

HFC BANK (GHANA) LIMITED

CIRCULAR TO SHAREHOLDERS

A Renounceable Rights Issue

OF

25,432,359 ordinary shares of no par value at GH¢0.39 per share
in a ratio of one (1) new share for every four (4) existing shares.

Lead Manager:



Merban Stockbrokers Limited

(A wholly-owned subsidiary of Merchant Bank(Ghana) Ltd.,
and a Licensed Dealing Member of the Ghana Stock Exchange)

Co-Manager:



HFC Investment Services Limited

Dated: May 5, 2008.



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HFC Investment Services Limited

Dated: May 5, 2008.



THIS DOCUMENT IS IMPORTANT AND NEEDS YOUR IMMEDIATE ATTENTION

This Offer Circular (the "Circular") has been sent to all shareholders of HFC Bank (Ghana) Limited (HFC) on the register of members as at April 30, 2008.

If you have sold or otherwise transferred all your shares in HFC, please send this Circular as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

No person is authorized to give any information or to make any representation not contained in this Circular and must not be relied upon as having been authorized by HFC, Merban Stockbrokers Ltd. (MSL), HFC Investment Services Limited, or any of HFC's advisors. Neither the delivery of this Circular nor any sale of shares hereunder shall under any circumstances create any impression that there has been no change in the affairs of HFC since the date hereof or that the information contained herein is correct as of anytime subsequent to this date. Any material change, relevant to the Offer, in the affairs of the Company during the Offer period will be communicated to the Securities and Exchange Commission (SEC) and the investing public.

An application has been made to the Ghana Stock Exchange (the "GSE") for the listing of all the additional shares to be issued under this Offer on the First Official List of the GSE. The GSE assumes no responsibility for the correctness of any of the statements made, opinions expressed and reports presented in this Circular.

This Circular has been reviewed and approved by the SEC in accordance with Section 9 of the Securities Industry Law (PNDC Law 333) as amended. In its review, the SEC examined the contents of the Circular to ensure that adequate disclosures have been made.

The distribution of this Circular and the offering of the shares in certain jurisdictions may be restricted by law. The Company requires persons into whose possession the Circular comes to inform themselves about, and observe, any such restriction. This Circular does not constitute an Offer and may not be used for the purpose of an Offer or solicitation by anyone in any jurisdiction or in any circumstances in which such an Offer or solicitation is not authorized or is unlawful.

Before deciding whether to apply for shares, you should consider whether shares are a suitable investment for you. Their value can go down as well as up. Past performance is not necessarily indicative of future performance. If you need advice, you should consult a suitable professional advisor.

To ascertain the financial soundness or value of this Offer, HFC shareholders and the investing public are advised to consult an investment advisor or other professional for appropriate advice.



This Document has been seen and approved by the Directors of HFC and we collectively and individually accept full responsibility for the accuracy of the information given and that after making all reasonable inquiries and to the best of our knowledge and belief there are no facts the omission of which would make any statement in the document referred to above misleading.

HFC BANK (GHANA) LIMITED

(Incorporated in Ghana as limited liability company under the Companies Code, 1963 (Act 179)
with registration No C-39,755

CIRCULAR TO SHAREHOLDERS

REGARDING

**A RENOUNCEABLE RIGHTS ISSUE OF 25,432,359 NEW ORDINARY SHARES
OF NO PAR VALUE AT GH¢0.39 PER SHARE IN A RATIO OF
ONE NEW SHARE FOR EVERY FOUR EXISTING SHARES**

Sponsored by

MERBAN STOCKBROKERS LIMITED

And

HFC INVESTMENT SERVICES LIMITED

Merban Stockbrokers Limited (MSL) is acting as managers and Lead-Sponsoring brokers to HFC for the renounceable rights issue. MSL has relied on information provided by the Company and its advisors and accordingly, MSL does not provide any assurance of the accuracy of the information contained in this Circular. MSL does, however confirm that to the best of its knowledge, this Circular constitutes full and fair disclosure of all material facts about the Company and the Offer.

Lynes Quashie Idun & Co has acted as legal advisors to HFC on this renounceable rights issue. Lynes Quashie-Idun & Co. has relied on information provided by the Company. Accordingly, Lynes Quashie Idun & Co. does not provide any assurance of the accuracy of the information contained in this Circular. Lynes Quashie Idun & Co. does however confirm that to the best of its knowledge, this Circular constitutes a full and fair disclosure of all material facts about the Company and the Offer.

Dated: May 5, 2008



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**KEY MILESTONES AND TIMETABLE**

Activity	Date	Time (GMT)
Ex-Rights Date	25/04/2008	17.00HRS
Qualifying Date	30/04/2008	17.00HRS
Book Closure	02/05/2008	17.00HRS
Commencement of Offer	05/05/2008	9.00HRS
Commencement of Trading in the Rights	05/05/2008	9:00HRS
Closure of Trading in the Rights	23/05/2008	12.00HRS
End of Offer	30/05/2008	17.00HRS
Allotment of Shares	13/06/2008	17.00HRS
Submission of Offer Results to SEC	13/06/2008	17.00HRS
Final Dispatch of Share Certificates	20/06/2008	17.00HRS
Commencement of Trading in Shares	27/06/2008	9.00HRS

The dates provided in the activity timetable above are subject to change by the Lead Managers of the Offer in consultation with the Directors of HFC (subject to the necessary regulatory approvals). Any amendment will be published in the national daily newspapers not later than 72 hours of receipt of regulatory approvals.

**DIRECTORS AND CORPORATE INFORMATION OF HFC BANK (GHANA) LIMITED**

Directors	Nana Agyei Duku Asare Akuffo Akwete Akita Ras Boateng Sam Mensah Bartholomew Bassey Ebong E. Austin Aikhorin John Kusi Mensah Stephanie Baëta Ansah John Sey
Registered Office	'Ebankese' No. 35 Sixth Avenue, North Ridge P. O. Box CT 4603, Cantonments Accra. Tel: +233-21-242090-4 Fax: 233-21-242095 E-mail: hfcomp@hfcbankgh.com Website: www.hfcbankgh.com
Company Secretary	Mercy Mamle Tetteh 'Ebankese' No. 35 Sixth Avenue, North Ridge P. O. Box CT 4603, Cantonments Accra. Tel: +233-21-242090-4 Fax: +233-21-242095 E-mail: mtetteh@hfcbankgh.com
Auditors	PriceWaterhouseCoopers PMB CT 42, Cantonments Accra, Ghana Tel: +233-21-761500 Fax: +233-21-761544 E-mail: pwc.ghana@ghpwc.com Contact Person: Mr. Charles Egan
Registrars	Merchant Bank (Ghana) Limited 57 Examination Loop, North Ridge P.O. Box GP 401 Accra Tel: +233-21-251131-5 Fax: +233-21-251138 Contact Person: Mrs. Harriet Antwi



ADVISORS TO THE ISSUE

Lead Sponsoring Broker

Merban Stockbrokers Limited
57 Examination Loop, North Ridge;
P. O. Box GP 401, Accra
Tel: +233-21-251131-5
Fax: +233-21-251138
E-mail: mbd@merbangh.com
Website: www.merbangh.com
Contact Person: Lilian Atakora (Mrs)

Co-Sponsoring Broker

HFC Investment Services Limited;
No. 6 Sixth Avenue, Ridge Ambassadorial Enclave,
West Ridge, Accra.
P. O. Box CT 4603, Cantonments.
Tel: +233-21-683891-3; 664203
Fax: +233-21-664106
E-mail: isl@hfcbankgh.com
Website: www.hfcbankgh.com
Contact Person: Joseph Nketsiah

Legal Advisors

Lynes Quashie Idun & Co
P. O. Box GP 2549
Accra
Tel: +233-21-228877/228843
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E-mail: lawyers@ghana.com
Website: www.lynesquashie-idun.com
Contact Person: K.N. Aduama Osei

Reporting Accountants

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Valley View, Farrar Avenue
P. O. Box 1219
Accra
Tel: +233-21-221266/246637
Fax: +233-21-226628
E-mail: pannell@africaonline.com.gh
Website: www.pkf.co.uk
Contact Person: Eric Tetteyfio

Media Consultants

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No. 11 Kinkawe Road,
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P. O. Box CT 4429, Cantonments,
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Tel: +233-21-784685/783410
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E-mail: info@adamsjwt.com.gh
Contact Person: Don Obiloh



DEFINITIONS

The following definitions apply in this document unless otherwise stated specifically.

“BoG”	The Bank of Ghana, Ghana's central bank and the regulator of the banking industry in Ghana.
“Companies Code”	The Ghana Companies Code 1963 (Act 179) as amended
“Circular” or “Document”	The Offering Circular dated May 5, 2008
“HFC Bank or “the Bank”	HFC Bank (Ghana) Limited.
“HFC Board” or “HFC Directors” Or “Directors”	The Directors of HFC Bank (Ghana) Limited.
“HFC Branches”	All the 12 branches of HFC Bank.
“HFC ISL”	HFC Investment Services Limited.
“HFC Shares”	HFC Bank (Ghana) Limited shares.
“Ghana”	The Republic of Ghana.
“GSE” or “the Exchange”	The Ghana Stock Exchange.
“MSL”	Merban Stockbrokers Limited.
“the Offer” or “the Rights Issue”	The Offer of 25,432,359 new ordinary shares of HFC Bank at a price of GH¢0.39 per share in this renounceable offer to existing shareholders in a ratio of one (1) new ordinary share for every four (4) ordinary shares held as at the qualifying date.
“Qualifying date”	The date, April 30, 2008, on which persons whose names appear on the register of HFC Bank members qualify for this Offer.
“Qualifying HFC Shareholder”	HFC shareholders on the register of shareholders as at the qualifying date, and who have no legal restrictions to partaking in this offer.
“Qualifying Applicant”	Any person who is 18 years or over, or a corporation, partnership or other unincorporated associations who are resident/incorporated in Ghana or some other state, or country provided that the offer to and acceptance by such an applicant of this Offer is not in contravention of the laws of either that state or country.



“Receiving Agent” or “Receiving Agents”

HFC Bank (Ghana) Ltd., HFC-ISL, Merchant Bank (Gh) Ltd., MSL or any other company appointed by HFC Bank who will be receiving applications and payments from qualifying applicants under this Offer. Full contact details of the receiving agents can be found on page 71 of this Document.

“Renouncee”

A person in favour of whom a qualifying shareholder has renounced his/her rights.

“Renouncer”

A qualifying HFC shareholder who has renounced some or all of his/her rights in favour of another person(s).

“Rights”

The legal and financial right of qualifying HFC shareholders to partake in this Offer, which right could be traded to other persons for value, in which case the right is traded on the GSE, or which right could be renounced in favour of another person(s).

“SEC”

Securities and Exchange Commission.



LEGAL ADVISOR'S CERTIFICATE

DIRECTORS:

E. K. AKYEA-DJAMSON
LL.M. (LOND.)
NOTARY PUBLIC

JAMES QUASHIE-IDUN
M.A. (CANTAB)

PLEASE QUOTE IN REPLY

NS/7120

LYNES QUASHIE-IDUN & CO.
LEGAL PRACTITIONERS, NOTARIES PUBLIC
TRADEMARK & PATENT AGENTS

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GHANA

OFFICE: HOUSE NUMBER E.128/2,
KOJO THOMPSON ROAD,
ADABRAKA,
ACCRA

05 February 2008

The Director-General,
Securities and Exchange Commission,
1st Floor, State Enterprises Commission Building,
Ministries, Accra.

The Managing Director,
Ghana Stock Exchange,
5th Floor, Cedi House,
Accra.

Dear Sirs,

**HFC BANK (GHANA) LIMITED RIGHTS ISSUE –
LEGAL ADVISORS' COMPLIANCE CERTIFICATE**

1. Introduction:

We have been legal advisers to HFC Bank (Ghana) Limited in respect of the Bank's Rights Issue, and we submit this opinion on the strength of documents made available to and reviewed by us and responses to enquiries made by us with the Bank. Particularly, we mention the following documents as constituting the bases of the opinion expressed by us herein:

- i) Copy of the Certificate of Incorporation of HFC Bank (Ghana) Limited.
- ii) Copy of Licence to Operate Business of Banking issued by the Bank of Ghana under the Banking Law, 1989 (PNDCL 225).
- iii) Copy of Regulations of Home Finance Company Limited (A Public Limited Liability Company).
- iv) 2006 Annual Report, HFC Bank.

Associates:

K. N. Aduama Osei
B.A. (Hons)

C. Krahene-Williams
B.A. (Hons)

E. O. Armah
LL.B (Hons)

N. Y. Asamany
B.A. (Hons)

A. K. Dabi
B.A. (ED) LL.B. (Hons)



- v) Rules and Conditions of Service of HFC Bank and other related documents.
- vi) Documents covering some leases and tenancies taken by HFC.
- vii) Some agreements involving HFC.
- viii) Receipts evidencing due payment of Municipal Levies.
- ix) Certificates evidencing tax and SSNIT compliance.
- x) Shareholders' resolution authorising the Rights Issue.
- xi) Board resolution to allocate renounced shares to interested persons and to list the shares on the Ghana Stock Exchange.
- xii) Copy of Rights Issue Offer Circular.

This opinion is limited to matters covered by the laws of Ghana in force and in operation as at the date hereof. In offering it, we have not adverted to laws and rules of practice in jurisdictions other than Ghana and have not sought to express any opinion on matters of law or practice in jurisdictions other than Ghana.

The assumptions upon which this opinion is given are set out in the Schedule of Assumptions, below.

2. Legal Status and Business of HFC:

Documents made available to us have been reviewed in the light of the applicable laws of Ghana and the relevant rules and regulations, and we express the opinion that:

- 2.1 HFC Bank (Ghana) Limited (hereinafter referred to as "HFC") has been duly incorporated under the Companies Code, 1963 (Act 179) as a public company with the liability of its members limited by shares.
- 2.2 HFC has been duly licensed by the Bank of Ghana under the Banking Law, 1989 (PNDCL 225) to carry on the business of banking.
- 2.3 Corporate Authorisations:
HFC has obtained all the corporate authorisations necessary or advisable in connection with the Rights Issue and GSE listing.

3. Directors and Management:

We have looked at the Regulations of HFC, the relevant portions of the Company's Annual Report, 2006, and have also made appropriate and necessary enquiries and investigations concerning the directorship and management of HFC and we express the opinion that:



- 3.1 The Board of HFC meets the competence, character and integrity criteria contained in the Companies Code, 1963 and the Regulations of the Company.

4. **Material Contracts:**

We have reviewed samples of various agreements entered into by HFC and we express the opinion that:

- 4.1 The material contracts made available to us were in proper form and valid under the laws of Ghana.

5. **Investigation By Regulatory Bodies:**

We have made the necessary enquiries and we express the opinion that:

- 5.1 HFC is not the subject of any investigation by any regulatory body.

6. **The Regulations:**

We have reviewed the Regulations of HFC and we express the opinion that:

- 6.1 The Regulations of HFC comply with all requirements as to the contents of the Regulations of a Public Limited Liability Company.

7. **The Rights Issue:**

We have generally reviewed the position of HFC regarding the Rights Issue and we express the opinion that:

- 7.1 To the best of our knowledge, there are no provisions of the contractual agreements of HFC seen and reviewed by us which preclude it from undertaking the Rights Issue and listing on the Ghana Stock Exchange.
- 7.2 The Rights Issue Circular complies with Ghana Stock Exchange Listing Rules as well the Securities and Exchange Commission Regulations (L.I. 1728).
- 7.3 All the statutory or regulatory requirements or filing requirements necessary or advisable in respect of or in relation to or in connection with the Rights Issue, have been complied with.
- 7.4 HFC has obtained all the regulatory and statutory approvals and consents that are necessary or advisable in connection with the Rights Issue and GSE listing.

SCHEDULE OF ASSUMPTIONS

We have relied on information and documents obtained from HFC and this opinion has been tendered on the assumption and basis that:

1. The answers given to questions or queries raised by us were correctly and accurately given.



2. All the documents supplied or shown to us are complete, authentic and up to date, and that all copy documents supplied or shown to us are complete and conform to the originals;
3. The person or persons who signed the documents had authority to do so.
4. The authorising resolution was duly passed by a quorum of HFC's shareholders at a properly convened general meeting.

Yours faithfully,

LYNES QUASHIE-IDUN & COMPANY



SHARES CAPITAL AND CAPITALISATION

Capital Structure as at September 30, 2007

Authorised Shares	Issued Shares	Stated Capital (GH¢)	Quoted Value Per Share (GH¢)	Market Capitalisation (GH¢'m)
1,000,000,000	101,660,000	7,025,387	0.54	54.09

The authorised and issued number of shares for HFC before and after the Rights Issue are as follows, based on the assumption that all shareholders will exercise their full rights under the Rights Issue:

	Before Issue	After Issue
Authorised Number of ordinary shares of no par value	1,000,000,000	1,000,000,000
Issued Number of ordinary shares of no par value	101,660,000	127,092,359
Stated Capital	7,025,387	16,944,007



PART 1

THE RIGHTS ISSUE

1.1 Legal Basis for the Rights Issue

At the Annual General Meeting of HFC Bank held on Tuesday, 3rd April, 2007, the shareholders of the Bank passed a resolution authorizing the Directors to carry out a Rights Issue to increase the stated capital up to GH¢10 million, in accordance with section 202(b) of the Companies Code, 1963 (Act 179).

1.2 Reasons for the Rights Issue

As part of the projections of the Bank's 5-year strategic plan, there is the need for the Bank to undertake a Rights Issue for the following reasons.

- To increase the Bank's single obligor limit to a level that will enable it meet the requirements of large reputable corporate bodies.
- To raise additional funding for branch expansion.
- To pursue investment opportunities in Ghana and other West African countries.
- To upgrade the Group's Information and Communication Technology.

