NITI PARTNERS & ASSOCIATES

A NITI PARTNERS HANDBOOK

Foreign Lending in Nepal

A Handbook for Foreign Banks, Development Finance Institutions and Corporate Groups Lending into Nepal









In memory of the lives lost at Rasuwagadhi

August 2026

To those who lost their lives at Rasuwagadhi, we offer our sincere respect. May their departed souls rest in peace.

ॐ मणि पद्मे हुँ दिवंगत आत्माहरूले सद्गति प्राप्त गरून् ।

Niti Partners & Associates pays tribute to the countless lives lost, and to those still missing who we hope will be found.

Financing will help heal wounds, repair homes and bridges, and link communities.

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THE HANDBOOK

About this Handbook

This Handbook provides a comprehensive analysis of the legal and regulatory framework governing foreign debt in Nepal, covering entry, pricing, taxation, and repayment. Prepared for lenders and sponsors, it offers a clear account of the jurisdictional position. It is published by Niti Partners & Associates, a Nepali corporate law firm recognized for its expertise in foreign direct investment, banking and finance, project finance, construction, and arbitration.

WHO THIS HANDBOOK IS FOR

Banks

Foreign banks and financial institutions lending to Nepali companies or banks.

Development finance institutions

Multilateral and bilateral development finance institutions financing projects in Nepal.

Multinational groups

Multinational groups funding Nepali subsidiaries through shareholder and group loans.

Sponsors and borrowers

Sponsors, contractors and borrowers structuring project, intercompany and hybrid financing.

COMPANION PUBLICATIONS

Niti Partners publishes two companion works on subjects that this Handbook treats only in outline. The Project Finance Guide covers the perfection and enforcement of security and the structuring of project financings in Nepal. The handbook Permanent Establishment in Nepal (2026) covers the taxation of foreign companies that operate in Nepal through a permanent establishment.

PROFESSIONAL ADVICE

This Handbook states the law and does not replace advice on a particular transaction. Advice from a law firm in Nepal may be necessary before a foreign loan is negotiated, approved or documented.

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Abbreviations and Defined Terms

Abbreviation or term	Meaning
Benchmark Rate	The rate prescribed for a currency under Schedule 10 for new loans: SOFR for United States dollars, SONIA for pounds sterling, SARON for Swiss francs, TONA for Japanese yen and €STR for euros.
Bylaws	Nepal Rastra Bank Foreign Investment and Foreign Loan Management Bylaws, 2078 (2022), as amended up to the fifth amendment (11 December 2025).
Condition	A numbered other condition at the end of Schedule 10.
Department	Foreign Exchange Management Department of NRB, Baluwatar, Kathmandu.
DFI	Development finance institution, including government and inter-governmental institutions.
DoED	Department of Electricity Development.
FITTA	Foreign Investment and Technology Transfer Act, 2075 (2019), as amended.
Income Tax Act	Income Tax Act, 2058 (2002), as amended.
INR	Indian rupee.
Item	A row of the table in Schedule 10, numbered 1 to 8.
LIBOR	London Interbank Offered Rate.
LPR	Loan Prime Rate published in the People's Republic of China.
MCLR	Marginal Cost of Funds based Lending Rate published in India.
NEA	Nepal Electricity Authority.
NRB	Nepal Rastra Bank, the central bank of Nepal.
PPA	Power purchase agreement.
RBI	Reserve Bank of India.
Schedule	A schedule to the Bylaws, for example Schedule 10 (foreign loan arrangements).
SOFR, SONIA, SARON, TONA, €STR	Risk-free benchmark rates for USD, GBP, CHF, JPY and EUR.
Unit	Foreign Exchange Facilitation Unit of NRB at the One Stop Service Centre, Tripureshwor, Kathmandu.
USD	United States dollar.

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CHAPTER 1

The Regulatory Scheme

A Nepali borrower may raise a foreign loan only with the prior approval of Nepal Rastra Bank ("NRB") under the Nepal Rastra Bank Foreign Investment and Foreign Loan Management Bylaws, 2078 (2022) (the "Bylaws"). The Bylaws confine foreign borrowing to eight loan types, cap the interest and fees of each, and require NRB to record the loan before a bank supplies foreign exchange for its repayment (Bylaws 7 to 9 and Schedule 10).

The Foreign Exchange Management Department of NRB (the "Department") and the Foreign Exchange Facilitation Unit of NRB at the One Stop Service Centre (the "Unit") receive applications under the Bylaws (Bylaw 2). The Foreign Investment and Technology Transfer Act, 2075 (2019) ("FITTA") determines which industries are open to foreign investment and therefore to foreign borrowing (Bylaw 7(1)).

1.1 Date of the law

The law is stated as of 15 October 2026, with the Bylaws as amended up to the fifth amendment (Board decision of 11 December 2025).

1.2 Amendments

The Bylaws have been amended five times. The footnotes to the Bylaws identify the provision that each amendment touched, but not always what changed.

Exhibit 1: **Provisions of the Bylaws touched by each amendment**

Amendment	Board decision	Provisions bearing its footnote
First	11 January 2022	Schedule 10 only: the rate lines of Items 1 to 3 Conditions 7 and 10, and the commitment fee in Condition 8 the benchmark notes
Second	17 January 2023	Bylaws 7(1), 8(1), 8(3), 9(4) Conditions 9, 11, 12 and 14 several items in the document lists in Schedules 11, 13 and 16
Third	24 January 2024	Item 3 (limit) lenders that are development finance institutions ("DFIs") under Items 4, 6 and 7 Item 7 (yuan ceiling) Conditions 7, 8 (proviso and Explanation), 10, 15 and 16 the term-sheet rule in Schedule 11

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Amendment	Board decision	Provisions bearing its footnote
Fourth	2 June 2025	Bylaw 4(1) (proviso) Bylaw 8(4) (deadline) Item 8 Conditions 9 (green loans), 13(2) and 17, and the prepayment proviso in Condition 8 the income-participating proviso in Schedules 11 and 13 Schedule 18 rows 10 to 12
Fifth	11 December 2025	Deleted: Bylaw 4(3), Condition 15(1), Schedule 13 item 3, Schedule 16 item 2. Amended: Item 3 (limit), Conditions 9 (information technology), 12(1) and 15, and the administrative fee in Condition 8

A note to Schedule 10 provides that the conditions amended by the third amendment apply only to new loans and to loans renewed after the amended provisions came into force. Condition 10 has its own cut-off: its fixed-rate rule applies only to approvals sought after the first amendment took effect. The Bylaws do not state the dates on which the amendments took effect.

Bylaw 19(2) repealed the earlier NRB notices and circulars on foreign investment and foreign loans that it lists, and deems acts done under them to have been done under the Bylaws.

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CHAPTER 2

The Legal Framework

The Nepal Rastra Bank (NRB) promulgates the Bylaws pursuant to Section 12 of the Foreign Exchange (Regulation) Act, 2019 (1962) and Section 110(2) of the Nepal Rastra Bank Act, 2058 (2002). The foreign borrowing regime is further governed by FITTA, the Income Tax Act, 2058 (2002) (the "Income Tax Act"), Nepal's tax treaties, the Companies Act, 2063 (2006), and NRB circulars.

Exhibit 2: **Instruments governing foreign lending**

Instrument	Subject matter
Foreign Exchange (Regulation) Act, 2019 (1962), Section 12	NRB's power to regulate foreign exchange transactions, including borrowing from abroad
Nepal Rastra Bank Act, 2058 (2002), Section 110(2)	NRB's power to make bylaws
Bylaws and Schedules 1 to 18	Eligibility, loan types, limits, interest ceilings, costs, approval, recording and repayment
FITTA, Sections 11, 12 and 20	Borrowing through foreign securities project loans from foreign financial institutions enforcement and repatriation
NRB Unified Foreign Exchange Circular No. 13 (2025/26)	Bank guarantees and standby letters of credit supporting foreign loans
Income Tax Act and Nepal's tax treaties	Withholding on interest and fees treaty relief limits on interest deductions
Companies Act, 2063 (2006)	Corporate approvals for guarantees and security issue of shares on conversion
Money Laundering Prevention Act, 2064 (2008)	Anti-money laundering and counter-terrorist financing compliance, which Condition 5 of Schedule 10 requires in every case

2.1 Borrowing through foreign securities

A public limited company established in Nepal, or an organised institution authorised by law to issue securities, may borrow foreign currency by issuing bonds, debentures or other securities in the capital market of a foreign country, with the approval of NRB and the Securities Board (Section 11(1), FITTA). A company with foreign investment may also borrow by issuing securities within Nepal, subject to securities law (Section 11(2)). The proceeds must be invested in Nepal (Section 11(3)). Item 8 of Schedule 10 implements this route.

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2.2 Project loans from foreign financial institutions

Any industry may, with the approval of NRB, borrow from a foreign financial institution under a project loan or project financing agreement (Section 12(1), FITTA). A loan so taken carries the exemptions, facilities and concessions that Chapter 5 of FITTA gives to foreign investment (Section 12(2)), and the industry is entitled to foreign exchange for repayment of principal and interest under NRB's procedure (Section 12(3)). Notwithstanding other law, the industry may mortgage immovable property in the name of the foreign financial institution (Section 12(4)). An industry listed in the FITTA Schedule may not borrow under this Section (Section 12(5)).

2.3 Enforcement and repatriation

Where collateral or a mortgage given to a foreign financial institution under Section 12 must be auctioned or confiscated for non-payment, the institution may auction the property as a Nepali bank or financial institution may and may repatriate the principal and interest of the loan (Section 20(4), FITTA, as amended).

