NOTICE TO BANKS
NOTICE NO. REG1/N-1/2026/79

ISLAMIC WINDOW OPERATIONS

CONTENTS

1. INTRODUCTION

1.1. This Notice outlines the regulatory requirements for the Islamic Window Operations including the requirements to obtain approval prior to establishing and conducting such operations.

1.2. This Notice is issued pursuant to section 66 of the Banking Act (Chapter 95) and applies to a bank licensed under the aforesaid Act, which is approved by the Authority to conduct Islamic Window Operations.

1.3. This Notice shall be read together with other relevant Notices and Guidelines issued by the Authority including, but not limited to:

<u>Notice</u>

1.3.1. Notice on Appointment of Syariah Advisory Bodies (Notice No. SYAFI/N/01/2023);
1.3.2. Notice on Syariah Non-Compliance (Notice No. SYAFI/N/02/2022);
1.3.3. Notice on Application Process of Islamic Product (Notice No. SYAFI/N/01/2022);
1.3.4. Notice on Internal Syariah Audit Framework (Notice No. IFAU/N/2/2018);
1.3.5. Notice on Appointment of Key Responsible Persons (Notice No. BU/N-6/2017/41);
1.3.6. Notice on Maintenance of Capital Adequacy Ratio (Notice No. BU/N-3/2017/38);

<u>Guidelines</u>

1.3.7. Guidelines on Islamic Window Operations (Guidelines No. REG1/G-1/2026/26);

as well as other notices, directives or guidelines which the Authority may issue from time to time.

1.4. This Notice shall take immediate effect.

2. DEFINITIONS

2.1. For the purpose of this Notice, the following terms shall have the following meanings, except where the context otherwise requires:

2.1.1. "**Authority**" means Brunei Darussalam Central Bank established under section 3(1) of the Brunei Darussalam Central Bank Order, 2010;

2.1.2. "**Board**" means -

a) for banks incorporated in Brunei Darussalam - the Board of Directors of the Host Bank; or

b) for banks registered in Brunei Darussalam - the group, regional or its equivalent oversight function responsible for the operations in Brunei Darussalam, together with its senior management in Brunei Darussalam;

2.1.3. "**Host Bank**" refers to a bank licensed under the Banking Act (Chapter 95), which is approved by the Authority to conduct Islamic Window Operations;

2.1.4. "***Hukum Syara'***" has the same meaning assigned to it under section 2 of the Syariah Financial Supervisory Board Act (Chapter 295);

2.1.5. "**Islamic Banking Business**" has the same meaning under section 2 of the Islamic Banking Act (Chapter 168);

2.1.6. "**Islamic Window Operation**" refers to Islamic Banking Business that is approved by the Authority in writing with the approval of the Minister pursuant to the definition of "banking business" in section 2(1) of the Banking Act (Chapter 95) conducted by a Host Bank;

2.1.7. "**Key Responsible Person**" refers to a senior person that is accountable or responsible for the management and oversight of the Host Bank of which they may hold controlled functions in executive positions;

2.1.8. "**Syariah Advisory Body**" or "**SAB**" means a body established by a Host Bank, which is responsible for reviewing, advising, providing opinions on and approving its Islamic products and Islamic services and ensuring the Islamic Window Operations and activities are in accordance with *Hukum Syara'*;

2.1.9. "**Syariah Control Function**" refers to a function that is independent from business lines and is responsible to provide objective assessment, reporting and assurance on the effectiveness of the Islamic Window Operations, and its compliance with legal and regulatory obligations. This includes the Syariah risk management function, Syariah review function and Syariah audit function;

2.1.10. "**Syariah Financial Supervisory Board**" or "**SFSB**" means the Syariah Financial Supervisory Board established pursuant to section 3 of the Syariah Financial Supervisory Board Act (Chapter 295).

PART I:
APPLICATION TO CONDUCT ISLAMIC WINDOW OPERATIONS

3. REQUIREMENTS TO OBTAIN APPROVAL FOR ESTABLISHING AND CONDUCTING ISLAMIC WINDOW OPERATIONS

3.1. A bank that intends to conduct Islamic Window Operations shall fulfill the following eligibility criteria:

3.1.1. The bank is licensed prior to the effective date of this Notice;

3.1.2. The bank complies with the minimum Capital Adequacy Ratio as required under BDCB's Notice on Maintenance of Capital Adequacy Ratio; and

3.1.3. The bank is not subject to any significant supervisory concerns, material adverse findings or regulatory non-compliance identified by the Authority at the time of application and throughout the assessment period.

