



NOTICE NO: 1/2009

(PURSUANT TO SECTION 66 OF THE ISLAMIC BANKING ORDER, 2008)

FINANCING FACILITIES

1. With effect from the date of this Notice, Banks shall not compute profit based on Rule 78 (Sum of digits) on new financing facilities offered and on financing facilities which are currently being processed but not yet granted.
2. Banks shall specify to all financing customers, very clearly, the early repayment computation model used by them.
3. Consumer interest is better safeguarded through enhancing disclosure and transparency requirements so that customers know and understand upfront, the obligation they are about to enter into. The minimum information that banks should provide to prospective customers in writing so that prospective customers can be conscious of the financial obligations they are assuming at the outset, is as follows:-
 - 3.1. the Annualised Profit Rate (refer to paragraph 4 below) of all financing facilities (to be made known in financing documentation and in advertisements);
 - 3.2. the method of calculating the financing balance upon early settlement;
 - 3.3. Profit rate for overdue installments; and
 - 3.4. administrative charges (if any).
4. The Annualised Profit Rate shall be calculated in accordance with the following formula:-

$$2NF (300C + NF)$$

$$2N^2F + 300C (N+1)$$

where:-



N is the total number of instalments;

C is the number of instalments that, under the contract, will be paid in one year or, where the contract is to be completed in less than one year, the number of instalments that would be paid in one year if instalments continued to be paid at the same intervals;

F is the amount determined in accordance with the formula-

$$\frac{100C \times T}{N \times A}$$

where:-

C is the same number as the first mentioned formula;

T is the total amount of pre-determined term charges;

N is the total number of instalments;

A is the amount financed.

ISLAMIC BANKING ORDER AUTHORITY

Effective Date: 08 June 2009