

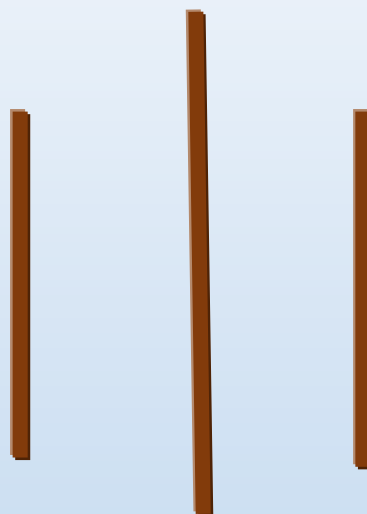


NCC Bank

नेपाल क्रेडिट एण्ड कमर्स बैंक लि.
Nepal Credit & Commerce Bank Ltd.

Your Business Bank

Share Loan Product Paper, 2018



**Nepal Credit And Commerce Bank Ltd
Bagbazar, Kathmandu**

Approved by:

685th Board Meeting

Held on 23rd May 2018 (2075-02-09)

Related with Agenda No : 2 (GHA)



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The Board Meeting No. 685th

held on 2075.02.06 (20th May 2018)

has decided to review, the

"Share Loan, Product Paper, Product Paper, 2018"



Kapil Gnawali
Company secretary
2075-02-15

Approval Sheet:

	Name	Designation	Signature
Prepared and Submitted by	Jivan Kumar Katwal	Head, SME & Retail Credit	
Reviewed and Supported by	Sameer Acharya	Head, Credit Risk	
Reviewed and Supported by	Mukunda Subedi	Chief Risk Officer	
Reviewed and Supported by	Binod Kumar Sharma	Chief, SME & Retail Credit	
Reviewed and Supported by	Rewant Kumar Dahal	Deputy Chief Executive Officer	
Reviewed and Recommended by	Ramesh Raj Aryal	Chief Executive Officer	



1. Introduction

The capital of a company is collected through shares. The holding of shares is presented by share documents showing ownership of shares in the company. The shareholders get dividend out of the distributable profit of the company as a return on their investment in shares of the company. The shares of the company listed in stock exchange are easily saleable so that they are supposed to be highly liquid assets. Considering the liquid and cash cow character, the Bank has been providing loan against lien of these shares of various companies listed in the stock exchange for many years.

The bank has structured this product paper to update provisions relating to loan against shares by amending and consolidating such provisions in order to regulate, manage and bring about dynamism in share loan activities and persons involved in dealing in such activities and to make the operation and administration of share loan much easier and simpler.

This product paper shall be made effective through internal circular up on approval from the Board of Directors of Nepal Credit and Commerce Bank Ltd so as to be repealed the earlier circulars in this regard. Regulatory requirements and provisions shall supersede the provisions of this product paper.

2. Product Name: SHARE LOAN

3. Type of Loan:

Loan against shares – (Demand and Revolving Category) falling under category of Retail Loan

Note: Shares, for the purpose of this Product Paper, refers to the shares of various companies listed in the stock exchange and in the roster of accepted companies approved by the bank from time to time.

4. Purpose of Loan:

To meet the fund requirement for share trading, share investments and other personal purposes.

5. Eligibility Criteria

5.1. Eligible Customer

- Nepali Citizen having citizenship certificate or firm/company/entity registered in Nepal having PAN issued from appropriate government authority

5.2. Basic Eligibility Criteria

- Share Loan shall be extended only against security of Shares.
- The offered shares for security should be listed in NEPSE.
- The shares should be in the form of Dematerialized (Demat).
- The shares should be enlisted in our Roster.
- The shares shall be owned by the customer in the name of him/herself or undivided family members.
- NCC Bank's own shares shall not be accepted as security.






5.3. Roster of Eligible Companies

- The Bank usually accepts shares and mutual fund units of reputed companies having good market value, strong financial position with respect to paid capital, net worth and profitability and credibility of promoters and management team. ALCO shall approve a Roster of the eligible companies of which shares are accepted as security of share loan. ALCO shall analyze and evaluate the companies to be enlisted in the Roster on the basis of the following criteria minimally:
 - Subscribed and fully paid up capital with sufficiency as prescribed by the regulator
 - Having positive Net Worth
 - Operating under profit for last two consecutive years
 - Price Earning (P/E) Ratio not higher than 50 times
 - Listed in NEPSE and rated as 'A' and 'B' class and transaction in stock market should be very much regular with good market value since the previous year
 - Financials should duly be audited within one year after end of the fiscal year
 - NPA should not be above 5%
- The Roster will be reviewed periodically and as and when required. Generally the Roster shall be reviewed on annual basis. However, it shall be reviewed at any time if the ALCO deems necessary.

6. Target Group

Investor, Salaried Individual, Self-Employed Individual, Investment Company etc. and any other individual/firm/company requiring loan against shares falling into the aforesaid eligibility criteria.

