



EDBS/KH/C/13/2014
19 February 2014

The Chairman of the Board
All Locally Incorporated Islamic Banks
Manama
Kingdom of Bahrain

Dear Sir,

**Compliance with AAOIFI Accounting, Governance,
Ethics and Shari'a Standards**

During the course of inspections and offsite reviews of licensees' activities it has come to the attention of the CBB that there have been episodes of non-compliance with the principles of Islamic Shari'a by several licensees in certain aspects of their conduct of business and some transactions.

The purpose of this Directive is to remind all locally incorporated Islamic banks that they must comply with all AAOIFI Shari'a standards in addition to applicable AAOIFI Accounting and Governance Standards (please refer to HC-9.2.6). The Shari'a Review Function and the Shari'a Supervisory Board of each Islamic Bank must ensure between them that the licensee is strictly following Shari'a principles and the concerned AAOIFI Shari'a Standards. These principles and Standards are not guidelines and must be complied with fully. The success of any Islamic bank depends on its level of compliance with such standards and principles.

In case of non-compliance, the Shari'a Supervisory Board, the management and the Internal Shari'a Review function must work together to resolve the non-compliance matters in the best interest of all stakeholders but within the boundaries of Shari'a principles. Moreover, the Audit Committee, in cooperation and consultation with the Shari'a Supervisory Board and the external auditors, must ensure that proper disclosure is made to the shareholders on such non-compliance issues and the way these issues have been or will be treated.

All locally incorporated Islamic banks and their concerned governance bodies and personnel must take immediate measures to ensure that they comply with measures referred to in this circular and that full public disclosures will be made in the annual report for 2013 and future reporting periods as applicable.

2 / ...

المملكة العربية السعودية
البنك المركزي
المكتب التنفيذي للإدارة المصرفية

Executive Director - Banking Supervision

Last but not least, you should ensure that the copy recipients listed below have received copies of this letter and are taking action as required.

Yours faithfully,


Khalid Hamad

cc: The Chairman of the Shari'a Supervisory Board, all locally incorporated Islamic banks
The Chief Executive Officer, all locally incorporated Islamic banks
The Shari'a Review function, all locally incorporated Islamic banks