

Corporate Governance Rating

This report has been prepared by JCR-ER in compliance with the regulations of Capital Markets Board of Turkey

Publication Date: 21/06/2019

Sector: Investment Banking

PASHA YATIRIM BANKASI A.Ş.

Ratings

Overall Score	9.11	AAA(Trk)/aa (Stable)
Shareholders	9.07	AAA(Trk)/aa (Stable)
Public Disclosure & Transparency	9.19	AAA(Trk)/aa (Stable)
Stakeholders	9.21	AAA(Trk)/aa (Stable)
Board of Directors	9.05	AAA(Trk)/aa (Stable)

Bank Profile

Trade Name	PASHA YATIRIM BANKASI A.Ş.
Address	Pasha Plaza, Sultan Selim Mahallesi, Eski Büyükdere Cad. No:59, 34415 Kağıthane/İstanbul
Chairman	Mr. Jalal GASIMOV
CEO	Mr. H. Cenk EYNEHAN
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Financial Data

	2018*	2017*	2016*	2015*	2014*
Total Assets (000,000 USD) ***	257	235	145	111	26
Total Assets (000,000 TRY)	1,350	897	510	322	61
Total Deposit (000,000 TRY)	0	0	0	0	0
Total Net Loans (000,000 TRY)	840	713	404	246	51
Equity (000,000 TRY)	506	261	245	231	47
Net Profit (000,000 TRY)	-4	16	14	9	-2
Asset Size Market Share (%)	0.03	0.03	0.02	0.01	0.00
ROAA (%) **	-0.38	2.94	4.35	5.99	-7.15
ROAE (%) **	-1.12	8.20	7.62	8.28	-9.32
Equity/Assets (%)	37.47	29.06	47.94	71.51	76.71
CAR-Capital Adequacy Ratio (%)	37.85	31.36	53.85	91.75	135.43
Asset Growth Rate (Annual) (%)	50.48	75.73	58.30	427.92	22.00

*End of year, **Based on pre-tax figures, ***Based on year end CBRT parity

Bank Overview

With an operating track record dating back to the establishment of Yatırım Bank A.Ş. in 1987, PASHA Bank provides services largely in the fields of corporate and investment banking through its headquarters with no branches. The Bank remained under the control of different shareholders until 2015, in which the majority shares were acquired by Baku based PASHA Bank OJSC. In May, 2018, PASHA Holding LLC became a shareholder with a rate of 49% whilst the paid-in capital was increased by TRY 245mn to TRY 500mn. The Bank had no other affiliates or subsidiaries as of the report date.

PASHA Bank OJSC and PASHA Holding LLC are qualified shareholders in the Bank with rates of 50.96% and 49% respectively as of end March, 2019. Based on equity, PASHA Bank OJSC represents the largest Bank in Azerbaijan and is among the top 5 banks by assets with 9 business centers across the country. Established in 2006, PASHA Holding LLC is one of the leading non-oil conglomerates in Azerbaijan with diversified investments in the financial sector, construction & development, travel & tourism and private equity. The Group had a total asset size of AZN 6.92bn, equity of AZN 1.40bn and generated employment opportunities for in excess of 2,500 personnel.

The Board of the Bank consists of 9 members, 3 of whom are women with three holding independent status. The Bank has 6 committees under the Board which namely include strategy and budget, human resources and remuneration, credit, corporate governance, risk management and audit.

Strengths

- Presence of a comprehensive and effective risk management and internal control system
- High level of effectiveness in internal audit activities
- Three independent members in the Board of Directors
- Three women in the Board of Directors
- Effective and transparent website in both Turkish and English
- Well-prepared contingency plans against emergent and unexpected circumstances
- Effective Board of Directors comprised of highly qualified, educated and experienced members
- Directors and Officers Liability Insurance Schemes covering the top management

Constraints

- Absence of any clauses in the articles of association that broaden the exercise of minority rights beyond the current legislation for shareholders holding less than 5% of share capital.
- No disclosure of the names of ultimate individual shareholders who have more than 5% share in the Bank's Capital on the website.
- Absence of a labor union organization among the staff
- Non-independent status of committee chairs

1. Rating Methodology and Executive Summary

This report was prepared in light of JCR Eurasia Rating’s original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Markets Board (CMB) and states PASHA Bank’s level of compliance with Corporate Governance Principles as of June 2019.

The Capital Markets Board’s Corporate Governance Principles were first made public in 2003. Important revisions and changes were made at the beginning of 2012 and again on January 3, 2014, as detailed in Communiqué II-17.1 (accessible on www.spk.gov.tr)

The CMB pursued a significant change regarding the methodology of calculation of compliance rating scores in the beginning of 2014. Based on the recent CMB legislation, the new scoring methodology consists of two stages in which companies are allocated a base and a full score. In the new system, companies are first assigned a base score with a maximum of 85 points determining their compliance with the rules and practices outlined in the Code. In the second stage, an additional 15 points may be awarded depending on the efficient implementation and value creation achieved through practices exceeding those specified in the principles. Practices not stated in the Code but determined by JCR Eurasia Rating as best governance practices are also taken into account in the assignment of additional points. With these changes, CMB has placed special emphasis on functional compliance along with structural compliance with the Code and scores have been depressed as a result of the new calculation in two stages.

The Code consists of four main sections: Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. These main sections’ coefficients, which were determined by the CMB, have been recently changed with the latest weight composition outlined below;

- Shareholders: 25%
- Public Disclosure and Transparency: 25%
- Stakeholders: 15%
- Board of Directors: 35%

These coefficients were 25%, 35%, 15% and 25%, respectively, in the previous years.

Subject to the preservation of the integrity of CMB regulations and regulations related to the Borsa İstanbul Corporate Governance Index and compliance with the limitations thereof, this report also covers topics such as implementations regarding “**Outlook**” determinations and “**Financial Efficiency**” analyses, all of which exist in JCR Eurasia Rating’s original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Bank to the public through various channels and also submitted to JCR Eurasia Rating in writing and verbally, as well as reports and statistics disclosed on Public Disclosure Platform (PDP).

Distinct levels of the 4 main categories regarding compliance with the CMB Corporate Governance Principles are exhibited in the following table. The overall score has been calculated based on weightings determined for these 4 categories in line with CMB regulations.