The breakdown of the application of the GH¢9.9 million to be raised in order of priority is as follows:

Item	Description	Amount (GH¢)
1.	Branch Expansion	5,356,054.80
2.	Upgrade of Information and Communication Technology	595,117.20
3.	Investment opportunities in Ghana and other West African countries	3,967,448.00
	Total	9,918,620.00

1.3 Key Terms of the Offer

1.3.1 Number of Shares

The Offer comprises a Renounceable Rights Issue of 25,432,359 new ordinary shares at GH¢0.39 per share to qualifying shareholders in a ratio of one (1) new share for every four (4) existing ordinary shares held. The shares to be issued under this Offer will rank pari-passu with the ordinary shares of HFC Bank already in issue and listed on the GSE.

1.3.2 Fractional Shares

The ratio in which the rights to ordinary shares are allocated to qualifying shareholders may result in fractional entitlements. Fractional entitlements of 0.5 shares and above will be rounded up to one new share, whilst those below 0.5 shares will not be allotted to qualifying shareholders but will be consolidated and allotted by the Directors to qualifying applicants as they deem fit.

1.3.3 Pricing of the Shares

The Rights shares are offered at a price of GH¢0.39. This price is about a 28% discount on the market price per share of 54Gp as at 31 March, 2008.



1.3.4 Minimum Proceeds from the Offer

The minimum amount to be realized from the Offer has been set at GH¢2,975,586.00 or 30% of the Offer, which would involve the sale of 7,629,708 **shares**. In case this amount is not realized, all monies received will be returned not later than June 8, 2008.

1.3.4 Oversubscription

HFC will refund all monies on applications in excess of the GH¢9,918,620.00 set to be realized from the Offer. Any amount in excess of GH¢9,918,620.00 will be refunded to applicants on June 23, 2008.

If HFC does not make refunds of extra application monies to the receiving agents by June 23, 2008 then HFC will pay to investors, interest on the unpaid amounts from June 23, 2008 at the ruling Bank of Ghana prime rate for each day of default until the refund is made to receiving agents. HFC will announce such refunds through a national newspaper with wide circulation within 72 hours of the making of such refunds.

1.4 Additional Offer Details

1.4.1 Dealings

An application has been made to the GSE to list the additional 25,432,359 new ordinary shares to be issued under this Offer on the First Official List of the GSE, alongside the existing 101,660,000 Ordinary shares listed. It is expected that dealings in the additional shares will commence alongside the existing shares on the GSE by June 27, 2008.

1.4.2 Qualifying Date and Distribution of the Rights Issue Circular

The shares on offer under this Rights Issue will be offered to the shareholders of HFC whose names appear in the Register of Members at the close of business on April 30, 2008.

The Registrars of the Company have sent a copy of this Circular containing the allotment details and Application Form through the post to shareholders on record on the qualifying date. Shareholders who do not receive copies of the Circular by May 12, 2008 may contact the offices of the Registrars, Sponsoring Brokers or the receiving agents for a copy of the Circular (subject to availability of extra copies of the Circular).

1.4.3 Trading in the Rights

The rights to this Offer (*rights*) may only be traded on the GSE from May 5, 2008 to May 23, 2008. Shareholders who desire to sell all or some (partial renunciation) of their rights on the GSE should contact their brokers, or the Sponsoring Broker at the address below:

Merban Stockbrokers Limited
57 Examination Loop, North Ridge,
P. O. Box GP. 401, Accra.
Tel: 233 21 251131-5
Fax: 233 21 251138
Website: www.merchantbank.com.gh
E-mail: mbd@merbangh.com



1.5 Application

All applications for shares under this Offer must be in whole numbers and no purported application for fractions of a share will be accepted

1.5.1 Shareholders and Renouncees

Shareholders wishing to take up some or all of their rights must complete the appropriate sections of the accompanying Application Form in order to exercise their rights. Shareholders are allowed to apply for shares in excess of their rights (extra shares). This can be done under Section A of the Application Form.

Shareholders are allowed to renounce in part or in whole their rights in favour of a third party at their own option by completing Sections A and C(A) of the Application Form. Renouncees should complete Section C (B) of the Application Form and submit it together with Sections A and C(A) completed by the Renouncer to the receiving agents.

Should a shareholder desire to renounce his/her rights in favour of more than one person, he/she should list the names of the persons, stating the number of shares renounced in favour of each renouncee in Section C of the Application Form. Each renouncee must then complete a copy of Section C(B) of the Application Form and submit same, together with payment for the shares applied for, to the receiving agents.

1.5.2 Non-Shareholders

Non-shareholders may also apply for the HFC shares under this Offer and may do so by completing Section D of the Application Form. The Directors of HFC will allot any shares not taken up by shareholders under this Offer to qualifying investors as they deem fit.

1.6 Escrow Account

All monies collected from applicants will be lodged into an Escrow Account Number 0002/01/001786/26 with Merchant Bank Ghana Ltd. A copy of the Escrow Agreement has been lodged with the SEC.

1.7 Allotment

The allotment of shares to applicants will be:

- a) First to satisfy all duly completed applications from qualifying shareholders and their renouncees as pertains to qualifying shareholders' rights in the Offer; then to
- b) Satisfy all duly completed applications from qualifying shareholders and renouncees for extra shares and duly completed applications from non-shareholders for shares, pro-rating where necessary.

To the extent that applications for extra shares received are more than the available number of unsubscribed Rights under the Offer, the Directors of the Bank, in consultation with the sponsoring brokers, may allocate fewer 'extra shares' than applied for.

1.8 Refund for Unsuccessful Application

If any application is not accepted or is accepted for a smaller number of shares than applied for, the balance of the amount paid on application will be returned to the receiving agents not later than June 23, 2008 for onward distribution to applicants. HFC will announce such refunds through a national newspaper with wide circulation



within 72 hours of the making of such refunds.

1.9 Payment

For applicants resident in Ghana, payment may be made by cash, cheque, postal or money order which should be presented at the offices of the receiving agents where the Application Form is lodged. All cheques, postal or money orders should be crossed **HFC Rights Issue** and endorsed **Commission to Drawer's Account**. This endorsement must be signed by the drawer. Bank commissions and transfer charges on application monies must be paid by the applicant. Applications in respect of which cheques are returned unpaid for any reason whatsoever, or for which funds do not clear for the full amount payable on the application by 5 pm on May 30, 2008 may be treated as invalid.

Qualifying applicants not resident in Ghana must purchase shares under this Offer in foreign currency and for this purpose HFC allows payment` for shares in the United States Dollars (US\$), Great Britain Pounds (GB£) or Euros (€). The price of an HFC share under this Offer is **US\$ 0.4** for payment in United States Dollars, **GBP 0.2** for payment in Great Britain Pounds, and **€ 0.26** for payment in Euros. Funds should be remitted for the benefit of **HFC Rights Issue** by bank transfer to the following account details:

US\$	GB£	€
Citibank N.A Swift Code: CITIUS33 111 Wall Street. New York ABA No.; 021000089 MERCHANT BANK (GH) LTD SWIFT CODE: MBGHGHAC Account No. 36056153	Lloyds TSB Bank Ltd Swift Code: LOYDGB2L Oversees Division. 6 Eastcheap. London. EC3P 3AB Sort Code: 309634 MERCHANT BANK GH LTD. Swift Code: MBGHCHAC Account No.: 01015368	BHF-BANK Swift Code: BHFBDEFF Bockenheimer, Landestr. 10. D-8000 Frankfurt AM Main 1. Germany MERCHANT BANK GH LTD Account No.: 400-721599
For further credit to: MSL / HFC Rights Issue Account No. 0002/01/001786/26	For further credit to: MSL / HFC Rights Issue Account No. 0002/01/001786/26	For further credit to: MSL / HFC Rights Issue Account No. 0002/01/001786/26

Any application from a person not resident in Ghana, which is not received in a form which will realize cleared funds for the full amount payable on the application by 5 pm on May 30, 2008 may be treated as invalid. Bank commissions and transfer charges on application monies must be paid by the applicant. Applications, in respect of which cheques are returned unpaid, for any reason whatsoever, will be rejected.

1.10 Submission of Completed Application Forms

All qualifying applicants resident in Ghana must submit their duly completed Application Forms at the offices of the receiving agents by 5 pm on May 30, 2008,

Qualifying applicants not resident in Ghana must submit their duly completed Application Forms to the receiving agents, whose contact details are provided on page 73.

Applicants who choose to mail their Application Forms to the receiving agents are advised to use the registered mail services. However, all documents mailed to the receiving agents by applicants will be at the applicant's own risk, and HFC shall treat applications not received by 5 pm on May 30, 2008 as invalid.



Applicants are to note that Application Forms must be lodged at the same receiving agent office where payment is made for the shares applied for. The receiving agent will acknowledge receipt of the application forms and funds from the applicants.

1.11 Cost of the Offer

The total cost of the Offering is not anticipated to exceed 2.51% of the amount to be raised. HFC will pay all fees out of the proceeds of the Issue.

Below are the summarized details of the cost of the offering.

Item	Amount GH¢	% of Amount to be Raised
Professional and Advisory Fees (legal & financial due diligence, financial & management advisory, media advisory, etc.)	70,000	0.71
Commissions & Success Fees	100,000	1.00
Regulatory Fees (GSE, SEC, Registrar-General)	35,000	0.35
Direct Publicity, Administration, Taxes & Logistics (Media publicity, marketing, printing, logistics, VAT etc.)	35,000	0.35
Miscellaneous	10,000	0.10
Total Estimated Cost	250,000	2.51

1.12. Summary of Details of the Offer

No. of Authorized Shares	1,000,000,000
No. of Issued Shares	101,660,000
Ordinary Shares on Offer Under the Rights Issue	25,432,359
Price per Share (GH¢) Under the Rights Issue	0.39
Outstanding Shares After Offer	127,092,359.00
Expected Proceeds from the Offer (GH¢)	9,918,620



PART 2

THE BANKING INDUSTRY AND THE ECONOMY OF GHANA

2.1. The Economic Environment

The performance of the national economy has been quite impressive over the last six years. From 4.2% in 2001, annual growth of the Gross Domestic Product (GDP) reached 6.2% in 2006.

2.1.1 Stability and Growth

High inflation, which has hitherto been the bane of the economy, has been brought under control. Year-end inflation fell from 40.5% in 2000 to 21.3% and further to 12.7% at the end of 2007. The economy is now able to absorb shocks, both internal and external, better than previously. It is noteworthy that the key macroeconomic indices have stayed around targets set by the managers of the economy despite the year-long energy crisis and the destructive floods that affected the northern sector and some districts in the south of the country. The single-digit inflation target which could not be attained in fiscal year 2007 is now targeted by the end of 2008 in spite of the high and rising crude oil price.

2.1.2 Value of Currency

Depreciation of the local currency, the cedi, moves in positive correlation with inflation. Thus the cedi depreciated by 49.5% against the United States dollar during financial year 2000 when inflation hit 40.5%, but fell steeply to 3.7% in 2001. Except for 2002 when the cedi depreciated by 14.12 % against the dollar, annual depreciation during the last six years have been under 5%.

2.1.3 Interest Rates

In the same vein, the Prime Rate, previously known as the Bank of Ghana Rediscount Rate, declined steadily from 27% p.a. in 2000 to 12.5% in 2006, but moved up slightly to 13.5% in November 2007. Along with the Prime Rate, other interest rates also fell. The yield on government securities, which is the benchmark for other market rates, fell with the Prime Rate. The interest equivalent on the 91-day GOG/BOG Treasury Bill fell from 41.99% in December 2000 to 17.08% p.a. in December 2004 and continued further down to 10.62% p.a. at the close of year 2007.

The table below presents a summary of the performance of selected macro-economic indicators from 2001 to 2007.

Index		2001	2002	2003	2004	2005	2006	2007
GDP Growth	[%]	4.2	4.5	5.2	5.8	5.9	6.4	6.3
Year End Inflation	[%]	21.3	15.2	23.6	11.8	14.8	10.5	12.7
Cedi/Dollar Depr.	[%]	3.7	14.1	4.5	2.2	0.9	1.65	4.00
GSE Index Change	[%]	11.42	45.96	154.67	91.3	-29.58	4.97	31.84
BOG Prime Rate	[%]	27.00	24.50	21.50	18.50	15.50	12.50	13.50

2.1.4 Capital Markets

The GSE All-Share index, as indeed all stock market indices are, has a negative correlation with interest rates and inflation. As inflation and interest rates rise, the index declines. During the high inflation period of 1999 and 2000, the GSE All-share index recorded changes of -15.22% and 16.55% respectively, but recovered from the slump in 2002 with an impressive growth of 45.96%. The most impressive performance of the All-share index to date is the 2003 change of 154%. The prime rate is now at its lowest for decades and yields on short term investments have also fallen.

The investment climate is changing in favour of capital market instruments and the stock market is already showing signs of strong growth.



2.2 The Ghanaian Banking Industry

The banking industry in Ghana has evolved from the immediate post-independence era when exchange and interest rates were administratively controlled by the Bank of Ghana to the current regime where these rates are determined by market forces. The change in policy was due to the realization of the failure of the 'control policy' which led to stagnation in the banking sector. Banking sector credit as a percentage of GDP was 3.6% in 1983, compared to 21.2% in 2006. By 1983, most of the state-owned banks were rendered insolvent by non-performing assets and required government intervention between 1989 and 1991 through the NPART to stay in business.

Currently, the banking sector is one of the sectors with the brightest opportunities in spite of increasing competition. Beside policy reforms the growth of the sector has been buoyed up by the prevailing macro-economic conditions declining inflation, rising GDP growth, fiscal discipline, etc. Some of the significant reforms that have occurred since 2001 include the abolition of the 15% of deposits secondary reserve requirement and the increase in the minimum stated capital of banks from ₵200million (GH₵20,000) to ₵70billion (GH₵7million)

2.3 The Regulatory Environment

The banking industry is regulated by the following laws:

- The Companies' Code 1963 (Act 179);
- The Banking Act, 2004 (Act 673)
- The Foreign Exchange Control Act, 2006 (Act 723)
- The Bank of Ghana Act, 2002 (Act 612), which defines the functions and responsibilities as a regulator.

The Role of the Central Bank

The Bank of Ghana has overall supervisory and regulatory authority in all matters relating to the banking and non-banking business with the purpose to achieve sound, efficient banking system in the interest of depositors and other customers of these institutions and the economy as a whole.

The Central Bank ensures:

- Depositors funds are safe;
- The maintenance of solvency, good quality assets, adequate liquidity and profitability;
- Adherence to statutory and regulatory requirements
- There is fair competition in the industry;
- Maintenance of efficient payment systems

2.4 Market Participants

Since 2002, five banks, four foreign and one local, have entered the industry, bringing the total number of banks in the country to twenty-three (23) with a total branch network of 500 as at December 2007. The table below shows the banks operating in the country as at December 31, 2007.

Bank

1. Ghana Commercial Bank Ltd.
2. Standard Chartered Bank Ltd.
3. Barclays Bank Ghana Ltd.
4. Agricultural Development Bank Ltd.



5. Ecobank Ghana Ltd.
6. National Investment Bank Ltd.
7. SG-SSB Bank Ltd.
8. HFC Bank (Ghana) Ltd.
9. Merchant Bank Ghana Ltd.
10. BPI Bank
11. The Trust Bank Ltd.
12. Prudential Bank Ltd.
13. First Atlantic Merchant Bank Ltd.
14. CAL Bank Ltd.
15. International Commercial Bank Ltd.
16. Stanbic Bank Ltd.
17. Amalgamated Bank Ltd.
18. Unibank Ltd.
19. United Bank for Africa
20. Zenith Bank Ltd.
21. Guaranty Trust Bank Ltd.
22. Intercontinental Bank Ltd.
23. Fidelity Bank Ltd.

2.5 Performance of the Industry

The Banking sector has enjoyed remarkable growth over the past five years. Between 2002 and 2006, net interest income increased by 140% while net profit for the industry also went up by over 100% during that period. Return on assets dropped from 4.3% in 2002 to 3.5% in 2006, a result of the increasing competition in the sector.

Growth in the banking sector assets was robust in the first half of 2007, growing by 45.6% to GH¢ 6,164.7 million. This growth was driven by increase credit to public and private sector institution and household consumers. Branch expansion and more aggressive marketing as well as the roll-out of new banking products and services accounted for the increase in banking system assets.

Developments in the banking system through September 2007 show strong asset growth, improved profitability and asset quality, adequate liquidity and a strong capital position of banks to absorb shocks. Banks continued to expand credit instead of investment in government instruments on account of the relatively low returns on those instruments.

The significant growth in the banking industry asset size was fueled mainly by deposits, which amounted to GH ¢4,360.7 million, an annual growth of 42.3 per cent in September 2007 compared with 38.9 per cent annual growth over the same period in 2006 (¢3,064 million).

Average base rate quotations of the banks remained generally unchanged at 19.36 percent at the end of 2007. They were within the range of 18.00 per cent and 21.45 per cent after being revised downward by 1.41 basis points in the first quarter of the year.



2.6 Future Outlook

The entire financial services industry is generally healthy as a result of the prevailing favourable macro-economic and regulatory environment. The banking sector remains very competitive, adequately resourced and stable with no immediate threat to system stability.

Going forward, banks need to reduce cost to improve upon their efficiency and hence profitability. The enactment of the Credit Reporting Bill is expected to enhance credit risk management thus improving the quality of bank assets and impact on profitability of the banks.



PART 3

HFC BANK (GHANA) LIMITED

3.1 Background

HFC Bank (Ghana) Limited has its beginnings in the former Home Finance Company (HFC) Limited, a mortgage finance institution which was incorporated on May 7, 1990 under the Companies' Code, 1963 (Act 179), and commenced business on December 2, 1991. The company was promoted by the Government of Ghana (GOG), Social Security and National Insurance Trust (SSNIT) and Merchant Bank (Ghana) Limited to implement the IDA (World Bank) and GOG/SSNIT-funded pilot housing finance project under the IDA (World Bank) **Urban II** loan agreement.

