



Da Afghanistan Bank

Non-Banking Financial Institutions Supervision Directorate General (NBFISD)

Regulation on Regulating and Supervising Microfinance Institutions

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Table of Contents

Chapter 1 General Provisions

Basis	1
Article (1)	1
Objectives.....	1
Article (2)	1
Scope	1
Article (3)	1
Terminologies.....	1
Article (4)	1

Chapter 2 Microfinance Sector Ecosystem

Microfinance Sector Ecosystem	4
Article (5)	4

Chapter 3 Licensing Requirements of Microfinance Institutions

License Application.....	4
Article (6)	4
Microfinance Section (Window) of Commercial Banks	5
Article (7)	5
Type of License	5
Article (8)	5
Capital of Microfinance Institutions.....	5
Article (9)	5
Fees	6
Article (10)	6
Policies	6
Article (11)	6
The Requirements for issuing an MFI License to Foreigners.	7
Article (12)	7
Transfer of Ownership/Privilege of License	7
Article (13)	7
Dissolution of Institution.....	8
Article (14)	8



Business License Suspension	8
Article (15)	8
Business License Revocation	9
Article (16)	9
Clearness/Settlements of Accounts in case of Business License Revocation	9
Article (17)	9
Burning or Loss of Business License	10
Article (18)	10

Chapter 4

Organizational Structure and Operation of Microfinance Institutions

Corporate Governance and Its Conditions	10
Article (19)	10
The General Assembly of Shareholders	10
Article (20)	10
Board of Supervisors' Structure	11
Article (21)	11
Conditions for Appointment and Composition of the Board of Supervisors	11
Article (22)	11
Duties and Responsibilities of Board of Supervisors	11
Article (23)	11
Structure of the Board of Executives	13
Article (24)	13
Duties and Responsibilities of Board of Executives	13
Article (25)	13
Conditions for Recruiting Compliance Officer	14
Article (26)	14
Internal and External Audit	14
Article (27)	14
The Organizational Structure of Microfinance in Bank	15
Article (28)	15

Chapter 5

Financing Conditions

Permitted Activities	15
Article (29)	15
Prohibited Activities	15



Article (30)	15
Conditions for Granting Financings	16
Article (31)	16
Limitations of Granting Financings	16
Article (32)	16
Financing Classification Method.....	16
Article (33)	16
Financing Classification Categories	17
Article (34)	17
Re-negotiated Financing	17
Article (35)	17
Minimum Provisioning Requirements	17
Article (36)	17
Charge-Offs	17
Article (37)	17
Microfinance Collateral/Guarantee	18
Article (38)	18
Acceptable Collateral/Guarantee.....	19
Article (39)	19
Repossession of Assets.....	19
Article (40)	19
MFI's Responsibilities Regarding AML/CFT.....	19
Article (41)	19

Chapter 6

Organizations that Fund and Facilitate Microfinance Institutions

Responsibilities	19
Article (42)	19
Conditions for Providing Aid/Donations/Funds or Financings to Institutions.....	20
Article (43)	20
Supervision and Evaluation.....	20
Article (44)	20

Chapter 7

Miscellaneous Provisions

Supervision	21
Article (45)	21



Reporting.....	21
Article (46).....	21
Penalties/Enforcement Actions	22
Article (47).....	22
Record Keeping.....	22
Article (48).....	22
Duties and Responsibilities of Association/Union.....	22
Article (49).....	22
Internal Procedures.....	23
Article (50).....	23
Confidentiality.....	23
Article (51).....	23
Forgery of Documents.....	24
Article (52).....	24
Enforcement	24
Article (53).....	24



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العلمين والصلاة والسلام على سيد المرسلين و على آله واصحابه اجمعين!

Regulation on Regulating and Supervising Microfinance Institutions

Chapter 1 General Provisions

Basis

Article (1)

This regulation has been enacted based on the provisions of Article (70) and Article (123) of the Da Afghanistan Bank (DAB) Law.

Objectives

Article (2)

(1) The overall objective of this regulation is to create, maintain, and supervise a responsive, accountable, transparent, and sustainable eco-system for the microfinance sector to achieve the economic well-being of the people of Afghanistan especially the poor.

(2) The following specific sub-objectives will be followed for this purpose:

- 1- Create, maintain, and supervise the required organizational structure for the microfinance sector's organic, systematic, and vibrant growth.
- 2- Setting requirements for issuance, extension, suspension, and revocation of licenses of MFIs and other relevant institutions operating in the sector.
- 3- Regulating and supervising the activities and performance of MFIs and other organizations facilitating the microfinance sector in order to achieve the overall objective of this regulation.

Scope

Article (3)

- 1- This Regulation is applicable to all non-depository microfinance institutions and other organizations that directly or indirectly support microfinance activities.
- 2- This Regulation is applicable to all those commercial banks and branches of foreign banks that wish to provide microfinance services through a special window.

Terminologies

Article (4)

The below-mentioned terms in this regulation represent the following concepts:

- 1- **Financing:** It means providing and granting Islamic Financial services to customers.
- 2- **Microfinance:** It refers to providing financial services by specific financial institutions to individuals and groups of individuals to earn income through businesses or any other economic activities, micro-enterprises, and addressing other economic needs, where the financing amount does not exceed one million and five hundred thousand Afghanis.



