

## Customer Education Literature

**Prudential norms on Income Recognition, Asset Classification and Provisioning (IRAC) pertaining to Advances as per guidelines issued by the RBI.**

With a view to increasing awareness among the borrowers, consumer education literature has been placed explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation.

The Bank classifies borrower accounts as SMA/NPA as part of day-end process for the relevant date and the SMA/NPA classification date shall be the calendar date for which the day end process is run.

The examples quoted in this document are illustrative and not exhaustive in nature and relate to general scenarios. The IRAC norms and clarifications issued by the RBI will prevail for implementation and may be amended from time to time by the RBI.

*Ref: Prudential norms on Income Recognition, Asset Classification and provisioning pertaining to Advances – Clarifications (RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22)*

### Definition

- I. **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.
- II. **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.

### Calculation of days past due (DPD) for determining the SMA/NPA status:

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 overdues 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 payoff 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 payoff 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.

### Age of oldest Dues:

The age of oldest dues is reckoned in days from the date on which the oldest payment is due and continues to remain unpaid in the aforesaid illustration, if the Dues relating to 1<sup>st</sup> February 2021 remain unpaid till 01.03.2021, the age of the oldest dues is reckoned as 29 days on 02.03.2021.

### Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

**Special Mention Account:** The Bank is recognized the incipient stress in loan accounts, immediately on Default, by classifying them as Special Mention Accounts (SMA). The basis of classification of SMA is as follows:

Loans other than revolving facilities		Loans in the nature of 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 remain 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

### Non-Performing Asset (NPA):

In accordance with the provisions of the RBI's Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated October 1, 2021, Non-Performing Asset (NPA) is a loan or an advance where:

- Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan
- The account remains 'out of order' as indicated below, in respect of an Overdraft / Cash Credit (OD / CC)
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

### 'Out of Order' Status:

An account shall be treated as 'out of order' if:

- The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- 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.

The definition of 'out of order', as clarified in the Circular, shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits.

The 'previous 90 days period' for determination of 'out of order' status of a CC/OD account shall be inclusive of the day for which the day-end process is being run.

### SMA/NPA classification:

SMA/NPA reporting at borrower level is as per regulatory guidelines and thus, overdue in any one account of the borrower will result in reporting of the borrower as SMA or NPA as the case may be.

### Upgradation of accounts:

Loan accounts classified as NPAs are upgraded to 'Standard' asset only if the entire arrears of interest and principal pertaining to credit facilities are paid by the borrower. In case of borrowers having more than one credit facility from the

Bank, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities. Upgradation of accounts classified as NPA due to restructuring, will be governed by specific regulations.

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

Due Date of payment	Payment Date	Payment covers	Aging of Oldest Dues in Days	SMA / NPA Categorizations	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 01.02.2022 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 01.02.2022,01.03.2022 and 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

Due Date of payment	Payment Date	Payment covers	Aging of Oldest Dues in Days	SMA / NPA Categorizations	SMA since Date/SMA class date	NPA Categorization	NPA Date
01.05.2022		No payment of dues 01.02.2022 till 01.05.22 at EOD 01.05.2022 Of	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		NA	NA	STD from 01.10.2022