Flash Alert

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Guidance Note on Interest Income Recognition 2082 (2025)

Nepal Rastra Bank (NRB) has issued Guidance Note on Interest Income Recognition, 2025. The guidance note aims to bring uniformity and discipline in the recognition of interest income on financial assets measured at amortized cost, in line with NFRS 9 and facilitate the gradual transition towards full implementation of the effective interest rate (EIR) model.

The major highlights of the guidance note are summarized below:

1. Background

Recognizing the technical challenges in implementing the expected credit loss model under NFRS 9, particularly related to the effective interest rate calculation, NRB has issued this guidance note to standardize interest income recognition practices across BFIs. It applies to all financial assets measured at amortized cost under the scope of NFRS 9 and supplements the ECL Guidelines issued in 2024.

2. Transitional Arrangement Plan

A phased implementation is prescribed over three fiscal years (FY 2081/82 to FY 2083/84):

Year	Stage 1 & 2 Assets	Stage 3 & POCI Assets
FY 2081/82	Coupon rate (accrual basis)	Cash basis
FY 2082/83	Coupon rate (accrual basis)	Cash basis
FY 2083/84	Effective interest rate on gross carrying amount (Stage 1 & 2); deemed EIR for old term loans	Effective interest rate on amortized cost; deemed EIR for old term loans

Note: Old term loans refer to loans booked on or before Ashadh end 2083.

Note: BFIs capable of fully implementing the effective interest rate model from FY 2083/84 may apply across all financial assets.

3. Basis for interest income recognition

- Quarterly interest income should be calculated based on the stage classification as at the previous quarter end.
- From FY 2081/82 onwards, BFIs must maintain quarter-wise interest income data.
- From FY 2083/84, the interest income recognized each quarter based on stage classification must be accumulated to derive annual interest income.
- BFIs must maintain granular details of interest income at the individual account level for audit and supervisory review.

4. Steps for Quarterly Interest Income Recognition

- Identify the stage of each loan at the previous quarter end or at initial recognition.
- Categorize financial assets into Stage 1, 2, or 3.
- Recognize interest income based on the applicable method for each stage and type of asset.

5. Methodology for Interest Income Determination:

a) FY 2081/82 and 2082/83 (Cash Basis – Incremental Approach):

- For Stage 3: Only interest received in cash during the quarter to be recognized.
- For Stage 1 & 2: Accrued interest income plus interest suspense at the beginning of the quarter is recognized.

b) FY 2083/84 (Effective Interest Rate Approach):

- For Stage 1 & 2: Interest Income = EIR × Gross Carrying Amount
- For Stage 3 and POCI: Interest Income = EIR × Amortized Cost

(Amortized cost = Gross carrying amount – ECL provision)

- For Old Term Loans: Use Deemed EIR (excluding previously recognized integral fees)

PKF Comment: *The new Interest Recognition Guidelines, 2025 issued by Nepal Rastra Bank (NRB) marks a significant shift from the previous framework which primarily relied on subjective and objective criteria for suspending interest income recognition based on arrears period and collateral sufficiency. The earlier guideline was largely rooted in impairment and collectability judgment and involved manual assessments (e.g., 3- and 12-month arrears thresholds, net realizable value of collateral, and cessation of accrual principles). In contrast, the 2025 guideline adopts a structured and forward-looking approach aligned with NFRS 9's expected credit loss (ECL) model and effective interest rate (EIR) methodology.*

The new guideline introduces a stage-based classification of financial assets (Stage 1, 2, and 3) for interest recognition purposes, mandates quarterly tracking of interest income by stage, and prescribes a phased transition towards full EIR-based recognition by FY 2083/84. It replaces the previous rule-based suspension criteria with a systematic, account-level measurement framework, including cash basis recognition for Stage 3 assets in the initial years, and gradually shifting towards amortized cost-based EIR calculations. The move enhances transparency, compliance with NFRS 9, and ensures consistency in income reporting across BFIs.

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