HFC obtained its license as a non-bank financial institution from the Bank of Ghana on August 1, 1994, became a public company on October 5, 1994 and was subsequently listed on the Ghana Stock Exchange on March 17, 1995. The company obtained a Universal Banking License from the Bank of Ghana on November 17, 2003.

By a special resolution of the Board of HFC and with the approval of the Registrar of Companies, Home Finance Company Limited changed its name to HFC Bank (Ghana) Limited on December 1, 2003. Thus from a beginning as a purely mortgage finance institution, HFC added investment management and savings mobilization business to its operations and became a fully-fledged universal bank offering mortgage finance, investment banking services and a wide range of commercial banking products.

3.2 Strategic Direction

The overall strategy of the Bank is directed to achieving growth in profitability and branch operations, expanding its operations into the West African sub-region and North America, maintaining its leadership in home mortgage finance and regaining its leadership position in fund management. The Bank is currently engaged in revising the requirements for mortgage products to make them more accessible for customers. It is also implementing a high-level electronic platform that provides customers with secured single sign-on transactional capabilities.

3.3 Operations and Subsidiaries

The Bank's wholly-owned subsidiary company, HFC Investment Services Limited, continues to engage in investment banking, as a natural strategy fit to the core activities of the Bank. It also has a wholly-owned subsidiary, HFC Realty, which offers property related services.

The Bank has a 60% equity stake in UG-HFC Limited, a joint venture company established in 1998 with the University of Ghana to develop a commercial property at the Ridge Ambassadorial area in Accra, and a 51% equity stake in Bofo Micro Finance Service Company

The Bank is currently managed under three divisions, namely, Mortgage Banking, Commercial Banking, and Investment Banking.



3.4 Key Products and Services

HFC Bank (Ghana) Limited offers the following financial products and services:

Commercial Banking

- HFC Current Account
- HFC Savings Account
- HFC Homesave Account
- HFC Fixed Deposit Account
- HFC Life Starter Account
- HFC Student Plus Account
- HFC Money Transfer
- HFC Fastxt (SMS)
- HFC Fastcash (ATM)
- HFC Auto Loans
- HFC Consumer Loans
- HFC Educational Loans
- HFC Rent Advance Facility
- HFC Foreign Trade Services

Corporate Banking

- HFC Small & Medium Enterprises Banking
- Relationship Management
- Private Banking

Mortgage Banking

- HFC Home Purchase Mortgage
- HFC Home Equity Mortgage
- HFC Home Improvement Mortgage
- HFC Home Completion Mortgage
- HFC Buy, Build & Own a Home

Investment Banking

HFC Bank (Ghana) Limited, through its wholly -owned subsidiary HFC Investment Services Ltd (HFC-ISL) is licensed to provide fully-fledged investment services to all customers as follows:

Funds Management

- HFC Unit Trust
- HFC Real Estate Investment Trust (HFC-REIT)
- HFC Equity Fund

Asset Management

- Provident/Pension fund management
- Fund management for collective investments, groups and institutions including investment clubs and churches



- Endowment fund management
- Private client investment services

HFC Brokerage Services Limited

- Executing all transactions on the Ghana Stock Exchange on behalf of clients and for its own portfolio
- Providing in-depth research reports on all equities listed on the Ghana Stock Exchange.
- Providing investment and financial advisory services to corporate bodies, institutional and individual investors
- Developing foreign investment links to enhance foreign direct investment
- Executing over-the-counter transactions
- Underwriting equity and debt capital for companies
- Management and sponsorship of new issues.

HFC Realty Limited

HFC Realty a wholly-owned subsidiary of HFC Bank, and offers Investment Advisory Services, which includes:

- Project Management
- Estate Management
- Valuation Services
- Property Development & Sale

Boafo Microfinance Services Limited

HFC Bank and CHF International registered Boafo Microfinance Services Ltd. as a non-financial subsidiary of the Bank in December 2006.

The mission of **Boafo** is to extend financial services to low and moderate-income Ghanaian households in their pursuit of shelter, business, education, and other opportunities.

Boafo addresses a market niche by providing housing and enterprise microfinance loans to households living and working in informal settlements in towns where HFC Bank operates.

Facilities provided include:

- Deposit Mobilization
- Micro Credit Facilities
- Microfinance Housing

Service Delivery

HFC Bank has five Automated Teller Machines in five of the Bank's twelve branches, namely Ridge, Legon, Tema, Techiman and Kumasi.

Management is continuing their electronic banking expansion process to pass on convenience in service delivery.



All branches are networked offering real time on line banking services; customers can thus transact business at any branch nearest them.

The bank's slogan underpins their service ethos: '**Banking. The way you like it!**' That is, HFC Bank focuses their efforts and resources to cater for any category of banking needs of the customer.

3.5 Branch Offices

HFC Bank has twelve branches in four regions of the country. Greater Accra region has eight branches including one in Tema; Ashanti has two with one branch each in Brong Ahafo and Northern regions. All the branches are networked and also operate on one banking software platform. Additional branches, are expected to be opened across the country to bring the specialized products of the bank closer to its customers.

3.6 Information and Communication Technology

HFC Bank operates a centralized system. All its twelve (12) branches in the country are networked. Currently five branches have ATMs with three more branches due to be provided with the facility by the end of the second quarter of this year. The Bank also provides SMS services for mobile phone users to check their balances and request for special banking services. The Bank will introduce Internet Banking and Visa Card by the end of the year 2008.

3.7 Shareholding Structure

The total number of issued shares sum up to 101,660,000 with the twenty largest shareholders together holding 94,053,830 shares, representing 92.69% of total issued shares of the Bank.

A list of the twenty (20) largest shareholders and their holdings as at 19th March 2008 is depicted below:

Name	Percent of Issued Capital
Social Security & National Insurance Trust	20.87%
Union Bank of Nigeria PLC	19.67%
Ghana Union Assurance Company Limited	12.20%
Union Homes Savings & Loans	11.39%
Financial Investment Trust Limited	7.29%
BBG/State Insurance	7.26%
BBGN/ SSB Eaton Vance Tax Managed	3.07%
SIC Insurance Company Limited	2.64%
HFC Unit Trust	1.71%
EDC Stockbrokers Limited	1.17%
BBGN/SSB Eaton Vance Structured	0.94%
MHIL/Union Homes O. N. Chionuma	0.74%
Vanguard Assurance Company Limited	0.69%
HFC Staff Provident Fund	0.63%
BBGN/Northern Trust Co. AVFC 63143	0.50%
Galtire International Fund	0.50%
Capital and Equity Ltd.	0.49%
Mr. A. Akuffo	0.32%
Mr. E. Derkyi	0.29%
The Gold Fund	0.20%
Total	100%



Directors' Shareholding

Directors who have shares in the Bank are as follows:

Name	Number of shares	% of Issued Shares
Mrs Stephanie Baeta Ansah	182,718	0.18
Mr. Asare Akuffo	330,172	0.325
Nana Agyei Duku	45,000	0.044
Mr. Akwete Akita	46,617	0.046
Mr. John Sey	1800	0.002
Total	606,307	0.597

3.8 Material Contracts

All contracts that HFC has entered into are those related to the normal course of business.

3.9 Litigation

All litigation that the Bank is involved in will have no adverse impact on the conduct the Bank's business.

Actions instituted by HFC are usually for recovery of loans and for vacant possession of mortgaged properties from defaulters.

Litigation by HFC

- **Maron Enterprises Limited**

HFC issued a writ against the Customer/Borrower, Mortgagor and Guarantors for recovery of the sum of GH¢ 185,899.32 with interest. The facility is secured with a mortgage.

Each year, HFC makes adequate provision for loan losses in its financial statement in line with Bank of Ghana requirements.

Litigation Against HFC

- There is an action instituted by Centre for Agricultural and Rural Development against HFC which is pending in the High Court. The claim against HFC in the Suit is for special damages of GH¢ 5,400, and general damages of GH¢ 20,000. HFC filed a statement of Defence in the Suit on 10th July, 2007 but the plaintiff has taken no further step in the action even though the taking of further steps is long overdue.
- Writs were issued by six (6) individuals against HFC and O'Sullivan Estates Limited. The main matter in issue in the actions is whether an 11-acre land claimed by the children of Nii Sessei Bortey of Teshie belongs to the children of Nii Sessei Bortey or O'Sullivan Estates.

3.10 Directors, Management and Employees

3.10.1 Board of Directors

HFC Bank has a ten-member Board of Directors consisting of eight (8) NonExecutive Directors, of which one is the Chairman and two (2) Executive Directors, of which one is the Managing Director.



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 provides an independent assessment of the Bank's progress and prospects.

The Non-Executive Directors are independent of management of the Bank. They have the requisite knowledge and experience to make valuable contributions to the Bank's progress. The Managing Director is a separate individual from the Chairman and he sees to the implementation of strategies and policies adopted by the Board. The Board of Directors meets at least four times a year.

The Board's membership presently comprises the following:

Name	Age	Position	Business/ Occupation	Address	Other Directorship
Nana Agyei Duku	68	Chairman	Managing Director, Ghana Union Assurance (GUA)	GUA House, S828/1, Ringway Estates, Osu P. O. Box GP 1322 Accra	UG –HFC Ltd.
Asare Akuffo	51	Managing Director	Managing Director, HFC Bank (Ghana) Limited.	No. 35 Sixth Ave. North Ridge Box CT4603 Cantonments Accra	HFC Investment Services Limited UG-HFC Limited HFC Realty Limited Boafo Microfinance Services Ltd
Akwete Akita	54	Executive Director	Executive Director, Finance & Investment Banking-HFC Bank (Ghana) Limited.	No. 35 Sixth Ave, North Ridge. Box CT4603 Cantonments Accra	HFC Investment Services Limited. UG-HFC Limited
Ras A. Boateng	46	Member	Chief Executive National Health Insurance Scheme	41A 6 th Avenue P. O. Box M.149 Accra	Golden Beach Hotels; SSNIT NHIS
Sam Mensah	58	Member	Chief Executive, SEM Financial Services Limited.	Trust Towers Box CT 2069 Cantonments Accra	African Capital Markets Forum Human Capital Network (Gh) Camelot Ghana Limited SEM Financial Group Limited



Name	Age	Position	Business/ Occupation	Address	Other Directorship
Bartholomew Bassey Ebong	62	Member	Representative, Union Bank of Nigeria PLC	Stallion Plaza 40 Marina Lagos Nigeria.	Consolidated Discount House Limited Union Property Company Limited Union Trustees Limited William Street Trustees Limited CDL Assets Management Limited
E. Austin Aikhorin	59	Member	MD, Union Homes Savings & Loans Limited, Lagos	153 Ikorodu Rd., Onipamu, PBM 041, Shomolu, Lagos, Nigeria	Union Homes & Savings & Loans Limited
John O. Kusi Mensah	50	Member	Representative State Insurance Company of Ghana	P.O. Box 2663 Accra.	Metropolitan Mall Limited HFC Realty Company Limited
Stephanie Baëta Ansah	62	Member	Consultant	No. 6 Regina Crescent, Regimanuel Gray East Airport Estate. P. O. Box AN.15707, Accra North	HFC Investment Services Limited; SBA & Associates Limited
John Sey	70	Member	Corporate Consultant and Advisor	H/No. P222 South Ofankor P. O. Box 11570 Accra-North	Finance and Development Board of the Methodist Church, Ghana
Mercy Mamle Tetteh	54	Company Secretary	Lawyer	N. 35 Sixth Ave. North Ridge Box CT4603 Cantonments Accra	Manya Krobo Rural Bank Limited



The profile of the directors are as below :

Nana Agyei Duku (Chairman) Nana Duku is an experienced insurance executive and currently the Managing Director of Ghana Union Assurance Company Limited. He also serves as a Director of UG-HFC Ltd., a joint venture company between HFC Bank and the University of Ghana. He was appointed to the Board on February 24, 1993.

Mr. Asare Akuffo (Managing Director) Mr. Akuffo, one of the pioneer management staff, was appointed the Managing Director of the Bank in July 2005. He has extensive finance and auditing experience. Before joining HFC Bank, Mr. Akuffo was an Investment Manager at SSNIT. He is a director of HFC Investments Services Ltd, HFC Realty Ltd and Boafo Microfinance. He is a Chartered Accountant by profession, and was appointed to the Board on September 1, 1995.

Mr. Akwete Akita (Executive Director, Finance & Investment Banking) Mr. Akita was appointed Executive Director in charge of Finance & Investment Banking of the Bank in November 2005. He has wealth of banking experience after having worked for Ghana Commercial Bank Limited for seven and half years before joining HFC Bank. He is also a Director of HFC Investment Services Limited.

Mr. Ras Boateng (Non-Executive Director). Mr. Boateng was a Deputy Director General at SSNIT and is currently the Chief Executive Officer of the National Health Insurance Scheme. He is a Chartered Financial Analyst (CFA) and also holds an MBA in Finance. He is a Director at Golden Beach Hotels. His appointment to the Board took effect on November 15, 2001.

Dr. Sam Mensah (Non-Executive Director) Dr Sam Mensah is a representative of SSNIT on the HFC Board. He joined the Board on November 15, 2001. Currently he is a technical advisor to the Ministry of Finance. He is also a director of SEM Financial Group Limited, a consulting and financial services group. He is a director of Africa Capital Markets Forum and Camelot Ghana Limited as well. He holds a PhD in Finance and MA in Economics.

Mr. Bartholomew Bassey Ebong (Non-Executive Director) Mr. Ebong is the Group Managing Director / Chief Executive Officer of Union Bank of Nigeria He represents Union Bank of Nigeria PLC. He currently serves on numerous boards including Consolidated Discount House Limited, Union Property Company Limited, Union Trustees Limited, William Street Trustees Limited and CDL Assets Management Limited.

Mr. Austine Aikhorin (Non-Executive Director) Mr. Aikhorin represents Union Bank of Nigeria. He has held various senior positions at Union Bank of Nigeria, and is currently the Managing Director of Union Homes Savings and Loans Limited. He is a member of the Chartered Institute of Bankers (Nigeria). He joined the Board on March 18, 2004.

Mr. John O. Kusi-Mensah (Non-Executive Director) Mr. Kusi-Mensah is the Head of Corporate Affairs of the SIC Insurance Company Limited. He is the representative of the SIC of Ghana and the Ghana Reinsurance Organization on the Board. He is a valuer by profession and a fellow of the Ghana Institute of Surveyors. He was appointed a Director of the Board on 30th March 2005.

Mrs. Stephanie Baëta Ansah (Non-Executive Director) Mrs. Baëta Ansah is the founding Chief Executive of Home Finance Company Limited and the Bank. Before assuming the position of Chief Executive at HFC, she worked with Merchant Bank (Ghana) Limited where she became Deputy Managing Director in 1982. Mrs. S.B. Ansah is also a Director of HFC Investment Services Limited and SBA and Associates Limited. She is a lawyer by profession but worked for 30 years with the banking sector. Her appointment as a non-executive director took effect from July 1st, 2005 on her retirement.



Mr. John Sey (Non Executive Director) Mr. Sey is a Chartered Accountant by profession and a former Senior Partner at Deloitte and Touche, a firm of Chartered Accountants and Management Consultants. He is a past president of the Institute of Chartered Accountants (Ghana) and Rotary Club of Accra, and a past Chairman of Ghana Commercial Bank Limited. He was a Managing Director at First Ghana Building Society. He is currently a Director on the Finance and Development Board of the Methodist Church, Ghana. He became a member of the Board on April 25, 2002.

3.10.2 Management

The profile of the top management is as below:

Asare Akuffo 51 (Managing Director) Mr. Akuffo was appointed the Managing Director of the Bank in June 2005. He has extensive finance and auditing experience. Before his appointment at HFC Bank, Mr. Akuffo was an Investment Manager at SSNIT. Mr. Akuffo is also the Executive Director responsible for HFC Investment Services Limited. He is a Chartered Accountant by profession, and was appointed to the Board on September 1, 1995.

Akwete Akita 54 (Executive Director, Finance & Investment Banking) Mr. Akita was appointed Executive Director in charge of Finance & Investment Banking of the Bank in November 2005. He has a wealth of banking experience having worked for Ghana Commercial Bank for seven and half years before joining HFC. He is also a Director of HFC Investment Services Ltd.

Charles Martinson, 56 (General Manager, Business Development), Mr. Martinson has had over thirty years banking experience. Prior to joining HFC Bank in November 2003, he worked with Cal Bank Limited for eleven years. He holds an MBA degree and is also a Fellow of the Chartered Institute of Bankers.

Mercy Mamle Tetteh 54 (Mrs.) (Board Secretary and Head of Legal), Mrs. Tetteh holds an LLB and a BL and has had over twenty eight-years professional experience. Prior to joining HFC Bank, she worked with Bank of Ghana and the FINSAP Secretariat. She has been working with the Bank as Head of Legal and Company Secretary since April 1998.

Charles Ofori Acquah 46 (General Manager, Corporate Banking). He is currently the Head of HFC Bank's Corporate Banking Division. He joined the then Home Finance Company in 1994 as a Finance Officer. He worked in a number of Departments and became the Treasurer of the Company. Mr. Ofori-Aquah is a holder of a BA (Hons) in Political Science and is an Associate of the Chartered Institute of Bankers, England, UK.

Charles Bonsu 50 (General Manager, Mortgage & Consumer Loans) Mr. Bonsu began his career with *Fannie Mae* (the Federal National Mortgage Association USA) in 1986. He was responsible for the management of a pool of Mortgage-Backed Securities. Prior to Joining HFC Bank in 1999, he worked for the Ghana Stock Exchange as the Management Information Systems Manager. Mr. Bonsu holds a Bachelors degree in Accounting and a Masters degree in Management Information Systems.

Charles Otoo 48 (General Manager, Banking Operations) Mr. Otoo began his banking career in 1981 and has over 24 years of banking experience drawn from Barclays Bank, Merchant Bank and SG-SSB Bank. He is a Fellow of the Chartered Institute of Bankers, London & Ghana, and holds an MBA in Strategic Management.

