



## SMA/NPA CLASSIFICATION NORMS

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## Preamble:

This Policy has been prepared in accordance with the Reserve Bank of India's notification on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications (RBI Master Direction dated November 28, 2025), as amended from time to time, and in alignment with the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025 applicable to NBFCs under the Middle Layer. These regulatory frameworks govern asset classification, provisioning norms, and governance requirements for Protium Finance Limited.

### • Key Highlights of revised NPA norms:

1. The timelines for **Special Mention Account (SMA)** categorization have been modified, the overdue timeline for SMA 0, SMA 1 and SMA 2 shall be upto 30, more than 30 upto 60 and more than 60 upto 90 days. Please refer to the note below for details.
2. The Classification of borrower accounts as **Special Mention Account (SMA)** as well as **Non-Performing Asset (NPA)** shall be done as part of the day-end process for the relevant date. The SMA or NPA classification date shall be the calendar date for which the day end process is run. The said SMA classification of borrower accounts are applicable to all loans (except agri advances), including retail loans, irrespective of size of exposure
3. Loan accounts classified as NPAs may be upgraded as '**standard**' assets only if entire arrears of interest and principal are paid by the borrower.
4. In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'
5. If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed

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

- RBI Master Direction dated November 28, 2025 on 'Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025 requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA), the basis for classification of SMA categories and NPA shall be as follows:

Categories	Basis for Classification – Instalment or any other overdue amount	Example – Days past dues as on 1 <sup>st</sup> April 2021
SMA 0	01 – 30 Days	01 April 2021 to 30 April 2021
SMA 1	31 – 60 Days	01 May 2021 to 30 May 2021
SMA 2	61 – 90 Days	31 May 2021 to 29 June 2021
NPA	90 days and beyond	30 June 2021 and beyond

- The Classification of borrower accounts as Special Mention Account (SMA) as well as Non-Performing Asset (NPA) shall be done as part of the day-end process for the relevant date. The SMA or NPA classification date shall be the calendar date for which the day end process is run.

#### **Example:**

1. *If due date of a loan account is April 1, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue\* shall be April 1, 2021 then the loan account shall be tagged as SMA-0*
2. *If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on May 1, 2021 i.e. upon completion of 30 days of being continuously*

*overdue. Accordingly, the date of SMA-1 classification for that account shall be May 1, 2021.*

*3. Similarly, if the account continues to remain overdue, it shall get tagged as SMA2 upon running day-end process on May 31, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 30, 2021.*

- The instructions on SMA classification of borrower accounts are applicable to all loans (except agri advances), including retail loans, irrespective of size of exposure of the lending institution.

*\* If full dues are not received before the lending institution runs the day-end process on EMI due date irrespective of the time of running such processes, the date will be date of overdue*

## **2. Upgradation of accounts classified as NPAs**

- Loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.
- If the interest or principal remains overdue for a period 90 days or three months and above the loan account is classified as a Non-Performing Asset (NPA). Once an asset is classified as NPA, it will move back to 'Standard' category if the DPD (days past due) count comes to '0' DPD.
- Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

## **3. Income recognition policy for loans with moratorium on payment of interest**

- In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'.

## **4. Asset Classification and Income Recognition Norms in case of Accounts impacted by Calamities**

For the purpose of this section the term 'Calamity(ies)' shall mean any natural calamity or, exposures of borrowers impacted by external events such as riots / disturbances that result in loss to economic activity upon the declaration of such calamity by the Central / State Governments (in accordance with the framework placed by the concerned Government for this purpose) and 'Natural Calamity' shall mean an event recognized under the National Disaster Response Fund (NDRF) / State Disaster Response Fund (SDRF).

