

Customer Education Literature on Special Mention Account (SMA) and Non Performing Asset (NPA) Classification

1. Introduction

This document, in compliance to RBI Master Circular on “Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 and Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Directions, 2025”, is created to facilitate the consumer to have awareness on the concept of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. It is to be noted that the content of this document is illustrative in nature and as such, the IRAC norms and clarifications provided by RBI will prevail for implementation in case of actual occurrences of SMA and NPA.

2. General Concepts:

2.1 Due Date: This is a contracted date stipulated between the Bank and its customer as per the terms of sanction of the credit facility by which principal / interest / any charges levied on the loan account which are to payable should be paid by the customer.

2.2 Date of overdue: The due date becomes date of overdue if by that date principal / interest / any charges levied on the loan account which are payable by the customer 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 or before the due date as contracted between the Bank and its customer.

2.3 Special Mention Accounts (SMA): These are RBI defined account categories used by the banks to recognise incipient stress in loan accounts, immediately on default. These categories are defined as below:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
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

In the case of revolving credit facilities like cash credit/overdraft, the SMA sub-categories will be as follows:

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-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

2.4 Non-performing Assets (NPA): An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A non-performing asset (NPA) is a loan or an advance where;

- i. interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan;
- ii. the account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC);
- iii. a working capital borrowal account where 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;
- iv. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
- v. an account where the regular / ad hoc credit limits have not been reviewed / renewed within 180 days from the due date / date of ad hoc sanction;
- vi. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
- vii. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops;
- viii. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Commercial Banks – Securitisation Transactions) Directions, 2025;
- ix. 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;

Please note that asset classification is done borrower wise and not facility wise. Therefore, all the facilities granted to the borrower will be treated as NPA and not the particular facility or part thereof which has become irregular.

'Out of Order' status: A CC/OD account shall be treated as 'out of order' if:

- i) The outstanding balance in the CC/OD account remains continuously in excess of the 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 credits are not enough to cover the interest debited during the previous 90 days period. Previous 90 days period shall be inclusive of the day for which the day-end process is being run. The definition of 'out of order' shall be applicable to all credit products being offered as an overdraft facility, including those not meant for business purpose and / or which entail interest repayments as the only credits.

Project Loans: A project loan would be classified as NPA as per record of recovery (90 days overdue) or if project has not commenced operations by stipulated Date of Commencement of Commercial Operations (DCCO)/ deferred DCCO or DCCO is extended beyond the regulatory permissible periods or DCCO extensions are not as per regulatory conditions or for specific regulatory conditions related to cost overrun and change in scope and size.

Restructuring: An account classified as 'standard' shall be immediately downgraded as non-performing assets, i.e., sub-standard' to begin with, following a restructuring by the bank. An account classified as non-performing asset, upon restructuring by the bank, shall continue to

have the same asset classification as prior to restructuring.

In both above cases, the asset classification shall continue to be governed by the ageing criteria as per extant asset classification norms contained in the Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

NPA Categories:

SMBC-India shall classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

NPA Categorisation	Definition
Substandard Asset	NPA for a period less than or equal to 12 months
Doubtful Assets	Remained in the substandard category for a period of 12 months
Loss Assets	Loss has been identified by the bank or internal or external auditors or the RBI inspection, but the amount has not been written off wholly

2.5 Upgradation of loan accounts classified as NPAs: Loan accounts classified as NPAs are upgraded to ‘Standard’ asset only if the entire arrears of interest and principal pertaining to all the credit facilities are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of Date of Commencement of Commercial Operations (DCCO), etc., the instructions as specified in the Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Directions, 2025 shall be applicable.

2.6 Day End Process: Classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Example: If due date of a loan account is March 31, 2025, 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, 2025 and the account will be classified as SMA-0 as on March 31, 2025. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2025 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, 2025. Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2025 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2025.

The following table illustrates the movement of an account to SMA and further to NPA based on delay / non-payment of dues and subsequent upgrade to Standard category at day end process:

Serial Number	Due date of payment	Payment date (current date)	Payment covers	Age of oldest dues in days	SMA or NPA Classification	SMA or NPA reporting date
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1	01.01.2022	01.01.2022	Entire dues paid up to 01.01.2022	0	NIL	NA
2	01.02.2022	01.02.2022	No payment or Part payment of dues of 01.02.2022	1	SMA-0	01.02.2022
3	01.02.2022	02.02.2022	No payment or Part payment of dues of 01.02.2022	2	SMA-0	01.02.2022
4a	01.03.2022	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
4b	01.03.2022	01.03.2022	Dues of 01.02.2022 fully paid; Due for 01.03.2022 is not paid at EOD 01.03.2022	1	SMA-0	01.03.2022
5	01.03.2022	03.03.2022	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
6	01.04.2022	01.04.2022	No payment of dues of 01.02.2022, 01.03.2022 and amount dues on 01.04.2022 at EOD 01.04.2022	60	SMA-1	01.02.2022 / 03.03.2022
7	01.04.2022	02.04.2022	No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA-2	01.02.2022 / 03.03.2022 / 02.04.2022

8	01.05.2022	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 / 03.03.2022 / 02.04.2022
9	01.05.2022	02.05.2022	No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	01.02.2022 / 03.03.2022 / 02.04.2022 / 02.05.2022
10	01.06.2022	01.06.2022	Fully paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	01.02.2022 / 03.03.2022 / 02.04.2022 / 02.05.2022
11	01.07.2022	01.07.2022	Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	01.02.2022 / 03.03.2022 / 02.04.2022 / 02.05.2022
12	01.08.2022	01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	01.02.2022 / 03.03.2022 / 02.04.2022 / 02.05.2022
13	01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	01.02.2022 / 03.03.2022 / 02.04.2022 / 02.05.2022
14	01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	Standard account with no overdue	STD from 01.10.2022

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