

**HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARIES**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	<b>Pages</b>
<b>Corporate Information</b>	<b>1</b>
<b>Report of the directors</b>	<b>2 - 3</b>
<b>Corporate governance</b>	<b>4 - 5</b>
<b>Independent auditor's report</b>	<b>6 - 7</b>
<b>Consolidated profit and loss and income surplus accounts</b>	<b>8</b>
<b>Consolidated balance sheet</b>	<b>9</b>
<b>Consolidated cash flow statement</b>	<b>10</b>
<b>Consolidated statement of changes in equity</b>	<b>11</b>
<b>Accounting policies</b>	<b>12 - 15</b>
<b>Notes</b>	<b>16 - 37</b>

## **CORPORATE INFORMATION**

**Directors**

Nana Agyei Duku	(Chairman)
Asare Akuffo	(Managing Director)
Akwete Akita	(Executive Director)
Sam Mensah	
Ras Boateng	
B.B. Ebong	
Austine Aikhorin	
John Kusi Mensah	
Stephanie Baeta Ansah	
John Sey	

**Secretary**

Mercy Mamle Tetteh  
Ebankese  
No. 35 Sixth Avenue, North Ridge, Accra  
P.O. Box CT4603  
Cantonments, Accra

**Registered Office**

Ebankese  
No. 35 Sixth Avenue, North Ridge, Accra  
P.O. Box CT4603  
Cantonments, Accra

**Auditor**

PricewaterhouseCoopers  
Chartered Accountants  
No. 12 Aviation Road  
UNA Home, 3<sup>rd</sup> Floor  
Airport City, Accra  
PMB CT 42  
Cantonments, Accra

## REPORT OF THE DIRECTORS

The directors have the pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2007.

### Statement of directors' responsibilities

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

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

### Principal activities

The principal activities of the bank and its subsidiaries are:

- i. to carry on the business of universal banking
- ii. to issue bonds and other financial instruments for residential and commercial mortgages
- iii. to provide brokerage services
- iv. to provide microfinance services to low income earners
- v. to provide property development and management services

### Financial results

The financial results for the year are set out below:

	The Bank GH¢	The Group GH¢
Profit before tax for the year is	4,375,292	4,344,012
from which is deducted tax of	<u>(1,169,175)</u>	<u>(1,214,975)</u>
giving a profit after tax for the year of	3,206,117	3,129,037
minority interest of	<u>-</u>	<u>122,015</u>
Profit after minority interest	3,206,117	3,251,052
to which is added balance brought forward on income surplus account of	<u>19,868</u>	<u>723,483</u>
giving a balance before distribution of	3,225,985	3,974,535
out of which is transferred to statutory reserve fund of	<u>(1,603,059)</u>	<u>(1,603,059)</u>
and also transferred to housing development assistance fund of	(160,306)	(160,306)
and a proposed dividend of	<u>(1,016,600)</u>	<u>(1,016,600)</u>
leaving a balance carried forward on income surplus account of	<u>446,020</u>	<u>1,194,570</u>

## **REPORT OF THE DIRECTORS (continued)**

### **Subsidiaries**

The Bank has the following subsidiaries:

HFC Investment Services Limited. A wholly owned subsidiary of the Bank.

HFC Realty Limited. A wholly owned subsidiary of the Bank.

HFC Brokerage Services Limited. A wholly owned subsidiary of HFC Investments Services Limited.

Boafo Microfinance Services Limited, a company in which the Bank has 51% holding.

The results of these subsidiaries have been included in these consolidated financial statements.

### **Dividends**

The directors recommend the payment of a dividend of **GH¢0.01 per share** (2006: GH¢0.0055) per share.

### **Auditor**

The auditor, PricewaterhouseCoopers, will continue in office in accordance with Section 134 (5) of the Ghana Companies Code, 1963 (Act 179).

**Chairman:**

**Managing Director:**

**Date: .....March 2008**

**Date: .....March 2008**

## **CORPORATE GOVERNANCE**

### **Introduction**

HFC Bank (Ghana) Limited recognises 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 maximises long-term shareholder value and takes into account the interests of all of its stakeholders.

The Bank complies with the Securities and Exchange Commission's Corporate Governance Guidelines as well as its own code of conduct.

