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

Directive 02

Language mode: En

C.M. & Associates, Chartered Accountants | Kathmandu, Nepal

Generated: 2026-09-03

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Directive 02: Provisions Relating to Loan Disbursement, Classification and Loan Loss

Classification: PASS — EXISTING AUTHORITATIVE BASELINE (UNCHANGED)

Source document: NRB_Unified_Directives_2082_Bilingual_Compiled_Directives_1-21.docx

Controlled English translation

Provisions Relating to Loan Disbursement, Classification and Loan Loss

Legal unit

Controlled English translation

Nepal Rastra Bank

Central Office

Bank and Financial Institutions Regulation Department

Licensed Institution Directive No. 2/2082

Provisions Relating to Loan Disbursement, Classification and Loan Loss

In exercise of the authority conferred by Section 79 of the Nepal Rastra Bank Act, 2058, the following directives are issued in relation to classification of loans and advances extended by Class “A”, “B” and “C” licensed institutions and the provisions to be maintained against possible losses thereon.

१ 1. Operating hydropower projects connected to the national grid.

Controlled English translation

A licensed institution shall classify all loans and advances on the basis of the period for which principal or interest has remained overdue, as follows:

(a) Performing Loan: Performing loans shall comprise Pass loans and Watch List loans as follows:

(1) Pass:

(a) Loans/advances that are not overdue and those overdue for up to one month;

(b) Loans and advances against fixed-deposit receipts;

(c) Loans and advances against Government of Nepal securities and Nepal Rastra Bank debt instruments;

(d) Gold and silver loans of up to NPR 1 million per customer against adequate security.

Provided that loans and advances secured by additional collateral in the form of fixed-deposit receipts, Government of Nepal securities or Nepal Rastra Bank debt instruments, and gold/silver-backed loans exceeding NPR 1 million, shall be classified on the basis of the overdue period.

(2) Watch List:

(a) Loans/advances overdue for more than one month and up to three months;

(b) Short-term or working-capital loans not renewed within one month, or whose repayment period has been temporarily extended for up to 90 days;

(c) Loans extended to a borrower whose loan is classified as non-performing by any other bank or financial institution;

(d) Loans extended to a firm, company or institution having negative net worth or incurring net losses continuously for three years, even where principal and interest are being paid regularly.

Provided that, in the case of loans granted to projects under construction, this provision shall apply only on the basis of the financial statements for three complete fiscal years after the project commences commercial production.

(e) Multiple-banking loans of NPR 2 billion or more that have not been converted into consortium financing.

Provided that this provision shall not apply to non-renewable short-term working-capital loans under a pari passu arrangement.

(f) Loans that Nepal Rastra Bank, upon inspection, directs to be kept under Watch List on the ground that the borrower's cash flow and project operations are weak.

(g) Loans extended with a Debt-to-Equity Ratio exceeding 80:20. For this purpose, upon revaluation of assets, only assets created on the basis of full compliance with the applicable accounting standards on asset revaluation may be included in equity.

(h) Loans that do not maintain the debt repayment-to-income ratio prescribed by Nepal Rastra Bank.

(i) Loans extended to an industry/project/business established with financing that is not in operation due to circumstantial reasons, but whose principal and interest are being regularly paid in accordance with the pre-agreed arrangement.

(b) Non-Performing Loan: Non-performing loans shall be classified as follows:

(1) Sub-standard: Loans/advances overdue for more than three months and up to six months.

(2) Doubtful: Loans/advances overdue for more than six months and up to one year.

(3) Loss: Loans/advances overdue for more than one year.

(4) Loans restructured/rescheduled pursuant to Clause 8.

२ 2. Online/e-commerce businesses.

Controlled English translation

A licensed institution shall disburse or renew a loan only after analysing minimum lending fundamentals such as the borrower's repayment capacity, future cash flow and sources of income, and ensuring proper utilization of the loan.

३ 3. Foodgrain production/processing/storage/sales and beverage processing/sales.

Controlled English translation

Any loan/advance, whether overdue or not, shall be classified as Loss upon occurrence of any of the following circumstances, and the bank or financial institution shall develop appropriate systems and infrastructure for this purpose:

(a) where the borrower becomes bankrupt or is declared bankrupt;

(b) where the borrower absconds or remains out of contact for 90 days;

(c) where the loan is misused;

(d) where, except in the situation stated in Clause 1(a)(2)(i), the project/business is not capable of operation or is not operating;

(e) where a letter of credit, guarantee or other contingent liability converts into a fund-based Forced Loan and remains unrecovered for 90 days from the date of such conversion;

Provided that, in the case of a Forced Loan arising from a guarantee claim against a construction contractor, if such loan had not been recovered within 90 days in FY 2080/81 but had not yet been classified as Loss, it shall in FY 2081/82 be classified on the basis of the overdue period and loan-loss provision shall be maintained accordingly.

(f) where recovery has failed and an auction process has commenced, or a court case is pending under the recovery process;

Provided that where the loan becomes regular after the auction process has commenced, it shall not be mandatory to continue classifying such loan as Loss under this provision.

(g) where a new or additional loan is granted to a borrower who remains on the blacklist of the Credit Information Centre;

(h) where the market value of the security is insufficient to secure the loan;

For this purpose, “security” includes not only immovable property offered as collateral but also the project and its movable assets.

(i) where bills purchased or discounted remain unrecovered for 90 days from their due date;

(j) where a loan standing in the name of one person/firm/company is used by another person/firm/company; provided that this shall not prevent fixation of an aggregate limit in the case of firms/companies belonging to the same group;

(k) where, for repayment of a Trust Receipt Loan, any new loan not specified at the time of opening the letter of credit is sanctioned and disbursed;

(l) where a Credit Card loan is not written off within 90 days from the date it becomes overdue;

(m) where the borrower submits different financial statements for the same date or period;

(n) where a person takes a loan from a bank or financial institution and extends a loan/advance to a related person or institution.

Explanation: For the purpose of paragraph (c) of this Directive, “misuse” means failure to use the loan for the purpose for which it was obtained; non-operation of the project; use for another purpose of funds earned from the concerned project/business instead of applying them toward repayment of the loan; or where misuse of the loan/facility is established by a supervisor during inspection/supervision or by an auditor during audit.

४ 4. Distribution of daily essentials.

Controlled English translation

(1) In the case of a term loan repayable by instalments, if any instalment becomes overdue, the entire outstanding loan amount shall be classified on the basis of the overdue period of that instalment.

(2) In the case of loans extended to hydropower projects, transmission-line projects, cable-car construction projects and renewable-energy projects, if any instalment is overdue by more than 90 days, the principal amount of that instalment shall be classified as Loss and a 100 percent loan-loss provision shall be maintained on the instalment.

Explanation: For this purpose, “term loan” means a loan or advance extended with a repayment period exceeding one year.

(5) In the case of loans extended to firms/companies registered with an authority approved by the Government of Nepal and operating in land development and building construction, the loan may, at the borrower’s request, be rescheduled and/or restructured once on the basis of necessity and justification, after analysing a revised business plan, cash flow and related factors and recovering at least 10 percent of the interest payable, subject to the following conditions:

(1) such rescheduling/restructuring shall be completed by the end of Ashwin 2082;

(2) the loan shall be classified at least in the category in which it was classified as at end-Chaitra 2081;

(3) loan-loss provisions maintained before the rescheduling/restructuring shall not be written back; and

(4) evidence of submission to the concerned authority for permission to carry out the land development/building construction work shall also be obtained.

(6) Loans extended to industries, trade, businesses, establishments and other borrowers directly affected by the extraordinary circumstances arising during the Gen-Z movement may, at the borrower's request and after the concerned licensed institution verifies the impact, be rescheduled and/or restructured subject to the following conditions:

(1) such rescheduling/restructuring shall be completed by the end of Poush 2082;

(2) the loan shall remain classified in the category in which it stood at end-Ashadh 2082 and the corresponding loan-loss provision shall be maintained.

(7) Loans extended to borrowers having a Forward/Backward Linkage with borrower institutions directly affected by the extraordinary circumstances arising during the Gen-Z movement may be rescheduled and/or restructured after the concerned licensed institution verifies the impact and recovers at least 5 percent of the interest payable, subject to the following conditions:

(1) such rescheduling/restructuring shall, at the borrower's request, be completed by the end of Poush 2082;

(2) the loan shall remain in the category in which it stood at end-Ashadh 2082 and the corresponding loan-loss provision shall be maintained.

