

**DA AFGHANISTAN BANK
(CENTRAL BANK OF AFGHANISTAN)**

**Review of DAB’s Regulation on Asset Risk Diversification and
Limitations on Large Exposures of Banking Organizations for
Islamic Finance**

***Review of DAB’s Regulation on Asset Risk Diversification
and Limitations on Large Exposures of Banking
Organizations for Islamic Finance***

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,
REVIEW OF DAB'S REGULATION ON ASSET RISK DIVERSIFICATION
AND LIMITATIONS ON LARGE EXPOSURES OF BANKING
ORGANIZATIONS**

PART A: PREAMBLE

1. Background

- 1.1 The Regulation on Asset Risk Diversification and Limitations on Large Exposures of Banking Organizations (hereinafter referred to as "the Regulation") has been issued by the Da Afghanistan Bank (hereinafter referred to as "DAB") pursuant to the authority granted to DAB by Article 32.2, 32.5, 35.4 and 35.6 of the Decree Law of Banking in Afghanistan ("Banking Law").
- 1.2 This review document hereto, shall complement the Regulation on the Islamic financial aspects and therefore shall serve as the guideline for Islamic Financial Banks, Financial Banks operating with an Islamic Window and Financial Banks operating with an Islamic Unit (collectively referred to as "the Bank") in the Islamic Republic of Afghanistan offering Islamic financial products. This document shall therefore be read together with the Regulation and shall not be read and interpreted independently.
- 1.3 The Regulation had imposed the requirements on the Bank to observe sufficient and effective risk controls that ensure their assets are diversified as to risk of loss; and establishes limitations on large exposures pursuant to the Banking Law.
- 1.4 The Consortium has been tasked to review the Regulation to provide Shariah input on the Regulation and to provide recommendations as to any Shariah gaps or Shariah inconsistencies within the Regulation.

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2. Shariah Context

2.1 From Islamic perspective, the benefit of the society as a whole prevails over the benefit/interest of an individual or a minority group in the society. The Regulation is in line with this Shariah maxim in that the Regulation is to protect the interest of the Islamic banking industry in Afghanistan from collapsing or exposed to undue risks due to possible default by a single client or in a single sector.

3. Shariah Review Findings

3.1 Pursuant to the Consortium's review of the Regulation, the same is consistent with the Shariah maxim as stated in clause 2.1 above. The objectives and aims of the Regulation are to put forth measures as general guidance towards safeguarding the Banks against risk of loss due to over exposure to a small group of obligors or due to asset concentration in certain sectors only rather than in diversified sectors.

3.2 The matters being encapsulated in the Regulation are Shariah neutral in nature as it relates to imposing on the Banks requirements to observe sufficient and effective risk controls in relation to asset risk diversification and limitations on large exposures. Risk management of these aspects as stipulated in the Regulation is in line with Shariah and does not contravene any Shariah principles.

3.3 The Regulation does not expressly mention that it is applicable to Islamic financial institutions, however, we believe that since this is to be adopted by all banks licensed by the DAB, both local and foreign banks, this will include both conventional and Islamic financial institutions under DAB's purview.

3.4 The Regulation contains conventional terminologies which may not be suitable for the Bank. In order to avoid substantial amendments to the wordings of the Regulation, we propose that there be an insertion of a clause into the Regulation to state as follows:-

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“This Regulation shall be adopted by both conventional and Islamic financial institutions in Afghanistan. Pursuant thereto, in so far as the terminologies herein contained are inconsistent with Shariah terminologies, the said terminology shall mean the Shariah equivalent of the same within that context”.

PART B: COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

4. Custodian of the Regulation

- 4.1 This Regulation shall be under the safe custody of the Islamic Banking Division (“IBD”) of DAB. Any changes to this Regulation shall be made by the IBD with prior consultation with the SSB, as reviewed by the DAB Executive Board and upon approval by DAB Supreme Council.
- 4.2 Banks may further refine their risk policies making reference Regulation to suit their particular structure and policies. Such amendments shall be approved by the Bank’s Board of Directors.

5. Effective Date of the Document

The Effective date of this Guideline is the _____ day of _____ 20__