3.2. A bank that intends to establish and conduct Islamic Window Operations shall obtain the prior written approval of the Authority by submitting an application as outlined in section 4 below.

3.3. The Authority may suspend or revoke any approval granted under this Notice in the event that the Host Bank fails to comply, whether wholly or partly, with any applicable requirements or conditions.

4. APPLICATION PROCESS

4.1. In assessing the application for a bank to establish and conduct Islamic Window Operations, the Authority shall take into consideration, among others, the bank's corporate authorisation, strategic viability, governance arrangements, segregation framework, operational readiness and overall compliance with *Hukum Syara'*, as further elaborated under paragraph 4.10 below.

4.2. A flowchart depicting the application process is provided in **ANNEX 1**.

Pre-Application Consultation

4.3. A bank intending to establish and conduct Islamic Window Operations may seek consultation and clarification from the Authority prior to submission of its application.

4.4. The application process shall comprise the following two stages:

4.4.1. Stage 1: Application for Approval-in-Principle; and

4.4.2. Stage 2: Application for Final Approval

Stage 1: Application for Approval-In-Principle

4.5. A bank intending to establish and conduct Islamic Window Operations shall submit an application to the Authority for Approval-In-Principle.

4.6. The application for Approval-in-Principle shall be accompanied by the relevant documentation and information as set out below:

4.6.1. Corporate Authorisation

i. Copy of the Board resolution approving the establishment of the Islamic Window Operations;

4.6.2. Strategic and Business Plan

i. A comprehensive business plan covering at least three years, outlining target market segment(s), product offerings, value propositions and financial projections;

4.6.3. Structural and Segregation Framework

i. A clear framework for segregation of Islamic Window Operations from its conventional operations, in accordance with *Hukum Syara'*. This includes operational infrastructure, systems and internal controls framework;

ii. The proposed application of funds including investment in Syariah-compliant instruments;

4.6.4. Governance and Organisational Framework

i. Proposed governance structure for Islamic Window Operations including its Syariah governance framework;

ii. Identification of branches which will conduct Islamic Window Operations, where applicable;

iii. Capacity building plans to support requisite knowledge and skills.

4.7. The Authority may require such additional information or documents as it deems necessary to assess the application.

4.8. An application shall be deemed complete only upon receipt by the Authority of all the required documents and information.

4.9. The Authority may, within a period of ninety (90) calendar days from the date of receipt of a complete application, or within such extended period as the Authority may determine, approve or refuse the bank's application to establish and conduct Islamic Window Operations.

4.10. Where the Authority considers the application satisfactory, it may grant an Approval-In-Principle subject to such terms and conditions as it considers appropriate, including requirements to be fulfilled prior to the commencement of operations to ascertain operational readiness.

4.11. For the avoidance of doubt, an approval-in-principle granted by the Authority does not authorize the commencement of Islamic Window Operations. Further, it does not constitute a guarantee of final approval.

Stage 2: Application for Final Approval

4.12. Upon attaining operational readiness, the bank shall submit an application to the Authority seeking approval to commence the commercial Islamic Window Operations.

4.13. Such application shall be accompanied by a detailed operational readiness assessment report duly approved by the Board, demonstrating the bank's preparedness to launch commercial Islamic Window Operations.

4.14. The operational readiness assessment report shall include, at a minimum:

4.14.1. Confirmation that all terms and conditions stipulated under the Approval-In-Principle have been fully complied with;

4.14.2. Evidence of the placement of allocated capital for the Islamic Window Operations as required under paragraph 7 below;

4.14.3. Confirmation that accounting, financial reporting and internal control systems are in place to ensure proper segregation of Islamic assets and liabilities from those of the conventional operations;

4.14.4. Confirmation that the Syariah Governance Framework has been fully established and implemented;

4.14.5. Confirmation that the necessary infrastructure, systems and operational workflows are fully operational;

4.14.6. Confirmation that relevant personnel have undergone appropriate training; and

4.14.7. The proposed commencement date of its Islamic Window Operations.

4.15. The Authority shall assess the bank's operational readiness, which may include conducting an on-site inspection. Where the Authority considers that additional assurance is necessary, having regard to the nature, scale and complexity of the proposed Islamic Window Operation or any concerns identified during its assessment, the Authority may require the submission of an independent third-party assessment report.

