

Instructions on Islamic Banking Windows Operations

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Islamic Finance Policy Department
State Bank of Pakistan

Table of Contents

A. Objective	2
B. Scope	2
C. IBWs Policy	2
D. Annual IBWs Expansion Plan (AIBWEP).....	3
E. Evaluation of AIBWEP.....	3
F. Interim Arrangements for Islamic Banking Windows at Conventional Branches under Conversion	3
G. Physical set-up and Display	4
H. Closure or Shifting of IBWs.....	4
I. Products & Services to be offered by IBWs	4
J. Fee Structure for Operations of IBWs	5
K. Reporting.....	5
Appendix - Process Flow	6

A. Objective

The objective of instructions on Islamic Banking Windows (IBWs) is to enhance the share and outreach of Shariah compliant banking products & services to the general public and contribute in overall financial inclusion in the country.

B. Scope

- i. Applicable to all Conventional banks and Microfinance Banks (MFBs) having Islamic operations.
- ii. The instructions cover operations of IBWs like opening, shifting and closure of their business.

C. IBWs Policy

Banks and MFBs operating or intending to start IBWs shall develop a Policy (or revise existing one, if any) containing details on functioning of IBWs duly approved by their Shariah Board (SB)/ Shariah Advisor (SA) and Board of Directors (BoD) before approaching SBP for permission.

The *IBWs Policy* shall at least cover the following:

- i. **Objective:** The objective of IBWs operations Policy.
- ii. **Systems & Controls:** Systems and controls in place like segregation of funds, duly approved procedure manual, real time connectivity of IBW with its hub/controlling branch/centralized data centre, and allied activities etc.
- iii. **Standard Operating Procedures (SOPs):** SOPs for overall arrangements with concerned group/division of the bank/MFB for use of Conventional Banking branches.
- iv. **Service Level Agreement (SLA) & Transfer Pricing Mechanism:** SLAs with regard to support functions/arrangements between the Islamic Banking/Microfinance Division (IBD/IMD) & relevant departments/divisions of the bank/MFB to ensure smooth functioning of IBWs. Moreover, transfer-pricing mechanism with regard to the functions/services required from other departments/divisions of the bank/MFB (conventional side) shall be specified.
- v. **HR/Staff Arrangements:** Staff/HR arrangements (e.g. dedicated IBW Staff or staff of conventional branches under SOP/SLA) to provide Islamic banking services through IBWs. Further, transfer/posting mechanism of staff from/to an IBW shall also be covered.
- vi. **Plan for Training & Capacity Building:** Islamic banking trainings and capacity building arrangements covering enhanced Shariah compliant operations at IBWs with regard to designated/posted/transferred staff of the proposed IBWs in line with SBP instructions/guidelines issued from time to time.
- vii. **Marketing/Sales Arrangements:** Marketing/sales arrangements (e.g. separate marketing /sales staff or staff of conventional branches under SOP/SLA).
- viii. **Shariah Compliance:** Shariah compliance environment of IBWs shall be ensured keeping in view the products and services to be offered through IBWs in line with SBP relevant instructions issued for banks/MFBs from time to time.
- ix. **Branch Conversion through enhanced scope of operations at IBWs:** Those banks/MFBs which intend to enhance the scope of operations at their IBWs (i.e. offering both deposits & financing products – funded and non-funded) shall seek SBP's prior permission and after grant of permission the host conventional branch(es) (where IBWs situated) shall be required to convert into Islamic banking branch(es) within three years from the date of

start of the enhanced operations. The conversion process of the branch(es) shall be in line with the instructions issued vide IFPD Circular No. 05 of 2024 and as amended from time to time.

D. Annual IBWs Expansion Plan (AIBWEP)

Following information shall be submitted to SBP for seeking permission to operate IBWs:

- i. Banks/MFBs shall submit to BPRD consolidated Annual Plan incorporating details of required number of IBWs/branches/sub-branches etc. to be opened, and conversions to be made during a particular year in line with the requirements specified with regard to Annual Branch Conversion Plan (ABCP), Annual Branch Expansion Plan (ABEP), and instructions on IBWs operations amended from time to time.
- ii. Banks/MFBs shall specify details like business location, address, city, district etc. Further, the plan shall specify/identify the said places as either deposit only IBWs or both deposit& financing IBWs.
- iii. The consolidated Annual Plan along with requisite information shall be submitted to the Director – BPRD with a copy to Director – Islamic Finance Policy Department (IFPD) for consideration and approval by 31st October of each preceding calendar year.
- iv. Banks/MFBs shall submit SB's/SA's opinion/certificate with regard to sufficiency of HR capacity and the overall systems/arrangements in place for the operations of proposed IBW(s).
- v. Details of products & services to be offered by banks/MFBs through proposed IBWs.
- vi. A business plan showing at least three years business projections for the proposed IBWs along with necessary/basic assumptions in respect of the projections. Further, an assessment of the areas to be served by the proposed IBWs should be made part of the plan.

