

RMA/FISD/03-2004/ 989

August 16, 2004

The Managing Director  
Bank of Bhutan  
Phuentsholing

The Managing Director  
Bhutan National Bank  
Thimphu

The Managing Director  
Bhutan Development Finance Corporation  
Thimphu

The Managing Director  
Royal Insurance Corporation of Bhutan Ltd.  
Phuentsholing

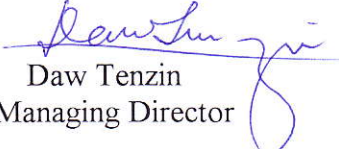
Sir(s),

**Subject: RMA Action plan on the final minutes of the RMA's meeting with FIs in March 2004 – Point (10.11.6)Interest during Project Gestation Period**

Please refer the final minutes of the RMA's meeting with the financial institutions sent to you vide RMA/FISD/04-2004/5537 dated April 15,2004 on the above-cited subject. In this regard, we would like to inform you that necessary changes have been made to Section 10, Clause 10.11.6 of the Prudential Regulations 2002, as agreed upon in the meeting, a copy of which is attached herewith for your kind information, and it shall come to effect immediately. However, as decided in the meeting, the FIs should have in place appropriate credit policies with detailed coverage on the project gestation period, approved and ratified by their Board.

Please acknowledge receipt of this letter to the FISD of RMA and ensure compliance accordingly.

Yours sincerely

  
Daw Tenzin  
Managing Director

**10.11.6 Interest during Project Gestation Period<sup>6</sup>**

Where a grace period for loan repayment has been granted during project gestation in line with the Institution's credit policies approved by the Board, interest accrued during that period may be booked to income. However, if the loan is subsequently classified as non-performing and the credits received are insufficient to cover the interest accrued during the grace period, the unpaid portion of interest accrued up to the end of the grace period must be debited from income and booked to Interest-in-Suspense account.

**10.11.7 Interest on account of Rescheduled Loans**

When an account is rescheduled, all interest accrued and suspended shall be capitalized to principal. Interest-in-Suspense which has been capitalized should not be credited as interest income, but reversed only upon receipt of payment.

**10.11.8 Commitment fee on overdraft limit**

Financial institutions may charge a commitment fee on the unutilized portion of an overdraft or working capital advance. However, such a rate must be duly approved by their respective Board and applied uniformly to all the borrowers.

---

<sup>6</sup> Amended on 16<sup>th</sup> August 2004