

ANNUAL REPORT 2005



As the world revolves, so does life evolve.
Ours has been a life of continual growth both in resources and character.



HFC Bank (Ghana) Limited

MISSION STATEMENT

"To Create Wealth
and a Better Life for our Customers"



HFC BANK (GHANA) LIMITED

**Annual Report And Consolidated
Financial Statements**

**For The Year
Ended 31 December 2005**

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Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 15th Annual General Meeting of the HFC Bank (Ghana) Limited will be held at the Novotel Hotel, Barnes Road, Accra at eleven o'clock (11:00am) in the forenoon on Wednesday, 29th March, 2006 to transact the following business:

AGENDA

ORDINARY BUSINESS

1. To receive the Chairman's Statement and the Managing Director's Report for the year ended 31st December 2005.
2. To receive the consolidated Accounts and Financial Statements of HFC Bank (Ghana) Limited and its wholly owned subsidiary, HFC Investments Services Limited (HFC-ISL) for the financial year ended 31st December 2005.
3. To receive the Directors' Report and recommendation for the payment of dividend for the year ended 31st December, 2005 together with the Auditors Report thereon.
4. To elect / re-elect Institutional Directors under Regulation 63 of the Company's Regulations and Section 298(d) of the Companies Code 1963, Act 179
5. To re-elect Mr. John Sey as a Director under Regulation 65 of the Company's Regulations and Section 298(d) of the Companies Code 1963, Act 179.
6. To elect Mrs. Stephanie Baeta Ansah as a Director under Regulation 65 of the Company's Regulations and Section 298 (d) of the Companies Code 1963, Act 179.
7. To authorize the Directors to approve the remuneration of the Auditors for the year 2006

SPECIAL RESOLUTION

8. To pass the following as special resolutions:-

"That the Company be and is hereby authorized in accordance with its Regulations and subject to Section 61 of the Companies Code, 1963, Act 179 to make market purchases of the company's ordinary shares up to a maximum of 5 per cent of its issued share capital and for that purpose to open a "Share Deals Account."

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 Bank's Registered Office Ebankese, No. 35, 6th Avenue, North Ridge, Accra, aforesaid 48 hours to the commencement of the meeting in accordance with the Bank's Regulations.

Dated this 23rd day of February 2006.

BY ORDER OF THE BOARD
MERCY MAMLE TETTEH (MRS.)

Mercy Mamle Tetteh
COMPANY SECRETARY

Directors and Professional Advisors

Nana Agyei Duku

Asare Akuffo

Akwete Akita

Stephanie Baeta Ansah

Edusei Derkyi

Austine Aikhorin

Sam Mensah

Ras Boateng

G.A.T. Oboh

O. N. Chionuma

Franklin Asafo Adjei

John Kusi-Mensah

Paul Koranteng

John Sey

(Chairman)

(Managing Director)

(Executive Director, Finance, Appointed November 2005)

(Retired 30th June 2005, Appointed Non-Executive on 1st July, 2005)

(Retired 4th March, 2005)

(Retired December 2005)

(Retired March 2005)

(Appointed March 2005)

(Retired March 2005)

Secretary

Mercy Mamle Tetteh

Ebankese

No. 35 Sixth Avenue, North Ridge, Accra

Registered Office

Ebankese

No. 35 Sixth Avenue, North Ridge, Accra

P.O. Box CT4603

Cantonments, Accra

Auditors

PricewaterhouseCoopers

Chartered Accountants

4th Floor Gulf House

Legon Road, PMB CT 42

Cantonments, Accra

Branch Network

Ridge Branch

6 Sixth Avenue
Ridge Ambassadorial Enclave
West Ridge, Accra
Tel: 233-21 683891-3, 683895-9, 683900
Fax: 233-21 683901
E-mail: ridge@hfcbank-gh.com

Head Office "Ebankese"

#35, Sixth Avenue, North Ridge
P.O. Box CT4603,
Cantonments, Accra
Tel: 233-21-242090-4
Fax: 233-21-242095
E-mail: hfccomp@hfcbank-gh.com
Website: www.hfcbank-gh.com

Ebankese Branch

#35, Sixth Avenue, North Ridge
P.O. Box CT4603, Cantonments, Accra
Tel: 233-21-242090-4
Fax: 233-21-242095
E-mail: ebankese@hfcbank-gh.com

Accra Central Branch

31-33 Kwame Nkrumah Avenue
SIC building, Okaishie, Accra
Tel: 233-21 683756-9
Fax: 233-21 683761
E-mail: accracentral@hfcbank-gh.com

Tema Branch

Asafoatse Kotei Offices & Commercial Complex
Private Mail Bag
Community One, Tema.
Tel: 233 22- 910001/3, 20-8385-6
Fax: 233 22 200362
E-mail: hfc Tema@hfcbank-gh.com

Kumasi Branch

OTB 571 Asomfo Road
Adum Roundabout, Adum
Private Mail Bag, G. P. O, Kumasi
Tel: 233 51 32597 / 31579
Fax: 233 51 31580
E-mail: hfc kumasi@hfcbank-gh.com

Legon Branch

The UG-Credit Union Building
NOGUCHI Road
University of Ghana-Legon

HFC - Insop Office

G2, 1ST Floor St. Francis Building
Kinbu Road
Adjacent to Tudu Lorry Park
(31st December Makola Market) Accra
Tel: 233 21 666203
Fax: 233 21 - 664106

THE BOARD OF DIRECTORS



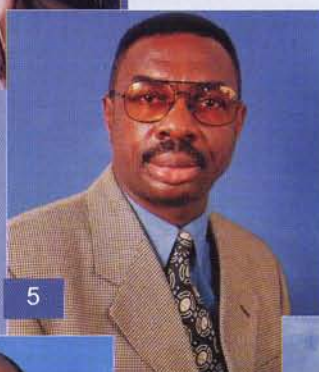
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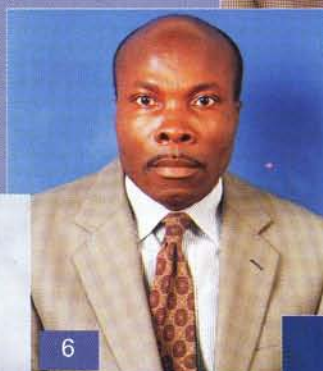
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1. Nana Agyei Duku
2. Asare Akuffo
3. Akwete Akita
4. Stephanie Baeta Ansah
5. Sam Mensah
6. Ras Boateng
7. G.A.T. Oboh
8. O. N. Chionuma
9. John Kusi-Mensah
10. John Sey

REPORT OF THE DIRECTORS

The Directors have the pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2005.

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 bank and its subsidiary continued to be:

- i. to carry on the business of universal banking
- ii. to issue bonds and other financial instruments for residential and commercial mortgages.

Results

The group made a profit after tax of ₵8,385 million for the year ended 31 December 2005. The income surplus account amounted to ₵6,837 million. The Directors consider the state of affairs of the group to be satisfactory.

Subsidiary


HFC Investment Services Limited, a company incorporated in Ghana to manage investments, including real estate and arrange capitalisation and financing packages for its clientele, is a wholly owned subsidiary of the bank. Its results have been consolidated in these accounts.

Dividends

The Directors recommend the payment of a dividend of ₵45 per share (2004: ₵85), amounting to ₵4,574 million (2004: ₵8,615 million) for the year ended 31 December 2005.

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:


Managing Director:

SENIOR MANAGEMENT

1. Asare Akuffo –Managing Director
2. Akwete Akita –Executive Director
3. Charles Martinson –General Manager,
Banking Operations
4. Mercy Mamle Tetteh –Company Secretary
5. Charles Ofori-Acquah –Head, Corporate
Banking
6. Michael Appiah –Head, Internal Control



1



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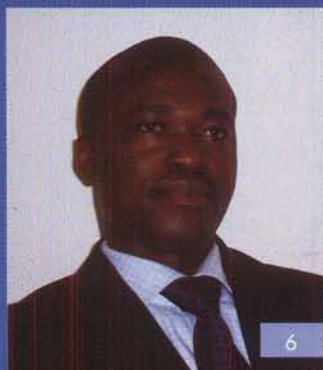
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CORPORATE GOVERNANCE

Introduction

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

HFC Bank (Ghana) 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 bank adopts standard accounting practices and ensures sound internal controls to facilitate the reliability of the financial statements.

