

2002
Annual Report

HOME FINANCE COMPANY LIMITED



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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 12th Annual General Meeting of the Company will be held at Golden Tulip Hotel on Liberation Road, Accra at eleven (11:00) O'clock in the forenoon on Thursday, the 24th day of April, 2003 to transact the following business:-

AGENDA

ORDINARY RESOLUTIONS

ORDINARY BUSINESS

1. To receive the Chairman's Statement and the Managing Director's report on the operations of the Group for the year 2002.
2. To consider and approve consolidated Accounts and Financial Statements of Home Finance Company Limited and its wholly owned subsidiary, HFC Investment Services Limited (HFCISL) for the financial year ended 31st December 2002 together with the Auditor's Report thereon.
3. To receive the Directors' report and approve their recommendation for the payment of dividend for the year ended 31st December 2002
4. To approve Non-Executive Directors' fees.
5. To authorize the Directors to approve the remuneration of the Auditors for the year 2003.

SPECIAL BUSINESS

6. That the Directors be and are hereby generally and unconditionally authorised pursuant to Section 202 (1) of the Companies Code, 1963, (Act 179) to exercise all the powers of the Company to allot and issue up to 25,000,000 (twenty five million) ordinary shares to such institutions as the Directors may determine without offering such shares to existing shareholders in accordance with the provisions of sub-paragraph (b) of the said Section 202 (1) to enable the Directors take advantage of business and investment opportunities that may arise in the course of the year.

A member of the company is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not also be a member.

Proxies may be deposited at the Company's Registered Office, Ebankese, No. 35, 6th Avenue, North Ridge, Accra, aforesaid 48 hours to the commencement of the meeting in accordance with the Company's Regulations.

Dated this 19th day of March 2003

BY ORDER OF THE BOARD

MERCY MAMLE TETTEH (MRS)
COMPANY SECRETARY

BOARD OF DIRECTORS, OFFICIALS AND REGISTERED OFFICE

DIRECTORS

S. K. Botchway	(Retired: 5 th March 2002)
Kwadwo Duku	(Chairman)
Stephanie Baeta Ansah (Mrs)	(Managing Director)
Edusei Derkyi	(Deputy Managing Director)
Asare Akuffo	(Finance Director)
Sam Mensah	
Ras Boateng	
Esther Kumado (Mrs)	(Resigned: 22 nd October 2002)
Franklin Asafo-Adjei	
O. N. Chionuma	(Appointed: 23rd January 2002)
Paul Koranteng	
John Sey	(Appointed: 25 th April 2002)

SECRETARY

Mercy Mamle Tetteh (Mrs)
Ebankese
No. 35, Sixth Avenue, North Ridge, Accra

REGISTERED OFFICE

Ebankese
No. 35, Sixth Avenue, North Ridge, Accra
P. O. Box CT 4603
Cantonments - Accra

PRINCIPAL PLACE OF BUSINESS

Ebankese
No. 35, Sixth Avenue, North Ridge, Accra
P. O. Box CT 4603
Cantonments - Accra

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
4th Floor, Gulf House
Legon road, PMB CT 42
Cantonments Accra

PRINCIPAL BANKERS

Bank of Ghana	Accra
Merchant Bank (Ghana) Limited	Accra
SSB Bank Limited	Accra
Agric. Development Bank	Accra
Ghana International Bank	London
HSBC Bank	New York

The directors have the pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2002.

Statement of directors' responsibilities

The directors are responsible for the preparation of consolidated financial statements for each financial year, which give a true and fair view of the state of affairs of the group and of the profit or loss and cash flows for that period. In preparing these consolidated financial statements, the directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are reasonable and prudent and followed Ghana Accounting Standards.

The directors are responsible for ensuring that the group keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the group. The directors are also responsible for safeguarding the assets of the group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Activities

The principal activities of the company and its subsidiary continued to be:

- i. to operate and manage a fund for the provision of long term resources for home mortgage financing;
- ii. to issue and deal in bonds and other financial instruments.
- iii. to undertake the business of housing finance.
- iv. to undertake the management of investments including real estate and arrangement of capitalisation/financing packages for its clientele.

Results

The group made a profit after tax of **¢8,806 million** for the year ended 31 December 2002. The Income Surplus account amounted to **¢14,458 million**. The directors consider the state of affairs of the group to be satisfactory.

Subsidiary HFC Investment Services Limited (formerly Home Finance Investment Fund Limited), a company incorporated in Ghana to manage investments, including real estate and arrange capitalisation/financing package for its clientele, is a wholly owned subsidiary of the company. Its results have been consolidated in these accounts.

Dividends

The directors recommend the payment of a dividend of **¢48 per share** (2001: ¢45), amounting to **¢3,843 million** (2001: ¢2,528 million) for the year ended 31 December 2002.

Auditors

In accordance with Section 134(5) of the Ghana Companies Code, 1963, (Act 179) PricewaterhouseCoopers will continue in office as auditors of the group.

Chairman: KWADWO DUKU

Managing Director: STEPHANIE BAËTA ANSAH (MRS)

21st March 2003

Introduction

Home Finance Company Limited is committed to the principles and implementation of good corporate governance. The company recognizes the valuable contribution that it makes to long-term business prosperity and to ensuring accountability to its shareholders. The company is managed in a way that maximizes long-term shareholder value and takes into account the interests of all of its stakeholders.

Home Finance Company Limited believes that full disclosure and transparency in its operations are in the interests of good governance. As indicated in the statement of responsibilities of directors and notes to the accounts, the company adopts standard accounting practices and ensures sound internal control to facilitate the reliability of the financial statements.

The Board of directors

The Board is responsible for setting the company's strategic direction, for leading and controlling the company and for monitoring activities of the executive management. The Board presents a balanced and understandable assessment of the company's progress and prospects.

The Board consists of a Non-Executive Chairman, five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive Directors are independent of management and free from any constraints, which could materially interfere with the exercise of their independent judgment. They have experience and knowledge of the industry, markets, financial and/or other business information to make a valuable contribution to the company's progress. The Managing Director is a separate individual from the Chairman and she implements the management strategies and policies adopted by the Board. They meet at least three times a year.

The audit committee

The Audit Committee is made up of three (3) Non-Executive Directors. The committee meets on a quarterly basis. The main Board determines its terms of reference.

The duties of the Audit Committee include; keeping under review the scope and results of the audit, as well as the independence and objectivity of the auditors. The Audit Committee also keeps under review internal financial controls; risk management; compliance with laws and regulations and the safeguarding of assets. The Audit Committee also reviews the adequacy of the plan of the internal audit and reviews its audit reports.

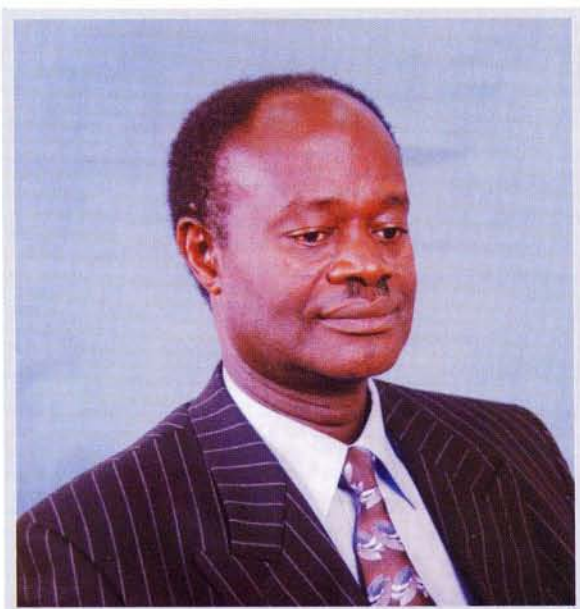
Systems of internal control

Home Finance Company Limited has a well-established internal control system for identifying, managing and monitoring risks. These are designed to provide reasonable assurance that the risks facing the company are being controlled.

The corporate internal audit function of the company plays a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems in the business. The system of internal controls are implemented and monitored by appropriately trained personnel and their duties and reporting lines are clearly defined.

Code of business ethics

The directors have communicated the principles in the company's Code of Conduct to its employees in the discharge of their duties. This code sets the professionalism and integrity required for the company's operations which covers compliance with the law, conflicts of interest, environmental issues, reliability of financial reporting, bribery and strict adherence to the principles so as to eliminate the potential for illegal practices.



Mr. Kwadwo Duku, Chairman

Dear Shareholders, Ladies and Gentlemen,

I welcome you to the 12th Annual General Meeting of your company, which event also marks the second time that I am making a report as the Chairman of Home Finance Company Limited.

