Annexure-VI

ASSET CLASSIFICATION DUE TO DEFAULT IN LOAN REPAYMENT BY THE BORROWER(S)

Classification of Asserts as Special Mention Account (SMA) and Non-Performing Asset (NPA) of stressed loan account due to default in repayment:

SMA (Special Mention Account) classification:
Before a loan account turns into a NPA, banks are required to identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the table below:

Loans other than revolving facilities		**Loans in the nature of revolving facilities like cash credit/overdraft**	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	1-30 days	SMA-0	NA
SMA-1	More than 30 days and upto 60 days (31-60 days)	SMA-1	More than 30 days and upto 60 days (31-60 days)
SMA-2	More than 60 days and upto 90 days (61-90 days)	SMA-2	More than 60 days and upto 90 days (61-90 days)
SMA -NF	non-financial indications reflect potential sickness/irregularities		

SMA 0 are accounts where the Principal or Interest payment is not overdue for more than 30 days. However, these accounts, though not overdue, exhibit signs of irregularities indicating incipient stress through certain symptoms mentioned in the financial statements. For example, the following are some of the features of early warning signals that may be noticed in the accounts:

1. Delay in submission of stock statement / Other control statements / financial statements.
2. Frequent Return of cheques issued by borrowers.
3. Return of bills/cheques discounted.
4. Non-payment of bills discounted or under the collection.
5. Poor financial performance in terms of declining sales and profits, cash losses, net losses, erosion of net worth etc.
6. Incomplete documentation in terms of creation / registration of charge / mortgage etc.
7. Non-compliance of terms and conditions of loan sanction.

SMA 1 refers to those loan accounts in which the instalment or interest is overdue for 1 month from 31st day to 60 days.

SMA 2 refers to accounts in which the instalment or interest is overdue for 2 months from 61st days to 90 days
Thus, the 'Special Mention' category of assets are considered not only on the basis of the non-repayment or overdue position of the loan accounts but also due to other factors that reflect potential sickness/irregularities in the account (SMA -NF). These are called in banking parlance, "Early Warning Signals (EWS)"

NPA classification (other than Agricultural loans):

In a credit facility account where the interest and/ or instalment of principal has remained 'past due' for a more than 90 days shall be classified as NPA.

• The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) 2021.

• In respect of derivative transactions, the overdue receivables representing positive mark to market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment,
• In case of interest payments, if the interest due and charges during any quarter is not fully serviced fully within 90 days from the end of the quarter.
• A working capital borrowal account will become NPA, if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory. For avoidance of doubt, the outstanding in the account based on drawing power calculated from stock statements older than three months would be deemed as irregular.
• Where the account indicates inherent weakness on the basis of data available, such as solitary or credits are recorded before the balance sheet;
• In case documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, the outstanding bills will immediately be classified as NPA
• The overdue receivables representing positive mark-to market value of a derivative contract will be treated as NPA, if these remain unpaid for 90 days or more
• In case the overdues arising from forwards contracts and plain vanilla swaps and options become NPA,
• Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other banks, the account will be treated as not serviced in the books of the other member banks and therefore be treated as NPA,
• Erosion in the value of security can be reckoned as significant when the realizable value of the security is less than 50% of the value assessed by the Bank or accepted by RBI at the time of last inspection, as the case may be.
• Credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked.
• During any time before Date of Commencement of Commercial Operations (DCCO) overdue as per record of recovery (90 days overdue); in respect of project finance,
• In cases where DCCO is extended beyond the period of two years and further for a period upto two years or one year from the date of revision of DCCO; as the case may be and funding of cost overruns does not comply with the thresholds/conditions applicable to restructuring of the loan.

NPA classification (Agricultural loans):

• A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.
• A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season .

Once the loan account classified as NPA it may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

<table>
<tr><td colspan="7" align="center">NPA EXAMPLE
The payment of EMI is due on 01/04/2020
If, Borrower fails to pay, then steps as follows: -</td></tr>
<tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr>
<tr><td>01/04/2020 - SMA 0</td><td>01/05/2020 - SMA 1</td><td>31/05/2020 - SMA 2</td><td>30/06/2020 – NPA or Sub standard</td><td>01/07/2021- D 1</td><td>02/07/2022 - D 2</td><td>03/07/2024 - D 3</td></tr>
<tr><td>30/04/2020 - SMA 0</td><td>30/05/2020 - SMA 1</td><td>29/06/2020 - SMA 2</td><td>29/06/2021 – NPA or Sub standard</td><td>29/06/2022 - D 1</td><td>29/06/2024 - D 2</td><td>& then loss Asset</td></tr>
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