Benjamin Dzoboku 33 (Head, Internal Control and Audit), a Chartered Accountant by profession, Mr. Dzoboku is a member of Institute of Chartered Accountants (ICA-Ghana) an Associate of the Institute of Professional Financial Managers (IPFM UK) and a member of Institute of Internal Auditors (USA). He also holds an MBA in Financial Management. Prior to joining HFC Bank in January 2007, he worked with SG-SSB Bank as Internal auditor from October 2003 to December 2006. Between June 2000 and September 2003, he worked with



Pannell Kerr Forster (Chartered Accountants) as a Senior Auditor.

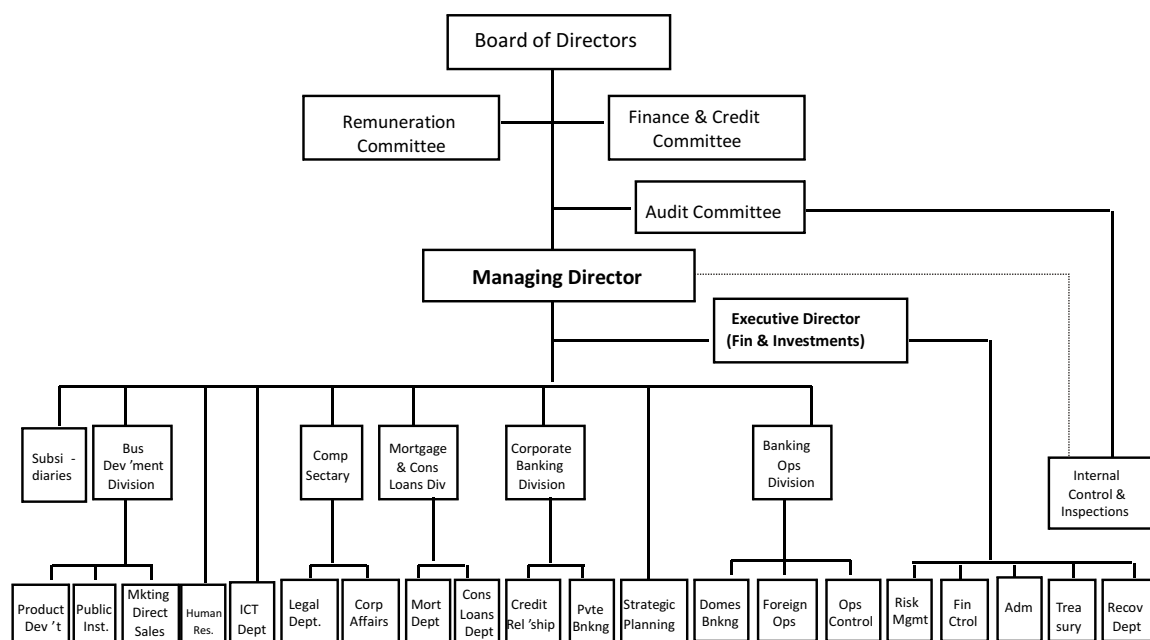
3.10.3 Employees

The table shows the breakdown of the average number of persons employed by HFC Bank over the past two years:

Category	2006	2007
Management	45	56
Supervisors/Officers	93	146
Clerical	67	68
Non-Clerical	24	32
Total	229	302

3.10.4 The organizational structure of the Bank is depicted in the diagram below.

ORGANOGRAM OF HFC BANK





3.11 Remuneration and Compensation

3.11.1 Directors' Remuneration

The Non-Executive directors are entitled to sitting allowances and directors' fees. While the chairman is entitled to a sitting allowance of GH¢ 450 per sitting and an annual fee of GH¢ 6,000, each of the other non-executive directors is entitled to a sitting allowance of GH¢ 375 per sitting and an annual fee of GH¢ 4,800.

3.11.2 Managing Director's Remuneration

The Managing Director currently receives a gross salary of GH¢ 73,500 per annum. He is also entitled to a rent allowance, entertainment allowance, electricity, water, telephone and fuel allowances, as well as free security services.

3.12 Corporate Governance and Board Practices

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

3.12.1 Board Committees

The Board operates mostly through committees. Currently the Board has the following sub-committees

3.12.2 Finance and Credit Committee

The Chairman of the Board chairs the Finance and Credit Committee of the Board of Directors. It is made up of three Non-Executive Directors and two Executive Directors. The Board is responsible for taking decisions on issues pertaining to the Bank's business and general policy guidelines, and the subsequent presentation of reports to the full Board for ratification and approval.

3.12.3 Audit Committee

The Audit Committee is appointed by the Board. It comprises three Non-executive Directors, namely, John Sey as Chairman, Sam Mensah and John Kusi Mensah. The Executive Directors and the Internal Control Manager are ordinarily in attendance at the meetings. The duties 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 safeguarding of assets. In carrying out its duties, the Committee may, at its discretion, consult with internal and external auditors and other relevant bodies.

3.12.4 Remuneration Committee

The Remuneration Committee is appointed by the Board and is composed of Non-executive Directors with John Sey as Chairman, Ras Boateng, Dr. Sam Mensah, John Kusi Mensah and Stephanie Baëta Anah. 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 and on general management and employee remuneration

3.12.5 Executive Committee

The day-to-day management of the Bank's operations is under a team of competent management personnel with diverse backgrounds. The current executive management team consists of the



Managing Director, Executive Director (Finance & Investment Banking) and General Manager (Business Development), Company Secretary, General Manager (Banking Operations), General Manager (Mortgage and Consumer Loans) General Manager (Corporate Banking) and the Treasurer.

3.12.6 Control Systems

The Board has ultimate responsibility for ensuring compliance with the company's regulations and procedures. This role is complemented by the Inspection Division which ensures effective compliance with procedures at the branch and subsidiary level and the Internal Audit Department which focuses on compliance at the head Office. The efforts of these internal organs are further complemented by Bank of Ghana inspections and statutory audits by the Bank's auditors, PricewaterhouseCoopers.

3.13 Disclosure of Interests by Directors

As at January 29, 2008, the interest of HFC Bank's Directors and their immediate families in HFC shares were as follows:

Name	Shares Held by Director	Family
Nana Agyei Duku	45,000	Nil
Asare Akuffo	330,172	3,600
Akwete Akita	46,617	Nil
Stephanie Baeta Ansah	182,718	6,000
John Sey	1,800	Nil

3.14 Other Disclosures

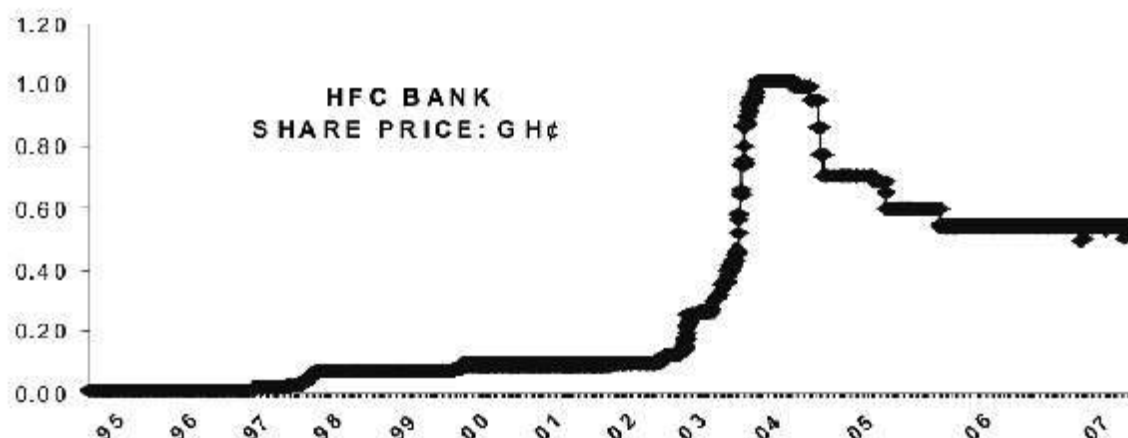
- *Relationship Among Directors* – There are no family relationships among the Directors.
- *Bankruptcy Petitions* – No petition under any bankruptcy law has been filed against any Director, or any partnerships of which such persons were partners, or of any company in which such persons are or were Directors
- *Criminal Proceedings or Convictions for Fraud or Dishonesty* – No person who is a Director, or has been nominated to become a Director has been convicted in a criminal proceeding or is a named subject of any pending criminal proceeding relating to an offence involving fraud or dishonesty.
- *Prohibition against Financial Advisory or Capacity to Hold Office* – No person who is a Director, or has been nominated to become a Director has been subject of any judgment or ruling of any court of competent jurisdiction, tribunal or government body permanently or temporarily restraining him from acting as an investment advisor, dealer in securities, Director or employee of a corporate body or engaging in any type of business practice or activity or profession.
- *Materiality of Management Interest in the Company's Business and Affairs* – No member of management or any other person related to them have any material interest in the company either directly or indirectly.
- *Directors' Powers to Borrow and Charge the Company's Assets* – The Directors may exercise all the powers of the company to borrow money and to mortgage or charge the property and undertaking or any part thereof, and to issue debentures. Such powers can be varied by amending the Company's Regulations



3.15 Share Price Performance

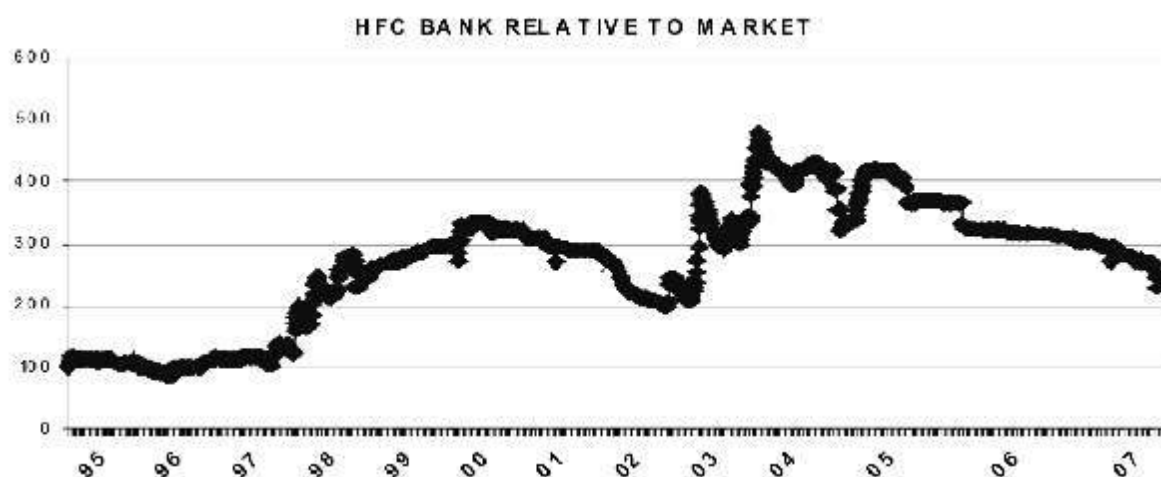
HFC was listed on the Ghana Stock Exchange on March 17, 1995. The stock has enjoyed appreciable levels of price increases, most notable in the 1996 through 1998 and during the 2003 and 2004 stock market bull runs.

Chart 1: HFC Share Price



From Chart 1 we notice that right after the listing of HFC shares the stock saw little price momentum as it rose steadily, staying flat against the GSE All-Share Index. This was at a period when stocks in general received little investor attention in an economy that was plagued with high interest rates and inflation.

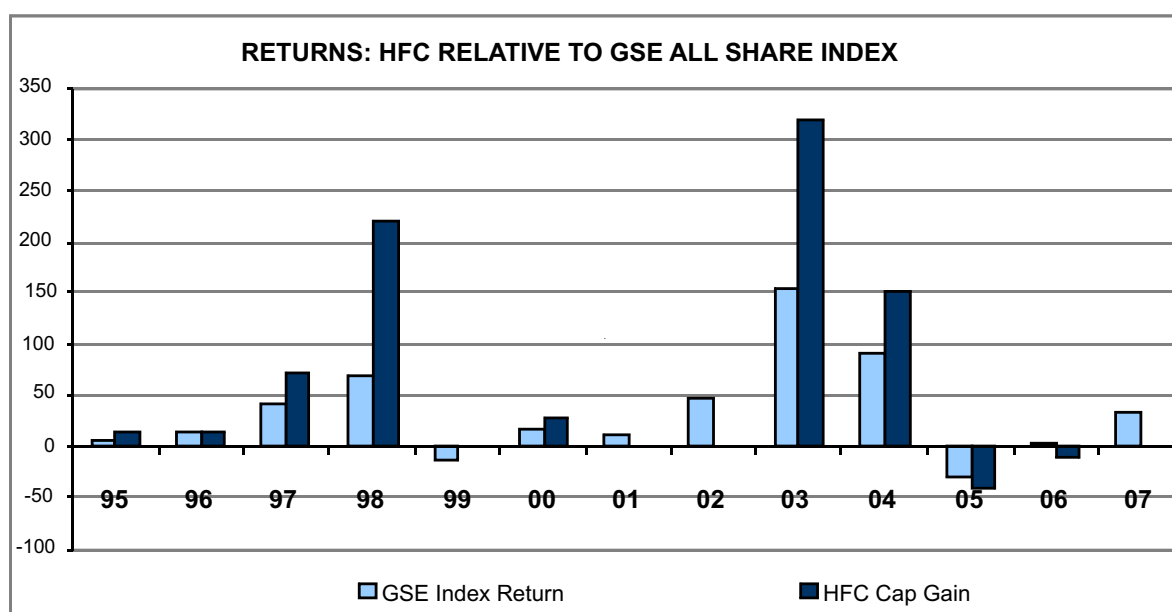
Chart 2: HFC Share Relative to the Market





The stock, however, skyrocketed in 1997 and 1998 gaining 72.8% and 219.7% respectively at a time when the market gained 41.9% and 69.7% respectively. This started a bullish ride in the stock, which ended in 2000, following the 1999 market slump, when the value of the market was eroded by 15.2%.

Chart 3: HFC Capital Gains relative to gains of the GSE All-Share Index



Returns on the stock dwindled at the turn of the millennium. The stock was flat in 2001 and 2002 (Chart 3). In addition, it fell steeply relative to the market.

However, improved economic fundamentals and corporate profits revived investor interest in the stock market all over again. This started the bull run of the early 2000s. HFC shares broke new highs trading session after trading session recording its highest climb in the history of the stock. It rose 318.8%, its highest ever, in 2003. At the same time the GSE All Share Index rose 154.7%, a gain, which was adjudged the best in the world at the time (Chart 3).

Shares of HFC continued its price momentum in 2004 gaining 150% at a time when the Index gained 91.3% (Chart 3), helping the price of the stock to reach its all-time high of GH¢1.1080 per share in May 31, 2004.

However, the stock's price began a steady slide as the investors started to pull out profits from the stock market toward the end of 2004. This sparked an all-out investor sell-off of shares, which cascaded into declining stock prices across the board in 2005. The year would mark one of HFC's worst performance, the stock declining 40% to GH¢0.6000 per share, while the market wiped off 29.9% of its value, its worst performance too.

HFC stock has since continued to experience bearishness relative to the market (Chart 2). Traded volumes shrunk, albeit improving in recent weeks. The bearishness is evident in the stock's 200-day moving average price of GH¢0.5392, which had crossed below its current price of GH¢0.5400 at the end of 2007, suggesting that investors continue to bid lower for the stock.

The stock's price, however, is expected to improve with recent improvements in HFC's business.



3.16 Dividend Payment History

The table below shows the dividend payment record for HFC over the last five years

	2006	2005	2004
Dividend Paid (GH¢'m)	1.63	0.73	1.27
Dividend per share (GH¢)	0.0045	0.0085	0.0070
Payout Ratio	44%	64%	53%

3.17 Dividend Policy

HFC's current dividend policy, is to ensure that dividend payment shall normally not exceed 45% of the average of the last three years (including the current year) profit after tax.

3.18. Housing Bond Issues

HFC made a shelf registration of USD 35.0 million bonds on the GSE on September 17, 1996. On August 13, 2002, the Bank again made a shelf registration of GBP1.20 million bonds on the GSE.

Between 1996 and 2004, out of the USD 35.0million Shelf Registered bonds, a total of USD 16.74 million bonds have been issued in tranches, while GBP 1.2 million was issued fully under the HFC Housbonds Series F. The various Issues are shown in the table below:

Tranche	Year Issued	Amount Raised	Year of Maturity	Status
HFC Housbond Series A	1996	USD 2,700,000	2001	Redeemed
HFC Housbond Series B	1997	USD 2,268,000	2002	Redeemed
HFC Housbond Series C	1998	USD 2,000,000	2003	Redeemed
HFC Housbond Series D	1999	USD 2,727,000	2004	Redeemed
HFC Housbond Series E	2000	USD 1,511,700	2005	Redeemed
HFC Housbond Series F	2001	GBP 1,200,000	2006	Redeemed
HFC Housbond Series G	2001	USD 3,032,600	2006	Redeemed
HFC Housbond Series H	2004	USD 2,501,000	2009	Due November 2009
HFC Housbond Series J	2007	USD 3,900,000	2012	Due March 2012



PART 4

USE OF FUNDS AND BUSINESS OUTLOOK

4.1 Introduction

The improving macro-economic situation and the free market regulatory regime of the Bank of Ghana coupled with the stable political and peaceful social environment of the country has led to a healthy and vigorous competition in the banking and the financial services industry. The introduction of off-shore banking and other reforms soon to be introduced into the banking sector and the financial services industry generally are expected to increase the level of competition among the players in the industry.

As the number of players increase and competition becomes more intense, it is the ability of a service provider to anticipate the needs of customers and deliver custom-made products and services to market them in an efficient manner that will ensure its survival and progress.

