



HFC BANK (GHANA) LIMITED.

Annual Report
& Accounts **2004**



HFC Bank (Ghana) Limited

Your bank..... Your Home



THE MANAGING DIRECTOR'S REPORT TO THE SHAREHOLDERS

It is my pleasure to present this report to you the Shareholders of our company.

Summary of Results for 2004

The highlights of the company's results for the financial year ended 31st December, 2004 are as follows:-

Net Interest Income	-	¢50.6 billion
Operating Income	-	¢61.4 billion
Profit Before Tax	-	¢24.4 billion
Profit After Tax	-	¢18.0 billion
Loans and Advances	-	¢230.5 billion
Total Assets	-	¢599.3 billion
Customer Deposits	-	¢172.9 billion
Shareholder Funds	-	¢102.4 billion

These results were attained after a year of commercial banking business. Management adopted a cautious approach towards the granting of commercial loans on its inception to acquaint itself with the market. As a result, commercial banking facilities were extended towards the end of the year. Mortgage business continued as usual and every effort was made towards loan recovery. Deposit mobilization was a major activity throughout the year. The Bank's corporate finance and investment management services were extended through its wholly-owned subsidiary, HFC Investment Services Limited.

The Branches

After last year's Annual General Meeting, the Bank was formally inaugurated on 19th March, 2004 at an



The dais on commission of HFC Bank (Ghana) Limited. Seated in the middle is H. E. Alhaji Aliu Mahama, Vice President of the Republic of Ghana. From right to left: Dr Paul Acquah, Governor of Bank of Ghana, Dr Samuel Nii-Noi Ashong, Minister of State for Economic Planning, Mrs Stephanie Baeta Ansah, Managing Director, HFC Bank, Nana Agyei Duku, Chairman of the Board of Directors.

impressive ceremony at which the Vice President of the Republic of Ghana, H.E. Alhaji Aliu Mahama, was the Special Guest of Honour. The Governor of the Bank of Ghana, Dr Paul Acquah gave the keynote address and the Minister of State for Economic Planning, Dr. Nii-Noi Ashong gave an address on behalf of the Minister of Finance. There was a strong delegation of our Nigerian investors, led by Dr. G.A.T. Oboh, Group Managing Director and Chief Executive Officer of Union Bank of Nigeria Plc and Sir O.N. Chionuma, Managing Director of Union Homes Savings And Loans. At the same time as the inauguration, the Bank commissioned its main Accra branch situated at the Ridge Ambassadorial commercial area, which has become the latest banking centre in Accra.

The Ridge branch is strategically situated near the Ghana Stock Exchange, Bank of Ghana's Cedi House and the UG-HFC premises, where the Bank's subsidiary HFC Investment Services Limited, our corporate finance and investment management wing, used to be situated. HFC Investment Services Limited is now housed in the same building as the Bank's main Accra Branch.

Other branches have been opened at Accra Central, in the State Insurance Company's 'Island' property, and Kumasi, thus bringing the total number of branches at the end of the first year of operations, to four. In view of the high capital and staff costs of setting up these branch banking facilities, we propose to add only two branches during 2005. We intend to consolidate operations in the branches and



H.E. Alhaji Aliu Mahama, Vice President of the Republic of Ghana cutting the tape to commission HFC Bank (Ghana) Limited on 19th March, 2004. Also in the picture are Nana Agyei Duku (second right), Chairman of the Board of Directors, and Mrs Stephanie Baeta Ansah (second left), Managing Director.



Dr. G. A. T. Oboh, Group Managing Director and Chief Executive Officer of Union Bank of Nigeria Plc. delivering his address at the commissioning of HFC Bank (Ghana) Limited.



Oheneba Adusei Poku, Akyempimhene cutting the tape to open the Kumasi Branch on 2nd December 2004. Second left is Hon. S. K. Bofo (Ashanti Regional Minister), Mrs Stephanie Baeta Ansah, Managing Director, is pictured right.

growing foreign exchange business portfolio.

We hope, in the coming year, to be able to mobilize some more deposits to reduce the generally high cost of our funds. The Series 'H' issue of HFC Housbonds was successfully concluded before the end of the year, which enabled us re-finance US\$2.5million of our mortgage portfolio at lower cost. Whilst mortgage finance remains a special service or facility that we provide to our customers, it is now fully integrated within the Commercial Banking Division. Our customers can access any of our facilities at any branch, including

funds and investment management and corporate finance services.

Our funds management business continues to grow, and was boosted by the establishment of the HFC Equity Fund, our third collective investment scheme, in May 2004. This Fund was established and raised c7 billion in the initial offer period and now has an enhanced fund value of c10 billion.

then continue the expansion as the need arises in the years ahead.

Our Business

We are happy to report that within only a year, the Bank provides a whole range of universal banking products at all its branches. These include current and savings accounts, commercial lending, international funds transfer in addition to its mortgage products and investment management and corporate finance facilities. For regulatory purposes, some of these products are provided through the wholly owned subsidiary, HFC Investment Services Limited. Deposit mobilisation through account opening has been the focus of the banking business. A new product developed, implemented and marketed during the year, is the hybrid current and savings account named the 'HFC Life Starter Account'. This product caters mainly for those starting a career, and has become quite popular.

HFC bank is now an accredited sub-agent for Western Union and we already have a very encouraging business, in that regard. During the coming year, we hope to be able to install some Automated Teller Machines (ATMs) as we continue to offer competitive facilities to our customers. HFC Bank completed all the admission formalities during the year and is now a member of SWIFT and has a

Training and Staff Development



Staff at Accra Central Branch assisting customers in the banking hall.

During the year, we concentrated on training staff and Management at all levels, to sharpen their skills, particularly in commercial banking. Most of the training was done for the bank by Union Bank of



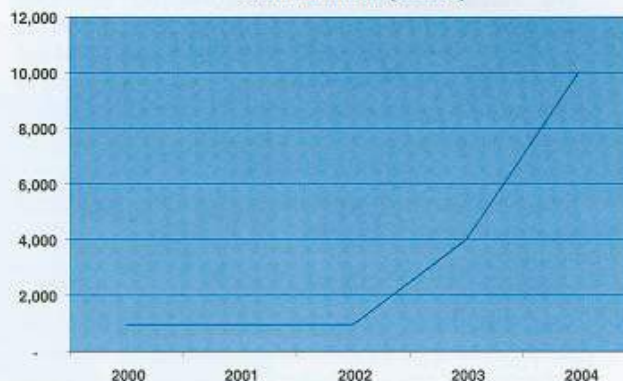
THE MANAGING DIRECTOR'S REPORT TO THE SHAREHOLDERS continued

and other shareholders in the remarkable development of HFC. It is worth mentioning that HFC is the only bank in Ghana combining commercial banking with home mortgage financing as well as investment banking. The bank has a bright future, and we are proud of its achievements.

I thank you all.

LL.D. (Honoris Causa)
Managing Director

SHARE PRICE (CEDIS)





THE MANAGING DIRECTOR'S REPORT TO THE SHAREHOLDERS continued

Nigeria Plc, Ghana International Bank Plc, and the National Banking College, to whom we are greatly indebted. With the active involvement of the Executive Director, Mr. Austine Aikhorin, we have well trained staff in all the branches. We have set up a branch control department that is ready to move in at short notice when we establish new branches.

