Directive Issued

by

Nepal Rastra Bank

to

Cooperative Societies holding a Limited Banking Transaction License:

2002
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Nepal Rastra Bank (NRB) has been issued the following directives to the limited banking transaction license holder cooperative society to make financial transaction respective, sound, secure by using authority has been provided under the NRB act 2001 clause no 79 and Cooperative act 1991 clause 26 sub-clause 2.

Chapter – 1: Preliminary

1. Brief Name and Implementation

1. This directive shall call "Directive Issued to Limited Banking Transaction License Holder Cooperative Society 2002".

2. This directive shall come into effective from 17 July 2002.

2. Definition:

Unless otherwise meant with reference to the subject or context in this directive:


b) "Rastra Bank" means the Nepal Rastra Bank established under the Nepal Rastra Bank Act 2001.

"Society" means a cooperative society established under the cooperative act 1991 and with having limited banking license from NRB as per that cooperative act clause no 26-sub clause 2.

c) "Share Capital" means the collected capital by selling shares to the individuals of the potential members within their working area, members and other agencies.
d) "General Reserve" means the amount transformed as per the cooperative act clause 27 subclass 1.

e) "Deposit" means any amount accepted by the society as per the prescribed by the NRB from members to be repaid after a specified period in terms of savings and term deposits. This word shall define other collected deposits from members as used financial tools with taking the NRB approval.

f) "Limited Banking Transaction" means the activities accepting deposits, providing credit facilities for agriculture, Industry or service business or other productive works with taking sufficient security within limiting the society members only.

g) "One household family member" shall means the persons living in a house or not divided concerned individuals husband, wife, son, daughter, daughter in law, adopted son, adopted daughter, father, mother, brother, sister in law, younger brother, younger sister in law, sister, younger sister, grand father, grand mother.

h) "Security" means accepted legal collateral in terms of fixed or liquid assets as per the rules and regulation by the society against credit. The terminology shall also define members deposited amount in the account incase the credit is granted with taking such amount as a collateral.

i) "Prescribed or as prescribed" means prescribed or as prescribed by NRB with issuing directives or circulars in time to time to implement this directives.

Chapter – 2: Provision of Share Capital

3. **The society shall have the following share capital:**

   1. The limited banking license holder cooperative society has office in a metropolitan district and is operating within a district requires 10 million rupees as share capital.

   2. The limited banking license holder cooperative society has office in a sub-metropolitan district and is operating within a district requires 5 million rupees as share capital.

   3. The limited banking license holder cooperative society has office in municipality district and is operating within a district requires 2.5 million rupees as share capital.
4. The limited banking license holder cooperative society has office except sub clause "1", "2" and "3" and it is operating within a district requires 1 million rupees as share capital.

5. The NRB can issue directives to change share capital of the cooperative society time to time.

4. **Require to bring transaction within geographical working areas:**

   a) The cooperative society has been already operating more than a district, that has to limit in a district within fiscal year 2004/05 as per clause 3 subclass "1", "2", "3" and "4".

   b) The cooperative society does not have minimum share capital as per clause 3 sub clause "1", "2","3" and "4". That cooperative society has to increase a required minimum share capital as per clause 3 within a five years period or in the fiscal year 2007/08 by increasing minimum 20% per annum since the fiscal year 2003/04.

**Chapter - 3: Provision of Capital Fund**

5. **Provision of Capital Fund**

The cooperative society shall maintain a provision of the following minimum capital fund on the basis of risk weighted assets to make banking business healthy, sound and secure with considering welfare of member depositors.

<table>
<thead>
<tr>
<th>Time Schedule</th>
<th>Minimum required capital fund on the basis of risk weighted assets (percentage basis)</th>
<th>Core Capital</th>
<th>Supplementary Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year 2002/03</td>
<td>4.5</td>
<td>9.0</td>
<td></td>
</tr>
<tr>
<td>From Fiscal Year 2003/04</td>
<td>5.0</td>
<td>10.0</td>
<td></td>
</tr>
</tbody>
</table>

6. **Classification of Capital Fund:**

The capital fund of cooperative society is classified into two types as a core capital and a supplementary capital:

