BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Guidelines on Ibra' (Rebate) for Sale-Based Financing

Issued on: 31 January 2013

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PART A OVERVIEW

1. Background

1.1 Ibra' represents the 'waiver on right of claim' accorded by a person to another person that has an obligation (*zimmah*) which is due to him. Ibra' or 'rebate' refers to an act by a person relinquishing his rights to collect payment due from another person. In the context of Islamic finance, an Islamic financial institutions (IFIs) may grant ibra' to its customers of a sale-based financing (such as murabahah and bai' bithaman ajil) who settled their debt prior to the agreed settlement period as stipulated in the agreement concluded by both parties.

1.2 In a sale-based financing contract, a customer is required to settle the **selling price (comprising the principal sum and profit margin)**, regardless as to whether the contract is on deferred or spot basis. For deferred payment financing, principally an IFI has the right to claim from the customer the outstanding selling price that will also include the deferred profit portion even in early settlement. Under this circumstance, IFI is encouraged to grant ibra' by forgoing the IFI's right over the debt of the remaining deferred profit portion to its customer in early settlement cases.

1.3 Granting of ibra' by IFIs is an important consideration for the IFIs to remain competitive with conventional financial institutions, as conventional financial institutions allow customers to pay the principal and accrued interests up to the date of early settlement only. Apart from the event where customers approach the IFIs for early settlement, other circumstances tantamount to settlement prior to maturity where ibra' could also be granted include settlement arising from a restructuring exercise, default cases and termination of contracts.

1.4 Given that ibra' is a discretionary consideration of the IFIs, the right to grant ibra' remains with the IFIs. However, it has been observed that while a number of IFIs grant discretionary ibra' and include such commitment in the offer letter and legal documents of the financing, there are also IFIs that are silent on the applicability of granting ibra'. The different practices among the IFIs need to be harmonised to avoid confusion to the public and provide greater transparency and clarity.

Shariah Advisory Council Resolutions

1.5 The Shariah Advisory Council of Bank Negara Malaysia (SAC) has issued several resolutions on ibra' from 2000 to 2010[1].

1.6 In the 13th Meeting on 10 April 2000, the SAC issued a resolution where IFIs may incorporate a clause on the undertaking to provide ibra' to customers who make early settlement in the financing agreement on the basis of public interest (*maslahah*). The inclusion of an ibra' clause in the financing agreement would require IFIs to honour the undertaking or promise to grant ibra' to its customers.

1.7 In the 101st Meeting on 20 May 2010, the SAC issued a subsequent resolution to further safeguard public interest and to ensure that customer protection is carried out consistently as follows:

(a) Bank Negara Malaysia (the Bank) as the authority may require the IFIs to accord ibra' to their customers who settled their debt obligation arising from sale-based contract prior to the agreed settlement period;

(b) The Bank may also require the terms and conditions on ibra' to be incorporated in the financing agreement to eliminate any uncertainty with respect to the customer's entitlement to receive ibra' from the IFIs; and

(c) The ibra' formula will be standardised by the Bank[2].

[1] Matters on ibra' were discussed in the 12th, 13th, 24th, 32nd and 101st meetings of the SAC.

2. Purpose

2.1 The *Guidelines on Ibra' for Sale-Based Financing* (the Guidelines) set out the requirements on the application and implementation of ibra' with the objectives to promote transparency and equitable mechanism of the granting of ibra' by IFIs. The Guidelines also specify the requirements relating to the granting of and incorporation of an ibra' clause in the financing documentation and other relevant documentation, calculation and disclosure requirements.

3. Applicability

3.1 These Guidelines are applicable to:

(i) Islamic banks licensed under the Islamic Banking Act 1983 (IBA);

(ii) Banks licensed under the Banking and Financial Institutions Act 1989 (BAFIA) to carry on Islamic banking business provided under section 124 of BAFIA;

(iii) Development financial institutions prescribed under the Development Financial Institutions Act 2002 (DFIA) to carry on Islamic banking business provided under section 129 of DFIA; and

(iv) Takaful operators registered under the Takaful Act 1984 (TA).

[All the institutions hereafter referred to as Islamic financial institutions (IFIs)].

3.2 The Guidelines shall apply to all financing based on sale contracts[3], except for salam and istisna' contracts. Both salam and istisna' contracts require different treatment in the context of ibra' in view of the different obligation of the contracting parties, in particular, the obligation on the delivery of the underlying assets. Sale-based financing shall include both fixed and floating rate structures based on deferred payment basis, unless stated otherwise.

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[2] In the context of the implementation of ibra', the Bank provides the parameters on the calculation of ibra' instead of standard formula.

[3] IFIs are not restricted to grant rebate for financing based on other types of contracts for examples equity-based, lease-based or hybrid financing contracts, where applicable.