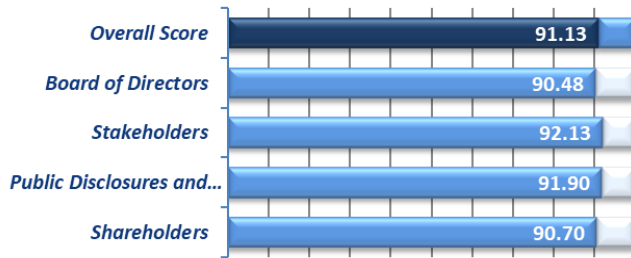
June 21, 2019				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	90.70	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Public Disclosure and Transparency	91.90	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Stakeholders	92.13	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Board of Directors	90.48	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Overall	91.13	AAA(Trk) (Distinctive)	(aa) (Superior)	Stable

JCR Eurasia Rating’s notation system may be viewed at: http://www.jcra.com.tr/Upload/Files/Reports/538_kydr_notation_oct2010.pdf

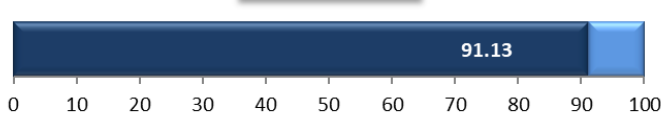
The Bank’s compliance level and their corresponding notes are outlined below:

- Numerical value of **9.11**
- Convergence Level **AAA(Trk)** representing the category of “**Distinctive Compliance**”
- Notch degree **(aa)** representing the category of “**Superior**”
- Outlook (**Stable**)

Corporate Governance Score %



Overall Score %



Overall Result

9.11

AAA (Trk) / aa

Stable

Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance on an overall basis. For this reason, the outlook for the Bank has been determined as **“Stable”**.

2. Turkish Banking Sector and Bank Overview

The banking sector is the largest and the most significant element of the financial system in Turkey. All potential changes in the Turkish Banking Sector might have direct impacts on the financial stability of the Turkish economy and the real sector.

The Turkish Banking Sector, which is closely monitored by the regulatory authorities and directly affected by financial innovations and developments in the information technologies, has the major share in the overall financial system in Turkey. The pivotal role of the banking sector is

reinforced by the high share of the households in total financial assets.

The Turkish Banking Sector, which is pervasively regulated by the BRSA-the Banking Regulation and Supervision Agency, consists of deposit banks, development and investment banks and participation banks whose operations are designed based on the Islamic principles of profit or loss sharing. Total asset size of the banking sector amounts to USD 727bn (TRY 3,842bn) as FYE2018.

SUMMARY OF KEY INDICATORS OF THE TURKISH BANKING SECTOR

(000,000)	2018	2017	2016	2015
Asset size -TRY	3,842,639	3,257,814	2,731,016	2,357,387
Asset size-USD	727,635	863,706	799,150	807,850
Equity-TRY	417,916	358,647	300,264	262,214
Profit-TRY	50,695	48,648	37,530	26,052
ROAA%	1.85	2.03	1.86	1.52
ROAE%	16.94	18.47	16.81	13.38
NPL Ratio%	3.69	2.95	3.24	3.09
Capital Adequacy Ratio%	17.27	16.87	15.57	15.56
Equity / total assets	10.88	11.01	10.99	11.12
Loans / Deposits%	1.11	1.13	1.16	1.18

Turkey’s “bank assets to GDP” ratio is in parallel with the average of the developing countries but much lower than the average of the developed ones, indicating that the growth potential of the Turkish banking sector is still high. Despite the fact that the potential of the Turkish banking sector to boost economic activities and growth has been constrained and weakened in parallel with the extraordinary depreciation of the Turkish Lira in 2018, the sector maintains its capacity to access external financial sources. Alongside global developments, the political and diplomatic issues that came up during 2018 put upward pressure on the exchange and interest rates, as a result general business conditions of the banking sector have deteriorated. There have been remarkable additional regulations put into practice regarding the banking sector, following the deterioration of the general circumstances during the year.

As a result of the technological developments and innovative approaches which ensure more efficiency in business processes with smaller operational organizations, the need for personnel and the tendency for opening new branches have diminished. Consequently, the total number

of both branches and personnel declined during the period between 3Q2018 and 3Q2017.

The total number of the banks operating in the sector was 52 in 2018. In order to deepen the penetration of the banking sector, the investments in the internet, ATM and POS based banking services are increasing at an accelerated manner. The concentration of assets, loans and deposits are high in the sector. In all of the three mentioned categories, the top 5 banks hold approximately a 60% share in the whole sector. The highest concentration is observed in deposits, loans and profits respectively. Non-domestic banks have quite a large share in terms of equity in the sector.

	Bank-branch-employee numbers in the Turkish Banking Sector (*)	Deposit Banks (*)	Development & Investment Banks (*)	Participation Banks (**)	Total
Number of Banks	State Banks	3	4	2	9
	Private Banks	9	5		14
	SDIF Bank	1			1
	Foreign Banks	21	2	3	26
	Branches of Foreign Banks		2		2
	Total	34	13	5	52
Number of Branches	State Banks	3,715	33	171	3,919
	Private Banks	3,988	16		4,004
	SDIF Bank	1			1
	Foreign Banks	2,748	2	949	3,699
	Branches of Foreign Banks		2		2
	Total	10,452	53	1,120	11,625
Number of Staff	State Banks	60,061	4,058	2,135	66,254
	Private Banks	72,932	1,173		74,105
	SDIF Bank	219			219
	Foreign Banks	54,707	117	13,543	68,367
	Branches of Foreign Banks		76		76
	Total	187,919	5,424	15,678	209,021

(*) As of September 30, 2018.

(**) As of December, 31, 2018

In 2019, the most determinative factors for the prospective outlook of the sector will be the capability of having access to international financial sources and the trend of non-performing loans. Even though we expect the sector to perform better in 2019 in comparison to 2018 and maintain its profitability level, the growth of the sector would still be limited due to the limited level of appetite. The loan growth is predicted to restart by the second half of the year. We estimate that the sector has enough means of liquidity and equity to satisfy the prospective demand for credits. Furthermore, state-led investment incentives may create new opportunities for the banking sector during 2019.

With roots dating back to 1987, PASHA Bank was originally established with the name of Yatırım Bank A.Ş. in Istanbul and represents the first foreign capitalized investment bank in Turkey, having operated under different shareholder groups until 2015. Following the acquisition of the majority shares by Baku-based PASHA Bank OJSC, which is a regional financial group, the title changed to PASHA Yatırım Bankası A.Ş. and it adopted the Bank name of PASHA Bank.

Following its take-over by PASHA Bank OJSC in 2015, the Bank's paid-in capital was increased to TRY 255mn whilst the Bank undertook its first debt instrument issuance through sale to qualified investors in 2016. The Bank successfully completed its first merger & acquisition transaction in 2017. In addition, the Bank carried out the first Eurobond issuance targeted at the Azerbaijani market with a 5-year maturity as well as executing the first "Debt Instrument Issuance Intermediation" transaction in the same year. In FY2018, Pasha Holding LLC became the qualified shareholder of the Bank with a rate of 49% and its paid-in capital was increased to TRY 500mn.

