

**NPA and SMA Classification:**

As per the guidelines issued by the Reserve Bank of India (RBI), if an individual fails to repay the loan EMIs on time or defaults on the EMI payments, then the bank classifies the loan account of the individual as SMA (Special Mention Account) and NPA (Non-Performing Asset). The laws and guidelines relating to the classification of SMA and NPA issued by the RBI and other statutory authorities shall be binding on the borrower.

**Identification of Loan Account as Special Mention Account:**

There are three SMA sub-categories, i.e., SMA-0, SMA-1, and SMA-2

For microfinance loans, if the borrower fails to repay the principal or the interest amount partially or fully for up to 30 days, then the loan account will be classified as SMA-0. If the borrower fails to repay the amount for more than 30 days and up to 60 days, then the account will be classified as SMA-1. If the borrower has a loan overdue for more than 60 days and up to 90 days, then the borrower’s loan account will be classified as SMA-2.

SMA Sub-Categories	Basis for Classification
	Principal or interest payment or any other amount wholly or partially overdue for
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

**Explanation of Interest calculation and illustrative example of SMA/NPA Classification of the Loan:**

Please find below an illustrative example of Special Mention Account (SMA)/Non- Performing Asset (NPA) classification methodology.

**Illustrative Example:**

If due date of a loan account is March 31, 2024, and full dues are not received before the company runs the day-end process for this date, the date of overdue shall be March 31, 2024. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2024 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, 2024.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2024 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2024.

Due Date: March 31, 2024

Overdue Days	Date of Classification	Classification Status
0	March 30, 2024	Standard
1	March 31, 2024	SMA 0
31	April 30, 2024	SMA 1
61	May 30, 2024	SMA 2
91	June 29, 2024	NPA

\*Classification status tracking will depend on the type of facility being extended, for eg. SMA 0 classification is not applicable for revolving facilities, and will be tracked for SMA 1 onwards.

### **Identification of Loan Account as Non-Performing Asset**

No matter the type of credit, if the borrower fails to repay the interest or principal amount, either partially or fully on time for more than 90 days, then the lender will classify his/her loan account as NPA.

### **Non-Performing Loans**

If a loan reaches 90 days past due, it must be designated as non-performing. When a loan is designated as non-performing, it must enter a non-accrual basis for interest. While the related accruals are no longer reported, the client's contractual interest, penalties and collection fees must continue to be tracked separately in the IT system and/or another memorandum account or subsidiary ledger. Cash payments received on non-performing loans must be reported as a reduction of principal until the entire outstanding principal is recovered. If the client fully repays the principal value outstanding, any additional payments received should then be recognized as income and applied to collection fees, penalties, and interest income.