

Notification Under Article 33 of the
BANKING LAW OF TURKISH REPUBLIC OF NORTHERN CYPRUS
(Laws 39/2001 and 59/2002)

The Central Bank of Turkish Republic of Northern Cyprus sets out the following provisions regarding the nature of banks' loans and other receivables and provisions, based on the authority granted by Article 23(6) of Banking Law No. 39/2001.

1. Short Title		
		This Notification may be cited as the "Notification on the Nature of Banks' Loans and Other Receivables and Provisions".
2. Aim and Scope		
		The aim of this Notification is to set out the principles and procedures applicable to classifying loans and other receivables of banks by their nature, as well as the provisions to be set aside for these, pursuant to Article 23(6) of the Banking Law No. 39/2001 of the Turkish Republic of Northern Cyprus.
3. Definitions		
		Unless provided otherwise in the text herein,
O.G. 126 04.07.2008		Loans and other receivables refers to cash loans extended by banks and followed up under loan accounts on the asset side of their financial statements; bank overdrafts; receivables recognized as cash loan within the framework of the applicable legislation regardless of the account under which they are followed up in assets; non-cash loan amounts redeemed or converted to cash; all other receivables apart from the aforementioned; and non-cash loans followed up under memorandum accounts.
		Provisions refers to amounts distinguished by accounts and written off in financial statements in order to cover the losses that have been incurred or are expected to be incurred due to loans and other receivables, but which are not yet quantifiable.
		Collateral refers to any asset, guarantee or surety, and contractual rights that will partly or fully secure the bank's receivables against the non-payment risk.
		Weakening of Creditworthiness refers to the presence of any of the cases where the debtor becomes unable to fulfil the liabilities of its assets in time and in full; the debtor's financial leverage rate is not at the acceptable level for the bank according to the standard criteria used in evaluation of creditworthiness; the debtor has become significantly deprived

		of solvency; or the working capital and/or equity fall significantly short such that loan collectability is weakened. Weakening of Loan refers to the situation where it is highly probable that due loan amounts will not be able to be collected by the bank, within the framework of the binding conditions in the loan contract, based on current circumstances and events revealed by assessments made.
		Registered Value of Loan refers to the calculated value of loan as shown in the bank's accounting books and before deducting the special provisions.
		Loans and other receivables refers to the transactions recognized as loan pursuant to Article 23 of the Law and other receivables registered on the asset side of the balance sheet.
4. Classification of loans and other receivables		
	(1)	Banks, including their overseas branches, have to follow up their loans and other receivables by classifying them according to the following groups, based on their collectability and creditworthiness of debtors, taking into consideration the criteria and explanations provided in this Notification:
		a) Standard Loans and Other Receivables - First Group
		The following loans and other receivables shall be classified under this group:
		i) Those extended to natural persons and legal persons with a creditworthy financial standing
		ii) Those with principal and interest payments structured according to the payment capacity and cash flow of the debtor
		iii) Those with repayments made in time, with no repayment problems expected in the future, and deemed to be fully collectable
		iv) Those with no weakening identified in the creditworthiness of the debtor and there is no sign of such weakening
		b) Loans and Other Receivables Under Close Monitoring - Second Group
		The following loans and receivables shall be classified under this group:

			i)	Those extended to natural persons and legal persons with a creditworthy financial standing and currently not exposed to any problem in principal and interest payments, but which need to be closely monitored as negative developments are observed in the debtor's payment capacity or cash flow, or such developments are expected to occur or the debtor bears significant financial risks
			ii)	Those that are likely to face problems in principal and interest payments according to the terms and conditions of the loan contract, and which is exposed to the risk of full or partial non-payment of the debt if such problems are not eliminated
O.G. 42 09.03.2010			iii)	Those which are highly probable to be repaid, but principal or interest payments have been delayed for 30 to 90 days from their due dates for various excusable reasons
			iv)	Those with collectability highly probable to be weakened as the debtor has an irregular and hard-to-control cash flow structure, although the debtor's creditworthiness has not weakened
		c)	Loans and Other Receivables with Limited Collectability - Third group	
			The following loans and other receivables shall be classified under this group:	
			i)	Loans and other receivables with limited collectability of the whole loan amount as the funds of the debtor or collateral provided by the debtor are found to be insufficient in payment of the debt in time and for which losses are likely to be incurred if the observed problems are not eliminated
			ii)	Loans and other receivables with weakened creditworthiness of the debtor, thus the loan is deemed to be weakened
			iii)	Loans and other receivables for which the