The Bank conducted its operations centrally through its headquarters in Istanbul and had no branches as of the report date. On the other hand, the number of personnel employed across Bank operations amounted to 48 as of end March, 2019. (FYE2018:48)

PASHA Bank OJSC and PASHA Holding LLC are the qualified shareholders of the Bank with rates of 50.96% and 49.00% and brief information about the two leading shareholders has been provided below. It must be noted that Reveri LLC and Bless LLC are the ultimate qualified shareholders in the Bank with equal rates of 39.79% along with Ador Ltd with a share of 15.29% as outlined in the audit report

Established in 2007, PASHA Bank OJSC, headquartered in Baku, is one of the leading banks in Azerbaijan in the corporate segment and offers a wide range of financial services including investment banking, trade financing and asset management to large corporate and SME clients. The Bank operates through 7 business centers across the country and opened its first subsidiary in Georgia in 2013, followed by one in Turkey in 2014. As of end March, 2019, the Bank had a paid-in capital of AZN 333mn along with

assets and equity of AZN 4.65bn and 454mn respectively whilst employing nearly 750 personnel across its operations. PASHA Holding LLC is the qualified shareholder of PASHA Bank OJSC with a rate of 60%, followed by Ador LLC and Mr. Arif PASHAYEV with rates of 30% and 10% respectively.

PASHA Holding LLC was established in 2006 and is a conglomerate with business interests in the non-oil industries of banking, insurance, construction, property development and tourism sectors. As an investment holding Company, the Group has two types of investment asset portfolios with controlling stakes in PASHA Group companies along with minority private equity investments. In addition to PASHA Bank OJSC which serves as an investment and corporate bank operating in Azerbaijan, Georgia and Turkey, the Group's other interests in the financial sector includes Kapital Bank, PASHA Insurance, PASHA Life Insurance along with PASHA Capital Investment Company. The Company had an asset size of AZN 6.92bn, equity of AZN 1.40bn and generated employment for over 2,500 personnel. Bless LLC and Reveri LLC are equal shareholders in the holding with rates of 48%, followed by Mr. Arif PASHAYEV with a rate of 4%.

As of end March, 2019, PASHA Bank had an asset size of TRY 1.50bn (FYE2018: 1.35bn), loans of TRY 890mn (FYE2018: TRY 843mn), equity of TRY 518mn (FYE2018: TRY 506mn) along with net profit of TRY 12.80mn (FYE2018: net loss of TRY 3.56m)

In line with the strategic plan relating to the FY2018-20 period, the Bank plans to develop customer-centered solutions with a focus on the energy, construction, tourism and financial institutions sectors. The Bank aims to largely concentrate on project financing, leasing, forfaiting and foreign trade transactions as well as carrying out advisory services for M&A transactions. In line with the mentioned strategies, the Bank plans to obtain a syndication loan with a value of up to USD 10mn until 2020 and undertake issuances with an upper limit of TRY 300mn in the domestic bond markets.

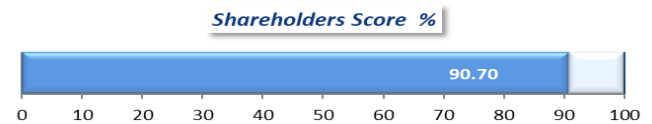
The Bank's Board consists of 9 members, including the Chief Executive Officer (CEO), 3 of whom are women along with 3 independent members. The Board meetings are held via physical attendance or in an electronical setting.

There are 6 sub-committees operating under the Board which namely include credit, strategy and budget, human resources and remuneration, corporate governance, risk management and audit. The working principles of the mentioned committees have been summarized in the Bank's annual report and on the website.

3. Shareholders

Through the analysis of data gathered during the rating process, the compliance level of the Bank in the Shareholders main section and the corresponding levels within the JCR Eurasia Rating's notation system have been determined as follows;

- Numerical value is **9.07**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree **(aa)** representing the category of **"Superior"**,
- Outlook **(Stable)**,



Shareholders Result

9.07
AAA (Trk) / aa
Stable

PASHA Bank's fields of compliances, non-compliance, and those needing improvement in the Shareholders section are summarized in the table below:

Synopsis Table-(Shareholders)

Plug-Compatible

1	Presence of Investors Relations Department to facilitate the use of the shareholders' rights.
2	No privileges on the Bank's shares.
3	The General Shareholders Meetings are held with a high level of Compliance with the Code.
4	Presence of a disclosed dividend distribution policy
5	No regulatory constraints restricting the transfer of shares.
6	The Bank's website is an effective platform in the appropriate briefing of shareholders.

Not Compatible

1	The Head of Investors Relations is not a member of the Corporate Governance Committee
2	Absence of the required infrastructure for shareholders to remotely participate in the general meeting via e-EGM (Electronic General Meeting).
3	The absence of clauses in the articles of association regarding the invitation of stakeholders and the media to the shareholders meetings regardless of their right to express opinion.
4	Absence of any clause in the articles of association expanding minority rights less than the stated level in current regulations along with the entitlement of these rights for shareholders holding less 5% of shares.

The Shareholders section is composed of 7 sub-sections. The Bank's compliance level and activities conducted under these subsections are detailed below:

3.1- Simplifying Exercise of Shareholding Rights

The Investor Relations functions of the Bank are executed by the Financial Institutions and Investor Relations Department which maintains its activities under the General Manager. This department is responsible for ensuring the protection and facilitating the use of shareholder rights.

Financial Planning, Strategy and Budget Department, Corporate Secretary and Sustainability and the Legal and Regulation Departments also contribute to facilitates relations with shareholders, potential investors, investment firms, and rating agencies. Questions submitted by current and potential investors are replied by the department's managers via phone or email.

The duties and responsibilities of the related department are documented and disclosed to the public via the compliance report.

Meetings and presentations particularly aimed at institutional investors are also arranged by the Financial Institutions and Investor Relations Department and supported by top level managers.

3.2- Rights to Information and Examination

Shareholders have the right according to the Turkish Commercial Code to demand the appointment of an independent auditor to investigate a special case. However, shareholders have not yet utilized this right. Within the internal regulations of the Bank, there are no exercises restricting shareholders' rights.

Shareholders are provided with all necessary information and documents by related Departments via the Bank web site, phone, or email. Through this flow of information, no evidence of discrimination among shareholders was observed. Additionally, there have been no revocation actions against the general meeting resolutions by the shareholders in the last 4 years.

3.3- Right of Access to General Shareholders Meeting

Annual General Shareholders Meetings are organized by the Corporate Secretary and Sustainability and the Legal and Regulation Departments. The last ordinary general meeting of 2018 was held on March 29, 2019 at 11:00, at the address of Maslak Mahallesi, Atatürk Oto Sanayi, 55. Sok. No: 2, 42 Maslak Ofis 3, D: 205 34398 Sarıyer/İstanbul-Türkiye which represented the Bank's previous headquarters. The meeting was observed by our analysts and the procedures undertaken by the Bank were closely observed prior, during and following the meeting. It can be stated that this meeting was held in compliance with the legislation and Code.