(8) Loans extended to enterprises/businesses in Ilam and other districts affected by the recent floods/landslides and other natural disasters may, at the borrower's request, be rescheduled and/or restructured once where the bank or financial institution analyses the borrower's cash flow and income, determines necessity and justification, and recovers at least 10 percent of the interest payable, subject to:

(1) completion by the end of Chaitra 2082; and

(2) classification, at the time of rescheduling/restructuring, at least in the category then applicable, with the corresponding loan-loss provision maintained.

(9) Loans extended to businesses operating in Jajarkot, Rukum and other areas affected by the earthquake of Kartik 2080, and purpose-specific personal loans including residential home loans obtained by persons residing in those areas, may at the borrower's request be rescheduled and/or restructured where the bank or financial institution analyses cash flow and income, determines necessity and justification, and recovers at least 10 percent of the interest payable, subject to:

(1) completion by the end of Ashwin 2082; and

(2) retention of the loan in the category in which it is classified at the time of rescheduling/restructuring.

(10) Loans affected by the recent obstruction at the Rasuwa and Tatopani customs points caused by natural disasters may, at the borrower's request, be rescheduled and/or restructured by the concerned licensed institution after verifying the impact on the business, subject to:

(1) completion by the end of Poush 2082; and

(2) retention of classification and loan-loss provision in the category in which the loan stood at end-Ashadh 2082.

(11) In respect of loans up to NPR 20 million extended to specified sectors facing circumstantial difficulties (agriculture, energy, and micro, cottage, small and medium enterprises), the loan may, at the borrower's request, be rescheduled and/or restructured once after analysis of the business plan, cash flow and related factors, determination of necessity and justification, and recovery of at least 10 percent of the interest payable, subject to:

(1) completion by the end of Ashwin 2082; and

(2) classification at least in the category in which the loan was classified at end-Poush 2081.

(3) Loan-loss provisions maintained before rescheduling/restructuring shall not be written back.

(12) In the case of loans related to construction businesses where the source of funds has been assured by a public body and construction has been completed or is ongoing but payment remains receivable, the licensed institution may, at the borrower's request, reschedule and/or restructure the loan after cash-flow analysis, determination of necessity and

justification, and recovery of at least 10 percent of interest payable, subject to:

(1) completion by the end of Ashadh 2082;

(2) classification at least in the category in which the loan was classified at end-Mangsir 2081; additionally, no Nepal interest [as stated in the source text] for that period shall be charged on such loan;

(3) a 5 percent loan-loss provision shall be maintained on such rescheduled/restructured loans, but existing provisions shall not be written back; and

(4) documents evidencing that payment remains due from the concerned public body shall be obtained.

(13) For borrowers facing circumstantial difficulties, banks and financial institutions may reschedule and/or restructure, at the borrower's request, loans related to (a) agriculture and forestry, (b) fisheries, (c) mining, (d) production of agricultural, forestry and beverage products (excluding tobacco processing and alcoholic products), (e) manufacture of non-food goods, (f) metal products, machinery and electronic tools and installation, (g) transport, storage and communication, (h) wholesale and retail trade, (i) tourism, (j) education and health, (k) construction (including loans to cement, steel rod, brick/block, pipes and fittings industries), and loans up to NPR 50 million extended to all other sectors, after analysing business cash flow and income, determining necessity and justification, and recovering at least 10 percent of interest payable, subject to:

(1) completion by the end of Chaitra 2080;

(2) only loans classified as Performing at end-Ashadh 2080 may be rescheduled/restructured;

(3) a 5 percent loan-loss provision shall be maintained; and

(4) the rescheduled/restructured loan shall remain in the category in which it was classified.

(14) Banks and financial institutions may reschedule/restructure, at the borrower's request, loans up to NPR 50 million related to hotels and restaurants, livestock/poultry farming, construction (including cement, steel rod, brick/block, pipes and fittings industries), education and health, projects affected by natural disasters such as floods, landslides and earthquakes, and loans in other sectors, after analysing business cash flow and income, determining necessity and justification and recovering at least 10 percent of interest payable, subject to:

(1) completion by the end of Poush 2080.

2) Loans classified as Performing at end-Chaitra 2079 may be rescheduled/restructured.

3) A 5 percent loan-loss provision shall be maintained on loans rescheduled/restructured under the above provision.

4) Such loans shall remain classified in the category in which they were classified.

(15) To facilitate operation of small and medium enterprises, loans up to NPR 20 million extended by banks and financial institutions may, at the borrower's request, be restructured/rescheduled once after analysing the enterprise's cash flow and income and recovering 10 percent of the interest payable, subject to:

1) completion by the end of Ashadh 2080;

2) the loan having been classified as Performing at end-Poush 2079;

3) classification as Pass and maintenance of a 1.0 percent loan-loss provision; and

4) if rescheduling/restructuring is found to have been done without clear grounds, loan-loss provision shall be maintained pursuant to Clause 9, sub-clause 8(a) of Directive No. 2/2082.

(16) Clear grounds for each rescheduling or restructuring shall be retained in the respective loan file.

(17) Interest outstanding at the time of rescheduling or restructuring shall not be capitalized.

(18) Details of loans classified pursuant to sub-clause (3) shall be prepared separately.

५ 5. Import trade.

Controlled English translation

A loan may be provided against gold or silver collateral upon fulfilment of the following arrangements and conditions:

(a) the institution's credit policy/bylaws shall expressly provide for lending against gold and silver collateral;

(b) before undertaking gold/silver lending, the institution shall have made necessary security arrangements, arrangements for valuation of the collateral, vault insurance and assaying/testing;

(c) when lending to any person against gold or silver, the institution shall test the gold or silver offered as collateral and disburse the loan only after satisfying itself that the loan is adequately secured. The gold or silver pledged by the borrower shall be kept in a single sealed bag. If a loan is extended by accepting only one of several bags provided by the borrower, by placing multiple bags in one bag, or without testing/assaying the gold or silver, a 100 percent loan-loss provision shall be maintained on such loan. The single-borrower limit for this type of gold/silver collateral loan shall be NPR 5 million. Existing loans shall be brought within the single-borrower limit by the end of Ashadh 2083.

६ 6. Petrol pumps/gas/water businesses.

Controlled English translation

Principal and interest on a loan shall not be recovered by overdrawing a customer's current account beyond the approved overdraft limit.

Where, in recovering principal and interest by debiting the customer's account, the account becomes overdrawn and the amount is not settled, the unrecovered amount together with the overdrawn principal shall be included in the outstanding loan balance and such loan shall be placed one category below the category in which it would otherwise fall. This provision shall not, however, prohibit recovery of principal and interest by utilizing the available balance in the customer's account.

७ 7. Medicine distribution.

Controlled English translation

(a) As a general rule, a term loan shall not be granted with a grace period exceeding one year. Where the nature of the business or project requires a longer grace period, the approving authority may, on the basis of the Project Report submitted by the borrower and the justification therein, decide a longer grace period by recording the reasons and grounds for doing so. Such decision shall be approved by an authority one level higher than the authority empowered to sanction the loan. For this purpose, the highest level shall be the Board of Directors.

(b) If a grace period once fixed is extended, the loan shall be deemed to have been restructured/rescheduled and loan-loss provision shall be maintained accordingly. However, an extension of grace period shall not be deemed restructuring/rescheduling where it results from a revised Required Commercial Operation Date of an electricity project, or where a completed hydropower project has commenced generation but cannot operate at full capacity because the full-capacity transmission line has not been constructed.

Explanation: "Grace period" means the period from the date of commencement of loan disbursement until the date on which repayment of instalments is to commence.

८ 8. Advertising.

Controlled English translation

(1) "Rescheduling" means the process of extending the period/time for repayment of a loan/facility obtained by a customer.

(2) "Restructuring" means the process of changing the nature or terms of a loan/facility, or adding/removing restrictions.

