



Corporate Governance Rating Report



**02 July 2018**

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## Rating and Executive Summary

### PASHA YATIRIM BANKASI A.Ş.

#### Corporate Governance Rating:

**9.19**

MAIN SECTIONS: **Avg. 91.87**

Shareholders: **92.08**



Public Disclosure & Transparency: **90.95**



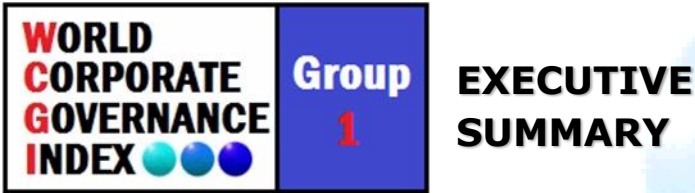
Stakeholders: **91.34**



Board of Directors: **92.61**



0 10 20 30 40 50 60 70 80 90 100



The Corporate Governance Rating of PASHA Yatırım Bankası A.Ş. (PASHA Bank) is hereby revised as **9.19**. Our rating methodology is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" issued on January of 2014.

The Bank's corporate governance rating is revised as above in consideration with the importance given by PASHA Bank to corporate governance principles, its willingness to carry out the continuous and dynamic process and improvements which had been initiated in this direction since June 2017.

Furthermore, SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in areas such as transparency, corruption, ease of doing business, etc.. PASHA Bank is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on July 21, 2017 can be accessed at <http://www.saharating.com>.

PASHA Bank is rated with **9.21** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. The Bank carries out the investor relations obligations through the

Investor Relations Division. There is no provision in the articles of association regarding the appointment of a special auditor, but also there is no evidence of any hindering process or application. A disclosure policy for shareholders is established and presented to the general shareholders' meeting. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. The Bank has presented its policy on donations and grants to the approval of the general shareholders' meeting. There are no voting privileges. PASHA Bank has a specific and consistent dividend distribution policy presented to the general shareholders' meeting for approval, and disclosed to the public. There is no provision in the Bank's articles of association regarding advance payment of dividends. There are no hindering practices on transfer of shares.

PASHA Bank attained **9.09** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul (BIST) rules and regulations. No public disclosure has been made about the Bank's indirect shareholding structure with regard to the real person shareholders. All benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

On the topic of **Stakeholders**, PASHA Bank scored **9.13**. PASHA Bank enables an effective and speedy compensation in case of violation of the rights of stakeholders regulated by legislation and mutual agreements. A written employee compensation policy is established and disclosed to the public on the corporate web site. The Bank has a written and advanced human resources policy. Code of ethics is publicly available through the corporate web site. The Bank complies with environmental laws and a comprehensive Sustainability, Environment and Social Responsibility Policy is established in this regard. During the rating period, the Bank was not held liable by any public authorities for any sanctions, and was not subject to any adverse notice for any damage to the environment.

From the perspective of the principles regarding the **Board of Directors**, PASHA Bank's tally is **9.26**. The board of directors fulfills all duties regarding Bank needs. Chairman of the board of directors and the chief executive officer is not the same person. The board consists of 9 members of whom 3 are independent and 3 are female. CMB criteria are complied with and the opinion of the Corporate Governance Committee is received in designation of the independent members who have each signed a declaration of independence. No member has the right to veto and each is entitled to a single vote. Corporate Governance, Audit, Risk Management and Remuneration Committees are established within the board of directors and their working principles are disclosed to public. Principles of remuneration of board members and senior executives are available on the Bank's web site. Our observations will continue in order to have a more precise view of Committee activities and their degree of functionality. PASHA Bank does not provide any loans or extend any credit to the members of the board or to senior executives.



Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Bank's governance practices in future should be mentioned in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Bank officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a bank should be in full and perfect compliance with the Principles (see Rating Definitions, p.21).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

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

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.



