

STANDARD CHARTERED INVESTMENTS & LOANS (INDIA) LIMITED

POLICY FOR ASSET CLASSIFICATION AND INCOME RECOGNITION FOLLOWING THE EXPIRY OF COVID-19 REGULATORY PACKAGE AS PER THE GUIDELINES ISSUED BY THE RESERVE BANK OF INDIA

1. Background:

Due to the COVID -19 Pandemic, multiple steps have been taken by the GOI and Reserve Bank of India (RBI) to help borrowers manage the financial stress such as easing of repayment conditions by granting moratorium on loans for a period of 6 months (in 2 consecutive phases of 3 months moratorium), providing relief through various credit guarantee schemes, announcement of special economic stimulus package of INR 20 lakh crore, reduction in the cash reserve ratio (CRR), etc.

Supreme Court of India has also intervened and offered various relaxation such as Ex Gratia in the month of October 2020 to address the Financial Stress in the economy caused by the pandemic. Further the Hon'ble Supreme Court of India has pronounced its judgement in the matter of Small Scale Industrial Manufacturers Association vs UOI & Ors. and other connected matters on March 23, 2021 directed that banks should not charge interest on interest/compound interest/penal interest for the moratorium period and any amount recovered as interest on interest/compound interest/penal interest should be refunded to the concerned borrower or adjusted in the next instalment of the loan

Accordingly, RBI has Issued Circular No. **RBI/2021-22/17 DOR.STR.REC.4/21.04.048/2021-22 on 7th April 2021** providing further clarification to Banks, Financial Institution and NBFC's

This policy intends to stipulate procedure to be followed while refunding /adjusting the 'interest on interest' charged to the borrowers during the moratorium period, i.e. March 1, 2020 to August 31, 2020 in conformity with the Supreme Court Judgment.

2. Applicability:

This reliefs shall be applicable to all borrowers, including those who had availed of working capital facilities during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed, as defined in circulars **DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020** and **DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020** ("Covid-19 Regulatory Package") subject to prescribed criteria.

3. Eligible Accounts:

The eligibility criteria for accounts covered under the RBI guidelines for refund / adjustment of 'interest on interest' are as below:

1. Borrowers account which were standard as on 29.02.2020 including SMA-0, SMA-1 and SMA-2 will be eligible for the refund.
2. Borrowers whose aggregate fund based exposure to lending across institutions collectively is INR 2 crore or above where compound interest/penal interest for non-payment/delayed payment was applied during moratorium.
3. Borrowers whose aggregate fund based exposure to lending institutions collectively is INR 2 crore or less where compound interest/penal interest for non-payment/delayed payment was applied during moratorium and refund not provided under the ex-gratia scheme due to whatever reasons.
4. All loans/working capital/trade products which had outstanding during the moratorium period shall be considered.
5. Account eligible for refund only if compound interest / interest on interest / penal interest has been applied during the moratorium.

4. Non-Eligible Accounts:

Below types of accounts are not eligible for refund / adjustment of 'interest on interest' under RBI guidelines:

1. NPA accounts as on 29.02.2020 (presumption being no interest, or no compound interest is charged in case of NPA accounts).
2. Accounts with aggregate outstanding of less than 2 crores from all lending institutions where refund has already been afforded under the ex-gratia scheme.
3. Accounts with simple interest as per contract where compounding has been happened. However, if simple interest was capitalized on monthly or quarterly basis during the moratorium period shall be refunded.
4. Accounts where compounding interest/interest on interest/penal interest for non-payment /delayed payment has not been applied during the moratorium period will not be eligible for refund of interest.
5. Non-funded facilities not eligible for refund.

5. Modus Operandi to be followed to be followed while calculating refund/adjustment of 'interest on interest' amount as advised by IBA vide its letter dated 19th April 2021:

1. Daily outstanding balance to be reckoned for calculation of interest.
2. Enhancement / fresh limits sanctioned and disbursed/reduction in limits subsequent to reference date, i.e., 29.02.2020 and before 31.08.2020 will be reckoned for calculation of interest.
3. Repayments of interest and instalments in DL / TL accounts of borrowers during the moratorium period shall be considered for working out the difference between simple and compound interest.
4. Normal changes in the contractual interest rate due to changes in the underlying reference rate like MCLR, Base Rate etc. will be reckoned while calculating the interest.
5. Any penal interest rate on account of delay/non-payment of instalments/ interest applied in a facility shall be excluded while calculating the outstanding balance as it is to be refunded.
6. If the accounts were closed during moratorium period i.e. March 1, 2020 to August 31, 2020, interest liable for refund on closed accounts will be calculated upto one day prior to the closure date.

6. Asset Classifications:

1. Accounts which were not granted any moratorium in terms of the COVID-19 Regulatory Package, asset classification shall be as per the criteria laid out in the Master Circular - **Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015** or other relevant instructions as applicable to the specific category of lending institutions, Including **Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01,2016** as amended. (IRAC Norms)
2. Accounts which were granted moratorium in terms of the COVID-19 Regulatory Package, the asset classification for the period from March 1, 2020 to August 31, 2020 shall be governed in terms of the circular **DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020**, read with circular **DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020**.
3. For the period commencing September 1, 2020, asset classification and reporting for all such accounts shall be as per the applicable IRAC Norms.

7. Interest Certificate for Tax Purpose:

The interest amount refunded relating to year 2020-21 to be reduced from the overall interest recovered in the account while giving the interest certificate as the actual reversal will happen only in the next financial year.

8. MIS:

SCILL shall maintain detailed borrower-wise and credit-facility wise information regarding the nature, amount of refund / adjustment done relief granted along with working / justification where applicable. A summary of the same shall be placed in the Risk Committee of SCILL.

9. Approval for deviation:

Any deviation to this policy will require approval from Board.