				payment of the principal, interest or both has been delayed for more than 90 days but less than 180 days from due date
			iv)	Loans and other receivables for which it is considered that the payment of the principal or interest or both will be delayed for longer than 90 days from due date, for reasons such as the debtor experiencing problems in operating capital or in creating additional liquidity
		d)	Doubtful Loans and Other receivables - Fourth Group	
			The following loans and other receivables shall be classified under this group:	
			i)	Loans and other receivables that do not look likely to be repaid or liquidated under existing circumstances
			ii)	Loans and other receivables for which it is highly probable that the loan amounts that become due will not be able to be collected by the bank within the framework of the terms and conditions of the loan contract, or, such non-cash credit amounts, all other receivables apart from these and non-cash loan followed up under memorandum accounts
			iii)	Loans and other receivables where the debtor's creditworthiness has substantially weakened or damaged, but the loans has not yet been considered a as loss since possibilities like merger, access to new finance or capital increase could contribute to the creditworthiness of the debtor and collectability of the loan
			iv)	Loans and other receivables for which the payment of principal or interest or both has been delayed for longer than 180 days but shorter than 1 year from the due date
		e)	Loans and Other receivables Qualifying as Loss - Fifth	

			Group
			The following loans and other receivables shall be classified under this group:
		i)	Loans and other receivables which are deemed unlikely to be collected
		ii)	Loans and other receivables for which the payment of principal or interest or both has been delayed for longer than 1 year
		iii)	Loans and other receivables which bear the characteristics mentioned under the Third and Fourth Groups, but the bank thinks that due and payable loan amounts are strongly unlikely to be paid in full in a period longer than 1 years and therefore the loans and other receivables have weakened and the debtor has totally lost its creditworthiness
	2.	a)	For the purposes of the classification system specified in this Notification, the basic criterion that is deemed to have actually occurred is the delay of the collection of loans and other receivables as much as the periods stipulated in the definitions and explanations of groups. Furthermore, for the classification of loans according to their nature as described in paragraph (1), banks must verify that other aspects specified in the definitions and explanations of respective groups have occurred or are highly likely to occur, and that the debtor's creditworthiness and the loan have weakened or is not collectable, or must have a precise opinion to this effect.
		b)	Even if the delay in the collection of loans and other receivables has not exceeded the periods specified in respective groups, banks may classify their loans and other receivables under the Third, Fourth and Fifth groups taking into consideration the criteria and risk management principles provided herein.
5. Non-performing Loans			
	1.		All receivables classified under the Third, Fourth and Fifth groups pursuant to this Notification and the collection of which has been delayed for longer than 90 days as of the maturity or due dates of their principal or interest, shall be recognized as non-performing loans for the purposes of this Notification,

		regardless of whether or not the accrued interests and interest-like burdens on the debtor have been added to the principal or whether they have been refinanced or not.
O.G. 6 12.01.2009	2.	In case a loan customer has multiple instances of loan extended by the same bank, and any one of such loan is classified as non-performing loans according to the classification criteria, all debts of that loan customer to the bank shall be classified under the same group as non-performing loans. In case the first instance of loan that becomes non-performing loan is fully repaid, the other loan of the customer may be evaluated and classified again within the framework of Article 4 of this Notification. Pursuant to Article 23(3)(A)(a)(iii) of the Law, loan extended to natural persons and legal persons that constitute a risk group indirectly, only because of guarantor relationship, shall be evaluated separately in terms of persons constituting the risk group, for the purposes of this Notification.
	3.	In cases of cash loan extended in the form of bank overdraft account with no maturity condition, the loan shall be recognized as non-performing loan and classified in the related group, if;
	a)	the periodic interests and their accessories have not been paid within a period longer than 90 days and thus been added to the principal;
	b)	the debt has not been paid within a period longer than 90 days from the closure of account;
	c)	new loan is extended to the debtor in violation of the provisions of Article 8 of this Notification, and the overdue interests and principal has been refinanced;
	d)	the account limit has been overrun continuously for longer than 90 days,
6. Rates of Special and General Provisions to be Set Aside by Banks		
	1.	Special Provisions:
		Taking into consideration the rules of this Notification, special provisions shall be set aside at the following rates:
		A minimum of 20% (twenty percent) as of the date of classification under the Third Group
		A minimum of 50% (fifty percent) as of the date of classification under the Fourth Group
		100% (one hundred percent) as of the date of

