

UNIFIED DIRECTIVES

**Issued by Nepal Rastra Bank to the Licensed Banks and
Financial Institutions, 2010**

*(Revised with inclusion of the Unified Directives, 2009 and the
Circulars/Directives/Guidelines issued until July 16, 2010;
Effective from July 17, 2010)*

**NEPAL RASTRA BANK
CENTRAL OFFICE
BANKS AND FINANCIAL INSTITUTIONS REGULATION
DEPARTMENT
JULY 2010**

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Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directive No. 1/067

Subject: Provisions Relating to Capital Adequacy Ratio

The following Directives with regard to the capital adequacy ratio to be maintained by a licensed institution have been issued having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. The capital adequacy to be maintained

Based on its risk-weight assets, a licensed institution shall have to maintain the following capital adequacy ratio: -

Institution	Minimum capital fund to be maintained based on the risk-weight assets (percent)	
	Core capital	capital fund
"A" Class	6.0	10.0
"B" and "C" Class	5.5	11.0
"D" class	4.0	8.0

2. Capital fund

Capital fund means the aggregate of core capital and supplementary capital.

In case of the licensed institution belonging to class "A", the calculation of capital fund shall be made as referred to in schedule 1.1 of the Capital Adequacy Framework, 2007 (updated in July, 2008) issued by this Bank.

3. Classification of capital fund

For the purpose of calculation of capital fund, the capital fund of a licensed institution shall have to be classified in two categories as follows:-

1. Core capital

1.1 The amount in the following heads shall be included/calculated in the core capital:-

- a. Paid up capital (ordinary share)
- b. Proposed bonus share

- c. Share premium
- d. Irredeemable preference shares
- e. General Reserve Fund
- f. Accumulated Profit/loss
- g. Capital Redemption Reserve
- h. Capital Adjustment Fund
- i. Calls in advance
- j. Other free reserves

1.2 The amounts in the following heads shall be deducted while calculating core capital:-

- a. Goodwill
- b. Amount invested in shares and securities of corporate bodies exceeding the limit imposed by this Bank.
- c. All amount of investment made in shares and securities of the corporate bodies having own financial interests.
- d. Fictitious assets

For this purpose, fictitious assets mean the fictitious expenses other than the expenses in research, development and computer software.

- e. Credit and facilities made available to persons and groups prohibited by the prevailing laws.

Provided that in case the prevailing law has not prohibited to providing loan and facilities to such person or groups at the time of making available loans and facilities, this provision shall not be applicable until one year of such prohibition or expiry of the date of repayment of the loan, whichever is earlier.

- f. The amount of purchasing of land and houses for self purposes not abiding by Directives of this Bank.

- g. The amount invested in residence, buildings construction and land development exceeding the limit.
- h. The share underwriting not could be sold within the prescribed time-limit.

2. Supplementary capital

With a condition of not allowing to include more than core capital, the amount under the following heads shall be included in the supplementary capital:

a. Provisions for general loan loss

Only the amount provisioned for pass loan has to be included under this heading. In case more loan loss provision has been made than the ratio specified by this Bank for pass and other loans, the amount of such additional loan loss provision may be included in the additional loan loss provision.

Provided that the total amount under such heads shall not be allowed to be included in the supplementary capital so that it would exceed 1.25 percent of the total risk-weight assets.

b. Assets Revaluation Fund

While calculating supplementary capital, it shall be allowed to be calculated only up to 2 percent of the total supplementary capital including the amount for assets revaluation fund. Only the amount remaining in this fund or 2 percent of the total supplementary capital, whichever is lesser, shall be included in this fund.

c. Hybrid capital instruments

The following instruments shall be included under this head:-

- (1) The issued securities which are unsecured, fully paid up and subordinated to the priority order of payment of depositors and creditors and available to absorb losses as well as liable or not liable to be changed in general capital;
- (2) Instruments issued on the condition that they are not redeemable at the option of the holder except with the approval of Nepal Rastra Bank.

Provided that no other licensed institution shall be allowed to hold (purchase) the hybrid capital instruments issued by one licensed institution.

d. Unsecured Subordinated term loan:

The debt instruments having the maturity period of more than five years and issued without any collateral security with a condition of getting payment after the depositors and the redeemable preference shares having limited maturity period shall be included under this class. In order to reflect the diminishing value of these instruments, the licensed institution shall have to apply the discount (amortization) factor of these instruments at the rate of 20 percent for the last five years. In case any bank or financial institution has issued such instruments with a condition of converting them into ordinary shares in the long run or in various phases or of redeeming them having fulfilled the prescribed terms and conditions, then the amount converted in ordinary shares may be calculated as supplementary capital and the amount not converted into shares may be calculated as supplementary capital by placing under this head.

Provided that while issuing such instruments, the amount more than fifty percent of the core capital shall not be raised.

e. Exchange Equalization Fund

The amount of the exchange equalization fund maintained by a licensed institution engaged in the transaction of foreign exchange may be calculated for the purpose of supplementary capital.

f. Investment Equalization Fund

The amount of the investment equalization fund created under Directive No. 8 may be calculated for the purpose of supplementary capital.

4. Total Risk-weight Assets

For the purpose of calculating capital fund, the total risk-weight assets have been classified in the following two categories:

- (1) On-balance-sheet risk-weight assets
- (2) Off-balance-sheet risk-weight transactions

5. Risk-weight in the on-balance-sheet assets and off-balance-sheet transactions.

- (1) Risk-weight in the on-balance-sheet assets

(Except class "A"): For the purpose of calculating the capital fund, the on-balance-sheet assets have been divided as follows with assigning separate risk-weight:-

On-balance-sheet heads	Risk Weight (percentage)
Cash deposits	0
Gold deposit (tradable)	0
Deposits with Nepal Rastra Bank	0
Investment in Government of Nepal bond	0
Investment in Nepal Rastra Bank bond	0
Fixed receipt pledged loan extended against one's own fixed receipt to be most secured	0
Loan extended against security of government bond to be most secured	0
Accrued interests for government bond	0
Amount deposited by classes "B" and "C" licensed institutions in the Youth and Small Entrepreneurs Self-employment Fund under the Deprived Sector Lending	0
Claims of deposits/ fixed receipts at the domestic banks and financial institutions *	20

* The fixed deposit of a period of three months or more made by the licensed financial institution of classes "B", "C" and "D" in a national bank or financial institution with a condition of redeeming it on an extended notice of one week. For this purpose, only the fixed deposit made in the bank and financial

Fixed receipt pledged loan extended against fixed receipts of other banks and financial institutions to be most secured	20
Deposits with foreign banks	20
Money at call	20
Loan extended against guarantee of internationally rated licensed institution ^{*/}	20
Other investment made in internationally rated Banks ^{*/}	20
Inter-bank lending	20
Investment in shares, debentures and bonds	100
Other investments	100
Total amount (including loans, credit, and bills purchase/discount) ^{**}	100
Fixed assets	100
Other net interests amount to be received	

institution which has maintained the prescribed capital adequacy based on the capital adequacy of just preceding trimester shall be recognized.

^{*/} For this purpose, the bank means the banks included in the list of the top thousand world banks in the just preceding year published in the month of July every year by the *Banker* magazine to be published from London, the United Kingdom of Great Britain.

In case of banks not included in the Top Thousand World Banks, cent percent risk-weight shall have to be maintained.

^{**} Excluding the loans extended against the security of fixed receipts, Nepal Rastra Bank bond, government securities and guarantee issued by internationally rated banks.

Fixed assets	100
Other net interests amount to be received	100
All other assets (except advance income tax payment)	100
Real estate/residential housing loans exceeding the limits	150

(2) Risk-weight in off-balance-sheet transaction (except in "A" class)

For the purpose of counting the capital fund, the off-balance-sheet transactions have been separately provided risk-weight having classified them as follows. The total off-balance-sheet transactions have to be calculated having multiplied the amount of off-balance-sheet transaction with risk-weight.

As the risk-weight to be provided is given in the following table, total risk-weight off-balance-sheet transaction has to be calculated by multiplying the said transaction amount with the given risk-weight and adding them all.

Off-balance-sheet transactions	Risk weight (percentage)
Bills collection	0
Forward foreign exchange contract	10
Letter of Credit of less than six-month duration (full amount) [⊕]	20
Guarantee issued against the guarantee of internationally rated ^{*/} foreign licensed institution	20

[⊕] While calculating the period of L/C, the period beginning from the date of opening of the L/C shall have to be calculated.

^{*/} For this purpose, the bank means the banks included in the list of the top thousand world banks in the just preceding year published in the month of July every year by the *Banker* magazine to be published from

Letter of Credit of more than six-month duration (full amount) [⊕]	50
Commitments relating to bid bond, performance bond and underwriting	50
Credit purchase/repurchase and takeover	50
Advance payment guarantee	100
Financial and other guarantee	100
Irrevocable loan commitment	100
Possible liabilities for income tax	100
All types of possible liabilities including acceptance	100
Unpaid guarantee claims	200

6. Capital Fund Ratio Determination Formula

The capital fund ratio has to be determined as follows:

- (a) Core capital ratio = $\frac{\text{Core capital}}{\text{Total of the risk-weight assets}} \times 100$
- (b) Capital fund Ratio = $\frac{\text{Core capital} + \text{Supplementary capital}}{\text{Total of the risk-weight assets}} \times 100$

Total of risk-weight assets = Total risk-weight assets within the balance-sheet + total risk-weight transaction outside the balance sheet.

7. Description to be sent with regard to capital fund

The licensed banks/financial institution shall have to all the times maintain the prescribed ratio of capital adequacy. The class “A” licensed institution shall have to

London, the United Kingdom of Great Britain. In case of banks not included in the Top Thousand World Banks, cent percent risk-weight shall have to be maintained.

prepare statement as to capital fund as stated in schedule 1.1 of the Capital Adequacy Framework, 2007 (as updated in July 2008) and classes “B”, “C” and “D” licensed institution shall have to prepare statements as to capital fund as referred to in Directive Form Nos. 1.1 and 1.2 on the basis of the financial statements at the last day of every month. Those statements shall have to be sent to the Banks and Financial Institutions Regulation Department and Concerned Supervision Department of this Bank within one month from the date of completion of every month getting them authenticated by the internal auditors. In the rare event of failure to send getting them audited on monthly basis, the same shall have to be mentioned in the monthly statement.

8. Provision for Auditing

In case this Bank deems it necessary, it may to conduct due diligence audit (DDA) to acquire information with regard to business condition of the Banks and financial institution having no adequate capital fund and the concerned institution has to bear the expenses to be incurred there for.

9. Actions may be taken in case Directives as to capital fund are not followed:

- (a) In case the licensed institution belonging to classes “A”, “B” and “C” do not follow the Directives relating to the capital fund, actions shall be taken according to the Prompt Corrective Actions Byelaws, 2007.
- (b) In case the licensed institution belonging to class “D” could not maintain the capital fund in the prescribed ratio, the Board of Directors shall have to show the reason for failing to maintain the capital fund and the capital plan or program for making the capital fund adequate within 35 days. With reference to the proposed plan or program submitted, the Bank may issue Directives to maintain the capital fund within the period prescribed by this Bank. In cases where the capital fund is inadequate, dividend and bonus shares shall not be distributed.
- © In case Banks and licensed institution failed to maintain the capital fund at a particular period within a fiscal year but it was able to maintain the capital fund at the end of the fiscal year, even then the cash dividend and bonus share shall not be allowed to be distributed. However, this clause does not cause hindrance in declaring/distributing bonus shares in case the capital adequacy in the ratio prescribed by the financial statement certified by an external auditor at the end of that fiscal year.

- (d) Though the capital adequacy has been maintained at the ratio prescribed by the financial statement certified by an external auditor at the end of any fiscal year, even then the licensed banks or financial institution shall not be allowed to declare/distribute dividend and bonus if prompt corrective actions are implemented during the time from the date of completion of the said fiscal year to the date of approval by the Annual General Meeting and the restriction for the same are not removed.

10. Repeal and Saving

- (1) The following Directives issued from this Bank heretofore have been repealed:
Provisions relating to capital adequacy in the Unified Directives, 2009; the Directives issued from Directive No. 1/066 and all the circulars relating to this matter issued until the mid-July 2010.
- (2) The actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have been taken under these Directives.

Capital Fund (Except "A" class)

(In Rs. Thousand)

Description	Current year Rs.	Last Year Rs.
<p>(A) Core Capital</p> <ol style="list-style-type: none"> 1) Paid up Capital (ordinary shares) 2) Proposed bonus share 3) Share premium 4) Irredeemable preferential share 5) General Reserve Fund 6) Accumulated profit/(loss) 7) Amount of profit and loss of the current Fiscal year as shown in the balance-sheet 8) Capital Redemption Reserve Fund 9) Capital Adjustment Fund 10) Calls in advance 11) Other Free Reserves <p><u>To be deducted</u></p> <ul style="list-style-type: none"> • Amount for goodwill • Amount invested in shares and securities in excess of limits • Amount invested in securities of the company having financial interests • Fictitious Asset • Amount invested in purchase of land and houses for self use not complying with the Directives of this Bank • Amount invested in land development and housing construction in excess of limits • The share underwriting could not be sold within the stipulated time • The credit and other facilities made available to the persons and organizations banned by the prevailing laws 		
(B) Supplementary capital		

1) Provisions of loan loss made for pass loan		
2) Additional loan loss provision		
3) Hybrid capital instruments		
4) Unsecured Subordinated Term Debt		
5) Exchange Equalization Fund		
6) Assets revaluation Fund		
7) Investment adjustment Fund		
© Total Capital Fund (A+B)		
(D) Minimum capital Fund to be maintained based on risk weight assets		
Capital Fund (.....Percent)		
Core Capital (.....Percent)		
Capital Fund (more/less) (by .....Percent)		
Core Capital (more/less) (.....Percent)		

Description table of Risk-weight Assets (Except “A” class)

(In Rs. Thousand)

Description	Weight	Current year		Last year	
		Amount	risk weight assets	Amount	risk weight assets
(A) On-balance-sheet Assets					
Cash deposits	0				
Gold deposit (tradable)	0				
Deposits with Nepal Rastra Bank	0				
Investment in Government of Nepal bond	0				
Investment in Nepal Rastra Bank bond	0				
Fixed receipt pledged loan extended against one’s own fixed receipt to be most secured	0				
Loan extended against security of government bond to be most secured	0				
Accrued interests for government bond	0				
Amount deposited by classes “B” and “C” licensed institutions in the Youth and Small Entrepreneurs Self-employment Fund under the Deprived Sector Lending	0				
Claims of deposits/fixed receipts at the domestic banks and financial institutions	20				
Fixed receipt pledged loan extended against fixed receipts	20				

extended against fixed receipts of other banks and financial institutions to be most secured					
Deposits with foreign banks	20				
Money at call	20				
Loan extended against internationally rated licensed institution	20				
Other investment made in internationally rated Banks	20				
Inter-bank lending	20				
Investment in shares, debentures and bonds	100				
Other investments	100				
Total amount including loans, credit, and bills purchase/discount	100				
Fixed assets	100				
Other net interests amount to be received					
Fixed assets	100				
Other net interests amount to be received	100				
All other assets (except advance income tax payment)	100				
Real estate/residential housing loans exceeding the limits	150				
(A) Total					
(B) Off-balance-sheet Items					
Bills collection	0				

Forward foreign exchange contract	10				
Letter of Credit of less than six-month period (full amount)	20				
Guarantee issued against the guarantee of internationally rated foreign licensed institution	20				
Letter of Credit of more than six-month period (full amount)	50				
Commitments relating to bid bond, performance bond and underwriting	50				
Credit purchase/repurchase and takeover	50				
Advance payment guarantee	100				
Financial and other guarantee	100				
Irrevocable loan commitment	100				
Possible liabilities for income tax	100				
All types of possible liabilities including acceptance	100				
Unpaid guarantee claims	200				
(B) Total					
Total risk-weight assets (A)+(B)					

Note:

1. Out of the aforesaid heads, the Licensed Institution shall have to bring into use only those heads to which they are authorized to carry out transactions.
2. Cent percent risk weight has to be maintained in case of not falling into the list of the internationally rated *Top Thousand World Banks*.

Capital Adequacy Framework
2007
(updated July 2008)

1. INTRODUCTION

1.1 BACKGROUND:

Prior to 1988, there was no uniform international regulatory standard for setting bank capital requirements. In 1988, the Basel Committee on Banking Supervision (BCBS)¹ developed the Capital Accord, which is known as Basel I, to align the capital adequacy requirements applicable especially to banks in G-10 countries. Basel I introduced two key concepts. First, it defined what banks could hold as capital, as well as designating capital as Tier 1 or Tier 2 according to its loss-absorbing or creditor-protecting characteristics. The second key concept introduced in Basel I was that capital should be held by banks in relation to the risks that they face. The major risks faced by banks relate to the assets held on balance sheet. Thus, Basel I calculated banks' minimum capital requirements as a percentage of assets, which are adjusted in accordance to their riskiness and assigning risk weights to assets. Higher weights are assigned to riskier assets such as corporate loans, and lower weights are assigned to less risky assets, such as exposures to government.

The BCBS released the "International Convergence of Capital Measurements and Capital Standards: Revised Framework", popularly known as Basel II, on June 26, 2004. This framework was updated in November 2005 and a comprehensive version of the framework was issued in June 2006. Basel II builds significantly on Basel I by increasing the sensitivity of capital to key bank risks. In addition, Basel II recognizes that banks can face a multitude of risks, ranging from the traditional risks associated with financial intermediation to the day-to-day risks of operating a business as well as the risks associated with the ups and downs of the local and international economies. As a result, the new framework more explicitly associates capital requirements with the particular categories of major risks that banks face.

The new capital framework also recognizes that large, usually internationally active banks have already put in place sophisticated approaches to risk measurement and management based on statistical inference rather than judgement alone. Thus, the framework allows banks, under certain conditions, to use their own 'internal' models and techniques to measure the key risks that they face, the probability of loss, and the capital required to meet those losses. In developing the new framework, the Basel Committee wanted to incorporate many elements that help promote a sound and efficient financial system over and above the setting of minimum capital requirements. With this in mind, the Basel II framework incorporates three complementary 'pillars' that draw on the range of approaches to help ensure that banks are adequately capitalised in commensurate with their risk profile.

The Basel Committees on Banking Supervision's (BCBS) recommendations on capital accord are important guiding framework for the regulatory capital requirement to the banking industry all over the world and Nepal is no exception. Realizing the significance of capital for ensuring the safety and soundness of the banks and the banking system, at large, Nepal Rastra Bank (NRB) has developed and enforced capital adequacy requirement based on international practices with appropriate level of customization based on domestic state of market developments. The existing regulatory capital is largely based on the Basel committee's 1988 recommendations.

With a view of adopting the international best practices, NRB has already expressed its intention to adopt the Basel II framework, albeit in a simplified form. In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, this framework has been drafted. This framework provides the guidelines for the implementation of Basel II framework in Nepal. Reminiscent of the International convergence of capital measurements and capital standards, this framework also builds around three mutually reinforcing pillars, viz. minimum capital requirements, supervisory review process and disclosure requirements.

1.2 OBJECTIVE:

The main objective of this framework is to develop safe and sound financial system by way of sufficient amount of qualitative capital and risk management practices. This framework is intended to ensure that each commercial banks maintain a level of capital which,

- (i) is adequate to protect its depositors and creditors.

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

- (ii) is commensurate with the risk associated activities and profile of the commercial bank.
- (iii) promotes public confidence in the banking system.

1.3 PRE-REQUISITES:

The effective implementation of this framework is dependent on various factors. Some such pre-requisites are:

- (i) Implementation of Basel Core Principles for effective Banking Supervision
- (ii) Adoption of the sound practices for the management of Operational Risk
- (iii) Formulation and adoption of comprehensive risk management policy
- (iv) Adherence to high degree of corporate governance

1.4 RESPONSIBILITY:

The board of directors of each bank shall be responsible for establishing and maintaining, at all times, an adequate level of capital. The capital standards herein are the minimum that is acceptable for banks that are fundamentally sound, well managed, and which have no material financial or operational weaknesses. Thus, the banks are generally expected to operate above the limits prescribed by this framework.

1.5 SCOPE OF APPLICATION:

This framework shall be applicable to all "A" Class financial institutions licensed to conduct banking business in Nepal under the Bank and Financial Institution Act, 2063.

This capital adequacy framework shall be applicable uniformly to all "A" class financial institutions on a stand-alone basis and as well as on a consolidated basis, where the bank is member of a consolidated banking group. For the purpose of capital adequacy, the consolidated bank means a group of financial entities, parent or holding company of which a bank is a subsidiary. All banking and other relevant financial activities (both regulated and unregulated) conducted within a group including a bank shall be captured through consolidation. Thus, majority owned or controlled financial entities should be fully consolidated. If any majority owned subsidiaries institutions are not consolidated for capital purposes, all equity and other regulatory capital investments in those entities attributable to the group will be deducted and the assets and liabilities, as well as third party capital investments in the subsidiary will be removed from the bank's balance sheet for capital adequacy purposes.

1.6 APPROACHES TO IMPLEMENTATION:

"International Convergence for Capital Measurements and Capital Standards: Revised Framework" alias Basel II under Pillar 1, provides three distinct approaches for computing capital requirements for credit risk and three other approaches for computing capital requirements for operational risk. These approaches for credit and operational risks are based on increasing risk sensitivity and allow banks to select an approach that is most appropriate to the stage of development of bank's operations.

The product and services offered by the Nepalese Banks are still largely primitive and conventional, in comparison to other economies. This coupled with the various inherent limitations of our system like the absence of credit rating agencies makes the advanced approaches like Internal Ratings Based Approach or even Standardized Approach impractical and unfeasible. Thus, at this juncture, this framework prescribes Simplified Standardized Approach (SSA) to measure credit risk while Basic Indicator Approach and an indigenous Net Open Position Approach for measurement of Operational Risk and Market Risk respectively.

1.7 EFFECTIVE DATE:

All banks within the scope of this framework should adopt the prescribed approaches by Mid July 2008 (Fiscal Year 2065/066).

1.8 PARALLEL RUN:

In order to ensure a smooth transition to new approach prescribed by this framework, a parallel run for the whole year from Mid July 2007 (Fiscal Year 2064/065) was conducted. The returns submitted by the banks during this period was minutely reviewed to identify any anomalies. The identified shortcoming on the returns was advised to the bank management so that they could be rectified before we move onto full fledged implementation. Based on the findings of the parallel run, amendments and modifications have been incorporated in the framework wherever deemed necessary.

1.9 IMPLEMENTATION OF ADVANCED APPROACHES:

1.1.1.1 This framework prescribes the most simplest of the available approaches at the initial phase with a vision to move onto more complex and risk sensitive approaches as the market gradually gains maturity. However, banks willing to adopt advanced approaches, even for internal purposes, should obtain prior written approval from Nepal Rastra Bank on providing evidences that they have the resource and the capability to adopt the proposed approaches.

A bank will not be allowed to choose to revert to a simpler approach once it has been approved for a more advanced approach without supervisory approval. However, if a supervisor determines that a bank using a more advanced approach no longer meets the qualifying criteria for advanced approach, it may allow the bank to revert to a simpler approach for some or all of its operations, until it meets the conditions specified by the supervisor for returning to a more advanced approach.

2. ELIGIBLE CAPITAL FUNDS

2.1 DEFINITION OF CAPITAL:

Qualifying capital consists of Tier 1 (core) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Thus, for the purpose of calculation of regulatory capital, banks are required to classify their capital into two parts as follows;

a. Core Capital (Tier 1)

The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. This key element of capital is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete.

The BCBS has therefore concluded that capital, for supervisory purposes, should be defined in two tiers in a way, which will have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings.

In order to rank as Tier 1, capital must be fully paid up, have no fixed servicing or dividend costs attached to it and be freely available to absorb losses ahead of general creditors. Capital also needs to have a very high degree of permanence if it is to be treated as Tier 1.

b. Supplementary Capital (Tier 2)

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

2.2 ELEMENTS OF TIER 1 CAPITAL:

- a. Paid up Equity Capital.
- b. Irredeemable non-cumulative preference shares which are fully paid-up and with the capacity to absorb unexpected losses. These instruments should not contain any clauses whatsoever, which permit redemption by the holder or issuer upon fulfillment of certain condition. Banks should obtain prior approval of NRB for this kind of instruments to qualify as a component of core capital.
- c. Share Premium
- d. Proposed Bonus Equity Share
- e. Statutory General Reserve.
- f. Retained Earnings available for distribution to shareholders.
- g. Un-audited current year cumulative profit, after all provisions including staff bonus and taxes. Where such provisions are not made, this amount shall not qualify as Tier 1 capital.
- h. Capital Redemption Reserves created in lieu of redeemable instruments.
- i. Capital Adjustment reserves created in respect of increasing the capital base of the bank.
- j. Dividend Equalization Reserves.
- k. Any other type of reserves notified by NRB from time to time for inclusion in Tier 1 capital

2.3 ELEMENTS OF TIER 2 CAPITAL:

- a. Cumulative and/or redeemable preference shares with maturity of five years and above.
- b. Subordinated term debt fully paid up with a maturity of more than 5 years; unsecured and subordinated to the claim of other creditors, free of restrictive clauses and not redeemable before maturity. Since, subordinated term debt is not normally available to participate in the losses; the amount eligible for inclusion in the capital adequacy calculations is limited to 50% of core capital. Moreover, to

reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum shall be applied for capital adequacy computations, during the last 5 years to maturity. The banks should obtain written approval of NRB for including any subordinated debt instruments (like Debenture/Bonds) in supplementary (Tier-2) capital.

- c. Hybrid capital instruments. Those instruments which combine certain characteristics of debt and certain characteristics of equity. Each such instrument has a particular feature, which can be considered to affect its quality as capital. Where these instruments have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, they may be included in Tier 2 capital with approval from Nepal Rastra Bank.
- d. General loan loss provision limited to a maximum of 1.25% of total Risk Weighted Exposures. General loan loss provision refers to the provisions created in respect of Pass Loans only and it does not include provisions of rescheduled/restructured and classified loans. The additional loan loss provisions created in respect of Personal Guarantee loans and loans in excess of Single Obligor Limits are specific provisions and hence cannot be included under this category. Such provisions however can be deducted from the gross exposures while calculating risk weighted exposures for credit risk.
However, provisions created in excess of the regulatory requirements or provisions which is not attributable to identifiable losses in any specific loans shall be allowed to be included in the General Loan Loss Provision and shall be eligible for Tier II capital subject to a maximum of 1.25% of total risk weighted exposures.
- e. Exchange equalization reserves created by banks as a cushion for unexpected losses arising out of adverse movements in foreign currencies.
- f. Investment adjustment reserves created as a cushion for adverse price movements in bank's investments falling under "Available for Sale" category.
- g. Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent deterioration in market values and tax consequences of revaluation. Therefore, revaluation reserves will be eligible up to 50% for treatment as Tier 2 capital and limited to a maximum of 2% of total Tier 2 capital subject to the condition that the reasonableness of the revalued amount is duly certified by the internal auditor of the bank.
- h. Any other type of reserves notified by NRB from time to time for inclusion in Tier 2 capital

2.4 DEDUCTIONS FROM CORE (TIER 1) CAPITAL:

Banks shall be required to deduct the following from the Tier 1 capital for capital adequacy purposes. The claims that have been deducted from core capital shall be exempt from risk weights for the measurement of credit risk.

- a. Book value of goodwill.
- b. Miscellaneous expenditure to the extent not written off. e.g. VRS expense, preliminary expense, share issue expense, deferred revenue expenditure, etc. However, software expenditure or software development expenditure, research and development expenditure, patents, copyrights, trademarks and lease hold developments booked as deferred revenue expenditure are subject to 100% risk weight and may not be deducted from Tier 1 capital.
- c. Investment in equity of financial institutions licensed by Nepal Rastra Bank².
- d. All Investments in equity of institutions with financial interest.
- e. Investments in equity of institutions in excess of the prescribed limits.
- f. Investments arising out of underwriting commitments that have not been disposed within a year from the date of commitment.
- g. Reciprocal crossholdings of bank capital artificially designed to inflate the capital position of the bank.
- h. Any other items as stipulated by Nepal Rastra Bank, from time to time.

2.5 CAPITAL FUNDS:

The capital fund is the summation of Tier 1 and Tier 2 capital. The sum total of the different components of the tier 2 capitals will be limited to the sum total of the various components of the Tier 1 capital net of deductions as specified in 2.4. In case the Tier 1 capital is negative, Tier 2 capital shall be considered to be "Nil" for regulatory capital adequacy purposes and hence, in such a situation, the capital fund shall be equal to the Tier 1 capital.

2.6 MINIMUM CAPITAL REQUIREMENTS:

² Investment in shares of Rural Development Banks and other institutions, where the waiver has been explicitly provided by NRB are subject to risk weight of 100% and shall not be deducted from Tier 1 capital.

Unless a higher minimum ratio has been set by Nepal Rastra Bank for an individual bank through a review process, every bank shall maintain at all times, the capital requirement set out below:

- a. A Tier 1 (core) capital of not less than 6 per cent of total risk weighted exposure;
- b. A total capital fund of not less than 10 per cent of its total risk weighted exposure.

The Capital Adequacy Ratio (CAR) is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure shall comprise of risk weights calculated in respect of bank's credit, operational and market risks. The methodologies to calculate RWE for each of these risk categories are described in detail in subsequent chapters.

3. CREDIT RISK

3.1 GENERAL:

Credit risk is the major risk that banks are exposed to during the normal course of lending and credit underwriting. Within Basel II, there are two approaches for credit risk measurement: the standardized approach and the internal ratings based (IRB) approach. Due to various inherent constraints of the Nepalese banking system, the standardized approach in its simplified form, Simplified Standardized Approach (SSA), has been prescribed in the initial phase.

3.2 SIMPLIFIED STANDARDIZED APPROACH (SSA):

In comparison to Basel I, SSA aligns regulatory capital requirements more closely with the key elements of banking risk by introducing a wider differentiation of risk weights and a wider recognition of credit risk mitigation techniques. The advantage of implementing this approach is twofold. This approach allows transitional advantage for countries like us by avoiding excessive complexities associated with the advanced approaches of Basel II while at the same time it will produce capital ratios more in line with the actual economic risks that banks are facing, compared to the present Accord.

Under this approach commercial banks are required to assign a risk weight to their balance sheet and off-balance sheet exposures. These risk weights are based on a fixed weight that is broadly aligned with the likelihood of a counterparty default. As a general rule, the claims that have already been deducted from the core capital shall be exempt from risk weights for the measurement of credit risk.

Claims on foreign government, their central banks as well as foreign corporates shall be generally risk-weighted on the basis of the consensus country risk scores of export credit agencies (ECA)³. Wherever there are claims relating to unrated countries, they shall generally be risk weighted at 100 percent. However, these claim shall be subject to supervisory review and higher risk weight shall be assigned where the review process deems appropriate.

All kinds of claims including loans & advances as well as investments shall be risk weighed net of specific provisions. Generally provision related to any receivable or investment is not defined as general or specific. In such situation, the total provision against any claim/exposure (other than the loans and advances) shall be considered as specific provision. However, provisions eligible for the supplementary capital shall not be allowed for netting while calculating risk weighted exposures.

In case of loans, advances and bills purchased the provisions created in lieu of Pass loans only are classified as General loan loss provision. All other provisions are components of specific loan loss provision. Hence, general loan loss provision doesn't comprise provisions created in respect of rescheduled/restructured and non performing loans. It also doesn't include additional provisions created for personal guarantee loans or lending in excess of Single Obligor Limits. However, provisions created in excess of the regulatory requirements and not attributable to identifiable losses in any specific loans shall be allowed to be included in the General Loan Loss Provision.

In order to be consistent with the Basel-II framework, the credit risk for the regulatory capital purpose shall be computed by segregating the exposure in the following 11 categories.

- a) Claims on government & central bank
- b) Claims on other official entities
- c) Claims on banks
- d) Claims on corporate & securities firms
- e) Claims on regulatory retail portfolio
- f) Claims secured by residential properties
- g) Claims secured by commercial real state
- h) Past due claims
- i) High risk claims

³ The consensus country risk classification is available on the OECD's website (<http://www.oecd.org>) in the Export Credit Arrangement web page of the Trade Directorate. Each bank while computing the risk weight in any claim should use the updated risk score.

- j) Other assets
- k) Off balance sheet items

3.3 RISK MEASUREMENT AND RISK WEIGHTS:

a. Claims on government & central bank

1. All claims on Government of Nepal and Nepal Rastra Bank shall be risk weighed at 0 %.
2. Claims on foreign government and their central banks shall be risk-weighted on the basis of the consensus country risk scores as follows:

ECA risk scores	0-1	2	3	4 to 6	7
Risk weights	0%	20%	50%	100%	150%

b. Claims on other official entities

1. Claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community will receive a 0% risk weight.
2. Following Multilateral Development Banks (MDBs) will be eligible for a 0% risk weight.
 - World Bank Group, comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC),
 - Asian Development Bank (ADB),
 - African Development Bank (AfDB),
 - European Bank for Reconstruction and Development (EBRD),
 - Inter-American Development Bank (IADB),
 - European Investment Bank (EIB),
 - European Investment Fund (EIF),
 - Nordic Investment Bank (NIB),
 - Caribbean Development Bank (CDB),
 - Islamic Development Bank (IDB), and
 - Council of Europe Development Bank (CEDB).
3. The standard risk weight for claims on other Multilateral Development Banks will be 100%.
4. Claims on public sector entities (PSEs)⁴ will be risk-weighted as per the ECA country risk scores.

ECA risk scores	0-1	2	3 to 6	7
Risk weights	20%	50%	100%	150%

c. Claims on banks

1. All claims, irrespective of currency, excluding investment in equity shares and other instruments eligible for capital funds, on domestic banks/financial institutions that fulfill Capital Adequacy Requirements will be risk weighed at 20% while for the rest, it will be 100%.
Banks should make use of the publicly available information of the immediately preceding quarter of the respective banks to gauge their status on capital adequacy.
2. Claims on a foreign bank excluding investment in equity shares and other instruments eligible for capital funds shall be risk weighed as per the ECA Country risk score subject to the floor of 20%. The primary basis for applying the ECA Country Risk score shall be the country of incorporation of the bank. Where the bank is a branch office, the ECA score of the country where the corporate office is located shall be used while in the case of a subsidiary the basis shall be the country where the subsidiary is incorporated.

ECA risk scores	0-1	2	3 to 6	7
Risk weights	20%	50%	100%	150%

However, the claims on foreign banks incorporated in the SAARC region and which operate with a buffer of 1% above their respective regulatory minimum capital requirements may be risk weighed at 20%. The banks shall be responsible to submit the latest capital adequacy position of such banks and demonstrate that they fulfill the eligibility requirements. Such capital adequacy position submitted by the banks should not be prior to more than one financial year. Moreover, such claims shall be subject to a supervisory review and supervisors may require the bank to risk weigh the claims on ECA country risk scores where the review process deems necessary.

⁴ Public sector entity (PSE) is one, which is owned or controlled by government or any other entity categorized as PSE by NRB.

d. Claims on corporate & securities firms

1. The risk weight for claims on domestic corporates, including claims on insurance companies and securities firm will be 100%. The domestic corporates includes all firms and companies incorporated in Nepal as per prevailing Acts and regulations.
2. The claims on foreign corporate shall be risk weighed as per the ECA Country risk score subject to the floor of 20% as follows:

ECA risk scores	0-1	2	3	4 to 6	7
Risk weights	20%	50%	100%	100%	150%

e. Claims on regulatory retail portfolio

1. Claims⁵ that qualify all criteria listed below may be considered as regulatory retail portfolio and risk weighed at 75%, except for past due loans. Such claims however, have to be in strict compliance with the Product paper developed by the bank and approved by their respective board of directors

Criteria:

- *Orientation criteria* :- exposure is to an individual person or persons or to a small business. Bank should obtain written declaration from the borrower to the effect that their indebtedness is within the threshold across all banks and FIs.
 - *Product criteria* :- The exposure takes the form of any of the following:
 - Revolving credits and lines of credit, (including overdraft, hypothecation etc.)
 - Term loans and leases (e.g. hire purchase, auto loans and leases, student and educational loans⁶) and,
 - Small business facilities and commitments,
 - Deprived sector loans upto a threshold of Rs.10 million (Ten Million only)
 - *Granularity criteria*:- NRB must be satisfied that the regulatory retail portfolio is sufficiently diversified to a degree that reduces the risks in the portfolio, warranting the 75% risk weight. No aggregate exposure⁷ to one counterpart can exceed 0.5 % of the overall regulatory retail portfolio.
 - *Low value individual criteria* :- The total aggregated exposure to one counterpart⁸ cannot exceed an absolute threshold of Rs.10 million (Nepalese Rupees Ten Million only)
2. Banks which have claims that fulfill all criterion except for granularity may risk weigh those claims at 100%

f. Claims secured by residential properties

1. Lending to individuals meant for acquiring or developing residential property which are fully secured by mortgages on residential property, that is or will be occupied by the borrower or that is rented, will be risk-weighted at 60%. However, banks should ensure the existence of adequate margin of security over the amount of loan based on strict valuation rules.
Banks have to develop product paper and get it approved from the board of directors to regulate this kind of lending. The claims in order to be eligible for this category have to be in strict compliance with this product paper
2. Where the loan is not fully secured, such claims have to risk weighed at 150%
3. When claims secured by residential properties are or have been past due⁹ at any point of time during the last two years, they shall be risk-weighted at 100%, net of specific provisions.

g. Claims secured by commercial real estate

1. Claims secured by mortgages on commercial real estate, except past due, shall be risk-weighted at 100%. Commercial real estate hereby refers to mortgage of Office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted

⁵ Lending against securities (such as equities and bonds) whether listed or not, are specifically excluded from this category. Likewise credit card receivables are excluded from this category.

⁶ Personal finance includes overseas employment loan, home loan (to the extent they do not qualify for treatment as claims secured by residential property), direct deprived sector loan.

⁷ Aggregated exposure means gross amount (i.e. not taking any credit risk mitigation into account) of all forms of credit exposures availed from the bank .

⁸ Counterpart refers to one or a group of borrowers defined by the NRB directives as a single obligor.

⁹ An exposure is past due if it falls into any other category other than Pass loan as per provisions of NRB directive on Loan classification.

commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction etc.

- h. Past due claims
1. Any loan, except for claim secured by residential property, which is or has been past due at any point of time during the last two years, will be risk-weighted at 150% net of specific provision.
- i. High risk claims
1. 150% risk weight shall be applied for venture capital and private equity investments.
 2. Exposures on Personal loan in excess of the threshold of regulatory retail portfolio and lending against securities (bonds and shares) shall attract a risk weight of 150%. Similarly, exposures on credit card shall also warrant a risk weight of 150%.
 3. Investments in the equity and other capital instruments of institutions, which are not listed in the stock exchange and have not been deducted from Tier 1 capital, shall be risk weighed at 150% net of provisions.
 4. Investments in the equity and other capital instruments of institutions, which are listed in the stock exchange and have not been deducted from Tier 1 capital, shall be risk weighed at 100% net of provisions.
 5. The claims which are not fully secured or are only backed up by personal guarantee shall attract 150% risk weight.
 6. Where loan cannot be segregated/or identified as regulatory retail portfolio or qualifying residential mortgage loan or under other categories, it shall be risk weighed at 150%.
- j. Other assets
1. With regard to other assets, following provisions have been made;
 - Interest receivable/claim on government securities will be risk-weighted at 0%.
 - Investments in equity or regulatory capital instruments issued by securities firms will be risk-weighted at 100%.
 - Cash in transit and other cash items in the process of collection will be risk-weighted at 20%. For this purpose, cash items shall include Cheque, Draft, and Travellers Cheques.
 - Fictitious assets that have not been deducted from Tier 1 capital shall be risk weighed at 100%.
 - All Other assets will be risk-weighted at 100% net of specific provision.
- k. Off balance sheet items
1. Off-balance sheet items under the simplified standardized approach will be converted into equivalent risk weight exposure using risk weight as follows:

Off Balance Sheet Exposure	Risk Weight
Any commitments those are unconditionally cancelable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness (for example bills under collection)	0%
Forward exchange contracts.	10%
Short Term Trade-related contingencies Contingent liabilities arising from trade-related obligations, which are secured against an underlying shipment of goods for both issuing and confirming bank and are short term in nature. This includes documentary letters of credit, shipping guarantees issued and any other trade-related contingencies with an original maturity up to six months.	20%
Undertaking to provide a commitment on an off-balance sheet items	20%
Unsettled ¹⁰ securities and foreign exchange transactions between bank to bank and between bank and customer	20%
Long Term Trade-related contingencies Contingent liabilities arising from trade-related obligations, which are secured against an underlying shipment of goods for both issuing and confirming bank and are long term in nature. This includes documentary letters of credit, shipping guarantees issued and any other trade-related	50%

¹⁰ An unsettled transaction is one where delivery of the instrument is due to take place against receipt of cash, but which remain unsettled five business days after the due settlement date.

contingencies with an original maturity of over six months	
Performance-related contingencies Contingent liabilities, which involve an irrevocable obligation to pay a third party in the event that counterparty fails to fulfill or perform a contractual non-monetary obligation, such as delivery of goods by a specified date etc. This includes issue of performance bonds, bid bonds, warranties, indemnities, underwriting commitments and standby letters of credit in relation to a non-monetary obligation of counterparty under a particular transaction.	50%
Long term irrevocable Credit Commitments Any un-drawn portion of committed credit lines sanctioned for a period of more than 1 year. This shall include all unutilized limits in respect of revolving working capital loans except for trade finance exposures e.g. Overdraft, Cash credit, working capital loan etc.	50%
Short term irrevocable Credit Commitments Any un-drawn portion of committed credit lines sanctioned for a period of upto 1 year. This shall include all unutilized limits in respect of revolving working capital loans except for trade finance exposures e.g. Overdraft, Cash credit, working capital loan etc.	20%
Repurchase agreements, securities lending, securities borrowing, reverse repurchase agreements and equivalent transactions This includes sale and repurchase agreements and asset sales with recourse, where the credit risk remains with the purchasing bank.	100%
Direct credit substitutes Any irrevocable off-balance sheet obligations which carry the same credit risk as a direct extension of credit, such as an undertaking to make a payment to a third party in the event that a counterparty fails to meet a financial obligation or an undertaking to a counterparty to acquire a potential claim on another party in the event of default by that party, constitutes a direct credit substitute. This includes potential credit exposures arising from the issue of financial guarantees and credit derivatives, confirmation of letters of credit (acceptances and endorsements), issue of standby letters of credit serving as financial guarantees for loans, securities and any other financial liabilities, and bills endorsed under bill endorsement lines (but which are not accepted by, or have the prior endorsement of, another bank).	100%
Unpaid portion of partly paid shares and securities	100%
Other Contingent Liabilities	100%

3.4 **CREDIT RISK MITIGATION:**

Banks may use a number of techniques to mitigate the risks to which they are exposed. The prime objective of this provision is to encourage the banks to manage credit risk in a prudent and effective manner. As such, credit risks exposures may be collateralized¹¹ in whole or in part with cash or securities, or a loan exposure may be guaranteed by a third party. Where these various techniques meet the minimum conditions mentioned below, banks which take eligible financial collateral are allowed to reduce their credit exposure to counterparty when calculating their capital requirements to take account of the risk mitigating effect of the collateral. However, credit risk mitigation is allowed only on an account by account basis, even within regulatory retail portfolio.

As a general rule, no secured claim should receive a higher capital requirement than an otherwise identical claim on which there is no collateral. Similarly, the effects of the CRM shall not be double counted and capital requirement will be applied to banks on either side of the collateralized transaction: for example, both repos and reverse repos will be subject to capital requirements.

Those portions of claims collateralized by the market value of recognized collateral receive the risk weight applicable to the collateral instrument. The remainder of the claim should be assigned the risk weight appropriate to the counter party.

Where the same security has been pledged for both the funded and non funded facilities, banks should clearly demarcate the value of security held for funded and non funded facility. In cases where the bank has obtained same security for various forms of facilities; banks are eligible to claim the CRM benefit across all such exposures upto the eligible value of CRM.

a. Minimum conditions for eligibility:

¹¹ A collateralized transaction is one in which: a) banks have a credit exposure or potential credit exposure; and b) that credit exposures or potential credit exposure is hedged in whole or in part by collateral posted by the counter party or by a third party on behalf of the counter party.

In order to obtain capital relief towards credit risk mitigation, there are certain basic condition that needs to be fulfilled. Supervisors will monitor the extent to which banks satisfy these conditions, both at the outset of a collateralized transaction and on an on-going basis.

1. *Legal certainty:-* Collateral is effective only if the legal mechanism by which collateral is given is robust and ensures that the lender has clear rights over the collateral to liquidate or retain it in the event of default. Thus, banks must take all necessary steps to fulfill local contractual requirements in respect of the enforceability of security interest. The collateral arrangements must be properly documented, with a clear and robust procedure for the timely liquidation of collateral. A bank's procedures should ensure that any legal conditions required for declaring the default of the customer and liquidating the collateral are observed. Where the collateral is held by a custodian, the bank must seek to ensure that the custodian ensures adequate segregation of the collateral instruments and the custodian's own assets. Besides that, banks must obtain legal opinions confirming the enforceability of the collateral arrangements in all relevant jurisdictions.
2. *Low correlation with exposure:-* In order for collateral to provide protection, the credit quality of the obligor and the value of the collateral must not have a material positive correlation. For example, securities issued by the collateral provider - or by any related group entity - would provide little protection and so would be ineligible.
3. *Maturity Mismatch:-* The maturity of the underlying exposure and the maturity of the hedge should both be defined conservatively. The effective maturity of the underlying should be gauged as the longest possible remaining time before the obligor is scheduled to fulfill its obligation. The collateral must be pledged for at least the life of the exposure. In case of mismatches in the maturity of the underlying exposure and the collateral, it shall not be eligible for CRM benefits.
4. *Currency Mismatch:-* Ideally the currency of the underlying exposure and the collateral should be the same. Where the credit exposure is denominated in a currency that differs from that in which the underlying exposure is denominated, there is a currency mismatch. Where mismatches occur, it shall be subject to supervisory haircut of 10%.
5. *Risk Management:-* While CRM reduces credit risk, it simultaneously may increase other risks to which a bank is exposed, such as legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy; consideration of the underlying credit; valuation; policies and procedures; systems; control of roll-off risks; and management of concentration risk arising from the bank's use of CRM techniques and its effect with the bank's overall credit profile. In case where these requirements are not fulfilled, NRB may not recognize the benefit of CRM techniques.
6. *Qualifying criteria for guarantee:-* A guarantee (counter guarantee) to be eligible must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and irrefutable. Other than non-payment by a protection purchaser of money due in respect of the credit protection contract it must be irrevocable in that there must be no clause in the contract that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional in that there should be no clause in the protection contract outside the control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counter party fails to make the payments due.

On the qualifying default or non-payment of the counter party, the bank may in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counter party covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counter party payment.

b. Eligible Collaterals:

1. Cash deposit (as well as certificates of deposit or fixed deposits or other deposits) with the bank. The banks may only claim these as CRM only if it has specific authority to recover the amount from this source in case of default.
2. Fixed Deposit Receipts/Certificates of deposits/other deposits of other Banks and FIs, who fulfill the capital adequacy requirements, subject to a 20% supervisory haircut.
3. Gold.

4. Securities issued by the Government of Nepal and Nepal Rastra Bank.
 5. Guarantee of the Government of Nepal
 6. Financial guarantee/counter guarantee of domestic banks and FIs who meet the minimum capital adequacy requirements subject to a haircut of 20%.
 7. Securities/Financial guarantee/Counter guarantee issued by sovereigns.
 8. Securities/Financial guarantee/Counter guarantee issued by MDBs in the list specified in 3.3 b (3 & 4)
 9. Securities/Financial guarantee/Counter guarantee issued by banks with ECA rating 2 or better. The supervisory haircut shall be 20% and 50% for the banks with ECA rating of 0-1 and 2 respectively.
- c. Methodology for using CRM
- Step 1: Identify the accounts eligible for capital relief under credit risk mitigation.
 - Step 2: Assess the value of the exposure and the eligible collateral. The value of the eligible collateral is the lower of the face value of the instrument or the outstanding amount of exposure
 - Step 3: Adjust the value of the eligible collateral in respect of the supervisory haircut in terms of currency mismatch and other eligibility requirements.
 - Step 4: Compare the adjusted value of the collateral with the outstanding exposure.
 - Step 5: The value of the eligible CRM is the lower of the adjusted value of the collateral and the outstanding exposure.
 - Step 6: Plot the eligible CRM in the appropriate category of credit risk.
- The sum total of net amount of eligible CRM as per “Form No.4 Exhibit of claims with eligible credit risk mitigants” shall be consistent with the “Form No.3 Eligible Credit Risk Mitigants” prescribed in this framework.

4. OPERATIONAL RISK

4.1 GENERAL:

Operational risk is the risk of loss resulting from inadequate internal processes, people, and systems, or from external events. Operational risk itself is not a new concept, and well run banks have been addressing it in their internal controls and corporate governance structures. However, applying an explicit regulatory capital charge against operational risk is a relatively new and evolving idea. Basel II requires banks to hold capital against the risk of unexpected loss that could arise from the failure of operational systems.

The most important types of operational risk involve breakdowns in internal controls and corporate governance. Such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner or cause the interests of the bank to be compromised in some other way, for example, by its dealers, lending officers or other staff exceeding their authority or conducting business in an unethical or risky manner. Other aspects of operational risk include major failure of information technology systems or events such as major fires or other disasters.

4.2 BASIC INDICATOR APPROACH:

Under the basic indicator approach, banks must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted alpha) of positive annual gross income.

The capital charge for operational risk may be expressed as follows:

$$K_{BIA} = [\sum(GI_{1..n} \times \alpha)]/N$$

where:

K_{BIA} = capital charge under the Basic Indicator Approach

GI = annual gross income, where positive, over the previous three years

N = number of the previous three years for which gross income is positive

α = 15 percent.

NRB shall review the capital requirement produced by this approach for general credibility, especially in relation to a bank's peers and in the event that credibility is lacking, appropriate supervisory action under Review Process shall be considered.

Figures for the year, in which annual gross income is negative or zero, should be excluded from both the numerator and denominator while calculating the average. In case where the gross income for all of the last three years is negative, 5% of total credit and investments net of specific provisions shall be considered as the capital

charge for operational risk. For this purpose investments shall comprise of money at call, placements, investment in government securities and other investments irrespective of currency.

Similarly, in case of new banks who have not completed an year of operation and hence whose average gross income cannot be measured reliably, they shall also be required to compute their capital charge for operational risk vide the same approach as prescribed for banks with negative gross income. These banks may use the gross income approach from second year onwards. But, based on the reasonableness of the so computed capital charge for Operation Risk, during the first three years of operation, review process may require additional proportion of capital charge if deemed necessary.

4.3 GROSS INCOME:

Gross income is defined as "net Interest Income" plus "non interest income". It is intended that this measure should:

- a. be gross of any provisions (e.g. for unpaid interest) and write-offs made during the year;
- b. be gross of operating expenses, exclude reversal during the year in respect of provisions and write-offs made during the previous year(s);
- c. exclude income/gain recognized from the disposal of items of movable and immovable property;
- d. exclude realized profits/losses from the sale of securities in the "held to maturity" category;
- e. exclude other extraordinary or irregular items of income and expenditure

Thus, for the purpose of capital adequacy requirements, gross income shall be summation of:

- a. Total operating income as disclosed in Profit and Loss account prepared as per NRB directive no.4. The total operating income comprises of:
 1. Net Interest Income
 2. Commission and Discount Income
 3. Other Operating Income
 4. Exchange Fluctuation Income
- b. Addition/deduction in the Interest Suspense during the period.

Banks shall use the annual audited financials of the last three years for the computation of gross income under this approach. Hence, the capital requirement for operational risk for a whole financial year shall remain constant. Until the accounts are finalized for the financial year, banks shall use the provisional figures for the period, which should be validated by the internal auditor of the bank.

4.4 COMPUTATION OF RISK WEIGHT:

Operational risk-weighted assets are determined by multiplying the operational risk capital charge by 10 (i.e., the reciprocal of the minimum capital ratio of 10%) and adding together with the risk weighted exposures for credit risk.

5. MARKET RISK

5.1 DEFINITION OF MARKET RISK:

Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from adverse movements in market prices. The major constituents of market risks are:

- a. The risks pertaining to interest rate related instruments;
- b. Foreign exchange risk (including gold positions) throughout the bank; and
- c. The risks pertaining to investment in equities and commodities.

5.2 SEGREGATION OF INVESTMENT PORTFOLIO:

Banks will have to segregate their investment portfolio into any of following three categories:

- a. Held for Trading:

An investment that is made for the purpose of generating a profit from short term fluctuations in price should be classified under this category. An asset should be classified as held for trading even if it is a part of a portfolio of similar assets for which there is a pattern of trading for the purpose of generating a profit from short term fluctuations in price. These investments should be marked to market on a daily basis and differences reflected in the profit and loss account.
- b. Held to Maturity:

The investments made with positive intent and ability of the bank to hold till maturity should be classified as held to maturity investments. The bank does not have the positive intent to hold an investment to maturity, if any of the following conditions are met:

 1. Bank has the intent and the ability to hold the asset for only an undefined period; or

2. Bank stands ready to sell the asset (other than if a situation arises that is non-recurring and could not have been reasonably anticipated) in response to changes in market interest rates or risks, liquidity needs, changes in the availability of and the yield on alternative investments, changes in financing sources and terms, or changes in foreign currency risk.

The held to maturity investments should be valued at amortised cost i.e. the cost price less any impairments (if applicable). The impairments should be included in the profit and loss accounts for the period.

c. Available for Sale:

All other investments that are neither "held for trading" nor "held to maturity" should be classified under this category. These investments should be marked to market on a regular basis and the difference to be adjusted through reserves. Banks are required to maintain Investment Adjustment Reserve (eligible as Tier 2 capital) to the extent of 2% of available for sale portfolio.

5.3 NET OPEN POSITION APPROACH:

Out of the various components of market risk, foreign exchange risk is the predominant risk in our country. The effects of other forms of market risk are minimal. Thus, a net open position approach has been devised to measure the capital requirement for market risk. As evidenced by its name, this approach only addresses the risk of loss arising out of adverse movements in exchange rates. This approach will be consolidated over time to incorporate other forms of market risks as they start to gain prominence.

The designated Net Open Position approach requires banks to allocate a fixed proportion of capital in terms of its net open position. The banks should allocate 5 percentage of their net open positions as capital charge for market risk.

5.4 NET OPEN POSITION:

Net open position is the difference between the assets and the liability in a currency. In other words, it is the uncovered volume of asset or liability which is exposed to the changes in the exchange rates of currencies. For capital adequacy requirements the net open position includes both net spot positions as well as net forward positions.

For capital adequacy purposes, banks should calculate their net open position in the following manner:

- a. Calculate the net open position in each of the foreign currencies.
- b. Convert the net open positions in each currency to NPR as per prevalent exchange rates.
- c. Aggregate the converted net open positions of all currencies, without paying attention to long or short positions.
- d. This aggregate shall be the net open position of the bank.

5.5 COMPUTATION OF RISK WEIGHT:

Risk-weighted assets in respect of market risk are determined by multiplying the capital charges by 10 (i.e., the reciprocal of the minimum capital ratio of 10%) and adding together with the risk weighted exposures for credit risk.

6. REVIEW PROCESS

6.1 GENERAL:

The supervisory review process of the framework is intended not only to ensure that banks have adequate capital to support all the risks in their business, but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. It is the responsibility of the bank management in developing an internal capital assessment process and setting capital targets that are commensurate with the bank's risk profile and control environment beyond the core minimum requirements.

Nepal Rastra Bank recognizes the significance of the relationship between the amount of capital held by the bank against its risks and the strength and effectiveness of the bank's risk management and internal control processes. However, increased capital should not be viewed as the only option for addressing increased risks confronting the bank. Other means for addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate control or risk management processes.

There are three main areas that is particularly suited to treatment under this process: risks considered under minimum capital requirements which are not fully captured it (e.g. credit concentration risk); those factors not taken into account by the minimum capital requirements (e.g. business and strategic risk); and factors external to the bank (e.g. business cycle effects).

In order to achieve the objectives of the supervisory review process, this process has been broadly divided into three parts:

- a. Internal Capital Adequacy Assessment Process (ICAAP)
- b. Supervisory Review
- c. Supervisory Response

6.2 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS:

The internal capital adequacy assessment process (ICAAP) is a comprehensive process which requires board and senior management oversight, monitoring, reporting and internal control reviews at regular intervals to ensure the alignment of regulatory capital requirement with the true risk profile of the bank and thus ensure long-term safety and soundness of the bank. The key components of an effective ICAAP are discussed below.

a. Board and senior management oversight

Bank management is responsible for understanding the nature and level of risk being taken by the bank and how this risk relates to adequate capital levels. It is also responsible for ensuring that the formality and sophistication of the risk management processes is commensurate with the complexity of its operations. A sound risk management process, thus, is the foundation for an effective assessment of the adequacy of a bank's capital position.

The board of directors of the bank are responsible for setting the bank's tolerance for risks. The board should also ensure that management establishes a mechanism for assessing various risks; develops a system to relate these risks to the bank's capital level and sets up a method for monitoring compliance with internal policies. It is equally important that the board instills strong internal controls and thereby an effective control environment through adoption of written policies and procedures and ensures that the policies and procedures are effectively communicated throughout the bank.

The analysis of a bank's current and future capital requirements in relation to its strategic objectives is a vital element of the strategic planning process. The strategic plan should clearly outline the bank's capital needs, anticipated capital expenditures, desirable capital level, and external capital sources. Senior management and the board should view capital planning as a crucial element in being able to achieve its desired strategic objectives.

b. Sound capital assessment

Another crucial component of an effective ICAAP is the assessment of capital. In order to be able to make a sound capital assessment the bank should, at minimum, have the following:

- Policies and procedures designed to ensure that the bank identifies, measures, and reports all material risks;
- A process that relates capital to the level of risk;
- A process that states capital adequacy goals with respect to risk, taking account of the bank's strategic focus and business plan; and
- A process of internal control, reviews and audit to ensure the integrity of the overall management process.

c. Comprehensive assessment of risks

All material risks faced by the bank should be addressed in the capital assessment process. Nepal Rastra Bank recognizes that not all risks can be measured precisely. However, bank should develop a process to estimate risks with reasonable certainties. In order to make a comprehensive assessment of risks, the process should, at minimum, address the following forms of risk.

1. **Credit risk:** Banks should have methodologies that enable them to assess the credit risk involved in exposures to individual borrowers or counterparties as well as at the portfolio level. The credit review assessment of capital adequacy, at a minimum, should cover risk rating systems, portfolio analysis/aggregation, large exposures and risk concentrations.

Internal risk ratings are an important tool in monitoring credit risk. Internal risk ratings should be adequate to support the identification and measurement of risk from all credit exposures, and should be integrated into an institution's overall analysis of credit risk and capital adequacy. The ratings system should provide detailed ratings for all assets, not only for problem assets.

2. **Credit concentration risk:** Risk concentrations are arguably the single most important cause of major problems in banks. A risk concentration is any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations.

Lending being the primary activity of most banks, credit risk concentrations are often the most material risk concentrations within a bank. However, risk concentrations can arise in a bank's assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories.

Credit risk concentrations are based on common or correlated risk factors, which, in times of stress, have an adverse effect on the creditworthiness of each of the individual counterparties making up the concentration.

Such credit concentrations are not addressed in the minimum capital requirements for credit risk. Thus, Banks should have in place effective internal policies, systems and controls to identify, measure, monitor, and control their credit risk concentrations. Banks should explicitly consider the extent of their credit risk concentrations in their assessment of capital adequacy under review process. These policies should cover the different forms of credit risk concentrations to which a bank may be exposed to. Such concentrations include but are not limited to:

- Significant exposures to an individual counterparty or group of related counterparty. Banks might also establish an aggregate limit for the management and control of all of its large exposures as a group;
- Credit exposures to counterparties in the same economic sector or geographic region;
- Credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and
- Indirect credit exposures arising from a bank's CRM activities (e.g. exposure to a similar type of collateral or credit protection provided by a single counterparty or same collateral in cases of multiple banking).

A bank's framework for managing credit risk concentrations should be clearly documented and should include a definition of the credit risk concentrations relevant to the bank and how these concentrations and their corresponding limits are calculated. Limits should be defined in relation to a bank's capital, total assets or, where adequate measures exist, its overall risk level. A bank's management should conduct periodic stress tests of its major credit risk concentrations and review the results of those tests to identify and respond to potential changes in market conditions that could adversely impact the bank's performance.

3. **Operational risk:** The failure to properly manage operational risk can result in a misstatement of an institution's risk/return profile and expose the institution to significant losses. Gross income, used in the Basic Indicator Approach is only a proxy for the scale of operational risk exposure of a bank and can in some cases underestimate the need for capital. Thus, Banks should develop a framework for managing operational risk and evaluate the adequacy of capital as prescribed by this framework. The framework should cover the bank's appetite and tolerance for operational risk, as specified through the policies for managing this risk, including the extent and manner in which operational risk is transferred outside the bank. It should also include policies outlining the bank's approach to identifying, assessing, monitoring and controlling/mitigating the risk.

4. **Market risk:** The prescribed approach for the computation of capital charge for market risk is very simple and thus may not be directly aligned with the magnitude of risk. Likewise, the approach only incorporates risks arising out of adverse movements in exchange rates while ignoring other forms of risks like interest rate risk and equity risks. Thus, banks should develop a framework that addresses these various forms of risk and at the same time perform stress tests to evaluate the adequacy of capital.

The use of internal models by the bank for the measurement of market risk is highly encouraged. Wherever bank's make use of internal models for computation of capital charge for market risks, the bank management should ensure the adequacy and completeness of the system regardless of the type and level of complexity of the measurement system as the quality and reliability of the measurement system is largely dependent on the quality of the data and various assumptions used in the model.

5. **Liquidity risk:** Liquidity is crucial to the ongoing viability of any financial institution. The capital positions can have a telling effect on institution's ability to obtain liquidity, especially in a crisis. Each bank must have adequate systems for measuring, monitoring and controlling liquidity risk. Banks should evaluate the adequacy of capital given their own liquidity profile and the liquidity of the markets in which they operate. Banks are also encouraged to make use of stress testing to determine their liquidity needs and the adequacy of capital.

6. **Other risks:** Although the 'other' risks, such as reputational and strategic risk, are not easily measurable, banks are expected to take these into consideration as well while deciding on the level of capital.

d. Monitoring and reporting

The bank should establish an adequate system for monitoring and reporting risk exposures and assessing how the bank's changing risk profile affects the need for capital. The bank's senior management or board of directors should, on a regular basis, receive reports on the bank's risk profile and capital needs. These reports should allow senior management to:

- Evaluate the level and trend of material risks and their effect on capital levels;
- Evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system;
- Determine that the bank holds sufficient capital against the various risks and is in compliance with established capital adequacy goals; and
- Assess its future capital requirements based on the bank's reported risk profile and make necessary adjustments to the bank's strategic plan accordingly.

e. Internal control review

The bank's internal control structure is essential to a sound capital assessment process. Effective control of the capital assessment process includes an independent review and, where appropriate, the involvement of internal or external audits. The bank's board of directors has a responsibility to ensure that management establishes a system for assessing the various risks, develops a system to relate risk to the bank's capital level, and establishes a method for monitoring compliance with internal policies. The board should regularly verify whether its system of internal controls is adequate to ensure well-ordered and prudent conduct of business.

The bank should conduct periodic reviews of its risk management process to ensure its integrity, accuracy, and reasonableness. Key areas that should be reviewed include:

- Appropriateness of the bank's capital assessment process given the nature, scope and complexity of its activities;
- Identification of large exposures and risk concentrations;
- Accuracy and completeness of data inputs into the bank's assessment process;
- Reasonableness and validity of scenarios used in the assessment process; and
- Stress testing and analysis of assumptions and inputs.

6.3 SUPERVISORY REVIEW:

Nepal Rastra Bank shall regularly review the process by which a bank assesses its capital adequacy, risk positions, resulting capital levels, and quality of capital held by a bank. Supervisors shall also evaluate the degree to which a bank has in place a sound internal process to assess capital adequacy. The emphasis of the review should be on the quality of the bank's risk management and controls and should not result in supervisors functioning as bank management. The periodic review can involve any or a combination of:

- On-site examinations or inspections;
- Off-site review;
- Discussions with bank management;
- Review of work done by external auditors (provided it is adequately focused on the necessary capital issues); and
- Periodic reporting.

Some of the key areas which will be reviewed during the supervisory review process are discussed hereunder

a. Review of adequacy of risk assessment

NRB shall assess the degree to which internal targets and processes incorporate the full range of material risks faced by the bank. Supervisors shall also review the adequacy of risk measures used in assessing internal capital adequacy and the extent to which these risk measures are also used operationally in setting limits, evaluating business line performance, and evaluating and controlling risks more generally. Supervisors shall consider the results of sensitivity analyses and stress tests conducted by the institution and how these results relate to capital plans.

b. Assessment of capital adequacy

NRB shall review the bank's processes to determine that:

- Target levels of capital chosen are comprehensive and relevant to the current operating environment;
- These levels are properly monitored and reviewed by senior management; and
- The composition of capital is appropriate for the nature and scale of the bank's business.

NRB shall also consider the extent to which the bank has provided for unexpected events in setting its capital levels. This analysis should cover a wide range of external conditions and scenarios, and the sophistication of techniques and stress tests used should be commensurate with the bank's activities.

c. Assessment of the control environment

NRB shall consider the quality of the bank's management information reporting and systems, the manner in which business risks and activities are aggregated, and management's record in responding to emerging or changing risks. In all instances, the capital level at an individual bank should be determined according to the bank's risk profile and adequacy of its risk management process and internal controls. External factors such as business cycle effects and the macroeconomic environment should also be considered.

d. Supervisory review of compliance with minimum standards

In order to obtain relief as per this framework banks are required to observe number of requirements, including risk management standards and disclosures. In particular, banks will be required to disclose features of their internal methodologies used in calculating minimum capital requirements. As part of the supervisory review process, supervisors must ensure that these conditions are being met on an ongoing basis. Likewise, the supervisors must ensure that qualifying criteria as specified in the framework are continuously being met as these criteria are developed as benchmarks that are aligned with bank management expectations for effective risk management and capital allocation.

e. Significance of risk transfer

Securitization or credit sale agreements with recourse may be carried out for purposes other than credit risk transfer (e.g. funding). Where this is the case, there might still be a limited transfer of credit risk. However, for an originating bank to achieve reductions in capital requirements, the risk transfer arising from a securitization or credit sale has to be deemed significant by the NRB. If the risk transfer is considered to be insufficient or non-existent, NRB can require the application of a higher capital requirement or, alternatively, may deny a bank from obtaining any capital relief from the securitization or transfer agreements. Therefore, the capital relief that can be achieved will correspond to the amount of credit risk that is effectively transferred.

f. Credit Risk Mitigants

In case when the eligibility requirements are not fulfilled, NRB will not consider Credit Risk Mitigants in allocating capital. Similarly, CRM may give rise to residual risks, which may render the overall risk reduction less effective. Where, these risks are not adequately controlled by the bank, NRB may impose additional capital charges or take other appropriate supervisory actions.

g. Operational risk and Market Risk

The framework prescribes simple approaches for allocating capital for operational and market risk which may not be directly aligned with the volume and complexity of risk. Thus, the supervisor shall consider whether the capital requirements generated by the prescribed approaches gives a consistent picture of the individual bank's risk exposure in comparison with the peer group and the banking industry at large. Where NRB is convinced such is not the case, appropriate supervisory response is warranted.

h. Market Discipline

The framework requires banks to disclose various key information about their business on a periodic basis. It is imperative that the banks discharge their obligations under the disclosure requirements in order to be eligible to claim benefits of CRM. In line with the utmost significance of this requirement, the supervisor shall review the adequacy of the disclosures. As a part of this process itself, the supervisor shall regularly review the website of the banks and review the contents of the site. Wherever the review process identifies any shortcomings or non-compliances, appropriate supervisory response shall be initiated.