The Technical Service Agreement with Union Bank of Nigeria Plc, has been an immense benefit to our Bank, and we take this opportunity to say thank you once again, to Union Bank Of Nigeria Plc. The agreement was recently renewed for another year.

Succession within the Bank

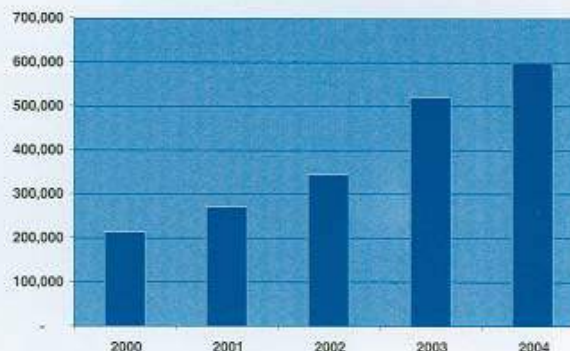
Having managed the company since its incorporation on 7th May 1990, and achieved fully the company's Business Plan (up to June 2005) to become a fully-fledged universal banking institution, the undersigned, Mrs. Ansah will proceed on leave prior to retirement on her sixtieth birthday.

After interviews and due consideration, the Board has appointed Mr. Asare Akuffo, currently Deputy Managing Director (Finance & Investment Banking), to succeed Mrs. Ansah as Managing Director with effect from 1st July, 2005. Members are assured that the Board has made the right choice. Asare is 48 years old, has been with the company since its inception in 1991, and is well qualified and poised to take up the challenge of managing our universal banking business in the coming years. I wish him every success and God's blessings for his new assignment.

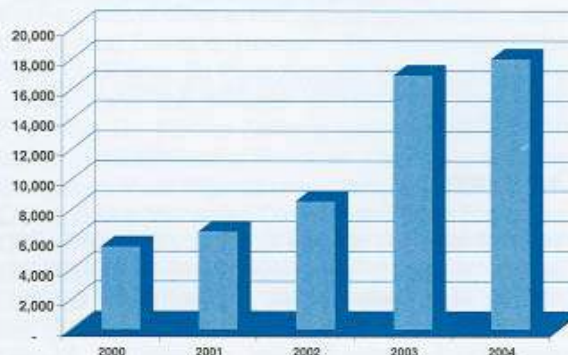
For me, it has been a privilege to have served HFC since its incorporation on 7th May, 1990. The company has grown tremendously from a special purpose vehicle with an initial stated capital of only Ten Million Cedis (¢10,000,000.00) to what it is today. By the grace of God, and with the active involvement and support of Shareholders and the Board of Directors and through commitment and personal sacrifice, we have been successful.

This being my valedictory address, let me thank Shareholders and the Board, particularly the Chairman, for their support throughout the years. I cannot fail to mention the hard work and tremendous support of the Management and staff of the Bank, as well as the sustained interest and involvement of the World Bank, SSNIT, Bank of Ghana, Securities and Exchange Commission, Union Bank of Nigeria Plc

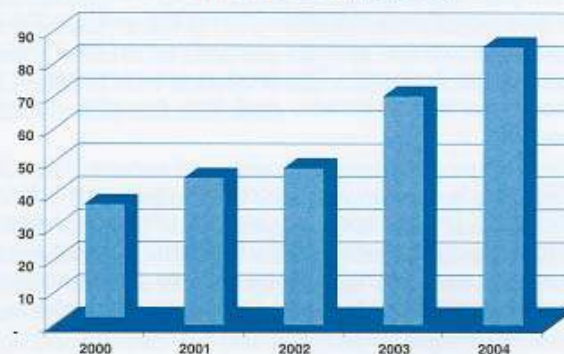
TOTAL ASSETS (¢ million)



PROFIT AFTER TAX (¢million)



DIVIDEND PER SHARE (CEDIS)





REPORT OF THE AUDITORS

To The Members Of Hfc Bank (ghana) Limited And Subsidiary

We have audited the consolidated financial statements of HFC Bank (Ghana) Limited and its subsidiary for the year ended 31 December 2004 set out on pages 14 to 43 which have been prepared in accordance with the accounting policies, set out on pages 18 to 20.

Respective responsibilities of directors and auditors

As stated on page 4, 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 these 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 of 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.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

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 bank and its subsidiary at 31 December 2004 and of the profit and cash flows of the bank and its subsidiary for the year then ended in accordance with Ghana Accounting Standards, and comply with the Ghana Companies Code, 1963 (Act 179) and the Banking Act, 2004 (Act 673).

Chartered Accountants

Accra

23rd February, 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

(All amounts are expressed in thousands of cedis)

Year ended 31 December					
	Notes	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Interest income	1	98,770,923	99,000,155	83,636,000	83,800,388
Interest expense	2	(48,412,936)	(48,412,936)	(43,365,505)	(43,365,505)
Net interest income		50,357,987	50,587,219	40,270,495	40,434,883
Fee and commission income		2,503,304	6,833,162	813,147	3,531,756
Other operating income	3	3,970,920	3,970,920	1,131,989	1,131,989
Operating income		56,832,211	61,391,301	42,215,631	45,098,628
Operating expenses	4	(32,831,222)	(36,137,653)	(20,580,707)	(22,985,986)
Bad and doubtful debts expense	14	(2,288,395)	(2,288,395)	(4,518,751)	(4,518,751)
Operating profit		21,712,594	22,965,253	17,116,173	17,593,891
Other income	6	882,480	1,441,863	1,721,895	1,747,419
Adjustment	40	-	-	(1,297,550)	(1,297,550)
Adjusted other income		882,480	1,441,863	424,345	449,869
Profit before national reconstruction levy and tax		22,595,074	24,407,116	17,540,518	18,043,760
National reconstruction levy	7	(1,694,631)	(1,739,829)	(941,903)	(954,483)
Profit before tax		20,900,443	22,667,287	16,598,615	17,089,277
Tax	8	(4,579,241)	(4,652,967)	(40,201)	(160,201)
Profit after tax transferred to income surplus accounts		16,321,202	18,014,320	16,558,414	16,929,076
CONSOLIDATED INCOME SURPLUS ACCOUNT					
Balance at 1 January		10,861,833	14,493,628	11,196,859	14,457,992
Profit for the year		16,321,202	18,014,320	16,558,414	16,929,076
		27,183,035	32,507,948	27,755,273	31,387,068
Transfer to statutory reserve fund	27	(8,160,601)	(8,160,601)	(8,927,982)	(8,927,982)
Transfer to housing development assistance fund	29	(816,060)	(816,060)	(892,798)	(892,798)
Proposed dividend for the year	9	(8,615,345)	(8,615,345)	(7,072,660)	(7,072,660)
Balance at 31 December		9,591,029	14,915,942	10,861,833	14,493,628

The accounting policies and notes on pages 18 to 43 form an integral part of these financial statements.

