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NBFI BUSINESS (BOG) RULES
(as applicable to institutions not taking public deposits)

Preamble

The Bank of Ghana (the Bank), being satisfied that in public interest, and for the purpose of securing and promoting the proper functioning of the non-bank financial institutions licensed by it under Section 4(1) of the FINB Law 1993, it is necessary to make Rules in respect of their business, issues, in exercise of the powers vested in it by Section 14(1) ibid, the Rules hereinafter specified to the licensed institutions:

1. These Rules shall be known as “Non-Bank Financial Institutions Business (Bank of Ghana) Rules” (as applicable to non-deposit taking institutions)

2. These Rules shall apply to all licensed institutions which do not take deposits from the public except Venture Capital Companies. They include the undernoted categories of financial institutions specified in the Schedule to the FINB Law, 1993.

   (a) Finance Houses
   (b) Mortgage Finance Companies
   (c) Leasing and/or Hire Purchase Companies
   (d) Acceptance Houses

3. These Rules shall come into force with immediate effect and unless otherwise specified, replace the operating guidelines issued by the Bank.
Definitions

Ancillary business is any of the financing activities engaged for by non-bank institutions in credit business (ICBs), which a licensed ICB undertakes additional to its core business.

Core Business is the category of business to engage in which a licence has been issued to a non-bank financial institution by the Bank of Ghana.

For the purpose of the FINB Law and the Rules framed thereunder, the ‘core’ business of each category of financial institution is outlined below:

A. [Institutions in Credit Business]

(i) Acceptance Houses engage in the specialised business of lending primarily their name rather than funds; this they do by accepting bills drawn on them usually under credits established in favour of approved customers to finance trade. They may also provide credit by discounting commercial bills of exchange.

(ii) Building Societies are mutually owned (i.e. co-operative) organisations promoted for mobilisation of savings from members for the purpose of financing their residential/home mortgages.

(iii) Credit Unions are co-operative/mutually owned organisations formed by homogenous group(s) or interest(s) for mobilisation of savings from members for meeting their credit needs.

(iv) Finance Houses are companies engaged in the provision of a range of financial services but principally providing consumer credit and business finance. They may also provide other financial services as may be specifically authorised by the licensing authority.

(v) Leasing and Hire-Purchase Companies

(a) Leasing Companies undertake the business of leasing of equipment, heavy-duty vehicles and such other assets and mostly provide credit under finance lease contracts.

(b) Hire-Purchase Companies engage in the business of providing credit under hire purchase contracts to customers for acquisition of assets such as light vehicles and consumer durables.
Companies issued licences for this business may undertake either ‘lease’ financing or hire-purchase financing or a ‘mix’ of the two [composite business] – as their principal business.

[Note: Manufacturing and trading companies which provide instalment credit on sales of their stock-in-trade, under the guise of hire purchase finance, as a strategy for sales promotion are not hire purchase (finance) companies, under the Rules].

(vi) **Mortgage Finance Companies** are companies engaged in lending funds for acquisition of residential and commercial property which are secured by mortgages on the properties financed. Additionally, they may deal in the securities collateralised by such mortgages.

(vii) **Savings and Loans Companies (SLCs)** – as Savings Institutions - engage in mobilisation of retail savings by acceptance of deposits from the public – mainly, households and small business enterprises and provide credit to non-corporate sector largely with target group orientation such as micro and small business financing. Target group oriented credits may often be linked to savings:

B **[Institutions in Money Market Intermediation and Securities Trading]**

(viii) **Discount Houses** are companies that intermediate between inter-bank money market participants as also between banks and the Central Bank [BOG] under special agency/refinance arrangements with the latter, for management of liquidity in the money market. They invest in money market assets, notably in short-dated Government securities and inter-bank placements/repos/money market loans and take wholesale/call deposits for funding them. They also make market in Treasury Bills and currently, as primary dealers, in all government securities.

