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Credit Update on the impact of the recent devastating floods in Nepal

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Background:

On morning of August 26, 2026 (around 9 AM NPT), a massive flood started along Bhotekoshi river in Nepal's Bagmati province, entering Nepal from China-Nepal border, after entirely devastating the China's Gyirong Port and moving rapidly downstream, inflicting severe destruction along the basin, until the water reached the lower southern plains, wherein impact was relatively lower. The flood was unprecedented in terms of magnitude and reports suggest that it was triggered by a massive landslide/glacier fall from the Langtang Mountain, which resulted in a natural dam formation for the river, until the structure could no longer hold the reservoir.

The severely impacted districts were Rasuwa and Nuwakot, with Dhading also suffering damages, albeit smaller in magnitude compared to earlier two districts (out of total 77 districts in Nepal). The upper bound of the river passes through deep valleys, gorges, scattered villages and small towns, wherein the damage was severe. The major damage was suffered by most of the hydropower projects in the basin, while villages and small towns in the upper basin were significantly washed away. The major economic activities in this region were driven mainly by hydropower projects and the movement across customs point, with other major large-scale projects like hotels, manufacturing entities etc. not being present in the region. Apart from this, numerous vehicles in import process were also washed away, based on various sources. The death toll has already crossed over 1,200 as of now; with missing persons at over 5,000, which includes local residents, hydropower site-based engineers/staffs, domestic/international tourists to Langtang and Kailash Mansarovar regions etc.

The floods washed away ~20 motorable bridges and severely damaged roads to these districts spanning around 70-80 kms; second incident of increased water in the river (few days after the first incident) inflicted total collapse of a section of Prithivi Highway, which is the major lifeline for capital city. Apart from road infrastructure, transmission/distribution line in the corridor has also sustained major damages including Trishuli 3B Hub substation, which was developed after multiple years in pipeline status and was crucial to evacuation of energy generated in the basin. This substation was also one of the major centres feeding into the power requirement of the capital city and elongated timeline in rehabilitation of these projects could lead to power supply constraints in the capital city, especially in the dry season. Nepal Electricity Authority (NEA, rated at [ICRANP-IR] AA, a PSU entity) is the owner/operator of these transmission line structures, apart from various operational projects under itself, as well as its subsidiaries/associates, all of which have suffered major damages.

After this incident, China has issued notice ceasing operations of another customs point to Nepal viz. Tatopani, as that region had also witnessed history of natural disasters in the past. This leaves only one motorable customs point with China i.e. Korala pass, from where the road infrastructures in Nepal's side are relatively weaker as compared to these other two customs points. Routing the cross-border trade though sea route would take longer and add up to landed costs.

Severe damage to energy sector in the basin; however, recovery expected from insurance, along with project life/loan tenure extensions:

As gathered from various sources, 14 hydropower/solar projects suffered major damage, whose installed capacity was ~700 MW (operational projects with capacity of ~300 MW; rest being under construction projects). While the actual extent of damage could be of varying degree for these projects, the damages can be expected to be severe for most of these projects based on various visuals captured by the survivors.

Since energy sector remains a key priority for Government of Nepal (GoN) as well as the central bank, ICRA Nepal expects flexible regulations accommodating the rehabilitation timeline for these impacted projects, as seen in the past, mainly for projects impacted during April 2015 earthquake and other major events of landslides. Loans are expected to be adequately deferred, along with extension in power purchase agreement (PPA) tenure.

Further, for most of the projects, insurance companies are expected to cover the losses for damages to physical infrastructures and also cover for revenue losses for up to six months (subject to retention of one month). Insurance companies generally opt for facultative cover for large projects, thus diversifying such risks to large number of players across multiple countries and hence impact on a single company could remain moderate, which however remains to be established as clarity emerges on quantum of claims, final settlement sum for those and retention thereof. For damages to other insured private properties (including houses and vehicles washed away or totally damaged) as well as goods under transit (including vehicles being imported from the port), catastrophic cover is expected to be activated once their single event retention level is breached. Loss of lives would lead to rise in claims from life insurance companies as well, which is again expected to attract catastrophic cover for them as well, as the maximum lives retained and per risk sum assured are usually kept at lower levels by most players.

