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

Directive 03

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Provisions Relating to Limits on Single-Obligor and Sectoral Loans, Advances and Facilities

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Directive No. 3/2082

Provisions Relating to Limits on Single-Obligor and Sectoral Loans, Advances and Facilities

In exercise of the authority conferred by Section 79 of the Nepal Rastra Bank Act, 2058, the following directives are issued in relation to loans extended by Class “A”, “B” and “C” licensed institutions to a single customer, firm, company or group of interconnected customers, and loans extended to a single sector of the economy.

१ 1. Single-Obligor Limit

Controlled English translation

The prescribed maximum amount of credit that a licensed institution may provide to a single customer, firm, company or group of interconnected customers is called the Single-Obligor Limit.

२ 2. Determination of Limits on Loans, Advances and Facilities

Controlled English translation

A licensed institution may provide fund-based loans and advances and non-fund-based facilities to a single customer, firm, company or group of interconnected customers by maintaining a Single-Obligor Limit not exceeding 25 percent of its Tier 1 capital.

Having regard to national production, employment and related considerations, the Single-Obligor Limit for credit extended to the export sector, small and medium industries, transport-infrastructure projects, pharmaceutical manufacturing industries, the agriculture sector, tourism industries, cement industries, iron industries and other manufacturing industries shall be a maximum of 30 percent. When approving the limit for loans, advances and facilities, the per-customer limit shall be determined on the basis of the Tier 1 capital shown in the immediately preceding quarterly balance sheet certified by the licensed institution’s internal auditor.

Where a customer group includes industries or businesses to which both categories of limits referred to above apply, the aggregate limit on loans, advances and facilities for that customer group shall be 30 percent. However, within that aggregate amount, loans, advances and facilities for industries other than those specified above as eligible for the 30 percent limit shall not exceed 25 percent.

३ 3. Lending to Hydropower and Other Renewable-Energy Projects, Transmission-Line Projects and Cable-Car Construction Projects

Controlled English translation

(a) A licensed institution may extend fund-based credit and non-fund-based facilities up to a maximum of 50 percent of its Tier 1 capital to hydropower and other renewable-energy projects, transmission-line projects and cable-car construction projects. Provided that, in the case of a hydropower or other renewable-energy project, a Power Purchase Agreement with the concerned authority shall be mandatory where credit exceeding 25 percent of Tier 1 capital is to be extended.

(b) The Repayment Schedule for such a project shall be prepared on the basis of cash flow and other supporting evidence.

(c) Instalment repayment may commence after the later of: (i) expiry of the Moratorium Period determined by the concerned bank or financial institution on the basis of project analysis; and (ii) three months after electricity generated by the project is connected to the transmission line.

(d) The existing 25 percent Single-Obligor Limit may be increased to a maximum aggregate of 50 percent of Tier 1 capital, including both fund-based credit and non-fund-based facilities, only when a licensed bank or financial institution invests in a pure hydropower project, transmission-line project, renewable-energy project or cable-car construction project. However, where a customer associated with such a project also wishes to invest in a non-hydropower, non-transmission-line or non-cable-car project, credit and facilities for such other investment shall be limited to a maximum of 25 percent, while the aggregate exposure including fund-based credit and non-fund-based facilities shall not exceed 50 percent.

For example: if an aggregate amount equal to 50 percent of Tier 1 capital, including fund-based and non-fund-based facilities, is invested in pure hydropower/transmission-line/cable-car/renewable-energy projects, no investment may be made in other sectors. If only 40 percent is invested in such projects, investment in other sectors may be made only up to 10 percent. If only 1 percent to 25 percent is invested in such projects, investment in other sectors may be made only up to 25 percent.

If credit is extended to a non-hydropower, non-transmission-line, non-cable-car or non-renewable-energy project in excess of the prescribed limit, a 100 percent loan-loss provision shall be maintained on the amount of credit exceeding the limit.

४ 4. Exemptions from Limits on Loans, Advances and Facilities

Controlled English translation

The Single-Obligor Limit shall not apply to the following loans, advances or facilities:

(a) Loans, advances and facilities secured by fixed-deposit receipts, Government of Nepal securities or Nepal Rastra Bank bonds, and those extended against an unconditional guarantee of an international multilateral financial institution of which Nepal is a member, including the World Bank, Asian Development Bank and International Finance Corporation, or of an internationally rated bank. In addition, upon a request from the concerned bank or financial institution, credit extended on the basis of an unconditional guarantee issued by such an international multilateral institution may be assigned a Zero Risk Weight for calculation of the capital-adequacy ratio, subject also to the provisions stated in the directives issued by Nepal Rastra Bank remaining applicable.

Explanation: “internationally rated bank” means a bank included in the immediately preceding year’s Top Thousand World Banks list published each July by The Banker magazine from London, United Kingdom.