The Board of directors

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

The Board consists of a Non-Executive Chairman, five (5) Non-Executive Directors and four (4) Executive Directors up to March when Mr. Derkyi retired and two (2) when Mrs. Ansah retired as the Managing Director in June. 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 bank's progress. The Managing Director is a separate individual from the Chairman and he implements the management strategies and policies adopted by the Board. The Board meets at least three times a year.

The Audit Committee

The Audit Committee is appointed by the Board. It comprises three non-executive directors Mr. John Sey; Chairman, Dr. Sam Mensah, and Mr. John Kusi Mensah. The Executive Directors and the Internal Control Manager are ordinarily in attendance at the meetings. The Committee had five meetings in the year 2005. All members were present at all the meetings.

The duties of the Audit Committee include; keeping under review the scope and results of the internal and external audits as well as the independence and objectivity of the auditors. It also keeps under review, internal financial controls, compliance with laws and regulations and safe-guarding of assets. In carrying out its duties, the Audit Committee may, at its discretion, consult alone with internal and external auditors and other relevant bodies.

The Audit Committee reports to the Board. The audit committee in the year 2005, reviewed the quarterly and final accounts of the Bank. The committee also deliberated on audit reports on the Bank's Ridge, Accra Central and Kumasi Branches, Credit & Relationship Banking and the Bank's investment banking business.

Remuneration committee

The remuneration committee is appointed by the Board and is composed of non-executive directors. Mr. John Sey; Chairman, Mr. Ras Boateng, Dr. Sam Mensah, Mr. Mr. John Kusi Mensah and Mrs. Stephanie Baeta Ansah; Members.

The duties of the committee are to establish a transparent framework for developing policy on executive compensation, to advise the board on the appropriate compensation for directors, to advise on stock options, employee share ownership schemes and other schemes and to advise on general remuneration of management and other employees.

Systems of internal control

HFC Bank (Ghana) 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 bank are being controlled.

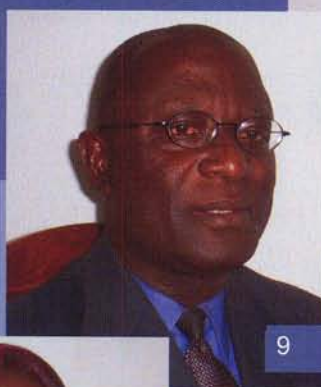
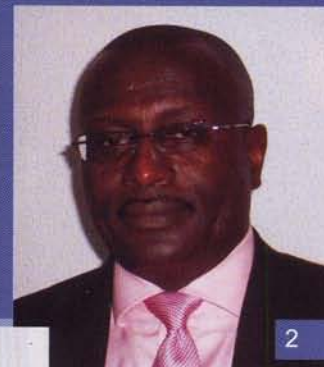
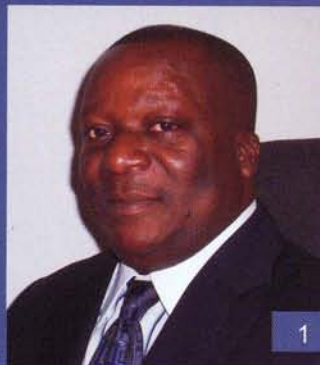
The corporate internal audit function of the bank plays a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems in the business. The system of internal controls are implemented and monitored by appropriately trained personnel and their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

Code of business ethics

The bank is also in compliance with the Securities and Exchange Commission's Corporate Governance Guidelines, and its own code of conduct which every employee has a copy.

HEADS OF DEPARTMENTS

1. Kweku Botwe -Head, Business Development
2. Charles Bonsu -Head, Mortgage and Consumer Banking
3. Ken Owusu-Mensah -Head, Administration
4. Emmanuel Yankey -Financial Controller
5. Christian Akuamoah -Head, Recoveries
6. Joseph Nketsiah -Head, Treasury
7. Ama Duncan -Head, Human Resource
8. P. Oduro-Amoyaw -Head, Strategic Planning
9. Emmanuel Asamoah -Head Corporate Affairs
10. Amiel Cudjoe -Head Legal
11. Emmanuel Acquaye -Acting Head ICT



MAJOR EVENTS THAT OCCURRED DURING THE YEAR:

30th March 2005

Opening of the Tema Branch

The Bank is focused on extending its services to all parts of the Country and 2005 saw the opening of the fourth branch of the Bank.



Friday July 29th 2005

Retirement of Mrs. Stephanie Baeta-Ansah

The Bank organized a farewell dinner in honour of the retiring pioneer Managing Director.



10th November 2005

Launching of our "HOME SAVE ACCOUNT"



10th October, 2005

Inauguration of HFC Brokerage Services

HFC Bank expands frontiers

Story: Boahene Asamoah

HFC Bank, a major financial institution in the mortgage industry, has launched its brokerage services.

through private placements on the GSE.

"The investment banking industry is growing and becoming more competitive but HFC stands out of the rest because of the universal banking status

market and have successfully raised funds, with two rights issues and eight corporate bond issues since it was listed on the market.

This, Mr Akuffo said gave advantage to the company to



20th August, 2005

HFC Bank holds health awareness day

CHAIRMAN STATEMENT



Dear Shareholders,

Ladies and Gentlemen,

You are all welcome to the 2005 Annual General Meeting which marks the Bank's second year of operation in the Ghanaian banking industry. Globally, the year 2005 witnessed a lot of apprehension in view of the continued instability in the Gulf Region. The local economy however, remained stable due to prudent fiscal and monetary policies adopted by the Government and the Central Bank. The banking industry faced greater challenges with the continuous drop in interest rates and the entry of two new banks. Despite these developments, I can assure you that your Bank remains strong and well positioned to achieve major growth in assets and earnings in the year 2006 and beyond.

Developments on the International Scene

The Middle East continues to be unstable with new threats of instability emanating from Iran's nuclear development programme. In the West African sub-region the Cote D'Ivoire crisis remains unresolved but the situation in Liberia improved remarkably with a successful general election.

Global manufacturing and trade strengthened despite the challenges posed by the persistent increases in the price of crude oil. Performance of the economies of the United States and China propelled the expansion of the global economy with overall world output growing by 4.3 percent up by 0.3 percent from 2004. Africa as a region registered a 5.4 percent growth, thus exceeding the 2004 figure of 5.1% GDP growth in sub-Saharan Africa

was estimated at 4.8 per cent in 2005 however the rate of inflation increased marginally as a result of high crude oil prices.

The Domestic Economic Environment

On the domestic front, considerable achievements were made. Results indicated that real GDP grew by 5.8% meeting the target set for year 2005. Headline inflation, which began the year at a level of 11.6% increased to 16.7% by March 2005. A general downward decline ensued and it ended the year at 14.8%.

Prudent monetary policies resulted in a steady decline in interest rates. The underlying factor was the improved revenue mobilization in the economy coupled with reduction in government borrowing. The Capital Market exhibited bearish condition in 2005 resulting in an overall average fall of 30% in the GSE-All-Share Index. Deposit taking institutions and banks in general experienced excess liquidity following the reduction of their secondary reserve requirement (from 35% to 15%).

The overall fiscal deficit was 2.4% of GDP as against the budget estimate of 2.2%. The overall balance of payments was projected to sustain a surplus of US\$160 million by year-end enabling the building up of foreign exchange reserves to the tune of 3.8 months of imports of goods and services.

The cedi performed remarkably in nominal exchange rates against the three core currencies depreciating at 0.4% against the US dollar but appreciating at 8.2% against the British Pound sterling and 11.6% against the Euro; the best

Chairman Statement (contd.)

performance so far recorded in recent years.

Highlights Of The Bank's Performance

Against the backdrop of the above developments, total Assets grew by ₵111 billion over the 2004 figure to ₵710 billion by the year end. The growth is attributed to the correspondent growth in the advances portfolio from ₵230 billion in 2004 to ₵297 billion in 2005. The level of deposits grew by 63% to ₵280 billion. Profit after tax however reduced from ₵16 billion in 2004 to ₵8.4 billion due to the significant fall in interest rates and increases in staff cost and branch network expansion.

During the last quarter of 2005, management launched a new Five-year Strategic Plan to guide its operations from 2006 to 2010. The main thrust of the strategy is to achieve growth and profitability through business expansion locally and in some selected international markets. We are confident therefore that earnings performance will be better in 2006 and the period ahead.

Dividend

Due to the reduction in earnings for the year and the capitalization of surpluses to meet Bank of Ghana's minimum stated capital of ₵70 billion requirement, the Directors have proposed the payment of ₵45 per share as dividend for 2005.