(5) In the case of loans related to construction businesses extended to construction contractors where funding has been assured by a public body and construction has been completed or is in progress but payment remains receivable, the

licensed institution may, at the borrower's request, reschedule and/or restructure the loan after analysing cash flow, determining necessity and justification, and recovering at least 10 percent of the interest payable, subject to the following conditions:

(1) such rescheduling and/or restructuring shall be completed by the end of Ashwin 2083;

(2) a minimum loan-loss provision of 5 percent shall be maintained on loans rescheduled and/or restructured under the foregoing provision; however, loans classified as Non-Performing shall retain the existing classification and the corresponding loan-loss provision; and

(3) documents evidencing that payment remains receivable from the concerned public body shall be obtained.

(3) Where any circumstance indicates deterioration in a borrower's repayment capacity, the licensed institution may reschedule and/or restructure the loan if it is satisfied, on the basis of the borrower's written action plan and the following grounds:

(a) evidence that the loan documentation and security are adequate;

(b) grounds on which the licensed institution is satisfied that the loan is recoverable and that continuity of the business can be maintained through rescheduling and/or restructuring; and

(c) in addition to submission of a written action plan for rescheduling/restructuring, at least 25 percent of the interest outstanding up to the date of such rescheduling/restructuring has been recovered.

(4) Circumstances indicating deterioration in a borrower's repayment capacity: repayment capacity shall be deemed to have deteriorated if any one of the following occurs:

९ 9. Internet/telecom service providers.

Controlled English translation

(1) Loan-loss provision shall be maintained on the outstanding principal amount of loans and bills purchased classified under this Directive as follows:

(2) Where a loan classified as non-performing (other than a restructured/rescheduled loan) becomes regular after full payment of all overdue principal and interest, it shall remain in the same category (Sub-standard, Doubtful or Loss) for three months and the corresponding loan-loss provision shall be maintained; only after that period may it be upgraded.

(3) Where a borrower institution has loans under more than one heading and any one loan is classified as non-performing, all other outstanding loans of that borrower that are classified as Pass shall be classified at least as Watch List.

(4) Where an individual borrower has loans under more than one heading and any one loan is classified as non-performing, all other outstanding Pass loans of that borrower shall be classified at least as Watch List.

(5) Where a loan of any borrower within a group is classified as non-performing, the effect of that borrower's business interrelationship with other borrowers in the group shall be analysed, and other group borrowers directly affected by that borrower shall also be classified in the same non-performing category.

Example: if one of five group borrowers is classified as Sub-standard and one of the remaining four is directly affected by that borrower, that directly affected borrower shall also be classified as Sub-standard even if its loan is regular. The other three borrowers not directly affected need not be classified as Sub-standard.

(6) For Pass loans extended to energy and other infrastructure-construction projects with a grace period exceeding one year, loan-loss provision may be built up proportionately during the grace period so that a 1.00 percent general loan-loss provision is maintained in the final year.

For example, for a loan with a four-year grace period, the general provision may be 0.25 percent in year one, 0.50 percent in year two, 0.75 percent in year three and 1.00 percent from year four onward.

(7) For loans extended for cultivation of silk, jute, cotton and similar agricultural crops and commercial cultivation of fruits such as mango, orange, junar, sweet orange, kiwi, dragon fruit, lemon, litchi and avocado, general loan-loss provision may be maintained at 0.2 percent in the first year, 0.6 percent in the second year and 1.00 percent from the third year onward.

(8) In the case of a restructured or rescheduled loan, loan-loss provision shall be maintained as follows:

(a) Where a loan classified as Performing at the time of restructuring/rescheduling is restructured/rescheduled while satisfying all of the following conditions, a minimum provision of 12.5 percent shall be maintained:

(i) it is restructured/rescheduled for the first time;

(ii) repayment is restructured/rescheduled in equal instalments; and

(iii) the grace period after restructuring/rescheduling does not exceed one year.

(b) Where a loan classified as Performing at the time of restructuring/rescheduling is restructured/rescheduled in circumstances other than those specified in paragraph (a), a minimum 25 percent provision shall be maintained. For loans already classified as Sub-standard, Doubtful or Loss, the existing loan-loss provision shall continue after restructuring/rescheduling. The provision maintained on a restructured/rescheduled loan shall not be adjusted unless the loan remains regular continuously for two years.

(c) In the case of loans repayable in instalments or Equal Monthly Instalments (EMI), where principal and interest remain regular, the following changes shall not require additional provision as if the loan had been restructured/rescheduled:

(i) where the instalment amount and number of instalments decrease due to prepayment.

(ii) where the loan tenure changes due to a change in the interest rate on a variable-rate loan.

(iii) where a change in interest rate requires a change in the instalment amount and, upon the borrower's written request and after analysing the borrower's income, the instalment amount is changed not more than once in a year.

(d) A restructured and/or rescheduled loan may be converted into a Pass loan where payment of principal instalments and interest remains regular continuously for two years (after expiry of the grace period, where a grace period applies).

(e) Where expansion of the Production Capacity of a project financed by a bank or financial institution is assured, but the borrower is unable to repay within the originally fixed Repayment Schedule due to increased investment or other cost escalation, loans to nationally-prioritized hydropower, cable-car, cement, star-hotel or other infrastructure-construction projects may, upon restructuring and/or rescheduling subject to the following conditions, maintain only a 1.00 percent loan-loss provision. Loans so rescheduled and/or restructured may be classified as Pass loans.

(i) The project must not be inactive; it must be in operation or in the process of commencing operation; and

(ii) interest accruing after the Moratorium period originally fixed when the loan was disbursed shall not be capitalized and recognized as income.

(iii) The borrower shall submit to the licensed institution the bases evidencing expansion of the project's Production Capacity, and the licensed institution shall satisfy itself that such bases are reasonable.

(f) Where a loan extended by a bank or financial institution to a construction business cannot be repaid under the existing repayment schedule or conditions due to obstruction-related circumstances and restructuring or rescheduling becomes necessary, it may, on a one-time basis, be restructured/rescheduled on the basis of the borrower's written repayment plan, adequacy of collateral security and future repayment capacity while maintaining only a 1.00 percent loan-loss provision. Loans so rescheduled/restructured may be classified as Pass loans.

(g) A loan provided against the security of shares shall not be restructured or rescheduled.

(h) Where a loan is rescheduled or restructured in accordance with the Procedure Relating to Facilities that May be Provided by the Financial Sector in respect of Sick Industries, 2070 (Procedure 2.1), issued by Nepal Rastra Bank for rehabilitation and appropriate exit of sick industries published by the Government of Nepal in the Nepal Gazette, a minimum loan-loss provision of 25 percent shall be maintained.

(9) Where a loan extended by a licensed bank or financial institution is secured through the Deposit and Credit Guarantee Fund or insured, a 75 percent concession may be given from the Loan Loss Provision otherwise required for the secured/insured portion, and only the remaining 25 percent need be provided.

(10) When granting a loan against a personal/institutional guarantee, details of other property of the guarantor, free from any other claim and equal in value to the guarantee amount, shall mandatorily be obtained. In the case of loans granted against personal/institutional guarantees

only, such loans shall also be classified in accordance with the foregoing provisions and, where they fall within Pass, Watch List, Sub-standard or Doubtful categories, an additional 20 percentage points of loan-loss provision shall be maintained over and above the percentage prescribed for that category. Where a loan is granted against other movable or immovable property or project collateral together with a personal/institutional guarantee as additional loan security, an additional 20 percentage points of loan-loss provision shall also be maintained on the portion of the loan not covered by the collateral.

Provided that the additional loan-loss provision shall not be mandatory for the following loans extended against personal/institutional guarantees:

(a) credit-card loans.

(b) loans granted to institutions referred to in paragraph (b) of Clause 5 of NRB Directive No. 3.

(c) In the case of education loans extended by banks and financial institutions against personal guarantees, loans extended against project collateral, and loans invested in microfinance institutions and cooperatives under deprived-sector lending, an additional 20 percentage points of loan-loss provision shall be maintained over the provision prescribed under sub-clause (5).

(d) loans up to NPR 2.5 million extended to institutions providing technical and vocational training.

(e) personal loans up to NPR 1.5 million extended subject to the following conditions:

(i) the licensed institution's credit policy shall clearly provide for the disbursement, monitoring and recovery of such loans.

(ii) a separate product paper for such lending shall be approved and implemented by the Board of Directors of the licensed institution, and the product paper shall be fully complied with when granting the loan.

