



CLASSIFICATION OF SMA & NPA LOAN ACCOUNTS

Banks classify the loan accounts as Special Mention Accounts (SMA), Non-performing Assets (NPA) immediately in case of default as per guidelines issued by Reserve Bank of India and/or any other statutory body and/or under any applicable law.

The applicable laws and guidelines and revision in classification of SMA and NPA from time to time under the applicable laws, rules, guidelines etc. including the guidelines issued by Reserve Bank of India/Statutory authorities shall be binding on the borrowers.

The classification of SMA category and classification of NPA in case of default of Term loan, CC/OD facility, Bills Discounting Facility, interest payment is specified hereunder, and such classifications are subject to change from time to time and shall be binding on the borrower when such change(s) is effected.

Concepts / clarifications / Illustrative examples on due dates and specification of SMA/NPA classification dates

Dues:

Mean, the principal /interest/any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.

Overdue:

Mean the principal, interest, any charges levied on the loan account which are payable but have not been paid within the period

stipulated as per the terms of sanction of the credit facility. In other words. Any amount due to the bank under any credit facility is overdue' if it is not paid on the due date fixed by the bank.

**Relevance of the Principle of 'First in First Out' (FIFO)
in appropriation of payments into the borrower's account:**

The Principle of FIFO i.e., 'First In, First Out' accounting method is relevant to arrive at the No. of days of overdue for determining the SMA / NPA status. The FIFO principle assumes that, the oldest outstanding dues in the loan account needs to be cleared first .The FIFO method thus requires that what is due first must be paid by the borrower first.

For example If in any loan account as on 01.02.2021 there are no over dues and an amount of Rs X is due for payment towards principal instalment/interest/charges, any payment being credited on or after 01.02.2021 in the loan account will be used to pay off the dues outstanding on 01.02.2021.

Assuming that nothing is paid or there is partial payment (Rs Y) of dues during the month of February, the overdue as on 01.03.2021 will be Rs. X-Y.

Additionally, an amount of Rs.Z becomes due as on 01.03.2021, now any payment/partial payment into the account on or after 01.03.2021 will be first utilized to pay off the partial due of 01.02.2021 (Rs. X - Rs. Y). If there is more recovery than the Rs. X – Rs. Y then after recovering dues of 01.02.2021, the remaining amount will be treated as recovery towards due of 01.03.2021.

Lending Institutions will recognize the incipient stress in loan accounts, immediately on Default, by classifying them as Special Mention Accounts (SMA). The basis of classification of SMA / NPA Category shall be

Classification as Special Mention Account (SMA) Categories

| Loans in the nature of Term Loans | | 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 | Upto 30 days | | |
| SMA-1 | More than 30 days and upto 60 days | SMA-1 | More than 30 days and upto 60 days |
| SMA-2 | More than 60 days and upto 90 days | SMA-2 | More than 60 days and upto 90 days |

CLASSIFICATION OF NPA

| Loans other than revolving facilities | | Loans in the nature of revolving facilities like Cash Credit / Overdraft | |
|---------------------------------------|---|--|--|
| NPA | Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of term loan | NPA | <p>Cash Credit/Overdraft (CC/OD) account is classified as NPA if it is 'Out of Order'. In chase where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, the extant instructions, inter alia, stipulate that the account should be treated as 'Out of Order' if there are no credits continuously for 90 days as on date of Balance Sheet or credits are not enough to cover the interest debited during the same period. In order to avoid any ambiguity regarding determination of 'Out of Order status of CC/OD accounts on a continuous basis, it is clarified that an account shall be treated as 'Out of Order' if:</p> <ol style="list-style-type: none"> i. The outstanding balance in CC/OD account remains continuously in excess of sanctioned limit/drawing power for 90 days, or ii. The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but the credits are not enough to cover the interest debited during the previous 90 days. |

Illustrative movement of an account to SMA category to NPA category based on delay / non-payment of dues and subsequent up gradation to Standard category at day end process:

| Due date of payment | Payment date | Payment covers | Age of oldest dues in days | SMA/NPA Categorization | SMA Since date /SMA Class date | NPA Categorization | NPA Date |
|---------------------|--------------|--|----------------------------|------------------------|--------------------------------|--------------------|------------|
| 01.01.2022 | 01.01.2022 | Entire dues upto 01.01.2022 | 0 | NIL | NA | NA | NA |
| 01.02.2022 | 01.02.2022 | Partly paid dues of 01.02.2022 | 1 | SMA-0 | 01.02.2022 | NA | NA |
| 01.02.2022 | 02.02.2022 | Partly paid dues of 01.02.2022 | 2 | SMA-0 | 01.02.2022 | NA | NA |
| 01.03.2022 | | Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022 | 29 | SMA-0 | 01.02.2022 | NA | NA |
| | | Dues of 01.02.2022 fully paid, Due for 01.03.2022 not paid at EOD 01.03.2022 | 1 | SMA-0 | 01.03.2022 | NA | NA |
| | | No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022 | 31 | SMA-1 | 01.02.2022/03.03.2022 | NA | NA |
| | | Dues of 01.01.2022 fully paid, Due for 01.03.2022 not fully paid at EOD 01.03.2022 | 1 | SMA-0 | 01.03.2022 | NA | NA |
| 01.04.2022 | | No payment of dues of 01.02.2022 & amount due on 01.04.2022 at EOD 01.04.2022 | 60 | SMA-1 | 01.02.2022/03.03.2022 | NA | NA |
| | | No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022 | 61 | SMA-2 | 01.02.2022/02.04.2022 | NA | NA |
| 01.05.2022 | | No payment of dues of 01.02.2022 till 01.05.2022 at EOD 01.05.2022 | 90 | SMA-2 | 01.02.2022/02.04.2022 | NA | NA |
| | | No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022 | 91 | NPA | NA | NPA | 02.05.2022 |
| 01.06.2022 | 01.06.2022 | Fully paid dues of 01.02.2022 at EOD 01.06.2022 | 93 | NPA | NA | NPA | 02.05.2022 |
| 01.07.2022 | 01.07.2022 | Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022 | 62 | NPA | NA | NPA | 02.05.2022 |
| 01.08.2022 | 01.08.2022 | Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022 | 32 | NPA | NA | NPA | 02.05.2022 |
| 01.09.2022 | 01.09.2022 | Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022 | 1 | NPA | NA | NPA | 02.05.2022 |

| | | | | | | | |
|------------|------------|---|---|-----------------------------------|----|----|---------------------|
| 01.10.2022 | 01.10.2022 | Paid entire dues of 01.09.2022 & 01.10.2022 | 0 | Standard account with no overdues | NA | NA | STD from 01.10.2022 |
|------------|------------|---|---|-----------------------------------|----|----|---------------------|