- Borrower accounts classified as 'Standard' prior to implementation of a resolution plan under Chapter VI-A of the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025 ("RBI Resolution Directions") may continue to be classified as 'Standard' upon implementation of such resolution plan. Borrower accounts that may have slipped into NPA status between the occurrence of the relevant calamity and implementation of the resolution plan may be upgraded to 'Standard' upon implementation of the resolution plan.
- Subsequent asset classification of such borrower accounts post implementation of the resolution plan shall be governed in accordance with the applicable regulatory framework and this Policy.
- Accounts restructured under paragraphs 122E to 122L of the RBI Resolution Directions, where a subsequent restructuring is undertaken under Chapter VI-A of the RBI Resolution Directions, may continue to be classified as 'Standard'.
- The Company shall maintain an additional specific provision of five percent (5%) of the outstanding debt for borrower accounts where a resolution plan has been implemented.
- Such additional specific provisioning shall be maintained over and above the applicable prudential provisioning requirements, subject to an overall ceiling of one hundred percent (100%) of the

outstanding debt exposure.

- In case of repeated restructuring due to Calamity, the Company shall maintain an additional specific provision of five percent (5%) of the outstanding debt for each instance of restructuring.
- Additional specific provisions maintained for accounts restructured due to Calamity(ies) may be written back where:
  - the borrower has repaid at least twenty percent (20%) of the outstanding debt exposure after implementation of the restructuring;
  - the borrower account has not slipped into NPA status post implementation of the restructuring; and
  - the borrower account has not been subjected to any subsequent restructuring.
- Interest income in respect of borrower accounts where a resolution plan has been implemented under Chapter VI-A of the RBI Resolution Directions shall be recognised on accrual basis.
- Interest income in respect of accounts subjected to repeated restructuring under Chapter VI-A of the RBI Resolution Directions shall be recognised on cash basis.

- **Frequently Asked Questions (FAQs)**

1. **What are stressed assets?**

- Stressed assets = Non-performing Assets (NPAs) + restructured assets + written-off loans.

2. **What are Non-performing Assets (NPAs)?**

- Non-Performing Asset shall mean:
  - An asset, in respect of which, interest has remains overdue for more than 90 days
  - A term loan inclusive of unpaid interest, when the instalment or interest amount remains overdue for more than 90 days
  - a demand or call loan, which remains overdue for more than 90 days from the date of demand or call or on which interest amount remains overdue for more than 90 days
  - A bill which remains overdue for more than 90 days
  - The interest in respect of a debt or the income on receivables under the head 'other current assets' in short-term loans/advances, which facility remains overdue for more than 90 days
  - Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remains overdue for more than 90 days.

3. **What are Restructured Assets?**

- Restructured loans/ assets are loans of which the terms and conditions have been modified for a specific account. (like repayment period increased, interest rate reduced, EMI, reduction, loan converted into equity etc.)

4. **What are written-off loans?**

- Written-off loans are the loans (NPAs) that have been taken off from the balance sheet to clean off the books of the entity.

5. **What is 'Due' & 'Overdue' and how are they different? When will accounts be flagged as overdue?**

- NBFC use these terms to denote principal / interest / any charges levied on the loan account as under:
  - a. Due: Means 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.
  - b. Overdue: Means 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 company under any credit facility is 'overdue' if it is not paid on or before the due date as contracted between the NBFC and its customer.
- Borrower accounts are to be flagged as overdue by the lending institutions as part of the day-end processes for the due date, irrespective of the time of running such processes.

**6. What is "Days Past Due (DPD)"**

It indicates whether the customer have been consistent in his(her) repayments and if (s)he have missed any, how many instalments customer has missed and by how many days. The counting of DPD will be considered based on the oldest payment due date and the number of days falling due shall be counted to classify the loan account as NPA. In case the due date and billing date are different, the former would be considered for the purpose of calculating the DPD (days past due).

**7. How NPA tag can be removed from any account?**

- To lift NPA stamping, the borrower must make the payment of the principal and interest with levied charges on the account so that the NPA stamping can be removed from the account and the asset can be reclassified as standard asset.

**8. How many instalments is mandatory to pay for removal of NPA stamping?**

- The loan account holder must pay the total outstanding including principal and interest with charges of all the non-paid instalments.

**9. What is the effect of an NPA account on the credit rating?**

Credit report will reflect the outstanding amount, which may impact the credit score negatively, eventually creating hindrance for the availing further credit facility from any Banks and Financial institutions. This policy document along with FAQ will be placed on the company's website for customer education and information. The same information is to be provided to the customer in the loan documents.

This document shall be subject to periodic review at least annually in accordance with any regulatory or statutory requirement and shall be approved by the Board.