The Directors and Management of HFC Bank recognize the opportunities and challenges presented by these developments and have accordingly devised the strategies and plans to ensure that the Bank not only survives the competition but grows to be among the leaders in the industry, using state-of-the-art technology to provide customer-oriented service to customers and value creation for the shareholder.

4.2 Broad Objectives

The key objectives of the HFC Bank strategic plan are to:

- To grow the size of the Bank from the 13th position in the industry in terms of operating assets to 7th position, by end of 2010.
- To maintain leadership in Mortgage Finance with not less than 50% of industry home loans throughout the plan period.
- To improve the bank's share of industry deposits from 0.9% to 5% by the end of 2010.
- To regain our leadership in the Fund Management business with the largest fund value by the end of 2010.

4.3 Planned Investments

To implement the key objectives outlined above, HFC has put in place an investment plan to be executed over the next five years. The plan focuses on four areas that the Directors and Management believe will lead in the development of the Bank's capacity to deliver the highest quality service to customers and create value for its shareholders. These key areas are:

- i. Expansion of the branch network of the Bank: The Bank plans to expand its branch network in the country and also open representative offices in the United States of America and the United Kingdom. More branches of the Bank need to be opened or reconfigured to improve access for its valued customers, especially to the mortgage and investment banking products offered by the bank.



- ii. Acquisition and Deployment of Information Technology Infrastructure: This is to provide the platform for enhanced electronic banking with secured single sign-on transactional capabilities that allow the customer to conveniently access the entire range of services offered by the Bank. In order to realize the full benefits of automating its systems and processes, HFC needs to upgrade its information and communication installations. Currently, only five of the twelve branches, Legon, Tema, Techiman, Kumasi and Ridge, have ATMs. The Bank needs to install ATMs at all its branches and any new branch that will be opened.
- iii. Increase in Working Capital: To increase the capital base of the bank to such level as will enable it meet the demands of large corporate bodies.
- iv. Employee Development and Retention: A competent, dedicated, committed and loyal workforce is crucial to the attainment of the targets indicated in the Strategic Plan of the Bank. The Bank will therefore commit additional resources to training and development programmes to equip staff with requisite skills and knowledge and also institute motivation packages that will ensure reduction of staff turnover.

The funds being raised under the Rights Issue will however be used for the expansion of HFC's branch network and also for the upgrade of the bank's Information and Communication Technology among others,



PART 5

FINANCIAL OVERVIEW

5.1 Reporting Accountants' Report on Historical Financial Statements

Pannell Kerr Forster

The Board of Directors
HFC Bank (Ghana) Limited
Private Mail Bag
General Post Office
Accra



13 February 2008

Dear Sir,

HFC BANK (GHANA) LIMITED

INDEPENDENT ACCOUNTANT'S REPORT
ON THE FINANCIAL STATEMENTS FOR THE
FIVE YEARS ENDED 31 DECEMBER 2006

We have examined the audited financial statements of HFC Bank (Ghana) Limited and for the five years ended 31 December 2006.

PricewaterhouseCoopers have acted as Auditors of the Bank for the years relevant to this report. For each of the relevant years, the Auditors issued an unqualified audit report. The Board of Directors approved the audited financial statements to 31 December 2006.

No audited financial statements have been prepared for submission to the shareholders for any period subsequent to 31 December 2006.

The audited financial statements have been prepared on the basis of the accounting policies set out below. For all of the accounting periods dealt with in this report, the financial statements have been, in all material respects, prepared in accordance with the Ghana National Accounting Standards.

Our examination has been carried out in accordance with the Auditing Guidelines (Prospectuses and the Reporting Accountant).

In our opinion, the financial information set out below gives a true and fair view of the profits and cash flows of the Bank for the years stated and of the state of affairs of the Bank at the end of those years in accordance with Ghana National Accounting Standards.

Yours faithfully,

PANNELL KERR FORSTER
CHARATERED ACCOUNTANTS

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Fax: +233 21 2266228 / 1 E-mail: pannell@pkf.com.gh / pannell@pkfinc.com.gh / Website: www.pkf.co.uk
Valley View, Farnham Avenue, P.O. Box 1219, Accra, Ghana - West Africa

Partners: P. Bruce-Tegbe, N. Akpan-Adu, G. M. E. Tetteh, C. E. Mensah
Offices: 60 towns worldwide
Member Firm of PKF International Co-ordinating member of the network for Member Firms in Africa, Asia, Australia, Europe, Central and South America, Southern Asia, China and For EOP, Australia and New Zealand



5.2 Historical Financial Statements

5.2.1 Historical Profit and Loss Account

PROFIT AND LOSS ACCOUNTS FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31,

(All amounts are expressed in thousands of cedis)

	Notes	2006	2005	2004	2003	2002
Interest income	1	126,499,353	98,704,830	98,770,923	83,636,000	52,900,805
Interest expense	2	(61,495,626)	(46,928,007)	(48,412,936)	(43,365,505)	(30,779,508)
Net interest income		65,003,727	51,776,823	50,357,987	40,270,495	22,121,297
Fee and commission income		13,254,249	6,598,534	2,503,304	813,147	478,360
Other operating income	3	3,052,376	490,802	3,970,920	1,131,989	3,460,998
Operating income		81,310,352	58,866,159	56,832,211	42,215,631	26,060,655
Operating expenses	4	(58,667,366)	(49,582,637)	(32,831,222)	(20,580,707)	(13,749,932)
Bad and doubtful debts expense	14	(6,338,391)	(1,617,948)	(2,288,395)	(4,518,751)	(3,113,899)
Operating profit		16,304,595	7,665,574	21,712,594	17,116,173	9,196,824
Other income	6	1,050,602	469,768	882,480	1,721,895	436,739
Adjustment		-	-	-	(1,297,550)	-
Adjusted other income		-	-	-	424,345	436,739
Profit before national reconstruction levy and tax		17,355,197	8,135,342	22,595,074	17,540,518	9,633,563
National reconstruction levy	7	(857,786)	(430,207)	(1,694,631)	(941,903)	(88,065)
Profit before Tax		16,497,411	7,705,135	20,900,443	16,598,615	9,545,498
Income Tax Expense	8	(4,289,205)	(535,869)	(4,579,241)	(40,201)	(995,340)
Profit after tax transferred to income surplus accounts		12,208,206	7,169,266	16,321,202	16,558,414	8,550,158
Income Surplus Account						
Balance at 1 January		296,285	9,591,029	10,861,833	11,196,859	7,395,984
Profit for the year		12,208,206	7,169,266	16,321,202	16,558,414	8,550,158
		12,504,491	16,760,295	27,183,035	27,755,273	15,946,142
Transfer to statutory reserve fund	28	(6,104,103)	(3,584,633)	(8,160,601)	(8,927,982)	(1,282,524)
Transfer from capital surplus account		-	-	-	-	803,581
Transfer to housing development fund	30	(610,410)	(358,463)	(816,606)	(892,798)	(427,508)
Transfer to stated capital		-	(7,946,914)	-	-	-
Proposed dividend for the year	9	(5,591,300)	(4,574,000)	(8,615,345)	(7,072,660)	(3,842,832)
Balance at 31 December		198,678	296,285	9,590,483	10,861,833	11,196,859

5.2.2 Historical Balance Sheet

BALANCE SHEET AS AT DECEMBER 31,

(All amounts are expressed in thousands of cedis)

		2006	2005	2004	2003	2002
Assets						
Cash and balances with Bank of Ghana	10	68,648,623	19,495,573	35,436,326	6,265,717	-
Due from other banks	11	54,253,120	41,008,142	48,765,627	29,040,571	6,146,321
Government securities	12	216,960,353	253,283,538	195,987,726	92,694,705	52,920,297
Interest receivable and other assets	13	19,834,275	35,257,795	16,642,594	31,729,859	5,665,600
Loans and advances to customers	14	659,341,614	297,683,985	230,538,976	213,752,925	224,307,196
Investment securities	15	3,427,245	3,877,913	1,322,120	1,915,394	988,128
Other short term investments	16	6,090,571	16,788,217	34,920,881	110,287,857	33,104,831
Investment in subsidiary and associated companies	17	5,344,992	3,344,992	1,497,727	1,497,727	1,647,728
Property and equipment		34,305,670	32,903,591	27,942,800	23,294,577	19,253,090
Investment properties		-	-	-	-	-
Tax		4,108,588	908,732	437,571	1,419,583	193,442
Total assets	22	1,072,315,051	704,552,478	93,492,348	511,898,915	344,226,633
Liabilities						
Cash and balances with Bank of Ghana	10	-	-	-	-	194,753
Customer deposits	20	554,761,676	280,262,315	172,891,296	107,831,877	33,475,012
Due to banks and other financial institution ^S		40,000,000	-	-	8,571,000	-
Interest payable and other liabilities	21	32,965,863	23,882,978	17,606,918	15,104,768	8,594,109
Deferred tax	23	2,106,763	2,058,063	2,476,264	-	47,445
Long term bonds	24	263,108,092	284,891,519	271,361,860	248,397,891	242,692,178
Long term loans	25	71,204,719	8,114,059	32,123,781	42,932,340	2,497,414
Total liabilities		964,147,113	599,208,934	496,460,119	422,837,876	287,500,911
Shareholders' funds						
Stated capital	27	70,252,387	70,252,387	46,791,949	46,526,616	25,894,182
Income surplus account		198,678	296,285	9,590,483	10,861,833	11,196,859
Statutory reserve fund	28	31,325,544	25,221,441	21,636,808	13,476,207	4,548,225
Capital surplus account	29	5,463,662	5,463,662	11,644,320	11,644,320	11,644,320
Housing development assistance fund	30	679,115	68,705	3,327,059	2,510,999	1,618,201
Share deals account	31	248,552	4,041,064	4,041,610	4,041,064	1,823,935
Total shareholders' funds		108,167,938	105,343,544	97,032,229	89,061,039	56,725,722
Total liabilities and shareholders' funds		1,072,315,051	704,552,478	593,492,348	511,898,915	344,226,633
Acceptance and guarantees	32	9,940,851	1,802,803	2,343,869	-	-
The accounting policies and notes on pages 45 to 55 form an integral part of these financial statements.						



5.2.3 Historical Cash Flow Statement

CASH FLOW STATEMENT FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2006

(All amounts are expressed in thousands of cedis)

	Notes	2006	2005	2004	2003	2002
Operating activities						
Net cash generated from operating activities	35	(826,841)	80,985,466	124,331,902	114,270,967	51,646,177
Interest paid		(5,894,625)	(9,007,415)	(8,492,754)	(8,916,294)	(8,584,243)
Tax paid	22	(7,780,358)	(2,137,741)	(1,528,201)	(1,266,342)	(1,145,500)
Net cash generated from operating activities		(14,501,824)	69,840,310	114,310,947	104,088,331	41,916,434
Investing activities						
Purchase of property and equipment	19	(10,805,212)	(7,384,235)	(8,154,672)	(7,139,521)	(1,745,842)
Proceeds from sale of property and equipment	19	115,564	1,247,853	66,000	44,582	1,564,699
Sale/(Purchase) of government securities		28,190,249	(64,328,836)	(88,386,012)	(42,751,288)	(35,756,978)
Sale/(Purchase) of other investments		9,449,060	20,266,284	77,079,736	(77,183,025)	(16,013,211)
Equity investments	15	(943,481)	(2,555,793)	-	(1,600,000)	(1,000,000)
Bond repayment		-	-	593,274	672,734	11,872
Investment securities repayment	15	450,668	-	-	-	-
Proceeds from sale of investment property	18	1,001,550	-	-	-	-
Purchase of investment property	18	(750,348)	(909,003)	128,082	-	-
Net cash generated from/ (used in) investing activities		26,708,050	(53,663,730)	(18,673,592)	(127,956,518)	(52,939,460)
Financing activities						
Dividend paid	9	(4,574,000)	(8,615,345)	(7,072,660)	(3,824,832)	(2,528,055)
Redemption of bonds	24	(48,748,281)	(11,167,949)	(25,139,306)	(17,784,630)	(14,012,215)
Proceeds from the issue of bonds	24	-	-	18,621,889	-	10,489,934
Repayment of loans/ Loans Received	25	(5,986,065)	(24,009,722)	(10,808,559)	40,434,926	-
Loan drawdown	25	69,076,725	-	-	-	-
Proceeds from the sale of shares in associate	17	-	152,735	-	-	-
Proceeds from rights issue		-	-	-	-	17,628,901
Investment in HFC Brokerage		-	(1,000,000)	-	-	-
Proceeds from share options exercised	37	-	252,387	265,333	20,054,180	-
Purchase of own shares		-	-	-	(361,408)	-
(Purchase)/Proceeds from the issue of treasury shares	30	(3,792,512)	-	-	2,578,537	36,124
Proceeds from share options		-	-	-	578,254	171,280
Net cash generated from financing activities		5,975,867	(44,387,894)	(24,133,303)	41,675,027	11,785,969
Increase/(decrease) in cash and cash balances		18,182,093	(28,211,314)	71,504,052	17,806,840	762,943
Movement in cash and cash equivalents						
At 1 January		70,807,404	99,018,718	27,514,666	9,114,918	8,351,975
Increase/(decrease) in cash and cash equivalents		18,182,093	(28,211,314)	71,504,052	17,806,840	762,943
At 31 December		88,989,497	70,807,404	99,018,718	26,921,758	9,114,918

**5.2.4 Notes to the Financial Statements****NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are expressed in thousands of cedis)

1 Interest income

	2006	2005	2004	2003	2002
Commercial loans and advances	46,850,637	11,121,988	10,808,806	4,571,456	6,148,601
Mortgage loans	43,296,045	39,185,419	33,142,934	33,906,692	30,868,306
Government securities	36,132,277	45,936,746	54,544,121	44,930,587	15,745,502
Cash and short terms funds	220,394	2,460,677	275,062	227,265	138,396
	126,499,353	98,704,830	98,770,923	83,636,000	52,900,805

2 Interest expense

Bonds	36,854,964	31,479,556	39,991,739	28,357,485	28,982,455
Loans	2,082,103	1,084,188	1,550,777	1,844,685	-
Time and other deposits	22,558,559	14,364,263	6,870,420	13,163,335	1,797,053
	61,495,626	46,928,007	48,412,936	43,365,505	30,779,508

3 Other operating income

Gain on exchange	2,730,298	295,747	3,447,046	866,204	2,621,534
IDA grant income	-	-	-	47,445	69,357
Others	322,078	195,055	523,874	218,340	770,107
	3,052,376	490,802	3,970,920	1,131,989	3,460,998

4 Operating expenses

The following items are included within operating expenses:

Staff costs	22,748,094	21,690,214	11,628,335	6,157,751	5,322,178
Depreciation (note 19)	7,903,077	6,175,053	3,121,093	3,076,285	1,565,268
Directors' emoluments	2,533,959	4,221,870	3,456,020	1,755,573	1,058,585
Auditors' remuneration	220,000	195,000	140,000	100,000	70,000
Amount spent on fulfilling social Responsibility	121,175	200,195	235,784	166,591	43,960
	22,748,094	21,690,214	11,628,335	6,157,751	5,322,178

5 Staff costs

Wages and salaries	11,550,781	11,821,037	6,742,595	3,232,048	2,952,977
Social security benefits	1,675,445	1,475,534	1,206,561	753,281	527,275
Other staff benefits	9,521,868	8,393,643	3,679,179	2,172,422	1,841,926
	22,748,094	21,690,214	11,628,335	6,157,751	5,322,178

The average number of persons employed by the group during 2006 was **185** (2005: 145)

**6 Other income**

	2006	2005	2004	2003	2002
Profit on disposal of assets	115,564	42,299	66,000	22,833	439,739
Sundry income	935,038	427,469	816,480	401,512	-
Profit on issue of treasury shares	-	-	-	1,297,550	-
Adjustment	-	-	-	(1,297,550)	-
	1,050,602	469,768	882,480	424,345	439,739

7 National reconstruction levy

The 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.

	Balance 1/1/	Charge for the year	Payments during the year	Balance 31/12/
2006	-	857,786	(534,581)	323,205
2005	(159,492)	-	-	(159,492)
2004	549,881	-	-	549,881
2003	-	941,903	(766,350)	175,553
2002	-	88,065	(88,065)	-

8 Tax

	2006	2005	2004	2003	2002
Current tax	4,240,505	954,070	1,829,232	905,944	701,460
Deferred tax (Note 23)	48,700	(418,201)	2,750,009	(865,743)	293,880
	4,289,205	535,869	4,579,241	40,201	995,340

9 Dividend

	2006	2005	2004	2003	2002
At 1 January	4,574,000	8,615,345	7,072,660	3,842,832	2,528,055
Proposed dividend	5,591,300	4,574,000	8,615,345	7,072,660	3,842,832
	10,165,300	13,189,345	15,688,005	10,915,492	6,370,887
Dividend paid	(4,574,000)	(8,615,345)	(7,072,660)	(3,842,832)	(2,528,055)
At 31 December	5,591,300	4,574,000	8,615,345	7,072,660	3,842,832

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

**10 Cash balances with Bank of Ghana**

	2006	2005	2004	2003	2002
Cash in hand	19,479,392	6,422,055	5,114,428	3,178,792	581,604
Balances with Bank of Ghana	46,169,231	13,073,518	30,321,898	3,086,925	(776,357)
	68,648,623	19,495,573	35,436,326	6,265,717	(194,753)

Balances with Bank of Ghana represents the mandatory reserve deposit of ₵3,087 million. These funds are not available for use in the bank's day-to-day operations and do not attract interest.

