NRB Unified Directives for Class A, B and C Licensed Institutions

Directive 16

Language mode: En

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Generated: 2026-09-03

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Directive 16: Provisions Relating to Mobilisation of Financial Resources

Classification: PASS

Source document: NRB_Unified_Directives_2082_Bilingual_Compiled_Directives_1-21.docx

Legal Status: Original Nepali source text prevails; English is a controlled facilitative translation.

Controlled English translation

Provisions Relating to Mobilisation of Financial Resources

Preamble

Controlled English translation

In exercise of the authority conferred by Section 79 of the Nepal Rastra Bank Act, 2058, the following directives are issued in relation to financial resources mobilised by Class "A", "B" and "C" licensed institutions.

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1 Limit on Mobilisation of Financial Resources

Controlled English translation

(1) No limit on deposit mobilisation shall apply to Class "A" commercial banks, national-level Class "B" development banks and national-level Class "C" finance companies.

(2) A Class "B" licensed institution other than a national-level development bank may mobilise financial resources up to twenty times its Tier 1 capital. For this purpose, financial resources include all forms of deposits accepted with or without interest, borrowings and various types of debt instruments.

(3) A Class "C" licensed institution other than a national-level finance company may mobilise financial resources up to fifteen times its Tier 1 capital. For this purpose, financial resources include all forms of deposits accepted with or without interest, borrowings and various types of debt instruments.

(4) In the case of borrowings, a licensed institution may mobilise an amount up to one-fourth of its total deposit liabilities.

(5) For monitoring the limit on financial-resource mobilisation, the Tier 1 capital maintained in the immediately preceding quarter shall be taken as the basis.

2 Limit on Institutional Deposits

Controlled English translation

(a) A licensed institution may mobilise institutional deposits from any one firm, company or organised institution only up to a limit not exceeding 10 percent of its total deposits.

(b) In the total deposits of a licensed institution, the share of deposits of Government bodies and public enterprises, public limited companies, savings and credit cooperatives and funds operated under such bodies and institutions shall not exceed 50 percent.

(c) In the total domestic-currency deposits accepted by a Class "A" commercial bank, the share of institutional deposits shall not exceed 10 percent; and in the case of Class "B" and "C" licensed financial institutions, the share of institutional deposits shall not exceed 15 percent of total deposit liabilities.

3 Rules and Procedures for Deposit Collection and Payment

Controlled English translation

(1) A licensed institution shall itself frame and implement rules and procedures concerning the term, type and all other matters relating to deposits accepted by it, and such rules and procedures shall be submitted to the Banks and Financial Institutions Regulation Department of this Bank and to the concerned Supervision Department.

(2) In the case of a savings account with no transaction, the account shall be made Dormant after three years; and in the case of a call account or current account, after more than one year has elapsed without transaction. Accounts previously made dormant under the institution's policy shall be updated in accordance with this provision. When such an account is reactivated, where customer identification has been updated pursuant to the institution's customer-identification policy, no document other than the concerned customer's application shall be required. A dormant account may also be reactivated after customer identification has been updated through electronic means and arrangements have been made to confirm the same.

(3) Accounts having a zero balance and no transaction for ten years may be closed by the licensed institution after publication of a public notice. Information relating to such closure shall be made available on the bank's website.

(4) A bank or financial institution shall, within the first month of each fiscal year, submit to this Bank particulars of accounts that have remained inactive for ten years or in respect of which no claim has been made under the Bank and Financial Institution Act, 2073. The concerned bank or financial institution shall also, once every five years, publish in a national daily newspaper a notice calling for claims to such deposit amounts and shall keep detailed information thereof on its website. Deposit amounts in respect of which no claim has been made shall be deposited in this Bank's "Banking Development Fund".

(5) Where, within five years from the date on which a licensed institution declares a dividend, the concerned shareholder or lawful claimant does not collect the dividend, particulars including the shareholder's name shall be published at least once in a national newspaper within one month after the end of each fiscal year. If the dividend remains unclaimed even after publication of the notice, an "Unclaimed Dividend Account" shall be opened with the concerned institution and the amount deposited therein. Details of dividend amounts transferred in this manner shall be published half-yearly, kept on the institution's website for three years and submitted to this Bank.

(6) A licensed institution may open savings accounts only for natural persons or associations/institutions established without a profit-making objective. Savings accounts shall not be opened for other institutions, companies or organised bodies. In addition, in accordance with accepted banking practice, the institution shall distinguish accounts for which chequebooks are issued from those for which chequebooks are not issued and arrange issuance accordingly.
However, nothing in this provision shall prevent non-natural persons, including associations, institutions and companies, from opening accounts other than an interest-bearing savings account.