7. Loan Amount

- Minimum Loan Amount NPR 500,000/- per borrower
- Maximum Loan Amount NPR 100,000,000/- per individual borrower. For institution borrower on need basis.
- LTV ratio 50% of the share value of 180 days average or closing market price whichever is lower.

8. Pricing

Interest Rate : As published by the Bank from time to time
Service Charge : 1.0% on the approved loan amount
Penal Interest : 2.0% p.a. on overdue amount for the overdue period
Renewal Fee : 1.0% of renewed limit to be collected up front upon approval of the renewal
Commitment Fee : 1.0% (on unutilized amount) if utilization is below 70% of limit

Note: The pricing may vary as mentioned on Standard Tariff of Charges (STC). STC will be applied if different than in product paper.






9. Repayment and Tenure

- Principal: within one year or renewal subject to satisfactory performance. Full or partial pre-payment of the loan shall be allowed. In case of prepayment, partial release of lien marked shares may be allowed on proportionate basis maintaining the prescribed security coverage for remaining loan of the borrower.
- Interest: on each quarter end as per Nepali Vikram Calendar i.e. (Ashad, Aswin, Poush & Chaitra) or on final settlement of the loan.

10. Disbursement

- a) After completion of security documentation, limit will be created in the Loan against Share Account.
- b) First disbursement is implemented after obtaining Letter of Registration of lien over shares and maintaining prescribed drawdown level. Further disbursal(s) shall be at any time within the valid period subject to maintaining prescribed drawdown level obtaining further Letter of Registration of lien over shares if required.
- c) In case of prepayment, amount up to the vacant limit as required by the borrower may be disbursed at any time within the valid period subject to maintaining prescribed drawdown level.

11. Loan Recording in Core Banking System

- A separate "Account Type" shall be defined in the system for Share Loan and the individual customer's loan account will be opened under the same.
- Loan amount will be disbursed by debited in the customer's Share Loan account and credited to the borrower's operating (checking) account (current) maintained with the bank. Similarly, the same operating account will be used for the repayment of the loan.

12. Security

Demat share(s) of eligible companies itself shall be the security of the Share Loan.

12.1. Security Documentation

After getting the approval of the advances from the approving authority, all charge documents as mentioned below shall have to be executed.

- Loan Deed
- Demand Promissory Note (Single, Jointly and Severally as the case may be)
- Personal Guarantee of applicant/proprietor/partners/director as the case requires
- Statement of lien marked over the shares from Depository Participant (DP) and Confirmation letter restricting the transfer of lien marked shares in favor of the bank. A mandate addressed to the concerned company by the borrower for payment of dividend directly to the bank should be taken.
- Other relevant deeds and documents






12.2.Valuation of Shares

- The Branch Manager and Relationship Officer shall be jointly responsible for valuation of the offered shares and their genuineness.
- Shares of acceptable companies are valued on the basis of 180 days' average price or current market price whichever is lower. However, promoter shares of companies are valued on the basis of maximum 50% of 180 days' average price of public share or closing market price of promoter shares whichever is lower. The market prices shall be obtained from official website of Nepal Stock Exchange.
- Shares lien under once disbursed loan cannot be revaluated to provide additional limit or additional amount of loan.

Note: share of a promoter who holds more than 1 percent share of a bank/financial institution shall not be accepted and valued more than 50% of his/her promoter shares of that BFI.

13.Basic Documentation

- Completed Know Your Customer (KYC) form
- Completed application form
- Copy of Citizenship Certificate/PAN/Passport and recent photographs of the applicant/ proprietor/ partner/ director/ guarantor.
- Firm/company/entity registration certificate and PAN certificate
- Board resolution deciding to borrow loan and nominating representative to execute security documents, if the borrower is a company/entity

14.Risk Factor

- Fluctuation in market price of shares
- Lack of integrity of the borrowers.
- Chances of lack of information about time of dividend payment and issuance of right shares and bonus shares
- Chances of high concentration risk due to ease in analysis and processing

15.Risk Mitigation

- Vigilant watch on market price of shares on daily basis and to get the loan fully secured by maintaining prescribed drawdown level with adequate security of shares of eligible companies enlisted in our Roster.
- Assigning trained/experienced relationship officer having sufficient knowledge about shares and Share Loan and assigning specific responsibility to him/her to handle the portfolio under this product paper.
- Applying portfolio control and continuous monitoring.
- Auto triggered recovery actions (auction of security) in case of default of maximum 45 days.

16.Credit Approval Discretion (CAD)

The CAD is rest with Chief Executive Officer, which may be further delegated as per the discretion of CEO.