6.4 SUPERVISORY RESPONSE:

Nepal Rastra Bank expects banks to operate above the minimum regulatory capital ratios. Wherever, NRB is not convinced about the risk management practices and the control environment, it has the authority to require banks to hold capital in excess of the minimum.

a. Supervisory adjustments in risk weighted assets and capital

Having carried out the review process as described above, supervisors should take appropriate action if they are not satisfied with the results of the bank's own risk assessment and capital allocation. In such a scenario, NRB shall be empowered to undertake any or combination of the following adjustments in the banks risk weighted assets and regulatory capital computations.

1. Shortfall in provisions made by the bank against adversely classified assets shall be deducted from the Tier 1 capital.

2. The loans and facilities extended to Directors, Employees (other than loans given under Employee rules), Shareholders holding more than 1% percent shares and related parties as well as loans, advances and facilities restricted by the prevailing rules and regulations shall be deducted from Tier 1 capital.
3. In case the bank has provided loans and facilities in excess of its Single Obligor Limits, 10% of all such excess exposures shall be added to the risk weighted exposure for credit risk.
4. Where the bank has been involved in the sale of credit with recourse facility, 1% of the contract (sale) value shall be added to the risk weight for credit risk.
5. Where the banks do not have satisfactory Assets Liability Management policies and practices to effectively manage the market risks, an additional risk weight of 1% of Net Interest Income shall be added to the risk weight for market risk.
6. Where the bank's net liquid asset to total deposit ratio is less than 20%, a risk weight of 1% (as given in the table below) of total deposit, for each percent or portion of percent shortfall in such ratio, is added to total of the Risk Weighted Exposures.

Net liquid asset to total deposit ratio	A risk weight to be added to the Risk Weighted Exposures
19% - less than 20%	1% of total deposit
18% - less than 19%	2% of total deposit
17% - less than 18%	3% of total deposit
16% - less than 17%	4% of total deposit
15% - less than 16%	5% of total deposit and so on.

For this purpose, liquid assets include cash and bank balances, money at call & short notice, placement upto 90 days and investment in government securities. Borrowings repayable upto 90 days is deducted from liquid assets to obtain net liquid assets.

Note: Aforesaid Provision shall be effective from Falgun end 2066 BS.

7. Where the banks do not adopt sound practices for the management of operational risk, an additional capital charge of 2% of Gross Income shall be levied for operational risks.
8. Where the Gross Income determined for computation of capital charge of Operational Risk for all of the last three years is negative and where the banks themselves have not addressed the capital charge for operational risk, 5% of the total credit and investments net of specific provisions shall be the capital charge for operational risk.
New banks who have not completed an year of operation and hence whose gross income cannot be measured reliably and where the banks themselves have not addressed the capital charge for operational risk, shall also be required to compute their capital charge for operational risk vide the same approach as prescribed for banks with negative gross income. These banks may use the gross income approach from second year onwards. But, based on the reasonableness of the so computed capital charge for Operation Risk, during the first three years of operation, review process may require additional proportion of capital charge.
9. During the course of review, where the supervisor is not satisfied with the overall risk management policies and procedures of the bank, the total risk weighted exposures of the bank shall be increased up to 5%.
10. In case the bank has not achieved the desired level of disclosure requirements, the total risk weighted exposures of the bank shall be increased up to 3%.
11. Banks that do not meet the eligibility requirements to claim the benefit under credit risk mitigation techniques shall not be allowed the benefit of CRM.

b. Corrective Actions for Non-Compliances

1. The failure on part of the banks to meet the provisions of this framework shall be considered as a violation of the NRB directives and shall attract stipulated actions. The nature of the enforcement action largely depends on degree of the capital adequacy of the bank. The trigger points and the prescribed action in case of non-compliance shall be as per the provisions of Prompt Corrective Action Byelaw 2064 propounded by Nepal Rastra Bank.

7. DISCLOSURE

7.1 GENERAL:

The purpose of disclosure requirements is to complement the minimum capital requirements and the review process by developing a set of disclosure requirements which will allow market participants to assess key pieces

of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the bank. It is believed that providing disclosures that are based on a common framework is an effective means of informing the market about a bank's exposure to those risks and provides a consistent and comprehensive disclosure framework that enhances comparability. The importance of disclosure is more pronounced in cases of bank that rely on internal methodologies in assessing capital requirements.

7.2 **DISCLOSURE PRINCIPLES:**

Banks should have a formal disclosure policy approved by the Board of directors that addresses the bank's approach for determining what disclosures it will make and the internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency. While deciding on the disclosure policy, the board should pay due attention to strike a balance between materiality and proprietary and confidential information.

a. Materiality

Besides the minimum prescribed disclosure requirements, a bank should decide which additional disclosures are relevant for it based on the materiality concept. Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

b. Proprietary and confidential information

Proprietary information encompasses information (for example on products or systems), that if shared with competitors would render a bank's investment in these products/systems less valuable, and hence would undermine its competitive position. Information about customers is often confidential, in that it is provided under the terms of a legal agreement or counterparty relationship. This has an impact on what banks should reveal in terms of information about their customer base, as well as details on their internal arrangements, for instance methodologies used, parameter estimates, data etc. The disclosure requirements set out below by NRB aims to strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information.

7.3 **VALIDATION:**

The disclosures of the bank should be subjected to adequate validation. In addition, supplementary material (such as Management's Discussion and Analysis) that is published should also be subjected to sufficient scrutiny (e.g. internal control assessments, etc.) to satisfy the validation issue. If material is not published under a validation regime, for instance in a stand alone report or as a section on a website, then management should ensure that appropriate verification of the information takes place, in accordance with the general disclosure principles.

7.4 **DISCLOSURE REQUIREMENTS:**

Banks should at minimum, disclose the following information at the stipulated time intervals. At the same time, banks shall be free to disclose any other information they consider important for its stakeholders as and when they consider necessary, beyond the prescribed requirements.

a. Banks should provide the following disclosures as at end of each financial year along with the annual financial statements.

1. *Capital structure and capital adequacy*

- Tier 1 capital and a breakdown of its components;
- Tier 2 capital and a breakdown of its components;
- Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds.
- Deductions from capital;
- Total qualifying capital;
- Capital adequacy ratio;
- Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable; and
- Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.

2. *Risk exposures*

- Risk weighted exposures for Credit Risk, Market Risk and Operational Risk;
- Risk Weighted Exposures under each of 11 categories of Credit Risk;
- Total risk weighted exposure calculation table;
- Amount of NPAs (both Gross and Net)
 - Restructure/Reschedule Loan
 - Substandard Loan
 - Doubtful Loan

- Loss Loan
 - NPA ratios
 - Gross NPA to gross advances
 - Net NPA to net advances
 - Movement of Non Performing Assets
 - Write off of Loans and Interest Suspense
 - Movements in Loan Loss Provisions and Interest Suspense
 - Details of additional Loan Loss Provisions
 - Segregation of investment portfolio into Held for trading, Held to maturity and Available for sale category
- 3. *Risk Management Function*
 - For each separate risk area (Credit, Market and Operational risk), banks must describe their risk management objectives and policies, including:
 - Strategies and processes;
 - The structure and organization of the relevant risk management function;
 - The scope and nature of risk reporting and/or measurement systems; and
 - Policies for hedging and/or mitigating risk and strategies, and processes for monitoring the continuing effectiveness of hedges/mitigants.
 - Types of eligible credit risk mitigants used and the benefits availed under CRM.
- b. All commercial banks should make following disclosures on a quarterly basis on their respective websites.
 - Tier 1 capital and a breakdown of its components;
 - Tier 2 capital and a breakdown of its components;
 - Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds.
 - Deductions from capital;
 - Total qualifying capital;
 - Capital adequacy ratio;
 - Risk weighted exposures for Credit Risk, Market Risk and Operational Risk;
 - Risk Weighted Exposures under each of 11 categories of Credit Risk;
 - Total risk weighted exposure calculation table;
 - Amount of NPAs (both Gross and Net)
 - Restructure/Reschedule Loan
 - Substandard Loan
 - Doubtful Loan
 - Loss Loan
 - NPA ratios
 - Gross NPA to gross advances
 - Net NPA to net advances
 - Movement of Non Performing Assets
 - Write off of Loans and Interest Suspense
 - Movements in Loan Loss Provisions and Interest Suspense
 - Details of Additional Loan Loss Provisions
 - Segregation of investment portfolio into Held for trading, Held to maturity and Available for sale category
 - Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable; and
 - Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.
- c. Disclosure requirements under this framework should also be published in the respective websites of the banks. Such disclosures of the banks should also be updated to reflect the capital adequacy position of the banks after the supervisory adjustments under the review process. Banks that do not host a website yet are required to make the necessary arrangements to host a website immediately.
- d. Banks are required to report to NRB their capital adequacy computations, according to the format as specified in Annexure of this framework on a monthly basis within one month after the end of the month or as required by NRB from time to time. All such returns has to be validated by the internal auditor of the bank. If the monthly internal audit couldnot be carried out, it should be disclosed on the monthly

returns. But, such returns at the end of the quarter must be submitted with the validation from the internal auditor of the bank.

Besides the returns specified above, a bank must inform NRB within 30 days of:

1. Any breach of the minimum capital adequacy requirements set out in this framework together with an explanation of the reasons for the breach and the remedial measures it has taken to address those breaches.
 2. Any concerns it has about its capital adequacy, along with proposed measures to address these concerns.
- e. Full compliance of these disclosure requirements is a pre-requisite before banks can obtain any capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any credit risk mitigation techniques.

FORM NO. 1 CAPITAL ADEQUACY TABLE

(Rs.In)

1. 1 Risk Weighted Exposures		Current Period	Previous Period
a	Risk Weighted Exposure for Credit Risk		
b	Risk Weighted Exposure for Operational Risk		
c	Risk Weighted Exposure for Market Risk		
<u>Adjustments under Pillar II</u>			
	Add: 3% of the total RWE due to non compliance to Disclosure Requirement (6.4 a 10)		
	Add: ...% of the total deposit due to insufficient Liquid Assets(6.4 a 6)		
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)			
1.2 CAPITAL		Current Period	Previous Period
Core Capital (Tier 1)			
a	Paid up Equity Share Capital		
b	Irredeemable Non-cumulative preference shares		
c	Share Premium		
d	Proposed Bonus Equity Shares		
e	Statutory General Reserves		
f	Retained Earnings		
g	Un-audited current year cumulative profit		
h	Capital Redemption Reserve		
i	Capital Adjustment Reserve		
j	Dividend Equalization Reserves		
k	Other Free Reserve		
l	Less: Goodwill		
m	Less: Fictitious Assets		
n	Less: Investment in equity in licensed Financial Institutions		
o	Less: Investment in equity of institutions with financial interests		
p	Less: Investment in equity of institutions in excess of limits		
q	Less: Investments arising out of underwriting commitments		
r	Less: Reciprocal crossholdings		
s	Less: Other Deductions		
<u>Adjustments under Pillar II</u>			
	Less: Shortfall in Provision (6.4 a 1)		
	Less: Loans and Facilities extended to Related Parties and Restricted lending (6.4 a 2)		
Supplementary Capital (Tier 2)		0	0
a	Cumulative and/or Redeemable Preference Share		
b	Subordinated Term Debt		
c	Hybrid Capital Instruments		
d	General loan loss provision		
e	Exchange Equalization Reserve		

f	Investment Adjustment Reserve		
g	Assets Revaluation Reserve		
h	Other Reserves		
Total Capital Fund (Tier I and Tier II)		0	0
1.3 CAPITAL ADEQUACY RATIOS		Current Period	Previous Period
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)			
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)			

FORM NO. 2: RISK WEIGHTED EXPOSURE FOR CREDIT RISK

(Rs.In)

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Cash Balance	0	0		0	0%	0
Balance With Nepal Rastra Bank	0	0		0	0%	0
Investment in Nepalese Government Securities	0	0		0	0%	0
All Claims on Government of Nepal	0	0		0	0%	0
Investment in Nepal Rastra Bank securities	0	0		0	0%	0
All claims on Nepal Rastra Bank	0	0		0	0%	0
Claims on Foreign Government and Central Bank (ECA 0-1)	0	0		0	0%	0
Claims on Foreign Government and Central Bank (ECA -2)	0	0	0	0	20%	0
Claims on Foreign Government and Central Bank (ECA -3)	0	0	0	0	50%	0
Claims on Foreign Government and Central Bank (ECA-4-6)	0	0	0	0	100%	0
Claims on Foreign Government and Central Bank (ECA -7)	0	0	0	0	150%	0
Claims On BIS, IMF, ECB, EC and on Multilateral Development Banks (MDB's) recognized by the framework	0	0		0	0%	0
Claims on Other Multilateral Development Banks	0	0	0	0	100%	0
Claims on Public Sector Entity (ECA 0-1)	0	0	0	0	20%	0
Claims on Public Sector Entity (ECA 2)	0	0	0	0	50%	0
Claims on Public Sector Entity (ECA 3-6)	0	0	0	0	100%	0
Claims on Public Sector Entity (ECA 7)	0	0	0	0	150%	0
Claims on domestic banks that meet capital adequacy requirements	0	0	0	0	20%	0
Claims on domestic banks that do not meet capital adequacy requirements	0	0	0	0	100%	0
Claims on foreign bank (ECA Rating 0-1)	0	0	0	0	20%	0
Claims on foreign bank (ECA Rating 2)	0	0	0	0	50%	0
Claims on foreign bank (ECA Rating 3-6)	0	0	0	0	100%	0
Claims on foreign bank (ECA Rating 7)	0	0	0	0	150%	0
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	0	0	0	0	20%	0
Claims on Domestic Corporates	0	0	0	0	100%	0
Claims on Foreign Corporates (ECA 0-1)	0	0	0	0	20%	0
Claims on Foreign Corporates (ECA 2)	0	0	0	0	50%	0
Claims on Foreign Corporates (ECA 3-6)	0	0	0	0	100%	0
Claims on Foreign Corporates (ECA 7)	0	0	0	0	150%	0
Regulatory Retail Portfolio (Not Overdue)	0	0	0	0	75%	0
Claims fulfilling all criterion of regulatory retail except granularity	0	0	0	0	100%	0
Claims secured by residential properties	0	0	0	0	60%	0
Claims not fully secured by residential properties	0	0	0	0	150%	0
Claims secured by residential properties (Overdue)	0	0	0	0	100%	0

Claims secured by Commercial real estate	0	0	0	0	100%	0
Past due claims (except for claim secured by residential properties)	0	0	0	0	150%	0
High Risk claims	0	0	0	0	150%	0
Investments in equity and other capital instruments of institutions listed in the stock exchange	0	0	0	0	100%	0
Investments in equity and other capital instruments of institutions not listed in the stock exchange	0	0	0	0	150%	0
Other Assets (as per attachment)	0	0	0	0	100%	0
TOTAL	0	0	0	0		0

B. Off Balance Sheet Exposures	Gross Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Revocable Commitments	0	0		0	0%	0
Bills Under Collection	0	0		0	0%	0
Forward Exchange Contract Liabilities	0	0	0	0	10%	0
LC Commitments With Original Maturity Upto 6 months	0	0	0	0	20%	0
domestic counterparty						
foreign counterparty (ECA Rating 0-1)	0	0	0	0	20%	0
foreign counterparty (ECA Rating 2)	0	0	0	0	50%	0
foreign counterparty (ECA Rating 3-6)	0	0	0	0	100%	0
foreign counterparty (ECA Rating 7)	0	0	0	0	150%	0
LC Commitments With Original Maturity Over 6 months	0	0	0	0	50%	0
domestic counterparty						
foreign counterparty (ECA Rating 0-1)	0	0	0	0	20%	0
foreign counterparty (ECA Rating 2)	0	0	0	0	50%	0
foreign counterparty (ECA Rating 3-6)	0	0	0	0	100%	0
foreign counterparty (ECA Rating 7)	0	0	0	0	150%	0
Bid Bond, Performance Bond and Counter guarantee	0	0	0	0	50%	0
domestic counterparty						
foreign counterparty (ECA Rating 0-1)	0	0	0	0	20%	0
foreign counterparty (ECA Rating 2)	0	0	0	0	50%	0
foreign counterparty (ECA Rating 3-6)	0	0	0	0	100%	0
foreign counterparty (ECA Rating 7)	0	0	0	0	150%	0
Underwriting commitments	0	0	0	0	50%	0
Lending of Bank's Securities or Posting of Securities as collateral	0	0	0	0	100%	0
Repurchase Agreements, Assets sale with recourse	0	0	0	0	100%	0
Advance Payment Guarantee	0	0	0	0	100%	0
Financial Guarantee	0	0	0	0	100%	0
Acceptances and Endorsements	0	0	0	0	100%	0
Unpaid portion of Partly paid shares and Securities	0	0	0	0	100%	0
Irrevocable Credit commitments (short term)	0	0	0	0	20%	0
Irrevocable Credit commitments (long term)	0	0	0	0	50%	0
Other Contingent Liabilities	0	0	0	0	100%	0
Unpaid Guarantee Claims	0	0	0	0	200%	0
TOTAL	0	0	0	0		0
Total RWE for credit Risk Before Adjustment (A) +(B)	0	0	0	0		0

<u>Adjustments under Pillar II</u>											
Add: 10% of the loan and facilities in excess of Single Obligor Limits(6.4 a 3)											0
Add: 1% of the contract(sale) value in case of the sale of credit with recourse (6.4 a 4)											
Total RWE for credit Risk (After Bank's adjustments of Pillar II)											

FORM NO.3 ELIGIBLE CREDIT RISK MITIGANTS

Credit exposures	Deposits with Bank	Deposits with other banks/Fl	Gold	Govt. & NRB Securities	G'tee of Govt. of Nepal	Sec/G'tee of Other Sovereigns	G'tee of domestic banks	G'tee of MDBs	Sec/G'tee of Foreign Banks	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Balance Sheet Exposures										
Claims on Foreign government and Central Bank (ECA -2)										0
Claims on Foreign government and Central Bank (ECA -3)										0
Claims on Foreign government and Central Bank (ECA-4-6)										0
Claims on Foreign government and Central Bank (ECA -7)										0
Claims on Other Multilateral Development Banks										0
Claims on Public Sector Entity (ECA 0-1)										0
Claims on Public Sector Entity (ECA 2)										0
Claims on Public Sector Entity (ECA 3-6)										0
Claims on Public Sector Entity (ECA 7)										0
Claims on domestic banks that meet capital adequacy requirements										0
Claims on domestic banks that do not meet capital adequacy requirements										0
Claims on foreign bank (ECA Rating 0-1)										0
Claims on foreign bank (ECA Rating 2)										0
Claims on foreign bank (ECA Rating 3-6)										0
Claims on foreign bank (ECA Rating 7)										0
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement										
Claims on Domestic Corporates										0
Claims on Foreign Corporates (ECA 0-1)										0
Claims on Foreign Corporates (ECA 2)										0
Claims on Foreign Corporates (ECA 3-6)										0
Claims on Foreign Corporates (ECA 7)										0
Regulatory Retail Portfolio (Not Overdue)										0
Claims fulfilling all criterion of regulatory retail except granularity										0
Claims secured by residential properties										0
Claims not fully secured by residential properties										0
Claims secured by residential properties (Overdue)										0
Claims secured by Commercial real estate										0

Credit exposures	Deposits with Bank	Deposits with other banks/FI	Gold	Govt.& NRB Securities	G'tee of Govt. of Nepal	Sec/G'tee of Other Sovereigns	G'tee of domestic banks	G'tee of MDBs	Sec/G'tee of Foreign Banks	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Past due claims (except for claim secured by residential properties)										0
High Risk claims										0
Investments in equity and other capital instruments of institutions listed in the stock exchange										0
Investments in equity and other capital instruments of institutions not listed in the stock exchange										0
Other Assets (as per attachment)										
Total										0
Off Balance Sheet Exposures										
Forward Exchange Contract Liabilities										
LC Commitments With Original Maturity Upto 6 months										0
domestic counterparty										
foreign counterparty (ECA Rating 0-1)										0
foreign counterparty (ECA Rating 2)										0
foreign counterparty (ECA Rating 3-6)										0
foreign counterparty (ECA Rating 7)										0
LC Commitments With Original Maturity Over 6 months										0
domestic counterparty										
foreign counterparty (ECA Rating 0-1)										0
foreign counterparty (ECA Rating 2)										0
foreign counterparty (ECA Rating 3-6)										0
foreign counterparty (ECA Rating 7)										0
Bid Bond, Performance Bond and Counter guarantee										0
domestic counterparty										
foreign counterparty (ECA Rating 0-1)										0
foreign counterparty (ECA Rating 2)										0
foreign counterparty (ECA Rating 3-6)										0
foreign counterparty (ECA Rating 7)										0
Underwriting commitments										0
Lending of Bank's Securities or Posting of Securities as collateral										0
Repurchase Agreements, Assets sale with recourse										0
Advance Payment Guarantee										0
Financial Guarantee										0
Acceptances and Endorsements										0
Unpaid portion of Partly paid shares and Securities										0
Irrevocable Credit commitments										0
Other Contingent Liabilities										0

Credit exposures	Deposits with Bank	Deposits with other banks/Fl	Gold	Govt.& NRB Securities	G'tee of Govt. of Nepal	Sec/G'tee of Other Sovereigns	G'tee of domestic banks	G'tee of MDBs	Sec/G'tee of Foreign Banks	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Total										
Grand Total										

FORM NO.4 EXHIBIT OF CLAIMS WITH CREDIT RISK MITIGANTS

(Rs.In)

S.N	Counterparty	Category	Facility	Outstanding	Eligible CRM			
					Nature	Gross Amount	Haircut	Net Amount

FORM NO.5 OTHER ASSETS

S.No.	Assets	Gross Amount	Specific Provision	Net Balance
1	Cash and Cash Items in Transit			0
2	Miscellaneous Expenditure not written off			0
3	Fixed Assets			0
4	Interest Receivable on Other Investment			0
5	Interest Receivable on Loan			0
6	Non Banking Assets			0
7	Reconciliation Account			0
8	Draft Paid Without Notice			0
9	Sundry Debtors			0
10	Advance payment and Deposits			0
11	Staff Loan and Advance			0
12	Stationery			0
13	Other			0
TOTAL		0	0	0

FORM NO. 6: RISK WEIGHTED EXPOSURE FOR OPERATIONAL RISK

Particulars	Year 1	Year 2	Year 3
Net Interest Income			
Commission and Discount Income			
Other Operating Income			
Exchange Fluctuation Income			
Addition/Deduction in Interest Suspense during the period			
Gross income (a)			
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(a×b)]			
Capital Requirement for operational risk (d) (average of c)			10
Risk Weight (reciprocal of capital requirement of 10%) in times (e)			
Equivalent Risk Weight Exposure [f=(d×e)]			
<u>PILLAR-II ADJUSTMENTS</u>			
<u>If Gross Income for all the last three years is negative(6.4 a 8)</u>			10
Total Credit and Investment (net of Specific Provision)			
Capital Requirement for operational risk (5%)			
Risk Weight (reciprocal of capital requirement of 10%) in times			
Equivalent Risk Weight Exposure [g]			
Equivalent Risk Weight Exposure [h=f+g]			

FORM NO.7 RISK WEIGHTED EXPOSURE FOR MARKET RISK

S.No.	Currency	Open Position (FCY)	Open Position (NPR)	Relevant Open Position
1	INR			
2	USD			
3	GBP			
4	EURO			
5	THB			
6	CHF			
7	.....		
8	.....		
9	.....		
Total Open Position (a)				
Fixed Percentage (b)				5%
Capital Charge for Market Risk [c=(a×b)]				
Risk Weight (reciprocal of capital requirement of 10%) in times (d)				
Equivalent Risk Weight Exposure [e=(c×d)]				

FORM NO. 8 NET LIQUID ASSETS TO TOTAL DEPOSIT RATIO

(Rs.In)

Particulars	Amount
Total Deposit and Borrowing (A)	
<i>Total Deposit(as per NRB Ni.Fa. 9.1)</i>	
<i>Total Borrowing(as per NRB Ni.Fa. 9.1)</i>	
Liquid Assets (B)	
<i>Cash(9.1)</i>	
<i>Bank Balance(9.1)</i>	
<i>Money at call and short notice (9.1)</i>	
<i>Investment in government Securities(9.1)</i>	
<i>Placement upto 90 days</i>	
<i>Borrowings payable upto 90 days (C)</i>	
Net Liquid Assets (D)=(B-C)	
Net Liquid Assets to Total Deposit	
<i>Shortfall in Ratio</i>	
Amount to be added to Risk Weighted Exposures	

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directive No. 2/067

Subject: Provisions Relating to Classification of Loans/advances and Loan Losses

Having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, the following Directives have been issued with regard to classification of credit/advances and provisions to be made for its possible loss by the institutions obtaining licenses from this Bank to carry out financial transactions.

1. Classification of loans/advances:

Entire loans and advances extended by a licensed institution have to be classified as follows based on expiry of the deadline of repayment of the principal and interest of such loans/advances:-

- (a) Pass: Loans/advances which have not overdue and which are overdue by a period up to three months.
- (b) Sub-standard: Loans/advances which are overdue by a period from three months to a maximum period of six months.
- (c) Doubtful: Loans/advances which are overdue by a period from six-months to a maximum period of one year.
- (d) Loss: Loans/advances which are overdue by a period of more than one year.

The loans which are in pass class and which have been rescheduled/restructured are called as "the performing loan, and the sub-standard, doubtful and loss categories are called non-performing loans.

Note: Loans/advances also include bills purchased and discounted.

2. Additional provisions relating to pass loans:

- (1) The following loans may be included in the pass loan:-
 - (a) Loans/advances extended against the collateral of gold and silver;
 - (b) Loans/advances of fixed receipts

- (c) Loans/advances of Government of Nepal securities and loans/advances made against the collateral of Nepal Rastra Bank bonds;

Provided that the cases of the loans/advances against the fixed receipts or Government of Nepal securities or Nepal Rastra Bank bond as the additional collateral, such loans and advances shall also have to be classified in accordance with the directive referred to into Point No. 1 above.

- (2) The working capital loan having the deadline of up to one year for repayment may be included in the pass loan class. In case the interest to be received from the loans of working capital nature is not regular, such loans have to be classified on the basis of the duration of interest to be due.

3. Additional Provisions Relating to Loss Loans

In case there seems any of the following discrepancies in any of the following loans, whether or not the deadline for repayment of which is expired, such loans and advances has to be categorized as the loss loan:

- (a) The market price of the collateral cannot secure the loans;
- (b) The debtor is bankrupt or has been declared to be bankrupt;
- (c) The debtor disappears or is not identified;
- (d) In case non-fund based facilities such as purchased or discounted bills and L/C and guarantee which have been converted into fund-based loan, are not recovered within ninety days from the date of their conversion into loan;
- (e) Loan is misused;
- (f) Expiry of six months of the date of auction process after the loan could not be recovered or a case is pending at a court under the recovery process;
- (g) Providing loan to a debtor who has been enlisted in the black-list of Credit Information Bureau Ltd;
- (h) The Project/business is not in a condition to be operated or project or business is not in operation
- (i) The credit card loan is not written off within 90 days from the date of expiry of the deadline;

(j) While converting the L/C, guarantee and other possible liabilities into a fund-based loan under the regular process, if the said loan is not recovered within 90 days; and

(k) In case of expiry of the deadline of a trust-receipt loan.

Note: For the purpose of clause No. 3(e) of these Directives, "misuse" means non-use of the amount of the loan for the purpose for which it has is taken; the project is not in operation; the amount accrued from the concerned project or business is not used in repayment of the loan but in other activities; and the word also includes the loan which is proved to have been misused by a supervisor in the course of inspection or supervision or by an auditor in the course of auditing.

4. Additional Provisions Relating to Term-Loan

In cases of the term loans extended in installments, if the deadline of installment of the principal amount expires, remaining entire loan amount has to be classified based on expiry of the deadline of the installment amount.

Provided that in cases of the installment of the term loan given by licensed institution not having the facility of engaging in overdraft transaction, entire loan amount has to be categorized as loss loan only if the installment amount has crossed the deadline by a period of more than one year. In case the installment amount has crossed the deadline by a period of less than one year, only such installment amount has to be classified in the loss loan with a provision of loan loss. However, this clause shall not be deemed to have hindered if the licensed institution wants to classify the entire loan amount as the loss loan.

Note: For the purpose of this clause "term loan" means a credit/advances made available having fixed the repayment period of more than one year.

5. Additional Provisions Relating to Gold/Silver Loan

The licensed Banks and financial institution of classes "A", "B" and "C" may provide loan having mortgages gold/silver subject to the following conditions:-

(a) The provisions of providing loan by mortgaging gold and silver has to be stated in the credit policy/byelaws of the institution;

- (b) Prior to carry out transaction of gold/silver loan, provisions relating to necessary security, evaluation of the collateral, vault insurance and checkers have to be made;
- (c) Annual studies have to be conducted whether or not the gold/silver loan is useful and profitable to the financial institution and annual monitoring has to be conducted from the Board of Directors.

6. Principal and Interest not allowed to be recovered crossing the overdraft limit:

Principal and interests of a loan shall not be allowed to be recovered having overdrawn the current account of a customer so that the overdraft limit is crossed. Provided that this provision shall not be deemed to prohibit to recover the principal and interest having debited the balance in an account of the customer. In case the account is not settled by a period of one month after overdrawn of the account while recovering principal and interest by debiting the account of the customer, the amount overdrawn shall also be included in the loans not recovered and such loans have to be classified in one class lower than the class to which such loans belongs. While debiting the account, overdraft shall not be allowed by crossing the limit provided to the customer.

7. Provisions Relating to Grace Period

Licensed institution shall not normally be allowed to make available term loans with grace period of more than one year. In case longer grace period has to be provided, the reasons for and bases on which such longer period has to be granted, such details shall have to be disclosed and it shall have to be approved by the Board of Directors at the time of approval of the loan .

8. Provisions Relating to Rescheduling and Restructuring of Loans

- (1) In case a licensed institution is convinced on the following bases stated in the written action plan submitted by the debtor, it may rescheduled or retract the loan:-
 - (a) Evidence showing that documents relating to loans and security are adequate;
 - (b) Bases on which the licensed institution is convinced of the possibility that the rescheduled or restructured loans would be recovered;

- (c) In addition to submission of written plan of actions for rescheduling and restructuring loans at least 25 percent of the interest due to be paid until the date of rescheduling or restructuring of such a loan has been paid;
- (2) While rescheduling or restructuring the loans to the industries which have been recommended by the Sick Industries Preliminary Inquiry and Recommendation Committee formed under Government of Nepal, a minimum of 12 percent of interest has to be paid, other procedures need to be fulfilled and rescheduling and restructuring shall have to be carried out making a provision for twenty-five percent loan loss.

Provided that in the event where the loan has been rescheduled and restructured based on payment of less than 12 percent of interests, provision for loan loss has to be made based on the duration upon expiry of the deadline according to the prevailing provisions.

- (3) Description of the loans classified pursuant to classes (1) and (2) has to be separately prepared.

Note: For this purpose, "Rescheduling" means the process of extending the time-limit of repayment of the loan availed by the customer.

"Restructuring" means the process of changing the nature or terms and conditions of altering the restrictions on or changing the time limit of the credit facilities.

9. Provision to be maintained for loan loss

- (1) For the loans and bills purchase classified according to these Directives, the following loan loss provision shall be maintained based on the remaining amount of principal:

<u>Loan classification</u>	<u>Minimum Provision for loan loss</u>
(a) Pass	1 percent
(b) Sub-standard	25 percent
(c) Doubtful	50 percent
(d) Loss loan/the loan extended to blacklisted persons, firms, company or corporate body	100 percent

Provided that in case of the insured loans, it would be required to make provision of only 25 percent of the provision referred to in sub-clause (1)

(2) In cases of the loans rescheduled and restructured, the following loan loss provision shall be made:-

(a) The loans classified in the pass class at the time of rescheduling and restructuring shall, while rescheduling and restructuring, provision of at least 12.5 percent has to be made as loan loss, while rescheduling and restructuring the loans classified as substandard, doubtful and loss, no adjustment shall be allowed in the then loan loss provision except in the cases referred to in clause 10(c).

In cases of the loans made available on an equal monthly installment, no loan loss provision shall have to be made in case of rescheduling and restructuring of the following of such loans if the principal and interest is regular:

(i) In case amount of installment and number of installment is decreased because of prepayment of installment.

(ii) Due to change in the rate of interest having regard to the market situation, the duration of the loan and installment amount has been changed. In this context, if the rate of interest is increased and thereby by the duration and installment amount is increased, the installment amount determined at the time of sanctioning the loan is not allowed to be decreased. Similarly, if the rate of interest is decreased and thereby the duration and number of installment are decreased, the installment amount determined at the time of sanctioning the loan is not allowed to be decreased.

(b) In case the installment of principal of the rescheduled and restructured loan and interest of two years, such loans may be converted into pass loans.

(c) No loans extended having pledged shares shall be rescheduled and restructured.

(3) In the event of deprive sector lending made by licensed institution Bank and financial institution to deprived communities according to Directives of this Bank; if such loans have been secured through Deposit Insurance and Credit Guarantee

Corporation or if other loans have also been insured an exemption of 75 percent has been made and provision for remaining 25 percent shall be required.

- (4) Banks and financial institution shall not provide any type of loan on the security of the memo (*adhakatti*) of an application to be submitted for share purchase at the time of initial public offering. In case of providing loan in such a way, the concerned bank or financial institution shall have to make cent percent loan loss provision.
- (5) While providing loan on personal/institutional guarantee, description of property equal in value to the amount of the personal guarantee and in sole ownership of the debtor and free of any claim of any one else shall compulsorily be obtained. Even the loans given only on the basis of personal/institutional guarantee shall also be classified as stated above in pass, substandard and doubtful as may be required and loan loss provision shall be made 20 percent more in addition to the percentage prescribed for that class. Even in the cases where personal guarantee has been taken for the collateral of physical property alone could not secure the loan, the provision for additional loan and stated above has to be made. Classifications of such loan has to be made separately.

Provided that in cases of loans and advances made to the institutions referred to in sub-clause (b) of clause 4 of the Directives No. 3, Nepal Oil Limited and Nepal Food Corporation, no additional loan loss provision of 20 percent shall be required to be made.

- (6) No additional loan loss provision of 20 percent shall be required to be made in the loan loss provision referred to in sub-clause (3) above in cases of education loan and loans extended to micro-credit financial institutions and cooperative financial institution under the deprived sector lending by banks and financial institution on personal guarantee.
- (7) There is no restriction to classify loans and advances of higher class to lower class in case licensed institution so wishes. For an example, substandard loan may be classified as doubtful or loss loan and doubtful loan may be classified as loss loan.
- (8) Loans/advances also includes bills purchase and discounts.

Note: Loan loss provision made for performing loan shall be treated as general loan loss provision and that for non-performing loans shall be treated as specific loan loss provision.

10. Conditions for Adjustment in loan loss provision

No loan loss provision shall be allowed for adjustment except in the following conditions:-

- (a) In case the loan is written off;
- (b) In the event where repayment of loan is in installment or in partial basis, the loan loss provision made to the extent of the loan so repaid may be written back and adjusted while maintaining loan loss provision according to loan classification; and
- (c) In the event of the loan is reclassified after loan rescheduling and restructuring, if the repayment of the principal and interest of the loan so rescheduled and restructured is regular for a consecutive period of two years.

Details of such loans shall be separately prepared.

11. Loss Provisions and Auction of Non-banking assets

- (1) In case of the non-banking assets accepted by the licensed institution, cent percent loss provisions shall be made from the date of the acceptance.
- (2) In case of sale of the non-banking assets, necessary adjustment in the accounts of loss provision maintained for such property shall immediately be made.
- (3) While accepting collateral security as non-banking assets by licensed institution, the following provisions shall be applicable while selling the non-banking assets so accepted:
 - (a) While accepting the collateral property of a customer as non-banking assets whose outstanding loan amount is more than 2.5 million, the concerned party shall compulsorily be black-listed.
 - (b) Prior to auctioning the non-banking assets in the name of the institution, it shall have to be evaluated by an independent evaluator. No excessive/less evaluation shall be allowed.

- (c) Transparent and clear provisions shall be made with regard to auction sale of collateral security/non-banking assets in Financial Administration Byelaws and sales shall have to be carried out in such a manner to serve interest of the bank or financial institution.
- (d) While accepting the non-banking assets in such a manner, entire property mortgaged as collateral that could not be sold by auction shall have to be accepted and it may not be accepted in part.
- (e) The property so accepted shall have to be sold at the earliest to the extent possible. In case it is necessary for own purpose of the licensed institution, the same shall have to be approved by the Board of Directors and information thereof shall be made available to this Bank as well.

12. Provisions Relating to Credit Sale/Purchase/Repurchase and Takeover

- (1) The Banks and financial institution having no adequate capital fund prescribed by this Bank shall not be allowed to purchase any type of loan, credit to take on discount and to engage in CS, CP, RP and take over without a prior approval of this Bank.
- (2) The Banks and financial institution having no adequate capital fund prescribed by this Bank may carry out CS, CP, RP and TO subject to the following restrictions:
 - (a) The bank/financial institution shall have to maintain the capital fund as prescribed by this Bank even prior to carryout the CS, CP, RP and TO.
 - (b) The bank/financial institution shall have to make clear provisions in its loan policy with regard to engage in transactions of CS, CP, RP and TO. Otherwise, such transaction shall not be allowed.
 - (c) No transaction relating to CS, CP, RP and TO shall be allowed in the last month of a fiscal year.
 - (d) While carrying out transaction of credit purchase, the purchaser shall have to purchase the right to recover such credit from the customer. For that purpose, consent of the concerned customer shall also have to be obtained.

- (i) The purchaser of the credit shall have to account the credit so purchased in loan and advances sub-title under the concerned title in its accounts.
 - (ii) Credit shall be purchased only after having collected comprehensive description of the terms and conditions of the credit.
 - (iii) The bank/financial institution purchasing the credit shall have to collect in writing the details as to the date in which the credit was availed by the debtor, type of the credit, condition of repayment, condition of past credit transactions, capacity of the guarantor, condition of credit classification and so on.
 - (iv) The bank and financial institution purchasing the credit shall have to maintain the loan loss provision according to the prevailing condition of the loan classification and loan loss provision.
 - (v) While purchasing a credit the documents showing the bases to be ensured that such credit is secured and is profitable for the institution have to be enclosed and updated in the loan file.
 - (vi) Only the banks and financial institutions having the provision relating to credit purchase may enter into transactions of credit purchase.
- (e) Half-yearly statement of CS, CP, RP and TO transactions shall be sent to the concerned Supervision Department of this Bank within fifteen days of the completion of the half-yearly period.
- (3) In the event where there is a condition that the selling institution shall repurchase the credit if the purchaser institution fails to recover the credit while entering into transaction of credit purchase and sale, the institution purchasing the credit shall, until the selling institution repurchases the credit, have to show such credit in its balance-sheet as a contingent liability and such contingent liability shall, for the purpose of calculating capital fund, be accorded only 50 percent risk-weight.

13. Prohibition on advancing loan and accepting deposit based on financial guarantee

No bank or financial institution shall be allowed to advance loan or accept a deposit based on a financial guarantee issued by any bank or financial institution established and being operated in the country.

14. Provisions Relating to Deposit and Loan Transaction

- (1) No bank or financial institution shall be allowed to deposit amount or enter into loan transaction with institutions which are engaged in deposit mobilization and loan transaction in accordance with prevailing laws other than the Banks and Financial Institutions Act, 2006.

Provided that in case of the institutions established with the objective of carrying out bulk transaction of micro finance only, this provision shall not apply.

- (2) The aforesaid provision of sub-clause (1) shall not cause hindrance for the institutions, other than those carrying out credit transaction under the Banks and Financial Institutions Act, 2006, to mobilize deposit and credit transaction under the prevailing laws in the banks or financial institution to deposit amount and to lend against the pledge of deposit receipt.

Provided that while advancing loan against pledge of deposit receipt, only the bank or financial institution in which the deposit has been made has to advance such credit. In cases of credit advanced heretofore from other bank/financial institution, except the institution having one's own deposit receipt, credit may not be advanced renewing it after the maturity date.

- (3) Licensed banks and financial institutions may, while advancing loan pledging deposit receipt, advance/credit/advances subject to the credit policy/Directives of the institution and without lessening the interest rate than the coupon rate.

Provided that while advancing loan pledging the bond/securities issued by Government of Nepal, the said provisions shall not apply.

- (4) While accepting any type of deposit from any person, firm, company and other corporate body, licensed banks, and financial institutions shall not be allowed to make available any type of financial facility from fee/commission or the like head causing expenditure burden to the bank or financial institution except the coupon rate to be provided to such deposit.

15. Advancing loan for investment in initial public offering

No bank or financial institution shall, for the first seven working days after the initial public offering of shares of a public limited company, advance any type of credit facility for the purpose of purchasing such shares.

Provided that in case there are no share application enough for full subscription as called on in the first working days, credit facility may be made available for initial public offering from the eighth day subject to the following terms and conditions:-

- (a) In case the issue manager appointed for the tasks of initial public offering is a subsidiary company of the concerned bank or financial institution, such institution shall not be allowed to advance credit to any person, firm, company for the purpose of the initial public offering.
- (b) Banks and financial institutions shall have to make available credit to the investors investing in initial public offering having arranged for the cash margin of at least 50 percent of the credit to be made available.
- (c) The maximum period of repayment of the credit made available in such a manner shall be for the period specified for share allotment in the Securities Act, Rules relating to securities. Restructuring and rescheduling of such a credit shall not be allowed.
- (d) Entire procedures applicable in case of advancing other credits shall also have to be completed while advancing this type of credit as well.
- (e) Except in cases where such credit is in pass status, provision of cent percent loan loss shall be made.

16. Loans to be advanced on security of shares in the nature of margin lending

With regard to the loan, in the nature of margin lending to be advanced from a bank and financial institution on the pledge of shares of the companies listed in the list of Nepal Securities Exchange Market Limited, the loan may be advanced having followed the following terms and conditions:-

- (1) In cases of loan to be advanced in such a manner, loan may be extended only up to the amount of 50 percent in maximum based on the average closing price of the share at the latest 180 working days or 50 percent of the prevailing market price of the shares, whichever is lesser. Neither additional credit limit may be maintained nor additional loan may be extended having evaluated the shares as collateral of such loan once extended.

Note: For the purpose of this clause, "working days" means the days on which transaction of Nepal Stock Exchange Market Limited has been held. In the event

where there is no transaction of any share on an particular day, the price of the last transaction in the just preceding day shall be deemed to be the last price for that day as well.

(2) Provisions relating to margin call

(a) In case margin call has to be made due to change in market price of shares, the concerned bank or financial institution has to monitor price and inform the debtor customer and to make margin call so that the margin be brought within the specified limit within a period of 21 days in maximum.

Provided that it is not necessary to make margin call in the event where price of the shares pledged as security has fallen down by 10 percent in maximum.

(b) Upon issuance of a notice pursuant to clause (a), the concerned bank and financial institution shall cause to be deposited the amount for the margin from the concerned debtor/customer within the specified time-limit.

(c) In case of failure to do according to clause (b), the shares pledged as security shall be sold through the stock exchange market and the loan shall be recovered within a period of seven days after the date of the default.

(d) In case the loan could not be recovered pursuant to clause (c), cent percent provision shall have to be made for such a loan.

(3) The duration of the loan extended in such a manner shall not be more than one year. If a debtor availing the margin type lending has repaid at least 25 percent of the loan and no portion of the interest amount is due, up to 75 percent of the margin type lending may be renewed.

Provided that this provision shall not be applicable in cases of shares pledged by the debtors as additional security for the loan extended for other purposes. The concerned bank/financial institution shall have to maintain and update necessary information, statistics and description for the loan purposes in the concerned loan file. The shares to be taken as an additional security shall be treated only as an additional collateral.

(4) No margin lending shall be allowed pledging shares of the institutions which fall in any of the following categories:

- (a) The banks and financial institutions having not maintained capital fund ratio according to Directives of this Bank;
 - (b) The institutions having negative net worth;
 - (c) The institutions delisted by the Nepal Stock Exchange Market Limited,
 - (d) The institutions not having conducted the final auditing even after completion of one year of a fiscal year.
- (5) With regard to margin lending on the pledge of shares listed with the stock exchange market, Bank/financial institutions shall have to categorically provide in their credit policies guidelines and shall have to fulfill entire process applicable in cases of other credits.
- (6) Exception in cases where the loan extended in such a way is in pass condition, cent percent loan loss provision shall have to be made.
- (7) Banks and financial institutions may advance such loan only to the amount of its core capital in maximum. Moreover, while advancing such loan, Banks or financial institutions may advance loan only up to 25 percent of its core capital in case of shares of one listed companies.

For this purpose, "Core Capital" means the core capital maintained based on financial description of internal audit of the immediately preceding trimester.

- (8) The Banks and financial institutions which have extended more loans than their core capital in the past shall not be allowed to advance more loan of such nature until the loan exposure comes down to such a limit.
- (9) While advancing such a loan, banks and financial institutions shall advance the loan only by pledging the original share certificate.
- (b) With regard to shares taken by banks and financial institutions as collateral security:**

- (1) Banks and financial institutions shall not be allowed to recover the loan having accepted the shares of licensed banks and financial institutions taken as collateral security.
- (2) In case the loan has been recurred in the past having accepted the shares of the licensed Banks or financial institutions, the shares so accepted shall

compulsorily be sold. In cases of the shares that could not be sold for any special reason, provision of less of cent percent of the amount equal to the price of the shares so accepted shall be made.

17. With regard to Bank Guarantee

- (a) In the event where the amount of bank guarantee issued by a bank or financial institution having fulfilled the process has to be paid to the beneficiary, decision as to whether or not to give the payment shall be made within seven days from the date of the claim.
- (b) In case the institution issuing bank guarantee has to make payment to the beneficiary within seven days of the claim submission but the institution does not make the payment without adequate reasons, payment may be made to the beneficiary having deducted the amount from the account of the concerned bank/financial institution in this Bank/ from an account of the bank ordered by this Bank.
- (c) The contingent liability for the amount of guarantee under a claim of payment shall have to be given 200 percent risk weight for the purpose of calculating the capital fund ratio.

18. Inter-Bank Transaction/Borrowing / Investment:

The class “A”, “B” and “C” banks and financial institutions licensed from this Bank shall use the borrowing/investment to be made to each other only as inter-bank transaction/borrowings/investment and not as the regular credit facility.

19. Advancing loans against immovable property as collateral security within the approved geographical area:

For the purpose of advancing loans by the institutions other than the national level licensed banks and financial institutions, the collateral property shall have to be located within its working area in case of every type of loan except the project loan. In case of the loans, other than project loans, extended prior to issuance of the directive in this regard on February 27, 2009 (Circular No. 31/065/66) having accepted the immovable property located outside one’s working area as collateral, the said transaction shall have to be adjusted by the Mid-July, 2011 or on the maturity date, whichever is earlier. Otherwise, cent percent loan loss provision shall have to be made.

20. Trust Receipt Loan:

The Trust Receipt loan or other similar type of import loans shall be extended only up to a period of 90 days.

21. Loan amount to be disbursed only through A/C payee cheque:

The licensed banks and financial institutions shall, while disbursing an amount of the approved loan to any company/firm or corporate body/organization, disburse the amount having opened an account in the concerned bank or financial institution itself. In other cases, the amount of loan shall have to be disbursed only through an A/C payee cheque drawn in the name of the concerned company/firm or corporate body/organization.

22. Advancing loans only after environmental impact assessment:

Before any banks and financial institution makes a loan investment in any hotel, resort any other similar type of industries going to be established around or in the close proximity of a lake, pond, reservoir, *kunda* in the country, it shall be mandatory to conduct an environment impact assessment and the loan shall be extended only after ascertaining that no adverse impact may cause to such lake, pond, reservoir, *kunda*.

23. In case of guarantee, one to be liable only to the extent of the amount stated in the deed of guarantee:

While executing a deed of guarantee, it shall be clearly stated in the deed that the person/firm/company/institution executing the guarantee shall not in any case be liable for the amount exceeding the amount of the guarantee and for that purpose, the amount of the guarantee, its period, purpose of the loan, the principal debtor, the witnesses, name and address of the guarantor and attestation thereof shall have to be clearly stated.

24. Sending of Classification details of Loan and advances:

The licensed institution shall have to classify the credits in the months of Ashwin, Paush, Chaitra and Ashadh of every fiscal year and send the details as formatted in Directive Form Nos. 2.1, 2.2 and 2.3 within one month of the completion of the trimester to the Banks and Financial Institutions Regulation Department and the concerned supervision Department of this Bank.

25. Actions that may be taken if Directive is not abided by:

In case a licensed institution does not abide by any of these Directives, action shall be taken pursuant to Section 100 of the Nepal Rastra Bank Act, 2002.

26. Repeal and Saving

- (1) The following Directives issued from this Bank heretofore have been repealed:
Provisions relating to credit/advances and loan loss provisions in the Unified Directives, 2009; the Directives issued from Direction No. 2/066 and all the circulars relating to this matter issued until the mid-July 2010.
- (2) The actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have been taken under these Directives.

Classifications of loans/advances and bills purchase and provisions made for them

(last day of the month of)

Of the last trimester	Description	Loans/advance				Bills purchased and discounted			Of this trimester	
		Local		Foreign	total	Local	foreign	total		
		Deprived Sector		other						
		Insured	Non-insured							
	1. Performing loans and credit									
	<u>Pass loans</u> (a) Pass loans (b) Restructured/reschedules of pass loans									
	2. Non-performing loans/advances									
	2.1 Sub-standard 2.2 Doubtful 2.3 Loss									
	3. Total loans/advances (1+2)									
	4. <u>Provision for Loan loss</u> 4.1 Pass (a)..... (b)..... 4.2 Substandard 4.3 Doubtful 4.4 Loss									
	5. Total loan loss provision									
	6. <u>Provision until the last trimester</u> 6.1 Pass									

	(a)..... (b)..... 6.2 Substandard 6.3 Doubtful 6.4 Loss									
	7. Total provision until the last trimester									
	8. Provision write back of this trimester (7-5)									
	9. Additional provision for this trimester (5-7)									
	Net Loan (3-5)									

Date:

Authorized signature

Customer-wise classification of loans and description as to loss provisions thereof

Branch	Name of group	Name of debtor	Date of investment/ transaction	Fund- based loans					Date of repayment	Fund-based facilities (Rs.)		Provision of loan		Disadvantaged class Amount (Rs.)	Remarks
				Type of loan	Approved limit (Rs.)	Remaining capital (Rs.)	overdue interests (Rs.)	Overdue principal (Rs.)							
Total amount															

Date:

Authorized signature

Note:

- (1) *In case of the term loan extended on installment, the date of overdue of the first installment shall be the date of repayment. In case any loan does not have the date of repayment, the date on which the loan has been converted into the fund-based loan (booking date) shall be regarded as the repayment date. (For example, guarantee repayment, forced L/C, limit overdrawn without current account and so on.*
- (2) *The date of repayment shall be maintained according to day/month/year.*
- (3) *In case loans are classified on a basis other than the date of repayment, the basis of classification shall be stated in the remarks column. (For example, the debtor has been blacklisted; business is not in operation, the loan is misused and so on.)*
- (4) *Details as to deprived sector lending shall have to be shown separately along with total amount.*

- (5) *This credit details shall be prepared in such a manner that details of debtors of one group is separately shown.*
- (6) *In case of loan classification, the pass loan, rescheduled/restructured loan, sub-standard loan, doubtful loan and loss loan shall be indicated as 1, 2, 3, 4 and 5 Nos. respectively.*

Description as to loss provision of the non-banking assets

(Year.....last day of the month of)

S. No.	Name and address of the debtor or party	Date of acceptance of the non-banking assets	Total non-banking assets Rs.	Loss provision		Net non-banking assets amount Rs.
				Percentage	Amount Rs.	
(1)	(2)	(3)	(4)	(5)	(6)	(4)-(6)
	Grand total					

Date:

Authorized signature

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 3/067

Subject: Provisions relating to Single Obligor and Limitation of the Sectoral Credit and Facilities

Having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, the following Directives have been issued with regard to advancing loans to the single person, firm, company or a group of customers having mutual relationship and with regard to loans to be extended only in one area of economy.

1. Fixation of Limit on Credit and Facilities

(1) For "A", "B" and "C" Class licensed institutions

Licensed Institution may extend to a single borrower or group of related borrowers the amount of fund-based loans and advances up to 25 percent of its Core capital fund and non fund-based off-balance sheet facilities like letters of credit, guarantees, acceptances, commitments up to 50 percent of its Core capital fund. The existing single obligor limit has been fixed as gross the limit not exceeding 25 percent of the core capital inclusive of the fund-based and non-fund-based limits to be effective from January 15, 2011.

Having regard to aspects including production, employment, the single borrower limit of the loans to be provided to export sector, small and medium industries, pharmaceutical industries, agricultural sector, tourism, cement industries, iron industries and other production-oriented industries has been fixed at 30 percent in the maximum.

Fixation of limit on credit and facilities to single borrower shall be made on the basis of Core capital fund according to the latest quarterly balance sheet certified by the Internal Auditor of concerned institution. Since the fund-based loan and non-fund based facilities are separate, thus, the single borrower limit shall not be calculated by aggregating the both.

(2) For "D" class licensed institutions

Credit to the deprived and low income group person may be extended up to the maximum of sixty thousand rupees per group member/individual for operation of micro business; the maximum of sixty thousand rupees per family for the purpose of Solar Home Systems and/or Bio-gas under renewable energy technology and micro enterprise credit up to one hundred fifty thousand rupees per unit may be provided against acceptable collateral/group guarantee.

However, the institution shall extend such micro-enterprise credit up to 25 percent of the total loans and advances.

Explanation

For the purpose of this Sub-Section, "micro business" means an income oriented business engaging not more than 10 persons.

2. Special Provisions Relating to Investment in Hydropower Projects

While investing in a hydropower project, transmission line and cable car projects, the following provisions shall be made:-

- a) The licensed institutions may advance to the projects relating to hydropower project the fund-based loan and non fund-based facilities not exceeding an amount of 50 percent of its core capital.

Provided that in the event of advancing more than 25 percent of the core capital, there shall have to be concluded power purchase agreement with the concerned Organization.

This clause shall not be deemed to have hindered to invest up to 25 percent of the core capital subject to the prevailing provisions.

- b) The repayment schedule of such projects shall be prepared based on the cash flow and other evidences.
- c) Project shall be analyzed and loan shall be repaid from the moratorium period specified by the concerned bank and financial institution or the time of generation of electricity from such project, whichever is earlier. In case any installment of the

loan is due, a provision of 1 percent has to be made for a period of 90 days as the pass loan and if the loan installment is overdue by more than 90 days, such loan shall be classified as the loss loan and a provision of cent percent shall be made.

- d) In case the amount invested by bank and financial institution in shares of a public company limited established for operating a project has been invested in such projects not listed in the stock exchange market and in case such shares and debenture are not listed in even within three years from the date of such investment, entire amount equal to the amount of investment has to be deposited having established an investment equalization fund. The amount deposited in such a fund shall not be allowed to be utilized for any other purpose until the said shares and debentures are listed.
- e) While financing only in a pure hydro electricity project, transmission line and cable car construction by a licensed bank or financial institution, the existing single borrower limit of 25 percent has been increased and the financing limit of up to 50 percent of the core capital has been maintained including the fund-based loan and non-fund-based facilities.

Provided that in case the customer relating to hydro electricity project, transmission line and cable car projects also wants to finance in non-hydro electricity project /transmission lines/cable car projects, loan/facility up to 25 percent including fund-based loan non-fund based facilities may be extended not exceeding the limit of 50 percent.

(For example, in case a total of 50 percent of the core capital has been financed including fund based and non-fund based facilities in a pure hydro electricity project /transmission line/cable car project, no financing shall be allowed in other projects. In case a total of 40 percent of the core capital has been financed including the fund-based and non-fund based facilities, in a pure hydro electricity project /transmission line/cable car project, only up to 10 percent may be financed in other projects. In case one percent to 25 percent of the core capital has been invested including the fund-based and non fund-based facilities in a purely hydro-electricity project, a loan/facility only up to another 25 percent of the core capital may be financed.)

In case a loan has been provided exceeding the limit prescribed for a non-electricity/transmission lines/cable car, the loan loss provision of cent percent of the amount exceeding the limit shall have to be made.

3. Limit Adjustment

Where a customer has once utilized the off-balance sheet facilities and such facility has turned into fund-based credit, Directives relating to fund-based credit limit shall be applied for fixation of limit to such customer.

4. Exemption in Limit of Credit and Facilities

The exposure limits referred to in Clause 1 above shall not be applicable in respect of the following credit and facilities:

- (a) Credits and facilities extended against own fixed deposit receipts, Government of Nepal securities, Nepal Rastra Bank Bonds as well as against unconditional guarantees issued by the World Bank, Asian Development Bank, and International Finance Corporation including international multilateral financial institutions in which Nepal is a member and internationally rated banks.

Further, on request of the concerned bank and financial institutions, this Bank may allow Zero Risk Weightage on loan extended by the bank and financial institution against the unconditional guarantees issued by such international multilateral financial institutions for the purpose of calculating the capital adequacy ratio together with continuation of the arrangements as provided in Directives issued by this Bank.

Explanation:

"The internationally rated banks" means the banks included annually in the list of TOP THOUSAND WORLD BANKS of "The Banker" a magazine published in the month of July every year from London, the United Kingdom.

- (b) Loan/advances and facilities provide by the "A" Class licensed institutions to the following institutions:-
 1. Nepal Oil Corporation
 2. Nepal Food Corporation

5. Credit and Facilities against Guarantee and Counter-Guarantee of Joint-Venture Banks and Financial Institutions.

There is no hindrance to provide credit and facilities against guarantee and counter guarantee of joint venture banks and financial institutions.

Provided that the provisions of per customer borrowing limit are applicable in the credits made available in such a manner. In case the joint venture bank and financial institution is an internationally rated bank, the provisions referred to in clause 4(a) shall be applicable.

6. Inter-Related Consumers are to be Considered as a Group

For the purpose of the above mentioned exposure limits, group of inter-related borrowers shall be treated as a single group under the following circumstances:-

- (a) Where a company holds 25 percent or more shares in another company, then both of such companies;
- (b) Where a person, firm, Directors of a company, shareholders of a private company, partners of partnership firm, proprietor and spouse, son, daughter, adopted son, adopted daughter, parents, step mother and brothers and sister who have to be supported by such Director, shareholders, partner, proprietor are residing jointly in the same house or separately;
- (c) Those companies in which the persons referred to in Sub-clause (b) above holds 25 percent or more shares individually or jointly;
- (d) Even if the Director, shareholder or other relatives referred to in Sub-Clause (b) hold less than 25 percent shares of another company jointly or individually, even then if the management of that other company is controlled by them in the following ways, then such companies:-
 - (1) By being a Chairperson of the Board of Directors;
 - (2) By being the Chief Executive of the Company;
 - (3) By appointing more than 25 percent of the Directors;
- (e) Firms, companies stated to be associated as a group, or members of such group, or
- (f) Where one borrower or company referred to in Sub-clause (b) has provided a guarantee to another borrower or company, then such companies;

- (g) If credit is provided to more than one person against the same collateral, all of such persons;
- (h) If a personal guarantee has been given to each other, all of such persons giving/taking the guarantee.

7. Details of Inter-related Customers to be furnished

The licensed institution shall prepare the records of the single borrower and related customers on half-yearly basis and submit to the Bank and Financial Institutions Regulation Department and the concerned Supervision Department of this Bank.

8. Treatment as Separate Group

Any corporate body or company having full or more than 50 percent ownership of Government of Nepal shall be treated as a separate group.

9. Concentration Risks to be minimized

Where a licensed institution has extended credit or facility to one customer, firm, company or group of related borrowers in excess of the exposure limit referred to in Sub-clause (1) of Clause (1) above, such excess credit or facilities shall be provided with cent percent additional loan loss provisioning to cover the concentration risk.

10. Return on Borrowings by Big Borrowers to be submitted

In order to monitor on time the credit made available to the big borrowers (availing a credit of more than ten million rupees) by the licensed “A” class banks, the following details according to the big borrower software made available by this Bank have to be submitted:-

- (1) The class “A” banks shall have to compulsorily send via e-mail or compact disc within one month of the completion of the quarter to the Banks Regulation Department the details in the said software and in case of need to include or change the name of groups of the existing debtors, the details thereof having them collected from its all branches prepared in collective manner.
- (2) While entering data in the software, the quarter shall be stated as 1, 2, 3, 4 and the fiscal year shall be stated with the last two digits.

11. Provision Relating to Sectoral Credit

- (1) Licensed institution shall have adequate internal policies and systems in place to monitor the concentration of sectoral exposures for controlling risks.

Provided that in the event of Directives issued by this Bank, an additional loan loss provision according to Clause 9 shall be provided. The list of various sectors of the economy is referred to in the enclosed Directives Form No. 3.

- (2) The licensed institution shall separate sectoral exposures into two levels on the basis of credit concentration and arrange for control, monitoring and information system as follows (as formatted in Form No. 9.3) :-

- (a) Level 1: Extension of Loans and Advances and Facilities from 50 percent to 100 percent of Core Capital into a single sector. The licensed institution shall identify such loans and arrange monitoring mechanism and information system by themselves and monitor at least on quarterly basis.

- (b) Level 2: With respect to extension of Loans and Advances and Facilities exceeding 100 percent of Core Capital into a single sector such loan shall be also be endorsed by the Board of Directors. The Board of Director shall make a policy decision as to whether or not to maintain the exposure limits exceeding 100 percent of the Core Capital on annual basis. Such policy decision shall also be intimated to Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank.

- (3) Provisions relating to Housing Land and Real Estate Loans:

- (a) The amount of loan to be extended against the security of housing land and real estate shall not be more than 60 percent of the fair market value of the housing land and real estate under collateral security.

- (b) No licensed institution shall be allowed to advance loan in real estate more than 25 percent of the total loan and in real estate and residential housing both more than 40 percent of the total loan.

- (c) The loans under this head shall have to be brought to the following limits within the following time-limit:-

Head	Mid-July, 2011	Mid-July, 2012
Real estate loans	Not exceeding 15 percent of the total loans	Not exceeding 10 percent of the total loans
Real estate and residential housing loans both	Not exceeding 30 percent of the total loans	Not exceeding 25 percent of the total loans

1) Real estate loan and residential housing loan means the real estate loan referred to in S. No. 5 and residential housing loan referred to in S. No. 7 of the explanation referred to in loan and advance for the purpose of Form No. 9.3 (a) of Directives No. 9.

2) Licensed institution shall not be allowed to restructure the loan provided for its purpose/product so as to exceeding the limits according to the time-limit prescribed while providing the loan.

Provided that without prejudice to the letter and spirit of these Directives and remaining other things the same, in case the debtor availing of the real estate loan facility repays 25 percent of the principal of the said loan and pays the accrued interests, the remaining 75 percent of the principal may, for only one time, be rescheduled and/or renewed for a maximum period of one year to be effective from June 28, 2010.

3) This provision has not compelled to call back any specific loan before the repayment date in connection with maintaining the overall limit. The licensed institution may recover loan until the date of repayment fixed on the basis of installment of the loan according to the installment.

4) In case of loan commitment already made by a licensed institution upon approval of loan limit under the said purpose/product before issuance of these Directives

(on December 17, 2009), these Directives shall not be deemed to have prohibited to provide loan equal to the amount of such commitment.

- 5) In case the real estate/residential housing loans provided after issuance of these Directives (on December 17, 2009) are not brought under the limit fixed for the Mid-July, 2011 and Mid-July, 2012, it shall be deemed to be the violation of these Directives. In case the real estate/residential housing loan provided in such a manner exceeds the limit, the risk weight of 150 percent shall have to be provisioned while calculating the total risk weight assets for the amount so exceeded.
- 6) The amount down paid or deposited after opening up of the booking by the purchasers of apartments of a multi-residential complex shall have to be compulsorily deposited to the concerned bank in case only one bank provides loan for such complex and to the lead bank in case of a consortium financing.

Explanation:

"Exposure to a single sector" is defined as the sum of outstanding loans and facilities like guarantees, commitments and letters credit extended to customers in a single sector of the economy.

(RELATING TO SECTORAL CREDIT) (Rs. in million)

INDUSTRY/SECTOR	Amount Rs.
1. AGRICULTURE	
1. Agriculture and forests	
1.1 Crop and Crop Services
1.1 Tea/coffee
1.3 Tobacco
1.4 Jute
1.5 Animal husbandry, Livestock/Livestock Services Animal Slaughter house
1.6 Forests
1.7 Irrigation	
1.8 Other Agriculture and Agro-Services
2. Relating to fisheries
3. Relating to Mining	
3.1 Metals and Ore (Irons and glass)	
3.2 Coal	
3.3 Limestone	
3.4 Magnesite	
3.5 Chalk (Talc)	
3.6 Oils and gas extraction	
3.7 Others relating to Mining	
4. MANUFACTURING	
4.1 Food Production (Packing, Processing)

4.2 Agro/forestry products	.....
4.2.1 Sugar	.....
4.2.2 Tobacco processing	.....
4.2.3 Lumber and wood products/furniture	.....
4.2.4 Others	.....
4.3 Beverages (Beer, Liquor, Soda etc.)	.....
4.3.1 Liquor-based	.....
4.3.2 Non-Liquor based	.....
4.4 Handicraft	.....
4.5 Textile Products and Readymade Garments.....	.....
4.6 Paper and allied products	.....
4.7 Printing and Publishing	.....
4.8 Medicine	.....
4.9 Refined Oil and Coal Products	.....
4.10 Rosin and Turpentine	.....
4.11 Rubber Tyre	.....
4.12 Leather	.....
4.13 Plastics	.....
4.14 Cement	.....
4.15 Stone, Clay and glass products	.....
4.16 Other Construction Materials	.....
4.17 Metals- basic iron and steel foundries	.....
4.18 Metals- Other plant /workshop	.....
4.19 Miscellaneous manufacturing	.....
5. Construction	
5.1 Residential (Home use)	.....

5.2 Non-Residential (commercial use)	.....
5.3 Heavy Construction (Highways, Bridges etc)	.....
6. Electricity, gas and water		
6.1 Electricity services	.....
6.2 Gas and pipeline services	.....
7. Metal Products. Machinery and Electronics Equipment and Installation		
7.1 Fabricated Metal Products	.....
7.2 Machine Tools	.....
7.3 Machinery-Agriculture	.....
7.4 Machinery- Construction, oil field, mining etc	.....
7.5 Machinery- Office and computing	.....
7.6 Machinery- all others	.....
7.7 Electric Equipment	.....
7.8 Household Appliances and other durables	.....
7.9 Communication Equipment	.....
7.10 Electronic Components	.....
7.11 Medical Equipment	.....
7.12 Generators	.....
7.13 Turbines	.....
8. Transport, Storage and Communication		
8.1 Motor vehicle, parts and Accessories	.....
8.2 Jet boats/water transport	.....
8.3 Aircraft Parts	.....
8.4 Transport related other products	.....
8.5 Means of Railways and road passengers transport	.....	8.6 Truck services
and storage	.....