	<p align="center"><b>CHAIRMAN OF THE BOARD</b> Jalal Gasimov <b>GENERAL MANAGER</b> Hikmet Cenk Eynehan</p>
<p>Maslak Mahallesi, A.O.S. 55. Sok., No:2, 42 Maslak Ofis 3, Da: 205, 34398, Sarıyer, İstanbul Tel: (0212) 705 8900 <a href="http://www.pashabank.com.tr">www.pashabank.com.tr</a></p>	<p align="center"><b>Investor Relations Division</b> Mustafa Duman Tel: (0212) 705 8912 <a href="mailto:mustafa.duman@pashabank.com.tr">mustafa.duman@pashabank.com.tr</a></p>

PASHA Yatırım Bankası A.Ş., set up in Istanbul on December 25, 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey and has provided services until the year 2015 under the management of different shareholder groups. Following the purchase of the majority shares by the Baku based PASHA Bank OJSC in 2015, the new title of the Bank became PASHA Yatırım Bankası A.Ş. and the business name became PASHA Bank. PASHA Bank operates at the head office located in Istanbul and has no branch offices.

PASHA Bank serves entrepreneurs in the corporate and commercial segment with investment banking products in an effort to contribute to the development of trade among Turkey, Azerbaijan, and Georgia and to provide resources and guidance to the businesses investing in the region.

PASHA Bank held its Ordinary General Shareholders' Meeting for the fiscal year 2017 on March 16, 2018. In accordance with the resolution of the Board of Directors dated February 23, 2018, numbered 2018/16 and in accordance with the proposal of the PASHA Bank OJSC representative; it was decided by unanimous vote that after deducting the previous year losses of TL 10,676,561.51 from the unconsolidated net profit of TL 16,008,035.73, TL 266,573.71 portion of remaining TL 5,331,474.22 of distributable profit, to be allocated as general legal reserves and TL 5,064,900.51 as excess reserve.

In accordance with the resolutions of Board of Directors dated March 16, 2018 and the Extraordinary General Shareholders' Meeting dated May 18, 2018, the capital of the Bank was increased by TL 245 million to TL 500 million, corresponding to 96% of the paid-in capital of TL 255 million, and was registered with Istanbul Trade Registry Directorate as of June 6, 2018.

Capital structure of the Bank as of the date of our report is as follows:

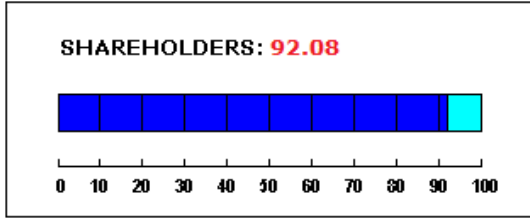
<b>Capital Structure of the Bank</b>		
<b>Shareholders</b>	<b>Share Value (TL)</b>	<b>Share %</b>
PASHA Bank OJSC	254,795,121	50.96

PASHA Holding LLC	245,000,000	49.00
Other	204,879	0.04
<b>Total</b>	<b>500,000,000</b>	<b>100.00</b>

The board of directors of the Bank as of the date of our report is composed as follows:

<b>PASHA Yatırım Bankası A.Ş. Board of Directors</b>	
<b>Name</b>	<b>Title</b>
JALAL GASIMOV	Chairman of the Board
FARID MAMMADOV	Vice-chairman
TALEH KAZIMOV	Board Member
SHAHİN MAMMADOV	Board Member
KAMALA NURIYEVA	Board Member
MERİÇ ULUŞAHİN	Independent Board Member
EBRU OĞAN KNOTTNERUS	Independent Board Member
ADNAN AYKOL	Independent Board Member
HİKMET CENK EYNEHAN	Board Member and General Manager