Change In Leadership Of Bank

I am happy to inform you that on July 1st 2005, Mr. Asare Akuffo took over the mantle of leadership as Managing Director from the pioneer Managing Director, Mrs. Stephanie Baeta Ansah who retired after 15 years active service. Mr. Edusei Derkyi, Deputy Managing Director (Mortgage Operations) also retired in March, 2005.

Mr. Austin Aikhorin, who served as Executive Director (Banking Operations) under the Union Bank technical assistance contract and helped put the bank on a sound footing ended his term and has since returned to Nigeria after successfully accomplishing his task.

Appreciation

My colleagues on the Board have

been of tremendous assistance through their good counsel in carrying out this ardent task of guiding the bank in the midst of declining rates and stiff competition. I therefore owe each of them much gratitude.

I wish to seize this opportunity to once again thank Mrs. Ansah and Mr. Derkyi for their immense contribution in developing HFC from a small Mortgage Company in 1990 into a universal banking institution. My thanks also go to Mr. Austin Aikhorin for his dedicated service to the bank and to the Union Bank of Nigeria for releasing him for the 2 (two) year period.

Management and staff cannot be left out for their dedication to duty and hard work during the year under review.

Finally, may I thank our valued shareholders whose continued interest in the bank has given it the strength to stand firm in the midst of intense competition within a rapidly changing banking industry.

Thank you,

Nana Agyei Dulcu
CHAIRMAN

MANAGING DIRECTOR'S STATEMENT

Valued Shareholders,

The year 2005 was significant for your company. It was the year that saw the retirement of two of the pioneer management staff after 15 years of distinguished service. We therefore take this opportunity to thank Mrs. Stephanie Baeta Ansah and Mr. Edusei Derkyi for their achievements during their period of service.

The Economy

The country's macro-economic performance continued its steady improvement with an annual inflation rate of 14.8% as at December, 2005. This was achieved in spite of the major rise in world crude oil prices and a 50% increase in local fuel prices. Interest rates continued their downward trend with the benchmark 91 Treasury bill rate hitting a low of 11.5% by year-end. The Bank of Ghana prime rate was reduced from 18.5% to 15.5%.

The country achieved a GDP growth rate of 5.8%. Bank of Ghana's Composite Index of Economic Activity indicated that economic activity in the real sector of the economy increased by 27.4%.

The Banking Industry

The downward trend in interest rates and its related reduction in margins exerted significant pressure on earnings in the industry.

The Central Bank reduced the secondary reserve requirement from 35% of deposits to 15% and withdrew entirely the requirement to invest in the Government of Ghana Inflation Linked Bonds thereby increasing the level of liquidity in the industry. The minimum capital of banks was increased to ₵70 billion with the compliance date fixed at 31st December, 2006. The competition in the industry was heightened with the entry of two new

The Bank

2005 was the Bank's second full year of universal banking business. The Bank was able to achieve most of its Balance Sheet growth targets but a combination of the sharp fall in interest rates, branch network expansion costs, and the need to pay competitive salaries have pushed earnings downwards. We however, expect the significant investment in human resource and technology at the branches to begin to yield improved returns.

Balance Sheet

Total assets grew by 18% to ₵710.6 billion, with loans and advances of ₵297 billion compared to the previous year's figure of ₵230 billion. Mortgages formed 27% of total assets compared to 31% in 2004.

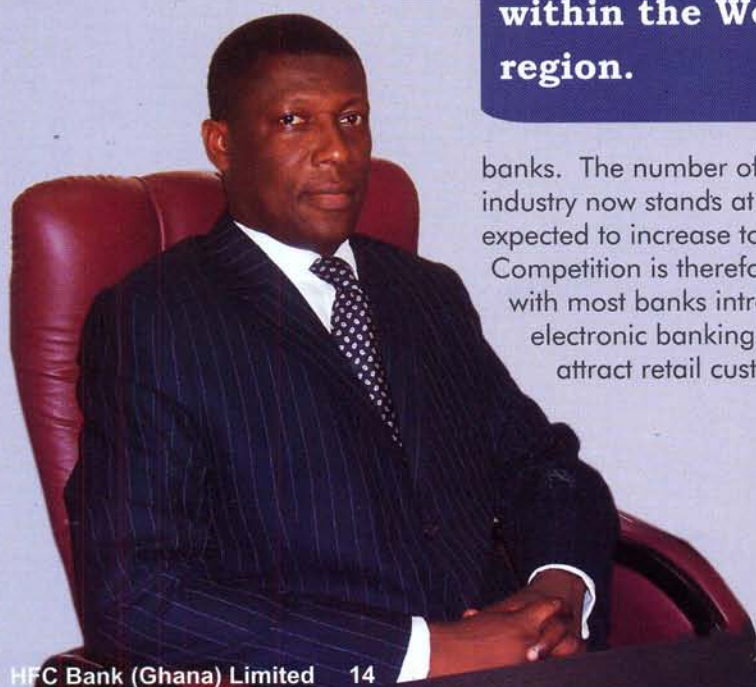
Through effective marketing at our branches, we were able to grow our deposits by 63% to ₵280 billion. The structure of deposits improved with lower cost savings accounts increasing by 93% to ₵71.2 billion at the end of 2005.

A Bank, now poised to enter into the big league of banking within the West-African sub-region.

banks. The number of players in the industry now stands at 20 and it is expected to increase to 22 in 2006. Competition is therefore very keen with most banks introducing electronic banking products to attract retail customers.

Earnings

Despite maintaining net interest income marginally above 2004 levels, and increasing fee income by 160%, higher operational costs contributed to reduce pretax earnings from ₵22.7 billion in 2004 to ₵9.4 billion in 2005.



Managing Director's Statement (contd.)

Our Business**Mortgage Banking**

Outstanding loans stood at ₵193.5 billion. The US\$ portfolio made up 52% in value terms but 38% in terms of units. Cedi loans were valued at ₵92 billion at year-end.

Commercial Banking

The bank's branch network was increased to five with the opening of the Tema branch in March, 2005. SMS banking (FASTXT) was introduced in November and we are in the process of providing ATM services early in 2006. Our Homesave Account was relaunched to enable prospective homeowners save towards purchasing homes through our time tested home loan products.

Our corporate banking business achieved significant growth and diversification with ₵80 billion advances to corporate bodies in Accra and Kumasi.

Investment Banking

Our subsidiary, HFC Investment Services Limited contributed ₵1.2 billion to Group earnings. Its gross income grew by 14%. HFC Brokerage Services Limited was admitted to the floor of the exchange in October, 2005. The subsidiary is now in a position to provide full-fledged investment services to corporates and individuals.

The bank has provided additional capital of ₵2 billion to the subsidiary and has given its management

adequate autonomy to enable it stand up to the higher level of competition in the industry.

Management

The technical service agreement with Union Bank of Nigeria Plc came to a successful end in October, 2005 after 2 years. We therefore take the opportunity to once again thank Union Bank Plc and Mr. Austine Aikhorin, who represented Union Bank as Executive Director (Commercial Banking), for assisting HFC establish banking systems and procedures that measure up to the highest industry standard.

In November 2005, Mr. Akwete Akita, former Head of Internal Control was appointed Executive Director (Finance). Mr. Charles Martinson was promoted to the position of General Manager (Banking Operations). The new senior management team also includes Mrs. Mercy Tetteh as Company Secretary, Mr. Michael Appiah, Head of Internal Control and Inspections and Mr. Charles Ofori-Acquah, Head of Corporate Banking.

Business Outlook

We have begun the implementation of a new 5-year strategic plan which is expected to transform your bank into a formidable Universal Banking Institution by the end of 2010.

During this first year of the strategic plan, we shall embark on new bold initiatives.

The Bank plans to increase its branches to eight by the end of the

year 2006. We have agreed to partner an international institution to provide micro-finance services. We shall provide real estate services through a separate subsidiary, HFC Realty Company Limited. Our joint venture with the University of Ghana UG-HFC will commence a new commercial property development in the Ridge Ambassadorial area.

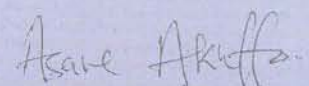
Our mortgage business is positioned to grow again in response to the improved macro-economic environment and the government's new housing program. An improved level of service to the non-resident market is also expected to give an additional boost to the business.

We shall continue to explore opportunities within the ECOWAS sub-region for the provision of technical assistance and the establishment of strategic partnerships.