8.7 All other services	.....
9. WHOLESALERS AND RETAILERS	
9.1 Wholesale trade- durable goods	.....
9.2 Wholesale trade -non-durable goods	.....
9.3 Automotive dealer/franchises	.....
9.4 Other retail establishments	.....
9.4 Other retail business	.....
9.5 Import business	.....
9.6 Export business	.....
10. FINANCE. INSURANCE AND REAL ESTATE	
10.1 Class “A” financial institutions	.....
10.2 Class “B” financial institutions	.....
10.3 Class “C” financial institutions	.....
10.4 Class “D” financial institutions	.....
10.5 Saving and credit cooperative institutions.....	
10.6 Pension Fund and Insurances companies.....	
10.7 Other Financial Institutions	
10.8 Non-financial cooperative institutions.....	
10.9 Private non-financial cooperative institutions.....	
10.10 Other investment institutions	
10.11 Real Estate	
11. HOTEL AND RESTAURANTS	
11.1 Tourism services (Trekking, Mountaineering, Resort, Rafting, Camping etc)	.....
11.2 Hotels (Including other services as well	.....
11.3 Entertainment, recreation and cinemas	.....

12. OTHER SERVICES

- 12.1 Advertisement Services
- 12.2 Automotive Services
- 12.3 All other services companies
- 12.4 Hospitals, Clinics etc
- 12.5 Educational Services

13. CONSUMER LOAN

- 13.1 Gold and Silver loan
- 13.2 Fixed Deposit Receipt
- 13.3 Securities Instruments
- 13.4 Credit Card Loan
- 13.5 Hire Purchase (personal loans)

14. Local Government

15. Others

Total

Note: *Out of the above-mentioned items, the licensed institution shall use only those items which are related to their financial transactions.*

Date

Authorized Signature

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 4/067

Subject: Provisions Relating to Accounting Policies and Format of Financial Statements

The following Directives have been issued with regard to the accounting policies and formats of financial statements having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Guidelines Relating to Financial Statements

Licensed institutions shall prepare financial statements following the guidelines mentioned hereunder: -

(a) Definition of Fiscal Year

The period from Shrawan 1 to the end of the month of Ashad (mid-July) shall be the fiscal year of all licensed institutions. However, in the year of incorporation, the period covering from the date of incorporation to the end of the month of Ashad shall be deemed to be the fiscal year.

(b) Formats Prescribed by Nepal Rastra Bank to be regarded as Statutory Forms:

Licensed institutions shall prepare the Balance Sheet, Profit and Loss Account, Cash-flow Statement and other Schedules and Statements according to the format and procedures prescribed by this Bank. The audit of such statements shall be completed within 5 (five) months from the closure of the fiscal year.

(c) Compliance with Prevailing Accounting Standards

Financial Statements shall be prepared according to Nepalese Accounting Standard (NAS) except prescribed by this Bank otherwise. With respect to the areas not covered by the NAS, International Accounting Standard (IAS) shall be taken to the base.

(d) Publication of Financial Statements

Licensed institutions shall, after completing the audit within the above statutory and prescribed time period, publish the Annual Report containing, according to the enclosed format, the Balance sheet, Profit & Loss account and Cash Flow Statement, including the schedules relating to such financial statements. Moreover, for the information of the general public, it shall compulsorily to publish the Balance Sheet, Profit and Loss Account, Cash Flow Statement and Schedule Nos. 4.1, 4.2, 4.17 and 4.30, in respect of the national level institution, in the national level newspaper and in respect of the regional level institution, in the regional or district level news paper . While publishing annual financial statement by class "A" commercial banks, statements according to schedule 4.30 (A1), 4.30 (B), 4.30 (C), 4.30 (D) and 4.30 (E) shall compulsorily be published instead of schedules 4.30 and 4.30(A). Further, the entire annual report shall be updated in the website.

Provided that in cases of the class “D” financial institutions, the said statements to be published annually and quarterly may only be affixed on its notice board.

These Directives shall not be deemed to have hindered the various statistics forms to be submitted to various departments and offices of this Bank and any other Directive relating to the prescribed statements to be published.

- (1) Banks and financial institutions shall prepare actual consolidated financial statement, including therein all transactions of all branches and major financial indicators in every trimester and get them compulsorily published in any national-level daily newspaper within 35 days from the date of completion of the trimester and one copy thereof shall be furnished to the Banks and Financial Institutions Regulation Department and the Concerned Regulation Department of this Bank. (Nepal Rastra Bank Schedule 4A attached)*
- (2) While publishing trimester financial statements, it shall be mandatory for banks and financial institution to get them published only after getting them internally audited.*
- (3) At the end of each fiscal year, the difference between the unaudited financial statement and audited financial statement along with reasons thereof shall be*

published in the format of NRB schedule 4.35 in a separate sheet in the annual report of the institutions in the form of a table.

- (4) While publishing financial statements, banks and financial institution shall publish them having included the staff bonus, income tax provision and all other expenses of the said period.*
- (5) While publishing unaudited financial statement for information of general public by banks and financial institution, there shall have to be a statement in the footnote that, "audited financial statement may differ if the supervising authority and external auditor directs to alter the statements".*
- (6) In case the bank management fails to timely adjust even on the subjects clearly stated in the Act, Policy, Rules and Directives and thereby the financial statement is inconsistent, necessary actions shall be taken against the concerned institution.*

(e) Allowance for Maintenance of Accounts for Internal Use

These Directives shall have no effect on preparation of other accounting statements by the licensed institutions for their internal use.

(f) No Changes to Be Made in the Prescribed Format and Accounting Heads

Even in case of there being no transactions under any accounting heads included in the formats of Balance Sheet and Profit and Loss Account, including the schedules, those accounting heads shall be retained without altering in the format prescribed by this Bank. However, other accounting heads may be included as may be required under "others" in the schedules.

(g) Financial statements to be submitted

All licensed banks and financial institution shall, upon completion of the preliminary auditing by external auditor of the financial statement prepared on the basis of its annual accounts, submit the said preliminary report, response of the management on that report and the financial statements prepared on the basis of them (balance sheet, profit and loss accounts, cash flow details and all the schedules according to Directives of this Bank and details of loan loss provision as well) to the Concerned Supervision

Department for approval. On the basis of the said statements, the Bank shall conduct an on-the-spot supervision and if it deems necessary to bring changes, the adjustment of the same shall be included in the financial statements of the fiscal year. The financial statements so adjusted, the final report of the auditor and the Long Form Audit Report shall have to be furnished to the Banks and Financial Institutions Regulation Department and the concerned supervision Department of this Bank within fifteen days.

The annual accounts prepared by a licensed institution for the purpose of introducing to the Annual General Meeting for approval shall be made public only after obtaining approval of the concerned supervision Department of this Bank.

2. Principal Accounting Policies

Following are the accounting policies to be followed by the licensed institutions:-

(a) Disclosure of Accounting Policies

The licensed institutions shall follow the accounting policies based on the Generally Accepted Accounting Principles, the prevailing accounting policies in banking as well as the Nepal Accounting Standard (NAS) and International Accounting Standards. Principal accounting policies adopted by the management for preparation of these statements shall be published along with the statements of annual accounts in Schedule 4.32.

(b) Brief Explanation on Accounting Policies Prescribed for Disclosure

(1) Depreciation Policy

The licensed institutions may adopt any depreciation policy that conforms to Generally Accepted Accounting Principles. However, disclosures in respect of the policy adopted shall have to be made. The management of the institution shall have the liberty to determine the rates of depreciation according to the prevailing laws.

(2) Policy on Income Tax Provision

Some expenses charged to the Profit and Loss Account may not be allowable in full or part under the Income Tax Act and Rules. Similarly, some income may be tax exempt. Accordingly, the net profit as reported in the Profit and

Loss Account and taxable profit may vary. Therefore, for the purpose of income tax assessment, the licensed institutions are required to determine the taxable profit by adjusting items of expenses and income according to the Income Tax Act and Rules made thereunder. Accordingly, provision for income tax shall be provided, the information of which shall be disclosed under the accounting policies.

(3) Policy Relating to Investments

The licensed institutions shall have to segregate their investment portfolio in the following categories viz. the investment as held for trade, investment available for sale and investment held for maturity. Accordingly, investment shall have to be shown in separate headings.

(a) Investment held for trade: An investment that is made for the purpose of generating a profit from short term fluctuations in price shall be classified under this class. An asset shall be classified as held for trade even if it is a part of a portfolio of similar assets for which there is a pattern of trading for the purpose of generating a profit from short term fluctuations in price. These investments shall be marked to market on a daily basis and differences reflected in the profit and loss account. The details relating to this shall have to be prepared in the format in Nepal Rastra Bank Directive Form No. 4.12.1 attached herewith.

(b) Investment held to maturity: Investment made with positive intent and capacity to hold till maturity falls under this class. Positive intent to hold shall not be deemed in the following circumstances:-

- (1) In case there is intent and capacity to hold until undefined period;
- (2) In case the institution stands ready to sell the assets, except in case a situation arises which is non-recurring and could not have been reasonably anticipated, owing to changes in market interest rate or risk, liquidity requirements, changes in availability of and yield on alternate investment, financial sources and terms or changes in the risks of foreign currency.

Investment held to maturity shall have to be evaluated at the amortized costs. Write off costs shall be calculated having deducted impairment from cost price. Impairment shall be included in the profit/loss account of the concerned period. The details relating to it shall have to be prepared in the format referred to in Nepal Rastra Bank Directive Form No. 4.12.2 enclosed herewith.

- (c) Investment available for sale: All investment not falling under the held for trading and held to maturity shall have to be placed under this class. Such investment shall have to be marked to market on regular basis and the difference shall have to be adjusted through reserves. Institutions shall have to put up to two percent of the available for sale portfolio in the Investment Adjustment Reserve that is calculated in the supplementary or Tier 2 capital. The details relating to it shall be prepared in the format referred to in Nepal Rastra Bank Directive Form No. 4.12.3.

In case of the investment held for trading and available for sales which have not been enlisted in the stock exchange market and having no active market, they shall be written off at the cost price and the actual investment therefore shall be presented in the balance sheet having made provision of investment adjustment reserve pursuant to Directive No. 8. Moreover, in case bonus shares are acquired, only the number of shares has to be added and it may not be allowed to mark as an income.

(4) Policy on Adjustment of Exchange Fluctuation

Licensed institutions shall disclose the policy as to accounting of foreign currency assets, liabilities, and exchange fluctuation income and expenses. The incomes received from foreign currency transactions have to be clearly separated into "Trading Profit/Loss" and "Revaluation Gain/Loss." For the changes brought about by variation in foreign currency rates, adjustments to "Exchange Gain/Loss Account" shall be made at least at the end of each month and determine the adjusted net revaluation profit/loss at the close of each year. At the annual closing, if the revaluation loss is reported, the same shall be charged to Profit and Loss Account. If the adjusted net revaluation

amount results in profit such amount shall be shown as income in Profit and loss Account and 25 percent of such profit shall be appropriated to Exchange Fluctuation Reserve through Profit and Loss Appropriation Account.

(5) Policy on Accounting of Non-Banking Assets

licensed institutions may, in the case of non-realization of loan, recover the outstanding principal and interest by way of disposing the assets placed in collateral. Such assets may be assumed by the institution itself if the same could not be sold in auction. In such a situation, the valuation of the assets has to be accounted at the prevailing market value of the collateral property or aggregate outstanding amount due up to the day before the date of assumption whichever is lesser. Where the market value of assumed property is less than the total outstanding amount, the difference amount shall be debited to Profit and Loss Account in same year and the fact shall be disclosed in the accounting policy.

Provided that, while doing so, until the full settlement of entire outstanding amount of such Non-Banking Assets, the interest component comprising in the aggregate outstanding amount shall not be recognized into Profit and Loss Account. Such interest component amount shall be accounted under provision of loss of non-banking assets.

(6) Policy Relating to Non-Capitalized Assets

Where the bank management has adopted a policy as not to capitalize the amount of equipment or merchandises costing up a certain, amount, the same shall be disclosed in the accounting policies.

(7) Policy on accounting of income and expenses

Licensed institution shall, in general, follow the accrual basis of accounting to record their income and expenses. However, with respect to recognition of interest income from loan and advances, it shall follow the cash basis of accounting. Licensed institutions shall disclose the adopted accounting policy with respect to accounting of income and expenses.

(8) Policy on Loan Loss provisioning and Writing-off Bad Loans

Provision for loan loss is required to be provided according to the Directives of this Bank, accordingly the same shall be disclosed in the accounting policy. Further, loans considered uncollectible may be written off in accordance with directive issued by this Bank. Policy adopted by the bank in respect of loan write-offs shall also be disclosed in the accounting policy. licensed institutions shall formulate the written-off policy based on Loan Write-Off Bylaws.

(9) Provisions to recover principal and interest of loan:

While recovering amount from the concerned debtor by licensed institution, all interest amount shall be recovered first from such amount and only then the rest amount may be adjusted in the account of principal amount.

Provided that in cases of the loss loans restructured and rescheduled, the above provision shall not apply.

(10) Other Policies

Other than the aforementioned principal accounting policies, any other accounting policies that help understand and interpret the Balance Sheet and Profit and Loss Account, as deemed necessary, shall be disclosed.

3. Notes on Accounts

Annual Accounts shall be published in Schedule 4.33 incorporating at least the following items:-

1. Particulars as to the loans disbursed, recovered, and principal and interest waived during the year.
2. Particulars as to the changes in deposit liabilities (receipt, payment and balance) during the year under each heading.
3. Weighted average interest rate spread on deposit and credit.
4. Particulars as to expenses yet to be written off.

5. Particulars of concentration of institutions' assets and liabilities as well as off-balance sheet items in one individual, firm, organizations or in a single sector.
6. Particulars of the classification of assets and liabilities prepared on the basis of the maturity period according to the Directives of this Bank relating to minimization of liquidity risk.
7. Particulars of the borrowings by the institution against collateral of its own assets, if any.
8. Particulars of non-banking assets (previous year's balance, assumed/sold this year, and net balance)
9. Particulars of paid up share capital relating to amount Paid in Advance, Calls in Arrear and Forfeited but not re-issued, if any.
10. Particulars relating to amortization of leased hold property up to the previous and in the current year.
11. Any other notes that would help understand and interpret the Financial Statement.
12. Age-wise particulars of reconciliation pending items (1 year, 1-3 years, and above 3 years) in agency accounts.

4. Brief Explanations on Accounting Heads of The Balance Sheet

Capital and Liabilities Side

1. Share capital

The amount of paid up share capital of the licensed institution shall be mentioned under this head. Amount credited in share capital by issuing bonus shares utilizing the accumulated profit and reserves shall be disclosed under Schedule 4.1. The particulars relating to share capital shall be as disclosed in Schedule 4.1 and the sum of S. No. 1.3 of that schedule shall be exhibited in the Balance Sheet under this heading.

2. Reserve and Funds

Licensed institution shall include the amounts received from allocation of profits in connection with maintaining reserves or created from any other process and the

amount reserved without allocation in profit/loss account in this (schedule 4.2) heading. Normally, amount shall be deposited to this heading having debited the profit/loss account and while using these reserves, the concerned reserve and fund account shall have to be debited.

(a) General/Statutory Reserve Fund:

General reserve fund is the statutory reserve. In this reserve, the amount transformed from appropriation of net profit according to the Banks and Financial Institutions Act, 2006 shall be included. No type of dividend (cash or bonus share) shall be distributed from the amount in general/statutory reserve fund. Approval of this Bank shall be required in order to use the amount in this fund.

(b) Capital Reserve Fund

Following heads are shown under capital reserve head:

(i) Share Premium

This represents the amount of money collected on issue of shares in excess of its face value. The outstanding amount in this account shall not be considered eligible for distribution of dividend.

(ii) Capital Reserve

Following amounts shall be included under this head:-

- Amount from share forfeiture due to non-payment of remaining amount for the unpaid shares.
- Capital grants received in cash or kind.

(iii) Assets Revaluation Reserve.

Reserve created from revaluation of assets shall be shown under this head.

(iv) Other capital reserve:

(c) Dividend Equalization Fund

For the purpose of maintaining uniformity in dividend payment, certain amount of profit during the year of profit making may be transferred into this

account. Dividend may be distributed by debiting this account with the approval of the Board of Directors and endorsed by the General meeting.

(d) Accumulated Profit/Loss

Under this, the balance of accumulated profit or loss according to the Profit and Loss Appropriation Account shall be shown. Accumulated loss shall be presented having marked negative (-) or in brackets.

(e) Capital Equalization Fund

The amount deposited having created Capital Equalization Fund or deposited as calls in advance to make up minimum paid up capital have to be deposited under this head.

(f) Other Reserve Fund

Any reserve created with specific or non-specific purpose (except stated in above) shall be shown under this by disclosing accounting heads.

3. Debentures and Bond

Capital raised by the licensed institution through issuing debentures and bond shall be shown under this head and disclosed in Schedule 4.3 along with the name of the instruments. The amount shown in Balance Sheet under this head shall conform to the total amount exhibited under schedule 4.3.

4. Borrowings

Outstanding balance of borrowed funds of the licensed institution shall be stated under this heading. Details of this head shall be stated in Schedule 4.4.

5. Bills Payable

(a) Under this head, the outstanding amounts pertaining to draft, T.T., mail transfer and pay-orders issued by one branch to another branch of the licensed institution, as well as bills drawn on the institution by other local and foreign banks and financial institutions shall be accounted. The amount of all bills drawn on the institution shall be credited to this account as soon as notice or schedule or order is received by debiting concerned branch or agency account.

(b) Where the discounted bills are rediscounted with any other licensed institution, the licensed institution may either credit the Bill Discount Account itself and close it or a separate Bills Rediscounted Account may be opened. The outstanding amount in such account shall also be exhibited clubbing under the Bills Payable Account. Where rediscounted bills are debited to Bill Discount Account itself, it would result in zeroing the liability against rediscounted bills.

Provided that the contingent liability against such rediscounted bills shall remain and accordingly such amount shall be disclosed under Contingent Liabilities.

6. Deposits liability

Total deposits mobilized from depositors shall be exhibited under this head. The amount shall conform to the total amount exhibited under Schedule 4.5.

7. Proposed and dividend payable

Proposed and unpaid amount of dividend as approved by the General Meeting shall be exhibited under this head.

8. Income tax Liabilities

Under this head, tax provision made by the institution according to the Income Tax Act shall be accounted. Only the net tax payable amount after adjustment of advance tax paid shall have to be shown. If advance tax paid amount exceeds the total tax liabilities, the net amount of advance tax shall be exhibited under Other Assets.

9. Other Liabilities

Other than the capital and liabilities accounts stated above, all other liabilities of whatsoever nature shall be included under this head. The sub-accounting heads given under this schedule shall not be considered a limitation. Any other accounting heads that could not be exhibited elsewhere may be included under this, as required.

(a) Bonus Payable

Bonus payable to staff shall be accounted under this head.

(b) Interest payable on deposit

Interest payable on deposit shall be exhibited under this head.

(c) Interest payable on borrowings

Interest payable on borrowing by the institution shall be accounted under this head.

(d) Un-earned commissions

Where the commission collected by the institution for providing services relates to services to be provided for two or more years, the amount shall be recognized in two or more fiscal years. The unrecognized portion of commission shall be accounted under this head.

(e) Sundry Creditors

The amount to be paid in connection with day-to-day operations which does not come under any other heads shall be accounted under this head.

(f) Audit fees

The amount payable to Auditor for audit works shall be accounted under this head.

(g) Gratuity Fund

Gratuity liabilities toward the employees according to the Staff Rule shall be exhibited under this head.

(h) Employees Provident Fund

The amount of Provident Fund deducted from the employees' monthly salary, contributed by the institution, and interest earned on such fund and any income of the fund shall be accounted under this head.

(i) Branch Account

The outstanding credit balance in branch account shall be exhibited under this head.

Assets Side

1. Cash Balance

This account shall be used for exhibiting the total amount of cash-in-vault, consisting of local and foreign currency. The details of this account shall be exhibited in Schedule 4.8.

2. Balance with Nepal Rastra Banks

The balances in non-interest bearing accounts maintained by the institution with Nepal Rastra Bank shall be exhibited under this head.

3. Balance with Banks and financial institutions

The balances in non-interest bearing accounts maintained by the institution with other local and foreign banks and financial institution shall be exhibited under this head. The amount shall conform to the total amount exhibited under Schedule 4.10.

4. Money at Call and Short Notice

The amount of all interest bearing placements with other licensed institutions (local or foreign) with maturity period of not-exceeding 7 days with stipulated condition for payment at call or at short notice (48 hours) shall be exhibited under this head. The balance amount in this account shall be exhibited in Schedule 4.11.

5. Investments

(a) Investments made by the license institutions shall be exhibited under three categories i.e. investment held for trade, investment available for sale and investment need to maturity.

(b) Where income from the investment is received in the form of bonus shares, the valuation of investment shall be made by increasing the number of shares only without changing in the cost of investment.

(c) Particulars in respect of investment in shares of other companies shall be shown under Investment in Shares in Schedule 4.12 (a). Following particulars shall clearly be disclosed in the statement:

(1) Name of the company

(2) Type of share (ordinary or preference), in case of preference shares, including the rate of dividend.

- (3) Total number of shares subscribed (including bonus shares if received).
 - (4) Face value per share
 - (5) In the amount column, the cost price incurred to licensed institution.
 - (6) In case of listed shares with stock exchange, the market price on the date of the balance sheet.
 - (7) Where a company, in which the licensed institution has investment in shares, has not declared dividend for previous 3 years, particulars indicating the same.
- (d) Particulars in respect of investment in debentures and bonds of other companies shall be shown under Investment in Debenture and Bonds in Schedule 4.12 (a).
- (1) Name of the company
 - (2) Rate of Interest
 - (3) Installment of Debenture/bond subscribed.
 - (4) Face value per debenture/bond.
 - (5) Maturity date of debenture/bond
 - (6) The purchase price of the debentures shall be shown under "cost price" column.
- (e) In the case of shares, debentures and other securities listed in the stock exchange, where the market price of such instruments is lower than the cost price, provision against such loss for each investment shall be made. The amount of such provision shall be netted off against the value of investment and exhibit under this head. Further, the total sum of Schedule 4.12 item Serial Nos. 8 and 9 shall conform to sum of total investment under Schedule 4.12 (a).
- (f) Investments other than exhibited in Schedule 4.12 S. No. 1 to 9 shall be exhibited under "Other Investment".

6. Loan, Advances and Bills Purchased

Under this head, sum of the outstanding amount of all loans and advances extended to the customers as well as bills purchased and discounted less the amount of Loan Loss Provisioning shall be exhibited. The amount shall be exhibited according to Schedule 4.13 and 4.13(a).

Loan to employees provided according to the Employees Byelaws of the licensed institution shall be exhibited under "Other Assets" of the Balance Sheet and not under this head.

7. Fixed Assets

All assets of long-term nature (*fixed*) owned by the licensed institution shall be accounted under this head and be exhibited in the Balance Sheet at written down value after deducting the depreciation from the total cost. The account balance shall be exhibited in Schedule 4.14.

8. Non-Banking Assets

Under this head, net balance of non-banking assets after deducting loss provision shall be exhibited. The account balance shall be exhibited in Schedule 4.15.

9. Other Assets

This heading shall be used for accounting of any other tangible or intangible assets, not mentioned above. Stationery Stock, Accrued interest on investment, Accrued Interest on Loan, Sundry Debtors, Assets-in- transit, Expenses Not Written Off and son on are some of the items to be included under this head. Where the assets under this head also carry provisioning for losses, such account shall be shown after deducting the provision and exhibited in Schedule 4.16.

The amount of accrued interest having subtracted the amount of suspended interest shall be shown in S. No. 3.

10. Contingent Liabilities

(a) Contingent Liabilities of the institution shall be classified as specified in Schedule 4.17 of Financial Statement and total amount shall be exhibited under this head.

(b) On account of receipt of margin deposits on letters of credit opened, the liability of the licensed institution obviously would not be for the full value

of such letters of credit. However, since such liability is not against the party opening the letter of credit but towards the Agency Bank, disclosure of contingent liability for the full value of letters of credit is required.

- (c) Rediscounted bills shall be shown under this head.
- (d) Full value of pre-matured guarantees shall be disclosed under this head.
- (e) Unpaid amount, if any, against investment in shares shall be disclosed under this head.
- (f) If the licensed institution has entered into a forward exchange contract with its customers, the full value of immature contract shall be disclosed under this head.
- (g) The amount of Acceptances and Endorsements, Underwriting Commitments, Loan Commitments shall be disclosed under the contingent liabilities.
- (h) Any other contingent liabilities not covered above shall be disclosed under Schedule 4.17.

5. Brief Explanations on Accounting Heads of the Profit and Loss Account

1. Interest Income

The interest accruals on loans and advances shall be recognized on cash basis and exhibited under this head. The interest income of the institution shall be stated according to Schedule 4.18.

2. Interest Expenses

Interest to be paid on deposits accepted by licensed institution and borrowings during the period shall be debited to "Interest Expenses." The amount shown under this head in Profit and Loss Account shall be disclosed in Schedule 4.19.

3. Commission and Discount

The total amount of commission, service charges and discounts earned by the licensed institution from transactions during the period shall be exhibited under this head and be shown according to Schedule 4.20.

4. Other Operating Income

Receipt of all other income not specifically provided under the income heads above shall be booked under this head and be shown according to Schedule 4.21.

5. Exchange Fluctuation Income

In the Profit and Loss Account, the licensed institutions are required to account for foreign exchange transaction income separately into trading income (except exchange fee) and revaluation income. Amount under this head shall be shown only if the sum of Schedule 4.22 results in profit. 25 percent of Income from revaluation income exhibited in Schedule 4.22(a) shall be credited to Exchange Equalization Fund through Profit and Loss Appropriation Account in each annual closing.

6. Employees Expenses

All expenses related to employees of a licensed institution shall be included under this head. Expenses covered under this head include employees' salary, allowances, pension, gratuity, contribution to provident fund, training expenses, uniform expenses, insurance etc. The amount shown under this head shall be exhibited in Schedule 4.23.

7. Other Overhead Expenses

All other expenses related to the office overhead of the licensed institution shall be included under this head. The amount shown under this head shall be disclosed in Schedule 4.24.

8. Exchange Fluctuation Loss

In case the net balance in the Exchange Fluctuation Gain/Loss Account is negative, it shall be exhibited under this head.

9. Provision for possible Loss

The provisions against risk assets to be made according to the Directives of this Bank shall be debited in this head under the Profit and Loss Account and exhibited in Schedule 4.25. Estimation of such provision shall be made in quarterly basis.

10. Non-Operating income/Expenses

The income and expenses that have no direct relationship with the operation of transactions shall be mentioned according to this head. The amount shown in this head shall be exhibited Schedule 4.26.

11. Write back of loan loss provision

In the event of requirement of writing back of the provisions made against risk assets, such amount shall be shown in this head and mentioned according to schedule 4.27.

12. Income/expense from Extra-ordinary transactions

Under this head, any income and expense other than above-mentioned heads, which is more than 5 percent of net interest income, shall be mentioned with separate heading according to Schedule 4.28.

13. Staff Bonus

The net profit (including the bonus provisions), after all transactions in the Profit and Loss Account, shall be taken as a basis while provisioning for staff bonus. The amount of net profit required to be set aside for bonus, at the percentage specified according to the prevailing law, shall be debited in the Profit and Loss Account under this head.

14. Provision for Income Tax

The amount of income tax on net taxable profit shall be provided under this head. Taxable profit has to be determined considering the allowable and disallowable expenses according to Income Tax Act and the prevailing Finance Act. The income tax liabilities on estimated taxable profit has to be provided by the income tax liabilities on estimated taxable profit has to be provided by debiting this head in the Profit and Loss Account.

15. Net Profit/Loss

The balance amount shall be transferred to “Profit and Loss Appropriation Account” under the head this year's profit or this year's loss.

6. Brief Explanations on Accounting Heads of the Profit and Loss Appropriation Account

Debit Side

1. Previous Year Accumulated Loss

Accumulated loss of the licensed Institution up to last year is to be shown under this head.

2. General Reserve Fund

Twenty percent of the annual net profit shall be appropriated to General Reserve Fund until it reaches to double of the paid up capital.

3. Contingent Reserve

Where the institution decides to create "contingent reserve" by appropriating some portion of its net profit, such amount shall be appropriated to this fund.

4. Institutional Development Fund

Where the institution decides to create an Institutional Development Fund by appropriating some portion of its net profit, such amount shall be shown in this head.

5. Dividend Equalization Fund

Where the institution wishes to appropriate some portion of its net profit for equalization of future dividends, such amount shall be appropriated through this head by debiting the Appropriation Account.

6. Employees Related Funds

Where the institution decides to create welfare funds or any other funds relating to the employees by appropriating some portion of its net profit, such amount shall be appropriated through this head by debiting the Appropriation Account.

7. Proposed Dividend

Where the institution, out of its profit, has proposed for distribution of dividend, such amount shall be appropriated by debiting the Appropriation Account.

8. Proposed Bonus Share

In the event of a decision made by the institution to issue bonus shares to the existing shareholders or increase the paid up value of shares by capitalizing the accumulated profit, the requisite amount of accumulated profit used for the

purpose shall be credited in this account by debiting the Profit and Loss Appropriation Account.

9. Special Reserve Fund

The amount for creation of any special reserve funds by the institution through utilization of accumulated profit according to the Directives of this Bank shall be appropriated by debiting the Appropriation Account.

10. Exchange Fluctuation Reserve

The amount appropriated out of the annual foreign currency revaluation income, according to the policy relating to exchange fluctuation, shall be exhibited under this account.

7. Statement of Changes in Equity

Licensed institutions shall prepare "Statement of Changes in Equity" as an integral part of financial statement in the prescribed format and disclosing all required information in accordance with Nepal Accounting Standard (NAS).

8. Cash Flow Statement

Section 109 of the Companies Act, 2006 requires companies to prepare the Cash Flow Statement in addition to the Profit and Loss Account and the Balance Sheet. Accordingly, all licensed institutions incorporated as a company shall prepare the "Cash Flow Statement," in the prescribed format along with their annual account.

9. Mortgage of Promoters Shares

In case a loan has been obtained having mortgaged the shares subscribed by promoter shareholders of a financial institution, statement according to schedule 4.34 has to be submitted having them disclosed in annual report of the concerned bank/financial institution.

10. Treatment of Deferred Tax Assets and Liabilities

Bank and financial institution are required to disclose regarding treatment as to deferred taxation according to Nepal Accounting Standard - 9. The said heads shall be published in the financial statement as follows: -

- (1) In addition to the exhibition of regular tax expenses as "Current Tax" under Income Tax Provisions in Profit and Loss account, the current year's deferred tax shall also be accounted under the heading of "Deferred Taxation".
 - (2) Since income/expenses regarding deferred tax up to previous year require direct adjustment in the equity, the "Statement of Changes in Equity," for the purpose of adjustment, shall be adjusted by showing "Deferred Tax" sub-heading after the opening balance of equity.
 - (3) Exhibition of deferred tax asset and liability need to be reported separately in Balance Sheet. Accordingly, the same shall be exhibited under the account head "deferred Tax" immediately above the heading "others" in the Schedules relating to Other Assets and Other Liabilities of the Balance Sheet.
 - (4) The detail notes as to the application of tax rate considered for calculation of deferred taxation, justification of applying such rate, temporary differences taxable amount or deductibles, calculated deferred tax as well as the assets and liabilities being created against it shall be stated under the Notes to Accounts in the Annual Report.
 - (5) Dividend/bonus shall not be distributed to shareholders on the basis of net profit arising out of above accounting treatment of deferred tax.
11. Class "D" financial institution licensed from this Bank may, based on the nature and situation of transaction, be granted waiver as may be necessary with regard to the statements to be included.

12. Repeal and Saving

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to accounting policies and format of financial statements in the Unified Directives, 2066 and all circulars issued until mid-July, 2010 relating to the matters covered by the said Directives.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

.....Limited
Balance-sheet
Until the Mid-July, 20....

Assets and liabilities	Schedule	Current year (Rs)	Last Year (Rs)
1. Share capital	4.1		
2. Reserves and Funds	4.2		
3. Treasury bills and bonds	4.3		
4. Loan/advance due to be paid	4.4		
5. Deposit Liabilities	4.5		
6. Bills to be paid	4.6		
7. Proposed Dividend			
8. Income tax liabilities			
9. Other liabilities	4.7		
Total assets and liabilities			

Assets	Schedule	Current year (Rs)	Last Year (Rs)
1. Cash deposit	4.8		
2. Deposit with Nepal Rastra Bank	4.9		
3. Deposit with Banks/financial institutions	4.10		
4. Amount to be received on demand and in short notice	4.11		
5. Investment	4.12		
6. Lending and bills purchase	4.13		
7. Fixed assets	4.14		
8. Non-banking assets	4.15		
9. Other assets	4.16		

Total assets			
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Contingent liabilities	Schedule 4.17
Declaration by Directors	Schedule 4.29
Capital Fund table	Schedule 4.30
Risk weight assets description table	Schedule 4.30(A)
Major indicators	Schedule 4.31
Main accounting principles	Schedule 4.32
Accounts related comments	Schedule 4.33

The schedules from Nos. 4.1 to 4.17 are inseparable parts of the Balance-sheet.

.....Limited

Date fromto.....

Profit and loss account

Assets and liabilities	Schedule	Current year (Rs)	Last Year (Rs)
1. Interests income	4.18		
2. Interests expenses	4.19		
Net interests income			
3. Commission and discounts	4.20		
4. Other operational income	4.21		
5. Exchange fluctuation income	4.22		
Net Operational Income			
6. Staff expenses	4.23		
7. Other operational expenses	4.24		
8. Exchange fluctuation loss	4.22		
Operational profit before provisioning of possible loss			
9. Provisions for possible loss	4.25		
Operational profit			
10. Non-operational income/expenses	4.26		
11. Withdrawal from provision for possible loss	4.27		
Profit from regular transactions			
12. Income/expenses from non- regular transactions	4.28		
Net income after inclusion of all transactions			

13. Staff bonus provision			
14. Income tax provision			
<ul style="list-style-type: none"> • Tax provision of current year • Tax provision until the last year • Deffered Tax income/ expenses of current year 			
Net profit/loss			

The schedules from Nos. 4.18 to 4.28 are inseparable parts of the Profit and loss account.

.....Limited

Profit and loss allocation accounts

Date fromto.....

Description	Schedule	Current year (Rs)	Last Year (Rs)
Income			
1. Accumulated profit until the last year			
2. Income of the current year			
3. Exchange fluctuation Fund			
Total			
Expenses			
1. Accumulated loss until the last year			
2. Loss of the current year			
3. General Reserve Fund			
4. Contingency Reserve			
5. Institutions development Fund			
6. Dividend equalization Fund			
7. Reserves relating to staff			
8. Proposed dividend			
9. Proposed bonus shares			
10. Special Reserve Fund			
11. Exchange fluctuation Fund			
12. Capital Redemption Reserve Fund			
13. Capital Adjustment Fund			
14.			
Total			
15. Accumulated profit/(loss)			

.....Limited

Details relating to change in equity

Financial year 20.....(Rs)

Description	Share capital	Accumulated profit/loss	General Reserve Fund	Capitalized Reserve Fund	Share premium	Exchange Fluctuation Fund	Deferred tax surplus	Other surplus and funds	T am
Initial balance									
Deferred tax									
Adjusted initial balance									
Adjustment									
.....									
.....									
.....									
.....									
Last balance									

..... Limited

Statement of Cash-flow

Date from.....to

Description	Current year (Rs.)	Last Year (Rs.)
(A) Cash-flow from business operation		
1. Cash received		
1.1 Income from interests		
1.2 Commission and discount income		
1.3 Income from foreign currency transaction		
1.4 Recovery of the written off debts		
1.5 Other incomes		
2. Cash payment		
2.1 Interests expenses		
2.2 staff expenses		
2.3 Office operation expenses		
2.4 Income tax payment		
2.5 Other expenses		
Cash flow prior to working capital activities		
Decrease/(increase) in current assets relating to operation		
1. Decrease/(increase) in amount to be received on demand or on short notice		
2. Decrease/(increase) in other short term investment		
3. Decrease/(increase) in loans and bills purchase		
4. Decrease/(increase) in other assets		
(Decrease)/increase in the current liabilities relating to operation		
2. (Decrease)/increase in the deposit liabilities		
3. (Decrease)/increase in certificates of deposits		

4. (Decrease)/increase in the short term borrowing 5. (Decrease)/increase in other liabilities		
(B) Cash flow in investment transaction 1. Decrease/(increase) in the long term investment 2. Decrease/(increase) in fixed assets 3. Interests income in long term investment 4. Dividend income 5. Others		
(C) Cash flow from financial sources transaction 1. Increase/ (decrease) in long term loans (bond, debenture and so on) 2. Increase/ (decrease) in share capital 3. Increase/ (decrease) in other liabilities 4. Dividend incomes 5. Other		
(D) Income/expenses from fluctuation in exchange rates of cash and bank deposits		
(E) Cash flow from entire activities of the current year		
(F) Cash and initial deposit in a bank		
(G) Cash and final deposit in a bank		

.....Limited
 Share capital and Ownership
 (up to Mid-July.....)

Description	Current year (Rs)	Last Year (Rs)
1. Share capital		
1.1 Authorised Capital		
(a) .....ordinary shares, at the rate of Rs..... per share (b) .....irredeemable preference share, at the rate of Rs.....per share (c) redeemable preference share, at the rate of Rs.....per share		
1.2 Issued Capital		
(a) .....ordinary shares, at the rate of Rs..... per share (b) .....irredeemable preference share, at the rate of Rs.....per share (c) redeemable preference share, at the rate of Rs.....per share		
1.3 Paid up capital		
(a)ordinary shares, at the rate of Rs..... per share (b)irredeemable preference share, at the rate of Rs.....per share (c) redeemable preference share, at the rate of Rs.....per share		
1.4 Proposed bonus share		

1.5 Calls in advance		
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Share ownership details	Current year Rs.		Last year Rs.	
	Percent	Share capital	Share Capital	Percent
1. National Ownership				
1.1 Government of Nepal				
1.2 "A" Class licensed institutions				
1.3 Other licensed institutions				
1.4 Other institutions				
1.5 General public				
1.6 Others				
2. Foreign Ownership				
Total				

Note: In case there are individuals/groups/firms/company having more than 0.5 % of shares under the description stated in the schedule above, their names, percent and amount shall have to be clearly stated. While mentioning percentage, it shall be calculated based on number of shares.

.....Limited
Reserves and Funds
(up to Mid-July,))

Description	Current year Rs.	Last year Rs.
1. General/Statutory Reserve Fund		
2. Capitalized Reserve Fund		
3. Capital Redemption Reserve		
4. Capital Adjustment Reserve		
5. Other Reserves and funds		
5.1 Contingency Reserve		
5.2 Institution Development Fund		
5.3 Dividend equalization Fund		
5.4 Special Reserve Fund		
5.5 Assets Revaluation Fund		
5.6 Deferred Tax Reserve		
5.7 Other free Reserve		
5.8 Other Reserve Fund		
6. Accumulated profit/loss		
7. Exchange fluctuation Fund		
Total		

.....Limited
 Debenture and Bond
 (up to Mid-July.....)

Description	Current year (Rs)	Last Year (Rs)
1. Bond/debenture of .....percentage at the rate of Rs..... per bond/bills issued on .....and to be paid by (Amount of Rs. ....of redemption Reserve until.....)		
2. Bond/ debenture of .....percentage at the rate of Rs..... per bond/ debenture issued on .....and to be paid by (Amount of Rs. ....of redemption Reserve until.....)		
3.....		
Total of 1+2+3		

Note: If debenture and bonds are issued against collateral security, the details of the security have to be mentioned.

.....Limited

Loans due to be paid (borrowing)

(up to Mid-July.....)

Description	Current year (Rs)	Last Year (Rs)
A. National		
1. Government of Nepal		
2. Nepal Rastra Bank		
3. Repo liabilities		
4. Inter-bank and financial institutions		
5. Other corporate bodies		
6. Others		
Total		
B. Foreign		
1. Banks		
2. Others		
Total		
Total (A + B)		

.....Limited
 Deposit accounts
 (up to Mid-July.....)

Description	Current year (Rs)	Last Year (Rs)
1. Non Interest Bearing Accounts		
A. Current Accounts		
1. In national currency		
1.1 Government of Nepal 1.2 "A" Class licensed institutions 1.3 Other licensed institutions 1.4 Other corporate bodies 1.5 Personal 1.6 Others		
2. In foreign Currency		
2.1 Government of Nepal 2.2 "A" Class licensed institutions 2.3 Other licensed institutions 2.4 Other corporate bodies 2.5 Personal 2.6 Others		
B. Margin		
1. Employees Guarantee 2. Guarantee margin 3. Letter of Credit Margin		
C. Others		

1. In national currency Financial Institutions Other corporate bodies Personal		
2. In national currency Financial Institutions Other corporate bodies 2.3 Personal		
Total of Non Interest Bearing Accounts		
2. Interest Bearing Accounts		
A. Saving Accounts		
1. In local currency		
1.1 Organizations and institutions 1.2 Personal 1.3 Others		
2. In foreign currency		
Organizations and institutions Personal Others		
B. Fixed accounts		
1. In national currency		
1.1 Organizations and institutions 1.2 Personal 1.3 Others		
2. In foreign currency		
2.1 Organizations and institutions		

2.2 Personal		
2.3 Others		
C. Accounts to which the amount to be paid as and when demanded		
1. In local currency		
1.1 Class "A" licensed institutions		
1.2 Other licensed institutions		
1.3 Other corporate bodies		
1.4 Personal		
1.5 Others		
2. In Foreign Currency		
2.1 Class "A" licensed institutions		
2.2 Other licensed institutions		
2.3 Other corporate bodies		
2.4 Personal		
2.5 Others		
Certificate of deposit		
1. Corporate bodies		
2. Personal		
3. Others		
Total of Interest Bearing Accounts		
(1+2) Total deposit		

.....Limited
Bills liable to be paid
(Up to Mid-July,.....)

Description	Current Year Rs.	Last year Rs.
1. Local currency		
2. Foreign Currency		
Total		

.....Limited
 Other liabilities
 (Up to Mid-July,.....)

Description	Current Year Rs.	Last year Rs.
1. Pension/Gratuity Fund		
2. Employees Provident Fund		
3. Employees Welfare Fund		
4. Employees bonus provision		
5. Interests yet to be paid to deposits		
6. Interests yet to be paid to borrowing		
7. Discount and commission yet to be matured		
8. Sundry creditors		
9. Branch adjustment accounts		
10. Deferred tax liabilities		
11. Dividend yet to be paid		
12. others		
Total		

.....Limited
Cash deposit
(Up to Mid-July,.....)

Description	Current Year Rs.	Last year Rs.
1. Local currency (including coins) 2. Foreign Currency		
Total		

.....Limited

Deposits with Nepal Rastra Bank

(Up to Mid-July,.....)

Description	Nepali Currency Rs.	Foreign Currency in Rs.			Total Rs.	Last year Rs.
		Indian Currency	Convertible Foreign Currency			
Nepal Rastra Bank					Total	
(a) Current accounts						
(b) Other Accounts						

.....Limited

Deposits with Banks/Financial Institutions

(Up to Mid-July,.....)

Description	Nepali Currency Rs.	Foreign Currency in Rs.			Total Rs.	Last year Rs.
		Indian Currency	Convertible Foreign Currency			
1. Domestic licensed institutions					Total	
(a) Current accounts						
(b) Other Accounts						
2. Foreign Banks						
(a) Current accounts						
(b) Other Accounts						
Total						

Note: Total deposit amount Rs.....according to the confirmation letters from the concerned licensed institutions

.....Limited

Money at Call and in short notice
(Up to Mid-July,.....)

Description	Current Year Rs.	Last year Rs.
1) Local currency		
2) Foreign Currency		
Total		

.....Limited
Investment
(Up to Mid-July,.....)

Description	Purpose		Current Year Rs.	Last Year Rs.
	Commercial	Other		
1. Government of Nepal Treasury bills				
2. Government of Nepal saving bond				
3. Other saving bonds of Government of Nepal				
4. Nepal Rastra Bank bond				
5. Foreign bond				
6. Domestic licensed institutions				
7. Foreign banks				
8. Shares of corporate bodies				
9. Debentures and bond of corporate bodies				
10. Other investment				
Total investment				
Provision				
Net investment				

Details as to investment in shares and debentures

Description	Costs price Rs.	Market price Rs.	Provision Rs.	Current year	Last year
1. Share investment.....Company Pvt Ltd. .....ordinary shares paid at the price of Rs. ....per share.....Company Pvt Ltd. .....ordinary shares (including .....units of bonus shares) paid at the price of Rs. ....per share.....Company Pvt Ltd. .....percentage of preference shares paid at the price of Rs. ....per share					
2. Debenture and bond investment 2.1 Company Pvt Ltd. .....percentage of debenture/bond at the rate of Rs. ....per debenture/bond 2.2 2.3					
Total investment					
3. Provisions relating to risks 3.1 Provision made during the last year 3.2 Fluctuation of the current year					
Total provision					
Net Investment					

Note: If there are companies having not declared and distributed dividend for the period of last three years, names of such companies have to be mentioned.

.....Limited
 Investment held for trading
 (Mid-July,)

Description	Cost price	Previous Market Price (a)	Current Market Price (b)	<u>This year</u> Amount of profit and loss (b-a)	<u>Last year</u> Amount of profit and loss	Remarks
1. Government of Nepal Treasury bills						
2. Saving bond of Government of Nepal						
3. Other bonds of Government of Nepal						
4. Bond of Nepal Rastra Bank						
5. Foreign Bond						
6. Shares of domestic licensed institutions						
7. Debentures/bond of domestic licensed institutions						
8. Shares, debenture, bonds of domestic corporate bodies						
9. Investment of foreign Banks (Placement)						
10. Other investment						
11. Other Investment						
Total investment						

.....Limited
Investment held for maturity
(Mid-July,

Description	Cost price (a)	Amount of loss until now (b)	This year's loss amount (c)	<u>This year</u> Amount of profit and loss (a-b-c)	<u>Last year</u> Amount of profit and loss	Remarks
1. Government of Nepal Treasury bills						
2. Saving bond of Government of Nepal						
3. Other bonds of Government of Nepal						
4. Bond of Nepal Rastra Bank						
5. Foreign Bond						
6. Shares of national licensed institutions						
7. Debentures/bond of national licensed institutions						
8. Shares, debenture, bonds of national corporate bodies						
9. Investment of foreign Banks (Placement)						
10. Other investment						
Total investment						

.....Limited
 Investment available for sale
 (Mid-July,)

Description	Cost price	Latest market price (a)	Current market price (b)	<u>This year</u> Amount of Fund adjustment (b-a)	<u>Last year</u> Amount of profit and loss	Remarks
1. Government of Nepal Treasury bills						
2. Saving bond of Government of Nepal						
3. Other bonds of Government of Nepal						
4. Bond of Nepal Rastra Bank						
5. Foreign Bond						
6. Shares of domestic licensed institutions						
7. Debentures/bond of domestic licensed institutions						
8. Shares, debenture, bonds of domestic corporate bodies						
9. Investment of foreign Banks (Placement)						
10. Other investment						
Total investment						

.....Limited

Classification of credit, advances and bills purchase and provisions for it
(Mid-July,)

Description	Credit					Bills purchased and discounted			Current year	Last year
	Native			Foreign	Total					
	Priority sector		Other			Native	Foreign	Total		
	Insured	Non-insured								
1. Performing Loan										
1.1 Pass										
1.2 Rescheduling of pass/ restructuring										
2. Non-performing Loan										
2.1 Sub-standard										
2.2 Doubtful										
2.3 Loss										
(a) Total Loans										
3. <u>Loan loss provision</u>										
3.1 Pass										
3.2 Rescheduling of pass/ restructuring										
3.3 Sub-standard										
3.4 Doubtful										
3.5 Loss										

(b) Total Provision										
4. <u>Provision until last year</u>										
4.1 Pass										
4.2 Rescheduling of pass/ restructuring										
4.3 Sub-standard										
4.4 Doubtful										
4.5 Loss										
(c) Total provision until the last year										
(d) Surplus from the provision of the last year										
(e) Additional provision for this year										
Net fluctuation of this year										
Net loans (a-b)										

.....Limited

Security of credits, advances and bills purchase

(up to Mid-July.....)

Description	Current year (Rs)	Last Year (Rs)
(A) Secured 1. Against security of movable/immovable property 2. On Guarantee of domestic licensed institution 3. On Government Guarantee 4. On guarantee of international rated bank 5. Against security of export documents 6. Against security of fixed account receipt (a) Against security of fixed receipt of the institution own (b) Against security of fixed receipt of other licensed institution 7. On security of government bond 8. On counter guarantee 9. On person guarantee 10. On other securities		
(B) Non-secured		
Total		

.....Limited
 Fixed assets
 (up to Mid-July.....)

Description	Property					Current year (Rs)	Last Year (Rs)
	Building	Transport vehicles	Machinery	Office items	Others		
1. Cost price							
(a) stock of last year							
(b) added in this year							
(c) revaluated/ rewritten this year							
(d) Sale of this year							
(e) Written off this year							
Total cost price (a+b+c+d+e)							
2. Depreciation							
(a) Until last year							
(b) Current year							
(c) Depreciation revaluated/ rewritten							
(d) Adjustment/refund of depreciation amount							

Total depreciation							
3. Book value (WDV*) (1-2)							
4. Land							
5. capitalized construction (to be capitalized)							
6. Leasehold assets							
Total (3+4+5+6)							

* Written Down Value.

.....Limited
 Non-Banking assets
 (up to Mid-July.....)

Name and address of debtor or party	Date of acceptance of non-banking assets	Total non-banking assets Rs.	Provision for loss		Net non-banking assets Rs.	Last year Rs.
			Percent	Amount Rs.		
Total						

.....Limited
 Other assets
 (up to Mid-July.....)

Description		This year Rs.	Last year Rs.
1. Stationery at stock			
2. Income due to be recovered from investment			
3. Interests due to be recovered from loan			
4. Commission due to be recovered			
5. Sundry creditors			
6. Staff lending and advance			
7. Advance payment			
8. Cash in transit			
9. Other (including checks) in transit			
10. Payment of draft without notice			
11. Expenses due to be written off			
12. Branch adjustment accounts			
13. Deferred tax assets			
14. Others			
Total			

.....Limited

Other assets (additional details)

(up to Mid-July.....)

Description	Current year Rs.				Last year Rs.
	Up to one year	From one year to three years	More than three years	Total	
1. Interests due to be recovered from loans					
2. Payment of drafts without notice					
3. Branch adjustment accounts					
4. Domestic/foreign agency accounts					

.....Limited
 Contingent liabilities
 (up to Mid-July.....)

Description	This year Rs.	Last year Rs.
1. Claimed against institution but the institution has not accepted the liabilities		
2. Letter of Credit (full amount without deducting the margin)		
(a) Of less than six months period		
(b) Of more than six months period		
3. Rediscounted bills		
4. Guarantee/Bond not being matured for claim		
(a) Bid bond		
(b) Performance bond		
5. Share investment due to be paid or completed		
6. Remaining liabilities of forward exchange contracts		
7. Bills in collections		
8. Acceptance and endorsement		
9. Underwriting commitment		
10. Irrevocable loan commitment		
11. Guarantee issued against the counter guarantee of an internationally rated bank		
12. Advance payment guarantee		
13. Financial guarantee for credit flow		
14. Contingent liabilities on income tax		
15.		
Total		

.....Limited

Interests Income

(Fromto.....)

Description	This year Rs.	Last year Rs.
<ul style="list-style-type: none"> a. Loan, advances and overdraft <ul style="list-style-type: none"> 1. Loan advances 2. Overdraft b. On Investment <ul style="list-style-type: none"> 1. Government of Nepal security bond <ul style="list-style-type: none"> (a) Treasury bills (b) Development Bond (c) National saving bond 2. Foreign bond <ul style="list-style-type: none"> (a) (b) 3. Nepal Rastra Bank Bond 4. Debenture and bond 5. Interests on inter-bank investment c. Agency on stock <ul style="list-style-type: none"> 1. Domestic banks/financial institutions 2. Foreign Banks d. Money at call and short-notice deposits <ul style="list-style-type: none"> 1. Domestic banks/financial institutions 2. Foreign Banks e. Others <ul style="list-style-type: none"> 1. Certificates of deposits 2. Inter-bank/financial institutions loans 3. Others 		
Total		

.....Limited
 Interests Expenses
 (Fromto.....)

Description	This year Rs.	Last year Rs.
a. <u>On deposit liabilities</u> 1. Fixed deposits 1.1 Local currency 1.2 Foreign Currency 2. Saving Deposits 2.1 Local currency 2.2 Foreign Currency 3. Deposits to be paid on demand 3.1 Local currency 3.2 Foreign Currency 4. Certificates of deposits b. <u>On Borrowing</u> 1. Debenture and bond 2. Loan received from Nepal Rastra Bank 3. Inter-bank/institution loan 4. Other corporate body 5. Other loans c. <u>On others</u> 1. 2.		
Total		

.....Limited
 Commission and Discount
 (Fromto.....)

Description	This year Rs.	Last year Rs.
a. Bills purchase and discount 1. Local 2. Foreign b. Commission 1. Letter of Credit 2. Guarantee 3. Collection fee 4. Remittance fee 5. Credit Card 6. Share Underwriting/Issue 7. For Government Transaction 8. E.Pra commission license 9. Batta income c. <u>Other</u>		
Total		

.....Limited
 Other Operational Incomes
 (Fromto.....)

Description	This year Rs.	Last year Rs.
11. Rent of self depository vault		
2. Issuance and renewal of credit card		
3. Issuance and renewal of ATM card		
4. Telex/TT		
5. Services charges		
6. Renewal Fees		
7. Others		
Total		

.....Limited
 Profit/loss from exchange rate fluctuation
 (Fromto.....)

Description	This year Rs.	Last year Rs.
(a) From the difference in the exchange rates		
(b) From transaction of foreign exchange (except <i>batta</i>)		
Total Profit/(loss)		

.....Limited
 Staff expenses
 (Fromto.....)

Description	This year Rs.	Last year Rs.
11. Salary 2. Allowance 3. Additional contribution in Provident Fund 4. Trainings expenses 5. Dresses 6. Medical treatment 7. Insurance 8. Provision for pension and gratuity 9. Others		
Total		

.....Limited
 Other Operational Expenses
 (Fromto.....)

Description	This year Rs.	Last year Rs.
1. House rent		
2. Electricity and water		
3. Repair and maintenance		
(a) Building.....		
(b) Transport vehicles		
(c) Others		
4. Insurance		
5. Postage, telex, telephone, fax		
6. Office equipment, furniture and maintenance		
7. Travel allowance and expenses		
8. Stationery and printing		
9. Newspapers and books		
10. Advertisement		
11. Legal expenses		
12. Donation		
13. Expenses relating to Board of Directors		
(a) Meeting allowances		
(b) Other expenses		
14. expenses relating to General Meeting		
15. Relating to Auditing-		
(a) Auditing expenses		
(b) Other expenses		
16. Fund Transfer commission		
17. Depreciation in fixed assets		

18. Writing off of pre-operation expenses		
19. Share issuances expenses		
20. Reimbursement of technical services		
21. Entertainment expenses		
22. Writing off expenses		
23. Security expenses		
24. Credit security premium		
25. Commission and discount		
26. Others		
Total		

Note: *While recording expenses, the expenses shall be stated in the same title under which it has been expensed. It cannot be added into other general expenses. For example, while recording the transport expenses for a meeting of the Board of Directors, it must be recorded under "other expenses" within the "expenses relating to the Board of Directors."*

Schedule 4.25

.....Limited
Provision for possible losses
(Fromto.....)

Description	This year Rs.	Last year Rs.
11. Increment in provision for credit losses		
2. Increment in provision for investment losses		
3. Provision for losses in non-banking assets		
4. Provision made with regard to other assets		
Total		

.....Limited

Non-operational Income/Expenditures

(Fromto.....)

Description	This year Rs.	Last year Rs.
11. Income/(expenses) from investment sales		
2. Income/(expenses) from sales of assets		
3. Dividend		
4. Concession from Nepal Rastra Bank (a) Compensation for losses incurred by the designated branches (b) Compensation of interests (c) Exchange counter		
5. Other		
Total		

.....Limited

Written Back from possible loss provision

(Fromto.....)

Description	This year Rs.	Last year Rs.
1. Written back from Loan Loss Provision		
2. Written back from non-banking assets loss provision		
3. Written back from investment provision		
4. Written back from other assets provision		
Total		

.....Limited

Income/expenses accrued from extra ordinary transactions

(Fromto.....)

Description	This year Rs.	Last year Rs.
11. Recovery from the written off loans		
2. Voluntary retirement expenses		
3. Writing off of loans that could not be recovered (4.28A)		
4. Other expenses/incomes		
Total		

.....Limited

Details of the written off loans

(Fiscal year/.....)

S. No.	Types of loans	Written off amount	Types of collateral and amount	Basis of collateral evaluation	Official/level of the approving the loan	Efforts made for recovery of the loan	Remarks
1.	Current capital loan						
2.	Project loan						
3.	Fixed capital loan						
4.	Personal loan						
5.	Other loans						
	Total Loan						

Note: Details of the loans written off during the fiscal year has to be stated in the table above.

.....Limited

Details of the loans extended to Directors, Executive Chief, Promoters, employees and shareholders
(Mid-July.....)

Out of the total amount extended to the bills purchased and discounted and the loans, credits and overdraft, the details of the loans extended to Directors, Executive Chief, Promoters, employees and shareholders and members of their family or to any institution or company in which such persons have given guarantee or are managing agent, is as follows:-

Name of the Promoter/Director/ Executive Chief	Due until the last year		Recovery in the current year		Additional loan this year	Due until Mid-July	
	Principal	Interests	Principal	Interests		Principal	Interests
(a) Directors							
(1)							
(2)							
(b) Executive Chief							
(1)							
(2)							
(c) Promoter							
(1)							
(2)							
(d) Employees							
(1)							
(2)							
(e) Shareholders							
(1)							
(2)							
Total							

.....Limited

Capital Fund (Except "A" class)

(Mid-July.....)

(In Rs. thousand)

Description	Current year Rs.	Last Year Rs.
<p>(A) Core Capital</p> <ol style="list-style-type: none"> 1) Paid up Capital (ordinary shares) 2) Proposed bonus share 3) Share premium 4) Irredeemable preferential share 5) General Reserve Fund 6) Accumulated profit/(loss) 7) Amount of profit and loss of the current Fiscal year as shown in the balance-sheet 8) Capital Redemption Reserve Fund 9) Capital Adjustment Fund 10) Calls in advance 11) Other free reserves <p><u>To be deducted</u></p> <ul style="list-style-type: none"> • Amount for goodwill • Amount invested in shares and security in excess of limits • Amount invested in security of the company having financial interests • Amount invested in purchase of land and houses for self use ignoring directives of this Bank • Amount invested in land development and housing construction in excess of limits • The share underwriting could not be sold within the stipulated time • The credit and other facilities made available to the persons and organizations banned by the prevailing laws 		

(B) Supplementary capital		
8) Provisions of loan loss made for pass loan		
9) Additional loan loss provision		
10) Hybrid capital instruments		
11) Unsecured subordinated term debt		
12) Exchange Equalization Fund		
13) Assets revaluation Fund		
14) Investment adjustment Fund		
(C) Total Capital Fund (A+B)		
(D) Minimum capital Fund to be maintained based on risk weight assets		
Capital Fund (.....Percent)		
Core Capital (.....Percent)		
Capital Fund (more/less) (by .....Percent)		
Core Capital (more/less) (.....Percent)		

.....Limited

Description table of Risk-weight Assets (Except “A” class)

(Mid-July.....)

Description	Weight	Current year		Last year	
		Amount	risk weight assets	Amount	risk weight assets
(A) On-balance-sheet Assets					
Cash deposits	0				
Gold (tradable)	0				
Deposits with Nepal Rastra Bank	0				
Investment in Government of Nepal bond	0				
Investment in Nepal Rastra Bank bond	0				
Fixed receipt pledged loan extended against one’s own fixed receipt to be most secured	0				
Loan extended against security of government bond to be most secured	0				
Accrued interests for government bond	0				
Amount deposited by classes “B” and “C” licensed institutions in the Youth and Small Entrepreneurs Self-employment Fund under the Deprived Sector Lending	0				
Claims of deposits/fixed receipts at the domestic banks and	20				

financial institutions					
Fixed receipt pledged loan extended against fixed receipts of other banks and financial institutions to be most secured	20				
Deposits with foreign banks	20				
Money at call	20				
Loan extended against internationally rated licensed institution	20				
Other investment made in internationally rated Banks	20				
Inter-bank lending	20				
Investment in shares, debentures and bonds	100				
Other investments	100				
Total amount including loans, credit, and bills purchase/discount	100				
Fixed assets	100				
Other net interests amount to be received					
Fixed assets	100				
Other net interests amount to be received	100				
All other assets (except advance income tax payment)	100				
Real estate/residential housing loans exceeding the limits	150				
(A) Total					
(B) Off-balance-sheet Items					

Bills collection	0				
Forward foreign exchange contract	10				
Letter of Credit of less than six-month period (full amount)	20				
Guarantee issued against the guarantee of internationally rated foreign licensed institution	20				
Letter of Credit of more than six-month period (full amount)	50				
Commitments relating to bid bond, performance bond and underwriting	50				
Credit purchase/repurchase and takeover	50				
Advance payment guarantee	100				
Financial and other guarantee	100				
Irrevocable loan commitment	100				
Possible liabilities for income tax	100				
All types of possible liabilities including acceptance	100				
Unpaid guarantee claims	200				
(B) Total					
Total risk-weight assets (A)+(B)					

.....Limited
 Capital Fund table (for “A” class)
 (Mid-July,.....)

(in Rs. thousand)

Description	Mid- July.....	Last fiscal year
1.1 Risk-weight assets		
a. Credit risk		
b. Operation risk		
c. Market risk		
Adjustment under Pillar II		
Add: 3 percent of the risk-weight assets for not disclosing adequate information according to 6.4 (a) (10)		
Add: .....percent of total deposit for inadequate liquid property		
Total risk-weight assets (Pillar II) after adjustment		
1.2 capital Fund		
(a) paid up capital		
(b) Irredeemable non-cumulative preference shares		
(c) share premium		
(d) Proposed bonus shares		
(e) General Reserve Fund		
(f) Accumulated profit/(loss) until the last year		
(g) Profit/(loss) of the current Fiscal year		
(h) Capital redemption adjustment Fund		

(i) capital adjustment Fund		
(j) Dividend equalization Fund		
(k) Bonds payment Fund		
(l) Other free reserves		
To be deducted		
(a) amount for goodwill		
(b) Miscellaneous assets not written off		
(c) share investment in a licensed institution		
(d) Investment made in a company having financial interests		
(e) Investment exceeding limits		
(f) Investment made under underwriting		
(g) Mutual cross-holding		
(h) Other		
Adjustment under Pillar II		
To be deducted: inadequate provision according to 6.4 (a) (1)		
To be deducted: loans extended to the concerned parties and in prohibited sectors under 6.4 (a) (2)		
Supplementary capital (Tier II)		
(a) Cumulative and redeemable preference shares		
(b) Unsecured subordinated Term Debt		
(c) hybrid capital instruments		
(d) Pass loan loss provision		
(e) Exchange equalization Fund		
(f) Investment adjustment Fund		

(g) Assets revaluation Fund		
(h) Other Fund		
1.3 Capital Fund ratio		
Core Capital/total risk-weight assets (Tier I)		
Capital Fund/ Total risk-weight assets (Tier I and II)		

.....Limited
 (Mid-July,.....)
 Credit Risk (for "A" class)

Amount in thousand rupees

Assets	Mid-July, 20..						Last Fiscal Year	
	Book Value	Special provision	Countable CRM	Net amount	Risk-Weight percent	Risk-Weight amount	Net amount	Risk-Weight amount
On-balance-sheet transaction	(A)	(B)	(C)	(D)=(A)-(B)-(C)	(E)	(F)=(D)X(E)		
Cash deposit					0			
Deposit with Nepal Rastra Bank					0			
Gold					0			
Investment in Government of Nepal bond					0			
Entire claims on Government of Nepal					0			
Investment in Nepal Rastra Bank bond								
Entire claims on Nepal Rastra Bank								
Claims on foreign government and central bank (ECA rating 0-1)					0			
Claims on foreign government and central bank (ECA rating -2)					20			

Claims on foreign government and central bank (ECA rating -3)					50			
Claims on foreign government and central bank (ECA rating 4-6)					100			
Claims on foreign government and central bank (ECA rating -7)					150			
Claims on BIS, IMF, ECB, EC and multilateral development banks					0			
Claims on other development banks					100			
Claims on public sector enterprises (ECA rating 0-1)					20			
Claims on public sector enterprises (ECA rating -2)					50			
Claims on public sector enterprises (ECA rating 3-6)					100			
Claims on public sector enterprises (ECA rating 7)					150			
Claims on banks having maintained the specified Capital Fund					20			
Claims on banks not having maintained the specified Capital Fund					100			
Claims on foreign banks (ECA rating 0-1)					20			
Claims on foreign banks (ECA rating -2)					50			

(ECA rating -2)								
Claims on foreign banks (ECA rating -3-6)					100			
Claims on foreign banks (ECA rating -7)					150			
Claims on banks established within the SAARC region that have maintained the Capital Fund one percent more than the specified Capital Fund					20			
Claims on domestic institutions					100			
Claims on foreign institutions (ECA rating 0-1)					20			
Claims on foreign institution (ECA rating - 2)					50			
Claims on foreign banks (ECA rating -3-6)					100			
Claims on foreign banks (ECA rating -7)					150			
Regulatory retail portfolio (not overdue)					75			
Regulatory retail portfolio except for granularity					100			
Claims secured from residential house and land					60			
Claims not secured from residential house and land					150			

Claims secured from residential house and land (overdue)					100			
Claims secured from commercial house and land					100			
Claims the repayment period of which is already over (except the claims secured from residential house and land)					150			
High-risk claims					150			
Investment made in shares of companies listed in the stock exchange and other capitalized instruments					100			
Investment made in shares of companies not listed in the stock exchange and other capitalized instruments					150			
Other assets					100			
Total								
Off-balance-sheet transactions								
Commitment that may be withdrawn at any time					0			
Bills collection					0			
Advance exchange agreement					10			
L/C of less than six months period and /domestic counterparty					20			

Counter party transaction (ECA 0-1)					20			
Counter party transaction (ECA -2)					50			
Counter party transaction (ECA 3-6)					100			
Counter party transaction (ECA -7)					150			
L/C of more than six months period and /domestic counterparty					50			
Counter party transaction (ECA 0-150)					20			
Counter party transaction (ECA -2)					50			
Counter party transaction (ECA 3-6)					100			
Counter party transaction (ECA -7)					150			
Bid bond, performance bond, counter guarantee, domestic counterparty					50			
Counter party transaction (ECA 0-1)					20			
Counter party transaction (ECA -2)					50			
Counter party transaction (ECA 3-6)					100			
Counter party transaction (ECA -7)					150			
Commitment concerning underwriting					50			

Lending of bank's securities and posting of securities as collateral					100			
Loans under repurchase agreements					100			
Advance payment guarantee					100			
Financial guarantee					100			
Acceptance and endorsement					100			
Unpaid or partly paid portion of shares and securities					100			
Irrevocable credit commitment (of short period)					20			
Irrevocable credit commitment (of long period)					50			
Other Contingent liabilities					100			
Contingent liabilities arising out of guarantees claimed for payment					200			
Total								
Adjustment under Pillar II								
Addition : 10 % of the loan and facilities more than per client limitation under 6.4 (a) (3)								
Addition : 1 % of the loans sold with the condition of repurchase under 6.4 (a) (4)								

Total credit risks (after adjustment under Pillar II)								
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.....Limited

(Mid-July,.....)