2.4 Operation of the Bylaws

- **Precedence.** Where NRB directives or other bylaws conflict with the Bylaws, the Bylaws apply (Bylaw 19(1)).
- **Schedules.** The Governor may make necessary changes or additions to the Schedules (Bylaw 18). The ceilings and document lists can therefore change without a Board amendment.
- **Obstacles.** The Governor may remove obstacles that arise in implementing the Bylaws (Bylaw 17).
- **Department and Unit.** Each may perform acts that the Bylaws assign to the other (Bylaw 15).
- **Coordination Committee.** The Foreign Investment and Foreign Loan Coordination Committee hears lenders and borrowers and gives guidance where an obstacle or doubt arises in applying the law on foreign investment and foreign loans (Bylaw 16(3)).
- **Non-compliance.** Foreign exchange that comes in or goes out in breach of law, or without the anti-money laundering and counter-terrorist financing compliance that the Bylaws require, is dealt with under prevailing law (Bylaw 10).

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CHAPTER 3

Eligible Borrowers, Lenders and Loan Types

A Nepali borrower may borrow abroad only in an industry that FITTA has not closed to foreign investment, only from a lender that Schedule 10 admits for the loan type concerned, and only for the purposes that Schedule 10 permits (Bylaw 7(1) and Schedule 10).

3.1 The general rule

Unless prevailing law grants an exemption, a Nepali individual, firm, company, bank, financial institution or other organised institution that wishes to borrow from outside Nepal must first obtain the approval of NRB. It may borrow only on the terms of Schedule 10 and only for an industry or business that FITTA has not closed to foreign investment (Bylaw 7(1) and Schedule 10, Condition 1).

Five further conditions apply to every foreign loan. The funds must come in and be repaid through the banking system (Condition 2). The loan must be recorded with NRB after inflow (Condition 3). The lender must not be subject to any restriction on international financial dealings or on lending into Nepal (Condition 4). The parties must comply fully with national and international anti-money laundering and counter-terrorist financing law (Condition 5). The proceeds must be used in the sector specified (Condition 6).

A borrower with foreign investment that borrows under Items 1 to 5 or Item 8 must show that its foreign investment is recorded with NRB and must apply to the Unit, not the Department (Condition 11).

3.2 Industries closed to foreign borrowing

The FITTA Schedule of industries closed to foreign investment operates as a negative list for every loan type. An industry or business on the list cannot borrow from abroad at all, whoever the lender is and whatever the loan is for (Bylaw 7(1)). The Schedule, as amended in 2020/21 and 2024/25, lists the following.

Exhibit 3: **Industries and businesses closed to foreign investment and therefore to foreign loans**

No.	Industry or business
1	Livestock and poultry, fisheries, beekeeping, fruits and flowers, vegetables, oilseeds, pulses, dairy and other businesses in primary agricultural production. Excluded from the list are businesses that produce and export at least 75 percent of their output, large industries connected with primary agricultural produce, and agricultural technology and mechanisation

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No.	Industry or business
2	Micro and cottage enterprises
3	Personal service businesses, such as hairdressing, tailoring and driving instruction
4	Manufacture of arms, ammunition, gunpowder, explosives and nuclear, biological and chemical weapons atomic energy and radioactive materials
5	Real estate trading (other than construction), retail trade, domestic courier services, local catering, money changing and remittance services
6	Travel agencies, tourist guiding, trekking and mountaineering guiding, homestays and other rural tourism
7	Mass media (newspapers, radio, television and online news) and films in the national language
8	Management, accounting, engineering and legal consultancy services, and language, music and computer training
9	Consultancy services with foreign investment above 51 percent
10	Ride-sharing with foreign investment above 70 percent
11	Aviation operation, training, maintenance and passenger services, where foreign investment exceeds 80 percent for international airlines, 49 percent for domestic airlines, and 95 percent for training and for maintenance institutions

Items 9 to 11 close an industry only above a stated level of foreign ownership. A consultancy, ride-sharing or aviation business that stays within the limit is open to foreign investment and, on the wording of Bylaw 7(1), may borrow from abroad. Where foreign ownership is close to the limit, conversion of a convertible loan (Chapter 6) must not take the borrower over it.

3.3 Eligible foreign lenders

The Bylaws define "foreign lender" to include foreign banks and financial institutions, investment companies, pension funds and hedge funds that a foreign government, central bank or other regulator has approved to lend, international institutions, the parent company or group of a foreign-invested company, holding companies and companies in their group, foreign firms, companies and institutions that lend, foreign individuals, and non-resident Nepalis (Bylaw 2, definition of "foreign lender"). A lender within the definition may lend only under a loan type in which Schedule 10 names it.

3.4 The eight loan types

Exhibit 4: Loan types under Schedule 10

Item	Borrower	Lender	Limit and tenor	Permitted use	Apply to
1. Foreign banks and DFIs	Firm, company, industry or institution, other than a licensed	(a) Foreign banks and financial institutions government- or inter-government-owned	None stated	None stated beyond Conditions 6 and 14	Department

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Item	Borrower	Lender	Limit and tenor	Permitted use	Apply to
	bank or financial institution	DFIs. (b) Institutions or companies approved to lend by the government, central bank or regulator of the lender's country			
2. Individuals and non-resident Nepalis	Firm, company, institution or Nepali citizen	Relatives abroad, other individuals, non-resident Nepalis, associations or institutions	Up to United States dollars ("USD") 1 million (Indian rupees ("INR") 10 crore for India). Tenor at least one year	Any sector or business not prohibited by prevailing law. Not real estate business or securities	Department
3. Parent and group-company loans	Foreign-invested industry or company, other than a licensed bank or financial institution	Its foreign investor, including its parent company or group of companies	Twice the investor's paid-up capital in the borrower five times in the cases in Chapter 5	The sector specified for the borrower. The approving body's recommendation or approval must be produced where available	Unit
4. Project finance loans	Foreign-invested industry or company, other than a licensed bank or financial institution	Foreign financial institutions government- or inter-government-owned DFIs	None stated. Interest as stated for Item 1 (Item 4, cl. 2)	Project loan or project financing only	Unit
5. Contractor group loans	Infrastructure construction project, or its supplier or contractor	Parent company or group of the supplier or contractor	Interest-free. Tenor as the project requires	Project construction, including running costs. The project's recommendation on inflow and repayment must be produced where available	Department
6. Bank borrowing from Indian lenders	Class "A", "B", "C" and "D" banks and financial institutions Infrastructure Development Bank	Indian banks and financial institutions government- or inter-government-owned DFIs	100% of primary capital, counting any convertible foreign-currency borrowing. Tenor six months to 15 years	Onward lending in sectors such as energy, infrastructure, tourism, agriculture and small enterprises. Not housing, land development or other real estate, or share-pledge loans	Department
7. Bank borrowing from foreign lenders	Same as Item 6	Foreign banks and financial institutions regulator-approved foreign pension funds, hedge funds and similar institutions government- or inter-government-owned DFIs	100% of total primary capital, counting any Indian rupee borrowing. Tenor six months to 15 years	As Item 6. The proceeds may not be placed in foreign-currency interbank transactions or investment instruments	Department
8. Foreign bond issues	Public limited company or organised institution authorised to issue securities	Investors in foreign capital markets	Bonds, debentures or other securities. Securities Board approval where required	None stated. The proceeds must be invested in Nepal (Section 11(3), FITTA)	Unit

Items 6 and 7 share one cap: a bank that borrows under both may not exceed 100% of its primary capital in total (Schedule 10, Items 6 and 7, cl. 1).

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3.5 Uses of proceeds

Two restrictions apply to every foreign loan. The proceeds must be used only in the sector specified (Condition 6). They may not be used in real estate, such as housing and land development, or in the securities market (Condition 14). Item 1 has no purpose clause, so only these two conditions limit an Item 1 loan. Item 8 has none either, so the only further limit on a bond issue is the requirement of Section 11(3) of FITTA that the proceeds be invested in Nepal.

A lender should state the permitted purpose in the loan agreement and provide a covenant and an event of default for misuse. Foreign exchange that comes in or goes out in breach of the Bylaws is dealt with under prevailing law (Bylaw 10).

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CHAPTER 4

Project Finance Loans

Lending to a Nepali project company is full-recourse secured lending. Lenders take security over all of the project company's assets and also require sponsor or corporate support, so the project's revenue services the debt without limiting recourse. A project loan from a foreign financial institution is approved by NRB under Item 4 of Schedule 10 where the borrower is foreign-invested, or under Item 1 where it is any other non-bank borrower (Schedule 10, Items 1 and 4, and Condition 13(1)).

4.1 Recourse and structure

In Nepal, lenders to a project company typically take security over all of the company's assets and also require support from the sponsors, so the financing is secured lending with full recourse and not non-recourse or limited-recourse project finance. A bank guarantee or standby letter of credit from the sponsor's bank, sponsor support in the form of an equity and completion commitment, and a pledge by the shareholders of their shares in the project company are all common. Revenue under the power purchase agreement ("PPA") services the debt but does not limit recourse, because the Nepal Electricity Authority ("NEA") gives no payment guarantee or sovereign backstop beyond the PPA itself. If a PPA is terminated, lenders recover through the project assets and through the corporate and personal guarantees.

The Bylaws do not describe the recourse structure. They require only that the loan be a "project loan" or "project financing" (Schedule 10, Item 4, cl. 1, and Condition 13(1)) and define neither expression. Item 4 describes the purpose of the loan and does not mean that lenders are limited to the cash flow of the project.

The support package for a project loan comprises the following.

- Security over the project company's land and fixed assets, the PPA and receivables, the project accounts, and the generation licence to the extent that the Department of Electricity Development ("DoED") consents.
- A pledge of the sponsors' shares in the project company.
- A sponsor equity and completion commitment, including cost-overrun support.
- A bank guarantee or standby letter of credit from the sponsor's bank.
- A corporate guarantee from the sponsor or parent.