3.3 Credit card facility shall be excluded from these Guidelines. Essentially, credit card financing is governed under the Credit Card-i Guidelines[4] and in practice, all credit card customers who enter into sale-based contracts would automatically be given rebate (which is similar to ibra') for credit card facility that is terminated prior to maturity and in the implementation of tiered pricing structure.

3.4 IFIs may but are not required to apply the requirements of the Guidelines for financing facilities offered to employees.

4. Legal provisions

4.1 The Guidelines are issued pursuant to section 53A of the Islamic Banking Act 1983 (IBA), section 126 of the Banking and Financial Institutions Act 1989 (BAFIA), section 126 of the Development Financial Institutions Act 2002 (DFIA) and section 69 of the Takaful Act 1984(TA).

4.2 The Guidelines shall be read together with the following guidelines issued by the Bank:

(i) Guidelines on Product Transparency and Disclosure;

(ii) Guidelines on the Imposition of Fees and Charges on Financial Products and Services;

(iii) Guidelines on Late Payment Charges for Islamic Financial Institutions; and

(iv) Other relevant regulations, guidelines or circulars that the Bank may issue from time to time.

4 Issued by the Payment Systems Policy Department.

5. Effective and Implementation Date

5.1 For IFIs other than takaful operators, the Guidelines shall be effective from 1 November 2011. The requirements under paragraph 6 shall take effect immediately.

5.2 For IFIs other than takaful operators, the requirements under paragraphs 7, 8, 9, and 10 shall be fully implemented from 1 July 2012. Earlier implementation is encouraged.

5.3 For takaful operators, the effective and implementation date of the Guidelines is 31 January 2013.

PART B POLICY REQUIREMENTS

6. Principle Requirements

6.1 **IFIs are required to grant ibra' to all customers who settle their financing before the end of the financing tenure**. Settlement prior to the end of the financing tenure by the customers shall include, but is not limited to the following situations:

(i) Customers who make an early settlement or early redemption, including those arising from prepayments;

(ii) Settlement of the original financing contract due to financing restructuring exercise;

(iii) Settlement by customers in the case of default; and

(iv) Settlement by customers in the event of termination or cancellation of financing before the maturity date.

6.2 Under the variable rate financing concept, the IFIs shall grant ibra' on the difference between the amount of profit calculated based on the ceiling/contracted profit rate (CPR) and the amount of profit based on the effective profit rate (EPR). Ibra' must be granted if the profit amount based on EPR is lower than the profit amount based on CPR.

6.3 IFIs must grant ibra' to:

(i) all existing customers who have ongoing financing contracts with the IFIs which were entered into prior to the effective date as stipulated in paragraph 5.1 and 5.3; and

(ii) all new customers who enter into financing contracts after the effective date as stipulated in paragraph 5.1 and 5.3.

7. Commitment to Provide Ibra'

7.1 To ensure legal certainty of providing ibra', IFIs are required to incorporate in their offer letter and other legal documentation related to the sale-based financing, a clause on its commitment to provide ibra'. The provision on ibra' must at minimum specifies the following:

(i) The situation where ibra' shall be granted by the IFI; and

(ii) The ibra' formula for each situation, where relevant.

7.2 The insertion of the above provisions on commitment of ibra' and formula shall be applicable to new financing arrangements made on or after the implementation date as provided in paragraph 5.2 and 5.3. For ongoing financing contracts entered prior to the implementation date, IFIs are required to inform the customers on the applicability of ibra' and the formula via notices[5].

7.3 The customers should be informed on the relevant conditions and procedures on the granting of ibra' by the IFI. For new financing arrangements made on or after the implementation date as provided in paragraph 5.2 and 5.3, such conditions and procedures shall be communicated to customers individually via the product disclosure sheet[6]. For ongoing financing contracts entered prior to the implementation date, IFIs are required to inform the relevant conditions and procedures to the customers together with the notices on the applicability of ibra' as provided in paragraph 7.2.

7.4 IFIs are required to ensure that the customers are duly informed on the applicability of ibra' in the redemption statement or other documents issued by IFIs to the customers for the purpose of recovery (such as letter/notice of

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[5] Refer to the relevant requirements on notices to the customer, in particular notice of changes as stipulated under the Guidelines on Product Transparency and Disclosures.

[6] Format of product disclosure sheet can be referred to the Guidelines on Product Transparency and Disclosures.

demand) and in the Statement of Claim prepared for litigation cases. At minimum, IFIs are expected to disclose the following:

(i) Commitment to provide ibra' in the Statement of Claim, redemption statement and other documents such as letters or notices of demand for the purpose of recovery; and

(ii) The formula or the manner of ibra' computation and the relevant conditions relating to the granting of ibra' in the redemption statement and other documents such as letters or notices of demand.