E. Evaluation of AIBWEP

- i. The AIBWEP shall be evaluated keeping in view the needs of the Islamic Banking System and other requisite information/documents in line with applicable instructions.
- ii. Whether the bank/MFB has provided comprehensive Islamic Banking training to designated/nominated Staff, Operation Manager, Branch Manager and related marketing/sales staff of the proposed IBW at the host conventional branch in line with applicable instructions.
- iii. The permission for operations of IBWs shall be made only on annual basis. However, the requests of banks/MFBs may be considered in exceptional cases, if the same is received with the objective of promoting Islamic banking, expansion in predominantly rural/remote areas and places where dire need of banking facilities exists.
- iv. SBP shall take final decision on bank's/MFB's request after taking into account all other factors in terms of IBW Policy of a bank/MFB and other applicable SBP instructions issued from time to time.

F. Interim Arrangements for Islamic Banking Windows at Conventional Branches under Conversion

Banks/MFBs may establish IBWs within conventional branches approved for conversion either under the annual branch conversion plan or through a separate request, without prior SBP

approval. Such IBWs may be established for an interim period starting from date of initiation of an individual branch conversion process till its final conversion.

- i. During the branch conversion phase, banks/MFBs may offer Shariah Compliant products including deposits and all types of financing (funded and non-funded).
- ii. Banks/MFBs shall specify their plan for establishing IBWs at the time of seeking SBP's permission for branch conversion under annual branch conversion plan or through a separate request.
- iii. There will be no processing fee/annual fee for opening of IBWs for interim period specified above.

G. Physical set-up and Display

- i. The Bank/MFB shall ensure that the words "Islamic Banking Window" are prominently displayed outside the branch either on the main signboard or any other appropriate signage in a manner that ensures adequate visibility.
- ii. The branch shall also display a prominent notice on entrance stating, "Islamic banking services also available (both in English or Urdu)" indicating clear nature of branch and place prominent signs inside the branch showing availability of Islamic banking services to customers.
- iii. The bank/MFB shall also provide details/updated list of its Islamic banking windows on its website.

H. Closure or Shifting of IBWs

- i. In general, all instructions (as a place of business) on shifting/closure of IBWs shall be applicable on banks/MFBs operating IBWs, issued vide BPRD Circular No. 4 of 2016 as amended from time to time. However, the IBWs hosting branches offering both deposits and financing products (tagged for conversion into Islamic banking branches) shall not be closed without prior approval of SBP.
- ii. IBWs (deposit only or both deposits & financing) may be shifted with prior permission from SBP, however, this would be subject to reasonable explanations necessitating the shifting. Further, the processing and annual fee for shifting an IBW shall be equal to fee required for opening of an IBW.
- iii. While shifting an IBW, the bank/MFB shall ensure that existing customers have a choice of a nearby Islamic banking branch or an IBW or the shift is within a radius of 10 KM.

I. Products & Services to be offered by IBWs

- i. IBWs can either offer Shariah compliant deposit products (only) or both deposits & all types of funded and non-funded financing products and services in line with their approved IBWs Policy.
- ii. No third-party products and services shall be offered by IBWs without prior approval of SBP.
- iii. Banks/MFBs are encouraged to offer Shariah compliant program-based financing products and one-window operation products with a view to reduce turnaround time (TAT) & quick access to finance especially the financing needs of farmers and SMEs.
- iv. All products & services offered by IBWs shall be in line with applicable prudential regulations and other guidelines/instructions issued by SBP from time to time.

- v. Banks/MFBs shall ensure that SB/SA approved product brochure/Key Facts Sheet with regard to the products & services is available at IBWs for customers. Further, product manuals/SOPs of all financing products and deposit schemes being offered by an IBW are available/accessible to the concerned staff for any reference and use.

J. Fee Structure for Operations of IBWs

The processing, shifting, annual fee structure and its payment timelines/procedures for IBWs operations shall be in line with specifications given in these instructions and Chapter-9 on '*Processing, Annual & Shifting Fee*' issued vide BPRD Circular No. 4 of 2016 amended from time to time.

K. Reporting

- i. Banks/MFBs shall intimate BPRD with a copy to IFPD (IFPD.Reporting@sbp.org.pk) within seven (7) days about commencement of IBW operations after completion of all requirements given in these instructions.
- ii. Banks/MFBs operating IBWs shall also submit consolidated information on quarterly basis within seven (7) days after the quarter end through DAP as per enclosed **Annexure-II**.

Appendix - Process Flow

Following will be the process flow with regard to operations of IBWs:

