documentation required for the execution of the Contract, including the Tax, Duty and Fee Exemption Certificate and other related documents, was initiated as of 24 January 2025.

Although the Contract Agreement was ultimately signed on 12 February 2025, i.e. after the expiration of the Bid Validity Period, the conditions related to the bid validity process had already been concluded with the issuance of the Letter of Acceptance regarding to Contract Award on 23 January 2025. Upon issuance of the Letter of Acceptance, the contractual period for signing of the Contract Agreement commenced and all actions required for the award of the Contract had been completed within the Bid Validity Period.

In this regard, the requirements set forth under Paragraph 5.39 (Bid/Proposal Validity) of the World Bank Procurement Regulations for IPF Borrowers were fully satisfied prior to the expiration of the Bid Validity Period. Accordingly, the comparison and evaluation of bids had been completed, the necessary approvals had been obtained, the Bank's review requirements had been fulfilled, and the Contract had been awarded within the Bid Validity Period.

Therefore, no further extension of the Bid Validity Period was required by the parties.

In conclusion, the process described above was carried out with the knowledge and agreement of all relevant parties, and no complaint, dispute, or ambiguity arose at any stage of the procurement process. As demonstrated above, all actions required for the Award of the Contract were completed within the Bid Validity Period and in accordance with the applicable provisions of the World Bank Procurement Regulations for IPF Borrowers.

Nevertheless, in order to further strengthen procurement practices, due care will be taken in future procurements to ensure not only that the Contract Award is completed within the Bid Validity Period, but also that the signing of the Contract Agreement is executed prior to the expiry of the Bid Validity Period.

FINAL OPINION OF THE AUDITORS IN 2026

PARTIALLY ADRESSED

The response and explanations provided are noted. While the issuance of the Letter of Acceptance prior to the expiration of the bid validity period mitigates the risk identified, the signing of the Contract Agreement after the expiry of the bid validity period may create uncertainty in cases where the successful bidder fails to fulfil the conditions required for contract execution.

This finding will be followed up during the next audit period through the review of procurement processes.

AUDIT FINDINGS OF THE PREVIOUS YEAR

FINDING NUMBER : 1	Auditee (ILLER BANKASI AŞ)
FINDING	Inadequate Planning and Installation of Lighting Poles and Fixtures

CONDITION

During the on-site audit of the ALACA G1 – Procurement of Special Design Lighting Poles and Fixtures conducted on 14.05.2025, it was detected that some of the lighting poles located on "Çorum Street" were damaged or incomplete.

Specifically, some of the double-sided lighting poles had one side cut off, and in other cases, although the poles remained intact, the LED armatures could not be installed. Upon inquiry, municipal officials stated that the poles were initially delivered by the contractor in compliance with the technical specifications. However, during installation, it was discovered that the poles could not fit within the narrow street width, which led to physical modifications on-site.

If adequate research and due diligence had been conducted prior to the procurement, the beneficiary could have foreseen that the lighting poles in question would not fit within Çorum Street. In this context, it is concluded that the allocated funds for the related street—particularly for the damaged or incomplete poles—were used carelessly, resulting in unnecessary expenditures.

CRITERIA – CAUSE – IMPACT

Criteria:

Contract;

"...

The Purchaser issued an invitation to tender for the procurement of certain Goods and related services, namely Special Design Lighting Poles and Fixtures (165 custom-designed aluminum lighting poles of 6+8 meters in length with non-LED main bodies and LED decorative iron motifs; 165 units of 60 Watt fixtures; and 165 units of 80 Watt fixtures). The Supplier's offer in the amount of EUR 333,300 (three hundred thirty-three thousand three hundred Euros) (hereinafter referred to as the "Contract Price") was accepted for the supply of these Goods and Services.

..."

Technical Specifications;

"...

15. LED armatures shall be mounted parallel to the road... and must be fixed to the pole or arm at least two points.

.."

The lack of adequate site reconnaissance and technical evaluation prior to installation has resulted in a discrepancy between project expenditures and contractual obligations.

RECOMMENDATION

It is recommended that ILBANK carry out a site-based damage assessment. Based on the outcome of this assessment, necessary corrective actions should be taken.