8. Calculation of Ibra'

8.1 In principle, IFIs may grant ibra' up to the total amount of the outstanding financing or selling price to the customer.

8.2 Nevertheless, upon settlement of a financing prior to the maturity date by the customer, IFIs are expected to recover the outstanding cost of purchase (outstanding principal amount of financing) from the customers. As such, the amount of ibra' that may be granted by the IFIs to the customers is the amount of **deferred profit**[7] at the point of settlement of the financing.

Early Settlement Charges

8.3 The IFIs are not allowed to claim any penalty charges from customers making early settlement[8] during a specified time period[9]. IFIs are not allowed to charge customers who make early settlement unless the charges represent the cost incurred by the IFIs due to early settlement by the customer.

8.4 The charges that may be imposed on the customers for partial or full settlement during the specified time period[9] as determined by IFIs shall

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7 Deferred profit is equated to 'unaccrued profit' in accounting terms. The adoption of deferred profit term is to better reflect the nature of sale contract with a deferred payment.

8 As specified in the 24th and 86th meetings of the SAC.

9 In practice known as 'lock-in period'.

reflect a **reasonable estimate of the costs** incurred by the IFIs as a direct result of settlement prior to maturity. Such cost may include:

(i) Costs that have not been recovered because a financing contract has a structure with discount elements at the initial period of financing; and

(ii) Initial costs that have not been recovered (e.g. for zero moving cost products).

8.5 The early settlement charges should not penalise or act as a barrier to prevent customers from switching or closing a financing account. The charges must <u>exclude</u> any consideration of the following costs:

(i) Loss of profit that would have been received if the financing continues until the end of the specified time period[9] or expected tenure; and

(ii) Marketing cost and other costs associated with obtaining new customers.

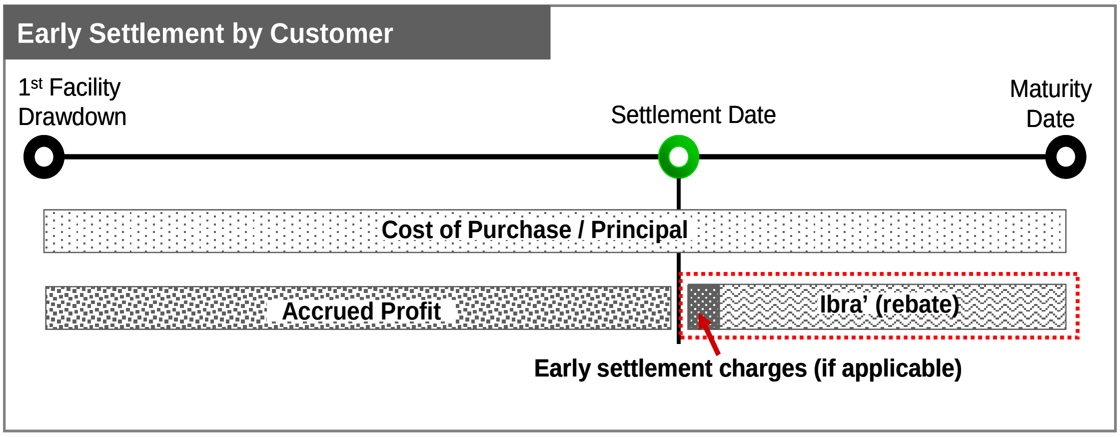

Diagram 1: Ibra' arising from early settlement prior to maturity

Note: Refer to **Appendices I & II** for illustration on early settlement by customers.

8.6 Relevant fees and charges other than the early settlement charges, if applicable may be imposed to customers based on the Guidelines on the Imposition of Fees and Charges on Financial Products and Services[10].

[10] Issued by the Consumer and Market Conduct Department.

Late Payment Charges

8.7 The late payment charges[11], if any, at the point of settlement prior to maturity are to be calculated separately from the ibra' calculation. The late payment charges shall be reflected in the settlement amount of the customer. Diagram 2 illustrates the ibra' and the late payment charges application.

