



BANK OF GHANA

Prudential Requirements

for Development Finance Institutions

(EXPOSURE DRAFT)

Prepared by the Bank of Ghana

May 2022



This Exposure Draft sets out the Bank of Ghana's proposed prudential requirements for Development Finance Institutions.

Following the passage of the Development Finance Institutions Act, 2020 (Act 1032), the Bank of Ghana (BOG) has initiated measures towards operationalising the relevant sections of the Act to give full effect to its provisions. In this regard, the BOG has developed prudential requirements to guide the operations of DFIs pursuant to sections 21, 28, 84 and 85 of Act 1032.

The Bank of Ghana invites feedback on the proposed prudential requirements, including suggestions on areas to be clarified or elaborated further and alternative proposals that BOG should consider.

The responses should be constructive and supported with clear rationale and appropriate evidence. Where appropriate, please specify the applicable section and provide examples and illustrations.

Responses must be submitted to bsd@bog.gov.gh within 21 working days from the date of the publication of this exposure draft.

Comments and inputs are key to BOG's policy development and would be very much appreciated.

The exposure draft of the directive is also available on the BOG's website.
(<https://www.bog.gov.gh>)



A. Capital Adequacy Requirements

1. A Development Finance Institution (DFI) shall maintain at all times a risk-based Capital Adequacy Ratio (CAR) of not less than 10%.
2. The CAR shall be computed in accordance with the methodology as specified in Annexure I.
3. The eligible capital for the computation of CAR shall be the regulatory capital which is the sum total of Tier I Capital and Tier II Capital as defined by Act 1032 with the appropriate adjustments.
4. The qualifying criteria for Tier I Capital and Tier II Capital are as specified in Annexure II.
5. Tier II Capital shall not exceed 100% of Tier I in accordance with Basel I capital accord.
6. DFIs shall maintain a Net Open Position (NOP) of 5.0% for single currency and 10.0 % for aggregate currency.
7. The methodology for the computation of NOP shall be in accordance with the short-hand method as specified in Annexure III.
8. A capital charge for market risk shall be computed as 50% of NOP.
9. A capital charge for operational risk shall be computed in accordance with the Basic Indicator Approach (BIA) as 100% of three (3) years average annual gross income (defined as Net Interest Income + Other Income).

B. Leverage Ratio

1. A DFI shall maintain at all times a non-risk based minimum leverage ratio of 4.5%.
2. The Leverage Ratio shall be computed in accordance with the methodology as specified in Annexure IV.

C. Liquidity Requirements

1. A DFI shall maintain at all times a minimum operational Liquidity Ratio of 10%.
2. The Liquidity Ratio shall be computed in accordance with the methodology as specified in Annexure V.
3. The qualifying liquid assets and current liabilities are specified in Annexure V.
4. A DFI shall put in place Asset and Liability Management (ALM) Policy for liquidity management as well as an Asset and Liability Management Committee (ALCO) to oversee the sound and prudent management of liquidity.
5. A DFI shall maintain a Liquidity Contingency Plan (LCP) to address potential liquidity shortfalls in emergency situations.

D. Lending Limits

1. Lending by a Wholesale Development Finance Institutions (WDFI) shall be restricted to a maximum of 50% of the shareholders' funds unimpaired by losses of a Participating Financial Institution (PFI). This is in addition to the single obligor limits prescribed under Act 1032.



2. A PFI shall meet the minimum qualifying criteria as specified in Annexure VI.

E. Limits on Foreign Currency Borrowings

1. DFIs shall grant foreign currency loans to ONLY foreign currency earners.
2. The aggregate foreign currency borrowing of a DFI shall not exceed 75% of its regulatory capital.
3. DFIs shall not engage in trading of foreign currency.

F. Limits on Investments

1. At no time shall permissible investments of a DFI exceed 20% of total assets.
2. Permissible investments are as specified in annexure VII.

G. Prudential Returns

1. A DFI shall submit periodic returns to the Bank of Ghana which shall not exceed ten (10) calendar days after the end of the period to which the information relates.
2. The details of the information required and the form in which the information is to be reported shall be as specified in Annexure VIII.

H. Corporate Governance Arrangement

1. A DFI shall comply with the Corporate Governance requirements under sections 35 to 57 of Act 1032.
2. In addition, a DFI shall ensure that:
 - a. A mandatory induction is conducted for new Directors;
 - b. The Board Chair is not a member of any Board Committee; and
 - c. There is a cooling off period of three (3) years for Chief Executive Officers or Managing Directors who have served the maximum tenure in a DFI.
3. The Fit and Proper Persons Directive, 2019, issued by the Bank of Ghana for banks, savings and loans companies, finance houses and financial holding companies shall be applicable to DFIs until such time that the Bank of Ghana issues specific Directive for the DFI sub-sector.