**CONSOLIDATED BALANCE SHEET**

(All amounts are expressed in thousands of cedis)

At 31 December

Assets

	Notes	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Cash and balances with Bank of Ghana	10	35,436,326	35,436,326	6,265,717	6,265,717
Due from other banks	11	48,765,627	48,765,627	29,040,571	29,633,479
Government securities	12	195,987,726	195,987,726	92,694,705	92,694,705
Interest receivable and other assets	13	16,642,594	18,324,372	31,729,859	33,235,288
Loans and advances to customers	14	230,538,976	230,538,976	213,752,925	213,752,925
Investment securities	15	1,322,120	1,322,120	1,915,394	1,915,394
Other short term investments	16	34,920,881	38,049,324	110,287,857	115,129,060
Investment in subsidiary and associated companies	17	1,497,727	1,397,727	1,497,727	1,397,727
Tax	22	-	-	1,419,583	948,960
Investment properties	18	-	825,564	-	1,215,764
Property and equipment	19	27,942,800	28,675,712	23,294,577	23,868,734
Total assets		593,054,777	599,323,474	511,898,915	520,057,753

Liabilities

Customer deposits	20	172,891,296	172,891,296	107,831,877	111,909,709
Due to banks and other financial institutions		-	276,714	8,571,000	8,571,000
Interest payable and other liabilities	21	17,606,918	18,136,875	15,104,768	15,553,979
Tax	22	2,038,693	2,175,806	-	-
Long term bonds	24	271,361,860	271,361,860	248,397,891	248,397,891
Long term loans	25	32,123,781	32,123,781	42,932,340	42,932,340
Total liabilities		496,022,548	496,966,332	422,837,876	427,364,919

Shareholders' funds

Stated capital	26	46,791,949	46,791,949	46,526,616	46,526,616
Income surplus account		9,591,029	14,915,942	10,861,833	14,493,628
Statutory reserve fund	27	21,636,808	21,636,808	13,476,207	13,476,207
Capital surplus account	28	11,644,320	11,644,320	11,644,320	11,644,320
Housing development assistance fund	29	3,327,059	3,327,059	2,510,999	2,510,999
Share deals account	30	4,041,064	4,041,064	4,041,064	4,041,064
Total shareholders' funds		97,032,229	102,357,142	89,061,039	92,692,834
Total liabilities and shareholders' funds		593,054,777	599,323,474	511,898,915	520,057,753

The consolidated financial statements on pages 14 to 43 were approved by the Board of Directors on 23rd February 2005 and signed on its behalf by:

Chairman: *Nana Agyei Dukun*

Managing Director: *Stephanie Baite Aboah*

**CONSOLIDATED CASH FLOW STATEMENT**

(All amounts are expressed in thousands of cedis)

		Notes	
		Year ended 31 December	
		2004	2003
Operating activities			
Net cash generated from operations	35	124,331,902	117,240,595
Interest paid		(8,492,754)	(8,916,294)
Tax paid	22	(1,528,201)	(1,266,342)
Net cash generated from operating activities		114,310,947	107,057,959
Investing activities			
Purchase of property and equipment	19	(8,154,672)	(7,184,280)
Proceeds from sale of property and equipment	19	66,000	44,582
Purchase of government securities		(88,386,012)	(42,751,288)
Sale/(purchase) of other investments		77,079,736	(80,499,283)
Purchase of bond		-	(1,600,000)
Bond repayment		593,274	672,734
Proceeds from sale of investment property		128,082	-
Net cash used in investing activities		(18,673,592)	(131,317,535)
Financing activities			
Dividend paid	9	(7,072,660)	(3,842,832)
Proceeds from the issue of bonds	24	18,621,889	-
Redemption of bonds	24	(25,139,306)	(17,784,630)
Loans received	25	-	40,434,926
Loans repaid	25	(10,808,559)	-
Proceeds from the issue of shares	26	-	20,054,180
Purchase of own shares	30	-	(361,408)
Proceeds from the issue of treasury shares	30	-	2,578,537
Proceeds from share options exercised	37	265,333	578,254
Net cash (used in)/generated from financing activities		(24,133,303)	41,657,027
Increase in cash and cash equivalents		71,504,052	17,397,451
Movement in cash and cash equivalents			
At 1 January		27,514,666	10,117,215
Increase during the year		71,504,052	17,397,451
At 31 December		99,018,718	27,514,666

The accounting policies and notes on pages 18 to 43 form an integral part of these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in thousands of Cedis)

	Stated capital	Income surplus account	Statutory reserve fund	Capital surplus account	Housing development assistance fund	Share deals account	Total
Year ended 31 December 2004							
At 1 January	46,526,616	14,493,628	13,476,207	11,644,320	2,510,999	4,041,064	92,692,834
Net profit	-	18,014,320	-	-	-	-	18,014,320
Transfer to mandatory reserve	-	(8,160,601)	8,160,601	-	-	-	-
Transfer to Housing development assistance fund	-	(816,060)	-	-	816,060	-	-
Proposed dividend	-	(8,615,345)	-	-	-	-	(8,615,345)
Issue of shares	265,333	-	-	-	-	-	265,333
At 31 December	46,791,949	14,915,942	21,636,808	11,644,320	3,327,059	4,041,064	102,357,142
Year ended 31 December 2003							
At 1 January	25,894,182	14,457,992	4,548,225	11,644,320	1,618,201	1,823,935	59,986,855
Net profit	-	16,929,076	-	-	-	-	16,929,076
Transfer to Mandatory reserve	-	(8,927,982)	8,927,982	-	-	-	-
Transfer to Housing development assistance fund	-	(892,798)	-	-	892,798	-	-
Purchase of treasury shares	-	-	-	-	-	(361,408)	(361,408)
Reissue of treasury shares	-	-	-	-	-	2,578,537	2,578,537
Proposed dividend	-	(7,072,660)	-	-	-	-	(7,072,660)
Issue of shares	20,632,434	-	-	-	-	-	20,632,434
At 31 December	46,526,616	14,493,628	13,476,207	11,644,320	2,510,999	4,041,064	92,692,834

The accounting policies and notes on pages 18 to 43 form an integral part of these financial statements.



ACCOUNTING POLICIES

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 bank.

(c) Income recognition

Income is recognised in the period in which it is earned except for dividends, which are recognised when declared. Interest income on loans that are considered doubtful is suspended and excluded from income until it is received. Interest income includes coupons earned on fixed income investment securities and accrued discounts on treasury bills.

(d) 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%
Computers	33 1/3%

(e) Investment property

Investment property, principally comprising residential buildings is held for rental yields and is not occupied by the group. Investment property is treated as a long term investment and is carried at cost.

(f) 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 consolidated profit and loss account in the year in which they arise.

(g) Grants

(i) Revenue Grants

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

(ii) Capital Grants

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

(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.



ACCOUNTING POLICIES (continued)

(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 bank'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 consolidated 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) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(m) Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading

securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

(n) Originated loans and provisions for loan impairment

Loans originated by the bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the bank and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

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

A credit risk provision for loan impairment is established if there is objective evidence that the bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component. When a loan is uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the bad and doubtful debt expense in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited



ACCOUNTING POLICIES (continued)

to the bad and doubtful debt expense.

(o) 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.

(p) Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

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.

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

All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

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

(q) Fee and commission income

Fees and commissions are generally recognised on an accrual basis. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(r) Interest and investment income

Interest and investment income are generally recognised on an accrual basis

(s) 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.