RESPONSE OF THE AUDITEE IN 2025

1. Within the scope of the Sustainable Cities II Project, a site visit was conducted on 04.06.2025 for the procurement of Custom-Designed Lighting Poles and Fixtures for the Municipality of Alaca (Çorum), financed under the project (165 units of specially designed aluminum lighting poles, 6+8 meters in height, with non-LED body and LED sheet-metal motif; 165 units of 60-Watt luminaires; 165 units of 80-Watt luminaires), project code ALACA-G1. The site visit was carried out in cooperation with İller Bankası and the Municipality, and the prepared site visit record is attached.
2. A total of 170 lighting poles were identified on-site, including 167 that have been installed, are active, and in working condition, and 3 that are being kept as spare poles.
3. Since the lighting poles in question were to be installed at the same locations using the existing anchorages of the old poles, and as the scope of the work was limited to the procurement of materials, no additional design work was carried out.
4. According to the report issued by TEDAŞ 21st Regional Directorate on 27.05.2024, it was determined that the 21 decorative lighting poles mentioned in the report did not comply with the required safety distances in the direction of pedestrian sidewalks, as stipulated by the "Electric Power Current Facilities Regulation," thus posing risks to life and property. Following this, the Municipality cut the brackets on the pedestrian sidewalk side of 6 lighting poles and removed the fixtures on the pedestrian sidewalk side of 15 lighting poles, thereby ensuring compliance with the clearance distances stated in the relevant regulation. Based on the follow-up inspection and report issued by TEDAŞ 21st Regional Directorate on 06.06.2024, it was determined through testing and examination that the facility was in compliance and its acceptance could be approved. The relevant TEDAŞ records are attached.

Based on the examination conducted by our institution, in order to prevent similar issues from occurring in the future, the dimensions of the poles will be taken into consideration when selecting new lighting poles, and projects will be financed in accordance with the clearance distances specified in the relevant regulation.

FINAL OPINION OF THE AUDITORS IN 2025

OPEN

It was observed that, in line with the audit recommendation, ILBANK conducted an on-site assessment regarding the issues identified. However, no corrective measures have been taken to address the situation.

The physical modifications already carried out—such as cutting the brackets of 6 lighting poles and removing the fixtures of 15 poles—demonstrate that project funds were not used efficiently. These issues could likely have been avoided if poles more suitable to the physical constraints of the area—such as smaller or single-sided models—had been selected during

the procurement process. The use of oversized and ultimately incompatible poles resulted in both uneconomic and inefficient utilization of project resources. Accordingly, it is expected that ILBANK take appropriate actions in line with the relevant provisions of the Sub-Loan Agreement and the Loan Agreement.
RESPONSE OF THE AUDITEE IN 2026 No additional design review was conducted, as the scope of the ALACA G1 – Procurement of Special Design Lighting Poles and Fixtures project was limited to the procurement of materials, the lighting poles were planned to be installed at the same locations using the existing anchorages, and the projects had already been approved by the authorized utilities. However, due to existing physical constraints, in order to ensure compliance with the safety clearances specified in the relevant Regulation and to safeguard life and property, the actions subject to the audit finding were carried out by the Municipality of Alaca, and the system was brought into compliance with the requirements for acceptance. To prevent similar situations from recurring, the Municipality has indicated that it has taken the necessary administrative measures to ensure that, in future lighting projects, more detailed site surveys are conducted prior to implementation, existing road and sidewalk dimensions are taken into account during the project design stage, and pole types, brackets, and luminaire specifications are determined in accordance with the existing physical conditions. In forthcoming projects, to prevent the recurrence of similar situations, Iller Bank will ensure that site inspections are carried out by its relevant Regional Directorates in relation to both project and the poles, pole locations, and fixtures to be procured.
FINAL OPINION OF THE AUDITORS IN 2026 **OPEN** It was concluded that insufficient site investigations and assessments during the design stage resulted in a design deficiency and the procurement of lighting poles that were not fully compatible with the actual site conditions, thereby giving rise to avoidable additional costs. Furthermore, as of the date of the audit, neither ILBANK nor Alaca Municipality has undertaken adequate corrective actions to address the consequences of the design deficiency. Accordingly, ILBANK and/or Alaca Municipality should further assess the additional costs incurred, determine whether any irregular or ineligible expenditures arose, and take appropriate corrective measures, including recovery actions where applicable. Therefore, the finding remains open and will be followed up in the next audit period.