Annexure I

COMPUTATION OF CAPITAL ADEQUACY RATIO (CAR)

Item Code	Item	Amount (GHS)
1	Tier I Capital	
1.1	Core Tier I Capital	
1.1.1	Paid up Capital (Equity Shares)	-
1.1.2	Disclosed Reserves	-
1.2	Additional Tier I Capital	
1.2.1	Non-Cumulative Irredeemable Preference Shares	-
1.2.2	Total Tier I Capital (1.1.1 + 1.1.2 + 1.2.1)	-
1.3	<u>Less: Adjustments to Capital</u>	
1.3.1	Goodwill/Intangibles	-
1.3.2	Losses not Provided For	
1.3.3	Investments in Unconsolidated Subsidiaries	
1.3.4	Investments in the capital of Other Banks & Fin. Inst.	-
1.3.5	Connected Lending of Long Term Nature	
1.3.6	<u>Adjusted Tier I Capital</u>	-
2	Tier II Capital (Limited to 100% of Total Tier I Capital)	
2.1	Undisclosed Reserves (Unaudited year to date profit)	-
2.2	Revaluation Reserves - Property (Limited to 50%)	-
2.3	Subordinated Term Debt (Limited to 50% of Total Tier I Capital)	-
2.4	Hybrid Capital	
2.5	Deposits for Shares & Other Amounts Allowed as Capital	
2.6	Total Tier II Capital	-
3	Adjusted Capital Base (Tier I + Tier II)	-
4	Total Assets	-
5	<u>Less: Adjustments to Assets</u>	
5.1	Cash on Hand	-
5.2	Government of Ghana Treasury Bills, Bonds and Stocks	-
5.3	Bank of Ghana Treasury Bills, Bonds and Stocks	-
5.4	80% of Cheques drawn on other banks	-



5.5	Goodwill / Intangibles	-
5.6	Investments in Unconsolidated Subsidiaries	-
5.7	Investments in the Capital of Other Banks & Fin Institutions	-
5.8	Connected Lending of Long Term Nature	-
5.9	Losses not Provided For	
5.10	80% Claims on Banks	-
5.11	100% Claims on ARB APEX Bank	-
5.12	50% Claims on Other Financial Institutions - Public Sector	
5.13	80% of Loans guaranteed by government	
5.14	80% of loans guaranteed by multilateral banks	
5.15	50% of Residential Mortgage Loans	
5.16	50% of Export Financing Loans	
5.17	50% of Loans and Advances to Public Institutions	
5.18	Adjusted Total Assets (4 - (Sum (5.1:5.17)))	-
6	Contingent Liabilities	-
	Less:	
6.1	50% of class 1 Risk weighted contingent liabilities	
6.2	80% of class 2 Risk weighted contingent liabilities	
6.3	Net Contingent Liabilities	-
7	Add: 50% of Net Open Position (NOP)	
8	Add: 100% of 3yrs Average Annual Gross Income	-
9	Adjusted Assets Base (5.17+6.3+7+8)	-
10	Adjusted Capital Base as percentage of Adjusted Asset Base (3/9 x 100) – CAR	
11	Capital Surplus / Deficit {3 – (10% of 9)}	-



QUALIFYING CRITERIA FOR TIER I AND TIER II CAPITAL

TIER I

1. Ordinary (common) shares issued by the DFI
2. Non-cumulative Irredeemable preference shares
3. Income Surplus (Retained Earnings)
4. Audited year to date profit
5. Statutory Reserves
6. Ordinary (common) shares issued by consolidated subsidiaries of the DFI and held by third parties (i.e. minority interest)

TIER II

1. Subordinated term debt (limited to 50% of Tier I)
2. Unaudited year to date profit
3. Property Revaluation Reserves (capped at 50%)
4. Hybrid Capital Instruments

PUBLIC



Annexure III

COMPUTATION OF NET OPEN POSITION (NOP)

Item Code	Item	USD/GBP/EUR/ OTHER CURRENCIES	Nature of Position
1.1	Net Assets	-	-
1.2	Liabilities on Contingent Credits	-	-
1.3	Net Trading Position	-	-
1.4	NET OPEN POSITION (1.1 + 1.2 + 1.3)	-	-
1.5	Cedi equivalent	-	-
1.6	Revaluation Rates	-	-
1.7	Single Current Open Position	-	-
1.8	Management limit on NOP	-	-

Item Code	Item	Net Open Position	Nature of Position
1.1	USD	-	-
1.2	GBP	-	-
1.3	EUR	-	-
1.4	OTHER CURRENCIES	-	-
1.5	Aggregate Forex Open Position (AFOP)	-	-
1.6	Tier I Capital	-	-
1.7	AFOP as % of Tier I Capital (1.4/1.5 *100)	-	-



Annexure IV

COMPUTATION OF LEVERAGE RATIO

Item Code	Item	Amount (GHS)
1	Tier I Capital	
1.1	Core Tier I Capital	
1.1.1	Paid up Capital (Equity Shares)	-
1.1.2	Disclosed Reserves	-
1.2	Additional Tier I Capital	
1.2.1	Non-Cumulative Irredeemable Preference Shares	-
1.2.2	Total Tier I Capital (1.1.1 + 1.1.2 + 1.2.1)	-
2		
2	Exposure	-
2.1	Off-Balance Sheet Exposures	-
2.2	On Balance Sheet Total Assets	-
2.3	Total Exposure (2.1+2.2)	-
3	Total Tier I Capital as percentage of Total Exposure (1.2.2/2.3 x 100) – LEVERAGE RATIO	



