

Adopted unanimously (32 votes) at the Eighty-Seventh Meeting of the Turkish Republic of Northern Cyprus Assembly on 6 November 2017, "Banking Law of the Turkish Republic of Northern Cyprus" shall be announced by the President of the Turkish Republic of Northern Cyprus under paragraph (1) of Article 92 of the Constitution following its publication in the Official Gazette.

No: 62/2017

BANKING LAW OF THE TURKISH REPUBLIC OF NORTHERN CYPRUS
(In the form as amended and integrated with the amendment law No. 22/2020)

The Assembly of the Turkish Republic of Northern Cyprus enacts the following Law:

Short Title	1. This Law shall be cited as the Banking Law of the Turkish Republic of Northern Cyprus.
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PART ONE
General Provisions

Interpretation	<p>2. In this law, unless the context requires otherwise;</p> <p>"Ministry" shall mean the Ministry, to which the Department of Exchange and Growth Fund is affiliated.</p> <p>"Bank" shall mean the deposit banks, the participation banks, the development and investment banks established in the Turkish Republic of Northern Cyprus and operating under the authorization of this Law, and the branch banks established abroad and operating in the Turkish Republic of Northern Cyprus by opening branches.</p> <p>"Core Capital" shall mean the capital, of which rules, elements, and proportions are determined by the Central Bank taking into account the international standards.</p> <p>"Support Service" shall mean the extension or complement of the main services offered by banks and it describes the services provided by outsourcing.</p> <p>"Support Service Provider" shall mean the institutions that perform activities on behalf of the Bank such as acceptance of deposits or participation funds of the banks, extending cash, non-cash and all types of loans, and carrying out activities that are not considered as a risk in the implementation of this Law or provide services to assist the bank, including the marketing of any of its activities, except for the acceptance of deposits or participation funds and loan transactions, with no advertisement.</p> <p>"Countercyclical Capital Buffer" shall mean the amount of additional core capital that must be kept in accordance with the principles determined by the Central Bank to prevent insufficiencies in the equities under the regulations on capital adequacy.</p> <p>"Financial Institution" shall mean the institutions operating in the financial sector established to carry out at least one of the activities specified in paragraph (2) of Article 23 of this Law.</p>
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"Fund" shall mean the Savings Deposit Insurance and Financial Stability Fund.

"Real Estate Appraisal Companies" shall mean the service companies engaged in appraisal through appraisal specialists having the knowledge and experience required to report the possible value of a real estate, real estate project, or rights and benefits associated with a real estate at a certain date by analysing the quality, market and environmental conditions affecting its value, independently and impartially, in writing within the framework of internationally accepted appraisal standards.

"Internal Capital" shall mean the capital that is determined by the Central Bank, considering the international standards. It describes the capital that the banks have internally calculated to cover the risks they are exposed to and the risks that they may be exposed to.

"Controlling Shareholder" shall mean a person who directly or indirectly controls a legal entity, solely or with others.

"Development and Investment Bank" shall mean the establishments, which are engaged in extending loans and/or performing duties assigned to them by special legislation.

"Participation Bank" shall mean the establishments operating based on accepting participation funds on their behalf and account, and extending loans.

"Participation Funds" shall mean the monetary assets predetermined without any return or on a profit-loss partnership basis without any guarantee of the repayment of a predetermined return or capital, accepted for repayment on demand or at a certain maturity and not subject to securities.

"Person" shall mean the real or legal persons.

"Companies Subject to Consolidated Audit" shall mean the companies in the bank group that will be subject to the consolidated audit by the bank determined by the Central Bank in accordance with the international standards.

"Consolidated Equity" shall mean the amount to be calculated by subtracting the deductible values from the sum of core capital, additional Tier I capital, and Tier II capital on a consolidated basis, which are determined by the Central Bank, taking into account the rules, elements and rates, international standards.

"Control" shall mean the direct or indirect possession of more than half of a legal entity's capital or voting rights or having the power to constitute the majority in its management.

"Central Bank" shall mean the Central Bank of the Turkish Republic of Northern Cyprus.

"Deposits" shall mean the monetary assets that are accepted to be repaid at any time or in a certain term, without any return or in return for a predetermined return, and not subject to securities.

"Deposit Bank" shall mean the establishments operating based on accepting deposits on their own behalf and account, and based on extending loans.

"Qualified Shareholder" shall mean the direct or indirect possession of more than ten percent 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.

"Equity" shall mean the amount to be calculated by deducting the values from the sum of core capital, additional Tier I capital, and Tier II capital of which rules, elements, and rates are determined by the Central Bank taking into account the international standards.

“Capital Conservation Buffer” shall mean the amount of additional core capital that must be kept by the banks in accordance with the principles determined by the Central Bank to prevent insufficiencies in the equities under the regulations on capital adequacy.

“Systemic Risk” shall mean the risk of deterioration in financial services resulting from deterioration in the financial system in whole or in part and which has a significant negative return potential for the real economy.

“Branch” shall mean any kind of business such as stationary or mobile bureau, which constitutes a legally bound part of the banks and which partly or entirely performs the activities of these institutions, excluding units solely composed of electronic devices.

“Branch Bank” shall mean the deposit banks, participation banks, development, and investment banks operating in the Turkish Republic of Northern Cyprus with only one branch, of which headquarters are abroad.

“Representation Office” shall mean the liaison offices of the banks, which are referred and managed by a representative, and the liaison offices of the banks established abroad in the Turkish Republic of Northern Cyprus.

“Senior 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 assistant managers/assistant general managers working in branch banks or their equivalents.

“Senior Management” shall mean the members of the board, senior managers, or others working as managers in equivalent positions.

“Asset Management Company” shall mean the companies established under the provisions of this Law to operate for purchasing, collecting, restructuring, and selling the receivables and other assets of the Savings Deposit Insurance and Financial Stability Fund, banks, and other financial institutions.

“Managers” shall mean the senior managers of the banks and those who are authorized to manage any of the units directly linked to senior managers in the organizational charts.

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| Aim | 3. This law shall aim to regulate the rules for the establishment and maintenance of trust and stability in the financial markets, protection of the rights and interests of the depositors, and effective functioning of the financial intermediation system. |
| Scope | 4. Banks operating in the Turkish Republic of Northern Cyprus are within the scope of this Law. The rules of this Law shall apply to the banks which are established under special laws, provided that the rules within these laws are reserved. Central Bank shall exercise its powers granted to it under this Law and other rules of this law by issuing the Notifications specified in this Law, by establishing regulatory operations, or by making decisions of special nature. |

Powers and Duties	5. By making arrangements in accordance with the powers conferred by this Law and other laws related to this Law, the Central Bank shall be liable and authorized to take necessary measures, ensure implementation of these measures, conduct and finalize audits, audit banks, and their financial subsidiaries and affiliates on a consolidated basis, determine companies subject to consolidated audit in order to ensure trust and stability in financial markets, protect the rights and interests of account owners, take necessary measures to ensure the effective operation of the credit system and development of the financial sector.
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PART TWO

Establishment and Operating Licenses and Other Permit-Required Operations, Rules Regarding Merger and Transfer

Conditions for Establishing a Bank	<p>6. In the Turkish Republic of Northern Cyprus, the conditions for establishing a bank shall be as follows;</p> <ul style="list-style-type: none">(1) For real entity shareholders:<ul style="list-style-type: none">(A) Even if they have been pardoned and/or his criminal record have been cleared, it is obligated that;<ul style="list-style-type: none">(a) They haven't been sentenced to more than one-year imprisonment for violating any law,
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(b) They haven't been judged and sentenced for offences committed against the sovereignty, security, and dignity of the Government under the Criminal Procedure Law or other laws and against the constitutional order, murder with malice aforethought, attempted murder with malice aforethought, manslaughter, attempted manslaughter, sexual assault, sexual harassment, sexual rape and attempting to commit such offences, embezzlement, fraudulent conversion, extortion, bribery, theft, false, counterfeiting, misconduct, fraudulent bankruptcy, smuggling, using fraud in official tenders and trades, being convicted of tax evasion offenses and of participating in such offenses, undischarged bankrupt, being disallowed from the management of the company due to fraud, violation of Gambling Law, Dangerous Drugs Law, Law on the Prevention of Laundering Crime Revenues or the legislation issued under these Laws,

(c) They haven't been judged and sentenced for the violation of the legislation on the financial institutions,

(B) They don't have any ongoing investigation, prosecution or an ongoing case due to the offences set out in paragraph (A) above,

(C) They don't have qualified shares or not hold control during the time when the bank is transferred the Fund in the banks, whose management and control are transferred to the Fund, or when the operating license is revoked in financial institutions that have been abolished,

(Ç) Except for voluntary liquidation of shareholders, they have not been liquidated, filed for bankruptcy protection or declared bankruptcy,

(D) They have the financial power, reputation and competence required by the job,

(2) For legal entity shareholders it is obligated that;

- (A) They have a transparent and open shareholder structure together with the risk group, and
- (B) The real person shareholders with qualified shares to carry the qualifications listed in paragraph (1) above.

- (3) Persons who are nationals of countries outside the Turkish Republic of Northern Cyprus and/or residing in countries outside the Turkish Republic of Northern Cyprus cannot be on the lists of money laundering and terrorism financing issued by the financial information authority of the relevant country and any equivalent international authority.
- (4) For the assessment of the conditions specified in paragraphs (1) and (2) above for the persons who are citizens of the countries other than the Turkish Republic of Northern Cyprus and/or who are residing in countries other than the Turkish Republic of Northern Cyprus, in addition to the legislation applied in the Turkish Republic of Northern Cyprus, the legislation of the countries concerned is taken into consideration.

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7. In the banks to be established in the Turkish Republic of Northern Cyprus, the following establishment conditions shall be stipulated:

- (1) To be established as a public limited company under the Companies Law,
- (2) To have a statement in the company name indicating that it will operate as a bank,
- (3) To have a capital of at least 20.000.000.-TRY (Twenty Million Turkish Liras) free of any collusion, however, the Central Bank is authorized to increase the minimum amount of capital as necessary and up to 4 (four) times as required.
- (4) It is obliged that their principal agreements and regulations comply with the rules of this Law,
- (5) There are no obstacles to their supervision and audit, and
- (6) The planned financial structure and the organization are compatible with the activities foreseen,

Conditions for Opening
Branch Banks

- 8. (1) The following conditions must be sought in banks located abroad, which will operate as branch banks by opening branches in the Turkish Republic of Northern Cyprus:
 - (A) They are not banned to carry out banking transactions in the countries where they are established or operate,

- (B) The authorized supervisory and auditing authority in the country where their headquarters is located has given a positive opinion regarding their operation in the Turkish Republic of Northern Cyprus,
 - (C) Meeting the conditions set by the paragraphs (3), (5) and (6) of Article 7 of this Law, and
 - (Ç) They are not included in the lists on money laundering and terrorism financing, published by a financial information unit or any equivalent international authority of the country where their headquarters is located.
- (2) Branch banks that will operate with more than one branch may apply for a new license after fulfilling all the requirements necessary for the banks established in the Turkish Republic of Northern Cyprus. The application made in this way shall be exempt from the condition of subparagraph (C) of paragraph (2) of Article 10 of this Law.

Bank Establishment Permit
or Branch Bank Opening Permit

9. Establishing a bank or opening a branch bank in the Turkish Republic of Northern Cyprus is subject to the permission of the Central Bank. Affirmative votes of at least four members of the Executive Board of the Central Bank is required to issue the permit. The establishment permit issued is valid for three months. In the event that establishment procedures are not completed until the end of the given period, the permit will be invalid.

Operating License

10. (1) It is obligatory to apply to the Central Bank to obtain an operating license within three months after the completion of the establishment of a bank or the opening of a branch bank.
- (2) In order to obtain an operating license, banks must meet the following conditions:
- (A) Their capitals must be paid in cash,
 - (B) They have an established organizational structure, personnel, and systems that have the qualifications to perform the envisaged activities, and
 - (C) They must deposit 5% (five percent) of the minimum capital specified in paragraph (3) of Article 7 of this Law to the Treasury Account at the Central Bank.
- (3) The permits granted shall cover all eligible activities in Article 23 of this Law, unless otherwise agreed by the Central Bank.
- (4) In the event that it does not start operating within three months after obtaining the operating license, the bank's license shall be cancelled.

