



Da Afghanistan Bank
Islamic Banking and Financial Services Department

**Guideline for Conversion of a Conventional Bank to
an Islamic Bank**

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1. Legal Basis

This Guideline on conversion of a conventional bank to an Islamic bank is issued pursuant to the authority granted to Da Afghanistan Bank (DAB) by Article 177 and 89 Banking Law of Afghanistan and in accordance with decision of the Cabinet of the Islamic Emirate Afghanistan (Decree No 15, dated 1443/05/16 corresponding to 1400/09/29).

2. Purpose

Da Afghanistan Bank (DAB) is committed to the full conversion of the conventional financial system and promotion and development of Islamic banking and finance in Afghanistan through setting up legal and regulatory framework. Through this Guideline, DAB provides details of measures, stages and required documentations for the conversion of existing conventional banks to full-fledge Islamic banks.

3. Scope

This Guideline is applicable to all conventional banks whether they have Islamic Banking Windows or not and branches of foreign conventional banks.

4. Pre-Conversion Measures

- 4.1 All banks shall immediately stop conducting any Shariah non-compliant banking activities.
- 4.2 All banks must obtain resolution of their Board of Supervisors and Shareholders for the conversion of the bank to an Islamic bank.
- 4.3 All banks shall establish Shariah Board and Shariah Department to guide and facilitate the conversion process.
- 4.4 For smooth streamlining of business operations and conversion process, all banks shall establish a high-ranking authorized Conversion Committee (CC) duly approved by the bank's BOS.
- 4.5 All banks are required to start capacity building programs for its staff, particularly training of trainers (ToT).

5. Preparation of the Conversion Plan

All conventional banks shall develop a conversion plan, in compliance with this Guideline. The conversion plan shall have details of processes, procedures and clear timelines regarding the conversion of all Shariah non-compliant assets, liabilities, products, services, policies and manuals, which shall be duly approved by the bank's Board of Supervisor (BOS) and Shariah Board.

6. Components of the Conversion Plan

A conversion plan submitted for consideration shall comprise the followings:

6.1. Essential Information About the Bank

- 6.1.1 Information about the shareholders, group companies and subsidiaries.
- 6.1.2 Profile of members of BOS and Key Executives of the bank.
- 6.1.3 Existing and proposed organizational structure.

- 6.1.4 Details of existing branches both conventional and Islamic.
- 6.1.5 Latest audited financial statements
- 6.1.6 Proposed changes in by-laws (Memorandum and Articles of Association)

6.2.Position and Treatment of Shariah Non-Compliant Items

- 6.2.1 Position of all Shariah non-compliant assets and liabilities and their proposed treatments with corresponding Shariah compliant solutions.
- 6.2.2 Position of all Shariah non-compliant off balance sheet items and their proposed treatments with corresponding Shariah compliant solutions.
- 6.2.3 Position of non-performing assets and their proposed Shariah compliant treatments.
- 6.2.4 Details of Shariah non-compliant income/earnings and mechanism adopted for their disposal.
- 6.2.5 Details of Shariah non-compliant collaterals/securities and their proposed treatments.
- 6.2.6 Details of all Shariah non-compliant investments such as amount, nature, maturity, payments, accruals etc. and their proposed Shariah treatment
- 6.2.7 Information about all conventional financing arrangements with DAB.
- 6.2.8 Details of Nostro/Vostro Accounts and other corresponding conventional banking relations and their proposed treatment.

6.3.Training and Capacity Building

- 6.3.1 Arrangements/plans for training, certification programs and capacity building of BOS, Key Executives, staff of Head Office and other bank officials.
- 6.3.2 The Certification/training programs must be conducted in coordination with AIBF and/or any renowned and training institutions acceptable to DAB.
- 6.3.3 In cases where a bank itself arranges trainings, it must submit an Islamic banking training plan specifying contents, trainers, schedule etc. for all its staff.

6.4.Policies, Procedures and Products

- 6.4.1 List of all policies and procedures/manuals pertaining to all functions of the bank.
- 6.4.2 List of all Shariah non-compliant products and services and their Shariah-compliant alternatives.

6.5.Systems and Controls

- 6.5.1 Information about the availability of systems and applications, for conducting full-scale Islamic banking operations including profit distribution and pool management etc.
- 6.5.2. Assurances that proper systems and controls are in place to protect the interest of all stakeholders.
- 6.5.3 Arrangement/plan for IT integration/migration from conventional to Islamic banking.