(t) 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. Interest income

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Commercial loans and advances	10,808,806	10,808,806	4,571,456	4,571,456
Mortgage loans	33,142,934	33,142,934	33,906,692	33,906,692
Government securities	54,544,121	54,764,272	44,930,587	45,094,093
Cash and short term funds	275,062	284,143	227,265	228,147
	98,770,923	99,000,155	83,636,000	83,800,388

2. Interest expense

Bonds	39,991,739	39,991,739	28,357,485	28,357,485
Loans	1,550,777	1,550,777	1,844,685	1,844,685
Time and other deposits	6,870,420	6,870,420	13,163,335	13,163,335
	48,412,936	48,412,936	43,365,505	43,365,505

3. Other operating income

Gain on exchange	3,447,046	3,447,046	866,204	866,204
IDA grant income	-	-	47,445	47,445
Others	523,874	523,874	218,340	218,340
	3,970,920	3,970,920	1,131,989	1,131,989

4. Operating expenses

The following items are included within operating expenses:

Staff costs	11,628,335	13,604,483	6,157,751	7,475,678
Depreciation (Note 19)	3,121,093	3,347,693	3,076,285	3,281,290
Directors' emoluments	3,456,020	3,516,988	1,755,573	1,811,084
Auditors' remuneration	140,000	170,000	100,000	125,000
Amount spent on fulfilling social responsibility	235,784	235,784	166,591	166,591



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. Staff costs

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Wages and salaries	6,742,595	8,386,392	3,232,048	4,039,392
Social security benefits	1,206,561	1,341,581	753,281	873,136
Other staff benefits	3,679,179	3,876,510	2,172,422	2,563,150
	11,628,335	13,604,483	6,157,751	7,475,678

The average number of persons employed by the group during the year was 137 (2003: 116)

6. Other income

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Profit on disposal of assets	66,000	66,000	22,833	22,833
Sundry income	816,480	1,375,863	401,512	427,036
Profit on issue of treasury shares	-	-	1,297,550	1,297,550
	882,480	1,441,863	1,721,895	1,747,419
Adjustment (Note 40)	-	-	(1,297,550)	(1,297,550)
	882,480	1,441,863	424,345	449,869

7. National reconstruction levy

The Bank

	Balance 1/1/04	Charge for the year	Payments during the year	Balance 31/12/04
2003	175,553	-	-	175,553
2004	-	1,694,631	(1,320,303)	374,328
	175,553	1,694,631	(1,320,303)	549,881

The Group

	Balance 1/1/04	Charge for the year	Payments during the year	Balance 31/12/04
2003	203,471	-	-	203,471
2004	-	1,739,829	(1,320,303)	419,526
	203,471	1,739,829	(1,320,303)	622,997

National reconstruction levy is assessed under the National Reconstruction Levy 2002 (Act 579) at 7.5% and 2.5% on profit before tax for the bank and subsidiary respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

8. Tax

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Current tax (Note 22)	1,829,232	1,902,958	905,944	1,025,944
Deferred tax (Note 23)	2,750,009	2,750,009	(865,743)	(865,743)
	4,579,241	4,652,967	40,201	160,201

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

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Profit before tax and national reconstruction levy	22,595,074	24,407,116	17,540,518	18,043,760
Tax calculated at a rate of 30% for the bank and 32.5% for the subsidiary	6,778,522	7,367,436	5,651,420	5,836,980
Tax effect of:				
Income not subject to tax	(6,630,952)	(7,246,140)	(7,030,936)	(4,925,581)
Expenses not deductible for tax purposes	1,681,662	1,781,662	2,285,459	114,545
Deferred income tax	1,829,232	1,902,958	905,944	1,025,944
	2,750,009	2,750,009	(865,743)	(865,743)
Tax charge	4,579,241	4,652,967	40,201	160,201

9. Dividend

At 1 January	7,072,660	7,072,660	3,842,832	3,842,832
Proposed dividend	8,615,345	8,615,345	7,072,660	7,072,660
Dividend paid	15,688,005 (7,072,660)	15,688,005 (7,072,660)	10,915,492 (3,842,832)	10,915,492 (3,842,832)
At 31 December	8,615,345	8,615,345	7,072,660	7,072,660

Payment of dividend is subject to the deduction of withholding taxes at a rate of 10%.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. Tax

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Current tax (Note 22)	1,829,232	1,902,958	905,944	1,025,944
Deferred tax (Note 23)	2,750,009	2,750,009	(865,743)	(865,743)
	4,579,241	4,652,967	40,201	160,201

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

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Profit before tax and national reconstruction levy	22,595,074	24,407,116	17,540,518	18,043,760
Tax calculated at a rate of 30% for the bank and 32.5% for the subsidiary	6,778,522	7,367,436	5,651,420	5,836,980
Tax effect of:				
Income not subject to tax	(6,630,952)	(7,246,140)	(7,030,936)	(4,925,581)
Expenses not deductible for tax purposes	1,681,662	1,781,662	2,285,459	114,545
Deferred income tax	1,829,232	1,902,958	905,944	1,025,944
	2,750,009	2,750,009	(865,743)	(865,743)
Tax charge	4,579,241	4,652,967	40,201	160,201

9. Dividend

At 1 January	7,072,660	7,072,660	3,842,832	3,842,832
Proposed dividend	8,615,345	8,615,345	7,072,660	7,072,660
Dividend paid	15,688,005	15,688,005	10,915,492	10,915,492
	(7,072,660)	(7,072,660)	(3,842,832)	(3,842,832)
At 31 December	8,615,345	8,615,345	7,072,660	7,072,660

Payment of dividend is subject to the deduction of withholding taxes at a rate of 10%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

10. Cash and balances with Bank of Ghana

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Cash in hand	5,114,428	5,114,428	3,178,792	3,178,792
Balances with Bank of Ghana	30,321,898	30,321,898	3,086,925	3,086,925
	35,436,326	35,436,326	6,265,717	6,265,717

11. Due from other banks

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Placements	48,765,627	48,765,627	29,040,571	29,633,479

12. Government securities

Treasury bills:				
Maturing within 90 days of the date of acquisition	15,093,479	15,093,479	186,470	186,470
Maturing after 90 days of the date of acquisition	107,977,184	107,977,184	92,508,235	92,508,235
Bonds	63,417,063	63,417,063	-	-
Government of Ghana Index Linked Bonds (GGILB)	9,500,000	9,500,000	-	-
	195,987,726	195,987,726	92,694,705	92,694,705

Investment in GGILB and bonds represents the minimum amount needed to meet the mandatory secondary reserve requirements of the Bank of Ghana. Index-linked bonds have a maturity of three years and are issued at coupon rates ranging from 4.5% to 5%. The principal and coupon rates have been adjusted to take account of inflation as specified in the information memoranda issued by the Bank of Ghana. The bonds are two and three years fixed and floating rate instruments introduced by the Bank of Ghana during the year.

Treasury bills are debt securities issued by the Bank of Ghana for a term of three months, six months or a year and are classified as available for-sale investments. Bills are carried at their face value less unearned interest.

