



Methodology of calculating Financial Penalties

I. Introduction

This document sets out the Central Bank of Bahrain's ("CBB") approach to imposing financial penalties upon licensees under Chapter 2 "*Procedures to be taken before penalties or administrative proceedings are applied*" and Chapter 3 "*Penalties and administrative proceedings*" of the Central Bank of Bahrain and Financial Institutions Law No.64 of the year 2006 (the "Law").

The financial penalties imposed are additional to the Enforcement measures set out in the Enforcement Module of the CBB Rulebook. The purpose of the financial penalties is to encourage a high standard of conduct and compliance by CBB licensees, thereby reducing risk to their customers and the rest of the financial sector.

The imposition of a financial penalty does not preclude the CBB from also using other enforcement measures to remedy the same violation.

II. The Scope of application

The financial penalties imposed on a licensee shall be calculated based on the following:

- the gain/benefit/cost avoidance assessment, and/or
 - the level of risks posed to customers, financial position of the licensee, shareholders, stability of the financial sector and/or the reputation of the Kingdom.
- If the licensee made any gain/benefit or avoided any costs by violating the CBB rules then the gain/benefit and/or the cost avoided will be used as a benchmark for calculating the fine amount subject to BD 100,000 cap. In addition, the customers impacted must be compensated in full.
 - Fit and proper reassessment test would take place, at the discretion of the CBB, for the approved persons in case of any violation.
 - In case the same violation is repeated, then the financial penalty amount will be doubled, up to BD 100,000 cap.
 - If the gain/benefit made and/or cost avoided cannot be quantified then Table 1 will be used to determine the penalty amount based on the seriousness of violations as determined by the CBB.



- The factors used to determine the seriousness of the violation include, but are not limited to, the level of risks posed to the licensee's customers, financial position of the licensee, shareholders, stability of the financial sector and/or the reputation of the Kingdom. The CBB may consider other factors or circumstances as well.

Table 1: Risk Rating of Violation and Related Penalty

	Risk Rating	Fine Amount (BD)
1	Low	1,000 to 10,000
2	Moderate	10,001 to 50,000
3	Serious	50,001 to 100,000