## SECTION 1: SHAREHOLDERS



<b>SYNOPSIS</b>	
+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	No upper limit on voting rights
+	Voting rights are facilitated
+	General shareholders' meetings are conducted in compliance with the legislation
+	Detailed dividend distribution policy
+	No restrictions on transfer of shares
+	Policy on donations and grants established and submitted to the general shareholders' meeting for approval
=	Minority rights are recognized as stipulated in the legislation

### **1.1. Facilitating the Exercise of Shareholders' Statutory Rights:**

In order to ensure compliance with the legislation, the articles of association and other in-bank regulations in exercising the rights of shareholders and to take necessary measures to ensure the exercise of these rights, the investor relations function directly affiliated with the general manager and the deputy general manager is structured in coordination with Financial Institutions and Investor Relations, Financial Planning, Strategy and Budget, Corporate Secretary, Sustainability Management, Legal Affairs and Legislation Units. Relations with shareholders are carried out within the Financial Institutions and Investor

Relations Unit under the responsibility of Mr. Mustafa Duman.

The Investor Relations Division ensures that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner, responds to the queries of the shareholders requesting written information on the Bank, ensures the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other Bank by-laws, prepares the documents that might be used by shareholders in the general shareholders' meeting and reports to the board of directors on the activities carried out.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no provision in the Bank's articles of association for the appointment of a special auditor, but neither a demand nor the existence of a practice that makes it difficult to conduct a special audit has been encountered during the rating period.

For the purpose of extending the right of shareholders to obtain information, any information that may affect the exercise of the rights is up-to-date and open to all shareholders and the Bank has established a disclosure policy and submitted it to the attention of the general shareholders' meeting. There is no judicial dispute resulting from shareholders' unanswered and unfairly rejected requests for information and review.

### **1.3. General Shareholders' Meeting:**

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the ordinary general shareholders' meeting is performed through all means of



communication available to the Bank in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined. Besides, the Bank has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting, the annual report, financial statements and reports and all other related documents pertaining to the agenda items are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the Bank, and the electronic media.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

General shareholders' meetings took place at headquarters of the Bank. Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions.

The members of the board of directors, other related persons, authorized persons who are responsible for preparing the financial statements and

auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

The Bank has established a policy on donations and grants and presented to the general shareholders' meeting for approval, and the documented minutes of the meeting are always accessible to all shareholders at the Bank's web site.

#### **1.4. Voting Rights:**

At PASHA Bank, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

There are no voting privileges. There is no regulation to use the voting right after a certain period of time following the acquisition date.

#### **1.5. Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Bank has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the Bank.

#### **1.6. Dividend Rights:**

The dividend policy of PASHA Bank is clearly defined, submitted to the approval of the shareholders at the general shareholders' meeting and disclosed to public on the corporate web site. The Bank's dividend distribution policy contains minimum information clear enough for investors to predict

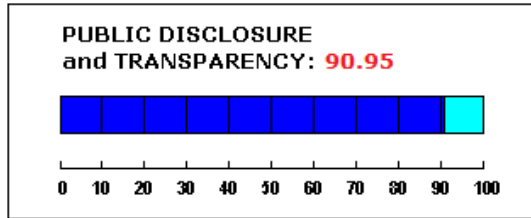
any future dividend distribution procedures and principles.

As mentioned in the dividend distribution policy, a balanced policy is followed between the interests of the shareholders and those of the Bank.

There is no provision in the articles of association on advance dividend payments.

### **1.7. Transfer of Shares:**

Other than the provisions of the BRSA (Banking Regulation and Supervision Agency), the articles of association of the Bank do not contain any provisions that impede the transfer of shares which are publicly traded.