Amount eligible for Credit Risk Mitigation (for "A" class)

Amount in thousand rupees

Credit amount	Deposit in one's own bank	Deposit in other banks	gold	Government and Nepal Rastra Bank	Guarantee of Government of Nepal	Guarantee of government of other country	Guarantee of national banks	Guarantee and collateral of foreign bank
On balance-sheet								
On-balance-sheet transaction								
Cash deposit								
Deposit with Nepal Rastra Bank								
Gold								
Investment into Government of Nepal bond								
Entire claims on Government of Nepal								
Investment made in Nepal Rastra Bank bond								
Entire claims on Nepal Rastra Bank								
Claims on foreign government and central bank (ECA								

rating 0-1)								
Claims on foreign government and central bank (ECA rating -2)								
Claims on foreign government and central bank (ECA rating -3)								
Claims on foreign government and central bank (ECA rating 4-6)								
Claims on foreign government and central bank (ECA rating -7)								
Claims on BIS, IMF, ECB, EC and multilateral development banks								
Claims on other development banks								
Claims on public sector enterprises (ECA rating 0-1)								
Claims on public sector enterprises (ECA rating -2)								
Claims on public sector enterprises (ECA rating 3-6)								
Claims on public sector enterprises (ECA rating 7)								
Claims on banks having maintained the								

specified Capital Fund								
Claims on banks not having maintained the specified Capital Fund								
Claims on foreign banks (ECA rating 0-1)								
Claims on foreign banks (ECA rating -2)								
Claims on foreign banks (ECA rating -3-6)								
Claims on foreign banks (ECA rating -7)								
Claims on banks established within the SAARC region that have maintained the Capital Fund one percent more than the specified Capital Fund								
Claims on domestic institutions								
Claims on foreign institutions (ECA rating 0-1)								
Claims on foreign institution (ECA rating -2)								
Claims on foreign banks (ECA rating -3-6)								
Claims on foreign banks (ECA rating -7)								
Regulatory retail portfolio (not overdue)								

Regulatory retail portfolio (overdue)								
Regulatory retail portfolio (with conditions except guarantee)								
Claims secured from residential house and land								
Claims not secured from residential house and land								
Claims secured from residential house and land (overdue)								
Claims secured from commercial house and land								
Past due claims (except the claims secured from residential house and land)								
High-risk claims								
Investment made in shares of companies listed in the stock exchange and other capitalized instruments								
Investment made in shares of companies not listed in the stock exchange and other capitalized instruments								
Other assets								
Total								

Off-balance-sheet transactions								
Commitment that may be withdrawn at any time								
Bills collection								
Advance exchange agreement								
L/C of less than six months period and /domestic counterparty								
Counter party transaction (ECA 0-1)								
Counter party transaction (ECA -2)								
Counter party transaction (ECA 3-6)								
Counter party transaction (ECA -7)								
L/C of more than six months period and /domestic counterparty								
Counter party transaction (ECA 0-1)								
Counter party transaction (ECA -2)								
Counter party transaction (ECA 3-6)								
Counter party transaction (ECA -7)								
Bid bond, performance bond, counter guarantee, domestic								

counterparty								
Counter party transaction (ECA 0-1)								
Counter party transaction (ECA -2)								
Counter party transaction (ECA 3-6)								
Counter party transaction (ECA -7)								
Commitment concerning underwriting								
Lending of bank's securities and posting of securities as collateral								
Loans under repurchase agreements								
Advance payment guarantee								
Financial guarantee								
Acceptance and endorsement								
Unpaid or partly paid portion of shares and securities								
Irrevocable credit commitment (of short period)								
Irrevocable credit commitment (of long period)								
Other contingent liabilities								

Total								
Total Credit Risk								

.....Limited

Mid-July,.....

Operation Risks (for "A" Class)

Particulars	Years before the Mid-July of the year.....			Mid-July of the year.....	
	First year	Second year	Third year		
Net interests income					
Commission and discount					
Other operational expenses					
Exchange fluctuation income					
Additional interests suspension account of this year					
Net income (A)					
Specified percentage (B)	15%	15%	15%		
Net income by the specified percentage (C) = (A)X(B)					
Capital necessary for operation risks (D)=average of (C)					
Risk weight (reciprocal of capital requirement) (E)				10	
Risks weight amount for operation risks (F) = (D)X(E)					
Adjustment under Pillar II					

In case the total income of the last three years according to 6.4 (i) (8) is negative			
Total credits and advance (after the adjustment of the special provision)			
Capital required for operation risks		10	
Risk weight (reciprocal of capital requirement of 10) (G)			
Risks weight amount for operation risks (I) = (F)+(H)			

.....Limited

Mid-July,.....

Market Risks (for "A" Class)

S. No.	Particulars	Mid-July,.....			Relevant net open position of Foreign Currency (NC)
		Net Open Position of Foreign Currency (Foreign Currency)	Net Open Position of Foreign Currency (NC Rs.)	Relevant net open position of Foreign Currency	
1	Indian currency				
2	American Dollar				
3	Euro				
4	Pound sterling				
5	Swiss Frank				
6	Australian Dollar				
7	Canadian Dollar				
8	Singapore Dollar				
9	Japanese Yen				
1	Chinese Yuan				
11	Saudi Arab Riyal				
12	Qatari riyal				
13	Thai Baht				
14	UAE Diram				
15	Malaysian Ringit				
16	Swedish Kroner				

17	Danish Kroner				
18	Hong Kong Dollar				
19					
20					
	Total open position (A)				
	Prescribed percentage (B)			5%	
	Capital required for market risks (C)= (A)X(B)				
	Risk weight (reciprocal of capital requirement of 10) (D) (100/10)			10	
	Risks weight amount for market risks (E) = (C)X(D)				

.....Limited

Mid-July,.....

Major Indicators

Indicators of the last five years

Particulars	Indicators	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
1. Net profit/total income percentage	Percentage					
2. per share income	Rs.					
3. Per share market value	Rs.					
4. Price/earning ratio (PE Ratio)	Ratio					
5. Dividend in Share capital (Including bonus)	Percentage					
6. Payment of cash dividend in share capital	Percentage					
7. Interest income/loan and advances	Percentage					
8. Staff expenses/total operation expenses	Percentage					
9. Interests expenses in total deposit and borrowings	Percentage					
10. Exchange fluctuation income/total	Percentage					

income						
11. staff bonus /total staff expenses	Percentage					
12. Net profit/loan and advances	Percentage					
13. Net profit/total assets	Ratio					
14. Total credit/deposit	Percentage					
15. Total operation expenses and	Percentage					
16. <u>Adequacy of capital fund in risk weight assets</u> (a) Core capital (b) Supplementary capital (c) total capital fund	Percentage					
17. Liquidity (CRR)	Ratio					
18. Non-performing loans/ total loans	Percentage					
19. Weighted average interest rate spread						
20. Book net worth	Rs.					
21. Total share	Number					
22. Total number of staff	Number					
23. Miscellaneous						

Major accounting policies
To be published along with annual accounting statements

Comments on accounting
To be published along with annual accounting statements

.....Limited

Details of the loans taken from other banks/ Financial Institutions by Promoters/ Shareholders of Promoters Group having mortgaged the shares in his/her ownership

S. No.	Names of shareholders belonging to Promoters/ Shareholders of Promoters Group	Shares in ownership of promoters		Details of loans			Remarks
		Total number of shares	Percentage of total paid up capital	Name of the bank/ financial institution of loan taken	Loan amount	Number of shares mortgaged	
1							
2							

..... Bank and Financial Institution Ltd.
Comparison of Unaudited and Audited Financial Statement as of FY/...

Rs in '000

S.No.	Particulars	As per Unaudited Financial Statement	As per Audited Financial Statement	Variance		Reasons for Variance
				In Amount	In %	
1	Total Capital and Liabilities (1.1 to 1.7)					
1.1	Paid up Capital					
1.2	Reserve and Surplus					
1.3	Debenture and Bond					
1.4	Borrowings					
1.5	Deposits (a+b)					
	a. Domestic Currency					
	b. Foreign Currency					
1.6	Income Tax Liability					
1.7	Other Liabilities					
2	Total Assets (2.1 to 2.7)					
2.1	Cash and Bank Balance					
2.2	Money at Call and Short Notice					
2.3	Investments					
2.4	Loans and Advances					
2.5	Fixed Assets					
2.6	Non Banking Assets					
2.7	Other Assets					
3	Profit and Loss Account					
3.1	Interest Income					
3.2	Interest Expense					
	A. Net Interest Income (3.1 - 3.2)					
3.3	Fees, Commission and Discount					
3.4	Other Operating Income					
3.5	Foreign Exchange Gain/Loss (Net)					
	B. Total Operating Income (A+3.3+3.4+3.5)					
3.6	Staff Expenses					
3.7	Other Operating Expenses					
	C. Operating Profit Before Provision (B -3.6 - 3.7)					
3.8	Provision for Possible Losses					
	D. Operating Profit (C -3.8)					
3.9	Non Operating Income/Expenses (Net)					
3.10	Write Back of Provision for Possible Loss					
	E. Profit from Regular Activities (D+3.9+3.10)					
3.11	Extraordinary Income/Expenses (Net)					
	F. Profit before Bonus and Taxes (E +3.11)					
3.12	Provision for Staff Bonus					
3.13	Provision for Tax					
	G. Net Profit/Loss (F - 3.12 - 3.13)					

..... Limited
 Unaudited Financial Results (Quarterly)
 As at Quarter (...../...../200...) of the Fiscal Year 200.../200...

Rs. in '000

S.No.	Particulars	This Quarter Ending	Previous Quarter Ending	Corresponding Previous Year Quarter Ending
1	Total Capital and Liabilities (1.1 to 1.7)			
1.1	Paid up Capital			
1.2	Reserve and Surplus			
1.3	Debenture and Bond			
1.4	Borrowings			
1.5	Deposits (a+b)			
	a. Domestic Currency			
	b. Foreign Currency			
1.6	Income Tax Liability			
1.7	Other Liabilities			
2	Total Assets (2.1 to 2.7)			
2.1	Cash and Bank Balance			
2.2	Money at Call and Short Notice			
2.3	Investments			
2.4	Loans and Advances (a+b+c+d+e+f)			
	a. Real Estate Loan			
	b. Home/Housing Loan			
	c. Margin Type Loan			
	d. Term Loan			
	e. Overdraft Loan/TR Loan/WC Loan			
	f. Others			
2.5	Fixed Assets			
2.6	Non Banking Assets			
2.7	Other Assets			
3	Profit and Loss Account	Up to This Quarter	Up to Previous Quarter	Up to Corresponding Previous Year Quarter
3.1	Interest Income			
3.2	Interest Expense			
	A. Net Interest Income (3.1 - 3.2)			
3.3	Fees, Commission and Discount			
3.4	Other Operating Income			
3.5	Foreign Exchange Gain/Loss (Net)			
	B. Total Operating Income (A+3.3+3.4+3.5)			
3.6	Staff Expenses			
3.7	Other Operating Expenses			
	C. Operating Profit Before Provision (B -3.6 - 3.7)			
3.8	Provision for Possible Losses			
	D. Operating Profit (C -3.8)			
3.9	Non Operating Income/Expenses (Net)			
3.10	Write Back of Provision for Possible Loss			
	E. Profit from Regular Activities (D+3.9+3.10)			
3.11	Extraordinary Income/Expenses (Net)			
	F. Profit before Bonus and Taxes (E +3.11)			
3.12	Provision for Staff Bonus			
3.13	Provision for Tax			
	G. Net Profit/Loss (F - 3.12 - 3.13)			
4	Ratios	At the End of This Quarter	At the End of Previous Quarter	At the End of Corresponding Previous Year Quarter
4.1	Capital Fund to RWA			
4.2	Non Performing Loan (NPL) to Total Loan			
4.3	Total Loan Loss Provision to Total NPL			
4.4	Cost of Funds			
4.5	Credit to Deposit Ratio (Calculated as per NRB Directives)			

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 5/067

Subject: Provisions relating to Mitigation of Risks in Transactions of Licensed Institutes

The following Directives have been issued with regard to minimizing the risks associated with liquidity, interests rate, foreign exchange in transactions of licensed institutions having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Classification of Risks

For the purpose of monitoring the risks relating to banking and financial activities by licensed institutes, the risks have been classified into the following groups:

- (a) Liquidity risks
- (b) Interest Rate risks
- (c) Foreign Exchange risks
- (d) Credit and Investment risks

2. Arrangement for Minimization of Liquidity Risks

(1) In order to minimize the liquidity related risks the licensed institutions shall group the assets and liabilities into their appropriate maturity period of various time intervals. For this purpose, the liquidity profile according to the enclosed format in Directives Form No. 5.1 shall be prepared quarterly and be submitted, within 15 days from the closure of the quarter (end of Asoj, Paush, Chaitra and Ashad), to the concerned Supervision Department of this Bank.

(2) The licensed institutions shall, on the basis of maturity periods, classify the time interval as follows:-

- (1) Assets and liabilities having maturity period up to ninety days;

- (2) Assets and liabilities having maturity period of over ninety days to One Hundred Eighty days,
 - (3) Assets and liabilities having maturity period of over one hundred eighty days to two hundred seventy days;
 - (4) Assets and liabilities having maturity period of over two hundred seventy days to one year;
 - (5) Assets and Liabilities having maturity period of over 1 (One) year.
- (3) Assets and Liabilities having fixed maturity period shall be included under the time interval as provided in sub-Section (1) above.
- (4) In respect of the liabilities of the licensed institutions without having fixed maturity period like current deposits and savings deposits, the amount of Core Deposits and the minimum required balances has to be included under the time interval of "over one year period". The realistic estimation of such proportion of current deposit has to be made by the licensed institutions themselves. Proportion of current deposits, which the licensed institutions generally maintain on permanent basis, shall have to be considered as Core Deposit.
- (5) With the objective of minimizing the liquidity risk of banks and financial institutions, a limit has been fixed so that proportion of the total loan and advance may not exceed 80 percent in resource mobilization (local deposit and core capital) of the bank and financial institution. The institution having crossed the said limit earlier have to bring that percentage within the limit in the following time frame.

Mid-July 2010	Mid-July 2011	Mid-January 2012
95 percent	85 percent	80 percent

3. Arrangement for Minimization of Interest Rate Risks

- (1) The licensed institutions shall have to adopt the following means with a view to minimize the interest rate risks:-
 - (a) Only the interest sensitive assets and liabilities that may be affected due to change in interests rate have to be included in assets and liabilities.

- (b) Generally, in the gap analysis of the assets and liabilities the maturities of which mismatch no amount of the "Cash Balance" and "Non-Interest Bearing Account" shall be included.
 - (c) In order to manage and minimize the interest rate risk, the licensed institutions shall prepare quarterly statement according to the enclosed format Directives Form No. 5.2 (end of Asoj, Paush, Chaitra and Ashad), and submit within 15 days from the closure of the quarter to this Bank's concerned Supervision Department.
- (2) For the purpose of monitoring interest rate risks, classification of the time interval shall be made per Sub-Clause 2 (2).
- (3) Assets and liabilities without fixed maturity periods shall be included as follows:-
- (a) Assets without fixed maturity period
 - (1) A floating rate loan with interest adjusted periodically shall be included under the same time interval in which period the interest rate is adjusted.
 - (2) A term loan with a floating interest rate tied to the movements of a specific change (for instance, interest rate of Treasury bill) shall be assigned a minimum time interval period.
 - (b) Liabilities without fixed maturity Period

Only the interest sensitive floating rate liabilities shall be included under time interval in which the interest rate has been adjusted.
- (4) Gap shall be measured as follows:-
- (a) The gap between assets and liabilities shall be measured by subtracting the total liabilities from the total assets pertaining to each time intervals. Such gap may be positive or negative both.
 - (b) For the purpose of minimizing the interest rate risk, the cumulative gap of each time interval shall also be measured. The cumulative gap is measured by summing the individual gaps up to and including the gap under consideration.

- (c) Possible changes in interest rate shall be estimated. For this purpose, generally the effect that may arise from changes of interest rates by one percent may be considered.
- (d) The expected change in interest rate estimated according to Sub-clause (c) shall be adjusted to each of the time interval. For this purpose, interest rate change (IRC) shall be multiplied by the following ratio:

$$= \text{Days in the time interval} / 365 \text{ days.}$$

For instance, where interest rate is changed by 1 percent, in the case of 90 days time interval,

$$\text{Interest Rate Change (IRC)} = 90/365 \times 0.01 = 0.0025$$
- (e) With a view to examine the effect on profitability of the bank on account of change in interest rate, the Cumulative Gap of various time intervals shall be multiplied by the interest rate determined per Sub-clause (d).

4. Arrangement for Minimization of Foreign Exchange Risks

- (1) For the purpose of monitoring the effect in the financial position of the licensed institutions owing to possible changes in the foreign exchange rates, the licensed institutions shall submit particulars according to the enclosed format Directives Form No. 5.3 on weekly basis within seven days from the closure of the week, to the concerned Supervision Department of this Bank.
- (2) In order to minimize the risk arising from changes in foreign exchange rates, the licensed institutions shall maintain an Exchange Fluctuation Fund as required under the Directives relating to Accounting Policies and Format of Financial Statements issued by this Bank.
- (3) The licensed institutions shall group the currency-wise foreign exchange into short-term and long-term maturity periods and exhibit the net position under both the categories.

Explanation: For this purpose, "short-term" is defined to cover a period of one month or less.

- (4) The limit of licensed institution's daily net position of foreign exchange has been fixed up to maximum of 30 percent of the Core Capital. Where the net position

exceeds such limit, the respective licensed institution shall put efforts to bring down the same to the limit. In case the net position is not adjusted to the limit within one month, action under Nepal Rastra Bank Act, 2002 shall be initiated. For the purpose of calculation of net position, the foreign currency deposit liability and the amount under Forward Exchange Contract sales/purchase deals shall also be adjusted.

5. Provisions for Minimization of Credit and Investment Risks

The Directives issued by this Bank in respect of "Regulations Relating to Classification of Loan and Advances and Provisioning Requirements (Directives No. 2)" and "Regulations Relating to Limit on Credit Exposure and Facilities Provided by the Licensed institutions to a Single Borrower, Group of Related Borrowers and Single Sector of the Economy (Directives No. 3)" and Regulations relating to Investment (Directives No. 8) shall be considered basis for minimization of risk relating to credit and investment.

6. Repeal and Saving

- (1) The following Directives issued by this Bank heretofore have been repealed: -
 - Provisions relating to Mitigation of Risks in transactions of licensed institution as contained in the Unified Directives, 2066 Directives according to Directives No. 5/066 and all circulars issued until mid-July, 2010 relating to this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Name of licensed institution:

Duration:

Descriptive table of structural liquidity

(in Rs. Hundred thousand)

S. N.	Particulars	1-90 days	91-180 days	181-270 days	271-365 days	More than one year	Total amount
	Assets						
1	Cash deposit						
2	Deposit with banks and financial institution						
3	Investment in foreign banks						
4	Call money						
5	Government securities						
6	Nepal Rastra Bank bond						
7	Inter-bank and inter-financial institution loans						
8	Credits and advances						
9	Interests to be received						
10	Reverse						

	Repo						
11	Amount to be received from other institutions under commitment						
12	Payment of facilities under S. Nos. 20, 21 and 22						
13	Others						
	Total assets						
	Liabilities						
14	Current deposit						
15	Savings deposits						
16	Fixed deposits						
17	Bonds						
18	Borrowings						
	On demand/short notice						
	Inter bank/inter-financial institutions						
	Refinance						
	Others						
19	Other liabilities and						

	provisions						
	Sundry creditors						
	Bills to be paid						
	Interests to be paid						
	Provisions						
	Others						
20	To be paid to others under commitment						
21	Approved facilities yet to be utilized						
22	LC/guarantee (net)						
23	Repo						
24	Payment of facility under S. No. 11						
25	Others						
	Total liabilities						
	Net assets						
	Cumulative net assets						

Account heads	Description of the period
Assets	

Interests due	To place on the concerned bucket of the time in which interests is to be accrued
Reverse Repo	To place on the concerned bucket according to the period of payment
To be received from other institutions under commitment	To place on the concerned bucket in which the facility is expected to be received
Payment of facilities referred to in S. No. 20, 21 and 22	To place on the concerned bucket according to period of payment in case of facilities other than guarantee and in case of guarantee, to place on the bucket of more than one year
Other heads	To do as provided in the Directives No. 5 of the Unified Directives
Liabilities	
Sundry creditors	To place on the bucket of 1 to 90 days
Bills to be paid	To place on the concerned bucket according to the period of payment
Interests to be paid	To place on the concerned bucket according to the period of payment
Provisions*	In the event of fixed period of payment, to place accordingly and in other cases, to place on the bucket of 1 to 90 days
To be given to other institutions according to commitment	To estimate the pattern of demand having analyzed the past trends and to place in the concerned bucket accordingly
Approved facilities yet to be utilized	To estimate the pattern of demand having analyzed the past trends and to place in the concerned bucket accordingly
L/C /Guarantee (Net)	In case of L/C, to place on the concerned bucket according to the period of payment and in case of guarantee, to place the amount to be calculated having ascertained the claim pattern upon analyzing the past trends
Repo	To place on the concerned bucket according to the period of payment

Payment of facilities under S. No. 11	To place on the concerned bucket according to the period of payment
Other heads	To do as provided in the Directives No. 5 of the Unified Directives

** Provisions relating to expenditure heads other than provisions made for possible losses*

Risk Monitoring Table for Rate of Interests

Name of the licensed institution:.....

Period:.....

(In Rs. Hundred thousand)

	1-90 days	91-180 days	181-270 days	271-365 days	More than one year	Total amount
1. Total assets*						
2. Total liabilities**						
3. Gap (1-2)						
4. Accumulated Gap						
5. Adjusted interest rate (IRC) ***						
6. Impact on Quarterly profitability status (Accumulated Gap X IRC)						
7. Difference in Accumulated profitability status (To keep on adding the sum of S. No. 6)						

* Only the interest sensitive assets have to be included.

** Only the interest sensitive liabilities have to be included.

*** Interest Rate Change

Risks Monitoring Table for Foreign Exchange

Name of the licensed institution:.....

Duration

(in Rs. hundred thousand)

Foreign Currency	Short term		Short term net open position	Long term		Long term net open position	Total net open position	Net open position + core capital
	Assets	Liabilities		Assets	Liabilities			
US Dollar								
Sterling Pound								
Japanese yen								
Euro								
Other currency								
Indian Currency								
Total								

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 6/067

Subject: Provisions Relating to Good Corporate Governance

The following Directives have been issued with regard to the provisions to be complied with by licensed institution concerning good corporate governance having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Provisions Relating to Code of Conduct to be observed by Directors

(1) Directors of the Licensed Institution to Observe Minimum Acceptable Standard of Code of Conduct

- (a) Directors of a bank shall sign a declaration as to observance of the regulations relating to the Code of Conduct issued by this Bank.
- (b) Every person, upon appointment as a Director and prior to taking over the charge, shall provide information in writing to the Board of Directors as to whether or not he/she has any financial interest with the institution.
- (c) A Director of a bank or financial institution shall not interfere in the daily activities of the management.
- (d) A Director himself/herself shall be liable for any *ultra vires* act committed exceeding his/her authority. In such cases, the Institution shall not be liable.

(2) Not to be Involve in Activities against the Interest of the Licensed Institution

- (a) Directors of the licensed institution shall not engage directly or indirectly in any activity which is against the interest of the institution.

- (b) Directors shall not engage directly or indirectly in any transactions of the customers in which they have financial interest. Where the Director has financial interest in any customers through ownership, partnership, or borrowing or giving loan by providing guarantee, he/she shall not be deemed eligible to continue to be in the post of the Director.
- (c) The above restriction shall not apply in cases of transactions of publicly issued shares/securities, unless the Board of Directors certifies the existence of financial interest of such Director.
- (d) Where the Chief Executive is, in addition to engagement in the operation of the licensed institution, engaged in the operations of business related to the business of any other institution licensed by this Bank, such an activity shall also be regarded against the interest of the institution.
- (e) Directors or members of their undivided family shall not engage in securities transactions by holding more than 10 percent shares of the organized securities trading firms (broker, market maker etc.).
- (f) No transaction exceeding an annual amount of one hundred twenty thousand rupees or transaction of house rent shall be allowed to be concluded with a Director or a shareholder holding more than one percent of shares or with a firm/company in the ownership of his/her family or with which he/she has financial interest.

(3) Prohibition for part-time working

The Chief Executive of a licensed institution shall not engage in part time employment in any other institutions licensed by this Bank other than working for the institution in which he/she is engaged.

Provided that this clause does not prohibit for engagement in other business activities which is not against the interest of the licensed institution and is done with the prior approval of the Board of Directors. The licensed institution may give such approval only where the interest of the institution shall not be prejudiced.

(4) Prohibition to become Director of more than one licensed institution

The person who is a Director of a financial institution shall not be allowed to be a Director of any other licensed institution or a credit and saving cooperative institution being operated under the Cooperatives Act, 1991.

Provided that this directive shall not prohibit one to be as follows:-

- (a) Where a licensed institution having investment of Government of Nepal has invested in any other licensed institution, and on account of having such investment has to nominate a Director, then to nominate any of its Director to become Director of such other licensed institution with the approval of Government of Nepal.
- (b) To become a Director, within the purview of existing regulations, in non profit public service institutions such as religious, educational, cultural, social, welfare, philanthropic and charitable institutions.

(5) Prohibition to hold Trusteeships

Directors of a licensed institution shall not engage as trustee or administrator of customers' land or assets. Where a Director is engaged as such and holds the signing authority for the customers' bank account, approval of the Board of Directors shall be obtained.

Provided that, Directors of the licensed institutions shall not be prohibited from acting only as the Guardian or Advisor of the "D" class licensed institution.

(6) Prohibition to misuse the position

Directors shall not engage in any activities resulting in personal benefit by misusing the name and the office assumed. Directors and their relatives shall not use their family connection in dealing with the licensed institution. Where the "family" proposes to borrow from the licensed institution disclosing the family relationship, the Director is prohibited to participate in the decision-making process relating to such proposal. Further, the use of position to obtain preferential treatment such as in purchasing goods, shares and other securities is prohibited. Furthermore, Directors shall not use the influence of their position for exchanging in gold, silver, foreign exchange or foreign securities.

(7) Records and Reports to be maintained Complete and Accurate

Accounting records and reports of the licensed institution shall be maintained complete and accurate. Directors shall not personally alter the authoritative records and documents relating to accounts.

(8) Maintenance of Confidentiality

(a) Directors of the licensed institution shall maintain confidentiality of customer information and transactions. Directors, even after vacating the office, shall not (unless written permission is obtained from the licensed institution) divulge or make use of any secrets, copyright material, or other correspondence, accounts and dealings of the licensed institution and its customers for personal financial interest.

(b) Business and financial information of any customer may be made available to any other third person or organization only with the written consent of the customer.

Provided that, providing any information relating to financial transactions to the third party as required by law shall not be construed as breach of confidentiality.

(9) Fair and Equal Treatment

Directors shall conduct business transactions fairly and equitably without being influenced by the friendships and associations with the customers.

(10) Written Information to be provided

Licensed institutions are required to inform, in writing, the Bank and Financial institutions, Regulation Department and concerned Supervision Department of this Bank as to the adoption of above Code of Conduct as well as additional in-house code of conduct included by the licensed institution for its internal operational purpose, where necessary.

(11) Report to be submitted

Report as to the compliance of Code of conduct prescribed under these Directives by the Directors shall be submitted within 15 days from the closure of the fiscal year to Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank. Where a Director has not complied with the

Code of Conduct, particulars as to the same along with the actions initiated against such Director shall be reported immediately to the above departments of this Bank.

2. Duties and Responsibilities of Board of Directors

Directors of a licensed institution who are involved in the important functions like collection and acting as custodian of the public deposits shall be active in the operation of the licensed institutions to protect the interests not only of its shareholders but also of its depositors. Since good conduct and activities of Directors would bring positive impact to the licensed institution as well as to the country's overall financial system, therefore, the following arrangements have been made in respect of appointment of Directors, their duties and responsibilities:-

- (a) With a view to administer the licensed institution more efficiently, rationally and professionally, it shall select and appoint qualified and able executives by adopting appropriate Personnel Administration Byelaws.
- (b) The licensed institution shall establish an Audit Committee to be headed by a non-executive Director. Detail working manual in respect of internal auditing shall be prepared and audit shall be conducted accordingly.
- (c) Regular internal audit shall be conducted through qualified internal auditors. Provision shall be made to submit the internal auditors report directly to the Audit Committee.

Provided that a person or firm entrusted with the function of internal audit of the institution and the partner or employee of that firm shall not be allowed to be involved in the Statutory Audit of the institution. Similarly, the Board of Directors shall make an arrangement where a person or firm entrusted with the Statutory Audit work of the institution and partner or employee of that firm shall not be allowed to be involved as Internal Auditor of the institution.

- (d) The licensed institution being an organization engaged in mobilization of public funds, its Directors shall supervise and monitor the activities with a higher degree of prudence and competence.

- (e) Although Directors may delegate authorities to employees, the ultimate responsibilities of the work of such employees lie on the Directors. Thus, a record of any supervision and actions taken against the employees shall be placed in the meeting of the Board of Directors.
- (f) The licensed institution shall adopt written policies in respect of investment, credit, management of assets and liabilities, budgeting, profit planning and other written policies and ensure implementation of the same by the employees.
- (g) Directors shall keep themselves informed of the condition of the business, its activities as well as the policies pursued by the management and initiate remedial measures as may be necessary.
- (h) The meeting of Board of Directors shall be convened as are provided under the existing law.
- (i) Directors may be dismissed from their position for non-compliance of the existing laws and policy, Directives and regulations issued by this Bank. Therefore, they shall have to be familiar themselves with relevant laws, related regulations and guidelines and shall have to regularly monitor that these are not violated.
- (j) Fines imposed under Section 100 of Nepal Rastra Bank Act, 2002 on the Directors and officials who have acted against the interest of depositors or withheld the documents requested by this Bank shall be the personal liability. The concerned licensed institution shall not reimburse such fines paid on individual basis by charging in its accounts.
- (k) Professional Director of an institution shall not have subscribed the promoter share ownership of that institution.
- (l) The chairperson of the Board of Directors shall not be allowed to represent in any other internal committee or sub-committee other than the Board of Directors.
- (m) Except in cases prescribed by the law in force for the time being, non-executive Director and other Directors shall not be allowed to make correspondence having used the seal of that institution and name of the office (logo).
- (n) Licensed financial institution shall not be allowed to invite members other than Directors in its Board of Directors meeting and provide meeting allowances and other facilities as same as the Directors.

Provided that this clause shall not be deemed to have hindered to invite an expert having no financial interest for opinion/consultation on particular subject and to seek his/her opinion/consultation and to provide remuneration to him/her, in case the Board of Directors of a banks and financial institution deems it necessary.

(Explanation: For this purpose, any official other than a Director shall not be entitled to meeting allowance for meetings of committee/sub-committee in which the Director is a convener or member. However, separate remuneration may be provided for members other than Director for functions relating to secretariat.

- (o) Every Director who has been elected/nominated to Bank/financial institution shall have to take an oath of office and secrecy within thirty five days from the date of his/her election/nomination.

3. Appointment of Chief Executive

- (1) The Board of Directors of a licensed institution shall appoint the Chief Executive according to the existing laws, and memorandum of Association and Articles of Association of the licensed institution.
- (2) The person to be appointed Chief Executive of the licensed institution shall possess qualification and experience according to the existing laws relating to bank and financial institution. In addition, he/she shall possess the following additional qualification, experience and qualities:
 - (a) Having required professional experience in banking transaction;
 - (b) Having ability to secure compliance on internal control aspects in daily transactions of the licensed institution as well as compliance of the existing laws;
 - (c) Having working experience at the senior level in banking and finance;
 - d) Not having been declared bankrupt or convicted of an offence involving dishonesty or fraud;
 - (e) Not having been suspended by this Bank for his earlier business or not having been implicated for involvement in doubtful transactions in an investigation carried out by this Bank or the release from such suspension

has completed five years or has been acquitted from the involvement in such doubtful transactions;

- (f) Not having been blacklisted or having completed three years from being released if blacklisted.
- (3) Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank shall immediately be informed about the appointment of Chief Executive and any changes in the Board of Directors.
- (4) In the event of the Chief Executive going on leave or traveling abroad, or render incapacitated to discharge his duties, prior information to Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank shall be given in respect of the person designated to officiate the Chief Executive. Such officiating person shall be fully responsible, able and qualified.
- (5) The remuneration and benefits of the Chief Executive, Executives, and employees shall be fixed in line with the licensed institution's operations, transactions, business plan and profitability position. Particulars as to the salary, allowances, bonus and other benefits of the Chief Executive as well as changes made therein shall be submitted to Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank within one month from the closure of the fiscal year.
- (6) The Chief Executive shall not be eligible to work as an executive in other licensed institution.
- (7) Any shareholders holding more than 1 percent of the paid up capital of the licensed institution shall not be eligible for appointment in any executive position of the bank other than as Director and Chief Executive.

4. Code of Conduct for Employees

- (1) **Employees shall have to maintain the minimum acceptable standard of code of-conduct as follows: -**

- (a) Employees of the licensed institutions shall sign a declaration as to observance of the regulations relating to the Code of Conduct issued by this Bank.
 - (b) It shall be the responsibility of the Department Chiefs to instruct to' and receive information from the subordinate staffs on matters relating to the Code of Conduct. The concerned Department Chiefs shall submit reports as to the breach of discipline or rules by the employees to the Personnel Department. The Personnel Department shall make such reports available to the supervision team of Bank in course of the inspection.
- (2) Employees not to engage in the activities against the interest of the licensed institution.**

- (a) Employees shall not directly or indirectly engage in any activity which is against the interest of the licensed institution.
- (b) Employees of the licensed institution shall not directly or indirectly engage in any transaction of the customers in which they have financial interest.
- (c) Where the employees of the licensed institution have financial interest in any customers in respect of ownership, partnership, borrowing or giving loan, the information of such interest shall be immediately disclosed to the nearest supervisor.

Provided that, the above restriction shall not apply in case of transactions of publicly issued shares/securities, unless the nearest supervisor certifies the existence of financial interest of such employees.

- (d) Employee, in addition to engagement in the licensed institution, shall not involve full time in the operations of other business.
- (3) Permission for part-time working**

Employees of a licensed institution, other than working for the institution, shall obtain prior written approval from the management for part-time engagement in any other institutions or in other business activities. Written approval for such part time engagement may be given only where the interest of the institution shall not be prejudiced.

(4) Arrangement regarding eligibility of employees to become Director

No employees of the licensed institution or employees of the institution in which majority of share ownership is held or controlled by the licensed institution; shall be eligible to become Director of any licensed institution. `

Provided that, this directive shall not prohibit holding of directorship in respect of the following:

- (a) Becoming Director of subsidiary companies established by the licensed institution according to the law,
- (b) Where a licensed institution having investment of Government of Nepal has invested in any other licensed institution, and on account of having such investment has to nominate a Director, then to nominate any of its Director to become Director of such other licensed institution with the approval of Government of Nepal, or
- (c) To become a Director, within the purview of existing regulations, in non profit public service corporations such as religious, educational, cultural, social, welfare, philanthropic and charitable institutions

(5) Prohibition to hold Trusteeships

Employees shall not engage as trustee or administrator of customers' land and assets. Written approval of the Chief Executive shall be obtained if such an engagement becomes necessary.

(6) Prohibition to misuse the position

Employees shall not engage in any activities resulting in personal benefit by misusing the name and the position held. Employees and their relatives shall not use their family connection in dealing with the licensed institution. Further, the use of position to obtain preferential treatment such as in purchasing goods, shares and other securities is prohibited. Similarly, employees shall not use the influence of their position for exchanging in gold, silver, foreign exchange or foreign securities.

(7) Prohibition to misuse of information

Employees shall not misuse any information acquired in course of the transaction of the licensed institution and that they shall not engage as security dealers in the securities transactions of any companies listed or pending listing in the stock exchange. The employees are also prohibited from communicating such information to any of their subordinate employees unless warranted in course of discharging of their duty.

(8) Maintenance of Records and transactions

Accounting records and reports of the licensed institution shall be complete and accurate. Employees shall not personally alter the records and documents relating to accounts of the licensed institution in an unauthorized manner.

(9) Maintenance of Confidentiality

(a) Employees shall maintain confidentiality of customer information and transactions according to the existing law. Employees, even after termination of their employment, shall not divulge or make use of any secrets of transactions (copyright material, or other correspondence, accounts and dealings of the licensed institution and its customers) for own or other's financial interest.

(b) Business and financial information of any customer may be made available to any other third person or organization only with the written-consent of the customer.

Provided that, providing any information relating to banking transactions to the third party as required by law shall not be construed as breach of confidentiality.

(10) Fair and Equal Treatment

Employees shall conduct business transactions fairly and equitably without being influenced by the friendships and associations with the customers.

(11) Written Information

Licensed institutions are required to inform, in writing, this Bank's Bank and Financial Institutions Regulation Department and concerned Supervision Department as to the adoption of above Code of Conduct as well as additional in-

house code of conduct included by the licensed institution for its internal operational purpose, where necessary.

(12) Information on Compliance of Code of Conduct

Report as to the compliance of Code of conduct prescribed under this Directive by the employees of licensed institutions shall be compulsorily submitted within 15 days from the closure of the fiscal year to this Bank's Banks and Financial Institutions Regulation Department and concerned Supervision Department. Where an employee has not complied with the Code of Conduct, particulars as to the same along with the actions initiated against such employee shall be reported immediately to the above departments of this Bank.

5. Relating to Audit Committee

The Board of Directors of a licensed institution shall establish an Audit Committee under a non-executive Director. This committee shall review the institution's financial condition, its internal controls, audit program, and upon detailed discussion on the findings of the internal audit, shall issue necessary guidelines to the management of the institution. The external as well as internal auditors shall have direct access to this Committee. The Board of Directors of the licensed institution shall discuss in detail the reports of the auditors and the Committee. The Chief Executive shall not be included as the member of the Audit Committee formed by the licensed institution. However, this shall not prohibit from including him/her as an invitee, whenever necessary.

Major Responsibilities of the Committee

- (a) To review the licensed institution's financial condition, internal controls, audit program, and findings of the internal audit team and to recommend to the Board of Directors about the actions to be taken;
- (b) To review the matters contained in the audit report of the external (statutory) auditors and initiate for necessary corrective actions;
- (c) To help ensure annual report to be accurate and real;
- (d) To ensure the Board of Directors that accounts are accurate and fair, along with frequent reviews of the adequacy of provisioning against contingencies and classified loan;

- (e) To review the compliance of the regulations issued by this Bank to the licensed institutions and include the same in its report;
- (f) To review the activities of licensed institution in respect of its regularity, economical, logical, effectiveness, and give necessary suggestions to the Board of Directors.

6. Prohibition to Extend Credit to the Directors, Shareholders, Employees and Firms Related to Them

- (a) Extension of credit and non-Fund based facilities to the Directors of the licensed institutions is prohibited under the following circumstances: -
 - (1) To the Directors and members of their undivided family,
 - (2) To the person, firm, company or institution in which the Director or member of his undivided family is a manager, partner, agent or guarantor or having direct financial interest,
 - (3) To the firm, company or institution in which the Director or member of his undivided family holds shares of more than fifteen percent,
 - (4) To the firm, company or institutions for whom the Director or member of his undivided family is a guarantor.
- (b) Extension of credit and non-Fund based facilities to the Promoter, Shareholders and Employees of the licensed institutions is prohibited in the following circumstances:
 - (1) To the Promoters or Shareholders in the Promoter Group or the Shareholders holding more than one percent of the total shares sold and their family members and to the employees,

Note:

- (i) *Extension of credit and facilities is prohibited to the Promoters, Directors, Persons holding 1 percent or more shares, Chief Executive or family members of such persons or firm, company or institution having rights to nominate or appoint a Director.*
- (ii) *Loan or non-funded facilities being provided, prior to the issue of Directives in this regard by this Bank, to the Promoters or*

Shareholders in the Promoter Group holding more than 1 (one) percent shares of the total issued capital of the licensed institution, shall be compulsorily settled according to the existing payment schedule or within mid-July, 2010 whichever is earlier.

(iii) Detail particulars of the loan or non-funded facilities being provided earlier to Promoters or Shareholders in the Promoter Group holding less than 1 (one) percent shares of the total issued capital of the licensed institution shall be disclosed in the financial statement.

- (2) To the firm, company or institutions in which the employees and Shareholders holding more than one percent of the total shares is partner or guarantor or having other financial interest.
 - (3) To the firm, company or institutions, except directed otherwise by this Bank, in which the shareholder or employee holds more than 15 (fifteen) percent voting shares,
- (c) No credit shall be extended from the institution against the mortgage of the assets belonging to the Director or his family members of the same licensed institution.

Provided that, none of the clauses in this Section shall prohibit providing of loan against the security of own fixed deposit receipt, gold silver, and Government of Nepal/Nepal Rastra Bank bonds.

- (d) This directive shall not prohibit the licensed institutions to extend preferential advances to the Chief Executive and all other employees according to the Staff Rules. In addition to the above arrangement, this Bank may grant an exemption to lend to development institutions and companies established to meet the declared government objectives.
- (e) This institutionalized promoter shareholders of a micro finance development bank of class "D" licensed only to wholesale lending transaction from this Bank are exempted to advance lending from the same institution. There shall be no hindrance to advance lending even in cases where representation to Board of Directors of the institution providing wholesale lending to such creditor institution.

7. Provision Relating to Code of Conduct and Good Governance

- (1) Since the licensed banks and financial institutions have roles in maintaining good governance, each of them shall have to formulate code of conduct in their respective institutions according to spirits of the Good Governance Act and to enforce it.
 - (2) Good Governance units shall be created in respective institutions and status of good governance shall be monitored on a monthly basis.
 - (3) The issues raised in the inspection report by this Bank shall be implemented without delay.
8. The following activities are prohibited to be carried out by a Director, Chief Executive, Auditor, Board Secretary of bank and financial institution or by persons directly involved in management and accounting activities of bank and financial institution or their family members or by organization/entity owned/controlled by them during the tenure of holding such position or up to one year from the date of retirement.
1. To purchase/sell of securities of the concerned bank and financial institution and its subsidiaries.
 2. To pledge or accept or give in gift securities of the concerned bank and financial institution and its subsidiaries.
 3. To allow transactions relating to the securities of the concerned bank and financial institution and its subsidiaries.

Bank and financial institution extending loan against pledge of securities of bank and financial institution and their subsidiary are also required, at the time of securing the freezing (notification as to pledge of securities) of the securities from the concerned bank and financial institutions, to obtain information regarding whether the person (transferee) is holding any of the above mentioned positions and if not, whether the date of vacation of the position has completed one year period. The concerned bank or financial institution or the person shall provide such information whenever sought.

Further, where the loan has been extended against pledged of shares prior to issue of this circular, such pledge shall be released by the mid-July, 2009 or maturity date, whichever is earlier by complying all necessary procedures. Otherwise, it shall be as follows:-

- (a) The concerned bank or financial institution shall give a public notice to the concerned person or entity to repay the loan within 35 days.
- (b) Upon service of notice according to (a) above, the concerned bank or financial institution shall recover the loan amount from the concerned person or entity within the stipulated time period.
- (c) Where compliance according to (b) is defiant, loan shall be recovered by selling such pledged securities through Stock Exchange within next 7 days.
- (d) If the loan is not recovered according to clause (c), 100 percent provision shall be against such exposures.

Provided that, upon submission of written documents showing separation from the "family sharing the family assets according to the prevailing laws, it shall not prohibit to sell or purchase, pledge, to be pledged or accept or give in grant the securities as well as dealing in any other types of lending transactions.

- 9. Details of the self-declaration (Schedule-1) made by the Directors of licensed institution with regard to themselves and the details of the registration/ record book prepared by the concerned licensed institution with regard to its Directors (as formatted in schedule – 2) shall be submitted to this Bank.
- 10. Except the meeting allowances for the chairperson of the Board of Directors, Director, alternate Director when they attend meetings; the remuneration for functioning by a Director as Executive and telephone, mobile, newspaper expenses and the expenses to be incurred while traveling to within and outside the country; non-executive chairperson and other Directors shall not be entitled to any type of financial and non-financial facilities. In case financial and non-financial facilities have been taken in such a manner, it shall be deemed that provision of sub-Section (1) of Section 24 of the Banks and Financial Institutions Act, 2006 is violated. The financial and non-financial facilities taken in such a manner shall be recovered deeming it the offence pursuant to sub-Section (2) of Section 21 of the Banks and Financial Institutions Act, 2006.
- 11. The proposed Director/or Managing Directors of the banks and financial institution that is in the course of obtaining license shall not be entitled to get any type of remuneration, allowances and other financial facilities until the license to engage in financial transaction is obtained. However, there shall be no hindrance for the staff

engaged in the proposed institution to get remuneration as decided by the Board of Directors. The remuneration, allowances and other financial facilities to be received by the official such as Directors, Managing Directors and Chief Executive of the institutions having obtained license for financial transaction but yet to issue shares to general public shall not be increased until the first Annual General Meeting having the representation of general public shareholders.

12. Non-executive chairperson and Directors of licensed institution shall not be allowed to act in the capacity of the Chief Executive in absence of the Chief Executive. Moreover, non-executive chairperson and Directors shall not be allowed to make any correspondence having used the letter pad and seal of their institution.
13. In case an authorized agency files a case against the persons listed in the roster of the professional experts and auditors published by this Bank and the partnership firms, companies and institutions to which they are going to be, or have been, associated, they shall *ipso facto* be included in the roster once the authentic letter to that effect is received.

Provided that in case of the auditor appointed from General Meeting of the Bank and financial institution prior to filing of the case, this provision shall not be deemed to have hindered to complete the work.

14. Banking and financial institution shall not purchase cheques of its promoter/Director/employee and a member of their undivided family. In the event of purchase of cheques of other customers, the cheque shall have to be sent to collection of the clearing house within a period of three working days including the day on which it has been purchased. Otherwise actions shall be taken according to the Nepal Rastra Bank Act, 2002 or other laws in force for the time being.

15. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed:

Provisions relating to corporate good governance in the Unified Directives, 2066; and all circulars issued until mid-July, 2010 relating to the matters covered by the said Directives.

- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

The Board of Directors

Date:

.....Bank/Financial Institution Limited

.....

Re.: Information furnished

I, on assuming the position as Director of the this Bank/financial institution onwish to furnish the following information as required under Section 22 of Bank and Financial Institution Act, 2006.

- (1) I and any member of my family have not entered or are not likely to enter into any contract with this Bank/financial institution.
- (2) I have no interest and concern with respect to appointment of Chief Executive, Managing Director, Company Secretary, Auditor and General Manager of this Bank/financial institution.
- (3) I and my family own.... .. shares of this Bank/financial institution. Except this, we do not own any other shares or debentures.
- (4) Except this, I am not a Director of any bank and financial institution licensed by Nepal Rastra Bank.
(If yes, specify)
- (5) The member of my family is working/not working as executive/staff of this Bank/financial institution.
(If yes, specify))
- (6) According to Section 18(e) of Bank and Financial Institution Act, 2006, other than the current position I am not holding a position as Director, employee or continuing auditor or advisor of any other deposit taking institution (including cooperative handling deposit and credit transaction according to prevailing laws). Further, I shall not become a Director of any entity handling deposit and credit transactions during the tenure of working as Director in this institution.
- (7) Above declaration/information are true and correct, shall be liable according to laws if found otherwise.

.....
(Director)

... .. Bank/Financial Institution Limited

(Note: This Statement has to be submitted to the concerned bank or financial institution within 7 days from the election or nomination or as Director of the bank or financial institution in case of change, within 7 days from the date of such change. Further, the concerned bank or financial institution shall submit this Statement to this Bank within 7 days from the date of receipt.

Schedule 2

... .. Bank/Financial Institution Limited

Director's Register/Record Book

S.No.	Name of Director	Occupation	Date of appointment	Date of vacation

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 7/067

Subject: Provisions Relating to Timeframe for Implementation of Regulatory Directives Issued in connection with Inspection and Supervision

In order to implement or cause to be implemented the Directives issued by this Bank in the course of inspection and supervision of a licensed institution; the following Directives have been issued having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Response on inspection Report

The Board of Directors of the licensed institutions shall, within a period of thirty days in maximum of the receipt of the on-site inspection report, submit response having complied with the remarks and Directives, along with the reaction on the reformative points included in the report, to the concerned Supervision Department of this Bank. In case of inability to respond within the prescribed time with requisite reforms, the licensed institution shall request for time extension and submit the report to this Bank within the approved extended time.

2. Loan Loss Provision

In the event of receipt of Directive for additional loan loss provision through an inspection report, it shall be added in the accounts of the current quarter and information thereof shall be furnished to this Bank.

3. Loan Portfolio Improvement Plan

Within thirty days of receipt of the inspection report, the institutions shall submit a plan to the concerned Supervision Department of this Bank for improving the overdue

loan portfolios by three months for "A" class licensed institution all loan portfolios of ten million rupees or above, and in respect of other institutions, loan portfolios of five million rupees or above. In the mean time, if a new inspection report is issued, an amended program shall be submitted to the concerned Supervision Department within thirty days having included the account of changes in the amount and type of classified loans.

4. Adequacy of Capital Fund

Within a maximum period of thirty five days of receipt of Directive through an inspection report, the licensed institution shall submit to the concerned Supervision Department of this Bank a written plan including the following subjects, *inter alia*, to maintain an adequate capital fund: -

- (a) Details of the current and future capital requirements, including the maintenance of an adequate capital fund.
- (b) Details as to the volume of the classified and re-classified assets.
- (c) The anticipated level of retained earnings.
- (d) The source of additional funds to fulfill the future capital requirements set forth in the relevant Directive and time-table.

5. Management of Assets/Liabilities

Within thirty days of receipt of Directive through an inspection report, the license institution shall amend to its assets/liability management policies and procedures to provide for the maintenance of adequate liquidity position and shall submit to the concerned Supervision Department of this Bank containing the following. In amending the policies and procedures as above, special attention shall be given, but not limited, to the following:-

- (a) The cost and use of the borrowed funds;
- (b) The volume of liquid assets required for meeting the contingent needs;
- (c) Provision of short-term financial resources to maintain adequate liquidity for potential fluctuations in deposit;
- (d) The volume of loan and matching of amount necessary for investing into the off-balance sheet transactions and the sources of funding;

- (e) Provisions as to submitting regular reports on management of assets/liabilities by the management of the licensed institution to the Board of Directors.

6. Internal Audit and Control

The licensed institution shall have to develop procedures designed to ensure effective internal control system so that the employees of the institution perform their functions in accordance with the existing policies, procedures and legal provisions. The said procedures shall have to cover the following subjects in the minimum:-

- (a) Procedures relating to reviewing the management and control of accounts of the licensed institution so actual condition of the institution is depicted and assets are protected;
- (b) Procedures relating to verifying the reliability of statistics;
- (c) Procedures for verifying the application of policies with respect to credit extension, treasury operations, foreign exchange management, liquidity management, adequacy of capital fund, personnel administration, management information systems as well as compliance of the banking laws;
- (d) Procedures for reviewing quality of assets;
- (e) Procedures relating to reviewing of financial risks management (liquidity, assets/liabilities, foreign exchange management).

7. Implementation of Plans, Policies and Procedures

The plans, policies and procedures referred to in clauses 3 to 6 above as required by the inspection reports shall be submitted to the concerned Supervision Department of this Bank for review.

8. Monitoring of Progress Reports

This Bank shall conduct a constant monitoring with regard to transaction and progress reports of the bank and financial institutions. The suggestions made by this Bank upon monitoring in every two months of the activities, plans and policies of licensed institutions and compliance of the Directives issued by this Bank shall be implemented or cause to be implemented. Moreover, in the event of Directive given by this Bank, the

quarterly progress review and report on the status of compliance of Directives shall have to be made available within the prescribed period.

9. Repeal and Saving:

(1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to the time table to implement/cause to be implemented the Directives given by this Bank in the course of inspection and supervision of a licensed institution as outlined in the Unified Directive No. 7/066 and all circulars issued until mid-July, 2010 relating to the matters covered by the said Directive.

(2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 8/067

Subject: Provisions relating to Investments

The following Directives have been issued with regard to investment of financial resources of a licensed institution having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Implementation of Investment Policy and Procedures upon Approval

The licensed institutions shall implement the policies and procedures regarding the investment in Government of Nepal securities, Nepal Rastra Bank bonds, and other corporate bodies' share and debentures only upon the approval of investment policy and procedures by the Board of Directors.

2. Provision for Investment in Government of Nepal Securities and Nepal Rastra Bank Bonds

There shall be no restriction as to investment by the licensed institutions in the securities of Government of Nepal and Nepal Rastra Bank bonds.

3. Provisions for Investment in Shares and Debenture of Corporate Bodies

(1) Licensed Institutions shall invest only in the shares and debentures of corporate bodies listed in the Nepal Stock Exchange after the public issues of shares.

Provided that, where the investment has been made in the shares and debentures of corporate bodies which are not listed in the stock exchange, and if such listing is not completed within one year from the date of investment, a provision of

equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve by creating such reserve fund. The outstanding amount in such Reserve shall not be utilized for any other purpose till the said shares and securities of the corporate body are listed.

With respect to investment in newly opened corporate body that where such company is not listed in stock exchange within two years from the date of operation or investment being made, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve.

- (2) While carrying out projects such as land development, land purchase and housing construction for residential purpose and sale and management of such houses and land pursuant to clause (ad) of sub-Section (2) of Section 47 of the Banks and Financial Institutions Act, 2006 by the class "B" licensed institutions and pursuant to clause (u) of sub-Section (3) of the same Section of the same Act, licensed institution shall not invest more than twenty-five percent of the core capital of immediately preceding month.
- (3) While investing in housing construction and land development by a licensed institution, it may invest an amount not exceeding ten percent of the core capital maintained immediately preceding month. If found to have been invested more than the limit, the core capital shall be maintained having deducted the amount equal to the exceeded investment from the core capital. While making such investment, investment shall be made only in the building construction and land development companies that have been incorporated as public companies.
- (4) Licensed institutions may invest in shares and securities of any one corporate body up to 10 percent of its core capital maintained at immediately preceding trimester and not exceeding the cumulative amount of such investment in all the companies by more than 30 percent of its core capital. Similarly, while investing in shares and debentures of corporate bodies by a licensed institution, investment shall be made not exceeding 10 percent of the paid up capital of the institution in which the investment is being made and not exceeding 25 percent of the same in case of investment made in class "D" institutions. Any amount of investment made

in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the Core capital fund.

- (5) Chairperson/member of a parent company shall not be allowed to be the chairperson or member of the subsidiary company. In case of Directors who are Directors in the subsidiary company prior to issuance of these Directives on May 10, 2010, he/she shall have to move from it before the upcoming first general meeting of the parent company or within one year of issuance of this directive, whichever is earlier.

4. Arrangement for Underwriting Of Share and Debentures

- (1) For "A" Class licensed institutions, there is no limit prescribed for underwriting the shares and debentures. In respect of "B" and "C" Class financial institutions, they may underwrite to the extent of their core capital as follows:

Class of Licensed Institution	Any one organized Institution	All corporate bodies (Cumulative)
"B" Class	Up to 20 percent of its core capital	Up to 100 percent of its core capital
"C" Class	Up to 10 percent of its core capital	Up to 50 percent of its core capital

Provided that, in case the class "B" and "C" licensed institution is going to underwrite shares and debentures of an institution licensed by this Bank, the provision of underwriting only up to the prescribed limit of its core capital shall not be mandatory.

- (2) Where situation arises, owing to under subscription of the underwritten shares according to (1) above, requiring the licensed institution to acquire such shares, the same shall be disposed within one year from the date of underwriting. Failing to which, the amount of investment, for the purpose of calculation of the capital fund, shall be deducted from the Core capital fund.

5. Provision for Review of Investment Portfolios

Licensed institutions shall review its investment portfolios on half-yearly basis. With respect to such review, a statement from the Internal Auditor of the licensed institution certifying that the investments are made according to the existing investment policy and according to this Directives be obtained and shall also be approved by the management of the institution within 1 (one) month from the close of the half yearly period. A copy of the approval of the management of the institution shall be submitted within Falgun 15 (end of February) and Bhadra 15 (end of August) of each fiscal year to this Bank's Bank and Financial Institutions Regulation Department and concerned Supervision Department.

6. Valuation of Shares and Debentures

The investments of the licensed institutions in shares and debentures shall be separated company wise according to Directives Form No. 8.1, 8.2 and 8.3. It shall be shown in its assets having evaluated it semiannually based on the purchase price or the market price, whichever is lesser.

Provided that, where the market price of any company's shares or debenture falls below the cost price, the difference amount has to be debited to the Profit and Loss Account and credited to provision for loss in investment account.

Moreover, while evaluating investment, it shall have to be evaluated according to the provision made in Points 2 and 2.B.3 (Investment Policy) of Directives No. 4/067 and the details thereof shall be prepared in the format of Nepal Rastra Bank Directive form No. 8.2.

7. Provisions Relating to Purchase/Investment in Fixed Assets (House/Land) For Own Purpose

The banks of financial institutions incorporated and in operation under the B to F1A shall be allowed to purchase/invest in the fixed assets. (house/land) for the self purpose in the case they meet the following terms and conditions:

- (a) Entire pre-operating expenses of the bank/financial institution is written off.
- (b) The first general meeting is completed upon issue of shares to general public as refund to in the Memorandum of Association/Articles of Association.
- (c) The institution is in profit at the time of purchase of the property.
- (d) The capital fund is adequate according to the Directives issued by this Bank.

Moreover, in case of purchase of investment in the fixed assets without meeting the said terms and conditions; the amount equivalent to that to be deducted while calculating the core capital fund.

8. Additional Arrangement Regarding Investment

- (1) Licensed institutions shall not invest in any shares, securities and hybrid capital instruments issued by any other institution of "A", "B" and "C" class licensed by this Bank.

Provided that, this clause is not applicable in case of share investment in class "D" institution and income of share investment with approval from this Bank.

- (2) The core capital maintained in the Directives relating to investment means, the core capital maintained at the immediately preceding trimester except specifically stated otherwise.

9 Actions for Non-Compliance of Directives on Investment

Action under Sections 99 or 100 of Nepal Rastra Bank Act, 2002 may be initiated for non-compliance of the Directives by the licensed institutions relating to investment.

10. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to investment made in the Unified Directives, the Directives issued under Directive No. 8/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.

- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Details of investment made in Government Bond and Nepal Rastra Bank Bond (Monthly)

.....Month.....year

S. No.	Particulars	Amount (Rs.)
	Total	

Date

Authorized Signature

Details of investment made in share capital of companies (Monthly)

.....Month.....year

S. No.	Name of Company	Number of shares	Cost price	Market price	Profit/(loss) or fund equalization amount
		Total			

Date

Authorized Signature

Details of investment made in debenture of companies (Monthly)

.....Month.....year

(In Rs. thousand)

S. No.	Name of Company	Date of investment	Amount Rs.
		Total	

Date

Authorized Signature

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 9/067

Subject: Provision relating to Filing of Statistical Returns by Financial Institutions to Nepal Rastra Bank

Since the banking and financial statistics play pivotal roles in evaluation and analysis of the economic, monetary and financial activities of the country and in the context of carrying out offsite supervision of the licensed institution, therefore, the following Directives have been issued having exercised the power conferred by Section 79 of the Nepal Rastra Bank Act, 2002 in order to make available such statistics and information on time in an accurate and reliable manner.

The information according to the enclosed NRB Directives Form No. 9.1 to 9.16 shall have to be sent to the concerned Department through an electronic media (e-mail) as well:-

1. The licensed institutes shall prepare the consolidated statistics of their branches as well to furnish to Banks and Financial Institutions Regulation Department and concerned Supervision Department of this Bank the statements according to Directive Form Nos. 9.1, 9.2, 9.3, 9.3(a), 9.4, 9.7, 9.8 and 9.9 on a monthly basis; the statements according to Directive Form Nos. 9.5, 9.6, 9.10, 9.11, 9.12, 9.15 and 9.16 on a quarterly basis within fifteen days of completion of transactions and statement according to Directive No. 9.14 on a quarterly basis within thirty-five days of completion of the transaction.

The statistics under Directive No. 9.1 shall compulsorily be sent to the e-mail addresses of the Research Department i.e. researchreportcb@nrb.org.np (for class "A"); researchreportdb@nrb.org.np (for class "B") and researchreportfc@nrb.org.np (for class "C").

2. The licensed commercial banks of class "A" shall furnish the details of transaction of every day according to Directive Form No. 9.13 relating to interbank transaction to

Banks and Financial Institutions Regulation Department of this Bank within 10 AM on the next day. If there is no transaction, the same information shall be furnished.

3. The licensed banks and financial institutions shall have to furnish to Banks and Financial Institutions Regulation Department of this Bank the district-wise details as to names and addresses of their branches in quarterly basis within fifteen days of completion of every quarter.
4. Statements other than those covered by these Directives that are required to be filed with this Bank's concerned branch offices shall be submitted regularly. In the enclosed format, if the nature of transaction is not relevant, the same shall be marked with – no transaction.
5. The class "D" micro finance development banks shall furnish to Banks and Financial Institutions Regulation Department and the concerned Supervision Department of this Bank the monthly statistics as referred to in Directive Form No. 9.17 and the statements as to the transactions carried out on the basis of nature of its transaction. Moreover, the statistics the statistics according to Directive Form No. 9.17 shall have to be sent to the Micro Finance Department as well.
6. In case a licensed institution does not file statistical returns as above on time, actions shall be initiated according to the Nepal Rastra Bank Act, 2002 with imposition of fines from ten thousand to fifty thousand rupees according to the prevailing laws relating to banks and financial institutions and other actions shall also be initiated.
7. Licensed institutions shall have to designate a special official for the purpose of filing returns to this Bank. While sending the prescribed returns, names, phone Nos. and email addresses of the designated officials shall also be stated. In case the prescribed returns are not received on time, the concerned officials shall be held liable and actions shall be initiated as instructed by this Bank.
8. The afore-said statistics shall also have to be sent to the following e-mail addresses of this Bank:
 - a. Banks and Financial Institutions Regulation Department
bfistata@nrb.org.np (for class "A")
bfistatb@nrb.org.np (for class "B")

bfistatc@nrb.org.np (for class "C")

bfistatd@nrb.org.np (for class "D")

b. Banks Supervision Department

bsdoffsite@nrb.org.np

c. Financial Institutions Regulation Department

nrbfisd@nrb.org.np

9. The aforesaid statistics shall be sent through excel sheet. No alteration in the set format on ones own shall be allowed. Amount shall compulsorily be quoted in hundred thousand rupees while sending the statistics and statements. While sending statistics and statements in Nepali language "*bishall*" font shall be used. Such font may be downloaded from this Bank's website: www.nrb.org.np

10. Repeal and Saving:

(1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to submission of statistics and detail description by licensed institution to Nepal Rastra Bank, the Directives under Directive No. 9/066 and all circulars relating to the matters issued until mid-July, 2010.

(2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

.....Limited

General accounts of assets and liabilities (monthly)
Statement of the month ofof the year.....