FINDING NUMBER : 2	Auditee (ILLER BANKASI AŞ)
FINDING	Lack of Systematic Budget Projection

CONDITION

Financial statement audit indicates that the reported disbursements and related expenditures are not based on realistic or systematically prepared projections. Although some projections related to disbursements are included in the "Aide Mémoire" documents prepared during the mission visits conducted by the World Bank, there is no accompanying systematic projection regarding expenditures. Furthermore, within the fiscal year, while certain planning efforts were undertaken, they lacked consistency, structure, and integration into a comprehensive budget forecasting system.

CRITERIA – CAUSE – IMPACT

According to sound financial management and reporting principles, budget execution should be based on realistic, timely, and comprehensive projections of both disbursements and related expenditures to ensure transparency, accountability, and efficient resource utilization.

Cause and Impact:

There appears to be a lack of established procedures or tools to systematically project and monitor both disbursements and expenditures throughout the fiscal year. The absence of such mechanisms may reflect deficiencies in budgeting practices and internal financial planning.

The absence of reliable and systematic budget projections may lead to misinformed decision-making, inefficient allocation of resources, and reduced financial transparency. It also increases the risk of variances between planned and actual budget execution, which could negatively impact program performance and compliance with World Bank expectations.

RECOMMENDATION

It is recommended that the İller Bank develops and institutionalizes a formal and systematic budget projection framework that covers both disbursements and expected expenditures. This framework should be aligned with World Bank reporting requirements and should be regularly updated and monitored to ensure realistic financial planning and execution.

RESPONSE OF THE AUDITEE IN 2025

In the following periods, a budget section will be added to the periodically prepared project progress reports and will be continuously updated. Budget forecast data will thus yield more reliable results based on these reports. The reports will include not only the amounts of disbursements but also the contract-based progress that forms the basis for such disbursements. Accordingly, projections will be developed in line with this progress.

FINAL OPINION OF THE AUDITORS IN 2025

OPEN

The auditee's initiatives are noted. This finding will be subject to follow-up in the next audit period to verify whether the planned improvements concerning the budget projection framework are implemented or not.

RESPONSE OF THE AUDITEE IN 2026

Within the scope of the Bank's annual budgeting process, the International Relations Group Presidency prepares project-based budget estimates each year for the subsequent fiscal period. Following the completion of the relevant approval procedures, these estimates are formally transmitted to the Accounting and Financial Affairs Department Presidency through official correspondence and duly recorded. The estimates present the projected budgets for each financing package individually.

As these budgets are prepared during the month of September, significant variances may arise between the estimated and actual figures. Consequently, such budget estimates are not currently utilized in the preparation of the financial statements. Instead, expenditure projections are developed on a quarterly basis within the scope of the relevant projects, taking into consideration procurement plans and field data obtained from the Technical Departments, and these projections are shared with the respective International Financial Institution (IFI). During the preparation of the financial statements, these expenditure projections are used for budget presentation purposes.

In response to the findings identified by your institution during the audit process, the necessary measures will be taken in the forthcoming period to ensure that the annual budget estimates, which are already being prepared by our Presidency, are developed in a more realistic manner and more closely aligned with actual figures. Efforts aimed at improving the relevant processes will be undertaken, and the necessary actions will be implemented accordingly. As a result, efforts will be made to ensure that these budget figures can be utilized in the preparation of the financial statements.

FINAL OPINION OF THE AUDITORS IN 2026

OPEN

The auditee's explanations are noted. It is understood that annual budget estimates are currently not fully aligned with actual figures used in financial reporting, and quarterly expenditure projections are applied instead. The auditee indicates that measures will be taken to improve the reliability of annual budget estimates. This finding remains open and will be subject to follow-up in the next audit period to determine whether the necessary actions have been taken.