HFC Bank (Ghana) Limited believes that full disclosure and transparency in its operations are in the interests of good governance. As indicated in the statement of responsibilities of directors and notes to the consolidated financial statements, the bank adopts standard accounting practices and ensures sound internal controls to facilitate the reliability of the consolidated financial statements.

### **The Board of Directors**

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

The Board consists of a Non-Executive Chairman, seven (7) Non-Executive Directors and two (2) Executive Directors. The Non-Executive Directors are independent of management and free from any constraints, which could materially interfere with the exercise of their independent judgment. They have experience and knowledge of the industry, markets, financial and/or other business information to make valuable contributions to the bank's progress. The Managing Director is a separate individual from the Chairman and he implements the management strategies and policies adopted by the Board. The Board meets a minimum of four times in a year.

### **The Audit Committee**

The Audit Committee is appointed by and reports to the Board. It comprises three non-executive directors - Mr. John Sey, Chairman; Dr. Sam Mensah and Mr. John Kusi Mensah. The Executive Directors and the Internal Control Manager are ordinarily in attendance at the meetings. The Committee had six meetings in the year 2007.

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

## **CORPORATE GOVERNANCE (continued)**

### **Finance and Credit Committee**

The Finance and Credit Committee is appointed by the Board. It comprises three (3) non Executive Directors and two (2) Executive Directors. The Chairman of the Committee is the Board chairman, Nana Agyei Duku. Other members are: Mr. Ras Boateng, Mr. John Sey, Mr. Asare Akuffo and Mr. Akwete Akita.

The duties of the Finance and Credit Committee includes reviewing all credit and finance related policies and issues of the Bank, approving credit within the limits set for the committee by the board and recommending to the full board credit facilities above their limit that should be considered. The Committee also deals with all credit related issues that are submitted by management.

### **Remuneration Committee**

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

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

### **Systems of Internal Control**

HFC Bank (Ghana) Limited has a well-established internal control system for identifying, managing and monitoring risks. These are designed to provide reasonable assurance that the risks facing the bank are being controlled.

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF HFC BANK (GHANA) LIMITED**

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the accompanying consolidated financial statements of HFC Bank (Ghana) Limited and its subsidiaries set out on pages 8 to 37. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007 and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Directors' Responsibility for the Financial Statements**

As stated on page 2, the directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Ghana Accounting Standards and comply with the requirements of the Ghana Companies Code, 1963 (Act 179) and the Banking Act, 2004 (Act 673) and the Banking (Amendment) Act 2007 (Act 738), Securities and Exchange Commissions Regulations 2003, LI 1728, Ghana Stock Exchange Membership Regulations, 1991 and Securities Industry Law (Amended) 2000 (Act 590). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an independent opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements, which are in agreement with the books of account, give a true and fair view of the state of affairs of the Bank and its subsidiaries at 31 December 2007 and of the consolidated profit and cash flows for the year then ended in accordance with Ghana Accounting Standards, and comply with the Ghana Companies Code, 1963 (Act 179), the Banking Act, 2004 (Act 673), the Banking (Amendment) Act 2007 (Act 738), Securities and Exchange Commissions Regulations 2003, LI 1728, Ghana Stock Exchange Membership Regulations, 1991 and Securities Industry Law (Amended) 2000 (Act 590).

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF HFC BANK (GHANA) LIMITED (continued)**

**REPORT ON OTHER LEGAL REQUIREMENTS**

The Ghana Companies Code, 1963 (Act 179) requires that in carrying out our audit we consider and report on the following matters. We confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the bank, so far as appears from our examination of those books; and
- iii) the bank's balance sheet and profit and loss account are in agreement with the books of account.

In accordance with Section 78(2) of the Banking Act 2004 (Act 673), we hereby confirm that:

- i) we were able to obtain all the information and explanation required for the efficient performance of our duties as auditors;
- ii) in our opinion, the accounts give a true and fair view of the state of the Bank's affairs and its results for the year under review; and
- iii) in our opinion, the bank's transactions were within its powers.

