TRU Flash Alert

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Nepal Rastra Bank (NRB), using its rights given by Section 79 of the Nepal Rastra Bank Act 2073, has issued a circular dated 2076/04/20 on the changes, amendment and addition of new provisions in the Unified Directive applicable to Class A, B and C FIs based on the policy announcement made in the Monetary Policy for 2019-20. The key amendments are summarized below:

1. Minimum capital to be maintained (Directive 1.1, 1.2 & 1.3)

Class 'A' BFIs shall, from the fiscal year 2076-77, maintain 'Countercyclical Buffer' as per the Capital Adequacy Framework 2015 to the extent of 2% of the total risk weighted exposure from Common Equity Tier 1 capital fund within Ashad end 2077. This provision replaces the requirement of maintaining minimum capital based on fixed percentage of 5.5% and 11% of the risk weighted assets towards core and supplementary capital, respectively. All Class 'B' & 'C' FIs shall now maintain minimum capital according to the Capital Adequacy Framework 2007(updated July 2008). Failure to maintain the countercyclical buffer as prescribed shall restrict the commercial banks to distribute cash dividend from profits of FY 2076-77.

Reports required under Annexure 1.1 and Annexure 1.2 of the Capital Adequacy Framework shall be submitted to the Supervisory Department, NRB within 15 days from the end of the month. These reports shall be verified by the Internal Auditorand failure to verify shall be specified in the report. However, the quarterly report shall be compulsorily verified from internal auditor and submitted.

2. Amendment in Capital Adequacy Framework 2016 (Directive 1.1, 1.2 & 1.3)

Maintaining 'Countercyclical Buffer' for excess credit growth has now been linked to the Credit to GDP Gap. The credit to GDP gap of 5 points will be the starting point whereas the gap in excess of 15 points requires 2.5% buffer requirement. This new requirement shall make the Class 'A' BFIs to set aside additional funds for theminimum capital requirement.

3. PAN made compulsory to borrowers (Directive 2.24)

Borrowers availing loans of Rs 5 million or more from BFIs shall be required to have a PAN. Similarly, where a borrower falls under the same group and it has obtained loans in excess of Rs 5 million and if a loan is to be provided to a borrower within the same group for an amount lower than Rs 5 million, such a person shall also be a PAN holder.

4. Loan for agriculture, business and trade promotion (Directive 2.37)

The interest rate for agriculture, business and trade promotion loan up to Rs 1.5 million shall be 2% on the base rate. Productive land not having road access may be accepted as a security while providing such loan.

No service fee shall be charged to the borrower and in case of early settlement of the loan, prepayment fee shall not be charged. Every branch of BFIs shall approve such loan within 7 working days of receiving application. In case of failure, reasons of the same shall be provided in written form.

5. Loans against bonds with a maturity period in excess of 5 years (Directive 5.6(6) (kha) & (cha))

BFIs can lend up to 100% of the value of the bond if the maturity period is in excess of 5 years. Similarly, where long term foreign currency deposits for 3 years or more is received from foreign BFIs or other institutions, these shall be considered for calculation of the CCD ratio.

6. Age limit of Board of Directors and CEO (Directive 6.4.1, 6.4.2 & 1.6 (17))

NRB has fixed the retirement age for members of the Board of Directors at 74 years and no person shall be appointed as a member of the Board after the age of 70 years. Similarly, and retirement age of the existing CEOs has been fixed at 69 years whereas newly appointed CEOs will have to retire on attainment of 65 years. However, the Supreme Court has issued a stay order not to implement the above provisions.

7. Relaxation to Merged BFIs (Directive 6.20, 14.2, 14.1,14.4 and 15.5)

Where BFIs merge and carry out joint operations by Ashad end, 2077, the age limit and cooling period, opening branch offices, opening of branch office in Kathmandu valley, maintaining interest spread etc. is relaxed.

8. Interest rate spread (Directive 15.5(4), 15.2)

Interest spread for Class 'A'BFIs shall be maintained at 4.4% till Ashad end 2077 and for Class "B' & 'C'FIs, the rate shall be maintained below 5%.If BFIs fail to maintain interest spread as prescribed, they shall be penalized.

Additionally, the NRB has changed the formula for calculating of interest rate spread from this fiscal year with the exclusion of the interest on investments in government securities from the calculation. The BFIs will have to reduce the interest rates on loans and advances to be able to maintain the interest rate spread of 4.4% by 2076-77. This will have a direct impact on the profitability of the BFIs from this financial year. The formula for calculation of interest rate spread is:

Spread= $\left[\frac{\frac{Ic*365}{d}}{C}\right] - \left[\frac{\frac{Id*365}{d}}{D}\right]$

Where,

Ic=Monthly interest income from loan and advances

Id= Expenses of monthly interest income

'd= Total days in month

C= Monthly average LCY loan and advances

D= Monthly average LCY deposit

9. Others (Directive 16.2,16.5,22.9, 22.30(1),22.30(4),22.30(ga))

a) BFIs shall not collect more than 10% of total deposits from single firm, company or organized institutions.

b) BFIs can issue debentures/ financial instruments up to 100% of the core capital,with the approval of NRB, if it has no accumulated losses. Capital redemption reserve shall be maintained proportionately over the period of the bonds except in the year of issue.

c) The Bank rate has been reduced to 6% from 6.5% on loans to BFIs.

d) Refinancing loans shall be provided to hydroelectricity projects, agriculture sectors, business related to fishery, animal livestock and to the migrant worker returnee, productive industry, tourism industry and basic infrastructure development industries at the rate of 4%.

e) Refinancing loans to small and medium enterprises up to Rs 1 million shall be provided at 3%.

f) Interest on refinancing facility extended to the borrowers shall not exceed 7%.

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