- 3- **Ecosystem:** It refers to a complex network of interconnected and dependent elements including institutions, prevailing culture, stakeholders, laws and norms, customs, and traditions, which ensures the relationships between them.
- 4- **Non-Depository Microfinance Institutions:** Refers to Institutions that use both internal and external financial resources to provide Islamic microfinance (in exchange for a percentage of profit to cover the institution's expenses) to businesses and microentrepreneurs.
- 5- **Bank with Microfinance Activities:** Refers to banks that have received no-objection certificate (NOC)/authorization for microfinance activities from Da Afghanistan Bank, and operate similarly to other non-depository microfinance institutions.
- 6- **First Category of Microfinance:** It includes amounts ranging from AFN 5,000 to AFN 500,000.
- 7- **Second Category of Microfinance:** It includes amounts ranging from AFN 500,001 to AFN 1,500,000.
- 8- **First Category Micro-Enterprises (Businesses): These are the vocations, activities, and operators that have the following specifications:**
- Not obliged to obtain a business license from Ministries of Commerce & Industries and Economy.
 - They may have a license or other municipal permits.
 - The number of their employee(s) shall range from 1 to 10 individuals.
 - Their activities/operations shall be mobile (Street vendor).
 - Not obliged to have a financial statement.
- 9- **Second Category Micro-Enterprises (Businesses): These are the vocations, activities, and operators that have the following specifications:**
- The number of employees shall range from 1 to 20 individuals.
 - Shall obtain a business license from the Ministry of Commerce and Industries, Municipality, or other relevant authorities.
 - Shall have a fixed location for business.
- 10- **Beneficiary/Borrower:** refers to the natural or legal person (entity) who uses the Islamic financial service of an MFI and is obligated to repay the financing.
- 11- **Interrelated Beneficiaries:** Refers to two or more persons (natural or legal/entity or both) who are directly or indirectly interrelated with each other, in the way that:
- The financial stability of one shall affect the other.
 - Similar reasons shall affect the financial stability of some or all of them.
- 12- **Donor Organizations:** National and international institutions and organizations that provide financial assistance or other support directly or indirectly (through facilitating agencies) to microfinance institutions in order to support micro-enterprises.
- 13- **Aid Facilitating Organizations:** Any governmental or non-governmental organizations that act as intermediaries between microfinance institutions and donor organizations.
- 14- **Funder/Financier of Microfinance Institution:** Funders refer to national and international individuals and organizations, banks, governmental and non-governmental institutions, or companies and associations that provide the necessary financing or other assistance to microfinance institutions under a set of specific conditions.



- 15- Corporate Governance:** It refers to agreements, actions, procedures, methods, and regulations that ensure accountability, transparency, and sustainable performance of microfinance institutions. Additionally, it includes the structure and responsibilities of the Board of Supervisors, the Executive Board, the Sharia Advisor, and the Audit Committee.
- 16- Guarantee/Collateral:** Any type of movable or immovable items/properties that the borrowers provide to lenders (MFIs) to secure the financing.
- 17- Movable Item/Property:** Refers to an item/property that could be transferred from one place to another. This includes money, clothing, animals, Makylat and Mozanat, and other transferable objects.
- 18- Immovable Item/Property:** Refers to an item/property that cannot be transferred from one place to another, such as land, houses, and other similar properties.
- 19- Shariah Deed:** A document containing the details of immovable property, including buyer and seller specifications, and proves the individual's ownership of the property, and has been processed and registered with the relevant government agencies and court.
- 20- Customary/Unofficial Deed:** This deed is a document that contains the details of immovable property along with buyer and seller specifications. It is used at the local/regional level to prove the ownership of property and may or may not be registered with a government agency.
- 21- Non-Performing Asset:** Refers to an asset that is classified as doubtful or at loss.
- 22- Repossessed Asset:** The asset or collateral that the lender (MFI) can acquire possession of through a competent court in case of the borrower's inability to repay (bankruptcy).
- 23- Past-Due Financings:** A Financing that has not been repaid within one day after the agreed repayment period in the financing contract.
- 24- Reserve for financing Losses:** Funds that a microfinance institution sets aside to cover potential losses in the event of non-payment of financing or other receivables.
- 25- Re-Negotiated Financing:** Re-negotiated financing refers to a situation where, the financial institution re-negotiates the timing, installment payments, and other terms and conditions of the financing arrangement in agreement with the borrower in such a way that the principal amount of the financing does not increase.
- 26- Person:** Can be a natural or legal (entity) person.
- 27- Profit:** Refers to the income generated from providing Islamic financial services, indicating profit/benefit.
- 28- General Assembly of Shareholders:** A person or persons who establish a microfinance institution and hold general concession.
- 29- Financial Institution:** Financial institutions, companies, and organizations that have obtained business licenses from the DAB.
- 30- First-Degree Relatives:** This includes father, mother, sister, brother, son, daughter, husband, and wife.
- 31- Key Positions:** Includes members of the supervisory board, members of the executive board, directorates, and general sections.



Chapter 2

Microfinance Sector Ecosystem

Microfinance Sector Ecosystem

Article (5)

(1) The ecosystem encompasses at least the following matters:

- 1- A culture of repayment obligation by the borrower, including profit or loss, as per the agreement and conditions with the microfinance institution.
- 2- The MFIs are obligated to provide Islamic financial services.
- 3- A network of microfinance institutions that provides microfinance services throughout the country at the national, regional, and provincial levels, considering reasonable and appropriate conditions. Reasonable and appropriate conditions are periodically specified by the DAB through circulars, taking sectoral conditions into account.
- 4- Donor organizations for microfinance institutions, beneficiaries regarding funding, training and capacity building, identification and utilization of economic opportunities, credit guarantees, managerial and supervisory information, and other activities related to microfinance institutions.
- 5- Donors/Financiers who provide funds to microfinance institutions in the form of grants, financing, or other commercial terms.

(2) DAB develops and facilitates the ecosystem for the microfinance sector and takes necessary actions regarding the establishment of new institutions and the regulation of the activities of existing institutions in the sector, in compliance with the overall objectives of the regulation.

(3) DAB facilitates the appropriate organizational structure as part of the microfinance ecosystem, and for this purpose, DAB may:

- 1- Monitoring the flow of internal and external funds to the microfinance sector and creating the necessary mechanisms for this purpose.
- 2- Establishing a dedicated fund for the security of microfinance granted, to ensure the protection of the microfinance sector, and creating the necessary mechanisms in this area.
- 3- Facilitating, supporting, and if necessary, creating the necessary mechanisms to raise public awareness about the benefits of microfinance.
- 4- Coordinating with ministries and other relevant governmental and non-governmental agencies to identify and utilize economic opportunities for the benefit of microfinance beneficiaries, particularly for the poor, through a chain of such activities provided to them.

Chapter 3

Licensing Requirements of Microfinance Institutions

License Application

Article (6)

(1) According to the provisions of this regulation, individuals who provide microfinance services or wish to provide such services are obligated to obtain a license from DAB before commencing their operations.

(2) The applicant may obtain and fill out the application form from DAB offices in the capital and provinces, or the DAB website.