The shareholders are invited to the annual general meetings at least three weeks prior to the date of the meeting through announcements on the Bank's website. The invitation text contains a detailed document depicting the shareholder participation process and agenda. Financial statements, the annual report, amendments to the articles of association, current and to-be-amended texts of the related clauses, and other relevant documents within the agenda are disclosed to the public via the website, 3 weeks prior to the day of the meeting.

Meetings are held in the headquarters of the Bank. Agenda items are individually discussed, each shareholder has the opportunity to speak whilst their proposals, and queries are answered by related parties. Agenda items are individually voted and votes are counted and placed on the minutes before the end of the meeting. Moreover, the dissenting opinions by the shareholders are included in the minutes.

Such documents as invitation, meeting agenda, list of attendants, minutes, and other relevant documents are placed on the official website of the Bank in Turkish within a reasonable timeframe.

On the other hand, there is no provision in the articles of association to invite stakeholders and media to meetings without any right to speak. However, such practice in Turkey is very rare. The shareholders are not able to remotely participate in the general meeting via e-EGM (Electronic General Meeting).

3.4- Voting Rights

There are no privileges on the Bank's shares and the rule of one-share-one-vote is applied. There are also no privileges on the shares regarding dividend distribution and the rule of one-share-one-vote is applied.

Voting rights stem from the possession of shares and voting rights may be exercised both by the shareholders themselves or their proxies. Proxy forms are made available to the shareholders both on the website and on the invitations.

The Legal and Regulation Department mobilizes all facilities for all shareholders to exercise their voting rights. The guide explaining how to participate in the general meetings and how to vote is placed on the website.

3.5- Minority Rights

Shareholders holding more than 5% of shares according to the Turkish Commercial Code are entitled to minority rights. On the other hand, CMB Corporate Governance Principles recommend the recognition of minority rights to all shareholders even beyond 5%. However, banks have not shown any action to date in this regard. There are no clauses in the articles of association of the Bank to broaden the exercise of minority rights beyond the current legislation. Despite this non-compliance, there has been no evidence of violations of minority rights.

3.6- Dividend Rights

The Bank has a disclosed dividend distribution policy which was approved by the shareholders in the general meeting.

None of the Bank's shareholders have any privileges in terms of dividend rights. The Board of Directors' proposal of dividend distribution is approved by the shareholders in the general meeting. The retained profits are transferred to extraordinary reserves by disclosing the grounds for the action and its uses.

The Bank realized a loss of TRY3,61mn during FYE2018, thus no profit distribution will be made. The dividend distribution table was disclosed to the public via the Bank's website following the general meeting.

3.7- Share Transfer

There is no provision in the articles of association that would act as a hindrance on the transfer of shares. However, according to the Banking Law, share transfers of banks operating in Turkey are subject to approval by the BRSA. All share transfers without this approval will be null and void and the transferee may not exercise any shareholding rights other than the dividend rights. This condition is valid for all Turkish banks. Hence, the Bank is evaluated as fully compliant in this subsection.

Outlook

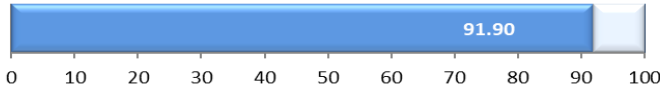
JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Shareholders main section. For this reason, the outlook for this section has been determined as "Stable".

4. Public Disclosure and Transparency

This section focuses on the disclosure of information and documents needed by shareholders and stakeholders while protecting trade secrets. The Bank's level of compliance in this field and their corresponding notes are outlined below;

- Numerical value of **9.19**,
- Convergence Level **AAA(Trk)** representing the category of "**Distinctive Compliance**",
- Notch degree **(aa)** representing the category of "**Superior**",
- Outlook (**Stable**)

Public Disclosures and Transparency Score %



Public Disclosure and Transparency Result

9.19

AAA (Trk) / aa

Stable

PASHA Bank's fields of compliance, non-compliance, and those needing improvement in the Public Disclosure and Transparency section are summarized in the table below:

Synopsis Table- (Public Disc. & Trans.)

Plug-Compatible

1	Bank's website is an effective and transparent platform in both Turkish and English
2	Well-educated IT team and high-security IT infrastructure protecting the Bank's and its stakeholders' trade secrets
3	Unqualified opinions by independent auditor for the audit reports
4	Full compliance of published annual reports with the Code

Not Compatible

1	No disclosure of the names of ultimate individual shareholders who have more than 5% share in the Bank's Capital in the website.
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The Public Disclosure & Transparency section is composed of 2 subsections. The compliance level of Bank and the activities conducted for the standards under these subsections are detailed below:

4.1- Web Site

PASHA Bank has an information policy and disclosed it to the public on the web site. The Bank's website, www.pashabank.com.tr is a good transparency platform and is kept up-to-date to provide important information

about the Bank to its investors and stakeholders in Turkish and English. The website contains the following information:

- ✓ History of the Bank
- ✓ Current information about the Bank
- ✓ Trade registry information
- ✓ Articles of association
- ✓ The audited financial statements prepared in accordance with international standards.
- ✓ Shareholder meetings documents; invitations, meeting minutes, list of attendees, proxy voting form etc.
- ✓ CV's of Board members and top managers
- ✓ Important policies such as dividend distribution, disclosure, code of conduct, remuneration, risk, human resources, social responsibility and donations
- ✓ Contact information

The Bank's controlling shareholders are Pasha Bank OJSC and Pasha Holding LLC. The shareholder structure is disclosed clearly to the public on the web site, which also includes links to the websites of controlling shareholders. However, the names of ultimate individual shareholders who hold more than 5% share in the Bank's capital have not been disclosed to the public.

4.2- Annual Report

The Bank regularly publishes an annual report which is disclosed on the website in a way to ensure that the public has access to complete, correct and timely information on the Bank's activities. This report was prepared with a high level of compliance with the code.

The Bank has also prepared an annual Corporate Governance Compliance Report since 2013 and disclosed it on the web site.

Outlook

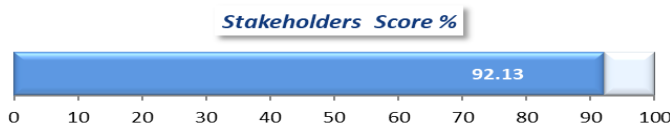
JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Public Disclosure and Transparency main section. For this reason, the outlook for this section has been determined as **"Stable"**.

5. Stakeholders

With the exception of upper-level managers, an institution’s employees, customers, suppliers, creditors, public authorities and the public in general are considered to be stakeholders. The rules and practices in this main section primarily aim to secure the rights of stakeholders and facilitate the exercise of their rights, thus maximize their contributions to the institution.