## SYNOPSIS

+	Comprehensive web site, actively used for public disclosure
+	All Bank policies, financial reports, information on general shareholders' meetings, code of ethics, Committees and their working principles are included on the web site
+	Annual report complies with the legislation, comprehensive and informative
+	Agreements and work conducted with the external auditor are in compliance with the legislation
+	English version of the web site for international investors
+	Declaration of independence of the independent board members included in the annual report
-	Benefits provided to board members and senior executives not listed on individual basis
-	Names of indirect individual shareholders are not disclosed to the public

### 2.1. Corporate Web Site:

The Bank's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the Bank's web site includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the

final version of the Bank's articles of association, last 5 years' periodical financial statements, annual reports, other public disclosure documents, frequently asked questions including requests for information, questions and notices, and responses thereof, external audit report, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, information on senior management, ethical rules of the Bank, corporate governance compliance report, along with policies on disclosure, donations and grants, human resources, dividend distribution, compensation and remuneration, conflict of interest, sustainability, environment and social responsibility, business continuity, risk management, prevention of laundering of crime revenues, prevention of financing of terrorism and order execution.

Names of indirect individual shareholders are not disclosed to the public.

The Bank's web site also includes; information on Committees established within the board of directors, their working principles, the vision/mission of the Bank established by the board, information on capital increases, financial data, main ratio analysis, web site privacy and usage terms, maximum annual loan interest and fee and commission rates notification forms, public disclosure document, Banks Association of Turkey Customer Complaints Arbitral Tribunal complaint form and the information leaflet.

In contrast, corporate social responsibility and sustainability reports are not included on the Bank's web site.

The information contained on the web site exists also in English (identical with the Turkish content) for the benefit of international investors.

## 2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Bank and it covers information such as;

- a. Period covered by the report, the title of the Bank, trade register number, contact information.
- b. The names and surnames of the chairman and members in the board of directors and in the Committees during the reporting period, their limits of authority.
- c. The sector in which the Bank operates and information on its position in the sector.
- d. Number of personnel and branches, the description of the Bank's service variety and activity.
- e. Changes and justifications thereof on the articles of association during the reporting period.
- f. Corporate Governance Principles Compliance Report.
- g. Information on related party transactions.
- h. Other issues not included in the financial statements, but are beneficial for users.
- i. The Bank's organization, capital and ownership structure and any changes in the related accounting period.
- j. The dividend distribution policy.
- k. Basic ratios on the financial position, profitability and solvency.
- l. Bank's financing resources and risk management policies.
- m. Information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following issues also took place in the annual report:

- a. Information on external duties of board members and executives.
- b. Members of the Committees within the board and their meeting frequency.
- c. Number of board meetings held during the year and assessment on the Committees' efficiencies.
- d. Information on major court cases against the Bank and possible consequences.
- e. Information on cross shareholding in excess of 5% of the capital.

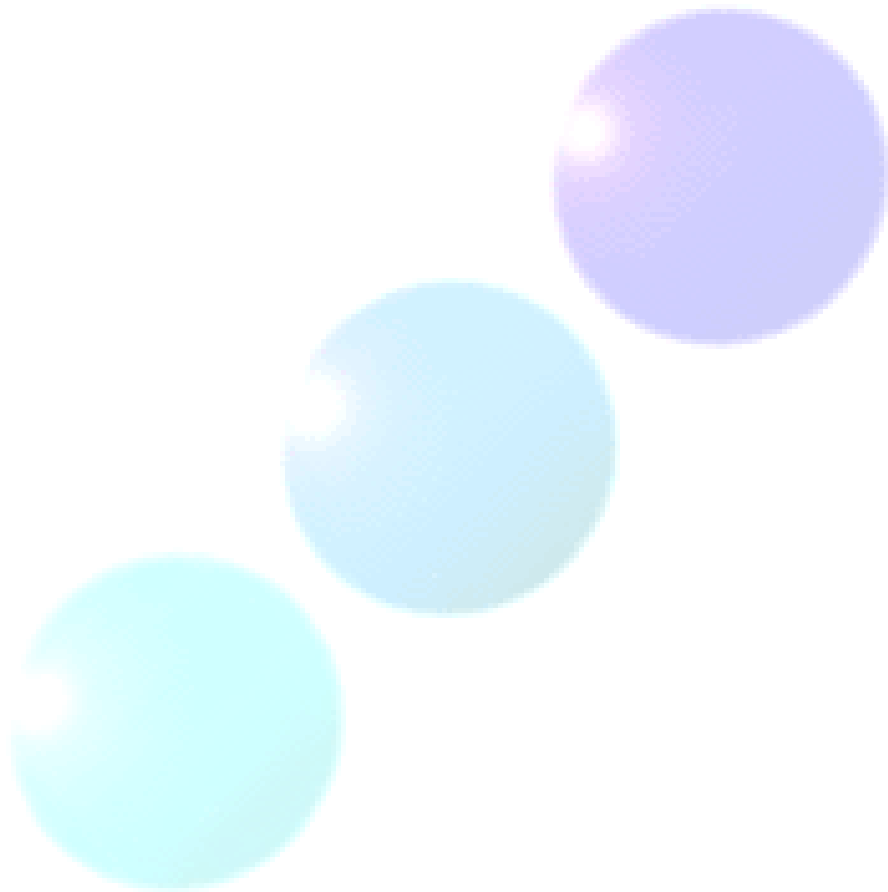
On the other hand, participation status of board members to the meetings and working principles of the Committees are not included in the annual report.