- (3) The MFI license applicants are obligated to carefully read the MFI license commitment & conditional form and sign accordingly.
- (4) The completed application form, along with all its necessary supporting documents, will be processed within 60 days after submission to DAB. If incomplete documents are provided, DAB will notify the license applicant to complete and submit the missing documents within one week.
- (5) The license applicant is obligated to submit a comprehensive business plan that includes detailed information on shareholders, the institution's capital and its sources, funds available for microfinance operations, the method and location of fund allocation, beneficiaries support through awareness programs, capacity building, and training, anticipated revenues, risk management methods, and development and sustainability programs. The business plan should also outline long-term business goals supported by comprehensive marketing, operational, technical, and financial strategies, covering a minimum period of three years. Additionally, the applicant must provide the institution's articles of association, organizational structure, and the resumes of the board of supervisors, executive board, and key positions.
- (6) The license applicant for a microfinance institution is obligated to register under a specific name as a financial institution with the Ministry of Industry and Commerce/ Directorate General of Central Business Registry and Intellectual Property.

Microfinance Section (Window) of Commercial Banks

Article (7)

- (1) Commercial banks are obligated to obtain a NOC from DAB to provide microfinance services. For this purpose, they must submit an application containing the necessary information and documents as required by the Directorate of Banking and Islamic Financial Services.
- (2) Commercial banks are obligated to operate their microfinance section (window) in accordance with this regulation.

Type of License

Article (8)

- (1) To facilitate access to microfinance services, DAB issues three types of licenses, respectively at the provincial, zonal, and national levels, considering appropriate conditions. Each license holder operates within a specified area.
- (2) Microfinance institutions are obligated to provide microfinance services at the national level in most provinces of the country or at least in the provinces corresponding to the three zones, and within a single zone, across all provinces of the respective zone.
- (3) The existing MFIs shall obtain a type of license under the provisions of this regulation.

Capital of Microfinance Institutions

Article (9)

- (1) Considering the type of license, microfinance institutions are obligated to have a minimum capital as follows:
 - 1- Provincial Microfinance Institutions : AFN 3.5 millions.
 - 2- Regional Microfinance Institutions: AFN 10 million.
 - 3- National Microfinance Institutions : AFN 25 millions.



(2) Banks engaged in microfinance activities are exempted from complying with the provisions of paragraph (1) of this article. However, banks are obligated to allocate the necessary capital as needed to finance their microfinance section (window).

(3) According to this article, Microfinance institutions shall submit the required documents related to capital as requested by DAB.

Fees

Article (10)

(1) DAB may charge fees for the application processing and issuance of business licenses.

(2) The chargeable fees are as follows:

1- MFI license application processing (issuance and extension) fee: AFN 50,000 (Fifty thousand Afghanis)

2- Duplicate license issuance fee: AFN 25,000 (Twenty-five thousand Afghanis)

3- Change of Concessionaire, ownership transfer fee: AFN 50,000 (Fifty thousand Afghanis)

4- Changing business name and business dissolution application processing fee: AFN 25,000 (Twenty-five thousand Afghanis)

(3) The fees outlined in paragraph (2) of this article are non-refundable.

(4) The MFI license is issued for three years.

(5) The fees outlined in Article (10) may be amended as necessary, and other fees may also be specified and determined by DAB through circulars.

(6) The license fee (no objection certificate) and other fees for banks may be applied according to the procedures and circulars of the Islamic Financial Services and Banking Directorate.

Policies

Article (11)

Banks engaged in microfinance activities must ensure that their internal policies include at least the necessary discussions on the management, control, and mitigation of microfinance risks, and the MFI license applicant is obligated to provide the following policies:

1- Financing Policy.

2- Guarantee/Collateral policy.

3- Risk Management policy (could be provided after obtaining the license).

4- Operational Policy.

5- AML/CFT policy.

6- Customer protection policy (could be provided after obtaining the license).

7- HR policy.

8- Internal Audit policy (could be provided after obtaining the license)

9- Code of Ethics.

10- Accounting and Financial Policy.

11- Dispute Resolution Policy (could be provided after obtaining the license).

12- IT and other necessary policies (could be provided after obtaining the license).



The Requirements for issuing an MFI License to Foreigners.

Article (12)

To obtain a microfinance license in Afghanistan, foreign institutions/companies shall apply to DAB according to this regulation. In addition to the documents outlined in Articles (6) of this regulation, foreign applicants are obligated to complete the following requirements and documents:

- 1- The applicant institution must be registered with the Intellectual Property Registry Office/Ministry of Industry and Commerce or the relevant authority in Afghanistan.
- 2- Must provide the resolution of the parent company's board of supervisors, approving the establishment of a microfinance institution in Afghanistan.
- 3- As deemed necessary by DAB, other information, requirements, and documents can be requested.

Transfer of Ownership/Privilege of License

Article (13)

(1) Without prior approval of DAB, the licensee can not transfer ownership of the license to another person.

(2) In case the license holders want to transfer ownership of their MFI license, shall submit an application for the change or transfer of ownership to the Non-Banking Financial Institutions Supervision Directorate General (NBFISDG) at the central office or DAB branches in the provinces, to obtain DAB approval.

(3) To complete the application process, the owner or their authorized representatives must visit the NBFISDG at the central office in Kabul, the regional zones, and the branches of DAB in the provinces. They must submit the following documents and information along with their application:

- 1- Submission of an application detailing the method and reasons for depositing.
- 2- Submission of supporting documents regarding the source of funds by the license ownership acquirer.
- 3- Approval of the amended articles of association by the relevant authority.
- 4- Providing tax clearance certificate.
- 5- Providing clearance certificates of criminal and financial crimes.
- 6- Providing the current position of the financial statement of the institution.
- 7- Original business license, and other documents and information as deemed necessary by DAB.

(4) The applicant shall publish a notice regarding the change of ownership or transfer of ownership of the MFI in one of the local publications where the institution operates and provide a copy to DAB. The notice of change or transfer of ownership should be announced for at least one month. Customers can submit their objections regarding the relevant institution to DAB.

(5) DAB shall approve the ownership transfer application if the new person (buyer) meets all the criteria according to this regulation.



Article (14)

(2) Before processing the dissolution documents by DAB, the concerned individuals shall publish a notice regarding the dissolution through local and national newspapers and media outlets, collect any comments received, and submit them to the DAB within one month.

- 1- Provide reasons for institution dissolution;
- 2- Providing an exit plan that includes, but is not limited to, the following matters:
 - How the existing financing portfolio will be managed by the concerned institution.
 - How the institution takes action about the outstanding financings, liabilities, and assets of the institution.

3- Submission of original business license.

4- Providing a tax clearance certificate.

5- Providing clearance certificates of criminal and financial crimes.

6- Submission of all customer data, records, and transactions.