(iii) there shall be a clear basis showing that the borrower's source of income is sufficient to repay the loan. Such income shall also be received through an account maintained with a bank or financial institution and be subject to applicable tax compliance. The borrower shall mandatorily have obtained a Permanent Account Number (PAN).

(iv) a repayment schedule shall be fixed for repayment through Equal Monthly Instalments. The maximum tenure of such a loan shall be seven years. Provided that a licensed institution may, within the overall ceiling of NPR 1.5 million, grant an overdraft facility of up to NPR 0.5 million.

(v) loans granted up to the end of Magh 2079 to professional businesspersons engaged in various professions affected by COVID-19.

(vi) such loans shall not exceed 5 percent of total loans.

(f) loans up to NPR 50 million extended against project collateral.

(g) loans under paragraphs (a) and (e) that become overdue for more than 90 days shall be classified as Loss and a 100 percent loan-loss provision shall be maintained.

(h) details of such loans shall be prepared separately.

(11) Except in the circumstances stated below, a loan extended solely against third-party collateral shall be classified in accordance with this Directive and, where it falls within Pass, Watch List, Sub-standard or Doubtful, an additional 20 percentage points of loan-loss provision shall be maintained over the percentage prescribed for that category. Where the

borrower’s own collateral is insufficient and third-party collateral is also taken as additional security, the loan

shall carry the additional loan-loss provision described above on the portion not covered by the borrower’s own collateral. Separate details of such loans shall be prepared.

(i) Where the borrower is an individual, collateral standing in the name of a member of the borrower’s undivided household/family.

(ii) Where the borrower is a firm, collateral standing in the name of the proprietor or partner of that firm, or a member of such person’s undivided household/family.

(iii) A loan granted against the security of property held pursuant to an agreement for operating commercial agriculture, industry or another business through land pooling or contractual arrangements.

Provided that, in the case of term loans extended before 2069/03/29, it shall not be mandatory to maintain such additional loan-loss provision until the date of the final instalment.

Explanation: For this purpose, “other property” means movable and immovable property and project security.

(12) Where a licensed institution analyses that the borrower’s repayment capacity is likely to deteriorate due to economic stress or any other reason, it may classify the loan/advance into a lower category. For example, a Sub-standard loan may be classified as Doubtful or Loss, and a Doubtful loan may be classified as Loss.

(13) A licensed institution may, having regard to the condition of its loan portfolio, maintain loan-loss provision in excess of the minimum prescribed in this Directive; where it does so, the loan accounts on which such additional provision is maintained shall be clearly disclosed.

(14) “Loan/advance” includes bills purchased and discounted.

Explanation: Loan-loss provision made for Performing loans shall be treated as “General Loan Loss Provision”, and loan-loss provision made for Non-Performing loans shall be treated as “Specific Loan Loss Provision”.

(c) Less affected sectors:

१० 10. Alcohol/tobacco industries, trade and businesses.

Controlled English translation

Loan-loss provision shall not be adjusted except in the following circumstances:

(a) where the loan is written off;

(b) where repayment of the loan is made in instalments or in part, the loan-loss provision relating to the amount repaid may be adjusted while maintaining provision appropriate to the loan classification;

(c) where principal and interest payments on a restructured or rescheduled loan remain regular continuously for two years;

(d) where the loan is fully repaid;

(e) where deficiencies observed during supervision have been corrected by the licensed institution and the concerned Supervision Department is satisfied.

११ 11. Truck/freight transport.

Controlled English translation

(1) Where a licensed institution is unable to recover a loan, it may sell the collateral security and recover the outstanding principal and interest. The institution may itself accept the collateral only where the collateral remains unsold after completion of the auction process at least three times. Upon acceptance, the collateral shall be valued at the lower of its prevailing market value and the total amount receivable up to the day immediately preceding the acceptance. Where the market value of the collateral is lower than the total loan receivable, the accounting policy shall provide that the remaining

unrecovered balance shall be charged as an expense in the profit and loss account in the same fiscal year.

Provided that, until the amount represented by such non-banking asset has been fully adjusted in the accounts, the interest component of the receivable shall not be recognized as income in the profit and loss account, and provision shall be maintained in respect of such amount against the non-banking asset.

(2) When a licensed institution accepts collateral security as a non-banking asset and when it sells an accepted non-banking asset by auction, it shall comply with the following:

(a) Where the outstanding loan amount of a customer exceeds NPR 1 million, the concerned party shall mandatorily be included in the blacklist when the security property is accepted as a non-banking asset. For loans up to NPR 1 million, the concerned bank or financial institution may decide whether to include the party in the blacklist.

(b) Before auctioning a non-banking asset held in the institution's name, a realistic valuation shall be obtained from an independent valuer. The same property shall not be valued by the same valuer more than once consecutively.

(c) The licensed institution shall establish transparent and clear arrangements for auction of collateral security/non-banking assets and shall conduct the sale so as to protect the interests of the bank or financial institution.

(d) Where a non-banking asset has been accepted and the security cannot be auctioned, the entire property held as security shall be auctioned; partial auction shall not be permitted.

(e) Property so accepted shall be sold as soon as practicable. If the licensed institution requires the property for its own use, approval of the Board of Directors shall be obtained and Nepal Rastra Bank shall also be informed.

(f) Where a bank/financial institution returns property accepted as a non-banking asset to the owner of the collateral security (the owner before the property became a non-banking asset), the collateral/security may be returned only to that owner through mutual negotiation between the institution and the owner for an amount not exceeding the higher of the value at which the non-banking asset was recorded and the outstanding amount at the time of return (principal plus interest). Such return shall not be deemed to constitute payment of interest.

१२ 12. Gold/silver jewellery and precious stones.

Controlled English translation

(1) A licensed institution shall establish criteria for determining which loans are irrecoverable, formulate and approve through its Board of Directors a regulation/procedure for writing off such loans, obtain approval of Nepal Rastra Bank and implement it.

(2) Licensed institutions may write off loans after completing the following procedures:

(a) the loan must have been classified as Loss and a 100 percent loan-loss provision must already have been maintained.

(b) the process for auction sale of collateral security for loan recovery must have been completed in accordance with prevailing law and policy.

(c) where the collateral security cannot be sold by auction, the collateral must mandatorily have been accepted by the institution.

(3) The borrower and parties related to the loan must already have been included in the blacklist of the Credit Information Centre Ltd. in accordance with Nepal Rastra Bank's directive.

Provided that, where a loan of less than NPR 220,000 is written off under the procedure prepared pursuant to sub-clause (1), compliance with sub-clauses (2)(b), (2)(c) and this provision shall not be mandatory.

(4) In respect of a loan written off, the records shall state the level or authority by whose decision the loan was originally approved, how the collateral security for the loan was valued, what efforts were made to recover the loan, and the justification for writing it off after recovery proved unsuccessful.

(5) A separate loan-recovery unit shall be established for recovery of written-off loans, and the concerned institution shall continue its recovery efforts in respect of such loans.

(6) An updated record of written-off loans shall be maintained in a separate register.

(7) Details of loans written off during the current year, including the matters specified in sub-clause (4) above, shall mandatorily be disclosed in the annual report.

(8) Recognizing that, in the absence of explicit legal provisions and clear guidance or directives on loan write-off, excessive discretion could rest with decision-makers and arbitrary write-offs could occur, the institution shall establish a clear and transparent policy that prevents uncontrolled discretionary exercise and considers the future effects of loan waiver or write-off.

(9) Details of written-off loans shall be submitted to the concerned Supervision Department and the Credit Information Centre Ltd. within 15 days after the end of the fiscal year.

(d) For industries/businesses not listed above, the bank or financial institution may analyse financial condition, cash flow, the COVID-19 impact, and the time/measures required for resumption, and classify the business into one of the above three categories on a clearly documented basis.

१३ 13. Beauty parlours/salons/cosmetic surgery and social/personal services.

Controlled English translation

(a) In relation to collateral guarantees and auction procedures taken by banks and financial institutions, the Honorable Supreme Court, by its decision dated 2062/09/16, ordered the following directions to be implemented immediately by banks and financial institutions; accordingly, this Directive is issued for their implementation:

(1) A guarantor providing a guarantee as collateral security shall execute a separate guarantee document clearly limiting the guarantor's liability to the specified amount of the borrower's loan for which the guarantee is given.

(2) Documents executed between the borrower and the bank, or between the guarantor and the bank, concerning loans and guarantees shall be prepared in a format in which the particulars and conditions can be read easily.

