



Customer Education Literature

**FAQs ON INCOME RECOGNITION, ASSET CLASSIFICATION (IRAC) AND
PROVISIONING NORMS – SPECIAL MENTION ACCOUNTS (SMA) AND
NONPERFORMING ASSETS (NPA)**

**First Abu Dhabi Bank (FAB)
India**

1. What is the meaning of the term “Dues”?

The term “Dues” 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.

2. What is the meaning of the term “Overdues”?

“Overdues” means the principal / interest / any charges levied on the loan account which are payable but have not been paid on or before the period stipulated as per the terms of sanction of the credit facility.

3. What is “Overdue” in context of a loan with the bank?

Any amount due to the bank under any credit facility is ‘Overdue’ if it is not paid on or before the due date fixed by the bank.

4. What is a Stressed Account?

Borrowers are required to pay the EMI/ instalment/interest at periodic intervals as per the terms agreed before availing of the loan. In case such EMI/instalments/interest dues are not paid on or before the due date on agreed terms, such account is called as a “stressed account”.

5. What is a Special Mention Account (SMA)?

A loan account showing symptoms of stress as evidenced by a default in payment of dues will be classified as “Special Mention Account” (SMA). Such accounts if not regularized within 90 days gets classified as “Non Performing Asset” (NPA).

6. How SMA are categorized?

SMA are classified under the following sub-categories as under:

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 between:	MA Subcategories	Basis for classification - Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA 0	Upto 30 days	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

7. What are Non-Performing Assets (NPA)?

In a credit facility/ies where stress /delinquency/short comings as indicated below are observed, such borrowal accounts are classified as Non-Performing Asset (NPA):

- a) Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- b) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- c) Agricultural Loans: The instalment of principal or interest thereon remains overdue for two crop seasons in respect of short duration crops and remains overdue for one crop season in respect long duration crops.
- d) The account remains 'out of order', in respect of an Overdraft / Cash Credit (OD / CC) facility as under: 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.' (Note: 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 by the bank.)
- e) 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.
- f) Where Loans/Limits have been sanctioned against the Security of Stock & Book debts, and in such cases, if the position of such Stock & Book debts is not submitted to the Bank to determine the Drawing Power, the outstanding in the account based on the drawing power calculated from Stock & Book Debts statement older than three months would be deemed as 'irregular' and, if such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

8. Give Examples for classification of a loan as SMA-0, SMA-1, SMA-2 and NPA:

8.1 In respect of the accounts where EMI/Instalments are payable:

Example: If due date of a loan account is March 31, 2022, and full dues are not received before the bank runs the day-end process for this date, the date overdue shall be March 31, 2022, and the account will be classified as SMA 0 as on 31.03.2022. If it continues to remain overdue, then this account shall get tagged as SMA 1 upon running day-end process on April 30, 2022, i.e., upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA1 classification for that account shall be April 30, 2022.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA 2 upon running day-end process on May 30, 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day -end process on June 29, 2022.

8.2 In respect of account in the nature of revolving facilities like cash credit/overdraft the account turns into an NPA when:

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

8.3 Renewal Pending:

Regular and ad hoc credit limits need to be reviewed/regularized not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the bank should furnish evidence to show that renewal/review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, 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 will be treated as NPA. If the due date for renewal is 31st March 2022 and if the limit is not renewed till 26th September 2022, such account will be classified as NPA during day end process run on 26th September 2022.

8.4 Non-Submission of Stock & Book Debt Statement

If a CC/OD account is sanctioned against hypothecation of stock & book debts, the borrower has to submit the stock and book debt statements periodically to facilitate lenders to determine drawing power under the account. The outstanding in the account based on the drawing power calculated from the stock & book debts statements older than three months would be deemed as 'irregular'. If such irregularity exists for a continuous period of 90 days, the account will be classified as NPA.

9. At what periodicity the bank undertakes the classification of Accounts as SMA or NPA?

Bank undertakes the process of classification of Accounts as SMA/NPA on daily basis during the day-end process.

10. Whether all loan accounts of the borrower is classified as NPA if one of his loan account turns NPA?

Yes, NPA classification is borrower wise and not account wise. Hence if one loan account of the borrower is classified as NPA, all other loan accounts of the borrower also will be classified as NPA.