7- Any additional documents or information requested by DAB.

(4) Before the approval of the dissolution application for a financial institution, the applicant may withdraw their application to dissolve the financial institution by submitting a notice and a written application.

(5) If the bank wants to dissolve the non-objection certificate (authorization for microfinance operations), it is required to submit an application to DAB, and the conditions of this regulation are applicable.

Article (15)

(1) DAB may suspend the license of an MFI under the following conditions:

1- Upon application for suspension by the concessionaire or owner of the MFL.

2- Due to repeated violations of laws and regulations.

3- Based on any other conditions or shariah concerns deemed necessary by DAB.

(2) If a business license is suspended by DAB, the license holder is required to visit and reinstate the suspended license within the specified period, otherwise, the license will be revoked. If the case is under investigation by the judicial institutions, the license holder should take action to reinstate the suspended license within three months after the final decision of the competent authority or organ and with no Sharia excuse, otherwise, the license will be revoked.

(3) If the suspension request is initiated by the MFI, the applicant must submit a written application to DAB in Kabul and provinces. The license will be suspended for a maximum of one year and a minimum of three months.

(4) The MFI can not operate during the license suspension period.

(5) If the suspension takes place according to paragraph (3) of this Article, the license holder is required to:

1- Before the specified maximum time limit, the applicant must provide a written application to reinstate the suspended license.

2- If changes are made to the information recorded with DAB, notify the license holder of the matter.

(6) If the license holder does not visit after the suspension is completed, he/she shall be informed of the matter in writing and the deadline will be set. If no response is received within the specified deadline, the mentioned license will be revoked.

(7) In case of license suspension application by the MFI, the conditions of paragraph (3) of Article (13) of this regulation are applicable. Provide a plan regarding the absence of negative effects on business partners and other beneficiaries by the concerned institution.

(8) DAB can take necessary measures to ensure the handling of beneficiaries and the services of the institution during the suspension process. DAB can ensure the cessation of their operations if needed.

Business License Revocation

Article (16)

(1) DAB may revoke the license of MFI under the following conditions and circumstances:

1- If the concessionaire or officials have provided false, misleading, or illegal information during the supervision process.

2- In case the MFI concessionaire is bankrupted.

(2) In case of license revocation, the licensed concessionaire must immediately cease all activities and submit the original business license to DAB by the specified deadline.

(3) In case of MFI license revocation, the conditions of paragraph (3) Article (13) of this regulation is applicable.

(4) The actions taken according to this regulation can not prevent the fulfillment of other civil and commercial obligations of the shareholders.

(5) The microfinance institution is obligated to fulfill all contracts it has concluded before the revocation of the license.

Clearness/Settlements of Accounts in case of Business License Revocation

Article (17)

(1) If the MFI license is revoked, DAB is authorized to appoint and designate a specific committee for the settlement of MFI's accounts.

(2) After the settlement of accounts, funds held by the microfinance institution may be maintained with DAB.

(3) In coordination with donor agencies and the Ministry of Finance, DAB can transfer the funds held in the account to other microfinance institutions to extend new financings.



Burning or Loss of Business License

Article (18)

(1) If the MFI license gets lost, the MFI officials are obligated to notify DAB in writing within (30) business days after the loss of the license, publish the issue at least in one of the mass circulated publications, and post an announcement in the markets and area of its operations.

(2) If the license is not found within (20) days following the public notice, the MFI officials must apply for a duplicate license by submitting the following documents to the licensing section of the NBFISDG in Kabul or the zones and DAB's branches in the provinces:

- 1- A document or copy of the lost license notification.
- 2- Fee payment document/slip for a duplicate license.
- 3- Any other documents deemed necessary by the licensing section.

(3) If the lost license is found after the issuance of a duplicate one, the MFI officials must submit the duplicate license to the licensing section of NBFISDG in Kabul or to DAB's provincial branches within (10) business days.

Chapter 4

Organizational Structure and Operation of Microfinance Institutions

Corporate Governance and Its Conditions

Article (19)

(1) All microfinance institutions and financing/funding entities are obligated to follow principles of good corporate governance for accountability, transparency, and sustainability in their operations. In this regard, they will develop appropriate systems and procedures and follow the instructions given by DAB from time to time.

(2) Microfinance institutions are obligated to comply with the conditions of this regulation in their organizational structure.

(3) As part of its good corporate governance, an MFI's organizational structure shall include at least all plans for the safety, health, and security of the MFI's core functions, as well as measures to ensure customer protection.

(4) MFIs are obligated to introduce the members of the Board of Supervisor (BoS), Board of Executives (BoE), Shariah Advisor, and Compliance Officer to the NBFISDG, along with providing the necessary documents. Other employees are introduced as deemed necessary by DAB.

(5) MFIs may hire an employee to obtain Sharia advice or conclude a memorandum of understanding (MoU) with consulting firms to receive such consultations.

(6) The Sharia Advisor must have at least a master's degree in the field of Islamic Sciences and Jurisprudence.

The General Assembly of Shareholders

Article (20)

Shall have the following duties and authorities:

- 1- Approval of the Articles of Association (AoA) of the MFI.



- 2- Appoint and dismiss members of the Board of Supervisors and determine their rights and privileges.
- 3- Approve increases in the determined working capital of the MFI.
- 4- Approve the annual reports and financial statements of the MFI, based on the recommendation and approval of the Board of Supervisors.
- 5- Making decisions regarding the sale, merger, dissolution, and closure of the MFI.
- 6- Taking decisions, in case of establishing or dissolving an MFI and its branches.
- 7- After completing the external audit for the previous financial year, the general assembly meeting should be held no later than three months after the end of the financial year.

Board of Supervisors' Structure

Article (21)

The structure of the Board of Supervisors is as follows:

- 1- The Board of Supervisors (BoS) shall organize itself in terms of leadership, size, and the use of committees, the minimum number of BoS shall be three, and the maximum shall be nine. In any case, the number of members shall be odd.