THE MACROECONOMY IN 2002

Given the context of the global economy and the challenges faced internally, the Ghanaian economy achieved a modest level of stability in 2002. The key indicators during the year were:

- ♦ GDP growth of 4.5 per cent which was higher than the 4.2 per cent achieved in 2001;
- ♦ Depreciation in the nominal value of the Cedi by 15.1 per cent against the United States Dollar;
- ♦ Inflation rate of 15.2 per cent compared to 21.3 per cent in 2001; and
- ♦ Decrease in the annual yield of the benchmark 91-day treasury bill from 40.8 per cent in 2001 to 25.1 per cent.

The continued pursuit of strict fiscal discipline and prudence, enabled Government to maintain a relatively stable macroeconomic environment, despite potential threats from the domestic debt overhang arising out of Government petroleum subsidy and external factors. Potentially destabilising factors still remained on the external front, particularly from the unresolved crisis in neighbouring Ivory Coast, and the prospect of higher crude oil prices.

OPERATIONS

Your company continued to grow and consolidate its presence on the financial market within the constraints posed by the

macroeconomy. The company's asset base continued to grow, during the period under review. Total assets increased from ₵274.7 billion in 2001 to ₵349.8 billion. The mortgage portfolio, which has been the lifeblood of the company, increased from ₵186.5 billion in 2001 to ₵197.9 billion. Profit after tax increased by ₵1.2 billion (or 16.1 per cent) to ₵8.8 billion. The Directors have therefore recommended the payment of a dividend of ₵48.00 per share. In 2001, the company paid a dividend of ₵45.00 per share.

Efforts by your company to obtain a banking license are still on-going. The Board will endeavour to achieve this objective soon. The management team of HFC continued to be strong. Indeed the team is getting even stronger by a programme of professional training and education in preparation for the challenging business opportunities ahead, especially in the banking business.

In the course of the year, Bank of Ghana appointed a Financial Investment Trust to divest itself of its shareholding in banks and other financial institutions, including HFC. The Financial Investment Trust did not participate in the Rights Issue of October 2002 and consequently did not qualify for a seat on the Board of Directors, as per the regulations of the company.

I take this opportunity to thank Mr Samuel Botchway, the first chairman of the Board who retired during the year and Mrs. Esther Kumado, Bank of Ghana's last representative on the Board. I also take this opportunity to thank my colleagues on the Board for their support and encouragement during the past year. I look forward to even more fruitful interaction and co-operation in the coming year. I also express my gratitude to the management and staff for their hard work and dedication to attaining the vision and objectives of the company.

Finally, and more importantly, my sincerest gratitude goes to all of you the shareholders, both large and small, for your patience and understanding in helping the Directors and Management to chart a new course of direction for the company, especially in the pursuit of a banking license from Bank of Ghana. To our numerous customers and partners, I say a hearty thank you for your continued support. I hope you will continue to be with us in the coming years.

Until we meet again next year, I wish you all the best.

Thank you.

KWADWO DUKU
CHAIRMAN

MANAGING DIRECTOR'S REPORT



Mrs. Stephanie Baeta Ansah, Managing Director

Mr. Chairman, Fellow Members of the Board of Directors, and Distinguished Shareholders,

Year 2002 was a difficult year for Ghana's economy, especially the service sector, which declined by 0.4 per cent according to Government's financial statement read in Parliament on February 27, 2003. Home Finance Company Limited did quite well, however, in spite of having to comply with requirements for additional suspending of interest and provisioning. We are happy to report a profit before tax of ₵10.0 billion, which amounted to an increase of 25.7 per cent over that of the previous year. Profit after tax also increased by 16.1 per cent to ₵8.8 billion. Profit before tax fell marginally below the budgeted target of ₵10.7 billion by 0.7 per cent. The tax charged for the year increased from ₵406.6 million in 2001 to ₵1.2 billion in 2002. This is because in year 2001, the company had substantial tax credits from previous years, which were set off against the tax for year 2001. Our company's total assets stood at ₵349.8 billion, whilst total liabilities amounted to ₵289.8 billion. The net assets position was ₵59.9 billion at the year end, which is an increase of 61.3 per cent over that of the previous year. The increase is due to the success of the Rights Issue, as well as the appreciable level of profits obtained during the year.

Total provisioning for the loan portfolio in 2002, increased by ₵3.1 billion as compared to ₵2.1 billion in the previous year. The company adopted more stringent default provisioning rules, after consultations with Bank of Ghana. The provision was larger for Forex loans in our books, which had doubled as a result of the

massive devaluation of year 2000. On the other hand, our cedi Home Loans portfolio is doing very well, and as a result, needed only minimal provisioning. Provisioning was also made for construction finance loans, some of which had become delinquent because of delays in delivering the houses for the customers for whom some GREDA members took these loans. Management decided to slow down the growth of the Forex Home Loan portfolio in the past year, whilst we concentrated on the recovery of loans that had become delinquent. For the first time, we auctioned some houses, giving borrowers a clear signal that management is pursuing a full recovery programme. Some of the house sales however, were concluded by private treaty, with the co-operation of the borrowers. The reduction in mortgage income from ₵41.0 billion (2001), to ₵37.0 billion (2002) was off set by a marked increase in investment income from ₵10.5 billion (2001) to ₵15.9 billion (2002).

Home Loans remained our core business during the year under review. Towards the end of the year, we wrote our first commercial mortgages after critical research into the background of the mortgagors, which are all well-established companies. This is the new line of commercial mortgage business that we mentioned to shareholders at last year's AGM. These commercial loans are expected to perform much better, and to provide the needed diversification in an environment where house prices denominated in US dollars, are still unaffordable to most resident Ghanaians, due to low incomes. Management continued to regularly interact with members of GREDA, who are also feeling the effects of the down turn in the home sales business.

In the past year as in the previous year, expenditure was effectively controlled. The total expenditure for the past year was ₵49.3 billion as against ₵49.7 billion for the previous year. This was due mainly to the fall in interest rates, generally.

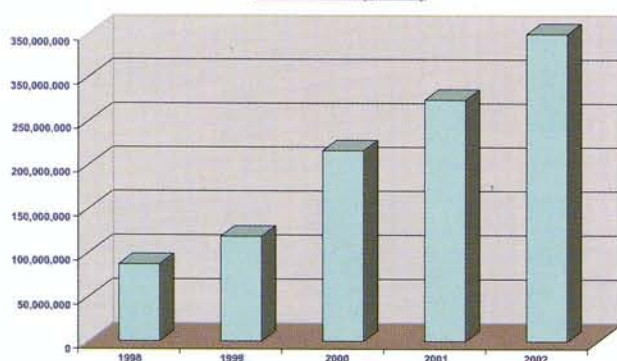
We are happy to report that the deposit taking permit we took in the previous year yielded good dividends in 2002, as our customer deposits increased from ₵15.9 billion to ₵33.5 billion. We also achieved an enhanced investment income to compensate for the slow down of the home loans business. Exceptional income of ₵436.7 million was realized from the sale of a residential property at East Airport.

Management wishes to report that it is working hard towards realizing the full benefits of diversifying our business into banking. Much progress has been made in this respect. A Steering Committee comprised of young and energetic management staff under the leadership of the Commercial Director, has made gains in the preparation of manuals of procedures and banking forms. We believe that soon, we shall

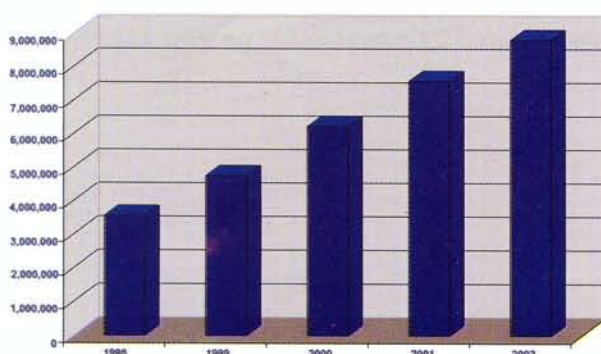
open our doors for the commencement of banking business. In most countries outside North America, more and more housing finance institutions are diversifying into banking; a typical example being the Building Societies of the United Kingdom. Restriction to one line of business only, is not useful in an emerging economy such as ours, as a down-turn caused by extraneous matters can affect the company's fortunes unnecessarily.