Annexure V

COMPUTATION OF LIQUIDITY RATIO

Item Code	Item	Amount (GHS)
1	Liquid Assets	
1.1	Cash on Hand	-
1.2	Balances with BOG	-
1.3	Balances with other Banks	-
1.4	Balances with other Financial Institutions	-
1.5	BOG/GoG Securities	-
1.6	Interbank Placements	-
1.7	Placements with other Financial Institutions	-
1.8	Inter-Affiliate Placements	-
1.9	Others	-
1.10	Total Specified Liquid Assets (1.1 + 1.2 + 1.3 + 1.4 + 1.5 + 1.6 + 1.7 + 1.8 + 1.9)	
2	Current Liabilities (Due in less than a year)	
2.1	Deposits from the Public	-
2.2	Interbank Borrowings	-
2.3	Inter-Affiliate Borrowings	-
2.4	Other Borrowings	-
2.5	Net Contingent Liabilities	-
2.6	Others	-
2.7	Total Current Liabilities (2.1 + 2.2 + 2.3 + 2.4 + 2.5 + 2.6)	
3	Total Specified Liquid Assets as percentage of Total Current Liabilities (1.10/2.7 x 100) – LIQUIDITY RATIO	



Annexure VI

MINIMUM QUALIFYING CRITERIA FOR ON-BOARDING PARTICIPATING FINANCIAL INSTITUTIONS (PFI)

1. Hold a valid licence issued by the Bank of Ghana;
2. Be compliant with all applicable laws, directives and notices of the Bank of Ghana;
3. Demonstrate, within the three most recent financial years, two years of profitable lending operations, with effective risk management procedures, controls and acceptable levels of loan portfolio quality and performance, as prescribed in DFI's Credit Policy;
4. Be compliant with the minimum standards of financial consumer protection and sustainable banking principles;
5. Be compliant with all other eligibility standards as prescribed in DFI's Credit Policy;
6. Fit and proper Board and Key Management Personnel;
7. Reliable management information systems; and
8. No objection from the Bank of Ghana.

A PFI shall be deemed not to be in good standing if that PFI:

1. is under a prompt corrective action from the Bank of Ghana;
2. receives a qualified audit opinion on its most recent audited financial statements;
3. is unprofitable for four (4) consecutive quarters at any time following the start-up period which shall be three (3) years from the date of commencement of business;
4. fails to meet its capital adequacy requirements as at the most recent examination and the PFI fails to inject additional capital to meet the regulatory threshold; or
5. is a borrower for which a DFI has received a written notice from the Bank of Ghana expressing material concerns about the PFI's financial condition or business operations resulting from its most recent supervisory inspection.



Annexure VII

PERMISSIBLE INVESTMENTS

1. Debt obligations issued, insured, or guaranteed by the Government of Ghana or the Bank of Ghana (BOG).
2. Demand deposits, term deposits, or certificates of deposit in supervised institutions.
3. Deposits and reserves held with the BOG if any.
4. Other investments specifically permitted by the BOG.

PUBLIC



Annexure VIII

PRUDENTIAL RETURNS

Return Code	Name of Return
	Statement of Assets and Liabilities
	Schedule of Sight Balances
	Schedule of Swap Deal Payables and Receivables
	Schedule of Repos Payables and Receivables
	Schedule of Other Assets and Liabilities
	Schedule of Other Reserves
	Schedule of Other Amounts Allowed as Capital
	Schedule of Other Margins against Contingent Liabilities
	Statement of changes in equity
	Foreign Currency Exposures
	Statement of Profit or Loss Account and Other Comprehensive Income
	Schedule of Average Positions of some Balance Sheet Items
	Details of Interest Earning Assets or Discount
	Details of Interest or Discount Bearing Liabilities
	Investment in Subsidiaries
	Capital Adequacy Position
	Maturity Analysis of Assets and Liabilities - Domestic Currency
	Maturity Analysis of Assets and Liabilities Foreign Currency
	Interest Rate Sensitivity of Assets and Liabilities
	Immovable Property Accepted in Satisfaction of Debt
	Classification of Advances
	Schedule of Collections, Recoveries and Write-offs
	Advances Subject to Adverse Classification
	IFRS 9 Provision and Impairment Allowance Reconciliation
	Unaudited Profit and Loss Statement
	Unaudited Balance Sheet
	Unaudited Cash Flow Statement
	Capital Expenditure
	Audited Profit and Loss Statement
	Audited Balance Sheet
	Audited Cash Flow Statement
	Fraud and Defalcations
	Disengaged Staff
	Details of Loans, Overdraft and other Advances (On-Balance Sheet)
	Details of Borrowings
	Details of Investments
	Schedule of Property, Plant and Equipment
	Schedule of Lease and Right of Use (ROU) Assets
	Operational Risk Events Reporting Register
	Related Party Exposures
	Net Open Position

The details of each return shall be obtainable from the Bank of Ghana in soft copy.