**Chartered Accountants**

**Accra**

**Date:.....March 2008**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

(All amounts are expressed in Ghana cedis)

	Notes	<u>Year ended 31 December</u>			
		<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Interest income	1	<b>22,951,258</b>	12,649,936	<b>23,754,796</b>	12,707,988
Interest expense	2	<b>(10,957,924)</b>	<u>(6,149,562)</u>	<b>(10,963,336)</b>	<u>(6,149,562)</u>
<b>Net interest income</b>		<b>11,993,334</b>	6,500,374	<b>12,791,460</b>	6,558,426
Fee and commission income	3	<b>2,594,675</b>	1,325,425	<b>2,640,982</b>	1,831,100
Other operating income		<u><b>35,181</b></u>	<u>305,237</u>	<u><b>63,061</b></u>	<u>306,942</u>
<b>Operating income</b>		<b>14,623,190</b>	8,131,036	<b>15,495,503</b>	8,696,468
Operating expenses	4	<b>(8,833,473)</b>	(5,866,737)	<b>(10,073,345)</b>	(6,396,095)
Bad and doubtful debts expense	14	<u><b>(1,528,121)</b></u>	<u>(633,839)</u>	<u><b>(1,528,121)</b></u>	<u>(633,839)</u>
<b>Operating profit</b>		<b>4,261,596</b>	1,630,460	<b>3,894,037</b>	1,666,534
Other income	6	<u><b>113,696</b></u>	<u>105,060</u>	<u><b>449,975</b></u>	<u>175,292</u>
<b>Profit before national reconstruction levy and tax</b>		<b>4,375,292</b>	1,735,520	<b>4,344,012</b>	1,841,826
National reconstruction levy	7	<u>-</u>	<u>(85,779)</u>	<u>-</u>	<u>(88,246)</u>
<b>Profit before tax and minority interest</b>		<b>4,375,292</b>	1,649,741	<b>4,344,012</b>	1,753,580
Tax	8	<b>(1,169,175)</b>	(428,920)	<b>(1,214,975)</b>	(472,425)
<b>Profit after tax but before minority interest</b>		<b>3,206,117</b>	1,220,821	<b>3,129,037</b>	1,281,155
Minority interest	39	<u>-</u>	<u>-</u>	<u><b>122,015</b></u>	<u>-</u>
<b>Profit after tax and minority interest transferred to consolidated income surplus</b>		<u><b>3,206,117</b></u>	<u>1,220,821</u>	<u><b>3,251,052</b></u>	<u>1,281,155</u>

**CONSOLIDATED INCOME SURPLUS ACCOUNT**

Balance at 1 January		<b>19,868</b>	29,628	<b>723,483</b>	672,909
Profit for the year		<u><b>3,206,117</b></u>	<u>1,220,821</u>	<u><b>3,251,052</b></u>	<u>1,281,155</u>
		<b>3,225,985</b>	1,250,449	<b>3,974,535</b>	1,954,064
Transfer to statutory reserve fund	27	<b>(1,603,059)</b>	(610,410)	<b>(1,603,059)</b>	(610,410)
Transfer to housing development assistance fund	29	<b>(160,306)</b>	(61,041)	<b>(160,306)</b>	(61,041)
Proposed dividend for the year	9	<u><b>(1,016,600)</b></u>	<u>(559,130)</u>	<u><b>(1,016,600)</b></u>	<u>(559,130)</u>
<b>Balance at 31 December</b>		<u><b>446,020</b></u>	<u>19,868</u>	<u><b>1,194,570</b></u>	<u>723,483</u>