(3) No document shall directly or indirectly impose on the guarantor liability exceeding the amount undertaken by the guarantor.

(4) The amount corresponding to the guarantor's undertaking shall first be recovered from the concerned borrower. If it cannot be recovered from the borrower, the guarantee terms shall state that, up to the amount undertaken by the guarantor, recovery may be made by auction under law of the collateral security provided by the guarantor.

(5) Before property shown by the guarantor is accepted as collateral security, the required legal process shall be completed and a realistic valuation shall determine whether it is undeveloped or developed property and its actual value.

(6) No amount other than the amount undertaken by the guarantor shall be recovered from the guarantor's property in respect of the borrower's other liabilities.

(7) Recovery proceedings against the security provided by the guarantor shall be commenced only to the extent that the amount of liability undertaken by the guarantor cannot be recovered from the concerned borrower.

(8) If the guarantor tenders the amount undertaken under the guarantee at any time, the amount shall be accepted and the property held as guarantee security shall be released.

(9) Where the amount of the borrower's loan covered by the guarantee is to be recovered from collateral security provided by the guarantor, standards shall be framed and applied for determining the value of such property after considering, among other things, local panchakirte valuation, technical valuation, prevailing market value, the value determined by the Land Revenue Office, and the value determined when the collateral security was accepted.

(10) Collateral shall not be undervalued without genuine and clear grounds and reasons.

(11) Where property provided by the guarantor as collateral security is to be auctioned, prior notice shall be given to the guarantor specifying a time within which the guarantor may deposit the amount up to the limit undertaken by the guarantor.

(12) If the guarantor does not deposit the amount undertaken in the guarantee within the specified notice period, an auction notice for the collateral property shall be published and a copy thereof shall also be provided to the guarantor.

(13) The bank shall prepare and mandatorily implement a separate regulation, procedure or directive governing the process and procedure to be followed in auctioning property held as guarantee security.

(14) If, before the auction date or within the specified period after auction, the guarantor tenders the amount corresponding to the liability under the guarantee, the amount shall be accepted and the collateral released.

(b) By the decision of the Honorable Supreme Court dated 2063/07/08, Nepal Rastra Bank was ordered to make arrangements for all banks and financial institutions to implement the following directions; accordingly, this Directive is issued for their implementation:

(1) Ensure an environment in which the borrower's property is correctly valued at the time the loan is granted.

(2) Arrange for collateral property to be auctioned/sold or taken over on the basis of the prevailing market value at the time of auction.

(3) Since it is inappropriate for a lending institution to presume that every borrower has deliberately failed to repay a loan with fraudulent intent, the recovery process should be undertaken fairly, with respect and empathy toward the borrower and the borrower's family.

(4) Do not repeatedly increase the interest rate contrary to the commitment made at the time the loan was granted.

(5) Once recovery proceedings commence, make necessary arrangements so that the social standing, dignity and respect of other members of the borrower's family are not adversely affected.

१४ 14. Legal, accounting and engineering consultancy/businesses.

Controlled English translation

(1) A bank or financial institution that does not maintain the capital fund prescribed by Nepal Rastra Bank shall not, without prior approval of Nepal Rastra Bank, purchase or discount any loan or credit from another bank or financial institution or undertake Credit Sale/Purchase/Re-purchase or Takeover (CS, CP, RP & TO).

(2) A bank or financial institution maintaining the prescribed capital fund may undertake CS, CP, RP & TO subject to the following conditions:

(a) It shall maintain the capital fund prescribed by Nepal Rastra Bank both before and after the transaction.

(b) Its credit policy shall expressly provide for CS, CP, RP & TO; otherwise such transactions shall not be undertaken.

(c) CS, CP, RP & TO transactions shall not be undertaken in the final month of a fiscal year.

(d) In a Credit Purchase, the purchaser shall acquire the right to recover the credit from the customer and shall also obtain the customer's consent.

(e) The purchaser shall account for the purchased credit under the appropriate loans and advances sub-heading in its books.

(f) A credit shall be purchased only after obtaining detailed particulars of its terms and condition.

(g) The purchasing bank or financial institution shall obtain and retain written particulars of the borrower, including the date and type of loan, repayment status, historical transactions, status of guarantors, loan classification, and qualifications/remarks made by the auditor and by Nepal Rastra Bank inspection. The same provision shall apply to a Loan Swap.

(h) The purchaser shall maintain loan-loss provision according to the loan classification prevailing at the time of purchase.

(i) Documents evidencing that the loan is secured and that the institution holds the beneficial/security interest shall be retained.

(j) A half-yearly return of CS, CP, RP & TO transactions shall be submitted to the concerned Supervision Department within 15 days after the end of each half-year.

(3) Where a sale/purchase arrangement contains a condition that the selling institution will repurchase the loan if the purchasing institution is unable to recover it, the selling institution shall report the amount as a contingent liability until repurchase. For capital adequacy purposes, such contingent liability shall carry a risk weight of only 20 percent.

(4) If an interbank loan/deposit cannot be repaid, the lending/depositing bank or financial institution may, with the customer's consent and prior approval of Nepal Rastra Bank, purchase a loan originated by the debtor bank or financial institution for recovery of its exposure, subject to:

(a) the amount of the loan purchased shall be at least twice the principal and interest to be recovered;

(b) the loan shall be purchased in its existing status on terms mutually agreed between the institutions; and

(c) a partially paid loan shall not be purchased.

१५ 15. Health/fitness centres.

Controlled English translation

Banks and financial institutions established in Nepal shall not extend credit/facilities or accept deposits on the basis of a Financial Guarantee issued by another bank or financial institution. Provided that a Class "A" commercial bank may issue a guarantee/counter-guarantee on the basis of a guarantee issued by a Class "B" or Class "C" licensed institution.

(b) Moderately affected sectors:

१६ 16. Deposit/Credit Transactions with Other Institutions

Controlled English translation

(1) A licensed bank or financial institution shall not place deposits with, or conduct lending transactions with, an institution carrying on savings and credit transactions under a law other than the Bank and Financial Institution Act, 2073.

(2) Such an institution may place deposits with a licensed bank or financial institution and may borrow against its own fixed deposit only from the same bank or financial institution in which that deposit is maintained.

(3) A licensed bank or financial institution may, in accordance with its policy, extend a loan against its own fixed-deposit receipt, gold or silver, or securities issued by the Government of Nepal/Nepal Rastra Bank, at an interest rate not lower than the coupon rate, where applicable.

१७ 17. Loans of a Margin-Lending Nature Against Share Security

Controlled English translation

(a) Loans of a margin-lending nature extended by banks and financial institutions against shares of companies listed on the securities exchange shall be granted only subject to the following conditions:

(1) Credit shall be extended only after valuing the shares in accordance with sub-clause (2).

(2) (a) For such lending, shares held as security shall be valued at the lower of (i) the average closing price for the latest 180 trading days published by Nepal Stock Exchange Limited and (ii) the prevailing market price, and the loan against such shares shall not exceed 70 percent of that value.

(b) When preparing a Product Paper for lending on the basis of the financial and institutional strength of a listed entity, a licensed institution shall adopt a methodology for assessing such strength that includes at least the following matters. For shares of an entity receiving a high strength assessment, the methodology may permit an increase of up to 10 percentage points over the loan-to-value ratio specified in paragraph (a):

(1) size of paid-up capital;

(2) minimum period for which the securities have been listed;

(3) profitability and the status and duration of dividend distribution;

(4) credit rating;

(5) compliance with regulatory requirements; and

(6) whether annual general meetings have been held regularly.

(c) Such Product Paper shall be published on the licensed institution's website.

(d) Once such a loan has been extended, the secured shares shall not be revalued for the purpose of increasing the credit limit or granting additional credit.

(3) Where a fall in market value makes the security inadequate, the Product Paper shall clearly provide for calling for additional collateral and, if additional collateral is not provided, sale of shares to protect the exposure. Bonus and rights shares may be counted as shareholdings even before listing.

(4) The maximum tenure shall be one year. It may be renewed if all accrued interest has been paid and the loan remains regular.

