



EDBS/KH/C/73/2019
24th September 2019

The Chief Executive Officer
All Retail Banks
All Financing Companies
Manama
Kingdom of Bahrain

Dear Sir,

Subject: Use of Monthly Flat Rate of Interest/Profit for Credit Facilities

It has come to the CBB's attention that certain banks/financing companies have been charging a 'monthly flat rate of interest/profit' for the purposes of computing interest/profit on credit facilities, rather than an effective interest/profit rate derived based on a reducing balance method. The practice of charging interest/profit based on a monthly flat rate is not consistent with the CBB requirements included in the Principles of Business Module (Module PB), Business Conduct Module (Module BC) which require the licensees to maintain high standards of transparency and provide their customers sufficient information to help customers make informed judgements before they buy the services and products of the licensees.

The licensees to whom this circular is addressed must, effective from 1st October 2019, discontinue the use of 'monthly flat rate of interest/profit' and must also fully comply with the relevant requirements of Module PB and Module BC and disclose to their customers, the effective interest/profit rate both, before entering into transactions and on an ongoing basis in the customer statements of account.

Any licensee, that uses monthly flat rate of interest/profit on credit facilities presently should immediately notify its supervising point of contact at the CBB to agree the plan to effect the changes required.

Yours faithfully,

Khalid Hamad

cc: Bahrain Association of Banks
cc: External Auditors