(7) A licensed institution shall arrange that principal and interest of a matured fixed deposit, including the amount refundable after the Maturity Period, is credited to the relevant savings account.

(8) When a licensed institution accepts a fixed deposit exceeding NPR 5 million from a natural person, it shall mandatorily obtain the depositor's Permanent Account Number (PAN).

(9) When a licensed bank or financial institution accepts any type of deposit from any person, firm, company or other organised association/institution, it shall not provide any charge, commission or other economic facility that creates a financial burden for the bank or financial institution in addition to the stated interest rate (Coupon Rate) payable on the

deposit.

4 Borrowings

Controlled English translation

(1) A licensed institution may borrow from another licensed institution, firm, company or organised institution within the limit specified in Clause 1.

(2) Notwithstanding sub-clause (1), where economic assistance or a loan is to be obtained from a foreign Government or international organisation/institution, the licensed institution shall obtain approval of this Bank. A licensed institution may, with prior approval of this Bank, obtain a loan or grant in domestic currency from a foreign institution or an institution/project established by it in Nepal, provided no foreign-currency liability arises.

5 Issuance of Debentures and Other Debt Instruments

Controlled English translation

(1) A licensed institution whose accumulated loss, on the basis of its latest audited financial statements, does not exceed five percent of its Tier 1 capital may apply to this Bank for approval to issue debentures/other debt instruments up to one hundred percent of its Tier 1 capital. This Bank may grant approval to issue such debentures or other debt instruments subject to necessary conditions.

(2) A bank or financial institution issuing debentures/other debt instruments shall, in each year other than the year of issue and the year of redemption, mandatorily appropriate from annual profit to a Capital Redemption Reserve on a Proportionate basis.
However:
(a) except where the purpose is to meet the minimum paid-up capital prescribed by this Bank, if in any fiscal year the institution issues bonus shares equal to the amount of a debenture whose remaining maturity exceeds five full fiscal years, it shall not be mandatory to deposit the amount in the Capital Redemption Reserve in that fiscal year. The amount that would otherwise have been deposited shall, however, be added to and mandatorily deposited in the Reserve on a proportionate basis in subsequent fiscal years;
(b) where a bank or financial institution issues a debenture that is counted toward resource mobilisation, depositing an amount in the Capital Redemption Reserve shall not be mandatory.

(3) At the time a bank or financial institution issues a debenture, it shall clearly state whether the debenture will form part of the capital fund or be counted toward resource mobilisation. Previously issued debentures shall also be separated/classified accordingly. Once classified, a debenture shall not subsequently be reclassified.

(4) A commercial bank shall mandatorily issue debentures equal to at least 25 percent of its paid-up capital. Such debentures shall be issued by the end of Ashadh 2082. Where debentures equal to 25 percent of the then paid-up capital have once been issued, a subsequent increase in paid-up capital shall not make further issuance mandatory solely on that account.
(a) branch expansion shall be prohibited at locations other than Local Levels without a commercial-bank branch; and
(b) refinance facilities other than those provided to earthquake-affected persons shall not be granted.

(5) To facilitate the availability of long-term resources in agriculture, commercial banks having experience in lending to the sector may, with approval of the concerned authority, issue Agricultural Bonds.

(6) To facilitate the availability of long-term resources in energy, commercial banks having experience in lending to the energy sector may, with approval of the concerned authority, issue Energy Bonds.

(7) Amounts collected through Agricultural and Energy Bonds shall be lent to the relevant sector within three years from the date of issue. At least 30 percent of the amount collected shall be invested in the first year, at least 60 percent cumulatively by the end of the second year, and the entire remaining amount by the end of the third year.

(8) Until the full amount collected through Agricultural or Energy Bonds has been invested in the relevant sector, a bank or financial institution that issued such bonds shall not purchase bonds of the same nature issued by another institution.