(5) No loan shall be extended against shares of a problem or undercapitalized bank/financial institution, an entity with negative net worth, a delisted entity, an entity whose final audit remains incomplete for one year after fiscal year-end, an entity with net losses for three consecutive years, an entity in commercial operation for less than one year, an entity that has not held an AGM for three consecutive years, or an entity whose shares have not traded for at least 250 days.

(6) The institution's policy shall expressly provide for such lending and shall include analysis of indicators such as P/E Ratio, P/B Ratio, Dividend Yield and Dividend Payout Ratio.

(7) The aggregate outstanding amount of such loans shall not exceed 40 percent of Core Capital based on the internally audited financial statements of the immediately preceding quarter. Any excess shall be deducted from Core Capital.

(8) Where a securities broker undertakes Margin Trading under prevailing law and the arrangements of the Securities Board of Nepal, approval of Nepal Rastra Bank under Section 76 of the Nepal Rastra Bank Act shall be obtained on the recommendation of Nepal Stock Exchange.

(b) A bank or financial institution shall not itself take over pledged shares in settlement of the loan.

१८ 18. Lending Against Promoter/Founder Shares

Controlled English translation

(a) Appropriate risk-management measures shall be adopted when lending against promoter/founder shares.

(b) A promoter/group holding more than 1 percent of a bank or financial institution's promoter shares shall not borrow by pledging more than 50 percent of the promoter shares held by it; the lending institution shall ensure compliance.

(c) A person holding 2 percent or more promoter shares of a licensed institution shall not borrow from that same institution by pledging such shares. Prior approval of Nepal Rastra Bank is required before pledging them to another bank or financial institution.

(d) For approval under paragraph (c), the institution whose shares are proposed to be pledged shall also submit to Nepal Rastra Bank particulars of the shareholding and proposed collateral together with its consent.

(e) Promoter shares shall be valued at the lower of the average price for the latest 180 trading days and the last market price, and the loan shall not exceed 50 percent of that value. Revaluation shall not be used to increase the limit or extend additional credit; where the market price falls, necessary recovery/security measures shall be taken.

(f) Pledged promoter shares shall not be taken over as non-banking assets. For recovery of overdue loans, such promoter shares shall be sold within six months in accordance with law and Nepal Rastra Bank directives.

(g) The loan tenure shall not exceed one year.

(h) A loan against promoter shares shall not be renewed, restructured or rescheduled. Provided that, where a promoter holding 0.5 percent or less has borrowed against promoter shares, the loan may be renewed if all accrued interest has been paid and the loan remains regular.

(i) A loan of this type that is not classified as Pass shall carry a 100 percent loan-loss provision.

(j) If the loan is not repaid by the due date and remains unpaid for 15 days, the promoter/controller shall be blacklisted and a recommendation for blacklisting shall be made within seven days thereafter. The loan documentation shall state this requirement.

(k) The above provisions shall be expressly incorporated in the institution’s credit policy/regulations.

१९ 19. Bank Guarantee

Controlled English translation

(a) The institution issuing a bank guarantee shall pay the beneficiary within seven working days after receiving a demand for payment. Where the guarantee is issued subject to URDG-758, the applicable URDG provisions shall be followed.

(b) If a claimed guarantee is not paid within seven working days without adequate grounds, Nepal Rastra Bank may debit the issuing institution’s account maintained with Nepal Rastra Bank or instruct the bank maintaining its account to make payment to the beneficiary.

(c) A contingent liability arising from a claimed bank guarantee shall carry a 200 percent risk weight for capital-adequacy purposes.

२० 20. Interbank Transactions/Borrowings/Investments

Controlled English translation

Loans/advances provided between licensed institutions shall not be used as a Regular Credit Facility but only as Interbank Transactions/Borrowings. The maximum tenure of an interbank borrowing shall be seven days.

Provided that credit transactions between licensed institutions for the purpose of implementing Government of Nepal programmes operated with the support of international donor agencies shall not be counted as Interbank Transactions/Borrowings. Details of programmes operated in this manner shall be provided to Nepal Rastra Bank’s Banks and Financial Institutions Regulation Department and the concerned Supervision Department.

२१ 21. Liability of a Guarantor Limited to the Amount Stated in the Guarantee

Controlled English translation

A person, firm, company or institution giving a guarantee shall not in any circumstance be made liable beyond the amount stated in the guarantee. Accordingly, the guarantee document shall clearly state the guarantee amount, loan tenure, purpose of the loan, principal debtor, witnesses, name and address of the guarantor, identification/verification particulars and other relevant matters.

२२ 22. Loans to Be Extended Only Within the Approved Geographic Area

Controlled English translation

Except for hire-purchase loans, where a loan is extended against immovable-property collateral, the collateral and the project/business financed shall be within the institution's approved geographic area of operation. A 100 percent loan-loss provision shall be maintained on any such loan outside the approved geographic area until it is recovered.

२३ 23. Trust Receipt (TR) Loans

Controlled English translation

A Trust Receipt Loan (TR Loan), Bills Discounting facility or similar import credit shall be extended for a maximum period of 90 days only.

२४ 24. Prohibition on Lending Against Cheques as Collateral/Security

Controlled English translation

A licensed institution shall not extend credit against any cheque as collateral/security. Since domestic cheques can be cleared on the same day, such cheques shall not be purchased either.

२५ 25. Prohibition on Lending Against Foreign Collateral/Security

Controlled English translation

A licensed institution shall not extend credit against collateral/security situated abroad where the institution is unable to establish or enforce its rights over such collateral/security.

२६ 26. Purpose-Unspecified Personal Loans Including Overdrafts

Controlled English translation

(a) Banks and financial institutions may extend purpose-unspecified personal loans under any heading, including Overdraft, Mortgage Loan, Property Loan, Personal Term Loan and share-backed loan, up to a maximum aggregate of NPR 10 million per person. For a new loan, additional loan or renewal against house/land collateral, the Loan-to-Value Ratio shall not exceed 50 percent. This restriction shall not prevent loans against the institution's own fixed-deposit receipts, gold/silver, Government of Nepal or Nepal Rastra Bank securities, or guarantees issued against 100 percent cash margin.

(b) The aggregate purpose-unspecified personal Overdraft obtained by a person from all banks and financial institutions shall not exceed NPR 10 million. A bank or financial institution that extends credit beyond the prescribed limit shall maintain a 100 percent loan-loss provision on the excess amount.

(c) Particulars of purpose-unspecified personal loans shall be prepared in the format of Nepal Rastra Bank Directive Form No. 2.4 and submitted to the concerned Supervision Department within 15 days after the end of each quarter.

२७ 27. Borrower Required to Have a Permanent Account Number (PAN)

Controlled English translation

Where a bank or financial institution extends, separately or in aggregate, credit of NPR 2.5 million or more to any person, that person shall mandatorily have a Permanent Account Number (PAN). Where borrowers fall within the same group under Clause 7 of Directive No. 3 and the group has obtained credit of NPR 2.5 million or more, a PAN shall also be mandatory for any group member receiving less than NPR 2.5 million.

२८ 28. Loans to Risk Takers (Directors, Chief Executive Officers or Management-Level Officials)

Controlled English translation

(1) A licensed institution shall not extend a loan to a director, chief executive officer or senior management official of another licensed institution except for education, hire-purchase, residential housing or household-goods purposes. The restriction shall not apply to loans against Government securities, fixed deposits, gold/silver or to credit-card facilities. Explanation: “senior management” means officials up to two levels immediately below the chief executive officer.

(2) No loan shall be extended to a firm, company or entity in which the chief executive officer or a management-level official of a bank or financial institution holds more than 50 percent ownership.

(3) A loan existing before the person assumes such office shall be regularized/repaid within the remaining tenure of the loan or one year, whichever is earlier.

२९ 29. Loan Disbursement Through Account or Account-Payee Instrument

Controlled English translation

An approved loan to a company, firm, association or institution shall be credited to that borrower’s account maintained with the lending bank or financial institution. Where such an account is not maintained, disbursement shall be made in the borrower’s name by an Account Payee cheque or other banking/electronic medium to the borrower’s account.

३० 30. Environmental and Social Risk Management

Controlled English translation

(a) A project or industry requiring a licence/approval under prevailing law shall submit the required IEE/EIA approval before receiving credit. The institution shall analyse environmental impacts in accordance with the nature, capacity and applicable thresholds/requirements of the project.