Domestic and
International Branches,
Representation Offices
and Companies

11. (1) (A) Banks opening branches in the country, establishing companies, or acquiring shares in established companies are subject to the permission of the Central Bank.
- (B) It is subject to the permission of the Central Bank for banks established in the Turkish Republic of Northern Cyprus to open branches or representation offices abroad, to establish companies, or to acquire shares in established companies.
- (2) Banks established abroad can open a representation office in the Turkish Republic of Northern Cyprus with the permission of the Central Bank, provided that they do not accept deposits or participation funds and operate according to the procedures and principles to be determined by the Central Bank.

Rules Regarding Share
Ownership

12. (1) (A) Qualified shareholders of banks must meet the conditions required for bank founders specified in Article 6 of this Law.
- (B) The right to participate in the management of qualified shareholders who do not meet or no longer meet these conditions is used by the Fund upon the notification of the Central Bank, as long as they have a qualified share.
- (C) Those who no longer meet the conditions for being qualified shareholders are obliged to inform the Central Bank in writing about this situation within one month at the latest.
- (2) (A) In a bank established in the Turkish Republic of Northern Cyprus or a legal entity partner with qualified shareholders; transactions that cause a person to become a qualified shareholder or lose his qualified shareholder status, and transactions that result in a person's share of capital or voting rights through direct or indirect shareholding exceeding or falling below 20% (twenty percent), 30% (30%) and 50% (fifty percent), shall be subject to the approval of the Central Bank.
- (B) Share transfers made without permission are invalid. Except for the dividend of these shares, partnership rights shall be used by the Fund.
- (C) Regarding the appointment of the board members, transfers that cause certain qualifying shares to be collected in certain persons by proxy and other means and, establishment, transfer of qualifying shares or issuance and removal of new privileged shares, shall be subject to the approval of the Central Bank, regardless of the rates specified in subparagraph (A) of this paragraph.

- (C) Although the share ratios are lower than the rates specified in subparagraph (A) of this paragraph, any direct or indirect changes in the control of the bank without the permission of the Central Bank shall be deemed invalid. If such a transaction is detected, subparagraph (C) of paragraph (1) of Article 64 of this Law shall apply accordingly.
- (D) Share transfer permits are valid for three months starting from the date of the share transfer decision made by the Central Bank.
- (3) (A) In the implementation of this Law, the shares belonging a person, his spouse and children and the partnerships they participate with unlimited responsibility or the shares belonging to the partnerships which are controlled separately or jointly by these persons shall be taken into consideration while determining the indirect share ownership of the natural persons.
- (B) To determine indirect share ownership by legal persons, the shares belonging to these persons as well as the shares belonging to undertakings which are controlled by such shall be calculated together.
- (4) In the event of a change in the shareholder structure of the legal entity shareholders of the banks established outside the Turkish Republic of Northern Cyprus, or the banks operating as branch banks in the Turkish Republic of Northern Cyprus, within the scope of the principles and rates specified in the subparagraph (A) of the paragraph (2) above, these changes shall be notified to the Central Bank within one month.

Amendments to the
Principal Agreement,
Regulation or Company
Name and Obligation to
Publish on the Websites

- 13. (1) Banks established in the Turkish Republic of Northern Cyprus are required to obtain approval from the Central Bank before making amendments to their principal agreements, statutes, or company names. Amendments made without the approval of the Central Bank shall be invalid.
- (2) Banks established in the Turkish Republic of Northern Cyprus are obliged to publish their updated principal agreements on their websites. Updates to the principal agreement are published within ten business days from the date of the amendment.

Merger, Transfer,
Voluntary Termination
of Activity and
Liquidation

- 14. (1) A bank's merging with another bank, transferring all its debts, receivables, deposits, and other rights and liabilities to another bank or financial institution partially or completely or voluntary termination of its activity shall be subject to the Central Bank's approval and control.
- (2) In case of merger or transfer of all debt, receivables, and deposits to another bank is approved by the Central Bank;

- (A) The approval shall be valid for three months.
- (B) All rights and obligations transferred within the scope of merger or transfer transactions are transferred to the transferee bank without seeking the consent of third parties. The following exemptions shall apply to the transferee bank:
 - (a) In the event of merging with one or more banks or transferring the balance sheet values partially or completely to one or more banks by eliminating its legal personality or if the balance sheet values of a bank whose shares belong partially or wholly to the Fund are taken over by the Fund, earnings arising from acquisition or merger shall be exempted from corporate tax provided that the transfer or merger proceedings are initiated by obtaining permission from the Central Bank and upon a decision by the authorized bodies within three months from the date of permission. If the merger or transfer does not take place in accordance with the permission received within eighteen months from the date of the permit, tax-loss shall be deemed to have arisen from the taxes not accrued in time.
 - (b) During transfers and mergers, the deductible loss amount in the last balance sheet of the dissolved institution before the transfer or merger can be deducted from the corporate income as an expense provided that it is not transferred by the transferee or merged institution for more than five years.
 - (c) The recording and registration of movable and immovable properties of the dissolved institution on behalf of the transferee or merged institution with the papers and contracts issued during the transfer and mergers to be made, and the renewal, extension, modification, transfer, or termination of the letters of guarantee, contracts, annotations, guarantees and other papers issued or in favour of the dissolved institution before the date of transfer or merger, on behalf of the transferee or merged institution and relevant transactions shall be exempt from all taxes, duties, and charges (including vehicle purchase tax), and money received in favour of banking and insurance transactions tax.

- (ç) During the transfer or purchase by the Fund of the bank's subsidiaries, non-performing receivables and other balance sheet items and the guarantees received in favour of the bank, of which the shares are partially or completely owned by the Fund, and the transfer, merger, or sale of the assets acquired thereby, contracts and other papers and papers issued for their replacement, renewal, extension, transfer, and termination, registration of real estate, movable properties and rights on behalf of the Fund or its designated persons shall be exempt from all kinds of taxes, duties, and charges (including vehicle purchase tax) and the amounts paid by the Fund to the bank shall not be subject to bank and insurance transactions tax.
- (C) Following the completion of the merger or transfer process, the operating license of the bank, which transfers all rights and obligations, is cancelled by the Central Bank.
- (Ç) The transfer process of the branch banks shall be reviewed under this Article, provided that they obtain the operating license in the Turkish Republic of Northern Cyprus.
- (3) Central Bank is entitled to reduce or postpone the legal provision liabilities of the merged banks within the period it will determine in order to help the merger succeed.
- (4) In the event that the banks whose shares belong partially or wholly to the Fund are subjected to transfer, merger or sale by the Fund, the transfer, merger, or sale of these banks' assets and/or liabilities to another bank shall be made in accordance with the principles and procedures to be determined by the Central Bank.
- (5) In case of the voluntary termination of the activity is approved by the Central Bank;
 - (A) The decision taken is published in the Official Gazette by the Central Bank. It is obligatory to notify and refund any deposits, participation funds, securities, and receivables to the right holders within three months from the date of publication.
 - (B) At the end of the three-month period, deposits, participation funds, securities, and receivables that are not sought by the right holders are transferred to the Central Bank and the operating license of the bank is cancelled by the Central Bank.

- (C) Deposits, participation funds, securities, and receivables transferred to the Central Bank shall be subject to prescription in accordance with the rules of Article 36 of this Law.
- (6) (A) The liquidation of a bank operating under this Law cannot be requested unless its operating license is cancelled or revoked by the Central Bank.
- (B) In the event that banks are liquidated as a result of the cancellation or revocation of the operating license by the Central Bank, the owners of savings deposits shall be considered to be privileged creditors by 90% (ninety percent) of their rights for the non-insurance portion of their savings deposits, after the Fund's receivables, on the assets of such banks.
- (7) After the completion of the establishment procedures of the bank, if an application for an operating license is not made within the time limit or if the operating license is not obtained or the operating license is cancelled in any way, a decision shall be taken within one month for the voluntary liquidation of a legal entity established for banking. In the event that no decision is taken for voluntary liquidation within this period, the Central Bank may attempt to initiate liquidation and removal from the registry procedures in accordance with the Company Law provisions.

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Decisions Published in
the Official Gazette

15. Decisions on the issuance of an operating license by the Central Bank and the cancellation or revoke of these permissions shall be published in the Official Gazette.

Authority to Issue
Notifications on
Licenses

16. Certifying documents to be requested regarding the implementation of the rules regarding the establishment of banks, branches, representation offices and establishing or acquiring a company, operating licenses, merger, partial transfer, transfer, voluntary liquidation, and other transactions subject to permission in this Part of this Law, all kinds of financial statements and evaluations on both solo and consolidated basis, letters of undertaking, minutes, official documents, and their form and conditions, issues, exceptions, if any, regarding periods, permits, restrictions and cancellations and documents and information that can be requested to determine the scope, nature, control of share ownership, the process of the change of control and shares, relevant matters, including exceptions if any, and obligations related to this issue, shall be regulated by a Notification to be issued by the Central Bank.

PART THREE
Corporate Governance

The framework of
Corporate
Governance and
Internal Systems

17. (1) Banks shall establish corporate governance structures that include the following principles in proportion to the nature, complexity, and size of their activities,
- (A) A clear organizational structure in which responsibilities are defined transparently and coherently,
 - (B) Effective processes for identifying, managing, monitoring, and reporting the risks encountered,
 - (C) Adequate internal control mechanisms covering strong management, information systems, and accounting processes,
 - (Ç) Internal system and its units, which will assure the compliance of the activities with this Law, other laws, regulations, internal regulations, and banking principles,
- (2) Central Bank is authorized to determine the appointment conditions for those who will work in the internal system units established in banks and/or subject the appointments to these positions to approval.
- (3) Central Bank shall issue a notification to regulate the procedures and principles regarding the issues specified in the following subparagraphs.
- (A) The units that are responsible for the establishment of internal systems and the establishment and management of internal system units.
 - (B) Duties, authorities, and responsibilities of the board, chairman, and senior management.
 - (C) Qualifications, duties, authorities, and responsibilities of members responsible for internal systems and the personnel of internal system units.

- (Ç) Purpose, scope, and activities of internal systems.
 - (D) Purpose of risk management and the establishment of risk measurement methods.
 - (E) Determination of application procedures and principles based on risks.
 - (F) The scope and principles of corporate governance.
 - (G) Banks' responsibilities on reports, documents, disclosure, and reporting.
 - (H) Internal capital adequacy assessment process.
 - (I) Good practice guidelines on risk management and valuation as well as methods, testing, valuation, and practices including information security, penetration testing.
 - (İ) Related issues and obligations to be determined by the Central Bank under this article.
- (4) Banks are obliged to maintain sufficient, effective internal capital in line with their strategies for the nature, distribution, and level of risks they assumed.

Rules Regarding the Senior Managers

18. (1) Persons to be employed in the senior management of banks shall have the qualifications mentioned in paragraph (1) of Article 6 of this Law. Persons who no longer have these qualifications must voluntarily resign or be dismissed within the same business day.
- (2) It is obligatory to obtain approval from the Central Bank before starting the duty in the senior management.
- (3) Persons in senior management are obliged to make a declaration of property before they are appointed to the position and during the time that they perform their duties. The procedures and principles regarding the declaration of property shall be regulated by a notification to be issued by the Central Bank.
- (4) In the event that the senior management leaves the office, the bank and the employee leaving the office shall notify the reasons for leaving the office to the Central Bank within ten working days, except the force majeure, from the date of leaving the office. Persons who have not provided notification within the specified period shall not be assigned to a position subject to the approval of the Central Bank during the three months following their resignation. Central Bank may extend this period for another three months.

Board of Directors of the Banks

19. (1) The Board of directors of the banks shall be responsible for the safe conduct of bank activities within the framework of corporate governance principles and compliance with applicable laws and other regulations. The board of the bank may delegate its authorities for the execution of its activities to the committees or general directorate to be formed.

