

With reference to credit facilities, the Bank wishes to educate you of the following concepts with illustrative examples, inter alia, related to due dates and classification of your borrowing accounts as Special Mention (SMA)/ Sub-standard (NPA) in the event of overdue in the course of the conduct of the accounts as per guidelines of the Bank.

**Dues:** mean the principal / interest/ any charges levied on the loan accounts which are payable within the period stipulated as per the terms of sanction of the Credit Facility.

**Overdue:** mean the principal / interest/ 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 accounting method is relevant for arrive at the number 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 earliest dues must be paid by the borrower first, followed by dues which have accrued later.

For example, if as on February 01, 2021 there are no overdues in the loan account and an amount of USD X is due for payment towards principal instalment/interest/charges, any payment being credited on or after February 01, 2021 in the loan account will be used to pay off the dues outstanding on February 01, 2021.

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

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

**Classification as Special Mention Account ("SMA") and Sub-Standard Asset ("NPA") on the account of overdue in loan account** The local guidelines issued by Hong Kong Monetary Authority (HKMA) and the internal guidelines of the Bank developed based on the HKMA guidelines consider overdue in loan account as one of the criteria for tagging the borrower account as SMA/NPA. Lending institutions will recognize the incipient stress in loan accounts, immediately on default by classifying them as SMA. The basis of classification of SMA/NPA category shall be as follows:

Loans in the nature of Term Loans/ working capital products		Loans in the nature of overdraft	
Sub-categories	Basis for classification when principal or interest payment or any other amount wholly or partly overdue	Sub-categories	Basis for classification when outstanding balance remains continuously in excess of the sanctioned limit or drawing power whichever is lower for a period of:
Special Mention (SMA)	More than 60 days and upto 90 days	Special Mention (SMA)	More than 60 days and upto 90 days

**Sub-standard assets (NPA):** The asset will be tagged as substandard in event of an overdue in following scenarios:

- i. Interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- ii. The account remains 'out of order' (as indicated below), in respect of an Overdraft ("OD"),
- iii. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

**Out of Order Status:** An account shall be treated as 'Out of order' if:

- i. The outstanding balance in the OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- ii. The outstanding balance in the 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 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 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	Nil	NA	NA	NA
01.04.2022		No payment of dues of 01.02.2022 01.03.2022 and amount due on 01.4.2022 at EOD 01.04.2022	60	Nil	NA	NA	NA
		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA	02.04.2022/02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.22 at EOD	90	SMA	02.04.2022/02.04.2022	NA	NA
		No payment of dues of 01.02.2022 till 02.05.22 at EOD	91	NPA	NA	NPA	02.05.2022
01.06.2022	01.06.2022	Fully Paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	NA	NPA	02.05.2022
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	Pass account with no Overdue	NA	NPA	Pass from 01.10.2022

Please note that the aforesaid few examples are illustrative and not exhaustive in nature covering common scenarios of classification. There are additional criteria for classifying assets as SMA/ NPA including but not limited to credit deterioration, potential weaknesses in financial strength, condition of and control over collateral being questionable, inadequate loan/borrower information, non-cooperation by borrower, volatility in economic or market conditions, borrower having difficulty in servicing other loans (either from ICICI Bank or other institutions) etc., as per local guidelines which are not explicitly covered above. The Bank shall at all times, retain the right to classify/ adjudge the borrower's loan accounts as SMA/ NPA according to the applicable law and internal policies.

Additionally, the guidelines on asset classification issued by the Reserve Bank of India (Indian regulator) would continue to remain applicable on the Bank.

For further understanding/clarifications, kindly get in touch with your Relationship Manager.