(b) Environmental and social risks shall be analysed in credit appraisal, monitored and reported in compliance with the Environment Protection Act, 2076, Environment Protection Rules, 2077, Labour Act, 2074 and other applicable laws, together with Nepal Rastra Bank’s ESRM Guideline, 2022.

(c) Reports required under Annex 11 of the ESRM Guideline, 2022 shall be submitted to the concerned Supervision Department within 30 days after the end of the fiscal year.

३१ 31. Agricultural, Small and Household Loans

Controlled English translation

For agricultural, small/household and micro loans up to NPR 1 million secured by agricultural produce, cultivable land or structures used in agricultural business:

(1) collateral shall be valued by the bank or financial institution itself, and no valuation fee shall be charged;

(2) the repayment schedule and instalment dates shall be aligned with the production cycle and market;

(3) an adequate grace period shall be provided on the basis of cash flow;

(4) for a Pass loan during the grace period, the loan-loss provision shall be 0.25 percent in the first year and 0.50 percent in the second year;

(5) such internally valued loans shall be prioritized for monitoring/evaluation in internal audit; and

(6) the lending Product Paper and collateral-valuation procedure shall be approved by the Board of Directors.

३२ 32. Loans for Crops/Varieties Recommended by Nepal Agricultural Research Council (NARC)

Controlled English translation

(1) Loans for crops/varieties recommended by NARC shall be priced at a premium not exceeding 1.5 percentage points over the base rate.

(2) During the grace period, the loan-loss provision shall be 0.25 percent in the first year and 0.50 percent in the second year.

(3) An adequate grace period and/or interest capitalization may be provided as appropriate.

३३ 33. Loans Against Cultivable Land Without Motor-Road Access

Controlled English translation

In earthquake-affected areas, cultivable land without motor-road access may be accepted as collateral for loans up to NPR 2 million for commercial agriculture and livestock, small/micro credit and income-generating purposes, on the basis of the borrower's repayment capacity.

३४ 34. Concessional Loans

Controlled English translation

(a) Concessional loans shall be extended in accordance with the Unified Procedure on Interest Subsidy for Concessional Loans, 2082. Interest-subsidy receivables due from the Government of Nepal may be assigned a zero percent risk weight for capital-adequacy purposes.

(b) Separate particulars of borrowers currently outstanding under the Unified Procedure on Interest Subsidy for Concessional Loans, 2075 and borrowers/amounts financed under the 2082 Procedure shall be published quarterly on the institution's website.

३५ 35. Tax-Clearance/Tax-Filing Evidence

Controlled English translation

(a) For a loan up to NPR 5 million to a firm/company, the latest tax-clearance/tax-filing certificate shall not be mandatory at disbursement or renewal.

(b) Agricultural, tourism, cottage and small-sector loans exceeding NPR 5 million but not exceeding NPR 20 million may be renewed on the basis of tax filing.

(c) Except as provided in (a) and (b), a new loan or renewal exceeding NPR 20 million shall require a tax-clearance/tax-filing certificate before approval/renewal.

(d) At approval/renewal, information available in the Integrated Tax System shall be used and the approved amount and date shall be entered in the system.

(e) The institution may obtain a username/password and additional information from the tax authority for this purpose.

३६ 36. Credit Rating

Controlled English translation

(a) A borrower utilizing credit of NPR 500 million or more shall obtain a Credit Rating. This shall not be mandatory for loans to Class "D" microfinance financial institutions.

(b) In the case of a construction business, Credit Rating shall be required where fund-based credit is NPR 500 million or more and/or non-fund-based facilities are NPR 1 billion or more.

३७ 37. Release of Collateral After Full Repayment

Controlled English translation

Collateral shall be released within five working days after full repayment of the loan, and written notification of the release shall be sent to the concerned office.

३८ 38. Provisions Relating to Working-Capital Loans

Controlled English translation

(a) With effect from Kartik 1, 2079, the disbursement, renewal or review of working-capital loans shall comply with the Working Capital Loan Guidelines, 2079 issued by Nepal Rastra Bank.

(b) Working-capital loans granted before the Working Capital Loan Guidelines, 2079 became applicable may be renewed only after full compliance with the Guidelines. If any such loan is found to have been renewed without full compliance with the Guidelines, a 100 percent loan-loss provision shall be maintained on that loan. However, the provision relating to Variance in Clause 7 of the Working Capital Loan Guidelines, 2079 (including the Fourth Amendment) shall apply only from Shrawan 1, 2084.

(c) Short-term/working-capital loans classified as Pass at end-Chaitra 2079 may, where necessary, be extended by up to three months until end-Ashadh 2080 without charging penal interest or fees.

1. (ख) “चालुपुँजी कर्जासम्बन्धी मार्गदर्शन, २०७९” लागू हुनुपूर्व प्रदान गरिएका चालुपुँजी प्रकृतिका कर्जालाई मार्गदर्शनको पूर्ण पालना गरेर मात्र नवीकरण गर्न पाइनेछ । मार्गदर्शनको पूर्ण पालना नगरी नवीकरण भएको पाइएमा उक्त कर्जामा शतप्रतिशत कर्जा नोक्सानी व्यवस्था कायम गर्नुपर्नेछ । तर, “चालुपुँजी कर्जासम्बन्धी मार्गदर्शन, २०७९ (चौथो संशोधन सहित)” को बुँदा नं. ७ मा भएको Variance सम्बन्धी व्यवस्था २०८४ साउन १ गतेदेखि मात्र लागू हुनेछ ।

2. (b) Working-capital loans granted before the Working Capital Loan Guidelines, 2079 became applicable may be renewed only after full compliance with the Guidelines. If any such loan is found to have been renewed without full compliance with the Guidelines, a 100 percent loan-loss provision shall be maintained on that loan. However, the provision relating to Variance in Clause 7 of the Working Capital Loan Guidelines, 2079 (including the Fourth Amendment) shall apply only from Shrawan 1, 2084.

३९ 39. Consortium Financing

Controlled English translation

Where a borrower uses NPR 2 billion or more in aggregate credit from more than one bank or financial institution, the facilities shall be converted into consortium financing; otherwise the loan shall be classified as Watch List. Consortium financing shall not be mandatory for deprived-sector loans to microfinance institutions and for loans to licensed hire-purchase institutions against fixed assets such as vehicles/machinery up to 50 percent of purchase value where the asset is fully insured.

४० 40. Recognition of Interest Income

Controlled English translation

Interest income on loans shall be recognized in accordance with the Guidance Note on Interest Income Recognition, 2025.

४१ 41. Interest-Rate Provisions for Specified Loans

Controlled English translation

(1)(a) Loans up to NPR 20 million to foodgrain production, livestock/poultry and fisheries, agriculture-support industries, agricultural tools, export industries, handicraft/skill-based businesses, information technology, tourism and import-substitution production businesses shall carry a premium of not more than 2 percentage points over the base rate.

(b) For loans up to NPR 20 million in the above sectors, cultivable land without motor-road access may be accepted as collateral. A request for additional credit for business expansion shall be decided within seven working days; if rejected, written reasons shall be given.

(2) Projects generating electricity for export and reservoir hydropower projects shall receive credit at a premium not exceeding 1 percentage point over the base rate.

(3) Operating health-service providers/hospitals/industries seeking credit for liquid oxygen or an oxygen plant shall receive such credit at the base rate.

(4) Industries engaged in pharmaceutical research or production of vaccines/biological products for disease control may, after appraisal of the business plan and with prior approval of Nepal Rastra Bank, receive credit at the base rate.

(5) In a local level without a hospital, a hospital of up to 100 beds may receive credit up to NPR 200 million at a premium not exceeding 2 percentage points over the base rate.

(6) Projects producing and/or processing domestically produced fruit and medicinal herbs shall receive term credit at a premium not exceeding 2 percentage points over the base rate; this concession shall not apply to loans for purchase of land.

(7) Loans to the private sector for construction of an IT Park or Industrial Park shall carry a premium not exceeding 2 percentage points over the base rate.

(8) For reconstruction of residential houses damaged by the Kartik 2080 earthquake, listed affected families may receive residential housing loans up to NPR 2.5 million at a premium not exceeding 2 percentage points over the base rate.

(9) Productive industries operating around the Hulaki Highway and Mid-Hill Highway with loans up to NPR 30 million, and hotels/restaurants holding a Green Sticker under the applicable food-cleanliness rating directive, shall receive credit at a premium not exceeding 2 percentage points over the base rate.