C **[Institutions in specialised equity investment Business]**

(ix) **Venture Capital Finance Companies** are those specialising in financing the risk capital needs of new and unlisted/high-risk business enterprises ['greenfield ventures'] by investing in their equity or equity cum debt.

**Deposit** means a sum of money placed with or paid to a financial institution on terms under which it will be repaid with or without interests or premium either on demand or at a time or in circumstances agreed by or on behalf of the person making the placement/payment and the person receiving it.
Deposits from the public – also referred to as public deposits’ or ‘retail deposits’ means deposits placed or paid by members of the public [including legal persons] and include individual members of the general membership of co-operative institutions but exclude:

(i) amounts deposited by the directors of the company and shareholders of a private company*;

(ii) amounts received from banks and other financial institutions;

(iii) amounts received in the ordinary course of business as dealership/earnest money deposits, security deposits [from employees], etc;

(iv) subscription monies received towards bonds and debentures to be issued by the Company or for the purchase of securities issued by others.

[These may be separately shown as ‘Deposits from Shareholders/ Directors’ in the financial reports of the Company].

Free Reserves means the aggregate of balances in:

(a) reserves created through allocation of profit [i.e. retained earnings or income surplus account], and,

(b) amounts in Capital surplus account [capital reserves]

and does not include reserves created for repayment of any future liability or for depreciation in assets or bad debts.

[Note: (i) Free Reserves are so called to distinguish them from "provisions" which are a change on earnings.

(ii) A reserve created by revaluation of the assets of the company (i.e. Premises Revaluation Reserve) is included in ‘free reserves’ for computation of shareholder equity/own funds but excluded from ‘free reserves’ for computing the ‘core capital’ for the purpose of capital adequacy regulation or Solvency Standard).

Gearing Ratio is a ratio wherein the numerator contains all listed obligations on the statement of financial position [i.e. all liabilities], divided by the denominator that contains the shareholders’ funds.
Loan assets means and includes:

(a) a scheduled loan or a medium term loan, or

(b) receivables under finance lease and hire-purchase contracts/factor credits, or

(c) trade bills purchased/discounted/forfained, or,

(d) any other credit facility.

Networth (or Net own funds) means Own Funds less:

Intangible assets such as deferred revenue expenditure, preliminary expenses and goodwill.

Own Funds [or Shareholder Funds] means paid-up capital plus free reserves, net of:

(i) losses [i.e. (accumulated) balance of loss carried on P & L account]; and

(ii) unprovided for depreciation or diminution of the value of assets. [Refer to sec. 27 of FINB Law – for Definitions]

Principal business is the business or activity of a licensed company from which not less than 75% of its total income is derived in a financial year.

Savings Institutions are NBFIs the core business of which includes mobilising retail savings from the public or members (in case of co-operative/mutual organisations) by offering savings accounts and time deposit products as well as for providing credit to small business segments and target groups/members, linked to their savings or otherwise.

[Savings and loans companies, building societies and credit unions belong to this group of NBFIs]

Short Notice Deposit means a deposit which is payable with a notice period or for a term not exceeding seven (7) days.

Section A. Permitted Business

Rule 1 (Business Specified in the licence shall be undertaken as principal business)
(1) A financial institution issued a licence by the Bank of Ghana for undertaking the business of a specified category of financial institution shall (vide Definitions – for “Core Business”) engage in that business as its “principal business”.

(2) Any ancillary business it undertakes shall be complementary to and supportive of its “principal business” and for engaging in which it has obtained the prior approval of or no objection certification from the Bank.

(3) Finance Houses licensed to undertake the activity of mobilising inward remittances of foreign exchange shall not undertake any other business.

**Rule 2**

(*Deposit taking authorisation has to be specifically sought and obtained*)

(1) Notwithstanding the general permission provided in Section 11(1) of the Law, a licensed company/other than a Savings Institution, desiring to solicit and take public deposits, shall seek and obtain specific deposit taking authorisation (DTA) from the Bank of Ghana - additional to the business licence.

