

Flash Alert

27 July 2021

AMENDMENT



Amendment in the Unified Directive, 2077

Notice regarding amendment in the Unified Directive, 2077

Nepal Rastra Bank (NRB) using power conferred to it by section 79 of Nepal Rastra Bank Act, 2058 has issued a notice dated 11th Shrawan 2078 announcing additions and amendments in the Unified Directive, 2077 issued to “A”, “B” and “C” class Bank and Financial Institutions (BFIs).

Directive Reference	New Provision
Directive 2 - Clause 9(1)(Ka) New	Additional Loan Loss Provisioning (LLP): Considering the impact of COVID-19 on quality of the assets, conditional clause has been added that instructs the Bank and Financial Institutions (BFIs) to make additional LLP of 0.3% on the ‘Pass’ category loans, advances and bills purchased while preparing the financial statements for the Fiscal Year 2077-78. This is in addition to the 1% LLP already required for the ‘Pass’ category of loans and advances.
Directive 2 - Clause 41 (3) New	Extension of repayment period: BFIs can extend the repayment of the additional loans and advances (20% of working capital loan and 10% of term loans) disbursed for the rehabilitation of the Micro, Small and Medium Enterprises during the COVID 19 pandemic by one additional year, making a LLP of 5% if such loans and advances could not be repaid within the stipulated time.
Directive 4 - Clause 1 (kna)(1) Amendment	Interim financial statements for 4th quarter: BFIs are required to publish interim financial statements together with major financial indicators in national level newspapers and in its website within 15 days from the end of each quarter. NRB has extended the period of publishing such financial statements for the 4th quarter of Fiscal Year 2077-78 to the end of Shrawan 2078.
Directive 4 (kha) (a) Amendment	Recognizing interest collected subsequent to reporting date: BFIs are required to account for interest income on loans and advances on accrual basis and if not collected within 15 days from the end of the financial year are required to transfer such uncollected amount to the regulatory reserve by debiting the retained earnings. NRB had extended the period for recognising the interest income for the purpose of distributing dividend to Ashwin end in the previous year, however, for the FY 2077-78, the interest collected up to Bhadra 15, 2078 can be considered as interest income of Ashad 2078 and the uncollected amount has to be transferred to the regulatory reserve.

Directive Reference	New Provision
Directive 6 (6) Amendment	Capacity enhancement of employees: BFIs are required to set aside and spend a minimum of 3% of the total staff costs for the purpose of capacity enhancement of its staff. As in the previous year the requirement has been made voluntary to the BFIs for the FY 2077-78.
Directive 21 (7) Amendment	Distribution of dividend: The BFIs can declare and distribute only 30% of the total distributable profits as cash dividend in the Fiscal Year 2077-78 subject to the following: (a) The percentage of the cash dividend shall not be higher than the weighted average interest rate of the BFI as at 31 st Ashad 2078 and; (b) The BFIs having net distributable profit less than 5% of the paid up capital can only distribute cash dividend to the extent of tax costs of the stock dividend.

For the notice [click here](#)

PKF Comments

The Central Bank has introduced the above provisions with the intention of strengthening the financial stability of the BFIs impacted by the COVID-19 pandemic as there has been an exponential growth in the risk assets during the pandemic resulting in increased credit risks.

The increase in the loan loss provision of 0.3% on 'Pass' loans would result in reduction of the profitability of the BFIs and, correspondingly its distributable profits to its shareholders shall be reduced. Restriction in distribution of cash dividend shall enable the BFIs to build its capital fund for better financial stability.