<u>Impact on ICRA Nepal's rated entities and rating actions thereof:</u>

As a part of its obligations to the lenders/investors, ICRA Nepal's ratings are subject to regular monitoring for events, which can impact the rated entity's financial profile and take appropriate rating actions accordingly. As per initial assessment, ICRA Nepal expects that the catastrophic floods is likely to have a major impact on the general insurance sector (including the rated domestic reinsurance company). Hence, ICRA Nepal has taken rating action on the following entities as detailed below:

General Insurance/Reinsurance sector:

Entity	Rating outstanding	Rating action	Key rationale
Nepal Reinsurance Company Limited	[ICRANP-IR] A@	[ICRANP-IR] A-@[1]; downgraded with continuation of 'Watch with **Negative** Implications'; ***separate press release/rationale for this***	Muted capitalization profile owing to sizable retention in claims related to September 2025 riots; current catastrophic cover could remain inadequate, for claims related to this event, thereby likely to impact capitalization further.
Shikhar Insurance Company Limited	[ICRANP-IR] AA-	[ICRANP-IR] AA-&[2]; placed on 'Watch with **Developing** Implications'	Lowest retention among peers for catastrophic events and comprehensive catastrophic cover covering all perils.
Sagarmatha Lumbini Insurance Company Limited	[ICRANP-IR] A	[ICRANP-IR] A@; placed on 'Watch with **Negative** Implications'	Catastrophic cover generally excludes certain segments like 'Motor' and 'Marine', wherein numerous granular claims could tantamount to a sizable aggregate amount, thereby potentially
Siddhartha Premier Insurance Limited	[ICRANP-IR] A	[ICRANP-IR] A@; placed on 'Watch with **Negative** Implications'	

[1] *Please refer here for further details of rating watch and its implications.*
[2] *The symbol '&' denotes, rating watch with developing implications. Please refer here for further details on the 'developing watch'.*

Entity	Rating outstanding	Rating action	Key rationale
NLG Insurance Company Limited	[ICRANP-IR] A-	[ICRANP-IR] A-@; placed on 'Watch with **Negative** Implications'	impacting the company's financial profile. Incremental developments will be monitored to determine appropriate rating action.
Himalayan Everest Insurance Limited	[ICRANP-IR] A-	[ICRANP-IR] A-@; placed on 'Watch with **Negative** Implications'	
United Ajod Insurance Limited	[ICRANP-IR] BBB+	[ICRANP-IR] BBB+@; placed on 'Watch with **Negative** Implications'	
Protective Micro Insurance Limited	[ICRANP-IR] BB	No immediate rating action	Sizable capital base vis-à-vis the business volume being in initial years of operations and low to nil direct exposure in impacted districts.
Star Micro Insurance Company Limited	[ICRANP-IR] BB-	No immediate rating action	

ICRA Nepal will continue to monitor the impact on the concerned insurer's financial profile, etc. so as to resolve the rating watch and/or take appropriate rating action, as clarity emerges.

In addition, some of other rated entities (as detailed in the table below), wherein the underlying assets have sustained severe damage, thereby impacting the business operations, revenue potential and debt servicing capacity etc., have also been subject to rating action as detailed below:

Energy sector entities:

Entity	Last rated limits (NPR Million)	Rating outstanding	Rating action	Key rationale
Nepal Electricity Authority	NA	[ICRANP-IR] AA+	No rating action for now	Severe damages to company's hydropower/solar projects as well as key substation/transmission line structures in the basin, apart from damages to operational/under-construction projects under its subsidiary/associate companies. However, overall retained damages are expected to remain contained vis-à-vis the entity's net worth base as insurance proceeds is expected to cover up major chunk of financial impact; some old/significantly depreciated projects might have been uninsured, whose financial impact to the entity is not expected to be material.
Trishuli Jal Vidhyut Company Limited	8,201	[ICRANP] LBB/A4	[ICRANP] LBB@/A4@; placed on 'Watch with Negative Implications'; ***separate press release/rationale for this***	Developer of the under construction 37 MW Upper Trishuli 3B Hydropower Project, which seems to be severely damaged by the floods, based on currently available information.

Entity	Last rated limits (NPR Million)	Rating outstanding	Rating action	Key rationale
Multi Energy Development Private Limited	3,882	[ICRANP] LBB/A4+	[ICRANP] LBB@/A4+@; placed on 'Watch with Negative Implications'; ***separate press release/rationale for this***	Developer of the under construction 20 MW Langtang Khola Hydropower Project, which seems to be severely damaged by the floods, based on currently available information.

For these entities, ICRA Nepal will monitor the recovery timeline for projects' rehabilitation, extent of costs associated with reconstruction, actual recovery from insurer thereof, and funding modality for retained losses, debt restructuring options etc. among others.

Life Insurance sector:

Entity	Rating outstanding	Rating action	Key rationale
Nepal Life Insurance Company Limited	[ICRANP-IR] AA-	No rating action for now	Maximum heads retained is 10-20 for these companies, beyond which the catastrophic coverage will be attracted. Low life insurance penetration in Nepal and moderate average sum assured per policy are likely to contain the financial impact. Additionally, sizable catastrophic reserves for older companies herein provides further comfort. Adequacy of catastrophic cover will be monitored vis-à-vis the level of claims, to determine whether any rating action is warranted.
Life Insurance Corporation (Nepal) Limited	[ICRANP-IR] AA-		
Citizen Life Insurance Company Limited	[ICRANP-IR] BBB+		
Prabhu Mahalaxmi Life Insurance Company Limited	[ICRANP-IR] BBB-		
Crest Micro Life Insurance Limited	[ICRANP-IR] BB	No rating action for now	Sizable capital base vis-à-vis the business volume being in initial years of operations and low to nil direct presence in impacted districts.
Liberty Micro Life Insurance Limited	[ICRANP-IR] BB-		

Expected impact on banking sector:

While ICRA Nepal takes note of the likely impact to asset quality of banking sector due to the devastating floods, comfort has been derived from rescheduling/restructuring windows for impacted borrowers, which is expected to be announced by the central bank, in line with earlier trends of natural disasters/other major untoward events.