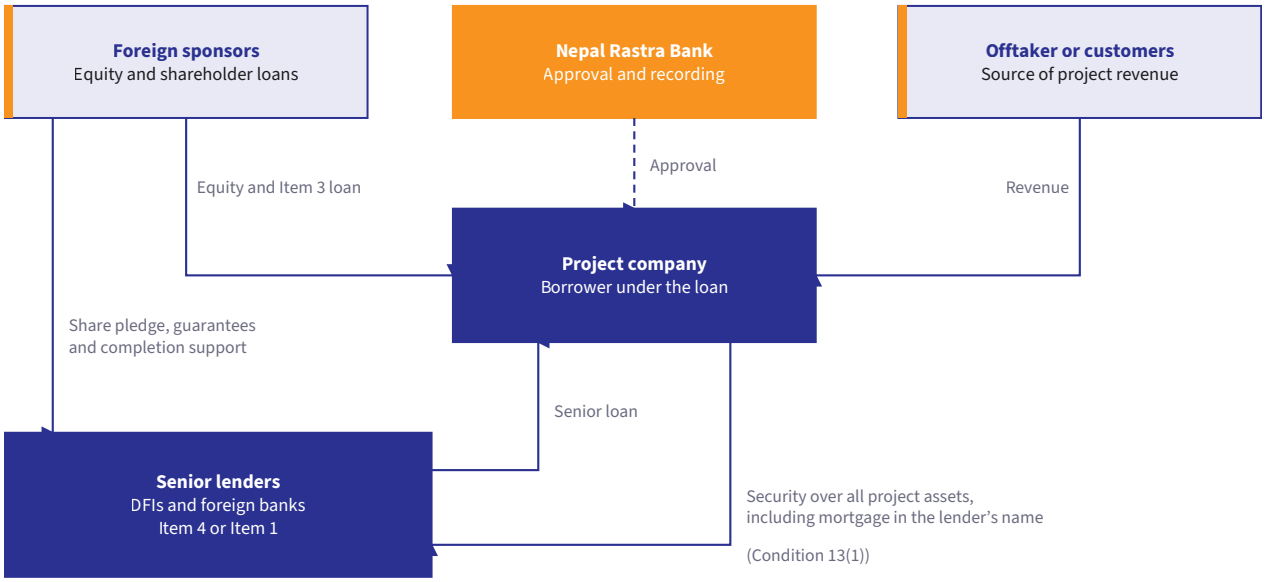
Taken together, the security over the project's assets, the share pledge, the sponsor commitment and the guarantees mean that lenders do not depend on project revenue alone. Nepali lenders commonly rely on a corporate guarantee and often on a personal guarantee from the promoter. Foreign lenders and development finance institutions

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("DFIs") commonly require completion and cost-overrun support, a share pledge, a bank guarantee or standby letter of credit, and security over assets and accounts.

The security is created under several statutes. A share pledge under the Secured Transactions Act, 2006 requires possession of the share certificates and registration at the Secured Transactions Registry Office, and the same Act governs the assignment of the PPA and receivables and security over accounts. Mortgage mechanics and the provisions on guarantees are in the Civil Code, 2017. The Companies Act, 2063 (2006) contains restrictions on the transfer of shares and on board approval, and the pledge is recorded in the share register. The Electricity Act, 1992 governs the generation licence, and DoED consent is required for lender security over the licence and for step-in. A mortgage in the name of a foreign lender rests on Section 12(4) of FITTA (Chapter 2). The Bylaw rules on security and guarantees for foreign loans are in Chapter 11, and perfection and enforcement are covered in the Project Finance Guide and the Guarantee Law in Nepal handbook.

Exhibit 5: Typical structure of a foreign project financing



Sponsors fund the project company with equity and shareholder loans. A foreign investor's loans to its Nepali subsidiary fall under Item 3, which limits them to twice the investor's paid-up capital in the borrower, or five times in the cases described in Chapter 5 (Schedule 10, Item 3, cl. 1). The amount of equity therefore determines the capacity for shareholder debt.

Senior debt is lent by DFIs and banks under Item 4 or Item 1. Subordinated debt is lent by the sponsors under Item 3, or by a DFI as an income-participating or convertible loan (Chapter 6). The Bylaws do not regulate subordination. It arises from the contract between the lenders and the sponsors. Each tranche is priced within the ceiling of its own loan type (Chapter 7).

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4.2 Lenders

DFIs anchor the large financings. Items 1 and 4 admit government- and inter-government-owned DFIs as lenders (Schedule 10, Items 1 and 4). Their participation commonly brings in commercial co-lenders. The financing of the 216 MW Upper Trishuli-1 hydropower project illustrates the pattern: the International Finance Corporation arranged a debt package of USD 453 million with eight other lenders, namely the Asian Development Bank, the Asian Infrastructure Investment Bank, FMO, Proparco, CDC, the OPEC Fund, the Korea Export-Import Bank and the Korea Development Bank, supported by a USD 135 million guarantee of the Multilateral Investment Guarantee Agency covering the sponsors' political risk.

Foreign commercial banks lend under Item 1. Nepali banks borrow from foreign lenders under Items 6 and 7 to fund onward lending to energy, infrastructure and tourism, but not to real estate (Schedule 10, Items 6 and 7, cl. 4). A Nepali bank's exposure to a single borrower or related group is generally capped at 25 per cent of its primary capital, with a cap of 30 per cent for specified productive sectors and 50 per cent for hydropower, transmission and other renewable energy projects (NRB Unified Directive No. 3). The cap explains why a large project requires a consortium, whether of foreign lenders alone or of foreign and Nepali lenders.

In a syndicated financing, only the borrower and the lenders may take part in the transaction or receive payment under it (Condition 12). The fees of a facility agent or security agent are therefore a cost of the lenders, not of the borrower (Chapter 7).

4.3 The two routes

Item 4 is for a foreign-invested borrower. It admits only a project loan or project financing, from a foreign financial institution or a government- or inter-government-owned DFI, and the application goes to the Unit. Its interest ceiling is the ceiling stated for Item 1 (Schedule 10, Item 4, cl. 2). Item 1 is open to any borrower that is not a licensed bank or financial institution. A foreign-invested borrower that uses Item 1 must show that its foreign investment is recorded and applies to the Unit (Condition 11).

Exhibit 6: Project loan routes under Schedule 10

Feature	Item 4	Item 1
Borrower	Foreign-invested company or industry, other than a bank or financial institution	Any firm, company, industry or institution other than a bank or financial institution
Lender	Foreign financial institution Government- or inter-government-owned DFI	Foreign bank or financial institution Government- or inter-government-owned DFI Institution approved by a foreign regulator
Purpose	Project loan or project financing only	None beyond Conditions 6 and 14
Interest ceiling	As stated for Item 1	Benchmark Rate + 6.0%

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Feature	Item 4	Item 1
Contingent charges outside the ceiling	No	Yes
Apply to	Unit	Department, or Unit if the borrower is foreign-invested

The exemption for contingent charges in Condition 8 names Items 1, 6 and 7 and not Item 4. A project loan under Item 4 therefore has default interest, prepayment, commitment and administrative fees inside the ceiling, whereas the same loan under Item 1 does not. The Bylaws do not make Item 4 the required route for a foreign-invested borrower, and Condition 11 expressly contemplates a foreign-invested borrower under Item 1. A lender that requires the exemption should seek approval under Item 1.

4.4 Approval and cost treatment

NRB approves a project loan before the loan is made, and the loan is recorded after inflow (Bylaws 7 and 8). The ceiling is the Benchmark Rate plus 6.0% under both Item 1 and Item 4. Every cost, fee and commission, including arrangement, upfront and agency fees, must fall within the ceiling, and a fee payable for the approval of the loan may be paid only after the loan has been received (Condition 8). The cost rules are stated in Chapter 7, the application and recording procedure in Chapter 9, and the tax treatment of interest and fees in Chapter 8.

4.5 Industries

Foreign project finance is open in every industry that FITTA has not closed to foreign investment (Bylaw 7(1)). In every industry lenders take security over the project company's assets and sponsor or corporate support, and the revenue of the project does not limit recourse. The table states the lenders, structure, support and approval points that are typical in each industry.

Exhibit 7: Principal industries for foreign project finance

Industry	Typical lenders	Typical structure and support	Legal and approval points
Hydropower	DFIs, foreign commercial banks in a syndicate, and Nepali banks	Project company funded by senior debt and sponsor equity, with PPA revenue from the NEA servicing the debt without limiting recourse. Support includes assignment of the PPA and receivables, escrow of project accounts, a share pledge, sponsor completion and cost-overrun support, corporate and bank guarantees, and a mortgage over the project land	Generation licence and DoED consent to lender security over the licence and step-in, the PPA, foreign investment approval, NRB approval under Item 4 or Item 1, and the 50% single-borrower cap for Nepali banks
Transmission	DFIs, bilateral lenders and foreign banks	NEA revenue arrangements still require sponsor support and security, as for hydropower	NRB approval as for hydropower, the 50% single-borrower cap for Nepali banks, and approvals in the counterparty country for cross-border lines

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Industry	Typical lenders	Typical structure and support	Legal and approval points
Telecommunications	Foreign banks, equipment suppliers and export credit agencies, and group lenders	Corporate recourse to the operating company, security over network assets, and a sponsor or parent guarantee	Operating licence and foreign investment approval, Item 1 for third-party lenders and Item 3 for group lenders, and all fees inside the ceiling
Cement and manufacturing	DFIs, foreign banks, parent and group lenders, and equipment export credit	New plant funded by senior debt and sponsor equity, with a corporate guarantee and a share pledge, and a parent or group guarantee for group lenders. Imported plant and equipment is the main foreign-currency requirement	Item 4 admits project financing only, so working capital requires Item 1. The Item 3 limit applies to group loans, and production-oriented industry qualifies for the rupee-loan uplift (Condition 9)
Tourism and infrastructure	DFIs, foreign banks, and Nepali banks funded under Items 6 and 7	Project company for a hotel, resort, airport or road, funded by senior debt and sponsor equity, with sponsor guarantees, a share pledge and a mortgage over the project land	Housing, land development and other real estate are barred (Condition 14). Homestays and rural tourism are closed to foreign investment (FITTA Schedule), foreign-ownership limits apply to aviation, and tourism and infrastructure qualify for the rupee-loan uplift

4.6 Moratorium, tenor and capitalised interest

Delay in construction is common, which is why lenders take sponsor and cost-overrun support. A hydropower financing typically carries a moratorium of about four years from first disbursement or until the commercial operation date, whichever comes first, followed by repayment over 10 to 15 years in quarterly instalments.