6 Subordinated Term Debt and Redeemable Non-Convertible Preference Shares

Controlled English translation

When issuing unsecured Subordinated Term Debt and Redeemable Non-Convertible Preference Shares, a licensed institution shall, in addition to other applicable provisions, comply with the following conditions:

(1) the debt instrument shall be issued without any security;
(2) the maturity of the debt instrument shall be specified;
(3) the period for payment of interest/dividend on the debt instrument or Redeemable Non-Convertible Preference Shares and the annual interest rate in percentage terms shall be specified; the interest rate shall not be changed; and income tax on accrued interest shall be applied in accordance with the Income Tax Act;
(4) in the event of liquidation of the licensed institution, payment of the debt instrument/Redeemable Non-Convertible Preference Shares shall be made only after depositors have been paid;
(5) the debt instrument/Redeemable Non-Convertible Preference Shares shall be listed on the Nepal securities exchange within six months from the date of issue;
(6) the prospectus prepared before issuance shall be published only after obtaining the consent of this Bank;
(7) a Capital Redemption Reserve for repayment shall be created as follows:
(a) no amount need be appropriated in the fiscal year of issue or the fiscal year of redemption;
(b) in each year in which the instrument remains outstanding, at least a proportionate amount shall be appropriated from annual profit;
(c) where an amount exceeding the proportionate amount under paragraph (b) is to be appropriated, the fiscal year in which such amount will be appropriated shall be clearly stated.

However, except where the purpose is to meet the minimum paid-up capital prescribed by this Bank, if in any fiscal year the institution issues bonus shares equal to the amount otherwise required to be deposited in the Capital Redemption Reserve in respect of a debt instrument having more than five full fiscal years remaining to maturity, it shall not be mandatory to deposit such amount in the Reserve in that fiscal year. The amount shall, however, be added to and deposited on a proportionate basis in subsequent fiscal years.

(8) where an instrument is to be sold by Private Placement and any prior agreement has been entered into with an association/institution, a copy of that agreement shall be submitted;
(9) where a party does not purchase the instrument allotted to it, arrangements shall be made to offer it for open sale;
(10) the prospectus shall clearly state, under “Interest/Preferred Dividend Payment Timing”, when accrued interest will be paid to investors;
(11) each applicant shall be paid Broken Period Interest, at the prevailing market rate, on the amount applied for from the date of application until the date of allotment, and this shall be clearly stated in the prospectus;
(12) after redemption, the amount remaining in the reserve maintained pursuant to Clause 5(2) and sub-clause (7) of this Clause shall be transferred to the Capital Adjustment Reserve. Only bonus shares may be issued from amounts deposited in the Capital Adjustment Reserve.

7 Perpetual Non-Cumulative Preference Shares

Controlled English translation

This Bank may grant approval to a licensed institution to issue Perpetual Non-Cumulative Preference Shares subject to the following conditions:

(1) such shares shall not be issued with a specified redemption period;
(2) they shall be issued in a manner ensuring that only institutional investors hold them;
(3) they shall be issued by the licensed institution itself and shall be fully paid-up;
(4) they shall be issued without security;
(5) the entire authority to decide whether or not to distribute dividends shall vest in the concerned licensed institution, and this arrangement and the dividend rate shall be clearly disclosed in the prospectus;
(6) dividends shall be distributed only from the profit of the current fiscal year through the profit-and-loss appropriation account. Retained earnings or any reserve shall not be used;
(7) loss absorption:
(a) when the prescribed Trigger Point is reached, the shares shall be converted into ordinary shares for loss absorption, with prior approval of this Bank;
(b) the Trigger Point shall be the condition in which Common Equity Tier 1 (CET1) falls below 5.125 percent of total risk-weighted assets;
(c) the shares shall be converted into ordinary shares of the promoter group and the method/formula for determining the number of shares shall be stated in the prospectus;
(8) the institution shall publicly issue a Risk Disclosure Statement clearly disclosing the risks and expected consequences after the Trigger Point;
(9) the institution shall obtain written consent from each investor confirming that the investor has received the Risk Disclosure Statement, read and understood all provisions and conditions in the prospectus, and is fully aware of the risks;
(10) in liquidation, payment shall rank ahead of ordinary shares but after regulatory capital instruments included in Tier 2 Capital, depositors and other ordinary creditors;
(11) this Bank may prescribe additional conditions as necessary;
(12) these provisions shall apply only to licensed institutions to which the Capital Adequacy Framework, 2015 applies.

8 Deposit Accounts between Licensed Institutions

Controlled English translation

(a) A licensed institution shall not open with any other bank or financial institution licensed by this Bank, or with any institution carrying out deposit business, any deposit account on which interest is earned.
However, Class “B” and “C” licensed financial institutions may open with other licensed institutions a Call Deposit account repayable on demand.

(b) This provision shall not prohibit placing the following amounts in interest-bearing accounts:
1. amounts relating to employee retirement funds;
2. amounts collected from an Initial Public Offering, Further Public Offering or rights-share issue and deposited in an interest-bearing deposit account.

