

Norms for Classification of Loan Accounts as Special Mention Account “SMA” and Non-Performing Asset “NPA” in Case of Overdue in Loan Accounts

ICICI Bank Limited, Bahrain Branch (the “Bank”) wishes to educate you of the following concepts from the perspective of Reserve Bank of India (RBI) guidelines as well as the International Financial Reporting Standards (IFRS) with illustrative examples, inter alia, related to due dates and classification of Borrowal Accounts as SMA/NPA in course of the conduct of Accounts.

Dues: The principal/interest/any charges levied on the Loan Account are payable within the period stipulated as per the terms of sanction of the Credit facility availed by the borrower.

Overdue: The principal/interest/charges levied on the Loan Account that are payable but have not been paid within the period stipulated as per the terms of sanction of a Credit facility. In other words, any amount due to the Bank under any Credit facility becomes overdue, if it stays unpaid 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 Accounting method is significant to calculate the number of days 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 first by the borrower.

For example, if as on Feb 01, 2021 there is no overdue in the Loan Account and an amount of USD <X> is due for payment towards the principal instalment/interest/charges, any payment credited on or after Feb 01, 2021 in the Loan Account will be used to pay off the dues outstanding on Feb 01, 2021.

Assuming that nothing is paid/or there is partial payment of <USD Y> of dues during the month of February, the overdue as on Mar 01, 2021 will be <USD X-Y>.

Additionally, an amount of <USD Z> becomes due as on Mar 01, 2021. Now any payment/partial payment into the Account on or after Mar 01, 2021 will be first utilised to pay off the partial dues of Feb 01, 2021 (USD X – USD Y). If there is more recovery than <USD X - USD Y>, then after recovering dues of Feb 01, 2021, the remaining amount will be treated as recovery towards dues of Mar 01, 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 pertaining to Feb 01, 2021 remain unpaid till Mar 01, 2021, the age of the oldest dues is reckoned as 29 days on Mar 02, 2021.

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

Lending institutions will recognise the incipient stress in loan accounts immediately on default by classifying them as SMA. The basis of classification of SMA/NPA category will be as follows:

Loans in the nature of Term Loans		Loans in the nature of Cash Credit/Overdraft	
SMA sub-categories	Basis for classification when the principal or interest or any other amount is wholly or partly overdue.	SMA sub-categories	Basis for classification when the outstanding balance remains continuously in excess of the sanctioned limit or the drawing power, whichever is lower for a period of:
SMA-0	Up to 30 days		
SMA-1	More than 30 days and up to 60 days	SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days	SMA-2	More than 60 days and up to 90 days

Non-performing Asset: A Non-Performing Asset is a loan or an advance where:

- Interest and/or instalment of the principal remains overdue for a period of more than 90 days with respect to a Term Loan
- The Account remains 'out of order' (as indicated below) with respect to an Overdraft/Cash Credit ("OD/CC")
- The bill remains overdue for a period of more than 90 days, in case of bills purchased and discounted.

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.

Illustrative movement of an Account from SMA category to NPA category based on delay/non-payment of dues and subsequent upgradation to the standard category at the day end process:

Due date of payment	Payment date	Payment covers	Age of oldest dues, in days	SMA/NPA categorisation	SMA since date/SMA class date	NPA categorisation	NPA date
01.01.2022	01.01.2022	Entire dues up to <u>01.01.2022</u>	0	Nil	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of <u>01.02.2022</u>	1	SMA 0	01.02.2022	NA	NA

ICICI Bank Limited
P.O. Box 1494, Manama,
Kingdom of Bahrain
VAT No. 200000477600002

Swift Code: ICICBHMXXX
Tel.: (973) 1757 6161
Fax: (973) 1722 1200 / 1722 1210
Website: www.icicibank.bh

Regd. Office: ICICI Bank Tower, Near Chakali Circle,
Old Padra Road, Vadodara,
Gujarat-390 007, India.