13. Interest receivable and other assets

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Receivable and prepayments	7,558,283	9,031,165	15,935,297	16,292,043
Interest receivable	9,084,311	9,293,207	15,794,562	16,943,245
	16,642,594	18,324,372	31,729,859	33,235,288

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

14. Loans and advances to customers

	The Group 2004	The Bank 2004	The Group 2003	The Bank 2003
Analysis by type of customer				
Individual	198,414,729	198,414,729	207,756,566	207,756,566
Other private enterprises	43,904,378	43,904,378	16,930,489	16,930,489
Staff	3,355,985	3,355,985	2,141,259	2,141,259
Gross loans and advances	245,675,092	245,675,092	226,828,314	226,828,314
Less provision for impairment:				
Specific provisions	(13,537,080)	(13,537,080)	(11,394,026)	(11,394,026)
General provision	(317,336)	(317,336)	(171,995)	(171,995)
Interest in suspense	(1,281,700)	(1,281,700)	(1,509,368)	(1,509,368)
	230,538,976	230,538,976	213,752,925	213,752,925
Analysis by type of advance				
Commercial loans	30,454,050	30,454,050	8,772,844	8,772,844
Construction finance	17,194,704	17,194,704	16,930,489	16,930,489
Staff loans	3,355,985	3,355,958	2,141,259	2,141,259
Mortgage loans	194,670,353	194,670,353	198,983,722	198,983,722
Gross loans and advances	245,675,092	245,675,092	226,828,314	226,828,314
Less provision for impairment:				
Specific provisions	(13,537,080)	(13,537,080)	(11,394,026)	(11,394,026)
General provision	(317,336)	(317,336)	(171,995)	(171,995)
Interest in suspense	(1,281,700)	(1,281,700)	(1,509,368)	(1,509,368)
	230,538,976	230,539,976	213,752,925	213,752,925
The maximum level of staff indebtedness during the year did not exceed c3,356 million (2003: c2,141 million)				
Analysis by business segments				
Housing	198,894,652	198,894,652	202,129,667	202,129,667
Construction	38,990,946	38,990,946	15,986,872	15,986,872
Commerce and finance	7,790,304	7,790,304	8,711,775	8,711,775
Gross loans and advances	245,676,092	245,676,092	226,828,314	226,828,314
Less provision for impairment:				
Specific provisions	(13,537,080)	(13,537,080)	(11,394,026)	(11,394,026)
General provision	(317,336)	(317,336)	(171,995)	(171,995)
Interest in suspense	(1,281,700)	(1,281,700)	(1,509,368)	(1,509,368)
	230,538,976	230,539,976	213,752,925	213,752,925

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

14. Loans and advances to customers (continued)

The movement in mortgage loans is as follows:

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	193,698,455	193,698,455	197,954,246	197,954,246
Disbursements during year	13,451,285	13,451,285	29,740,935	29,740,935
Interest charged	19,595,944	19,595,944	20,990,578	20,990,578
Exchange difference	14,255,296	14,255,296	13,701,003	13,701,003
Inflation adjustment	13,312,799	13,312,799	11,451,949	11,451,949
	254,313,779	254,313,779	273,838,711	273,838,711
Less: Repayments	(59,643,427)	(59,643,427)	(74,854,989)	(74,854,989)
	194,670,352	194,670,352	198,983,722	198,983,722
Bad and doubtful debts expense	(9,862,720)	(9,862,720)	(5,285,267)	(5,285,267)
At 31 December	184,807,632	184,807,632	193,698,455	193,698,455

The movement in provisions for bad and doubtful debts is as follows:

	Specific credit risk provision	General provision	Total
Year ended 31 December 2004			
At 1 January 2004	11,394,026	171,995	11,566,021
Doubtful debts expense	2,143,054	145,341	2,288,395
At 31 December 2004	13,537,080	317,336	13,854,416
Year ended 31 December 2003			
At 1 January 2003	7,047,270	-	7,047,270
Doubtful debts expense	4,346,756	171,995	4,518,751
At 31 December 2003	11,394,026	171,995	11,566,021

All loans have been written down to their estimated recoverable amount. The aggregate amount of non-performing loans on which interest was not being accrued amounted to c5,244 million. Unrecognised interest related to such loans amounted to c1,281 million.

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Loan loss provision ratio	6%	6%	5%	5%
Gross non-performing loans ratio	1%	1%	1%	1%
Ratio of 50 largest exposures	23%	23%	24%	24%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

15. Investment securities

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Debt securities	1,322,120	1,322,120	1,915,394	1,915,394

Investment securities are classified as available-for-sale investments. This is in respect of Prudential Bank Limited Bond. The bond attracts a variable interest rate of 182 day treasury bill rate plus 2%. The movement in investment securities is as follows:

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	1,915,394	1,915,394	988,128	988,128
Additions	-	-	1,600,000	1,600,000
Redemption	1,915,394 (593,274)	1,915,394 (593,274)	2,588,128 (672,734)	2,588,128 (672,734)
At 31 December	1,322,120	1,322,120	1,915,394	1,915,394

16. Other short-term investments

Treasury dealings	5,930,161	5,930,161	93,421,567	93,421,567
Units and investments	28,990,720	32,119,163	16,866,290	18,159,193
Fixed deposit	-	-	-	3,548,300
	34,920,881	38,049,324	110,287,857	115,129,060

17. Investments in subsidiary and associated companies

Investment in subsidiary	100,000	-	100,000	-
Investment in associated companies	1,397,727	1,397,727	1,397,727	1,397,727
	1,497,727	1,397,727	1,497,727	1,397,727

The subsidiary is incorporated in the Republic of Ghana. Investment in associated companies represent equity shares in Gambia HFC and UG-HFC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

18. Investment properties

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	-	1,215,764	-	1,215,764
Disposals	-	(390,200)	-	-
At 31 December	-	825,564	-	1,215,764
Profit on disposal of investment properties				
Cost	-	390,200	-	-
Sale proceeds	-	(918,066)	-	-
Profit on disposal	-	(527,866)	-	-

Investment properties are stated at cost. If investment properties were stated at fair values, the amount would have been c969 million (2003: c1,359 million). Fair values have been determined on the basis of directors' valuation.

19. Property and equipment**The Bank**

	Land and buildings	Computers and equipment	Furniture and fittings	Motor vehicles	Capital work in progress	Total
Cost or valuation						
At 1 January 2004	14,892,973	8,629,286	1,280,996	3,574,588	2,041,439	30,419,282
Additions	527,083	3,833,867	1,953,250	1,455,116	-	7,769,316
Disposals	-	-	-	(45,717)	-	(45,717)
Transfers	963,806	97,534	907,293	-	(1,968,633)	-
At 31 December 2004	16,383,862	12,560,687	4,141,539	4,983,987	72,806	38,142,881
Depreciation						
At 1 January 2004	720,568	4,516,858	679,321	1,207,958	-	7,124,705
Charge for the year	58,072	2,127,104	324,163	611,754	-	3,121,093
Disposals	-	-	-	(45,717)	-	(45,717)
At 31 December 2004	778,640	6,643,962	1,003,484	1,773,995	-	10,200,081
Net book value						
At 31 December 2004	15,605,222	5,916,725	3,138,055	3,209,992	72,806	27,942,800
At 31 December 2003	14,172,405	4,112,428	601,675	2,366,630	2,041,439	23,294,577



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. Property and equipment (continued)

