



EDBS/KH/59/2018  
30<sup>th</sup> August 2018

**The Chief Executive Officers / General Managers**  
All Conventional Retail Banks  
Financing Companies  
Manama  
Kingdom of Bahrain

Dear Sirs,

**Subject: Use of Rule of 78 on Early Repayment of Installment Financing Facilities**

It has come to the CBB's attention that certain banks/financing companies have been using the sum-of-the-digits method, also known as Rule of 78, for calculation of the interest and principal with regards to installment financing facilities. Under the said calculation method, the customers who choose to settle, partially, or in full, their loans prematurely are treated unfairly due to disproportionate interest allocation on installments if the prepayment occurs during the initial repayment period. Such practice is not in accordance with the CBB requirements, in particular, the Annual Percentage Rate (APR) as calculated using the APR methodology in Business and Market Conduct Module (Module BC), Paragraph BC-4.3.31 and therefore must cease immediately, if used.

The licensees must also fully comply with the disclosure requirements of the relevant Module BC, specifically, disclosing to their customers the basis on which interest is charged and applied to the account together with an illustration of the calculation method. The CBB emphasises on the importance of full compliance with the requirements, as this matter is viewed seriously by the CBB and failure to comply with the same will trigger serious enforcement action against the licensees involved in such practices.

Any licensee, presently using or have in the past used calculation methods similar to that indicated above, should immediately notify their supervising point of contact at the CBB to agree the date from which the impact of such practice must be quantified.

Yours faithfully,

  
**Khalid Hamad**

cc: Bahrain Association of Banks