Corp. Office: ICICI Bank Tower, Bandra-Kurla,
Complex, Mumbai-400 051, India

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01.02.2022	02.02.2022	Partly paid dues of <u>01.02.2022</u>	2	SMA 0	01.02.2022	NA	NA
01.03.2022		Dues of <u>01.02.2022</u> not fully paid <u>01.03.2022</u> is also due at EOD <u>01.03.2022</u>	29	SMA 0	01.02.2022	NA	NA
		Dues of <u>01.02.2022</u> fully paid, Due for <u>01.03.2022</u> not paid at EOD <u>01.03.2022</u>	1	SMA 0	01.03.2022	NA	NA
		No payment of full dues of <u>01.02.2022</u> and <u>01.03.2022</u> at EOD <u>03.03.2022</u>	31	SMA 1	01.02.2022/ 03.03.2022	NA	NA
		Dues of <u>01.02.2022</u> fully paid , Due for <u>01.03.2022</u> not fully paid at EOD <u>1.03.2022</u>	1	SMA 0	01.03.2022	NA	NA
01.04.2022		No payment of dues of <u>01.02.2022</u> <u>01.03.2022</u> and amount due on <u>01.4.2022</u> at EOD <u>01.04.2022</u>	60	SMA 1	01.02.2022/ 03.03.2022	NA	NA
		No payment of dues of <u>01.02.2022</u> till <u>01.04.2022</u> at EOD <u>02.04.2022</u>	61	SMA 2	01.02.2022/ 02.04.2022	NA	NA
01.05.2022		No payment of dues of <u>01.02.2022</u> till <u>01.05.22</u> at EOD 01.05.2022	90	SMA 2	01.02.2022/ 02.04.2022	NA	NA
		No payment of dues of <u>01.02.2022</u> till <u>01.05.22</u> at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022

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01.06.20 22	01.06.20 22	Fully Paid dues of <u>01.02.2022</u> at EOD <u>01.06.2022</u>	93	NPA	NA	NPA	02.05 .2022
01.07.20 22	01.07.20 22	Paid entire dues of <u>01.03.2022</u> & <u>01.04.2022</u> at EOD <u>01.07.2022</u>	62	NPA	NA	NPA	02.05 .2022
01.08.20 22	01.08.20 22	Paid entire dues of <u>01.05.2022</u> & <u>01.06.2022</u> at EOD <u>01.08.2022</u>	32	NPA	NA	NPA	02.05 .2022
01.09.20 22	01.09.20 22	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD <u>01.09.2022</u>	1	NPA	NA	NPA	02.05 .2022
01.10.20 22	01.10.20 22	Paid entire dues of <u>01.09.2022</u> & <u>01.10.2022</u>	0	Standard account with no Overdue	NA	NPA	STD from 01.10 .2022

Please note that the above-mentioned examples are illustrative and not exhaustive in nature covering common scenarios.

Under IFRS 9, a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The evidence that a financial asset is credit-impaired includes observable data about the following events:

- a. Significant financial difficulty of the Issuer or the Borrower;
- b. Breach of contract such as a default or past due event;
- c. Lender(s) of the Borrower, for economic or contractual reasons relating to the Borrower's financial difficulty having granted to the Borrower a concession(s) that the Lender(s) would not otherwise consider;
- d. It is becoming probable that the Borrower will enter bankruptcy or other financial reorganisation;
- e. Disappearance of an active market for that financial asset because of financial difficulties;
- f. Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- g. Any loan and advance on which specific provisions have been made.

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In certain cases, it may not be possible to identify a single discrete event for identification of impairment. Instead, the combined effect of several events may lead to the conclusion that a financial asset has become credit-impaired.

A Credit Facility is evaluated for credit-impaired when one or more of the criteria mentioned below are present on the reporting date. The decision to classify a Credit Facility as credit impaired is also based on an evaluation of the Borrower's financial condition, collateral, liquidation value and other factors that affect the Borrower's ability to pay based on the occurrence of triggers/loss events that result in the likelihood of expected credit losses over the balance life of the Credit Facility. A Credit Facility where the Bank has made or proposes to make concessionary modifications, which it would not otherwise consider, to the contractual terms of the Credit Facility presented to a Borrower experiencing financial difficulties, is also identified as credit impaired under IFRS.

Default (in relation to credit impaired or Non-Performing Assets): A default (is considered to have occurred with regards to a particular obligor when either or both of the two following events takes place:

- The Bank considers that the obligor is unlikely to pay their credit obligations in full, without recourse by the Bank to actions such as realising security (if held).
- The obligor is past due more than 90 days on any material credit obligation. Overdrafts are considered as being past due when the borrower has breached an advised limit or has been advised of a limit smaller than the current outstanding.

This document shall form a part of the Transaction Documents and shall be read in conjunction with other Transaction Documents.

For further understanding or clarification, please get in touch with your Relationship Manager.

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