The Group

	Land and buildings	Computers and equipment	Furniture and fittings	Motor vehicles	Capital work in progress	Total
Cost or valuation						
At 1 January 2004	14,892,973	9,238,956	1,280,996	4,025,819	2,041,439	31,480,183
Additions	527,083	4,219,223	1,953,250	1,455,116	-	8,154,672
Disposals	-	-	-	(45,717)	-	(45,717)
Transfers	963,806	97,534	907,293	-	(1,968,633)	-
At 31 December 2004	16,383,862	13,555,713	4,141,539	5,435,218	72,806	39,589,138
Depreciation						
At 1 January 2004	720,568	4,781,753	679,321	1,429,808	-	7,611,450
Charge for the year	58,072	2,263,458	324,163	702,000	-	3,347,693
Disposals	-	-	-	(45,717)	-	(45,717)
At 31 December 2004	778,640	7,045,211	1,003,484	2,086,091	-	10,913,426
Net book value						
At 31 December 2004	15,605,222	6,510,502	3,138,055	3,349,127	72,806	28,675,712
At 31 December 2003	14,172,405	4,457,203	601,676	2,596,011	2,041,439	23,868,734

Messrs. Real Estate Partnership, an independent chartered valuer, revalued the bank'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:

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Cost	3,503,555	3,503,555	3,503,555	3,503,555
Accumulated depreciation	(426,511)	(426,511)	(356,440)	(356,440)
Net book value	3,077,044	3,077,044	3,147,115	3,147,115
Profit on disposal of fixed assets				
Gross book value	45,717	45,717	167,774	167,774
Accumulated depreciation	(45,717)	(45,717)	(146,025)	(146,025)
Net book value	-	-	21,749	21,749
Sale proceeds	(66,000)	(66,000)	(44,582)	(44,582)
Profit on disposal	(66,000)	(66,000)	(22,833)	(22,833)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

20. Customer deposits

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Demand accounts	66,368,535	66,368,535	6,434,876	6,587,070
Forex deposit	10,912,216	10,912,216	5,193,123	9,118,761
HFC housbills/housnotes	71,089,841	71,089,841	50,284,842	50,284,842
Time deposits	24,520,704	24,520,704	45,919,036	45,919,036
	172,891,296	172,891,296	107,831,877	111,909,709
Analysis by type of deposits				
Individual/private enterprise	97,035,946	97,035,946	75,655,823	79,733,655
Public enterprise	75,855,350	75,855,350	32,176,054	32,176,054
	172,891,296	172,891,296	107,831,877	111,909,709
Ratio of 20 largest deposits to total deposits	60%	60%	15%	15%

21. Interest payable and other liabilities

Creditors	5,470,604	5,748,398	2,691,128	3,112,421
Accrued interest	2,971,088	3,150,135	5,165,427	5,165,427
National reconstruction levy	549,881	622,997	175,553	203,471
Dividend payable (Note 9)	8,615,345	8,615,345	7,072,660	7,072,660
	17,606,918	18,136,875	15,104,768	15,553,979

22. Tax The Bank

	Balance 1/1/04	Charge/ (credit) for the year	Payments during year	Balance 31/12/04
Current tax				
Tax Year				
2003	(1,145,838)	-	-	(1,145,838)
2004	-	1,829,232	(1,120,965)	708,267
	(1,145,838)	1,829,232	(1,120,965)	(437,571)
Deferred income tax (Note 23)	(273,745)	2,750,009	-	2,476,264
	(1,419,583)	4,579,241	(1,120,965)	2,038,693

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

22. Tax (continued)
The Group

	Balance 1/1/04	Charge/ (credit) for the year	Payments during year	Balance 31/12/04
Current tax				
Tax Year				
2003	(675,215)	-	-	(675,215)
2004	-	1,902,958	(1,528,201)	374,757
	(675,215)	1,902,958	(1,528,201)	(300,458)
Deferred income tax (Note 23)	(273,745)	2,750,009	-	2,476,264
	(948,960)	4,652,967	(1,528,201)	2,175,806

23. 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 bank and **32.5%** for the subsidiary. The movement on the deferred tax account is as follows:

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	(273,745)	(273,745)	591,998	591,998
Income statement charge/(credit) for the year	2,750,009	2,750,009	(865,743)	(865,743)
At 31 December	2,476,264	2,476,264	(273,745)	(273,745)
Deferred income tax assets and liabilities are attributable to the following items:				
	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Deferred income tax liabilities				
Property and equipment	623,130	623,130	31,044	31,044
Mortgages	3,443,309	3,443,309	1,291,603	1,291,603
Short term investments	-	-	220,100	220,100
	4,066,439	4,066,439	1,542,747	1,542,747
Deferred income tax assets				
Long term bonds	1,590,175	1,590,175	1,816,492	1,816,492
	2,476,264	2,476,264	(273,745)	(273,745)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

23. Deferred income tax (continued)

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Property and equipment	592,086	592,086	541,229	541,229
Long term bonds	226,317	226,317	870,171	870,171
Mortgage loans	1,931,606	1,931,606	(2,497,243)	(2,497,243)
Short term investments	-	-	220,100	220,100
	2,750,009	2,750,009	(865,743)	(865,743)

The potential tax effect related to the increase in the carrying values of land and buildings and unrealised exchange gains arising from the translation of mortgages denominated in foreign currencies payable after seven years is **¢1,164 million** (2003: ¢1,164 million) and **¢10,319 million** respectively.

24. Long term bonds

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	248,397,891	248,397,891	242,692,178	242,692,178
Issues during the year	18,621,889	18,621,889	-	-
Interest charged	7,719,185	7,719,185	10,750,841	10,750,841
Exchange loss	5,300,584	5,300,584	4,049,152	4,049,152
Inflation adjustment	24,954,371	24,954,371	17,606,644	17,606,644
	304,993,920	304,993,920	275,098,815	275,098,815
Redemptions	(25,139,306)	(25,139,306)	(17,784,630)	(17,784,630)
Interest paid	(8,492,754)	(8,492,754)	(8,916,294)	(8,916,294)
At 31 December	271,361,860	271,361,860	248,397,891	248,397,891

Analysis by type of bond:

Ghana Government bond (Note (i))	57,401,371	57,401,371	49,362,324	49,362,324
Social Security & National Insurance Trust bonds (Note (ii))	133,447,578	133,447,578	115,738,100	115,738,100
HFC - Unit Trust	-	-	534,750	534,750
Total cedi bonds	190,848,949	190,848,949	165,635,174	165,635,174
HFC dollar housebonds (Note (iii))	59,635,803	59,635,803	63,945,175	63,945,175
HFC sterling housebonds (Note (iv))	20,877,108	20,877,108	18,817,542	18,817,542
Balance at 31 December	271,361,860	271,361,860	248,397,891	248,397,891



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

24. Long term bonds (continued)

i. Ghana Government bond

The International Development Association (IDA) 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 Bank (Ghana) Limited for home mortgage financing. The term of the bond is 30 years. These are fully indexed to inflation and attract interest at the rate of 1% per annum.