In addition, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

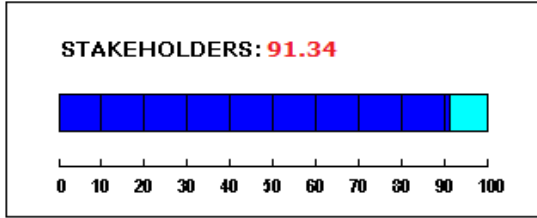
## 2.3. External Audit:

The external audit of the Bank is conducted by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Ernst&Young Global Limited group with a worldwide experience.

External audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. Neither a consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.



**SECTION 3: STAKEHOLDERS**



## SYNOPSIS

+	Compensation is provided if the rights of stakeholders established by law or any other mutual agreement are violated
+	Efficient Human Resources policy
+	Strict quality standards for goods and services
+	Publicly disclosed, comprehensive code of ethics
+	A written employee compensation policy is established and disclosed to public via the web site
=	The Bank is in compliance with environmental laws, a comprehensive Sustainability Environment and Social Responsibility Policy has been created, but actual studies can be extended
-	No union at the Bank

### 3.1. Bank Policy Regarding Stakeholders:

Rules and principles regarding the determination of relations with stakeholders of the Bank are implemented within the framework of Corporate Governance and Conflict of Interest Policy. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Bank protects the interest of stakeholders under good faith principles and within the capabilities of the Bank. A significant or repetitive situation in which these rights are violated has not been encountered. It has been seen that the

Bank's corporate governance practices are at a higher level and the rights of stakeholders are regulated by legislation and mutual agreements.

PASHA Bank has established a written employee compensation policy and disclosed it to public via the corporate web site. The web site of the Bank is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights. On issues of concern, the stakeholders are informed through minutes of the general shareholders' meeting, annual reports, meetings and e-mails, and the related "Disclosure Policy" provisions are reserved. No conflict of interest has arisen between stakeholders over the past year.

The corporate governance structure of the Bank ensures that its stakeholders, including its employees and representatives, report their concerns regarding any illegal or unethical transactions to the management.

### 3.2. Stakeholders' Participation in the Bank Management:

A customer care line and a complaints line are available via the web site for all stakeholders, enabling them to e-mail any feedback, suggestions, comments and complaints, as well as requests for information.

Models, incentives and codes of practice that support employee participation in management are developed within the framework of the internal regulation document of "Human Resources Policy". Regulations that concern all stakeholders are included in the "Ethical Principles Regulation" and the Corporate Governance Policy. Furthermore, an internal reporting system has been established to ensure that all stakeholders directly contact the Compliance Unit.