**CONSOLIDATED BALANCE SHEET**  
 (All amounts are expressed in Ghana cedis)

Assets	Notes	At 31 December			
		The Bank 2007	The Bank 2006	The Group 2007	The Group 2006
Cash and balances with Bank of Ghana	10	12,927,821	6,864,862	13,246,348	6,865,047
Due from other banks	11	4,389,019	5,425,312	4,297,783	5,597,900
Government securities	12	29,734,993	21,696,035	30,052,884	22,139,286
Interest receivable and other assets	13	3,722,232	1,983,428	4,346,458	2,041,857
Loans and advances to customers	14	102,465,886	65,934,161	102,465,886	65,934,161
Investment securities	15	266,059	342,725	300,692	437,073
Other short-term investments	16	2,108,213	609,057	2,976,330	833,398
Investment in subsidiaries and associated companies	17	1,159,166	534,499	124,499	124,499
Investment properties	18	-	-	82,557	157,592
Property and equipment	19	4,066,265	3,430,567	4,279,058	3,584,688
Tax	22	17,938	410,859	24,482	401,458
<b>Total assets</b>		<b>160,857,592</b>	<b>107,231,505</b>	<b>162,196,977</b>	<b>108,116,959</b>
<b>Liabilities</b>					
Customer deposits	20	83,559,312	55,476,168	83,559,312	55,476,168
Due to banks and other financial institutions		9,000,000	4,000,000	9,000,000	4,000,000
Interest payable and other liabilities	21	7,960,132	3,296,586	8,660,809	3,465,705
Deferred tax liabilities	23	58,060	210,676	54,589	207,752
Long-term bonds	24	33,143,635	26,310,809	33,143,635	26,310,809
Long-term loans	25	14,130,142	7,120,472	14,130,142	7,120,472
<b>Total liabilities</b>		<b>147,851,281</b>	<b>96,414,711</b>	<b>148,548,487</b>	<b>96,580,906</b>
<b>Shareholders' funds</b>					
Stated capital	26	7,025,239	7,025,239	7,025,239	7,025,239
Income surplus account		446,020	19,868	1,194,570	723,483
Statutory reserve fund	27	4,735,613	3,132,554	4,735,613	3,132,554
Capital surplus account	28	546,366	546,366	562,010	562,010
Housing development assistance fund	29	228,218	67,912	228,218	67,912
Share deals account	30	24,855	24,855	24,855	24,855
Total shareholders' funds before minority interest		13,006,311	10,816,794	13,770,505	11,536,053
Minority interest		-	-	(122,015)	-
<b>Total shareholders' funds</b>		<b>13,006,311</b>	<b>10,816,794</b>	<b>13,648,490</b>	<b>11,536,053</b>
<b>Total liabilities and shareholders' funds</b>		<b>160,857,592</b>	<b>107,231,505</b>	<b>162,196,977</b>	<b>108,116,959</b>

The consolidated financial statements on pages 8 to 37 were approved by the Board of Directors on .....March 2008 and signed on its behalf by:

Chairman:

Managing Director:

**CONSOLIDATED CASH FLOW STATEMENT**

(All amounts are expressed in Ghana cedis)

	Notes	<u>Year ended 31 December</u>	
		2007	2006
<b>Operating activities</b>			
Net cash generated from/(used in) operations	35	2,121,482	(82,684)
Interest paid		(400,679)	(589,463)
Tax paid	22	<u>(991,162)</u>	<u>(778,036)</u>
<b>Net cash generated from/(used in) operating activities</b>		<b><u>729,641</u></b>	<b><u>(1,450,183)</u></b>
<b>Investing activities</b>			
Purchase of property and equipment	19	(1,424,295)	(1,080,521)
Proceeds from sale of property and equipment	19	3,947	11,556
(Purchase)/sale of government securities		(7,513,584)	2,819,025
Sale of other investments		(642,932)	944,906
Equity investments	15	136,381	(94,348)
Investment securities repayment	15	-	45,067
Proceeds from sale of investment property	18	75,035	100,155
Purchase of investment property	18	<u>-</u>	<u>(75,035)</u>
<b>Net cash (used in)/generated from investing activities</b>		<b><u>(9,365,448)</u></b>	<b><u>2,670,805</u></b>
<b>Financing activities</b>			
Dividend paid	9	(466,345)	(457,400)
Bonds issued/(redeemed)	24	3,637,678	(4,874,828)
Loans repaid	25	(2,560,606)	(598,607)
Loan drawdown	25	9,570,276	6,907,673
Purchase of treasury shares	30	<u>-</u>	<u>(379,251)</u>
<b>Net cash generated from financing activities</b>		<b><u>10,181,003</u></b>	<b><u>597,587</u></b>
<b>Increase in cash and cash equivalents</b>		<b><u>1,545,196</u></b>	<b><u>1,818,209</u></b>
<b>Movement in cash and cash equivalents</b>			
At 1 January		8,898,949	7,080,740
Increase during the year		<u>1,545,196</u>	<u>1,818,209</u>
<b>At 31 December</b>	36	<b><u>10,444,145</u></b>	<b><u>8,898,949</u></b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(All amounts are expressed in Ghana Cedis)