Settlement amount = Outstanding selling price – Ibra' + Late payment charges

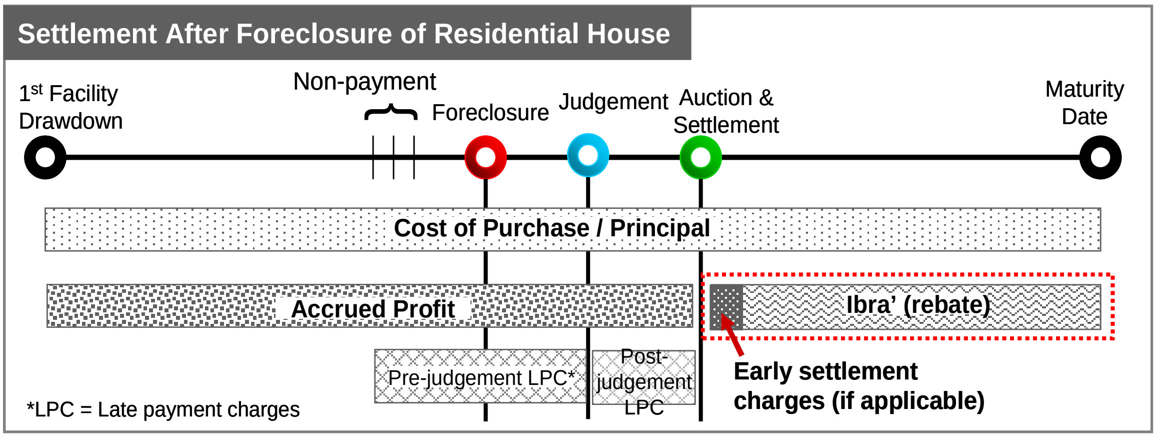

Diagram 2: Ibra' arising from settlement via foreclosure

8.8 In implementing requirements provided in paragraphs 8.3 to 8.7, IFIs are encouraged to act compassionately and to give due consideration in determining the amount of the early settlement charges, late payment charges and settlement amount paid by customers, particularly those faced with mitigating circumstances beyond the control of the customers such as out of job, illnesses, loss of asset due to natural catastrophe or fire and abandoned projects.

Termination of Financing Arising from Non-delivery or Non-Possession of the Underlying Asset

8.9 Although sale-based financing necessitates the existence of the asset, there are cases of financing facility being terminated due to non-delivery or non-

[11] The mechanism on late payment charges must be based on the Guidelines on Late Payment Charges for Islamic Financial Institutions issued by the Islamic Banking and Takaful Department and the Consumer and Market Conduct Department.

possession of asset. These cases may originate from abandoned[12] projects (for example, housing under construction), mandatory purchase by government, fraud by vendor/manufacturer, theft, act of God and seizure of asset by custom. IFIs are required to apply due consideration in handling cases of non-possession of asset by the customer. In some situations, IFIs may suffer losses due to non-payment of financing while the customer may ends up without any asset.

8.10 In the case of non-possession of asset by the customer and where there is a portion of the principal amount yet to be disbursed such as in the case of abandoned project (for housing under construction), IFIs are not allowed to claim the undisbursed principal amount. Instead, upon settlement by customers, the IFIs should grant ibra' on the undisbursed principal amount.

Note: Please refer to **Appendix III** for illustration for settlement amount by customer in the non-delivery/non-possession of asset.

8.11 Principally, IFIs may only recover the disbursed cost of purchase and waive the profit portion in the case of non-possession of asset by the customer. In some circumstances, IFIs may have already accrued some portion of profit for a certain period during the term of the financing contract. In this situation, IFIs are allowed to claim the accrued profit portion of financing up to the date of the first sign of inability to deliver the asset, for example, the date of the last amount disbursed to the contractor/manufacturer or when the project is categorised as 'late'[13] or the pronouncement of court order to stop construction. Diagram 3 illustrates ibra' arising from non-delivery of asset.

8.12 IFIs are expected to perform their due diligence as a counterparty of the sale contracts/transactions involving assets that are under construction or

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[12] Abandoned project as defined by Ministry of Housing & Local Government (MHLG) or IFIs' internal definition. Should IFIs wish to adopt internal definition, the identification criteria and processes shall take into account the interest of the customer and at least at par with the definition of MHLG.

[13] Late project as defined by MHLG or IFIs' internal definition. Should IFIs wish to adopt internal definition, the identification criteria and processes shall take into account the interest of the customer and at least at par with the definition of MHLG.

manufacturing. IFIs are expected to establish a monitoring mechanism to identify signs of non-delivery of assets such as ensuring that there is a frequent or periodic communication with the customer and contractor/manufacturer.