(b) Loans, advances and facilities provided by Class “A” licensed institutions, with adequate arrangements to protect against the credit-related risk, to the following institutions for the purchase and import of the stated goods: (1) Nepal Oil Corporation Ltd. - gas and petroleum products; (2) Nepal Food Corporation - foodgrains; (3) Agriculture Inputs Company Ltd. - agricultural chemical fertiliser; and (4) Salt Trading Corporation Limited - agricultural chemical fertiliser.

५ 5. Credit and Facilities Against Guarantees and Counter-Guarantees of Joint-Venture Investor Banks and Financial Institutions

Controlled English translation

There shall be no restriction on extending credit and facilities against the guarantees and counter-guarantees of investor banks and financial institutions of banks and financial institutions operating as joint ventures. However, the Single-Obligor Limit shall apply to credit so extended. Where such an investor bank or financial institution is an internationally rated bank, the provision stated above in Clause 5(a) shall apply.

६ 6. Circumstances in Which Interconnected Customers Are Treated as One Group

Controlled English translation

For the purpose of limits on loans, advances and facilities, interconnected customers shall be treated as one group in the following circumstances:

(a) Where one company holds 25 percent or more of the shares of another company, both companies.

(b) An individual; a director of a company; a shareholder of a private limited company; a partner of a partnership firm; a proprietor of a firm; and the spouse (whether living in the same household or separated), son, daughter, adopted son, adopted daughter, father, mother, stepmother, and dependent elder or younger brother or sister of any such individual, director, shareholder, partner or proprietor.

(c) Companies in which the persons referred to in paragraph (b), individually or jointly, hold 25 percent or more of the shares.

(d) Companies in which the persons referred to in paragraph (b), individually or jointly, hold less than 25 percent of the shares but control management by: (1) serving as Chairperson of the Board of Directors; (2) serving as the company's chief executive; or (3) appointing more than 25 percent of the company's directors.

(e) Firms, companies or members affiliated as belonging to the same group.

(f) Customers or companies where one customer or company gives a guarantee for another customer or company as referred to in paragraph (b). Provided that, for a hydropower project accorded national priority, an exemption may be granted on prescribed conditions so that the customer is not included in a group of interconnected customers solely because it has given a guarantee. The exemption shall automatically lapse if the project is not completed within the prescribed time.

(g) Persons to whom credit has been extended against the same collateral.

(h) In the case of an entity other than a firm or company, a person directly involved in its operation, control or management, and that person's spouse (whether living in the same household or separated), son, daughter, adopted son, adopted daughter, father, mother, stepmother, and dependent elder or younger brother or sister.

७ 7. Submission of Particulars of Interconnected Customers

Controlled English translation

Records of each customer and group of interconnected customers shall be prepared half-yearly and submitted within one month to the Banks and Financial Institutions Regulation Department and the concerned Supervision Department of Nepal Rastra Bank.

८ 8. Treatment as a Separate Group

Controlled English translation

A body corporate or company wholly owned, or more than 50 percent owned, by the Government of Nepal shall be treated as a separate group.

९ 9. Mitigation of Concentration Risk

Controlled English translation

Where loans, advances or facilities exceeding the prescribed Single-Obligor Limit are provided to a customer, firm, company or group of interconnected customers, this Directive shall be deemed to have been violated. To absorb the Concentration Risk that may arise, an additional Loan Loss Provision equal to 100 percent of the loans, advances or facilities provided in excess of the limit shall be maintained.

१० 10. Submission of Credit Particulars of Large Borrowers

Controlled English translation

Licensed banks and financial institutions shall prepare consolidated credit particulars of large borrowers - borrowers utilizing credit exceeding NPR 50 million for Class “A” institutions and NPR 20 million for Class “B” and “C” institutions - in the prescribed format and, quarterly within seven days after the end of each quarter, submit through Nepal Rastra Bank’s reporting portal the customer particulars, particulars of the large-borrower group, fund-based credit particulars and non-fund-based credit particulars. Each customer shall be included in the relevant group when the return is submitted.

११ 11. Provisions Relating to Sectoral Credit

Controlled English translation

(1) To control risk, a licensed institution shall establish adequate internal policies and procedures and monitor sectoral credit concentration. Where directed by Nepal Rastra Bank, an additional loan-loss provision shall be maintained accordingly. The list of the various sectors of the economy is specified in attached Directive Form No. 3.1.

(2) A licensed institution shall classify sectoral credit and facilities into the following two levels according to credit concentration and establish monitoring, control and information systems accordingly, in the format of Form No. 9.3: (a) Level 1: loans, advances and facilities extended to a single sector amounting to 50 percent to 100 percent of Tier 1 capital. The licensed institution shall itself establish procedures and information systems for measurement and monitoring and shall monitor such credit at least quarterly. (b) Level 2: loans, advances and facilities extended to a single sector exceeding 100 percent of Tier 1 capital. Such credit shall also have been approved by the Board of Directors of the licensed institution. The Board shall decide annually whether or not to maintain the limit for such credit above 100 percent of Tier 1 capital.