Acknowledgements

We want to thank you our valued shareholders for your commitment to HFC over the years, which has transformed the company from a special purpose vehicle for mortgage finance into a Universal Banking Institution. A bank, now poised to enter into the big league of banking within the West-African sub-region. We also thank our customers, who have found HFC an acceptable bank, even in these initial years. We can assure you of more efficient services with integrity, which no doubt will make HFC forever your Bank and your Home.

Thank you.



REPORT OF THE AUDITORS

To The Members Of HFC Bank (Ghana) Limited And Subsidiary

HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARY

Consolidated Financial Statements
For the year ended 31 December
2005.

We have audited the consolidated financial statements of HFC Bank (Ghana) Limited and its subsidiary for the year ended 31 December 2005 set out on pages 7 to 37 which have been prepared in accordance with the accounting policies, set out on pages 11 to 14.

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 these statements and to report our opinion to you.

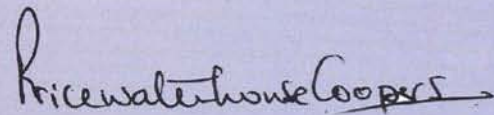
Basis of opinion

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 2005 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

7th March, 2006

The Accounts

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts are expressed in thousands of cedis)

Year ended 31 December

	Notes	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
Interest income	1	98,704,830	98,770,923	98,881,687	99,000,155
Interest expense	2	(46,928,007)	(48,412,936)	(46,928,007)	(48,412,936)
Net interest income		51,776,823	50,537,987	51,953,680	50,357,987
Fee and commission income		6,598,534	2,503,304	12,092,996	6,833,162
Other operating income	3	490,802	3,970,920	672,472	3,970,920
Operating income		58,866,159	56,832,211	64,719,148	61,391,301
Operating expenses	4	(49,582,637)	(32,831,222)	(53,755,780)	(36,137,653)
Bad and doubtful debts expense	14	(1,617,948)	(2,288,395)	(1,617,948)	(2,288,395)
Operating profit		7,665,574	21,712,584	9,345,420	22,965,253
Other income	6	469,768	882,480	469,468	1,441,863
Profit before national reconstruction levy and tax		8,135,342	22,595,074	9,814,888	24,407,116
National reconstruction levy	7	(430,207)	(1,694,631)	(456,738)	(1,739,829)
Profit before tax		7,705,135	20,900,443	9,358,150	22,667,287
Tax	8	(535,869)	(4,579,241)	(1,080,989)	(4,652,967)
Profit after tax transferred to income surplus accounts		7,169,266	16,321,202	8,227,161	18,014,320

CONSOLIDATED INCOME SURPLUS ACCOUNT

Balance at 1 January		9,591,029	10,861,833	14,915,942	14,493,628
Profit for the year		7,169,266	16,321,202	8,227,161	18,014,320
		16,760,295	27,183,035	23,193,103	32,507,948
Transfer to statutory reserve fund	27	(3,584,633)	(8,160,601)	(3,584,633)	(8,160,601)
Transfer to housing development assistance fund	29	(358,463)	(816,060)	(358,463)	(816,060)
Transfer to stated capital		(7,946,914)	-	(7,946,914)	-
Proposed dividend for the year	9	(4,574,000)	(8,615,345)	(4,574,000)	(8,615,345)
Balance at 31 December		296,285	9,591,029	6,729,093	14,915,942

The accounting policies and notes on pages 22 to 48 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 2005	The Bank 2004	The Group 2005	The Group 2004
Cash and balances with Bank of Ghana	10	19,495,573	35,436,326	19,495,573	35,436,326
Due from other banks	11	41,008,142	48,765,627	41,518,938	48,765,627
Government securities	12	253,283,538	195,987,726	255,015,976	195,987,726
Interest receivable and other assets	13	35,257,795	16,642,594	37,439,252	18,324,372
Loans and advances to customers	14	297,683,985	230,538,976	297,683,985	230,538,976
Investment securities	15	3,877,913	1,322,120	3,877,913	1,322,120
Other short term investments	16	16,788,217	34,920,881	17,783,040	38,049,324
Investment in subsidiary and associated companies	17	3,344,992	1,497,727	2,244,992	1,397,727
Investment properties	18	-	-	1,734,567	825,564
Property and equipment	19	32,903,591	27,942,800	33,578,588	28,675,712
Tax	22	908,732	437,571	971,322	300,458
Total assets		704,552,478	593,492,348	711,398,146	599,623,932
Liabilities					
Customer deposits	20	280,262,315	172,891,296	280,262,315	172,891,296
Due to banks and other financial institutions			-	-	276,714
Interest payable and other liabilities	21	23,882,978	17,606,918	24,263,525	18,136,875
Deferred Tax	23	2,058,063	2,476,264	2,090,376	2,476,264
Long term bonds	24	284,891,519	271,361,860	284,891,519	271,361,860
Long term loans	25	8,114,059	32,123,781	8,114,059	32,123,781
Total liabilities		599,208,934	496,460,119	599,621,794	497,266,790
Shareholders' funds					
Stated capital	26	70,252,387	46,791,949	70,252,387	46,791,949
Income surplus account		296,285	9,591,029	6,729,093	14,915,942
Statutory reserve fund	27	25,221,441	21,636,808	25,221,441	21,636,808
Capital surplus account	28	5,463,662	11,644,320	5,463,662	11,644,320
Housing development assistance fund	29	68,705	3,327,059	68,705	3,327,059
Share deals account	30	4,041,064	4,041,064	4,041,064	4,041,064
Total shareholders' funds		105,343,544	97,032,229	111,776,352	102,357,142
Total liabilities and shareholders' funds		704,552,478	593,492,348	711,398,146	599,623,932

The consolidated financial statements on pages 18 to 48 were approved by the Board of Directors on 22nd February 2005 and signed on its behalf by:

Nana Agyei Dulcu

Chairman:

Asare Akuffo

Managing Director:

CONSOLIDATED CASH FLOW STATEMENT

(All amounts are expressed in thousands of cedis)

	Note	Year ended 31 December	
		2005	2004
Operating activities			
Net cash generated from operations	35	80,985,466	124,331,902
Interest paid		(9,007,415)	(8,492,754)
Tax paid	22	(2,137,741)	(1,528,201)
Net cash generated from operating activities		69,840,310	114,310,947
Investing activities			
Purchase of property and equipment	19	(7,384,985)	(8,154,672)
Proceeds from sale of property and equipment	19	1,247,853	66,000
Purchase of government securities		(64,328,836)	(88,386,012)
Sale/(purchase) of other investments		20,266,284	77,079,736
Purchase of bond		(2,555,793)	-
Bond repayment		-	593,274
Purchase of investment property		(909,003)	128,082
Net cash used in investing activities		(53,663,730)	(18,673,592)
Financing activities			
Dividend paid	9	(8,615,345)	(7,072,660)
Proceeds from the issue of bonds	24	-	18,621,889
Redemption of bonds	24	(11,167,949)	(25,139,306)
Proceeds from sale of shares in associates	17	152,735	-
Investment in HFC Brokerage		(1,000,000)	-
Loans repaid	25	(24,009,722)	(10,808,559)
Proceeds from share options exercised	37	252,387	265,333
Net cash (used in)/generated from financing activities		(44,387,894)	(24,133,303)
(Decrease)/ Increase in cash and cash equivalents		(28,211,314)	71,504,052
Movement in cash and cash equivalents			
At 1 January		99,018,052	27,514,666
(Decrease)/ Increase during the year		(28,211,314)	71,504,052
At 31 December	36	70,807,404	99,018,718

The accounting policies and notes on pages 22 to 48 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 develop- ment assistance fund	Share deals account	Total
Year ended 31 December 2005							
At 1 January	46,791,949	14,915,942	21,636,808	11,644,320	3,327,059	4,041,064	102,357,142
Net profit	-	8,277,161	-	-	-	-	8,277,161
Transfer to statutory reserve	-	(3,584,633)	3,584,633	-	-	-	-
Transfer to Housing Development Assistance fund	-	(358,463)	-	-	358,463	-	-
Revaluation of Land & Buildings	-	-	-	5,463,662	-	-	5,463,662
Transfer to stated capital	23,208,051	(7,946,914)	-	(11,644,320)	(3,616,817)	-	-
Proposed dividend	-	(4,574,000)	-	-	-	-	(4,574,000)
Issue of shares	252,387	-	-	-	-	-	252,387
At 31 December	70,252,387	6,729,093	25,221,441	5,463,662	68,705	4,041,064	111,776,352
Year ended 31 December 2004							
At 1 January 2003	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 statutory 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	46,791,942	14,915,942	21,636,808	11,644,320	3,327,059	4,041,064	102,357,142

The accounting policies and notes on pages 22 to 48 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.