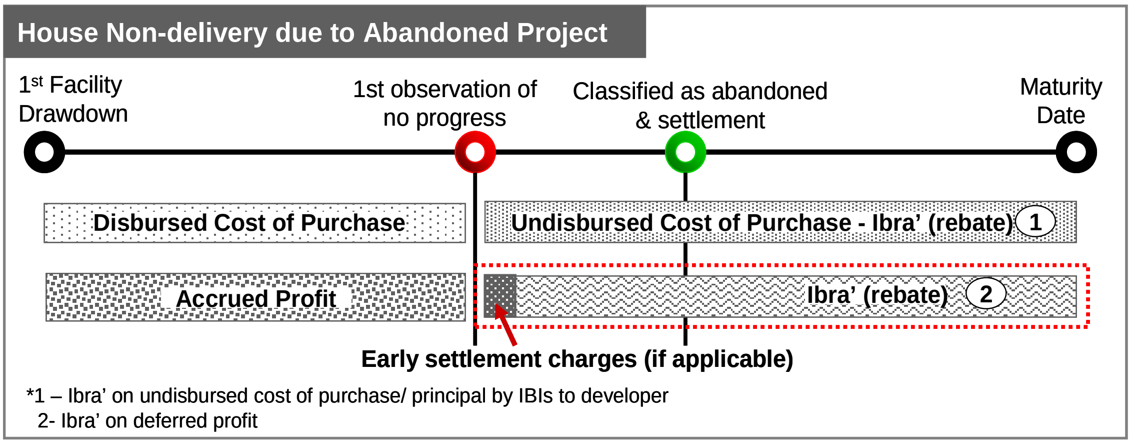

Diagram 3: Ibra' arising from non-delivery of asset

9. Disclosure at the Point of Entering a Contract

9.1 IFIs are required to disclose the application of an ibra' formula through an illustration to be customised according to the terms of the financing for ease of reference and understanding to the customers. The illustration shall include, among others a payment schedule that discloses new items in addition to the requirements under Schedule II, Paragraph 1.2 (b) 'Guidelines on Product Transparency and Disclosure'. The additional disclosure items are:

(i) Amount to be paid for each instalment. For variable rate financing, IFIs to disclose the CPR and the prevailing EPR and the amount to be paid for each instalment under CPR and prevailing EPR;

(ii) Apportionment of principal and profit payment in each instalment;

(iii) Outstanding principal and outstanding selling price after each instalment; and

(iv) Deferred profit.

9.2 IFIs are required to provide the illustrative payment schedule from the first instalment until the last instalment for fixed rate financing (inclusive of fixed multi tier rate financing). For variable rate financing where the effective profit rate would be subject to periodic changes, IFIs shall provide payment schedule that reflects 12-month instalments to serve as a guide to the customers. Please refer to **Appendices I and II** for the respective illustration of payment schedule for fixed and variable rate financing.

9.3 IFIs are required to inform the customer that the illustration is only indicative in nature and the circumstances that may trigger changes in the amount provided in the payment schedule. Examples of such triggers are changes in the effective profit rate (for variable rate financing), prepayments, partial payments, and promptness of instalment payment by the customers.

10. General and Administrative Policy

10.1 IFIs are required to put in place clear and comprehensive internal policies and procedures governing the implementation of ibra', in particular for foreclosure and litigation cases. The internal policies should include, but not limited to the following:

(i) A list of costs for early settlement charges approved by the IFI's Shariah Committee; and

(ii) Processes and procedures in determination of ibra' including the process of coordination between the departments involved in the determination of ibra' (i.e. legal, recovery, litigation departments and Shariah unit within the IFIs), especially in litigation cases and non-delivery of asset.

10.2 The Shariah Committee of the IFI is expected to perform an effective oversight over the implementation of ibra'. In particular, the Shariah Committee is expected to undertake that they are satisfied with:

(i) IFI's internal policies and procedures for each situation of ibra' and its implementation; and

(ii) The determination of early settlement charges that is reflective of reasonable costs incurred by the IFIs.

10.3 To ensure accurate and reliable amount of ibra' is given to the customers, IFIs must put in place an effective management information system and accounting system that are capable to:

(i) Generate timely and accurate payment schedule, letter/notice of demand and redemption statement for settlement and recovery purposes;

(ii) Track the effective profit rate used at each instalment for each financing facility (for variable rate financing); and

(iii) Trace and identify the cost incurred by the IFIs for the purpose of determining a reasonable early settlement charges as specified in paragraphs 8.3 to 8.5.

10.4 IFIs shall ensure that the legal documentations are prepared and litigation cases are handled by qualified and skilled personnel or external service providers. In this regard, the IFIs must ensure that the personnel or the external service providers possess the necessary and adequate understanding of the ibra' policy and its implementation.

Appendices

Appendices I and II provide samples of illustration for **fixed rate** and **variable rate** Bai' Bithaman 'Ajil (BBA) home financing-i that comprise of customised payment schedule under an ideal situation together with the application of ibra' and settlement amount formula.