(10)(a) Credit for restoration and operation of industries/businesses directly affected by the abnormal circumstances created during the Gen-Z movement shall, for the period required to resume operation, carry a premium not exceeding 0.5 percentage point over the base rate.

(b) Such loans shall receive a one-year exemption from the requirement to classify them as Watch List solely because their Debt-to-Equity Ratio exceeds 80:20.

(11) An industry employing at least 100 women, adding at least 25 percent value and exporting at least 25 percent of total production may be financed at a premium not exceeding 1 percentage point over the base rate.

४२ 42. Project-Collateral Loans for Agricultural Productive Businesses

Controlled English translation

For agricultural productive businesses such as coffee, orange and tea, and for livestock and dairy-production businesses, loans up to NPR 50 million may, where conventional collateral is insufficient, be extended against the project itself on the basis of feasibility analysis. A customer facing difficulties in this regard may lodge a complaint with Nepal Rastra Bank stating the facts clearly.

४३ 43. Loan-Recovery Action

Controlled English translation

(1) Before initiating public notice and collateral-auction proceedings to recover a loan originally extended for more than one year, the loan shall have remained overdue for at least six months and been classified as Doubtful.

(2) A photograph of a natural person shall not be published in a public loan-recovery notice.

४४ 44. Appropriation of Principal and Interest Recoveries

Controlled English translation

When recovering amounts due from a borrower, all interest due shall first be recovered in full and the remaining amount shall be applied to principal. For instalment loans, this shall not prevent recovery of the oldest outstanding instalment on the basis of overdue instalments. The rule shall not be mandatory for restructured/rescheduled loans and Loss loans under recovery through sale of collateral.

४५ 45. Capitalization of Interest

Controlled English translation

(1) Where a licensed institution extends credit to a long-term project and the loan agreement expressly so provides, it may capitalize interest accrued during the Grace/Moratorium period until cash inflow begins from the project's commercial operation/production.

(2) A licensed institution shall formulate and implement a procedure governing capitalization of interest that includes, among other things, the following bases:

(a) sectors in which interest may be capitalized;

(b) realistic analysis of project cash flows;

(c) terms for repayment of capitalized interest;

(d) the proposed capital plan and the basis thereof; and

(e) the proposed Debt-to-Equity Ratio.

In addition, any decision to capitalize interest shall be made by the Board of Directors of the concerned licensed institution.

(3) Where a grace period once fixed is extended and interest is capitalized, the loan shall be deemed to have been restructured, shall be classified accordingly, and a minimum loan-loss provision of 25 percent shall be maintained.

Provided that, where a hydropower project has been completed and has commenced generation but cannot operate at full capacity because the transmission line has not been constructed, interest may be partially capitalized, to the extent that it is not covered by net sales income, until the transmission line is constructed and comes into operation. Such loan shall not be deemed to have been restructured.

(4) Where a project is damaged to such an extent by a natural disaster, riot or other circumstance beyond the borrower's control that it cannot operate and more than two years is required to recommence the business, interest accrued during a newly granted grace period may be capitalized provided all overdue principal and interest have first been recovered. Such loan shall be deemed restructured, shall be classified accordingly, and a minimum loan-loss provision of 12.5 percent shall be maintained.

(5) Overdue interest on a restructured or rescheduled loan shall not be capitalized.

(6) When interest for a grace period is capitalized, the capitalized interest amount shall be accounted for separately under the heading Interest Capitalized Term Loan (ICTL).

(7) The concerned bank or financial institution may determine the repayment tenure of the ICTL on the basis of project cash-flow analysis.

Explanation: For this purpose, "long-term project" means a project for which at least two years are required before cash inflow begins from commercial operation/production.

४६ 46. Penal Interest Where Payment Is Made Within 30 Days After Due Date

Controlled English translation

If a borrower pays the principal and interest due within 30 days after the due date, penal interest shall not be charged. This relief applies only to amounts falling due up to end-Jestha 2080. If payment is not made within the relief period, full penal interest may be charged in accordance with the agreed terms.

४७ 47. Loan Facilitation for Construction Businesses Facing Circumstantial Difficulties

Controlled English translation

Principal/interest of construction-business loans falling due by end-Ashadh 2081 may be extended up to end-Mangsir 2081 without changing the loan classification. During the relief period, interest capitalization, penal interest, fees/fines or interest-on-interest shall not be charged. If payment remains outstanding after the relief period, full penal interest may be charged in accordance with the agreed terms.

४८ 48. Payroll Protection

Controlled English translation

(a) A business affected by the Gen-Z movement may obtain a Payroll Protection loan to preserve employment, at a premium not exceeding 0.50 percentage point over the base rate.

(b) The tenure shall be the shorter of one year and the period required for the institution to resume operations.

(c) The Government of Nepal shall provide an interest subsidy of 2 percentage points for six months.

(d) The subsidy shall be passed on to the borrower only after it is received from the Government of Nepal.

(e) The concerned employer shall apply by end-Poush 2082.

४९ 49. Debt Service to Gross Income Ratio (DSGI)

Controlled English translation

For non-business instalment-based personal/term/hire-purchase loans and personal overdrafts, the Debt Service to Gross Income Ratio (DSGI) shall not exceed 50 percent; for loans to purchase or construct a house/land, it shall not exceed 70 percent.

(a) Documentary evidence of the borrower’s sources of income shall be obtained.

(b) For taxable income, income shall be determined on the basis of tax-clearance/tax-filing evidence; annual gross income shall be verified and the DSGI ratio updated annually.

(c) If the prescribed maximum ratio is exceeded, the loan shall be classified as Watch List.

५० 50. Classification of Sectors Affected by COVID-19

Controlled English translation

(a) Highly affected sectors:

५१ 51. Submission of Loan-Classification Returns

Controlled English translation

At the end of each quarter, loan-classification returns in Nepal Rastra Bank Directive Forms Nos. 2.1, 2.2 and 2.3 shall be submitted to Nepal Rastra Bank within seven days after the end of the quarter.

५२ 52. Loan-Recovery and Collateral Return

Controlled English translation

Particulars of loan recovery and collateral shall be submitted quarterly to the concerned Supervision Department in Nepal Rastra Bank Directive Form No. 2.7.

५३ 53. Repeal and Saving

Controlled English translation

(1) Directive No. 2/2081 under the Unified Directives, 2081 relating to loan disbursement, classification and loan loss, together with all circulars relating to the same subject issued thereafter up to Magh 2, 2082, is hereby repealed.

(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.

Regulatory tables

Tables 1

Table Id: nrb-2082-directive-02-table-01

Source Block Index: 123

Caption

Controlled English translation

Header Row Count: 1

Rows

Rows 1

Row	Column	Text	En	Grid Span	V Merge
0	0	करजा वर्गीकरण Loan Classification	Loan Classification	1	
0	1	न्यूनतम करजा नोक्सानी व्यवस्था Minimum Loan-Loss Provision	Minimum Loan-Loss Provision	1	

Rows 2

Row	Column	Text	En	Grid Span	V Merge
1	0	(क) असल (a) Pass	(a) Pass	1	
1	1	१ प्रतिशत 1 percent	1 percent	1	

Rows 3

Row	Column	Text	En	Grid Span	V Merge
2	0	(ख) सूक्ष्म नगिरानी (b) Watch List	(b) Watch List	1	
2	1	५ प्रतिशत 5 percent	5 percent	1	

Rows 4

Row	Column	Text	En	Grid Span	V Merge
3	0	(ग) कमसल (c) Sub-standard	(c) Sub-standard	1	
3	1	२५ प्रतिशित 25 percent	25 percent	1	

Rows 5

Row	Column	Text	En	Grid Span	V Merge
4	0	(घ) शंकास्पद (d) Doubtful	(d) Doubtful	1	
4	1	५० प्रतिशित 50 percent	50 percent	1	

Rows 6

Row	Column	Text	En	Grid Span	V Merge
5	0	(ङ) खराब (e) Loss	(e) Loss	1	
5	1	१०० प्रतिशित 100 percent	100 percent	1	

Footnotes

Footnotes: []

Notes

Notes: []

Merged Cell Information: gridSpan/vMerge captured where identifiable

Annexures 11

Annexures 11: 11

Source and disclaimer