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Afghanistan Delisted of FATF "Grey List"

Afghanistan's Anti-Money laundering and Counter Terrorism Financing Mutual Evaluation was adopted by APG in 2011. Afghanistan was rated "Non-Compliant" or "Partially Compliant" in relation to 46 of the 49 Recommendations, including all 16 core/key Financial Action Task Force (FATF) Recommendations. In June 2012, Afghanistan was considered as "High Risk Jurisdiction" having strategic deficiencies in its Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) regime and was placed under expedite review. Since then, Afghanistan agreed to work together with Asia Pacific Group (APG) on Money Laundering and complete its Action Plan with FATF. Although it took long time for Afghanistan, but implementation process of the action plan has been accelerated since Feb 2016."The Central Bank"

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. As part of the de-listing process, the Regional Review Group of FATF conducted an on-site visit of Afghanistan to confirm that the process of implementing the required reforms and actions is underway to address deficiencies previously identified.

It is worth mentioning that, Afghanistan Banks Association (ABA) also contributed its efforts towards fulfilling the requirement of FATF/Delisting of Afghanistan, through coordination meetings with Da Afghanistan Bank

(The Central Bank), working with member banks for implementation of AML/CFT, conducted interviews with media outlet to put pressure on government for early approval of the AML/CFT Law (what was approved in 2014). In order to ensure, effective implementation and recognize the deficiencies, ABA formed Corporate Governance, Risk Management and Compliance (GRC) Committee and prepared charter for proper functioning of the committee. The committee comprise of professional experienced bankers in risk management and compliance fields. The committee meetings have been conducted by ABA to ensure optimum practices of AML/CFT compliance within the member banks.

On April 12, 2017, FATF Team visited Afghanistan to observe and assess implementation of AML/CFT with banks and other respected areas. Da Afghanistan Bank (DAB), Afghanistan International Bank (AIB), Azizi Bank, Pashtany Bank and from ABA Mr. Najibullah Amiri were invited to visit FATF's team in World Bank (Afghanistan).

In the meeting, Mr. Najibullah Amiri updated FATF on implementing of compliance by the member banks and added that, AML/CFT/KYC are getting practiced well in the banking sector, compliance updated software are in place and customers are monitored effectively. Mr. Amiri added that, ABA is closely working with DAB and Compliance Heads of the banks to strengthen compliance international best practices in the banking sector. Afghanistan has been in "Grey List" of Financial Action Task Force (FATF) for the past five years, FATF Plenary on 24th Feb 2017 in Paris, confirmed that Afghanistan has completed its Action Plan at technical level.

Luckily, after return of FATF team, on 23rd June 2017, FATF publically announced that Afghanistan is no longer in "Grey List" and is delisted. This is an important signal to corresponding banking relation and international community which highlights the huge achievements, efforts and result of hard work toward implementation of relevant laws and the systems to combat money laundering and terrorist financing in Afghanistan.

ABA Contribution in reduction of Security Expense of the Banks

The security of expense constitutes the heavy portion of operational cost of the banks due to unstable security situation in Afghanistan, which relatively decreases profitability of the banks. In Afghanistan, the security services are provided by the Afghan Government (Afghanistan Public Protection Force (APPF) which is a public security enterprise under leadership of The Ministry of Internal Affairs (MoIA). In order to have accurate data on security expense of all member banks, in 2016 ABA conducted a survey. Based on the ABA's survey, after the bank's civil employee's salaries expense, the bank's second largest expenditure item is security expenses. Hence, due to high security expenses, member banks frequently requested ABA to take the issue with APPF

and other concerned government authorities for decreasing the cost, improving effecting coordination and service quality. For this purpose, ABA took a certain action, started Lobbying with different authorities such as APPF, Ministry of Interior Affairs & DAB and had several coordination meetings with. Fortunately, the Afghan Unity Government welcomed ABA proposal as means of encouraging banking business, private investment and the economy. Finally, as result of ABA's efforts and coordination with concerned officials, the security expenses of banks decreased and APPF committed to enhance service quality and coordination. Although the security expenses of banks in other countries seems to be lower than Afghanistan.



