



**Da Afghanistan Bank**  
**Financial Supervision Department**

مدیریت عمومی نظارت امور مالی

د مالی چارو د نظارت لوی مدیریت

4/17/2011

**Supervisory Circular 89-04**

**“Instruction on establishment of a Islamic Banking Window”**

**To: Board of Supervisors of licensed commercial banks**  
**General Managers of permitted branches of foreign banks**

Islamic Banking Windows (IBW) is an Islamic banking initiative introduced by Da Afghanistan Bank with the objective of disseminating and promoting Islamic banking on a wider scope by allowing licensed institutions under the banking law and Islamic banking draft law article (7 & 10) for the establishment of IBW, to offer Islamic banking services using their existing infrastructures and brand name.

The purpose of the circular is to facilitate the participation of licensed banking institutions in the IBW, through a set of standards and comprehensive instructions to assist the licensed banking institutions in carrying out their IBW operations in a systematic way and to ensure that the IBW operations undertaken by the licensed institutions would be fully shari'ah compliant.

The scope of the Islamic banking business of the IBW commercial banks is restricted to their commercial banking licensed under the Banking Law in Afghanistan.

All the interested licensed banking institutions willing to initiate with IBW as well as the permitted banking institutions for IBW should comply with this circular.

To participate in the IBW, a licensed banking institution is required to submit an application to Financial Supervision Department of Da Afghanistan Bank.

If you have any questions about this circular, please contact Financial Supervision Department of DAB.

Very truly yours,

**Mohibullah Safi**

First Deputy Governor,  
Da Afghanistan Bank

## **APPLICABILITY**

This circular is applicable to all licensed institutions under the DAB banking law that participate in the IBW.

## **INTERPRETATION**

The following terms, as used in these circular instructions shall have the following meanings, unless the context otherwise requires:

“Branch” means the branches of commercial banks or investment banks that participate in the IBW;

“IBD” means the Islamic banking division set up at the head office, main office or central office of the banks to administer, manage and conduct all matters pertaining to the IBW;

“IBF” means the Islamic banking fund set up by the banks to fund the operations of IBW;

“IBW” means the Islamic banking scheme provided by licensed institutions to conduct banking business based on Islamic principles;

“IBW licensed institutions” mean the commercial banks and the investment banks that participate in the IBW.

## **PRE-REQUIREMENTS**

### **Minimum Requirements**

The licensed institution is required to comply with the minimum requirements as stipulated by Da Afghanistan Bank before they are allowed to participate in the IBW. The requirements are as follows:

- (i) The licensed institution is financially sound;
- (ii) There are no major adverse inspection findings against the licensed institution;
- (iii) The bank CAMEL rate should not be more than 3.

## **Application**

The licensed institution is required to submit an application to participate in the IBW to Da Afghanistan Bank, outlining the following:

- (i) Purpose of the participation;
- (ii) Products to be offered under the IBW and its structure;
- (iii) Investment avenues;
- (iv) Method of segregating the funds of IBW from the funds of conventional banking;
- (v) Identification of branches where the IBW is to be conducted;
- (vi) Infrastructure and logistic requirements, including manpower and training programmes; and
- (vii) Financial disclosure.

## **POST-REQUIREMENTS**

### **Islamic Banking Division**

- (i) Once the application to participate in the IBW has been approved by Da Afghanistan Bank, the licensed institution is required to set up an Islamic Banking Division (IBD) at the head office.
- (ii) The IBD shall be responsible to prepare a business plan for the IBW operations in terms of operationalising the IBW, as well as to develop policies and procedures pertaining to the IBW operations. This includes system and product development, marketing, processing, approving limits, branch supervision, business development and credit control.
- (iii) The IBW licensed institutions must ensure that the IBD is provided with the necessary support by the other divisions/ departments to ensure smooth implementation of Islamic banking operations, particularly in areas where similar infrastructure is shared. The IBW licensed institutions must also ensure that the IBD is provided with the level of resources that commensurate with the expected cost and profitability of the IBD.