### **3.3. Bank Policy on Human Resources:**

The Bank has a comprehensive human resources policy. The aim of this policy is; to lay down the basics of basic rights and obligations on recruitment, employment, monetary and social rights, disciplinary procedures, duties, powers and responsibilities of the employees under an employment contract, in accordance with the labor legislation, the Bank's articles of association and other legislation. The human resources unit, the Deputy Chief Executive Officer, and ultimately the Chief Executive Officer are responsible for conducting the policy within the Bank. Responsibility for the execution of the provisions related to the personnel of the units linked to Internal Systems belongs to the Human Resources Unit and the Audit Committee. The Committees on human resources processes are human resources and remuneration within the board of directors, and discipline and human resources committees under the general management.

Basic principles of this policy are:

- a) To provide the qualified and competent human resources needed in line with the Bank's objectives and strategies and its corporate values,
- b) To ensure that employees adopt the corporate culture and corporate values, and comply with ethical principles,
- c) To ensure through effective performance management system that the staff performs efficiently,
- d) To create a learning organization in line with the Bank's strategy, business objectives and mission by supporting the professional and personal development of all staff,
- e) To reinforce the corporate culture by developing Bank staff for managerial positions,
- f) To contribute to the enhancement of the Bank's

achievements by rewarding high performance,

- g) To provide opportunities for career development by prioritizing existing staff in the case of vacancies,
- h) To increase employee commitment by implementing an open and transparent Human Resources Management System,
- i) To ensure continuous improvement by taking into account all requests, complaints and suggestions from employees,
- j) To create an effective and motivated organization by ensuring employee satisfaction,
- k) To compensate employees according to current conditions and aligned with the market and the Bank's budget,
- l) To increase commitment to the organization, and to ensure that the common goals of the Bank are adopted by all employees.

While hiring policies and career planning are being carried out, the principle of equal opportunity for people with equal conditions has been adopted in line with this policy.

In cases which management reshuffle could cause disruptions, succession planning for determination of new manager appointments is carried out within the framework of the Bank's Business Recovery Plans.

The criteria for recruitment are determined in writing and these criteria are adhered to.

All rights provided to employees are exercised fairly, training programs and policies are put in place to enhance employees' knowledge, skills and manners. Employees are informed of decisions or developments which concern them.

The Human Resources and Administrative Affairs Department works in coordination with other units

in line with the objectives of the Bank, and aims at selecting the most suitable candidate for the job by reaching the right target group for the relevant position in the recruitment phase.

In addition, qualified candidates are suitable for the institutional culture; believe in open communication and continuous improvement; support team work; are customer and result oriented; and possess the education, experience, and foreign language skills required for the position. In 2017, the Bank provided its employees with a total of 1,056 hours of training, representing an average of 25 hours of training per employee.

#### **3.4. Relations with Credit Customers and Creditors:**

Measures to provide customer satisfaction in the marketing and sale of Bank services have been taken under the "Sustainability, Environment and Social Responsibility Policy".

Adherence to quality standards in banking services, protection of the standard and confidentiality of information related to credit customers within the scope of trade secrets, along with procedures to eliminate the loss of the customers' rights against illegal transfers made from customer accounts electronically are defined in the "Ethical Principles Regulation" of the Bank.

It has been declared that no warning or fine have been imposed by the regulatory and supervisory authorities on these matters.

#### **3.5. Ethical Rules & Social Responsibility:**

The ethical rules of PASHA Bank is established and publicly disclosed through the corporate web site. Matters such as use of Bank assets and resources; relations with competitors, customers, suppliers, personnel, media, public institutions and organizations; accepting gifts, invitations, grants and donations; personal grants and donations; activities causing conflict of interest; external jobs and duties; political and religious activities; discrimination; complying with legal and internal regulations, privacy policies; strive on prevention of laundering of crime revenues and financing terrorism and processes and rules about the internal notification system and communication line are clearly defined in the Bank's set of ethical rules.

