

## Annexure

Date

From:

Mr./Ms/ M/s.... .

(Name and address of the borrowers)

To:

The Branch Head,

(Name of the lending institution and address)

Dear Sir,

With reference to the credit facilities sanctioned to me/us vide sanction Letter dated \_\_\_\_\_ and accepted by us today, I/ we confirm having understood the following concepts and illustrative examples related to due dates, classification of our borrowing accounts as SMA / NPA in the course of the conduct of the accounts.

The guidelines elucidated in the RBI circular (DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021) are as follows.

### **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 borrowing 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 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 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. 0 3.2021 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.

**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 01.02.2021 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)**

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 as follows: :

Loans in the nature of Term Loans		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   remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of
<b>SMA-0</b>	Up to 30 days		
<b>SMA-1</b>	More than 30 days and up to 60 days	<b>SMA- 1</b>	More than 30 days and up to 60 days
<b>SMA-2</b>	More than 60 days and up to 90 days	<b>SMA-2</b>	More than 60 days and up to 90 days

However, In case of NBFCs, the reference to 90 days for SMA-2 / NPA classification to be read as per the applicable norms and also subject to the provisions of the RB I Circular DOR CRE.REC .No.60/03.10.001/2021- 22 dated October 22,2021 on 'Scale Based Regulation (SBR): A revised Regulatory framework for NBFCs . Also. the asset classification norms of Agricultural advances which are based on Crop Season shall continue as hitherto.

**Non-performing Asset:**

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:

- (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.

Any amount towards Deutsche Bank's loan repayments, both scheduled and unscheduled, will be deducted from the credits considered for calculating the "Out of Order" status.

**Illustrative movement of an account to SMA category to NPA category based on delay / nonpayment of dues and subsequent upgradation 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	01.0 2. 20 22	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. 20 22		Dues of 01.02. 20 22 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA -0	01. 02. 20 22	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01.0 3. 20 22 not paid at EOD 01. 03. 2022	1	SMA-0	01.032022	NA	NA
		No payment of full dues on 01.02.2022 and 01.0 3. 20 22 at EOD 03.03.2022	31	SMA - 1	01 .02.2022 / 03 .03. 20 22	NA	NA
		Dues of 01.02.2022 fully paid, Due for 01. 03.2022 not fully paid at EOD 01.03. 20 22	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	01.0 2. 20 22 /02. 04. 202 2	NA	NA
01.05. 2022		No payment of dues of 01.02.2022 till 01.05.22 at EOD 01.05.2022	90	SMA 2	01.02. 2022 /02.04.202 2	NA	NA
		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02. 05. 20 22	91	NPA	NA	NPA	02. 05. 2 022
01. 06. 2022	01.06.2022	Fully Paid dues of 01.0 2. 20 22 at EOD 01. 06. 2022	93	NPA	NA	NPA	0 2. 0 5. 2 022

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

Credits received before the day-end-process are considered for calculation of delinquency at the time of undertaking the Asset Classification process. Any credit received subsequently are treated as receipts for the subsequent day.

#### **Day- end process:**

It is further clarified that borrower accounts will be flagged as overdue by the bank as part of day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA will be done as part of day-end process for the relevant date and the SMA or NPA classification date will 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, 2024, and full dues are not received before bank 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 will be 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 will be April 30, 2024.

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

I/we also understand that the aforesaid few examples are shown to cover common scenarios of SMA/NPA classification of that of the IRACP Norms. For detailed guidelines on Asset Classification and provisioning, please refer to RBI Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances as mentioned above.

Yours faithfully,

(Borrower/s)