



EDBS/KH/56/2018  
29<sup>th</sup> August 2018

**The Chief Executive Officers / General Managers**  
All Islamic Retail Banks  
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 profit and principal with regards to installment financing facilities. Under the said calculation method, the customers who choose to settle, partially, or in full, their financings prematurely are treated unfairly due to disproportionate profit allocation on installments if the prepayment occurs during the initial repayment period. This practice should be considered unfair and detrimental to the interests of customers and not in accordance with the CBB requirements, therefore must cease immediately. Banks must apply the repayment proceeds on a proportionate basis such that the profit recognised is not disproportionate.

The licensees must also fully comply with the disclosure requirements of the relevant BC Module, specifically, disclosing to their customers the basis on which profit 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 said disclosure 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.

The CBB also requires that the licensees 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 and provide information regarding (a) the amounts involved and (b) number of customers impacted for the period from 1<sup>st</sup> October 2011.

Yours faithfully,

  
Khalid Hamad