			classification under the Fifth Group
			The provisions set aside shall be recognized as expenditure in determining corporate income tax pursuant to Article 23(6) of Banking Law No. 39/2001, in the year when they are set aside.
	2.	General Provisions:	
O.G. 126 04.07.2008		a)	Banks shall set aside general provisions at the following rates:
		i)	One percent (1%) of the sum of standard cash loan and two per thousand (0.2%) of the sum of letters of guarantee, avals, sureties and other non-cash credit
		ii)	Two percent (2%) of the sum of cash loan under close monitoring and four per thousand (0.4%) of the sum of letters of guarantee, avals, sureties and other non-cash loan classified under close monitoring
		iii)	Five per thousand (0.5%) for loans and other receivables registered on the asset size of the balance sheet, not covered by subparagraphs (i) and (ii) of this paragraph and the accounts "Receivables to be Liquidated Account", "Doubtful Fees, Commissions and other Receivables Account" and "Loans and Other Receivables Qualifying as Loss", and followed up under on-balance sheet accounts
		b)	For the purposes of this paragraph, the following shall not be taken into account in the calculation of general reserves:
			Bills and bonds issued by the Treasury or under Treasury's guarantee
			Loans to be extended to central administrations and central banks of OECD countries
			Loans to be extended in return for securities issued by, or under the guarantee of, the central administrations and central banks of OECD countries, or other guarantees provided by these

				Loans to be extended to the European Central Bank and loans to be extended in return for securities issued or guarantees provided by the European Central Bank
				Loans directly extended to the Treasury and loans extended under the Treasury's guarantee
				Transactions carried out with the Central Bank of TRNC or in markets within the Central Bank of TRNC
				Demand loans, or loans with maturity of up to one month and not subjected to extension, which banks extend to each other, excluding collateral, pledges or those extended for disbursement to a specific natural or legal person or risk group
				Loans extended in return for cash and deposits
				Loans extended in return for government bonds and Treasury bills
				In this context, banks that hold such assets in their asset records shall classify these assets as required in the Notification, but shall not take them into account in the calculation of general provisions.
		c)		Non-cash loans subject to general provisions are all types of irrevocable non-cash loans which put the bank under a debt obligation that may arise in the future due to non-fulfilment of a condition while putting it under a creditor position against other persons at the same time, such as letters of guarantee, acceptance loan, letter of loan undertakings, and endorsements.
		d)		The general provision amounts calculated on the last day of every month, on a monthly basis, shall be written off and recognized under the "General Loan Provisions Account" on the liabilities side.
7. Collateral				
	1.	Banks are required to classify and follow up collateral for their loans and other receivables under the following collateral		

		groups.	
		The collateral amount shall be taken into account only in the calculation of special provision amount, as a deduction from receivable amount.	
		a)	First Group Collateral:
			Cash and deposits
			Bills and bonds issued by, or under the guarantee of, the Treasury
			Securities issued by, or under the guarantee of, the central administrations and central banks of OECD countries
			Securities issued by, or under the guarantee of, the European Central Bank
O.G. 93 01.06.2017	Guarantees provided by the Credit Guarantee Fund,		
		b)	Second Group Collateral:
			Gold and other precious metals
			Stocks listed in the stock exchange
			Asset-backed securities
			Private sector bonds
			Guarantees and letters of guarantee to be provided by banks operating in TRNC within their own loan limits
			Guarantees of banks operating in OECD countries
			Guarantees of the central administrations and central banks of OECD countries
			Guarantees and sureties to be provided by the European Central Bank
			Loan derivative agreements providing protection from credit risk
			Assignment or pledge of the progress payment rights of companies from public institutions