Assets and liabilities		Amount	Assets and liabilities		Amount
1.	Capital and Reserve funds		1.	Cash deposit	
1.1	Paid up capital		1.1	Local currency (including coins)	
1.1.1	Ordinary shares		1.2	Foreign currency	
1.1.2	Non-redeemable preference shares		1.2.1	Indian currency	
1.1.3	redeemable preference shares		1.2.2	Other currencies	
1.2	Calls in advance		2	Bank balance	
1.3	General Reserve		2.1	With Nepal Rastra Bank	
1.4	Shares premium		2.1.1	Local currency	
			2.1.2	Foreign currency	
1.5	Retained earning		2.2	With "A" class licensed institution	
1.6	Other reserves and funds*		2.2.1	Local currency	
1.6.1	Contingency Reserve		2.2.2	Foreign currency	
1.6.2	Assets revaluation Fund				
1.6.3	Capitalized Reserve Fund		2.3	With "B" class licensed institution	

	Fund			licensed institution	
1.6.4	Institutional development Fund		2.3.1	Local currency	
1.6.5	Special RF		2.3.2	Foreign currency	
1.6.6	Dividend equalization Fund		2.4	With “C” class licensed institution	
1.6.7	Other independent Fund		2.4.1	Local currency	
1.7	Capital redemption RF		2.4.2	Foreign currency	
1.8	Exchange fluctuation Fund		2.5	With other financial institution	
1.9	Investment adjustment Fund		2.5.1	Local currency	
1.10	Other funds		2.5.2	Foreign currency	
2	Borrowing		2.6	In foreign banks	
2.1	Borrowing from Nepal Rastra Bank		2.6.1	In India	
2.1.1	Refinance		2.6.2	In other countries	
2.1.2	Repo credit		3.	Money at call	
2.2	From “A” class licensed institution		3.1	In “A” class licensed institution	
2.2.1	Local currency		3.1.1	Local currency	
2.2.2	Foreign currency		3.1.2	Foreign currency	
2.3	From “B” class licensed institution		3.2	In “B” class licensed institution	
2.3.1	Local currency		3.2.1	Local currency	

2.3.2	Foreign currency		3.2.2	Foreign currency	
2.4	From “C” class licensed institution		3.3.	In “C” class licensed institution	
2.4.1	Local currency		3.3.1	Local currency	
2.4.2	Foreign currency		3.3.2	Foreign currency	
2.5	Foreign banks and financial institution		3.4	In other financial institution	
2.6	Other financial institution		3.4.1	Local currency	
2.7	Debenture and Bonds		3.4.2	Foreign currency	
3.	Deposits**		3.5	In foreign countries	
3.1	Current		3.5.1	In India	
3.1.1	Local currency		3.5.2	In other countries	
3.1.1.1	banks and financial institutions		4.	Investment in debt bonds	
3.1.1.1.1	Class “A” licensed institutions		4.1	Government of Nepal	
3.1.1.1.2	Class “B” licensed institutions		4.1.1	Treasury bills	
3.1.1.1.3	Class “C” licensed institutions		4.1.2	Development bond	
3.1.1.1.4	Class “D” licensed institutions		4.1.3	National saving bond	
3.1.1.1.5	Saving and credit cooperative institutions		4.1.4	Special debt bond	
3.1.1.1.6	Pension funds and insurance institutions		4.2	Nepal Rastra Bank debt bond	
3.1.1.1.7	Other Financial Institutions		4.3	Debt bond of Class “D” licensed	

	Institutions			institution	
3.1.1.2	Local government		4.4	Other non-financial institutions	
3.1.1.3	Non-financial government institutions		4.5	Non-residential area	
3.1.1.4	Private non-financial institutions		4.6		
3.1.1.5	Other residential areas		5.	Shares and other investment	
3.1.1.6	Non-residential areas		5.1	Investment in shares	
3.1.2	Foreign currency		5.1.1	Class “A” licensed institution	
3.1.2.1	Class “A” licensed institutions		5.1.2	Class “B” licensed institution	
3.1.2.2	Class “B” licensed institutions		5.1.3	Class “C” licensed institution	
3.1.2.3	Class “C” licensed institutions		5.1.4	Class “D” licensed institution	
3.1.2.4	Other residential areas		5.1.5	Saving and credit cooperative institutions	
3.1.2.5	Non-residential areas		5.1.6	Pension funds and insurance institutions	
3.2	Savings		5.1.7	Other Financial Institutions	
3.2.1	In local currency		5.1.8	Non-financial government institutions	
3.2.1.1	banks and financial institutions		5.1.9	Private non-financial institutions	
3.2.1.1.1	Class “A” licensed institutions		5.1.10	Non-residential areas	

3.2.1.1.2	Class “B” licensed institutions		5.2	Other investments	
3.2.1.1.3	Class “C” licensed institutions		5.2.1	In national currencies	
3.2.1.1.4	Class “D” licensed institutions		5.2.1.1	Class “A” licensed institution	
3.2.1.1.5	Saving and credit cooperative institutions		5.2.1.2	Class “B” licensed institution	
3.2.1.1.6	Pension funds and insurance institutions		5.2.1.3	Class “C” licensed institution	
3.2.1.1.7	Other Financial Institutions		5.2.1.4	Class “D” licensed institution	
3.2.1.2	Local government		5.2.1.5	Saving and credit cooperative institutions	
3.2.1.3	Non-financial government institutions		5.2.1.6	Pension funds and insurance institutions	
3.2.1.4	Private non-financial institutions		5.2.1.7	Other Financial Institutions	
3.2.1.5	Other residential areas		5.2.1.8	Non-financial government institutions	
3.2.1.6	Non-residential areas		5.2.1.9	Private non-financial institutions	
3.2.2	Foreign currency		5.2.1.10	Non-residential areas	
3.2.2.1	Class “A” licensed institutions		5.2.2	In foreign currencies	
3.2.2.2	Class “B” licensed institutions		5.2.2.1	Class “A” licensed institution	
3.2.2.3	Class “C” licensed institutions		5.2.2.2	Class “B” licensed institution	
3.2.2.4	Other residential areas		5.2.2.3	Class “C” licensed institution	

				institution	
3.2.2.5	Non-residential areas		5.2.2.4	Class “D” licensed institution	
3.3	Fixed		5.2.2.5	Saving and credit cooperative institutions	
3.3.1	Local currency		5.2.2.6	Pension funds and insurance institutions	
3.3.1.1	banks and financial institutions		5.2.2.7	Other Financial Institutions	
3.3.1.1.1	Class “A” licensed institutions		5.2.2.8	Non-financial government institutions	
3.3.1.1.2	Class “B” licensed institutions		5.2.2.9	Private non-financial institutions	
3.3.1.1.3	Class “C” licensed institutions		5.2.2.10	Non-residential areas	
3.3.1.1.4	Class “D” licensed institutions		6.	Credit and advances	
3.3.1.1.5	Saving and credit cooperative institutions		6.1	In “A” class licensed institution	
3.3.1.1.6	Pension funds and insurance institutions		6.1.1 6.1.2	Local currency Foreign currency	
3.3.1.1.7	Other Financial Institutions		6.2	In “B” class licensed institution	
3.3.1.2	Local government		6.2.1	Local currency	
3.3.1.3	Non-financial government institutions		6.2.2	Foreign currency	
3.3.1.4	Private non-financial institutions		6.3	In “C” class licensed institution	
3.3.1.5	Other residential areas		6.3.1	Local currency	

3.3.1.6	Non-residential areas		6.3.2	Foreign currency	
3.3.2	Foreign currency		6.4	“D” class licensed institution	
3.3.2.1	Class “A” licensed institutions		6.5	Other Financial Institutions	
3.3.2.2	Class “B” licensed institutions		6.5.1	Saving and credit cooperative institutions	
3.3.2.3	Class “C” licensed institutions		6.5.2	Pension funds and insurance institutions	
3.3.2.4	Other residential areas		6.5.3	Other	
3.3.2.5	Non-residential areas		6.6	Central government	
			6.7	Local government	
3.4	Money at calls		6.8	Non-financial government institutions	
3.4.1	In local currency		6.9	Private non-financial institutions	
3.4.1.1	banks and financial institutions		6.9.1	Local currency	
3.4.1.1.1	Class “A” licensed institutions		6.9.2	Foreign currency	
3.4.1.1.2	Class “B” licensed institutions		6.10	Personal	
3.4.1.1.3	Class “C” licensed institutions		6.10.1	Local currency	
3.4.1.1.4	Class “D” licensed institutions		6.10.2	Foreign currency	
3.4.1.1.5	Saving and credit cooperative institutions		6.11	Non-residential areas	

3.4.1.1.6	Pension funds and insurance institutions		7.	Bills purchase	
3.4.1.1.7	Other Financial Institutions		7.1	National bill purchase	
3.4.1.2	Local government		7.1.1	Residential	
3.4.1.3	Non-financial government institutions		7.1.2	Non-residential	
3.4.1.4	Private non-financial institutions		7.2	Foreign bills purchase	
3.4.1.5	Other residential areas		7.2.1	To be paid in India	
3.4.1.6	Non-residential areas		7.2.1.1	Residential	
3.4.2	Foreign currency		7.2.1.2	Non-residential	
3.4.2.1	Class “A” licensed institutions		7.2.2	To be paid in other countries	
3.4.2.2	Class “B” licensed institutions		7.2.2.1	Residential	
3.4.2.3	Class “C” licensed institutions		7.2.2.2	Non-residential	
3.4.2.4	Other residential areas		7.3	Import bills purchase	
3.4.2.5	Non-residential areas		8	Borrowings at bills in collection	
3.5	Certificate of deposit		8.1	On mortgage of national bills	
3.5.1	Residential		8.2	On mortgage of foreign bills	
3.5.2	Non-residential		9.	Fixed assets	
3.6	Margin accounts		9.1	Land	
3.6.1	Local currency		9.2	Building	
3.6.1.1	Residential		9.3	Furniture/fixtures	

3.6.1.2	Non-residential		9.4	Transport vehicles	
3.6.2	Foreign Currency		9.5	Computers and machinery	
3.6.2.1	Residential		9.6	Capitalized construction expenses	
3.6.2.2	Non-residential		9.7	Leasehold assets	
3.7	Guarantee of cashier		9.8	Others	
3.8	Others		10.	Other assets	
4	Bills to be paid		10.1	Interest yet to be recovered	
4.1	Local currency		10.1.1	Financial Institutions	
4.1.1	Drafts		10.1.1.1	“A” class licensed institution	
4.1.1.1	Residential		10.1.1.1.1	Local currency	
4.1.1.2	Non-residential		10.1.1.1.2	Foreign currency	
4.1.2	Pay order		10.1.1.2	“B” class licensed institution	
4.1.2.1	Residential		10.1.1.2.1	Local currency	
4.1.2.2	Non-residential				
4.2	Foreign currency		10.1.1.2.2	Foreign currency	
4.2.1	Draft		10.1.1.3	“C” class licensed institution	
4.2.1.1	Residential		10.1.1.3.1	Local currency	
4.2.1.2	Non-residential		10.1.1.3.2	Foreign currency	
4.2.2	Pay order		10.1.1.4	“D” class licensed institution	

4.2.2.1	Residential		10.1.1.5	Saving and credit cooperative institutions	
4.2.2.2	Non-residential		10.1.1.6	Pension funds and insurance institutions	
5	Other liabilities and provisions		10.1.1.7	Other Financial Institutions	
5.1	Sundry creditors		10.1.2	Non-financial government institutions	
5.2	Pension and gratuity fund		10.1.3	Private sector	
5.3	Employees Provident fund		10.1.3.1	Institutional	
5.4	Employees welfare fund		10.1.3.1.1	Local currency	
5.5	Employees training fund		10.1.3.1.2	Foreign currency	
5.6	Employees bonus provision		10.1.3.2	Personal	
5.7	Proposed and yet to be paid dividend		10.1.3.2.1	Local currency	
5.8	Income tax provisions		10.1.3.2.2	Foreign currency	
5.9	Loan loss provision		10.1.4	Non-residential	
5.9.1	General loan loss provision		10.2	Stationary stock	
5.9.2	Special loan loss provision		10.3	Staff borrowing/advance	
5.9.2.1	Substandard loan loss provision		10.4	Sundry debtors	
5.9.2.2	Doubtful loan loss provision		10.5	Advance payment	

	provision				
5.9.2.3	Loss loan loss provision		10.6	Clearing cheque	
5.9.3	Additional loan loss provision		10.6.1	Local currency	
5.10	Interest suspension accounts		10.6.2	Foreign currency	
5.10.1	Until the last year		10.7	Cash in transit	
5.10.2	This year's additional		10.8	Drafts paid without notice	
5.10.3	Recovered this year		10.9	Advance tax payment	
5.11	Interest to be paid on deposit		10.10	Reverse Repo amount	
5.11.1	Savings		10.11	Others	
5.11.2	Fixed		11.	Expenditures yet to be written off	
5.11.3	Others		12.	Non-banking assets	
5.12	Deposit interest tax		13.	Accounts settling	
5.13	Depreciation fund		13.1	Central office	
5.14	Income not matured yet		13.2	Branch office	
5.15	Others		13.3	Pension	
6	Settlement of accounts		13.4	Government transaction	
6.1	Central office		13.5	Loan fund	
6.2	Regional/branch offices		14	Contra accounts	
6.3	Pension		14.1	Bills in collection	
6.4	Government transaction		14.1.1	Local currency	

6.5	Debt fund		14.1.1.1	Residential	
7	Contra accounts		14.1.1.2	Non-residential	
7.1	Bills in collection		14.1.2	Foreign currency	
7.1.1	Local currency		14.1.2.1	Residential	
7.1.1.1	Residential		14.1.2.2	Non-residential	
7.1.1.2	Non-residential		15	Profit/loss accounts	
7.1.3	Foreign currency		15.1	Until the last month	
7.1.2.1	Residential		15.2	Of this month	
7.1.2.2	Non-residential				
8	Profit/loss accounts				
8.1	Until the last month				
8.2	Of this month				
Total				Total	

Note: Even if there is no amount under any head specified above, the head shall be left as it is and no alteration may be allowed in the format. The transactions made in the sub-heads of this form shall be compulsorily be shown in the specified place and they shall be added up to the main head adding through each sub-head.

Off-balance sheet transactions (possible liabilities)

1. Claims on institution but the institution not accepted the liabilities
2. L/C (full amount without deducting margin)
 - a. Of less than six months
 - b. Of more than six months
3. Rediscounted bills
4. Guarantee bond not matured
 - a. Bid bond
 - b. Performance bond
5. Paid or yet to be paid share investment
6. Remaining liabilities of forward exchange contract

7. Bills in collection
 - a. Local currency
 - b. Foreign currency
 8. Acceptance and endorsement
 9. Underwriting commitment
 10. Irrevocable loan commitment
 11. Guarantee issued against the counter guarantee of internationally rated bank
 12. Advance payment guarantee
 13. Financial guarantee
 14. Contingent liabilities on income tax
 15.
-

* The amount in investment under other reserves and funds shall also be disclosed.

** Names of the licensed institutions shall be stated. Separate form may be used for this.

The statement prepared by:

Name:

Designation:

Signature:

Date:

The official to submit the statement

Name:

Designation

Signature:

Date:

.....Limited

Profit and loss accounts

Fromto(monthly)

Expenses	Up to the last month Rs.	Up to this month Rs	Incomes	Up to the last month Rs.	Up to this month Rs
1 Interest expenses			1 Interests income		
1.1 In deposit liabilities			1.1 In loan and advance		
1.1.1 In savings			1.2 In investment		
1.1.2 In fixed accounts			1.2.1 Bond of Government of Nepal		
1.1.2.1 In the fixed accounts up to three months			1.2.2 Foreign bond		
1.1.2.2 In the fixed accounts from three months to six months			1.2.3 Bond of Nepal Rastra Bank		
1.1.2.3 In the fixed accounts from six months to one year			1.2.4 Debenture and Bond		
1.1.2.4 In the fixed accounts of more than one year			1.3 In agency balance		
1.1.3 In deposit to be paid on call			1.4 In the balance to be received in short notice and on demand		
1.1.4 In the certificate of deposit			1.5 In others		
1.2 Inter bank/financial institution borrowings			2 Commission and discount		
1.2.1 Nepal Rastra Bank			2.1 Bills purchase and discount		

1.2.2 Inter bank/financial institution			2.2 Commission		
1.2.3 Other borrowings			2.3 Others		
2 Commission expenses			3 Exchange fluctuation income		
3 Staff expenses			3.1 From exchange rate difference		
4 Operational expenses			3.2 From foreign currency transaction (except percent)		
5 Exchange fluctuation loss			4 Other operational incomes		
5.1 From fluctuation of exchange rate			5 Non-operational incomes		
5.2 From foreign currency transaction (except batta)			6 Withdrawal from risk provision (income)		
6. non-operational expenses			6.1 General loan loss provision		
7 Risks provisioning			6.2 Special loan loss provision		
7.1 General loans loss provision			6.2.1 Substandard loan loss provision		
7.2 special loan loss provision			6.2.2 Doubtful loan loss provision		
7.2.1 substandard loan loss provision			6.2.3 Loss loan loss provision		
7.2.2 Doubtful loan loss provision			6.3 Non-banking assets loss provisioning		
7.2.3 Loss loan loss provision			6.4 Loss provisioning in investment		
7.3 Non-banking assets loss provisioning			6.5 Loss provisioning in other assets		
7.4 Loss provisioning in investment			6.6 Additional loan loss provision		

investment			provision		
7.5 Loss provisioning in other assets			7 Recovery of the written off loans		
7.6 Additional loan loss provision			8 Net loss income from extraordinary transactions		
8 Writing off of loans that could not be recovered			9 Net loss		
9 Expenses from extraordinary transactions					
10 Staff bonus provisioning					
11 Income tax provision					
12. Net profit					
	Total				

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the details:

Signature:

Name:

Designation:

Date:

Note:

- 1) *The monthly depreciation costs and other costs shall be included under the concerned costs.*
- 2) *While preparing the accounts of profit and loss at the end of every quarter, accounts shall be maintained depicting the true picture of alteration of the amount in the loss provisions including the loan loss.*
- 3) *The bank management shall have to estimate appropriately for staff bonus and income tax and appropriate provision shall be made for the concerned periods and accounts shall be maintained.*

.....Limited

Statement of loan and advance according to sectoral (purpose) (monthly)

S. No.	Industries/sectors	Due up to last day of the last month		Disbursed in this month		Recovery in this month		Due to be recovered until the last day of the month			Overdue		
		Number	Principal	Number	Principal	Number	Principal	Number	Principal	interests	Number	Principal	interests
1	Relating to Agriculture and forestry												
1.1	Crops/ crops services												
1.2	Tea/ Coffee												
1.3	Tobacco												
1.4	Jute												
1.5	Livestock/Livestock services/slaughter houses												
1.6	Forests												
1.7	Irrigation												
1.8	Other agriculture and agricultural services												
2	Fisheries												
3	Mines												
3.1	Metal and ore (iron ore, glass)												
3.2	Coal												
3.3	Limestone												
3.4	Magnetite												
3.5	Limestone												
3.6	Extraction of oils and gas												
3.7	Others relating to mines												
4	Manufacturing												

4.1	Food production(packing, processing)												
4.2	Agricultural and forestry related production												
4.2.1	Sugar												
4.2.2	Tobacco processing												
4.2.3	Saw mills and furniture production												
4.2.4	Others												
4.3	Drinks (beer, wines, soda and so on)												
4.3.1	Liquor												
4.3.2	Non-liquor												
4.4	Handicrafts												
4.5	Textile production and readymade garments												
4.6	Paper and allied production												
4.7	Printing and publication												
4.8	Medicines												
4.9	Processed coal and coals production												
4.10	Resin and turpentine												
4.11	Rubber tyres												
4.12	Leather												
4.13	Plastic												
4.14	Cement												
4.15	Stone, soil and grass products												
4.16	Other construction materials												
4.17	Metal-basic iron and steel plants												

4.18	Metal-other plants/workshops													
4.19	Miscellaneous production													
5	Construction													
5.1	Residential (home use)													
5.2	Non-residential (commercial purposes)													
5.3	Heavy construction (highway, bridges and so on)													
6	Electricity, Gas, water													
6.1	Electricity services													
6.2	Gas and gas pipeline services													
7	Metal products, machinery and electronic tools and installation													
7.1	Fabricated metal items													
7.2	Machinery tools													
7.3	Machinery-agricultural													
7.4	M- construction, oil areas, mines related													
7.5	M-Office and computing													
7.6	M- all others													
7.7	Electronic appliances													
7.8	Household appliances and other durable items													
7.9	Communication instruments													
7.10	Electronic spare parts													

7.11	Surgical instruments													
7.12	Generators													
7.13	Turbines													
8	Transport, storage and communication													
8.1	Motor vehicles, spare parts and accessories													
8.2	Jet-boat/water transport													
8.3	Aircraft and aircraft spare parts													
8.4	Other transport related products													
8.5	Railway track and means of transport of road passengers													
8.6	Truck services and godown services													
8.7	All other services													
9	Dealers and retailers													
9.1	Dealers – durable items													
9.2	Dealers – non-durable items													
9.3	Automotive dealers/franchises													
9.4	Other retail trade													
9.5	Import trade													
9.6	Export trade													
10	Finance, insurance and immovable property													
10.1	Class “A” Licensed Institution													
10.2	Class “B” Licensed Institution													

	Institution												
10.3	Class "C" Licensed Institution												
10.4	Class "D" Licensed Institution												
10.5	Savings and credit cooperative institutions												
10.6	Pension Fund and insurance institutions												
10.7	Other Financial Institutions												
10.8	Non-financial government institutions												
10.9	Private non-financial institutions												
10.11	Other investment institutions												
10.12	Real estate												
11	Hotels and Restaurants												
11.1	Tourism services (trekking, travel agencies, mountaineering, resort, rafting, camping and so on)												
11.2	Hotel (including other services)												
11.3	Entertainment, recreation, cinema												
12	Other services												
12.1	Advertisement services												
12.2	Automotive services												
12.3	All other service companies												
12.4	Hospitals, clinics												
12.5	Education services												

13	Consumer loans												
13.1	Gold, silver												
13.2	Fixed deposit receipt												
13.3	Securities												
13.4	Credit card												
13.5	Hire purchase (including personal loans)												
14	Local government												
15	Others												

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the details:

Signature:

Name:

Designation:

Date:

.....Bank/financial institution

Statement of productwise loan and advance according to purpose

.....Month,.....Year (Monthly)

S. No.	Heads	Of the last month			Of this month		
		Funded	Non-funded	Total	Funded	Non-funded	Total
1	Term loan						
	(a) Industrial institution						
	(b) Commercial institution						
	(c) Services, business institution						
	(d) Others						
2.	Overdraft						
	(a) Industrial institution						
	(b) Commercial institution						
	(c) Services, business institution						
	(d) Others						
3	trust receipt loans/Import loans						
	(a) Industrial institution						
	(b) Commercial institution						
	(c) Services, business institution						
	(d) Others						
4	Demand and other working capital loan						

	(a) Industrial institution						
	(b) Commercial institution						
	(c) Services, business institution						
	(d) Others						
5	Real estate loans						
	(a) House/Land development companies/firms						
	(b) Personal loan above ten million						
	(c) Personal loan above five million and up to ten million						
	(d) Loans extended for constructing commercial complex						
	(e) Others						
6.	Margin type lending						
	(a) Lending more than ten million						
	(b) Lending from five million to ten million						
	(c) Lending from 2.5 million to five million						
	(d) Lending less than Rs. 2.5 million						
7	Residential home loan						
8	Hire purchase loans						

	(a) Commercial purpose						
	(b) Personal purpose						
9.	Deprived sector lending						
10	Bills purchase						
11	Other products						
	(a) Credit Card						
	(b) Educational loans						
	(c) Small and medium-range entrepreneurs loans						
	(d).....						
	(e).....						
	(f).....						
	Total						

Explanations:

- 1) Term Loan: *The term loan under table this means the loan extended in the nature of capital expenses for a period of more than one year. The term loan of less than one year shall have to be exhibited in the demand or other current capital loan head. Similarly, the residential housing loans, real estate loans, hire purchase loans of any term extended and to be repaid in installment or at once, shall not have to be stated under head and they shall have to be stated in their respective heads.*
- 2) Overdraft Loan: *banks and financial institutions which are entitled to make available overdraft facilities shall have to exhibit the outstanding amount under this head which is due after making available overdraft limit to its individual or institutional customers or after making available overdrawn facility in the current deposit account.*
- 3) Trust receipt Loan/Import Loan:

The import loan made available for the purpose of importing goods through L/C shall have to be exhibited as the trust receipt loan. In case there are other loans extended under this head, such other import loans shall also be included in this head.

4) Demand and other working Capital Loan:

All loans in the nature of current capital including hypothecation, working capital, short term loans, demand loans, time loans, cash credit shall be included under the demand and other current capital loan.

5) Real Estate Credit and Advance:

The following loan and advance shall be taken as the loan and advance extended for the purpose of real estate:-

- a) Credit extended to any firm, company or institution established with the objective of developing any land and constructing a building;*
- b) The loan of five million rupees or above extended against the collateral of land or building without disclosing any purpose;*

In case the banks and financial institutions extending loans through various products (such as personal loans, mortgage loans, flexi loans and so on) having mortgaged land or house without disclosing the purpose shall also have to be calculated as the real estate loan.

c) Loan extended for constructing any commercial complex:

Provided that none of the following loans shall be regarded as the real estate loan:-

- i. Housing loans extended for residential purpose which may be sustained by the regular income sources;*
- ii. The loans to which a house or land is mortgaged in addition to other securities for regular commercial loans by the commercial firms/companies other than those engaged in land development and house construction;*

6) Margin Type Lending:

The loans extended having mortgaged as security the shares or debentures of any listed company while extending loans to any person or institution shall be taken as the margin type lending.

Provided that if shares or debentures of a listed company have been mortgaged as additional security in the loans extended for other purposes, such loans shall not be regarded as the margin type lending.

7) Residential Housing Loan:

Under this head, the outstanding amount of housing loan extended to a customer for house construction or purchase fixing the installment having regard to the income sources by the banks and financial institutions has to be exhibited.

8) Hire Purchase Loans:

Under this head, the loans extended to purchase any transport vehicles or goods for letting them out in commercial manner or using it shall be regarded as the commercial purpose loan under the hire purchase but the outstanding amount of loans extended to the customer to purchase a transport vehicle or goods have to be exhibited under personal hire purchase loan. Other loans for purchasing other products (auto loan, vehicles loan) shall also have to be exhibited under this head.

9) Deprived Sector Lending:

The outstanding amount of the loan to be extended to the deprived sector subject to the Directives of Nepal Rastra Bank shall be exhibited under this head.

10) Bills purchase:

The outstanding amount of cheques, drafts and export bills purchased by banks and financial institutions shall be exhibited under this head.

11) Other Products:

If there is any product other than those referred to the above used by the banks and financial institutions, such product has to be exhibited under this head. The total of all amounts from S. No. 1 above to this head shall have to be matched with the total loan and advance of the bank and financial institution.

12) Industrial Institution:

The loan and advance extended to the institutions manufacturing any goods or producing any goods from the use of any raw material or semi-processed goods having used any machine/labor of human being thereby adding the value of goods shall be exhibited under this head. For example, steel industries, cement industries, electrical industries, jute industries, wire industries, carpet industries, garment industries and so on.

13) Commercial Institution:

The outstanding amount of loan and advance extended to the commercial institutions that do not carry out any additional processing work but only engage in sale/purchase of goods shall have to be exhibited under this head. For example, National Trading Limited, Salt Trading Limited, General Trading and so on.

14) Service Business Institutions:

The loan and advance extended to the institutions, which do not produce any goods nor sell or purchase any goods, but established with the objective of extending services to the customers shall have to be exhibited under this head. Such institutions may be profit-making or philanthropic both, such as telecommunications, schools/college, nursing homes, hospitals, hotels and so on.

.....Limited

Statement of loan and advance according to collateral security (monthly)

Statement of the month ofof the year.....

	Collateral security	Due until last month		Disbursed this month		Recovery of this month		Due to be recovered until the month end			Overdue		
		Number	principal	Number	principal	Number	principal	Number	principal	interest	Number	principal	interest
1	Gold and silver												
2	Government securities												
3	Non-government securities												
4	Fixed receipt												
4.1	Of one's own institution												
4.2	Of other licensed institutions												
5	Securities of												

	property												
5.1	Fixed assets												
5.1.1	House and land												
5.1.2	Machinery and equipment												
5.1.3	Furniture and fixtures												
5.1.4	Transport vehicles												
5.1.5	Other fixed assets												
5.2	Current assets												
5.2.1	Agriculture products												
5.2.1.1	Paddy/Rice												
5.2.1.2	Jute												
5.2.1.3	Other agricultural products												
5.2.2	Other non-agricultural products												

5.2. 2.1	Raw materials												
5.2. 2.2	Semi-proposed goods												
5.2. 2.3	Readymade goods												
5.2. 2.4	Salt, sugar, ghee, oil												
5.2. 2.5	Fabrics												
5.2. 2.6	Other goods												
6	Securities of bills												
6.1	National bills												
6.2	Foreign Bills												
6.2. 1	Import bills and L/C												
6.2. 2	Export Bills												
6.2. 3	Against security of export bills												
6.2. 4	Other foreign bills												
7	Extended against guarantee												

	e												
7.1	Government guarantee												
7.2	Institutional guarantee												
7.3	Personal guarantee												
7.4	Group guarantee												
7.5	Guarantee of internationally rated banks												
7.6	Other guarantee												
8	Credit/debit card												
9	Other												
	Total												

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

.....Limited

Statement of Deprived sector Lending (Quarterly)

Statement of the month ofof the year.....

	Credit head	Due until last month		Disbursed this month		Recovery of this month		Due to be recovered until the month end			Overdue	
		Number	principal	Number	principal	Number	principal	Number	principal	interest	Number	prin
1	Total loan and advance (Bills purchase and discount as well)											
2	Deprived sector lending (a) Direct lending 1. Agriculture 2. cottage Industries 3. Services 4. Others (b) Indirect lending (i) Wholesale lending 1. 2 (ii) Share Lending											
3	Youth self employment lending											
	Total											
	Total overdue credit before six months											
	Ratio of total overdue credit before six months											

Note: The amount of wholesale lending and share lending under the indirect lending shall have to be stated separately.

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

.....Limited

Statement of loan and advance extended to Directors/Chief Executive/Promoter/Employees and shareholders

Statement of the month of.....of

Name of Promoter/Director/ Chief executive	Overdue until last year		Recovery in this Quarter		Due until this year	
	Principal	Interest	Principal	Interest	Principal	Interest
(a) Directors:						
1.						
2.						
(b) Chief Executive						
1.						
2.						
(c) Promoter						
1.						
2.						
(d) Staff						
1.						
2.						
(e) Shareholders						
1.						
2.						
Total						

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

.....Limited

Statement of credit extended to Government Corporations

Statement of the month of.....of the year.....

	Name of Corporation	Objective of credit	Due until last month		Disbursed this month		Recovery of this month		Due to be recovered until the month end			Overdue		
			Number	principal	Number	principal	Number	principal	Number	principal	interest	Number	principal	interest
1	Industrial corporations (a) (b) (c) (d)													
2	Commercial corporations (a) (b) (c) (d)													
3	Financial corporations (a) (b) (c) (d)													
4	Service-oriented corporations (a) (b) (c) (d)													
5	Other corporations (a) (b) (c) (d)													
	Total													

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

.....licensed institution

Statement of deposit

Statement of the month of ..of the year

Amount in Rs. hundred thousand

	Details of account holder	Current	Savings	Fixed	Amount to be paid on demand	Certificate of deposit	Margin	other	Total (from (1) to (7))
		1	2	3	4	5	6	7	
(A)									
1	Foreign organizations and individuals								
1.1	Foreign diplomatic and missions								
1.2	Projects being operated by foreign governments								
1.3	International organizations including the UN								
1.4	Other non-governmental foreign organizations								
1.4.1	Residential								
1.4.2	Non-residential								
1.5	Foreign banks								

1.6	Other Financial Institutions								
1.7	Foreign airlines								
1.8	Pension camps of foreign governments								
1.8.1	Indian Government								
1.8.2	British Government								
1.9	Foreign nationals								
1.9.1	Residential								
1.9.2	Non-residential								
1.10	Others								
1.10.1	Residential								
1.10.2	Non-residential								
2	Municipalities, VDCs and District Development Committees								
3	Financial Institutions								
3.1	Financial Institutions accepting deposits								
3.1.1	Class 'A' licensed								

	institutions (including banking transaction of Agricultural Development Bank)								
3.1.2	Class “B” licensed institutions								
3.1.3	Class “C” licensed institutions								
3.1.4	Class “D” licensed institutions								
3.1.5	Cooperative societies (limited banking transaction)								
3.1.6	NGOs (limited banking transaction)								
3.1.7	Postal saving Banks operated by Postal Services Department (Saving deposit only)								
3.2	Other Financial Institutions								
3.2.1	Nepal Industrial Development Corporation								

3.2.2	Agricultural Development Bank (except banking transaction)								
3.3	Financial Institutions not accepting deposits								
3.3.1	Insurance Corporations and companies								
3.3.2	Employees Provident Fund								
3.3.3	Citizen Investment Fund								
3.3.4	.....							
3.4	Other subsidiary financial units								
3.4.1	Rural self-employment Fund								
3.4.2	Money Changer								
3.4.3	Stock brokers								
3.4.4	Stock Exchange Center								
3.4.5	.....							
4	Non-Financial institutions								
4.1	Government agencies and								

	agencies and organizations								
4.1.1	Industrial								
4.1.2	Commercial								
4.1.3	Other								
4.2	NGOs and companies								
4.2.1	Industrial								
4.2.2	Commercial								
4.2.3	Other								
5	Non-profit making organizations								
5.1	Schools, Colleges								
5.2	Hospitals nursing homes								
5.3	Others								
5.3.1	Residential								
5.3.2	Non-residential								
6	Personal								
6.1	Residential								
6.2	Non-residential								
7	Others								
7.1	Residential								
7.2	Non-residential								

8 Guarantee of Cashier									
Total of amount in deposit in local currency (1-8)									
(B)									
1	Accounts opened in foreign currencies								
1.1	Foreign organizations and individuals								
1.2	Foreign diplomatic and missions								
1.3	Projects being operated by foreign governments								
1.4	International organizations including the UN								
1.4.1	Other non-governmental foreign organizations								
1.4.2	Residential								
1.5	Non-residential								
1.6	Foreign banks								
1.7	Other Financial Institutions								

1.8	Foreign airlines								
1.8.1	Pension camps of foreign governments								
1.8.2	Indian Government								
1.9	British Government								
1.9.1	Foreign nationals								
1.9.2	Residential								
1.10	Non-residential								
1.10.1	Others								
1.10.2	Residential								
2	National organizations, companies								
2.1	Class 'A' licensed institutions								
2.2	Other residential sectors								
2.3	Non-residential sector								
3	Personal								
3.1	Residential								
3.2	Non-residential								

Total of amount in deposit in foreign currencies (1-3)								
Total amount (A)+(B)								
Total number of accounts								

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

..... Limited

Statement of foreign assets (Monthly)

Statement of the month ofof the year.....

Foreign assets	Foreign Currency	Foreign bank deposit	Domestic bank/financial institution deposit	Lending to national bank/financial institution	Amount to be received on demand	Foreign bills purchased and paid	Treasury bills of foreign government	Foreign bonds	Debit balance shown by adjustment	other
American Dollar										
Euro										
Swiss franc										
Australian dollar										
Canadian Dollar										
Singapore Dollar										
Japanese yen										
Swedish Kroner										
Danish Kroner										
Hong Kong Dollar										
Saudi Arab Riyal										
Qatari riyal										
Chinese Yuan										
Indian currency										
Total										

Prepared by

Officer submitting the statement:

Signature:

Signature:

Name:

Name:

Designation:

Designation:

Date:

Date:

NRB Directive Form No. 9.10

..... Limited

Statement of fixed accounts according to rate of interest and amount (Monthly)

Statement of the month ofof the year.....

Heads	Interest rate	Up to Rs. 50,000/-		From Rs. 50,001 to 100,000/-		From Rs. 100,001 to 500,000/-		From Rs. 500,001 to 10,000,000/-		More than 10,000,000/-		Total	
(a) Of 7 days%												
(b) Of 15 days%												
(a) Of 7 days%												
(c) Of one month%												
(d) Of 3 months%												
(e) Of 6%												

months													
(f) Of 1 year%												
(g) Of 2 years%												
(h) of 3 years and more%												
	Total												

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

.....limited

Statement of the loans to be recovered from large borrowers (Quarterly)

Statement of the month ofof the year.....

Name of borrower	Objective of loan	Total loan and facilities extended	Total amount in investment				Facilities(Off balance sheet transaction)			
			Total amount due to be recovered		Overdue amount out of the total amount due to be recovered		Type of transaction	Approved limit	Period of facilities	Amount utilized
			Principal	interest	Principal	interest				
Total										

Note:

1. "Large borrower" means the borrower borrowing ten million or more in case of Class "A" licensed institution and borrowing five million or more in case of other licensed institution.
2. In case various companies of the same group has borrowed the money separately but their sum total is above the said limit, the loans extended to each of them has to be stated even if it does not cross the limit.

Prepared by

Signature:

Name:

Designation:

Date:

Officer submitting the statement:

Signature:

Name:

Designation:

Date:

.....Limited

Statement of Overdue Credit and Advance according to Duration

Statement of the month ofof the year.....

(in Rs. hundred thousand)

Sector of lending	Total loan extended		Not overdue		Overdue by 3 months		Overdue by 3 to 6 months		Overdue by 6 months to 1 year		Overdue by more than 1 year		Total overdue credit	
	Credit No.	Amount	Credit No.	Amount	Credit No.	Amount	Credit No.	Amount	Credit No.	Amount	Credit No.	Amount	Credit No.	Amount
1. Relating to agriculture and forests														
2. Relating to fisheries														
3. Relating to mines														
4. Relating to production														
5. Relating to construction														
6. Relating to electricity, gas and water														
7. Relating to metal products machinery, electronic equipments and installation														
8. Relating to transport, storage and communication														
9. Wholesale and retail trade														
10. Finance, insurance, real estate														
11. hotel and restaurant														
12. other services														
13. Consumer loans														
14. local government														
15. Others														
Total														

.....Limited

Statement of Interbank Transaction (Daily)

(in Rs. hundred thousand)

Transaction date	Name of the bank of transaction	Borrowing	Lending	Interest rate	Period	Remarks
Total Amount						

.....Limited
 Quarterly Financial Statement

(in Rs. thousand)

S. No.	Description	In this quarter	Last quarter	Concerned quarter of last year
1	Total capital and liabilities (From 1.1 to 1.7)			
1.1	Paid up capital			
1.2	Reserves and funds			
1.3	Debenture and bonds			
1.4	Borrowings			
1.5	Deposit liabilities (i+ii)			
	(i) local currency			
	(ii) Foreign currency			
1.6	Income tax liabilities			
1.7	Other liabilities			
2	Total assets (from 2.1 to 2.7)			
2.1	Cash and bank deposits			
2.2	To be received on demand and short notice			
2.3	Investment			
2.4	Credit and advance			
	(i) Real Estate credit			
	(ii) Housing loan Credit			

	(iii) Margin lending			
	(iv) term loan			
	(v) Overdraft/trust receipt/current capital loans			
	(vi) Other loans			
2.5	Fixed assets			
2.6	Non-banking assets			
2.7	Other assets			
3	Profit and loss account	This quarter	Last quarter	Concerned quarter of last year
3.1	Interest income			
3.2	Interest expenses			
(A)	Net interest income (from 3.1 - 3.2)			
3.3	Fees, commissions and discounts			
3.4	Other operational income			
3.5	Exchange fluctuation income(net)			
(B)	Net operational profit (A+3.3 to 3.5)			
3.6	Staff expenses			
3.7	Other operational expenses			
(C)	Operational profit before loss provisioning (B-3.6-3.7)			
3.8	Possible loss provisioning			

(D)	Operational profit (C-3.8)			
3.9	Non –operational income/expenses net			
3.10	Written Back from possible loss provisioning			
(E)	Income/expenses from regular transaction (D+3.9+3.10)			
3.11	Income from extraordinary transaction and expenses(net)			
(F)	Profit before Bonus and tax (E+ 3.11)			
3.12	Staff bonus provision			
3.13	Income tax provisioning			
(G)	Net profit/loss (F-3.12-3.13)			
4	Ratios	This quarter	Last quarter	Concerned quarter of last year
4.1	Capital Fund/risk weight assets			
4.2	Non-performing loans/total loans			
4.3	Possible loss provisioning /total non-performing loans			
4.4	Costs of funds			
4.5	Credit deposit ratio (according to directives of this Bank)			

Prepared by

submitted by

.....Limited

Statement relating to ATM debit card, Credit card (quarterly)

	ATM	Debit card	Credit card
Number until last year			
Added in this year			
Total			
Details as to places where ATM have been added			

Prepared by

submitted by

.....Limited

Statement relating to Branches (Quarterly)

S No.	Name and address of branch	District	remarks
Total			

The monthly statistical details to be furnished to the Banks and Financial Institutions Regulation Department, the concerned Supervision Department and to the Micro Finance Department of Nepal Rastra Bank by the micro credit development banks carrying out transaction upon obtaining license from Nepal Rastra Bank.

Fiscal Year.....Month.....

(Amount in thousand rupees)

Details		Number/Amount
District having the working area	Until the end of the last year	
	Until this month of this Fiscal Year	
Total number of branches	Until this month of this Fiscal Year	
VDC having the working area	Until this month of this Fiscal Year	
Number of centres	Until this month of this Fiscal Year	
Total staff	Until this month of this Fiscal Year	
Population under service coverage	Until the end of the last year	
	Of this month	
	Until this month of this Fiscal Year	
Number of groups	Until the end of the last year	
	Until this month of this Fiscal Year	
Number of active groups	Until the end of the last year	
	Until this month of this Fiscal Year	
Number of members	Until the end of the last year	
	Until this month of this Fiscal Year	
Number of active members	Until the end of the last year	

	Until this month of this Fiscal Year	
Number of borrowers	Until the end of the last year	
	Until this month of this Fiscal Year	
Number of active borrowers	Until the end of the last year	
	Until this month of this Fiscal Year	
General credit financing	Until the end of the last year	
	Until this month of this Fiscal Year	
General principal recovery	Until the end of the last year	
	Of this month	
	Until this month of this Fiscal Year	
General outstanding credit	Until the end of the last year	
	Until this month of this Fiscal Year	
General overdue credit	Until the end of the last year	
	Until this month of this Fiscal Year	
General loan loss provisioning	Until the end of the last year	
	Until this month of this Fiscal Year	
General interest	Until the end of the last year	
	Until this month of this Fiscal Year	
Other loan investment	Until the end of the last year	
	Until this month of this Fiscal Year	
Recovery of other principal	Until the end of the last year	
	Until this month of this Fiscal Year	
Other outstanding dues	Until the end of the last year	
	Until this month of this Fiscal Year	

Other overdue loans	Until the end of the last year	
	Until this month of this Fiscal Year	
Other loans loss provisioning	Until the end of the last year	
	Until this month of this Fiscal Year	
Other interest	Until the end of the last year	
	Until this month of this Fiscal Year	
Group fund loan investment	Until the end of the last year	
	Until this month of this Fiscal Year	
Group fund principal recovery	Until the end of the last year	
	Until this month of this Fiscal Year	
Group fund loan outstanding	Until the end of the last year	
	Until this month of this Fiscal Year	
Group fund loans overdue	Until the end of the last year	
	Until this month of this Fiscal Year	
Number of small and micro credit borrowers	Until the end of the last year	
	Until this month of this Fiscal Year	
small and micro credit investment	Until the end of the last year	
	Until this month of this Fiscal Year	
Recovery of small and micro credit	Until the end of the last year	
	Until this month of this Fiscal Year	
Outstanding small and micro credit	Until the end of the last year	
	Until this month of this Fiscal Year	
Overdue small and micro credit	Until the end of the last year	
	Until this month of this Fiscal Year	

Loan loss provisioning for small and micro credit	Until the end of the last year	
	Until this month of this Fiscal Year	
Interests of small and micro credit	Interest due until the end of the last year	
	Recovery of interest of this month of this Fiscal Year	
	Recovery of interest until this month of this Fiscal Year	
	Outstanding interest until this month of this Fiscal Year	
Compulsory savings	Until the end of the last year	
	Until this month of this Fiscal Year	
Voluntary savings	Until the end of the last year	
	Until this month of this Fiscal Year	
Other savings	Until the end of the last year	
	Until this month of this Fiscal Year	
Number of total depositors	Until the end of the last year	
	Of this month of this Fiscal Year	
	Until this month of this Fiscal Year	

Note: *In case the statistics could not be made available, it shall be mandatory to send the estimated statistics.*

Prepared by

Submitted by

The statistical details to be furnished to the concerned Departments of this Bank by the licensed institutions through electronic medium as well (e-mail):

Schedule/Form No.	Subject	Type of statistics	Time-limit to send	Name of the Department to which the statistics have to be sent
11 and 12	Capital Fund and risk weight assets	Monthly	Within one month	Banks and Financial Institutions Regulation Department and concerned Supervision Department
2.1	Credit advance and provisioning	Quarterly	Within one month	Banks and Financial Institutions Regulation Department and concerned Supervision Department
2.2 and 2.3	Credit and non-banking assets according to customers	Quarterly	Within one month	Banks and Financial Institutions Regulation Department and concerned Supervision Department
According to Point 7 of Directive No.3	Credit details of the inter-connected customers	Semi-annually	Within one month	Banks and Financial Institutions Regulation Department and concerned Supervision Department
5.1	Liquidity monitoring	Quarterly	Within 15 days	Concerned Supervision

	details			Department
5.2	Interest rate risks monitoring details	Quarterly	Within 15 days	Concerned Supervision Department
5.3	Foreign exchange monitoring details	Weekly	Within 7 days	Concerned Supervision Department
9.1, 9.2, 9.3, 9.3(A), 9.4, 9.7, 9.8 and 9.9	Monthly statistics details	Monthly	Within 15 days	Banks and Financial Institutions Regulation Department and concerned Supervision Department
9.5, 9.6, 9.10, 9.11 and 9.12	Quarterly statistics details	Quarterly	Within 15 days	Banks and Financial Institutions Regulation Department and concerned Supervision Department
9.13	Inter-bank transaction details	Daily	Within 10.00 AM the next day	Banks and Financial Institutions Regulation Department
9.14	Quarterly financial highlights	Quarterly	Within 35 days	Banks and Financial Institutions Regulation Department and concerned Supervision Department
9.15	Details relating to ATM, debit card, and credit card	Quarterly	Within 15 days of the expiry	Banks and Financial Institutions Regulation Department and

				Department and concerned Supervision Department
9.17 (for Class “D” micro credit development bank)	Statistical details	Monthly	Within 15 days of the completion of each month	Banks and Financial Institutions Regulation Department and concerned Supervision Department
13.1	Compulsory Reserve details	Weekly	Within 7 days	Banks and Financial Institutions Regulation Department
13.2 (for Class “D”)	Compulsory Reserve and liquidity details	Monthly	Within 15 days	Banks and Financial Institutions Regulation Department
9.16	Branch offices details	Quarterly	Within 15 days	Banks and Financial Institutions Regulation Department and concerned Supervision Department
	Details of rate of interest	Quarterly	Within 7 days	Banks and Financial Institutions Regulation Department and concerned Supervision Department

Note: The Class “D” Micro Credit Development Banks may send only the details of the transaction they have carried out based on their nature of transaction. The details, other than those referred to in these Directives, shall have to be regularly furnished to other Departments/offices of this Bank.

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directive No. 10/067

Subject: Provisions Relating to Transfer or Sale of Promoters Shares of licensed institutions

The following Directives have been issued having exercised the power conferred by Section 79 of the Nepal Rastra Bank Act, 2002 with regard to transfer or sale of promoter shares by a licensed institution to any person or institution:-

1. Shares held by promoter or shareholders under the promoters' group may be transferred, on their demise or breaking up of the joint family, in the name of their legal heir or nominees according to the existing legal provisions. Information thereof shall be given to this Bank within 15 days.
2. **Transfer or sale of shares of Promoters or Group of Promoters**

Subject to the laws in force for the time being, the promoters or shareholders under the promoters group may transfer or sell their shares upon fulfillment of the following procedures: -

- a) Prior to transfer or sale of shares held by them, approval of this Bank shall be compulsorily obtained through the concerned financial institution. The transfer agreement between the promoters shall be executed according to the existing law, the information of which shall be given to this Bank within 15 days.
- b) Except in the case of transfer to the legal heir on death, the promoters shall transfer or sell the shares to the promoters within the same group only.
- c) Only where the transfer or sale of shares within the same promoter group as specified in sub-clause (b) above is not possible, shares may be transferred or sold to other individual or institution subject to these Directives. The individual or institution acquiring shares of promoter group shall be included under the same group to which the individual or institution who sold the shares belongs.

- d) The promoters shall not transfer or sell their shares to the individual or institution falling under the following class:
- (1) Not completed a period of at least three years from the date of removal from the blacklist after having been blacklisted by the Credit Information Bureau Ltd.;
 - (2) Having been appointed as an internal or external auditor of the concerned licensed institution.
 - (3) Assuming in the office of legal or other advisor of the concerned licensed institution.
 - (4) Being a partner in any type of contract entered into with the concerned licensed institution.
 - (5) Having not cleared tax according to the existing law or having not regularized the taxpayers' Permanent Account Number.
 - (6) Having been convicted by a court of law of an offence involving dishonesty or malafide intention in respect of transaction with any licensed institution.
 - (7) A stockbroker or market maker.
 - (8) Having obtained a loan from the concerned licensed institution. However, this provision shall not be applicable to the "D" class financial institutions licensed by this Bank.
 - (9) Having held less than fifteen percent of the issued share capital of the licensed institution and with the transfer or purchase of additional shares, results in increasing the share holding by more than fifteen percent of the issued capital of the licensed institution.
 - (10) Not being operated in the accumulated profit for the last two years in case of firms companies.
 - (11) Having not possessed minimum qualification and experience specified by this Bank from time to time for becoming the promoter of a bank.
- (e) Firm/company which has purchased shares of the licensed institution from promoters or promoters group shall be required to obtain this Bank's approval prior to transfer of those shares in whatsoever manner. Where another company

purchases the shares of the company which has bought promoters or promoters' group's shares of the licensed institution, this Bank's approval shall be necessary for transfer of shares of that another company as well.

3. Unless other individual or institution intending to receive in transfer or purchase shares of promoter or promoter group fulfills the procedures provided in Clauses 1 and 2 above, transfer or sale of such shares shall not be allowed.
4. Shares in one's ownership shall be transferred to or sold within three months from the date of approval granted by this Bank for transfer or sale of shares of promoter group. Otherwise, the approval for sale of shares of promoter group shall *ipso facto* stand revoked.
5. In respect of transfer or sale of shares already approved by this Bank or different banks, the execution of which is pending as of the date of issue of this directive, such transfer or sale of shares by the shareholders shall be subject to fulfillment of procedures according to this directive.
6. In case the promoter or individual or institution having acquired the shares by transfer or purchase from the promoter group has transferred or sold such shares in violation of this directive, the individual or institutions having transferred or sold such shares shall not be eligible to become promoter or Director of any licensed institution for a minimum period of five years from the date of such transfer or sale of shares.
7. If a situation arises, in the course of compliance of the law in force for the time being and Directives of this Bank, requiring transfer of promoter shares held by banks and financial institutions among the promoters themselves, the same may be executed, with approval of this Bank, even if the shares held by the individual, firm, company or institution or group, because of such transfer, exceeds 15 percent limit.

Provided that shares in excess of 15 percent limit shall be divested within five years from the date of acquisition of such shares and brought the holdings compulsorily within the 15 percent limit.

The promoter shareholders of a bank and financial institution who are not come down to the specified limit are prohibited to be involved in the cash dividend, bonus shares and rights shares to be distributed by the concerned bank and financial institution until they come within this limit.

8. The licensed institution shall have to compulsorily amend to the Memorandum of Association and the Articles of Association so that the individual or institution acquiring shares in transfer or purchase from promoters be included in the promoters group.

9. Loan against Mortgage/Collateral of Promoter shares

Banks and Financial Institutions may extend credit against the collateral/mortgage of the promoter shares in the banks and financial institutions having met the following terms and conditions:-

- (a) Banks and Financial Institutions shall take measures for the control and management of risks inherent in the extension of credit against collateral/mortgage of promoter shares
- (b) Banks and Financial Institutions may extend credit against collateral/mortgage of promoter shares up to a maximum of 50 percent of the prevailing market price of such shares. However, in case of the fall in the price of the shares resulting in shortfall in the security of the loan, provision has to be made for procuring additional security. Where extension of loan in excess of the said amount is required, the same may be extended disclosing the basis and under the approval of one-level higher authority. For this purpose, the Board of Directors shall be construed as the highest level of authority.
- (c) In case of extension of loans against collateral/mortgage of promoter shares, such shares cannot be converted into nonbanking assets. Such mortgaged promoter shares shall be disposed of according to the prevailing laws and Directives of this Bank within 6 months of the loan becoming overdue.
- (d) The period of loan extended against collateral/mortgage of promoter shares shall be ascertained and such period shall not be more than one year.
- (e) Loans extended against the collateral/mortgage of promoter shares cannot be restructured or rescheduled.
- (f) Where the loans extended against the collateral/mortgage of promoter shares require classification in any class other than pass class, cent percent loan loss provision shall have to be made.

- (g) In case the loan is not repaid within the stipulated time period, a recommendation shall be made compulsorily for blacklisting of such promoter/Director within 21 days. Indication as to the same shall be clearly specified in the loan deed itself at the time of extension of the loan.
 - (h) The banks and financial institutions shall have to clearly mention the provisions contained in clauses (a) to (g) above in their respective credit policies/Byelaws.
10. Where a licensed institution remove the record of promoter group share in the Shareholders Register on account of transfer or sale without obtaining prior approval of this Bank, such bank shall be liable for action under Section 100 of the Nepal Rastra Bank Act, 2002.

11. Investment from Cooperative Institutions in Institutional Promoter or Promoters Group

The cooperative institutions established according to the existing law shall not be allowed to invest in institutional capacity in the shares of promoters or of promoters group of banks and financial institutions licensed by the Bank or in the applications to be submitted for new license.

12. Except the shares owned by shareholders who have subscribed the shares through the initial public offering made by a licensed institution calling for share subscription to general public having issued the prospectus as well, the shares held by promoters, promoters group and by any national or foreign person or institution through the mechanism of private placement shall be regarded as the shares of promoters/group of promoters for the purpose of regulation by the this Bank.
13. The concerned promoters, Director or their family members shall not be entitled to subscribe the stock allotted for public subscription.

Provided that this provision shall not apply in cases where such stock is not completely sold within the period prescribed for application by general public.

14. The shareholder holding shares of a promoter/promoter group shall not be entitled to file candidacy as a Director from the groups other than promoters group.

15. Special Provisions Relating to Sale/Purchase of shares less than two percent

No approval of this Bank shall be required for purchase/sale of promoter shares held by the promoters having two percent or less of paid-up capital of bank and financial institutions licensed by this Bank to be executed among the existing promoters or other individual or entity in accordance with prevailing laws and subject to the following terms and conditions. New promoters shall have to comply with the criteria and fit and proper test provisions made by this Bank. However, the promoters holding more than two percent shares shall not use such facility by splitting the shares to make two percent or less. With respect to the sale/purchase of shares of promoters having more than two percent, approval of this Bank shall be required according to the existing provision.

- (a) The transfer may be made to legal heir according to the existing legal provisions in the event of demise of promoters or partition of family property according to existing laws or a in the event of a court order.
- (b) Other than in the event of transfer to the legal heir on demise or partition of family property according to existing laws, while transferring the shares, the promoter shall have to accord priority to other existing promoters. If the existing promoters are not willing to purchase such shares, on receipt of written notification by the bank and financial institutions to that effect, the shares may be transferred to other group or external person/entity. Where it is not possible to get written consent from all promoters, a 35 days public notice has to be published in a national level newspaper through the concerned bank/financial institution. The shares may be sold to other person/entity in accordance with the existing laws if written notification is not submitted by anyone within the stipulated period.
- (c) The person or institutions acquiring shares of promoter group shall be included in the same promoter group. Share of one bank and financial institution shall not be acquired by "A", "B" and "C" class banks and financial institutions licensed by this Bank and cooperative institutions.
- (d) Following persons/institutions shall not be eligible to engage in purchase/sale of promoter shares: -
 - Having not fulfilled the terms and conditions pursuant to Sections 9 and 11 of Banks and Financial Institution Act, 2006;

- Having not paid call money on shares issued by the banks and financial institutions;
 - Having been convicted by a court of an offence involving dishonesty or malafide intention in respect of transactions with any bank and financial institution;
 - Having been blacklisted by Credit Information Bureau Ltd. or not completed a period of at least three years after being removed from such list;
 - Being engaged as an auditor, legal or other advisor of the concerned bank and financial institution;
 - Being involved in any type of contract having financial interest and engaged in credit transaction with the concerned bank and financial institution;
 - Having not cleared the tax of the last fiscal year or not regularized the Permanent Account Number;
 - Being engaged as a stockbroker or market maker;
 - Where, upon execution of the transfer of share, the requirement of having one third promoters with the qualification of graduate or equivalent degree may not be complied with;
 - Having not submitted the application as prescribed by this Bank and having been disqualified according to existing laws.
- (e) In case the shares are to be acquired by a corporate body, the shares shall be sold to such corporate body only upon confirmation that the objects/functions of such a body contain the clause allowing for purchase/sale of share and that it has been in operation in profit for the last two years. Moreover, the Directors of such body shall also not have to be blacklisted by Credit Information Bureau Ltd.
- (f) Purchase/sale of promoter share may be executed only after confirming the compliance of the provision regarding limit of 15 percent investment by any person, firm, company, undivided family and corporate body in promoter shares of any bank and financial institution licensed by this Bank and not exceeding 1 percent of the paid up capital of other bank and financial institutions.

- (g) The share ownership book of promoters shall cause to be amended only after the Board of Directors of the concerned institution itself confirms the compliance of the conditions referred to in clauses (d), (e) and (f).

The Board of Directors of the concerned bank and financial institution may itself grant approval for purchase/sale of the promoter share.

- (h) The price of promoter shares to be purchased/sold by the shareholders as well as the fees, charges etc. levied by the concerned authorities shall be according to the prevailing laws.
- (i) In the case of promoter shares holding more than two percent of paid up capital, the process of sale/transfer or transfer of ownership of such shares by splitting or in lump sum shall be initiated only after obtaining approval from this Bank.
- (j) In the event of getting a loan having pledged the promoter shares of a bank or financial institution, in case the loan could not be recovered even after all persuasion of recovery measures leading to forfeiture of such promoter shares and in the event of obligatory disposal of promoter share of bank and financial institution according to existing laws, the following procedures may be adopted for identifying the purchaser for sale of such forfeited/obligated promoter shares on the basis of number of shares and rationality.
- Purchaser for selling the promoter shares may be selected by publishing a public notice for auction (sealed tender), without contravening existing laws and policy and Directives of this Bank, from among the interested existing promoter shareholders and other interested person, firm company and corporate bodies.
 - It has to be informed that the purchaser of promoter shares under this provision shall also fall under the same group according to the existing law and Directives. After identification of purchaser of promoter shares, with respect to the holders of less than two percent of the paid up capital, the sale or change of ownership shall be executed having followed the procedures referred to in clause (a). However, in case of holders of shares of more than two percent of the paid up capital, the process of sale transfer of ownership shall be initiated only after receiving approval of this Bank.

- (k) If the seller of promoter shares is blacklisted with Credit Information Bureau Ltd., the sales proceeds shall compulsorily be utilized for the purpose of repaying the debt.
- (l) The updated record of promoters including the new promoters who become promoter by virtue of purchasing/selling of shares according to above stated provisions shall be submitted to this Bank within 15 days.
- (m) The following actions shall be taken if the purchase/sale of promoter shares is executed without complying above provisions: -
- Bank and financial institutions: Warning as well as other actions according to Section 100 of Nepal Rastra Bank Act, 2002. With respect to the seller of the promoter share, the concerned bank and financial institution which has issued the shares may forfeit share itself.
 - Purchaser/seller: To render disqualified for being a promoter shareholder of new bank and financial institution to be established or for being a director of any licensed institutions up to five years from the date of purchase/sale.
- (n) In case of any change in the existing laws and policy Directives issued by this Bank, the said clause shall be deemed to have been changed accordingly.

16. Sale of shares of Promoters Group more than 51 percent

For the purpose of Section 9(2) of the Banks and Financial Institutions Act, 2006, promoter shareholders of a bank or financial institution may, if they so desire, carry out transaction of promoter shares through secondary capital market under the following terms and conditions having maintained the promoters' stake of at least 51 percent:

- a) The bank and financial institutions shall have completed financial transactions of five years;
- b) Ownership stake of Promoters or promoters group shall be at least 51 percent;
- c) For the purpose of buying/selling of shares belonging to the promoter group in excess of 51 percent through the stock exchange, the promoter shares has to be converted into the general public category shares which may be bought/sold through stock exchange according to the existing laws on pro-rata basis in proportion to the share investment of the promoters. Banks and financial

institutions which have at present completed five years of their financial operation may dispose of shares according to this provision.

Provided that, where a promoter shareholder belonging to the promoter group has given his/her self declaration renouncing such conversion, the remaining members may utilize such shares ratio subject to maintenance of the promoter/promoters group share at not less than 51 percent.

- d) In this regard, the concerned banks and financial institutions shall obtain approval from this Bank along with a recommendation of the Board of Directors. After receipt of such approval, the Memorandum of Association and Articles of Association shall be amended as required for rearrangement in the share structure to be approved at the next annual general meeting. The portion of bought/sold/converted shares shall be deemed to be belonging to the promoter group until the Memorandum of Association and Articles of Association have been amended to.
- e) The amendment to the Memorandum of Association and Articles of Association shall also have to make provision of representation in the Board of Directors according to the share ownership.
- f) Shares once converted into the ordinary shares shall not be eligible for reconverting into the promoter or promoters' group.
- g) If the person/organization selling promoter shares by converting into the ordinary share happens to be blacklisted, the sales proceeds may only be utilized for the purpose of repaying the debt to the bank and financial institution. The fact as to whether or not the person is blacklisted shall be ascertained by the concerned bank and financial institution itself.
- h) The act of selling/conversion according to this provision may be done only at once.
- i) The conversion of promoter share into the ordinary share according to this provision shall not be obstructed even if the person is a sitting Director of the bank and financial institution.

Provided that the procedures regarding purchase/sale shall be subject to the prevailing laws.

17. Banking and financial institution may increase and restructure capital subject to the following terms and conditions:

- (a) Capital shall be increased only on the condition that the ratio of share ownership of general public prevailed before increase of the capital is not less in the total capital after the capital increment.
- (b) Except for the purpose of right-renouncing to maintain the prescribed minimum paid up capital according to the capital plan submitted by bank and financial institution, other than those institutions which are required to complete the prescribed paid up capital from fiscal year 2064/065 to the last day of Ashad of 2070 (Mid-July, 2013) according to Directives of this Bank, licensed banks and financial institution shall not be allowed to add new shareholder in the Promoters group while increasing its capital.
- (c) In order to increase or restructure the capital of banks and financial institution, it shall have to be approved by Annual General Meeting/Extraordinary General Meeting of the concerned institution according to laws.
- (d) In the event where approval in principle has been given for this purpose heretofore, these provisions shall not be deemed to have hindered to implement the measures subject to the terms and conditions referred to in the said approval in principle.
- (e) The banks and financial institution which have obtained approval to increase ratio of promoter shares pursuant to clause 16 of Directive No. 10/066 of the Unified Directives, 2066 (the circular dated 2065-4- 28 bearing Ref. No. Bai. Bi.Ni.Bi/Niti/circular/ 3/ 065/66) issued by this Bank to banks and financial institution shall not be allowed to change/convert the promoter shares referred to in clause 17 of these Directives. Moreover, for maintaining record of the same, it shall be recorded in the shares register and the same shall have to be stated in the annual report of every year.

18. Sale of Promoter Shares invested with cross-holding

In connection with implementing sub-Section (1)(g) of Section 48 of the Banks and Financial Institutions Act, 2006, for the purpose of Section 9(2) of the same Act, the Banks and financial institution shall have to do as follows with regard to sell/purchase

through stock exchange market shares of promoter groups invested with cross-holding:

- (1) An exemption has been granted to sell/purchase through stock exchange market the shares of promoter/group of promoters invested by the institution licensed from the Bank in other licensed institution;
- (2) The provision of the existing Unified Directive No. 10 requiring to accord priority to other existing promoter shareholders while transforming or selling the promoters shares is not applicable for this purpose;
- (3) The person/institution purchasing shares through the Nepal Securities Exchange Market also to remain in promoters group;
- (4) The purchaser of shares of promoters group not to have been blacklisted by the Credit Information Bureau Ltd. and it has to produce a self-declaration stating that it is not disqualified to purchase promoter shares/shares of a promoters group according to the prevailing law and Directives issued by this Bank;
- (5) The Banks and financial institution shall have to complete the sale of promoters shares it has invested in other Banks and financial institution, according to these Directives.
- (6) The prevailing laws to apply as to other procedures to be followed with regard to sale/purchase of shares;
- (7) The promoter shares sold/purchased by licensed institution through Securities Exchange Market may be sold/purchased again through Securities Exchange Market;

Provided that the persons/institution selling/purchasing shares in such a manner have to remain in the concerned promoters group.
- (8) With regard to purchasing/selling shares again by a person and institution, all provisions shall apply other than the provision referred to in sub-clause 5 above.

19. Dividend to be released only after selling cross-holding:

- 19.1 Provision has been made to effect that the cross-holding by licensed Banks and financial institutions in other licensed banks and financial institutions have to be

divested by the mid-July 2008 (the time limit extended up to mid-April 2009) and right renouncing may be completed by mid-April 2009. The following actions shall be taken to bank and financial institution which has failed to abide by the said provisions.

- (a) The bank and financial institution not abiding by the policy provision relating to ending up the cross holding shall not be entitled to purchase the rights shares; cash dividend, bonus shares to be freeze, and cash dividend shall be released only after divesting all cross holding including the freeze bonus shares.
- (b) Action shall be taken pursuant to Section 74 of the Banks and Financial Institutions Act, 2006 to the institutions failing to divest such shares within the prescribed time-limit.

19.2 If the institutions established according to the prevailing law, other than the Banks and Financial Institutions Act, 2006, and accepting deposit and carrying out credit transaction, have not divested the investment in promoter shares of banks and financial institution licensed by this Bank (belonging to 'A' 'B' and 'C' class) by the mid-July, 2008; such institution shall not be allowed to distribute rights shares/dividend. It has to freeze the bonus shares and cash dividend shall have to be released only after divesting all cross holding including the freezed bonus shares.

20. Right Shares

1. Sale of Rights shares

- (a) While issuing rights shares by the banks and financial institutions which have maintained the prescribed capital fund ratio, if any shareholder holding the shares sold to general public pursuant to Section 7(1) of the Banks and Financial Institutions Act, 2006 or does not sell or transfer the title to purchase the shares, the portion of the right shares that could not be sold shall *ipso facto* be revoked in all conditions except the ones referred to in clause (c).
- (b) In the event of revocation pursuant to clause (a), for the purpose of meeting the provision of this Bank to increase the paid up capital in proportional manner every year, the amount to the extent of price of the shares required to be revoked may be adjusted in the upcoming year.

- (c) Only in cases where the revocation referred to in clause (a) causes adverse effect in the share ownership structure according to the prevailing law and policy, the portion of such shares may be sold by public auction through public notification having fixed the per share price at Rs. 100/-, the concerned banks and financial institution shall have to show in the separate share premium head the premium amount received in excess of Rs. 100/- per share.
- (d) The portion of the rights shares under the promoters group that could not be sold may be sold to the existing promoters according to the prevailing provisions. In case of need to sell to other new persons, a prior approval of this Bank shall be required. The person/institutions purchasing shares through this process shall have to be qualified according to the prevailing provisions.
- (e) While issuing rights shares by licensed banks and financial institution, in case the then promoter shareholders want to transfer full or partial title of the rights shares they are entitled to purchase, provisions thereof shall have to be made in the Memorandum of Association and Articles of Association according to the laws in force for the time being and the concerned bank and financial institution may, subject to the following terms and conditions, transfer the title in case of the shareholders having subscribed the shares with the value of two percent or less of the paid up capital and in cases of those having more than two percent share ownership, the title may be transferred with a prior approval of this Bank:-
- (1) The first priority shall be accorded to the promoter of own group/sub-group in transferring the title of the rights shares of Promoter/Promoters group. If the shares could not be transferred to the existing other promoters having accorded second priority to them. In case transfer of title of rights share is going to be made amongst the existing promoters, the concerned banks and financial institution may transfer the title having checked the source of the investment and clearance of the taxes under the Directives issued by this Bank.

While according the first priority to the promoters of one's own group/sub-group in the transfer of title of rights shares of promoter/group of promoters as stated above, the following procedures have to be followed:

- *The shareholder willing to transfer the title of the rights share shall submit an application to that effect to the bank and financial institution stating the sales price thereof.*
 - *Upon submission of the application, the institution shall notify to the shareholders in the first priority having prescribed a time-limit of seven days.*
 - *In case shareholders in the first priority do not opt to subscribe the shares for that price within the period of seven days, the Bank shall notify other promoters.*
 - *Thereafter title may be transferred to other promoters having accorded second priority.*
- (2) Only in the condition where the title of shares is not transferred pursuant to clause (1), the title of shares may be transferred to other person or institution subject to these Directives. The person or institution getting the title of the shares transferred shall be included in the group/sub-group from which the title of shares has been transferred.
- (3) The proposed promoter shareholder shall have to fulfill the fit and proper test prescribed for promoter shareholder according to the Directives issued by this Bank.
- (4) The proposed promoter shareholder shall not have to be blacklisted by the Credit Information Bureau Ltd.
- (5) The proposed promoter shareholder shall have to produce the documents disclosing the source of investment, the tax clearance certificate of the latest fiscal year and/or the memo evidencing the submission of the tax.
- (6) The details of the transfer of title of rights shares subject to the aforementioned provisions have to be submitted to this Bank.

- (f) Notwithstanding anything contained in clauses (a) to (e), a Director, chief executive, Auditor, secretary of a Bank or financial institution or the person directly engaged in management and accounts of a bank or financial institution shall not, while being in such office or at least for one year after dissociating from such office, transfer the title of the rights share of the concerned bank or financial institution or of a subsidiary company thereof to any other person or institution nor shall accept the transfer of title of such shares from any other person or institution.