Appendix I Illustration for fixed rate financing

Terms of the financing are as follows:

Selling price	: RM 365,136.00
Contracted profit rate (CPR)	: 9.0%
Financing period	: 180 months (15 years)
Cost of Purchase/Principal (COP)	: RM 200,000.00
Instalment mode	: Monthly

Illustrative Customised Payment Schedule for Fixed Rate BBA

(to be disclosed by each instalment by IFIs)

	No.	Payment date	Installment	Profit payment	COP payment	Outstanding Selling Price	Outstanding COP	Deferred Profit
	0	30-06-2009	-	-	-	365,135.97	200,000.00	165,135.97
	1	31-07-2009	2,028.53	1,500.00	528.53	363,107.44	199,471.47	163,635.97
Year 1	2	31-08-2009	2,028.53	1,496.04	532.50	361,078.91	198,938.97	162,139.93
	3	30-09-2009	2,028.53	1,492.04	536.49	359,050.38	198,402.48	160,647.89
	4	31-10-2009	2,028.53	1,488.02	540.51	357,021.85	197,861.96	159,159.87
	5	30-11-2009	2,028.53	1,483.96	544.57	354,993.32	197,317.40	157,675.91
	6	31-12-2009	2,028.53	1,479.88	548.65	352,964.79	196,768.74	156,196.03
	7	31-01-2010	2,028.53	1,475.77	552.77	350,936.26	196,215.98	154,720.26
	48	30-06-2013	2,028.53	1,277.62	750.91	267,766.53	169,598.40	98,167.98
	49	31-07-2013	2,028.53	1,271.99	756.55	265,738.00	168,841.85	96,895.99
	50	31-08-2013	2,028.53	1,266.31	762.22	263,709.47	168,079.63	95,629.68
	51	30-09-2013	2,028.53	1,260.60	767.94	261,680.94	167,311.70	94,369.08
	52	31-10-2013	2,028.53	1,254.84	773.70	259,652.41	166,538.00	93,114.24
	53	30-11-2013	2,028.53	1,249.04	779.50	257,623.88	165,758.50	91,865.20
	170	31-08-2023	2,028.53	160.06	1,868.47	20,285.87	19,473.07	812.28
	171	30-09-2023	2,028.53	146.05	1,882.49	18,257.34	17,590.58	666.23
	172	31-10-2023	2,028.53	131.93	1,896.60	16,228.81	15,693.98	534.30
	173	30-11-2023	2,028.53	117.70	1,910.83	14,200.28	13,783.15	416.60
	174	31-12-2023	2,028.53	103.37	1,925.16	12,171.75	11,857.99	313.23
	175	31-01-2024	2,028.53	88.93	1,939.60	10,143.22	9,918.39	224.30
Year 15	176	29-02-2024	2,028.53	74.39	1,954.15	8,114.69	7,964.25	149.91
	177	31-03-2024	2,028.53	59.73	1,968.80	6,086.16	5,995.44	90.18
	178	30-04-2024	2,028.53	44.97	1,983.57	4,057.63	4,011.88	45.21
	179	31-05-2024	2,028.53	30.09	1,998.44	2,029.10	2,013.43	15.12
	180	30-06-2024	2,028.53	15.10	2,013.43	0.57	0.00	0.00

*COP: Cost of Purchase/Principal

Disclaimer: This schedule indicates the ideal payment of instalments by customer. The values illustrated above may change according to a number of variables such as promptness of payments by customer, different amount of disbursement and prepayments.

Illustration on the application of formula:

(i) Early settlement of financing

Customer approached an IFI for early settlement at the 48th instalment. The early settlement charges are not imposed on the customer.

(i) Deferred profit = RM 98,167.98;

(ii) Outstanding selling price = RM 267,766.53

(iii) Instalment due but unpaid at 48th instalment = RM 2,028.53

(iv) Late payment charges = RM 0.00

(v) Early settlement charges = RM 0.00

Formula:

Ibra'	= **Deferred profit – Early settlement charges**
	= 98,167.98 – 0.00
	= **98,167.98**

Settlement amount	= **Outstanding selling price + Instalments due – Ibra'**
	= 267,766.53 + 2,028.53 – **98,167.98**
	= 171,627.08

(ii) Settlement after foreclosure of asset

Customer defaulted 11 instalments (from 37th to 47th instalment). Within the period, the IFI executed foreclosure proceedings and auctioned the asset. Proceeds amounting to RM185,000.00 were received by IFI from the auction. The IFI determined the amount of early settlement charges (the Bank has approved computation and components of this charge) to be RM300.00 (amount is only for illustrative purposes).