However, such delegation shall not remove the responsibility of the bank's board of directors.

- (2) The Board of directors of the banks established in the Turkish Republic of Northern Cyprus shall consist of at least five people.
- (3) The chairman of the board of directors of the banks established in the Turkish Republic of Northern Cyprus and those who will be responsible for the internal systems and in any case the absolute majority of the board members shall have at least undergraduate degrees in the disciplines of economics, business administration, finance, accounting, banking, international relations, public administration, law, statistics, management engineering, mathematics and those that have undergraduate degrees in other fields shall have a graduate degree in the aforementioned fields, and they shall have at least ten years of professional experience including five years of management in the field of banking.
- (4) Central Bank may ask the members of the board, who are responsible for internal systems and similarly more specific responsibilities, to have more specific qualifications in order to be appointed to these positions, in order to maintain their impartiality as well as their education and experience.
- (5) Board decisions of the banks established in the Turkish Republic of Northern Cyprus shall be recorded in the minute book by specifying the date and sequence number without causing any doubt, and they shall be signed thereof. Approved copies of the board decisions regarding the branch banks' branches in the Turkish Republic of Northern Cyprus shall be obtained within one month and kept in a separate decision book. It is obligatory that the decisions taken are recorded in the Turkish language and the official minute books shall be kept in the general directorate of the banks.
- (6) Branch banks constitute a board of managers who carry the powers and responsibilities of the board of directors, except for the internal systems of their branches in the Turkish Republic of Northern Cyprus, provided that they comply with the conditions stipulated in this Law regarding the board of directors of banks established in the Turkish Republic of Northern Cyprus.

Organization of the
General Management

20. (1) (A) The banks are obliged to form a general management organisation in proportion to the nature, complexity, volume, and size of their activities.
- (B) Branch banks are obliged to establish a separate country directorate or a headquarter covering their branches in the Turkish Republic of Northern Cyprus.
- (C) Except for those who serve only as a board member, all managers shall be resident in the country and perform their duties at the bank on a full-time basis.

- (2) The general manager of a bank must have at least undergraduate degrees in the disciplines of economics, business administration, finance, accounting, banking, international relations, public administration, law, statistics, management engineering, mathematics and those that have undergraduate degrees in other fields must have a graduate degree in the aforementioned fields, and they must have at least ten years of professional experience including five years of management in the field of banking.
- (3) Assistant general manager of a bank must have at least undergraduate degrees in the disciplines of economics, business administration, finance, accounting, banking, international relations, public administration, law, statistics, management engineering, mathematics and those that have undergraduate degrees in other fields must have a graduate degree in the aforementioned fields, and they must have at least ten years of professional experience including five years of management in the field of banking.
- (4) The general manager of the banks established in the Turkish Republic of Northern Cyprus is a member of the board of directors within the framework of paragraph (2) of Article 19 of this Law.

However, the general manager cannot act as the chairman of the board or a member responsible for internal systems.

- (5) Except for the general manager, those who are assigned as bank personnel cannot be on the board of directors.

Other Rules for the
Personnel

21. (1) Central Bank is authorised to determine the conditions for the appointments in accordance with the nature of managerial and/or auditing duties that have strategic importance in carrying out the essential work of the bank, and/or to subject these appointments to approval, in accordance with the international and sectorial developments.
- (2) (A) The signing authority of the bank employees who are determined to have violated this Law, other relevant legislative rules and the decisions taken by the Central Bank or to have endangered the safe operation of the bank shall be temporarily removed by the bank upon the request of the Central Bank until the investigation or legal process is concluded.
- (B) Bank employees whose signing authority has been revoked under subparagraph (A) above shall not be employed in any bank as an employee with signing authority without the approval of the Central Bank.

- (3) In the event that the decisions and operations of the board and credit committee chairs, members, general manager, deputy general managers, and employees with binding signatures are contrary to this Law and/or secondary legislation issued under this Law, and the competent courts decide that they have caused the bank's financial structure to weaken and/or liquidation of the bank, these persons shall be considered to have personal responsibility, limited to their benefits and the damages they cause to the bank. In the event that these decisions and transactions are made to provide benefit to the shareholders holding direct or indirect, separately or jointly the management and control of the bank and/or third persons and/or shareholders with direct or indirect management of the legal persons, the shareholders, natural and/or legal persons that obtain benefits shall be personally responsible for the benefits they obtain.
- (4) The rules of paragraph (3) of this Article shall not apply to bank managers in case the management and control of a bank are transferred to the Fund due to bank losses that spread to the entire banking sector based on systemic risk, provided that no violation of the legislation is detected by the Central Bank.

Authority to Issue
Notifications on
Corporate
Governance

22. The minimum requirements regarding the organizational structure, approvals to be given to appointments, appointment conditions, form and conditions of all kinds of supporting documents related to eligibility for designated positions, declarations to be received, letters of undertaking, official documents, financial notifications, documents obtained from abroad, updating information, processes of the declaration of assets and keeping the decision book specified in this Part of this Law, the terms and conditions of these and the relevant issues including the exceptions, if any, and the obligations related to this issue, and their procedures and principles shall be regulated by a Notification to be issued by the Central Bank.

PART FOUR Operating Principles and Obligations

Subject of Activity

23. (1) (A) Banks are obliged to carry out their activities in accordance with this Law, other relevant legislation, and decisions taken by the Central Bank.
- (B) Cooperatives, which hold an operating license and use the business title of a bank are exclusively subject to the rules of this Law in terms of banking, auditing, supervision, the activities they carry out, and their administrative affairs and structures.

- (2) Central Bank is authorized to determine the fields of activity of banks, to subject these activities to a license or to limit these activities. Banks may perform the following banking activities:
- (A) Accepting deposits,
 - (B) Accepting participation funds,
 - (C) Granting any sort of loan, either cash or non-cash,
 - (Ç) Carrying out any type of payment and collection transactions, including cash and deposit payment and fund transfer transactions, correspondent bank transactions, or use of check accounts.,
 - (D) Purchasing transactions of checks or other commercial bills,
 - (E) Safe-keeping services,
 - (F) Issuing payment instruments such as credit cards, bank cards, and traveler's checks, and executing relevant activities,
 - (G) Carrying out foreign exchange transactions, trading of money market instruments, trading of precious metals and stones and their safe-keeping,
 - (H) Trading and intermediation of forward, future, and option contracts, simple or complex financial instruments which involve multiple derivative instruments, based on economic and financial indicators, capital market instruments, goods, precious metals, and foreign exchange,
 - (I) Purchase and sale of capital market instruments and repurchasing or re-sale commitments,
 - (İ) Intermediation for issuance or a public offering of capital market instruments,
 - (J) Transactions for trading previously issued capital market instruments for intermediation purposes,
 - (K) Guarantee transactions like assuming guarantees and other liabilities in favour of other persons,
 - (L) Investment counselling services,
 - (M) Portfolio management,
 - (N) Factoring and forfeiting transactions,
 - (O) Intermediating fund purchase-sale transactions in the inter-bank market,
 - (Ö) Financial leasing services,
 - (P) Insurance agency and individual private pension fund services,
 - (R) Hire-purchase financing transactions, and
 - (S) Other activities to be determined by the Central Bank.
- (3) (A) Deposit banks shall not be engaged in activities cited in subparagraphs (B) and (Ö) of paragraph (2),
- (B) Participation banks shall not be engaged in activities cited in subparagraph (A),

- (C) Development and investment banks shall not be engaged in activities cited in subparagraphs (A) and (B).
 - (4) (A) Development and investment banks operating under this Law, are subject to the rules of other articles except for Articles 25, 35, 36, and paragraphs (1), (2) and (3) of Article 41 and Article 63 of this Law.
 - (B) Development and investment banks that fulfil the duties assigned to them by their special laws are subject to the rules of other articles except for Articles 6, 7, 11, 12, 14, 25, 35, 36 and paragraphs (1), (2) and (3) of Article 41 and Article 45, 63 and 64 of this Law.
- Operation Fee 24. (1) Banks shall deposit the operation fee of twenty times the effective monthly minimum wage as of the end of the previous year in the Treasury Account at the Central Bank until the end of January every year.
- (2) The operation fee for the year in which the operating license was obtained shall be paid within one month from the date of the license.
- (3) The operating license of the banks, which do not pay the operation fee without any excuse and do not fulfil this obligation despite the additional period given by the Central Bank, shall be cancelled and action shall be taken according to subparagraph (Ç) of paragraph (1) of Article 64 of this Law.
- Rules for Goods and Services 25. (1) Banks shall not acquire goods other than their needs, and involve with goods trade, except for transactions that are exempted by the Central Bank.
- (2) The rules for banks to acquire goods or services for their needs and/or to acquire goods in return for receivables and/or to dispose of their assets shall be determined by the Central Bank, taking into account the market conditions.
- (3) The net balance sheet value of fixed assets of deposit banks and participation banks shall not exceed 50% (fifty percent) of bank equities.
- (4) (A) Transactions executed on real estate and commodities due to leasing transactions made by deposit banks and real estate, hardware or commodity procurement, profit and loss partnerships, financing through joint investments, and similar banking services offered to customers by participation banks shall not be considered as contrary to the rules of this Article.

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(B) Sales transactions made by the deposit banks and participation banks regarding the disposal of the real estate they had to obtain in return for their receivables shall not be considered within the scope of professional sales under the Law on Real Estate Agents' Registration and Transactions.

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(5) Regardless of whether it is registered as a foreign company or a local company, real estate acquisitions to be obtained in return for their receivables under this Article by the bank branches and subsidiaries that are banks operating in the Turkish Republic of Northern Cyprus owned by foreign banks or foreign persons are not subject to the permission of the Council of Ministers and restrictions on the acquisition of immovable property, which are sought under the Law on Acquisition and Long Term Lease (Foreigners).

However, if the real estate obtained in this way is intended to be added to its fixed assets, the entire legal process required by the Law on Real Estate Acquisition and Long Term Lease (Foreigners) shall be completed along with the approval of the Central Bank.

(6) Central Bank, shall issue a Notification setting out the procedures and principles, including purpose, scope, recognition, upper and lower ratios, the duration, if any, exceptions, on a solo and/or consolidated basis, or limitations and obligations related to this issue to determine the general rules and exceptions regarding the purchase and sale of goods and/or services, and the special rules regarding the transactions related to the purchase and sale of goods and services with persons and employees in the bank risk group and people who constitute a risk group with these persons.

Record Keeping

26. Banks are obliged to store the originals of the documents on banking or their unquestionable copies or replications in a way that it can be submitted upon request for at least twelve years. The procedures and principles on the issue, including the document storage medium, shall be regulated by a Notification to be issued by the Central Bank.

Prohibitions
Regarding
Confidentiality,
Broadcasting, and
News

27. (1) Regardless of their titles and duties and/or whether they work at the relevant bank, those who come to know the secrets of banks or their customers cannot reveal these secrets to anyone other than those who are explicitly authorized. The obligations of these persons shall continue after their titles and duties have ended.

(2) Personnel of the Central Bank cannot disclose the confidential information they have obtained as a result of their duties, to anyone other than those who are explicitly authorized.

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- (3) Any matter that could affect trust in the banking system and/or in the banks or cause damage to their reputation or wealth shall not be intentionally created or no false news shall be disseminated in this way and/or published in any way. All kinds of print, voice broadcasting as well as radio, television, video, internet, cablecast or electronic information communication tools, social media, and similar broadcast media shall be reviewed within the framework of this Article.
- (4) Giving information and documents, which belong to the banks or their customers, shall not be considered as a disclosure of secrets, in the following cases:
 - (A) It is required by law,
 - (B) It is required to be disclosed as a public statement,
 - (C) The information and documents are disclosed upon the official, written request of the TRNC Police Headquarters, in the scope of judicial investigation,
 - (Ç) The information and documents are disclosed during judicial proceedings or by court order,
 - (D) The information and documents are given to the authorised bodies under the scope of the Law on the Prevention of Laundering Crime Revenues,
 - (E) The information and documents are exchanged through the Central Bank of the TRNC Risk Centre and/or credit reference agency, provided that it is limited to the purposes of credit evaluation,
 - (F) The natural person declares his bankruptcy or the legal person customer is liquidated.