Through the analyses of JCR Eurasia Rating’s original methodology, the compliance level of the Bank’s practices with corporate governance principles in the field of stakeholders has been determined as below:

- Numerical value is **9.21**,
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**,
- Notch degree **(aa)** representing the category of **“Superior”**,
- Outlook **(Stable)**



Stakeholders Result

9.21
AAA (Trk) / aa
Stable

PASHA Bank’s areas of compliance, non-compliance and those needing improvement in the Stakeholders section are summarized in the table below:

Synopsis Table-(Stakeholders)

Plug-Compatible	
1	Having a separate human resource department
2	Safe working environment and conditions for the employees
3	Well-preparedness against emergent and unexpected circumstances

4	A comprehensive and publicly disclosed set of ethical rules
5	Presence of a Sustainability, Environment and Corporate Responsibility Policy

Not Compatible

1	Absence of a labor union organization among the staff
2	Absence of an official succession plan for the key posts

Partially Compatible

1	Need to carry out the contemporary sustainability practices
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The stakeholders section is composed of 5 subsections. The compliance level of the Bank with and the activities conducted for the standards under these subsections are detailed below:

5.1- Bank’s Stakeholders Policy

PASHA Bank has many stakeholders such as customers, personnel, loan providers and other suppliers. The framework of contracts made with these stakeholders have been determined in accordance with the relevant regulations, on the occasion that the Bank operates in a sector with a high level of regulatory oversight and supervision.

The Bank formed separate policies for each stakeholder group in line with the regulatory framework and endeavors to protect the rights of stakeholders most effectively in accordance with these policies. The relationships with stakeholders are conducted in accordance with the terms set out in these agreements and regulations.

The Bank has established an internal reporting system and an ethics hotline with the purpose of informing the Board of Directors via the Audit Committee of activities found to be illegal and unethical. The compliance officer is responsible for the implementation of this system and the instruction on how this channel will be used has been disclosed to the public on the Bank’s website.

The Bank has the Conflict of Interest Policy which was approved by the Board Resolution dated October 22, 2015, no. 88 and updated to comply with the provisions of the Capital Markets regulation as per Board approval dated March 01, 2019. The resolution of conflicts of interest and disputes arising between the various stakeholder groups is implemented within the framework of this policy. It is believed that the Bank conducts its role of a moderator at

a good level to solve problems through settlement without resorting to the courts.

Throughout the rating process it has been revealed by the legal affairs department that there were no significant abuses of rights in the last two years due to the violation of the regulatory framework. It must be noted that the number of legal cases that resulted in favor of the Bank has outstripped those that resulted against it and court decisions were put into practice immediately in the few cases where the result was against the Bank.

5.2- Supporting the Stakeholders for Participation in the Governance of the Bank

There is no member representing stakeholders in the Bank's board of directors. However, there is also no private sector organization in Turkey performing such a practice. The most common practice on this issue is to obtain stakeholders' ideas in making decisions concerning them.

The Bank's Management has developed a customer care line and a complaints line is available via the website for all stakeholders, enabling them to e-mail any feedback, suggestions, comments and complaints, as well as requests for information.

Within the framework of the Human Resources Policy, the Bank also developed some models, incentives and codes of practice that support employee participation in the decision-making processes.

As a result, it has been determined that top management spends considerable effort to include the views of stakeholders, primarily employees and customers, in the decision-making processes.

5.3- The Bank's Human Resources Policy

In the sector which places a high level of emphasis and value on human resources, PASHA Bank has implemented contemporary practices based on a comprehensive human resources policy. First of all, the Bank has a Human Resources Policy determined by the Board of Directors. Recruitment, assignment, promotion and dismissal are carried out by the expert specialists according to this policy. All activities of the Bank related to the human resources are maintained by the Human Resources and Administrative Affairs Department which is equipped with sufficient personnel and resources.

The duties and responsibilities of personnel have been defined in a clear and transparent manner in job descriptions. The Bank's organizational structure, employees' job descriptions, and policies and procedures containing performance and bonus criteria are posted via the intranet site, which is the Bank's internal communication platform.

First of all, successful graduates of the universities are recruited as staff through a variety of examinations and employed in the appropriate positions in line with their capabilities. For all staff, professional and personal development trainings are organized, promotions and assignments are carried out according to success and performance in these trainings and exams. In addition, various incentive programs are implemented to ensure employee loyalty and motivation.

The Bank set up an Open Performance Assessment System covering all personnel which are evaluated according to their competencies and targets and the evaluation results are shared with them. The financial rewards and promotions are carried out in accordance with the level of success measured against the metrics outlined in this system.

The Bank has employed personnel who has responsibility for Occupational Health and Safety. All personnel have been informed on the issues of health and security in the workplace in accordance with an appropriate plan, with measures that have been put in place to prevent possible accidents and provide preventive health advice.

We have reached the opinion that the Bank took the necessary set of measures in order to ensure a secure working environment for all personnel.

The only noncompliance topic for this section is the absence of any union organization among the staff.

During the rating process, there was no evidence of discrimination against Bank employees. There were no significant court cases brought against the Bank by its employees. The decisions of court cases are met with no delay. It has been determined that the number and subject of legal cases did not result in significant violation of the law.

5.4- Relations with Creditors, Customers and Suppliers

PASHA Bank considers its creditors, loan customers and service providers as its business partners. For the financial services offered to its customers, it invariably gives priority to customer satisfaction and does its best to solve their problems and complaints. Customer complaints and queries can be submitted to the department manager via phone or email. No lawsuit was filed by the customers against the Bank. No warning or penalty was inflicted upon the Bank by the BRSA regarding its customers.

Service providers such as catering companies, law firms, independent audit firms, and rating agencies, etc., offer services to the Bank in specialized areas. The relations with these firms are realized through framework contracts. No suits were filed by suppliers against the Bank in recent years.

The meetings held with the managers of the information technology department revealed that the Bank had taken the necessary measures to safeguard the trade information belonging to its clients and service providers and treat them as bank secrets.

5.5- Code of Ethics and Corporate Social Responsibility

PASHA Bank has a set of “Ethical Rules” that have been disclosed to the public on the website. These ethical rules are intended to regulate relations with all internal and external stakeholders, which are categorized as competitors, customers, suppliers, personnel, media, public institutions and organizations. The top management is responsible for the implementation of ethical principles with which all personnel are required to comply.

The Bank also has a “Sustainability, Environment and Corporate Responsibility Policy” which has been in effect since 2014. In this field, the Bank participated in various social responsibility projects which are announced publicly on the website to ensure transparency. The aggregate amount of donations by the Bank amounted to TL 22,540 which has been presented to its shareholders in the Annual General Meeting.

Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of

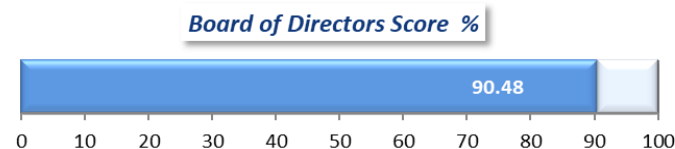
compliance in the Stakeholders main section. For this reason, the outlook for this section has been determined as “Stable”.

6. Board of Directors

The content of this section consists of the board functions, qualifications, duties, powers and responsibilities of its members and senior management, and rules and practices related to systems are established for effective supervision and control.

Through the analyses of JCR Eurasia Rating’s original methodology, the compliance level of the Bank’s practices in the field of Board of Directors with Corporate Governance Principles has been determined as below:

- Numerical value is **9.05**,
- Convergence Level **AAA(Trk)** representing the category of “**Distinctive Compliance**”,
- Notch degree **(aa)** representing the category of “**Superior**”,
- Outlook **(Stable)**



Board of Directors Result

9.05
AAA (Trk) / aa
Stable

PASHA Bank’s areas of compliance, non-compliance, and aspects to be improved by the Bank for full compliance with the rules and implementations of the Board of Directors section are summarized in the table below:

Synopsis Table- (Board of Directors)

Plug-Compatible	
1	The coverage of all Board members and executive managers under a Directors and Officers Liability Insurance Scheme.
2	Clearly defined vision, mission and principal targets together with sound strategic planning.
3	Presence of a secretariat serving the Board
4	Presence of three independent members in the Board
5	Separation of the roles of Chairman and the CEO
6	The presence of highly effective Audit, Risk Management and Corporate Governance Committees within scope of the Board of Directors
7	Presence of a Remuneration Policy for the board members and top managers
8	Three women members in the Board of Directors
Not Compatible	
1	Chairperson of the committees are not independent members of Board
2	Lack of improving the incentive system based on performance evaluation for the Board Members
Partially Compatible	
1	Non-disclosure of remuneration on an individual basis for board members and top managers

The Board of Directors section is composed of 6 subsections. The Bank's compliance level and activities conducted in line with the standards under these subsections are detailed below:

6.1- *Basic Functions of the Board*

PASHA Bank's vision, "To create new and enduring values in the business world and society", and missions for all stakeholders are set by the Board and disclosed to the public on the website. The Bank has also established The Strategy and Budget Committee within scope of the Board which has determined basic strategies, policies, and annual plans to achieve the vision & mission and regularly reports information on the Bank's achievement of strategic targets, activities and past year's performance.

The Board of Directors aims to successfully perform the three basic functions of leadership, oversight and arbitration. The Board performs the oversight function through the Audit Committee whilst the Corporate Governance and Risk Committees enable the Board to

supervise the Bank as a whole. These committees carry out activities in accordance with written working principles, produce regular reports, and submit them to the Board of Directors. It has also been determined that the Board performs its independent arbitration role with success for the resolution of disputes and conflicts of interest of stakeholders among themselves and with the Bank.

6.2- *Working Principles of the Board of Directors*

Tasks and authorities of the Board of Directors and its working procedures are specified in the Articles of Association and were put into writing as internal regulations and submitted to the board members. It is assessed that Board members act as prudent managers in performing their duties.

The responsibilities of each member have been defined and presented to the public via the website and the annual report. Corporate Secretary and Sustainability Unit which serves the Board of Directors, organizes meetings and delivers meeting agendas, relevant information, and detailed documents to the members in a reasonable time frame prior to the meeting and archives the relevant documents.

The Board of Directors is convened whenever and as often as required by the Bank's business and related legislation. Some meetings take place with the members physically present whilst some are held via videoconferencing. The casebook is maintained in accordance with the Code.

The roles of Chairman of the Board of Directors and General Manager are carried out by different individuals with clearly defined sets of duties and responsibilities.

All members of the Board and executive managers are covered under Directors and Officers Liability Insurance Scheme.

PASHA Bank established an internal control system covering the entire spectrum of activities and provided the necessary technical and human resource infrastructure for its effective operation. For risk management, a separate committee has been formed. It has been reported that activities revolving around the internal control system and risk management function are reviewed annually and revised accordingly on a regular basis. The Bank also

established a Compliance Department in order to ensure a high degree of compliance with the appropriate regulations.

The internal audit functions of the Bank are performed by the Internal Audit Department. Based on interviews conducted with the department's senior manager, it has been identified that the internal audit system is at a high level of quality. The Internal Audit Department reports its activities to the non-executive Audit Committee regularly.

6.3- Structure of the Board of Directors

The Board of Directors is comprised of 9 members including three independent, and one executive member also serves as the General Manager. Considering sector average, the number of members has been evaluated as adequate and sufficient to establish the related committees. Member qualifications meet the terms expressed in the principles. As can be seen on the resumes on the website, the members possess the necessary qualifications in terms of education along with professional and managerial experience.

It must be further pointed out that members of the Audit Committee have related experience in finance sector as put forth in the Code.

There are three female members currently serving on the Board. As such, the Bank meets the suggested 25% female ratio mentioned in the Code.

6.4- Rules of the Board Meetings

There is an internal regulation relating to the arrangement of Board meetings and decision-making procedures. Meeting and decision quorums are written in the articles of associations. According to the articles, the quorum for the meeting is the majority of members and the Board makes decisions with affirmative votes from the majority of attending members.

There are no preferential rights on votes and each member has only one vote.

The meeting agenda is prepared according to proposals submitted by various Units of the Bank, issues submitted for discussion by the General Manager. At the meeting, all items are discussed and Board members may express their

opinions. Items are voted on separately according to democratic rules. The Board resolution book is maintained properly, includes dissenting opinions, if any, and is archived.

There are no limitations in place for Board members to carry out external duties according to internal regulations. Although some Board members have external duties, it is determined that they all allocate reasonable time for the Bank. External duties carried out by members are disclosed via the website. The Board complies with the Code and related laws in terms of the related party transactions' decisions.

6.5- Committees within the Scope of the Board

Three committees have been established under the scope of the Board: Audit, Corporate Governance and Risk Management Committee. Furthermore, Credit, Strategy and Budget, Human Resources and Remuneration Committees have been established within the organizational structure.

The Audit Committee consists of two board members and was established in order to coordinate all activities relating to external and internal audits on behalf of the Board. The definitions of rules and responsibility, working principles, and activities of the committee are in accordance with the Code. The committee holds meetings at the Bank's headquarters on a regular basis and may hold extra meetings upon the invitation of the Committee Chairman, if necessary.

The Corporate Governance Committee consists of two members and was established to coordinate and observe all activities related to the implementation of CMB Corporate Governance Principles. The definitions of rules and responsibility, working principles, and activities of the committee are in accordance with the Code. The committee holds the meetings at the Bank's headquarters on a regular basis and may hold extra meetings upon the invitation of the Committee Chairman, if necessary.