FINDING NUMBER: 3	**AUDITEE:** İller Bankası AŞ.
FINDING:	Discrepancy between Progress Payments and Contract Terms

CONDITION

It has been determined a discrepancy between the expenses made in the progress payments of the contracts numbered and MUS-W2 and MUSC1/B financed under SCP-I/SCP-II AF respectively and the contracts' conditions. The detected discrepancies are as follows:

1) MUSC1/B

For the expenses made for the budget items regarding the "Local Flights" and "Short Term Accommodation (Hotel)" under the "Reimbursable Expenses" in the progress payments numbered 36, 37 and 43;

- Although the budget item for "Local Flights" is determined on a quantity bases in the contract, the progress payments are calculated on a lump sum basis (For ınstance; in progress payment number 43, it is seen that 10 flight tickets were purchased with a total cost of 618.51 EUR. However, the flight tickets in question were shown as 6.1851 (as quantity) instead of 10 (as quantity) in the relevant progress payment).

- For the budget item regarding the "Short Term Accommodations", expenditures exceeds the current contract value (For instance; while the current contract price is 12,450 EUR, the cumulative expenditure amount is 14,868.74 EUR, including the expenditure made in progress payment no. 43. In other words, the current contract price has been exceeded by 2,418.74 EUR).

2) MUS-W2

For the expenses made for the budget item regarding the "Supply of Vehicle to the Project Manager" in the progress payments numbered 13 and 38;

Although the budget item is determined on a quantity bases in the contract, the progress payments are calculated on a lump sum basis and expenditures exceeds the current contract value (Please take into consideration the previous examples).

CRITERIA - CAUSE – IMPACT

Appendix D – 2 Reimbursable Expenses Cost Estimates

"All reimbursable expenses shall be reimbursed at actual cost, unless otherwise explicitly provided in this Appendix, and in no event shall reimbursement be made in excess of the Contract amount."

Failure to comply with the contract terms during the implementation process may result in exceeding the budget determined for the relevant items on both a quantity and amount basis.

RECOMMENDATION

It is recommended to make necessary amendments without disrupting the effectiveness of the contract in order to eliminate the risk of exceeding the budget determined for the relevant items on both a quantity and amount basis.

RESPONSE OF THE AUDITEE IN 2024 For both contracts, amendments will be made to the additional financing while keeping the contract ceiling amounts. Progress payments will be adjusted accordingly.
FINAL OPINION OF THE AUDITORS IN 2024 **OPEN** The finding will be followed up in the next audit period to verify whether remedial actions are taken regarding audit concerns.
RESPONSE OF THE AUDITEE IN 2025 Regarding the MUSC1/B contract, based on the findings, Amendment No. 5 — which revises the payment table while maintaining the ceiling amount for reimbursable expenses — was approved by İLBANK on 29 May 2025. However, although it was stated that the signed version of Amendment No. 5 would be submitted to ILBANK, it has not yet been received. For the MUS-W2 contract, MUSKI stated that the identified issue resulted from previously granted time extensions, and the associated increases in time-based general items were formally incorporated into the contract under Amendment No. 12 dated 17 November 2023. A high-level meeting between İLBANK and MUSKI is planned for the week of 16 June 2025, which will include discussions on the identified issues, the delayed submission of amendment documents, and the actions taken or planned in response.
FINAL OPINION OF THE AUDITORS IN 2025 **OPEN** Given that the expenditures exceeded the allocated monthly budgets, it is concluded that the amounts exceeding the allocated budget are ineligible. Therefore, recovery procedures should be initiated by ILBANK for the ineligible expenditures identified. This finding will be followed up in the next audit period to check whether the ineligible amount of EUR **2,418.74 EUR** is recovered by the ILBANK and audit concerns regarding the tracking method of unit quantities are adequately addressed or not. In order to mitigate the risk of exceeding the quantity stipulated in the contract for the reimbursable expenditures, arising from the current tracking method of ceilings, contractual amendments should ensure budget allocations can be effectively monitored both in terms of financial ceilings and quantities.
RESPONSE OF THE AUDITEE IN 2026 The finding has been formally communicated to the MUSKI. The Administration has confirmed that the identified amount will be deducted from the first available Interim Payment Certificate (IPC) in accordance with the Contract and Technical Specifications, as well as the Measurement and Payment Procedures. The necessary procedural corrections will be reflected in the relevant payment and accounting records, and ILBANK will closely monitor the implementation of the corrective actions and ensure

compliance with the contractual obligations.
FINAL OPINION OF THE AUDITORS IN 2026 **OPEN** The auditee's explanations are noted. The finding will be followed up in the next audit period to verify that the deduction has been duly executed and properly recorded and to assess whether the necessary remedial actions have been taken to address the audit concerns.