1. Core Capital
The amount of the following headings is included into this category:

a) Share Capital
b) General Reserve
c) Retained Earnings/Loss

2. Supplementary Capital

The amount of the following headings is included into this category:

a) Loan loss provision on good loans, but as a facility loan loss provision on sub-standard and doubtful can also include in this class in the following time frame

<table>
<thead>
<tr>
<th>Scheduled Time Frame</th>
<th>The types of loan loss provisions that can include into supplementary capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year 2002/03</td>
<td>Good, Sub-standard and Doubtful</td>
</tr>
<tr>
<td>Fiscal Year 2003/04</td>
<td>Good and Sub-standard</td>
</tr>
<tr>
<td>Fiscal Year 2004/05</td>
<td>Good</td>
</tr>
</tbody>
</table>

b) Asset Revaluation Reserve

c) Free Reserves.

Explanation:

1. Capital fund means sum of Core capital and Supplementary capital for purpose of this directive.
2. Supplementary capital can include at maximum level of 100 percent of core capital.
3. Core capital is measure of after deducting the cumulative losses.
4. The assets revaluation reserves can include only 2 percent of total supplementary capital including assets revaluation reserves.
5. Free reserves means free reserves keep by the society without mentioning specific purpose.
7. **Risk Weighted Assets:**

The measurement purposes of capital fund the following weightage is given as a risk of assets. When the cooperative society calculates the risk weighted assets the assets of the balance sheet should be multiply by the following weightage:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Weightage of risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash balance</td>
<td></td>
</tr>
<tr>
<td>2. Balance in NRB</td>
<td></td>
</tr>
<tr>
<td>3. Invested amount in government bond</td>
<td></td>
</tr>
<tr>
<td>4. Invested amount in NRB bond</td>
<td>0.0</td>
</tr>
<tr>
<td>5. Bank balance in commercial bank</td>
<td></td>
</tr>
<tr>
<td>6. Balance in financial institution with having NRB license</td>
<td>0.20</td>
</tr>
<tr>
<td>7. Invested in share and debenture</td>
<td></td>
</tr>
<tr>
<td>8. Other investments</td>
<td></td>
</tr>
<tr>
<td>9. Loans and advance</td>
<td></td>
</tr>
<tr>
<td>10. Fixed assets</td>
<td>1.0</td>
</tr>
<tr>
<td>11. Other assets</td>
<td></td>
</tr>
</tbody>
</table>

8. **Risk based capital fund ratio:**

This ratio shall measure the weighted risk assets. The calculating formula is as follows:

\[
\text{Ratio of capital fund} = \frac{\text{Core Capital + Supplementary capital}}{\text{Sum of weight aged risk assets}} \times 100
\]

9. **Monitoring of capital fund:**

Capital fund shall monitor by the following the cooperative society's profit and loss account and balance sheet of the audited report of the last fiscal year.

10. ** Statements require to submit on the capital fund:**

The cooperative society has to submit statement of capital fund on the basis of the financial statement of each fiscal year on mid July and mid January on September and February to non-banking management division and non-banking inspection and supervision division.
11. The time period of the deficit capital fund require to cover:

The deficit on minimum capital fund of the previous fiscal year needs to be covered within the current fiscal year. The cooperative society cannot announce and cannot distribute dividend unless the cooperative society is not to keep the minimum required capital fund. The deficit capital fund can be increased by:

- Collecting additional share capital from the society members.
- Collecting share capital from new members.
- Transferring amount as a general reserve from net profit.
- Transferring amounts as a retained earning from net profit.
- Reallocating the assets.

12. General Reserve fund:

The cooperative society has to be created a separate general reserve. In that fund, 25 percent of net profit has to be added in every year. The cooperative society cannot expense or withdraw from general reserve fund without taking NRB approval.