ACCOUNTING POLICIES (continued)**(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.

(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.

ACCOUNTING POLICIES (continued)

(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 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.

ACCOUNTING POLICIES (continued)**(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 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 2005	The Bank 2004	The Group 2005	The Group 2004
Commercial loans and advances	11,121,988	10,880,806	11,121,988	10,808,806
Mortgage loans	39,185,419	33,142,934	39,185,419	33,142,934
Government securities	45,936,746	54,544,121	46,113,603	54,764,272
Cash and short term funds	2,460,677	275,062	2,460,677	284,143
	98,704,830	98,770,923	98,881,687	99,000,155

2. Interest expense

Bonds	31,479,556	39,991,739	31,479,556	39,991,739
Loans	1,084,188	1,550,777	1,084,188	1,550,777
Time and other deposits	14,364,263	6,870,420	14,364,263	6,870,420
	46,928,007	48,412,936	46,928,007	48,412,936

3. Other operating income

Gain on exchange	295,747	3,447,046	477,417	3,447,046
Others	195,055	523,874	195,055	523,874
	490,802	3,970,920	672,472	3,970,920

4. Operating expenses

The following items are included within operating expenses:

Staff costs	21,690,214	11,628,335	24,118,586	13,604,483
Depreciation (Note 19)	6,175,053	3,121,093	6,739,368	3,347,693
Directors' emoluments	4,221,870	3,456,020	4,259,455	3,516,988
Auditors' remuneration	195,000	140,000	225,000	170,000
Amount spent on fulfilling social Responsibility	200,195	235,784	200,195	235,784

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 2005	The Bank 2004	The Group 2005	The Group 2004
Wages and salaries	11,821,037	6,742,595	13,878,064	8,386,392
Social security benefits	1,475,534	1,206,561	1,769,395	1,341,581
Other staff benefits	8,393,643	3,679,179	8,471,127	3,876,510
	21,690,214	11,628,335	24,118,586	13,604,483

The average number of persons employed by the group during the year was 145 (2004: 137)

6. Other income

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
Profit on disposal of assets	42,299	66,000	42,299	66,000
Sundry income	427,469	816,480	427,469	1,375,863
	469,768	882,480	469,768	1,441,863

7. National reconstruction levy

The Bank

	Balance 1/1/05	Charge for the year	Payments during the year	Balance 31/12/05
2004	549,881	-	-	549,881
2005	-	430,207	(1,139,580)	(709,373)
	549,881	430,207	(1,139,580)	(159,492)

The Group

	Balance 1/1/05	Charge for the year	Payments during the year	Balance 31/12/05
2004	622,997	-	-	622,997
2005	-	456,340	(1,166,684)	(710,344)
	622,997	456,340	(1,166,684)	(87,347)

National reconstruction levy is assessed under the National Reconstruction Levy 2002 (Act 579) at 5% and 1.5% 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 2005	The Bank 2004	The Group 2005	The Group 2004
Current tax (Note 22)	954,070	1,829,232	1,466,877	1,902,958
Deferred tax (Note 23)	(418,201)	2,750,009	(385,888)	2,750,009
	535,869	4,579,241	1,080,989	4,652,967

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 2005	The Bank 2004	The Group 2005	The Group 2004
Profit before tax and national reconstruction levy	8,135,342	22,595,074	9,814,888	24,407,116
Tax calculated at a rate of 28% for the bank and 32.5% for the subsidiary	2,277,896	6,778,522	2,765,711	7,367,436
Tax effect of:				
Income not subject to tax	(3,056,875)	(6,630,952)	(4,619,010)	(7,246,140)
Expenses not deductible for tax	1,733,049	1,681,662	3,337,718	1,781,662
Purposes				
Deferred income tax	954,070 (418,201)	1,829,232 2,750,009	1,466,877 (385,888)	1,902,958 2,750,009
Tax charge	535,869	4,579,241	1,080,989	4,652,967

9. Dividend

At 1 January	8,615,345	7,072,660	8,615,345	7,072,660
Proposed dividend	4,574,000	8,615,345	4,574,000	8,615,345
	13,189,345	15,688,005	13,189,345	15,688,005
Dividend paid	(8,615,345)	(7,072,660)	(8,615,345)	(7,072,660)
At 31 December	4,574,000	8,615,345	4,574,000	8,615,345

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 2005	The Bank 2004	The Group 2005	The Group 2004
Cash in hand	6,422,055	5,114,428	6,422,055	5,114,428
Balances with Bank of Ghana	13,073,518	30,321,898	13,073,518	30,321,898
	19,495,573	35,436,326	19,495,573	35,436,326

11. Due from other banks

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
Placements	41,008,142	48,765,627	41,518,938	48,765,627

12. Government securities

Treasury bills:				
Maturing within 90 days of the date of acquisition	9,473,010	15,093,479	9,792,893	15,093,479
Maturing after 90 days of the date of acquisition	64,310,528	107,977,184	64,310,528	107,977,184
Treasury Note	170,000,000	63,417,063	171,412,555	63,417,063
Government of Ghana Index Linked Bonds (GGILB)	9,500,000	9,500,000	9,500,000	9,500,000
	253,283,538	195,987,726	255,015,976	195,987,726

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 2005	The Bank 2004	The Group 2005	The Group 2004
Receivable and prepayments	29,044,774	7,558,283	31,064,246	9,031,165
Accrued interest receivable	6,213,021	9,084,311	6,429,006	9,293,207
	35,257,795	16,642,594	37,493,252	18,324,372

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 Bank 2005	The Bank 2004	The Group 2005	The Group 2004
Analysis by type of customer				
Individual	207,082,358	198,414,729	207,082,358	198,414,729
Other private enterprises	104,555,808	43,904,378	104,555,808	43,904,378
Staff	4,288,589	3,355,985	4,288,589	3,355,985
Gross loans and advances	315,926,755	245,675,092	315,926,755	245,675,092
Less provision for impairment:				
Specific provisions	(12,129,966)	(13,537,080)	(12,129,966)	(13,537,080)
General provision	(3,342,398)	(317,336)	(3,342,398)	(317,336)
Interest in suspense	(2,770,406)	(1,281,700)	(2,770,406)	(1,281,700)
	297,683,985	230,538,976	297,683,985	230,538,976
Analysis by type of advance				
Commercial loans	91,496,388	30,454,050	91,496,388	30,454,050
Construction finance	18,276,048	17,194,704	18,276,048	17,194,704
Staff loans	4,288,589	3,355,985	4,288,589	3,355,985
Other Advances	8,323,428	-	8,323,428	-
Mortgage loans	193,542,302	194,670,353	193,542,302	194,670,353
Gross loans and advances	315,926,755	245,675,092	315,926,755	245,675,092
Less provision for impairment:				
Specific provisions	(12,129,966)	(13,537,080)	(12,129,966)	(13,537,080)
General provision	(3,342,398)	(317,336)	(3,342,398)	(317,336)
Interest in suspense	(2,770,406)	(1,281,700)	(2,770,406)	(1,281,700)
	297,683,985	230,538,976	297,683,985	230,539,976
The maximum level of staff indebtedness during the year did not exceed ₵4,289 million (2004: ₵3,356 million)				
Analysis by business segments				
Housing	201,865,730	198,894,652	201,865,730	198,894,652
Construction	32,412,932	38,990,946	32,412,932	38,990,946
Commerce and finance	81,648,093	7,790,304	81,648,093	7,790,304
Gross loans and advances	315,926,755	245,676,092	315,926,755	245,676,092
Less provision for impairment:				
Specific provisions	(12,129,966)	(13,537,080)	(12,129,966)	(13,537,080)
General provision	(3,342,398)	(317,336)	(3,342,398)	(317,336)
Interest in suspense	(2,770,406)	(1,281,700)	(2,770,406)	(1,281,700)
	297,683,985	230,538,976	297,683,985	230,539,976

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 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	184,807,632	193,698,455	184,807,632	193,698,455
Disbursements during year	17,362,732	13,451,285	17,362,732	13,451,285
Interest charged	24,111,042	19,595,944	24,111,042	19,595,944
Exchange difference	13,808,136	14,255,296	13,808,136	14,255,296
Inflation adjustment	14,242,956	13,312,799	14,242,956	13,312,799
	254,332,498	254,313,779	254,332,498	254,313,779
Less: Repayments	(60,790,196)	(59,643,427)	(60,790,196)	(59,643,427)
	193,542,302	194,670,352	193,542,302	194,670,352
Bad and doubtful debts expense	(8,669,784)	(9,862,720)	(8,669,784)	(9,862,720)
At 31 December	184,872,518	184,807,632	184,872,518	184,807,632

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

	Specific credit risk Provision	General provision	Total
Year ended 31 December 2005			
At 1 January 2005	13,537,080	317,336	13,854,416
Doubtful debts expense	(1,407,114)	3,025,062	1,617,948
At 31 December 2005	12,129,966	3,342,398	15,472,364
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

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 **¢14,138 million**. Unrecognised interest related to such loans amounted to **¢4,251 million**.