The Risk Management Committee consists of three board members and coordinates risk management activities such as identification, measurement, mitigation, and monitoring of Bank risks on behalf of the Board. The definitions of rules and responsibility, working principles and activities of

the committee are in accordance with the Code. The committee holds the meetings at the Bank’s headquarters on a regular basis and may hold extra meetings upon the invitation of the Committee Chairman, if necessary.

6.6- Financial Rights Provided to the Board Members and Executives

PASHA Bank’s remuneration policy has been approved by the shareholders and is disclosed to the public via the website. A Human Resources and Remuneration Committee has been established within the organization structure. The committee complies with the Code regarding the definition of duties, working principles, and its activities.

The Bank does not provide debt nor extend credit to board members as well as not providing any guarantees on their behalf. There are no commercial and financial relationships between the Bank and the Board members other than their remuneration.

All financial benefits offered to the Board members such as fees, premiums, bonus payments, facilities offered in kind and in cash, dividend payments, and other similar rights are determined by the annual general meeting of Shareholders. Furthermore, all travel expenses of Board members are met by the Bank.

There is no performance-based remuneration for independent board members.

On the other hand, although the total sum of Board members’ and top managers’ remuneration are disclosed to the public, the lack of disclosure on an individual level creates incompliance with the Principles.

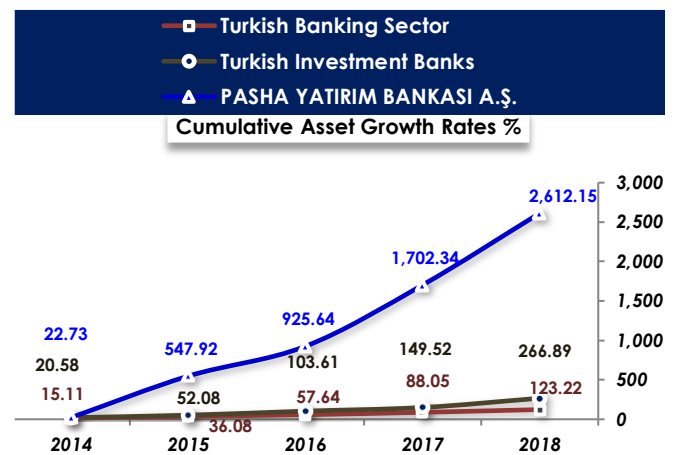
Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Board of Directors main section. For this reason, the outlook for this section has been determined as “Stable”.

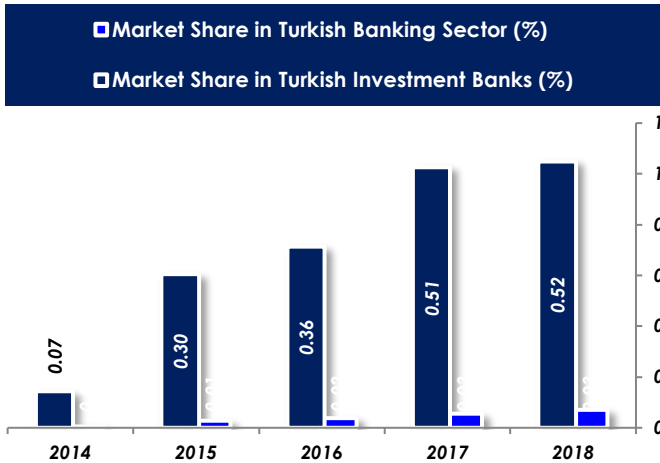
7. Financial Efficiency

This section includes a general overview of PASHA Bank’s financial performance on a number of selected metrics including profitability indicators, growth rates, asset quality and capital adequacy levels in comparison to the averages observed in the Turkish Investment Banking Sector specifically and the wider Turkish Banking Sector. It must be noted that financial performance doesn’t impact the Bank’s scores in the Corporate Governance Rating Methodology.

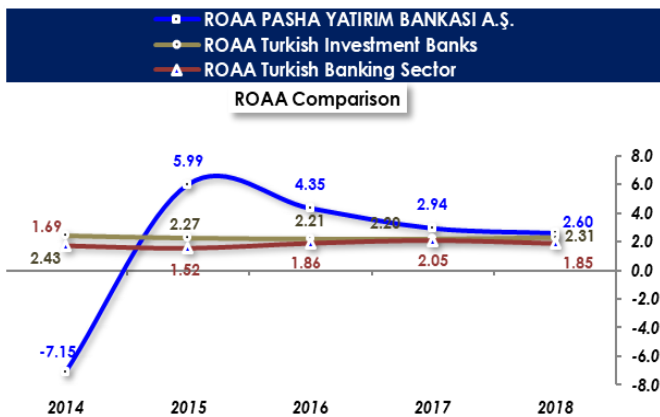
The cumulative asset growth rate of PASHA Yatırım Bankası A.Ş. over the last 5 years amounted to 2,612.15% at FYE2018, which notably outperformed that of both Turkish Investment Banking Sector and the Turkish Banking Sector which exhibited growth rates of 266.89% and 123.22% in the mentioned period.



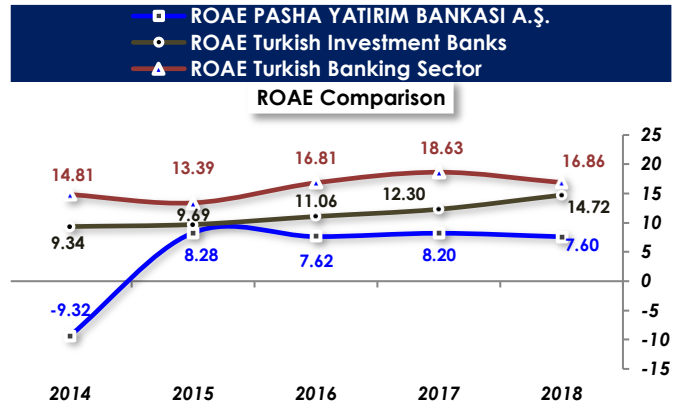
Having attained a market share (which is measured based on solo asset size) of 0.07% in FY2014 across the investment banking sector, the Bank’s market share maintained a sustained upward trend over the last 5 years and amounted to 0.52% at FYE2018. On the other hand, the market share in the overall Turkish Banking Sector maintained an upward trend share over the examined period and amounted 0.03% at FYE2018.