Those not issued such authorisation shall not take deposits from the public.

**Rule 2A**

(*Deposit taking authorisation specifically accorded permits acceptance of term deposits*)

On an application made by a Company other than a Savings Institution, Bank of Ghana, may, on being satisfied about the financial soundness and the operational needs of the applicant company, accord restricted Authorisation to take (only) term deposits from the public.

**Rule 2B**

(*Authorised institutions may seek change in depository status*)

A licensed institution which has been authorised and has taken deposits from the public may request and obtain written permission from the Bank of Ghana to be a non-deposit taking institution and shall function as such only after repaying all “deposit liabilities”.
Rule 3  *(NBFIs not to undertake non-funded credit business without special authorisation)*

(1) Institutions engaged in credit business, desiring to undertake non-funded credit business, such as issue of guarantees, acceptance credits or co-acceptances/endorsements shall obtain specific authorisation from Bank of Ghana to engage in such business.

(2) Credit institutions undertaking non-funded credit business shall be governed by *higher capital requirements* as applicable to Deposit taking Institutions (Rules 6, and 9).

Rule 3B  *(Business barred for NBFIs)*

No licensed non-bank financial institution shall engage in or finance any activity in any way related to gambling, betting or any other speculative ventures and any other socially undesirable activities.

Section B: Capital Requirements

Rule 4  *(Minimum Initial Capital as prescribed has to be maintained at all times)*

(1) A licensed institution not taking deposits from the public shall hold paid up capital of not less than ¢500 million.
(2) The Bank may vary the minimum initial capital pursuant to a review of the licensing policy.

(3) The minimum paid up capital prescribed in clause (1) shall be maintained *unimpaired* at all times while in operation and holding the licence.

(4) Impairment of paid up capital arises or is deemed to occur
   
   (a) when the loss (debit) balance carried in the profit and loss account exceeds the total balances in the capital and income surplus accounts (i.e. the Reserved and Surplus.

   Further impairment is deemed to occur

   (b) when it is determined that there is deficiency or shortfall in the provisions for losses in risk assets or for accrued liabilities]

**Rule 5** *(Mandatory Reserve Fund to be maintained and progressively funded)*

(1) Every licensed institution shall maintain a Reserve Fund into which shall be transferred, out of the company’s net profits (profit after provision for tax but before declaring any dividend i.e. PAT) for each year, the following amounts:

   (a) an amount of not less than 50% of net profit, until the amount in the institution’s Mandatory Reserve Fund is equal to the amount of the minimum paid up capital prescribed for it (i.e. 500 million Cedis), and

   (b) after the amount in the Reserve Fund equals or exceeds the target level indicated (a), the transfer to the Fund shall be made in amounts at a rate not less than 15% of the net profit for each year.

(2) Withdrawal of any amount from the Mandatory Reserve Fund shall not be made without the prior approval in writing of the Bank of Ghana.

**Rule 6** *(Ceiling on gearing ratio prescribed to cap leveraging of capital)*
A licensed institution not taking public deposits may contract liabilities which in the aggregate do not exceed ten times of its own funds – in other words, it shall operate within a gearing ratio (total debt to equity) of 10:1.

**Rule 7** *(Dividend payments permitted only on maintenance of prescribed capital)*

Dividend on capital shall not be paid by a licensed institution which is in deficit of the capital amount prescribed for it or has contracted liabilities exceeding the gearing ratio ceiling or by payment of which dividend, the company’s capital will be in deficit – that is, while the company is in non-compliance with the capital requirements under these Rules.

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**Section C – Restrictions on Lending and Investment**

**Rule 8** *(Limit on Risk Concentration – Large Exposure Rule)*

(1) As enjoined in Section 18(1) and (2) of the Law, no licensed institution shall

(a) assume financial exposure by lending to and investing in equity of, a single person/borrower or a 'group of persons'/borrowers which in the aggregate exceeds:
- 15% of the institution’s net worth, if the exposure is secured or collateralised.
- 10% of the institution’s net worth, if the exposure is unsecured.

