



Customer Education Material: Information regarding RBI guidelines on Non-Performing Assets (NPA)

All loans are to be repaid on Due Date. Any outstanding not paid by due date shall be treated as an Overdue and will be classified in line with extant RBI guidelines on Income Recognition, Asset Classification and Provisioning. All such classifications will take effect as part of Day end process run by the Bank. Below are the extant RBI guidelines on Asset Classification and overdues shall be classified accordingly.

Classification to SMA (Special Mention Accounts)

SMA sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

For Overdraft (ODA) Accounts, SMA classification shall be as below

SMA sub-categories	Basis for classification - Outstanding amount in excess of the sanctioned limit or drawing power, whichever lower
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

Asset Classification

NPA : A Loan/advance shall be classified as an NPA where

- interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan. Classification of borrower account as NPA shall be done as part of day end process of the relevant date and NPA classification date shall be the calendar date for which day end process is run.
- the account remains 'out of order' as indicated below, in respect of an Overdraft (OD) account.
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- 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 interest applied at specific monthly rests remains overdue for more than 90 days.
- In respect of bills purchased/discouted, bill remains overdue for a period of more than 90 days.

- In respect of ODA/working capital accounts, where drawings were permitted based on drawing power statements, any irregular drawings (i.e., in excess of drawing power) permitted for a continuous period of 90 days
- Accounts where regular/adhoc credit limits have not reviewed/renewed/regularized within 180 days of the due date of such review/date of adhoc sanction.

Out of Order Accounts

- An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days.
- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the previous 90 days period, these accounts should be treated as 'out of order'.

Stage wise NPA movement

Category	Definition
Standard Assets	Any asset which is not an NPA.
Sub-standard Assets	An asset which has remained NPA for a period less than or equal to 12 months.
Doubtful Assets	An asset which has remained in the sub-standard category for a period of more than 12 months. Early classification of an asset as doubtful may be done where recoverability of an asset is in doubt.
Loss Assets	A loss asset is one where loss has been identified by the Bank but the amount has not been written off wholly.

Upgradation of Account

An account classified as NPA shall be upgraded only after Bank receives fully amount, i.e. Principal and interest due. Partial repayment in case of NPA accounts shall not result in upgrade of account as “Standard” Account.

Illustrative Example explaining above concepts

If due date of a loan account is March 31, 2021, and full dues are not received before the Bank runs the day-end process for this date, the date of overdue shall be March 31, 2021 and the account shall be classified as SMA-0. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA- 2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

If on Jun 30, 2021 or any day thereafter, client repays full amount (i.e. Principal + interest), account shall be upgraded to “Standard” account, however, if only partial amount is paid, account will continue to remain as NPA.

For any further clarifications, please reach out to your Relationship Manager or write to us at bns.mumbai@scotiabank.com