The Unified Directive of NRB, as amended in 2025, governs loans extended by Nepali institutions that NRB has licensed, and it does not apply to foreign lenders. It permits such an institution to capitalise interest on long-term project loans during construction or the moratorium until commercial operation. A long-term project is one that needs at least two years to reach commercial operation. If the grace period is extended and interest is capitalised again, the loan is treated as restructured, with loan-loss provisioning of at least 25 percent. A grace period may be extended without restructuring treatment where the commercial operation date slips because of transmission-line delays (NRB Unified Directive, 2025 amendment, loan classification provisions).

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CHAPTER 5

Intercompany Loans

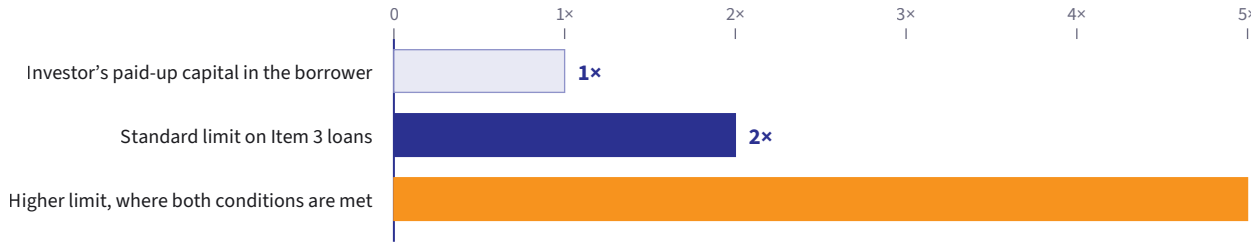
A foreign investor in a Nepali company, including its parent company or group, may lend to that company under Item 3 of Schedule 10 up to twice its paid-up capital in the company, and a contractor's parent group may lend to an infrastructure project under Item 5. A group company that holds no shares in the borrower has no clear place in Item 3 (Schedule 10, Items 3 and 5).

5.1 Parent and subsidiary

A foreign investor in a Nepali company, including its parent company or group of companies, may lend to the company up to twice the paid-up capital that the investor holds in it. The limit rises to five times that capital where both of the following conditions are met (Schedule 10, Item 3, cl. 1):

- if loans from the same parent or group are outstanding, the new or additional loan bears interest no higher than the average of the interest rates on those existing loans, and
- the annual interest rate does not exceed 50% of the premium over the benchmark rate. With a premium of 3.5%, that is the Benchmark Rate plus 1.75%.

Exhibit 8: Item 3 limit as a multiple of the investor's paid-up capital



Conditions for five times: (a) where earlier group loans are outstanding, the rate does not exceed the average rate (b) the annual rate does not exceed the Benchmark Rate plus 1.75%, being 50% of the 3.5% premium.

Item 3 states the two conditions as the cases in which the five-times limit is not deemed to be obstructed, and the second begins "notwithstanding anything in the first". The 1.75% cap therefore applies in every five-times case, and the average-rate condition applies in addition where earlier group loans are outstanding. The Bylaws do not say whether the limit is measured on the amount outstanding or on cumulative drawings.

The loan may be interest-free or bear interest up to the ceiling in Chapter 7. The proceeds may be used only in the sector specified for the borrower. The recommendation or approval of the foreign investment approving body must be produced where available. The application goes to the Unit (Schedule 10, Item 3, cl. 2 to 4 and Condition 6).

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5.2 Sister and group companies

The definition of "foreign lender" includes companies within a holding company's group (Bylaw 2, definition of "foreign lender"). Item 3 names the parent company or group of companies as lender, but it measures the limit on the paid-up capital of the concerned foreign investor, and a sister company holds none. The Bylaws give no rule for that case.

A lender in that position has three routes. The first is to lend through the parent. The second is to use Item 1 where the group lender is a regulated financial institution approved to lend. The third, for amounts up to USD 1 million, is Item 2, which is available only if the group lender qualifies as an institution within that Item.

5.3 Contractor group loans

An infrastructure project, or a supplier or contractor that builds it, may borrow from the parent company or group of the supplier or contractor. The loan is interest-free. Its tenor follows the needs of the project, and the proceeds may fund construction, including running costs. The project's recommendation on inflow and repayment must be produced where available. The application goes to the Department (Schedule 10, Item 5, cl. 1 to 4).

The stated rate is nil and the exemption for contingent charges does not name Item 5 (Condition 8), so no fee may be charged on an Item 5 loan. The tax treatment of interest on intercompany loans is in Chapter 8.

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CHAPTER 6

Hybrid Instruments: Convertible and Income-Participating Loans

A hybrid instrument is characterized as a foreign loan prior to conversion and must conform to one of the eight designated loan categories, remaining subject to the respective ceiling. The Bylaws provide two mechanisms for hybrids: the conversion of a loan into foreign investment (Schedule 10, Condition 15) and relief from the repayment schedule for income-contingent loans (Schedules 11 and 13). Notably, the Bylaws do not prescribe a return formula for profit-linked loans.

6.1 Convertible loans

A foreign loan may be brought in as a loan and later converted, wholly or partly, into foreign investment. Conversion may take place during the loan term or after it ends, with the agreement of borrower and lender. Both outstanding principal and accrued interest may be converted (Condition 15, as amended by the third and fifth amendments). The fifth amendment deleted Condition 15(1).

Conversion proceeds in four steps.

1. NRB approves the loan under Bylaw 7, so the loan must fit a Schedule 10 loan type.
2. The funds come in through the banking system and are recorded as a foreign loan (Bylaws 7(4) and 8).
3. The borrower obtains from the foreign investment approving body either a ratifying approval of the investment or an approval that states the amount and date, dated after the loan came in (Condition 15(2)).
4. The converted amount is recorded as foreign investment, even though the funds entered Nepal before the foreign investment approval, provided that all other prevailing requirements are met (Condition 15(3)).

Conversion issues shares, so the sector restrictions in the FITTA Schedule and the share-issue rules of the Companies Act, 2063 also apply. The treatment of capitalised interest is in Chapter 8.

6.2 Income-participating loans

A loan from a foreign bank or financial institution, or from an international financial institution including a DFI, may be repayable only if the borrower has income or earnings. For such a loan a repayment schedule is not mandatory at approval or at recording (the proviso to the time schedule requirement in Schedule 11 and the proviso to item 7 of Schedule 13, each added by the fourth amendment).

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The relief covers the repayment schedule only. Schedule 11 separately requires a time schedule of disbursement and payment, and the proviso excuses only the repayment schedule, so a disbursement schedule remains required.

Bylaw 9(1) lets a bank supply foreign exchange without NRB approval for repayments under an approved repayment schedule. An income-participating loan has no approved schedule, and Schedule 18, row 8 places NRB approval of foreign exchange for repayment, expressly including income-participating loans, within NRB's delegated powers. The Bylaws do not say when that approval is required, and a lender should assume that each repayment requires it.

The relief is written for foreign banks, financial institutions and DFIs. It does not extend by its terms to a shareholder loan from a parent or group company, whose repayment profile should be agreed with NRB at approval.

The Bylaws provide no formula for a return linked to profit. Every cost, fee and commission must fall within the interest ceiling of the loan type (Condition 8), so a profit-linked return and its fees must together stay within that ceiling. The practical structure is a profit-linked coupon capped at the ceiling. The treaty classification of a profit-linked return is in Chapter 8.

6.3 Structuring

A hybrid first qualifies as a foreign loan of an eligible type, and its hybrid features create no separate approval route. Fixed, profit-linked and conversion-premium returns all count toward the ceiling (Chapter 7). The loan agreement filed with the application contains the conversion price, timing and treatment of accrued interest (Schedule 11, loan agreement requirement). The Bylaws do not state whether NRB approves conversion terms at the loan stage. Approval of the terms may be sought, and it is best to notify NRB of the conversion terms so that it is aware of them. Practice varies. Where the lender is a shareholder lending under Item 3, the Item 3 limit and ceiling apply until conversion (Chapter 5).

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CHAPTER 7

Interest Rates and All-in Cost

Schedule 10 caps the interest rate of each loan type and requires every cost, fee and commission to fall within that ceiling, with four contingent charges permitted outside it for Items 1, 6 and 7 only (Schedule 10, Items 1 to 8 and Conditions 7 and 8). The ceiling is expressed as a margin over a Benchmark Rate, or over an Indian or Chinese rate for loans in rupees or yuan.

7.1 Benchmark rates

For new loans the **"Benchmark Rate"** is the Secured Overnight Financing Rate ("SOFR") for United States dollars, the Sterling Overnight Index Average ("SONIA") for pounds sterling, the Swiss Average Rate Overnight ("SARON") for Swiss francs, the Tokyo Overnight Average Rate ("TONA") for Japanese yen and the euro short-term rate ("€STR") for euros. The Bylaws print the euro rate as "€STER" (Schedule 10, notes headed "Benchmark Interest Rates", paragraph (a)). The Bylaws call the benchmark a "One Year Benchmark Interest Rate" while naming overnight rates, so the loan agreement should state whether a term or a compounded overnight rate is used.

Three rules govern legacy loans that referenced the London Interbank Offered Rate ("LIBOR") (Schedule 10, notes headed "Benchmark Interest Rates", paragraphs (b), (c) and (d)).

- An agreement that provides fallback provisions in place of LIBOR from 31 December 2021 follows them. If the fallback names SOFR, SONIA, SARON, TONA or €STR, lender and borrower may agree to add up to 50 basis points to the approved margin.
- An agreement without fallback provisions stays on LIBOR where the loan is in United States dollars on an overnight, one, three, six or twelve month LIBOR, until 30 June 2023. A "tough legacy" loan in pounds or yen on a one, three or six month LIBOR uses synthetic LIBOR until 31 December 2022. Both dates have passed.
- Any other legacy loan moves to the matching Benchmark Rate after 31 December 2021, again with up to 50 basis points added by agreement.

The amended conditions apply only to loans approved or renewed after the relevant amendment took effect (Chapter 1).