17. Service Procedure and Delivery Standard

17.1 Service Procedure

- Interviews/discussions with the client
- Provide detail information (Documents required), explain terms & conditions etc. regarding the product.
- Help applicant to fill up Loan Application, KYC, Net worth Declaration form along with other necessary document
- Prepare credit proposal file collecting the aforesaid documents
- Analysis the credit proposal and Preparation of Credit Appraisal Memo
- Recommendation for approval to concerned authority and get approval
- Issuance of an offer letter
- Valuation of shares
- The disbursement will be made after completing all required security documents maintaining the prescribed debt/equity along with collecting of fee/charges

17.2 Service Delivery Standard

- Decision shall be made within 5 days of receipt of application along with complete documents required and
- Disbursement shall be made on the same day upon lien over offered share(s) of eligible company(ies)

18. Monitoring, Portfolio Management and Reporting

18.1 Monitoring

- The Branch shall frequently monitor transaction in the borrower's checking account/loan account through the Core Banking System.
- The Bank official shall conduct a constant review of loan against shares and exercise vigilance observation in terms of market price of shares pledged, their marketability and dividend/bonus/right shares declared from time to time.
- As the price of share is very sensitive and fluctuates very frequently, the market price of shares shall be watched on a daily basis and drawing power is to be calculated at least on weekly basis. If the market price of the shares goes down by 10% or more, the drawing power is to be calculated immediately even between the week.
- If security coverage is found to be shortfall due to decrease in price/marketability of the share and other reasons, the bank official shall ask the customer by issuing written notice (margin call) to top on the additional security or reduce loan outstanding by depositing the deficit amount to maintain drawdown level as prescribed within 7 days. However, the notice of margin call may not be issued in case the market price of pledged shares is not decreased more than 10% or the market price of pledged shares is more than 1.5 times of outstanding loan amount.
- If the shortfall of security coverage is not rectified within such period, the loan is treated as default loan.
- As the Bank holds the right over dividend, bonus shares and right shares to be allocated to the shares pledged as the security of loan, the bank official shall ensure that dividend, bonus shares and right shares are received on time.
 - In case of cash dividend, the transfer of the dividends shall be executed

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- In case of an offer for right shares, the bank official shall intimate to the holder of the share. If the holder of the shares to whom right share is issued fails to deposit the amount of right shares, the letter of right may be renounced with the permission of the corporate office and the sale proceeds should be credited to the borrowers account under intimation.
- Bonus shares issued against shares pledged with the Bank shall be tracked and shall be kept under lien to the Bank.
- In case of firm/company/entity, renewal of registration documents will be ensured at the time of annual renew/review of the facility.
- Branch should issue a letter to the customer at least 45 days prior to the expiry dates to inform about timely renewal or settlement the facility within expiry. For renewal of the facility, Branch shall timely obtain required documents and forward renewal proposal to the competent authority before the expiry.

18.2 Portfolio management.

- Loan Exposure against security of lien over shares shall be reviewed on bank's overall loan portfolio on quarterly basis and shall not be more than 5% of total exposure and 35% of Core Capital of the bank.
- Centralized Credit Monitoring Department/Centralized Credit Operation Department shall monitor the portfolio of the Share Loan on quarterly basis.
- Risk should be spread over shares of different companies and held in large blocks by few borrower should be avoided.

18.3 Reporting to Corporate Office

- Monthly status of Share Loan & Drawing Power Calculation Sheet to Centralized Credit Monitoring Department
- Monthly/Quarterly Irregular Statement of Share Loan must be sent to Credit Monitoring Department within 15 days of due date with proper justification and expected date for settlement of overdue in case customer fails to pay the interest/principle on or before prescribed due date.

19. Follow ups, Recovery Process and Loan Loss Provision

- The BM/RO shall notify the customer about the due date to pay interest/principal of the loan at least prior 7 working days.
- Verbal follow ups to be initiated immediately upon default of any interest/principal.
- In case of default from its expiry or interest overdue, the recovery process should be initiated immediately by sending written reminder to the borrower to settle the loan within 7 days.
- If the default is not rectified within such period or the loan is treated as default due to the shortfall in prescribed drawdown level, 35 days loan call back notice shall be published mentioning that the sales proceed will be initiated within next 7 office days if the default is not rectified within the stipulated period.
- If the default is not rectified upon above processes, legal action to be initiated by sales proceeds the pledged shares from the next office day after end of 35 days call back notice period.
- If the loan is not fully recovered through the aforementioned sales proceeds, loan loss provision of 100% on outstanding principal shall be maintained.

(Signature)





- If the loan against share is not categorized as good loan, loan loss provision of 100% on outstanding principal shall be maintained irrespective of categorized under substandard or doubtful.

20. Waivers

- Waivers, if any, must be specifically approved by the Chief Executive Officer or the Official(s) designated by the CEO. However, branch must clearly mention and justify why such deviation is required under the heading "Waiver on Deviation to Product Paper".
- Chief Executive Officer may take waiver decisions as and when required.

Board of Directors:

S.N.	Name	Position	Signature
1.	Mr. Upendra Keshari Neupane	Chairman	
2.	Mr. Iman Singh Lama	Director	
3.	Mr. Chandra Prasad Bastola	Director	
4.	Mr. Madhav Prasad Bhatta	Director	
5.	Mr. Krishna Shrestha	Director	
6.	Dr. Kailash Patendra Amatya	Director	



(Signature)