Staff training is on-going and focused on the plan to diversify our business base. Diversification will also enable us to add a line of non-funds based fee income to the current business of

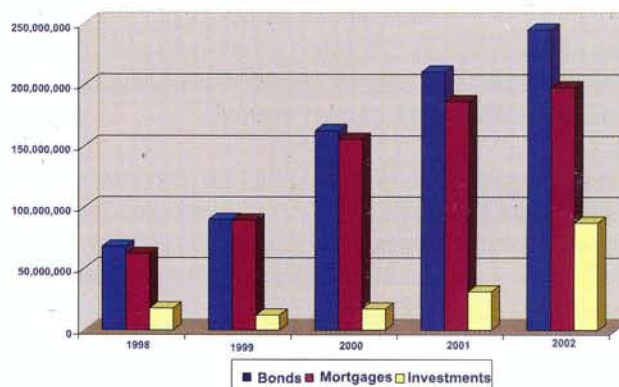
Total Assets (c '000)



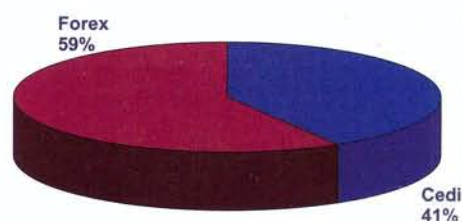
Profit After Tax (c '000)



Bonds, Mortgages & Investments



Composition of Mortgage Portfolio By Value, End 2002



mortgage loans. As the cover of this annual report illustrates, from a business base of home loans, HFC is proud to have become a strong financial services company geared to provide efficient service at competitive prices, to individuals as well as corporates.

Following the Extraordinary General Meeting (EGM) held in 2002, the Union Bank of Nigeria Plc., (formerly Barclays Bank) has expressed interest to purchase the entire 20million new shares approved by shareholders. The Board of Directors gave a deadline within which time the UBN were required to pay the full price of the shares. The Bank of Ghana on the other hand, has requested to be provided with the approval of the Central Bank of Nigeria to the investment. We are informed by UBN that the full purchase price has been placed in an account at the Ghana International Bank Plc. in London, awaiting Central Bank of Nigeria's approval for transfer to HFC. At the same time, management continues to seek other investors in its equity and debt instruments.

During the year under review, we completed the upgrading of our computer systems and organized the required training for the Staff.

Except for HFC-ISL, which is having its own custom-made software program, all other departments are fully on-line and the transitional difficulties have been resolved.

On 21st August, 2002, HFC completed the first phase of our joint-venture development with the University of Ghana at the Ridge Ambassadorial Business Area, Accra. That building now houses our subsidiary, HFC Investment Services Limited (HFC-ISL). HFC is indeed a unique Ghanaian financial service company that has a loan portfolio much in excess of other financial institutions. It has risen to the challenges of providing medium and long term financing in the Ghanaian economy, within its relatively short period of existence of twelve (12) years.

Management is grateful to you the shareholders who have always given us your encouragement and support. We also record our gratitude to our very excellent and professional Board of Directors led by an astute businessman and Chairman, Mr. Kwadwo Duku. We are also grateful to the Government of Ghana for including us in the very high level consultations that took place at Elmina in December 2002, on various matters of national concern, including the future of housing finance in Ghana. It is our hope that this is only the beginning of better cooperation and collaboration between the public and private sectors, in the interest of a more dynamic and diversified financial services industry in this country.



Legon - HFC Towers first phase, a joint project between University of Ghana and HFC, Commissioned on 21st August, 2002

Management thanks you all.

STEPHANIE BAËTA ANSAH (MRS)
MANAGING DIRECTOR

REPORT OF THE AUDITORS TO THE MEMBERS OF HOME FINANCE COMPANY LIMITED AND ITS SUBSIDIARY

We have audited the consolidated financial statements on pages 10 to 32, which have been prepared in accordance with the accounting policies, set out on pages 14 to 16. We report in terms of section 23(2) of the Financial Institutions (Non-Banking) Law, 1993 (PNDCL 328).

Respective responsibilities of directors and auditors

As stated on page 3, the directors are responsible for the preparation of the consolidated financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examination, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Opinion

In our opinion, the group's transactions were within its powers, proper books of account have been kept and the consolidated financial statements which are in agreement therewith give a true and fair view of the state of affairs of the group at 31 December 2002 and of the profit and cash flows of the group for the year then ended and comply with Ghana Accounting Standards, the Ghana Companies Code, 1963 (Act 179) and the Financial Institutions (Non-Banking) Law, 1993 (PNDCL 328).

Pricewaterhouse Coopers
Chartered Accountants

21st March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts are expressed in thousands of Cedis)

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		2002		2001	
	NOTES	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
Income					
Operating income	1	52,762,409	52,914,394	51,051,479	51,502,353
Fees and commissions		478,360	2,169,835	1,217,000	2,209,424
Other income	2	4,036,133	4,226,239	3,389,780	3,986,796
		<u>57,276,902</u>	<u>59,310,468</u>	<u>55,658,259</u>	<u>57,698,573</u>
Expenditure and charges					
Interest charges		30,779,508	30,779,508	35,439,599	35,439,599
Commissions		77,564	77,564	203,996	203,996
General and administrative expenses	3	13,760,433	15,297,548	11,083,894	11,922,305
Bad and doubtful debt expense	4	3,113,899	3,113,899	2,141,615	2,141,615
		<u>47,731,404</u>	<u>49,268,519</u>	<u>48,869,104</u>	<u>49,707,515</u>
Profit before tax		9,545,498	10,041,949	6,789,155	7,991,058
Tax	5	(995,340)	(1,235,853)	(257,753)	(406,648)
Profit after tax transferred to Income surplus account		<u>8,550,158</u>	<u>8,806,096</u>	<u>6,531,402</u>	<u>7,584,410</u>
CONSOLIDATED INCOME SURPLUS ACCOUNT					
At 1 January		7,395,984	10,401,179	9,728,422	11,680,609
Profit for the year		8,550,158	8,806,096	6,531,402	7,584,410
Transfer from capital surplus account		803,581	803,581	-	-
		<u>16,749,723</u>	<u>20,010,856</u>	<u>16,259,824</u>	<u>19,265,019</u>
Transfer to share deals account		-	-	(2,743,514)	(2,743,514)
Transfer to housing development assistance fund		(427,508)	(427,508)	(326,570)	(326,570)
Transfer to mandatory reserve		(1,282,524)	(1,282,524)	(3,265,701)	(3,265,701)
Proposed dividend	6	(3,842,832)	(3,842,832)	(2,528,055)	(2,528,055)
At 31 December		<u>11,196,859</u>	<u>14,457,992</u>	<u>7,395,984</u>	<u>10,401,179</u>
Earnings Per Share		-	<u>140</u>	-	<u>114</u>
Dividend Per Share		-	<u>48</u>	-	<u>45</u>

The accounting policies and notes on pages 14 to 32 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

(All amounts are expressed in thousands of Cedis)

		2002		2001	
	NOTES	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
Employment of Capital					
Property and equipment	7	19,253,090	19,987,493	20,200,476	20,505,676
Mortgages	8	197,954,246	197,954,246	186,513,841	186,513,841
Commercial loans	9	7,307,446	7,307,446	-	-
Construction finance	10	17,285,473	17,285,473	15,375,826	15,375,826
		<u>241,800,255</u>	<u>242,534,658</u>	<u>222,090,143</u>	<u>222,395,343</u>
Investment at cost	11	1,647,728	1,547,728	1,880,460	1,780,460
		<u>243,447,983</u>	<u>244,082,386</u>	<u>223,970,603</u>	<u>224,175,803</u>
Current Assets					
Short-term investments	12	86,025,128	87,550,074	30,123,461	31,215,078
Other assets	13	8,413,759	11,173,168	8,959,010	11,219,472
Tax	14	193,442	-	43,282	-
Bank and cash balances	16	5,951,568	6,953,865	8,002,563	8,151,161
		<u>100,583,897</u>	<u>105,677,107</u>	<u>47,128,316</u>	<u>50,585,711</u>
Current Liabilities					
Customer deposits	17	33,475,012	33,475,012	15,844,562	15,939,660
Creditors and accruals	18	4,751,277	7,060,576	7,533,622	7,993,863
Bank overdraft		-	-	286,323	286,323
Dividend payable	6	3,842,832	3,842,832	2,528,055	2,528,055
Tax	14	-	157,181	-	102,061
Deferred credit	19	47,445	47,445	116,802	116,802
		<u>42,116,566</u>	<u>44,583,046</u>	<u>26,309,364</u>	<u>26,966,764</u>
Net current assets		<u>58,467,331</u>	<u>61,094,061</u>	<u>20,818,952</u>	<u>23,618,947</u>
Total assets less current liabilities		<u>301,915,314</u>	<u>305,176,447</u>	<u>244,789,555</u>	<u>247,794,750</u>
Long term liabilities					
Long term bonds	20	242,692,178	242,692,178	208,110,050	208,110,050
Long term loans	21	2,497,414	2,497,414	2,497,414	2,497,414
		<u>245,189,592</u>	<u>245,189,592</u>	<u>210,607,464</u>	<u>210,607,464</u>
Net Assets		<u>56,725,722</u>	<u>59,986,855</u>	<u>34,182,091</u>	<u>37,187,286</u>
Capital Employed:					
Stated capital	22	25,894,182	25,894,182	8,094,001	8,094,001
Housing development					
Assistance fund	23	1,618,201	1,618,201	1,190,693	1,190,693
Mandatory reserve	24	4,548,225	4,548,225	3,265,701	3,265,701
Income surplus account		11,196,859	14,457,992	7,395,984	10,401,179
Capital surplus account	25	11,644,320	11,644,320	12,447,901	12,447,901
Share deals account	26	1,823,935	1,823,935	1,787,811	1,787,811
		<u>56,725,722</u>	<u>59,986,855</u>	<u>34,182,091</u>	<u>37,187,286</u>