7.2 Interest ceilings

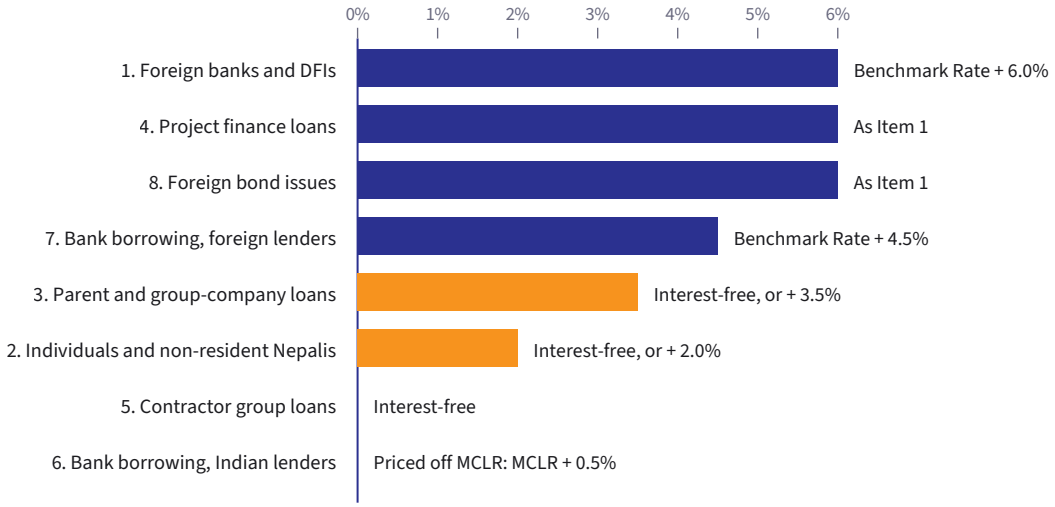
Each figure in the exhibit is a maximum per annum. "LPR" is the one-year Loan Prime Rate published in the People's Republic of China, "MCLR" is the one-year Marginal Cost of Funds based Lending Rate published in India, and "RBI" is the Reserve Bank of India (Schedule 10, Item 1, cl. 2).

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Exhibit 9: Interest ceilings by loan type and currency

Item	Major currencies	Indian rupee	Chinese yuan
1. Foreign banks and DFIs	Benchmark Rate + 6.0%	Lender (a): MCLR + 2%. Lender (b): MCLR + 2%, or the average one-year MCLR in the latest RBI publication + 2%	LPR + 2%
2. Individuals and non-resident Nepalis	Interest-free, or Benchmark Rate + 2.0%	Average one-year MCLR in the latest RBI publication	LPR
3. Parent and group-company loans	Interest-free, or Benchmark Rate + 3.5%	Average one-year MCLR in the latest RBI publication	LPR
4. Project finance loans	As Item 1	As Item 1	As Item 1
5. Contractor group loans	Interest-free	Interest-free	Interest-free
6. Bank borrowing from Indian lenders	Not stated	MCLR + 0.5%	Not stated
7. Bank borrowing from foreign lenders	Benchmark Rate + 4.5%	Not stated	LPR + 1%
8. Foreign bond issues	As Item 1	As Item 1	As Item 1

Exhibit 10: Maximum margin over the Benchmark Rate, by loan type (major currencies)



7.3 Fees and charges

Every cost, fee and commission connected with a loan must fall within the ceiling, and a fee payable for the approval of the loan must be arranged so that it is paid only after the loan has been received (Condition 8). An arrangement, upfront or agency fee therefore counts against the ceiling for every Item.

For Items 1, 6 and 7 only, four contingent charges may be written into the loan agreement and paid outside the ceiling, without NRB approval (Condition 8, proviso, items (a) to (d)).

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Exhibit 11: Contingent charges permitted outside the ceiling

Charge	Permitted limit
Default interest	Up to 2% a year above the agreed rate, on overdue principal or interest
Prepayment fee	One-time, up to 0.25% of the principal prepaid ahead of schedule. The prepayment itself requires NRB approval (fourth amendment)
Commitment fee	One-time, up to 0.25%. The Bylaws do not state the base (first amendment)
Administrative fee	Annual cap of USD 5,000 or equivalent per borrower per fiscal year, payable even where the loan is not brought in (fifth amendment)

Items 2 to 5 and Item 8 have no exemption.

Condition 7 and the Explanation to Condition 8 point in opposite directions on withholding tax. Condition 7 provides:

> "Interest and fees are paid only after deducting tax as per law, and such tax is not required to fall within the stated interest rate and the fee limit under Condition 8." (Schedule 10, Condition 7, unofficial translation)

The Explanation, added by the third amendment, provides:

> "Where the contingent fees or costs listed above, or other contingent or non-contingent fees or costs, are provided for in the loan agreement, NRB's approval must be obtained so that those fees and costs, together with the tax payable on them under prevailing law, fall within the stated interest rate." (Schedule 10, Condition 8, Explanation, unofficial translation)

Condition 7 places withholding tax outside the ceiling. The Explanation places fees, with the tax on them, inside it, subject to NRB approval, and it names the listed contingent charges as well. One reading reconciles the two: the Explanation governs fees that are counted inside the ceiling, and the four exempt charges are not counted. The words "listed above" point against that reading, and the Bylaws do not resolve the point. A lender should size the headline rate, the non-exempt fees and any tax gross-up so that they fit the ceiling on the stricter reading. Gross-up clauses are dealt with in Chapter 8.

7.4 Fixed rates

A fixed rate may be agreed up to the ceiling that applies when NRB approves the loan. Each fixed period may run for up to two years at a time (third amendment), and NRB may approve further fixed periods within the loan term. Where NRB has not approved a fixed rate, the ceiling in Section 7.2 applies (Condition 10).

The two-year limit does not apply to a fixed rate that does not exceed the premium over the Benchmark Rate plus 25 basis points. The comparison is made with the whole fixed rate, to which no Benchmark Rate is added: for Item 1, the threshold is 6.25%. For a loan denominated in rupees, a fixed period may run for up to ten years at a time. The fixed-rate rule applies only to approvals sought after the first amendment took effect. NRB's

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approval of the fixed rate forms part of its approval and recording of the loan (Schedule 18, row 6).

7.5 Loans denominated in Nepali rupees

A loan brought in in foreign currency may be denominated in Nepali rupees, with the exchange-rate risk on the lender. The ceiling is the weighted average lending rate of NRB-licensed commercial banks, as stated in the latest edition of NRB's *Current Macroeconomic and Financial Situation* (Condition 9, as amended by the second amendment). Up to two percentage points may be added for the information technology industry (fifth amendment), commercial agriculture, production-oriented (manufacturing) industry, infrastructure, tourism and energy industries, and loans raised through green loans or green bonds (fourth amendment).

The Bylaws do not state which published figure applies on the date of approval. A rupee-denominated loan is recorded in rupees.

7.6 Payments to third parties

No person other than lender and borrower, including a domestic party, may take part in a foreign loan or receive any payment under it, and the lender pays for any services it needs (Condition 12). Two exceptions apply.

1. Where the lender is a foreign bank or financial institution, a government- or inter-government-owned DFI, or a financial institution approved to lend by a foreign government or regulator, a third party may be named in the loan agreement so long as it is paid nothing. If the third party is government-owned, the borrower may pay it within the interest ceiling (Condition 12(1)).
2. Under Items 6 and 7, the borrower may pay a Nepali legal practitioner for legal advice on the loan, with the lender's consent and within the interest ceiling (Condition 12(2)).

The Bylaws do not mention facility or security agents. A syndicate's agent fees cannot be charged to the borrower unless the agent is government-owned.

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CHAPTER 8

Taxation of Foreign Loans

The Bylaws impose a cap on payments made by a Nepali borrower to a foreign lender (Chapter 7). Tax law determines the portion of such payment received by the lender and the allowable deduction for the borrower. This is governed by three sets of rules: the withholding provisions of the Income Tax Act, the interest and anti-abuse provisions of Nepal's tax treaties, and the limitation on interest deductions for foreign-controlled borrowers.

8.1 Withholding under the Income Tax Act

Section 88(1) of the Income Tax Act requires a resident person who pays interest, rent, royalty, service fees, commission, sales bonus, retirement payments or any other return with a source in Nepal to withhold tax at 15 percent of the gross amount. A Nepali borrower paying interest to a foreign lender therefore withholds 15 percent unless a lower domestic rate or a treaty rate applies. The Act sets lower rates for several payments relevant to foreign lending.

Exhibit 12: Withholding rates relevant to foreign lending

Payment	Rate	Provision
Interest, service fees, commission and other returns (general rule)	15%	Section 88(1)
Interest paid by a resident bank or financial institution on a foreign-currency loan from a foreign bank or other financial institution, for investment in sectors specified by NRB	5%	Section 88(1)(9)
Interest paid by a reservoir or semi-reservoir hydropower project above 200 MW that reached financial closure by 13 April 2026, on a foreign-currency loan from a foreign bank or other foreign financial institution	5%	Section 88(1)(9a)
Lease payments for aircraft	10%	Section 88(1)(3)
Payments for the use of satellite, bandwidth, optical fibre, telecommunication equipment or electricity transmission lines	10%	Section 88(1)(7)

The 5 percent rate in Section 88(1)(9) matches the purposes of the bank-borrowing loan types in Chapter 3, so a Nepali bank borrowing from abroad for onward lending to priority sectors will normally qualify. The concession in Section 88(1)(9a) was tied to financial closure by 13 April 2026. That date has passed, and the concession now benefits only projects that closed their financing in time. Section 88(4) removes certain payments from withholding altogether, including interest paid to a resident bank or financial institution, but that exclusion does not extend to payments to foreign lenders.

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8.2 Fees and other payments

A foreign loan generates several kinds of payment, and the Act does not treat them all alike. Arrangement, commitment, agency and administrative fees fall within "service fee", "commission" or "other return" under Section 88(1) and attract withholding at 15 percent unless a specific provision applies. Guarantee fees paid to a foreign bank or DFI for a guarantee or standby letter of credit are caught in the same way, and the requirements of Unified Foreign Exchange Circular No. 13 on guarantees (Chapter 11) also apply.