4.16. A bank shall only commence its Islamic Window Operations upon obtaining final written approval from the Authority, confirming that the Operational Readiness Assessment has been satisfactorily completed and that all applicable terms and conditions have been fulfilled. Such approval shall include, where applicable, the following:

4.16.1. approval of the Syariah Financial Supervisory Board (SFSB) for the appointment of the members of its Syariah Advisory Body; and

4.16.2. approval of the Authority for the appointment of the Key Responsible Person(s) for its Islamic Window Operations.

PART II:
KEY REQUIREMENTS FOR ISLAMIC WINDOW OPERATIONS

5. KEY RESPONSIBLE PERSON

5.1. The Host Bank shall designate a member of its senior management as a Key Responsible Person (KRP) for its overall Islamic Window Operations, which shall be subject to the Authority's approval in accordance with the Notice on Appointment of KRP (Notice No. BU/N-6/2017/41).

5.2. For the avoidance of doubt, the appointment of an individual as the Chief Executive Officer or as a KRP for the Host Bank's conventional banking operations, shall not automatically constitute an appointment as the KRP for the Islamic Window Operations. The Host Bank shall specifically designate and obtain the Authority's approval for an individual to assume responsibility for the Islamic Window Operations.

5.3. The KRP shall possess necessary expertise, including adequate knowledge, qualification and/or experience in Islamic banking and finance, having regard to the nature, scale and complexity of the Islamic Window Operations.

6. SYARIAH GOVERNANCE REQUIREMENTS

6.1. The Host Bank shall establish an end-to-end Syariah compliant control mechanism in all aspects of its Islamic Window Operations to ensure that all activities are in accordance with *Hukum Syara'*.

Syariah Advisory Body

6.2. The Host Bank shall establish a Syariah Advisory Body (SAB), in line with the requirements under the Notice on Appointment of Syariah Advisory Bodies (Notice No. SYAFI/N/01/2023).

6.3. The SAB shall comprise of at least three members of which two (2) are citizens of Brunei Darussalam.

6.4. The Host Bank may leverage the existing SAB within its group[1], subject to the following:

6.4.1. The SAB shall comprise at least three members;

6.4.2. Two of the SAB members shall be local citizens of Brunei Darussalam; and

6.4.3. Obtaining prior approval from the SFSB.

[1] As defined in the Notice on Bank's Recovery Plan, as may be revised from time to time

Syariah Officer

6.5. The Host Bank shall appoint a dedicated Syariah Officer, who is citizen of Brunei Darussalam, with relevant Syariah knowledge and qualifications for the purposes of the Islamic Window Operations, to undertake research functions and perform secretarial role for the SAB.

6.6. To ensure effective Syariah governance and oversight, the Host Bank shall not rely on, or leverage, the Syariah Officer(s) of its parent bank/group.

Syariah Control Function

6.7. The Host Bank shall establish Syariah control functions for its Islamic Window Operations, which shall include:

6.7.1. Syariah review;

6.7.2. Syariah audit; and

6.7.3. Syariah risk management.

7. ALLOCATED CAPITAL FOR ISLAMIC WINDOW OPERATIONS

7.1. A Host Bank shall at all times maintain an allocated capital for its Islamic Window Operations of not less than BND 5 million or such higher amount as may be determined from time to time by the Authority.

7.2. Notwithstanding paragraph 7.1, the allocated capital shall be sourced from its Host Bank provided that the arrangement is in accordance with *Hukum Syara'* based on one of the following mechanisms and is approved by the SAB:

7.2.1. The initial capital provided by the Host Bank as a gift (*hibah*);

7.2.2. The initial capital obtained from Host Bank as *qardh hasan* (interest-free loan); or

7.2.3. The initial capital from the Host Bank can be considered as a partnership or capital participation through *mudharabah, musharakah*, or *wakalah bil ujrah*.

7.3. Notwithstanding paragraph 7.2, the allocated capital for the Islamic Window Operations shall not be reallocated and utilized for the conventional operations of the Host Bank. The allocated capital shall be ring-fenced through the following mechanisms:

7.3.1. Segregation of accounting records;

7.3.2. Restriction from utilizing the allocated capital by the Host Bank; and

7.3.3. Daily monitoring of the Islamic Window Operations by the Host Bank.

7.4. The Host Bank may allocate additional capital for its Islamic Window Operation from time to time as and when required based on one of the mechanisms outlined in Paragraph 7.2 above, subject to prior approval by its SAB.

7.4.1. Each additional capital allocation should be properly documented with ongoing oversight to ensure that the allocated capital for its Islamic Window Operations support its business strategy, operational growth, liquidity needs, and risk profile.