Protection of
Customer Rights

- 28. (1) Banks are obliged to,
 - (A) Inform their customers about the services they provide in a timely, accurate, complete, and understandable manner,
 - (B) Submit a copy of all kinds of documents related to all transactions carried out with the customer upon request,
 - (C) Follow the banking service rules to be determined by the Central Bank, and
 - (Ç) Inform clearly about the costs to be requested from the customer, including the customers who are personal guarantors, and not to ask for any explicitly undisclosed expenses during the opening of an account and/or the granting a loan.
- (2) Central Bank may,
 - (A) Introduce various criteria, standards, and limitations to banks on their qualifications, to ensure that the services offered in a transparent, comparable, understandable, and accessible manner,

	<p>(B) Require banks to publish all kinds of pricing correctly and understandably.</p> <p>(3) The procedures and principles regarding the calculation and publication of the reference interest rate and annual cost rate shall be determined by the Central Bank.</p> <p>(4) The purpose, shape, form, duration, scope, basis, element, nature, calculation, interest rate announcement, recognition, setting limits, the method of declaration, criteria for de facto applications on a solo and/or consolidated basis, the rules regarding the provision of services including both physical and virtual environments, relevant issues, including the exceptions, if any, and the obligations related to this issue, shall be regulated by a Notification to be issued by the Central Bank.</p>
Identification and Documentation	29. Banks shall identify and document the identities of those who make transactions on their own or others' behalf for any services they directly offer or mediate.
Limitations on Donations and Grants	30. The amount of donations and grants that can be made by banks in a fiscal year cannot exceed 0.4% (four per mille) of the bank's equity in December of the previous year.
Authority to Issue Notifications on Operating Principles and Obligations	31. Certifying documents to be requested for the implementation of the rules in this part of this Law, all kinds of financial statements, solo and/or consolidated rate determination and evaluations, letters of undertaking, minutes, official documents and their form of notice, rules regarding the storage of documents and the relevant matters, including liabilities, shall be regulated by a Notification to be issued by the Central Bank.

PART FIVE

Deposits and Participation Funds

Authority to Accept Deposits or Participation Funds	<p>32. (1) According to the rules of this Law, except for authorized deposit banks and participation banks, no real or legal person shall accept deposits or participation funds, and shall not use the word 'bank' or the words or phrases creating the impression that they accept deposits or participation funds in their trade titles and public disclosures, advertisements, and promotions.</p> <p>(2) Giving receipts, participation certificates, bonds and similar documents instead of bankbooks in exchange for accepted funds does not prevent the funds received to be classified as accepting of deposits or participation funds.</p> <p>(3) The rules of paragraph (1) of this Article shall not apply to foreign bank advertisements in newspapers, magazines, and similar publications of foreign origin.</p>
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Transactions Not Classified as Deposits or Participation Funds	33.	(1)	According to the rules of this Law, funds that are established for savings, contingency fund purposes, and providing assistance by official and private institutions only for their own employees and the funds that cooperative companies will collect only from their members, shall not be classified as deposit or participation funds.
		(2)	Central Bank is authorized to include any transaction within the scope of the transactions, which are not considered a deposit or participation fund when deemed necessary, upon the decision of the executive board.
Authority to Accept Deposits or Participation Funds on Behalf of Foreign Branches and Establishments	34.	(1)	Banks shall not accept deposits or participation funds from resident individuals, on behalf of their foreign branches, headquarters, and companies or other foreign banks or non-bank financial institutions.
		(2)	Banks that employ personnel to collect deposits or participation funds on behalf of their branches, headquarters, and companies abroad or other banks or non-bank financial institutions, direct customers to these institutions, or issue documents are considered to have accepted unauthorized deposit or participation fund.
Withdrawal of Deposits or Participation Funds	35.	Without prejudice to the relevant legislative rules in force, the right of deposit or participation fund holders to withdraw their deposit or participation funds at any time cannot be restricted. However, the agreed conditions between deposit or notice deposit or participation fund owners and the bank regarding the maturity and notice period, and the deposits or participation funds that the deposit or participation fund owners have blocked with their consent shall be reserved.	
Prescription	36.	(1)	(A) Starting from the date of the last claim, transaction, or any written instruction of the right holder, the deposit, participation fund, trust, and receivables at the banks prescribe, if not sought within ten years. (B) Those, whose amount of deposits, participation funds, trust, and receivables, which have prescribed under subparagraph (A) above, exceeds 10% (ten percent) of the monthly minimum wage in effect as of December of the previous year shall be notified by a letter to the current addresses of depositors within fifteen days after the end of the prescription period and the accounts not sought shall be transferred to the Central Bank with a table to be drawn up by banks within six months from the beginning of the calendar year following the prescription period, showing the names, identification numbers, addresses and interest amount of their rights.

- (C) Central Bank shall declare the amounts exceeding 10% (ten percent) of the monthly minimum wage in force as of the end of December of the previous year in the Official Gazette.
- (2) According to subparagraph (B) above, deposits, participation funds, trust, and receivables transferred to the Central Bank, of which amount does not exceed 10% of the monthly minimum wage in effect as of December of the previous year, shall be transferred to the Fund by the Central Bank and recorded as income by the Fund.
- (3) Deposits, participation funds, trust, and receivables that are not sought by the owner or their heirs within one year from the date of their publication in the Official Gazette under subparagraph (C) of paragraph (1) above, they shall be transferred to the Fund recorded as income by the Fund.
- (4) The prescription period begins for minors, starting from the date they are of legal age.

Authority to Issue
Notification on
Deposits and
Participation Funds

37. The scope of the deposits and participation funds, their types, maturity segments, classification, documentation, the announcement of interest rates, announcement and transfer process for prescribed funds, their recognition, exceptions, if any, and the procedures and principles regarding related issues, including obligations regarding this issue, shall be regulated by a Notification to be issued by the Central Bank.

PART SIX

Risks Taken by Banks

Risk Definition and
Risk-taking
Principles

38. (1) In the calculation of the risks taken by the banks, the risks taken due to all kinds of cash and non-cash liabilities, and all kinds of financing and investments shall be taken into consideration. In this context, the following accounts are considered as risks irrespective of the accounts they are booked:
- (A) The cash loans and non-cash loans such as letters of guarantee, counter-guarantees, suretyships, avals, endorsements, acceptance loans and commitments bearing such characteristics, bonds and similar capital market instruments that have been purchased, funds lent through making a deposit or other ways, receivables arising from the instalment sales of assets; overdue cash loans, accrued but non-collected interests, values of non-cash loans that have been converted to cash, receivables incurred from reverse repurchasing transactions, risks taken within the scope of futures and option contracts and other similar contracts, partnership shares.

- (B) Financing provided by development and investment banks through financial leasing, and profit and loss partnership investments by paying the prices of movable and immovable goods and services of participation banks, and financing provided by real estate, equipment or commodity supply, financial leasing, financing commodity against document, joint investments or similar methods.
 - (C) Transactions classified as a risk by the Central Bank.
- (2) Banks are obliged to form prudent and effective policies on risk-taking and monitoring of the risks taken and to develop processes and apply them.
- (3) Central Bank may,
- (A) Set various criteria and thresholds to identify the types of risks, define them correctly, and create a uniformity in the sector.
 - (B) Set criteria including minimum collateral, maximum risk-taking rate, duration, and the amount for the risks to be taken, based on their types.
 - (C) Determine the types of collaterals, all the conditions, features, rates of coverage, acceptance, and conditions of consideration, in accordance with this Law.
- Authority to Take Risks 39. (1) (A) The authority of banks to take risks shall be given by the bank's board of directors.
- (B) The bank's board of directors may delegate its authority stated in subparagraph (A) above, except those taken in favour of the risk group that the bank is included, to the committees or general directorate to be established in accordance with the principles determined by the bank.
- (2) Those who are authorized to take risks on behalf of the Bank shall not take part in the evaluation and decision-making processes regarding risk-taking on behalf of themselves or those who form a risk group.
- Risk Groups 40. (1) A natural person and his spouse and children, the undertakings where they are the board members or general manager or the undertakings which they or a legal person control jointly or separately, directly or indirectly or participate with qualified shares, constitute a risk group.
- (2) A bank and this bank's qualified shareholders, board members, and general manager, and the partnerships or corporations controlled by them directly or indirectly, jointly or separately, or participated by them or served by them as a board member or as general manager constitute the risk group of that bank.

- (3) For the implementation of this Article, the natural and legal persons, who have a guarantee, collateral, surety, or similar relationships, which may cause one's difficulty of payment as a result of other's difficulty of payment, shall be included in the relevant risk groups.
- (4) The procedures and principles, including exceptions and conditions and rules, ratios, qualifications, procedures, and liabilities related to this matter, which can be applied under this Article, shall be regulated by the Notification to be issued by the Central Bank.

Risk-Taking Limits

- 41. (1) The total risk that banks will take in favour of a risk group shall not exceed 25% (twenty-five percent) of the bank's equity. This rate shall be applied as 20% (twenty percent) for the risk group that the bank is included. This ratio shall not exceed 100% (one hundred percent) of total equity for the risks under the treasure guarantee.
- (2) Risks of a risk group above 10% (ten percent) of the bank's equity are considered as major risks. The sum of major risks shall not exceed eight times the bank's equity.
- (3) The share of banks in a company other than financial institutions shall not exceed 15% (fifteen percent) of their equity, and the total of their shares in such companies shall not exceed 60% (sixty percent) of their equity.
- (4) Banks shall not directly or indirectly hold shares in institutions that directly or indirectly have shares in them, they cannot accept the shares of these institutions as securities and cannot give advances in return.
- (5) Banks shall not sell their shares and give them as security to the companies and organizations they associate with under any circumstances.
- (6) Banks shall set risk limits that comply with their legal limits and their structures and, they shall avoid risk concentration.
- (7) Central Bank is authorized to determine more cautious risk limits than the limits specified in this Article based on the sector, the bank, and the risk group, by examining the liquidity, liabilities, and asset quality of the banks or the sector, and it is authorized to limit the transactions it deems necessary.
- (8) Banks shall rate the risks they take, analyse the financial strength of the counterparty, prepare and regularly monitor reports in accordance with the rules set by the Central Bank, provide the necessary information and documents, including the financial tables, and determine the relevant principles. In this context, banks shall obtain the information and documents requested in a consolidated and unconsolidated manner from customers.

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- (9) The transactions specified in the following subparagraphs shall not be subject to the limitations set in this Article.

However, by taking into consideration the counterparty, and concentration, and similar risks related to these, the Central Bank may set an upper limit on the basis of transactions, risk groups, and sectors parallel to bank equities.

- (A) Transactions, of which cash reserves comply with Article 44 of this Law and, blocked account transactions.
- (B) Increases in risks caused by exchange rate changes within the framework of the conditions and criteria to be determined by the Central Bank.
- (C) Transactions made in the markets of the Central Bank and the bank in question.
- (Ç) Transactions, which are taken into account as a deductible value in the equity account.
- (D) Other transactions within the ratio, duration, procedures, and principles to be determined by the Central Bank.
- (10) Non-cash loans, futures, and option contracts and other similar contracts, avals, guarantees and sureties, transactions carried out with financial institutions, transactions carried out with central governments, central banks and banks of countries to be accepted by the Central Bank, or bills, bonds and similar capital market instruments issued or guaranteed by these, consideration rate of the transactions made against other guarantees given, their procedures, and the procedures and principles regarding related issues, including obligations, shall be regulated by a Notification to be issued by the Central Bank.

Risks Taken in
Favour of the Bank's
Risk Group and
Employees

42. (1) Approval of the absolute majority of the total number of members of the bank's board of directors is required in order to take risks in favour of those in the bank's risk group.
- (2) Except for the persons in the risk group of the bank, the total unsecured risk that senior management or other employees and their risk groups can take in favour of the employees shall not exceed twelve times the monthly net salary of the employees.
- In the application of this paragraph, a personal surety is not considered a guarantee.
- (3) It is essential that the conditions of the risks taken by the bank in favour of those in the bank's risk group and their employees, and those who constitute the risk group, are not in an advantageous position than those undertaken in favour of other people and groups.