(3) A licensed bank or financial institution, other than a financial institution authorised to lend only to one economic sector, may extend to any one sector credit not exceeding 40 percent of its total outstanding loans and advances. Where a limit below 40 percent was previously prescribed for a sector, that lower limit shall continue to apply. If the applicable sectoral credit limit is exceeded, the amount extended in excess of the limit shall be deducted from the licensed institution’s Tier 1 capital.

(4) Provisions Relating to Land, Housing and Real-Estate Credit

(a) The Loan to Value Ratio between a real-estate loan and the Fair Market Value of its collateral shall not exceed 50 percent. However, the ratio may be maintained up to 70 percent for a Personal Residential Home Loan of any amount and for credit provided for residential construction to duly registered and operating house-construction business companies/projects approved by the Government of Nepal.

(b) For a residential housing loan up to NPR 30 million provided to a First Home Buyer, the Loan to Value Ratio may be maintained up to 80 percent subject to the following conditions: (i) the house/apartment shall be for the borrower’s own use and shall not exceed 3,000 square feet; (ii) it shall be confirmed that the borrower has not previously obtained a loan from any bank or financial institution to construct or purchase a house/apartment; (iii) house rent shall not be shown as a source of the borrower’s income when credit is provided under this facility; and (iv) if the interest rate increases, arrangements shall be made to repay the loan without increasing the predetermined monthly instalment.

(c) For a residential housing loan provided to a family listed as earthquake-affected by the Government of Nepal or an agency designated by it for reconstruction of a residential house damaged by the earthquake of Kartik 2080, the Loan to Value Ratio shall be increased by at least 10 percentage points over the applicable ratio stated in paragraphs (a) and (b).

The ratio may be maintained up to a maximum of 100 percent.

(d) The aggregate of residential housing loans, loans for construction of commercial buildings and residential apartments, loans for completed commercial complexes that have begun generating income, and other real-estate loans, including land-purchase and plotting loans, shall not exceed 25 percent of total loans. Within that amount, credit extended for other real-estate loans, including land-purchase and plotting loans, shall not exceed 10 percent of total loans.

The following shall apply to land, housing and real-estate credit: (1) “real-estate loan or advance” means real-estate credit stated at serial number 6 of the explanation under the loans and advances for purposes of Directive Form No. 9.3(a) of Directive No. 9. (2) A licensed institution shall not restructure or renew credit extended for those purposes/products in a manner that causes the limits specified above to be exceeded. (3) In maintaining the aggregate limit, this provision does not require any particular loan to be called back for recovery before its maturity. The licensed institution may recover each loan in accordance with its instalment schedule up to the maturity maintained for that loan.

(4) If a credit limit maintained under this provision is exceeded, a risk weight of 150 percent shall be assigned to the amount exceeding the limit when calculating total risk-weighted assets. (5) For multi-unit housing, amounts deposited by apartment purchasers after down payment or booking opens shall mandatorily be deposited with the lending bank where only one bank provides the loan, or with the lead bank where the loan is under consortium financing.

(5) Provisions Relating to Personal Residential Home Loans

(1) A personal residential home loan of NPR 30 million or less shall not be included when calculating the limit under sub-clause 4(d). (2) “personal residential home loan” means only a Home Loan extended by a bank or financial institution for construction of a house or purchase of a house/apartment for the customer’s own use or for rental, where the instalment is fixed after considering the customer’s source of income and is adequately serviceable from that source.

(3) Before extending a personal residential home loan under this paragraph, the bank or financial institution shall prepare its own Product Paper, obtain approval from its Board of Directors, and only thereafter extend such credit. (4) A bank or financial institution may provide only one personal residential home loan under this paragraph to one family.

(6) Provisions Relating to House/Building Construction

(a) When extending credit secured by a house/building within a municipal area or for construction of a house/building, the institution shall verify compliance with the standards issued by the concerned local level/office and shall make arrangements to obtain the approved building plan, approval of other authorities where necessary, the house/building completion certificate, certification/recording documents and other relevant documents.

(b) Credit for house/building construction shall be extended only for buildings constructed in compliance with the National Building Code in metropolitan cities, sub-metropolitan cities, municipalities and rural municipalities in which the Government of Nepal has made the National Building Code applicable by publishing a notice in the Nepal Gazette.

Explanation: “credit extended to a single sector” means loans and advances extended to customers in the same sector of the economy, together with facilities such as guarantees, commitments and letters of credit.

(7) Provisions Relating to Vehicle Loans

When a licensed institution extends credit to purchase a vehicle, the Loan to Value Ratio shall not exceed 60 percent for: (a) electric vehicles for all purposes; and (b) other personal vehicles for private use.

Provided that, where credit is provided to replace vehicles and transport equipment used commercially by industries and business establishments directly affected by the Gen-Z movement, the Loan to Value Ratio may be maintained up to 80 percent.

१२ 12. Repeal and Saving

Controlled English translation

(1) Directive No. 3/2081 issued under the Unified Directives, 2081 relating to limits on single-obligor and sectoral loans, advances and facilities, 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.

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