7.5. In the event that a Host Bank decides to use the income generated from its Islamic Window Operations for the purpose of dividend payment to its shareholders, the Host Bank shall ensure that such usage is subject to the requirements under section 26 of the Banking Act (Chapter 95).

7.6. Where the income generated from the Islamic Window Operations is not utilized for the purpose set out in paragraph 7.5 above, the Host Bank shall retain the income generated in the allocated capital of the Islamic Window Operations.

8. INTERNAL SYSTEMS, PROCEDURES AND CONTROL

8.1. The Host Bank shall establish internal systems, procedures and controls for its Islamic Window Operation, which provide assurance that:

8.1.1. The transactions and dealings of the Islamic Window Operations are in accordance with *Hukum Syara'*;

8.1.2. The Islamic assets and funds are separated from Syariah non-compliant assets and funds; and

8.1.3. The Islamic banking accounts are properly segregated from its Host Banking accounts.

8.2. The Host Bank is required to establish an Asset and Liability Management (ALM) framework, dedicated to the effective management of Syariah-compliant assets and liabilities.

8.2.1. The ALM framework shall demonstrate the segregation of Syariah-compliant assets and liabilities, maintaining a clear distinction from other assets and liabilities held by its Host Bank.

8.2.2. The segregation process and implementation shall be reflected through separate product codes for Syariah-compliant products and documented in designated general ledger accounts.

8.3. The Host Bank shall establish an appropriate funding and financing mechanism for its Islamic Window Operations, which shall be approved by its SAB.

8.4. Any excess or shortage of liquidity in the Islamic Window Operations shall be managed via Syariah-compliant liquidity instruments as approved by its SAB.

8.5. The Host Bank may establish its own infrastructure or leverage on its conventional infrastructure for conducting Syariah-compliant activities, such as providing Syariah-compliant products and services through existing business lines.

8.5.1. In the event where the Host Bank leverages on its conventional infrastructure, proper Standard Operating Procedures governing the overall arrangements with the Host Bank's business lines shall be developed.

8.6. The Host Bank may use a dedicated or leveraged core banking system for recording, managing and reporting Syariah-compliant activities and operation.

8.6.1. Where the Host Bank adopts a leveraged core banking system, it shall ensure that the system adequately captures and supports the distinctive features and requirements of Syariah-compliant products and services.

8.7. In ensuring clear segregation of Islamic banking activities from conventional banking activities, the Host Bank shall adopt a holistic approach with regard to carrying on the Islamic Window Operations within the Host Bank. Such approach should take into consideration staffing and physical premises in accordance with the size and the complexity of the Islamic Window Operations. The approach may take one of the following forms, for which a transparent cost allocation mechanism shall be established, documented and approved by the Board:

8.7.1. Stand-alone separate branches and offices with dedicated personnel to service the Islamic banking customers;

8.7.2. Leveraging[2] on the existing branches, offices and personnel for the Islamic Window Operations with separate counters; or

8.7.3. Any other forms subject to notification to the Authority.

8.8. The Host Bank shall ensure that its Islamic Window Operations are clearly identifiable from its conventional operations and appropriately disclosed to stakeholders and the public.

8.9. The Host Bank may use its existing corporate branding, provided that the Islamic nature of the products and services is prominently disclosed.

8.10. All marketing, promotional and communication materials relating to the Islamic Window Operations shall clearly distinguish the Islamic products and services from the Host Bank's conventional products and services, and shall be subject to prior approval by the SAB.

8.11. Any events, campaigns or promotional activities relating to the Islamic Window Operations that are jointly organized with its Host Bank and involve cost sharing arrangements shall be subject to prior approval by the SAB to ensure that such activities, including the allocation and utilisation of funds, are in accordance with *Hukum Syara'*.

8.12. In the event any Syariah non-compliance incident is identified, the Host Bank shall observe Notice on Syariah Non-Compliance (Notice No. SYAFI/N/02/2022) for the management of a Syariah non-compliant incident and treatment of Syariah non-compliance income.

9. PRODUCTS AND SERVICES

9.1. All new products and services offered by the Islamic Window Operations shall obtain approval from its SAB and the SFSB.

9.2. The Host Bank shall ensure that new products and services adhere to the requirements outlined in BDCB's Notice on Application Process of Islamic Product (NAPIP) (Notice No. SYAFI/N/01/2022).

[2] Refers to sharing of resources between Islamic and conventional operations within an entity.