13. Actions incase the cooperative society fail to follow the directives regarding the capital fund:

Incase the cooperative society shall not maintain minimum capital fund in the prescribed time period, NRB can take any actions under the NRB act 2001, clause 99 or 100.
Annex: - 3.1

........................ Cooperative Society Ltd.
Table of the Capital Fund and the capital adequacy ratio
(As on 20........../ July/January)

1. Capital Fund (Rs. '000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Current half year</th>
<th>Previous half year</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Core capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Share capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 General reserve fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Retained earning/loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Supplementary capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Loan loss provision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Asset revaluation Reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Free reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Capital fund (a+b)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Capital adequacy ratio

<table>
<thead>
<tr>
<th>Description</th>
<th>Current half year</th>
<th>Previous half year</th>
</tr>
</thead>
<tbody>
<tr>
<td>The minimum capital fund on the basis of risk weighted assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital fund</td>
<td>(...... %)</td>
<td></td>
</tr>
<tr>
<td>Core capital</td>
<td>(...... %)</td>
<td></td>
</tr>
<tr>
<td>Capital fund (surplus/deficit)</td>
<td>(.........%)</td>
<td></td>
</tr>
<tr>
<td>Core Capital (surplus/deficit)</td>
<td>(.........%)</td>
<td></td>
</tr>
</tbody>
</table>

Date: ........................................ Signature of Officer
Statement table of Risk weighted asset
(As on 20……../ July/January)

<table>
<thead>
<tr>
<th>Description of assets</th>
<th>Weight ages</th>
<th>Current half year Amount</th>
<th>Risk weighted asset</th>
<th>Previous half year Amount</th>
<th>Risk weighted asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash balance</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Balance in the NRB</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Investment in government bond</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Investment in NRB bond</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Bank balance in the commercial bank</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Balance in other NRB license holder financial institution</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Investment in share and debenture</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Other investment</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Loan and advance</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Fixed asset</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Other asset</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total risk weighted assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PC: The risk-weighted asset is calculated summing the total output of the asset value of the balance sheet by multiplying weight ages.

Date:  
Signature

14. *Provision of financial resource collection*

1. The cooperative society can collect as a deposit or advance from members up to 10 times of core capital as financial resources. The cooperative society shall collect savings, deposits and term deposits with maximum period of 3 years as deposit. The cooperative society shall prepare the savings and term deposit collection policy and implement it. This policy should be compulsorily informed NRB non-banking management division and non-banking inspection and supervision divisions within a month period of this directive come on effective.

2. Excess collected amount as a financial resource as per sub clause "1" has to be deposited in NRB as an interest free deposit. Once financial resource comes within limitation the amount can withdraw with taking approval of NRB.

Chapter – 5: Provision of compulsory balance and liquid assets

15. *Provision of Compulsory Balance*

The cooperative society should have to deposit 1 percent of total deposit and advance fund in NRB account as per the NRB act 2001 clause 46.

16. *Provision of Liquid asset*

1. The cooperative society should have to keep 7 percent of total deposit liability as liquid assets. The following assets are define as a liquid asset:

   a) Cash balance in the volt
   b) Bank balance in the commercial bank
   c) Investment in the government bond bills
   d) Investment in the NRB bond bills
   e) Deposit balance in the NRB license holder bank and financial institutions
f) But, amount deposited in a cooperative society by another cooperative society shall not consider as a liquid asset.

2. The term deposits shall consider up to 90 percent only as a liquid asset.

3. The company has to keep 2 percent as cash in the volt or in any commercial bank as current account out of minimum required 7 percent liquid asset balance.

17. **Measurement of compulsory balance and liquid asset**

1. Compulsory balance as per clause 15 and liquid asset as per clause 16 shall measure weekly on the basis of daily average.

2. The cooperative society should have to submit statement of each week about compulsory balance and liquid asset as per annex 5 to the non-banking inspection and supervision division within 3 days after the week.

3. Incase term deposits or government bond or NRB bond is used as a collateral to get loans, the borrowed amount should be deducted to measure the compulsory balance and liquid asset as per sub-clause 1.

18. **The actions will take incase the cooperative society fail to keep compulsory balance and liquid asset:**

1. Incase the cooperative society shall fail to deposit any amount or deposited less than required amount as a compulsory balance in NRB account as required according clause 15 shall penalize as per the NRB act 2001 clause 47. The penalty shall be as follows in every fiscal year:

   a) In the first time the penalty shall be measured by calculating on the deficit amount by maximum interest rate prescribed by the NRB,

   b) Second time, it shall be measured by 2 times of bank interest rate on the amount that is not deposited or deficit amount.

   c) Third time and above, it shall be measured by 3 times of bank interest rate on the amount that is not deposited or deficit amount