Provisions

43. (1) (A) Banks shall establish and implement policies regarding the provision of a sufficient amount to meet the losses or depreciation that have arisen or are likely to arise and to establish and operate the necessary structures that will ensure the execution of all these issues.
- (B) Banks shall notify the Central Bank of the changes they will make in their provision policies, within a plan that will include the justification and implementation periods, at the latest by the end of January of the fiscal year in which the change will be implemented.
- (C) The banks may change their provision policies of the current fiscal year upon the written approval of the Central Bank.
- (2) In accordance with the rules of this Article, special provisions allocated for non-performing loans are considered as an expense in the determination of the corporate tax base in the year they are reserved.
- (3) Central Bank may differentiate on the basis of bank, transaction or risk group, on the basis of the bank's general condition, financial structure, asset quality, and risk policies, together or one of these, in the calculation of general and special provision rates and the rate of taking into consideration the guarantees in the calculation of special provisions.
- (4) Central Bank shall issue a notification determining the procedures and principles regarding the relevant issues including the matters to be considered in the classification of loans and other receivables, non-performing loans and other receivables on a solo and/or consolidated basis, general provisions, special provisions, and rates, guarantees, considering guarantees in the calculation of special provisions, restructuring of loans and other receivables, reporting, valuation, exceptions, accounting, monitoring, funds and other receivables provided by participation banks, various sectors, risk types, different applications according to conditions such as country and transaction and including obligations related to this issue.

Authority to Issue
Notifications on
Risks Taken by
Banks

44. In this Part of this Law, matters to be considered in risk groupings regarding the definition of risk, its scope, qualifications, and the implementation of the rules regarding the risks taken by banks, types of risks, guarantees, specifically regulated risks, limitations related to these, risk taking principles, authority and transfer of risk taking, the formation and working principles of committees, obtaining a certificate of account status, documents to be accepted as account status, auditing of account status documents, rating, qualifications, reports, opinions of persons and/or organizations that can conduct audit, the ratios of taking into account the risk limits, the limitations on the risks, the calculation of the risk limits on a consolidated basis, the rate of taking into consideration the transactions related to central governments, central banks and credit institutions of foreign countries, transactions of banks, whose headquarters or branches are located abroad with their headquarters and other branches abroad, transactions that are not subject to risk limits or are not subject to certain rates, periods and limits, transactions and accounts considered risk, lower and upper restrictions on collaterals, the upper limit for condensation, rules regarding the arrangement of blocks, terms of form and validity, monitoring risk limits, limit overdrafts, financing methods by banks, the procedures and principles regarding the related issues including their recognition, exceptions and liabilities related to this subject shall be regulated by a notification to be issued by the Central Bank.

PART SEVEN
Preventive Regulations

Equity

45. (1) (A) Bank equities shall be calculated as determined by the Central Bank, taking into account international standards.
- (B) Central Banks shall issue a Notification setting out the procedures and principles regarding the relevant issues including which name and type of accounts on a solo and/or consolidated basis will be included in the equity calculation as to what rate of core capital, additional Tier I capital and Tier II capital, or will be a deduction item from the capital, and subordinated loans in which conditions, duration, and rate can be regarded as equity, in addition to the minimum matters regarding when they can be deleted from accounts or turn into shares, their recognition, exceptions if any, sub regulations for the details of the calculations.
- (2) (A) Bank equity shall not fall below the minimum capital specified in paragraph (3) of Article 7 of this Law, provided that the provisions of paragraph (1) above are reserved.

- (B) In the event that the banks falling below the minimum capital, fail to improve their situation within one month, provided that the precautions, sanctions, and penalty rules to be applied are reserved, the activities listed in Article 23 of this Law may be banned by the Central Bank.
 - (3) Banks shall comply with all measures, including the approval of the distribution of the profit to be received by the Central Bank for the protection and strengthening of equity, and provision for possible losses from annual profit.
 - (4) Capital increases and decreases are subject to the approval of the Central Bank. Capital increases shall be paid in cash, without using loans or bank internal resources, excluding any allowance, except for the resources allowed in this Law and the Notifications to be issued under this Law. Unapproved increases are not taken into account in the equity account.
 - (5) Central Bank is authorized to decide whether the risks found to be taken against the rules of this Law should be taken into consideration as a discount item in the equity account of the relevant bank or to require additional equity as the same amount of these risks.
- Banks' Liabilities Concerning the Exposed Risks
46. (1) (A) Banks shall keep sufficient equity against losses that may occur due to the exposed risks and to comply with the capital adequacy ratios not less than 10% (ten percent), to be determined by the Central Bank.
- (B) In accordance with subparagraph (A) above, the Central Bank shall issue a Notification for the purpose of determining solo and/or consolidated credit risk, market risk, operational risk, and other risks in accordance with international rules, determining their measurement models, making sub-regulations for the determined models and their sub calculations and risks by setting out procedures and principles, including their recognition, exceptions, and liabilities related to this issue.
- (2) Banks shall comply with the leverage ratio determined by the Central Bank to keep sufficient capital against possible risks exposed due to the leverage effect.
- (3) Central Bank shall issue a Notification determining the procedures and principles, including the calculation of the additional Tier I capital amount that should be kept by banks as a capital conservation buffer and a countercyclical capital buffer, and actions to be taken in case the additional Tier I capital requirement is not met, the measures to be taken and related liabilities.

- (4) Banks shall measure the interest rate risk arising from their in-balance sheet and off-balance sheet positions in their banking accounts within the scope of methods determined by the Central Bank.
- Liquidity Adequacy 47. (1) Banks shall keep sufficient liquid assets to meet their liabilities on time and comply with the liquidity ratios to be determined by the Central Bank.
- (2) In accordance with paragraph (1) above, Central Bank shall measure the solo and/or consolidated liquidity level, determine the liquidity coverage ratio, measure the liquid assets and stocks by separating them according to their qualities, and calculate the net cash outflow and calculation. The procedures and principles, including classifying debts and liabilities, making the necessary sub-regulations for these, rates, reports, recognition, exceptions, and related obligations, shall be regulated by a Notification to be issued by the Central Bank.
- Authority to Determine Obligations 48. (1) (A) Central Bank is authorized to make the necessary regulations and to take all kinds of measures for the purpose of determining, monitoring, measuring, and evaluating the relationship and balance between banks' assets, receivables, equities, debts, liabilities and commitments, income and expenses, and all other factors affecting the financial structure and the risks exposed by specifying limitations and standard rates.
- (B) Banks shall comply with the regulations made, follow and maintain limits and standard rates, and take and implement the measures required by the Central Bank within the specified periods.
- (2) (A) Central Bank is authorized to establish a more prudent rate or limit different than the minimum or maximum standard rates and limits set forth in this Law for each bank or bank group or their activity and to change the periods of calculation and notification, or to set rates and limits that are not determined in general.
- (B) In the event that the limitations and thresholds for standard rates within the scope of this Law are reached or exceeded, the relevant bank shall notify the Central Bank on the first working day following the situation, at the latest.

Authority to Issue
Notifications on
Preventive
Regulations

49. In this Part of this Law, regarding the enforcement of preventive regulations, solo and/or consolidated capital protection and countercyclical capital buffers, additional Tier I capital, capital conservation buffer rate, core capital, additional core capital calculation, rates, limitations, capital conservation plan, restrictions on profit distribution, measures, calculation methods, leverage ratio, consolidated leverage ratio, calculation of interest rate ratio and risks, non-compliance with proportional restrictions, net position amount, discount base rate, discount rate, banking accounts, net position amount, equity, notification method of these, changing these rates on a bank basis, their recognition, exceptions, if any, and the procedures and principles regarding obligations related to this issue shall be regulated by a Notification to be issued by the Central Bank.

PART EIGHT

Financial Records and Reporting

Accounting System

50. Banks cannot make unrecorded transactions and complete the recognition process in a manner not conforming to their nature. Banks are obliged to comply with the accounting standards and the chart of accounts as determined by the Central Bank and to keep the accounting records of all transactions accurately, on time, completely and correctly.

Preparation
of
Financial Reports

51. Banks shall organize their financial reports in a format and content that can serve the purpose to obtain information, understandable, reliable, comparable, suitable for auditing, analysis, and interpretation, in a timely, complete, and accurate manner.

Submittal and
Announcement of
Financial Reports

52. The reports determined by the Central Bank among the financial reports issued by banks shall be signed by the members of the board and/or managers of the related bank after approving their compliance with the regulations on financial reporting and accounting records and/or these reports shall be subject to independent audit and/or submitted to the Central Bank and/or announced to the public, in accordance with the specified requirements and determined periods. The procedures and principles to be applied under this Article shall be determined in the Notification to be issued under Article 53 of this Law.

Authority to Issue
Notifications on
Financial Reporting

53. In order to apply the rules on financial records and reporting in this Part of this Law, solo and/or consolidated chart of accounts, chart of accounts, accounting standards, accounts to be disclosed to the public, tables, footnotes, their form and time, periodic reports and the accounts to be included, the characteristics of the accounts, sub-regulations, follow-up, format, notification time, the form of notification, IT infrastructure, computer records, elements related to data sent electronically, their control and recognition, exceptions, if any, and the procedures and principles regarding liabilities related to this issue shall be regulated by a Notification to be issued by the Central Bank.

PART NINE

Supervision and Audit

Supervisory and
Auditing Authority

54. The supervision and audit activities regarding the implementation of this Law, other relevant legislative rules, and the decisions taken by the Central Bank by banks, and the transactions carried out by banks and the factors affecting the financial structure of banks and the risks they are exposed shall be conducted by the Central Bank.

Consolidated
Supervision and
Audit

55. (1) (A) Banks are subject to the consolidated supervision and audit of the Central Bank.
- (B) Banks and relevant companies that will be subject to consolidated supervision and audit shall be determined by the Central Bank, taking into account international standards.
- (C) Banks that are included in the scope of consolidated supervision and audit shall comply with the rules in this Law on a solo and consolidated basis.
- (2) The audit of banks established in the Turkish Republic of Northern Cyprus and companies subject to consolidated audit shall be carried out, if necessary, in collaboration with the Central Bank and the competent authorities for the supervision and/or audit of companies subject to consolidation.

Information Sharing
Regarding the Audit
of Foreign Branches
and Companies in
the Turkish Republic
of Northern Cyprus

56. (1) Sharing the information and documents of the branches and/or companies operating in the Turkish Republic of Northern Cyprus in accordance with the rules of this Law, with parent companies established in foreign countries and/or the authorities responsible for the supervision and audit of foreign countries, and/or the auditing of branches and/or companies operating in the Turkish Republic of Northern Cyprus in accordance with the rules of this Law by the parent companies established in foreign countries and/or the authorities responsible for the supervision and audit of foreign countries shall be subject to the permission of the Central Bank.

	(2)	Central Bank is authorized to involve in all kinds of cooperation and exchange all kinds of information within the framework of the contracts to be drawn with the competent authorities of foreign countries.
Obligation to Provide Information and/or Documents	57. (1)	Central Bank is authorized to request and/or examine all information and/or documents, even if they are confidential, that it deems necessary regarding the implementation of the rules of this Law from banks, branches and representation offices of banks, companies subject to consolidated audit, related institutions, public institutions and organizations, and other natural and legal persons.
	(2)	Under paragraph (1) above, those who have requested information and/or documents are obliged to provide the requested information and/or documents and/or keep them available for review if there is no legal obstacle.
Reporting Obligation	58. (1)	Banks and companies subject to consolidated audit shall submit any required reports and financial statements to the Central Bank on time, completely and accurately, to implement this Law, other relevant legislative rules and the decisions taken by the Central Bank, and to monitor the transactions carried out by the banks and the factors affecting the financial structure of the banks and the risks they are exposed to.
	(2)	The companies within the scope of paragraph (1) above are obliged to make their structures and systems ready, including their internal systems, and in compliance with the consolidated audit.
Liabilities of Audited Banks	59.	Banks and their companies, which are subject to consolidated audit shall provide all kinds of information and documents requested in a timely, complete and direct manner during the audits carried out by the Central Bank, and to provide any support requested for audit purposes.
Authority to Issue Notifications on Supervision and Audit	60.	Reports to be requested from banks subject to supervision an audit and companies subject to consolidated audit within the scope of this Part of this Law and the form, notification, recognition, exceptions, certifying documents, declarations, letters of undertaking of these reports, official documents, information and declarations, oaths and similar issues that can be requested within the framework of the supervision and audit activities of foreign organizations carried out in the Turkish Republic of Northern Cyprus, and the procedures and principles regarding the processes and obligations related to this issue shall be regulated by a Notification to be issued by the Central Bank.