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. HFC dollar housbonds

HFC Bank (Ghana) Limited made a shelf registration of **US\$35 million** bonds on the Ghana Stock Exchange on 17 September 1996. 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 listed and traded on the Ghana Stock Exchange. At 31 December 2004, **US\$6.6 million** HFC dollar housbonds (2003: US\$7.3m) was outstanding.

iv. HFC sterling housbonds

HFC Bank (Ghana) Limited made a shelf registration of on **£1.2 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 **£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 listed and traded on the Ghana Stock Exchange. At 31 December 2004 **£1.2 million** (2003: £1.2 million) HFC sterling housbonds was outstanding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

25. Long term loans	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
IDA	2,024,698	2,024,698	2,497,414	2,497,414
Ghana International Bank (GIB)	30,099,083	30,099,083	40,434,926	40,434,926
	32,123,781	32,123,781	42,932,340	42,932,340
The movement on long term loans is as follows:				
At 1 January	42,932,340	42,932,340	2,497,414	2,497,414
Drawdowns	-	-	40,434,926	40,434,926
Repayment	(10,808,559)	(10,808,559)	-	-
At 31 December	32,123,781	32,123,781	42,932,340	42,932,340

(i) IDA loan

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 26 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.

(ii) GIB loan

GIB loan represents two unsecured medium term loans of **US\$2.0 million** and **US\$2.5 million** contracted to finance mortgages. The US\$2.0 million is a 3 year floating rate facility payable in three equal yearly instalment starting from January 17, 2004. The US\$2.5 million is a 5 year floating rate facility payable in five equal yearly instalment starting October 17, 2004. Both loans are payable in US dollars.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

26. Stated capital

The bank has authorised shares of 1,000,000,000 (2003: 1,000,000,000) of which 101,357,000 (2003: 101,038,000) have been issued. All shares have been issued for cash consideration. The movement in stated capital is as follows:

	2004		2003	
	No of shares 000	Proceeds	No of shares 000	Proceeds
At 1 January	101,038	46,526,616	80,059	25,894,182
Share option scheme (Note 37)	319	265,333	979	578,254
Issue for cash by a special resolution of the board dated 18 December 2002	-	-	20,000	20,054,180
At 31 December	101,357	46,791,949	101,038	46,526,616

There are no unpaid liability on any shares. There were no treasury shares held as at 31 December 2004. There are no calls or installments unpaid.

27. Statutory reserve

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	13,476,207	13,476,207	4,548,225	4,548,225
Transfer from retained profits	8,160,601	8,816,061	8,927,982	8,927,982
At 31 December	21,636,808	21,636,808	13,476,207	13,476,207

Statutory reserve represents the cumulative amounts set aside from annual net profit after tax as required by Section 29(1) of the Banking Act, 2004 (Act 673). The proportion of net profits transferred to this reserve ranges from 12.5 to 50% of net profit after tax depending on the ratio of existing statutory reserve fund to paid up capital.

28. Capital surplus account

The capital surplus relates to the revaluation of land and buildings and is non-distributable.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

29. Housing development assistance fund

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
At 1 January	2,510,999	2,510,999	1,618,201	1,618,201
Transfer from retained earnings	816,060	816,060	892,798	892,798
At 31 December	3,327,059	3,327,059	2,510,999	2,510,999

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.

30. Share deals accounts

	The Group 2004	The Bank 2004	The Group 2003	The Bank 2003
At 1 January	4,041,064	4,041,064	1,823,935	1,823,935
Purchase of treasury shares	-	-	(361,408)	(361,408)
Net proceeds from treasury Shares Resold	-	-	2,578,537	2,578,537
Profit on issue of treasury Shares	-	-	(1,297,550)	(1,297,550)
	4,041,064	4,041,064	2,743,514	2,743,514
Adjustment (Note 40)	-	-	1,297,550	1,297,550
Balance at 31 December	4,041,064	4,041,064	4,041,064	4,041,064

31. Commitments

The bank conducts business involving acceptances, guarantees and performance bonds. The majority of these facilities are offset by corresponding obligations of third parties.

	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
Guarantees and bonds with cash collateral	200,000	200,000	-	-
Guarantees and bonds without cash collateral	1,490,314	1,490,314	-	-
Letters of credit without cash collateral	677,230	677,230	-	-
	2,367,544	2,367,544	-	-
Less provision against impairment	(23,675)	(23,675)	-	-
	2,343,869	2,343,869	-	-

Nature of commitments

An acceptance is an undertaking to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

Letters of credit commit the bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

32. Maturity analysis of assets and liabilities

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such call and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2004 to the contractual maturity date.

At 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and bank balances with Bank of Ghana	35,436,326	-	-	-	-	35,436,326
Other bank balances	48,765,627	-	-	-	-	48,765,627
Government securities	-	15,093,479	106,347,811	74,546,436	-	195,987,726
Interest receivable and other assets	-	-	11,318,241	-	5,324,353	16,642,594
Loans and advances to customers	-	-	-	30,454,045	200,084,931	230,538,976
Investment securities	-	-	-	-	1,322,120	1,322,120
Other short term investments	-	5,930,161	28,990,720	-	-	34,920,881
Investment in subsidiary	-	-	-	-	1,497,727	1,497,727
Property and equipment	-	-	-	-	27,942,800	27,942,800
Total assets	84,201,953	21,023,640	146,656,772	105,000,481	236,171,931	593,054,777
Liabilities						
Customer deposits	-	-	172,891,296	-	-	172,891,296
Due to banks and other financial institutions	-	-	-	-	-	-
Interests payable and other liabilities	10,516,634	-	7,090,284	-	-	17,606,918
Tax	(437,571)	-	-	2,476,264	-	2,038,693
Long term bonds	-	-	-	80,512,911	190,848,949	271,361,860
Long term loans	-	-	-	32,123,781	-	32,123,781
Total liabilities	10,079,063	-	179,981,580	115,112,956	190,848,949	496,022,548
Net liquidity gap	74,122,890	21,023,640	(33,324,808)	(10,112,475)	45,322,982	97,032,229



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. Currency risk

The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the bank's exposure to foreign currency exchange rate at 31 December 2004. Included in the table are the bank's assets and liabilities at carrying amounts categorised by currency:

	US Dollars	British Pounds	Other Foreign Currencies	Ghana Cedis
Assets				
Cash and balances with central banks	1,234,567	567,890	123,456	12,345,678
Loans and advances	2,345,678	1,234,567	345,678	23,456,789
Investments	3,456,789	2,345,678	456,789	34,567,890
Other assets	456,789	345,678	567,890	4,567,890
Liabilities				
Deposits	1,234,567	567,890	123,456	12,345,678
Other liabilities	345,678	234,567	456,789	3,456,789



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. Currency risk (continued)

The bank had the following significant foreign currency positions:

As at 31 December 2004

	EUR	USD	GBP	CEDIS	Total
Assets					
Cash and balance with central bank	388,614	2,482,527	9,338,691	23,226,494	35,436,326
Due from other banks	263,010	22,995,738	5,179,404	20,327,475	48,765,627
Government securities	-	-	-	195,987,726	195,987,726
Interest receivable and other assets	-	-	-	16,642,594	16,642,594
Loans and advances to customers	-	12,772,476	600,404	217,166,096	230,538,976
Investment securities	-	-	-	1,322,120	1,322,120
Other short term investments	-	-	-	34,920,881	34,920,881
Investment in subsidiary and associated companies	-	-	-	1,497,727	1,497,727
Property and equipment	-	-	-	27,942,800	27,942,800
Total assets	651,624	38,250,741	15,118,499	539,033,913	539,054,777
Liabilities					
Customers deposits	201,397	4,822,378	333,153	167,534,368	172,891,296
Due to other banks	-	-	-	-	-
Interest payable and other liabilities	-	-	-	17,606,918	17,606,918
Tax	-	-	-	2,038,693	2,038,693
Long term bonds	-	59,635,803	20,877,108	190,848,949	271,361,860
Long term loans	-	32,123,781	-	-	32,123,781
Total liabilities	201,397	96,581,962	21,210,261	378,028,928	496,022,548
Net on balance sheet position	450,227	(58,331,221)	(6,091,762)	161,004,985	43,032,229
Net off balance sheet position	-	677,229	-	-	677,229