Domestic law does not distinguish default interest from ordinary interest. Most of Nepal's treaties, however, exclude "penalty charges for late payment" from the definition of interest, so under those treaties default interest falls outside the interest article and is dealt with under the business profits or other income article. The Thailand and Korea treaties do not contain the exclusion.

Fees are not interest for treaty purposes. Where a treaty has no separate article on technical fees, a lender's fees usually fall under the business profits article and are taxable only in the lender's state of residence unless it has a permanent establishment in Nepal. Whether the borrower may withhold at a reduced rate or nil depends on the treaty and on the Inland Revenue Department's procedure for applying treaty relief, and the point should be settled before signing.

8.3 Nepal's treaty network

The Inland Revenue Department publishes Nepal's treaty texts. Nepal has treaties in force with India, China, Norway, Austria, Sri Lanka, Thailand, Pakistan, Qatar, the Republic of Korea and Bangladesh. The Bangladesh treaty is a recent addition, and the treaty with Mauritius has been terminated. The Department has also issued the long-delayed notification under the Income Tax Act in respect of seven treaty partners.

Each treaty allows Nepal to tax interest arising in Nepal but caps the rate where the recipient is the beneficial owner, and each exempts interest paid to the partner's government, central bank and state-owned financial institutions.

Exhibit 13: Interest under Nepal's tax treaties

Treaty partner	General cap	Lower cap	Exempt at source
India (2011)	10%	n/a	Nepal Rastra Bank Reserve Bank of India governments, political subdivisions and local authorities other institutions agreed by exchange of letters
China (2001)	10%	n/a	Government, local authorities and central bank financial institutions wholly owned by the government any resident whose debt-claim is indirectly financed by those bodies
	10%	n/a	

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Treaty partner	General cap	Lower cap	Exempt at source
Republic of Korea			Government, political subdivisions and local authorities Bank of Korea Korea Export-Import Bank Korea Development Bank other agreed institutions performing governmental functions any resident whose debt-claim is guaranteed or indirectly financed by those bodies
Qatar	10%	n/a	Government and local authorities Qatar Central Bank financial institutions wholly owned by the government, as agreed
Pakistan	15%	10% where the beneficial owner is a financial institution, insurance company or investment company receiving income from financial investments	Government and local authorities State Bank of Pakistan financial institutions wholly owned by the government, as agreed
Thailand	15% (company recipients)	10% where received by a financial institution, including an insurance company	Government, including Bank of Thailand, Export-Import Bank of Thailand, local authorities, statutory bodies and agreed wholly government-owned institutions
Bangladesh	15%	10% where the beneficial owner is a bank carrying on bona fide banking business	Government and local authorities Bangladesh Bank banks and financial institutions wholly owned by the Government of Bangladesh
Norway	15%	10% for a bank carrying on bona fide banking business	State of Norway, political subdivisions, local authorities and statutory bodies Central Bank of Norway Norwegian Guarantee Institute for Export Credits Eksportfinans similar agreed institutions interest on loans guaranteed by these bodies
Austria	15%	10% for a bank	Government and local authorities Oesterreichische Nationalbank Oesterreichische Kontrollbank other agreed institutions interest on loans guaranteed by those bodies
Sri Lanka	15%	10% for a bank carrying on bona fide banking business	Government and local authorities Central Bank of Sri Lanka financial institutions wholly owned by the government, as agreed

The Nepali institutions entitled to the exemption in the partner country follow the same pattern. Nepal Rastra Bank is named in every treaty. The Korea treaty also names the Nepal Industrial Development Corporation and the Agriculture Development Bank, and the Bangladesh treaty extends to any financial institution wholly owned by the Government of Nepal.

8.4 Government-owned lenders and export credit agencies

Every treaty in the network exempts from Nepali tax the interest paid to a government, its central bank or a financial institution wholly owned or controlled by that government. Most treaties leave it to the competent authorities or governments to agree

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which institutions qualify. The Bangladesh treaty does not, and covers any bank or financial institution wholly owned by the Government of Bangladesh.

Several treaties go further and name export-import banks, policy banks and export credit agencies. The Korea treaty names the Korea Export-Import Bank and the Korea Development Bank. The Thailand treaty names the Export-Import Bank of Thailand. The Norway treaty names the Norwegian Guarantee Institute for Export Credits and Eksportfinans. The Austria treaty names Oesterreichische Kontrollbank. The Korea, Norway and Austria treaties also exempt interest on loans guaranteed by those bodies, even where the lender itself is a commercial bank. The China and Korea treaties reach any resident lender whose debt-claim is indirectly financed by a qualifying state body.

These provisions give lenders a structuring option. A loan made, guaranteed or refinanced by a state-owned bank, an export-import bank or an export credit agency may be wholly exempt from Nepali withholding tax rather than taxed at 10 or 15 percent. Whether a particular institution qualifies depends on the treaty wording and, where the treaty requires it, on agreement between the competent authorities. This should be confirmed before the loan is priced.

8.5 Treaty conditions

Beneficial ownership. Reduced rates are available only where the recipient is the beneficial owner of the interest. Interest routed through a conduit lender does not qualify.

Permanent establishment. If the lender has a permanent establishment or fixed base in Nepal and the loan is effectively connected with it, the interest article does not apply and the interest is taxed as business profits. The Sri Lanka, Thailand, Pakistan and Qatar treaties extend this to loans connected with business carried on in Nepal of the same or a similar kind as that carried on through the permanent establishment. The characterisation of a permanent establishment in Nepal is examined in the Niti Partners handbook Permanent Establishment in Nepal.

Related-party interest. Every treaty limits relief to an arm's-length amount where the lender and borrower have a special relationship, and leaves any excess taxable under domestic law. This applies directly to parent and group-company loans (Chapter 5).

Limitation of benefits and anti-abuse. The India treaty denies benefits where obtaining them was the main purpose, or one of the main purposes, of an arrangement, and expressly covers entities without bona fide business activity. Most of Nepal's other treaties have no equivalent clause, and several were concluded before the Income Tax Act, 2058 (2002) took effect. Lenders should not treat that silence as leaving treaty benefits unqualified. Nepali courts have supported reading anti-abuse limitations harmoniously into treaties that pre-date the Act even where the treaty itself contains no limitation of benefits clause. A lender that relies on a treaty rate or exemption should therefore be able to show a genuine commercial reason for lending from that jurisdiction and real substance there, whichever treaty applies.

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Recipient category. Under the Thailand treaty the 15 and 10 percent caps apply where the beneficial owner is a company. Under the Pakistan treaty the 10 percent cap reaches beyond banks to insurance companies and investment companies receiving income from financial investments.

8.6 Profit-participating loans

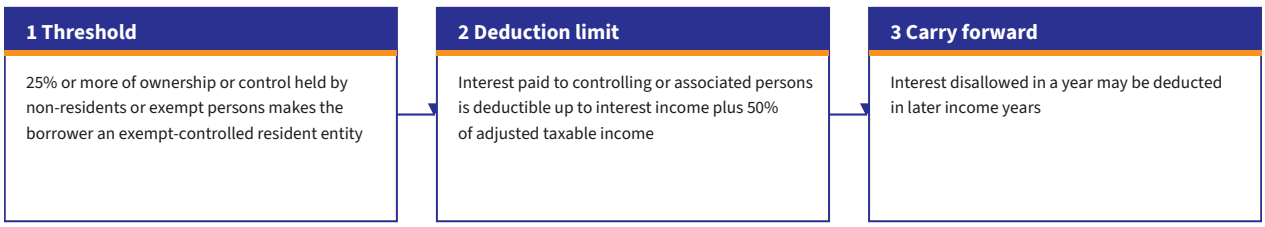
Most of the treaties define interest to include income from debt-claims "whether or not carrying a right to participate in the debtor's profits". The wording appears in the India, China, Korea, Qatar, Pakistan, Thailand, Bangladesh, Austria and Sri Lanka treaties. Under those treaties a profit-linked return on a loan (Chapter 6) is taxed as interest rather than as a dividend, and the interest caps apply to it. The Norway treaty does not contain the wording, and the classification of a profit-linked return under that treaty should be confirmed before the instrument is used.

8.7 Interest deduction limit for foreign-controlled borrowers

A foreign investor that funds a Nepali company with both equity and shareholder loans must also consider whether the borrower can deduct the interest it pays. Section 14(1) of the Income Tax Act allows a person to deduct interest on debt incurred in earning income from a business or investment. Section 14(2) limits that deduction for an exempt-controlled resident entity that pays interest to a controlling person or an associated person. The interest it may deduct in a year cannot exceed the total of the interest it received in the year and included in its taxable income, plus 50 percent of its adjusted taxable income for the year, calculated without including interest received or deducting interest paid. Interest disallowed under Section 14(2) may be carried forward and deducted in later income years (Section 14(3)).

An "exempt-controlled resident entity" is a resident entity in which, at any time during the year, 25 percent or more of the underlying ownership or control is held by tax-exempt organisations, persons exempt under Section 11, non-residents, or their associates, alone or in combination. The threshold is low, and almost every foreign-invested company in Nepal will meet it.

Exhibit 14: The Section 14 limit on interest paid to controlling and associated persons



The limit applies to interest paid to controlling and associated persons, so it bears directly on parent and group-company loans. It does not apply to interest paid to unrelated lenders such as a foreign bank or DFI with no ownership link to the borrower. A lender that also holds equity in the borrower, as a DFI or fund providing both equity

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and debt often does, is likely to be a controlling or associated person, and interest on its loan will come within the limit.

The tax limit is set by earnings, while the Bylaws limit is set by capital. Under the parent and group-company loan type (Chapter 5) a foreign investor may lend up to twice its paid-up capital, or five times in limited cases, whatever the borrower earns. A loan comfortably within the Bylaws limit can therefore produce interest that the borrower cannot deduct in a given year. The mismatch is widest during construction and the early operating years, when adjusted taxable income is low or negative, and in those years most interest on shareholder loans may have to be carried forward. Withholding is unaffected: tax is still withheld at the domestic or treaty rate on the full interest paid, so a disallowed payment costs the group twice in that year.