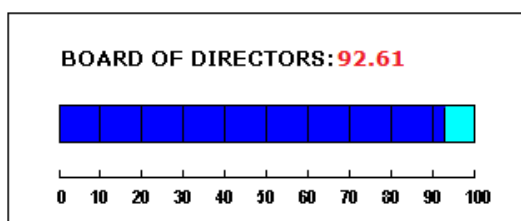
The Bank supports Social Responsibility Projects, in which the social, cultural and environmental concerns are expressed to the public and stakeholders. In this context, a corporate social responsibility project with the "One Wish Foundation" was implemented in 2017.

#### **3.6. Sustainability:**

A Sustainability, Environment and Social Responsibility Policy is established to identify the general framework of the social and environmental management system and the basic principles that the Bank must comply with. It is aimed that the standards set in the policy also meet the obligations arising from the regulations issued by the legal and regulatory authorities. This policy is complementary to the Bank's other corporate governance policies and procedures related to its standards.

## **SECTION 4: BOARD OF DIRECTORS**





## SYNOPSIS

+	The board periodically reviews the effectiveness of risk management and internal control systems
+	Chairman of the board of directors and chief executive/general manager are not the same person
+	Only 1 executive member on the board of 9
+	3 independent members on the board of directors
+	The board of directors convenes at sufficient frequency and working principles are documented
+	Each member has a right to a single vote
+	Principles of remuneration of board members and senior executives are defined and disclosed to the public
+	Any potential losses incurred by the Company and third parties as a result of misconduct by executives are insured
+	3 female board members

### 4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the Bank's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the Bank. The board administers and represents the Bank within these parameters.

The board of directors has defined the Bank's strategic goals and identified the needs in human and financial resources, and controls management's performance.

### 4.2. Principles of Activity of the Board of Directors:

We have come to a conviction that the board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the Committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year.

The presence, functioning, and effectiveness of internal controls and internal audit, is explained in the annual report.

Chairman of the board and chief executive officer's executive powers are clearly separated and this separation is documented in the articles of association. In this context, the chairman of the board and the executive director/general manager are not the same person. On the other hand, there is no individual in the Bank with unlimited decision-making authority.

### 4.3. Structure of the Board of Directors:

The Bank's board of directors is composed of 9 members. With the exception of the general manager, all other members are non-executive. Among the non-executive members

there are 3 independent members who have the ability to execute their duties without being influenced under any circumstances. The term of office of the independent members is 3 years and they all have the independence criteria set out in the Corporate Governance Principles.

The Corporate Governance Committee has prepared a report on the candidates for independent board membership by taking into consideration whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria. There are 3 female members on the board of directors.

#### **4.4. Conduct of the Meetings of the Board of Directors:**

To ensure the efficiency of the board of directors, the schedule for the board meetings held within the year is determined by the general manager, subject to the approval of the Board of Directors. The agenda of the meeting is prepared according to proposals submitted by various units of the Bank and other issues submitted by Board members.

Even though the board of directors convenes whenever and as often as required by the Bank's business and related legislation, in principle, physical meetings at least once every two months are organized. All members of the board of directors attend the meeting as long as there is no excuse.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow

of information. The conduct of the board meetings is documented in the Corporate Governance Policy, and meeting and decision quorums have been included in the articles of association of the Bank.

The members of the board of directors may not cast a deciding vote and/or they do not have veto rights. Each member has a right to one vote.

Bank officials have stated that the board members allocate necessary time for the Bank's affairs. There are no limitations introduced for the members taking on additional duties outside the Bank.

#### **4.5. Committees Established Within the Board of Directors:**

Corporate Governance, Audit and Human Resources and Remuneration Committees are established from within the board of directors in order to fulfill its duties and responsibilities. Committees are composed of at least two members each.

Functions of the Committees, their working principles, and members are designated by the board of directors and disclosed to the public on the corporate web site.