ABA Takes Steps for Promoting Islamic Banking in the Country

Taking into consideration the business context of Afghanistan in terms of religious sensitivity, there is good opportunity for Islamic Banking/Islamic financing. In order to facilitate smooth Islamic banking in the country, Afghanistan Banks Association(ABA) with close coordination of Central Bank (Da Afghanistan Bank) work together to identify the barriers and resolve that. To have in-depth understanding of the problems, ABA also formed Islamic Banking Committee which comprise of ABA's 7 member banks (Afghanistan International Bank, Afghan United Bank, Bakhtar Bank, Bank –e-Millie Afghan, Ghazanfar Bank, Maiwand Bank and New Kabul Bank) which providing Islamic banking services. ABA Conducts regular internal monthly committee meetings and with the Da Afghanistan Bank. As result of internal meetings, the Islamic Committee members agreed to take the following issues with Da Afghanistan (Central Bank).

- Islamic Asset Classification Regulation
- Profit Calculation based on weightages

To address the above mentioned concerns, on June 13, 2017, Afghanistan Banks Association (ABA) organized Islamic Banking Committee (IBC) Meeting with H.E. First Deputy Governor, Da Afghanistan Bank (DAB). In this meeting, H.E. Mr. Wahidullah Nosher, First Deputy Governor, DAB, Mr. Akhond Jan Rustaqi, Deputy DG (Islamic Banking) Financial Supervision Department, Other Concerned Officials of DAB's

Accounting/Finance Department, Mr. Najibullah Amiri Executive Director ABA and ABA's Islamic Standing Committee Members attended. The meeting was chaired by H.E. First Deputy Governor. Beside the main agenda points, seeking support from Islamic Development Bank (IDB), Sukuk, and fund placement by Islamic Banks were another sub agenda points raised with the Central Bank to be supported. H.E. stated: we will raise these points with concerned officials DAB will remain fully supporter of Islamic banking in the country what is good opportunity for banks as well as businesses.



ABA Works with DAB to Resolve Credit Barriers

During the second quarter 2017, Afghanistan Banks Association (ABA) mainly focused on resolving member banks legal issues in various area. In this respect, the Credit Standing Committee under leadership of ABA worked to find out the deficiencies exist within credit area of banking which constrains lending-access to finance. As a result, some critical issues found to be taken with the central bank. To address credit challenges of ABA's member banks, Afghanistan Banks Association (ABA) organized a coordination meeting with Da Afghanistan Bank (Central Bank) on June 13, 2017. The meeting was attended by H.E. Mr. Wahidullah Nowsher, First Deputy Governor DAB, Mr. Salim Salah, Director General, Financial Supervision Department (FSD) and Other High officials from FSD, DAB, Mr. Najibullah Amiri Executive Director ABA and ABA's Credit Standing Committee Members namely Mr. Kumar Goash, Arbab Mohammad Khan, Mr. Waheed Hakimi, Mr. Arif Mahmood Chaudhry, Mr. Asadullah Khan Killedar, Ms. Ewa as special invitee and Mr. Edrees Alimy Research and communication officer of ABA.

Mr. Najibullah updated H.E. on ABA initiative for formation of ABA's credit committee who are professional experienced to work toward improvement of the credit scenario of banking sector in Afghanistan. Subsequently, a comprehensive presentation on below topics was delivered by Mr. Kumar Gosh, Chairperson of ABA Credit Standing Committee in order to be considered by DAB for the purpose of expanding lending and easy access to finance.

Topics discussed:

1. Overdraft Mandatory Clean-up
2. Rescheduled and restructured credit
3. Property evaluators

4. Asset Classification
5. Provisioning
6. Exposures
7. Public Credit Registry
8. Asset Concentration

The above-mentioned issues were discussed in details by ABA's Credit Committee- DAB, and finally H.E. stated that, DAB welcomes banks optimum suggestions all the time. H.E. further expressed that the justified comments will be reviewed and presented to the executive board of DAB for consideration.



Corporate Governance, Risk and Compliance (GRC) Committee Meeting

The Corporate Governance, Risk and Compliance (GRC) Committee Meeting was held under leadership of ABA on April 24, 2017. The meeting was attended by the GRC Committee Members, special invitees of Compliance/Risk Management of member banks and Afghanistan Banks Association management team.

Discussions & Decisions

1. The participating members expressed their views on the Charter of the GRC, and unanimously approved the Charter.
2. The Chairperson of GRC shared his information on the FATF delegates visited the country for evaluation of the AML/CFT condition in the banking sector of Afghanistan.
3. The members of the committee asked ABA to request the central bank (DAB) feedback of the FATF delegation to Afghanistan.
4. The members raised the Know Your Customer (KYC) and custom verification problem to the committee, and based on the experience of individual banks, the annual re-KYC of all customer was regarded too cost-intensive. The custom documents verification problem was also raised and the challenges on the process was discussed.

