

CENTRAL BANK OF JORDAN

**INSTRUCTIONS FOR CLASSIFICATION AND TREATING LEASE-TO-
OWN HOMES (IJARA MUNTAHEYA BIL TAMLIK) FOR LICENSED
ISLAMIC (SHARIA COMPLIANT) BANKS**

NO. (60/2014) DATED 17/11/2014

Further to the instructions on the classification of credit facilities and calculating impairment provision and reserve for general banking risks No. (47/ 2009) dated 10/12/2009, and pursuant to the Sharia controls and standards issued by Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), the following provisions shall apply to Lease- to- own homes (Ijara Muntaheya bil tamlik):

First: - The classification of Lease- to- own homes (Ijara Muntaheya bil tamlik) installments, which are past due and unpaid, and the calculation of their impairment provisions shall be as follows:

Classification	Past due period	Impairment Provision
<i>Performing</i>	<i>From (30) days to (59) days</i>	<i>25%</i>
<i>Watch- list</i>	<i>From (60) days to (89) days</i>	<i>50%</i>
<i>Non- performing</i>	<i>(90) days and more</i>	<i>100%</i>

- Upon the classification of one of the obligor's Lease- to- own homes (Ijara Muntaheya bil tamlik) installments as non- performing, all other credit facilities extended to that obligor must be classified as non- performing and the impairment provision must be calculated as per the above- mentioned instructions.
- Upon the classification of one of the obligor's Lease- to- own homes (Ijara Muntaheya bil tamlik) installments as watch- list, all other credit facilities extended to that obligor must be classified as watch- list and the impairment provision must be calculated as per the above- mentioned instructions.

Second: - Rescheduling the non- performing Lease- to- own homes (Ijara Muntaheya bil tamlik) installments:

The rescheduling is permissible for three times only for the purposes of reclassifying such installments and in the following manner:

- In the first rescheduling agreement, the obligor shall pay a cash settlement from his own resources that at least covers (35%) of the past due balance of Lease- to- own homes (Ijara Muntaheya bil tamlik) installments.
- In the second rescheduling agreement, the cash settlement of the obligor's own resources shall at least cover (70%) of the past due balance of Lease- to- own homes (Ijara Muntaheya bil tamlik) installments and shall increase to (100%) of the past due balance of Lease- to- own homes (Ijara Muntaheya bil tamlik) installments for the third rescheduling agreement.

- *In case the obligor has other credit facilities, the provisions of item “Fourth” (Rescheduling non- performing credit facilities) of the above-mentioned instructions must be applied.*

Third: - *Continue to calculate the general banking risks reserve on the balances of Lease- to- own homes (Ijara Muntaheya bil tamlik) assets, which are classified as acceptable risk credit facilities, as per the instructions mentioned above .*

Fourth:- *Include impairment loss on Lease-to-own homes (IjaraMuntaheyabiltamaluk) balance in the Profit and Loss Statement in case an impairment loss happens on such assets and whose Lease- to- own homes (Ijara Muntaheya bil tamlik) installments are classified as non- performing loans, whenever the provisions of these instructions are met and the financial statements are prepared- provided that to include any impairment loss against non- transferable assets leased to be owned is reflected in the Profit and Loss Statement in case a general drop happens in the prices of such assets.*

Fifth: - *These instructions will become effective from financials dated 31/12/2014 provided that all procedures that ensure the preparation of the systems required for application are taken. Otherwise, working under the provisions of the instructions for classification of credit facilities and calculating impairment provision and reserve for general banking risks No. (47/ 2009) dated 10/12/2009 in this regard shall continue.*

We would emphasize the necessity to set written work procedures treating Lease- to- own homes (Ijara Muntaheya bil tamlik) that cover the moment the relationship with the client is established and till the leased assets are owned, and include the cases of terminating the contract either consensually or coercively. Such procedures are to be submitted to CBJ after being approved by the bank’s board of directors.

Best regards

*Governor
Dr. ZiadFariz*