Investors combining equity and shareholder debt should model the borrower's adjusted taxable income over the life of the loan. They should set the capital structure, the interest rate on shareholder loans and the repayment profile so that carried-forward interest can be used before the project's tax holiday or profitable period ends. A convertible or income-participating instrument (Chapter 6) can reduce interest during the low-earning years, but any conversion or repricing must be tested against both the Bylaws and Section 14.

8.8 Interaction with the interest ceilings

The Bylaws allow interest and fees to be paid only after tax has been deducted, and provide that the tax deducted need not fall within the interest ceiling or the fee limits (Schedule 10, Condition 7). The ceiling therefore applies to the lender's gross return before withholding, with the tax sitting outside it. On this reading a gross-up clause, under which the borrower increases its payment so that the lender receives the agreed amount after tax, appears to be permitted. The Bylaws do not say so expressly, and lenders should confirm NRB's acceptance at the approval stage. Where a treaty rate or exemption applies, the cost of the gross-up falls accordingly, which changes how lenders from different jurisdictions compare on price.

8.9 Practical points

The choice of lending entity is a tax decision as well as a credit decision. A loan from a Korean, Thai or Bangladeshi state-owned bank, or one guaranteed by a Norwegian, Austrian or Korean export credit agency, may be wholly exempt from withholding. A commercial bank resident in Pakistan, Sri Lanka, Bangladesh, Norway, Austria or Thailand may qualify for 10 percent. A corporate lender in a non-treaty jurisdiction bears the full 15 percent. For investors providing both equity and shareholder loans, the borrower's earnings decide how much interest can be deducted each year, so Section 14 must be considered alongside the capital-based limit of the Bylaws.

The loan agreement should identify fees separately from interest so that each payment is withheld under the correct provision, and a lender relying on a treaty should be able to show substance in its home jurisdiction. Advice at the term sheet stage, before pricing

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and capital structure are fixed, allows the treaty position, the gross-up, the deduction limit and the NRB ceiling to be reconciled from the start.

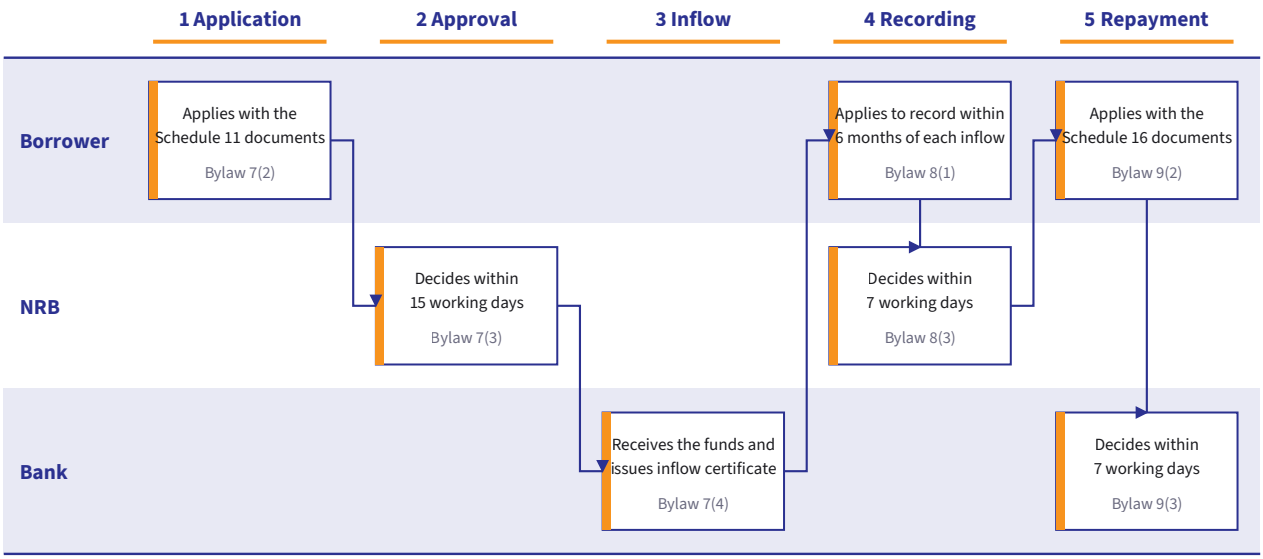
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CHAPTER 9

Approval, Disbursement and Recording

NRB must approve a foreign loan before it is made, and a bank supplies foreign exchange for repayment only after NRB has recorded the loan and approved its repayment schedule (Bylaws 7, 8 and 9(1)). NRB decides an application within 15 working days of receiving it complete, and a loan must be presented for recording within six months of each inflow (Bylaws 7(3) and 8(1)).

Exhibit 15: Approval sequence for foreign loans



9.1 Application and approval

The borrower applies to the Unit or the Department, according to the loan type (Chapter 3), with the documents listed in Schedule 11 (Bylaw 7(2)). NRB must decide within 15 working days of receiving the application with all documents and must tell the applicant in writing (Bylaw 7(3)).

NRB's prior approval is not required for the inflow of foreign investment that the investment approving body has approved. The investor must give the Unit prior written notice in the Schedule 2 form (Bylaw 4(1) and its proviso, fourth amendment). A foreign loan requires NRB's prior approval.

Loan agreement. A notarised copy of the loan agreement is required. Under Items 6 and 7, a notarised term sheet may be filed instead. The signed agreement may not depart from the term sheet on the matters it covers, and a notarised copy of it must be filed with NRB before drawdown (Schedule 11, loan agreement requirement, third amendment).

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Lender documents. An institutional lender provides its registration certificate, documents identifying its beneficial owners, its decision to lend, its latest audit report and documents showing the source of funds. An audit report is not required for a loan below USD 1 million, or where the lender files financial statements prepared by its board or senior management together with proof that an audit is not required. A regulated bank or financial institution, finance company, pension fund, hedge fund, government- or inter-government-owned institution or listed lender need file only documents that identify it. An individual lender provides a passport copy and documents showing the source of funds (Schedule 11, lender documents).

Borrower documents. An institutional borrower provides (Schedule 11, borrower documents):

- its registration certificate, any business licence needed and its permanent account number certificate,
- its constitutional documents, its latest audit report and its latest tax clearance or return, except where it is listed,
- the decision of its board or authorised official to borrow,
- proof that it is not on the blacklist of the Credit Information Bureau of Nepal, dated within six months before the application (a blacklisted borrower may apply only with a declaration, described in Chapter 10),
- a commitment letter from the bank through which the loan will be received,
- documents showing why it must borrow abroad and how it will use the loan, and the basis on which it will repay, having regard to exchange-rate risk,
- a time schedule of disbursement and payment, except that a repayment schedule is not required for an income-participating loan (Chapter 6), and
- a self-declaration that it will not misuse foreign exchange and that it complies with national and international anti-money laundering and counter-terrorist financing law.

An individual borrower provides a citizenship certificate and the blacklist proof.

Approving authority within NRB. Schedule 18 delegates approval by amount (Schedule 18, rows 6 to 12 and Bylaw 14).

Exhibit 16: **Authority within NRB for foreign loans**

Matter	Sub-director	Director	Executive Director	Deputy Governor	Governor
Approval of a loan approval of fees within the ceiling ratification-cum-recording (row 6)	n/a	n/a	Up to USD 1 million	Up to USD 5 million	Above USD 5 million
Recording of each inflow and approval of the repayment schedule (row 7)	Up to USD 2 million	Up to USD 5 million	Up to USD 10 million	Above USD 10 million	n/a
Foreign exchange for repayment, where NRB approval is needed (row 8)	Up to USD 0.5 million	Up to USD 10 million	Up to USD 50 million	Up to USD 100 million	Above USD 100 million

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Matter	Sub-director	Director	Executive Director	Deputy Governor	Governor
Renewal change to repayment schedule, loan currency or Benchmark Rate prepayment (rows 10 and 11)	n/a	n/a	Any amount	n/a	n/a
Waiver (row 12)	n/a	n/a	n/a	Any amount	n/a

9.2 Disbursement

Approved funds must come into Nepal through the banking system. After the inflow, the receiving bank's head or corporate office issues a certificate of inflow in the Schedule 12 form, copied to the Department and to the foreign investment approving body where applicable (Bylaw 7(4)). If the receiving bank is not the borrower's bank, it must transfer the funds in the currency received and disclose any deduction of fees or commission (Bylaw 11(1)). Funds are credited in Nepali rupees, and a borrower may apply for credit to a convertible foreign-currency account instead (Bylaw 11(2), second amendment).

9.3 Recording

The borrower must apply to record the loan, and to have its repayment schedule approved, within six months of each inflow, by the Schedule 14 application with the Schedule 13 documents. NRB must decide within seven working days and issue a recording certificate in the Schedule 15 form (Bylaw 8(1) and (3), second amendment).

The Schedule 13 documents are NRB's approval letter, the inflow certificate and system-generated proof of the inflow, the latest tax clearance or return (except for a listed borrower), the decision of the board or authorised official to record the loan, a certified repayment schedule (except for an income-participating loan), and the recommendation or approval of the Ministry of Industry, Commerce and Supplies or the concerned body, where available. A borrower that is an individual need not file the tax-clearance and board-decision items (Schedule 13, items 1 to 8 and notes).

A borrower that brought in a loan without NRB's prior approval could apply to ratify and record it, and the deadline for that application was the 14 January 2026 (Bylaw 8(4), fourth amendment). A bank supplies foreign exchange for repayment only for a loan that is recorded with an approved repayment schedule (Bylaw 9(1)), so a lender should make recording a condition subsequent, backed by an event of default.