11 Due from other banks

	2006	2005	2004	2003	2002
Placements	54,253,120	41,008,142	48,765,627	29,040,571	6,146,321

12 Government securities

Treasury bills and bond

Maturing within 90 days of the date of acquisition

3,447,207 9,473,010 15,093,479 186,470 3,163,350

Maturing after 90 days of the date of acquisition

5,382,739 64,310,528 107,977,184 92,508,235 49,756,947

Treasury bonds

206,130,407 170,000,000 63,417,063 - -

Government of Ghana Index Linked Bonds (GGILB)

2,000,000 9,500,000 9,500,000 - -

216,960,353 253,283,538 195,987,726 92,694,705 52,920,297

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

	2006	2005	2004	2003	2002
Receivable and prepayments	9,536,550	29,044,774	7,558,283	15,935,297	4,335,042
Accrued interest receivable	10,297,725	6,213,021	9,084,311	15,794,562	1,330,558
	19,834,275	35,257,795	16,642,594	31,729,859	5,665,600



14 Loans and advances to customers

	2006	2005	2004	2003	2002
Analysis by type of customer					
Individuals	398,424,732	207,082,358	198,414,729	207,756,566	211,436,034
Private enterprises	277,805,654	104,555,808	43,904,378	16,930,489	18,158,401
Staff	5,565,959	4,288,589	3,355,985	2,141,259	176,003
Gross loans and advances	681,796,345	315,926,755	245,656,092	226,828,314	231,354,466
Less provision for impairment:					
Specific provisions	(17,853,942)	(12,129,966)	(13,537,080)	(11,394,026)	(7,047,270)
General provision	(3,956,813)	(3,342,398)	(317,336)	(171,995)	-
Interest in suspense	(643,976)	(2,770,406)	(1,281,700)	(1,509,368)	-
Analysis by type of advance					
Commercial loans	402,210,226	91,496,388	171,944,704	8,772,844	7,368,515
Construction finance	8,308,440	18,276,048	30,454,050	16,930,489	18,158,401
Staff loans	5,565,959	4,288,589	3,355,985	2,141,259	1,760,031
Mortgage loans	260,216,715	193,542,302	194,670,353	198,983,722	204,067,519
Other Advances	5,495,005	8,323,428	-	-	-
Gross loans and advances	681,796,345	315,926,755	245,675,092	226,828,314	231,354,466
Less provision for impairment:					
Specific provisions	(17,853,942)	(12,129,966)	(13,537,080)	(11,394,026)	(7,047,270)
General provision	(3,956,813)	(3,342,398)	(317,336)	(171,995)	-
Interest in suspense	(643,976)	(2,770,406)	(1,281,700)	(1,509,368)	-
	659,341,614	297,683,985	230,538,976	213,752,925	224,307,196

The maximum level of staff indebtedness during 2006 did not exceed €5,566 million (2005: €5,000 million)

	2006	2005	2004	2003	2002
Analysis by business segments:					
Housing	261,752,850	201,865,730	198,894,652	202,129,667	205,827,550
Construction	15,703,763	32,412,932	38,990,946	15,986,872	18,158,401
Commerce and finance	404,339,732	81,648,093	7,790,304	8,711,775	7,368,515
Gross loans and advances	681,796,345	315,926,755	245,676,092	226,828,314	231,354,466
Less provision for impairment:					
Specific provisions	(17,853,942)	(12,129,966)	(13,537,080)	(11,394,026)	(7,047,270)
General provision	(3,956,813)	(3,342,398)	(317,336)	(171,995)	-
Interest in suspense	(643,976)	(2,770,406)	(1,281,700)	(1,509,368)	-
	659,341,614	297,683,985	230,538,976	213,752,925	224,307,196

14 Loans and advance to customers (continued)

The movement in mortgage loans is as follows:

	2006	2005	2004	2003	2002
At 1 January	184,872,518	184,807,632	193,698,455	197,954,246	186,513,841
Disbursements during year	54,557,149	17,362,732	13,451,285	29,740,935	31,218,350
Interest charged	37,442,830	24,111,042	19,595,944	20,990,578	18,990,005
Exchange difference	25,076,300	13,808,136	14,255,296	13,701,003	14,801,314
Inflation adjustment	27,853,215	14,242,956	13,312,799	1,451,949	11,887,731
	329,802,012	254,332,498	254,313,779	273,838,711	263,411,241
Less: Repayments	(69,585,297)	(60,790,196)	(59,643,427)	(74,854,989)	(59,343,722)
	260,216,715	193,542,302	194,670,352	198,983,722	204,067,519
Bad and doubtful debts expense	(14,184,987)	(8,669,784)	(9,862,720)	5,285,267	(6,113,273)
At 31 December	246,031,728	184,872,518	184,807,632	93,698,455	197,954,246



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

	Specific credit risk	General provision	Total
Year ended 31 December 2006			
At 1 January 2006	12,129,966	3,342	15,472,364
Doubtful debts expense	5,723,976	614,415	6,338,391
At 31 December 2006	17,853,942	3,956,813	21,810,755
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
Year ended 31 December 2003			
At 1 January 2003	7,047,270	-	7,047,270
Doubtful debts expense	4,346,756	171,995	4,518,751
At 31 December 2003	11,394,026	171,995	11,566,021
Year ended 31 December 2002			
At January 2002	3,933,371	-	3,933,371
Bad and Doubtful debts expense	3,113,899	-	3,113,899
At 31 December 2002	7,047,270	-	7,047,270

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. Unrecognized interest related to such loans amounted to €4,251 million.

	2006	2005	2004	2003	2002
Loan loss provision ratio	3%	4%	6%	5%	3%
Gross non-performing loans ratio	2%	2%	1%	1%	1%
Ratio of 50 largest exposures	40%	13%	23%	24%	23%



	2006	2005	2004	2003	2002
15 Investment securities					
Debt securities	3,427,245	3,877,913	1,322,120	1,915,394	988,128
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:					
At 1 January	3,877,913	1,322,120	1,915,394	988,128	-
Additions	-	2,555,793	-	1,600,000	1,000,000
	3,877,913	3,877,913	1,915,394	2,588,128	1,000,000
Redemption	(450,668)	-	(593,274)	(672,734)	(11,872)
	3,427,245	3,877,913	1,322,120	1,915,394	988,128
16 Other short-term investments					
Treasury dealings	1,589,176	6,774,385	5,930,161	93,421,567	19,761,488
Units and investments	4,501,395	10,013,832	28,990,720	16,866,290	13,343,343
Fixed deposit		-	-	-	-
	6,090,571	16,788,217	34,920,881	110,287,857	33,104,831
17 Investments in subsidiary and associated companies					
Investment in subsidiary	4,100,000	2,100,000	100,000	100,000	100,000
Investment in associated companies	1,244,992	1,244,992	1,397,727	1,397,727	1,547,728
	5,344,992	3,344,992	1,497,727	1,497,727	1,647,728

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

HFC Investments Services Limited during 2006 invested ₵2 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 Investments Services Limited.

18 Investment properties

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; 2003: ₵969 million; 2002: ₵927 million). Fair values have been determined on the basis of directors' valuation.


19 **Property and equipment**

The Bank Cost or valuation	Land and buildings	Computers and equipment	Furniture and fittings	Motor vehicles	Capital work in progress	Total
At 1 January 2006	22,349,422	11,173,658	11,459,629	3,818,069	194,395	48,995,173
Additions	216,693	1,619,546	2,901,145	166,451	4,461,955	9,365,790
Transfer between related parties	-	-	-	(173,246)	-	(173,246)
Disposals	-	-	-	(74,953)	-	(74,953)
Transfers	901,767	1,058,842	352,856	541,737	(2,855,202)	-
At 31 December 2006	23,467,882	13,852,046	14,713,630	4,278,058	1,801,148	58,112,764
Accumulated Depreciation						
At 1 January 2006	1,084,671	8,884,896	3,955,108	2,166,905	-	16,091,580
Charges for the year	450,641	4,013,277	2,578,451	860,708	-	7,903,077
Transfer between related parties	-	-	-	(112,610)	-	(112,610)
Release on Disposals	-	-	-	(74,953)	-	(74,953)
At 31 December 2006	1,535,312	12,898,173	6,533,559	2,840,050	-	23,807,094
Net book value						
At 31 December 2006	21,932,570	953,873	8,180,071	1,438,008	1,801,148	34,305,670
At 31 December 2005	21,264,751	2,288,760	7,504,521	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
At 31 December 2003	14,172,405	4,112,428	601,675	2,366,630	2,041,439	23,294,577
At 31 December 2002	13,790,392	4,041,357	532,707	888,634	-	19,253,090
	2006	2005	2004	2003	2002	
Cost	4,005,453	4,005,453	3,503,555	3,503,555	2,835,719	
Accumulated depreciation	(546,675)	(506,620)	(426,511)	(356,440)	(293,048)	
Net book value	3,458,778	3,498,833	3,077,044	3,147,115	2,542,671	
Profit on disposal of fixed assets						
Gross book value	74,953	1,489,107	45,717	167,774	1,291,735	
Accumulated depreciation	(74,953)	(283,553)	(45,717)	(146,025)	(163,775)	
Net book value	-	1,205,554	-	21,749	1,127,960	
Sale proceeds	(115,564)	(1,247,853)	(66,000)	(44,582)	(1,564,699)	
Profit on disposal	(115,564)	(42,299)	(66,000)	(22,833)	436,739	



	2006	2005	2004	2003	2002
20 Customer deposits					
Demand deposits	133,094,508	61,680,406	66,368,535	6,434,876	-
Savings deposits	116,952,335	71,206,691	10,921,216	-	-
Forex deposit	-	-	-	5,193,123	1,087,533
HFC housbills/housnotes	-	-	-	50,284,842	17,196,641
Time deposits	305,665,822	147,375,218	95,610,545	45,919,036	15,190,838
	554,461,676	280,262,315	172,891,296	107,831,877	33,475,012

Analysis by type of deposits

Individual/private enterprise	443,809,341	206,174,135	97,035,946	-	-
Public enterprise	110,952,335	74,088,180	75,855,350	-	-
	554,761,676	280,262,315	172,891,296	-	-

Ratio of 20 largest deposits to total deposits 35% 31%

21 Interest payable and other liabilities

Creditors	16,853,966	15,088,645	5,470,604	2,691,128	2,957,025
Accrued interest	10,356,884	4,379,825	2,971,088	5,165,427	1,794,252
National reconstruction levy	163,713	-159,492	549,881	175,553	-
Dividend payable (Note 9)	5,591,300	4,574,000	8,615,345	7,072,660	3,842,832
	32,965,863	23,882,978	17,606,918	15,104,768	8,594,109

22 Tax

The Bank

	Balance 1/1/06	Charge / (credit) for the year	Payments during year	Balance 31/12/06
Current tax				
Tax year				
2002	(785,440)	-	(167,576)	(953,016)
2003	-	905,944	(1,098,766)	(192,822)
2004	(437,571)	-	-	(437,571)
2005	(908,732)	-	-	(908,732)
2006	-	4,240,505	(7,440,361)	(3,199,856)
	(2,131,743)	5,146,449	(8,706,703)	(5,691,997)

22 Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 25% (2005: 25%) for the bank and the subsidiaries. The movement on the deferred tax account is as follows:

	2006	2005	2004	2003	2002
At 1 January	2,058,063	2,476,264	(273,745)	591,998	298,118
Income statement charge/(credit) for year	48,700	(418,201)	2,750,009	(865,743)	293,880
	2,106,763	2,058,063	2,476,264	(273,745)	591,998

**23 Deferred income tax (continued)**

Deferred income tax charge /(credit) in the profit and loss account comprise the following temporary difference

	2006	2005	2004	2003	2002
Property and equipment	2,418,326	1,016,731	592,086	31,044	-
Long term bonds	-	(4,852,394)	226,317	-	-
Mortgage loans	354,471	3,417,462	1,931,606	1,291,603	3,788,845
Short term investments	-	-	-	220,100	-
	2,772,797	(418,201)	2,750,009	1,542,747	3,788,845

Deferred income tax assets

Property and equipment	-	-	-	-	510,185
Long term bonds	(666,034)	-	-	1,816,492	2,686,662
	(666,034)	-	-	1,816,492	3,196,847
	2,106,763	-	-	(273,745)	591,998

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

Property and equipment	(221,951)	-	-	541,229	(808,303)
Long term bonds	(109,667)	-	-	870,171	(2,686,662)
Mortgage loans	380,318	-	-	(2,497,243)	3,788,845
Short term investments	-	-	-	220,100	-
	48,700	-	-	(865,743)	293,880

The potential tax effect related to the increase in the carrying values of land and buildings unrealized exchange gains arising from the translation of mortgages denominated in foreign currencies payable after seven years is €5,867 million (2005: €2,500 million) and €6,269 million respectively.

24 Deferred credit

Deferred credit represents the balance on capital based grants. Movement on the deferred credit account is as follows:

	2006	2005	2004	2003	2002
At 1 January	-	-	-	47,445	116,802
Transfer to profit and loss account	-	-	-	(47,445)	(69,357)
At 31 December	-	-	-	-	47,445



24 Long term bonds (continued)

	2006	2005	2004	2003	2002
At 1 January	284,891,519	271,361,860	248,397,891	242,692,178	208,110,050
Issues during the year	-	-	18,621,889	-	10,489,934
Interest charged	6,017,347	6,519,133	7,719,185	10,750,841	8,092,180
Exchange loss	2,664,135	2,225,467	5,300,584	4,049,152	17,706,197
Inflation adjustment	24,177,997	24,960,423	24,954,371	17,606,644	20,890,275
	317,750,998	305,066,883	304,993,920	275,098,815	265,288,636
Redemptions	(48,748,281)	(11,167,949)	(25,139,306)	(17,784,630)	(14,012,215)
Interest paid	(5,894,625)	(9,007,415)	(8,492,754)	(8,916,294)	(8,584,243)
At 31 December	263,108,092	284,891,519	271,361,860	248,397,891	242,692,178
Analysis by type of bond					
Ghana Government bond (Note(i) below)	71,216,889	64,523,469	57,401,371	49,362,324	44,034,248
Social Security & National Insurance Trust bonds (Note (ii))	168,770,480	151,285,903	133,447,578	115,738,100	103,245,549
HFC – Unit Trust	-	-	-	534,750	748,733
Total cedi bonds (Note (iii))	239,987,369	215,809,372	190,848,949	165,635,174	148,028,530
HFC dollar housbonds (Note (iv))	23,120,723	50,252,695	59,635,803	63,945,175	78,595,960
HFC sterling housbonds (Note (v))	-	18,829,452	20,877,108	18,817,542	16,067,688
Balance at 31 December	263,108,092	284,891,519	271,361,860	248,397,891	242,692,178

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are expressed in thousands of cedis)

25 Long term bonds**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

The Social Security and National Insurance Trust bonds are made up on uncompleted Housing Scheme and Pilot Scheme 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 (SSNIT) have lent the cedi equivalent of US\$16.2 million to the Bank for the implementation of the Home Finance Pilot Scheme. The loan, which has 20 year term, is fully indexed to inflation and attracts interest at the rate of 1% per annum

iii. HFC Dollar Housbond

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 million for every US\$ 100 at the time of the second year of issue. The bonds are listed and traded on the Ghana Stock Exchange. At 31 December 2006, US\$2.5 million HFC dollar housbonds (2005: US\$ 5.1 million) where outstanding.

iv. HFC Sterling Housbonds

HFC Bank (Ghana) Limited made a shelf registration of £1.2 million bonds on the Ghana Stock Exchange. The issue bonds have a maturity of five years and investors has 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 were listed and traded on the Ghana Stock Exchange. These bonds were fully redeemed in August 2006. (2005: £1.2 million)

	2006	2005	2004	2003	2002
IDA	2,127,994	2,055,272	2,024,698	2,497,414	2,497,414
SSNIT Loan	23,025,575	-	-	-	-
Ghana International Bank (GIB)	46,051,150	6,058,787	30,099,083	40,434,926	-
	71,204,719	8,114,059	32,123,781	42,932,340	2,497,414
The movement on long term loans is as follows:					
At 1 January	8,114,059	32,123,781	42,932,340	2,497,414	2,497,414
Draw downs	-	-	-	40,434,926	-
Addition	69,076,725	-	-	-	-
Repayment	(-5,986,065)	-	-	-	-
At 31 December	71,204,719	32,123,781	42,932,340	42,932,340	2,497,414



Pannell Kerr Forster

The Board of Directors
HFC Bank (Ghana) Limited
Private Mail Bag
General Post Office
Accra

PKF

Accountants &
business advisers

13 February 2008

Dear Sir,

HFC BANK (GHANA) LIMITED

INDEPENDENT ACCOUNTANT'S REPORT ON

THE UNAUDITED FINANCIAL STATEMENTS

OF HFC BANK (GHANA) LIMITED FOR THE

NINE MONTH PERIOD ENDED 30 SEPTEMBER 2007

We have reviewed the unaudited financial information of HFC Bank (Ghana) Limited set out in this prospectus, comprising the profit and loss account for the nine month period ended 30 September 2007 and the balance sheet as at 30 September 2007. The directors are responsible for the preparation of the financial information.

We conducted our review in accordance with International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatements. The review is limited primarily to enquiries of the Bank's personnel and analytical procedures applied to financial data provided to us by the Bank.

We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial information which has been prepared in accordance with the Bank's accounting policies does not give a true and fair view of the state of affairs of the Bank as at 30 September 2007 and of its profit for the nine month period then ended.