(b) invest in the equity of a company, including a subsidiary, which exceeds fifteen per cent (15%) if its (institutions) networth, as per its latest audited financial statement.

2. The institution’s equity investments (i.e. investments in the equity shares) in all companies shall not exceed 25% of its networth.

3. In case of factoring or forfaiting business, where receivables are purchased without recourse to the borrower–customer, assuming credit exposure on a person or Group of persons refers to exposure to the companies from which receivables have to be collected.

Rule 9 (Lending against own shares prohibited)
Licensed financial institutions are prohibited from making advances or extending any other financial facilities against the security of their own shares.

Rule 10 (Limit on Related Credits)
The aggregate financial exposure an institution may assume on its subsidiaries by making loans and advances or assuming any other financial commitments to one or more of the latter, together with the equity investment, shall not exceed

(a) in case of any one subsidiary, 15%, and
(b) in the case of all subsidiaries and Associates, 25%

of the institution’s net worth (as per its latest audited financial statements).

Rule 11 (Limit on Connected Credits)
A licensed institution in credit business shall not grant to any firm/company in which any of the institution’s directors or Managers (i.e. executive officials) is interested as a partner or as major or Principal shareholder or as director or as guarantor – any loan or
credit or other financial facility which in the aggregate and outstanding at any time exceeds

- 10% of the institution’s net worth if the exposure is secured, and

- 5% of the institution’s net worth, if the exposure is unsecured.

(as per it’s latest financial statement).

**Rule 12 (Limit on insider loans)**

A licensed institution shall not grant unsecured advances or other credit facilities

(a) to any of its directors, amounting to more than 2% of its net worth,

(b) to any of its officials and employees, amounting to more than two years of consolidated salary of the concerned official/employee.

**SECTION D: PORTFOLIO MANAGEMENT NORMS**

*Introduction to PRUDENTIAL NORMS*

This section lays down the mandatory prudential norms relating to income recognition, classification of assets and provisioning for different types of loan assets in the credit portfolio of NBFI. The norms vary with the types of NBFI credits which may fall in three broad categories, viz:

(a) Commercial lending or Business financing

(other than Micro and small business finance).
(b) Asset-based financing or lending such as finance leases, hire-purchase credits/instalment loans, home mortgage loans, etc.

(c) Micro and small business loans [which are generally unsecured and short term (loan cycle)]
Asset based finance, again, may be distinguished between Credits for relatively longer periods as in the case of leasing and home mortgages, and for shorter period, as in case of hire-purchase finance and instalment credits/consumer loans for acquiring consumer durables. In this type of financing, repayment is generally required in equated monthly instalments (EMI), which include interest payment component.

**Rule 13.  (Norms for Business Finance Portfolio)**

1. **(Loans to be considered as non-performing, if 90 days overdue)**

   In case of loans and credits extended for financing business enterprises (other than micro enterprises and small businesses), a loan on which interest and/or scheduled repayment of principal (instalment) has remained unpaid for 30 days from the due date shall be considered overdue.

   A loan which is overdue for 90 days shall be classified as non-performing.

   [Note: A non-performing asset is one which ceases to yield income or has stopped being an earning asset]

2. **(Interest not to be accrued on non-performing loans)**

   Income (interest, discount or finance charge) shall not be accrued on non-performing loans/assets. That is, interest on loans remaining unserviced (i.e. by non-payment of interest or instalment/principal amount) for 120 days from the due date, shall be recognised or taken as income, only when received or realised in payment.

3. **Interest accrued on non-performing loans to be reversed**

   Any income recognised before the loan asset became non-performing and remaining unrealised shall be reversed.
In case of leased assets, the income (i.e. finance charge) component of the lease rentals taken to the credit of profit and loss account before the assets became non-performing and remaining unrealised, shall be reversed.