Conditions for Appointment and Composition of the Board of Supervisors

Article (22)

Conditions for Appointment and Composition of the Board of Supervisors are as follows:

- 1- The BoS members shall be elected by the general assembly of shareholders for a term of four years and may be reappointed for subsequent terms as well.
- 2- The majority of BoS members shall not be from shareholders (s), and employees of the microfinance institution cannot simultaneously be members of the board of supervisors.
- 3- The Board of Supervisors shall elect one of its members as the head of the board.
- 4- If a seat of the Board of Supervisors falls vacant, in accordance with this Article, the general assembly of shareholders is obligated to introduce a qualified candidate to the NBFISDG within one quarter.
- 5- At most one-third of members of MFI's BoS may be appointed from the parent company's organizational structure.
- 6- The BoS member shall have the following qualifications and competencies:
 - At least (5) years of relevant experience.
 - At least a bachelor's degree in finance, business administration, economics, law, IT, or other relevant fields.
 - At least one member of the Board of Supervisors (BoS) shall have specialization in Jurisprudence (fiqah), or master in shariah.

Duties and Responsibilities of Board of Supervisors

Article (23)

The duties and responsibilities of BoS are as follows:

- 1- Holding meetings of the general assembly of shareholders and setting the agenda for each meeting.
- 2- To approve the organizational structure of MFI.



- 3- To appoint, dismiss, and determine the compensation and privileges of the members of the Board of Executives and other staff.
- 4- To supervise the performance of the Board of Executives and other independent sections of MFI, and provide necessary guidance and recommendations.
- 5- To approve the MFI's business strategy and annual budget.
- 6- Approval of policies for conducting operational activities, including risk management policies, addressing conflict of interest issues, and issuing guidance to the Board of Executives regarding the implementation of these policies.
- 7- Ensuring that the microfinance institution has effective, functional, and appropriate internal controls and risk management in compliance with DAB's laws and regulations.
- 8- To ensure the accuracy of the MFI's financial reporting, including financial reporting to DAB.
- 9- Ensuring that an appropriate Internal Audit process is adopted.
- 10- Providing recommendations to the General Assembly of Shareholders on matters requiring their approval.
- 11- Providing recommendations to the general assembly regarding the selection of an external audit firm for the microfinance institution.
- 12- Ensuring the execution of an external audit of the microfinance institution, which includes the auditor's comments regarding the accuracy of the financial statements of the microfinance institution.
- 13- If a decline is seen in the financial condition of the microfinance institution or a risk of decline is observed, or any other matter significantly affecting the financial condition of the institution, DAB must be immediately notified in writing. Additionally, the Board of Executives is obligated to take necessary measures.
- 14- To ensure the implementation of DAB's instructions.
- 15- Taking decisions on other matters that fall within the authority of the supervisory board according to the Articles of Association.
- 16- The supervisory board is ultimately responsible and accountable to the shareholders (including the general assembly of shareholders and DAB) for the management and working conditions of the microfinance institution.
- 17- BoS is obligated to ensure at least the following matters:
 - Competent and appropriate management.
 - Ensuring that appropriate plans and policies are undertaken.
 - Monitoring the operations, ensuring adequate internal control, and implementing laws, regulations, and decisions.
 - Supervision of financial performance.
 - Preventing Conflicts of Interest.
- 18- The BoS should organize and hold its meetings quarterly.
- 19- The BoS may hold two meetings in one year via an online platform (web conference).
- 20- To organize and hold the meetings of the BoS, a person should be appointed as the secretary to manage and record all matters related to the meeting.



Structure of the Board of Executives

Article (24)

(1) The structure of the board of executives is as follows:

- 1- The composition of the board of executives can consist of three to five members, and in every case, the composition should be odd.
 - 2- The Board of Executives consists of at least the following individuals:
 - Chief Executive Officer
 - Director of Operations
 - Director of Finance
 - 3- As deemed necessary by DAB, an individual may simultaneously hold two positions in microfinance institutions at the provincial level according to Clause (2) of this Paragraph.
 - 4- The structure of the Executive Board should be considered separately from the parent company. The members of the Executive Board of the microfinance institution cannot be employees of the parent company at the same time.
 - 5- Members of the Board of Executives must have the following qualifications and competencies:
 - A minimum of three years relevant experience.
 - At least a Bachelor's degree in finance, business administration, economics, law, shariah, IT, or other relevant fields.
- (2) First-degree relatives cannot simultaneously hold key positions, especially as members of the Board of Executives.

Duties and Responsibilities of Board of Executives

Article (25)

(1) The duties and responsibilities of the board of executives are as follows:

- 1- The executive board is required to carry out its work under the leadership and supervision of the supervisory board and manage the activities of the MFI that comply with the business strategy, risk appetite, and other policies approved by the supervisory board.
- 2- The executive board is responsible for assigning tasks to the staff and is required to establish an administrative structure in such a way as to ensure accountability and transparency in the entire MFI.
- 3- The executive board shall provide the supervisory board with the necessary information regarding the progress of the responsibilities, the supervision of the executive board, and the assessment of the quality of the senior management's performance. In this regard, the executive board shall keep the board of supervisors regularly and adequately informed of important matters, including:
 - Preparation and development of business strategy, risk strategy/risk appetite.
 - Determining the need for and preparing a plan for the establishment or dissolution of a branch of the microfinance institution
 - The institution's performance and financial condition.
 - Breaches of risk limits or compliance rules.
 - Internal control failures.
 - Legal or regulatory concerns.
 - Issues arising as a result of violations and breaches of procedures.



(2) The Executive Board of the MFIs is obligated to consider the following issues:

1- Organizing the works and leading the daily business activities of the MFI according to the strategy and policies approved by the supervisory board, and monitoring the daily activities of the institution's staff.

2- Implementing the business strategies and policies of the microfinance institution approved by the supervisory board, along with the instruction issued by the supervisory board. The senior management is responsible for applying the business strategy, risk management system, risk principles, processes, and controls for managing both financial and non-financial risks.

3- Regularly identify and assess all risks.

(3) The MFI may establish the Risk Management section, which will operate independently and report its performance to BoS or the assigned committee.

(4) MFI is obligated to evaluate its business risk annually or as necessary and take appropriate corrective actions based on the evaluation.

(5) The priority will be given to Afghan cadre in the positions of Board of Supervisors and Board of Executives.

Conditions for Recruiting Compliance Officer

Article (26)

(1) The compliance officer shall have the following conditions:

1- Must hold a Bachelor 's degree in Economics, Business Administration, Accounting, or Law.

2- Shall have a minimum of 3 years relevant experience.

3- Must have necessary understanding of relevant Laws and Regulations.

4- Preference is given to individuals who, in addition to the above qualifications, hold an international certification related to AML/CFT.

(2) The Compliance officer's duties and responsibilities are outlined in the AML/CFT responsibilities and preventive measure regulation.