Yours faithfully,

**PANNELL KERR FORSTER
CHARATERED ACCOUNTANTS**

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Partners: F. Bruce-Tague, N. Aboye-Adje-Gyamfi, E.S. Tetelo, G.E. Nonsiyan
Offices in Tema, Kumasi

Member Firm of PKF International Operating Worldwide in Europe, the Mediterranean, Middle East, Western and Southern Africa, the Caribbean, Central and Southern America, Southern Asia, China and Far East, Australia and New Zealand

**PROFIT AND LOSS ACCOUNT**

(All amounts are expressed in the new Ghana cedis)

Period ended 30 September
The Bank
2007

Interest income	16,235,130
Interest expense	<u>(7,872,115)</u>
Net interest income	8,363,015
Fee and commission income	2,213,128
Other operating income	<u>(53,472)</u>
Operating income	10,522,671
Operating expenses	<u>(5,694,265)</u>
Bad and doubtful debts expenses	<u>(1,610,647)</u>
Operating profit	3,217,759
Other income	253,592
Profit before tax	3,471,351
Income tax expense ⁷	<u>(1,080,090)</u>
Profit after tax transferred to income surplus account	<u>2,391,261</u>

INCOME SURPLUS ACCOUNT

Balance at 1 January	19,868
Profit for the year	<u>2,391,261</u>
	2,411,129
Transfer to statutory reserve fund	<u>(1,195,631)</u>
Transfer to housing development assistance fund	<u>(119,563)</u>
Balance at 30 September	<u>1,095,935</u>



BALANCE SHEET

(All amounts are expressed in the new Ghana cedis)

At 30 September

Assets	The Bank 2007
Cash and balances with Bank of Ghana	16,208,025
Due from other banks	2,929,050
Government securities	28,442,375
Interest receivable and other assets	4,404,323
Loans and advances to customers	97,891,317
Investment securities	250,000
Other short-term investments	703,322
Investment in subsidiary and associated companies	919,204
Property and equipment	3,714,505
Tax	<u>155,923</u>
<i>Total assets</i>	<u>155,618,044</u>
Liabilities	
Customer deposits	73,462,841
Due to banks and other financial institutions	15,500,000
Interest payable and other liabilities	10,991,773
Deferred tax	348,579
Long-term bonds	32,247,555
Long-term loans	<u>9,859,241</u>
Total liabilities	<u>142,409,989</u>
<i>Shareholders' funds</i>	
Stated capital	7,025,239
Income surplus account	1,095,935
Statutory reserve fund	4,366,124
Capital surplus account	546,366
Housing development assistance fund	187,475
Share deals account	<u>24,855</u>
<i>Total shareholders' funds</i>	<u>13,208,055</u>
Total liabilities and shareholders' funds	<u>155,618,044</u>
Acceptance and guarantees	<u>1,776,550</u>

**CASH FLOW STATEMENT**

(All amounts are expressed in the new Ghana cedis)

	Period ended 30 September 2007
Operating activities	
Net cash used in operations	(2,035,626)
Interest paid	(327,714)
Tax paid	(696,651)
Net cash used in operating activities	(3,059,991)
Investing activities	
Purchase of property and equipment	(724,361)
Proceeds from sale of property and equipment	3,947
Purchase of government securities	(6,669,270)
Purchase of other investments	(94,265)
Redemption of investment security	<u>92,725</u>
Net cash used in investing activities	<u>(7,391,224)</u>
Financing activities	
Proceeds from bond	3,637,678
Dividend paid	(461,277)
Long term loan drawdown	4,632,500
Equity investment	(384,705)
Repayment of loan	<u>(1,893,731)</u>
Net cash generated from financing activities	5,218,980
Decrease in cash and cash equivalents	<u>(4,920,750)</u>
Movement in cash and cash equivalents	
At 1 January	8,634,895
Decrease during the period	<u>(4,920,750)</u>
At 30 September	3,714,145



5.3 Reporting Accountant's Report on Projected Financial Statements

Pannell Kerr Forster

PKF

Accountants &
business advisers

The Board of Directors
HFC Bank (Ghana) Limited
Private Mail Bag
General Post Office
Accra

13 February 2008

Dear Sir,

**INDEPENDENT ACCOUNTANT'S REPORT ON THE
FORECAST AND PROJECTIONS OF HFC BANK (GHANA)
LIMITED FOR THE FIVE YEAR PERIOD
ENDED 31 DECEMBER 2012**

We have examined the forecast and projections in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information.

Management is responsible for the forecast and projections including the assumptions set out in the notes on which it is based.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis of the forecast and projections.

Further, in our opinion the forecast and projections are properly prepared on the basis of the assumptions and is presented in accordance with the Ghana National Accounting Standards.

Actual results are likely to be different from the forecast and projections since anticipated events frequently do not occur as expected and the variation may be material.

Yours faithfully,

**PANNELL KERR FORSTER
CHARATERED ACCOUNTANTS**

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Offices in Africa: Kumasi
Member Firm of PKF International Operating Worldwide in Europe, the Middle East, Africa, Asia, Australasia and Oceania, the Caribbean, Central and South America, Southern Asia, China and Far East, Australia and New Zealand



5.4 Assumptions Underlying Projections

The headline assumptions underlying the financial projections are as follows:

- Gross Domestic Product (GDP) would grow on the average at 7% per annum;
- No new legislation that will adversely affect profitability of the banking industry in a material way will be passed.
- The impact of inflation rate on forecast is assumed to average 9.2% per annum.
- The total income is expected to increase at an average of 32% over the forecast period;
- Customer deposits are expected to increase at an average of 30% over the forecast period.
- Loans and advances are expected to increase at an average of 28% over the forecast period.
- Investment in government securities is expected to increase at an average of 29%.



5.5 Projected Financial Statements

5.5.1 Projected Profit & Loss Account

PROJECTED PROFIT & LOSS ACCOUNTS

	2008 GH¢000	2009 ¢00GH	2010 GH¢00
INCOME			
Interest Income	32,804	40,181	52,962
Interest Expense	16,507	19,427	23,138
Net Interest Income	16,298	20,754	29,824
Commission & Fees	4,368	5,183	6,972
Other Operating Income	563	279	362
Net Operating Income	21,229	26,216	37,159
Bad Debts Provision	2,409	1,243	1,928
Operating Expenses	14,475	18,803	24,443
Net Operating Profit	4,345	6,170	10,788
Other Income	30	26	63
Profit before tax and Reconstruction Levy	4,375	6,197	10,850
Profit before Tax	4,375	6,197	10,850
22% Tax	1,105	1,363	2,387
Profit after Tax	3,270	4,834	8,463

PROJECTED INCOME SURPLUS ACCOUNT

At 1 January	415	578	820
Profit for the year	<u>3,270</u>	<u>4,834</u>	<u>8,463</u>
	3,685	5,412	9,283
Transfer to statutory reserve	1,635	2,417	4,232
Transfer to housing development assistance Fund	163	242	423
Proposed dividend	<u>1,308</u>	<u>1,933</u>	<u>3,385</u>
	<u>578</u>	<u>820</u>	<u>1,243</u>

**5.5.2 Projected Balance Sheet****PROJECTED BALANCE SHEET**

	2008	2009	2010
	GH¢000	GH¢00	GH¢00
ASSETS			
Cash & Balances with Bank of Ghana	12,347	15,377	19,317
Due from Other Banks	11,031	12,493	12,235
Government Securities	22,661	27,819	31,299
Other Short Term Investments	615	672	726
Loans & Advances to customers	150,333	205,950	270,597
Investment in subsidiary & Associated co.	1,721	1,721	1,721
2% Interest Receivable and other assets	7,357	7,504	7,654
Fixed Assets	8,436	9,352	9,266
TOTAL ASSETS	214,501	280,889	352,816
LIABILITIES			
Customer Deposits	112,240	145,912	189,686
5% Interest Payable & Other Liabilities	5,384	5,740	5,352
5% Due To Other Banks	10,909	11,454	12,027
Long Term Bonds	39,667	47,444	58,417
Long Term Loans	21,062	17,293	21,453
TOTAL LIABILITIES	189,262	227,843	286,935
SHAREHOLDERS FUNDS			
Stated Capital	17,025	42,025	50,025
Capital Surplus	546	546	546
Statutory Reserve Fund	6,678	9,095	13,326
Income Surplus	578	820	1,243
Share Deals Account	249	249	249
Housing Dev't Assistance Fund	163	311	492
Total Shareholders' funds	25,240	53,046	65,882
Total liabilities & shareholders' funds	214,501	280,889	352,816



5.5.23 Projected Cash Flow Statement

PROJECTED CASHFLOW STATEMENT

	2008 €' million	2009 €' million	2010 €' million
OPERATING ACTIVITIES:-			
Loss before interest and tax	(10,819)	(13,194)	(16,587)
Depreciation	3,148	4,092	5,320
Profit on Fixed Assets disposal	-	-	(16)
Increase/decrease in loans and advances	(50,135)	(55,617)	(64,647)
(Increase)/Decrease in other assets accounts	1,012	(147)	(150)
Increase/(Decrease) in creditors & accruals	(84)	356	(389)
Increase in provisions	2,409	1,243	1,928
Cash generated from operations	(54,468)	(63,266)	(74,541)
Return on investments and servicing of finance			
80% Interest received	19,985	38,246	42,370
80% Interest paid	(13,205)	(15,542)	(15,219)
Dividends paid	(1,156)	(1,308)	(1,933)
	5,623	21,396	25,217
Taxation			
75% Tax paid	(829)	(1,022)	(1,790)
Investing activities			
Purchase of property and equipment	(6,872)	(4,377)	(4,540)
Proceeds from sale of property & equipment	-	-	16
(Increase)/Decrease in short term investments	8,581	(5,215)	(3,534)
Investment in subsidiaries	(686)	(0)	-
Net cash used in investing activities	1,022	(9,592)	(8,059)
Financing activities			
Increase/(Decrease) in long term bonds and loans	13,091	4,008	15,133
Increase in deposits	32,240	33,672	43,774
Increase in stated capital	10,000	25,000	8,000
Net cash (used in)/generated from financing activities	55,331	62,680	66,907
Increase in cash and cash equivalents	6,679	10,195	7,734
Movement in cash and cash equivalents			
At 1 January	50,269	56,948	67,143
Increase during the year	6,679	10,195	7,734
At 31 December	56,948	67,143	74,878



PART 6

RISK FACTORS

Investing in the securities of any company exposes the investor to some risks. Before deciding to purchase HFC ordinary shares, investors should carefully consider the following potential risks of an investment in the Bank, and also any relevant information contained in this document.

- i. **Financial Risk:** HFC Bank's core business of managing financial assets and liabilities exposes the company to financial risks. These include credit risk, liquidity risk, interest rate risk and foreign exchange risk. HFC Bank through its sound and efficient risk management systems and procedures has kept these risks under control.
- ii. **Liquidity:** The additional HFC shares on offer in the Rights Issue will be listed on the GSE. There is however the possibility that investors may not be able to sell their shares on the market at the price they desire when they want to.
- iii. **Dilution:** An investor's holding in HFC shares may be diluted if that investor does not participate fully in this Rights issue.
- iv. **Competition:** The Bank operates in very dynamic and competitive financial services industry. The Bank therefore faces an increasingly intense competition for all its products from other service providers which can affect its financial performance. The Bank has however been able to maintain a steady increase in market share for its commercial banking products and even gained grounds in its flagship mortgage products.
- v. **Macro Economic Environment:** The state of the national economy provides the context for the financial services industry. Interest rates, the dominant variable in the industry is susceptible to changes in inflation, currency depreciation, the size of the national debt and other macro economic indices. Adverse movements in these variables can therefore affect the performance of the bank and its ability to achieve set targets.
- vi. **Fraud:** Fraudulent practices by employees and customers can adversely affect the operations and financial performance of the Bank. The Bank counters this risk through the adoption of efficient verification and reporting systems.
- vii. **Computer Systems Failure:** Computers and other information and communication installations have inherent risks in their use. Any malfunction in the system or any of its components could affect normal operations of the bank. This risk is mitigated by the close monitoring of the system by competent staff.



PART 7

THE GHANA STOCK EXCHANGE

7.1 Overview

The Ghana Stock Exchange (GSE) was incorporated in July 1989 as a company limited by guarantee. It is a non-profit, non-governmental organization governed by a thirteen (13)-member Council. Members of the GSE include sixteen (16) Licensed Dealing Members (brokerage firms) and thirty-two (32) Associate Members. There are also nineteen (19) Government Securities Dealers some of whom are members of the Exchange. The Exchange is regulated by the Securities and Exchange Commission (SEC) under the Securities Industry law (1993) as amended by the Securities Industry (Amendment) Act, 2000, Act 590 and the SEC Regulations 2003 (LI 1728).

7.2 Growth & Development

Trading on the Exchange began on November 12, 1990 with eleven (11) listed companies. As at December 31, 2007 there were 32 equities and two corporate bonds listed on the GSE. Also listed on the Exchange are the Government of Ghana 2-Year, 3-Year and 5-Year bonds issued since January 2006. To broaden the market and also to act as a catalyst for growth of corporate enterprises, the GSE is encouraging more companies, especially the SME's to list on the Exchange through the provisional listing approach.

The Exchange operates a manual trading and settlement system. Under the new Central Securities Depository Act, 2007 (Act 733), listed companies may opt to issue dematerialized securities that may be centrally cleared through the Central Securities Depository. The GSE also introduced a new and updated Rule Book with effect from February 2007.

7.3 Performance

The Stock Market continued its recovery from the slump of 2005 when it plunged by -29.85%. The GSE All-Share Index rose by 31.84% in 2007, well above the 1-Year GOG/BOG Treasury Note rate of 12.30%. Total Market Capitalisation also increased from GH¢11,249.60 million at the end of 2006 to GH¢12,368.60million at the end of 2007. Some of the significant events which have occurred on the exchange since January 2007 include:

- The Listing of Golden Star Resources Limited;
- The Listing of SIC Insurance Company Limited;
- The Listing of Ghana Oil Company Limitedtd. (GOIL);
- The De-listing of British American Tobacco Ghana Limited (BAT);
- The sale of 100,000,000 ordinary shares to raise GH¢ 6,000,000 by Ghana Commercial Bank through a Rights Issue.

7.4 Trading Volumes and Values

There was a marked increase in the total volume and value traded in 2007. A total of 287.22 million shares were traded compared with 98.29 million in 2006. Value of shares traded also saw a significant increase from GH¢47.60 million in 2006 to GH¢140.71 million in 2007



7.5 Other Information

Trading Days:	Monday Friday, starting at 09.00 to 12.00 noon
Trading Method:	Continuous Auction Trading system. Trading is done in lots of 100 shares
Settlement Period:	Trading day plus 3 business days (T + 3)
Receipt of Certificate:	Within two (2) months according to Section 53(1) of the Companies' Code 1963 Act 179 (as amended)
Access to Trade and General information on the GSE	Through Reuters, internet, official trading results, local newspapers, etc.

7.6 Outlook for the GSE

The stable and improving macro-economic environment (declining inflation and interest rates etc.) and the ability of the economy to better absorb both domestic and external shocks indicate brighter prospects for the GSE. The automation of the trading platform, migration from paper certificates to a Depository regime and the continuing efforts at harmonization of West African markets are expected to improve the fortunes of the GSE and attract listing of more companies both local and from the sub-region.



PART 8

ADDITIONAL INFORMATION ON THE OFFER

8.1 Application A qualifying applicant to this Offer is either a qualifying HFC shareholder or a qualifying non-HFC shareholder interested in acquiring HFC shares under the terms of this Offer.

8.1.1 Qualifying Shareholders

Qualifying shareholders are entitled to subscribe for 1 new ordinary share for every 4 ordinary share registered in their names as at the close of business on April 30, 2008 under this Offer. The Letter of Allotment and Application Form, which will be completed by qualifying shareholders, are enclosed in this document. Qualifying Shareholders may take any one of the following actions under this Offer:

- a) **Fully subscribe for their rights under this Offer:** This is where qualifying shareholders complete the Application Form and pay only for their entire allocation under this Offer, returning same to the receiving agents not later than 5 pm on May 30, 2008.

Qualifying shareholders exercising this option must complete Section A of the Application Form.

- b) **Fully subscribe for their rights AND apply for additional shares outside of what they are entitled to under the Offer:** In addition to 1a above, qualifying shareholders may apply to subscribe for additional shares (extra shares above what they are entitled to under this Offer) and pay for such additional shares, returning the duly completed Application Form and payment covering both their rights and additional shares applied for to the receiving agents not later than May 30, 2008.

Qualifying shareholders choosing this option must complete Section A and B of the Application Form.

Partially subscribe for their rights only: Qualifying shareholders may apply for only part of the shares they are entitled to under this Offer and return the duly completed Application Form together with payment to the receiving agents not later than 5 pm on May 30, 2008. Qualifying shareholders may take no further action on their remaining rights under the Offer and empower the Directors of the Bank to allot such unsubscribed portion of their rights as the Directors deem fit.

Qualifying shareholders must complete Section A only, of the Application Form.

- c) **Partially subscribe for their rights under the Offer and renounce their unsubscribed rights in favour of qualifying parties, who may or may not be shareholders of HFC (renouncees):** Qualifying shareholders may apply for only part of the shares they are entitled to under this Offer, renouncing the remainder of their rights in favour of qualifying third parties who now have to apply for and pay for those shares. The Application Form completed by both the qualifying shareholder and the renouncee, together with payment for the shares must be returned to the receiving agents not later than 5 pm on May 30, 2008.

Qualifying shareholders choosing this option must complete Sections A and C while each named renouncee must complete a copy of Section (1B) of the Application Form.

Should qualifying shareholders desire to renounce the remainder of their rights in favour of more than one person, they should state the number of shares to be allotted to each renouncee on a separate row in Section C of the Application form. The completed Sections A and C of the Application Form together with payment for all the shares applied for should then be lodged with the receiving agents not later than 5 pm on May 30, 2008.



- d) **Renounce all their rights in favour of qualifying third parties, who may or may not be shareholders of HFC:** Qualifying shareholders may decide not to partake in the Offer and may renounce all their rights under this Offer in favour of qualifying renouncees who may or may not be shareholders of HFC. The renouncees must complete and return the Application Form together with payment for the shares being applied for to the receiving agents not later than 5 pm on May 30, 2008.

Qualifying shareholders choosing this option must complete Sections A and C (A), while each named renouncee must complete Section C(B) of the Application Form.

Should qualifying shareholders want to renounce their rights in favour of more than one person, they should state the number of shares to be allotted to each renouncee on a separate row in Section C (A) of the Application Form.