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
Loan loss provision ratio	4%	6%	4%	6%
Gross non-performing loans ratio	2%	1%	2%	1%
Ratio of 50 largest exposures	13%	23%	13%	23%

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 2005	The Bank 2004	The Group 2004	The Group 2004
Debt securities	3,877,913	1,322,120	3,877,913	1,322,120

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 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	1,322,120	1,915,394	1,322,120	1,915,394
Additions	2,555,793	-	2,555,793	-
Redemption	3,877,913	1,915,394	3,877,913	1,915,394
	-	(672,734)	-	(672,734)
At 31 December	3,877,913	1,322,120	3,877,913	1,322,120

16. Other short-term investments

Treasury dealings	6,774,385	5,930,161	6,774,385	5,930,161
Units and investments	10,013,832	28,990,720	11,008,655	32,119,163
	16,788,217	34,920,881	17,783,040	38,049,324

17. Investments in subsidiary and associated companies

Investment in subsidiary	2,100,000	100,000	1,000,000	-
Investment in associated companies	1,244,992	1,397,727	1,244,992	1,397,727
	3,344,992	1,497,727	2,244,992	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. The Bank also recapitalised its subsidiary company, HFC Investment Services Limited with an additional capital of **¢2 billion**.

HFC Investments Services Limited during the year invested ¢1 billion in HFC Brokerage Services Limited. The Consolidated financial statements do not include the results of HFC Brokerage Services Limited, because the directors of the company are of the opinion that the operations of HFC Brokerage Services Limited are insignificant compare to HFC Investment Services Limited.

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 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	-	-	825,564	1,215,764
Additions	-	-	909,003	(390,200)
At 31 December	-	-	1,734,567	825,564
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 ₵1,750 million (2005: ₵841 million).

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 2005	16,383,862	12,560,687	4,141,539	4,983,987	72,806	38,142,881
Additions	501,898	3,658,523	1,019,207	307,389	1,390,718	6,877,735
Revaluation	5,463,662	-	-	-	-	5,463,662
Disposals	-	(15,800)	-	(1,473,307)	-	(1,489,107)
Transfers	-	767,112	502,018	-	(1,269,129)	-
At 31 December 2005	22,349,422	16,970,522	5,662,764	3,818,069	194,395	48,995,171
Depreciation						
At 1 January 2005	778,640	6,643,962	1,003,484	1,773,995	-	10,200,081
Charge for the year	306,031	4,246,825	958,900	663,297	-	6,175,053
Disposals	-	(13,167)	-	(270,387)	-	(283,554)
At 31 December 2005	1,084,671	10,877,620	1,962,384	2,166,905	-	16,091,580
Net book value						
At 31 December 2005	21,264,751	6,092,902	3,700,380	1,651,164	194,395	32,903,591
At 31 December 2004	15,605,222	5,916,725	3,138,055	3,209,992	72,806	27,942,800

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 2005	16,383,862	13,555,713	4,141,539	5,435,218	72,806	39,589,138
Additions	501,898	3,883,677	1,066,957	540,985	1,390,718	7,384,985
Revaluation	5,463,662					5,463,662
Disposals		(15,800)	-	(1,473,307)		(1,489,107)
Transfers		767,112	502,018	-	(1,269,129)	-
At 31 December 2005	22,349,422	18,190,702	5,710,514	4,502,896	194,395	50,947,928
Depreciation						
At 1 January 2004	778,640	7,045,211	1,003,484	2,086,091	-	10,913,426
Charge for the year	306,031	4,525,126	1,108,049	800,262		6,739,468
Disposals	-	(13,167)	-	(270,387)	-	(283,554)
At 31 December 2005	1,084,671	11,557,170	2,111,533	2,615,966	-	17,369,340
Net book value						
At 31 December 2005	21,264,751	6,633,532	3,598,981	1,886,900	194,395	33,578,588
At 31 December 2004	15,605,222	6,510,502	3,138,055	3,349,127	72,806	28,675,712
Messrs. Bortey Consulting, an independent chartered valuer, revalued the bank's landed properties at open market value on 31 December 2005, in line with the Bank's policy of revaluing its landed properties every five years. If land and buildings were stated at the historical cost, the amount would be as follows:						
	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004		
Cost	16,885,760	3,503,555	16,885,760	3,503,555		
Accumulated depreciation	(1,084,671)	(356,440)	(1,084,671)	(356,440)		
Net book value	15,801,089	3,147,115	15,801,089	3,147,115		
Profit on disposal of fixed assets						
Gross book value	1,489,107	45,717	1,489,107	45,717		
Accumulated depreciation	(283,553)	(45,717)	(283,553)	(45,717)		
Net book value	1,205,554	-	1,205,554	-		
Sale proceeds	(1,247,853)	(66,000)	(1,247,853)	(66,000)		
Profit on disposal	(42,299)	(66,000)	(42,299)	(66,000)		

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 2005	The Bank 2004	The Group 2005	The Group 2004
Demand accounts	61,680,406	66,368,535	61,680,406	66,368,535
Savings deposit	71,206,691	10,921,216	71,206,691	10,921,216
Time deposits	147,375,218	95,610,545	147,375,218	95,610,545
	280,262,315	172,891,296	280,262,315	172,891,296

Analysis by type of deposits

Individual/private enterprise	206,174,135	97,035,946	206,174,135	97,035,946
Public enterprise	74,088,180	75,855,350	74,088,180	75,855,350
	280,262,315	172,891,296	280,262,315	172,891,296

Ratio of 20 largest deposits to total deposits	31%	60%	31%	60%
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21. Interest payable and other liabilities

Creditors	15,088,645	5,470,604	15,217,999	5,748,398
Accrued interest	4,379,825	2,971,088	4,558,873	3,150,135
National reconstruction levy	(159,492)	549,881	(87,347)	622,997
Dividend payable (Note 9)	4,574,000	8,615,345	4,574,000	8,615,345
	23,882,978	17,606,918	24,263,525	18,136,875

22. Tax

The Bank

	Balance 1/1/05	Charge/ (credit) for the year	Payments during year	Balance 31/12/05
Current tax				
Tax Year				
2004	(437,571)	-	-	(437,571)
2005	-	954,070	(1,425,231)	(471,161)
	(437,571)	954,070	(1,425,231)	(908,732)

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 1/1/05	Charge/ (credit) for the year	Payments during year	Balance 31/12/05
Current tax				
Tax Year				
2004	(300,458)	-	-	(300,458)
2005	-	1,466,877	(2,137,741)	(670,864)
	(300,458)	1,466,877	(2,137,741)	(971,322)

23. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of **25%** for the bank and the subsidiary. The movement on the deferred tax account is as follows:

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	2,476,264	(273,745)	2,476,264	(273,745)
Income statement charge/(credit) for the year	(418,201)	2,750,009	(385,888)	2,750,009
At 31 December	2,058,063	2,476,264	2,090,376	2,746,264

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

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
Deferred income tax liabilities				
Property and equipment	2,640,277	623,130	2,672,590	623,130
Mortgages	(25,847)	3,443,309	(25,847)	3,443,309
	2,614,430	4,066,439	2,646,743	4,066,439
Deferred income tax assets				
Long term bonds	(556,367)	(1,590,175)	(553,367)	(1,590,175)
	2,058,063	2,476,264	2,090,376	2,476,264

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 2005	The Bank 2004	The Group 2005	The Group 2004
Property and equipment	1,016,731	592,086	1,049,044	592,086
Long term bonds	(4,852,394)	226,317	(4,825,394)	226,317
Mortgage loans	3,417,462	1,931,606	3,417,462	1,931,606
Short term investments	-	-	-	-
	(418,201)	2,750,009	(385,888)	2,750,009

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 **¢2,500 million** (2004: ¢1,164 million) and **¢11,052 million** respectively. The Bank is also exposed to Capital tax gains of ¢211 million when its investment in GGLIB matures.