PART TEN

Measures to be Taken As a Result of the Supervision and Audits

- Notifying the Bank's Management
61. In the event that one of the situations stated in the following paragraphs is detected in a bank as a result of the supervision and audit activities carried out by the Central Bank, the Central Bank may request from the board of directors of the bank to take and implement the necessary precautions and to eliminate the contradictions within the period it has determined not to exceed six months and without prejudice to the criminal proceedings to be carried out. This period can be extended up to twelve months by the Central Bank. The Bank shall take the measures requested by the Central Bank and notify the measures taken to the Central Bank within the given period.
- (1) Equities are insufficient for losses that may occur due to the risks exposed.
 - (2) The deterioration of asset quality in a way to weaken the financial structure.
 - (3) Their assets will potentially fail to meet their liabilities on the due date.
 - (4) Profitability is insufficient to carry out activities safely.
 - (5) Management's violation of corporate governance principles, failing to establish internal systems, or to operate these systems effectively and adequately.
 - (6) Risks that weaken its financial structure or jeopardize its activities to be carried out in a safe manner are significantly increased, or there are transactions of this nature.
 - (7) Failing to make the reporting requested by the Central Bank, making missing, delayed, or faulty reporting, or the existence of any matter, attempt or attitude that prevents supervision and audit, believing that incomplete and/or erroneous information or documents have been submitted in order to falsify or mislead the Central Bank regarding the activities or financial structure of the bank.
 - (8) Finding matters, transactions, or decisions in violation of this Law, other relevant legislation, and decisions taken by the Central Bank.
- Imposing Sanctions to the Bank
62. As a result of the supervision and audit activities carried out by the Central Bank, if it is determined that the measures requested to be taken in accordance with the rules of Article 61 of this Law are not taken within the given time or the problems cannot be solved despite the measures taken or that no result can be obtained even if these measures are taken, the Central Bank shall apply the sanctions specified in the following paragraphs to the bank and request the board of directors of the bank to eliminate the irregularities by taking and implementing the necessary measures within a period not exceeding twelve months.

- (1) The dismissal of some or all of the board members or the appointment of members by increasing the number of members, and the payment of the salaries of the board members to be appointed by the Fund or the relevant bank under this paragraph.
- (2) Restricting and temporarily suspending the activities under paragraph (2) of Article 23 of this Law, to cover its entire organization or domestic or foreign branches or its relations with correspondents, as required by their types of activities.
- (3) All kinds of limitations and restrictions on resource collection and making them available.
- (4) Disposing of their assets and ceasing of their investments.
- (5) Limiting or ceasing of expenses, including charges and other payments.
- (6) Amending the liabilities and/or determining additional liabilities, to which the Bank is subject to within the scope of this Law and other relevant legislation.
- (7) Limiting or ceasing the Central Bank's access to the transactions in which the Central Bank is an intermediary or a party and its access to the services it offers.
- (8) Taking all necessary measures to strengthen liquidity, including the disposal of fixed values such as subsidiaries and real estates.
- (9) Ceasing the distribution of profit, and all kinds of additional payments including bonuses, premiums, in-kind and in-cash benefits given to the executive board members, general manager, and assistant general managers.
- (10) Restriction or prohibition of the use of cash and non-cash loans to certain individuals, risk groups, or sectors.

Transfer of the Bank's Management to the Fund Without the Revocation of Operating License and Duties of the Fund

63. (1) In the event that one of the following conditions is determined in a bank established in the Turkish Republic of Northern Cyprus, it is authorized to transfer all rights granted by the share ownership, except for dividends, to the bank shareholders and the management and control of the bank to the Fund, with the approval of at least four members of the Executive Board of the Central Bank, provided that the share ownership remains with the current shareholders before the operating license of the bank is revoked.
 - (A) The sanctions specified in Article 62 of this Law do not comply or required measures are not taken within the given period or the issues cannot be solved despite the measures taken or it is determined that even if these measures are taken, no results can be obtained.
 - (B) The total value of its liabilities exceeds the total value of its assets.
 - (C) Failure to fulfil its liabilities at the due date.

- (2) In accordance with the paragraph above, the Fund, which has taken over the management and control is
 - (A) Authorized to transfer the assets and organization of the bank which it has taken over, and the bank's personnel who do not demand otherwise, and its savings deposits subject to insurance and provision items in liabilities, together with the accrued interests, provided that their total deposits do not exceed the average of the interest rates applied by the highest five banks as of the date of transfer to a bank to be established or to the willing ones among existing banks and/or to request the Central Bank to revoke its operating license. In case the sum of the transferred assets of the bank does not meet the total of the transferred liabilities, the difference shall be paid by the Fund.
 - (B) Authorized to take over the losses corresponding to the capital of the bank, provided that it does not exceed the deposit amount covered by the insurance and it owns all of the shares. The shares representing the provision for the payments to be made based on the transferred losses shall be transferred to the Fund without any further action.
 - (C) Paragraphs (3) and (4) of Article 64 of this Law shall not apply to the bank, to which the rules of subparagraph (A) of this paragraph are applied. In case a bank is liquidated as a result of the application of the rules of this Law, the Fund shall participate as a preferred creditor as much as the amount paid.
- (3) In the event that the controlling shareholders of the bank or the persons holding the management and control, directly or indirectly, use the resources of the bank directly or indirectly, in a way that jeopardizes the confident continuity of the bank's activities or fraudulently, in their favour or favour of others or if the board of directors and/or executives inflict damage on the bank or expose the bank to a loss due to decisions or actions contrary to this Law, other relevant legislation and Central Bank decisions or banking principles and practices, upon the approval of at least four members of the Executive Board of the Central Bank, the Bank is authorized to transfer all rights granted by the shareholders to the bank shareholders and the management and control of the bank to the Fund, except for the dividends, provided that the share ownership remains with the current shareholders without revoking the operating license of the bank.

- (A) Without prejudice to criminal prosecution, in the event that the bank resources used and/or made used as specified in this paragraph or the damage suffered by the bank are not returned or compensated within the period given by the Fund, the shares belonging to these shareholders shall be transferred to the Fund, regardless of the amount of such loss or the resources used.
- (B) The Fund is authorised to request the following from the bank, whose partnership rights excluding dividends and management and control have been transferred to it in accordance with the rules of this paragraph;
 - (a) To request the return or compensation of the resources used as specified in this paragraph or the damage they suffered within the period to be given and the transfer of the shares of these persons to persons deemed appropriate by the Central Bank,
 - (b) To request from persons who hold the management and control directly or indirectly, separately or jointly and/or natural person shareholders who own more than 10% (ten percent) of the capital of their shareholders and legal person shareholders to submit a declaration of property, indicating immovable property and affiliates, movable property, rights and receivables and securities belonging to themselves, their spouses and their children under custody, and all kinds of earnings and revenues and also the immovable property, movable property, rights, receivables and securities that they have acquired or transferred graciously or gratuitously within two years before the notification, and
 - (c) To request from the relevant court to take all kinds of protective measures necessary for the benefit of creditors, including interim injunction, precautionary attachment orders, and prohibiting those concerned from traveling abroad without seeking any guarantee on the assets of persons and/or shareholders who are in charge of the management and control directly or indirectly, separately or jointly.
- (ç) According to the rules specified in subparagraph (B) of this paragraph, the required statement of assets and liabilities shall be submitted to the Fund within seven days at the latest.

(4) The Fund shall use its authority regarding the bank whose shares have been transferred to it, in the following cases:

(A) Authorized to partially or completely transfer the assets and liabilities of a bank to a bank to be newly established or to interested banks, by providing financial and technical assistance where necessary, or to merge the bank with any other interested bank.

(B) In order to maintain the confidence and stability in the financial system, as limited to cases where deemed necessary by the Central Bank; it is authorized to increase its capital when necessary in order to strengthen and restructure its financial structure, to postpone or reduce legal provision liabilities by removing penal interest, to purchase affiliates, immovable and other assets; or to take them as guarantee and give advance in return, to take over its receivables and losses, to sell its assets and stocks to third parties with discounts or other means, to guarantee debts born and to be born that are determined to be based on a real transaction according to bank records, to provide cash bonds of all kinds of receivables and assets, as well as to have them bond in cash on behalf and account of the Fund through other banks, including those with public capital, within the framework of agreements to be made, and to take any measures it deems necessary or to apply the rules of subparagraph (A) of paragraph (2) of this Article.

The consent of creditors and debtors shall not be sought in transfer transactions.

(C) The Fund is authorized to take all necessary measures in the bank whose partnership rights excluding dividends, management, and control, to ensure the security of all the assets of the bank as well as its records and documents and to benefit from the assistance and support of public institutions, limited to this purpose. The Fund may also provide this support from private institutions within the framework of its agreements.

Revocation of
Operating License

64. (1) Central Bank is authorized to make decisions on the following issues with the approval of at least four members of the executive board:

and Duties of the
Fund

- (A) In addition to any of the situations listed in Article 63 of this Law, if it is determined that it is not possible to strengthen its financial structure and/or that the continuation of its activities poses a risk to the rights of the deposit or participation fund owners and the trust and stability of the financial system, it is authorized to revoke the operating license of the bank and transfer all rights and management and control to the Fund, except for the dividends granted by the share ownership to the bank shareholders, provided that the share ownership remains with the current shareholders.
- (B) According to Article 63 of this Law, the bank whose rights, management and control have been transferred to the Fund, except for the dividends given to the bank's shareholders, is authorized to revoke the operating license upon the request of the Fund.
- (C) In the event that any of the situations in Article 63 of this Law occur or the operating license is revoked in the country where its headquarters is located, or if it ceases to operate in the country where its headquarters is located without making the necessary notifications to the Central Bank, it is authorized to revoke the operating licenses of banks operating as branch banks and to transfer their management and control to the Fund.
- (Ç) In case any of the situations mentioned in subparagraph (Ç) of paragraph (2) of Article 12 and paragraph (3) of Article 24 of this Law occur, it is authorized to transfer all rights, management, and control of the share ownership granted to the bank shareholders, excluding dividends, to the Fund by revoking the operating license of the bank, provided that the share ownership remains with the current shareholders.

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(D) In the event that development and investment banks do not comply with the sanctions determined within the scope of Article 62 of this Law and/or do not take the required measures within the given period or the problems cannot be solved despite the measures taken or it is determined that these measures cannot be taken, the bank is authorized to cancel the operating license. Banks in this situation shall be liquidated according to the rules of the Company Law.

- (2) Upon the publication of the Central Bank's decision on the license revocation in the Official Gazette, any enforcement and bankruptcy proceedings, including precautionary measures against the bank, shall be ceased.
- (3) The Fund shall take measures to protect the rights of depositors and other creditors in the bank, of which management and control have been transferred to it. Upon the request of the Fund, a precautionary injunction or precautionary attachment may be imposed on the property, rights, and receivables of the relevant persons listed in Article 21 of this Law of the bank whose operating license has been revoked and/or cancelled and/or whose management and control has been transferred to the Fund, without seeking any guarantee condition by the court. The precautionary measures and precautionary warrant of distraint taken in this way shall automatically be repealed if they are not subject to litigation and enforcement and bankruptcy proceedings within six months from the date of the decision. As of the date of the revocation bank's operating license, the creditors of the bank shall neither transfer their receivables nor carry out any transactions that may result in the same way.
- (4) The Fund may request the liquidation of the bank instead of the depositors by paying the insured deposits in the bank whose management and control was transferred to it. This payment shall be made directly or through another bank to be announced. In the case of a liquidation decision, the Fund participates in the Liquidation Committee as a privileged creditor during liquidation procedures.
- (5) In cases where a liquidation decision is not made, the rules of Article 14 of this Law shall apply to the bank.