- e) **Take no action:** Qualifying shareholders who choose not to apply for shares under this Offer, or fail to make payments for the shares they have applied for under this Offer, or who fail to meet the deadline of 5 pm on May 30, 2008 for returning the Application form and making payment to the receiving agents, may be deemed to have not taken any action under this Offer. Qualifying shareholders who take no action under these terms empower the Directors of the Bank to allot such unsubscribed rights as the Directors deem fit.

8.1.2 Other Applicants

If you are neither a qualifying shareholder nor a renouncee but wish to apply for shares under the Offer, you may complete Section D of the Application Form and return it, together with payment for the shares applied for to any of the receiving agents not later than 5 pm on May 30, 2008.

8.2 Offer to Purchase

- As an applicant, you offer to subscribe for the number of shares indicated on your Application Form on the terms and conditions of this Offer and on the basis of the information set out in this Document and subject to the Regulations of HFC.
- You agree that your application to acquire shares cannot be revoked after May 30, 2008 or such later date and the Directors and Advisors may agree, and promise that cheque, banker's draft or money or postal order will be honoured on first presentation and that this paragraph constitutes an agreement between you and HFC. It becomes binding when your application is posted, in the case of delivery by hand, received by the receiving agents. However the Bank will not be held liable if you use a wrong address in posting. You must pay all bank commissions, transfer and other bank charges related to your application.
- A thumb print on an Application Form will be accepted instead of a signature thereon only if it is duly certified in accordance with the Laws of Ghana.
- If your Application Form is not completed correctly or is amended, or if any cheque, Banker's Draft, money or postal order is found to be less than the amount stated on your Application Form, it may still be treated as valid. In such case, the Bank's decision as to whether to treat the application as valid, and how to construe, amend or complete it shall be final. You will not, however, be treated as having applied to purchase a number of shares which if multiplied by the offer price, gives a value greater than the amount remitted.



- An application may be rejected in whole or in part at the discretion of the Advisors and Management of HFC if the application is incomplete or illegible, or if it is determined that the application is not eligible to participate in this offer.

8.3 Acceptance of the Offer

- Acceptance of the Offer will be made (if your application is received, valid, processed and not rejected) by notifying the SEC and GSE of the basis of allocation and by notifying acceptance to the receiving agents.
- Acceptance of your offer may be of the whole or any part thereof.
- If your application to purchase shares is accepted (in whole or in part) there will be a binding contract under which you will be required to purchase the shares in respect of which your application has been accepted.

8.4 Payment for Shares

- You undertake to pay the purchase price of the shares in respect of which your application is accepted. The cheque or banker's draft or other remittances may be presented for payment before acceptance of your application, but this will not constitute acceptance of your application, either in whole or in part.
- In the case of excess applications, if your application is invalid, rejected or not accepted in full, or if the amount of the application divided by the offer price does not result in a whole number of shares, the proceeds of the cheque or other remittances or the unused balance of those proceeds (as the case may be) will be refunded to you without interest.
- If the remittances are not honoured on first presentation, then at any time until the Bank has received cleared funds in respect of your application, the Advisors, on behalf of HFC may terminate the agreement to purchase that share. The termination will be effected by notifying the receiving agent whom you submitted your application to.

8.5 Renunciation

- The right to subscribe for the Rights Issue shares may be renounced in whole or in part only by completing the Application Form in accordance with the instructions therein, or by taking no action.
- Qualifying shareholders who wish to purchase some of their Rights and to renounce the remainder in favour of a different person or persons, may complete Sections A and B of the Application form in accordance with the instructions provided in the guide to Completing the Application Form

8.6 Procedure in Respect of Rights not Taken up or Renounced

If a properly completed Application form and payment in full is not received by 5 pm on May 30, 2008, the Rights will be deemed to have been declined by the shareholders. These shares will then be available to shareholders applying for extra shares and non-shareholders applying for shares under the Offer, and allotted by the Directors of HFC as they deem fit.

8.7 Warranties

You warrant that:

- You are qualified to apply;
- The applicant on whose behalf you are applying is qualified to apply;
- You will submit a complete application including all supporting documents required under the



terms of this offer;

- In making your application you are not relying on any information or representation concerning the Bank not contained in this document. You agree that no person responsible for this document or any part of it will have liability for any such other information or representation
- If any person signing, or making a thumb print on the Application Form is not the applicant,
- that person warrants that he/she has authority to do so on behalf of the applicant and that this authority is vested in him or her;
- If the applicant is other than a natural person, the person signing the Application Form warrants that he/she has authority to do so on behalf of the applicant.

8.8 Supply and Disclosure of Information

The Bank, Directors, Advisors and their agents shall have full access to all information relating to, or deriving from, the cheque or banker's draft or other remittance accompanying your application and its processing. If the Directors or their agents request any information about your application you must promptly disclose it to them

8.9 Listing of New Ordinary Shares

The GSE has granted permission to list up to 25,432,359 New Ordinary HFC shares to be issued under the Rights Issue on the First Official List of the GSE, alongside the existing 101,660,000 ordinary shares listed. It is expected that dealings in the additional shares will commence alongside the existing shares on the GSE by June 27, 2008.

8.10 Share Certificates

Share certificates in respect of the new ordinary shares to be issued pursuant to the Rights Issue will be posted to the applicant by June 20, 2008

8.11 Exchange Controls

The Foreign Exchange Act 2006, (Act 723) which repealed the Exchange Control Act of 1961, Act 71 allows foreigners to hold shares of a listed company without any restrictions. It also assures full and free foreign exchange transfer of original capital or principal amounts, any gains, dividends or interest payments and related earnings and refunds in respect of investments made by non- residents in such securities.

8.12. Restrictions on Ownership in Banks

The Bank of Ghana has regulatory oversight of the banking industry. The Banking Act provides that a direct or indirect acquisition or disposal of shareholdings amounting to 10% or more of the capital or voting rights of a bank or resulting in the exercise of a significant influence over the management of a bank may not be effected without the prior notification and approval of the Bank of Ghana.

8.13. Taxation

- **Withholding Tax on Dividend**

Under current Ghanaian Tax law, all dividend payments are subject to a dividend withholding tax of 8%. No further tax is payable on dividends received.

- **Capital Gains Tax**

The securities of a company listed on the GSE are currently exempt from capital gains tax in Ghana until 2010. No capital gains tax would therefore be payable on any realization of capital gains from the sale of shares of HFC until 2010



- **Gift Tax**

Liability to gift tax may arise by gift of shares in the Bank if the open market value of the shares at the time of the gift exceeds GH¢50.00 (subject to certain exemptions). The tax is payable by the recipient of the gift. The applicable statutory rate varies as follows:

- i. Up to GH¢50.00 Nil
- ii. More than GH¢50.00 10% of excess over GH¢50.00

- **Stamp Duty**

Under the Stamp Duty Act, 2005 (Act 689), transfer of listed shares is exempt from Stamp duty.

- **Corporate Tax**

The Internal Revenue Act 2000, Act 592, prescribes a corporate income tax of 25% for all listed companies.

8.14 Documents Available for Inspection

Copies of the following documents in respect of the establishment and operations of HFC Bank and the Rights Issue may be inspected at the registered office of HFC Bank during normal business hours of any working day during the Offer period:

- iii. The Resolution passed by shareholders at the Annual General Meeting held on April 3, 2007
- iv. Resolution of the Board to allocate renounced shares to interested persons and to list the new Shares on the GSE
- v. The audited financial reports of the Bank for the past five years
- vi. The Escrow Account Agreement
- vii. The Rights Issue Circular
- viii. Financial due Diligence Report
- ix. Legal Due Diligence Report



PART 9

RECEIVING AGENTS

1. All Merchant Bank Branches at the addresses below:

Head Office/Accra Main Branch Merban House, 44 Kwame Nkrumah Avenue. P. O. Box 401, Accra, Ghana. Tel. 021 666331-3	Head Office Annex./Ridge Branch 57 Examination Loop North Ridge, Accra. Ghana Tel. 021 251131-5	Kumasi No. 1 Raintree Avenue P. O. Box 8618, Ahensan-Kumasi Tel. 051 23069, 26021
Takoradi SSNIT Office Complex, Old Accra Road. P. O. Box 222 Takoradi. Tel. 031 23373. 24554	Adabraka Next to Adabraka Police Station P. O. Box 401 Accra. Tel. 021 220952, 226112, 912067	North Industrial Area Kuottam Building North Industrial Area. Tel. 021 7012841-3
Techiman Classic FM Building P. O. Box TM 708 Main Techiman Highway Abaminu, Techiman	Tema Heavy Industrial Area Plots No. IND/A/23/1 Private Mail Bag, Tema Tel. 022 304099, 302399	Tema East Near Ashiaman Roundabout Tel. 022 304099, 302399
Bibiani No. 23A New Town P. O. Box 147, Bibiani Tel. 024-422574	Koforidua House No. 10 Broadway North Street Koforidua. Tel. 081 25452, 25371	Konongo Agency c/o Kumasi Branch Off Kumasi Highway Tel. 0531 24367
Tarkwa 1st Floor SIC Building P. O. Box TK 293 Tel. 0362 22285	Kaneshie Highway 54 Winneba Road Kaneshie P. O. Box 401, Accra Tel. 021 272232, 242670	Abeka Opsem House Tel. 021 231766, 231781

2. All HFC Bank Branches at the addresses below:

Head Office "Ebankese" #35, Sixth Avenue, North Ridge P. O. Box CT 4603, Cantonments, Accra. Tel. 021 242090-4	Ridge Branch 6 Sixth Avenue Ridge Ambassadorial Enclave West Ridge, Accra Tel. 021 683891-3, 683895-9	Accra Central Branch 31-33 Kwame Nkrumah Avenue SIC Building, Okaishie, Accra Tel. 021 683756-9
Legon Branch (University of Ghana) The UG-Credit Union Building Noguchi Road University of Ghana, Legon Tel. 021 519154-6	Tema Branch Asafoatse Kotei Offices and Commercial Complex Private Mail Bag, Community One, Tema Tel. 022 201432, 208385-6	Kumasi Branch OTB 571 Asomfo Road Adum Roundabout, Adum Private Mail Bag, G.P.O. Kumasi Tel. 051 32597, 31579
Abossey Okai Branch Crystal Plaza Building Opposite Presby Church Main Spare Parts Lane Abossey Okai, Accra Tel. 021 673181, 673475	Techiman (Jubilee) Branch Plot 415 Abanim Techiman Tamale Main Street P. O. Box TM 515 Techiman Tel. 0653 22411-2	HFC Investment Services Limited 6 Sixth Avenue Ridge Ambassadorial Enclave West Ridge, Accra. 021 665095, 664214, 664203, 664372
Tamale Branch No. 8 Daboya Street Old Market Tamale Tel. 071-26705,25558	KNUST Campus Branch Commercial Area Kumasi Tel. 051-64243,64241	South Industrial Area Branch Parcel No. 67 Blk 3, South Industrial Area Tel. 021-670780,670789

**PART 10****PROVISIONAL LETTER OF ALLOTMENT - HFC BANK
(GHANA) LIMITED RENOUNCEABLE RIGHTS OFFERING**

Dear Sir/ Madam

Your Directors have upon the terms contained in the Right offer document and this letter provisionally allotted to you the number of new ordinary shares set out in the Allocation Details on the Application Form subject to the Regulations of the Company and relevant provisions of the Ghana Stock Exchange Listing Regulations. Allotments have been made to ordinary shareholders on the Company's Register at the close of the business on April 30, 2008 in the proportion of one (1) new ordinary share for every four(4) ordinary shares held. You have the right to subscribe for these at a price of GH¢ 0.39 per ordinary share payable in full on acceptance, not latter than 17:00 GMT on 30th May, 2008. You may subscribe for all or any of the shares provisionally allotted to you under the Allocation Details by completing Section A of the Application Form. You may renounce all or part of the shares allotted to you in favour of a third party. A renouncee should complete section C(B) of the Application Form and attach to your completed Section A Form before submitting your rights. You may contact Merban Stockbrokers Limited, HFC Investment Service Limited or any other broker for any clarification you may require . You may subscribe for additional shares (see section B of the Application Form). The new ordinary shares will, when fully paid, rank pari passu in all respect with the existing ordinary shares.

By Order of the Board.



PART 11

APPLICATION FORM

Instructions

Please complete this Form and submit the original copy to the Registrars, Merchant Bank (Ghana) Ltd., 57 Examination Loop, P. O. Box 401, North Ridge, Accra or any of Merchant Bank or HFC Bank Branches across the country.

(ALLOCATION DETAILS)

Allocation Serial No:

Number of shares already owned:

Number of new ordinary shares allocated:

SECTION A – (SUBSCRIPTION INSTRUCTIONS)

(i) I wish to subscribe fully to my Rights.

☐

Yes

☐

No

(ii) I wish to subscribe to more shares in addition to my Allocated Rights.

☐

Yes

☐

No

(iii) I wish to renounce fully my Rights

☐

Yes

☐

No

(iv) I wish to split (partially renounce) my Rights.

☐

Yes

☐

No

If yes, see (v) and (vii).

(v) Number of Rights taken up under split:

(vii) Number of Rights renounced under split:



SHAREHOLDER DETAILS

i. For Individual Shareholders

Family Name: (Mr. Mrs. Ms. Other)

Forename (s):

Address:

Email : Tel:

Residential Status:

☐ Ghanaian ☐ Resident Foreigner ☐ Non Resident Foreigner

Custodian ☐ Yes ☐ No

If yes, State Name:

ii. For Company or Institutional Shareholders

Company/Organisation:

Contact Person: (Mr. Mrs. Ms. Other)

Address:

Email : Tel:

Residential Status of Company:

☐ Ghanaian ☐ Resident Foreigner

☐ Non Resident Foreigner

Custodian ☐ Yes ☐ No

If yes, State Name:

Corporate Stamp:

**SECTION B – (EXCESS SHARE APPLICATION FOR EXISTING SHAREHOLDERS)**

I/We wish to subscribe to Shares in addition to my Allotted Rights. (I/We understand that getting these additional shares depends upon the number of unsubscribed shares available after the closure of the Offer).

I/We certify that all statements made in this application to enable me take up/reject/split my rights in the HFC Rights Issue are correct and the responses are my own. I/We authorize the Registrars of HFC, Merchant Bank (Ghana) Limited, to make available information to support this application in its entirety.

.....
Shareholder's Signature.....
Date.....
Receiving Agent's Stamp/Signature

Please Tear Along This Line

.....

To be completed by the Receiving Agent and then signed and retained by applicant as evidence of application HFC RIGHTS ISSUE APPLICATION COUNTER FOIL		
Applicant's Name and Address	Applicant's Signature or Thumbprint	Receiving Agent's Stamp/Signature/Date
Name:		
Address:		
No. of Shares Applied For:	Amount Paid (GH¢/\$/£/€)	

**SECTION C (RENOUNCEE) – HFC RIGHTS ISSUE APPLICATION FORM**

To be Completed By Qualifying Shareholders renouncing some or all of their rights and renounees

A

- i. I/We wish to take up Shares under my Rights.
- ii. I/We wish to renounce the remaining shares in favour of the following person(s):

Name of Renounee	Number of Shares	Amount Payable

B (RENOUNCEE DETAILS)**i. For Individual Renounees**

Family Name: (Mr. Mrs. Ms. Other)

Forename (s):

Address:

Email : Tel:

Identification Number..... Type of ID.....

Residential Status: ☐ Ghanaian ☐ Resident Foreigner ☐ Non-Resident ForeignerCustodian ☐ Yes ☐ No If yes, State Name:**Dividend Mandate**

Bank Name.....

Branch Name

Account Name.....

Account Number.....

ii. For Company or Institution Renounees

Company/Organisation:

Contact Person: (Mr. Mrs. Ms. Other)

Address:

Email : Tel:

Company Registration Number

**Residential Status of Company:**☐

Ghanaian

☐

Resident Foreigner

☐

Non Resident Foreigner

Custodian

Yes

No

If yes, State Name:

Corporate Stamp:

Dividend Mandate

Bank Name.....

Branch Name

Account Name.....

Account Number.....

.....
Renouncee's Signature.....
Date.....
Receiving Agent's Stamp/Signature

Please Tear Along This Line

To be completed by the Receiving Agent and then signed and retained by applicant as evidence of application		
HFC RIGHTS ISSUE APPLICATION COUNTER FOIL		
Applicant's Name and Address	Applicant's Signature or Thumbprint	Receiving Agent's Stamp/Signature/Date
Name:		
Address:		
No. of Shares Applied For:	Amount Paid (GH¢/\$/£/€)	

**SECTION D – HFC RIGHTS ISSUE APPLICATION FORM**

To be Completed by Non-shareholders Who Are Not Renouncees But Wish To Apply For Shares in HFC

APPLICATION

No. of Shares Amount Payable (GH¢/\$/€/£)

1. Surname/Company Name:

First Name:

Middle Name:

Title (tick) Mr/Mrs/Ms/Dr Other: Sex: M/F

Date of Birth/Incorporation: Nationality/Country of Residence:

2. Identification No. / Company Reg. No.:

Passport ☐ National ID ☐ Driver's Licence ☐

3. Address:

.....

Email: Phone:

4. **DIVIDEND MANDATE** Bank Name:

Branch Name:

Account Name:

Account Number:

5. **Declaration:**

I/We hereby apply for shares on the terms and conditions set out in the Offer Circular. I understand and accept that getting these shares depends on the number of unsubscribed rights available after the close of the offer. I/We certify that all statements made in this application are correct and the responses are my/our own.

.....
Applicant's Signature

.....
Date

.....
Receiving Agent's Stamp/Signature

Please Tear Along This Line

To be completed by the Receiving Agent and then signed and retained by applicant as evidence of application		
HFC RIGHTS ISSUE APPLICATION COUNTER FOIL		
Applicant's Name and Address	Applicant's Signature or Thumbprint	Receiving Agent's Stamp/Signature/Date
Name:		
Address:		
No. of Shares Applied For:	Amount Paid (GH¢/\$/£/€)	