2. The bank shall take action against the cooperative society as per the NRB act 2001 clause 99 or clause 100 incase the cooperative society fail to keep liquidity as per clause 16.
Annex 5

........................ Cooperative society Ltd.
Statement of Compulsory balance and liquid asset
(Weekly)
20 ........year ............month........date to 20 ........year ........month........date
('000)

<table>
<thead>
<tr>
<th>S.N</th>
<th>Description</th>
<th>Sun</th>
<th>Mon</th>
<th>Tue</th>
<th>Wed</th>
<th>Thru</th>
<th>Fri</th>
<th>Total</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>Total deposits and advance fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>The required compulsory balance amount in the NRB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Total Liquid asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Cash balance in the volt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>Bank balance of current account in the commercial bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>Investment in government bond</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Investment in NRB bond</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5</td>
<td>Balance in NRB license holder financial institution or banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The borrowed amount with producing bonds and term deposits as collaterals (-)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Total liquid asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Date

Chief Executive Officer
Chapter – 6: Provision of Institutional good governance

19. Provision for Board of Directors Qualification

1. One member from an undivided family can elect as a board of director in the cooperative society.

2. At least fifty percent of total BoDs should be passed graduate level or equivalent exam incase the cooperative society operate business in metropolitan or sub-metropolitan city. Additionally, at least 2 BoDs should have minimum 3 years experience in bank or financial institution as an officer.

3. At least 3 members of total BoDs should be passed graduate level exam incase the cooperative society operative business in municipality.

4. In other district, it should have 2 BoDs of total BoDs with graduation qualification.

5. The member should not be black listed in the bank or the financial institution and incase the person black listed but already removed from it, that should be taken place before 5 years ago.

6. The person is black listed can not continuo as a BoD.

7. The person without clearing loans from the cooperative society cannot be elected or nominated as a BoD.

8. The cooperative society should have to bring its BoD if the cooperative society is not as per sub clause 1,2,3,4,5,6,and 7 within one year after this directive come in the force.

20. Duty and liability of Board of Director

1. The cooperative society has to conduct its meeting regularly according to provision of the cooperative act 1991. In the BoD meeting, the agenda should be reached with discussing as per provisions the act.

2. The total cooperative member of BoD should have a complete knowledge of prevailing law and terms and other directives issued by this bank. Additionally, the BoDs have to monitor regularly on the cooperative society activities to assure the activities are fall in the prevailing rules and directives.

3. The BoD of the cooperative society has to prepare policy of the staff regulation, Deposit collection policy, Credit policy, guideline and Internal Control system.

4. Incase any BoD member or BoD of the Cooperative society has done any activities against the member depositor benefit, and the cooperative society has
not provided any documents to the NRB when the bank demands, the BoD member or the BoD of the cooperative society shall take action against as per the NRB act 2001 clause 100-sub clause 2.

21. Provision of Code of conduct for Board of Director

1. Prohibition to do activities against the cooperative society benefits:

   The BoD of the cooperative society shall not involve in any activity that is against of the cooperative society's interest directly or indirectly.

2. Prohibition to misuse of the post

   The BoD of the cooperative society shall not misuse the post to make any type of personal benefit.

3. Requirement of written information

   The cooperative society shall send written information to non-banking division and non-banking inspection and supervision division with accepting the above code of conducts and if necessary can add the new code of conducts within 3 months period of this directive come into the force.

22. Provision on the appointment of the Chief Executive Officer

1. The following qualification should have in the person, who shall appoint as a Chief Executive Officer of the cooperative society:

   a) At least gradate level exam passed in economist, commerce or any suitable subject for the cooperative society.

   b) At least two years experience as an officer of the NRB license holding bank or financial institution.

   c) The person who can handle daily activities of the cooperative society and can implement directives of NRB and prevailing law and make internal control.

   d) Full time service provider for the cooperative society.

   e) The person should not be bankrupt and should not be punished due to dishonest or fraud and crime.

   f) The person is suspended or already taken action against him or her from NRB or NRB license holding bank or financial institution in the past cannot be appointed as a CEO. Similarly, the person should not be suspended or taken any action from government agencies or by this bank. Incase the person was suspended the person should have clearance from it.
g) The person should not be black list or in case it is he or she should have at least five years period removing form black list.

