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ROYAL MONETARY AUTHORITY OF BHUTAN

RMA/Adm-44/2008-2009/490

July 22nd, 2009

Notification

This is to notify that as per Article 49 and 50 of Part VII of the Financial Institution Act 1992 and Section 2 of the RMA Prudential Regulation 2002, all financial Institution shall confirm to the following limits and requirements with regards to lending to its related parties:

Limits and Requirements

- (i) The total of all loans outstanding to any of its related parties shall not at any time exceed 10percent of the financial institution's capital fund.
- (ii) If a loan to a related party becomes non performing loan, the financial institution shall deduct the total loan outstanding from its capital fund when assessing the capital adequacy ratio.
- (iii) The total of all loans to all related persons of the financial institution shall not exceed 40 percent of its capital fund.

Related Parties shall include but is not limited to:-

- 1. Any of its Directors and his related parties.
- 2. Any of its officers or employees and his related parties.
- 3. Its holding company,
- 4. Subsidiary company of its holding company,
- 5. Companies in which the holding company has a direct or indirect equity interest equal to or exceeding 10 percent , and
- 6. Financial institution's subsidiaries and its affiliates

Further, all loans to related person (i) shall be on the same terms and conditions, including interest rates, fees, margin and security, as those applicable at the time of origination to similar loan to any other person who is not a related person of the financial



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Institution; (ii) shall not involve more than the normal risk of repayment or any other unfavorable features, and (iii) the financial institution shall apply credit underwriting procedures that are no less stringent than those applied for comparable transactions with persons who are not related person

Any financial institution who is in contravention of this notification shall be liable to the penalties provided under Article 58 of the Financial Institution Act of Bhutan 1992.

(Daw Tenzin)
Managing Director