24. Long term bonds

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	271,361,860	248,397,891	271,361,860	248,397,891
Issues during the year	-	18,621,889	-	18,621,889
Interest charged	6,519,133	7,719,185	6,519,133	7,719,185
Exchange loss	2,225,467	5,300,584	2,225,467	5,300,584
Inflation adjustment	24,960,423	24,954,371	24,960,423	24,954,371
	305,066,883	304,993,920	305,066,883	304,993,920
Redemptions	(11,167,949)	(25,139,306)	(11,167,949)	(25,139,306)
Interest paid	(9,007,415)	(8,492,754)	(9,007,415)	(8,492,754)
At 31 December	284,891,519	271,361,860	284,891,519	271,361,860
Analysis by type of bond:				
Ghana Government bond (Note (i))	64,523,469	57,401,371	64,523,469	57,401,324
Social Security & National Insurance Trust bonds (Note (ii))	151,285,903	133,447,578	151,285,903	133,447,578
Total cedi bonds	215,809,372	190,848,949	215,809,372	190,848,949
HFC dollar housebonds (Note (iii))	50,252,695	59,635,803	50,252,695	59,635,803
HFC sterling housebonds (Note (iv))	18,829,452	20,877,108	18,829,452	20,877,108
Balance at 31 December	284,891,519	271,361,860	284,891,519	271,361,860

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 2005, **US\$5.1 million** HFC dollar housbonds (2004: US\$6.6m) were 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 2005 **£1.2 million** (2004: £1.2 million) HFC sterling housbonds were 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 2005	The Bank 2004	The Group 2005	The Group 2004
IDA	2,055,272	2,024,698	2,055,272	2,024,698
Ghana International Bank (GIB)	6,058,787	30,099,083	6,058,787	30,099,083
	8,114,059	32,123,781	8,114,059	32,123,781
The movement on long term loans is as follow				
At 1 January	32,123,781	42,932,340	32,123,781	42,932,340
Drawdowns	-	-	-	-
Repayment	(24,009,722)	(10,808,559)	(24,009,722)	(10,808,559)
At 31 December	8,114,059	32,123,781	8,114,059	32,123,781

(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. The Bank however prepaid the bulk of this loan in 2005, leaving a balance of **¢6.059 billion**

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** (2004: 1,000,000,000) of which **101,660,000** (2004: 101,357,000) have been issued. All shares have been issued for cash consideration. The movement in stated capital is as follows:

	2005		2004	
	No of shares 000	Proceeds	No of shares 000	Proceeds
At 1 January	101,357	46,791,949	101,038	25,894,182
Share option scheme (Note 37)	303	252,387	319	265,333
Transfer from reserves	-	23,208,051	-	-
At 31 December	101,660	70,252,387	101,357	46,791,949

By a special resolution on 30th March 2005, the shareholders authorised the Bank to transfer up to a maximum of ₵30 billion from reserves to stated capital to increase the Bank's stated capital to minimum of ₵70 billion required for universal banking business.

There are no unpaid liability on any shares. There were no treasury shares held as at 31 December 2005. There are no calls or installments unpaid.

27. Statutory reserve

	The Bank 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	21,636,808	13,476,207	21,636,808	13,476,207
Transfer from retained profits	3,584,633	8,160,601	3,584,633	8,160,601
At 31 December	25,221,441	21,636,808	25,221,441	21,636,808

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 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	3,327,059	2,510,999	3,327,059	2,510,999
Transfer to stated capital	(3,616,817)	-	(3,616,817)	-
Transfer from retained earnings	358,463	816,060	358,463	816,060
At 31 December	68,705	3,327,059	68,705	3,327,059

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 Bank 2005	The Bank 2004	The Group 2005	The Group 2004
At 1 January	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 2005	The Bank 2004	The Group 2005	The Group 2004
Guarantees and bonds with cash Collateral	-	200,000	-	200,000
Guarantees and bonds without cash Collateral	1,740,018	1,490,314	1,740,018	1,490,314
Letters of credit without cash collateral	90,000	677,320	90,000	677,230
	1,830,018	2,367,544	1,830,018	2,367,544
Less provision against impairment	(27,215)	(23,675)	(27,215)	(23,675)
	1,802,803	2,343,869	1,802,803	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 analyse assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2005 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	19,495,573	-	-	-	-	19,495,573
Other bank balances	41,008,142	-	-	-	-	41,008,142
Government securities	-	9,473,010	64,310,528	179,500,000	-	253,283,538
Interest receivable and other assets	-	-	33,036,987	-	2,220,808	35,257,795
Loans and advances to customers	-	-	-	113,626,262	184,057,723	297,683,985
Investment securities	-	-	-	-	3,877,913	3,877,913
Other short term investments	-	6,774,385	10,013,832	-	-	16,788,217
Investment in subsidiary	-	-	-	-	3,344,992	3,344,992
Property and equipment	-	-	-	-	32,903,591	32,903,591
Tax	908,732	-	-	-	-	908,732
Total assets	61,412,447	16,247,395	107,361,347	293,126,262	226,405,027	704,552,478
Liabilities						
Customer deposits	-	-	280,262,315	-	-	280,262,315
Due to banks and other financial institutions	-	-	-	-	-	-
Interests payable and other liabilities	2,883,087	-	20,999,891	-	-	23,882,978
Deferred Tax	-	-	-	-	2,058,063	2,058,063
Long term bonds	-	-	-	46,873,721	238,017,798	284,891,519
Long term loans	-	-	-	8,114,059	-	8,114,059
Total liabilities	2,883,087	-	301,262,206	54,987,780	240,075,861	599,208,934
Net liquidity gap	58,529,360	16,247,395	(193,900,859)	238,138,482	(13,670,834)	105,343,544
At 31 December 2004						
Total Assets	84,201,953	21,023,640	146,656,772	105,000,481	236,171,931	593,054,777
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)	45,322,082	97,032,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. Credit risk

The bank takes on exposure to credit risk, which is the risk that counter party will be unable to pay amounts in full when due. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposure against limits are monitored daily

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

34. 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 2005. Included in the table are the bank's assets and liabilities at carrying amounts categorised by currency:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. Currency risk (continued)

The bank had the following significant foreign currency positions:

As at 31 December 2005

	EUR	USD	GBP	CEDIS	Total
Assets					
Cash and balance with central bank	464,423	1,301,373	709,103	17,020,574	19,495,573
Due from other banks	4,062,967	15,042,791	11,487,026	10,415,358	41,008,142
Government securities	-	-	-	253,283,538	253,283,538
Interest receivable and other assets	-	-	-	35,257,795	35,257,795
Loans and advances to customers	-	82,521,859	6,072,718	209,089,408	297,683,985
Investment securities	-	-	-	3,877,913	3,877,913
Other short term investments	-	-	-	16,788,217	16,788,217
Investment in subsidiary and associated companies	-	-	-	3,344,992	3,344,992
Property and equipment	-	-	-	32,903,591	32,903,591
Tax	-	-	-	908,732	908,732
Total assets	4,527,390	98,866,023	18,268,847	582,890,218	704,552,478
Liabilities					
Customers deposits	4,275,000	80,699,622	7,066,430	188,221,263	280,262,315
Due to other banks	-	-	-	-	-
Interest payable and other liabilities	-	-	-	23,882,978	23,882,978
Deferred Tax	-	-	-	2,058,063	2,058,063
Long term bonds	-	50,252,695	18,829,452	215,809,372	284,891,519
Long term loans	-	8,114,059	-	-	8,114,059
Total liabilities	4,275,000	139,066,376	25,895,882	429,971,676	599,208,934
Net on balance sheet position	252,390	(40,200,353)	(7,627,035)	152,918,542	105,343,544
Net off balance sheet position	-	90,000	-	-	90,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Notes	The Group 2005	The Group 2004
Profit before tax		9,358,150	22,667,287
Depreciation	19	6,739,468	3,347,693
Profit on disposal of property and equipment	19	(42,299)	(66,000)
Increase in bad and doubtful debt expense	14	1,617,948	2,288,395
Interest expense on long term bonds	24	6,519,133	7,719,185
Inflation adjustment on long term bonds	24	24,960,423	24,954,371
Exchange loss on long term bonds	24	2,225,467	5,300,584
Cash generated from operations before changes in operating assets and liabilities		51,378,290	66,211,515
Increase/(decrease) in loans and advances to customers		(68,762,659)	(19,074,446)
Decrease/(increase) in other assets accounts		(19,168,880)	15,173,035
Increase in deposits		107,371,019	60,981,587
Increase in creditors and accruals		10,167,995	1,040,211
Cash generated from operations		80,985,765	124,331,902

36. 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 2005	The Group 2004
Change during the year		
Cash and balances with Bank of Ghana (Note 10)	19,495,573	35,436,326
Due from other banks (Note 11)	41,518,938	48,765,627
Treasury bills (Note 12)	9,792,893	15,093,479
Due to other banks	-	(276,714)
	70,807,404	99,018,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

37. 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 2005. The management staff options are exercisable in equal amounts on 31st December of each year to 31st December 2005.