			Securities that are easily convertible to money and valuable documents representing commodities, any type of commodities and movable properties pledged in amounts not exceeding their market value
			Mortgages on registered real estate and mortgages on real estate built on allocated land, provided that their appraisal value is sufficient
			Real currency bills received from customers
		c)	Third Group Collateral:
			Commercial enterprise pledge
			Export documents
			Vehicle pledge
			Aircraft or ship mortgage
			Surety of natural persons and legal persons with high credibility
			Other notes received from customers
		d)	Fourth Group Collateral:
			Types of collateral other than those listed under the first three groups.
	2.	a)	When calculating special provisions, the valued amounts of collateral shall be deducted from the amount of non-performing loans followed up under the Third, Fourth and Fifth Groups, by amounts calculated using the consideration rates given below, to find the amount of receivables subject to special provision. The procedure for determining the amount of receivables subject to special provision shall be carried out by taking as a basis the bank's exclusive receivable for each debtor and the valued amounts of that debtor's collateral.
			Consideration rate for First Group collateral: 100%
			Consideration rate for Second Group collateral: 75%

			Consideration rate for Third Group collateral: 50%
			Consideration rate for Fourth Group collateral: 25%
		b)	The valued amount of collateral to be taken into account in the calculation of special provisions cannot exceed the amount of non-performing loans . In case the valued amount of collateral exceeds the amount of non-performing loans, the amount to be found by applying the above consideration rates to its portion corresponding to non-performing loan amount only shall be taken as amount to be deducted.
	3.	a)	If a non-performing loan amount has been collateralized with collateral followed up under multiple groups, the calculation of collateral to be taken into account in determining the amount of receivables subject to special provisions shall begin with the first group, which is recognized as the most liquid in the group ranking.
		b)	When calculating the special provisions to be set aside for loan that has multiple types of collateral and is qualified as a non-performing loans, first it must be checked whether the separately valued amounts of each collateral type exceeds the amount of non-performing loan. The portion of valued amount of collateral type taken up first in the calculation which is equal to the amount of non-performing loan, at maximum, shall be multiplied by the consideration rate for that collateral, to find the portion of non-performing loan for which special provision will not be applied. The same procedure shall be followed separately and in the same order for the second collateral type and third collateral type, if any. If any amount for which special provision for non-performing loan will be applied remains after these procedures, special provision shall be set aside on the basis of that outstanding amount.
	4.		Banks may set aside provisions up to the whole amount of a non-performing loan, regardless of the amount of collateral, provided that it is not less than the special provision rates of the non-performing loan for that group.
	5.	a)	The valuation and accounting of collateral shall be carried out in accordance with the asset valuation principles and procedures set out in the "Accounting Standards, Uniform Chart of Accounts and Prospectus to

			be Applied by Banks" put in force under the Banking Law.
		b)	Once the valued amount of collateral is determined, the portion of that amount which is fully at the disposal of the bank and can be cashed by the bank, shall be taken into account in determining the amount of receivables subject to special provisions. If any party other than the bank has a right or disposition on the collateral, the amount not at the disposition of the bank shall not be taken into account when determining the amount of receivables subject to special provisions.
		c)	The valuation, as collateral, of the sureties provided by highly-credible natural persons and legal persons under the Third Group shall be performed by measuring the financial and economic strength of such sureties or guarantors in monetary terms. During the valuation of such collateral, the capacities of such individuals to pay their obligations shall be taken into account instead of the amount of such guarantees or the amounts for which they are obliged.
		d)	During the valuation of promissory notes given as collateral, the credibility and payment capacities of their debtors shall also be taken into account in determining the current value of notes.
8. Principles and Procedures Concerning the Renewal of Loans and Other Receivables, Their Refinance and Restructuring, and Entering into a New Redemption Plan			
	1.	a)	If the non-fulfilment of payment obligation to the bank in relation to loans and other receivables of banks within the framework of the classification principles specified herein has resulted from temporary liquidity stress, then it is possible to renew, refinance and restructure the debt or to tie it to a new redemption plan, in order to provide liquidity capacity to the debtor and thus ensure the collection of the bank's receivable, through extending additional loan as necessary, provided that the principles and procedures set out in this article are complied with.
		b)	For the purposes of this Notification, temporary liquidity stress refers to a manageable cash deficit stemming from the fact that fund inflows and outflows, sales incomes or operational revenues arising from normal operations of a debtor having payment capability to fulfil