2. Pre-investment in Rights Share

In case the Promoters desire, for the purpose of maintaining capital adequacy by the licensed banks and financial institution to pre-invest in the rights shares, they may invest subject to the following terms and conditions:-

- (a) Decision relating to increment of capital has to be made from the General Meeting of the concerned bank and financial institution;
- (b) The amount collected in advance from promoter shareholders for the purpose of meeting the ratio of the capital fund according to Directives of this Bank has to be deposited under the title "calls in advance" and the banks and financial institution shall have to compulsorily adjust the amount so deposited during the time of issuance of the rights share next time. Similarly, in cases where the shareholders (Promoters/general public group) of a bank and financial institution have deposited the amount for rights share within the fiscal year during which the capital has to be maintained proportionately according to their capital plan in accordance with Directives of this Bank but because of failure to allot shares, the amount could not be adjusted to paid up capital head, such amount may also be shown under the calls in advance head as the amount collected in advance for shares. The amount of the capital collected in advance in such a manner may also be included for the purpose of calculation in the paid up capital that has to be increased proportionately according to Directives of this Bank.
- (c) While investing in shares in advance, the concerned promoter shareholder may invest only up to the limit of his/her shares.
- (d) No type of facility, loan or mortgage shall be allowed instead of such calls in advance.

- (e) No type of interest may be charged/given in such calls in advance and in no circumstances shall such amount invested in advance in shares be withdrawn, revoked or divested. Moreover, unless such amount is accounted to the paid up capital, no dividend shall be provided to it.
- (f) The amount of advance investment in rights shares has to be tied up with the rights shares to be issued thereafter.
- (g) The capital amount collected in advance shall be shown under the head of calls in advance and if the amount deposited in it is enough, it shall be recognized as paid up capital also for the purpose of additional capital to be required for opening up a branch.
- (h) Though advance investment in rights shares, all procedures to be followed while issuing rights shares and the existing provisions have to be complied with.

21. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to transfer or sale of promoter shares of a licensed institution in the Unified Directives, 2066, Directives issued under Directive No. 10/066 and all the circulars issued until mid-July, 2010 relating to the matters under this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 11/067

Subject: Provisions Relating to Consortium Financing

The following Directives have been issued having exercised the power conferred by Section 79 of the Nepal Rastra Bank Act, 2002 in order to make effective and well-managed the loans to be extended under the consortium finance by the institutions licensed by this Bank.

1. Definition of Consortium Finance

Unless the subject or context otherwise requires, in this Directives, consortium financing means providing of loans and facilities to any customer, firm, company or project on the basis of mutual understanding by two or more licensed institutions under an agreement.

2. Consortium Financing

The firm/company enjoying credit facility under consortium financing has to carry out banking transaction only with the lead bank and participant banks. This provision is equally applicable in case of loose consortium as well.

Provided that this cause shall not be deemed to have hindered to get the new member to enter after formation of the consortium grants with the consent of the group. Loose consortium means the credit facilities provided/to be provided by two or more banks and financial institutions to a project without forming a consortium group but maintaining security on a *pari pasu* basis.

3. Necessary Conditions for Participation in Consortium Financing

(1) Only the financial institutions licensed by this Bank for carrying financial transactions are eligible to participate in the consortium financing.

Provided that, this shall not prevent participation of Employees Provident Fund, Citizen Investment Trust and insurance company in the consortium financing in which an institution licensed by this Bank for carrying financial transactions is the "lead institution."

Explanation: For the purpose of these Directives, "lead institution" means a licensed institution selected as lead institution by the consortium group.

(2) This Bank shall be intimated as to the inclusion of any financial institution other than the institutions referred to in proviso to sub-clause (1) above in the consortium.

4. Prohibition to Lend and Open Account of Customer by Other Institution

(1) Licensed institutions, which are not participants to the consortium financing, shall not provide any loan and facilities that results in increasing the loan extended by the consortium group.

Provided that in special circumstances, any licensed institution not being a participating member of the consortium may, with the approval of the consortium group, provide any type of loan and facilities resulting in increasing the loan provided by the consortium group.

Explanation: For the purpose of this directive, "consortium group" means the group of participating institutions in consortium financing.

(2) Any customer, firm, company or project that has obtained loan and facilities under consortium financing shall not be allowed to open account relating to such loan and facilities in any licensed institutions other than the participating members of the consortium.

Provided that, under special circumstances that require opening such account in other licensed institution, such account may be opened with the approval of the consortium group.

5. Time Period for Making Decision for Disbursement of Credit

Upon receipt of application for loan, and after the constitution of the consortium group and selection of the lead institution, the lead institution and participating members shall

give their decisions within 90 days as to whether or not to approve the loan and facilities.

6. Selection of Participating licensed institutions

The borrower and the licensed institution to which the borrower has submitted application for loan and facilities shall have the right to select other members for participation in the consortium.

Provided that once the consortium group is formed, no new members shall be inducted without approval of the Group.

7. Constitution of consortium group

All licensed institutions selected pursuant to Clause 5 shall, prior to disbursement of loan and facilities, form the consortium group comprising of the participating licensed institutions. The internal procedures of the Group shall be as determined by the Group itself.

8. Selection of Lead Institution

The members of the consortium group shall select one licensed institution among themselves as Lead Institution following the criteria of willingness to contribute largest proportion of the loans and facilities, well-familiar with the customer for substantial period, experienced in consortium financing and capable to provide business counseling etc.

9. Lead Institution to Disburse and Collect Advances

Under the consortium financing, disbursement of loan and facilities, as well as collection of principal and interest shall be made through the Lead Institution. In the case of partial installment recovery of principal and interest, the same shall be distributed in proportion to the investments.

10. Functions, Duties and Rights of the Lead Institution

The functions, duties and powers of the Lead Institution shall be as follows:

- (a) To act as leader and representative (agent) of participating members of the consortium financing;
- (b) To coordinate and make necessary correspondence among the participating members of the consortium financing;
- (c) To convene consortium group's meeting compulsorily at least once in three months;
- (d) To convene the consortium group's meeting within 15 days of requisition made by a member for the meeting of the group for specific reason;
- (e) To analyze the project, prepare report and distribute copies thereof to the participating members of the consortium financing;
- (f) To analyze the requisition for short-term loan for the project;
- (g) To prepare the terms of consortium agreement on the basis of the consent of the participating members and provide one copy each of such terms to all participating members;
- (h) To prepare necessary documentation for disbursement of loans and facilities;
- (i) To do the needful to protect the investment, including blocking and insurance of collateral;
- (j) To safe keep the documents relating to loan and facilities, and provide copies of such documents to all participating members;
- (k) To obtain necessary periodical statistics and other information from the borrower and provide such information to participating members;
- (l) To perform periodical site-inspection of the project with the participating members, prepare inspection report and distribute one copy of such report to each participating members;
- (m) To carry out periodic performance evaluation of the project and provide information of the same to all participating members;
- (n) To file all requisite returns concerning the consortium financing to this Bank; communicate as Lead Institution as well as on behalf of other participating

members with this Bank, and provide such information to all participating member;

- (o) To initiate legal action, after obtaining the consent at the meeting of the consortium group, against the defaulting borrower wherever it becomes necessary;
- (p) For the services provided, it may charge service fee according to the decision of the consortium group, together with the consent of the borrower;
- (q) In case of delay in disbursement of the agreed amount by any member and the Lead Institution has paid such amount on behalf of the participating member not exceeding its single obligator limit, the Lead Institution shall be entitled to recover from the delaying member the principal amount, interest for the delayed period and penal charges as may be determined by the consortium group;
- (r) Various expenditures incurred in the course of arrangement made for consortium financing, including the expenses incurred on legal action initiated against the defaulting borrower which is not recovered from the borrower may be collected from the participating members in the proportion of their investments in the loan;
- (s) To obtain information about the borrower from the Credit Information Bureau Ltd. prior to disbursement of loan and facilities, and abstain from disbursement of loan where the borrower, according to the information received, is blacklisted or has not repaid any loan in due time;
- (t) To avail loan and facilities to the borrower at appropriate time as provided in the agreement of consortium financing;
- (u) To perform other necessary functions according to the decision of the consortium group subject to the Directives of this Bank.

11. Majority Decision to Prevail

In the case where unanimity in opinion on any matter among the participating members in the Consortium could not be reached, the opinion of majority shall prevail; and such voting shall be based in proportion of the investment. In case of tie of votes, the Lead Institution may exercise the casting vote.

12. Liabilities and Duties of Participating Members of the Consortium

The liabilities and duties of the participating members shall be as follows:-

- (a) To provide to the Lead Institution the approval letter for carrying the activities of consortium financing;
- (b) To extend all cooperation to the Lead Institution for discharging its obligations;
- (c) To actively participate in the meetings of the consortium;
- (d) To accept all conditions of the agreement of consortium financing once the consortium group formally adopts a resolution to provide loan, advances and facilities;
- (e) To make an effort to resolve all differences and make decisions unanimously respecting the spirit of the consortium financing;
- (f) To refrain from doing anything in self-interest by a member which is not in the interest of other member;
- (g) To disburse the loan as soon as the same is approved with notification to the Lead Institution;
- (h) To perform all activities under the consortium transparently and communicate information relating to loan and the borrower among the members;
- (i) To implement the decisions of the meeting of consortium group as soon as possible;
- (j) Not to make investment in the project in excess of the prescribed amount, not to initiate collection of loan unilaterally and not to classify the loan differently.
- (k) To provide loan and facilities to the borrower at an appropriate time as mentioned in the consortium agreement.

13. Provision Relating to Additional Loan

The following basis shall be followed with regard to providing additional loan to a borrower under the consortium financing:

- (a) On the basis of the analysis of the borrower's requirement, only the consortium group may adopt a resolution agreeing to provide additional credit and facilities.

All members shall disburse the additional loan agreed as such in proportion to their earlier disbursements.

- (b) Where any member, subsequent to the resolution passed according to clause (a) for additional loans, expresses inability to provide the additional loan, such amount may be paid by the remaining members or by any one member with the consent of the remaining members or with the consent of the consortium group and the borrower, new member may be inducted for such additional lending.
- (c) Where the consortium members are unable to provide additional loan and facilities as may be required by the borrower, the same shall be informed to the borrower in writing.

14. Provision for Leaving the Consortium

- (1) Once the project has come into operation, one may leave the consortium only in the following circumstances: -
 - (a) If another member agrees to take over the share of such *outgoing* member, or
 - (b) If the share is sold to a new member in consent with the existing members.
- (2) The member agreeing to take over the share of the *outgoing* member shall undertake all liabilities of that member. The outgoing consortium member may sale / relinquish its share at a premium or discount.
- (3) Notwithstanding anything contained in clause (1), no member of the consortium group shall be allowed to leave prior to the commencement of operation of the project.

15. Appointment of Auditor or Consultant

In case it seems necessary to evaluate the financial condition of the borrower periodically, the consortium group may appoint an independent auditor or consultant. The cost of such appointed auditor or consultant shall be paid by all members of the consortium in proportion to their loan disbursement.

16. Returns to be filed on Consortium Financing

The Lead Institution shall compulsorily file returns in respect of the consortium financing according to the Directives Form No. 5.1 as at the close of Aswin, Paush, Chaitra and Ashad of each fiscal year within 30 days from the close of the quarter to the Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank.

17. Repeal and Saving (1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to consortium financing in the Unified Directives, the Directives issued under Directive No. 11/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.

- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

.....Limited (lead bank)

Details of consortium loan

Trimester statement ofmonthyear

S. No.	Name of group	Name and address of debtor	Loan provided		Repayment date	Additional loan provided		Recovery		Outstanding amount		Remarks
			Amount	Date		Amount	Date	Principal	Interest	Principal	Interest	

Details of the banks/financial institution involved have to be stated in the remarks column.

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 12/067

Subject: Provisions Relating to Credit Information and Blacklisting

Since it is necessary to make provisions for the purpose of maintaining accuracy and appropriateness in extension of credits by the institutions licensed by this Bank, for regulating and managing from one place the functions relating to maintenance of credit information and blacklisting of debtors not paying loans in due time, therefore, the following Directives have been issued having exercised the power conferred by Section 88 of the Nepal Rastra Bank Act, 2002 and Byelaw 7 of the Nepal Rastra Bank Credit Information Byelaws, 2001.

1. Provisions relating to Credit Information

Credit Information Bureau Ltd., having been incorporated and in operation under the Companies Act, 2006, has been named as Credit Information Bureau Ltd. (hereinafter referred to as the "Bureau") for the purpose of Section 88 of Nepal Rastra Bank Act, 2002 and Byelaw 3 of the Nepal Rastra Bank Credit Information Byelaws, 2001.

2. Returns to be filed with the Bureau relating to Borrowers (Customers)

2.1 Licensed institution shall furnish to the Bureau the following loan details (Ka.Su. Form No. 1 and 2) within fifteen days of the completion of every month:

- a) Credit facilities of 2.5 million rupees and above it has approved.
- b) Credit facilities of one million or more rupees and below 2.5 million rupees that is overdue.

2.2 Thereafter, the above details have to be kept on sending within fifteen days of the date of completion of the trimester of every fiscal year until the loan is repaid. In case there is any change in the statement so sent, the loan is repaid, the overdue amount is due, overdue date is due or the loan is rescheduled, information thereof shall compulsorily be sent to the Bureau within fifteen days.

2.3 Statement to be submitted to central and regional offices where the amount of the loan/facility obtained by or approved to any borrower from an office/branch of a licensed institution is less than Rs. 2.5 million, but the aggregate amount of the credit extended/approved to that customer by various branches under the same Regional Office or branches falling under various Regional Offices amounts to Rs. 2.5 million or more, the particulars according to Ka.Su.Fa. No. 1 and 2 shall be submitted to the Bureau within 15 days from the close of each quarter.

The returns shall be submitted by the Head Office where such loans fall under various Regional Offices, and by Regional Office where such loans fall under one Regional Office.

2.4 Obtaining details of the Customers

The following details of the borrower customer shall be obtained prior to providing/approving loan/facilities of Rs. one million or above by a licensed institution to any individual, firm, company or corporate body.

- (a) In the case of individual borrower and guarantor, a copy of citizenship certificate, permanent and temporary address, particulars of three generations and details of undivided family members;
- (b) In the case of proprietorship partnership firms, particulars of the Proprietors as referred to in clause (a) above and name, surname and address of the individual authorized to carry on business on behalf of the firm and copy of the partnership deed or decision relating there to;
- (c) In the case of private company, particulars as referred to in clause (a) above of Directors and shareholders holding 15 percent or more shares of the company and name, surname and address of the individual authorized to carry on business on behalf of the company and resolution to that effect.

- (d) In the case of public company, particulars as referred to in clause (a) above of Directors and shareholders holding 15 percent or more shares and name, surname and address of the individual authorized to carry on business on behalf of the company and resolution to that effect.
- (e) Name, surname and address of collateral valuator.

3. Mandatory requirement of acquiring credit information

- (1) Prior to extension or renewal, restructuring or rescheduling of loans of Rs. One Million or more, a licensed institution shall have to obtain credit information about the borrower/customer from the Bureau. In case of request for credit information, the Bureau shall furnish such information not exceeding 3 (Three) working days.
- (2) Where the information from the Bureau according to Clause (1) above is received in course of extension of credit/facilities to any customer/ borrower, information from other agencies shall not be necessarily.
- (3) For the credit information received from the Bureau under this clause, the licensed institution shall pay fee to the Bureau as prescribed by the Bureau.
- (4) The Bureau shall have to update the details received from the concerned licensed institution for the purpose of enlisting in or delisting from blacklist within three working days.

4. Procedures for Blacklisting

- (1) Once the situation referred to in these Directives prevails, the concerned licensed institution may recommend the Credit Information Bureau Ltd. to blacklist the debtors who have availed the credit, advances and facilities of whatsoever amount from that licensed institution but have not repaid that amount. The Credit Information Bureau Ltd. shall, within fifteen days, ascertain the name list recommended from the concerned licensed institution for blacklisting and put them in the blacklist.
- (2) Once the situation referred to in these Directives prevails, the concerned bank may recommend the Credit Information Bureau Ltd. to blacklist the customers

who have utilized the credit card facility to be provided by licensed banks but have not repaid any amount/credit for using the card. Once the recommendation to blacklist is received from the concerned bank, the name list shall be blacklisted within fifteen days and the procedures for delisting from the blacklist shall be according to the prevailing policy and procedural provisions.

- (3) Licensed institution shall have to make recommendation for blacklisting the loan of any amount whatsoever only after getting a loan of more than 2.5 million rupees blacklisted first under the clauses relating to blacklisting.
- (4) If the licensed bank and financial institution recommends, the Credit Information Bureau Ltd. shall have to blacklist the customer of any amount of loan.

5. Classification of Borrowers

The borrowers who have borrowed loan from a bank and financial institution and defaulted shall be classified the following categories:-

5.1 Willful Defaulters

- (a) All borrowers who/which are out of contact for one year after the loan has become overdue, have not initiated for restructuring and rescheduling of the loan and have made no payment commitments;
- (b) Borrowers who/which despite the possibility to sale the mortgaged property to repay the outstanding loan but are unwilling to dispose the collateral property or who/which create situations to restrict such sale;
- (c) Borrowers who/which are operating more than one business or industries but not utilizing the earnings from such business and other own assets to repay the loan;
- (d) Borrowers who/which have caused diversion of fund by not utilizing the loan for the intended purpose, siphoned off the earnings other than utilizing for repayment of the loan, utilization of the funds outside the purpose of the business, used for creating another assets in the business, use of the short term fund for long term purpose in violation of the agreement and using the fund in the subsidiary companies or other firm/companies.

- (e) Borrowers who/which have used the name of another person or third party, for instance, servant, own employees etc., in the business or project controlled by him with an intention to conceal one's own involvement in the business.
- (f) Borrowers who/which have, upon the loan is overdue, not furnished with additional collateral or personal guarantee as demanded by the bank.
- (g) Borrowers who/which have offered false description with regard to collateral or business.
- (h) Borrowers who/which are found to have embezzled with the collateral associated with the loan.
- (i) Borrowers who/which have obtained the loan in collusion with the employees of the lending Banks and Financial Institutions, by discouraging or other using illegal means and found to have created unwarranted pressure or lobbying or offering benefits with an intention of not repaying the loan.
- (j) Investors who/which have caused overcapitalization of the project through obtaining wrong analysis of the project's financial, technical, managerial, demand, supplies or marketing aspects.

5.2 Non-Willful Defaulters

- (a) Borrowers who have intention to pay the loan but failed owing to the loss in business or become problematic on account of prevalence of situation beyond control and conflict that has given rise to uneasy economic, commercial and industrial situation or unfavorable external situation.
- (b) Borrowers who despite not being able to repay the loan are in contact with the lending Bank and Financial Institution and expressed commitment to repay the loan under the terms acceptable to the Bank and Financial Institution through restructuring or rescheduling of the loan.

6. Prohibition to Extend Credit by Licensed Institutions to Blacklisted Borrowers

A licensed institution shall not extend new loans/facilities, give additional loan/facilities, renew loan/facilities or release of balance of installment in case of

installment credit to or accept guarantees of the individual, firm, company or corporate body included in black list according to their Directives.

Provided that:

- (a) This shall not prohibit rescheduling or restructuring of the outstanding loans within the Directives of this Bank. Similarly, this prohibition shall not be applicable for a period of six months in case of the individual, firm, company or corporate body who/which are related to the blacklisted borrower but who/which have been regular in payment of principal and interest. The Board of Directors of the concerned licensed institution may, if the borrower's request is found appropriate, extend an additional period of six months to such borrower. The individual, firm, company or corporate body related to the black listed borrower who/which has not paid the principal and interest within the period, shall regularize such loan within the period up to six months or within the additional period provided by the Board of Directors. Failing to which, extension of new or additional credit, renewal or release of balance of installment shall be prohibited even to the regular paying individual, firm, company or corporate body that are related to the blacklisted individual, firm, company or corporate body.
- (b) In case of Credit/Debit card transactions, the Licensed Institution is not prohibited from making payment of Credit/Debit card, which is issued prior to the individual being blacklisted and used within the validity period of the Credit/Debit card.
- (c) Where a licensed institution wishes to provide a loan to the family members of any black-listed individual, it may provide according to the decision of the Board of Directors. However, provision on such loan shall be provided double of the required amount under the existing arrangement and provision in excess of one hundred percent shall not be necessary.

7. Special provisions relating to Collateral Valuators

- (1) Where, in course of auctioning the mortgaged property by any licensed institution, the amount to be realized is less than two third of the amount of the value assigned by the valuator, the Bureau may also include such valuator in the blacklist on the recommendation of the licensed institution. Such blacklisted valutors shall not be eligible to engage in valuation work of mortgage placed with any institution licensed by this Bank.

- (2) Where the amount of mortgaged collateral to be realized in auction by any licensed institution is less than two-third of the amount of valuation and the Board of Directors of the concerned licensed institution is convinced that this is due to existence of a situation beyond the control of the valuator, it may decide not to recommend the valuator for placing in the blacklist.
- (3) Where the borrower is removed from the blacklist, the Bureau shall also remove the name of the valuator from the blacklist who/which has carried out the valuation of the collateral pertaining to such a loan.
- (4) The licensed institution shall maintain a roster of collateral valuator having obtained information as to whether or not the valuator is blacklisted.

8. Special Arrangements in Respect of Auditors

The bank and financial institution shall recommend to the Institute of Chartered Accountants of Nepal for initiating necessary actions according to the law the names of the auditors who have certified the false financial statements in carrying out auditing of the business or projects in course of certifying the balance sheet, profit and loss accounts, cash flow statement and other financial statements.

9. Recommendation as to Confiscation of Passports

The licensed institution may recommend to the government through this Bank to confiscate the passports of the blacklisted individuals. Where the individuals whose passport had been confiscated contact the bank and financial institution and the loan is restructured or rescheduled to the satisfaction of the institution, the institution shall make recommendation for release of the confiscated passport of such individuals.

10. Provisions relating to Blacklisting

10.1 Conditions for Inclusion in the Blacklist

All borrowers or persons having obtained a loan/facility of Rs. 2.5 million or above from a licensed institution shall be included in the blacklist in the event of existence of any or all of the following conditions: -

- (a) If the payment of the principal or any installment thereof or the interest is overdue by 12 months (where the customer is enjoying facilities of various credits/facilities, then overdue in payment of any of the loans).

Provided that, the Board of Directors of the concerned licensed institution may, depending on the prevalent situation, extend the period by up to three months.

- (b) If misuse of the loan/facility is proved,

For this purpose, the loan or facility shall be deemed to be misused if the loan is not utilized for the intended purpose in case the loan is granted specifying the purpose, the project is not in operation, proved as misused by the supervisor, auditor in course of inspection and supervision.

- (c) If misuse of the goods placed in collateral security is proved;
- (d) If the borrower disappears;
- (e) If the borrower is declared to be bankrupt according to existing law.
- (f) If the licensed institution has filed a lawsuit against the borrower in a court of law.

10.2 Other circumstances Leading to Blacklisting:

- (a) If involved in deceiving through use of counterfeit documents and instruments like cheque, draft, foreign currency, Credit/Debit card, bills. Similarly, convicted by a court to have committed such offence;
- (b) If any individual, firm, company or corporate body is proved to have been involved in offences relating to financial matters.
- (c) A situation in which any individual, firm, company, an institution failed to repay the loan amount from a licensed institution without the time limit stipulated in the deed of loan and the bank and financial institution has taken action pursuant to Section 57 of the Banks and Financial Institutions Act, 2006.

- (d) In the event where the licensed institution has to write off a loan;
- (e) If a cheque is issued in a situation where it would not be cashed or there is no sufficient balance in the account;

If any person, firm, company or a corporate body issues a cheque in the condition where there is no sufficient balance in his/her/its account or though the balance is enough but the cheque could not be cashed for various reasons, it shall be as follows with regard to such cheque irrespective of the amount in the cheque and notwithstanding anything contained in Point No. 10.1:-

- 1) In case of the cheque bounced once without payment, the payee may, having given a time of seven days for payment to the person, firm, company or a corporate body issuing the cheque, submit the cheque to the concerned bank and financial institution.
- 2) In case the amount is not paid even after that date, the person, firm, company or a corporate body to receive the payment of the cheque may give a written notice to the bank and financial institution which has to make the payment.
- 3) Upon receipt of the written notice pursuant to clause (2), the concerned bank or financial institution shall provide a notice of seven days in the maximum to the person, firm, company or a corporate body issuing the cheque to make the payment of the amount of the cheque and in case the amount is not paid within that date, the concerned bank and financial institution shall compulsorily blacklist the person, firm, company or a corporate body issuing the cheque. If the action is not carried out, actions may be taken against the concerned bank and financial institution according to these Directives.
- 4) In case any person, firm, company or a corporate body gives the cheque to a bank and financial institution that cannot be cashed, even then the blacklisting shall be carried out according to this clause. If the action is not carried out, actions may be taken against the

concerned bank and financial institution according to these Directives.

- 5) The person, firm, company or a corporate body blacklisted under this clause shall not be allowed to carry out any banking transaction other than depositing amount in their accounts unless released from such a list.
- (f) Until payment of cash fine from the Director, chief executive and other official of the bank or financial institution having been imposed fine for not abiding by a directive issued by this Bank under the Nepal Rastra Bank Act, 2001; the Banks and Financial Institutions Act, 2006 and other policy and provisions.

Explanation: For the purpose of this clause, “proved” means something certified by a court, an inspection team of the concerned licensed institution or by an internal or external auditor or by an inspection team deputed from this Bank.

10.3 Parties to be included in Blacklist

In the cases where one or all circumstance(s) leading to inclusion in the blacklist prevails, the following borrower individual, firm, company or corporate body and related other parties shall be included in the blacklist.

Provided that, if a borrower is black listed, the members of such borrower's undivided family need not be blacklisted.

- (a) The borrower individual, firm, company or corporate body utilizing the credit facility;
- (b) Proprietor of a proprietorship firm;
- (c) Partners of a partnership firm;
- (d) The individual, firm, company or corporate body that has provided guarantee for extension of such credit facility to any individual, firm, company or corporate body;

Provided that, prior to including the guarantor in the black list, the licensed institution shall serve the guarantor a notice of 35 days for settlement of the

guaranteed amount. The guarantor shall be included in the black list if the transaction is not regularized within such notified period.

- (e) Directors of a company, corporate body;
- (f) Following persons of Public or Private Companies-

- (1) Directors,
- (2) Shareholders holding 15 percent or more share ownership,

Provided that, this shall not prohibit the bank and financial institution to place on blacklist the shareholders of private and public companies holding less than 15 percent shares if such shareholders have financial interest in the company through any means.

- (3) Person, firm, company or corporate body having the right to nominate Director.

- (g) Where the blacklisted individual or organization owns individually or institutionally 15 percent or more shares in any other firm/company/corporate body, the Director and Chief Executive of such firm, company, corporate body.

Provided that, this shall not be deemed to have hindered the bank and financial institution to place on blacklist the individual, firm, company falling under the same group that holds less than 15 percent shares but collectively hold share investment of more than 15 percent.

- (h) Where the representative of a blacklisted individual or institution is Director in any non-government firm/company/corporate body, institution; such firm/company/ corporate body.

Provided that in case of fulfillment of all of the following conditions, such non-government firm/ company /corporate body, in which the representative of a blacklisted individual or institution is Director, need not be required to be placed in the blacklist.

- (1) The share of a Director in the non-government firm/ company/corporate body in which the representative of the blacklisted individual or institution is the Director, has to be less than 15 percent;

- (2) The non-government firm/company /corporate body in which the representative of the blacklisted individual or institution is a Director, has been regular in paying principal and/or interest to the licensed institution on time or before due dates; and
- (3) The individual representing as a Director of the blacklisted individual or institution has resigned from the directorship or such individual is removed from the post of the Director.
- (i) The individual, firm, company or corporate body falling under one group having inter-relationship according to the Directives of this Bank.
- (j) Individual, firm, company or corporate body providing guarantee to the customer.

Provided that in the case of guarantee or partial guarantee, where the guarantor has settled the guaranteed amount, this provision shall not be applicable for other outstanding due of the borrower.

- (k) In case of death of the borrower, the licensed institution may, by assigning the liability to the individuals who receives the assets of the deceased, provide suitable time period to the individuals assuming such liability. Where assumption of liability is denied or failed to pay or regularize the loan within the time period thus provided, such individuals shall also be included in the blacklist.
- (l) In case a borrower has not been included in the blacklist even after the loan is overdue by a period of more than two years, explanation thereof shall be submitted to this Bank within one month of completion of each fiscal year.

10.4 Circumstances not requiring blacklisting

In case a borrower makes a request showing his/her inability to pay the principal and/or interest in time due to the problem arising out of any of the following extraordinary circumstances which are beyond his/her control, and if the content of the request is found to be reasonable, the Board of Directors of the licensed institution may decide not to include such customer in the blacklist:-

- (a) Occurrences of natural calamity like flood, landslide, earthquake and so on;

- (b) In respect of the borrowers who/which are provided with refinance facility prior to blacklisting on the recommendation of the Sick Industry Rehabilitation Committee, until the period allowed for utilization of such refinance facility;
- (c) Government of Nepal has acquired the customer's property and place of business;

Provided that the grounds on which such decision is made shall be clearly stated.

10.5. Circumstances leading to Removal from Blacklist

- (a) In case of the following circumstances, the concerned licensed institution shall have to make recommendation to the Bureau for removal of the customer's name from blacklist within three days:-

- (1) In case the principal and interests of the overdue loan has been paid;
- (2) In case the Board of Directors of the concerned licensed institution has extended the maturity period of the loan considering it appropriate or loan is rescheduled or restructured subject to the Directives of this Bank;
- (3) In case the concerned bank and financial institution notifies that where the loan or facility is provided with the involvement of more than one borrowers having their liabilities fixed and the maturity period is extended because any of the borrowers has paid his/her portion of principal and interest, or that the loan is rescheduled or restructured subject to the Directives of this Bank, the name of such borrower shall be removed from the blacklist;

Provided that this provision shall not be applicable to a person working as a Director or Executive.

- (4) If the Board of Directors of the concerned licensed institution approves assignment of the loan liabilities to other individual, firm, company or corporate body where the blacklisting is removed thus, the individual, firm, company or corporate body accepting the liability shall be given a time period of up to one year and if the credit facility is not repaid or

not regularized within that period, such individual, firm, company or corporate body shall also be included in the blacklist.

- (5) Where the loan/facility is provided with the involvement of more than one borrower having their liabilities fixed, and intimation is received from the concerned bank and financial institution that the amount has been repaid, the Credit Information Bureau Ltd. shall remove such person from the blacklist.

Provided that this provision shall not be applicable to a person working as a Director or Executive.

- (6) Despite a bank and financial institution has included the non-willful defaulters in the blacklist maintained by the Credit Information Bureau Ltd., provision may be made to remove the name of the borrower from the blacklist for a period of six months if the bank and financial institution is of the view that by providing some time the borrower may repay the loan within a short period of time. The borrower shall compulsorily be included in the blacklist if the loan is not repaid within such six months period.

11. Relating to Consortium Loans

- (1) In respect of the consortium loans, the lead bank or financial institution, subject to these Directives and by the majority decision based on the proportion of the credit exposure in the consortium meeting, shall recommend the Bureau for including in/removing the concerned borrower from the blacklist. Upon receipt of the recommendation of the lead bank or financial institution, the Bureau shall include/remove such borrower in/out of the blacklist.
- (2) In cases where a participating bank or financial institution has included the borrower in the blacklist without recommendation of the lead bank and financial institution according to these Directives, the borrower may be removed from the blacklist only on the recommendation of the participating bank or financial institution. In such cases, it shall be deemed to be failure of the lead bank to

fulfill its obligation and such lead bank shall be liable to be taken actions pursuant to Section 100 of Nepal Rastra Bank Act, 2002.

- (3) Where a borrower has been blacklisted because of enjoying double credit and facilities under the consortium loan and also separately from a licensed institution, the blacklisting shall remain continue unless he/she repays the amount of bad debt/facility even if the consortium meeting has recommended for removal from the black list.

12. Service of Notice Prior to Inclusion in blacklist

Prior to include any borrower or all other related parties to the credit in the blacklist, the concerned licensed institution shall serve a notice of at least 35 days to the concerned borrower or all other related parties to the credit explaining the reason for inclusion in the blacklist, and its record shall be maintained. It shall also be mentioned in the notice that if the borrower does not pay or regularize the loan within the period mentioned in the notice, it shall be liable for blacklisting.

13. Obtaining Consent of Borrower or Guarantor

At the time of extending loan/facility to any borrower, it shall be compulsory for the concerned licensed institution to obtain the written consent from the borrower and guarantor for inclusion in the blacklist of the Bureau if the circumstances referred to in Clauses 4 and 5 of these Directives prevail.

14. Center May Ask for Information and Statements

In the process of implementation of Section 88 of Nepal Rastra Bank Act, 2002, Nepal Rastra Bank Credit Information Bylaws, 2059 and these Directives, the Bureau may ask for information and statements from the licensed institutions, which are in addition to the information and statements provided in these Directives. It shall be the duty of concerned licensed institutions to provide such requested information and statements.

15. Center May Inspect

The Bureau may inspect and follow-up the licensed institutions in respect of whether or not the licensed institutions have filed the borrowers' statements on time, whether or not credit information are obtained prior to disbursement of credit, and whether or not the returns filed are update. A copy of the report thereof shall be filed with Banks and Financial Institutions Regulation Department and concerned Supervision Department of this Bank. The Bureau may conduct such inspection/and supervision on-site by assigning its staffs or off-site by obtaining the particulars and information in the Bureau.

16. Details of Blacklisted Borrowers to be disclosed

The Bureau shall update and publish for information of general public within the last day of the month of Shrawan (mid-August) and of Magha (by mid-February) in a national newspaper the names of individuals, firms, companies or corporate bodies having been blacklisted as of the end of every month of Ashad and Paush who/which has an outstanding balance of more than 10 million rupees. The information shall also be submitted to Banks and Financial Institutions Regulation Department and concerned Supervision Department of this Bank, the Office of the Companies Registrar and the Securities Board. In respect of the name list of other individuals, the Bureau shall provide such information on request to the general public as may be necessary with or without charging a fee. Moreover, it shall be mandatory for the Bureau to upload the updated list of the blacklisted persons in its website.

17. Other Provisions

(1) Maintaining Confidentiality

Since the information and other particulars to be exchanged between licensed institutions and the Bureau are sensitive, therefore, exchange or maintenance of such information and other particulars shall be fully confidential.

(2) Loan extended against individual and corporate guarantee

Where the credit/facility extended by a licensed institution against any type of personal or corporate guarantee is not paid within the stipulated time, such guarantor individual or institution shall also be blacklisted according to these Directives. Where information is received from the concerned licensed institution regarding payment of the amount up to the amount guaranteed by such a guarantor, the name of the guarantor shall be removed from the blacklist.

(3) Change in the name of shareholder

Where the blacklisted shareholders have transferred the shares to other persons and the new shareholder has accepted the liabilities and the Board of Directors of the concerned licensed institution accepts such transaction makes recommendation accordingly, the name of the earlier shareholders shall be removed from the blacklist.

The shareholder holding more than 15 percent shares of a borrower private company or a public company that has not yet made public issue of shares shall have to obtain approval of the concerned licensed institution prior to sale or transfer of such shares. For this purpose, the lending licensed institution shall compulsorily obtain a written consent forbidding from selling or transferring the shares of the borrower company without obtaining approval of the concerned licensed institution. The then shareholders of the borrower company that sells or transfers shares without such approval shall be blacklisted.

(4) With regard to Directors nominated from Government or Semi-Government Bodies

Notwithstanding anything contained in these Directives, none of the individuals nominated as a Director by this Bank, Government of Nepal or an institution having full or majority ownership of Government of Nepal, shall be included in the blacklist if such institution is blacklisted.

(5) Undivided Family Members

For the purpose of these Directives, undivided family member means the concerned person's spouse, son, unmarried daughter, adopted son, unmarried adopted daughter, father, mother, step mother and dependent brothers and sisters.

(6) Credit Information Unit

For the purpose of carrying all works relating to the Bureau, licensed institutions shall establish a separate Unit and all functions relating to credit information shall cause to be carried out through that Unit only. For all the functions to be carried out with the Bureau, the human resources engaged in the Unit shall be designated and information thereof shall be given to the Bureau by the licensed institution. Moreover, the Unit designated for communicating with the Bureau shall maintain certified records of all correspondence made between the licensed institutions and the Bureau.

(7) Erroneous inclusion in the blacklist

In case an individual, firm, company or corporate body that is not liable to be included in the blacklist has been included in the blacklist by an error, the name of such individual, firm, company or corporate body shall immediately be removed on receipt of the recommendation in this connection from the Board of Directors of the concerned licensed institution without maintaining any record to that effect. Individual, firm, company or corporate bodies thus removed from the blacklist shall not be deemed to have been included in the blacklist.

(8) Membership of the Bureau

For the purpose of exchange of credit information and inclusion of defaulting borrowers in the blacklist, all licensed institutions shall compulsorily obtain membership of the Bureau.

(9) Exemption

Notwithstanding anything contained elsewhere in these Directives, Government of Nepal or bodies having fully or substantially owned by Government of Nepal, institutions licensed by this Bank and international agencies having bilateral or multilateral relationship shall not be included in the blacklist.

(10) Updating the statement of blacklist

The blacklist prepared by the Bureau shall have to be maintained updated.

(11) The following provisions have been made with regard to the rights shares, preference shares, debentures and dividend to be acquired by the shareholders of the licensed institutions which have been blacklisted:-

- (a) Out of the promoter shareholders of the licensed bank and financial institution, the promoter shareholders being blacklisted by the Bureau shall not be entitled to purchase the rights shares, preference shares, debentures of the bank and financial institution of which they are the promoter shareholders.

Provided that in case the promoter shareholders of the concerned bank and financial institution makes a claim on the rights shares, preference shares, debentures of the bank and financial institution of which they are the promoter shareholders, along with proof of their removable from the blacklist by the Bureau, they may acquire such rights shares, preference shares, debentures in case they are not sold/distributed to other persons/institutions or forfeited according to the law in force for the time being.

- (b) In case any other bank and financial institution makes a request for payment of dividend which is payable to the borrower blacklisted in the blacklist of the Bureau as in the capacity of the promoter shareholder or shareholder of a bank and financial institution, along with a proof of the outstanding amount of the loan, the concerned institution shall have to make available the payment of the loan to be recovered by such institution having freeze the dividend he/she is entitled to. Out of the promoter shareholders of the licensed bank and financial institution, the promoter shareholders being blacklisted by the Bureau shall not be entitled to purchase the rights shares, preference shares, debentures of the bank and financial institution of which they are the promoter shareholders. This provision shall be applicable also in case of recovery of the loans of the one's own bank and financial institution.

- 18.** Out of the borrowers obtaining loans from bank and financial institution and not repaying the loans, other than the borrowers whose loans have been rescheduled within the last day of the month of Bhadra (mid-September, 2006) or who are in the process of rescheduling the loans according to the budget speech of the FY 2006/07 and the borrowers, the repayment in respect of whom has been initiated with the joint efforts of the bank; the following processes shall be taken to take actions against the borrowers

who have ignored to repay the loans despite of repeated opportunities provided by the concerned bank and the borrowers with regard to whom the bank deems appropriate to take actions:-

(1) Among the borrowers borrowing more than fifty million rupees as principal amount of debt, the concerned bank shall take actions against the borrowers having availed largest amount of loan on a priority basis. The concerned bank itself has to take the actions that may be taken on its own according to the law and to furnish the information thereof to this Bank, otherwise, the bank has to request to this Bank for taking actions along with its recommendations;

(2) In case the borrowers against whom the actions has been initiated according to the above have repaid or restructured/rescheduled the loan, the concerned bank shall have to take initiatives to withdraw the actions then initiated against the concerned borrower;

(3) To make provisions for immediately block the facilities such as debit card, credit card issued in the names of the borrowers by banks and financial institutions;

(4) Having regard to the nature of the loan, condition of its utilization, possibility of its recovery, intention and behavior of the borrower to repay the loan, the concerned bank shall, subject to the provision of Point No. 18(1), shall have to request this Bank to take one or more than one of the following actions against the borrowers willfully defaulting the loans and the persons, firms, companies or institutions providing guarantee to such borrowers:-

- (a) To inform Ministry of Foreign Affairs and Ministry of Home Affairs for the purpose of forfeiting the Passports of willful defaulters or to prohibit issuing new Passports to them and also to publish public notification;
- (b) Provision to be made for debarring the blacklisted willful defaulters to hold any public positions of responsibility in any government or corporate sector public institutions, including as expert/consultants as well as political appointments;
- (c) Not to confer any decoration, honour, medal, and any other type of facility, discount and honour to be given on behalf of the state;
- (d) To prohibit to become a Director of a company incorporated or to be incorporated under the Companies Act;

- (e) Except for the purposes of registration of new industries, firms or companies, to be involved in government contracting and for repayment of loans as permitted by the bank; to freeze the movable and immovable property under the ownership of such borrower and to make provision for issuing directives to the concerned bodies (Land Revenue Office, Transport Management Office, Municipality/Sub-Municipal Corporation/ Municipal Corporation);
- (f) To forfeit and sell the investment made in government bonds and the amount to be received from there to be used for the purpose of payment of the loan.

19. Punishment and provisions relating to Actions:

- (1) If the licensed institutions do not furnish the names and particulars of the borrowers liable to be blacklisted in time or found to have extended additional loan facility by concealing such fact, or furnished wrong information or extended credit to blacklisted individual or firm or company or corporate bodies, or if such information reported in the inspection and supervision report of this Bank, actions may be initiated under Section 100 of Nepal Rastra Bank Act, 2002 against the concerned licensed institutions or their concerned Directors, executives, including employees.

- (2) Punishment for extension of credit facility to blacklisted parties

In case any bank or financial institution extends a credit facility to any blacklisted individual, firm, company or corporate body, concerned bank or financial institution shall, under Section 99 (1) of the Nepal Rastra Bank Act, 2002, be fined the amount equal to the amount of the credit extended.

- (3) Imposition of fine for not recommending for inclusion in the black list:

In case any bank or financial institution requiring to recommend any individual, firm, company or corporate body for inclusion in the blacklist maintained by Credit Information Bureau Ltd. according to the Directives of this Bank fail to do so, such bank or financial institution shall, under Clause 99 (1) of Nepal Rastra Bank Act, 2002, be fined equal to the amount of outstanding credit with such borrower.

(4) Cent Percent Loan Loss Provision to be made for loans provided to blacklisted individual, firm, company or corporate bodies:

(a) Any outstanding amount of loan with the blacklisted individual, firm, company and corporate body shall be provided with cent percent loan loss provisioning. Where such provision is not found to have been made, the concerned Chief Executive shall be punished with a fine not exceeding five hundred thousand rupees pursuant to clause (c) of sub-Section (2) of Section 100 of Nepal Rastra Bank Act, 2002.

(b) Where a borrower is blacklisted through other bank or financial institution, the licensed institution may make a loan loss provision according to its own classification of the loan or facility provided to such borrower.

20. Repeal and Saving:

(1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to credit information and blacklisting made in the Unified Directives, the Directives issued under Directive No.12/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.

(2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Details relating to personal guarantee and security for the purpose of personal loans

This form has to be filled in and sent while approving the credit for the first time/reporting about the overdue loans to the Credit Information Bureau Limited. Moreover, in the event of any change occurring in this form, information thereof has to be sent filling this form again. However, if there is any change only in the evaluation of movable property, this form is not required to be filled in and sent.

Name of bank and financial institution providing loan:-		Branch/sub-branch:-		
1. Name of Borrower:-				
1.1 Name of the first borrower:-				
1.1.1 Address as stated to in citizenship certificate:-		Current address:-		
District:.. Municipality/VDC:-		District:.. Municipality/VDC:-		
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...		
1.1.2 Citizenship No.	Date of issue	District of issue:-		
1.1.3 Voter's Identity card:-	Date of issue	District of issue:-		
1.1.4 Driving License		District of issue:-		
1.1.5 Passport No.		District of issue:-		
1.1.6 PAN No.	Date of issue	Office Code:-		
1.1.7 Phone No.	Mobile No.	E: mail Address:		
1.1.8 Three generation details of the first borrower:-				
Father	Mother	Husband/wife	Mother	Father-in-law

1.2 Name of the second borrower:-				
1.2.1 Address as stated to in citizenship certificate:-		Current address:-		
District... Municipality/VDC:-		District... Municipality/VDC:-		
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...		
1.2.2 Citizenship No.	Date of issue	District of issue:-		
1.2.3 Voter's Identity card:-	Date of issue	District of issue:-		
1.2.4 Driving License		District of issue:-		
1.2.5 Passport No.		District of issue:-		
1.2.6 PAN No.	Date of issue	Office Code:-		
1.2.7 Phone No.	Mobile No.	E: mail Address:		
1.2.8 Three generation details of the second borrower				
Father	Mother	Husband/wife	Mother	Father-in-law
2. Details of the undivided family members of the borrower:- (for this purpose, "undivided family" means the husband or wife, son, daughter-in-law, unmarried daughter, adopted son, unmarried adopted daughter, father, mother, step mother of the borrower and the elder/younger brother, elder/younger sister to be supported by the borrower.				
Name of borrower	Names of the undivided family-member		Relationship	
3. Of the authorized person,-				
Name and address	Citizenship No.	Name of the father	Name of the mother	

	No.	father	

4. Details relating to Concerns:- (If the borrower is having 15% or more shares in any firm, company or corporate body or is a Director in individual capacity, that has to be mentioned)

Name of borrower	Names of the firm, company or corporate body where he/she is engaged	Address	Shareholder/director	Percentage of shareholding

5. Details of the person, firm, company or corporate body

5.1 If the person giving guarantee, the details thereof

Name	Address	Citizenship No./Passport No.	Date of issuance of citizenship	District of citizenship/ Passport issuing country	Amount of guarantee given	Credit title for which guarantee is given

5.1 (a) Three generation details of the guarantor

Father	Mother	Husband/wife	Mother	Father-in-law

5.2 If the guarantor is a firm, company or a corporate body, the details thereof:-

Name	Address	Registration No./PAN No.	Date of issue	Issuing authority	Amount of guarantee	Credit title for which

		No.			guarantee	which guarantee is given
5.2 (A) Details of the shareholders and Directors engaged in a firm, company or a corporate body, the details thereof:-						
Name of the shareholder or Director	Address		Shareholder/Director		Shareholding percentage	

5.2 (B) Three generation details of the guarantor or shareholders and Directors of firm, company or a corporate body, the details thereof:-							
Name of shareholder/director	Citizenship No.	Father	Grand father	Husband/wife	Mother	Father-in-law	

6. Details of the immovable property in collateral security such as land, house, project :-						
Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral
7. Details of the movable property in collateral security such as saving bonds, debentures, fixed receipts, promissory notes, shares, goods pledging (including hypothecation) :-						
Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral

8. Remarks relating to the borrower :-

Prepared by

Checked by

Manager/In-Charge

(If the space above is not enough, additional form may be used.)

Details relating to personal guarantee and security for the purpose of consortium loans

Theday of the month ofthe year.....

This form has to be filled in and sent while approving the credit for the first time/reporting about the overdue loans to the Credit Information Bureau Limited. Moreover, in the event of any change occurring in this form, information thereof has to be sent filling this form again. However, if there is any change only in the evaluation of movable property, this form is not required to be filled in and sent.

Name of bank and financial institution providing loan:-		Branch/sub-branch:-		
1. Name of Borrower:-				
1.1 Name of the first borrower:-				
1.1.1 Address as stated to in citizenship certificate:-		Current address:-		
District:.. Municipality/VDC:-		District:.. Municipality/VDC:-		
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...		
1.1.2 Citizenship No.	Date of issue	District of issue:-		
1.1.3 Voter's Identity card:-	Date of issue	District of issue:-		
1.1.4 Driving License		District of issue:-		
1.1.5 Passport No.		District of issue:-		
1.1.6 PAN No.	Date of issue	Office Code:-		
1.1.7 Phone No.	Mobile No.	E: mail Address:		
1.1.8 Three generation details of the first borrower:-				
Father	Mother	Husband/wife	Mother	Father-in-law

1.2 Name of the second borrower:-				
1.2.1 Address as stated to in citizenship certificate:-		Current address:-		
District... Municipality/VDC:-		District... Municipality/VDC:-		
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...		
1.2.2 Citizenship No.	Date of issue	District of issue:-		
1.2.3 Voter's Identity card:-	Date of issue	District of issue:-		
1.2.4 Driving License		District of issue:-		
1.2.5 Passport No.		District of issue:-		
1.2.6 PAN No.	Date of issue	Office Code:-		
1.2.7 Phone No.	Mobile No.	E: mail Address:		
1.2.8 Three generation details of the second borrower				
Father	Mother	Husband/wife	Mother	Father-in-law
2. Details of the undivided family members of the borrower:- (for this purpose, "undivided family" means the husband or wife, son, daughter-in-law, unmarried daughter, adopted son, unmarried adopted daughter, father, mother, step mother of the borrower and the elder/younger brother, elder/younger sister to be supported by the borrower.				
Name of borrower	Names of the undivided family-member		Relationship	
3. Of the authorized person,-				
Name and address	Citizenship No	Name of the father	Name of the mother	

	No.	father	

4. Details relating to Concerns:- (If the borrower is having 15% or more shares in any firm, company or corporate body or is a Director in individual capacity, that has to be mentioned)

Name of borrower	Names of the firm, company or corporate body where he/she is engaged	Address	Shareholder/director	Percentage of shareholding

5. Details of the person, firm, company or corporate body

5.1 If the person giving guarantee, the details thereof

Name	Address	Citizenship No./Passport No.	Date of issuance of citizenship	District of citizenship/ Passport issuing country	Amount of guarantee given	Credit title for which guarantee is given

5.1 (a) Three generation details of the guarantor

Father	Mother	Husband/wife	Mother	Father-in-law

5.2 If the guarantor is a firm, company or a corporate body, the details thereof:-

Name	Address	Registration No./PAN No.	Date of issue	Issuing authority	Amount of guarantee	Credit title for which

		No.			guarantee	which guarantee is given
5.2 (A) Details of the shareholders and Directors engaged in a firm, company or a corporate body, the details thereof:-						
Name of the shareholder or Director	Address		Shareholder/Director		Shareholding percentage	

5.2 (B) Three generation details of the guarantor or shareholders and Directors of firm, company or a corporate body, the details thereof:-							
Name of shareholder/director	Citizenship No.	Father	Grand father	Husband/wife	Mother	Father-in-law	

6. Details of the immovable property in collateral security such as land, house, project :-						
Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral
7. Details of the movable property in collateral security such as saving bonds, debentures, fixed receipts, promissory notes, shares, goods pledging (including hypothecation) :-						
Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral

8. Remarks relating to the borrower :-

Prepared by

Checked by

Manager/In-Charge

(If the space above is not enough, additional form may be used.)

Details relating to personal guarantee and security for the purpose of loans of firms, companies or corporate bodies

Theday of the month ofof the year.....

This form has to be filled in and sent while approving the credit for the first time/reporting about the overdue loans to the Credit Information Bureau Limited. Moreover, in the event of any change occurring in this form, information thereof has to be sent filling this form again. However, if there is any change only in the evaluation of movable property, this form is not required to be filled in and sent.

Name of bank and financial institution providing loan:-		Branch/sub-branch:-
1. Name of Borrower Firm, company or corporate body:-		Group:-
1.1 Address as stated in the registered certificate:-		Office address:-
District:..	Municipality/VDC:-	District:.. Municipality/VDC:-
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...
1.2 Registration No.	Date of Registration:-	Place of Registration:-
1.3 Phone No.	Fax No.	E: mail Address:
1.4 PAN No.	Date of registration	District of Registration:-

2. (A) Details of the Partners, shareholders, and Directors:- (Out of the Partners, shareholders, and Directors, names of only those having 15% or more shares in any company or corporate body has to be mentioned)

Name of borrower	Names of the firm, company or corporate body	Address	Tick (√) on Partners, shareholders, and Directors whichever is appropriate
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	corporate body where he/she is engaged		Remarks		
			Partner	Shareholder	Director

2. (B) Three generation details of the Proprietor, partners or directors						
Name	Citizenship No. and date of issue	Father	Grandfather	Husband/wife	Mother	Father-in-law

3. Of the authorized person,-			
Name and address	Citizenship No.	Name of the father	Name of grandfather

4. Details relating to Concerns:- (If the borrower is having 15% or more shares in any firm, company or corporate body or is a Director in individual capacity, that has to be mentioned)				
Name of borrower	Names of the firm, company or corporate body where he/she is engaged	Address	Shareholder/director	Percentage of shareholding

5. Details of the person, firm, company or corporate body giving guarantee for the loans

used by the borrower

5.1 If the person giving guarantee, the details thereof

Name	Address	Citizenship No./Passport No.	Date of issuance of citizenship	District of citizenship/ Passport issuing country	Amount of guarantee given	Credit title for which guarantee is given

5.1 (A) Three generation details of the guarantor

Father	Mother	Husband/wife	Mother	Father-in-law

5.2 If the guarantor is a firm, company or a corporate body, the details thereof:-

Name	Address	Registration No./PAN No.	Date of issue	Issuing authority	Amount of guarantee	Credit title for which guarantee is given

5.2 (A) Details of the shareholders and Directors engaged in a firm, company or a corporate body, the details thereof:-

Name of the shareholder or Director	Address	Shareholder/Director	Shareholding percentage

5.2 (B) Three generation details of the guarantor or shareholders and Directors of firm, company or a corporate body, the details thereof:-

Name of shareholder/director	Citizenship No.	Father	Grand father	Husband/wife	Mother	Father-in-law

6. Details of the immovable property in collateral security such as land, house, project :-

Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral

7. Details of the movable property in collateral security such as saving bonds, debentures, fixed receipts, promissory notes, shares, goods pledging (including hypothecation) :-

Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral

8. Remarks relating to the borrower :-

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Prepared by

Checked by

Manager/In-Charge

(If the space above is not enough, additional form may be used.)

Details relating to Institutional guarantee and security for the purpose of loans of firms, companies or corporate bodies

Theday of the month ofof the year.....

This form has to be filled in and sent while approving the credit for the first time/reporting about the overdue loans to the Credit Information Bureau Limited. Moreover, in the event of any change occurring in this form, information thereof has to be sent filling this form again. However, if there is any change only in the evaluation of movable property, this form is not required to be filled in and sent.

Name of bank and financial institution providing loan:-		Branch/sub-branch:-
1. Name of Borrower Firm, company or corporate body:-		Group:-
1.1 name of the first borrower:-		
1.1.1 Address as stated in the registered certificate:-		Office address:-
District:.. Municipality/VDC:-		District:.. Municipality/VDC:-
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...
1.1.2 Registration No.	Date of Registration:-	Place of Registration:-
1.1.3 Phone No.	Fax No.	E: mail Address:
1.1.4 PAN No.	Date of registration	District of Registration:-

1.2 name of the first borrower:-		
1.2.1 Address as stated in the registered certificate:-		Office address:-

District:.. Municipality/VDC:-		District:.. Municipality/VDC:-
Ward No. ....street :..... House No...		Ward No. ....street :..... House No...
1.2.2 Registration No.	Date of Registration:-	Place of Registration:-
1.2.3 Phone No.	Fax No.	E: mail Address:
1.2.4 PAN No.	Date of registration	District of Registration:-

2. (A) Details of the Partners, shareholders, and Directors of the first borrower:- (Out of the Partners, shareholders, and Directors, names of only those having 15% or more shares in any company or corporate body has to be mentioned)

Name of borrower	Names of the firm, company or corporate body where he/she is engaged	Address	Tick (√) on Partners, shareholders, and Directors whichever is appropriate		
			Remarks		
			Partner	Shareholder	Director

2. (B) Three generation details of the Proprietor, partners or directors of the first borrower

Name	Citizenship No. and date of issue	Father	Grandfather	Husband/wife	Mother	Father-in-law

2. 1 (A) Details of the Partners, shareholders, and Directors of the second borrower:- (Out of the Partners, shareholders, and Directors, names of only those having 15% or more shares in any company or corporate body has to be mentioned)

Name of borrower	Names of the firm, company or corporate body where he/she is engaged	Address	Tick (√) on Partners, shareholders, and Directors whichever is appropriate		
			Remarks		
			Partner	Shareholder	Director

2. 1 (B) Three generation details of the Proprietor, partners or directors of the second borrower

Name	Citizenship No. and date of issue	Father	Grandfather	Husband/wife	Mother	Father-in-law

2. (B) Three generation details of the Proprietor, partners or directors

Name	Citizenship No. and date of issue	Father	Grandfather	Husband/wife	Mother	Father-in-law

3. Of the authorized person,-

Name and address	Citizenship No.	Name of the father	Name of grandfather

4. Details relating to Concerns:- (If the borrower is having 15% or more shares in any firm, company or corporate body or is a Director in individual capacity, that has to be mentioned)

Name of borrower	Names of the firm, company or corporate body where he/she is engaged	Address	Shareholder/director	Percentage of shareholding

5. Details of the person, firm, company or corporate body giving guarantee for the loans

used by the borrower

5.1 If the person giving guarantee, the details thereof

Name	Address	Citizenship No./Passport No.	Date of issuance of citizenship	District of citizenship/ Passport issuing country	Amount of guarantee given	Credit title for which guarantee is given

5.1 (A) Three generation details of the guarantor

Father	Mother	Husband/wife	Mother	Father-in-law

5.2 If the guarantor is a firm, company or a corporate body, the details thereof:-

Name	Address	Registration No./PAN No.	Date of issue	Issuing authority	Amount of guarantee	Credit title for which guarantee is

						given

5.2 (A) Details of the shareholders and Directors engaged in a firm, company or a corporate body, the details thereof:-

Name of the shareholder or Director	Address	Shareholder/Director	Shareholding percentage

5.2 (B) Three generation details of the guarantor or shareholders and Directors of firm, company or a corporate body, the details thereof:-

Name of shareholder/director	Citizenship No.	Father	Grand father	Husband/wife	Mother	Father-in-law

6. Details of the immovable property in collateral security such as land, house, project :-

Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral

7. Details of the movable property in collateral security such as saving bonds, debentures, fixed receipts, promissory notes, shares, goods pledging (including hypothecation) :-

Types of collateral	Location of collateral security (including ward No.)	Name of owner of the collateral	Evaluated amount	Date of evaluation	Name of the valuator	Head of the credit of the collateral

8. Remarks relating to the borrower :-

Prepared by

Checked by

Manager/In-Charge

(If the space above is not enough, additional form may be used.)

Statement relating to outstanding debt amount from individuals, firms, companies or corporate bodies

First/second/third/fourth trimester statement of

(Amount in Rs.)

Name of the bank/financial institution providing loan:.....					Branch/sub-branch.....								
Name of the debtor.....													
Type of loan	Loan approved		Loan investment		Loan No.	Ownership of account	Installment to be repaid/loan		Days of payment overdue	Total amount yet to be recovered	Overdue installment/loan	Date of repayment of installment/loan	Collateral of loan
	Amount	Date	Amount	Date			Amount	Date					

Prepared by

checked by

Manager/In-charge

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 13/067

Subject: Provisions Relating to Compulsory Reserve/Statutory Liquidity

The following Directives have been issued with regard to compulsory reserve and liquid assets to be maintained by a licensed institution based on its deposit and borrowing liabilities having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

(A) Provisions relating to Compulsory Reserve:

1. For "A", "B", "C" And "D" Classes Micro-Banking Institutions Collecting Deposits of General Public

(1) It shall be mandatory for class "A" institutions licensed by this bank and for the "B" and "C" classes institutions licensed by this Bank and accepting the current/calls accounts to maintain a deposit of 5.5 percent of the total deposit liabilities at this Bank.

Provided that, "B" and "C" class licensed institutions accepting deposits other than the "Current Deposit and "D" class micro-banking institutions collecting deposits of general public shall have to maintain mandatory balance at 2 percent of their total deposit liabilities.

(2) The "B" and "C" class licensed institution and class "D" micro-banking institutions accepting deposits from general public situated in the location where there is no office of this Bank may maintain a separate current account for this purpose with the nearby "A" class institution.

However, the amount deposited in a class "A" licensed institution with the condition of earning interest shall not be counted as compulsory reserve. The

information of such account shall be given to this Bank's Bank and Financial Institution's Regulation Department and concerned Supervision Department.

- (3) In case the balance to be maintained as above Sub-Clause (1) falls short, the following fine shall be imposed:-
 - (a) For the first time of shortfall in maintaining the compulsory reserve, at the rate of the percentage of the existing bank rate on such shortfall amount;
 - (b) For the second time of shortfall in maintaining the compulsory reserve, at the rate of double of the percentage of the existing bank rate on such shortfall amount;
 - (c) For the third time and successive times of shortfalls thereafter in maintaining the compulsory reserve, at the rate of triple of the percentage of the existing bank rate on such shortfall amount.
- (4) For the purpose of calculation of "times" under sub-clauses (a), (b), and (c) above, separate times shall be calculated on every fiscal year basis. Moreover, in case any licensed institution fails to maintain compulsory reserve for a consecutive period of three weeks, it shall be fined at the rate of first time for the first week, of the second time for the second week and of the third time for the third week.
- (5) The fine at the existing bank rate on shortfall amount shall be on weekly basis. Such shortfall amount shall be multiplied by the percentage of bank rate and be divided by 52.
- (6) For the purpose of calculation of compulsory reserve to be maintained, the following procedures shall be followed: -
 - (a) The compulsory reserve shall be examined on weekly basis (from every Sunday to Saturday).
 - (b) The compulsory reserve shall be examined against the average weekly balance of deposit liabilities of immediately preceding two weeks. In the case of full holidays in any week, the average deposit of immediately preceding week shall be considered.
 - (c) For the purpose of calculation compulsory reserve, the weekly average of total deposit liabilities and balance held with this Bank shall be determined

by aggregating the total amount of daily balances from Sunday to Saturday and dividing the same by the figure seven. In doing so, if any holiday falls in the week, the balance of the preceding day shall be considered as the balance for the day.

- d) For this purpose, the particulars relating to each Sunday to Saturday (in the case of holiday, the previous day's balance has to be mentioned) shall be compulsorily submitted to the concerned Supervision Department of this Bank in the prescribed format referred to in Directives Form No. 13.1, within seven days from the date of the end of the week.
- (7) For this purpose, all offices of a licensed institution shall be constituted as one unit.
- (8) Any amount of local currency lying in transit for fund transfer and meant to be credited in the account with this Bank shall be included in the balance held with this Bank.

Explanation:

- (1) *For the purpose of this Section, "total deposit" means the amount of current, savings, and fixed deposit including the money collected by the licensed institutions through various financial instruments as prescribed by this Bank.*
- (2) *Only the balance held in ordinary account of this Bank shall be considered for compulsory reserve. For the purpose, balances held in special accounts and foreign currency accounts shall not be included.*

Notes

- (1) *For the purpose of calculating compulsory reserve, balance of foreign currency accounts and staff guarantee account and margin account shall not be included for this purpose.*
- (2) *"Current Account" means the deposit accounts maintained with the bank and financial institutions having the facility for withdrawal on demand.*
- (3) *"Savings Deposit" means the deposit accounts maintained with the bank and financial institutions with an objective of saving.*

- (4) *"Fixed Deposit" means the deposit accounts maintained with the bank and financial institutions for a stipulated time period.*
- (5) *For the purpose of calculating compulsory reserve, the cash in transit to be balanced at the note fund of Rastriya Banijya Bank and Nepal Bank Limited in the places where there is no office of this Bank may also be included. If amount is balanced at or withdrawn from the note fund, the concerned bank shall have to send details thereof to the Currency Management Department and the concerned supervision department.*

2. For "D" Class Licensed Institutions

- (1) The "D" class licensed institutions shall maintain compulsory reserve equivalent to a minimum of zero point five percent of the amount collected from individual group members, group wise, special savings and borrowed fund with this Bank or in a special current account with "A" class licensed institution in places where there is no branch office of this Bank. The information of such account shall be given to the Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank.

Explanation

For the purpose of this sub-clause, "borrowed fund" means, the amount borrowed by the licensed institution from other licensed institution, individual, firm, corporate bodies (domestic and foreign) and company.

- (2) "D" class licensed institutions shall have to maintain a minimum of two point five percent of its total deposit liability in the form of liquid asset. The 'liquid assets' comprises the following:-
- (a) Cash in one's own vault
 - (b) Investment in Government Securities
 - (c) Investment in Nepal Rastra Bank bonds, or
 - (d) Deposit maintained with "A" Class licensed institution.
- (3) Any excess amount placed in the deposit pursuant to sub-clause (1) above shall be available for calculation under the requirement of sub-clause (2).

- (4) The calculation of compulsory reserve and liquid assets shall be as follows: -
- (a) The compulsory reserve and liquid assets shall be calculated monthly on the basis of daily average balances.
 - (b) A maximum proportion at 90 percent shall be considered as liquid assets in respect of the amount placed in the fixed deposit with "A" class licensed institution.
 - (c) For the purpose of calculation of liquid assets under sub-clause (2), the amounts borrowed against the fixed deposit receipt or government securities and Nepal Rastra Bank bonds, up to the amount of borrowing, shall be deducted.
 - (d) The "D" class licensed institutions shall submit returns as to the compulsory reserve and liquid assets as provided in the Directives Form No. 13.2 on a monthly basis within 15 days of the close of the month to the concerned Supervision Department of this Bank.
- (5) In case of non-maintenance of compulsory reserve and liquid assets or the "D" class licensed institutions failing to maintain deposit with this Bank according to sub-clause (1) above or in case such deposits fall short, fines pursuant to Point No. 1(3) shall be imposed for the default period.
- (6) Notwithstanding anything contained in the foregoing, exemption may be given with regard to the provisions of compulsory reserve in the amount of loan and advance transferred to micro finance development bank of class 'D' carrying out the transaction of bulk loan with the condition of recovering such loans from other banks and financial institutions.
- (7) Other provisions relating to compulsory reserve to be maintained by class 'D' licensed institution carrying out transaction of retail micro banking including collecting deposits from general public and the returns to be furnished to this Bank shall be as referred to in Point No. 1 of these Directives. Moreover, in the case of such micro finance development banks, provision of Point No. 2 of these Directives shall not apply.

3. Other Provisions

In order to render the functioning of the licensed institution well-managed, easy and convenient, the institutions of class 'A', 'B' and 'C' licensed from this Bank, other than the market-makers, may also make payment of the principal and interest of government bond and make a claim to this Bank for reimbursement thereof. For the period of non-receipt of reimbursement of the amount of payment of principal of Government of Nepal securities from this Bank to the licensed institution, the said amount shall also be calculated in the ratio of compulsory reserve. Moreover, in the event where the principal amount could not be paid to the concerned banks and financial institution for the reason of falling a public holiday, the said principal amount shall, for the duration of the said holiday, be calculated in the compulsory reserve ratio to be maintained at this Bank.

(B) Provisions Relating to Statutory Liquidity Ratio:

The licensed banks and financial institution of classes 'A', 'B' and 'C' shall have to maintain the statutory liquidity ratio at the rate prescribed from time to time. While maintaining the statutory liquidity ratio according to this provision, the government securities, the amount in the call deposit in the class "A" commercial bank for the same purpose and the remaining amount in excess of the amount required for the compulsory reserve ration may also be calculated as the eligible instruments.