The consolidated financial statements on pages 10 to 32 were approved by the Board of Directors on 21st March 2003 and signed on its behalf by:

Chairman: Kwadwo Duku

Managing Director: Stephanie Baëta Ansah (Mrs)

CONSOLIDATED CASH FLOW STATEMENT

(All amounts are expressed in thousands of Cedis)

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	<u>NOTES</u>	<u>2002</u>	<u>2001</u>
Operating activities			
Net cash used in operating activities	27	42,645,947	6,497,330
Interest paid		(8,584,243)	(3,321,027)
Tax paid	14	(1,180,733)	(1,199,750)
Net cash flow generated from operating activities		32,880,971	1,976,553
Investing activities			
Purchase of property and equipment	7	(2,361,960)	(3,861,882)
Proceeds from sale of property and equipment	7	1,564,699	25,000
Purchase of equity shares		-	(1,630,460)
Net cash used in investing activities		(797,261)	(5,467,342)
Financing activities			
Loans received		-	2,203,510
Dividend paid	6	(2,528,055)	(2,109,222)
Proceeds from the issue of bonds	20	10,489,934	29,465,223
Redemption of bonds	20	(14,012,215)	(17,627,643)
Rights issue	22	17,628,901	-
Share option issue	22	171,280	66,691
Purchase of own shares		-	(2,743,514)
Reissue of treasury shares	26	36,124	1,787,811
Net cash generated from financing activities		11,785,969	11,042,856
Increase in cash and cash equivalents		43,869,679	7,552,067
Movement in cash and cash equivalents			
At 1 January		30,872,772	23,320,705
Increase during the year		43,869,679	7,552,067
At 31 December	28	74,742,451	30,872,772

The accounting policies and notes on pages 14 to 32 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in thousands of Cedis)

	Stated Capital	Housing development Assistance	Mandatory reserve account	Income surplus account	Capital surplus account	Share deals account	Total
Year ended 31 December 2002							
At 1 January 2002	8,094,001	1,190,693	3,265,701	10,401,179	12,447,901	1,787,811	37,187,286
Net profit	-	-	-	8,806,096	-	-	8,806,096
Transfer to mandatory reserve	-	-	-	1,282,524	(1,282,524)	-	-
Transfer to housing development assistance fund	-	427,508	-	(427,508)	-	-	-
Transfer to income surplus	-	-	-	803,581	(803,581)	-	-
Reissue of treasury shares	-	-	-	-	-	36,124	36,124
Proposed dividend	-	-	-	(3,842,832)	-	-	(3,842,832)
Issue of shares	<u>17,800,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,800,181</u>
At 31 December	<u>25,894,182</u>	<u>1,618,201</u>	<u>4,548,225</u>	<u>14,457,992</u>	<u>11,644,320</u>	<u>1,823,935</u>	<u>59,986,855</u>
Year ended 31 December 2001							
At 1 January 2002	8,027,310	864,123	-	11,680,609	12,447,901	-	33,019,943
Net profit	-	-	-	7,584,410	-	-	7,584,410
Transfer to mandatory reserve	-	-	-	3,265,701	(3,265,701)	-	-
Transfer to housing development assistance fund	-	326,570	-	(326,570)	-	-	-
Transfer to share deals accounts	-	-	-	(2,743,514)	-	2,743,514	-
Reissue of treasury shares	-	-	-	-	-	1,787,811	1,787,811
Proposed dividend	-	-	-	(2,528,055)	-	-	(2,528,055)
Issue of shares	<u>66,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,691</u>
Purchase of shares into treasury	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,743,514)</u>	<u>(2,743,514)</u>
At 31 December	<u>8,094,001</u>	<u>1,190,693</u>	<u>3,265,701</u>	<u>10,401,179</u>	<u>12,447,901</u>	<u>1,787,811</u>	<u>37,187,286</u>

The accounting policies and notes on pages 14 to 32 form an integral part of these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with, and comply with, Ghana Accounting Standards and the principles of historical cost convention as modified by the revaluation of landed property. The accounting policies adopted are consistent with those of the previous year.

(b) Consolidation

Subsidiary undertakings, which are those companies in which the group directly or indirectly has power to exercise control over financial and operating policies have been consolidated. Subsidiary undertakings are consolidated from the date on which effective control is transferred to the Group and no longer consolidated on disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. The accounting policies for the subsidiary is consistent with the policies adopted by the company.

(c) Property and equipment

Land and buildings are stated at valuation less accumulated depreciation. Furniture equipment and motor vehicles are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write off the cost/gross value of property and equipment over their useful lives. The principal rates used for these purposes are:

Building	2%
Furniture and equipment	20%
Motor vehicles	20%

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into cedis at rates prevailing at the time of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into cedis at the exchange rate ruling at that date. Gains and losses resulting from the conversion and translation are dealt with in the profit and loss in the year in which they arise.

(e) Grants

(i) Revenue Grants

Grants of revenue nature are dealt with in the profit and loss account.

(ii) Capital Grants

Capital based grants are shown as deferred credit and transferred to the profit and loss account over the estimated life of the related asset.

(f) Mortgages and commercial loans

Mortgages and commercial loans originated by the company are stated in the consolidated financial statements at face value except for the International Development Association and Social Security and National Insurance Trust financed pilot and uncompleted housing mortgage, where an adjustment for inflation is made based on the consumer price index. Third party expenses, such as legal fees incurred in securing a mortgage or loan are treated as part of the cost of transaction.

All mortgages and loans are recognised when cash is advanced to borrowers.

(g) Provision for bad and doubtful debts

Generally, provision for bad and doubtful debts are made, having regard to specific risks.

The provisions are made in respect of those advances that have been individually reviewed and specifically identified as bad or doubtful. In determining the level of provision required, the directors consider numerous factors including, but not limited to domestic economic conditions, the composition of the advance portfolio and prior bad debt experience. When the advance is deemed uncollectable it is written off against the related bad debt provision.

Provision for bad and doubtful debts on the residential mortgage portfolio is made on the basis of the rules summarised below

- i) Where instalments are past due for more than six months but not exceeding 2 years, the loans are classified as sub-standard and are provided for at 10% of the total loan outstanding
- ii) Where instalments are past due for a period exceeding 2 years, the loans are classified as doubtful and a provision of 100% of the amount outstanding less the value of the property is made.
- iii) The following provisions being a percentage of the property value, are also made:

Doubtful for less than 36 months	-	20% of the property value
Doubtful for 36 months but less than 60 months	-	30% of the property value
Doubtful for more than 60 months	-	50% of the property value
- iv) All losses identified on the portfolio are written off.

(h) Bonds

Bonds in the consolidated financial statements are stated at face value for the International Development Association and Social Security and National Insurance Trust financed pilot and uncompleted housing mortgage, where an adjustment for inflation is made based on the consumer price index. Expenses arising from the issue of bonds are written off to the profit and loss account in the period in which they are incurred.

(i) Inflation adjustment

Inflation adjustment on pilot and uncompleted housing scheme mortgages are treated as interest income. Inflation adjustment on indexed bonds are treated as interest expense.

(j) Investments in subsidiary

Investments in subsidiary are carried in the company's balance sheet at cost less provisions for impairment losses. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(k) Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred income tax assets are recognised for unutilised capital allowances carried forward only to the extent that realisation of the related tax benefit is probable.

(l) Investment securities

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models.

Treasury bills are debt securities issued by the Bank of Ghana. These bills are stated at face value less unearned interest and are classified as available-for-sale investments.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid, investments and bank overdrafts.

(n) Interest and investment income

Interest and investment income are generally recognised on an accrual basis.