Chairmen of the Audit and Corporate Governance Committees are elected among the independent board members. Human Resources and Remuneration Committee is chaired by the chairman of the board and its other member is not independent. There are no executive members on the Committees.

All necessary resources and support needed to fulfill the tasks of the Committees are provided by the board of directors and activities are documented and records are kept. The frequency of meetings of the Committees is sufficient and

corresponds to almost one each on a monthly basis. The Committees present to the board of directors reports on their activities and the results of the meetings.

Audit Committee supervises the operation and efficiency of the Bank's accounting system, public disclosure, external audit and internal audit systems, reviews complaints that are received by the Bank regarding Bank accounting, internal and external independent audit systems within the framework of the principle of confidentiality and finalizes them, notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the Bank and the external auditor, notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Bank's accounting principles, true and accurate.

A risk management system has been established under the auspices of the Risk Management Committee to measure the risks to which the Bank is exposed and to ensure that the risks are consistent with the Bank's strategies and policies and within the limits determined in connection with the risk appetite approved by the board of directors. On the other hand, the Audit Committee oversees the efficiency competence of risk management systems and compliance at least once a year. In this context, we will continue to observe the effectiveness of the work to be done on tasks carried out towards early detection of risks which may jeopardize the Bank's assets, its development and progression, and measures taken to mitigate and manage those risks.

The annual report contains information on working principles of the Audit

Committee and number of written notices given to the board of directors within the fiscal year. A statement on meeting results is also included in the annual report. The external audit firm and services required are determined by the Audit Committee and presented to the approval of the board of directors.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the Bank, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the shareholder relations unit.

The degree to which the Corporate Governance Committee will actively engage in the establishment of a transparent system for the identification, evaluation and training of appropriate candidates for the board of directors and executive positions with the exception of independent membership, and the determination of policies and strategies on this issue will be monitored by us during the rating and observation period. Likewise, this observation will also include whether the Corporate Governance Committee performed regular reviews on the structure and efficiency of the board of directors and whether it submitted its recommendations to the board members on changes that can be done on these matters.

The Human Resources and Remuneration Committee of the Bank determines and monitors the principles, criteria and practices to be used on remuneration of the independent board members and managers with administrative responsibilities, taking into account the long-term goals of

PASHA Bank. By taking into account the degree of achievement of the criteria on remuneration, studies conducted by the Committee, particularly on remuneration of the board members in addition to managers with administrative responsibilities, will again be assessed within the observation period.

**4.6. Remuneration of the Board of Directors and Senior Management:**

Assessments of the chairman of the board of directors and the general manager on the operating period and anticipations for the future are included in the annual report.

The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders' attention as a separate item at the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the corporate web site. Stock options or performance based payments cannot be included in the remuneration package of the independent board members.

The Bank did not lend any funds or extended any credits to a member of the board or to senior executives, or granted any personal loans through a third party, or extended any guarantees.

There have been no cases where the executives used confidential and non-public Bank information in favor of

themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the Bank's affairs, and provided unfair advantage. Furthermore, there is a regulation on compensation for losses incurred by the Bank, and third parties, as a result of not performing the executives' duties duly.

Remuneration of the executives is based on market conditions and determined according to their qualifications, and proportional to their contributions to the performance of the Bank.

The orientation process for newly appointed managers is documented in the Human Resources Policy of the Bank which has been presented to us.



**Rating Definitions**

<b>Rating</b>	<b>Definition</b>
<b>9 - 10</b>	The bank performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively

	managed all significant corporate governance risks through comprehensive internal controls and management systems. The bank's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
<b>7 - 8</b>	The bank performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
<b>6</b>	The bank performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
<b>4 - 5</b>	The bank performs <b>weakly</b> as a result of poor corporate governance policies and practices. The bank has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<b>&lt;4</b>	The bank performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The bank shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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