The following provisions have been made with regard to calculation of the statutory liquidity ratio:

- (1) The domestic deposit liability maintained at the end of the just preceding month shall be taken as the basis for calculating the statutory liquidity ratio.
- (2) Such ratio shall be calculated and the statement the statutory liquidity ratio amount of each whole month shall be submitted as stated in Directive Form No. 13.3.
- (3) In case the said deposit falls short, fine shall be imposed as follows subject to the provision made in sub-Section (1) of Section 99 of the Nepal Rastra Bank Act, 2002:
 - (a) In cases where the statutory liquidity ratio falls short for the first time, at the percentage of prevailing bank rate for the amount fallen short;

- (b) In cases where the statutory liquidity ratio falls short for the second time, at double of the percentage of prevailing bank rate for the amount fallen short;
 - (c) In cases where the statutory liquidity ratio falls short for the third time and whatsoever time thereafter, at triple of the percentage of prevailing bank rate for the amount fallen short.
- (4) While determining the time for clauses (a), (b) and (c), separate time shall be determined for each of the fiscal year.
- (5) In the amount falling short of the statutory liquidity ratio, fine shall be imposed on the monthly account at the percentage of prevailing bank rate and the amount so fallen short shall be multiplied with the percentage of the bank rate and divided by twelve.
- (6) For the purpose of fine in the event of falling short of the statutory liquidity ratio, the bank rate published as prescribed by this Bank shall be taken as the base.

Note:

1. *For the purpose of this Section, "government securities" means the saving bond, development bond, treasury bills issued by Government of Nepal and other securities specified by the Bank.*

Provided that since the amount of government securities in the special account under the Public Debt Management Department, Nepal Rastra Bank for the purpose of trading by banks and financial institutions which have been engaging as the market makers in solely for the purpose of trading, the amount of such securities may not be calculated as government securities for the purpose of the statutory liquidity ratio.

2. *Calculation of fines for the short fall of the statutory liquidity ratio shall be started from the mid-January, 2010.*

C. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to compulsory reserve made in the Unified Directives, the Directives issued under Directive No. 13/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.

- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Weekly statement relating to compulsory reserve to be maintained by the licensed institutions of “A”, “B”, and “C” classes**

Fromth day of the month ofthe year.....toth day of the month ofthe year.....⁺

(In Rs. Thousand)

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total	Average
Total deposit liability									
(a) Deposit with Nepal Rastra Bank									
(b) *Deposit at current account with class “A” licensed bank									
(c) Net cash on transit (1-2+3)									
(1) Cash deposited at note fund									
(2) Amount withdrawn from note fund									
(3) Others									
(d) Amount of payment for principal of government bond/saving bond									
(e) Compulsory reserve percentage									

** In case even the class “D” institution carrying out retail micro banking has accepted deposit from general public, it shall also have to send the statement according to this form.

⁺ Weekly average deposit liability of the last two weeks.

* Only in case of the licensed institutions of classes “B” and “C.”

(f) Details of total amount borrowed										
--------------------------------------	--	--	--	--	--	--	--	--	--	--

Date:.....

Signature of the officer submitting the statement.....

Designation.....

Name and Address.....

- (a) “Total deposit” means the amount in current, savings and fixed accounts, the amount to be paid on demand and certificate of deposit. For this purpose, deposit of convertible foreign currency, staff guarantee and amount in the margin account shall not be included.
- (b) “Fixed deposit” means the deposit of local currency to be deposited for a fixed period of time.
- (c) “Current, call and savings deposit” means all types of deposits other than fixed deposit.
- (d) Only the deposit in general account at this Bank shall be calculated as compulsory reserve. The amount deposited in the special account opened at this Bank for special purpose and in foreign currency account shall not be calculated for this purpose.

Statement relating to compulsory reserve and liquid asset for class “D” licensed institution

(Monthly)

Day	Total Reserve and advances fund	Total Reserve fund	Amount deposited at current A/C with Nepal Rastra Bank or a class “A” institution licensed by this Bank	Cash in one’s own vault	Investment in Government bond	Investment in Nepal Rastra Bank bond	Balance at a Class “A” licensed institution in the form of deposit	Debenture /Fixed receipt loans	Total liquid assets
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									

16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
Total									
Average									
Compulsory Reserve/ liquidity balance percentage									

Date

Officer

Statement as to Statutory Liquidity Ratio for licensed institution of classes “A”, “B” and “C”

(monthly)

.....month.....year

Day	Investment in Government Bonds and Treasury bills and	Amount in excess of CRR	Amount in the calls account for statutory liquidity	Total statutory liquidity maintained	Day	Investment in Government Bonds and Treasury bills and	Amount in excess of CRR	Amount in the calls account for statutory liquidity	Total statutory liquidity maintained
1					17				
2					18				
3					19				
4					20				
5					21				
6					22				
7					23				
8					24				
9					25				
10					26				
11					27				
12					28				
13					29				
14					30				
15					31				
16					32				

Statutory Liquidity Ratio maintained (A)	
Domestic deposit liability remained at the end of the preceding month (B)	
Statutory Liquidity Ratio to be maintained (C) =(B) X %	
Excess/shortfall amount (D)=(A)-(C)	

Date

Officer

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 14/067

Subject: Provisions Relating to Opening and Closing of Branch/Offices

The following Directives have been issued with regard to operation and management of branch/office of licensed institution having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Provisions Relating to Opening of Branch/Offices

- (a) "A" and "B" class licensed institutions having fulfilled the following terms and conditions may open new branch offices:-
- (i) Having prepared a feasibility study report showing that it is financially viable to open a branch in the proposed location;
 - (ii) Having fulfilled the minimum paid up capital requirement as prescribed in policy guidelines and Directives of this Bank or having submitted to this Bank information as to the activities carried out according to the capital plan where time period has been given to fulfill the same;
 - (iii) Having complied with the term and conditions stipulated at the time of issuing license and having fulfilled the requirement of capital fund in the immediately preceding quarterly financial statement prior to opening the branch;
 - (iv) Having made arrangement for immediate connectivity for flow of information to and from the head office systems by establishing networking or by electrical means;
 - (v) Not having the portion of the non-performing loan more than five percent in the last quarter;

- (vi) The decision to open and operate branch office has to be made by the Board of Directors. Such decision shall be notified to this Bank within the 15 days from the date of the decision. The branch shall have to be operated within 6 months from the date of notification to this Bank.
- (vii) A branch may be opened in Kathmandu Valley only after a new branch outside Kathmandu Valley has been opened and become operational and fulfilled all required terms and procedures stipulated in sub-clause (i) to (v) of clause (a) above. For this purpose, the mid-July of 2007 shall be taken as the base and the branches opened after the said date with information to this Bank shall qualify for the purpose of considering branches opened in Kathmandu valley and outside.
- (viii) The "B" class licensed institution having the scope of activities limited within the stipulated districts may open branch office within their area on fulfillment of the terms and conditions stated in clauses (i) to (v) above.
- (b) The "C" class licensed institution having fulfilled the following conditions may open new branch office subject to the approved working area:-
 - (i) Having prepared a feasibility study report showing that it is financially viable to open a branch in the proposed location;
 - (ii) Having fulfilled the minimum paid up capital requirement as prescribed in policy guidelines and Directives of this Bank or having submitted to this Bank information as to the activities carried out according to the capital plan where time period has been given to fulfill the same;
 - (iii) Having complied with the term and conditions stipulated at the time of issuing license and having fulfilled the requirement of capital fund in the immediately preceding quarterly financial statement prior to opening the branch;
 - (iv) Having made arrangement for immediate connectivity for flow of information to and from the head office systems by establishing networking or by electrical means;
 - (v) Not having the portion of the non-performing loan more than five percent in the last quarter;

- (vi) The decision to open and operate branch office has to be made by the Board of Directors. Such decision shall be notified to this Bank within the 15 days from the date of the decision. The branch shall have to be operated within six months from the date of notification to this Bank.
- (vii) In addition to the fulfillment of minimum paid up capital according to sub-clause (ii) above, where a sum of five million rupees per branch in addition to the paid up capital has been fulfilled, one branch outside Kathmandu Valley and where a sum of 20 million rupees per branch in addition to the paid up capital has been fulfilled, one branch in the Kathmandu Valley may be opened. For this purpose, the fulfillment of the minimum paid up capital of 20 million rupees or fulfillment of additional capital required according to the capital plan for annual proportionate increment based on the paid up capital maintained at the mid-July, 2007 as well as arrangement of additional capital as above shall qualify for the purpose of calculating branches.
- (viii) A branch may be opened in Kathmandu Valley only after a new branch outside Kathmandu Valley has been opened and become operational and fulfilled all required terms and procedures stipulated in sub-clause (i) to (v) of clause (a) above. For this purpose, the mid-July of 2007 shall be taken as the base and the branches opened after the said date with information to this Bank shall qualify for the purpose of considering branches opened in Kathmandu valley and outside.
- (c) The "D" class licensed institutions may open a branch office within the approved working area on fulfillment of the following conditions:-
 - (i) "D" Class licensed institutions having adequate capital as prescribed by this Bank shall not require any approval of this Bank to open, close, shift or merge any Branch Office within the approved working area. The information as to shifting, closing and opening of branches shall be provided to this Bank within 15 days of such activity.
 - (ii) The financial institution engaged in micro finance activities may expand branches by extending their operation to additional districts adjoining to the existing geographical area and other additional districts proportionately by adding Rs. 2.5 million for each additional district in

the paid up capital outstanding as of the mid-July of 2007. The institutions willing to expand their operation to additional district shall submit statement of increment in the paid up capital duly certified by the auditor to the Regulation Department and the concerned Supervision Department of this Bank.

- (d) Financial institutions established and carrying out financial transactions in Municipality or Village Development Committee under special provision shall not be eligible to establish any branch office or additional offices.
- (e) In special situations, institutions having not fulfilled the above mentioned terms and conditions at the time of making the decision to open branch/office or at the time of operation and the institutions under the process of management restructuring may establish branch office/other office subject to the conditions stipulated by this Bank.
- (f) Bank and financial institutions having already received an approval from this Bank for opening of the branch but the financial transactions of the branches have not yet commenced, may open the branch and commence operation only on fulfillment of terms and conditions stated in (a) and (b) above.

2. Provisions relating to Closing and Shifting of Branch Offices

- (a) The "A", "B" and "C" class licensed institutions shall not close or shift or merge any branch or any of its offices without the prior approval of this Bank.
- (b) Where the "A", "B" and "C" class licensed institutions require to shift the branch within the same Ward of the Municipal Corporation, Sub-Municipal Corporation and Municipality and in case of the Village Development Committee area within the same VDC, the same has to be communicated to this Bank within seven days of such shifting as decided by the Board of Directors.
- (c) Where licensed institutions desires to change address of central/corporate office or to shift it, it may be done by amending/ providing in the Memorandum of Association and Article of Association according to existing laws with the approval of this Bank.

3. Maintaining Branches/sub-branches *status quo*:

No approval of this Bank shall be required to reopen the branches/sub-branches which were closed/merged in the past owing to security reasons just informing to this Bank and with or without approval of this Bank. Once such branches/sub-branches come into operation as earlier, information thereof shall be given to this Bank within seven days.

4. Provision Relating to Office Hours:

The licensed institutions shall compulsorily operate their offices on the days and time when this Bank is open.

Provided that in case of need of operation of business transaction on other holidays and extended time, in addition to opening during the office hours of this Bank, business transaction may be carried out having submitted a prior information in writing to the Bank and Financial Institutions Regulation Department and the concerned Supervision Department of this Bank.

5. Provision Relating to Extension Counter and Liaison Offices

The licensed institutions maintaining the capital adequacy stipulated by this Bank shall comply with the followings for already opened or proposed extension counters: -

- (a) No extension counters shall be allowed to open within the Kathmandu Valley, Municipal Corporation and Sub-Municipal Corporation area.

Provided that extension counters may be opened with prior information to this Bank for a short-period i.e. not exceeding 35 days for deposit collection, cheque payment and foreign currency exchange transactions especially at places of trade festival, fair, places of operation of pension and market, etc.

- (b) Extension counter of any licensed institution of "A","B" and "C" class may be opened in places other than those referred to in clause (a) above with prior approval of this Bank. Collection of deposit and payment of deposits may be made from such extension counter.

Provided that approval from Foreign Exchange Department of this Bank shall be necessary for carrying out foreign exchange buying/selling transactions.

- (c) Counters opened by "A" and "B" class licensed institutions with the approval of this Bank within the premises of this Bank, courts hospitals, offices of foreign

diplomatic missions as well as for distribution of pension to the Nepalese people working abroad and for the purposes of revenue collection/government transaction shall not carry out any transactions other than collection of deposit and payment in the Nepalese Rupee. Similarly, approval to open extension counter may be given only for the purpose of collection of tariffs of telephone, electricity, water and insurance premium by establishing a counter within the compound of such utility providers.

Moreover, for the purpose of providing approval to open such extension counters, the provisions of clause (a) shall not be applicable.

Provided that such provision shall have to be complied with in order to open a branch.

- (d) Licensed institution complying with the stipulated conditions with respect to extension of branch may, having obtained an approval of this Bank, open remittance payment counters for purpose of payment of foreign remittances.
- (e) Only the licensed institutions established with foreign equity participation shall be allowed to open liaison/representative office according to the conditions stipulated by this Bank.

6. Provisions Relating to Branchless Banking

Permission to operate services relating to branchless banking may be granted only in the areas within the Kathmandu valley, other than Municipality/sub-Municipal Corporation/Municipal Corporation areas, subject to the following terms and conditions, only to class 'A' commercial banks and national level class B development banks willing to be engaged in functions relating to branchless banking services in the remote/rural areas having used smart card through the point of transaction machine and with the help of business correspondent:-

- (1) The banks and financial institution willing to operate services relating to branchless banking has to bring it into operation having technically evaluated the capacity of the work performance of the machine performing works relating to branchless banking and having entered into a Memorandum of Understanding with the company supplying the machine.

- (2) The banks and financial institution willing to operate services relating to branchless banking shall commence the transaction having provided information to this Bank with regard to the required infrastructures (hardware, software, data communication/transmission mechanism and so on) and the necessary efficient human resources.
- (3) While carrying out transaction with the help of single machine through the means of existing communication (PSTN, Cellular communication), the most important aspect is that of strengthening the security and controlling the risks. Accordingly, the following standards have to be met:-
- The concerned bank has to abide by/maintain the industry standard security features while carrying out acts relating to branchless banking;
 - Provisions have to be made for maintaining the network and database of the bank fully secured;
 - In case of purchase of a software, it must be brought into operation having entered into an agreement with the authorized vendor who has acquired software license certificate;
 - The technology to be used for branchless banking has to be secured and it must ensure confidentiality, integrity and authenticity;
 - The cash and other assets to be used in such services must be ensured;
 - In case there arises any problem in technical management whereby payment transactions is affected and the database is damaged, the concerned banks and financial institution shall have to be fully accountable for the damage;
 - Having regard to the security situation of the business correspondent and particular location, the class 'A' commercial banks and class 'B' national level institutions may determine the limit of amount for transaction;
 - The place of transaction of the business correspondence shall have to be secured and convenient to all.
- (4) Only the services of deposit and payment in the Nepalese currency shall be provided through the branchless banking and cross-border transaction and the use of foreign currency in payment shall not be allowed.

- (5) Only accepting deposit, making payment and carrying out credit transaction shall be allowed through the branchless banking.
- (6) The concerned banks and financial institution shall be liable for identification and management of entire risks associated with branchless banking.
- (7) The concerned bank has to prescribe the nearest branch or parent branch in order to have direct control over the transactions of the business correspondent making available such services.
- (8) Upon completion of the daily transaction, the data must compulsorily be transformed to the nearest branch or parent branch or the central office and appropriate provision of back up shall have to be made.
- (9) The decision as to operation of the branchless banking shall have to be taken from the Board of Directors of the concerned banks and financial institution.
- (10) Functions relating to payment services and deposit acceptance may be carried out having fulfilled the aforesaid terms and conditions, other prevailing laws and subject to the Directives of this Bank with the prior approval of this Bank.

7. Provisions Relating to Mobile Banking Service

The licensed commercial banks and class 'A' and 'B' development banks of national level may, subject to the following terms and conditions and policy provisions, operate mobile banking service in the places where there is no access of banking services:-

- (1) The mobile banking service shall have to be operated/implemented having fixed any nearest branch of one's own as liaison/control office at any place in the country except the areas of Municipal Corporation, sub-Municipal Corporation and Municipality within the Kathmandu valley.
- (2) The cash, cash-in-transit, transport vehicles, employees and other assets to be involved in the mobile banking service shall have to be insured.
- (3) The concerned banks and financial institution shall have to identify and manage on its own the risks including security system risks associated with operation of this service.
- (4) No service charge, other than the service charge applicable at present, may be charged on the customers for making available the mobile banking service.

Provisions have to be made for immediately reflecting the details for the transaction and its impact on the account of the customer.

- (5) Approval of the concerned authority or official of Government of Nepal shall be obtained as may be necessary with regard to the place and other things of making the mobile banking service available. Arrangement of means of making modern communication has to be made so that immediate contact may be made with local police, administration as may be necessary.
- (6) The institution willing to operate mobile banking service may, having regard to the security situation and particular location where the service has to be made available, prescribe the limit of transaction on its own.
- (7) The deposit and payment services have to be made available in the Nepalese currency only through the mobile banking service.
- (8) Provision of security guards along with weapon shall have to be made at the spot where the mobile banking service is being made available.
- (9) The Internal Audit Department of the bank shall have to cover the mobile banking service in the internal audit having made certain criteria in order to make the service secured.
- (10) The institution operating the mobile banking service shall not make available services other than the deposited-related transaction of customers and the remittance services.
- (11) The concerned banks and financial institution shall have to install infrastructure and information system in order to make available the necessary services in the transport vehicles to be used while operating these services.
- (12) The staff to be deputed to the mobile banking service shall have to prepare the log-book of the vehicles and other documents evidencing that the vehicle moved only in the approved geographical area.
- (13) The data base and network of the bank shall have to be fully secured.
- (14) Arrangement has to be made to instantly transmit and exchange the information in the software data to the central information system of the institution.

- (15) Decisions as to operation of the mobile banking service shall have to be made by the Board of Directors of the concerned banks and financial institution.
- (16) The mobile banking service may be made available only after obtaining a prior approval of this Bank subject to the aforesaid terms and conditions, other prevailing laws and Directives of this Bank.

8. Opening Branch offices in abroad by class 'A' commercial bank

The following policy and procedural measures have been made with regard to establishing in foreign countries a branch office by the licensed class 'A' commercial banks subject to the following terms and conditions and norms:

Terms, Conditions and Norms

- (1) The feasibility study report showing that the proposed place is financially potential for extension of branch, plan of the proposed business, comparative cost-benefit analysis, commercial strategy and types of the transaction to be operated, internal control, risk management and detail as to the bilateral relationship of Nepal with the host country have to be submitted to this Bank.
- (2) While submitting application to open branch in a foreign country, minimum paid up, capital of the class 'A' commercial bank making such application shall have to be two billion rupees.
- (3) The capital assigned by the regulating body of the host country in which the branch office is going to be established, have to be met and the details of the sources for management of the capital shall be submitted along with the application.
- (4) In order to bring into Nepal the dividend in the form of profit in foreign currency from the country in which the branch office is to be established and in order to bring back the assigned capital in the foreign currency in which it was taken to there or in a convertible foreign currency in the rare event of need to close the branch office, therefore, the documents evidencing that the law and policy provisions of the host country do not restrict these activities shall have to be produced.

- (5) In addition to meet the terms and conditions prescribed while granting license from this Bank, the capital fund prescribed by this Bank has to be maintained in the quarterly statement before opening a branch in abroad.
- (6) In order for exchange of information in the branch in abroad, arrangement of networking or electronic medium shall have to be made for immediate link with the information system of the central office.
- (7) The non-performing assets shall have to be less than five percent in the immediately preceding trimester.
- (8) The Board of Directors of the concerned bank shall have to make decisions relating to establishment/operation of branch office in abroad. Within 15 days from the date of decision by the Board of Directors, information thereof shall be furnished to this Bank. Approval shall be granted within 120 days from the date of information furnished to this Bank. Within six months from the date of obtaining approval of establishing branch office in abroad, the branch office shall have to be established and transaction shall have to be commenced. In the event of failure to open the branch office within the prescribed period, the approval shall *ipso facto* be revoked and in order for getting approval to establish a branch again, application shall have to be submitted afresh.
- (9) The statements to be furnished to the Banks and Financial Institutions Regulation Department and Banking Supervision Department of this Bank according to the prevailing provisions, financial statement (consolidated and separate) of the branch office being operated in abroad shall also have to be submitted.
- (10) The licensed institution of class 'A' establishing branch office in abroad shall not be allowed to close or shift or amalgamate the branch office without a prior approval of this Bank.
- (11) In case the licensed institution of class 'A' establishing branch office in abroad desires to change or shift the address of the branch office, a prior approval of this Bank shall have to be obtained.
- (12) Once the bank desiring to establish branch office in abroad acquires the no-objection letter according to the criteria set by the concerned host country, this

Bank shall grant the no-objection letter upon fulfillment of the terms and conditions and policy provisions prescribed by this Bank.

- (13) The bank desiring to open branch office in abroad shall have to fulfill all the Directives given by the regulating body of the host country and shall always have to maintain the description of capital and capital adequacy as prescribed by this Bank.
- (14) Except the capital assigned for the purpose of branch office in abroad no type of amount or convertible foreign currency shall be allowed to be taken.
- (15) Written undertaking made by the Board of Directors of the parent company located in Nepal shall have to be submitted to this Bank stating that the amount required for meeting all the liabilities of the commercial functioning of the branch in abroad and any other liability shall be made available on demand by the Nepal Rastra Bank.
- (16) Power to regulate and supervise entire transactions of the branch in abroad shall be vested in the Nepal Rastra Bank and the regulating and supervisory authority in the host country. According to the prevailing laws, periodic off-site and on-site supervision of such branches shall be carried out regularly. For the supervisory functions, the bank shall have to co-operate the supervisor in an institutional manner.
- (17) Unless otherwise stated, the Directives, circulars and guidelines issued by the Nepal Rastra Bank for licensed Banks and financial institution shall apply also to the Branch in abroad. In case any special provisions have to be under or any decision has to be made with regard to such branches, the Nepal Rastra Bank may do as may be necessary. In case of non-observance of policy Directives and laws, actions shall be taken and punishment be imposed according to the prevailing national and international practices.

- (18) The licensed institution of class 'A' establishing branch office in abroad shall, while submitting application for this purpose, fill in the form in the prescribed format and submit it along with a voucher evidencing the deposit of two hundred thousand rupees as registration fee in the Na. No. A accounts of the Nepal Rastra Bank.
- (19) The instruments including the banking procedures, the loan Directives to be followed while operating branch office in abroad shall have to be submitted to this Bank in due time. The information relating to actions with regard to punishment, fine imposed by the regulating and supervisory authority and good governance practices of the host country have to be submitted to the Regulation Department and Supervision Department of this Bank within 15 days.
- (20) The Assets (Money) Laundering Prohibition Act shall have to be fully complied with while operating branch office in abroad.

9. Actions to be taken for non-compliance of Directives relating to Branch/Office:

In case a licensed institution opens and operates a branch office without complying with these Directives relating to Branch/Offices, the following actions shall be taken according to the Nepal Rastra Bank Act, 2002:

- (1) The branches opened without complying with the process and terms and conditions shall immediately be closed and no additional branch office may be opened for a period of upcoming two years.
- (2) The Directors involved in decisions to operate branch office without complying with the process and terms and conditions shall be taken actions and punished pursuant to Section 100(2) of the Nepal Rastra Bank Act, 2002.
- (3) Any action may be taken according to the Banks and Financial Institutions Act, 2006 and other laws in force for the time being.

10. Form to be filled in Before Transaction:

Prior to decide and operate transaction by licensed institution under these Directives, the form referred to in schedule 14.2 (enclosed herewith) shall be filled in and be

submitted to this Bank. In case this Bank makes any remarks relating thereto, the branch office shall have to be operated only after complying with the remark so made.

11. Repealed and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to opening up of branch/office contained in the Unified Directives, the Directives issued under Directive No. 14/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Format of information to be submitted to Nepal Rastra Bank by bank and financial institution opening branch/offices

Date:.....

Nepal Rastra Bank Central Office

Bank and Financial Institution Regulation Department Baluwatar, Kathmandu .

Re.: Information relating to opening of branch office.

Dear sir,

Since the Board of Directors has made a decision on through decision no. to open branch office/extension offices in following places on complying the conditions stipulated in Unified Directive No. 14/067 issued by you, it is hereby requested the same for your information.

1. Name and Address of Bank/Financial Institution :
2. Particulars of the Institution:
 - a. Date of license issued by Nepal Rastra Bank :
 - b. Date of operation of financial transactions :
 - c. Institution's Paid up capital as of last quarter :
 - d. Institution's total lending :
 - e. Amount and percentage of non-performing loan of last fiscal year as certified by External auditor :
 - f. Number of branches in operation till date :
 - g. Number of branches after opening the new branch:
 - h. Particulars of branches opened after close of Chaitra 2064 (chronologically) :
 - (i) Particulars of outside Kathmandu Valley :
 - (ii) Particulars of within Kathmandu Valley :

3. Particulars relating to paid up capital stipulate for the proposed branch and total outstanding after addition of paid capital (for "C" class):
4. Particulars of branch opened outside the Kathmandu valley for the proposed branch :
5. Particular relating to arrangement of networking system for flow of information of branch/central office :
6. Date of share issued to general public :
7. Quarterly Proportion of capital fund

Quarter	Core Capital Percentage	capital fund Percentage
206 Ashad		
206 ... Aswin		
206 ... Paush		
206 ... Chaitra		

8. At the close of the last fiscal year, according to the capital plan/Directives of Nepal Rastra Bank:
 - a. Required paid up Capital
 - b. Current paid up Capital
9. Scope of work
10. Officers involved in the decision for opening of the branch:
 - a. Board of Directors
 - b. Chief Executive /Company Secretary

11. Feasibility Study Report:

In addition, we shall comply with all terms and conditions referred to in above even on the date of opening of the branch. The aforesaid contents are true and correct and in case of differences, we hereby agree to be liable according to the existing law and as provided in the Unified Directives No. 14/067 issued by that Bank.

Sincerely,
Chief Executive

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 15/067

Subject: Provisions Relating to Interest Rates

The following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the interest to be paid for the deposits and interest to be charged for loans and advances by the licensed institutions.

1. Provisions Relating to Interest Rates

The "A", "B" and "C" Class licensed institutions shall be free to fix interest rates for both deposits and lending, including fixation of types of interest and procedures on their own.

2. Prohibition for Fixing Flat Rate of Interest

The licensed institutions other than "D" Class institutions shall not be allowed to fix flat interest rates on the loan and advances.

3. Interest Rate to be approved

Licensed institutions shall implement the interest rates for deposits and lending, procedures for calculation of interest, penal interest, commission and service charges only after approval. The institutions may increase the interest rate for deposits up to a point of 0.5 percent over the published rates, but in case of interest rate on lending it should not be higher than published rate.

Provided that

- (a) Interest rate may be fixed on the agreement between bank or financial institution and customer in the case of perpetual fund or in case of deposit having the maturity period of more than five years.
- (b) No provision of published interest rate shall be applicable in case of the institutional deposit to be collected on the basis of bidding.

4. Submission of Return on Interest Rate

The licensed institutions shall compulsorily furnish the statements of interest rates on deposits and lending to Banks and Financial Institutions Regulation Department and the concerned Supervision Department of this Bank within seven days of the end of each quarter. Moreover, the licensed institutions shall submit all provisions and procedures relating to interest rates according to Clause 3 above at the time of beginning of the implementation and changes made thereto within seven days.

5. Interest Rates to be published

The national level "A", "B", and "C" Class licensed institutions shall publish the particulars according to Clause 4 above at the time of each amendment made in the interest rates on deposit and lending in national daily newspapers.

The regional/ district level institutions shall publish the particulars of changes in the requirement of about the minimum level of balance to be maintained in the regional/district level newspapers.

Provided that the "D" Class institutions may publish the rates putting the information on its notice board.

6. Provisions of recording interest income:

The interest accruals on loan and advances shall be recognized as income on cash basis only. The interest accrued but not realized in cash shall be recognized in the year of cash realization and the account shall be reconciled accordingly. Interest receivable for a period shall be debited to "interest receivable account" and credit to "interest suspense account".

7. Provisions relating to providing interest:

In situation where interest on credit/lending by banks and financial institutions on a quarterly basis, interest shall be credited to the savings account of depositors at least on every 3/3 months basis.

Interest to be provided to depositors shall be provided at least on average deposit balance of week, month, quarter or other duration on the basis of which the interest has to be calculated according to the policy of the concerned bank and financial institution to provide interest on deposit liability.

Note:

"Average deposit balance" means the average of daily closing balance to be maintained after the end of daily transaction. (For example, the procedures according to which licensed banks and financial institutions use to have calculated interest on the remaining amount of credit and lending, the same procedures shall be applied in the calculation of the interest.)

8. Action for Non-Compliance of provisions relating to interests rate:

If the licensed institutions are found not complying with the Directives relating to branch/ offices, actions may be initiated under the Nepal Rastra Bank Act, 2002.

9. Repeal and Saving:

(1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to interests rates in the Unified Directives, the Directives issued under Directive No. 15/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.

(2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 16/067

Subject: Provisions Relating to Collection of Financial Resources

The following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the financial resources to be collected by the institutions licensed by this Bank:-

1. Limit for Mobilization of Financial Resources

- (1) The "A" Class licensed institutions may mobilize financial resources without any limitation.

Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.

- (2) The "B" Class licensed institutions may mobilize financial resources (with or without interest of all types of deposits, borrowings and debt instruments) up to twenty times of their Core capital fund.

Provided that in case of borrowing one third of the total deposit liability in maximum may be mobilized.

- (3) The "C" Class licensed institutions may mobilize financial resources (with or without interest of all types of deposits, borrowings and debt instruments) up to fifteen times of their Core capital fund.

Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.

- (4) The "D" Class licensed institutions may mobilize financial resources up to thirty times of Core capital fund.

Provided that except in cases of clause 12 of these Directives, collection of deposits from non-members shall not be allowed.

Explanation:

"Financial resources" means funds collected from group members by way of deposit, borrowing and debentures.

- (5) For the purpose of monitoring the limit of mobilization of financial resources, the core capital fund maintained at the last quarter shall be considered as the base.

2. Limit for Institutional Deposit Collection

The "A", "B", and "C" Class licensed institutions may collect institutional deposits from a single firm, company or any corporate bodies not exceeding twenty percent of its total deposit.

3. Preparation and Application of Rules and Procedures for Deposit Collection and Payment

- (1) The licensed institutions shall prepare and apply rules and procedures covering the types, period, and so on of the deposits that the institution is to accept and implement. Such Rules and procedures shall be submitted to Banks and Financial Institution Regulation Department and concerned Supervision Department of this Bank.
- (2) The licensed institutions shall submit the details of dormant deposit accounts which is not in operation for the last ten years and not claimed, to this Bank within one month from the close of each of the fiscal years.
- (3) The licensed institutions shall submit the details of unpaid dividend not collected by the shareholder or his/her heir for a period of five years from date of declaration to this Bank within one month from the closure of the fiscal year.

- (4) The licensed institutions shall publish, at least once, the particulars of inoperative deposit accounts or unclaimed deposits or unpaid dividend mentioned under Sub-Clauses (1) or (2) above in the national level newspapers within one month of the above-mentioned period. If the amount is not claimed even after such publication, the amount has to be deposited into the account as directed by this Bank.
- (5) The licensed institution may open saving account only in cases of natural person, or organizations/ associations (including Postal Saving Banks) which have been established with not profit making objective. In cases of saving accounts opened by other organizations /institutions, except natural persons and not profit-making organizations, the accounts have to be closed without delay. Moreover, according to the acceptable banking norms, the concerned institution shall have to distinguish the accounts that have to be issued cheque book and that have not to be issued cheque book and cheque books have to be issued accordingly.

Provided that the said provisions shall not prohibit the non-natural persons such as organizations, associations, companies to open accounts earning interests other than saving accounts.

4. Borrowing:

- (1) The licensed institutions may borrow funds from banks and financial institutions, individual, firm, company and corporate body not exceeding the limit prescribed in Clause (1) above.
- (2) Notwithstanding anything contained in Sub-clause 1 above, the licensed institutions all take approval of this Bank for borrowing funds or accepting financial assistance from foreign government or international organizations/ institutions.

5. Provisions relating to Issue of Debenture and Other Debt Instruments

A licensed institution, which has fulfilled the following conditions, may apply to this Bank for approval to issue debentures and/or any other debt instruments up to 50 percent of core capital fund remaining within the limit prescribed under Clause (1) above. This Bank may give approval for issuing debentures if it deems appropriate after necessary inquiry into the application:-

- (1) Having completed five years of financial operation.
- (2) Having completed listing of the shares after public issue with Nepal Stock Exchange Ltd.
- (3) Not having any accumulated losses.

Provided that the licensed institutions obtaining approval to issue debenture and other debt instruments shall have to compulsorily mention the Capital Redemption Reserve to be maintained under discount factor.

6. Provisions Relating to Deposit Transaction

Licensed banks and financial institutions shall not be allowed to maintain deposits and have loan transaction in financial institutions which have been mobilizing deposit and carrying out loan transactions according to other prevailing laws.

Provided that this provision shall not apply in cases of the financial institutions established with objective of carrying out bulk transaction of micro-finance.

7. Duration to Bring Down within Limits the Mobilization of Financial Resources to Prescribed Limit

In case the "B" and "C" class licensed institutions have borrowed and mobilized financial resources in excess of limit prescribed by directive of this Bank, the following provision shall apply:-

- (1) If the mobilization of financial resources exceeds the limit as prescribed in the Directives of this Bank relating to the mobilization of financial resources, a fine may be levied to such institution on such excess mobilized resources on daily basis at the prevailing bank rate for the period until such financial resource is brought down to the prescribed limit. Moreover, the Chief Executive of the concerned institution may also be fined not exceeding Rs. 100,000/- and such amount shall be paid by the Chief Executive personally.
- (2) For this purpose, the calculation shall be made on the basis of core capital as appeared in the latest audited financial statement.

- (3) Daily information relating to total borrowings shall be stated by adding a separate heading for the borrowings in the weekly statement of compulsory reserve (Directives Form No. 13.1).

8. Public issue of shares:

The licensed banks and financial institution shall have to complete the sale of shares allotted for general public within a maximum period of two years of coming into operation. Moreover, they may issue further shares to public subject to the prevailing laws relating to securities.

9. Share Deposit scheme may be operated

The licensed banks and financial institution (belonging to classes 'A', 'B', 'C' and 'D') may operate shares deposit schemes subject to the following terms and conditions:-

- (a) In case the saving depositors under the shares deposit scheme desire to purchase the shares (promotes group) of the said company, they have to be eligible to become promoters according to the Banks and Financial Institutions Act, 2006, the unified Directives issued from this Bank and the provisions made in the policy for providing license.
- (b) The depositors desiring to change the deposit collected under the shares deposit scheme into ordinary shares (promoters group), the provisions and processes referred to in the prevailing laws relating to securities transactions have to be complied with and at the time of giving the shares of promoter group to the depositors in such a way, the banks and financial institution shall have to provide the promoter shares to them only after obtaining an approval from the Nepal Securities Board as well.
- (c) It shall have to be clearly stated in the internal policies /Byelaws of the concerned companies that it must be publicized for public information to the saving depositors desiring to purchase promoter group shares being involved in the scheme that shares of promoters group may be purchased only after fulfilling the required processes having abided by the laws and Directives relating to

securities subject to the Banks and Financial Institutions Act, 2006, policy provisions made by this Bank and other prevailing laws.

10. Subordinated Term Debt and Redeemable Non-Convertible Preference Shares may be issued:

The banks and financial institutions shall, while issuing non-secured Subordinated Term Debt and Redeemable Non-Convertible Preference Shares, have to follow the following terms and conditions in addition to other provisions relating to it:-

- (1) Debt to be issued without any security;
- (2) The term of the debt has to be specified;
- (3) Duration of payment and annual rate of interest for interest/dividend to be paid for the debt/Redeemable Non-Convertible Preference Shares to be specified, interest rate not to be changed and income tax to be levied according to the Income Tax Act in the accrued interest;
- (4) In the event of liquidation of the bank, payment of debt/Redeemable Non-Convertible Preference Shares to be made only after the depositors;
- (5) Within six months from the date of issue, the debt/Redeemable Non-Convertible Preference Shares has to be listed in the Nepal Securities Exchange Market;
- (6) The prospectus to be prepared before the issue of the debt/Redeemable Non-Convertible Preference Shares has to be published only after obtaining consent of this Bank;
- (7) The following reserve has to be created to provide for the Debt/Preference Share Redemption Reserve to be created for making payment of amount of the debt/Redeemable Non-Convertible Preference Shares:-
 - (a) No need to allocate any amount to such Redemption Reserve during the fiscal year of issue and that of payment;
 - (b) During every year thereafter until the duration of payment is remaining, amount has to be allocated from annual income at least in proportionate basis.

- (c) In case the amount more than the amount of proportionate basis as referred to in clause (b) is to be allocated, it shall have to be clearly stated how much amount to be allocated in which fiscal year.
- (8) In case an advance agreement has been entered into with any organization/institution with regard to the debt/Redeemable Non-Convertible Preference Shares to be sold on the basis of private placement, a copy of such agreement to be submitted;
- (9) In case any party does not purchase the debt/Redeemable Non-Convertible Preference Shares allocated to it, provisions to be made providing for selling it to another party;
- (10) With regard to the time in which the interest accrued on debt/Redeemable Non-Convertible Preference Shares, clear provisions have to be stated under the head, "Interest/performed dividend payment timing" in the prospectus;
- (11) Every applicant making application for debt/Redeemable Non-Convertible Preference Shares has to be provided with the broken period interest to the amount he/she has applied from the date of application to the date of allotment at the prevailing market rate and this has to be clearly stated in the prospectus;
- (12) In case there remains any amount in the redemption reserve after payment of the debt/Redeemable Non-Convertible Preference Shares, such amount has to be transferred to the special reserve.

11. With regard to insurance scheme

In case the licensed banks and financial institution has to make provisions of insurance at the very time of accepting deposit, they may bring such scheme so that there may not be discrimination among the depositors of the same nature and there may not be additional burden on the depositors. The services to be provided, the terms and conditions and benefits concerned by the insurance policy shall be clearly informed to the insured depositors at the time of accepting the deposits.

12. Deposit mobilization by licensed class 'D' financial institution carrying out Retail Micro Banking

(1) The licensed class 'D' financial institution carrying out retail micro banking which have met the following terms and conditions may mobilize deposit from general public with approval of this Bank:-

- (a) Certified from an external auditor that it has been earning net profit for the last three years;
- (b) Having fulfilled the capital adequacy prescribed by the Nepal Rastra Bank;
- (c) Having the pre-operation expenses completely written off;
- (d) Provisions of mobilizing deposit from general public to be made in the Memorandum of Association and Articles of Association;
- (e) Policies as to savings, loan advance and fund mobilizations have been prepared;
- (f) Having complied with all Directives issued by the Nepal Rastra Bank
- (g) According to the immediately preceding trimester, the non-performing loan is not more than five percent;
- (h) Total group membership is at least 500 or having credit transaction with at least 2500 numbers
- (i) Cent percent of the borrowing/debt the institution has received has been invested in its customers.

(2) The limits of deposit mobilization from general public by the micro finance development banks having fulfilled the said terms and conditions and other provisions shall be as follows:-

- (a) Remaining within the limit of mobilizing the financial resources of up to 30 times of its core capital, it may mobilize financial resources in the form of deposit from general public not exceeding five times of the core capital. The saving deposit of group members shall not be calculated in the limit of deposit collected from general public.
- (b) Only the savings accounts and fixed account of up to two years may be mobilized.

- (c) The institutional deposit not exceeding 20 percent of its total deposit may be mobilized from any one firm, company or corporate body.
- (d) The gap of the assets and liabilities shall be monitored in quarterly basis and report has to be submitted.

13. Prohibition on launching Gift related programs to make deposit collection attractive:

The banks and financial institution shall not be allowed to launch any type of deposit gift program based on lottery.

Provided that this clause shall not be deemed to have prohibited to launch deposit gift program without making any discrimination among all depositors falling under certain criteria prescribed by the concerned banks and financial institution and allowing all depositors to receive gift on the basis of deposit amount.

14. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to collection of financial resources made in Unified Directives, the Directives issued under Directive No. 16/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 17/067

Subject: Provisions Relating to Lending to Deprived Sector

The following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the deprived sector lending to be extended by the institutions of Class "A", "B" and "C" licensed by this Bank:-

1. The "A" class licensed institutions are required to lend at least three percent of their total outstanding loan and advances (including bills purchased and discounted), "B" class licensed institutions shall require to extend 2 percent of their total credit (including the bills purchased and discounted) and class "C" licensed institutions are required to lend 1.5 percent in deprived sector lending.
2. For the purpose of these Directives, "deprived " means low income and especially socially backward women, tribal people, *Dalit*, blind, hearing impaired and physically incapacitated persons, marginalized and small farmers, craft-men, labour and landless squatters family. All micro-credits to be extended for the operation of self-employment oriented micro-enterprises for the upliftment of economic and social status of deprived sector up to the limit specified by this Bank is termed as "deprived sector lending".

3. The following loans and advances directly extended by the licensed class "A", "B" and "C" bank and development banks shall be included under the deprived sector lending:-

- a) Micro credit extended up to Rs. 60,000 per group/individual against group/personal guarantee to the deprived or low income individual for operating micro business;
- b) Extension of loan not exceeding Rs. 60,000 per family for the purpose of Micro Hydropower Project up to 50 kilowatts, Solar-Home-System, solar cooker, solar dryer, solar pump, bio-gas, improved water mills, improved cooking stoves and wind energy according to renewable energy technology;
- c) Micro industrial credit up to Rs. 150,000 for each business extended to deprived or low income individual to operate the micro industries against acceptable collateral/to group members against the guarantee of the group gradually enhanced;
- d) Loans up to 150,000 per person extended to the individuals who are going for foreign employment on the basis of the tripartite loan agreement between the bank, the person going for foreign employment and the concerned Manpower Company that can produce assurance letter from the employer companies of the employing nation confirming the employment and recovery of loan in installment;
- e) Loans extended up to Rs. 150,000/- per person with or without collateral to persons going for foreign employment;
- (f) Foreign employment loan extended by any "A" class licensed bank in coordination with a bank prescribed by Government of Nepal to workers going for foreign employment under the Youth Self-employment and Employment Training Program of the Government of Nepal;
- (g) The loan not exceeding one hundred fifty thousand rupees extended by bank or financial institutions to per individual/family eligible to receive deprived sector lending for sheep farming to produce wool necessary for carpet or for maintaining handloom to weave carpet against acceptable collateral security shall be calculated as the deprived sector lending. Similarly, the loan not exceeding one hundred fifty thousand rupees extended by banks or financial institutes to per

family eligible to receive the deprived sector lending for purchasing fertilizer or installation of seeds and cold storage for seeds and collection, collective storage, products marketing, animal husbandry small irrigation, shallow tube wells.

4. The following loans extended indirectly by "A", "B" and "C" class licensed institutions shall be calculated as the deprived sector lending:-

- a) Wholesale loan extended against the institutional capability and institutional guarantee to the "D" class licensed institutions and bodies established for performing micro credit related works under the prevailing statutes relating to financial intermediation activities;
- b) With a view to improve the level of income and to enhance employment for those living below poverty line, deprived or people with low income, wholesale loan may be extended to the Co-operative Societies licensed by Nepal Rastra Bank and to the Co-operative Societies established and in operation in rural area upon appropriate evaluation by "A", "B" and "C" class licensed institution for the purpose of extension of deprived sector loan as stated in above sub-point (a). The concerned banks shall monitor as to whether or not such loan has been utilized in the deprived sector and submit the report to this Bank in every six months.
- c) Extension of wholesale loan to "D" class micro finance development bank established for the purpose of providing wholesale credit to Small Farmer Cooperative Societies and institutions conducting micro credit activities.
- d) Loans not exceeding Rs. 150,000/- extended to the workers going for foreign employment by the licensed financial institutions by borrowing funds from "A", "B" and "C" class licensed institutions. Such loan shall be calculated only as deprived sector lending of the "A", "B" and "C" class licensed institutions.

Moreover, bank and financial institutions are required to obtain progress report in every six months regarding the utilization of the extended credit towards deprived sector from the institutions which were provided with wholesale credit with the intention of including the same under the deprived

sector lending. If such wholesale credit is, during the inspection of this Bank, found to be misused, the amount to the extent of misuse shall not be considered for as deprived sector lending.

5. The promoter share capital investment made by the licensed "A", "B" and "C" class banks and financial institutions in the class "D" financial institutions shall also be calculated as indirect the deprived sector lending.
6. Cent percent of the amount received by micro finance development banks from the licensed institutions under the deprived sector lending shall have to be compulsorily extended to the deprived sector. If no such investment is made, the wholesale loans to be extended to the licensed institutions to the micro finance development banks shall not be calculated as the deprived sector lending.
7. The loans extended to the deprived sector shall be calculated based on the total outstanding loans before six months (including bills purchases and discounted, except the portion of the deprived sector) in every quarter i.e. at the end of the months of Ashwin, Paush, Chaitra and Ashadh.
8. **The loans to be directly extended to hospitals** by the licensed commercial banks ("A" class), development banks ("B" class) and finance companies ("C" class) subject to the following terms and conditions shall be calculated as the deprived sector lending:-
 - (a) Such hospitals shall have to be incorporated in the concerned agency as a not-profit-making company;
 - (b) The concerned bank/financial institution may extend up to 5 percent of their core capital for this purpose;
 - (c) The concerned hospital shall have to fully comply with all the terms and conditions prescribed by the concerned agency at the time of granting operational approval;
 - (d) The concerned hospital shall have to make provisions for providing at least 10 percent of its total bed capacity free of cost to the people belonging to deprived sector.
 - (e) The concerned banks and financial institutions shall extend loan only after confirming that the terms and conditions referred to in clause (a) to (d) above have been fully complied with.

9. Regarding Inclusion of Low Cost Housing Loans in Deprived Sector Lending:

The loans extended fulfilling the following conditions for the purchase of land and house construction to the persons eligible for inclusion under the deprived sector shall be eligible for inclusion under the deprived sector lending:-

- (a) The loan not exceeding four hundred thousand rupees provided against secured collateral on a group or individual basis;
- (b) The credit policy of the concerned bank and financial institution has to contain the specific policy as to the extension of loan to deprived sector for the purpose of purchase of land and house construction.
- (c) All necessary requirements according to the laws in force for the time being and the Directives of this Bank have to be observed.
- (d) Deprived sector shall mean people with low income, particularly socially backward women, tribal people and *dalit*, blind, having the hearing capacity impaired and physically disabled, marginalized and small farmers, craft-men, labour and landless squatters as defined in Point No. 1 above.

10. Regarding Micro-Credit

The "D" class micro-finance institutions may lend fully secured micro-finance of up to Rs. 60,000 (sixty thousand only) to the intending individuals who are not affiliated to any Group.

11. Relating to Young and Small Entrepreneurs Self-Employment Fund

- 1. One third of the amount to be extended to deprived sector by banks financial institutions i.e. 3 percent ("A" class), 1.5 percent ("B" class) and 1.0 percent ("C" class) shall deposited in the account opened in the name of Government of Nepal, Ministry of Finance, Youth and Small Entrepreneurs Self Employment Fund (herein after referred to as the "Fund") opened in its own. This clause shall not prohibit the interested banks and financial institutions to contribute more into this account. The amount disbursed to the Fund shall be deemed to be the loan extended to the Fund by the bank and financial institutions, and such fund shall be considered as the deprived sector lending.

2. For the purpose of categorization of loan and provisioning, the loan disbursed by the bank according to sub-clause (1) above, under any circumstances, shall qualify for categorization as pass loan. Similarly, for the purpose of capital adequacy under BASEL II, such loan may be included under the head "Claims on Government" and that "B" and "C" class financial institutions may provide zero risk weightage to such loans.
3. The bank and financial institution shall open the account in the name of "Youth and Small Entrepreneurs Self Employment Fund" after obtaining the documentation including the authority for opening and operation of the account and signing of the loan deed.
4. It shall be the responsibility of the fund to repay the loan disbursed to it by the bank and financial institution according to Clause (1).
5. The agreement between the banks and financial institutions and the Fund shall be executed according to the format referred to in Schedule-1. For this purpose, there shall be no requirement of any documentation other than the said agreement.
6. The amount of loan not exceeding two hundred thousand rupees extended to the Youth and Small Entrepreneurs against the collateral of the project itself according to the Youth and Small Entrepreneurs Self Employment Fund (Operations) Rules, 2008 shall qualify for inclusion under deprived sector lending. However, such lending shall not be deducted from the amount required to disburse according to Clause (1) above. Following provisions shall apply in respect of disbursement of such loans:-
 - a. Depending on the nature of the project, the tenure of the loan shall be up to five years. Bank and financial institutions shall prescribe the installments to be paid according to its rules. Grace period for payment of principal and interest shall be as prescribed by the Fund.
 - b. The movable and immovable assets related to the self-employment oriented business of the concerned person shall remain as the collateral until the principal and interest are fully paid up.
 - c. All rights to accept or reject the loan shall lie with the bank and financial institution.

- d. The concerned bank and financial institution shall bear the risk associated with the loan and responsibility as to its recovery.
7. For the purpose of lending according to Clause 6 above, the bank and financial institution may obtain refinance facility at 7 percent per annum interest from the Youth and Small Entrepreneurs Self Employment Fund.
8. Operations of the Fund shall be according to the Youth and Small Entrepreneurs Self Employment Fund (Operations) Rules 2008, the Directives issued by this Bank.
9. Notwithstanding anything contained in the foregoing, the licensed banks and financial institutions (other than the Class “D”) need not have to deposit, according to a circular issued on March 10, 2010, amount in the Youth and Small Entrepreneurs Self Employment Fund, which is to be calculated in the deprived sector lending, to be effective from the mid-April, 2010 until a new circular is issued.

Provided that though there is no immediate need to deposit amount to the Youth and Small Entrepreneurs Self Employment Fund, the banks and financial institutions shall continue to invest the amount as referred to in Point No. 1 of these Directives to the deprived sector.

10. The quarterly statement relating to deprived sector lending shall be prepared in the format referred to in NRB Form No. 9.5 and be sent to the concerned supervision Department of this Bank within 15 days of the completion of the quarter.
11. The concerned licensed institution shall have to state clearly in its Credit Policy the policy and procedural provisions relating to the loans to be extended to the deprived sector.
12. Notwithstanding anything contained in other Directives, no loan loss provision of 20 percent shall be required for the loans to be extended to the deprived sector directly or indirectly against the group/personal/institutional guarantee.
13. In case the licensed institution of classes “A”, “B” and “C” do not extend the deprived sector lending to be extended according to the Directives relating thereto or extend lesser amount of loans, the amount not extended or less extended shall

be fined to the concerned licensed institution at the rate of highest percentage of interest it charges on loans during that calculation time pursuant to Section 81 of the Nepal Rastra Bank Act, 2002.

14. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to deprived sector lending made in Unified Directives, the Directives issued under Directive No. 17/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Agreement between Bank and financial institution and the Fund

This agreement is signed in between Mr./Ms duly authorized representative of Youth and Small Entrepreneurs Self-employment Fund, Ministry of Finance established according to the Youth and Small Entrepreneurs Self-employment Fund (Operations) Rules 2008 (hereinafter referred to as the Fund), and Mr./Mrs..... duly authorized representative of having address in District Municipality Ward No.established under the Bank and Financial Institutions Act, 2006 (hereinafter referred to as Bank/Financial Institution) agree on our free will and consent to the following terms in the presence of the witnesses mentioned and signed in the office of the Fund.

Terms and Conditions

1. The Bank/Financial Institution shall disburse into the Fund the amount according to Clause.....of Directives No.....of the Banks and Financial Institutions Regulation Department and Nepal Rastra Bank and the amendments to be made thereto from time to time. Funds disbursed by the bank/financial institution shall be considered as Loan to the Fund. The Bank/Financial institution shall submit information disclosing the total loan amount disbursed and total outstanding loan to the Fund on quarterly basis. Such information, unless intimated otherwise in writing by the Fund within seven days, shall be construed as the loan amount extended to the Fund by the Bank/Financial Institution.
2. The Fund shall pay interest at 5 percent per annum on the loan amount disbursed to the Fund according to Clause 1 above payable on quarterly basis to the Bank/Financial Institution. The Bank/Financial institution shall pay interest at 7 percent per annum on the refinance amount obtained from the Fund. Having regard to the market rate and inflation, such rates of interest shall be reviewed upon consent in writing of both the parties.
3. The responsibility of payment of interest on loan to the Fund and refinance obtained by the Bank/Financial institution shall lie on the respective institutions. In case the interest is not paid quarterly at the close of Ashad, Aswin, Paush and Chaitra, the Fund as well

as the Bank/Financial Institution - both the parties may serve a notice recalling the entire principal and interest. The Fund or Bank/Financial Institution shall repay the entire principal and interest within seven days of receipt of such notice.

4. In case any party fails to repay principal and/or interest according to Clause 3 above, the Fund or Bank/Financial Institution shall be liable to pay all outstanding dues together with interest at 10 percent per annum and panel interest at 2 percent from the date of maturity to the date of payment.
5. The tenure of this agreement shall commence from this date and shall remain valid up the time of repayment of the loan disbursed.
6. The Fund may, at any time, repeal this agreement by paying the outstanding dues (principal and interest) of the Bank/Financial Institution against servicing a prior notice of minimum 15 days.
7. In case the Fund is dissolved during the life of this agreement, the Fund shall immediately pay all outstanding principal and interest to the Bank/Financial Institution.
8. Conditions of this agreement may be amended, altered or added/deleted upon consent in writing of both the parties
9. In the event of regular recovery of loan, the bank/financial institutions shall directly collect interest at subsidized rate less 60 percent. In case the interest payment is not regular, the same shall be recovered according to the provisions of Youth and Small Entrepreneurs Self-employment Fund (Operations) Rules 2008.

Authorized person on behalf of the Youth and Small Entrepreneurs Self-employment Fund	Authorized person on behalf of the Bank/Financial Institution
Name:	Name:
Position:	Position:
Signature:	Signature:
Seal:	Seal:
Date:	Date:
Witnesses	Witnesses:

Done on this Day.... Month206...

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 18/067

Subject: Provisions Relating to Amalgamation, Merger and Upgrading

Since the following provisions have been made with regard to upgrading of a lower class financial institution in the upper class or merger into each other of two or more licensed institutions or with regard to the licensed institution making application to this Bank for upgrading after being merged, these Directives have been issued having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002 and it is hereby requested to do or cause to be done accordingly.

1. With regard to upgrading

(A) The following procedures have to be completed in order for a class 'B' or 'C' financial institution licensed from this Bank for being converted into the higher class financial institution pursuant to Section 36 of the Banks and Financial Institutions Act, 2006:-

(1) Only the lower class licensed institution having fulfilled the following conditions pursuant to Section 36(1) of the Banks and Financial Institutions Act, 2006 may apply to this Bank along with the prescribed documents and details for the letter of intent with regard to being converted into the licensed institution of upper class:-

- (a) Having the capital prescribed by this Bank for upper class licensed institution;
- (b) Being able to continuously in profit for the last five years;

- (c) Having the total non-performing loan within the limit prescribed by this Bank;
 - (d) Having fulfilled all the conditions prescribed by this bank.
- (2) While submitting application for letter of theoretical consent for being converted into the upper class licensed institution pursuant to sub-clause (1), the following documents and details have to be submitted:-
- Application in the prescribed format (schedule 1)
 - Commitment to maintain the minimum paid up capital required prior to being converted into the upper class licensed institution.
 - Copy of the resolution passed by Annual General Meeting of the concerned institution with regard to upgrading in the upper class.
 - Bio-data of the promoters (in the prescribed format as set out in schedules 3 and 4)
 - Promoters in the latest fiscal year and the certificate of tax clearance by the concerned institution.
 - Self-declaration form certifying that there is no overdue loan taken by Promoters from banks and financial institution or none of them have been blacklisted by the Credit Information Bureau Ltd. Moreover, self declaration from the concerned institution shall be made to the effect that Directors have not loan from the institution.
 - Details of the current share capital structure and ownership (Promoters group and general public)
 - Details showing that promoters have not subscribed more than 15 percent of the paid up capital and that share capital called has been paid.
 - Structure of share capital of individual shareholder in the Promoter/Promoter group to be maintained while converting into the upper class.

- The proof to show that less than five percent of the total loan of the institution is non-performing at the time of submitting application to this Bank having maintained prescribed paid up capital.
 - Documents evidencing that pre-operation expenses incurred at the time of incorporation of the institution has been fully written off.
 - Audited financial statement evidencing that the institution has been operating in profit for the last five years.
- (3) This Bank shall conduct necessary inquiry and investigation into the documents and statements submitted pursuant to sub-clause (2) and procedural arrangement to issue permission to carryout financial transaction of upper class shall be followed having measured the fit and proper test according to Section 36 of the Banks and Financial Institutions Act, 2006 and Policies and Procedural Provisions relating to Incorporation of Banks and Financial Institutions and Licenses to Carryout Financial Transaction, 2006 and the same shall be informed to the concerned financial institution desiring to carryout financial transaction of upper class. While making available such information, letter of intent shall be granted with the following conditions and requiring to submit application for operation of financial transaction having fulfilled the necessary procedures within six months.
- (a) Application in the format prescribed by this Bank (according to schedule 2) for operation of financial transaction along with a bank voucher depositing by the bank/financial institution to be converted to upper class an amount to be calculated by 0.02 percent of the paid up capital to Na.No.Aa.Hi. Miscellaneous head of this Bank;
 - (b) Statement certified by a panelist auditor of this Bank that the minimum paid up capital prescribed by this Bank has been maintained;
 - (c) A copy of the modified Memorandum of Association and Articles of Association having included the functions of the new institution attested by the Office of Companies Registrar.

- (d) Copies of the modified credit policy, Personnel Administration Byelaws, Financial Administration Byelaws and Credit Write off Byelaws;
 - (e) Organizational structure of the new institution and details of its officials;
 - (f) Details as to information technology and software.
- (4) In case the concerned institution has to amend to its Memorandum of Association and Articles of Association for being converted into the upper class licensed institution, it shall have to do so according to the prevailing laws.
- (B) In case an application is submitted to this Bank for being converted into the upper class licensed institution from class "D", financial institution licensed by this bank pursuant to Section 36 of the Banks and Financial Institutions Act, 2006, the following actions shall be taken:-
- (1) Entire requirement referred to in the Banks and Financial Institutions Act, 2006, the prevailing laws and all procedures including paid up capital for upgrading and policy provisions for class 'B' and 'C' licensed financial institution in clause (a) above have to be fulfilled;
 - (2) Proposal has to be submitted that there shall be no cross holding in the share investment of licensed banks and financial institution as referred to in Section 48 of the Banks and Financial Institutions Act, 2006; with regard to determination of credit;
 - (3) With regard to determination of credit limit for class "D" licensed institution, commitment of the Board of Directors has to be submitted with regard to not minimizing the credit amount, services and programs extended and being operated according to the provision that micro-entrepreneurship credit not exceeding one hundred and fifty thousand rupees may be made available to the group member of loan income group for running micro-entrepreneurship against acceptable collateral not exceeding sixty thousand rupees per group/member referred to in Point No. 1(2) of Directive No. 3 of this Bank.

(4) There has to be established a separate micro-finance department in the organizational structure of the proposed financial institution of higher class in order to fulfill the commitment referred to in sub-clause (3) and the said department has to directly operate the on-going activities relating to micro-finance.

(c) Suspension of shares sales/purchase transaction

The banks and financial institutions submitting application for letter of intent having maintained or not maintained the required capital for the higher class of licensed institution shall, along with such application, have to submit a letter of the stock exchange market that the share sales and purchase is blocked during the time of listing of shares of such licensed institution in the stock exchange market until final decision is taken in this regard from this Bank.

2. Amalgamation/Merger

The following procedures shall be taken for amalgamation or merger of licensed institution each other pursuant to Section 69 of the Banks and Financial Institutions Act, 2006:

(a) The banks and financial institutions submitting application for obtaining theoretical consent for amalgamation/merger into each other with the existing capital structure shall have to submit a letter of the stock exchange market that the purchase/sales of shares is blocked during the time of listing of the shares of such licensed institution in the stock market until the final decision is taken in this regard from this Bank.

(b) The banks and financial institutions submitting application for the theoretical consent for amalgamation or merger into each other having changed the existing capital structure have to submit for application amalgamation/merger only after completing actions with regard to capital structure change and the capital has been increased.

Upon receipt of the application pursuant to Clauses (a) and (b) along with the attached documents and statements shall be held the existing policy and procedural provisions, inquiry shall be held on them and information of the decision made by this Bank shall be provided to the concerned licensed institution within forty five

days and in the case of additional statement or document is asked for in the course of decision, the information as to the decision of Bank shall be provided within additional fifteen days.

3. Upgrading after merger

In case an application is submitted to this Bank for being converted into the licensed institution of the upper class pursuant to Section 36 of the Banks and Financial Institutions Act, 2006 after merger of the licensed institutions pursuant to Section 69 of the same Act, the procedures referred to in Point No. 2 have to be followed first and actions pursuant to Point No. 01 shall begin only after completion of procedures under Point 2.

Since amalgamation/merger, increasing capital and upgrading of banks and financial institutions are separate issues, the applying institution/Institutions has/have to clearly mention under which clause the application has been submitted and while submitting application to this Bank, the concerned institution/institutions has/have to compulsorily furnish information thereof to the Office of Companies Registrar, Nepal Securities Board and Stock Exchange Market as well.

4. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to amalgamation/merger and upgrading made in Unified Directives, the Directives issued under Directive No. 18/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank
Central Office,
Banks and Financial Institutions Regulation Department
Baluatar, Kathmandu

Subject: Granting approval for converting into the Classlicensed institution

Dear Sir,

Since the General Meeting of this institution, which has been operating financial transaction for the last ...years in accordance with the Banks and Financial Institutions Act, 2006 after being incorporated as a public limited company at the Office of the Companies Registrar, Government of Nepal, under the Companies Act in force for the time being, has decided to convert the institution into the upper class institution of classpursuant to section 36 of the Banks and Financial Institutions Act, 2006, therefore, this application has been submitted for pre-approval of that Bank to obtain the letter of intent along with the prescribed documents.

Required documentspieces are attached herewith.

Sincerely Yours,

.....

(Authorized person on behalf of the institution)

Name:.....

Address:.....

Telephone No:.....

Fax No.....

E-mail Address:.....

Date:.....

Seal of the Institution:.....

Schedule -2

Nepal Rastra Bank
Central Office,
Banks and Financial Institutions Regulation Department
Baluar, Kathmandu

Subject: Granting approval for carrying on Transaction

Dear Sir,

Since the letter of intent to convert this Institution into the Class.....licensed institution has been granted vide a letter of that Bank bearing Ref. No.....datedand since this Institution has met all the prescribed terms and conditions, therefore, we request that Bank, having enclosed the required documents and applicable fee herewith, in order to obtain approval to carry on financial transaction as an Institute ofclass pursuant to section 36 of the Banks and Financial Institutions Act, 2006.

Required documentspieces are attached herewith.

Sincerely Yours,

.....
(Authorized person on behalf of the institution)

Name:.....

Address:.....

Telephone No:.....

Fax No.....

E-mail Address:.....

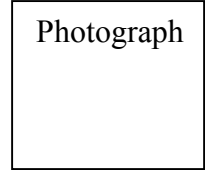
Date:.....

Seal of the Institution:.....

Schedule -3

.....Ltd

Bio-data of the persons in the Promoters Group of financial institution



1. Full Name:.....

2. Date of birth

3. Place of birth

4. Citizenship

5. Full address:

a. Permanent (1) Telephone (2) Email: (3) Fax

b. Temporary (1) Telephone (2) Email: (3) Fax

6. Current Occupation:

a. Name of the firm or office :

b. Address :

c. Nature of business/functions :

d. Title/Designation :

e. Telephone/Email/Fax

7. Marital status:

a. Married Unmarried Divorced Separated

b. Name of spouse in case of married:

c. Occupation of the spouse:

d. Details of the Dependents family members

<u>Full Name</u>	<u>Relationship</u>	<u>Age</u>
.....

.....

.....

.....

.....

8. (a) Name of the father:

Address:

Occupation:

(b) Name of the Grandfather

Address:

9. Academic Qualifications

Level	Name and address of Institution	Study year	Subjects	Date of the degree conferred
Bachelor's Level				
Master's Level				
Ph. D				
Professional level				
Trainings				
(a)				
(b)				
(c)				

10. Do you have license to be engaged in any professional area?

Yes No

If yes,

(a) nature of license

(b) date of obtaining the license

(c) Number of License

(d) Organization of issuing the license and its address:

11. On any professional capacity, are you engaged in any institution to be inspected and supervised by Nepal Rastra Bank?

(If yes, mention the name, address and nature of works of the Institution. Also produce the letter of incorporation of the institution)

12. Mention if you have any financial interest is attached with any corporate body.

13. I am going to invest the following additional amount in the course of upgrading of the financial institution....

1) Amount going to be invested in the Institution.....(in words.....)

2) Percentage of the total paid up capital of the institution....

3) The applicant has to produce the tax clearance certificate of the latest Fiscal Year.

14. Have you ever been convicted of any criminal offence?

Yes No

15. Certificate of registration/clearance of income tax up to Fiscal Year..... is attached.

16. Have you had loan transaction with other bank and financial institution?

Yes No

(Mention in detail if yes)

17. Please answer the following questions in yes or no:-

a. Have you been charged in a court of law of an offence?

Yes No

- b. Have you been punished for violation of any law?
Yes No
- c. Has any of the institutions you are involved in is insolvent?
Yes No
- d. Is any institution in which you are engaged or you are a Director or where you have invested more than five percent of shares been blacklisted for the reason of being unable to repay loans?
Yes No
- e. Are you involved in unlawful transaction of foreign currencies?
Yes No
- f. Has the institution you are engaged in ever involved in criminal activity?
Yes No
- g. Have you ever been recorded by a bank and financial institution to have not satisfactorily performed your activity or have misused loan of a bank and financial institution?
Yes No
- h. Have you ever been blacklisted by the Credit Information Bureau Limited?
Yes No
- i. Are you currently an employee, Director, auditor or legal or any other advisor in any other bank and financial institution?
Yes No
- j. Are you a share broker or market maker?
Yes No
- k. Are you an employee or advisor of any institution which has committed a public offence violation of a law or dissolved according to law?
Yes No

- l. Have you been declared a bankrupt according to law in force for the time being?
Yes No
- m. Are you working as an elected or nominated representative of a political party?
Yes No
- n. Have you been restricted to carry on any profession or business according to prevailing law?
Yes No
- o. Do you agree other firm/company/corporate body having your investment to be inspected and supervised by Nepal Rastra Bank?
Yes No
- p. Have you invested in any other bank and financial institution licensed by this Bank as in the capacity of a promoter?
Yes No

18. As in the capacity of a promoter of a financial institution, I have agreed to subscribepercentage of the paid up capital of this bank/financial institution. There shares are not more than 15 percent of the paid up capital of this bank/financial institution.

19. I express the commitment to maintain the capital of my bank/financial institution as determined by Nepal Rastra Bank from time to time.

The aforesaid contents are true and correct. I hereby agree to inquire/investigate into and make public the details I have submitted. If proved to be false, I agree if the license is not issued on this very basis.

Sd.