(4) In respect of hire purchase assets, where instalments are overdue for more than 3 months, income (component) shall be recognised only when hire charges are received. Any such income taken to the profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

**Rule 13A** *(Non-performance in any one Credit facility – signifying increase of “Risk” – makes all credit to the borrower non-performing)*

When any of the credit facilities to a borrower becomes non-performing, the total dues outstanding under all the credit facilities made available to the same borrower shall be considered “non-performing”. That is, interest shall not be accrued on all the outstanding credits against the borrower, and income shall be recognised only when realised/paid in.

**Rule 14** *(Asset classification to be made on the basis of perceived Credit risk)*

(1) Every financial institution in credit business shall monitor its portfolio of credit/risk assets on an on-going basis and make a review at periodical intervals. A review of the business finance portfolio shall be undertaken at least once in a quarter.

(2) For the purpose of such review, it shall, after taking into account the degree of well defined credit weaknesses and the extent of dependence on collateral security for realisation, classify its loans and any other forms of business credit into the following classes or risk grades viz:

(i) Standard Assets
(ii) Sub-standard Assets
(iii) Doubtful Assets
(iv) Loss Assets

on the basis of criteria indicated in Rule 14A
(3) Since assets in risk grades (ii) to (iv) are non-performing, they shall be on non-accrual basis.

**Rule 14A (Criteria/Norms for Asset Classification)**

The criteria on which business loan assets shall be classified into four risk grades/categories are:

**STANDARD ASSET: is a loan asset.**

(i) in respect of which, no default in payment of interest or repayment of principal has occurred, or payment thereof has not been past due for 3 months (90 days), and

(ii) which does not carry more than normal risk attached to the business and does not disclose any problem.

**SUB-STANDARD ASSET: is a loan asset which**

(i) displays well defined credit weaknesses that jeopardise the liquidation of the debt or loan;

(ii) is not protected by the current (sound) net worth and payment capacity of the borrower/customer.

Sub-standard advances include:

(a) assets classified as non-performing for a period not exceeding 6 months; or

(b) loans and credits to borrower entities which

♦ lack sufficient capital to meet their operating needs, or
♦ are significantly under-capitalised, or
♦ whose cash flow is not sufficient to meet maturing debts, or

(c) loans and credits in respect of which the terms regarding interest and/or principal have been re-negotiated/re-scheduled after commencement of operations – until the expiry of one year of satisfactory performance under the re-negotiated or re-scheduled terms.

**DOUBTFUL ASSET: is a loan asset which**

(i) has been a non-performing asset for 6 months (180 days) and more but less than 12 months, or

(ii) exhibits all the weaknesses inherent in sub-standard assets/credits with the added characteristics that the credits
are not well secured and the weaknesses make collection or liquidation of the debt in full improbable – on the basis of currently existing conditions/facts.

LOSS ASSET is a loan asset which

(i) has remained past due/non-performing for 12 months or more, or

(ii) is considered uncollectable* and of such little value that its continuation as a recoverable advance is not warranted.

(Note: * the threat of non-recoverability may arise due to erosion in the value of the collateral or misappropriation or fraud).

Rule 14B  (Renegotiated loans cannot be upgraded only by rescheduling)

(1) A non-performing loan or credit which has been re-negotiated or re-scheduled shall be a sub-standard asset, or continue to remain in the same category in which it was granted prior to its re-negotiation or re-scheduling.

(1) The loan or credit may be upgraded only after satisfactory performance on the new payment schedule i.e. by on-time payment of interest and re-scheduled instalments, for one year from the date of re-scheduling.

(2) Necessary provision is required to be made as applicable to such loan asset until it is upgraded.

Rule 14C  (Provisioning for non-performing/impaired assets to be based on asset classification)

(3) Every institution shall, after taking into account

- the time lag between an account becoming non-performing and its recognition as such,

- the realisation prospects of the security, and the erosion over time in the value thereof,

make provision against the non-performing or “adversely classified” loan assets, as specified below:
<table>
<thead>
<tr>
<th>Asset Classification</th>
<th>Minimum Rate of Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Sub-standard</td>
<td>A ‘basket’ provision of 20% of total outstanding (accounts) in the risk grade.</td>
</tr>
<tr>
<td>(b) Doubtful</td>
<td>Provision of 50% on the aggregate ‘net unsecured balance’ of all advances in the category/risk grade.</td>
</tr>
<tr>
<td>(c) Loss</td>
<td>Full (i.e. 100%) provision for the aggregate ‘net unsecured balance’ of all ‘loss’ advances.</td>
</tr>
</tbody>
</table>

[Notes:]

(i) ‘Net unsecured balance’ is the ‘principal’ amount of outstanding less the value of easily realisable collateral such as cash margins/deposits, lien on deposit receipts etc, if any.

(ii) ‘Basket’ provisioning means making provision on the aggregated outstanding of all loan assets in a risk grade (i.e. basket) – disregarding the collateral available for any loan (security aspect)].

**Rule 15 (Norms for classification and provisioning of Finance Lease Assets)**

(1) Finance lease portfolio shall be reviewed once in every month and the lease assets shall be classified, based on payment of scheduled lease rentals, into two categories.

(a) Current

(b) Non-Performing

Non-performing lease asset is an asset in respect of which the scheduled lease rental has remained overdue or delinquent for 90 days. A lease rental is overdue if it is not paid for 30 days from the due date.
A lease asset on which lease rental payment is not overdue is current.

(2) Income shall not be accrued on non-performing lease assets.

(3) Provision shall be made for non-performing lease assets on the amount of “Net lease receivable” at the rates prescribed below:

<table>
<thead>
<tr>
<th>Lease Asset Non-Performing for</th>
<th>(i.e. Overdue for over)</th>
<th>Rate of Provisioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Up to 3 months</td>
<td>(90 days and less than 180 days)</td>
<td>20%</td>
</tr>
<tr>
<td>(b) Over 3 months and 180 days and less than 6 months</td>
<td>(180 days and less than 270 days)</td>
<td>40%</td>
</tr>
<tr>
<td>(c) Over 6 months and 270 days and less than 9 months</td>
<td>(270 days and less than 365 days)</td>
<td>60%</td>
</tr>
<tr>
<td>(d) Over 9 months and 365 days and less than 12 months</td>
<td>(1 year and less than 15 months)</td>
<td>80%</td>
</tr>
<tr>
<td>(e) Over 12 months</td>
<td>(over 15 months)</td>
<td>100%</td>
</tr>
</tbody>
</table>

[Notes:

(a) The Amount of ‘Net Lease receivables’ (NLR) is the sum of unpaid and future gross rentals less:

(i) unmatured finance charges i.e. Deferred income.

(ii) Provision (or loss reserve) held, if any, on the lease assets.

(b) In recognition of the legal ownership right of the lessor (the finance company) to the underlying asset, lower rates of provisioning have been set for each “arrearage time bracket”. Given the uncertainty of the market and of the realisable value for the repossessed lease assets in general, this approach is considered expedient and preferred to netting the value of the collateral for provisioning purposes].

**Rule 16 (Norms for Hire-Purchase Finance and Instalment Credits)**

(1) The portfolio of hire-purchase and instalment credit/consumer loans assets (mainly, for acquisition of consumer durables) shall be reviewed once in every month and the
assets shall be classified, based on on-time payment of instalments, into two categories.

(a) Current

(b) Delinquent

Assets not classified delinquent (or overdue) are current.

(2) Provision shall be made for delinquent assets on hire/delinquent loans at the rates prescribed below, on the amount of delinquent stock on hire/consumer loans (outstanding dues).

<table>
<thead>
<tr>
<th>Instalments Overdue for</th>
<th>Rate of Provisioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 days &amp; less than 90 days</td>
<td>20%</td>
</tr>
<tr>
<td>90 days &amp; less than 180 days</td>
<td>40%</td>
</tr>
<tr>
<td>6 months &amp; less than 9 months</td>
<td>60%</td>
</tr>
<tr>
<td>9 months &amp; less than 12 months</td>
<td>80%</td>
</tr>
<tr>
<td>12 months and over</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Rule 17 (General loss provisions to be made on Current/Standard Assets)**

(1) In addition to the specific loss provisions made for impaired or non-performing assets (NPAs), a general loss provision shall be made at the rate of 1% on the aggregate outstandings of all the performing standard (category of) loan assets.

(4) Specific loss provisions shall not be appropriated from the general provisions (loss reserves) held.

**Rule 18 (Disclosure of loss provisions in the Financial statements reports mandatory)**

Every financial institution shall separately disclose in its audited financial statements the specific and general loss provisions made for the non-performing/delinquent loans and standard/current assets.

**Rule 19 (Prudential Guidelines on Provisioning for impaired investments)**
(1) Financial institutions holding equity shares of companies (including of subsidiaries/associates) shall value them on the lines indicated below:

(a) ‘Listed shares’ – for which market quotes are available – may be valued at cost or market price whichever is lower.

(b) ‘Unlisted shares’ should be valued at the lower of cost or the net realisable value in accordance with an independent professional valuation undertaken within the last two years.

(2) The diminution in the value of equities shall be provided.

Rule 20  (Licensed Institutions to conduct their operations also conforming to other applicable Laws)

Licensed institutions shall conduct their business having regard to the provisions of any other laws governing their operations besides the FINB Law, and the Rules Operating Guidelines frame thereunder specific to their business, if any, and the best practices in the industry.

For example, A licensed leasing company writing finance leases shall comply with the provisions of the Finance Lease Law of 1993.

SECTION E: CORPORATE GOVERNANCE

Rule 21  (Responsibility of the Board of Directors for sound Governance)

(1) The Board of Directors of a licensed institution is wholly responsible for the sound and proper functioning of the institution and is accountable for the institution’s activities and actions to its stakeholders viz. Shareholders, creditors, customers and employees, and to the regulatory authorities. This is notwithstanding that it may have assigned to its committees or executives (Managers), as part of corporate internal management, discretionary or delegated powers for carrying through/implementing approved policies and business plans.

(2) (Minimum Membership of the Board of Directors)
The Board of Directors of a licensed institution shall have less than five members, two or more of whom should have experience of managing financial institutions, or have exposure to the working of the financial sector/institutions.

(3) **(Institutions to notify the Bank of proposals to change Board Member(s) or Chief Executive)**

Licensed institutions shall notify the Bank of any proposal to effect changes in the membership of the Board or the incumbent Chief Executive/Principal Officer 30 days in advance, with reasons. If such a change occurs for a sudden reason, the Bank shall be notified within three days of its occurrence, with the reasons for such occurrence.

**Rule 22** **(Bank’s Power to disqualify Members of the Board or supersede the Board)**

(1) Given the high level degree of accountability and responsibility vested in the Board of Directors as noted in Rule 26 Clause (1) and the demands it makes in terms of experience and commitment required for overseeing the affairs of the financial institution, the Bank of Ghana may direct that any one or more of the members of the Board found wanting in the requisite attributes or seen responsible for violating any regulations, be dropped from the Board, and such direction shall be complied with.

(2) If, in the assessment of Bank of Ghana, the board of Directors of a licensed, deposit-taking institution is functioning in a manner that does not adequately or properly safeguard and promote the interests of the institution or is detrimental to the interests of its depositors and creditors, the Bank may supersede the Board and constitute an interim Board. The interim Board shall function and conduct the affairs of the institution with the full powers of a properly constituted board until a new Board duly elected by the shareholders or as otherwise constituted under the institution’s charter takes over from the former.

**Rule 23** **(Responsibility for maintenance of proper Accounts/Accounting Systems and Internal Controls)**

(1) The management of a licensed institution shall ensure that proper accounting records and systems are maintained, sound operational procedures formulated and implemented
and adequate internal controls put in place. They should especially ensure the following:

(i) the accuracy and reliability of the Accounting System;

(ii) the establishment of an adequate and effective Management Information System (MIS); and

(iii) the accuracy and reliability of the operational reports and prudential returns submitted to Bank of Ghana.

**Rule 24  (Obligations for transparency in Financial Reporting)**

(1)  (Mandatory Disclosures in Financial reports)

The Directors of a licensed institution shall include in their comments on the audited financial accounts, the following:

(a) The financial performance of the institution during the period under review with particular reference to:

   (i) the reliability and composition of reported earnings,

   (ii) the breakdown and analysis of operating costs, and

   (iii) the liquidity and capital adequacy ratios. (in case of deposit taking institutions)

(b) The accounting policies and valuation criteria applied in the preparation of the accounts.

(c) The adequacy of provisions made

   (i) against the advances portfolio, investments and ‘other asset’ accounts;

   (ii) for creditors, accruals and other liabilities and against off-balance sheet items.

(d) Re-classifications and other adjustments made by the auditor to the accounts originally submitted for audit.

(e) Details of any areas where generally accepted accounting principles have not been in compliance or
a disagreement exists between management and the external auditor.

(2) **Directors’ Report on the Audited Annual financial accounts to include comments on specified Areas/Aspects**

In the report of the Directors accompanying/presenting the audited annual financial accounts,

(a) qualifications, if any, made by the statutory auditors on the audited accounts shall be highlighted and comments on each item of qualification are to be provided.

(b) comments shall also be furnished, inter alia, on the following aspects:

(i) methods used to determine specific and general provisions and key assumptions used;

(ii) the risk management and control policies and practices adopted by the institution, relating to credit risk of the loan portfolio, and other risks entailed in its operations;

(iii) balances of advances, impaired loans and past due loans by major categories of borrowers and the amounts of specific and general provisions established against each category;

(iv) balances of loans where accrual of interest in accordance with the terms of the original loan agreement has ceased because of deterioration in credit quality;

(v) balances of advances and other information about the loans that have been rescheduled/renegotiated during the year;

(vi) information on significant concentration of credit risk; and
contractual obligations with respect to recourse arrangements and the expected losses under these arrangements.

Rule 25  (Statutory Audit and Audit Reports)

All institutions, duly complying with the statutory provisions relating to the audit of their accounts (Sec 22-24 of FINB Law) shall have regard to the following requirements:

(1) All licensed institutions shall have the Calendar year as their accounting year, as enjoined in the Law

“all licensed financial institutions may follow/adopt the calendar year, commencing 1 January and ending 31 December of the year as their Accounting year).

(2) Statutory Auditors shall be required to prepare a Long Form Audit Report (LFAR) on the audited accounts, focusing on major areas of concern noted in the audit. The institution shall submit to Bank of Ghana (NBFI Department) one copy of the audited accounts within four months after the end of the financial year to which they relate. It shall also submit a copy of the long Form Audit Report (LFAR) together with the Management’s comments on the issues raised in the LFAR.

Rule 26  (Regulatory reporting and returns)

(1)  (Operational Reports and Regulatory returns prescribed to be submitted)

Pursuant to provision in Section 19(1) of FINBL Law, licensed Financial institutions shall submit to Bank of Ghana:

(i) returns and reports relating to their operations as prescribed from time to time in respect of all or each category of institutions.

(ii) The periodical reports as may be prescribed by it for the purpose of prudential supervision.

(2)  (Reports on Interest Rates may be called by the Bank)

Every licensed institution in credit business may be required to submit periodical reports to Bank of Ghana (NBFI
Department) on lending rates charged in the form prescribed by the Bank.

SECTION F - PENALTIES

Rule 27 The Bank may prescribe and notify the penalties for non-compliance/breach of the afore-mentioned Rules/directions. These will be separately notified to the institutions by the NBFI Department.