6.6.Audit and Review

- 6.6.1 Plans to undertake comprehensive internal audit on the operations of the bank both at pre and post conversion stages.

6.6.2 Plan to undertake regular Shariah review of the conversion process in coordination with CC.

6.7. Arrangement for informing the stakeholders and the public

- 6.7.1 Plan for informing bank's stakeholders and general public about conversion through direct contact, print and electronic media etc.
- 6.7.2 Process for obtaining consent from existing customers for conversion to Islamic banking products and services (assets and liabilities) both locally and internationally (if applicable).
- 6.7.3 Plan for settlement of all assets and liabilities of customers unwilling to continue relationship with the bank on new terms and conditions.

6.8. Other Requirements

- 6.8.1 Plans for conversion of Shariah non-compliant employee benefits/facilities into Shariah compliant modes.
- 6.8.2 Information about activities/cases which do not have corresponding Shariah compliant solutions.
- 6.8.3 Summary of the court cases under litigation.

7. Granting of the In-principle Approval by DAB

- 7.1 DAB will evaluate the proposed plan of the bank keeping in view its merits and upon its satisfaction, will grant an in-principle approval to the bank to initiate the conversion process.
- 7.2 DAB may consider the CAMELS status of the banks while granting the approval for conversion.

8. Implementation of the Conversion Plan

Upon obtaining in-principle approval, the bank shall immediately start the conversion process in line with Shariah rules and principles and complete it within two years.

- 8.1. The bank shall develop Shariah compliant products, policies, procedures/manuals pertaining to all main functions duly approved by its Shariah Board and BOS.
- 8.2. Conventional banks that have Islamic Banking Windows or subsidiaries may adopt their policies, procedures, manuals, products and operations and Islamize all the remaining ones, if any.
- 8.3. While converting its existing Shariah non-compliant assets and liabilities, the bank shall prepare its Shariah compliant products, obtain its Shariah Board approval and send them for the approval of the Shariah Supervisory Board.
- 8.4. Depositors who refuse to transfer their deposits should be returned their deposits based on DAB's circulars and regulations.
- 8.5. The bank shall confine itself to permissible operations for acquiring the necessary funds to operate or to meet its liabilities.
- 8.6. Any interest and other non-permissible earnings should be treated in Shariah compliant ways. The bank shall not delay in clearing out non-permissible transactions.

- 8.7. The bank shall establish a unit for following up the settlement of Non-Performing Loans (NPLs) and written off items.
- 8.8. The Shariah Department of the bank shall arrange for periodic internal Shariah review and prepare a report in coordination with the Conversion Committee. The report shall be submitted to the Shariah Board, BOS and DAB on a bi-monthly basis till the completion of the conversion process.
- 8.9. The bank shall submit a bi-monthly report on conversion progress and related matters duly signed by the CEO, to DAB till the completion of the entire conversion process.
- 8.10. The bank shall set up a helpdesk with respect to customers' queries regarding conversion of the bank.
- 8.11. The banks may coordinate and assist each other in developing policies, products and arrange for joint trainings and consultancy services.
- 8.12. During the period after granting an in-principal approval and before the issuance of full-fledged Islamic banking license, banks with the approval of their Shariah Board can take deposits and provide financing to its customers.

9. Issuance of Full-fledged Islamic Banking License

- 9.1. Upon fully implementing the conversion plan, the bank shall apply to DAB for the issuance of full-fledged Islamic banking license. The application shall be accompanied with the followings:
 - 9.1.1 Comprehensive post-conversion report on the full implementation of the Conversion Plan in conformity with Shariah, duly certified by the bank's Shariah Board and BOS.
 - 9.1.2 Revised Memorandum and Articles of Association of the Bank along with a summary of the changes made.
 - 9.1.3 A certificate that all policies and procedure/process manuals and all products have been prepared/revised and approved by the Shariah Board and the BOS of the bank.
- 9.2. Based on satisfactory review, DAB will issue a new license and the bank shall surrender the conventional banking license.

10. Others

- 10.1. AAOIFI's Standard No.6 shall be the guiding principle if a particular issue is not covered in this Guideline.
- 10.2. Any particular exemption to any of the provisions as provided herein shall only be permitted via a formal application being submitted by the bank after prior consultation with and approval of its Shariah Board, to DAB outlining the reasons and justifications for such requests.
- 10.3. This Guideline supersedes all previous related regulations and circulars on conversion issued by DAB.
- 10.4. This Guideline shall take effect upon the date of its issuance by Da Afghanistan Bank.