(o) Post balance sheet events

Events subsequent to the balance sheet date are reflected only to the extent that they relate to the consolidated financial statements and when their effect is material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in the notes are expressed in thousands of cedis unless otherwise stated)

1. OPERATING INCOME

	THE COMPANY	2002 THE GROUP	THE COMPANY	2001 THE GROUP
Interest income	37,016,907	37,016,907	41,033,963	41,033,963
Investment income	15,745,502	15,897,487	10,017,516	10,468,390
	<u>52,762,409</u>	<u>52,914,394</u>	<u>51,051,479</u>	<u>51,502,353</u>

2. OTHER INCOME

Net exchange difference	2,621,534	2,720,786	2,031,287	2,459,680
IDA grant income	69,357	69,357	69,357	69,357
Interest income	138,396	160,796	261,701	268,814
Profit on disposal of property and equipment	436,739	436,739	-	23,785
Miscellaneous income	770,107	838,561	1,027,435	1,165,160
	<u>4,036,133</u>	<u>4,226,239</u>	<u>3,389,780</u>	<u>3,986,796</u>

3. GENERAL AND ADMINISTRATIVE EXPENSES

Depreciation	1,565,268	1,752,184	961,702	1,038,162
Directors' emoluments	1,058,585	1,140,449	957,215	1,018,719
Auditors' remuneration	70,000	90,000	55,000	65,000

4. BAD AND DOUBTFUL DEBT PROVISION

THE COMPANY/GROUP

Year ended 31 December 2002

	Mortgages	Commercial Loans	Construction finance	Total
At 1 January	3,933,371	-	-	3,933,371
Doubtful debt expenses	2,179,902	61,069	872,928	3,113,899
At 31 December	6,113,273	61,069	872,928	7,047,270

Year ended 31 December 2001

	Mortgages	Commercial Loans	Construction finance	Total
At 1 January	1,791,756	-	-	1,791,756
Doubtful debt expenses	2,141,615	-	-	2,141,615
At 31 December	3,933,371	-	-	3,933,371

5. TAX	2002		2001	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
Current tax	701,460	941,973	611,024	759,919
Deferred tax credit	<u>293,880</u>	<u>293,880</u>	<u>(353,271)</u>	<u>(353,271)</u>
	<u>995,340</u>	<u>1,235,853</u>	<u>257,753</u>	<u>406,648</u>

The tax on the group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	<u>9,545,498</u>	<u>10,041,949</u>	<u>6,789,155</u>	<u>7,991,058</u>
Tax calculated at a tax rate of 30% for the company and 32.5% for the subsidiary	2,863,649	3,012,585	2,036,747	2,397,317
Tax effect of:				
Income not subject to tax	(6,176,713)	(6,229,908)	(4,047,268)	(4,152,183)
Expenses not deductible for tax purposes	4,308,404	4,453,176	2,268,274	2,161,514
Tax charge	<u>995,340</u>	<u>1,235,853</u>	<u>257,753</u>	<u>406,648</u>

6. DIVIDEND (GROSS)

At 1 January	2,528,055	2,528,055	2,109,222	2,109,222
Proposed dividend	<u>3,842,832</u>	<u>3,842,832</u>	<u>2,528,055</u>	<u>2,528,055</u>
	6,370,887	6,370,887	4,637,277	4,637,277
Dividend paid	<u>(2,528,055)</u>	<u>(2,528,055)</u>	<u>(2,109,222)</u>	<u>(2,109,222)</u>
At 31 December	<u>3,842,832</u>	<u>3,842,832</u>	<u>2,528,055</u>	<u>2,528,055</u>

Payment of dividend is subject to deduction of 10% withholding tax.

7. **PROPERTY AND EQUIPMENT****The Company**

	Leasehold Land and Buildings	Motor Vehicles	Equipment	Furniture	Total
Cost/valuation					
At 1 January 2002	15,347,481	1,474,679	798,881	5,372,387	22,993,428
Additions	19,126	378,103	205,188	1,143,425	1,745,842
Released on disposals	(1,141,470)	(90,475)	-	(59,790)	(1,291,735)
At 31 December 2002	<u>14,225,137</u>	<u>1,762,307</u>	<u>1,004,069</u>	<u>6,456,022</u>	<u>23,447,535</u>
Depreciation					
At 1 January 2002	317,554	769,270	294,843	1,411,285	2,792,952
Charge for the year	151,341	194,878	176,519	1,042,530	1,565,268
Released on disposals	(34,150)	(90,475)	-	(39,150)	(163,775)
At 31 December 2002	<u>434,745</u>	<u>873,673</u>	<u>471,362</u>	<u>2,414,665</u>	<u>4,194,445</u>
Net book value at 31 December 2002	<u>13,790,392</u>	<u>888,634</u>	<u>532,707</u>	<u>4,041,357</u>	<u>19,253,090</u>
31 December 2001	<u>15,029,927</u>	<u>705,409</u>	<u>504,038</u>	<u>3,961,102</u>	<u>20,200,476</u>

The Group

Cost/valuation					
At 1 January 2002	15,347,481	1,743,119	798,881	5,503,971	23,393,452
Additions	19,126	560,894	205,188	1,576,752	2,361,960
Released on disposals	(1,141,470)	(90,475)	-	(59,790)	(1,291,735)
At 31 December 2002	<u>14,225,137</u>	<u>2,213,538</u>	<u>1,004,069</u>	<u>7,020,933</u>	<u>24,463,677</u>
Depreciation					
At 1 January 2002	317,553	811,851	294,843	1,463,528	2,887,775
Charge for the year	151,341	286,947	176,519	1,137,377	1,752,184
Released on disposals	(34,150)	(90,475)	-	(39,150)	(163,775)
At 31 December 2002	<u>434,744</u>	<u>1,008,323</u>	<u>471,362</u>	<u>2,561,755</u>	<u>4,476,184</u>
Net Book Value at 31 December 2002	<u>3,790,393</u>	<u>1,205,215</u>	<u>532,707</u>	<u>4,459,178</u>	<u>19,987,493</u>
31 December 2001	<u>15,029,927</u>	<u>931,268</u>	<u>504,038</u>	<u>4,040,443</u>	<u>20,505,676</u>

7. PROPERTY AND EQUIPMENT (continued)

Messrs. Real Estate Partnership, an independent chartered valuer, revalued the company's landed properties at open market value on 31 December 2000. If land and buildings were stated at the historical cost, the amount would be as follows:

	2002 THE COMPANY	2002 THE GROUP	2001 THE COMPANY	2001 THE GROUP
Cost	2,835,719	2,835,719	2,835,719	2,835,719
Accumulated depreciation	(293,048)	(293,048)	(236,334)	(236,334)
Net book value	<u>2,542,671</u>	<u>2,542,671</u>	<u>2,599,385</u>	<u>2,599,385</u>
Profit on Sale of Fixed Assets				
Cost	1,291,735	1,291,735	-	36,450
Depreciation	(163,775)	(163,775)	-	(35,235)
Net Book Value	1,127,960	1,127,960	-	1,215
Proceeds from Sale	(1,564,699)	(1,564,699)	-	(25,000)
Profit on Sale	<u>436,739</u>	<u>436,739</u>	<u>-</u>	<u>23,785</u>

8. MORTGAGES

At 1 January	186,513,841	186,513,841	155,869,261	155,869,261
Disbursements during year	31,218,350	31,218,350	33,742,906	33,742,906
Interest charged	18,990,005	18,990,005	12,631,232	12,631,232
Exchange gain	14,801,314	14,801,314	2,650,000	2,650,000
Inflation adjustment	11,887,731	11,887,731	22,486,345	22,486,345
	<u>263,411,241</u>	<u>263,411,241</u>	<u>227,379,744</u>	<u>227,379,744</u>
Less:				
Repayments	(59,343,722)	(59,343,722)	(36,932,532)	(36,932,532)
	<u>204,067,519</u>	<u>204,067,519</u>	<u>190,447,212</u>	<u>190,447,212</u>
Bad and doubtful debts expense	(6,113,273)	(6,113,273)	(3,933,371)	(3,933,371)
At 31 December	<u>197,954,246</u>	<u>197,954,246</u>	<u>186,513,841</u>	<u>186,513,841</u>

9. **COMMERCIAL LOANS**

	2002 THE COMPANY	2002 THE GROUP	2001 THE COMPANY	2001 THE GROUP
Commercial loans	7,368,515	7,368,515	-	-
Less:				
Bad and doubtful debt expense	(61,069)	(61,069)	-	-
	<u>7,307,446</u>	<u>7,307,446</u>	-	-

10. **CONSTRUCTION FINANCE**

Construction finance	18,158,401	18,158,401	15,375,826	15,375,826
Bad debt and doubtful expense	(872,928)	(872,928)	-	-
	<u>17,285,473</u>	<u>17,285,473</u>	<u>15,375,826</u>	<u>15,375,826</u>

11. **INVESTMENTS AT COST**

Investment in subsidiary Company	100,000	-	100,000	-
Investment in associated companies	<u>1,547,728</u>	<u>1,547,728</u>	<u>1,780,460</u>	<u>1,780,460</u>
	<u>1,647,728</u>	<u>1,547,728</u>	<u>1,880,460</u>	<u>1,780,460</u>

Investment in associated companies represent equity shares in Metropolitan and Allied Bank, Gambia HFC and UG HFC.