Internal and External Audit

Article (27)

(1) Microfinance institutions is obligated to have an independent internal audit structure in accordance with necessary standards.

(2) The MFI is obligated to conduct its periodic internal audit comprehensively regarding the implementation of the laws, regulations and instructions of DAB.

(3) Internal auditors must perform their duties independently and are obligated to submit their reports to the BoS.

(4) According to this regulation, microfinance institutions must submit the internal and external audit report to DAB after the approval of the supervisory board.

(5) The external audit report includes audited financial statements, internal controls, and other sections, including compliance with laws and regulations and AML/CFT issues.

(6) External audits must be carried out by a well-known and reputable firm.



The Organizational Structure of Microfinance in Banks

Article (28)

- 1- Banks can provide microfinance services through a window (separate separate) within the existing bank structure. To carry out operational activities, they can assign and hire section managers and staff as needed from internal and external sources.
- 2- The supervisory board, the executive board, the compliance officer, the risk officer, the internal and external auditors, and other relevant sections are obligated to take their part in how microfinance operations are carried out.
- 3- The microfinance window (separate section) within banks is not permitted to receive or accept customers' deposits.
- 4- The microfinance window of banks shall operate in the field of microfinance according to this regulation.

Chapter 5 Financing Conditions

Permitted Activities

Article (29)

- (1) The microfinance institution shall provide at least the following products/services to customers as per norms, standards, and guidelines of Islamic Products and Finance.

Islamic Products (Financing Mechanism)			
Participatory	Based on Sale	Financing	Takaful
<ul style="list-style-type: none">▪ Mudarabah▪ Musharakah	<ul style="list-style-type: none">• Murabahah• Ijarah (Montahi bil tamlik)• Bai Salam• Istisna• Wakalah	<ul style="list-style-type: none">• Qardh-ul-hasan	<ul style="list-style-type: none">• Takaful

Prohibited Activities

Article (30)

The Microfinance Institutions shall not engage in the following activities:

- 1- Hawala/Remittance/Transfer of fund.
- 2- Money/Currency Exchange.
- 3- Providing EMI & PI activities.
- 4- Accepting customer deposits.
- 5- Issuing Bank Guarantee.
- 6- Financing large companies.



7- Other services and products that are not included in the nature of microfinance institutions.

Conditions for Granting Financings

Article (31)

- (1) Microfinance institutions shall not grant financings exceeding AFN 1,500,000 to their customers.
- (2) The microfinance institution is obligated to evaluate the capacity and repayment ability of the customer and take action according to its internal policy.
- (3) Microfinance institutions are obligated to perform Customer KYC according to the AML/PC Law and AML/CFT responsibilities and preventative measure regulation.
- (4) The customer, to whom a financing of more than AFN 20,000 is granted, must possess an electronic Tazkira.
- (5) Microfinance institutions may not grant new financing to debtors who have previously received Financing from the same institution or other institutions until the previous Financing is settled.
- (6) The total financing of the second category constitutes 40% of the financing portfolio, with 10% of that can be allocated to financings exceeding one million.
- (7) If necessary, DAB may develop the conditions and allocation of financing quotas in various ways to develop financial services and public access to microfinance through circulars.
- (8) Microfinance institutions must grant Financings in Afghanis.
- (9) All paragraphs of this Article are also applicable to banks providing microfinance.

Limitations of Granting Financings

Article (32)

- (1) A microfinance institution cannot provide financing to the following individuals:
 - 1- Shareholders, members of the Board of Supervisors (BoS), and Board of Executives.
 - 2- First-degree relatives of the shareholders, members of the Board of Supervisors (BoS), and Board of Executives.
 - 3- Individuals who are listed on sanction lists.
- (2) The financial institution shall not provide new Financings to customers whose Financings are in the non-performing category unless they pay all their previous dues.

Financing Classification Method

Article (33)

- (1) The microfinance institution is obligated to maintain and review the exact records of the number of days overdue for each Financing.
- (2) To classify the financings of the microfinance institution following this regulation, the circulars of DAB and the internal policies of the financial institution shall be regularly reviewed.
- (3) If a financial institution grants more than one Financings to a person or a group of related beneficiaries and one of the Financings is considered non-performing, in this case, the microfinance institution is obligated to review all the Financings granted to that person or group of related beneficiaries for reclassification.
- (4) When reviewing the financing portfolio, it is obligated to place each financing in the relevant class based on its credit risk.



Financing Classification Categories

Article (34)

The MFI should establish an Internal Credit Risk Rating System to indicate the various level of financing risk, and classify those into five categories as follows:

- 1- Standard
- 2- Watch
- 3- Sub-standard
- 4- Doubtful; and
- 5- Loss.

Re-negotiated Financing

Article (35)

- (1) A non-performing Financing, once re-negotiated, shall be classified as a sub-standard asset or remain in the same category as it was before the renegotiation.
- (2) Financing that has been renegotiated to modify one or more of its terms shall be improved in classification, provided that the principal and profit of the Financing are repaid under the new payment contract for (4) consecutive installments or (4) months, whichever is greater.
- (3) If the conditions of Paragraph (2) of this Article are met, the re-negotiated Financing may not be classified higher than the "watch" category until repayment of principal and profit has been made for (4) additional consecutive installments or an additional (4) consecutive months, whichever is greater.

Minimum Provisioning Requirements

Article (36)

- (1) The applicable provision rates shall be as follows:

Classes	Past-due	Provision Rate
Standard	01-30 days	1 percent
Watch	31-60 days	5 percent
Sub-standard	61-180 days	25 percent
Doubtful	180-365 days	50 percent
Loss	more than one year	100 percent

- (2) The measurement of provision for the standard class is optional.
- (3) If reliable information indicates that the loss of financing is likely to be greater than the minimum amounts specified in the above table in Paragraph (1) of this Article, DAB may request MFI to communicate the issue of provisions with the donor organization.
- (4) A non-performing financing should be placed as non-measured and its unrecovered amounts should not be calculated as income but should be shown in the account of accrued revenues.

Charge-Offs

Article (37)

- (1) A Financing that is uncollectible, and for which continuation of recoverability is also not guaranteed, should be charged off.



- (2) Any financing or portion of it, that has remained in the loss category for one year, should be charged off.
- (3) A charge-off of financing shall be made against the specific Financing loss reserve account. If the amount of the Financing to be charged off exceeds the balance of the specific Financing loss reserve account, additional provisions should be made to cover the shortfall.
- (4) Financing that is recovered after being charged off, should be recorded as income in the financial period in which the repayment occurs.