2. The cooperative society has to inform non-banking management division and non-banking inspection and supervision division about appointment of CEO. In addition, the cooperative society should have to inform the NRB about change in BoDs as well.

3. In case the cooperative society already appointed CEO with crossing this directives, the cooperative society has to bring into this directive within a year of this directive come in the force.

23. **Provision of code of conducts that have to follow by the CEO and other staff:**

1. Should not be involved against of the cooperative society interest:
   a) Directly or indirectly any kind of activities that goes against the cooperative society interest should not be involved.
   b) To involve in same business of the cooperative society and involvement as a full timer in other business or operate another types of business shall consider against of the cooperative society interest.

2. Requirement of approval to work part time:

To involve as a part time in other society or financial institution and other business activities the staff member has to take written approval from the cooperative society before involvement. Incase it does not effect on the cooperative society interest in that particular case only the cooperative society can produce written approval for it.

3. Prohibition to misuse of the post

The staff of the cooperative society cannot use or involve his/her post to make a personal benefit.

4. Require to follow the code of conduct:
   a) The CEO shall liable to give guidance and take information about the code of conduct followed by the staff working his/her under.
   b) Incase any staff member shall cross the rules and the code of conduct, the person shall take action as per the approved staff rules and regulation and has to keep records of it safely.
c) The record of part of "b" should provide to the NRB during the inspection time.

5. Do not misuse the information

The staff of the cooperative society shall not misuse any information received during the transaction by providing unauthorized person.

6. The requirement of record and transaction up to date

The records and statements of the account of the cooperative society should be up to date. Staff members are not allowed to add or deduct any documents, records and account of the company without authority.

7. Requirement of written information

The cooperative society shall send written information to non-banking division and non-banking inspection and supervision division with accepting the above code of conducts and if necessary can add the new code of conducts within 3 months period of this directive come into the force.

8. Provision of the code of conducts that needs to follow:

The cooperative society staff has to follow this code of conduct compulsory from the date of this directive come into the force. Incase any staff fail to follow it and for that the cooperative society has taken any action that should be inform to the non-banking management division and non-banking inspection and supervision division by a half yearly period.

24. Restriction to provide credit to the BoDs

The cooperative society cannot provide credit or advance to the cooperative society BoD, his/her joint family members or the company or firms operated by them.

25. Provision of Auditing and General Assembly

1. The cooperative society should have to conduct auditing by the "b" class registered auditor with following prevailing general theory of the accounting system. The auditor shall be appointed by the general assembly. The information and experience of the auditor and a copy of his license should be submitted to the non-banking management division. The same auditor cannot audit continuously more than 3 times.

2. The cooperative society shall have to inform about annual general assembly and special general assembly with mentioning place and date before 15 days to the non-banking management division and non-banking inspection and supervision division. The decisions of the general assembly should be informed to the concerned divisions within 15 days after the meeting.
3. The cooperative society should have to conduct general assembly within six months of the completion of the fiscal year and should submit annual reports including balance sheet, profit and loss and the concerned annexes as the prescribed by the bank to the non-banking management division and non-banking inspection and supervision division. At least fifty percent of the BoDs including the cooperative society chairman, CEO, chief accountant and treasure should have signed on the financial statements.

4. The cooperative society should have to publish the bank prescribed sample of balance sheet and profit and loss after approved by the GA in new paper compulsory.

5. The cooperative society shall request to the non-banking division to participate in annual general assembly or special assembly with sending written invitation at least 15 days ago.

26. The action incase the directive shall not follow on the provision for institutional good governance:

The cooperative society or BoD or official or staff member of the cooperative society shall not follow the directive related on institutional good governance can take any action under the NRB act 2001 clause 100.

Chapter – 7: Provision of Credit Limit

27. Provision of per member credit limitation

1. The cooperative society can provide credit to any one member or one family member on the basis of the following core capital:

   a) Up to 5% at the first time credit

   b) Up to 10% at the second time credit

   c) Up to 20% at the third and after that credit.

2. The credit borrowing member has to invest at least 20% of the project cost as a self-capital when the cooperative society invests in any project.
Chapter – 8: Provision of Interest Rate

28. Provision of interest rate

1. The BoD of the cooperative society can determine interest rate on deposits and loan advance. The current provision of the maximum interest spread is removed.