12. **SHORT-TERM INVESTMENTS**

Fixed deposits	-	-	2,766,317	2,766,317
Treasury dealings	19,761,488	19,761,488	8,207,144	8,207,144
Treasury bills	52,920,297	52,920,297	13,031,841	13,031,841
Unit and investment trust	<u>13,343,343</u>	<u>14,868,289</u>	<u>6,118,159</u>	<u>7,209,776</u>
	<u>86,025,128</u>	<u>87,550,074</u>	<u>30,123,461</u>	<u>31,215,078</u>

Short term investments are classified as available-for-sale investments.

13. OTHER ASSETS

	THE COMPANY	2002 THE GROUP	THE COMPANY	2001 THE GROUP
Staff loans	1,760,031	1,760,031	1,362,929	1,362,929
Accrued income	558,322	1,286,704	800,166	800,166
Treasury dealings interest	213,914	213,914	199,121	199,121
UG HFC loan account	1,587,714	1,587,714	687,714	687,714
Gambia HFC current Account	187,475	187,475	88,550	88,550
Unit Trust Investment account	1,013,110	1,013,110	609,594	609,594
Other receivables	<u>3,093,193</u>	<u>5,682,220</u>	<u>5,210,936</u>	<u>7,471,398</u>
	<u>8,413,759</u>	<u>11,731,168</u>	<u>8,959,010</u>	<u>11,219,472</u>

The maximum amount of such indebtedness by officers during the year did not exceed ₦1,781million (2001: ₦1 363 million).

14. TAX

The Company	Balance 1/1/02	Charge/ (Credit) for the year	Payments during year	Balance 31/12/02
Current tax				
Tax Year				
2000	167,576	-	-	167,576
2001	(508,976)	-	-	(508,976)
2002	<u>-</u>	<u>701,460</u>	<u>(1,145,500)</u>	<u>(444,040)</u>
	(341,400)	701,460	(1,145,500)	(785,440)
Deferred tax	298,118	293,880	-	591,998
	<u>(43,282)</u>	<u>995,340</u>	<u>(1,145,500)</u>	<u>(193,442)</u>
The Group				
	Balance 1/1/01	Charge/ (credit) for the year	Payment during year	Balance 31/12/02
Current tax				
Tax Year				
2000	243,774	-	-	243,774
2001	(439,831)	240,513	-	(199,318)
2002	<u>-</u>	<u>701,460</u>	<u>(1,180,733)</u>	<u>(479,273)</u>
	(196,057)	941,973	(1,180,733)	(434,817)
Deferred income tax	298,118	293,880	-	591,998
	<u>102,061</u>	<u>1,235,853</u>	<u>(1,180,733)</u>	<u>157,181</u>

15. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of **30%** for the company and **32.5%** for the subsidiary. The movement on the deferred tax account is as follows:

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	298,118	298,118	651,389	651,389
Income statement charge/(credit)	<u>293,880</u>	<u>293,880</u>	<u>(353,271)</u>	<u>(353,271)</u>
At 31 December	<u>591,998</u>	<u>591,998</u>	<u>298,118</u>	<u>298,118</u>

Deferred income tax assets and liabilities are attributable to the following items:

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
Deferred income tax liabilities				
Property and equipment	-	-	298,118	298,118
Mortgages	<u>3,788,845</u>	<u>3,788,845</u>	-	-
	<u>3,788,845</u>	<u>3,788,845</u>	<u>298,118</u>	<u>198,118</u>
Deferred income tax assets				
Property and equipment	510,185	510,185	-	-
Long term bonds	<u>2,686,662</u>	<u>2,686,662</u>	-	-
	<u>3,196,847</u>	<u>3,196,847</u>	-	-
	<u>591,998</u>	<u>591,998</u>	<u>298,118</u>	<u>298,118</u>

The deferred income tax charge/(credit) in the profit and loss account comprise the following temporary differences.

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
Accelerated tax depreciation	(808,303)	(808,303)	353,271	373,271
Unrealised exchange loss	<u>(2,686,662)</u>	<u>(2,686,662)</u>	-	-
Unrealised exchange gain	4,440,418	4,440,418	-	-
Provision for loan losses	<u>(651,573)</u>	<u>(651,573)</u>	-	-
	<u>293,880</u>	<u>293,880</u>	<u>353,271</u>	<u>373,251</u>

16. **BANK AND CASH BALANCES**

	2002		2001	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
Local banks	2,005,385	2,985,282	1,596,350	1,744,948
Foreign banks	3,910,653	3,910,653	6,182,724	6,182,724
Call accounts	<u>35,530</u>	<u>57,930</u>	<u>223,489</u>	<u>223,489</u>
	<u>5,951,568</u>	<u>6,953,865</u>	<u>8,002,563</u>	<u>8,151,161</u>

17. **CUSTOMER DEPOSITS**

Deposits	13,458,713	13,458,713	5,931,134	6,026,232
Legal deposit	1,525,896	1,525,896	1,839,153	1,839,153
Forex deposits	1,087,533	1,087,533	-	-
HFC housebills/housenotes	17,196,641	17,196,641	7,249,164	7,249,164
Unit Trust dollar deposits	-	-	50,735	50,735
GNPC deposits	<u>206,229</u>	<u>206,229</u>	<u>774,376</u>	<u>774,376</u>
	<u>33,475,012</u>	<u>33,475,012</u>	<u>15,844,562</u>	<u>15,939,660</u>

18. **CREDITORS AND ACCRUALS**

Interest payable	1,794,252	2,003,535	2,836,426	2,836,426
Others	<u>2,957,025</u>	<u>5,057,041</u>	<u>4,219,401</u>	<u>4,679,642</u>
	<u>4,751,277</u>	<u>7,060,576</u>	<u>7,055,827</u>	<u>7,516,068</u>

19. **DEFERRED CREDIT**

Deferred credit represents the balance on capital based grants and consists of:

At 1 January	116,802	116,802	186,159	186,159
Transfers to profit and loss account	<u>(69,357)</u>	<u>(69,357)</u>	<u>(69,357)</u>	<u>(69,357)</u>
At 31 December	<u>47,445</u>	<u>47,445</u>	<u>116,802</u>	<u>116,802</u>

20. **LONG TERM BONDS**

	2002		2001	
	THE COMPANY	THE GROUP	THE COMPANY	GROUP
At 1 January	208,110,050	208,110,050	162,713,815	162,713,815
Issues during the year	10,489,934	10,489,934	29,465,223	29,465,223
Interest charged	8,092,180	8,092,180	13,252,002	13,252,002
Exchange loss	17,706,197	17,706,197	4,606,827	4,606,827
Inflation adjustment	20,890,275	20,890,275	19,020,853	19,020,853
	265,288,636	265,288,636	229,058,720	229,058,720
Less:				
Redemptions	(14,012,215)	(14,012,215)	(17,627,643)	(17,627,643)
Interest paid	(8,584,243)	(8,584,243)	(3,321,027)	(3,321,027)
At 31 December	242,692,178	242,692,178	208,110,050	208,110,050

Analysis by type of bond:

Ghana Government bond (Note (i) below)	44,034,248	44,034,248	37,870,297	37,870,297
Social Security & National Insurance Trust bonds (Note (ii) below)	103,245,549	103,245,549	87,608,808	87,608,808
HFC Unit Trust	748,733	748,733	648,833	648,833
Total cedi bonds (Note (iii) below)	148,028,530	148,028,530	126,127,938	126,127,938
HFC dollar housebonds (Note (iv) below)	78,595,960	78,595,960	69,075,842	69,075,842
HFC sterling housebonds (Note (v) below)	16,067,688	16,067,688	12,906,270	12,906,270
Balance at 31 December	242,692,178	242,692,178	208,110,050	208,110,050

i. **Ghana Government bond**

The International Development Association has made available to the Government of Ghana (GOG) a credit of **US\$70 million** for the Urban II Project. GOG has on-lent an amount of **US\$7 million** from the proceeds of the Credit to HFC for home mortgage financing. As at 31 December 2002, the outstanding balance on the facility stood at **¢44,034million** (2001: ¢37,870 million). The term of the bond is 30 years. These are fully indexed to inflation and attract interest at the rate of 1% per annum.

20. **LONG TERM BONDS (CONTINUED)**ii **Social Security and National Insurance Trust bonds**(a) **Uncompleted housing scheme**

A loan of **¢2,000 million** was contracted to finance the Uncompleted Housing Scheme. The loan, which is fully indexed to inflation, has a 20-year maturity period and attracts interest at the rate of 1.5% per annum on amounts drawn-down. The initial disbursement was made in 1993.