- (iv) The IBD must ensure that the submission of statistical report to Da Afghanistan Bank is complete, accurate and timely. They are also required to ensure that the AAOIFI accounting standards, legal and regulatory requirements, directives and guidelines issued by Da Afghanistan Bank,
- (v) The IBD is required to establish suitable criteria to ensure the staffs managing the Islamic banking operations are proficient, qualified, and knowledgeable as well as committed in the discharge of their duties and responsibilities. Continuing training and education programme should be provided to enable staff of the IBW licensed institution to enrich their knowledge, understand and appreciate the virtues of Islamic banking as well as to keep them abreast with the latest development relating to Islamic banking.
- (vi) The IBD shall be headed by a Muslim senior management officer of the IBW licensed institution, The Head of IBD should possess relevant background on Islamic banking and sufficient banking experience to enable him to perform his duties and responsibilities with regard to Islamic banking effectively.

### **Physical Set-up**

The IBW licensed institutions are required to display the word **“ISLAMIC BANKING WINDOW”** and the Islamic banking logo at its premises that offer Islamic banking products and services. The logo should also be displayed on all documents related to Islamic banking products and services, such as saving books, brochures, pamphlets, application forms for opening of account and financing and other related documents, where necessary.

### **Product Application and Approval**

The IBW licensed institutions are required to send their products and instruments to Da Afghanistan Bank for approval.

### **Documentation**

All documents (including ledgers, registers, pay-in-slips, cheques, receipts and passbooks) used for IBW operation must be appropriately marked, so as to easily distinguish them from the other documents of the banks. The abbreviation on Shariah concept shall be prominently marked on all application forms and other related stationery / documents in distinctive colour, if possible.

### **Shariah Committee**

A conventional bank operating an Islamic banking window shall establish a Shariah committee which shall operate as provided in this Article 27 draft Islamic Banking law of DAB.

The Shariah committee shall be comprised of an uneven number of not less than three fit and proper members who shall be scholars who are expert in matters relating to compliance of financial products and services with Shariah.

The members of the Shariah committee shall be appointed by the bank's Board of Supervisors and shall serve for periods of not more than three years; they may be reappointed for subsequent terms of equal length. The Shariah committee shall choose one of its own members to act as Chairman.

Members of the Shariah committee of one bank shall not serve as administrators of another bank unless the Governor of Da Afghanistan Bank, acting on a case-by-case basis, determines that such interlocking service is not likely to lead to the unauthorized disclosure of confidential information or a loss of competition.

### **System and Control**

The IBW licensed institutions must ensure the system and control as well as internal auditing of the IBW operations are in place to ensure the smoothness of IBW operations.

## **SOURCES OF FUNDS OF IBW LICENSED INSTITUTIONS**

The IBW commercial banks are allowed to offer the following deposit products:

- (i) Current account deposits;

- (ii) Savings account deposits;
- (iii) Investment account deposits that  
comprises:
  - (a) General investment deposits; and
  - (b) Specific investment deposits.

Funds received through the above accounts must be utilised in modes of financing/  
Investments permissible by Shariah.

## **ACCOUNTING, FINANCIAL DISCLOSURES AND REPORTING**

IBW licensed institutions are required to disclose separate balance sheet and income statement, cash flow statement and statement of changes in equity in the notes to the financial statements of the principal financial statements.

IBW licensed institutions are required to devise a separate system of accounting entries and maintenance of records for all transactions and to prepare a separate daily trial balance of the operations of the IBW. The IBW licensed institutions must be able to know the daily balances of their assets and liabilities which relate to IBW operations. The licensed institution must introduce specific account codes for all ledgers for Islamic banking business to ensure proper accountability of the funds and accounts.

### **Scope of Business Activities of the IBW Licensed Institutions**

#### **Approved business:**

- Receiving deposits on savings accounts, current accounts, investment accounts or other similar accounts.
- Paying collecting cheques drawn by or paid in by customers.
- Domestic commercial bank – Business of hire purchase and leasing activities.
- Locally incorporated foreign bank – Industrial hire purchase for industrial equipment and machinery.
- Provision of financial guarantee to any persons.
- Dealing in foreign currencies and gold.
- Money remittance services.
- Agents for unit trust or property trust,
- Provision of safe deposit box facilities.
- Intermediation role for example payment intermediation.
- Such other business as the Da Afghanistan Bank prescribe.

**Prohibited Activities:**

Any business that does not comply with Shariah