

CUSTOMER EDUCATION ON SMA AND NPA CLASSIFICATION

The Reserve Bank of India (“RBI”) has issued Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021 (‘RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021- 22’) (“**Clarifications**”), which clarifies certain provisions of the *Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances* (“**Prudential Norms**”). The Clarifications further clarify certain aspects of the extant Prudential Norms applicable to all lending institutions.

1. KEY TERMS.

- (a) Overdue: An amount is to be treated as overdue if it is not paid on the due date fixed by the Jio Financial Limited (“JFL”) before it runs the day-end process for that day.
- (b) Due Date: a date specified in the repayment schedule on which the amounts / instalment due is to be paid.

2. CLASSIFICATION AS SPECIAL MENTION ACCOUNT (SMA).

The Prudential Norms requires the lenders to recognise incipient stress in borrower accounts, immediately on default, by classifying them as SMAs. An account/ facility would be classified as SMA category if the amount due and payable to JFL is not paid by the borrower by the due date. Basis aging of overdues, JFL reports the borrower under the following SMA categories:

Loans other than revolving facilities		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 lower, for a period of:
SMA-0	Upto 30 days	NA	NA
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 as Non-Performing Asset (NPA)

NPA: A loan /advance shall be classified as an NPA where;

- (a) Interest applied at a specified date in respect of a term loan remains overdue for more than 90 days.
- (b) Classification of borrower account as NPA shall be done as part of day end process of the relevant date and NPA classification date shall be the calendar date for which day end process is run.

- (c) The account remains 'out of order' as indicated below, in respect of an Overdraft (OD) account.
- (d) In case of interest payments, if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.
- (e) In respect of overdraft accounts / working capital accounts, where drawings were permitted based on drawing power statements, any irregular drawings (i.e., in excess of drawing power) permitted for a continuous period of 90 days.
- (f) Accounts where regular / adhoc credit limits have not reviewed / renewed / regularized within 180 days of the due date of such review/date of adhoc sanction.
- (g) Accordingly, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date ("EOD"). An illustration of such classification is given below:

CLASSIFICATION	DATES
Original Due Date	2 April 2024
SMA- 0	2 April 2024 EOD
SMA -1	2 May 2024 EOD
SMA -2	1 June 2024 EOD
NPA	1 July 2024 EOD

3. Stage wise NPA movement.

CATEGORY	DEFINITION
Standard Assets	Any asset which is not an NPA
Sub-standard assets	An asset which has remained NPA for a period less than or equal to 12 months
Doubtful Assets	An asset which has remained in the sub-standard category for a period of more than 12 months. Early classification of an asset as doubtful may be done where recoverability of an asset is in doubt.
Loss Assets	A loss asset is one where loss has been identified by JFL but the amount has not been written off wholly

4. Upgradation of accounts classified as NPA.

A loan account that has been classified as an NPA can only be upgraded to a standard asset if the customer pays the entire arrears of interest and principal. Partial payments, such as paying only the interest or only one instalment, will not result in the upgradation of the loan account. An NPA loan account will remain as such until the entire outstanding amount is repaid.