2. Whenever the cooperative society shall change new interest rate and change in a service fee rate and even no changes the written information should have to send NRB non-banking management division and non-banking inspection and supervision division in every 6 months interval. In addition, it should be published in a national level Newspaper to inform the general public.

3. The recognized interest should be booked as an income on the basis of cash received on the loan and advance. The interest receivable that is not received as in cash shall booked as expenses on interest receivable and deposited in interest suspense account.

4. The BoD of the cooperative society can amend or determine on the policy and procedure of the deposit collection, credit disbursement and its payment terms, penalty interest, capitalization of interest. The decision should be informed compulsorily within 7 days to the NRB non-banking management division and non-banking inspection and supervision division.

Chapter – 9: Provision of Loan loss and loan classification

29. Provision of loan loss and loan classification

1. The cooperative society has to classified total outstanding loan balance into the following four classifications and needs to make provision loan loss as well:

<table>
<thead>
<tr>
<th>Classification of loan</th>
<th>Period of overdue</th>
<th>Loan loss provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>Not overdue and overdue up to 3 months</td>
<td>1%</td>
</tr>
<tr>
<td>Sub-standard</td>
<td>Overdue loan from 3 months to 6 months period</td>
<td>25%</td>
</tr>
<tr>
<td>Doubtful</td>
<td>6 to 12 month overdue loans</td>
<td>50%</td>
</tr>
<tr>
<td>Bad</td>
<td>More than 1 year period overdue loans</td>
<td>100%</td>
</tr>
</tbody>
</table>

2. The cooperative society has to classify the loans as per the sub clause 1 and should have make a loan loss provision as per same clause, that needs to be include in the
financial statement of every fiscal year’s July and January and should send to the NRB non-banking management division and non-banking inspection and supervision division within the end of July and January.

3. As per the decision of the BoD the cooperative society can reschedule loans of the members if they have sufficient reasons with paying all outstanding interest balance.

4. The rescheduled loan as per the sub clause 3 shall upgrade one step above than when it was at the time of reschedule and has to make provision as per that classification.

However, the sub-standard loan cannot classify as good loan by doing reschedule. Those types of loan shall classify as sub-standard loan and that needs only 12.5% loan loss provision.

5. If any one installment shall overdue on that prescribed date the entire outstanding loan principle shall classify as per that overdue installment incase the loan is provided on the installment wise collection system. The loan loss provision should have to do as per sub clause 1.

Chapter – 10: Provision of Investment

30. **The requirement of approval on the investment policy and procedure:**

The cooperative society should have to take approval from the BoD of the cooperative society on the policy and procedure of investment on the government bond, the NRB bond and share and debenture of corporate societies, and only can implement it.

31. **Provision of investment on the government bond and NRB bond**

The cooperative society is not prohibited to invest in the government bond and NRB bond.

32. **Prohibition to buy share and become a member of one cooperative society to another society:**

Without taking NRB approval one cooperative society cannot buy the share of another cooperative society and become a member.
However, this clause shall not make any obstacle to buy share and become member of district/national level cooperative union and cooperative bank.

### 33. Provision of investment in corporate institutions share and debentures

1. The cooperative society has to invest on those corporate institutions share or debentures those are listed or suppose to be listed within a year in Nepal stock exchange board.

2. In case those shares or debenture shall not be listed within the prescribed period as per sub clause 1, the cooperative society should have to create equivalent amount of Investment adjustment fund. The fund amount should not be allowed to expense until those shares or debentures are not listed.

3. The cooperative society shall not be invested more than 5 percent of share capital in a corporate institution and all investment in shares and debentures should not be more 15 percent of the share capital. Incase investment is found more than the prescribed limitation; the excess invested amount shall be deducted from core capital to measure the capital fund.

4. Incase the cooperative society already invested against of the sub clause 1, 2 and 3 that needs to bring as per the directive within mid-July 2004.

### 34. Provision of review of the investment

The cooperative society has to review the investments by half yearly basis. During the review the cooperative society has to attest by the internal auditor, that needs to approve by the BoDs about the investments are as per the investment policy and this directive with one month of half-yearly closing period. The copy of approved decision by the BoD has to send non-banking management division and non-banking inspection and supervision division the end of February and the end of August.