The impacted hydropower projects would be largely covered by insurance and revenue loss up to six months are also covered by insurance for the operational projects. Retail/SME businesses as well as tourism-based entities in the basin are likely to face severe impact and could contribute to NPLs for the banking players. However, since the severe impact was on three districts (out of 77), overall financial impact on banking sector players is not expected to be material. Tourist inflow to the region is expected to be significantly impacted but broad-based impact on Nepal's tourist inflow is not expected, which assumption is also supplemented by the quick rebound in foreign tourist arrivals after the month of September 2025 (wherein there was major riots in capital city as well as major urban centres across the country on September 09, 2025). Cost of import-based businesses are however likely to increase due to closure of Gyirong port, along with the flood damaging a portion of major highway to the capital city as well. However, this is expected to be largely passed to the end consumers, with no material impact expected on associated businesses.

Entity	Rating outstanding	Rating action
Standard Chartered Bank Nepal	[ICRANP-IR] AAA	No rating action for now; pass through effect from loans to impacted projects/borrowers after accounting for expected regulatory support measures will be monitored to determine whether any rating action will be required.
Nepal SBI Bank	[ICRANP-IR] AA	
Nabil Bank	[ICRANP-IR] A	
Nepal Bank	[ICRANP-IR] A	
Global IME Bank	[ICRANP-IR] A-	
Nepal Investment Mega Bank	[ICRANP-IR] A-	
NMB Bank	[ICRANP-IR] A-@	
Sanima Bank	[ICRANP] LA-@ on “notice of rating withdrawal”	
Machhapuchchhre Bank	[ICRANP-IR] BBB+@	
Siddhartha Bank	[ICRANP-IR] BBB+	
Citizens Bank	[ICRANP-IR] BBB	
Kumari Bank	[ICRANP-IR] BB+	
Laxmi Sunrise Bank	[ICRANP] LBBB@	Placed on “notice of rating withdrawal” on client’s request at same rating level; separate press release/rationale for this
Prabhu Bank	[ICRANP-IR] BB+@	[ICRANP-IR] BB@; downgraded (albeit not owing to this specific flood event); separate press release/rationale for this
Nepal Infrastructure Bank	[ICRANP-IR] BBB+	No rating action amid nil exposure to the projects in the affected districts.
Garima Bikas Bank	[ICRANP-IR] BBB-@	No rating action for now; pass through effect from loans to impacted projects/borrowers after accounting for expected regulatory support measures will be monitored to determine whether any rating action will be required.
Shine Resunga Development Bank	[ICRANP-IR] BB	
Mahalaxmi Bikas Bank	[ICRANP-IR] BB@	
Lumbini Bikas Bank	[ICRANP-IR] BB-	
Shangri-la Development Bank	[ICRANP-IR] BB-	
Goodwill Finance Limited	[ICRANP-IR] B+	No rating action for now; incremental developments will be monitored.
Swastik Laghubitta	[ICRANP-IR] B@	These entities could have higher impact vis-à-vis other classes of banks and financial institutions, in case they have sizable exposure to impacted geographies as their borrowers’ livelihood could have suffered major damages and/or unfortunate loss of lives. However, details to assess the same not available as of now and most ratings were already under ‘rating watch with negative implications’. Hence, appropriate rating action will be taken as adequate clarity emerges.
Vijaya Laghubitta	[ICRANP-IR] B@	
Mahuli Laghubitta	[ICRANP-IR] BB-@	
Aviyan Laghubitta	[ICRANP-IR] B@ ‘Issuer Not Cooperating’	
Jeevan Bikas Laghubitta	[ICRANP-IR] BB	

ICRA Nepal will continue to monitor the developments across above sectors/entities and appropriate rating actions could be taken at later stages, based on updated assessment.

Analyst Contacts

Mr. Rajib Maharjan (Tel No. +977-1-4519910/20)
rajib@icranepal.com

Mr. Purushottam Sedhai (Tel No. +977-1-4519910/20)
purushottam@icranepal.com

Ms. Kushum Bhattarai (Tel No. +977-1-4519910/20)
kushum@icranepal.com

Mr. Aslesh Adhikari (Tel No. +977-1-4519910/20)
aslesh@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)
barsha@icranepal.com

About ICRA Nepal Limited

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For more information, visit www.icranepal.com

ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.
Phone: +977-1-4519910/20
Email: info@icranepal.com
Web: www.icranepal.com

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