(i) Deferred profit at 48th instalment = RM 98,167.98

(ii) Outstanding selling price = RM 267,766.53

(iii) Late payment charges = RM 1,025.42 (Illustrative amount only)

(iv) Early settlement charges = RM 300.00

(v) Instalment due but unpaid = 11 instalments & 48th instalment

= 12 x RM 2,028.53 = RM 24,342.36

Formula:

Ibra'	= **Deferred profit – Early settlement charges** = 98,167.98 – 300.00 = **97,867.98**

Settlement amount	= **Outstanding selling price + Instalments due + Late payment charges – Ibra'** = 267,766.53 + 24,342.36 + 1,025.42 – **97,867.98** = 195,266.33

Since the proceeds from auction is less than the settlement amount to be payable by customer, the IFI claims the difference of:

Amount claimed = 195,266.33 – 185,000.00

= 10,266.33

Appendix II Illustration for variable rate financing

Below is a sample of illustration for **variable rate** BBA home financing-i comprising a customised payment schedule under an ideal situation and an illustration on the application of ibra' and settlement amount formula. The terms of the facility are as follows:

Selling price	: RM 365,136.00
Contracted profit rate (CPR)	: 9.0%
Effective profit rate (EPR)	: 3.5% (prevailing rate at point of contract)
Financing period	: 180 months (15 years)
Cost of Purchase (Principal)	: RM 200,000.00
Instalment mode	: Monthly – Instalment amount according to EPR

Illustrative Customised 12-Months Payment Schedule for Variable Rate BBA

Contracted Selling Price (RM) :	365,135.97
Contracted Profit Rate (CPR) :	9.0%
Financing Period :	15 years (180 months)
Cost of Purchase (COP) / Principal	200,000.00
Payment Mode:	Monthly - Installment amount according to EPR

No.	Payment Date	Installment (CPR)	Installment (Prevailing EPR)	Contracted Profit Rate (CPR)	Prevailing Effective Profit Rate (EPR)	Profit payment (CPR)	COP payment	Outstanding Selling Price	Outstanding COP	Deferred Profit
0	30-06-2009	-	-	9.0%	-	-	-	365,135.97	200,000.00	165,135.97
1	31-07-2009	2,028.53	1,429.77	9.0%	3.5%	1,500.00	528.53	363,107.44	199,471.47	163,635.97
2	31-08-2009	2,028.53	1,429.77	9.0%	3.5%	1,496.04	532.50	361,078.91	198,938.97	162,139.93
3	30-09-2009	2,028.53	1,429.77	9.0%	3.5%	1,492.04	536.49	359,050.38	198,402.48	160,647.89
4	31-10-2009	2,028.53	1,429.77	9.0%	3.5%	1,488.02	540.51	357,021.85	197,861.96	159,159.87
5	30-11-2009	2,028.53	1,429.77	9.0%	3.5%	1,483.96	544.57	354,993.32	197,317.40	157,675.91
6	31-12-2009	2,028.53	1,429.77	9.0%	3.5%	1,479.88	548.65	352,964.79	196,768.74	156,196.03
7	31-01-2010	2,028.53	1,429.77	9.0%	3.5%	1,475.77	552.77	350,936.26	196,215.98	154,720.26
8	28-02-2010	2,028.53	1,429.77	9.0%	3.5%	1,471.62	556.91	348,907.73	195,659.06	153,248.64
9	31-03-2010	2,028.53	1,429.77	9.0%	3.5%	1,467.44	561.09	346,879.20	195,097.97	151,781.20
10	30-04-2010	2,028.53	1,429.77	9.0%	3.5%	1,463.23	565.30	344,850.67	194,532.67	150,317.97
11	31-05-2010	2,028.53	1,429.77	9.0%	3.5%	1,459.00	569.54	342,822.14	193,963.14	148,858.97
12	30-06-2010	2,028.53	1,429.77	9.0%	3.5%	1,454.72	573.81	340,793.61	193,389.33	147,404.25

Disclaimer: This schedule indicates the payment of instalments by customer. The values illustrated above may change according to a number of variables such as promptness of payments by customer, prepayments, differing disbursement amount and the daily difference between the effective profit rate (EPR) and the contracted profit rate (CPR).

Illustration on the application of formula:

Early settlement of financing

Customer approached an IFI for early settlement at the 48th instalment through the means of refinancing, the early settlement charge is imposed on the customer as approved by the IFI which amounts to RM300.00 (amount is only for illustrative purposes). Extract of the payment schedule:

No.	Payment Date	Installment (CPR)	Installment (EPR)	Contracted Profit Rate (CPR)	Effective Profit Rate (EPR)	Profit payment (CPR)	COP payment	Outstanding Selling Price	Outstanding COP	Deferred Profit
0	30-06-2009	-	-	9.0%	-	-	-	365,135.97	200,000.00	165,135.97
1	31-07-2009	2,028.53	1,429.77	9.0%	3.5%	1,500.00	528.53	363,107.44	199,471.47	163,635.97
2	31-08-2009	2,028.53	1,429.77	9.0%	3.5%	1,496.04	532.50	361,078.91	198,938.97	162,139.93
47	31-05-2013	2,028.53	1,429.77	9.0%	3.5%	1,283.21	745.32	269,795.06	170,349.31	99,445.60
48	30-06-2013	2,028.53	1,429.77	9.0%	3.5%	1,277.62	750.91	267,766.53	169,598.40	98,167.98
49	31-07-2013	2,028.53	1,381.16	9.0%	3.0%	1,271.99	756.55	265,738.00	168,841.85	96,895.99