- (6) Central Bank decisions regarding the transfer of the shares of the banks or their partnership rights, excluding dividends, and the management and control of the banks to the Fund or the revocation and/or cancellation of operating licenses shall be published in the Official Gazette.
- Measures to Prevent Systemic Risk 65. (1) (A) In the event that Central Bank determines risks, which may affect the entire financial system, the Central Bank shall inform the Council of Ministers of the Turkish Republic of Northern Cyprus.
- (B) The Turkish Republic of Northern Cyprus Council of Ministers is authorized to determine extraordinary measures in consultation with the Central Bank, and all relevant institutions and organizations are obliged to implement these extraordinary measures immediately.
- (2) Central Bank shall issue a Notification that regulates the relevant procedures and principles regarding all these issues and transactions by determining the rules, obligations, and exceptions that will apply to the banks regarding the issues requiring precautionary measures.
- However, the Central Bank may announce the comprehensive measures planned for the urgent and/or timely transactions provided that they are published in the Official Gazette in the form and procedure to be determined together with their effective dates.

PART ELEVEN

Relevant Organisations

- Banks Association of Northern Cyprus 66. (1) Banks shall become a member of the Northern Cyprus Banks Association, which is a legal entity and a public institution.
- (2) Depending on the rules of this Law and the regulations of the Central Bank, the Banks Association of Northern Cyprus shall be responsible for the following issues:
- (A) To carry out studies for banks to work in accordance with the requirements of the banking profession and the needs of the economy and to improve the banking profession,
- (B) To determine the professional principles and standards to be followed by banks and/or their employees, and ethical rules and to take measures to ensure compliance,
- To follow the implementation of the sectoral measures
- (C) requested by the Central Bank to be taken by the banks,
- (Ç) To ensure cooperation between banks on joint projects by collaborating with the Central Bank, and
- (D) Taking and implementing all necessary measures to prevent unfair competition among its members.

- (3) The bodies, working principles, and scope of activities of the Banks Association of Northern Cyprus shall be indicated by a regulation that will be put into effect upon the decision of the Council of Ministers with the recommendation of the Ministry, taking into consideration the views of the Central Bank and the Banks Association of Northern Cyprus and be published in the Official Gazette.
- (4) The expenditures of the Banks Association of Northern Cyprus shall be distributed to the banks per the number of votes determined according to the Association's Principal Agreement and the Regulation. Banks shall deposit their expense shares within the period specified in the Principal Agreement and the Regulation.
- (5) (A) Banks shall comply with the decisions and measures to be taken by the Association's Principal Agreement and Regulation and the legislation implemented by the Banks Association of Northern Cyprus.
- (B) Access to activities carried out within the Banks Association of Northern Cyprus may be temporarily restricted by the decision of the Board of the Banks Association of Northern Cyprus.
- (6) (A) A reference agency can be established within the Banks Association of Northern Cyprus to collect and share risk information for credit risk monitoring and control. All transactions and records of this reference agency that can be established upon the approval of the Central Bank shall be confidential.

However, this information regarding the processes and formats approved by the Central Bank, can be shared with creditors and/or people relevant to the risks.
- (B) The credit reference agency shall be controlled by the Central Bank. The credit reference agency shall provide the Central Bank with all its information free of charge in the required format. Central Bank is authorized to determine the credit institutions that may share information with the credit reference agency.
- (7) The association may establish a support service organization that will reduce the operating costs of banks, enable them to operate in a more transparent and low-risk environment, and be partners with organizations established for this purpose, to ensure that the sector operates in a more efficient environment.

Independent
Audit Firms and
Real Estate
Appraisal Firms

67. (1) (A) Independent audit and real estate appraisal operations of banks shall be carried out by individuals and/or institutions to be authorized by the Central Bank.
- (B) Audit of banks' information systems and banking processes are reviewed under this Article.

- (2) Individuals and/or institutions that have independent audit authority in banks shall take into account the information system and banking processes of the bank and exercise due professional care in order to reflect the real financial situation of the bank in their reports.
- (3) Individuals and/or institutions that conduct independent audits in banks shall send their reports to the Central Bank.
- (4) (A) Individuals and/or institutions that have obtained independent audit authorization shall notify the Central Bank during the audit, on the same working day, in the event that they find issues showing that this Law and/or the regulations that banks are obliged to comply with have been violated.
- (B) The notification made under subparagraph (A) above does not imply a violation of professional confidentiality principles and agreements or obligations related to banking secrecy.
- (5) Individuals and/or institutions that have obtained independent audit authorization shall be responsible for damages to third parties, in the event that their reports are false.
- (6) Individuals and/or institutions that have obtained real estate appraisal authorization shall be responsible for damages to banks and/or third parties, in the event that their reports are false.

Support Service
Companies

- 68. (1) Support services to be outsourced by banks shall not prevent banks from fulfilling their legal obligations and/or the effective execution of supervision and audit by the Central Bank.
- (2) Central Banks, in its sole discretion and whenever deemed necessary, is authorized to determine the subjects of support services that may be received by banks, or to prohibit the subjects of support services by banks or by bank groups, or to impose conditions of permission on such services depending on the type of support services.

Asset
Management
Companies

- 69. (1) In order to purchase, collect, restructure and sell the receivables and other assets of banks, funds, and other financial institutions, asset management companies may be established, of which establishment permit, cancellation of the establishment permit, and operating principles are determined by a Notification to be issued by the Central Bank.
- (2) The conditions of being a bank founder mentioned in Article 6 of this Law are also sought in the founders of asset management companies.
- (3) Asset management companies are authorized to perform any activity such as operating, leasing, and investing in real estate or movable properties, rights, and assets acquired for the purpose of collecting receivables within the scope of the collection of their receivables and restructuring of receivables and/or other assets, and to provide additional financing to their debtors or to participate in their capital in order to collect their receivables.

- (4) (A) Asset management companies shall reserve provisions to cover their losses or uncertain amount of losses that are expected to arise due to the transactions specified in paragraph (3) above.
- (B) The qualifications of the receivables of the asset management company and the procedures and principles regarding the provisions to be made shall be determined by the Central Bank.
- (5) In cases where the asset management company assumes these debts and commitments or take over receivables and assets, the asset management company shall automatically become an intervening party, as the sufferer from the offense, to any criminal lawsuit initiated or to be initiated in connection with such debts, commitments, receivables, and assets, as from the date when the receivable is taken over or the debt and commitment are undertaken.

Authority to
Make Regulations
and Issue
Notifications
Regarding the
Relevant
Institutions

- 70. (1) The procedures and principles on establishment, structure, activities, operations, the composition of management of the credit reference agency to be established within the Banks Association of Northern Cyprus, contents of information, their sharing and pricing thereof shall be determined by a regulation to be issued by the relevant Ministry upon the confirmation of the Central Bank and the Banks Association of Northern Cyprus and, to be approved by the Council of Ministers and published in the Official Gazette.
- (2) (A) Authorization of persons and/or organizations to conduct independent audits in banks, temporary revocation of authorization, revocation of the authorization and notification of the announcement to banks regarding all authorization procedures, all kinds of supporting documents, financial statements, correspondence, official documents, letters of undertaking, minutes, audit procedure, process, techniques, obligations, evaluations regarding internal systems, informing the management, declaration, certification, cooperation, post-accounting period transactions, independent audit report and opinion, types of opinion, limited audit, special-purpose reports, audit of activity reports, the reporting of independent audit reports, the elements related to the contract to be made with the banks, the obligations of the parties, the information systems audit, the authority of the independent auditor, the terms and exceptions of these, and the procedures and principles regarding the obligations related to this issue, shall be regulated by a Notification to be issued by the Central Bank.
- (B) The information systems and banking processes of banks shall be carried out by authorized individuals and/or institutions that will conduct an independent audit.

- (C) In accordance with subparagraph (B) above, general concepts, materiality, control weaknesses, efficiency, adequacy and compatibility of the Central Bank information systems and banking processes audit, audit risks and the conditions sought in persons and organizations to be authorized in these matters, the information and documents required at the time of application, the processes regarding the granting and cancellation of the audit authority, performing the audit of bank information systems and banking processes through outsourcing, authorization of the external service organization, the information and documents required for the audit permit, the procurement of outsourcing services, information systems and banking processes, withdrawal of permission to outsource services and to audit information systems and banking processes, titles of profession members, obligations of the parties, obligations of the auditee, obligations of authorized institutions and auditors, principles and purpose of auditing information systems and banking processes, independent audit relationship with information systems and banking processes audit, information systems audit, banking processes audit, internal control and evaluation of internal audit system, execution of information systems and banking activities, information systems and banking processes audit methodology, audit strategy and audit plan, testing audit techniques and controls, audit sampling, audit evidence, evaluation of findings, statement of management, formation of audit opinion and audit letter, documentation of audit work, general principles and responsibilities, information systems and banking processes audit agreement, cooperation in information systems and banking processes audit, benefiting from work done by other parties and cooperation, cooperation between the Central Bank and authorized institutions, supervision of the support service organization, information systems and banking processes audit report, its scope, their form requirements, exceptions and the duty term of auditors, and the procedures and principles regarding the liabilities on this issue shall be regulated by a Notification to be issued by the Central Bank.

- (3) Authorization of institutions that will provide support services to banks, limitations regarding support services, preconditions, conditions to be sought, obligation to notify, elements of the contract to be made with these institutions, restriction or removal of the audit or authorization for a period of time, revocation of the authorization, support services to be provided to banks, exceptions, if any, and the procedures and principles regarding these liabilities shall be regulated by a Notification to be issued by the Central Bank.
- (4) Establishment conditions of asset management companies, qualifications of founders, conditions, and processes related to granting establishment and operating licenses, all the elements of any certifying document related to the rules, including the quality and form requirement, statements, financial statements, official documents, matters regarding the formation and appointment of the board of directors and senior managers of companies, the field of activity, limits regarding all kinds of partnerships, ratios, audit, informing, cancellation of the operating license, provisions, accounting and reporting system, exceptions and matters regarding liabilities related to this issue shall be regulated by a Notification to be issued by the Central Bank.
- (5) The qualifications, authorization, revocation, restriction, or removal for a period of time of authorization, the scope of the services provided, their obligations and independence, the elements of service contracts with banks, valuation reports, notifications, follow-up, exceptions, if any, and the procedures and principles regarding the related obligations shall be regulated by a Notification to be issued by the Central Bank.

PART TWELVE

Administrative Fines, and Offences and Penalties

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|----------------------|-----|-----|--|
| Administrative Fines | 71. | (1) | The administrative fines in this Law shall be imposed by the Central Bank and notified to the parties in writing. |
| Method to be Applied | | (2) | Central Bank shall request a written defence from the concerned party in case of a violation of this Law. This defence shall be given in writing to the Central Bank within one month from the date of the notification. |
| | | (3) | If the defence is not submitted within the period specified in paragraph (2) above, the relevant party shall be deemed to waive its right of defence. |
| | | (4) | (A) In the event that the submitted written defence was not deemed sufficient or the written defence is not submitted within the specified period, the bank shall be imposed an administrative fine under the rules of this Law. |

- (B) The administrative fines imposed by the Executive Board of the Central Bank shall be notified to the related party by giving a justification.
- (C) In the event that the violation is not eliminated despite the administrative penalty imposed by the Central Bank, a letter for the elimination of the violation shall be sent in accordance with the nature of the violation and not exceeding six months under any circumstances. In the event that the violation is not resolved within the relevant period, the administrative fine shall be increased by two times.