9.4 Reporting

Banks report to the Department each month, within seven days of month-end, on foreign currency that comes into and leaves Nepal. The report covers loan approvals, inflows and repayments, with the lender's name and country, the interest rate and the fees. A borrower must also provide details when NRB asks (Bylaw 12 and Schedule 17). The lender's identity and the pricing of its loan are therefore visible to NRB.

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CHAPTER 10

Repayment and Changes During the Loan

A bank supplies foreign exchange for principal and interest due under the approved repayment schedule of a recorded loan without further NRB approval, and must decide within seven working days (Bylaw 9). Prepayment, renewal, rescheduling and waiver require NRB approval.

10.1 Repayment

The borrower applies to the bank with the Schedule 16 documents. The bank must decide within seven working days of receiving the complete application and must tell the applicant in writing (Bylaw 9(2) and (3)).

The Schedule 16 documents are proof that NRB recorded the loan and approved the repayment schedule, the latest tax clearance or return, proof that the borrower is not on the Credit Information Bureau blacklist, a declaration that it has no overdue loan with a Nepali bank or financial institution, a declaration of no misuse of foreign exchange and of compliance with anti-money laundering and counter-terrorist financing law, and proof that advance income tax on the interest has been deposited. A document that was filed once need not be filed again, and the blacklist proof need not be refiled within six months of its first filing (Schedule 16, items 1 and 3 to 7 and the notes to that Schedule). The fifth amendment deleted item 2.

Payment must go to a bank account in the name of the same lender, in the country from which the loan came in (Bylaw 9(4), second amendment). Tax is deducted before payment (Chapter 8).

A borrower on the blacklist cannot give the proof that Schedule 16 requires and so cannot obtain foreign exchange for repayment. A blacklisted borrower may still apply for approval of a loan, but the lender must declare that it knows that repayment is barred while the borrower is blacklisted (Schedule 11, borrower documents, and Schedule 16, item 4). A lender should monitor the borrower's status throughout the loan and provide for it by covenant and event of default.

Repayment of an income-participating loan is dealt with in Chapter 6.

10.2 Changes requiring NRB approval

- **Prepayment.** NRB approval is required to repay a foreign loan ahead of the agreed date, and the Department's Executive Director approves (Condition 8, prepayment proviso, as amended by the fourth amendment, and Schedule 18, row 11).

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- **Renewal and rescheduling.** NRB approval is required to renew a loan and to amend the repayment schedule, including the loan currency and the Benchmark Rate, and the Department's Executive Director approves (Schedule 18, row 10, fourth amendment). A renewed loan takes the amended conditions that applied when it was renewed (Chapter 1).
- **Waiver.** Where lender and borrower agree to waive a loan in whole or in part, either may apply to the Unit or the Department with documents showing the terms. NRB may approve after examination, once any tax payable under prevailing law has been paid, and the Deputy Governor approves (Condition 17, as amended by the fourth amendment, and Schedule 18, row 12).
- **Transfer of the lender.** The Bylaws do not address assignment, novation or participation. Payment must go to the original lender in the original country (Bylaw 9(4)), so a transferee cannot be paid unless NRB allows it. A lender should obtain NRB approval before any transfer and make the transfer provisions of the loan agreement subject to it.

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CHAPTER 11

Security and Credit Support

A borrower under a project loan or project financing agreement with a foreign financial institution may mortgage movable and immovable property in the name of that institution. For any other foreign loan, security and guarantees are limited to those that NRB specifies (Schedule 10, Condition 13). Perfection, enforcement and insolvency are covered in the companion Project Finance Guide and Guarantee Law in Nepal handbook.

11.1 Security over assets

For a project loan from a foreign financial institution, the borrower may give security over movable and immovable property (Condition 13(1) and Section 12(4), FITTA). On default the lender may auction that property as a Nepali bank or financial institution may and may repatriate the principal and interest it recovers (Section 20(4), FITTA). For other foreign loans, security over movable and immovable property, guarantees and bank guarantees may be given as NRB specifies (Condition 13(2), fourth amendment). The Bylaws do not say how NRB specifies, so a lender that requires security should state it in the application.

11.2 Bank guarantees and standby letters of credit

Under NRB Unified Foreign Exchange Circular No. 13, class “A” banks may issue guarantees and standby letters of credit supporting foreign loans to commercial agriculture, manufacturing, infrastructure construction and tourism, limited to the outstanding principal and tenor of the loan.

A class “A” commercial bank may also accept a financial guarantee issued by a foreign bank or financial institution, a regulator-approved foreign pension fund or hedge fund, or a government- or inter-government-owned DFI, to extend credit in Nepal or to secure credit already extended. The bank must itself analyse the other security, the foreign exchange risk and other risks, and the guarantee may support only the purposes in Items 6 and 7. If the guarantee is called, the proceeds come into Nepal and they must then go abroad again, NRB’s approval is required (Condition 16, third amendment). Fees paid abroad for guarantees attract withholding tax (Chapter 8).

11.3 Corporate approvals

Guarantees and security given by Nepali group companies may require a special resolution under Section 76 of the Companies Act, 2063, and Section 62 prohibits financial assistance for the acquisition of shares.

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CHAPTER 12

Principal Issues for Lenders

The loan type determines the limit, the ceiling, the permitted costs, the documents and the application point of a foreign loan, and the lender's home jurisdiction and the borrower's ownership determine its tax treatment. A structure that satisfies one of these requirements can fail another.

12.1 Principal issues

1. **Loan type.** The loan type sets the limit, ceiling, fee treatment, documents and application point (Chapter 3).
2. **All-in cost.** Four contingent charges under Items 1, 6 and 7 sit outside the ceiling. Arrangement, upfront and agency fees count against it (Section 7.3). A project loan under Item 4 has no exemption (Section 4.3).
3. **Tax inside the ceiling.** The Bylaws do not settle whether withholding tax falls inside the ceiling (Section 7.3). Chapter 8 deals with the tax itself.
4. **Hybrid returns.** Profit-linked returns and conversion terms must fit within the ceiling for the loan type (Chapter 6).
5. **Agent and adviser costs.** The lender bears its own agent and adviser costs (Section 7.6).
6. **Benchmark and fixed rates.** Benchmark conventions and fixed-rate periods are subject to NRB approval (Sections 7.1 and 7.4).
7. **Transfers and changes.** Transfers, prepayments, renewals and rescheduling require NRB approval (Section 10.2).
8. **Recording.** Recording within six months is a condition of foreign exchange for repayment (Section 9.3).
9. **Blacklist.** A borrower on the Credit Information Bureau blacklist cannot obtain foreign exchange for repayment (Section 10.1).
10. **Use of proceeds.** Real estate and the securities market are barred for every foreign loan (Section 3.5).
11. **Statutory protection.** FITTA's repayment, mortgage and enforcement protections attach to project loans from foreign financial institutions (Chapter 2).
12. **Schedules.** The Governor may change the Schedules without a Board amendment (Section 2.4).

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12.2 Lender checklist

Before the term sheet

- Loan type confirmed, and the borrower's industry is not closed under FITTA (Chapter 3).
- All-in cost, with fees, contingent charges and any profit-linked return, modelled against the ceiling (Chapter 7).
- Withholding rate and treaty eligibility confirmed for the lending entity, with substance in its home jurisdiction (Chapter 8).
- Deduction limit on shareholder-lender interest modelled where the lender is also a shareholder (Chapter 8).
- Agent and adviser costs placed on the lender (Section 7.6).
- Schedules checked for changes by the Governor (Section 2.4).

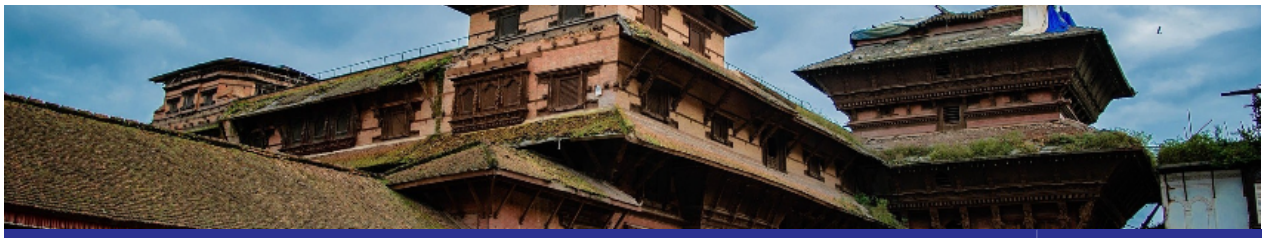
Before signing

- Schedule 11 documents assembled for lender and borrower (Section 9.1).
- NRB approval obtained, and the loan terms consistent with it (Section 9.1).
- Gross-up, prepayment, transfer, fixed-rate and conversion provisions made subject to NRB approval (Sections 6.1, 7.3, 7.4 and 10.2).
- Companies Act approvals obtained for group guarantees and security (Section 11.3).

At drawdown and after

- Notarised loan agreement filed with NRB where a term sheet was used (Section 9.1).
- Funds received through the banking system and an inflow certificate obtained (Section 9.2).
- Loan recorded within six months, with the recording certificate and approved repayment schedule (Section 9.3).
- Tax withheld and deposited on each payment (Chapter 8).
- Blacklist status and use of proceeds monitored throughout the loan (Sections 10.1 and 3.5).

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About Niti Partners

Niti Partners & Associates is a Nepal-based corporate law firm with particular strength in foreign direct investment, banking and finance, project finance, construction and arbitration. From its office at Thapagaon, New Baneshwor, Kathmandu, the firm advises foreign banks, development finance institutions, investors, contractors and Nepali businesses on transactions, regulatory approvals and disputes across Nepal.

> *Foreign lending sits at the intersection of the firm's banking and finance, project finance and foreign investment practices. This Handbook brings that experience together for foreign readers who need a clear, law-based view of foreign lending in Nepal.*

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Infrastructure and project development

Project development agreements for hydropower, roads, airports and parks.

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Multilateral and DFI lending, domestic and foreign consortium structures, and export-import (EXIM) supported financings.

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SELECTED EXPERIENCE

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Hydropower	Arun-III, alongside work on Upper Trishuli-1.
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