The beneficiaries of the executive directors' options are restricted from trading in the shares before the options' expiry date of 31st December 2005. 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 2005 by management staff were 130,481 at ¢665 per share, 84,965 at ¢669 per share and 88,000 at ¢1,225 per share. The movements in the number of shares under the scheme is as follows:

	2005	2004
Management staff		
Options granted during the year	319	319
Less:		
Options lapsed during the year.	16	-
Options exercised during the year	303	319
Options at 31 December	-	-
Addition to stated capital from share options	252,387	265,333
Fair value of options exercised at 31 December	1,818,000	3,190,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. 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 2005	The Bank 2004	The Group 2005	The Group 2004
(i) Loans to directors				
Loans outstanding at 1 January	683,533	524,458	683,533	524,458
Loans issued during the year	636,173	180,000	636,173	180,000
Interest income earned	72,689	59,644	72,689	59,644
Loan repayments during the year	(158,000)	(80,569)	(158,000)	(80,569)
Loans outstanding at 31 December	1,234,395	683,533	1,234,395	683,533
No provisions have been recognised in respect of loans given to related parties (2004: nil).				
(ii) Deposits from directors				
Deposit at 1 January	526,675	2,232,820	2,232,820	2,232,820
Deposit received during the year	2,434,210	-	2,434,210	-
Withdrawals during the year	(1,713,048)	(1,706,145)	(1,713,048)	(1,706,145)
Deposit at 31 December	1,248,837	526,675	1,248,837	526,675
Interest expense on deposits	12,010	166,275	12,010	166,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

39. Country analysis

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

	In Ghana 2005	Outside Ghana 2005	In Ghana 2004	Outside Ghana 2004
Assets				
Cash and balances with Bank of Ghana	13,073,518	-	35,436,326	-
Due from other banks	10,415,357	30,592,785	32,537,307	16,228,320
Government securities	253,283,538	-	195,987,726	-
Interest receivable and other assets	35,257,795	-	16,642,594	-
Loans and advances to customers	297,683,985	-	230,538,976	-
Investment securities	3,877,913	-	1,322,120	-
Other short term investments	16,788,217	-	34,920,881	-
Investment in subsidiary and associated companies	3,000,000	344,992	1,000,000	497,727
Tax	908,732	-	437,571	-
Property and equipment	32,903,591	-	27,942,800	-
Total assets	673,614,701	30,937,777	576,328,730	16,726,047
Liabilities				
Customer deposits	280,262,315	-	172,891,296	-
Due to banks and other financial Institutions	-	-	-	-
Interest payable and other liabilities	23,882,978	-	17,606,918	-
Deferred Tax	2,058,063	-	2,476,264	-
Long term bonds	284,891,519	-	271,361,860	-
Long term loans	-	8,114,059	-	32,123,781
Total liabilities	591,094,875	8,114,059	464,336,338	32,123,781

40. Comparative figures

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

SHAREHOLDERS STRUCTURE AS AT 31ST DECEMBER, 2005

FROM	TO	MEMBERS	SHARES	%
1	1,000	1,754	794,879.54	0.7819
1,001	5,000	401	1,133,000.70	1.1145
5,001	10,000	87	841,134.84	0.8274
10,001	9,999,999,999	124	98,890,984.92	97.2762
TOTAL		2,366	101,660,000	100.0

DIRECTORS' SHAREHOLDING AS AT 31st DECEMBER, 2005

NAME	SHARES	%
Nana Agyei Duku	45,000	0.04
Mr. Asare Akuffo	327,731	0.32
Dr. Stephanie Baeta Ansah	396,255	0.39
Mr. Akwete Akita	1,500	0.001

20 MAJOR SHAREHOLDERS AS AT 31ST DECEMBER, 2005

NAME	SHARES	% OF ISSUED CAPITAL
1. Social Security & National Insurance Trust	21,214,247	20.90
2. Union Bank of Nigeria PLC	20,000,000	19.70
3. Ghana Union Assurance Co. Limited	12,937,954	12.22
4. State Insurance Company of Ghana	10,066,020	9.92
5. Financial Investment Trust Limited	7,410,765	7.30
6. MIHL/Union Homes Savings & Loans	6,080,924	5.99
7. MIHL/Union Homes Pension Fund	4,500,000	4.43
8. Ghana Reinsurance Organization	3,500,500	3.45
9. HFC Unit Trust	2,261,931	2.23
10. Falcon QP LP	1,114,840	1.10
11. Union Homes Savings & Loans Limited	1,000,000	0.99
12. MIHL/Union Homes O.N. Chionuma	750,000	0.74
13. HFC ESOP	715,734	0.71
14. Vanguard Assurance Company Limited	702,187	0.69
15. Mr. K.T. Agyare	512,175	0.50
16. DBL/Galtere International Fund	505,000	0.50
17. Capital & Equity Limited	500,000	0.49
18. Mr. Edusei Derkyi	490,288	0.48
19. HFC Staff Provident	415,075	0.41
20. MRS. S.H.B. Ansah	396,255	0.39
REPORTED TOTALS	94,533,395	93.14
NOT REPORTED	7,126,605	6.86
GRAND TOTAL	101,660,000	100.00
COMPANY CAPITAL	101,660,000	

HFC Bank (Ghana) Limited

PROXY

I/We.....Of

being members of HFC Bank (GHANA) LIMITED hereby

appoint.....

Or failing him, NANAAGYEI DUKU, Chairman of HFC Bank (Ghana) Limited, P. O. Box CT4603, Cantonment, 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 Novotel, Accra at (11:00) o'clock in the forenoon on the 29th day of March, 2006 and at any adjournment thereof.

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

ORDINARY RESOLUTIONS

1. To receive the consolidated accounts and financial Statement of HFC Bank (Ghana) Limited and its wholly owned Subsidiary, HFC-ISL for the financial year ended 31st December, 2005 together with the Auditor's report thereon.
2. To receive the Directors' report and approve their recommendations for the Payment of dividend for the year ended 31st December, 2005.
3. To elect / re-elect Institutional Directors under Regulation 63 of the Company's Regulations and Section 298(d) of the Companies Code 1963, Act 179.
4. To re-elect Mr. John Sey as a Director under Regulation 65 of the Company's Regulations and Section 298(d) of the Companies Code 1963, Act 179.
5. To elect Mrs. Stephanie Baeta Ansah as a Director under Regulation 65 of the Company's Regulations and Section 298 (d) of the Companies Code 1963, Act 179.
6. To authorize the Directors to approve the remuneration of the Auditors for the year 2006

SPECIAL RESOLUTION

To pass the following as special resolutions:-

7. That the Company be and is hereby authorized in accordance with its Regulations and subject to Section 61 of the Companies Code, 1963, Act 179 to make market purchases of the company's ordinary shares up to a maximum of 5 per cent of its issued share capital and for that purpose to open a "Share Deals Account."

Yes	No

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 2006

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 attend.
2. Provision has been made on the form for NANA AGYEI DUKU, the Chairman of the meeting to act as your Proxy but if you 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 signed 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 5:00p.m on 28th March 2006.
5. The Proxy must produce the Admission Form printed overleaf to obtain entrance into the meeting.

SECOND FOLD HERE

THIRD FOLD HERE

THE SECRETARY
HFC BANK (GH) LIMITED
'EBANK' ESE
P. O. BOX C4603
CANTONMENTS
ACCRA GHANA

FIRST FOLD HERE

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

HFC Bank (Ghana) Limited

ADMISSION CARD

Annual General Meeting of the Company to be held at Novotel at eleven (11.00 a.m.) on the 29th day of March 2006 and at any adjournment thereof.

Name of Shareholder

972

Name of Proxy

HFC/77861
CUA CENTRAL FINANCE FACILITY
C/O DATABANK
PMB, MINISTRIES
ACCRA

Signature of Person Attending

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.

Notes

Notes