Microfinance Collateral/Guarantee

Article (38)

- (1) Guarantee for the first category financing (ranging from AFN 5,001 up to AFN 5,00,000) includes two guarantee letters regarding beneficiaries/borrowers from at least two suitable and qualified persons who have electronic Tazkira. The institution may act in Category One based on its internal policy and risk appetite.
- (2) Guarantees for second-category financing (ranging from AFN 500,001 up to AFN 1,500,000) include three guarantee letters from suitable and qualified persons who have an electronic Tazkira, or an immovable property with customary or Sharia deed.
- (3) Microfinance institutions may develop their guarantee policies in compliance with prudent conditions and taking into account the sector condition and anticipated risks. These conditions should not create challenges or hinder the development of financial services.
- (4) Financing guarantees shall be regularly reviewed by the relevant institution in adherence to internal policies, and the details of the review should be recorded in the Financing documents file.
- (5) A guarantor cannot guarantee more than one debtor/borrower in one or more microfinance institutions. The MFI shall not accept a guarantor who has already guaranteed any other legal or natural person in other microfinance institutions.
- (6) Before accepting any collateral/guarantee, MFIs are obligated to search the public credit registry system for the details of the mortgagor/borrower or guarantor and ensure compliance with Paragraph (5) of Article (31). Microfinance institutions shall also comply with the following conditions:
- 1- Before the disbursement of Financing, the Microfinance institutions shall thoroughly review the operation method of the beneficiaries/borrower based on established standards and this regulation, and determine the amount of financing.
 - 2- When granting financing, the details of the collateral/guarantee should be included in the financing document or contract
 - 3- When determining the term/period of financing, the useful life of the guarantee/collateral should be considered, and the financing term/period should not exceed the useful life of the collateral/guarantee.
 - 4- The MFIs shall ensure the validity of collaterals and guarantee documents.
 - 5- Microfinance institutions are obligated to have at least two Bank Accounts in two Commercial Banks within the country to maintain and conduct monetary transactions.



Acceptable Collateral/Guarantee

Article (39)

(1) Acceptable movable guarantees are as follows:

1- Jewelry: Gold, silver, and other valuable items that are usable and have a market value. Such guarantees should be held in one of the commercial banks based on documents and returned to the borrower upon settlement of the financing as per the contract.

2- Vehicles: Obtaining the original documents of the vehicle (Jawzsaer), along with a purchase invoice from a real estate dealer as a security for granting financing.

(2) Guarantee Letter: This document shall be issued by a suitable and qualified person (natural or legal) to secure repayment of financing installments.

(3) Acceptable immovable guarantees are as follows:

1- Lands with a sharia or customary ownership document. Lands that are unusable (worthless or not salable) or subject to flooding are not included.

2- Residential and commercial buildings with Sharia or customary documents.

3- Shops/markets with Sharia or customary documents.

4- Factories, gardens, farms, and other properties with valid documentation that can at least meet the requirements of the guarantee.

5- Other guarantees that could be used as provisions, can be projected in the internal policy of MFI.

Repossession of Assets

Article (40)

(1) When a microfinance institution takes possession of an asset due to the non-repayment of financing, it is important to consider the book value of the remaining financing or the net realizable value of the collateralized asset.

(2) If the net realizable value of an asset is less than the outstanding portion of the financing on the financial institution's accounts, the difference shall be taken into account by determining provisions for bad and doubtful debts.

MFI's Responsibilities Regarding AML/CFT

Article (41)

The MFIs shall regulate their activities regarding AML/CFT while taking into account the AML/PC Law and AML/CFT responsibilities and preventative measure regulation.

Chapter 6

Organizations that Fund and Facilitate Microfinance Institutions

Responsibilities

Article (42)

National or international, governmental or non-governmental funding and aid facilitating organizations, as defined in Clause (13) of Article (4) of this regulation, have the following responsibilities:



- 1- Should obtain an NOC from DAB by providing all the documents and details of their activities, funds, and resources.
- 2- They shall provide relevant financial reports for necessary decisions regarding the financial sector, as requested by DAB.
- 3- They should have a bank account in DAB to keep cash aids/funds.
- 4- If they have accounts in commercial banks to keep cash aids/funds, they should report to DAB regarding withdrawals from such accounts for the purpose of financing microfinance institutions.
- 5- To handle operational affairs, they should have an operational account in one of the commercial banks.
- 6- Other responsibilities and obligations may be imposed through circulars, if necessary.
- 7- The governmental and non-governmental facilitating and funding organizations can not establish a microfinance institution.
- 8- Institutions that work exclusively to support a particular sector/vocation by providing Islamic financial services could provide financing by establishing a Microfinance institution or through other MFIs according to the provisions of this regulation.

Conditions for Providing Aid/Donations/Funds or Financings to Institutions

Article (43)

- 1- Facilitating organizations/donors shall provide financial facilities only for DAB license-holder microfinance institutions.
- 2- Facilitating organizations/donors cannot provide microfinance directly to customers as microfinance institutions do.
- 3- Provide aid/donations to all licensed microfinance institutions according to their activities, performance, and geographical areas.
- 4- Facilitating organizations cannot grant all or a large portion of the received aid/donations to a single microfinance institution.
- 5- Funding/aid shall be transferred to institutions through commercial bank accounts.
- 6- Funds/aid in foreign currency shall be converted to Afghanis through DAB and shall be provided to microfinance institutions in Afghani currency.

Supervision and Evaluation

Article (44)

- (1) DAB can conduct on-site and off-site supervision to ensure the accuracy of financial reports.
- (2) Financing and aid facilitating organizations shall not supervise the performance and activities of the microfinance institution comprehensively.
- (3) For conducting on-site supervision, financing, and aid facilitating organizations may share their concerns and remarks with DAB.
- (4) Financing and aid facilitating organizations can carry out special supervision of microfinance institutions to ensure the granted Financings and other specific objectives and matters.
- (5) Financing and aid-facilitating organizations can conduct prior assessments to grant Financings and also to ensure the capabilities and capacities of microfinance institutions.