(c) Interest-bearing fixed-deposit accounts previously opened, other than those under paragraph (b), shall not be renewed after expiry of their Maturity Period.

9 Fine for Mobilising Financial Resources in Excess of the Limit

Controlled English translation

Where a licensed institution mobilises financial resources or obtains borrowings in excess of the limit prescribed under this Bank’s financial-resource mobilisation provisions, the concerned institution may be charged a penalty, for each day until the excess deposit resources or borrowings are brought within the prescribed limit, calculated at the prevailing Bank Rate on the excess amount. In addition, the Chief Executive may be fined up to NPR 100,000, and such fine shall be recovered personally from the Chief Executive.

For this purpose, the Tier 1 capital derived from the latest audited financial statements shall be used as the basis of calculation. The daily statement of borrowings shall be disclosed by adding a separate borrowing heading to the compulsory-reserve weekly statement (Directive Form No. 13.1) currently submitted to this Bank, showing the total amount borrowed.

10 Further Public Issue of Shares

Controlled English translation

A licensed bank or financial institution shall complete sale and distribution of shares allocated to the public within three years from the date on which it commenced operations. It may also make a Further Public Issue of shares to the public for the purpose of increasing paid-up capital.

11 Share Deposit Schemes

Controlled English translation

A licensed institution may operate Share Deposit schemes subject to the following conditions:

(a) where depositors under a Share Deposit scheme wish to purchase shares of the company, including promoter shares, they shall fulfil the qualifications prescribed for becoming promoters under the Bank and Financial Institution Act, 2073, the Unified Directives issued by this Bank and the applicable licensing policy;

(b) depositors wishing to convert deposits under a Share Deposit scheme into ordinary shares of the promoter group shall comply with the required procedures. In relation to providing promoter-group shares to such depositors, the bank or financial institution shall obtain mandatory approval from the Securities Board of Nepal before providing promoter shares to interested depositors;

(c) materials published for public information shall state that a depositor participating in the scheme who wishes to purchase promoter shares may do so only after completing the required procedures in compliance with the Bank and Financial Institution Act, 2073, the Unified Directives issued by this Bank, other prevailing laws, and applicable securities laws, rules and directives.

12 Insurance Schemes

Controlled English translation

A licensed bank or financial institution may operate an insurance scheme for deposit accounts at the time deposits are accepted, provided there is no discrimination among depositors of the same class of insured accounts and no additional financial burden is imposed on depositors. The insured depositor shall, at the time the deposit is accepted, be clearly informed of the services, conditions and facilities stated in the Insurance Policy.

13 Prohibition on Gifts, Lotteries and Similar Programmes to Mobilise Deposits or Expand Business

Controlled English translation

A bank or financial institution shall not operate any programme involving gifts, lotteries, competitions, prizes or similar benefits for financial customers for the purpose of mobilising deposits or expanding business.

14 Deposit Protection

Controlled English translation

A bank or financial institution licensed by this Bank shall arrange for protection, through the Deposit and Credit Guarantee Fund, of deposits up to NPR 500,000 held in savings and fixed accounts in the name of a natural person.

In addition, the licensed bank or financial institution shall provide to the Deposit and Credit Guarantee Fund, quarterly within one month after quarter-end, the amount of individual savings and fixed deposits up to NPR 500,000 held with it and the number of such depositors.

15 Deposit Accounts for Dividends Earned from Foreign Investment

Controlled English translation

A foreign investor may deposit dividends earned from investment in Nepal in a fixed-deposit account with a bank or financial institution with the consent of the Government authority or central bank of the concerned country. Repatriation of such deposit and interest earned thereon shall be permitted only after obtaining approval from the Foreign Exchange Management Department, subject to the following conditions:

(1) all risks, including exchange-rate and interest-rate risk, shall be borne by the investor;
(2) the fixed deposit shall have a minimum term of one year and no loan may be obtained against that deposit;
(3) prior approval of the Foreign Exchange Management Department of this Bank shall be obtained before opening the deposit account;
(4) a half-yearly statement of such deposits and interest shall be submitted to the Foreign Exchange Management Department of this Bank.

16 Repeal and Saving

Controlled English translation

(1) The following directives previously issued by this Bank are hereby repealed:
the directive issued as Directive No. 16/081 under the provisions relating to mobilisation of financial resources in the Unified Directives, 2081, and all circulars relating to the same subject issued thereafter up to Magh 2, 2082.

(2) Any acts or actions done or taken pursuant to the directives and circulars repealed under sub-clause (1) shall be deemed to have been done or taken pursuant to this Directive.

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