10. ACCOUNTING RECORDS, FINANCIAL REPORTING AND DISCLOSURE

10.1. The Host Bank shall maintain all accounting records related to its Islamic Window Operations in a manner that ensures their segregation from the accounting records of conventional operations.

10.2. The Host Bank shall prepare and present financial information relating to its Islamic Window Operations in accordance with International Financial Reporting Standards (IFRS) as prescribed by Brunei Darussalam Accounting Standards Council (BDASC), wherever possible.

10.2.1. Such information relating to the Islamic Window Operations shall be disclosed in a manner that is clearly identifiable and distinguishable from the Host Bank's conventional operations, whether through supplementary financial statements, a separate section within the Host Bank's financial statements, or other appropriate disclosure arrangements.

10.2.2. The Host Bank shall ensure that the proposed reporting and disclosure arrangements are discussed with, and formally agreed by, its external auditors.

10.3. A Host Bank shall disclose, in relation to its Islamic Window Operations, the following information in appropriate detail:

10.3.1. the Syariah Governance structure;

10.3.2. the Board's responsibilities for the implementation and oversight of Syariah Governance;

10.3.3. the funds mobilized in accordance with *Hukum Syara'* and the assets financed by such funds;

10.3.4. the income and expenses attributable to the Islamic Window Operations.

10.3.5. the SAB's disclosure on the responsibilities to Syariah governance and an opinion on the state of the Islamic Window Operations including segregation of the fund, such as follows:

a) whether any commingling of funds relating to the Islamic Window Operations and conventional banking business has occurred, including the amount involved, the reasons for such commingling, and the remedial measures undertaken;

b) the sources and applications of funds mobilised and invested in accordance with *Hukum Syara'*;

c) the sources of funds used to cover any deficit arising from the Islamic Window Operations;

d) any income received that is not in accordance with *Hukum Syara'*, including the treatment and disposal of such income;

e) any reserves established in relation to funds mobilised in accordance with *Hukum Syara'*, including the purpose of such reserves and the manner in which such reserves would be utilized, distributed or otherwise dealt with should the relevant activities cease; and

f) the percentage of funds held by the Islamic Window Operations from the conventional parent and/or other conventional entities (in the form of capital allocated, deposits or investment accounts, etc.) in comparison to the total funds.

10.3.6. Any other information as may be required by the Authority from time to time.

11. COMPLIANCE ON PRUDENTIAL REQUIREMENTS

11.1. The Islamic Window Operations shall not be subject to separate compliance to regulatory prudential requirements. However, the Host Bank shall ensure that all risk exposures are appropriately observed in the overall compliance with the prudential requirements at both the entity and consolidated levels, where relevant. These include but are not limited to the minimum capital adequacy ratio, minimum cash balances and single borrowing limit.

11.2. In the case where the Authority finds that the risk management practices of the Islamic Window Operations are unsatisfactory, or in situations where risk exposures of the Islamic Window Operations are significant and are likely to have adverse effects on the overall safety and soundness of the Host Bank, the Authority may review the applicability of paragraph 11.1 above and specify additional requirements as deemed appropriate, as the case may be.

12. CONVERSION OF ISLAMIC WINDOW OPERATIONS

12.1. Subject to the development of its Islamic Window Operations, the Authority may, where it considers appropriate, require a Host Bank to cease its Islamic Window Operations and establish a separate entity to conduct Islamic Banking Business under the Islamic Banking Act (Chapter 168) within such period as may be determined by the Authority. Prior to issuing such a requirement, the Authority shall engage with the Host Bank with a view to reaching mutual agreement on the approach, timeframe, and transitional arrangements for the establishment of the separate entity.

13. NOTIFICATION ON CESSATION OF ISLAMIC WINDOW OPERATIONS

13.1. In the event that the Host Bank decides to cease its Islamic Window Operations, the Host Bank shall submit a written notification to the Authority at least ninety (90) calendar days prior to the cessation.

13.2. In relation to paragraph 11.1, such written notification shall be supported with the following information and documents:

13.2.1. The deliberations and approval by the Board;

13.2.2. The rationale for such decision being made;

13.2.3. The manner in which the cessation of the Islamic Window Operations is to be conducted, including the plan on managing affected stakeholders (including existing customers); and

13.2.4. The effective cessation date of the Islamic Window Operations.

MANAGING DIRECTOR
BRUNEI DARUSSALAM CENTRAL BANK

Issue Date: 14 Rabiulawal 1448H / 27 August 2026

ANNEX 1:

A flowchart depicting the application process to establish and conduct Islamic Window Operations is as follows: