



SUPERVISION GUIDELINE NO. 4

**ISSUED UNDER THE AUTHORITY OF PART II, SECTION 7(4) OF THE
FINANCIAL INSTITUTIONS ACT 1995,
(NO. 1 OF 1995)**

CAPITAL ADEQUACY RATIO

**Bank of Guyana
May 30, 1996**

Issued :
• To all depository institutions
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CAPITAL ADEQUACY RATIO

1. A depository financial institution shall maintain a capital base in an amount not less than eight percent of its weighted risk assets.

The basic framework for computing the ratio of a financial institution's capital base to its weighted risk assets was that adopted by the Basle Committee on Banking Supervision with revisions to suit local conditions. The emphasis of the framework is on assessing capital in relation to credit risk with measurements for foreign exchange risk, interest rate risk and other risks to be introduced as necessary.

The ratio shall be computed by using the attached Capital Adequacy Ratio Worksheet (Schedule I along with supporting schedules) which shall be submitted to the Bank not later than fifteen days from the end of each reference month.

CONSTITUENTS OF CAPITAL

2. The capital base for the purpose of this Guideline shall consist of Tier I or core capital and Tier II or supplementary capital.
3. Tier I capital or core capital shall not be less than fifty percent of the total qualifying capital and shall consist of -
 - (a) issued and fully paid ordinary shares or common stock and related surplus (share premium) or assigned capital;
 - (b) fully paid perpetual non-cumulative preference shares and related surplus;
these are preferred shares which -
 - (i) do not have a maturity date;
 - (ii) cannot be redeemed at the option of the shareholder;
 - (iii) give the issuer the legal right to defer or eliminate preferred dividends; and
 - (iv) have no other provisions that will require future redemption of the issue.
 - (c) reserve fund as required by the Financial Institutions Act;
 - (d) capital reserves excluding asset revaluation reserves;
 - (e) general reserves excluding reserves or provisions for losses on assets;
and

- (f) retained earnings as stated in the latest audited financial statements.
4. Tier II capital or supplementary capital shall be limited to one hundred percent of Tier I or core capital and shall consist of -
- (a) fixed asset revaluation reserves arising from a formal revaluation of an immovable property but limited to one revaluation every five years and up to twenty percent of Tier I capital;
 - (b) securities revaluation reserves which arise from the practice of holding securities in the balance sheet valued at historic cost. The difference between the historic cost and the market value is discounted by fifty-five percent;
 - (c) general provisions or general reserves for losses on assets, which refer to provisions and reserves not ascribed to specific assets. General provisions or general reserves made for specific assets are not eligible for inclusion in capital. General provisions or general loan loss reserves which qualify for inclusion in Tier II do so subject to a limit of 1.25% of weighted-risk assets;
 - (d) hybrid debt capital instruments which refer to a range of instruments that combine the characteristics of equity capital and of debt, such as perpetual cumulative preference shares, long term preference shares, perpetual subordinated term debt and mandatory convertible debt instruments, which should meet the following requirements -
 - (i) they should be unsecured, subordinated and fully paid;
 - (ii) they should not be redeemable at the discretion of the holder;
 - (iii) they should be available to absorb losses; and
 - (iv) service obligations attached to the instrument should be deferrable;
 - (e) subordinated debt includes conventional unsecured subordinated debt, capital instruments with a minimum original fixed term to maturity of over five years and limited life redeemable preference shares. Such instruments are subordinated to the claims of both depositors and general creditors and are limited to a maximum of fifty percent of Tier I capital.

5. The following deductions shall be made from core and total qualifying capital -
- (a) From Tier I or core capital -
 - (i) goodwill arising from the acquisition of assets; and
 - (ii) losses made in current year, whether audited or unaudited.
 - (b) From total qualifying capital -
 - (i) investments in unconsolidated subsidiaries engaged in banking or financial activities;
 - (ii) other intangible assets, such as, formation and other preliminary expenses;
 - (iii) deficiencies in provision for losses on loans and other assets as may be determined by the Bank unless a significant improvement in the quality of the assets is reported by the financial institution and accepted by the Bank;
 - (iv) net due from parent, subsidiary, and other affiliated companies;
 - (v) net due from head office and own branches abroad, in the case of a licensee not incorporated in Guyana; and
 - (vi) other deductions as may be determined by the Bank which may impair, distort or dilute core capital.

WEIGHTED RISK ASSETS

6. On-Balance Sheet Assets

All assets appearing in the balance sheet (statement of assets and liabilities) shall be multiplied by the applicable risk weights -

- (a) Zero Percent Risk Weight -
 - (i) local and foreign currency;
 - (ii) deposits at the Bank;
 - (iii) treasury bills and other securities issued or guaranteed by central government;
 - (iv) claims on local governments, statutory boards and other public sector entities in CARICOM and approved foreign countries and loans to these entities, fully guaranteed by central government;
 - (v) claims on CARICOM and approved foreign countries' central banks and central governments and other obligations fully guaranteed by these entities; and
 - (vi) claims fully secured by cash deposited with the reporting institution or by central government securities and guarantees.

(b) Twenty Percent Risk Weight -

- (i) claims on domestic financial institutions and other financial institutions incorporated in CARICOM or approved foreign countries and loans guaranteed by such institutions;
- (ii) claims on multilateral development banks and claims guaranteed or collateralised by securities issued by such banks;
- (iii) bankers' acceptances held as part of the institution's investment portfolio; and
- (iv) cash items in the process of collection.

(c) Fifty Percent Risk Weight -

Real Estate housing loans fully secured by mortgages on residential properties which are owner-occupied or rented.

(d) One Hundred Percent Risk Weight -

- (i) claims on the private sector;
- (ii) other loans and advances;
- (iii) premises, plant and equipment and other fixed assets;
- (iv) real estate and equity investments;
- (v) capital instruments issued by other financial institutions (unless deducted from capital); and
- (vi) all other assets.

(e) CARICOM Countries refer to -

Antigua	Jamaica
Bahamas	Montserrat
Barbados	St. Kitts & Nevis
Belize	St. Lucia
Dominica	Suriname
Grenada	St. Vincent & the Grenadines
Guyana	Trinidad & Tobago

Approved Foreign Countries refer to -

Australia	Greece	Norway
Austria	Iceland	Portugal
Belgium	Ireland	Spain
Canada	Italy	Sweden
Denmark	Japan	Switzerland
Finland	Luxembourg	United Kingdom
France	Netherlands	United States of America
Germany	New Zealand	-

(f) From the total weighted on-balance sheet accounts, the following amounts shall be deducted -

- (i) specific accumulated provision made for losses on assets (if corresponding assets are presented at gross in the balance sheet);
- (ii) general reserves or provisions for losses on assets disallowed under Tier II capital (if corresponding assets are presented at gross in the balance sheet);
- (iii) deficiencies in provisions for losses on loans and other assets as may be determined by the Bank unless a significant improvement in the quality of the assets is reported by the financial institution and accepted by the Bank; and
- (iv) other deductions from core capital or total qualifying capital such as goodwill and other intangible assets, investments in unconsolidated subsidiaries engaged in banking or financial activities, net due from parent, subsidiary, and other affiliated companies, and net due from head office and own branches abroad, in the case of a licensee not incorporated in Guyana.

7. Off-Balance Sheet Accounts

All contingent accounts and other off-balance sheet items shall be multiplied by the applicable conversion factors to arrive at the credit equivalent amount which shall then be weighted accordingly to the applicable risk weights used for on-balance sheet accounts -

(a) One Hundred Percent Conversion Factor -

- (i) items which substitute for loans and advances such as financial guarantees, including standby letters of credit and bankers' acceptances;
- (ii) sale and repurchase agreements with recourse where the credit risk remains with the financial institution; and
- (iii) forward asset purchases, forward deposits and partly-paid shares and securities representing commitments with certain drawdown.

(b) Fifty Percent Conversion Factor -

- (i) certain transaction-related contingent items such as performance bonds, warranties and standby letters of credit related to particular transactions;
- (ii) note-issuance facilities and revolving underwriting facilities; and
- (iii) other commitments such as formal standby facilities and credit lines with an original maturity of over one year.

(c) Twenty Percent Conversion Factor -

short-term self-liquidating trade-related contingencies such as, documentary credits collateralized by the underlying shipments.

(d) Zero Percent Conversion Factor -

other commitments such as formal standby facilities and credit lines with an original maturity of up to one year or which can be unconditionally cancelled at any time.

Name of Financial Institution

CAPITAL ADEQUACY RATIO WORKSHEET

For the Month Ended _____

Due Date : 15 days from

month-end

		\$000
1	Total risk-weighted on-balance sheet assets (Schedule I-A)	
2	Total risk-weighted off-balance sheet accounts (Schedule I-B)	
3	Total risk-weighted assets before deductions (Add Items 1 and 2)	
4	Less Deductions : Total (Add Items 4a to 4e)	()
	(a) Specific accumulated provisions for losses on assets (if assets are stated at gross)	()
	(b) General reserves and provisions for losses on assets disallowed under Tier II (if assets are stated at gross)	()
	(c) Deficiencies in provisions for losses	()
	(d) Other deductions from core and total capital [Add Items 4d(i) to 4d(v)]	()
	(i) Goodwill	
	(ii) Other tangible assets such as formation and preliminary expenses	()
	(iii) Investments in unconsolidated financial subsidiaries	()
	(iv) Net due from parent company, subsidiaries and other affiliated companies	()
	(v) Net due from Head Office and own branches abroad	()
	(e) Others (as may be determined by the Bank)	()
5	Total risk-weighted assets after deductions (Item 3 less Item 4)	
6	Tier I Capital (Schedule I-C) to total risk-weighted assets after deductions	%
7	Total Tier I and Tier II qualifying capital (Schedule I-C) to total risk-weighted assets after deductions	%

Submitted By :

Signature over Printed Name

Position

Date

RISK-WEIGHTED ON-BALANCE SHEET ASSETS

CATEGORY	ASSETS	VALUE (V) \$000	RISK WEIGHT (W)	WEIGHTED VALUE (V x W) \$000
Zero Weight Risks	1. Cash			
	(a) Local		0	
	(b) Foreign		0	
	2. Due from central bank			
	(a) Reserve Account		0	
	(b) Special Deposits		0	
	(c) Other Claims		0	
	3. Securities issued or guaranteed by government			
	(a) Treasury Bills		0	
	(b) Government Securities (specify country)		0	
	(c) Other claims on government (specify country)		0	
	4. Claims on CARICOM and approved Foreign Governments			
	(a) Deposits at CARICOM central banks		0	
	(b) Other claims on CARICOM central banks		0	
	(c) Securities issued by CARICOM central banks		0	
	(d) Other claims on CARICOM governments		0	
	(e) Deposits at approved foreign central banks		0	
	(f) Other claims on approved foreign central banks		0	
	(g) Securities issued by approved foreign governments		0	
	(h) Other claims on approved foreign governments		0	
5. Fully Secured Claims				
(a) by cash on deposit with own institution		0		
(b) by government securities (specify country)		0		
6. Claims on local government, statutory boards and other public sector entities in the CARICOM countries (Guaranteed by Central Government)				
(a) Local government securities		0		
(b) Other claims on local government		0		
(c) Local government securities issued by CARICOM countries		0		
(d) Other claims on local governments in CARICOM countries		0		
(e) Securities issued by state-owned entities		0		
(f) Other claims on state-owned entities		0		
(g) Securities issued by CARICOM state-owned entities		0		
(h) Other guaranteed claims on CARICOM state-owned entities		0		
20% Risk Weight	1. Due from banks			
	(a) Locally incorporated		20	

CATEGORY	ASSETS	VALUE (V) \$000	RISK WEIGHT (W)	WEIGHTED VALUE (V x W) \$000
	(b) Incorporated in CARICOM countries		20	
	(c) Incorporated in approved foreign countries		20	
	2. Due from other financial institutions			
	(a) Locally incorporated		20	
	(b) Incorporated in CARICOM countries		20	
	(c) Incorporated in approved foreign countries		20	
	3. Other claims and loans guaranteed by financial institutions			
	(a) Locally incorporated		20	
	(b) Incorporated in CARICOM countries		20	
	(c) Incorporated in other foreign countries		20	
	(d) Incorporated in other foreign countries with a residual maturity of up to 1 year		20	
	4. Claims on or guaranteed by multilateral development banks or collateralized by securitizations issued by such banks		20	
	5. Bankers' acceptances		20	
	6. Cash items in the process of collection		20	
50% Risk Weight	Real estate housing loans fully secured by mortgages on residential properties which are owner-occupied or rented		50	
100% Risk Weight	1. Loans and advances			
	(a) Commercial		100	
	(b) Personal		100	
	(c) Other		100	
	2. Claims on loans guaranteed by financial institutions incorporated in other foreign countries with a residual maturity of over 1 year		100	
	3. Claims on other foreign governments			
	(a) Claims on and obligations guaranteed by other foreign central banks		100	
	(b) Claims on and obligations guaranteed by other central governments		100	
	4. Fixed Assets			
	(a) Land and buildings		100	
	(b) Furniture and equipment		100	
	(c) Other fixed assets		100	
	5. Investments			
	(a) Investments in other financial institutions		100	
	(b) Quoted shares/stocks		100	
	(c) Other investments		100	
	6. Other Assets		100	
	TOTAL RISK- WEIGHTED ON-BALANCE SHEET ASSETS			

RISK WEIGHTED OFF-BALANCE SHEET ACCOUNTS

CATEGORY	ASSETS	VALUE (V) \$000	CONVERSION FACTOR	RISK WEIGHT (W)	WEIGHTED VALUE (V x W) \$000
Zero Risk Weight	1. Domestic and Foreign Government Entities				
	(a) Bankers' acceptances		1.0	0	
	(b) Bills of Collection		1.0	0	
	(c) Documentary credits (collateralized by underlying shipments)		0.2	0	
	(d) Documentary Credits - (others)		1.0	0	
	(e) Unconditional formal standby letters of credit and other commitments with an original maturity of up to 1 year		0.0	0	
	(f) Formal standby letters of credit and other commitments with a maturity of over 1 year		0.5	0	
	(g) Other standby letters of credit		1.0	0	
	(h) Performance bonds, warranties and transaction-related contingent items		0.5	0	
	(i) Financial guarantees and items which substitute for loans and advances		1.0	0	
	(j) Sale and repurchase agreements with recourse		1.0	0	
	(k) Forward asset purchases, forward deposits and partly paid shares and securities with certain drawdowns		1.0	0	
	(l) Others		1.0	0	
	2. Domestic, CARICOM and Approved Foreign Public Sector Entities and Local Governments (Guaranteed by Central Government)				
	(a) Bankers' acceptances		1.0	0	
	(b) Bills of Collection		1.0	0	
	(c) Documentary credits (collateralized by underlying shipments)		0.2	0	
	(d) Documentary Credits - others		1.0	0	
	(e) Unconditional formal standby letters of credit and other commitments with an original maturity of up to 1 year		0.0	0	
	(f) Formal standby letters of credit and other commitments with a maturity of over 1 year		0.5	0	
	(g) Other standby letters of credit		1.0	0	
	(h) Performance bonds, warranties and transaction related contingent items		0.5	0	
	(i) Financial guarantees and items which substitute for loans and advances		1.0	0	
	(j) Sale and repurchase agreements with recourse		1.0	0	
	(k) Forward asset purchases, forward deposits and partly paid shares and securities with certain drawdowns		1.0	0	
	(l) Others		1.0	0	

CATEGORY	ASSETS	VALUE (V) \$000	CONVERSION FACTOR	RISK WEIGHT (W)	WEIGHTED VALUE (V x W) \$000
20% Risk Weight	3. Domestic, CARICOM and Approved Foreign Financial Institutions and Public Sector Entities and Multilateral Development Banks				
	(a) Bankers' acceptances		1.0	20	
	(b) Bills of Collection		1.0	20	
	(c) Documentary credits (collateralized by underlying shipments)		0.2	20	
	(d) Documentary Credits - (others)		1.0	20	
	(e) Unconditional formal standby letters of credit and other commitments with an original maturity of up to 1 year		0.0	20	
	(f) Formal standby letters of credit and other commitments with a maturity of over 1 year		0.5	20	
	(g) Other standby letters of credit		1.0	20	
	(h) Performance bonds, warranties and transaction related contingent items		0.5	20	
	(i) Financial guarantees and items which substitute for loans and advances		1.0	20	
	(j) Sale and repurchase agreements with recourse		1.0	20	
	(k) Forward asset purchases, forward deposits and partly paid shares and securities with certain drawdown		1.0	20	
	(l) Others		1.0	20	
100% Risk Weight	4. Private Sector and Other Institutions				
	(a) Bankers' acceptances		1.0	100	
	(b) Bills of Collection		1.0	100	
	(c) Documentary credits (collateralized by underlying shipments)		0.2	100	
	(d) Documentary Credits - (others)		1.0	100	
	(e) Unconditional formal standby letters of credit and other commitments with an original maturity of up to 1 year		0.0	100	
	(f) Formal standby letters of credit and other commitments with a maturity of over 1 year		0.5	100	
	(g) Other standby letters of credit		1.0	100	
	(h) Performance bonds, warranties and transaction related contingent items		0.5	100	
	(i) Financial guarantees and items which substitute for loans and advances		1.0	100	
	(j) Sale and repurchase agreements with recourse		1.0	100	
	(k) Forward asset purchases, forward deposits and partly paid shares and securities with certain drawdown		1.0	100	
	(l) Others		1.0	100	
	TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ACCOUNTS				

TOTAL QUALIFYING CAPITAL

	CAPITAL ITEMS	\$'000
Tier I	1. Paid-up ordinary share capital/assigned capital	
	2. Paid-up ordinary share premium	
	3. Paid-up perpetual non-cumulative preference shares	
	4. Paid-up perpetual non-cumulative preference share premium	
	5. Reserve Fund	
	6. Capital reserves - excluding asset revaluation	
	7. General reserves - excluding reserves for losses on assets	
	8. Retained earnings - audited	
	Tier I capital before deductions	
	Less deductions : Total	
	(a) Goodwill	()
	(b) Current year's losses	()
	Tier I capital after deductions	
Tier II	1. Fixed asset revaluation reserves (limited to 20% of Tier 1 capital)	
	2. Securities revaluation reserves (discounted)	
	3. General provisions/reserves for losses on assets (up to 1.25% of weighted-risk assets)	
	4. Paid-up perpetual cumulative preference shares	
	5. Paid-up perpetual cumulative preference shares surplus	
	6. Long term preference shares	
	7. Perpetual subordinated term debt	
	8. Mandatory convertible debt instruments	
	9. Subordinated term debt and limited life preference shares (limited to 50% of Tier I capital)	
	Tier II capital	
Tier I & Tier II	Total capital (Tier I & II)	
	Less deductions : (Total)	
	(a) Investments in unconsolidated financial subsidiaries	()
	(b) Intangible assets	()
	(c) Deficiencies in provisions for losses	()
	(d) Net due from parent company, subsidiaries and other affiliated companies	()
	(e) Net due from Head Office and own branches abroad	()
	(f) Others (as may be determined by the Bank)	
	TOTAL QUALIFYING CAPITAL	