Name:

Date:

Address:

Telephone:

Nepal Rastra Bank
Central Office
Banks and Financial Institutions Regulation Department

Directive No. 19/067

Subject: Provisions Relating to Know Your Customers

Since it is necessary to follow clear procedures relating to know your customers by banks and financial institutions licensed from this Bank, these Directives have been issued having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Banks and financial institutions shall have to prepare know your customers procedures concentrating on the customers transaction monitoring process and risk management process and so on.
2. The Banks and Financial Institutions shall, at the time of Opening Customers Account, Extension of Credit, Preparing Foreign Currency Draft, T.T., Mail and Telegraphic Transfer or Accepting Remittance through Draft, TT Mail and Telegraphic transfer, as well as doing business with the customer relating to money or substitution of money and other transactions, including Letters of Credit Transaction, compulsorily obtain information relating to the customer as provided in Schedule-1, as may be necessary. (Banks and Financial Institutions may seek additional information on matters not provided in the Schedule and which they deem necessary for the purpose of controlling money laundering and investment or transactions relating to terrorist activities). While opening new account for any purpose whatsoever, the account shall be opened only after completing the entire procedures including customer identification.
3. Banks and Financial Institutions shall maintain record of the documents including those provided in Schedule-1 getting them duly attested by the designated employees.
4. Banks and financial institutions may, for the purpose of operating credit or any other Banking transaction, take as, a basis the latest tax clearance certificate and the certificate of approval obtained from the concerned agency of Government of Nepal in

case of the customers running various industries, trade and business not being registered at the offices under Ministry of Industries and Ministry of Commerce of Government of Nepal, but having obtained license from local bodies such as Municipal Corporation, sub-Municipal Corporation, Municipalities and VDC or Department of Drugs Administration, Department of Mines and other governmental agencies and having obtained the permanent account number and/or Value Added Tax No. From the Department of Inland Revenue, Government of Nepal.

5. Where the Banks and Financial Institution is doubtful as to a customer or finds that the transactions in the account has increased or decreased abnormally or unusual amount is received from foreign country through remittance or other means or source of remittance is not disclosed nor is it clear; the particulars of such customers (individual, firm, company or organization) with description of such doubtful and unnatural transactions has to be prepared and submitted to their own Board of Directors on a monthly basis. Moreover, a separate procedural mechanism has to be developed for the operation of the accounts (all types of deposit accounts and personal accounts in the books of the bank) in which money is received in excess of Rs. 1 (one) million. An up-to-date record has to be maintained obtaining disclosure as to the source of such transactions from the customers. For this purpose, Customer's self-declaration shall be sufficient.
6. In respect of transactions amounting to less than one million rupees also, where the transaction remains doubtful and unnatural, up-to-date record has to be maintained of such accounts (all types of deposit accounts and personal accounts in the books of the bank).
7. Banks and Financial Institutions shall maintain the records of customer related transactions (including electronic records) up to a period of Five Years from the completion of such transaction
8. Returns in respect of the particulars as referred to in Clause 5 and 6 of these Guidelines shall be filed with Regulation Department regularly within 15 days of the close of each quarter. The particulars according to the circulars issued by the Financial Intelligence Unit and or this Bank shall have to be submitted according to the said Directives.

9. The particulars as provided in Schedule -2 shall be compulsorily obtained at the time of extending loan by the Banks and Financial Institutions to any individual, firm, company or organization.

10. **Repeal and Saving:**

(1) The following Directives issued by this Bank heretofore have been repealed: -

Provisions relating to know your customers made in Unified Directives, the Directives issued under Directive No. 19/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.

(2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

PROCEDURES RELATING TO KNOW YOUR CUSTOMER

1. With respect to the transactions, the Banks and Financial Institutions shall obtain the following information and documents depending on the nature of the customers. Further, personal interviews shall also be carried out, if necessary.

(A) Account- Holders

(a) Personal Accounts

- (1) Name and Surname
- (2) Name of Father or Husband
- (3) Permanent Address (document evidencing the address need to be enclosed. Such documents include citizenship certificate, passport, water / electricity bill, location map prepared by the bank staff who has visited the place, if necessary, voters identity card, certificate of land ownership etc.)
- (4) Temporary address
- (5) Date of Birth
- (6) Telephone Number (mention if available)
- (7) Citizenship/Passport (Number and particulars)
- (8) Photocopy of identity card if employee of Government of Nepal or Government of Nepal owned institutions.
- (9) Photo
- (10) Other necessary documents (to be specified by Bank /Financial Institution).

(b) Accounts of Partnership or Individual Firm

- (1) Name of the firm
- (2) Address
- (3) Telephone / Mobile Number (mention if available)
- (4) Name of all partners and their addresses (with Phone Nos.)

- (5) Photographs of Partners
- (6) Firm Registration Certificate
- (7) Partnership Deed
- (8) If partnership, delegation of authority to carry economic and administrative transactions.
- (9) Other necessary documents (to be specified by Bank /Financial Institution).

(c) Company Accounts

- (1) Name of the company
- (2) Head Office Address
- (3) Full Address (including telephone and fax)
- (4) Certificate of incorporation and Memorandum and Articles of Association
- (5) Name and Addresses of members of the Board (mention phone number if available)
- (6) Photographs of Board members
- (7) Board resolution as to opening and operation of the account and delegation of authority
- (8) Board resolution regarding delegation of authority to the Chief Executive and other employees to carry economic transactions.
- (9) Other necessary documents (to be specified by Bank /Financial Institution).

(d) Accounts of Club/Non-Governmental Organizations

- (1) Name of the Club/Non-Governmental Organization
- (2) Address
- (3) Certificate of incorporation of the Institute
- (4) Charter

- (5) Name and Addresses of Executive Committee (mention phone number if available)
- (6) Telephone Number
- (7) Executive Committee resolution as to opening of the account.
- (8) Photographs of Directors/members of Executive Committee of the Club/ Non-Governmental Organization.
- (9) Resolution regarding operation of the account and delegation of authority to carry economic transactions.
- (10) Other necessary documents (to be specified by Bank /Financial Institution).

(e) Accounts of Cooperatives

- (1) Name of the Organization
- (2) Address
- (3) Phone Number (if available)
- (4) Bylaws of the Organization
- (5) Name and Addresses of Board members (mention phone number if available)
- (6) Photographs of Board Members
- (7) Certificate of incorporation
- (8) Resolution regarding operation of the account and delegation of authority to carry economic transactions.
- (9) Other necessary documents (to be specified by Bank /Financial Institution).

(f) Accounts of Public Trust or Private Trust (Guthi)

- (1) Name
- (2) Address
- (3) Phone Number (if available)
- (4) Statute

- (5) Agreement for institution of the Trust (Guthi)
- (6) Name and Address of Executive Trustee
- (7) Photographs of Executive Trustee
- (8) Certificate of institution of Trust (Guthi)
- (9) Name and Addresses of members of Management Committee.
- (10) Resolution of the Management Committee or Board regarding opening of the account and delegation of authority to carry economic transactions.
- (11) Name, surname, address, photo of 2 Board Members, including documents evidencing the address.
- (12) Other necessary documents (to be specified by Bank /Financial Institution).

Note:

- (a) *"Doubtful and unnatural transactions" include the transactions and amount not matching with nature of particulars furnished to the Banks and Financial Institutions at the time of opening of the account.*
- (b) *The words "source not disclosed" also include receipts in which the name and address of remitting individual, firm, company or organization is not clear, and in case of income from employment, business or other sources, the prevalent of a situation in which the particulars of the source is not received to the satisfaction of the banks/financial institutions.*

Nepal Rastra Bank

Central Office

Banks and Financial Institutions Regulation Department

Directives No. 20/067

Subject: Provisions Relating to Subsidiary Companies

The following Directives have been issued having exercised powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002 with regard to incorporating subsidiary company in their ownership by class 'A', 'B', 'C' licensed institution:-

1. Provisions relating to class 'D' Micro Finance Company

I. In case licensed institution of class 'A', 'B', and 'C' desires to incorporate a separate class 'D' micro finance institution and to advance loan to the deprived communities through that subsidiary company, it may do so having followed the following policy and procedural provisions:-

1.1 According to the policy of exempting at 25% of the paid up capital in the maximum limit of share investment of an undivided family/firm/company or corporate body or a group of companies case of class 'D' financial institution to carry on micro finance transaction being incorporated as a subsidiary company the promoters share ownership of licensed institution of 'A', 'B' or 'C' class in its subsidiary company (Class 'D' licensed institution) may be 51% of the paid up capital in minimum and 70% in the maximum.

- 1.2 While submitting its financial statements by the parent company, the financial statements of the subsidiary company shall also have to be submitted in a consolidated manner. For that purpose, accounting policy and financial statement shall have to be submitted as prescribed in the concerned additional schedules of Directive No. 4. Moreover, accounting policies, information technology and other policies/procedures and system shall have to be made in consistent with that of the parent company.
- 1.3 The licensed institution of class 'A', 'B' and 'C' shall have to calculate the capital adequacy of itself and that of the subsidiary company separately and in consolidated manner as well. The capital fund to be calculated in consolidated manner shall have to comply with the norms and directives to be prescribed for the financial institution of the concerned class (10, 11, 11 and 8 percent for class 'A', 'B', 'C' and 'D' respectively).
- 1.4 The transaction to be carried out between the parent company and subsidiary company shall have to be based on the arm's length transaction. In order to maintain transparency in the transaction to be carried out between the parent company and subsidiary company, both parties shall disclose the transactions between them under the head of related party transaction since both of them have financial interests in such transactions.
- 1.5 After having such transaction, details of such transaction have to be given in the financial statements to be published regularly in the case the transactions are not carried out on the arms length and/or details description of such transaction are not published according to Directives, fine punishment shall be imposed according to Chapter 11 of the Nepal Rastra Bank Act, 2002.
- 1.6 The following provisions to be made by the financial institution of the classes 'A', 'B' and 'C' of the Directive No. 14 issued by this Bank with regard to establishment/operation of Branch/ offices shall be applicable also for the purpose of incorporating a subsidiary company:
 - a. Having maintained the minimum paid up capital prescribed by policy provisions and Directives of this Bank;
 - b. Having maintained the capital fund prescribed by this Bank in the financial statement of the immediately preceding month;

- c. Not having the non-performing loan more than five percent in the immediately preceding quarter.
2. The class 'D' licensed financial institution operating micro finance transaction (subsidiary company) shall have to sell at least 30 percent of the shares to general public according to the existing provisions.
3. Since the subsidiary company carrying out micro-finance transaction is to remain as a class 'D' financial institution, the promoter share investment and credit extended by Class 'A', 'B' and 'C' banks and financial institutions in the class 'D' financial institution (subsidiary company) shall be calculated as the deprived sector lending according to the Directives of this Bank.
4. In order to promote deprived sector lending, the existing provision of maintaining capital fund by deducting the amount of share investment in such class 'D' licensed financial institution from the core capital has been exempted for this purpose. Moreover, even in case of establishment of financial interest upon investment in class D financial institution to be engaged in micro-finance transaction after being incorporated as a subsidiary company, there shall be an exemption in the existing provision of deducting from core capital the amount of share investment made in the corporate bodies having financial interests.
5. According to the policy of maintaining 25% of the paid up capital in the maximum limit of share investment of an undivided family/firm/company or corporate body or a group of companies in case of class 'D' financial institution to carry on micro finance transaction, if it is requested from the banks and financial institutions of class 'A', 'B' or 'C', exemption shall be granted in the limit of such share investment.
6. Since such subsidiary company of class 'D' proposed for micro-finance transaction has the existence of a separate licensed financial institution of class 'D', regulation, inspection, supervision and other provisions shall be according to the Banks and Financial Institutions Act, 2006 and other existing provisions.

2. Provisions Relating to Incorporation of subsidiary company to carry out functions relating to Merchant Banking

The following policy provisions have been made with regard to incorporation of subsidiary company by licensed banks and financial institutions of 'A', 'B' and 'C' classes having invested its own equity capital for carrying out functions relating to merchant banking with approval from Nepal Security Board and subject to the following policy provisions and other prevailing legal provisions:-

- (1) The subsidiary company to carryout functions relating to merchant banking shall have to be incorporated as a public limited company and at least 30% of shares shall have to be issued for general public.
- (2) The parent company shall have 51% in minimum and 70% in maximum of the promoter shares ownership in the subsidiary company.
- (3) The banks and financial institutions which incorporates a subsidiary company shall have to comply with the following conditions:-
 - a. Having maintained the minimum paid up capital prescribed by the policy provisions and Directives of this Bank;
 - b. Having maintained the capital fund prescribed by this Bank in the financial statement of the immediately preceding month;
 - c. Not having the non-performing loan more than five percent in the immediately preceding quarter.
- (4) The subsidiary company shall have to be established only after obtaining letter of intent and approval of this Bank.
- (5) While submitting application to Nepal Rastra Bank to incorporate the subsidiary company, the following documents relating to the parent company shall also have to be submitted:-
 - (a) Memorandum of Association and Articles of Association
 - (b) Certificates of Registration at Income Tax and the Office of the Companies Registrar
 - (c) The financial statements along with the audit reports of the last three years,

- (d) Copy of decision of the Board of Directors to incorporate subsidiary company to be engaged in merchant banking.

Note: The licensed banks and financial institutions of 'A', 'B' or 'C' class which have obtained license to carry out functions relating to merchant banking from Nepal Securities Board prior to issue these Directives on November 8, 2009 with regard to incorporation of separate subsidiary company to carry out functions relating to merchant banking but because of non-completion of three fiscal years, the financial statements along with audit report of three fiscal years need not have to submit such statements.

- (6) The subsidiary company relating to merchant banker may, having obtained approval from the regulating agency, carry out one or more of the following functions:-
 - (a) All necessary functions relating to issuance of securities and sales arrangement including preparation of prospectus, sales proposal and other details
 - (b) Underwriting to purchase the securities issued by a corporate body but not sold having entered into agreement with such corporate body.
 - (c) Functions relating to maintaining record of owners of securities on behalf of corporate body and other functions relating to shares registration including transfer of securities and making available other services;
 - (d) Functions relating to investment management for consumers having entered into agreement with consumers;
 - (e) Functions relating to market makers by purchase and sales of securities in its name having fixed price of sales and purchase of securities.
- (7) Subsidiary company shall not carry out the following functions:-
 - (a) Business relating to securities brokerage
 - (b) Sales of securities issued by itself.
- (8) The parent company shall not be allowed to invest in any of the securities to be issued by subsidiary company as liability with the objective of collecting financial resources and shall not advance loan against the mortgage of such securities.

- (9) Regulation, inspection, supervision and other provisions of subsidiary company shall be according to the policy, Directives and other existing provisions determined by Nepal Securities Board. This provision shall not be deemed to have prohibited the Nepal Rastra Bank to inspect, supervise the said subsidiary company.
- (10) While submitting its financial statements by the parent company, the financial statements of the subsidiary company shall also have to be submitted in a consolidated manner. For that purpose, accounting policy and financial statement shall have to be submitted as prescribed in the concerned additional schedules of Directive No. 4. Moreover, accounting policies, information technology and other policies/procedures and system shall have to be made in consistent with that of the parent company.
- (11) The transaction to be carried out between the parent company and subsidiary company shall have to be based on the arm's length transaction. In order to maintain transparency in the transaction to be carried out between the parent company and subsidiary company, both parties shall disclose the transactions between them under the head of related party transaction since both of them have financial interests in such transactions.
- (12) After having such transaction, details of such transaction have to be given in the financial statements to be published regularly in the case the transactions are not carried out on the arms length and/or details description of such transaction are not published according to Directives, fine punishment shall be imposed according to Chapter 11 of the Nepal Rastra Bank Act, 2002.
- (13) Auditing of financial statement of subsidiary company shall be caused to be audited by an auditor listed in the Nepal Rastra Bank.
- (14) Subsidiary company shall make available financial statements and long form audit report along with annual auditing report to Nepal Rastra Bank in a regular manner.
- (15) Remaining other provisions referred to in Directive No. 8 as they are, the provision that, "Similarly while investing in shares and debentures of corporate bodies by licensed institution, investment shall be made in such limit that it may not exceed 10% of the paid up capital of the institution in which the investment has been made," has been exempted for this purpose.

Provided that the said exemption shall not be available in case the subsidiary company does not issue shares to several public within two years of operation.

- (16) Since financial interest of licensed A, B and C class banks and financial institutions is established while investing in a separate subsidiary company to be engaged in merchant banking activities, the total amount invested in the said subsidiary company shall be deducted from core capital while calculating the capital fund.
- (17) The Memorandum of Association and Articles of Association of the subsidiary company shall also have to be submitted along with the application to be submitted for letter of intent and approval for establishing the subsidiary company.

3. Repeal and Saving:

- (1) The Directives on the said subjects issued by this Bank until the mid-July, 2010 have been repealed.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Nepal Rastra Bank
Central Office
Banks and Financial Institutions Regulation Department

Directive No. 21/067

Subject: Miscellaneous Provisions

The following Directives have been issued with regard to miscellaneous provisions to be complied with by institutions licensed by this Bank having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002:-

1. To work as an insurance agent:

The licensed institution of 'A', 'B' and 'C' class may, under the provision of “to carry out other functions prescribed by Nepal Rastra Bank” pursuant to clause (ff) of sub-Section (1) clause (ee) of sub-Section (2), and clause (v) of sub-Section (3) of Section 47 of the Banks and Financial Institutions Act, 2006, carry out functions as an insurance agent only for their customers with the approval the concerned agency according to the prevailing law, if it so desires.

2. Application/Purchase of computer software:

Since the Copyright Act, 2002 has defined computer software as an intellectual property and the law has prohibited the use of unlawful and pirated computer software, therefore, banks and financial institutions shall have to make precaution and be cautious to remain safe from pirated computer software.

3. Sending of details as to Tax Deduction at source:

Since chapter 17 of the Income Tax Act, 2002 provides that the tax deduction at source (TDS) has to be deducted within fifteen days of completion of every month along with details and the amount so deducted has to be submitted to the concerned Inland Revenue Office and if not submitted, fine and interest has to be paid and also that every governmental and non-governmental office and the tax payer to submit tax details have to send the e-TDS details compulsorily, therefore, provision has to be made for entry of the details having log on the website of the Inland Revenue

Department: www.ird.gov.np/etds and to receive its submission number from computer.

4. Capital Increment:

According to provisions made in the Policy and Procedural Provisions relating to License to Incorporate Bank and Financial Institution and Operate Financial Transactions, 2006, the banks and financial institutions in operation before the date of decision by this Bank on March 27, 2007 to complete the capital plan, the following provisions have been made:-

(1) Provisions relating to classification of bank and financial institutions and minimum paid up capital

Class	National level	Regional level [⊕]	4-10 districts [⊕]	1-3 districts [⊕]
A	Rs. 200 crores	-	-	
B	Rs. 64 crores	-	30 crores* 20 crores	30 crores* 10 crores
C	Rs. 30 crores*	-	-	30 crores 10 crores
	Rs. 20 crores			
D [♦]	Rs. 10 crores	6 crores [#]	2 crores [@]	1 crore

2. In order for the banks and financial institutions in operation in the afore said time to maintain the paid up capital in proportionally within mid-July, 2013 as required by the new provision, mid-July of 2007 shall be taken as the base year and the shortfall amount shall have to be increased proportionally in the remaining years from the FY 2007/2008 and the capital plan shall have to be submitted accordingly. While increasing the capital in such a manner, 80% of the said capital shall be the paid up capital and remaining 20% may be covered by any source that may be calculated as the core capital.

3. The banks and financial institutions that fail to maintain the paid up capital for the prescribed year within mid-July, 2013 as started above shall be taken actions as follows. For this purpose, the year in which the paid up capital is not maintained shall be taken as the base year.

[⊕] Except Kathmandu Valley, The working areas/projects of such financial institutions to be confined to the prescribed districts.

* To be applicable only in case of the financial institutions engaged in leasing transaction

♦ financial institutions carrying out only micro finance transaction.

to be operated in development regions

@ Including additional five districts of mountain regions.

- a. Suspension of dividend for those failed to maintain the paid up capital prescribed in FY 2007/08.
 - b. Prohibition in deposit collection 2008/09;
 - c. Prohibition in credit investment 2009/10
 - d. Prohibition in every transaction other than loan recovery and payment of deposit 2010/011.
 - e. In case two or more banks and financial institutions failing to meet the paid up capital as stated above submit a proposal to this Bank for merger into each other within the said period, the capital maintained by each of those institutions shall be added for the purpose of calculation of paid up capital.
4. While investing in promoters shares by any individual firm, company, an undivided family or a corporate body, only up to 15 percent in any of the banks and financial institutions licensed by this Bank and only up to one percent of the paid up capital in other banks and financial institutions may be invested. The amount invested as promoter or group of promoters in more than one banks and financial institutions shall have to be brought within the said limit within five years of the date of enforcement of this policy having followed required procedures by way of sale or otherwise.
 5. In case any person, one family, firm, company or corporate body or companies under one group has subscribed more than 25% of the shares of micro credit banks in the past, the shares, subscription has to be brought down to the limit of 25% within mid-July, 2011.
 6. No more than one person shall be nominated/elected to the office of a Director from one family, firm, company, corporate body or a group of companies in any bank and financial institution licensed by this Bank to carry out financial transactions. Provided that this provision shall not apply in case of the class 'D' financial institution carrying out transaction of micro-credit development bank.

In case there are more than one Director from the same family/firm/company/group, provision has to be made within one year or in the next General Meeting, whichever is earlier that there may be only one director.

5. Submission of Capital Plan

The banks and financial institutions which are in operation according to Point no. 4 shall, in order for increasing the paid up capital every year at the proportionate rate in the context of new provision for paid up capital increment by the mid-July, 2013, prepare a capital plan and submit it to the Banks and Financial Institutions, Regulation Department and the concerned Department of this Bank.

For this purpose, "paid up capital" means only the paid up capital for ordinary shares (bonus shares and rights shares) and in that paid up capital, the proposed bonus shares for ordinary shares may also be included.

6. Long Form Audit Report:

In order to make long form audit report timely and effective, the format referred to in (Schedule- 21.7) has been brought into enforcement. The long form audit report has been posted on the website of this Bank: www.nrb.org.np (under the Banks and Financial Institutions Regulation Department). The information has to be derived from that website and the final auditing report prepared by one's own external auditor in the format of the long form audit report and has to be directly sent to this Bank.

7. Guidelines to be followed by banks and financial institutions for framing the credit write off Byelaws:-

- (1) The licensed institution shall have to prepare the criteria dealing with the type of loans that could not be realized and frame the Byelaws on write off of such loans from their respective Board of Directors and shall enforce them upon approval by this Bank.
- (2) The loans falling into the loss category according to the Directives of this Bank and loan loss provision of cent percent has been made with regard to which may be written off. Provided that the loans overdue by more than a period of five years and having the loan loss provision of cent percent shall have to be written off compulsorily.
- (3) The borrowers and parties related to the borrowers have to be blacklisted in the list of the Credit Information Bureau Ltd. according to the Directives of this Bank.

- (4) In case of the written off loan, it shall have to be clearly stated in record that which level or who approved the loan, how was the collateral security for the said loan was evaluated and what efforts have made for recovery of such loan and what is the rational for opting the write off.
- (5) The licensed institution shall create a separate unit for recovery of the written off loans and the concerned institute shall continue its efforts to recover such loans.
- (6) The licensed institution shall have to maintain updated details of the written off loans in a separate register.
- (7) The licensed institution shall have to compulsorily state the details (including the points stated in sub-clause 4 above) of the loans written off in the current year in the annual report.
- (8) Having regard to the fact that the decision-makers will have excessive powers while writing off loans in absence of making clear provisions in laws and clear guidelines or directives, clear and transparent provisions have to be made not to have the misuse of discretionary powers and also taking into consideration of the effects likely to be caused in future from the writing off of the loan.
- (9) The licensed institution shall have to send the details of the loans written off to the concerned Supervision Department and the Credit Information Bureau Ltd. within fifteen days of completion of the fiscal year.

8. Standing Liquidity Facility (SLF)

- (a) Temporary Standing liquidity facility (loan) of the amount of 90% of the face value of the treasury Bills of Government of Nepal and development bond owned by the banks and financial institutions of class 'A', 'B' and 'C' licensed by this Bank may be made available to them on the security of such bonds.
- (b) The penal interest rate to be charged in the Standing liquidity facility has been fixed at three percent. While fixing interest rate of the Standing liquidity facility the weightage average interest rate of the latest 91-day Treasury Bills or the weightage average interest rate of the auctioned latest Repo within the last one month or this prevailing bank rate, whichever is highest, shall be

chosen having added penal interest rate by three percent. (To be verified by Bank term)

9. Functions relating to Foreign Exchange by financial institutions of class 'B', 'C' and 'D' :

The following provisions have been made for the licensed financial institutions to carry out the following additional functions relating to foreign exchange having obtained approval from the Foreign Exchange Management Department of this Bank:

- (a) The class 'B', 'C' and 'D' financial institutions may carry out the function, of inward remittance having obtained licenses according to law.
- (b) The class 'B' and 'C' financial institutions may carry out the functions relating to purchase and sale of the Indian currency.
- (c) The national level class 'B' financial institutions may accept the deposit of foreign currency;
- (d) The national level class 'B' may sell/purchase foreign currency, provide exchange service for passport facility, open foreign currency accounts and nostro accounts.
- (e) The financial institutions of class 'B' and 'C' may issue debit and credit card of the Nepalese and Indian currencies being a sub agent of a licensed bank.
- (f) The class 'B' financial institutions, other than those of the national level, may purchase, foreign currency and sell them to the Nepal Rastra Bank or commercial banks;
- (g) The class 'D' institutions may purchase IC from general public with the approval from concerned agency and sell that currency to bank and financial institution only.

10. Transaction of Domestic Fund Transfer

The Development banks and financial institutions of class 'B' and 'C' willing to carry out transaction of domestic fund transfer has to conclude an Memorandum of Understanding with the licensed class 'A' commercial bank to which it desires to carry out the transaction of domestic fund transfer and incase the licensed banks and financial institutions of class 'A', 'B' and 'C' willing to carry out this transaction though their own branches or through other agencies and makes request to this bank with the condition of bearing all the risks by a 'A' class commercial bank, approval may be granted.

11. Loan Documents to be Prepared in Nepali Devnagari Script

For the purpose of extension of all types of loans, the bank and financial institutions shall prepare/cause to prepare the documents (all loan deeds, guarantee papers, endorsements/acceptances) by the borrower and guarantors (individual/ firm/ company/ institution) and executioners (including the borrower/guarantor) in Nepali Devnagari script according to the existing statutes. However, for record purpose, the banks and financial institutions may keep such loan documents getting translated in English. However, in cases of transactions to be made with foreigners and the documents to be used in foreign banking transactions only (such as letter of credit), it is not mandatory to prepare such documents in Nepali language. Bank and financial institutions shall compulsorily prepare credit related documents like Loan Deed, Mortgage Deed, Hypothecation Agreement and Trust Receipt Agreement in Devnagari Nepali script. However, with respect to Consortium Loan Agreement, Letter of Assignment, Letter of Guarantee, such documents may be prepared in English language for the time being with adopted of a policy to gradually prepare these documents in Nepali language.

While preparing the guarantee paper matters relating to the guaranteed amount, tenure, purpose of loan, principal borrower, witnesses, name and address of the guarantor, identification of the executioner (signatory) as well as the following matters shall also be compulsorily included in other types of loan documentation as well.

Matters requiring specific mention in the loan documentation:

- Name, address of executioner, date, citizenship/passport number and three generations in the case of individual.

- Maturity, Tenure, Purpose
- Executioner's (signatory) identification by the concerned bank and financial institution.
- Amount
- Witness
- Name of the concerned executioner for the purpose of recognizing the signature.
- Other necessary matters.

12. Details of Promoter shareholders

The details of promoter shareholders holding promoter shares of two million rupees or more of the commercial banks, development banks and financial institutions established and in operation since FY 2002/03 shall have to be made available to the Department of Inland Revenue, Lazimpat.

S. No.	Name of Bank/Financial institution	Name of shareholders	Address	Phone No.	Investment Amount	Remarks

13. Electronic Payment:

For the purpose of making payment of goods and services purchased through internet, mobile, various types cards and other electronic payment the desiring company may carry out functions relating to payment through electronic payment subject to the prevailing law and following terms and conditions:-

- (a) No transaction in foreign currency shall be allowed;
- (b) The concerned company shall have to make provisions of all physical infrastructures required for carrying out such functions;

- (c) Memorandum of Understanding/Articles of Association of the concerned company shall have to clearly mention in its objectives to carry out functions of this nature.
- (d) The company carrying out such functions and 'A' class commercial bank or 'B' class development bank of national level have to enter into an agreement or Memorandum of Understanding.
- (e) In such agreement or Memorandum of Understanding, payment system and procedure in addition to other provisions have to be clearly mentioned.
- (f) For this purpose such company shall open a separate non-operative account in the 'A' class commercial bank or 'B' class development bank of national level to which it has agreement with and the amount to be collected from customers has to be deposited in such account.
- (g) Except for the purpose of making payment to the concerned beneficiary which has to receive the payment of the goods and services purchased and for the purpose of reconciling the accounts of income/expenditures from the transactions referred to in the agreement, no expenses shall be made from such non-operative account for any other purpose.

14. Fund Transfer through SWIFT Message

The following provisions have been made for carrying out transactions with this Bank by banks and financial institutions through SWIFT Message having installed the SWIFT (society for worldwide interbank financial telecommunication) technology:-

- (a) If such transaction is carried out from Sunday to Thursday up to 2:00 pm and requested for fund transfer, fund transfer shall be made on the same day.
- (b) If the request is made after 2:00 pm, fund transfer shall be made on the next working day.
- (c) If requested is made within 11:30 am on Friday, fund transfer shall be made on the same day.
- (d) If requested is made after 11:30 am on Friday, the fund transfer shall be made on the next working day.

15. Bank Rate

In the event where required liquidity could not be met from the inter-bank, open market and standing liquidity facility, the banks and financial institutions maintaining accounts with this Bank shall be provided with the lender of last resort facility at the prevailing bank rate for a period of six months in maximum. Such facility shall be provided against the security of the cash deposit at this Bank for maintaining compulsory reserve, securities of Government of Nepal and the pass loans.

16. Income source

While purchasing shares of Promoter/Promoters group of banks and financial institutions in the context of capital increment for any purpose whatsoever, the promoter shareholders shall have to compulsorily submit details as to the sources of income of the amount to be invested in the prescribed format (referred to in Point No. 16 of schedule 3 (as amended) of the Policy and Procedural Arrangements Relating to License for Incorporation of Banks and Financial Institutions and Financial Transaction, 2006). The licensed bank and financial institution shall have to maintain an updated record thereof and a copy of the updated record shall be furnished to the Banks and Financial Institutions Regulation Department of this Bank as well.

17. Providing Technical Services to the foreign banks and financial institutions:

Though capital account is not allowed to open with a view of making capital investment in foreign countries from Nepal, the licensed class 'A' commercial bank may make available various technical services to the foreign banks and financial institutions on any matter referred to in its Memorandum of Understanding having obtained a prior approval from this Bank and without having made capital investment.

18. Operation of Safe Deposit Vault, Locker Services

The licensed class 'C' financial institutions of national level may operate the services of safe deposit vault, lockers subject to the following terms and conditions:

- 1) The paid up capital of the institution shall have to be maintained as prescribed by this Bank.
- 2) The institution shall have its own separate Directives/Byelaws for operation of safe deposit vault.
- 3) The institution shall make available the services of safe deposit vault only to the customers having deposit and credit transaction with it.
- 4) CCTV has to be installed before operation of the safe deposit vault and alarm system has to be compulsorily be made with provision of communication of information to government security agency and information thereof has to be provided to this Bank.
- 5) The safe deposit vault has to be classified based on its size and accordingly it has to be compulsorily insured.

19. Operation of Automated Teller Machine:

The class 'B' and 'C' institutions may maintain ATM subject to the following terms and conditions:

- 1) Entire responsibility of security of infrastructure and payment system shall rest on the concerned institution.
- 2) Provisions relating to service charge has to be clearly published.
- 3) There shall be no restriction to carry out such functions as sub Agent having entered into an agreement with a commercial bank licensed by this Bank pursuant to clause (e) of Point 9 of these Directives.
- 4) Except the class 'B' and 'C' institutions of national level, other institutions may install their separate ATM in order to provide services only to their own customers being confined to their own working area.

20. Transfer of ownership and possession by auction

While auctioning collateral through bidding by the licensed institution the ownership and possession of the property in collateral shall be transferred to the bidder person or institution.

21. Forfeiture of ordinary/Promoter shares:

In cases the person, and his/her undivided family member, who has been taken actions, invests in ordinary and promoter shares of the licensed institutions, such ordinary/promoter shares shall be forfeited and sold by auction and the amount to be received shall be used for repayment of the loans.

22. Sign Board and Letter Pad:

While looking at the signboards and letter pads of the institutions of ‘A’, ‘B’, ‘C’ and ‘D’ class carrying out licensed financial transaction, it is difficult to distinguish which institutions fall into which class, and it may create confusion among general public, therefore, the banks and financial institutions of ‘A’, ‘B’, ‘C’ and ‘D’ class licensed by this Bank shall have to compulsorily mention the following title just immediately below the name of the institution in their own sign board and letter pad:-

licensed institution	The title to be used
By the licensed Class ‘A’ institutions	Institution obtaining ‘A’ Class license from Nepal Rastra Bank
By the licensed Class ‘B’ institutions	Institution obtaining ‘B’ Class license from Nepal Rastra Bank
By the licensed Class ‘C’ institutions	Institution obtaining ‘C’ Class license from Nepal Rastra Bank
By the licensed Class ‘D’ institutions	Institution obtaining ‘D’ Class license from Nepal Rastra Bank

23. Transaction only through Cheques:

It shall be mandatory for the licensed banks and financial institutions, in order to assist in achieving the objectives of the Assets (Money) Laundering Prevention Act, 2008, to make the payment of amount of five million rupees or more than that only through account payee cheque.

24. In case of the non-Nepali nationals who have come/will come to Nepal as the seconded staff under the technical services agreements, the licensed banks and financial institutions shall have to get them engaged in works only after obtaining the labour permit according to the laws since the current Labour Act and Labour Rules require for the same.

In case of the licensed banks and financial institutions established under a joint venture, since an approval has to be obtained from the Department ('Department' means the Department of Industries or the Department of Cottage and Small Industries as the case may be) pursuant to Section 3 of the Foreign Investment and Transfer of Technology Act, 1993 while transferring technology having entered into an agreement between the bank and financial institutions and the foreign investor with regard to the technical service agreement, therefore, the said legal provision has to be complied with.

25. The deadline for commitment to maintain the paid up capital by the banks and financial institutions referred to in Point No. 1.3 of the Policy and Procedural Arrangements for Incorporation of banks and financial institutions and License to Carryout Financial Transactions, 2006 has been extended up to the Mid-April, 2011.

26. Though Section 19 (b) of the Banks and Financial Institutions Act, 2008 does not define the body relating to corporate sector, however, with the objective of making contribution of the experience gained by the persons engaged in that sector in operation of banks and financial institutions, in the case of the 'A' class commercial banks and 'B' class development banks of national level licensed by this Bank, only

the banks/financial institutions/cooperative societies licensed by this Bank may be recognized as the corporate sector for that purpose.

27. The licensed 'A' class commercial banks and 'B' class development banks of national level may, subject to the norms developed by their respective Board of Directors, engage in transactions relating to various derivative instruments such as forward, options, swaps and futures and so on.

28. Though there is a policy provision in the case of licensed class 'D' micro finance development banks to have the minimum paid up capital of twenty million rupees for operating business in four to ten districts, however, with the objective of extending the micro finance activities in the mountainous districts as well, it has been provided that the licensed class 'D' institutions established with a paid up capital of twenty million rupees and engaging in micro finance transaction may operate their programs in additional five mountainous districts in addition to the existing ten district totaling fifteen districts subject to the existing procedures for approval of additional working areas.

29. Provisions relating to Refinancing Facilities:

Refinancing facilities may be made available to the licensed class 'A', 'B' and 'C' banks and financial institutions pursuant to Sections 49 and 50 of the Nepal Rastra Bank Act, 2002 and subject to the following conditions and norms (The related schedules are: 21.1, 21.2 and 21.3):-

Conditions and Norms

- 1) The refinance facility shall be made available only up to 40 percent of the core capital of the bank and financial institutions.

- 2) The bank and financial institutions shall have to submit application disclosing its financial status in the format prescribed by this Bank for availing the refinance facility.
- 3) In case the bank and financial institution enjoying the refinance facility desires to obtain the refinance against the collateral of the pass loans, the details of the loans categorized in the pass category shall be made available according to schedule 21.1 showing that the loans are in the pass category for a consecutive period of one year for the period less than the repayment period.
- 4) The refinance facility shall be made available not exceeding 80 percent of the pass loans. This Bank shall have the first charge on the assets placed as the collateral security.
- 5) The export refinancing facility to be made available to banks and financial institutions from this Bank shall be made available for a maximum period of six months at the annual interest rate of 7.5 percent and the interest for the refinance shall be paid in the lump sum at the time of repayment of the principal of the loan.
- 6) The interest to be charged on the refinancing shall be not more than three percent above the interest rate prescribed by this Bank than the interest rate charged by the concerned institution.
- 7) In order to enjoy the refinancing facility, additional capital adequacy ratio of 0.5 percent shall have to be maintained in addition to the capital adequacy ratio prescribed by this Bank.
- 8) The banks and financial institutions having more than 80 percent portion of the total loan and advance in the domestic deposit and core capital shall not allow to raise the ratio of the credit and deposit maintained at the time of enjoying the refinancing facility and shall have to maintain the following credit deposit ratio:-

S. No.	Portion of credit/deposit	Credit/deposit ratio to be maintained while repaying the refinance
1.	In case of 80% to 85%	In the ratio maintained at the time of

		enjoying the refinance, at least 2% point to be minimized or be decreased to 80%
2.	In case of 85% to 90%	In the ratio maintained at the time of enjoying the refinance, at least 3% point to be minimized or be decreased to 85%
3.	In case of more than 90%	In the ratio maintained at the time of enjoying the refinance, at least 5% point to be minimized or be done according to circulars to be issued from this Bank

Note: The ratio of total loan and advance in the local currency deposit and core capital shall have to be maintained as provided by the circulars to be issued by Nepal Rastra Bank.

- 9) Out of the loan and advance of the licensed institution applying for refinancing facility, the loan exposure in the real estate sector shall have to be within the limits prescribed by this Bank.
- 10) The refinancing facility to be made available by this Bank shall be extended for the following purposes having mortgaged the pass loans of the same sector or purpose:-
 - (a) Export sector
 - (b) Small and cottage industries
 - (c) Drugs production industries
 - (d) Agricultural sector
 - (e) Tourism sector
 - (f) Cement, iron industries
 - (g) Other production-oriented industries
 - (h) Electricity generation projects and electricity transmission line, cable car

Such export refinancing facility shall not be utilized for the following purposes:-

- (a) Personal loans without disclosing the purpose;
- (b) Loans for purchase of house/land/real estate/construction of commercial complex;

- (c) Hire purchase financing/auto loans;
 - (d) Margin type lending;
 - (e) Loans for tobacco industries including cigarette, biri, cigar, *khaini* and liquor and liquor-oriented industries
- 11) A copy of the decision of the Board of Directors of the concerned bank and financial institutions with regard to utilizing the refinancing shall be furnished to this Bank along with the application.
- (12) The Nepal Rastra Bank and the bank and financial institution availing the refinance facility shall have to sign on a promissory note with regard to the refinance facility.
- (13) Prepayment shall be allowed in cases of the refinancing facility.
- (14) The spread between the interest to be made available on deposit and to be charged on loans by banks and financial institutions shall be regularly monitored by this Bank. Moreover, while making available refinance facility to banks and financial institutions, the effective interest spread shall also be taken as a basis.

30. Making available export refinance facility:

The export refinancing facility may be made available to the licensed banks and financial institutions of class 'A', 'B', 'C' at the rate fixed by the Bank from time to time. The export refinancing facility may be made available for the loan extended in the Nepalese currency by the licensed A class commercial banks to the export –oriented enterprises on the basis of the export L/C pre-shipment and post-shipment. [The related schedules 21.4, 21.5 and 21.6]

Conditions and Norms

- (1) The licensed 'A' class commercial banks engaged in the L/C transactions in the Indian and convertible foreign currencies may apply in the format prescribed by this Bank for the facility of export refinancing facility having disclosed their financial status of the last quarter.
- (2) This Bank may deny making available the export refinancing facility to banks having not maintained the capital adequacy ratio prescribed by this and the paid up capital according to the capital plan in the last quarter.

- (3) Credit information has to be obtained from the Credit Information Bureau Ltd.
- (4) The following order of priority has been set for availing export refinancing facility for the following items having been approved by the relevant body of Government of Nepal and which are in priority order:
 - a) Agricultural products including cardamom, ginger, tea, coffee, handicraft, herbs, honey, juice, flowers and floricultural products;
 - b) Nepali handmade paper, silver ornaments, computer software, jute;
 - c) Leather goods, pashmina, carpet, garment, woolen carpets;
 - d) Noodles, small transformers, iron-steel, zinc sheets
 - e) Paper, plywood, threads, polyester yarn, jute, wire;
 - f) Other goods prescribed by Nepal Rastra Bank.

While requesting for export refinancing by the licensed 'A' class commercial banks to this bank, the request has to be made on the basis of export L/C export documentary bill having prepared priority list from amongst the exporters having contact with them.

- (5) If the total amount requested by banks applying for the export refinancing facility is covered by the total amount provisioned by this Bank annually for the export refinancing facility, the export refinancing facility may be made available not exceeding 80 percent of the export L/C export bill. If the request is more than the budget of the export refinance, the export refinancing facility shall be made available based on the export L/C/export documentary bill in the priority order.
- (6) The annual interest rate of export refinancing to be made available by this Bank has been fixed at 1.50 percent. While extending loans by banks having utilized this facility, only up to four percent interest shall be charged to the concerned exporter borrower.
- (7) The banks availing the export refinancing facility to be made available by this Bank shall have to pay the principal and interest in the lump sum. The time limit for repayment of the principal and interest of such loan shall be four working days from the date of receipt of payment from foreign country for the export L/C.
- (8) Prepayment shall be allowed in cases of the refinancing facility.

- (9) In the event of failing to repay the principal and interest of the refinance within the prescribed time, the highest interest rate published by that bank for loan and advance shall be fixed as the penal interest rate. The Nepal Rastra Bank shall realize the overdue amount having debited any of the accounts of the borrower bank.
- (10) The copy of the export L/C export Documentary Bill attested by the concerned bank as eligible for refinance having extended export loan by it for each refinance and the deed executed to this Bank for the refinance by the bank shall be taken as collateral security of the export refinancing facility.
- (11) In case of the export refinancing extended under consortium financing, request for export refinancing facility may be made through the lead bank subject to these Directives.
- (12) In the year 2009/010, a limit of one billion rupees has been fixed for the export refinancing. In case there is more demand for the export refinancing, per borrower and sectoral maximum limit is as follows for the time being and provision of refinancing shall be made proportionately on the basis of priority. The minimum amount to be extended under this facility shall be one hundred thousand rupees and the amount to be divisible by that figure.

Sector	Sectoral Budget Limit	Per borrower maximum limit
Total amount of export refinancing	One billion rupees	
(a) Large and middle industries	300 million rupees	30 million rupees
(b) Cottage and small industries	300 million rupees	7.5 million rupees
(c) Agricultural products	300 million rupees	7.5 million rupees
(d) Others	100 million rupees	2.5 million rupees

- (13) In case the firm/company/organization opening export L/C under this provision purchases and exports the goods produced by any other person/firm/company organization, the person/firm/company/organization producing such goods shall also be regarded as a deemed exporter and the export refinancing facility may be made available to such deemed exporter for the loan to be made available for loans to be extended from banks and financial institutions for producing the goods

to be exported on the basis of a bilateral agreement entered into between the firm/company/institution opening the export L/C and the deemed exporter.

In the event where the export refinancing facility is requested on the basis of the loan extended to person/firm/company/institution regarded in production being a deemed exporter under this provision, the export refinancing facility shall not be made available on the basis of the loan extended to the firm/company/institution engaged as an exporter for the same export.

- (14) The banks availing the export refinancing facility shall, within 15 days from the date of the end of the month, furnish to this Bank the monthly statement of the export loans in the prescribed format. Moreover, other details to be required by this Bank from time to time shall also have to be submitted.
- (15) In case of those exporting goods on the basis of cash against delivery (CAD), these Directives shall not be deemed to have hindered to carry out export transaction in accordance with the circular No. 403 dated March 25, 2007 of the Foreign Exchange Department of this Bank and other directives relating there to be issued from time to time.
- (16) After repayment of the export refinancing once availed, the export refinancing may be requested again for the re-export.

31. Repeal and Saving:

- (1) The following Directives issued by this Bank heretofore have been repealed: -
Provisions relating to miscellaneous matters referred to in Unified Directives, the Directives issued under Directive No. 20/066 and all circulars issued until mid-July, 2010 relating to the matters under this subject.
- (2) Actions taken under the Directives repealed pursuant to sub-clause (1) shall be deemed to have taken under these Directives.

Details of pass loans

S. No.	Name of Borrower	Loan Head	Loan Disbursement date	Date of Repayment	Loan amount	Details of collateral

The aforesaid contents are true and correct, all loans have been classified as pass loans, if found to be otherwise, we shall be liable according to laws. We express our commitment that in case these loans turn to be non-performing loans, information thereof shall be furnished with Nepal Rastra Bank and next pass loan shall be made available as collateral.

On behalf ofBank/financial institution,

Signature:.....

Name:.....

Designation:.....

Seal:.....

Department/Office:.....

Done on this.....day of the month ofof the year.....

(Format of the deed of export refinance)

We, the following parties to this deed, namely, the creditor Nepal Rastra Bank, Banking Office located at Thapathali, Ward No. 11 of Kathmandu Municipal Corporation, Kathmandu District and the borrowerBank Limited having its Central Office located at, do hereby state it true and correct that the borrower had on this.....dayobtained a credit amounting to Rs.....(in words.....) from Nepal Rastra Bank according to the provisions of refinance referred to in Section 49 of the Nepal Rastra Bank Act, 2002. As a security for the said credit amount, we, the borrower, do hereby pledge the loans extended to the following exporters customer which are yet to be realized, not overdue, categorized as the pass loans and which are fully secured and to that effect produce a copy of the export Letter of Credit/Export Documentary Bill duly attested by this bank. We shall fully comply with the description of mortgage as stated herein below, the existing policy provisions issued by Nepal Rastra Bank and the conditions/norms prescribed by Nepal Rastra Bank from time to time. In case, we, the borrower, fail to comply with the terms and conditions, we agree if Nepal Rastra Bank recovers the said amount of loans from the said collateral and other movable and immovable assets of the borrower bank as stated in the decision of the Board of Directors of this bank to that effect. We do hereby execute this deed of refinance at the Nepal Rastra Bank, Banking Office located at Thapathali, Kathmandu and submit it to the creditor Nepal Rastra Bank.

A. Details of the collateral security

Details of export loans	Details of collateral security	Export refinance from Nepal Rastra Bank

B. Terns and Conditions

- 12) The time limit for repayment of the principal and interest of such loan shall be four working days from the date of receipt of payment from foreign country for the export Letter of Credit. Prepayment shall be allowed in cases of the refinancing facility.

- 13) In case of the export refinancing, the principal and interest at the rate of 1.5% per year shall have to be repaid to the creditor bank in the lump sum.
- 14) Banks shall be entitled to charge up to 4% interest rate to the exporter borrower while extending loans having utilized this facility.
- 15) In the event of failing to repay the principal and interest of the export refinance within the prescribed time, the highest interest rate published by the concerned bank or financial institution for loan and advance shall be fixed as the penal interest rate. The Nepal Rastra Bank shall realize the overdue amount having debited any of the accounts of the borrower bank.
- 16) The concerned borrower bank shall be entirely liable for every consequence including the risks of the loans referred to in the refinancing deed executed with Nepal Rastra Bank.
- 17) The movable and immovable goods of the customers referred to in the deed pledged as collateral by the borrower and details of the industries and businesses in which investment has been made upon borrowing from Nepal Rastra Bank shall have to be made available while carrying out supervision by Nepal Rastra Bank at any time.
- 18) The banks availing the export refinancing facility shall have to furnish to this Bank the weekly statement that is the statement up to Friday, of the export refinance in the prescribed format. In the case of the export refinancing facility made available by this Bank, the borrower bank shall have to make available details as required by this Bank from time to time.
- 19) In case a bank or financial institution availing the export refinancing facility fails to repay the principal/interest by the expiry of the date of repayment, the Nepal Rastra Bank has been authorized to recover the said amount having debited any of the accounts of the concerned bank/financial institution maintained at Nepal Rastra Bank. No complaint shall be entertained subsequently in this matter.
- 20) This Bank shall have the first charge on the assets pledged as the collateral security.

- 21) The commitment has been hereby expressed to comply with the policy terms and conditions and norms attached herewith with regard to the use of the loan. If failed to do accordingly, we agree if punishment is imposed according to the Nepal Rastra Bank Act, 2002 and the Banks and Financial Institutions Act, 2006.
- 22) Nepal Rastra Bank may alter or amend to the terms and conditions and norms as may be necessary.

On behalf of Nepal Rastra Bank

Authorized person on behalf of the
Bank/Financial Institution

Signature:

Signature:

Name:

Name:

Designation:

Designation:

Seal:

Seal:

Department/Office:

Department/Office:

Done on thisday of the month ofof the year.....

LONG FORM AUDIT REPORT
Of
..... LIMITED

For the year ended Ashad 206...
(Corresponding toJuly 200...)

Auditor:
.....
M/s
.....

1. AUDIT APPROACH

1.1 Brief description of the Audit plan with focus on the following areas, at minimum:

- Declaration of Independence of Audit Firm and Members
- Standards followed
- Composition of the audit team
- Audit schedule

1.2 Brief description of the Audit process and procedures

- Audit areas' Risk Assessment
- Audit procedures adapted to mitigate identified Audit Risks
- Quality control mechanism

1.3 Brief description of the Sampling Procedure and sample size

- Sampling methodology
- Sample size
- Use of system based approaches

1.4 Remarks on the execution of audit plan

- Execution of audit and the audit plan
- Problems encountered during the audit, if any
- Limitations of scope of Audit, if any.

2. RISK MANAGEMENT SYSTEMS

Opinion on the following:

2.1 Credit Risk Management Systems

- 2.1.1 Brief description and comment on the adequacy of credit appraisal systems,
- 2.1.2 Brief description and comment on the adequacy of credit monitoring systems,
- 2.1.3 Brief description and comment on the adequacy of the credit recovery systems,
- 2.1.4 Adequacy of Policies and procedure for Write off of Loans,
- 2.1.5 Adequacy of Policies, guidelines and Controls over Off Balance Sheet Items.
- 2.1.6 Comment on the concentrations in the credit and investment portfolio,
- 2.1.7 Risk Management Committees and their effectiveness,
- 2.1.8 Overall audit opinion on Credit risk management.

2.2 Market Risk (Interest Rate, Liquidity and Foreign Exchange) Management Systems

- 2.2.1 Adequacy of policies, procedures and guidelines for the market risk management.
- 2.2.2 Adequacy of the system for measuring, monitoring and mitigation of Market risk.
- 2.2.3 Risk Management Committees and their effectiveness
- 2.2.4 Overall audit opinion on Market & liquidity risk management.

2.3 Operational Risk Management System

- 2.3.1 Adequacy of policies, procedures and guidelines for the Operational risk management.
- 2.3.2 Adequacy of the system for measuring, monitoring and mitigation of Operational Risk.
- 2.3.3 Risk Management Committees and their effectiveness
- 2.3.4 Overall audit opinion on Operational risk management.

3. INTERNAL CONTROL SYSTEMS

Opinion on the following areas:

- 3.1 Effectiveness of the Audit committee
- 3.2 Effectiveness of the Internal Audit Function
- 3.3 Rectification of the deficiencies identified in the previous internal and external audit reports
- 3.4 Adequacy of the controls in Credit operations
- 3.5 Adequacy of the controls in Treasury operations
- 3.6 Adequacy of the controls in Branch operations
- 3.7 Adequacy of control over Nostro Bank Operations
- 3.8 Adequacy of the controls in procedures related to expenditure
- 3.9 Adequacy of the control over fixed assets.
- 3.10 Adequacy of the Management Information System (MIS)
- 3.11 Adequacy of controls over e-banking and Card Operations

- 3.12 Adequacy of controls in Information Technology and related support functions.
 - 3.13 Effectiveness of the Inter-branch and agency Reconciliation function
 - 3.14 Adequacy of controls to prevent and/or minimize Fraud and forgeries
 - 3.15 Instances of Fraud and Forgery in the review period
 - 3.16 Other Control Issues, if any
 - 3.17 Auditors overall assessment of the internal control system
- 4. COMPLIANCE WITH APPLICABLE RULES AND REGULATIONS**
- Prevailing Statute, Act, Directive and Regulation, at minimum, in the following areas
- 4.1 Nepal Rastra Bank Act 2058
 - State whether the conditions as stipulated in Section 86 of Nepal Rastra Bank Act 2058 prevails, if yes please specify.
 - 4.2 Bank and Financial Institution Act 2063
 - 4.2.1 Whether fees and benefits of Chairman and board members are as specified in AOA/MOA
 - 4.2.2 Appointment, qualification and benefits of the chief executive
 - 4.2.3 Profit Appropriation to General Reserve
 - 4.2.4 Appropriation to Exchange Fluctuation Reserve
 - 4.2.5 Distribution of Dividend
 - 4.2.6 Whether the activities are within the scope as defined by BAFIA?
 - 4.2.7 Whether prohibited activities are being pursued?
 - 4.2.8 Control & notification of dormant deposit accounts and unclaimed dividend
 - 4.3 Foreign Exchange Rules and Regulations
 - 4.3.1 Whether payments of goods imported and invisible import are made as per circulars.
 - 4.3.2 Whether deposit accounts of foreign currency are opened and operated as per circulars.
 - 4.3.3 Whether card transactions are done as per circulars.
 - 4.3.4 Whether foreign exchange transactions are properly recorded and reported in a timely manner.
 - 4.3.5 Whether investment in foreign currency are made as per standard approved by the Board of Directors.
 - 4.3.6 Whether payments of exports are received and reported timely as per circulars.
 - 4.3.7 Whether transactions of Indian currency are made as per circulars.
 - 4.4 Capital fund (Directive No. 1)
 - 4.4.1 Computation of Core Capital, Supplementary Capital and Capital Fund
 - 4.4.2 Computation of Risk Weighted Assets
 - 4.4.3 Comment on the Capital Plan
 - 4.4.4 Overall opinion on capital adequacy
 - 4.5 Loan Classification and Loan Loss Provisioning (Directive No.2)
 - 4.5.1 Comment on the Assets Quality and Classification
 - 4.5.2 Adequacy of Loan Loss Provisions
 - 4.5.3 Whether the rescheduling/restructuring comply with the provisions of the directive
 - 4.5.4 Loan Loss Provisions in case of restructuring and rescheduling of loans
 - 4.5.5 Loan Classification and loan loss provision in respect of force loans
 - 4.5.6 Loan Classification and loan loss provision in respect of loan against personal/corporate guarantees
 - 4.5.7 Whether the adjustment and Write back of loan loss provision comply with the provisions of the directive
 - 4.5.8 Overall opinion on Loan classification & provisioning
 - 4.6 Single Obligor Limit (Directive No.3)
 - 4.6.1 Bank's procedures to identify a group of borrowers
 - 4.6.2 Comment on the Facilities in excess of Single Obligor Limits, if any
 - 4.6.3 Loan Loss Provision in case of borrowers availing facilities in excess of the SOL

- 4.6.4 Review and ratification mechanisms for excessive exposures in respect of sectoral credit.
- 4.7 Presentation and Disclosure in the Financial Statement (Directive No.4)
 - 4.7.1 Comment on the Consistency of the Accounting Policies and financial reporting framework.
 - 4.7.2 Recognition of interest income from loans and advances
 - 4.7.3 Reconciliation of Interest Receivable and Interest Suspense
 - 4.7.4 Recognition of other interest, fees and commission and expenses.
 - 4.7.5 Publication of annual accounts and periodical highlights
 - 4.7.6 Non-compliance/deviations in accounting policies followed as compared to prescribed accounting policies by NRB/Nepal Accounting Standard
- 4.8 Risk Minimization (Directive No 5)
 - 4.8.1 Mechanisms to minimize liquidity risk
 - 4.8.2 Use of GAP Analysis and other mechanisms to measure and manage interest rate risk
 - 4.8.3 Mechanisms to minimize foreign exchange risk
- 4.9 Corporate Governance (Directive No.6)
 - 4.9.1 Formulation and implementation of required plans, policies and guidelines
 - 4.9.2 Code of conduct of Directors, Chief Executive and Employees
 - 4.9.3 Cases of conflict of interest of Directors, Chief Executive and Employees
 - 4.9.4 Mechanism to identify related parties promoters, directors or senior management.
 - 4.9.5 Lending to directors, chief executive, employees (except as per employee rules) and their related parties, if any
- 4.10 Implementation of Supervisory Findings (Directive No.7)
 - Auditor's finding on the status of compliance of directions given by NRB based on its onsite and offsite supervision.
- 4.11 Investments in Shares and Debentures (Directive No.8)
 - 4.11.1 Investments in unlisted companies
 - 4.11.2 Investment in companies with financial interest
 - 4.11.3 Investment in shares of other bank/FIs
 - 4.11.4 Investments arising out of Underwriting Commitments
 - 4.11.5 Investment in shares and debentures exceeding the limits
 - 4.11.6 Review of the investment portfolio
 - 4.11.7 Adequacy of Provisioning requirements
- 4.12 Reporting Requirements (directive No.9)
 - Comment upon the reliability of mechanism used for NRB reporting and the accuracy of such returns
- 4.13 Sale or Transfer of Promoters Share (Directive No. 10)
 - 4.13.1 Sale or transfer against the statutory requirements
 - 4.13.2 Sale or pledge of promoter shares, during the lock-in period
 - 4.13.3 Where the promoter of the Bank is an entity, unauthorized transfer of ownership of such entity
- 4.14 Consortium Financing (Directive No.11)
 - 4.14.1 Formation and dissolution of consortium
 - 4.14.2 Fulfillment of the specified duties of lead bank/member bank, where applicable.
 - 4.14.3 Frequency of consortium meetings where it is lead bank/FI
 - 4.14.4 Adherence to the spirits of consortium
- 4.15 Credit Information and Blacklisting (Directive No.12)
 - 4.15.1 Periodic Submission of information to CIC
 - 4.15.2 Mechanism to obtain required information from borrowers
 - 4.15.3 Credit Information at the time of sanction/renewal/restructuring/rescheduling of facilities
 - 4.15.4 Recommending defaulted borrower to the CIC for blacklisting
 - 4.15.5 Lending to individual/firm/company included in the blacklist
- 4.16 Cash Reserve Requirement (Directive No. 13)

Comment on any exceptions on the maintenance of CRR as stipulated by the directive

- 4.17 Branch/Office Operation (Directive No. 14)
 - 4.17.1 Unauthorized branches/offices/extension counters/remittance counters
 - 4.17.2 Unauthorized transactions
- 4.18 Interest Rates (directive No. 15)
 - 4.18.1 Interest rate determination procedures
 - 4.18.2 Publication of interest rates
- 4.19 Mobilization of Financial Resources (Directive No. 16)
 - 4.19.1 Concentration of deposits
 - 4.19.2 Resource mobilization beyond the limit
 - 4.19.3 Issuance of debenture and other debt instruments
- 4.20 Deprived Sector Lending (Directive No.17)
 - 4.20.1 Comment on the exceptions observed in the deprived sector lending
 - 4.20.2 Whether the loans classified as deprived sector lending meet the stipulated pre-requisite conditions
 - 4.20.3 Monitoring mechanism for utilization of deprived sector lending on a half yearly basis
- 4.21 Compliance with internal rules, regulations and guidelines

Comment on the overall state of compliance with the internal rules, regulations and guidelines.

5. OTHERS

- 5.1 Whether guarantees and all other contingent liabilities are properly recorded and disclosed
- 5.2 Whether banks have entered into any contracts with related parties including the promoters, directors, shareholders holding more than 1% and their undivided family
- 5.3 KYC norms formulated and followed by the banks
- 5.4 Compliance of pre-requisite conditions for Purchase of fixed assets
- 5.5 Any comments or issues, which the auditor feels appropriate to be communicated to the supervisor and is not covered by the above.

6. CONCLUSION

- 6.1 Type of Audit opinion expressed in the final audit Report
 - 6.1.1 Unqualified
 - 6.1.2 Qualified
 - 6.1.3 Disclaimer
 - 6.1.4 Adverse
- 6.2 Main reason for the qualified, disclaimer or adverse opinion on the financial statement produced, where applicable.
- 6.3 Areas of operation where it is exposed to excessive risk
- 6.4 The risk areas where bank/FI has not been able to properly address these risks
- 6.4 Comment on the Major Problems faced by the Bank/FI
- 6.5 Overall opinion of the auditor on the operation and financial standing of the bank/FI

The Prompt Corrective Actions of Banks and Financial Institutions Byelaws, 2007

The Board of Directors of Nepal Rastra Bank has, having exercised the power conferred by clause (0) of sub-Section (2) of Section 110 of the Nepal Rastra Bank Act, 2001, framed the following Byelaws:

1. Short Title and Commencement: (1) These Byelaws may be cited as the "Nepal Rastra Bank, Prompt Reformative Actions of Banks and Financial Institution Byelaws, 2007."
(2) These Byelaws shall come into force at once.
2. Definition: Unless the subject or context otherwise requires, in these Byelaws,-
 - (a) "Act" means the Nepal Rastra Bank Act, 2001
 - (b) "Rastra Bank" means the Nepal Rastra Bank formed pursuant to Section 3 of the Act.
 - (c) "Board" means the Board of Directors of the Bank.
 - (d) "Governor" means the Governor of the Bank appointed pursuant to Section 15 of the Act and the word also includes the acting Governor designated pursuant to Section 27 of the Act.
 - (e) "Deputy Governor" means the Deputy Governor appointed pursuant to Section 16 of the Act.
 - (f) "Policy Directives Execution Committee" means the committee formed under the convenership of the concerned Deputy Governor pursuant to Section 34 of the Act.
 - (g) "Supervision Department" means the Bank Supervision department and Banks and financial institutions Supervision department of Nepal Rastra Bank
 - (h) "Bank/financial institution" means a Bank or financial institution licensed by Rastra Bank.
 - (i) "Chief Executive" means the person appointed to the office of administrative head of a Bank or financial institution.
 - (j) "Capital fund" means the core capital fund or total capital fund prescribed by Rastra Bank.
3. Corrective Actions may be taken if Directive relating to capital fund are not abided by:
In cose the licensed "A", "B" and "C" class banks/financial institutions fail to maintain

the capital adequacy prescribed by Rastra Bank, the following corrective actions shall have to be taken immediately.

- (a) In the event where the capital fund of a licensed institution is less than by points upto two percent of the capital adequacy prescribed by Nepal Rastra Bank. –
 - (i) To have discussion with senior management of the Bank/financial institution with regard to reform programs and to maintain the agenda of discussion as record;
 - (ii) To require capital plan for recapitalization of the Bank/financial institution;
 - (iii) To restrict to declare dividend and bonus shares;
 - (iv) To restrict to open up new branch;
 - (v) To maintain a limit of deposit mobilization.
- (b) In the event where the capital fund of a licensed institution is less than by points from two to four percent:
 - (i) To take action pursuant to clause (a)
 - (ii) To maintain limit credit transactions;
 - (iii) To obtain an approval of Rastra Bank prior to acquire additional fixed assets through the purchase or leasing process;
 - (iv) Approval of Rastra Bank has to be obtained prior to operating new business line relating to deposit mobilization and advancing of credit and facilities.
- (c) In the event where the capital fund of a licensed institution is less than by points from four to six percent:
 - (i) To take actions referred to in clause (b);
 - (ii) To prohibit to open additional deposit accounts;
 - (iii) To prohibit in advancing credit;
 - (iv) To prohibit in acquiring more fixed assets through the process of purchase or lease.
 - (v) To restrict to provide motivational allowances to Directors and employees to provide increment in other facilities at the time of leaving the institution,

and to provide other compensation at the discretion of management or management fees without a prior approval of the Rastra Bank.

- (d) In the event where the capital fund of a licensed institution is less than points from six to eight percent:
 - (i) To take actions pursuant to clause (c);
 - (ii) To restrict in increase of remuneration, allowances and other financial benefits, in recruiting new staff or promoting the staff;
 - (iii) To take actions against the Directors and Chief Executives of the Banks/financial institutions failing to maintain the capital fund according to the prescribed criteria within six months from the date of initiation of taking actions relating to capital adequacy.
- (e) In the event where the capital fund of a licensed institution is less than points more than eight percent:
 - (i) To take actions pursuant to clause (d);
 - (ii) To declare the Bank/financial institution as problematic and to initiate actions pursuant to Section 86 of the Act;
 - (iii) To revoke or to initiate the procedures for revoking the license of the Bank/financial institution if the capital fund is not adequate even within a period of six months of the date of declaration as problematic;
 - (iv) To take other necessary actions according to the Act and Banks and Financial Institutions Act, 2006.

4. Circumstances leading to exemption from taking action: The corrective actions referred to section 3 shall equally apply in case of Banks and financial institutions belonging to classes "A", "B" and "C".

Provided that except in the case of sub-clause (ii) of clause (d) of section 3, an exemption may be granted in other corrective actions in the following circumstances:

- (a) In order to extend branches in the rural areas where branches have to be established as a target and in places, having no bonus and financial institutions in a competitive manner;

- (b) In cases of banks and financial institutions having adopted the restructuring process by Government of Nepal through Rastra Bank with assistance from international donor agencies;
- (c) In cases where management and operation of Banks/financial institutions is directly taken over by Rastra Bank and corrective actions are going on.
5. Opportunity of Hearing: While taking actions under Byelaw 3, an opportunity of hearing shall be given to the concerned Banks and financial institutions.
6. Authority to take actions: (1) The Governor shall have authority to complete the prompt corrective actions referred to complete the prompt corrective actions referred to in clauses (a) to (d) of section 3. The Governor shall, while completing the prompt corrective actions according to this authority, take necessarily decision of taking actions on the recommendation of the Policy Directives Execution Committee.
7. Exercise of Delegated Authority: While taking actions having exercised the delegated authority according to these Byelaws, the concerned official shall carry out the actions subject to the prevailing Act, Policies, Rules and Directives issued by Rastra Bank.
8. Details of actions taken to be submitted : Details of actions taken according to Byelaw 5 shall be submitted for information of the Board on quarterly basis.
9. Interpretation and Amendment of Byelaws: (1) In case of divergence in implementation of these Byelaws, the Board shall interpret it and interpretation of the committee shall be final.
- (2) In case of need of any amendment to these Rules, the Board shall amend to them.
10. Removal of Hurdles: In case there appears any hurdle in the implementation of these Byelaws, the Governor shall have authority to remove such hurdles.
11. To be ineffective in case of inconsistency: In case any provision of these Byelaws in inconsistent to the Nepal Rastra Bank Act, 2001, Banks and Financial Institutions Act, 2006 and the Rules framed thereunder, such provision shall be *ipso facto* ineffective to the extent of inconsistency.
11. Saving: Acts and actions taken with regard to corrective actions of Bank and financial institutions before commencement of these Byelaws shall be deemed to have been taken according to these Byelaws.

Note: If there is any confusion/contradiction between Nepali version and English Version of the Unified Directives 2067, Nepali version of the same shall prevail.