

**DA AFGHANISTAN BANK  
(CENTRAL BANK OF AFGHANISTAN)**  
**Off-Site Examination Manual**

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***Off-Site Examination Manual***

Accountable Executive & Custodian	Islamic Banking Division
Policy Owner	Head of Islamic Banking Division

Approved by DAB Governor:	Date .....	DAB Board Secretary .....
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**ISLAMIC REPUBLIC OF AFGHANISTAN**

**DA AFGHANISTAN BANK, OFF-SITE EXAMINATION MANUAL**

**PART A: PREAMBLE**

**1. Background**

- 1.1 This Off-Site Examination Manual (hereinafter referred to as “the Manual”) is issued by the Da Afghanistan Bank (hereinafter referred to as “DAB”) which shall be adopted and become the guiding principles for Islamic Financial Institutions (“IFI”), Financial Institutions operating with an Islamic Window and Financial Institutions operating with an Islamic Unit (collectively referred to as “the Bank”) in the Islamic Republic of Afghanistan offering Islamic financial products.
- 1.2 In principle, an off-site examination exercise shall be a procedure undertaken by DAB to review and assess on an off-site basis the abidance status of Banks in Afghanistan as to whether their operations are in line with the licensing requirements, relevant governance standards and regulations. It is also to assess and ascertain the various risk levels of the Bank.
- 1.3 The off-site examination is a follow-up process of the on-site examination to ensure a continuation process in ascertaining the level of abidance of the Banks as well as monitoring their soundness and stability.
- 1.4 The need for this Manual is primarily to provide confidence to customers and stakeholders on the Shariah compliance of the Islamic banking activities and operations of the Banks as well as to satisfy DAB, as the regulator on the compliance status of the Banks to the relevant rules and regulations that they are subjected to.

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- 1.5 At the Bank's level, the responsibility for ensuring compliance with this Manual shall be vested with the Compliance Department of the Bank. However, in the course of conducting the examination, DAB shall also be entitled to seek advice and consultation from other departments within the Bank or external parties such as the internal and external auditors of the Bank for the purpose of seeking information and confirmation.

## **2. Basis of Off-Site Examination Manual from International Best Practices**

- 2.1 The basis of this Off-Site Examination Manual is established under item no. 2 of the Governance Standard for Islamic Financial Institutions (GSIFI) No. 4 of the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") (hereinafter referred to as "the Standard"). The principles and procedures can be derived from the Audit & Governance Committee for IFI section since the essence of on-site examination, off-site examination and audit are interconnected and are aimed at satisfying the same objective. Accordingly, item 2 of the Standard reads as follows:

*2. "The importance of the AGC (known internationally as the Audit Committee) for an IFI emanates from its role in:*

*(a) Achieving the fundamental objectives of an IFI, by enhancing greater transparency and disclosure in financial reporting; and*

*(b) Enhancing the public's confidence of the IFI as genuine in its application of Shari'a rules and principles.*

- 2.2 The Islamic Financial Services Board ("IFSB") also provided prudential guidelines for supervision under its "Guidance on Key Elements in the Supervisory Review Process of Institutions offering Islamic Financial Services (excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)" dated December 2007.

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Accordingly, it is stated that the document is intended to foster convergence towards best practice among authorities supervising Institutions offering Islamic Financial Services (“IIFS”), enabling such supervisory authorities to meet their requirements when carrying out the roles expected of them in the light of IFSB standards. This convergence should lead to the establishment of a common approach to the minimum review process to be followed by authorities supervising IIFS.

**3. Purpose and Application**

- 3.1 This Manual shall be applicable to all Islamic banking activities and operations of the Bank. The purpose of this examination is to regularly verify that the Banks, implement and operate under all the relevant governing principles and guidelines that respectively apply to them.
- 3.2 All Banks must at all time, supply the relevant documentation and information to any matters as sought by DAB for the purpose of performing the examination.
- 3.3 The principles as set out in this Manual shall constitute a general guideline for the guidance to Banks on the scope of the off-site examination. The specific application however may differ slightly though not substantially, according to the internal set-up and operation of each respective Bank.

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**4. Legal Provision**

- 4.1 This Manual is issued pursuant to Article 2.2 of the Afghanistan Bank Law gazetted on 12/17/2003 (corresponding to 30/10/1382) in relation to the powers of DAB to regulate and supervise Banks in the Islamic Republic of Afghanistan and any amendments thereto.
- 4.2 This Manual shall be read together and examined in accordance with the following manuals/guidelines:
- i. National Shariah Governance Framework;
  - ii. Shariah Compliance Manual;
  - iii. Shariah Review Manual;
  - iv. Verification Process Manual for Islamic Banking Products;
  - v. On-Site Examination Manual;
  - vi. Regulation on Licensing to Islamic Banks/Windows;
  - vii. Regulation on Islamic Banking Liquidity Management;
  - viii. Regulation on Asset Classification;
  - ix. Regulation on Profit Distribution;
  - x. Regulation on Large Exposures;
  - xi. Regulation on Enforcement Action;
  - xii. Guidelines on Financial Reporting for Islamic Banking Institutions;
  - xiii. Guiding Principles of Risk Management for Islamic Banks;
  - xiv. Guidelines on Recognition and Measurement of Profit Sharing Investment Account as Risk Absorbent;
  - xv. Guidelines on Product Transparency and Disclosure;
  - xvi. Guidelines on Prohibition on Specific/Restricted and Loss Bearing Fund Placement from Islamic Banks to Parent Banking Institutions; and
  - xvii. Any other regulations/guidelines/manuals that is deemed necessary and relevant by DAB from time to time.