(a) Deferred profit = RM 98,167.98
(b) Early settlement charges = RM 300.00
(c) Outstanding selling price = RM 267,766.53
(d) Instalment due but unpaid (48th instalment based on EPR) = RM 1,429.77
(e) Ibra' due to fluctuations of EPR (equivalent to the difference between profits based on EPR & CPR) = RM 26,942.67 (amount is only for illustrative purposes)

Formula:

Ibra' at settlement = **Deferred profit – Early settlement charges**
= 98,167.98 – 300.00
= **97,867.98**

Settlement amount = **Outstanding selling price + Instalments due + Late payment charges – Adjustment on ibra' due to fluctuations of EPR (if any) – Ibra' at settlement**
= 267,766.53 + 1,429.77 + 0.00 – 0.00 – **97,867.98**
= 171,328.32

Essentially, the IFI has granted total ibra of:

Total ibra' = **Ibra' at settlement + Actual ibra' due to fluctuations of EPR**
= 97,867.98 + 26,942.67
= 124,810.65

Note: The Bank acknowledges that there are several payment structures adopted by IFIs for variable rate financing such as flexible instalment according to the prevailing EPR, periodically adjusted instalment and fixed instalment. The above illustration reflects the mode of flexible instalments payable by customer which is based on the movement of EPR. The adoption of fixed or periodically adjusted payment terms for the variable rate financing would render IFIs to review or make adjustments on ibra' to reflect the actual ibra' due to difference between amount calculated based on CPR and those based on prevailing EPR as mentioned in paragraph 6.2. IFIs should accordingly customise the illustration based on the terms and methodology adopted by the IFIs.

Appendix III Illustration of ibra' in non-delivery/non-possession of asset

Non-delivery of the house due to abandoned project

At the 13th instalment, a property under construction was abandoned. An IFI has only reimbursed RM 80,000.00 out of RM 200,000.00 of the principal amount. Extract of the customised payment schedule as follows:

Illustrative Customised Payment Schedule

Selling Price (RM) :	365,135.97
Contracted Profit Rate (CPR) :	9.0%
Financing Period :	15 years (180 months)
Cost of Purchase (COP) / Principal :	200,000.00
Grace Period :	2 years (24 months)

No.	Payment Date	Installment	Profit Payment	COP Payment	Outstanding Selling Price	Outstanding COP	Deferred Profit
0	30-06-2009	-	-	-	365,135.97	200,000.00	165,135.97
1	31-07-2009	1,500.00	1,500.00	0.00	363,635.97	200,000.00	163,635.97
2	31-08-2009	1,500.00	1,500.00	0.00	362,135.97	200,000.00	162,135.97
3	30-09-2009	1,500.00	1,500.00	0.00	360,635.97	200,000.00	160,635.97
4	31-10-2009	1,500.00	1,500.00	0.00	359,135.97	200,000.00	159,135.97
5	30-11-2009	1,500.00	1,500.00	0.00	357,635.97	200,000.00	157,635.97
6	31-12-2009	1,500.00	1,500.00	0.00	356,135.97	200,000.00	156,135.97
7	31-01-2010	1,500.00	1,500.00	0.00	354,635.97	200,000.00	154,635.97
8	28-02-2010	1,500.00	1,500.00	0.00	353,135.97	200,000.00	153,135.97
9	31-03-2010	1,500.00	1,500.00	0.00	351,635.97	200,000.00	151,635.97
10	30-04-2010	1,500.00	1,500.00	0.00	350,135.97	200,000.00	150,135.97
11	31-05-2010	1,500.00	1,500.00	0.00	348,635.97	200,000.00	148,635.97
12	30-06-2010	1,500.00	1,500.00	0.00	347,135.97	200,000.00	147,135.97
13	31-07-2010	1,500.00	1,500.00	0.00	345,635.97	200,000.00	145,635.97
14	31-08-2010	1,500.00	1,500.00	0.00	344,135.97	200,000.00	144,135.97

(i) Deferred profit = RM 145,635.97

(ii) Outstanding selling price = RM 345,635.97

(iii) Instalment due = RM 1,500.00

(iv) Principal/Cost of purchase not disbursed = RM 120,000.00

(v) Late payment charges = RM 0.00

Formula:

Ibra' = **Deferred profit + Undisbursed principal/COP – Early settlement charges**
= 145,635.97 + 120,000.00 – 0.00
= **265,635.97**

Settlement amount = **Outstanding selling price + Instalments due + Late payment charges – Ibra'**
= 345,635.97 + 1,500.00 + 0.00 – **265,635.97**
= 81,500.00