Chapter 7

Miscellaneous Provisions

Supervision

Article (45)

- (1) DAB has the authority to conduct on-site and off-site supervision of the licensed MFIs to ensure compliance with all applicable laws, regulations, and relevant circulars.
- (2) The MFI and financing/aid facilitating organizations must provide all information, documents, and access to systems as requested by DAB. All information and documents submitted by MFI to DAB must be in soft and hard copy and duly signed by officials of the MFI.
- (3) DAB supervisors, based on their authority, have access to all accounts, books, records, documents, and other matters in their work premises.
- (4) The supervision of microfinance institutions shall be carried out by a non-banking supervision directorate, while the microfinance window (section) of banks shall be supervised by the Islamic Financial Services and Banking Directorate according to this regulation.

Reporting

Article (46)

- (1) MFIs are obligated to record accounts and transactions electronically. A database of all Financings with all relevant details will be maintained by MFIs, and access will be provided to DAB officials when needed.
- (2) DAB sends the forms and samples of these reports through circulars. These reports shall include the following matters:
 - 1- Balance sheet.
 - 2- Profit and loss statement.
 - 3- Cash flow statement.
 - 4- Dashboard transactions report.
 - 5- Details of donors and other sources of funds.
 - 6- Other reports as deemed necessary by DAB.
- (3) The Public Credit Registry (PCR) Directorate General shall create a specific user for microfinance institutions to access the details of guarantors.
- (4) The MFIs are obligated to share the details and characteristics of new guarantees according to the guidelines of the PCR Directorate General, within the specified timeframe determined by circulars.
- (5) The MFIs shall submit periodic reports within the specified timeframe being determined by the circular.
- (6) The MFIs are obligated to submit the results and findings of their internal and external audit to NBFISDG by the end of the first quarter of the following year.
- (7) The supervision affairs and how to receive the reports of the microfinance window (section) of the banks are regulated and conducted by the Islamic Financial Services and Banking Directorate.



(8) The Islamic Financial Services and Banking Directorate is obligated to share the result of on-site supervision and off-site reports of the microfinance operations in the banks as per the request of NBFISDG.

Penalties/Enforcement Actions

Article (47)

(1) DAB shall impose necessary enforcement actions/penalties based on the findings of on-site and off-site supervision. The violations may include the following, but are not limited to these:

- 1- Failure to provide or delay in transaction reporting.
- 2- Failure to send or delay other statistical reports.
- 3- Failure to implement imposed disciplinary actions.
- 4- Other violations of relevant laws and regulations based on the findings of assigned supervisory team.

(2) Enforcement actions may consist of the following cases:

- 1- Issuance of a warning.
- 2- Dismissal of key staff.
- 3- Suspension of business license.
- 4- Revocation of business license.
- 5- Other enforcement actions as deemed necessary by DAB.

(3) Based on the findings, the supervisory team can apply one or all of the measures listed in Clauses (1, 2, and 3) of Paragraph (2) of this Article.

(4) The provisions of this Article regarding banks can be regulated and applied by the Islamic Financial Services and Banking Directorate, taking into account the internal principles.

Record Keeping

Article (48)

(1) Records encompass all books, accounts, statements, information in the computer system, and other documents related to the business, transactions, and assets of the microfinance institution.

(2) Microfinance institutions and facilitating organizations are obligated to take necessary measures to prevent the loss or destruction of records and the forgery of documents.

(3) The records of documents of microfinance institutions should be maintained in both hard and soft copy for at least (5) years.

(4) The filing of documents should be organized according to archival principles to ensure easy accessibility.

Duties and Responsibilities of Association/Union

Article (49)

(1) To better regulate and coordinate related affairs, the microfinance institutions have a union or association, and each microfinance institution must be a member of the union.

(2) The union or association must be registered with the competent authority.

(3) The union or association should have an advisory board and every MFI should have a member in the advisory board.

(4) The president and vice presidents should be elected in compliance with the following criteria:



- 1- The president and vice presidents should be elected by the advisory board through a transparent process.
- 2- The politically exposed person (without first-degree relatives) may not be elected as president or vice presidents of the union or association.
- 3- The president and vice presidents should be qualified, have a good reputation, and be reliable individuals.
- 4- The president and vice presidents should have at least a bachelor's degree and be aware of laws and relevant regulations.
- 5- They should not be members of any governmental bodies/powers.
- (5) The union or association shall have the following duties:
 - 1- To work as a bridge between the DAB, MFIs, and supporting organizations, especially to collect, and organize the information regarding the microfinance sector and periodic reporting.
 - 2- To identify issues of concern in the microfinance sector and discuss them with the relevant organizations including DAB.
 - 3- The notifications, guidelines, and instructions sent by DAB under the title of union, should be shared and communicated among all MFIs and supporting organizations.
 - 4- To notify DAB on time, whenever it identifies a non-licensed person (institution) engaging in microfinance activities in the market and related areas.
 - 5- To assist relevant organizations in capacity building of the microfinance sector.
 - 6- The information and certification prepared and sent to DAB by the union or association shall be accurate and authentic. Otherwise, subsequent responsibility shall fall on the union or association.
 - 7- The Articles of Association of the unions should be prepared according to the conditions of this regulation and other applicable regulations, and registered with the relevant authority.

Internal Procedures

Article (50)

- (1) For better implementation of provisions of this regulation, the NBFISD may develop and recommend necessary procedures and guidelines,
- (2) In addition to the provisions outlined in this regulation, DAB may take other necessary measures to achieve the objectives stated in Article (2) of this regulation and for the improvement of the microfinance sector.

Confidentiality

Article (51)

- (1) All employees of the financial institution are obligated to adhere to the principle of secrecy and confidentiality.
- (2) Employees cannot use financial institution information for their personal interest or that of others.
- (3) The information and data of the microfinance institution may be shared for official purposes with the following individuals:
 - 1- Employees and representatives of DAB, such as auditors, supervisors, trustees, and the liquidation team.



2- With other governmental or non-governmental authorities, based on the ruling of the competent court.

Forgery of Documents

Article (52)

All institutions holding a valid license of Microfinance Institution are obligated to make their utmost effort to ensure the accuracy of all documents presented to each of the representatives of DAB. Any intent to falsify documents or failure to report any specific transaction to DAB will result in the imposition of enforcement actions.

Enforcement

Article (53)

This regulation shall come into effect after being approved by the Supreme Council of DAB, and shall be published on the DaB website. With the publication of this regulation, the previous version is hereby revoked.

Note: The foundation of this regulation is based on local languages. It has been translated into English from the local languages. In case on any concerns, the original version in the local languages should be considered authoritative.