11. Whether amount paid/deposited during the day is considered during the NPA making process?

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.

12. How are borrower accounts upgraded to regular status after being classified as NPA?

A loan account, classified as NPA will be upgraded to Standard Asset only upon regularization of all loan accounts of the borrower having arrears and rectification of attendant irregularities relating to Review/Renewal & Stock & book debts of the borrowal account.

13. What is impact on the borrower if account is slipped to Stress/NPA?

As per the regulatory guidelines bank has to report Stress/Default/NPA to Central Repository Information of Large Credit (CRILC), Credit Information Companies etc. from time to time which impact the credit history of the borrowers and attendant repercussions.

(Note: It is to be noted that the content of consumer education as state above is illustrative in nature and as such, the IRACP norms and clarifications provided by RBI will prevail for implementation from time to time)

Should you require any clarifications please write to your Relationship Manager or contact us at customercare@bankfab.com or call on our office contact number +91 22 33311111. We look forward to continuing to serve you, as always.

Please find below examples for SMA/NPA status for loan facilities other than in the nature of CC/OD accounts and loan facilities in the nature of CC/OD accounts.

E. Example for SMA/NPA status

Loan facilities other than in the nature of CC/OD accounts:

1. All dues paid

Date	Charged (₹)	Recovery (₹)	DPD*	Status	Remarks
Mar 31, 2022	1,000	1,000	0	Regular	No overdues

*DPD: days-past-due

2. No dues paid

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2022	1,000	-	1	SMA-0	Overdue position
Apr 30, 2022	1,100	-	31	SMA-1	Overdue position
May 30, 2022	-	-	61	SMA-2	Overdue position
May 31, 2022	1,150	-	62	SMA-2	Overdue position
Jun 29, 2022	-	-	91	NPA ¹	Asset classification

1. Agriculture loans would be reported as NPA after 365 DPD, till then the accounts would be reported as SMA-2.

3. Partial dues paid (during SMA)

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2022	1,000	-	1	SMA-0	Overdue position
Apr 30, 2022	1,100	800	31	SMA-1	Overdue for Mar
May 25, 2022	-	500	26	SMA-0	Overdue for April
May 31, 2022	1,150	-	32	SMA-1	Overdue for April
Jun 28, 2022	-	1,000	29	SMA-0	Overdue for May
Jun 30, 2022	900	-	31	SMA-1	Overdue for May

Note: 1. The SMA status may be upgraded on payment of dues by the borrower.

2. The appropriation of recovery would be done for the oldest overdue as per first-in-first-out (FIFO) basis.

4. Partial dues paid (after NPA)

Date	Charged (₹)	Recovery (₹)	DPD	Status	Remarks
Mar 31, 2022	1,000	-	1	SMA-0	Overdue position
Apr 30, 2022	1,100	-	31	SMA-1	Overdue position
May 30, 2022	-	-	61	SMA-2	Overdue position
May 31, 2022	1,150	-	62	SMA-2	Overdue position
Jun 29, 2022	-	-	91	NPA	Asset classification
Jun 30, 2022	-	3,000	31	NPA	All dues not cleared

Note 1. The account classified as NPA is upgraded only when the borrower pays off the entire arrears of interest and principal for all loan facilities availed from the Bank.

Loan facilities in the nature of CC/OD accounts:

1. Out of order (CC/OD accounts) - Not enough credits in the account in last 90 days

Date	Debit (₹)	Credit (₹)	Status	Remarks
Mar 31, 2022	1,000	-		
Apr 1, 2022	-	1,000		
Apr 30, 2022	1,050	-		
May 1, 2022	-	1,050		
May 31, 2022	1,025	-		
Jun 29, 2022	-	-	NPA	Total interest debits in 90 days: ₹ 3,075, total credits: ₹ 2,050

The above examples are illustrative covering common scenarios and not exhaustive and subject to change based on the RBI guidelines. The asset classification of the borrowers would be determined based on the prevailing RBI guidelines including Master Circular issued by RBI on income recognition, asset classification and provisioning pertaining to advances