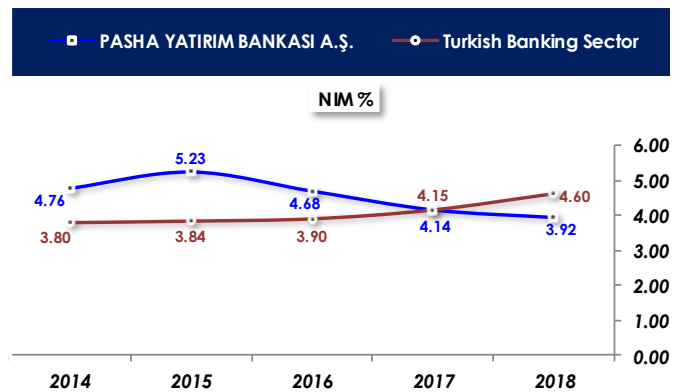
With the exception of FY2014, in which it dipped into negative territory with a rate of -7.15%, the ROAA of Pasha Yatirim Bankası A.Ş. consistently maintained above sector average levels in the FY2015-17 with the formation of TRY 29.33mn of profits at FYE2018 excluding the impairment loss of TRY 42.173mn on the investment property used as the headquarter and was above the sector average level with a rate of 2.60%.



The Return on Average Equity (ROAE), on the other hand, dipped into negative territory with a rate of -9.32% in FY2014 whilst it remained below the average of the Turkish Investment Banking and the Banking Sector in the following period, in contrast to the trend for ROAA.

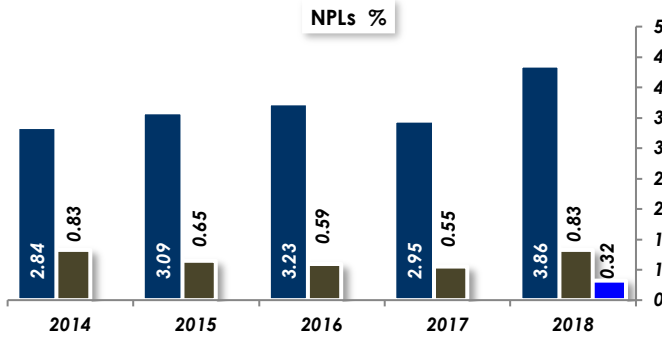


The Net Interest Margin (NIM) which is a major indicator of profitability, hovered in the 4.50-5.50% range in the FY2014-16 period and was above the sector average whilst having resembled the sector average in FY2017, dipped to a below sector average level in FY2018 with a rate of 3.92%.



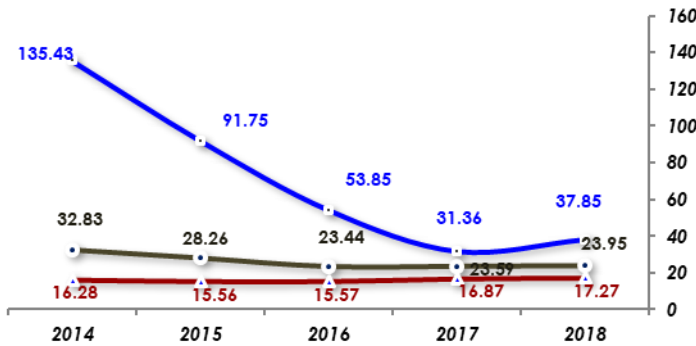
The Bank had no non-performing loans in the FY2014-17 period whilst the non-performing loans amounted to TRY 2.66mn at FYE2018, however the NPL ratio remained below the average of both the Turkish Investment Banking and the wider Banking Sectors.

■ PASHA YATIRIM BANKASI A.Ş. ■ Turkish Investment Banks
 ■ Turkish Banking Sector



The capital adequacy ratio (CAR) of Pasha Yatirim Bankasi A.Ş. maintained a above sector average trend in comparison to Turkish Investment Banks over the examined period whilst it remained above the average for the wider Turkish Banking Sector over the FY2014-18 period.

■ CAR (%) PASHA YATIRIM BANKASI A.Ş.
 ● CAR (%) Turkish Investment Banks
 ▲ CAR (%) Turkish Banking Sector



Subsequently, the Bank’s current capitalization level, generated profit, asset quality and management practices provide adequate support for the retention of the current level of compliance with Corporate Governance Best Practices.

TABLE:1

SHAREHOLDING STRUCTURE

Years	2015	2016	2017	2018	2019
Paid Capital (000TRY)	255,000	255,000	255,000	500,000	500,000
Shareholders					
PASHA BANK OJSC	99.9196	99.9196	99.9196	50.96	50.96
PASHA HOLDİNG LLC	-	-	-	49.00	49.00
OTHERS	0.0804	0.0804	0.0804	0.04	0.04
Total	100	100	100	100	100

TABLE:2

Financial Data	2018*	2017*	2016*	2015*	2014*
Total Assets (000,000 USD) ***	257	235	145	111	26
Total Assets (000,000 TRY)	1,350	897	510	322	61
Total Deposit (000,000 TRY)	0	0	0	0	0
Total Net Loans (000,000 TRY)	840	713	404	246	51
Equity (000,000 TRY)	506	261	245	231	47
Net Profit (000,000 TRY)	-4	16	14	9	-2
Asset Market Share (%)	0.03	0.03	0.02	0.01	0.00
ROAA (%) **	-0.38	2.94	4.35	5.99	-7.15
ROAE (%) **	-1.12	8.20	7.62	8.28	-9.32
Equity/Assets (%)	37.47	29.06	47.94	71.51	76.71
CAR-Capital Adequacy Ratio (%)	37.85	31.36	53.85	91.75	135.43
Asset Growth Rate (Annual) (%)	50.48	75.73	58.30	427.92	22.00

*The end of year, **Based on pre-tax figures, ***Based on year end CBRT parity

TABLE: 3
BOARD OF DIRECTORS

Name	Task	Expertise	Date Elected	Experience (Year)	Education	Executive/Non-Executive	Independent/Not Independent	Committee Membership
Jalal GASIMOV	Chairman	Banker	17.08.2015	20	MBA	Non-Executive	Not Independent	HR & Remuneration Chairperson, Corporate Governance Member
Farid MAMMADOV	Deputy Chairman	Banker	31.03.2017	20	Master Degree	Non-Executive	Not Independent	Risk Committee Member, HR & Remuneration Member
Javid GULIYEV	Member	Banker	12.06.2019	23	Master Degree	Non-Executive	Not Independent	
SHAHIN MAMMADOV	Member	Banker	31.03.2015	16	Ph. D.	Non-Executive	Not-Independent	
Kamala NURIYEVA	Member	Banker	25.11.2016	22	Master Degree	Non-Executive	Not Independent	Risk Management Committee Chairperson, Audit Committee Member
Meriç ULUŞAHİN	Member	Banker	31.03.2017	32	BA	Non-Executive	Independent	Corp.Gov. Committee Chairperson
Nuri TUNCALI	Member	Banker	29.03.2019	35	BA	Non-Executive	Independent	
Ebru OĞAN KNOTTNERUS	Member	Banker	02.07.2018	28	BA	Non-Executive	Independent	Audit Committee Chairperson, Risk Management Committee Member
H. Cenk EYNEHAN	Member, General Manager	Banker	02.08.2013	25	MBA	Executive	Not Independent	HR & Remuneration Member