### 35. Valuation of Share and debenture

The cooperative society shall have to evaluate the share and debenture every half-yearly basis with separate corporate institution on the basis of whichever the lower value of market price or purchase price as per annex 10.1 can book in assets.

However, the market price is lower than purchase price of any corporate institution share or debenture the deficit amount should be booked as expenses in profit and loss and credited to provision for possible investment loss.
36. **The period that needs to bring within limits**

In case any cooperative society invested more than limits that investment needs to bring within the prescribed limit within the mid July 2004.
Annex: 10  
........................ Cooperative society Ltd.

Statement of investment on government bond or NRB bond (Monthly)
Year ............... Month

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Description</th>
<th>Amount (Rs.) (‘000)</th>
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Total

Date: 

CEO
Annex 10.1

.................................. Cooperative Society Ltd.

Statement of investment in company share capital

Year .................. Month

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of company</th>
<th>No of Share</th>
<th>Purchase Price / Market Price</th>
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(Rs. '000)

Total

Date:  
CEO
Chapter – 11: Miscellaneous

37. **The following terms have to follow by the cooperative society**

1. The cooperative society has to follow the directives issued by the NRB on time to time regarding to financial transaction, Monetary, Credit, Interest rate, Liquidity, capital fund etc.

2. The cooperative society should have prepare the deposit collection procedure, Loan and advance disbursement policy and collection procedure and working procedure within 6 months of this directive come in the force and should have to submit non-banking management division and non-banking inspection and supervision division.

3. The cooperative societies can amendment in the bylaw with taking approval of NRB.

4. The cooperative society cannot establish any kind of offices like branch/sub-branch/unit/contact office/ deposit collection center without pre-approval of the NRB. If the society has already that types of office out of the district that needs to close down within 2 years period of this directive come into force.

5. The cooperative society shall not disburse any kind of loan and advance against of the member depositors and investors.

6. The NRB can inspect and supervise any office of the cooperative society at any time and at field level or non-field level. It is duty of the cooperative BoD and staff member to provide the information of the cooperative society like transaction description, account books, other accounts, minutes of the BoD etc and other statements of the financial transaction to the bank officer or staff. The bank can give necessary directives on the basis of finding from inspection and supervision. It is duty of the cooperative society to follow it.

7. The cooperative society has to submit static and balance sheet and profit and loss account and other financial statements as per the prescribed formats within the prescribed time frame to the non-banking management division and non-banking inspection and supervision division.

8. The cooperative society is not allowed to dissolve itself. With taking NRB pre-approval and following prevailing law the cooperative society can dissolve.

9. The cooperative Society should have at least 7 members BoD.

10. Except the dividend as per the cooperative act 1991 clause 27, other financial facilities should not be allowed to provide share members. Incase other any kind
of facilities need to provide the cooperative society should have to take pre-
approval from the NRB.

38. The cooperative society is not permitted to do the following task:

1. To do Off-balance sheet transaction like Letter of credit, guarantees etc
2. To provide overdraft
3. To purchase and sell the goods with motive of business and to purchase fixed
   and movable goods for other purpose except the office use purpose.
4. To provide credit without security and without sufficient security.
5. To provide credit with taking agricultural products as a collateral
6. To provide credit with taking gold and silver as a collateral
7. To accept current account/deposit
8. To provide credit with taking collateral own share
9. To do transaction on the foreign current

39. Prohibition on Lottery and Gift scheme

The cooperative society shall not allow operating the lottery and gift scheme on
the form of any name.

40. The terms can be changed

The NRB can change or add or reduce the terms as per the clause 37.

41. The NRB can take action

Incase the cooperative society violet this directive or terms, conduct any activity
against member depositor's interest, or not providing information and demanded
documents on the time of inspection and supervision, to providing static and
statements to the NRB in time and providing wrong information frequently and
providing wrong information at the time of inspection and supervision the NRB
shall take any action of the NRB act 2001 clause 99 and 100 against the BoD,
official and staff of the cooperative society.
42. **Dismiss and safeguard**

1. The directives send to the cooperative society before this directive is dismissed.

2. The task and transaction made as per the sub-clause 1 shall consider as per this directive as well.