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**PART B: POLICY REQUIREMENTS**

**5. Off-Site Examination Guide**

**Frequency**

5.1 DAB may perform the examination on each bank on a 'as deemed necessary' basis before or after the completion of the on-site examination. There shall be no limitation on the amount of times that DAB is allowed to conduct the examination.

**Notification of Examination**

5.2 DAB shall inform the management of the Bank of its intended examination at least three (3) days in advance before the examination is to be conducted.

5.3 DAB's plan or internal schedule for examination of Banks to be carried out must not be known or given to any external party save for the management of the relevant Bank per clause 5.2 above.

**Examination Documents**

5.4 In conducting the off-site examination, whenever requested, DAB shall be supplied with the following documentation of the Bank including (but not limited to);

5.4.1 Latest organisation structure and the responsibilities of each person listed therein.

5.4.2 Minutes of meetings;

5.4.3 Reports;

5.4.4 Fatwas and circulars;

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- 5.4.5 Operational documents;
  - 5.4.6 Financial reports/financial statements;
  - 5.4.7 Policies and procedures; and
  - 5.4.8 Relevant back office documents such as accounting treatment, treasury and risk management, documents signed between the bank and the customer, etc.
- 5.5 Notwithstanding the above, DAB shall also be entitled to other documents as it deemed relevant for the purpose of conducting and completing the examination.

### **Scope and Processes of the Examination**

- 5.6 Any matters deemed to be non-compliant to any of DAB's guidelines, laws, regulations or rules shall be recorded by DAB in any appropriate forms of recording such as writing or audio-recording.
- 5.7 The Board of Directors of any Bank found to be in non-compliance on any matter shall be responsible to take corrective action within a time frame as reasonably decided by DAB.
- 5.8 DAB shall examine the Banks for compliance with any of the guidelines, laws, regulations or rules under which it governs. Notwithstanding this, the following, but not limited to, should also be examined:

### **Governance and Operations:**

- 5.8.1. Whether the Bank has a proper record-keeping of its licence, Articles of Association/Memorandum of Association, company registration documentation or any other documents the DAB deems necessary (wherever applicable);



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- 5.8.2. Whether the Bank has internal policies for compliance with guidelines, laws, regulations and rules of DAB and whether its staff are aware of and knowledgeable about such policies;
- 5.8.3. Whether the staff of the Bank are following internal policies and processes for compliance with guidelines, laws, regulations and rules of DAB. This may involve the checking of instances of reported non-compliances, process flows and reporting structure;
- 5.8.4. Whether staff of the Bank knows how and when to identify, report, manage and/or resolve a Shariah non-compliance issue;
- 5.8.5. Other areas as may be deemed appropriate by DAB, in their absolute discretion, from time to time.

**Products:**

- 5.8.6 Whether the Bank's customers are being made fully aware of all information, relevant terms and conditions as approved by the Shariah Board,
- 5.8.7 Whether the Bank's customers are being made fully aware of all applicable documents and references and other such information required in relation to the product they intend to subscribe to;
- 5.8.8 Whether the Bank has a proper process and control mechanism for product development from origination to Shariah endorsement by its Shariah Board; and
- 5.8.9 Other areas as may be deemed appropriate by DAB, in their absolute discretion, from time to time.

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**6. Methods of Off-Site Examination**

- 6.1 The methods and processes that DAB may take in performing the off-site examination include, but not limited to the following:
- 6.1.1. Review of reports, circulars, minutes of meetings, operating and financial reports, policies and procedures, product documentation, etc;
  - 6.1.3. Interview, discussion or consultation with any of the Bank's staff or personnel via teleconferencing whenever required; and
  - 6.1.6. Other means as may be deemed appropriate by DAB, in their absolute discretion, from time to time.

**7. Presentation of Findings and Corrective Actions**

- 7.1 After the completion of the off-site examination, whenever there is an arising issue, DAB shall present such issues/findings to the Management team of the Bank. Such presentation may be done via teleconferencing or if necessary, via a special meeting as to be arranged with the attendance of all of the Management team members within seven (7) days of such notification of request by DAB.
- 7.2 In the event that DAB discovered any instances of non-compliant event by the Bank on any particular matter as described in this Manual hereto, the Board of Directors or other division nominated by them in the Bank has the responsibility of taking corrective actions within a specified time frame as decided by DAB and as duly communicated to the Bank. For the avoidance of doubt, overall responsibility for compliance issues rests with the Board of Directors of the Bank.

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- 7.3 Such corrective actions are mandatory and shall be treated with utmost importance by the Bank for the purpose of improving its internal control system and business performance.
- 7.4 The Bank shall be given a grace period of up to six (6) months to perform the corrective actions, or a further extension period of time as duly granted by DAB upon specific request by the Bank underlying its reasons and justifications for such request, failing which the Bank may be subjected to punitive actions by DAB pursuant to Article 122 of the Afghanistan Bank Law.

## **8. Custodian of the Document**

This Off-Site Examination Manual shall be under the safe custody of the Islamic Banking Division of DAB. Any changes to the Manual shall be made by the Islamic Banking Division of DAB (hereinafter referred to as “the IBD”), as reviewed by the Governor of DAB and upon approval by the DAB Shariah Supervisory Board. A copy of the amended Manual shall be made available to all stakeholders for reference and implementation.

## **9. Effective Date of the Document**

The Effective date of this Manual is the \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_