It was unanimously decided to request ABA to arrange a meeting of GRC committee with Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) to negotiate these issues.



Efforts Made for Improvement of Capacity Building of the Members

Afghanistan Banks Association (ABA) conducted Human Resource (HR) working meeting with collaboration of Afghanistan Institute of Banking and Finance (AIBF) in ABA Office on June 04, 2017. The aim of this meeting was to have member banks feedback-suggestions on AIBF training – programs, updating member banks on AIBF New programs for the purpose of enhancing member banks capacity building and fulfilling their market demands.

Agenda points discussed:

1. First Quarter 2017 progress Review
2. Plan for Second Quarter 2017
3. Nominations
4. Quality Review
5. Suggestions and Recommendations

The meeting was chaired by Mr. Najibullah Amiri ABA Executive Director. Mr. Amiri updated member banks on AIBF current/future programs/ certifications and encouraged banks for supporting AIBF as national institute. Subsequently, Mr. Ziaulhaq Waziri, Academic Head, AIBF delivered a presentation on AIBF First Quarter 2017 progress Review, Plan for second Quarter 2017 and ensured to offer quality services to the banks. Banks were given opportunity to express their feedback regarding AIBF services, every member banks raised their points regarding AIBF training curriculum, trainer quality, etc, which were noted by AIBF to be considered. At end, Mr. Edrees Alimy Research and Communication Officer ABA, summarized meeting discussion, recommended AIBF for consideration of ABA's member banks comments and thanked participants for attending the meeting.



Custom Duties Can be paid through Banks (E-Payment)

On April 02, 2017 ABA-member banks attended the meeting held on collection of custom duties through Interbank Payment System in the Central Bank (DAB). In this meeting, high officials from Afghanistan Custom Department, Afghanistan Trade and Revenue Project, the Central Bank Operation Department (DAB), Head of Operations from member banks and ABA management attended.

Da Afghanistan Bank (DAB) planned to introduce the new system ICPSS (Intercity Payments Settlement System) through Afghanistan Clearing Settlement System (ACCS), for commercial banks branches which are providing services in provinces and boarders.

This system facilitate the bank's branches to transfer the payer's funds (Custom Duties) directly to the government revenue accounts which are kept with DAB (HQ/Provinces). This service will result generating more revenue, liquidity for banks and expansion of banks networks, by opening new accounts. In the meeting, a comprehensive presentation was made by Mr. Mir Aziz Baraki Head of Operation DAB. He explained how banks can transfer fund through ICPSS and the system advantage for the banks.

Overview of the e-payments

- To enhance administrative reform, reducing the clearance time and tax payment duration, to facilitate the taxpayers.
- Electronic Payment will able traders to pay their customs duties electronically through any commercial bank they maintain accounts.

Previously, the custom duties were collected in the form of physical cash which is bearing challenges, but activation of this system would avoid corruption and waste of time. ABA encouraged member banks to connect with this service, what is in favor of the banking sector and the economy as a whole.



ABA Contribution with Financial Inclusion Program

During the Second quarter 2017, Afghanistan Banks Association (ABA) contributed significantly with DAB Financial Inclusion Working Group which ABA is the member. The Banking and Finance Working Group meetings were chaired by Mr. Qasim Rahimi, Second Deputy Governor, Da Afghanistan Bank (DAB). The Banking and Finance Working Group is part of Executive Committee on Private Sector Development reports to Chief Executive Officer of Afghanistan H.E. Mr. Abdulah Abdullah. The aim of the Banking and Finance is to identify challenges and address recommendations of financial sector based on World Bank Doing Business Indicator (DBI) and reform # 5 to be presented to the PriSec Executive Committee. In this respect, many meeting conducted and member Banks challenges were shared by ABA with the Banking and Finance working group to be taken with Executive Committee- Afghan Government for consideration. The ultimate aim of the PriSec Executive Committee is to remove barriers from private sector and encourage private investment in the country. A draft amendment on Bankruptcy law and other significant recommendations were submitted to DAB to be included in final report.

The Working Group Worked mainly on the following areas:

1. Proposed Amendment to the Bankruptcy law
2. Getting Credit
3. Public Collateral Registry(PCR)
4. Credit Risk Sharing & Infrastructure Landing
5. Deposit Insurance by World Bank
6. Cost of Finance

The above agenda points were screened, the barriers identified and remedial recommendation was proposed to the executive committee to be considered.