Administrative Fines 72. Upon the decision of the Executive Board of the Central Bank, the following administrative fines shall apply to the relevant banks:

- (1) Banks violating the rules of the following Articles, shall be fined twenty-five times the monthly minimum wage:
 - (A) paragraph (1) of Article 11,
 - (B) paragraph (4) of Article 12,
 - (C) Article 13,
 - (Ç) Article 14,
 - (D) Article 18,
 - (E) Article 19,
 - (F) Article 20,
 - (G) paragraph (1) of Article 21,
 - (H) Article 25,
 - (I) Article 26,
 - (İ) Article 28,
 - (J) Article 30,
 - (K) Article 39,
 - (L) Article 42,
 - (M) Article 47,
 - (N) Article 55,
 - (O) Article 56,
 - (Ö) Article 57,
 - (P) Article 58,
 - (R) Article 59,
 - (S) Article 68.
- (2) Banks violating the rules of the following Articles, shall be fined fifty times the monthly minimum wage:
 - (A) Article 17,
 - (B) Article 23,
 - (C) Article 27,
 - (Ç) Article 29,
 - (D) Article 34,
 - (E) Article 35,
 - (F) Article 36,
 - (G) Article 38,
 - (H) Article 40,

- (I) Article 41,
 - (İ) Article 43,
 - (J) Article 45,
 - (K) Article 46,
 - (L) Article 48,
 - (M) Article 50,
 - (N) Article 51,
 - (O) Article 52,
- (3) Banks violating the rules of the Articles 61 and 62, shall be fined eighty times the monthly minimum wage.
- (4) Natural and legal persons violating the rules of the following Articles, shall be fined twenty-five times the monthly minimum wage:
- (A) paragraph (2) of Article 11,
 - (B) Article 12,
 - (C) paragraphs (4) and (5) of Article 20,
 - (Ç) Article 67,
 - (D) Article 68,
 - (E) Article 69,
- (5) In case of failure to comply with the notifications, decisions, and other regulations issued by the Central Bank under this Law, an administrative fine of eighty times the minimum monthly wage may be imposed on the related banks, natural or legal persons, upon the decision of the Executive Board of the Central Bank.
- However, in accordance with the above paragraphs, if there is a special administrative fine rule under the rules of this Law regarding the subject matter, that fine rate shall be applied.
- (6) In the event that the banks and asset management companies do not send all the information they need to send in an electronic form for the audit to be carried out by the Central Bank, send them late or send them incomplete, the sent information include errors and/or in case of the continuity of the errors, a decision taken by the Executive Board of the Central Bank shall impose an administrative fine up to fifty times the monthly minimum wage.

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- (7) (A) Administrative fines imposed in accordance with the procedure specified in Article 71 of this Law shall be paid within one month following the notification date. The administrative fines not paid within the period shall be considered as public receivables and collected in accordance with the Law on Procedures of Collection of Public Receivables.
- (B) The portion of the administrative fines that banks are obliged to pay within the scope of this Law, which is not paid in due time, shall be collected from the accounts of the banks within the Central Bank and recorded as income to the Fund. Uncollectable administrative fines become Fund receivables and they shall be monitored and collected by the Fund.
- (8) The right of banks and other relevant persons to resort to the jurisdiction is reserved for the administrative fines imposed under the rules of this Article.

Offences and Penalties

- 73. (1) A natural person and/or the employee and/or executive of the legal person acting as a bank or collecting deposit or participation funds without obtaining the necessary permissions under this Law shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to one hundred times the monthly minimum wage or up to five years of imprisonment or both. In addition to the penalty imposed, the court may decide on the recalling and ceasing of all kinds of documents, announcements, and advertisements used for the execution of the activities if deemed appropriate and fair. If these activities are carried out in a workplace, it may be decided to temporarily or permanently close this workplace and an order may be given to temporarily close the workplace until the final court decision.
- (2) A natural person and/or the employee and/or executive of the legal person violating paragraph (2) or (3) of Article 21 of this Law, shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to one hundred times the monthly minimum wage or up to seven years of imprisonment or both.

- (3) In case of violation of the obligation to store the documents mentioned in Article 26 of this Law, a natural person and/or the employee and/or executive of the legal person who is responsible for this matter shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to fifty times the monthly minimum wage or up to three years of imprisonment or both.
- (4) In violation of paragraph (1) of Article 27 of this Law, a natural person and/or the employee and/or executive of the legal person who discloses secrets of the banks or the customers shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to fifty times the monthly minimum wage or up to five years of imprisonment or both.
- (5) A natural person and/or the employee and/or executive of the legal person who intentionally harms trust in the banking system and/or banks or causes deliberate damage to their reputation or wealth, or disseminates falsified news by this way in contradiction with paragraph (3) of Article 27 of this Law, shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to fifty times the monthly minimum wage or up to five years of imprisonment or both.
- (6) In case of violation of Article 34 of this Law, a natural person and/or the employee and/or executive of the legal person responsible for the violation shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to sixty times the monthly minimum wage or up to three years of imprisonment or both.
- (7) In violation of Article 35 of this Law, a natural person and/or the employee and/or executive of the legal person who hinders the right of bank customers to withdraw deposit or participation funds shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to fifty times the monthly minimum wage or up to three years of imprisonment or both.
- (8) In case of violation of paragraph (2) of Article 39 of this Law, a natural person and/or the employee and/or executive of the legal person responsible for the violation shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to sixty times the monthly minimum wage or up to three years of imprisonment or both.

- (9) In violation of Article 50 of this Law, a natural person and/or the employee and/or executive of the legal person who is responsible for the unrecorded transactions of banks, and for the recognition of these institutions in a manner that does not conform to the true nature of the transactions, shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to sixty times the monthly minimum wage or up to five years of imprisonment or both.
- (10) In violation of Article 57 of this Law, a natural person and/or the employee and/or executive of the legal person who does not give the requested information and documents for the purpose of the audit, or who prevent the fulfilment of the audit task shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to fifty times the monthly minimum wage or up to three years of imprisonment or both.
- (11) In case that the banks and asset management companies make false statements in the documents they issue or publish to the Central Bank, other relevant authorities or the auditors, the natural person and/or the employee and/or executive of the legal person who is responsible for this matter shall be considered to have committed an offence and in case of conviction, shall be sentenced with a fine of up to fifty times the monthly minimum wage or up to ten years of imprisonment or both.
- (12) A natural person and/or the employee and/or executive of the legal person who embezzles money or documents or notes or other goods that substitute money, which he is liable to protect and watch as a matter of his duty, to himself or other persons, shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to two hundred times the monthly minimum wage or up to ten years of imprisonment or both.
- (13) Those who are responsible for the decisions or transactions contrary to this law or other relevant legislation or decisions of the Central Bank or banking principles and practices, and for the damage to the bank, and the natural person and the employee and/or executive of the legal person who benefits from such decisions and transactions shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to a hundred times the monthly minimum wage or up to five years of imprisonment or both.

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- (14) A bank's controlling shareholders, which is confirmed to have used the bank's resource directly or indirectly or fraudulently or in favour of themselves or others in a bank, and the employee and/or executive of the other natural person and the legal person providing such benefits, shall be considered to have committed an offence and in case of conviction, may be sentenced with a fine of up to two hundred times the monthly minimum wage or up to ten years of imprisonment or both.
- (15) (A) If the act or acts of the banks or responsible persons that constitutes a criminal offense under this Law requires a penalty under other laws, it shall not prevent the proceedings under the relevant laws.
(B) The rules which require the responsibility of the Criminal Procedure Law shall be reserved.

PART THIRTEEN
Provisional Rules

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| Provisional Article
Operating License of
Existing Banks
39/2001 | 1. | (1) | Banks, which have been operating before the effective date of this Law are deemed to have been granted a deposit bank license under this Law. |
| | | (2) | If the deposit banks, which will continue their activities as participation banks, apply to the Central Bank within three months from the effective date of this Law, their status shall be transformed into participation banks. |
| | | (3) | Upon the effective date of this Law, the Development Bank of the Turkish Republic of Northern Cyprus shall be deemed to have been granted a license of development and investment bank under this Law. |
| | | (4) | Branch banks, which have been operating before the effective date of this Law shall continue to operate as branch banks regardless of their number of branches.

However, if they apply to become a bank established in the Republic of Northern Cyprus, they shall be exempted from the provisions of subparagraph (C) of paragraph (2) of Article 10. |
| Provisional Article
Issuing Principal
Agreement and
Regulations, and
Publication on
Official Websites | 2. | (1) | Banks shall arrange their principal agreement and regulations in accordance with this Law and send a copy to the Central Bank within twelve months from the effective date of this Law, in every first general meeting to be held. |
| | | (2) | At the end of the period specified in paragraph (1) above, they shall publish their current principal agreement on their official websites. |
| Provisional Article
Exemptions
Regarding Current
Management | 3. | (1) | (A) Upon the effective date of this Law, those who do not meet the educational requirements for Chairman of the Executive Board specified in paragraph (3) of Article 19 of this Law shall be given six years to comply with this rule.

(B) Upon the effective date of this Law, the banks that do not have the requirement that the absolute majority of their board members have at least five years of professional experience in the banking field as specified in paragraph (3) of Article 19 of this Law, shall be given five years to comply with this rule. |

- (2) The conditions specified in paragraphs (2) and (3) of Article 20 of this Law shall not be sought for those who take office in the current senior manager positions at the branch banks as of the effective date of this Law, as long as they remain in their positions.
- (3) Banks shall meet the conditions specified in paragraph (4) of Article 20 of this Law within one year at the latest.

Provisional Article Holding the Required Amount of Equity	4. Banks, which have been operating before the effective date of this Law, shall increase their equity to the amount determined in Article 7 of this Law within six years, in order to complete the missing portion of the minimum capital amount stipulated in Article 7 of this Law, not less than 1/6 (one-sixth), starting from January 2019 until the end of January of each year.
Provisional Article Reducing Risks to Legal Limits	5. Current risks, which have been taken before the effective date of this Law and constitute a violation of Article 41 or paragraph (2) of Article 42 of this Law, shall be reduced to legal limits no later than four years as of the effective date of this Law. Other contradictory risks shall be exempted from the risk limits specified in this Law until their maturity dates, as of the effective date of this Law.
Provisional Article Practices Regarding Loans Under Treasury Guarantee Before 2001	6. The government shall redeem the loans under treasury guarantee and government debts granted before November 23, 2001, within five years at the latest by paying the minimum amount of 20% (twenty percent) of the balance at the date of entry into force of this Law and all the accrued interests annually. The liabilities arisen due to not paying in this way shall not be laid on banks, managers, or shareholders. Article 21 of this Law shall not apply to loans under treasury guarantee and government debts.
Provisional Article Continuity of Fund Related Legal Procedures 39/2001 59/2002	7. Before the effective date of this Law, until the procedures initiated against banks whose partnership rights excluding dividends and management and control have been transferred to the Fund and/or whose license to perform banking transactions and to accept deposits has been revoked and/or banks requested to be liquidated by the Fund and/or banks whose transactions are carried out by the Fund are concluded and until all Fund receivables of these banks are collected, the relevant articles of the Banking Law of the Turkish Republic of Northern Cyprus, which has been abolished by this Law, shall continue to be implemented.
Provisional Article Risk-taking Limit Practices in Loans Under Treasury Guarantee Before 2001	8. This rate shall be applied as 200% (two hundred percent) for banks, which have granted loans under treasury guarantee before November 23, 2001, with a rate above specified in paragraph (1) of Article 41 of this Law, until government debts are paid.

PART FOURTEEN

Final Provisions

Repeal and Saving 39/2001 59/2002	74. (1) Upon the effective date of this law, the Banks Law of the Turkish Republic of Northern Cyprus shall be repealed without prejudice to the transactions which have been carried out under this Law or the transactions which have been started but have not been completed as of the effective date of this Law. (2) The rules of the legislation enacted under the Banks Law of the Turkish Republic of Northern Cyprus, which is repealed by this Law shall remain in force until new regulations are made under this Law.
Executive Power	75. This Law shall be executed by the relevant Ministry.
Effective Date	76. This Law shall become effective upon the date of its publication in the Official Gazette.