			its obligations fully and on a timely basis have become unstable, and as such fluctuate because of unexpected and temporary reasons.
		c)	In case a redemption plan has been entered into with a debtor with no payment capability, Loans under such agreement cannot benefit from the provisions of this article.
O.G. 6 12.01.2009	2.	a)	As stipulated in subparagraph (a) of paragraph (1) of this Article, loans and other receivables including delayed interest may be renewed, restructured through refinance or subjected to a new redemption plan under the rules hereof, up to two times within the framework of the rules of this Notification, by extending additional loan as necessary, in order to provide liquidity capacity to the debtor and to ensure collection of the bank's receivables, provided that the principles and procedures stipulated in this article are complied with. For the purposes of this Notification, "restructuring" refers to the restructuring of loan through extending additional credit, or tying it to a new redemption plan.
		b)	In order for loan and the receivable to benefit from the rules of this article, the receivable covered by renewal, restructuring or redemption must be accompanied by the collateral stated herein and the valued collateral amount must be sufficient to meet the full amount of the receivable mentioned. However, the valued amount of the loan collateral furnished to the bank by a person whose debt to the bank has been renewed or subjected to a redemption plan or a repayment plan through restructuring, may not be less than the book value of subject receivable. When determining whether the collateral is sufficient to cover the receivable in full, first the amount of collateral valued according to the principles and procedures stated in article 7 hereof shall be taken into consideration. If, although the valued amount of the collateral mentioned is sufficient to fully cover the receivable, there occurs a development that reduces the values of the collateral after the valuation date, the bank shall obtain additional collateral from the debtor.
O.G. 42 09.03.2010		c)	It is mandatory to prepare the repayment plan or the new redemption plan under the restructuring of the loan in such a way that they shall incorporate equal instalments not exceeding 90 days, or instalments with increasing or decreasing rates that remain within the

				limits corresponding to fifty percent more or less than the said instalment amount, with a maximum maturity of 6 years.
O.G. 6 12.01.2009	3.	a)	(i)	Loans and other receivables renewed, or restructured with a repayment plan, or a new redemption plan, for the first time, according to the conditions specified in this article shall continue to be monitored, for a period of six months, within the Third, Fourth and Fifth Group loans and other receivables under which they were monitored until that date. Within the subject period, the specific provision ratios applicable to the group under which they are monitored shall continue to be applied. Said amount of receivable shall be transferred to the "Account for Loans Renewed and Subjected to Redemption Plan" at the end of the 6-month period, provided that the debtor complies with the conditions, does not interrupt the repayments and has paid at least fifteen percent (15%) of the total amount of the receivable.
			(ii)	Loans and other receivables restructured for the second time may be transferred to the "Account for Loans Restructured and Tied to a Redemption Plan" provided that at least 15% (fifteen percent) of the total amount of the receivable has been repaid, that they have been followed up in their respective group for at least one year and payments have not been disrupted, at the end of said period.
			(iii)	Loans and other receivables from natural persons and legal persons in the risk group involving the bank, as specified in Article 24 of the Law, may be tied to a new redemption plan within the framework of principles stipulated in this article, provided that additional loan is not extended.
			(iv)	Banks may re-classify their receivables transferred to "Account for Loans Restructured and Tied to a Redemption Plan", under the First and Second Groups by re-evaluating their qualifications within the framework of the classification principles set out in Article 4 of this Notification.