(b) **Pilot scheme**

Social Security and National Insurance Trust have lent the cedi equivalent of **US\$16.2 million** for the implementation of the Home Finance Pilot Scheme. The loan, which has a 20-year term, is fully indexed to inflation and attracts interest at the rate of 1% per annum.

iii **Total cedi bonds**

The movement on cedi bonds is as follows:

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	126,127,938	126,127,938	90,873,307	90,873,307
Issues during the year	-	-	11,700,000	11,700,000
Interest charges	2,020,637	2,020,637	5,243,592	5,243,592
Inflation adjustment	<u>20,890,272</u>	<u>20,890,272</u>	<u>19,020,853</u>	<u>19,020,853</u>
	149,038,847	149,038,847	126,837,752	126,837,752
Less:				
Interest repayments	<u>(1,010,317)</u>	<u>(1,010,317)</u>	<u>(709,814)</u>	<u>(709,814)</u>
At 31 December	<u>148,028,530</u>	<u>148,028,530</u>	<u>126,127,938</u>	<u>126,127,938</u>

iv. **HFC dollar housbonds**

The company, on 17 September 1996 made a shelf registration of **US\$35 million** bonds on the Ghana Stock Exchange. The issued bonds have a maturity of five years and investors have the option to redeem their holdings at a discount value of **US\$98.25** for every **US\$100** at the end of the second year of issue. The bonds are also listed and traded, on the Ghana Stock Exchange.

20. **LONG TERM BONDS (CONTINUED)**

iv **HFC dollar housbonds (continue)**

At 31 December 2002, **US\$9.3 million** (2001:US\$10.3m) has been issued. The movement on HFC housbonds is as follows:

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	69,075,842	69,075,842	71,840,508	71,840,508
Issues during the year	10,489,934	10,489,934	6,942,341	6,942,341
Interest charges	5,042,064	5,042,064	6,953,939	6,953,939
Exchange loss	13,669,448	13,669,448	3,577,910	3,577,910
	98,277,288	98,277,288	89,314,698	89,314,698
Less:				
Interest repayments	(5,669,113)	(5,669,113)	(2,611,213)	(2,611,213)
Redemption	(14,012,215)	(14,012,215)	(17,627,643)	(17,627,643)
At 31 December	78,595,960	78,595,960	69,075,842	69,075,842

v. **HFC sterling housbonds**

The company, on 13 August 2001 issued **£1.2 million** bonds out of a shelf registration on the Ghana Stock Exchange. The issued bonds have a maturity of five years and investors have the option to redeem their holdings at a discount value of **£98.80** for every **£100** at the end of the second year of issue. The bonds are also callable at the end of the second year at a premium of **£101.20**, and are also listed and traded on the Ghana Stock Exchange.

As at 31 December 2002 **£1.2 million** (2001: £1.2 million) has been issued. The movement on HFC sterling housbonds is as follows:

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	12,906,270	12,906,270	-	-
Issues during the year	-	-	10,822,882	10,822,882
Interest charges	1,029,479	1,029,479	1,054,471	1,054,471
Exchange loss	4,036,752	4,036,752	1,028,917	1,028,917
	17,972,501	17,972,501	12,906,270	12,906,270
Less:				
Interest repayments	(1,904,813)	(1,904,813)	-	-
At 31 December	16,067,688	16,067,688	12,906,270	12,906,270

21. **LONG TERM LOAN**

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	2,497,414	2,497,414	293,904	293,904
Drawdowns	-	-	<u>2,203,510</u>	<u>2,203,510</u>
At 31 December	<u>2,497,414</u>	<u>2,497,414</u>	<u>2,497,414</u>	<u>2,497,414</u>

Long term loan represents an IDA co-ordinated loan through the Non-Bank Financial Institution (NBFI) for the procurement of computer systems and accessories. The loan represents **US\$500,000** out of a total IDA Credit of **SDR16, 000,000** given to the Government of Ghana under a Development Credit agreement, dated 26th February 1996. The loan has a ten-year term, with a three-year grace period from the date of first draw down. The first draw down was made in September 1999. Repayment of the loan is in cedis at an interest rate based on the market determined average cost of 180-days fixed deposits, with the Government of Ghana bearing the foreign exchange risk.

22. **STATED CAPITAL**

The company has authorised shares of **1,000,000,000** (2001: 1,000,000,000) of which **80,059,000** (2001: 57,129,000) have been issued. All shares have been issued for cash consideration. The movement in stated capital is as follows:

	<u>2002</u>		<u>2001</u>	
	No. Of Shares '000	Proceeds	No. Of Shares '000	Proceeds
At 1 January	57,129	8,094,001	57,006	8,027,310
Rights issue	22,601	17,628,901	-	-
Share option scheme	<u>329</u>	<u>171,280</u>	<u>123</u>	<u>66,691</u>
At 31 December	<u>80,059</u>	<u>25,894,182</u>	<u>57,129</u>	<u>8,094,001</u>

There are no unpaid liabilities on any share and there are no calls or instalments unpaid. There are 914,170 (2001: 950,249) shares in treasury. There are no calls or instalments unpaid.

During the year, a renounceable rights issue per shareholders' resolution dated 25 April 2002 was made.

23. HOUSING DEVELOPMENT ASSISTANCE FUND

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	1,190,693	1,190,693	864,123	864,123
Additions during year	<u>427,508</u>	<u>427,508</u>	<u>326,570</u>	<u>326,570</u>
At 31 December	<u>1,618,201</u>	<u>1,618,201</u>	<u>1,190,693</u>	<u>1,190,693</u>

The Housing development assistance fund has been set up to fund housing related research and new technologies and is as such restricted from distribution as dividend.

24. MANDATORY RESERVE

At 1 January	3,265,701	3,265,701	-	-
Transfer from retained profits	<u>1,282,524</u>	<u>1,282,524</u>	<u>3,265,701</u>	<u>3,265,701</u>
At 31 December	<u>4,548,225</u>	<u>4,548,225</u>	<u>3,265,701</u>	<u>3,265,701</u>

Mandatory reserve represents the cumulative amount set aside from annual net profit after tax as required under Rules 7 of Bank of Ghana Business Rules (Deposit Taking). The proportion of net profits transferred to this reserve ranges from 15% to 50% of net profit after tax, depending on the ratio of existing mandatory reserve to paid up capital.

25. CAPITAL SURPLUS ACCOUNT

Capital surplus represents the unrealised surplus arising on the revaluation of the company's landed property and is non-distributable.

	<u>2002</u>		<u>2001</u>	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
At 1 January	12,447,901	12,447,901	12,447,901	12,447,901
Transfer of realised surplus to income surplus account	<u>(803,581)</u>	<u>(803,581)</u>	-	-
At 31 December	<u>11,644,320</u>	<u>11,644,320</u>	<u>12,447,901</u>	<u>12,447,901</u>

26. SHARE DEALS ACCOUNT

At 1 January	1,787,811	1,787,811	-	-
Transfer from income surplus account	-	-	2,743,514	2,743,514
Purchase of treasury shares	-	-	(2,743,514)	(2,743,514)
Net proceeds from treasury shares resold	<u>36,124</u>	<u>36,124</u>	<u>1,787,811</u>	<u>1,787,811</u>
At 31 December	<u>1,823,935</u>	<u>1,823,935</u>	<u>1,787,811</u>	<u>1,787,811</u>

26. **SHARE DEALS ACCOUNT (CONTINUED)**

In accordance with the shareholders resolution of 20th March 1997, the company transferred €2,744 million from income surplus account to share deals account for the purchase of the company's own shares.

27. **RECONCILIATION OF PROFIT BEFORE TAX TO CASH FROM OPERATING ACTIVITIES**

	2002	2001
Profit before tax	10,041,949	7,991,058
Depreciation	1,752,184	1,038,162
Increase in bad and doubtful debt expense	3,113,899	2,141,615
Profit on disposal of property and equipment	(436,739)	(23,785)
Mortgage interest receivable	(18,990,005)	(12,631,232)
Net increase in mortgages	32,058,743	4,981,382
Increase in construction finance	(2,782,575)	(6,836,057)
Increase in other assets accounts	(1,327,832)	(3,430,347)
Net exchange loss	2,904,883	1,956,827
(Decrease)/increase in creditors and accruals	(933,287)	3,631,850
Decrease in deferred credits	(69,357)	(69,357)
Increase in deposits	7,587,875	(2,039,296)
Increase in commercial loans	(7,368,515)	-
Bond interest expense	8,092,180	13,252,002
Net inflation adjustment	9,002,544	(3,465,492)
Cash from operating activities	42,645,947	6,497,330

28. **ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CASH FLOW STATEMENT**

	2002	2001	Change in year
Bank and cash balances	6,953,865	8,151,161	(1,197,296)
Short term investments	67,788,586	23,007,934	44,780,652
Bank overdraft	-	(286,323)	286,323
	<u>74,742,451</u>	<u>30,872,772</u>	<u>43,869,679</u>

29. SHARE OPTIONS

On 21st April 1999, the shareholders of the company approved a share option scheme for the Executive Directors and Management Staff of the company. The number of shares offered under the scheme is 587,690 for Executive Directors and 885,373 for Management Staff. The Executive Directors may exercise their option within a 5-year period ending 31st December 2001. The Management Staff options are exercisable in equal amounts on 31st December of each year to 31st December 2006.