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

34.Reconciliation of profit before tax to cash generated from operations

	Notes	The Group 2004	The Group 2003
Profit before tax		22,667,287	17,089,277
Depreciation	19	3,347,693	3,281,290
Profit on disposal of property and equipment	19	(66,000)	(22,833)
Increase in bad and doubtful debt expense	14	2,288,395	4,518,751
Interest expense on long term bonds	24	7,719,185	10,750,841
Inflation adjustment on long term bonds	24	24,954,371	17,606,644
Exchange loss on long term bonds	24	5,300,584	4,049,152
Provision for diminution in investment		-	150,000
Cash generated from operations before changes in operating assets and liabilities		66,211,515	57,423,122
Increase/(decrease) in loans and advances to customers		(19,074,446)	6,035,520
Decrease/(increase) in other asset accounts		15,173,035	(26,344,632)
Increase in deposits		60,981,587	78,434,697
Increase in creditors and accruals		1,040,211	1,739,333
Decrease in deferred credits		-	(47,445)
Cash generated from operations		124,331,902	117,240,595

35. Analysis of cash and cash equivalents as shown in the cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity:

	The Group 2004	The Group 2003
Change during the year		
Cash and balances with Bank of Ghana (Note 10)	35,436,326	6,265,717
Due from other banks (Note 11)	48,765,627	29,633,479
Treasury bills (Note 12)	15,093,479	186,470
Due to other banks	(276,714)	(8,571,000)
	99,018,718	27,514,666

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

36. 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 2006. 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 2004 by management staff were 137,132 at c665 per share, 87,570 at c669 per share and 94,330 at c1,225 per share. Executive directors did not exercise any options during the year. The movement in the number of shares under the scheme is as follows:

Executive Directors	2004	2003
Options granted during the year	-	661
Options exercised during the year	-	(661)
Options at the end of the year	-	-
Management staff		
Options granted during the year	319	335
Less:		
Options lapsed during the year	-	(17)
Options exercised during the year	319	318
Options at 31 December	-	-
Addition to stated capital from share options	265,333	578,254
Fair value of options exercised at 31 December	3,190,000	3,916,000

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

37. 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	The Bank 2004	The Group 2004	The Bank 2003	The Group 2003
(i) Loans to directors				
Loans outstanding at 1 January	524,458	524,458	303,479	303,479
Loans issued during the year	180,000	180,000	275,000	275,000
Interest income earned	59,644	59,644	179,068	179,068
Loan repayments during the year	(80,569)	(80,569)	(233,089)	(233,089)
Loans outstanding at 31 December	683,533	683,533	524,458	524,458
No provisions have been recognised in respect of loans given to related parties (2003: nil).				
(ii) Deposits from directors				
Deposit at 1 January	2,232,820	2,232,820	32,820	32,820
Deposit received during the year	-	-	2,200,000	2,200,000
Withdrawals during the year	(1,706,145)	(1,706,145)	-	-
Deposit at 31 December	526,675	526,675	2,232,820	2,232,820
Interest expense on deposits	166,275	166,275	334,044	334,044

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

38. Country analysis

The amount of total assets and liabilities held in and outside Ghana is analysed below:

	In Ghana 2004	Outside Ghana 2004	In Ghana 2003	Outside Ghana 2003
Assets				
Cash and balances with Bank of Ghana	35,436,326	-	6,265,717	-
Due from other banks	32,537,307	16,228,320	2,528,258	26,512,313
Government securities	195,987,726	-	92,694,705	-
Interest receivable and other assets	16,642,594	-	31,729,859	-
Loans and advances to customers	230,538,976	-	213,752,925	-
Investment securities	1,322,120	-	1,915,394	-
Other short term investments	34,920,881	-	110,287,857	-
Investment in subsidiary and associated companies	1,000,000	497,727	1,000,000	497,727
Tax	-	-	1,419,583	-
Property and equipment	27,942,800	-	23,294,577	-
Total assets	576,328,730	16,726,047	484,888,875	27,010,040
Liabilities				
Customer deposits	172,891,296	-	107,831,877	-
Due to banks and other financial Institutions	-	-	8,571,000	-
Interest payable and other liabilities	17,606,918	-	15,104,768	-
Tax	2,038,693	-	-	-
Deferred credit	-	-	-	-
Long term bonds	271,361,860	-	248,397,891	-
Long term loans	-	32,123,781	42,932,340	-
Total liabilities	463,898,767	32,123,781	422,837,876	-

39. Adjustment

During 2003, an amount of c1,297.55 million being the proceeds from the sale of treasury shares was incorrectly credited to other income. The financial statements of 2003 have been adjusted to correct this error by reducing other income and the income surplus account by c1,297.55 million and increasing the share deals account by the same amount.

40. 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, 2004

FROM	TO	MEMBERS	SHARES	%
1	1,000	1,754	620,431	0.6121
1,001	5,000	401	957,514	0.9447
5,001	10,000	87	637,248	0.6287
10,001	9,999,999,999	124	99,141,807	97.8145
TOTAL		2,366	101,357,000	100.0

DIRECTORS' SHAREHOLDING AS AT 31st DECEMBER, 2004

NAME	SHARES	%
Nana Agyei Duku	45,000	0.04
Dr. Stephanie Baeta Ansah	396,255	0.39
Mr. Edusei Derkyi	334,828	0.33
Mr. Asare Akuffo	327,731	0.32



20 MAJOR SHAREHOLDERS AS AT 31ST DECEMBER, 2004

NAME	SHARES	% OF ISSUED CAPITAL
1. Social Security & National Insurance Trust	21,214,247	20.93
2. Union Bank of Nigeria Plc	20,000,000	19.73
3. Ghana Union Assurance Company Limited	12,397,954	12.23
4. State Insurance Company of Ghana	10,066,020	9.93
5. Financial Investment Trust	7,410,765	7.31
6. MIHL/Union Homes Savings & Loans	7,080,924	6.99
7. MIHL/Union Homes Pension Fund	4,500,000	4.44
8. Ghana Reinsurance Company	3,500,000	3.45
9. HFC Unit Trust	2,258,858	2.23
10. Falcon QP LP	1,114,840	1.10
11. HFC ESOP	871,194	0.86
12. Enterprise Insurance Company Limited	783,420	0.77
13. MIHL/Union Homes - O. N. Chionuma	750,000	0.74
14. Vanguard Assurance Company Limited	702,187	0.69
15. Mr. K. T. Agyare	512,175	0.51
16. Capital and Equity Limited	500,000	0.49
17. Mrs. S. H. B. Ansah	396,255	0.39
18. HFC Staff Provident Fund	395,753	0.39
19. Adinkra Fund	338,091	0.33
20. Mr. Edusei Derkyi	334,828	0.33
	95,127,511	93.85
NOT REPORTED	6,229,489	6.15
GRAND TOTAL	101,357,000	100.00
COMPANY CAPITAL	101,357,000	