		b)	In case the instalment for the amount of the receivable subject to a repayment plan or a new redemption plan is not paid within the 6 months, said loan or other receivables shall be transferred one group down by taking into consideration the period that has elapsed since their due date before the renewal, and provisions shall be set aside accordingly.
9. Principles and Procedures for Valuation and Accounting			
	1.	a)	Valuation and accounting of loans and other receivables classified in the groups stated herein, the accounting of provisions set aside and the demonstration of related accounts in the financial statements of banks shall be carried out according to the principles and procedures set out in the "Accounting Standards, Uniform Chart of Accounts and Prospectus to be Applied by Banks" put into force under the Banking Law.
		b)	The sub-accounts under which "First Group - Standard Loans and Other Receivables" and "Second Group- Loans and Other Receivables Under Close Monitoring" will be followed up shall be determined in accordance with the principles and procedures set out in the "Accounting Standards, Uniform Chart of Accounts and Prospectus to be Applied by Banks" put into force under the Banking Law.
		c)	Banks are obliged to transfer the "Loans and Other Receivables with Limited Collectability" and the "Doubtful Credit" which they have classified, to the "Account for Loans to be Liquidated"; to transfer "Other Doubtful Receivables" to the "Account for Doubtful Fees, Commissions and Other Receivables"; and to transfer the "Loans and Other Receivables Qualifying as Loss" to the "Account for Loans and Other Receivables Qualifying as Loss."
		d)	The requirement to transfer to "Account for Receivables to be Liquidated" shall also apply for uncollectable amounts, amounts converted into cash loans or indemnified amounts of non-cash loan as well. Non-cash loans classified under the Third, Fourth or Fifth Group of loans and other receivables shall not be followed up in the "Account for Receivables to be Liquidated", before being indemnified or converted into cash. The procedures for the accounting, on the liabilities side of

		bank balance sheets, of the special provisions to be set aside for that non-cash loans which, although classified under the Third, Fourth or Fifth Group of loans and other receivables, has not yet been indemnified or converted into cash shall also be carried out according to the principles and procedures stated in the "Accounting Standards, Uniform Chart of Accounts and Prospectus to be Applied by Banks".
	e)	Periodic interest accrual and rediscount shall not be implemented for the amounts that have become non-performing loan according to Article 5 hereof. The interest accruals and rediscounts which have previously been implemented for the nonperforming amounts and which have been written as revenue although the same were not collected shall be corrected through a reverse accounting entry by debiting the related interest income account with the same amount, or shall be closed by cancelling it. Such amounts shall not be cancelled if the accrued interest has been collected from the debtor in cash. If the non-performing loan amount, including the implemented interest accruals and rediscounts, can be fully covered by first group collateral and if there are existing interest accruals and rediscounts for the non-performing amount, which, although not collected in cash, have been written as revenue, banks shall be obliged to remove such revenue amounts from the revenue account and transfer the same directly to the account for "Valuation Fund for Loans and Other Receivables" which will be monitored under other liabilities. Interest accruals and rediscounts related to the said amounts which have not been written as revenue by being transferred to the Fund mentioned shall not be cancelled.
	2.	Banks are obliged to classify their loans and other receivables disbursed by their overseas branches according to the classification and provisioning procedures being applied in the countries where the branches operate, as well as to the principles and procedures stated herein, and to set aside the required provisions. If the amount of the provision set aside according to the legislation and practices of the country where the branches operate is inferior to the amount of provision that must be set aside according to the principles and procedures stated herein, the difference shall be made up by setting aside additional provisions.
	3.	Prior to the classification to be made under the provisions of this

		Notification, banks shall be obliged to prepare an exclusive report containing opinions about their loans with amounts greater than TL 10 billion and, in any case, the largest top 100 instances of loan or other receivables amount-wise, together with justifications for such opinions, and to keep such reports ready for audit.
	4.	Banks shall, on a monthly basis or whenever any development creating a risk emerges, examine the qualifications of their loan customers or debtors from the standpoint of creditworthiness and matters stipulated in Article 4 of this Notification, independently of the loan and risk analysis they will carry out before extending credit, and shall decide whether loans and other receivables need to be reclassified fully or partly. The monthly evaluation shall cover at least 4/5 of the total amount of loans and other receivables monitored under the groups stated in article 4 hereof and, in any case, all of the largest top 100 instances of loan amount-wise.
10. Exemptions		
		For loan which has been allocated from the funds created through related laws, decrees and notifications, upon the instructions of authorized bodies, and the risk of which is not borne by intermediary banks, the special and general provision ratios shall be taken as zero percent.
Transitional Article 1		
		Banks shall be obliged to classify their loans in accordance with this Notification by 31 March 2002 at the latest. For loan issued before 31 December 2001 and classified under the Third, Fourth and Fifth Groups, a provision ratio shall be applied as of 01 January 2001, at a minimum ratio of 5% every year.
Transitional Article 2		
		The rules stipulated in this Notification shall not apply to loan covered by Transitional Article 5 of Banking Law No. 39/2001.
11. Effective Date		
		This Notification shall become effective as of the date of its publication in the Official Gazette.