The beneficiaries of the Executive Directors options are restricted from trading in the shares before the options' expiry date of 31st December 2006. The beneficiaries of the Management Staff options are also restricted from selling in any year, more than 50% of options exercised in that particular year.

The options exercised on 31 December 2002 by Management Staff were **165,000** at **¢665** per share (2001: 70,460 at ¢665 per share). The options exercised by the Executive Directors at 31st December 2002 were **164,000** at **¢375** per share (2001: 52,892 at ¢375 per share). The movements in the number of shares under the scheme is as follows:

Executive Directors

	2002	2001
Options granted during the year	588	588
Options exercised during the year	(164)	(53)
Options at the end of the year	<u>424</u>	<u>535</u>

Management staff

Options granted during the year	289	177
Less:		
Options lapsed during the year.	(124)	(107)
	165	70
Options exercised during the year	<u>165</u>	<u>70</u>
Options at the end of the year	<u>-</u>	<u>-</u>

The options exercised resulted in an increase of ¢155,774,015 in the company's stated capital. The summary is provided below:

	2002	2001
Addition to stated capital from share options fully paid for.	<u>171,280</u>	<u>66,691</u>
Fair value of options exercised at 31/12/2002	<u>292,230</u>	<u>17,096</u>

30. **RELATED PARTY TRANSACTIONS**

A number of transactions are entered into with related parties in the normal course of business. These include mortgages and deposits. The outstanding balances at the year end and relating expense and income for the year are as follows:

Type of related party

	2002		2001	
	THE COMPANY	THE GROUP	THE COMPANY	THE GROUP
(i) Loans to directors				
Loans outstanding at 1 January	268,633	268,633	262,416	262,416
Loans issued during the year	82,634	82,634	-	-
Interest income earned	46,192	46,192	51,202	51,202
Loan repayments during the year	(93,980)	(93,980)	(44,985)	(44,985)
loans outstanding at 31 December	303,479	303,479	268,633	268,633
No provisions have been recognised in respect of loans given to related parties (2001: nil).				
(ii) Deposits from directors				
Deposit at 1 January	-	-	-	-
Deposit received during the year	32,820	32,820	-	-
Deposit repaid during the year	-	-	-	-
Deposit at 31 December	32,820	32,820	-	-
Interest expense on deposits	117	117	-	-

31. **CAPITAL COMMITMENTS**

There were no outstanding capital commitments at the financial year end (2001: Nil)

32. **CONTINGENT LIABILITY**

There were no contingent liabilities at the financial year end (2001: Nil)

33. **COMPARATIVE FIGURES**

Where necessary the comparative figures have been adjusted to conform with changes in the presentation in the current year.

Shareholding Structure as at 31st December 2002

Holdings			Number of Holders	Total Holding	%
1	-	1,000	342	143,249	0.18
1,001	-	5,000	180	452,014	0.57
5,001	-	10,000	44	337,281	0.42
10,001	-	9,999,999,999	<u>76</u>	<u>78,822,443</u>	<u>98.83</u>
TOTALS			642	<u>79,754,987</u>	<u>100.00</u>

Directors' Shareholding as at 31st December, 2002

Name	Shares	%
Kwadwo Duku	45,000	0.06
Stephanie Baeta Ansah (Mrs)	231,795	0.29
Edusei Derkyi	111,313	0.14
Asare Akuffo	<u>121,890</u>	<u>0.15</u>
TOTAL	<u>509,998</u>	<u>0.64</u>

20 Largest Shareholders as at 31st December 2002

2002
Annual Report

<u>Name</u>	<u>Shares</u>	<u>%</u>
Social Security and National Insurance Trust	21,214,247	26.60
Ghana Union Assurance Company Ltd	12,397,954	15.55
State Insurance Company of Ghana	9,031,020	11.32
Financial Investment Trust Ltd	7,410,765	9.29
MIHL/Union Homes Savings & Loans Ltd	7,080,924	8.88
MIHL/Union Homes Pension Fund	4,500,000	5.64
Ghana Reinsurance Company	3,500,000	4.39
HFC Unit Trust	3,490,833	4.38
GCS Account/F. Portfolio	2,614,840	3.28
HFC ESPW Fund	844,512	1.06
Enterprise Insurance Company Ltd	783,420	0.98
MIHL/Union Homes-O.N. Chionuma	750,000	0.94
Vanguard Assurance Company Ltd	519,187	0.65
K. T. Agyare	512,175	0.64
Capital & Equity Ltd	500,000	0.63
HFC Staff Provident Fund	362,055	0.45
Acre Consolidated Ltd	320,513	0.40
Mrs S. H. B. Ansah	231,795	0.29
Fanel Ltd	165,000	0.21
Asare Akuffo	121,890	0.15
Reported Total	76,351,130	95.73
Not Reported	3,403,857	4.27
GRAND TOTALS	79,754,987	100
COMPANY CAPITAL	79,754,987	

HOME FINANCE COMPANY LIMITED

PROXY

I/we.....
of.....
being members of HOME FINANCE COMPANY LIMITED

hereby appoint

Or failing him MR. KWADWO DUKU, Chairman of Home Finance Company Limited, P. O. Box CT 4603, Cantonments, Accra, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the Golden Tulip, Accra at eleven (11:00) o'clock in the forenoon on the 24th day of April, 2003 and at any adjournment thereof.

Please indicate with an X in the space below how you wish your votes to be cast.

ORDINARY RESOLUTIONS

ORDINARY BUSINESS

1. To consider and approve consolidated accounts and financial Statement of Home Finance Company Limited and its wholly owned subsidiary, HFCISL for the financial year ended 31st December 2002 together with the Auditors Report thereon.
2. To receive the Directors' report and approve their recommendations for the Payment of dividend for the year ended 31st December, 2002
3. To approve Non-Executive Directors' fees
4. To authorize the Directors to approve the remuneration of the Auditors

SPECIAL BUSINESS

5. That the Directors be and are hereby generally and unconditionally authorized pursuant to Section 202 (1) of the Companies Code, 1963 (Act 179) to exercise all the powers of the Company to allot and issue up to 25,000,000 (twenty five million) ordinary shares to such institutions as the Directors may determine without offering such shares to existing shareholders in accordance with the provisions of sub-paragraph (b) of the said Section 202 (1) to enable the Directors take advantage of business and investment opportunities that may arise in the course of the year.

FOR COMPANY USE	
Number of shares	
FOR	AGAINST

On any other business transacted at the meeting and otherwise instructed in the paragraphs above, the proxy will vote as he/she thinks fit.

Signed this day of 2003

.....
Signature of Shareholder

THIS FORM SHOULD NOT BE COMPLETED AND SENT TO THE SECRETARY IF THE SENDER WILL BE ATTENDING THE MEETING

1. A member (shareholder) who is unable to attend an Annual General Meeting is allowed by law to vote by proxy. The Proxy Form has been prepared to enable you exercise your vote if you cannot personally attend.
2. Provision has been made on the form for MR. KWADWO DUKU the Chairman of the meeting to act as your Proxy but if so wish, you may insert in the blank space the name of any person whether a member of the company or not who will attend the meeting and vote on your behalf instead of the chairman.
3. In the case of joint holder, each holder must sign. In case of a company, the Proxy Form must be by a director or its Common Seal appended.
4. If you intend to sign a Proxy, please sign the above Proxy Form and post it to reach the address shown overleaf not later than 5:00 p.m. on 23rd day of April, 2003
5. The Proxy must produce the Admission Form printed overleaf to obtain entrance to the meeting.

THIRD FOLD HERE

SECOND FOLD HERE

FIRST FOLD HERE

THE SECRETARY
HOME FINANCE COMPANY LIMITED
'EBANKSE'
P. O. BOX CT 4603
CANTONMENTS
ACCRA-GHANA

BEFORE POSTING THE ABOVE FORM, TEAR OFF AND RETAIN THE PART BELOW

HOME FINANCE COMPANY LIMITED

ADMISSION CARD

Annual General Meeting of the Company to be held at Golden Tulip at eleven (11:00) o'clock on the 24th day of April 2003 and at any adjournment thereof.

Name of Shareholder HFC/29679 552
Name of Proxy MR D.K. OSEI
Signature of Person Attending C/O. DATABANK BROKERAGE
PMB
MINISTRIES-ACCRA

IMPORTANT

- (a) This Admission Form must be produced by the shareholder or his Proxy in order to obtain entrance to the Annual General Meeting.
- (b) Shareholders or their Proxy are requested to complete and sign the Admission Form before the meeting.

