BANKING LAW OF THE TURKISH REPUBLIC OF NORTHERN CYPRUS
(Law No. 62/2017)
Notification under Articles 17, (3) and 19 (4)

Central Bank of the Turkish Republic of Northern Cyprus shall issue the following Notification based on the authority granted by paragraph (3) of Article 17 and paragraph (4) of Article 19 of Banking Law of the Turkish Republic of Northern Cyprus No. 62/2017:

Short Title

1. This Notification is titled "Notification on the Qualifications, Duties, Authorities, and Responsibilities of Board Members Responsible for Internal Systems".

PART ONE
General Provisions

Definitions

2. In this Notification, unless the context requires otherwise;

"Bank" means the deposit banks, participation banks, development and investment banks established in the Turkish Republic of Northern Cyprus and operating under the Law, and the branch banks established abroad and operating in the Turkish Republic of Northern Cyprus by opening branches.

" Subsidiary " means a company in which the entity holds, directly or indirectly, more than fifty percent (50%) of the equity or voting rights, or has the right to elect a majority of the management at least at that percentage.

"Support Services" means services that are extensions or complements to the core services offered by banks and refer to services provided by third party or outsourcing.

"Internal System Units" means internal audit, risk management, and compliance units.

"Affiliate" means a partnership in which the entity holds, directly or indirectly, a stake in the capital or voting rights of at least 10% (ten percent) and no more than 50% (fifty percent), or has the right to participate in management within these percentages.

"Central Bank" means the Central Bank of the Turkish Republic of Northern Cyprus.

"Qualified Shareholder" means the direct or indirect possession of more than ten percent (10%) of a legal entity's capital or the shares that grant privileges to the board of directors or the power to constitute the majority in its management, even if the shares are below the given rate.

"Executive Managers" shall mean the board members, who are responsible for internal systems and/or similar tasks in banks established in the Turkish Republic of Northern Cyprus, and the general manager or assistant general managers, the Northern Cyprus country managers/general managers or Northern Cyprus country deputy managers/assistant general managers working in branch banks or their equivalents

"Executive Management" means the general manager and assistant general managers of banks; the Northern Cyprus country/general manager and Northern Cyprus country/assistant general managers of branch banks; and persons performing equivalent executive functions.

"Senior Management" means the members of the board, executive managers, or others working as managers in equivalent positions.

62/2017 "Law" means the Banking Law of the Turkish Republic of Northern Cyprus.

Aim

3. The purpose of this Notification is to determine the qualifications, duties, authorities, and responsibilities of the board members whom responsible for the internal systems that banks are required to appoint under the Law, and to regulate the procedures and principles regarding the required declarations and supporting documents.

Scope

4. Banks operating in the Turkish Republic of Northern Cyprus are within the scope of the rules of this Notification.

PART TWO

Qualifications, Duties, Authorities, and Responsibilities of Board Members Responsible for Internal Systems

Qualifications of Board Members Responsible for Internal Systems

5. (1) Board members responsible for internal systems in banks for

(A) throughout their term of office shall, not assume any responsibility in any committee or unit of the bank other than the internal systems units;

(B) not be qualifying shareholders in the bank, its subsidiaries or affiliates, nor have any direct and/or indirect relationship with qualifying shareholders thereof;

(C) not be the spouse or a relative by blood or marriage, up to and including the second degree, of any member of Senior Management;

(Ç) not have served as a board member responsible for internal systems of the same bank for a period exceeding nine years;

(D) not receive from the bank and/or its parent undertakings any remuneration or similar income, under any name whatsoever, based on their profitability, excluding payments made out of profits to all personnel pursuant to the provisions of the articles of association/bylaws and/or a resolution of the general meeting;

(E) meet at least the qualifications required of assistant general managers under Article 20(3) of the Law;

(F) not have served, during the preceding two years, in units performing executive functions at the bank concerned or within the risk group to which the bank belongs;

(G) not have individually provided consultancy or support services to the bank or the risk group to which the bank belongs during the two years preceding the date of their appointment, nor have been a partner or employee of an authorized independent audit institutions, consultancy or support services thereto;

(H) excluding the bank's risk group, ensure that the total unsecured exposure to the bank of themselves and/or persons within the risk group to which they belong does not exceed twelve times their monthly net remuneration received from the bank. For the purposes of this paragraph, guarantees shall not be considered collateral.

(I) possess the qualifications required of founders under Article 6(1) of the Law;

(İ) not be employed by, or serve as a member of the Board of Directors of, another bank and/or an International Banking Unit (IBU), except for a bank within the risk group to which the bank belongs.

requirement.

(2) The qualifications specified in paragraph (1) of this Article shall not be required of members of the board of directors appointed as board members responsible for internal systems in branch banks, provided that equivalent regulations and requirements are prescribed under the legislation of the country in which their head office is located.

Duties, Authorities, and Responsibilities of Board Members Responsible for Internal Systems

6. (1) Board members responsible for internal systems shall, on behalf of the board of directors, be responsible for overseeing the effectiveness and adequacy of the bank's internal systems, the operation of such systems and the accounting and reporting systems within the framework of the Law and relevant regulations, and the integrity of the information produced; carrying out the necessary preliminary assessments for the selection by the board of directors of authorized independent audit institutions and support service providers from which services directly related to other banking activities are procured; and regularly monitoring and coordinating the activities of such organizations selected and contracted by the board of directors.

(2) Within the scope of paragraph (1) of this Article, board members responsible for internal systems shall have the following duties and authorities:

(A) to oversee compliance with the legislation on internal systems and the bank's internal policies and implementation procedures approved by the board of directors, and to make recommendations to the board of directors regarding any measures deemed necessary;

(B) to oversee whether internal audit activities and plans fulfil the requirements laid down in the legislation on internal systems and the obligations established by internal policies, and whether they cover all risks arising from the bank's existing and planned activities;

(C) to establish communication channels enabling the personnel of the internal systems units to have direct access to them and to ensure that such personnel perform their duties independently and impartially;

(Ç) to ensure the establishment of communication channels through which irregularities within the bank may be reported directly to them or to the unit responsible for internal audit established within the framework of the internal systems;

(D) to assess whether the methods, tools and implementation procedures necessary for identifying, measuring, monitoring and controlling the risks to which the bank is exposed are in place;

(E) to meet with the bank's authorized independent audit institutions at least twice a year and bring to the attention of the board of directors matters identified by the independent auditor and internal audit, as well as

findings and weaknesses relating to the bank's internal control and risk management;

(F) to review the authorized independent audit institutions assessments regarding the compliance of the bank's accounting practices with the applicable legislation; to discuss with the independent auditors whether the bank's financial position, the results of its operations and its cash flows are accurately presented and whether the reports are prepared in accordance with the procedures and principles prescribed by the Law and other relevant legislation; and to obtain explanations from the relevant executive management regarding any inconsistencies identified;

(G) to conduct a preliminary review of the support services to be procured by the bank, assess the adequacy of the resources to be allocated and prepare a report for the board of directors; and, where such services are procured, to assess them in terms of risk, independence, confidentiality and adequacy and submit reports to the board of directors on a regular basis, at least once a year;

(H) to make recommendations regarding the conditions to be required of personnel to be assigned to internal systems units, taking into account the qualifications prescribed in the legislation on internal systems; to assess their level of professional training and competence; and to provide opinions to the board of directors regarding their appointment and dismissal;

(I) to obtain and assess the opinions and recommendations of executive management concerning internal systems and to monitor the measures taken by executive management and the units reporting thereto in respect of matters identified in audit reports;

(İ) to monitor whether persons authorized to take risks participate in the assessment and decision-making processes concerning risk transactions to be undertaken in favor of themselves, their spouses and children, or other natural or legal persons forming a risk group with them, and to establish communication channels to ensure that such matters are reported to them;

(J) to submit a written report to the board of directors, at intervals not exceeding six months, on the activities carried out during the relevant period and the results thereof, and to include in such report their views on measures required to be taken by the bank, practices that need to be implemented and any other matters they consider important for ensuring the safe conduct of the bank's activities;

(K) to assess, in relation to activities associated with the bank, the independence and adequacy of the resources allocated to real estate valuation firms with which the bank intends to enter into contracts, authorized independent audit institutions, including those conducting information systems audits, and their employees; to submit their assessments to the board of directors in a report; and, where services are procured, to repeat such assessments regularly throughout the term of the contract, at least once a year.

(3) Where board members responsible for internal systems leave office, they have to, within seven business days, submit to the board of directors, the authorized independent audit institutions and the Central Bank a written statement setting out in detail the reasons for leaving office.

(4) Board members responsible for internal systems shall be accountable directly to the board of directors and shall regularly attend meetings of the board of directors.

PART THREE
Miscellaneous Rules

Documents Required

7. For the appointment by banks of board members responsible for internal systems, the form in Annex 1 to this Notification (Declaration Form for Persons to be Appointed as Board Members Responsible for Internal Systems), the forms in Annex 1 (Declaration Form for Persons to be Appointed to the Senior Management of a Bank) and Annex 2 (Curriculum Vitae) to the "Notification on Corporate Governance", together with all necessary supporting documents, shall be submitted to the Central Bank for the appointment to be made. The Central Bank shall be authorized to request any additional information and documents it deems necessary. All information and documents must be complete before the banks concerned can be notified of the outcome.

Penalty Rules

8. The rules of this Notification shall be applied together with the rules of the Law authorizing the issuance of the

Notification, and the relevant penalty rules of the Law shall be applied to those who violate the rules of this Notification.

PART FOUR
Provisional Rules

Provisional Article
Terms of Office of Board Members Responsible for Internal Systems

1. Board members responsible for internal systems who, on the date of entry into force of this Notification, possess the qualifications specified in subparagraph (E) of paragraph (1) of Article 5 of this Notification may continue in their current positions for up to nine years. The terms of office of those who do not possess the required education and experience shall expire at the end of five years.

Provisional Article
Board Members Responsible for Internal Systems Whose Unsecured Risk Exceeds the Prescribed Limits

2. Banks shall be granted until December 31, 2019 to bring within the prescribed limits the unsecured risks of board members responsible for internal systems who have such risks as a result of guarantees not being regarded as collateral pursuant to subparagraph (H) of paragraph (1) of Article 5 of this Notification.

PART FIVE
Final Provisions

Repeal

39/2001
15(3)

9. As of the date of entry into force of this Notification, the provisions of Article 9 of Part Two of the “Notification on Internal Audit, Risk Management, Internal Control and Management Systems in Banks”, shall be repealed, without prejudice to any actions taken thereunder.

Effective Date

10. This Notification shall become effective date of its publication in the Official Gazette.