	Attributable to equity holders to the company							
	Stated capital	Income surplus account	Statutory reserve fund	Capital surplus account	Holding development assistance fund	Share deals account	Minority interest	Total equity
<b>The Group</b>								
<b>Year ended 31 December 2007</b>								
At 1 January	7,025,239	723,483	3,132,554	562,010	67,912	24,855	-	<b>11,536,053</b>
Profit for the year	-	3,251,052	-	-	-	-	(122,015)	<b>3,129,037</b>
Transfer to statutory reserve	-	(1,603,059)	1,603,059	-	-	-	-	-
Transfer to Housing development assistance fund	-	(160,306)	-	-	160,306	-	-	-
Proposed dividend	-	(1,016,600)	-	-	-	-	-	<b>(1,016,600)</b>
<b>At 31 December</b>	<b><u>7,025,239</u></b>	<b><u>1,194,570</u></b>	<b><u>4,735,613</u></b>	<b><u>562,010</u></b>	<b><u>228,218</u></b>	<b><u>24,855</u></b>	<b><u>(122,015)</u></b>	<b><u>13,648,490</u></b>
<b>Year ended 31 December 2006</b>								
At 1 January	7,025,239	672,909	2,522,144	546,366	6,871	404,106	-	<b>11,177,635</b>
Profit for the year	-	1,281,155	-	-	-	-	-	<b>1,281,155</b>
Transfer to statutory reserve	-	(610,410)	610,410	-	-	-	-	-
Transfer to Housing development assistance fund	-	(61,041)	-	-	61,041	-	-	-
Share buy back	-	-	-	-	-	(379,251)	-	<b>(379,251)</b>
Revaluation of land and buildings	-	-	-	15,644	-	-	-	<b>15,644</b>
Proposed dividend	-	(559,130)	-	-	-	-	-	<b>(559,130)</b>
<b>At 31 December</b>	<b><u>7,025,239</u></b>	<b><u>723,483</u></b>	<b><u>3,132,554</u></b>	<b><u>562,010</u></b>	<b><u>67,912</u></b>	<b><u>24,855</u></b>	<b><u>-</u></b>	<b><u>11,536,053</u></b>

## **ACCOUNTING POLICIES**

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

(a) **Basis of preparation**

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

(b) **Consolidation**

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

(c) **Income recognition**

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

(d) **Property and equipment**

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

Building	2%
Furniture and equipment	20%
Motor vehicles	20%
Computers	33 $\frac{1}{3}$ %

(e) **Investment property**

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

## **ACCOUNTING POLICIES (continued)**

### **(f) Translation of foreign currencies**

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

### **(g) Grants**

#### **(i) Revenue grants**

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

#### **(ii) Capital grants**

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

### **(h) Bonds**

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

### **(i) Inflation Adjustment**

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

### **(j) Investments in subsidiaries**

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

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

### **(k) Deferred income tax**

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

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

## **ACCOUNTING POLICIES (continued)**

### **(l) Acceptances and letters of credit**

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

### **(m) Trading securities**

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

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

### **(n) Originated loans and provisions for loan impairment**

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

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

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

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

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the bad and doubtful debt expense.

### **(o) Provision for bad and doubtful debts**

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

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

## **ACCOUNTING POLICIES (continued)**

### **(p) Investment securities**

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

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

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

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

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

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

### **(q) Fee and commission income**

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

### **(r) Interest and investment income**

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

### **(s) Cash and cash equivalents**

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

### **(t) Post balance sheet events**

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

**NOTES**

(All amounts are expressed in Ghana cedis unless otherwise stated)

1. <b>Interest income</b>	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Commercial loans	<b>11,396,161</b>	4,425,479	<b>11,822,623</b>	4,425,479
Consumer loans	<b>2,767,027</b>	259,585	<b>2,781,589</b>	259,585
Mortgage loans	<b>4,286,320</b>	4,329,605	<b>4,286,320</b>	4,329,605
Government securities	<b>3,925,429</b>	3,613,228	<b>4,103,663</b>	3,666,772
Cash and short term funds	<b>576,321</b>	22,039	<b>760,601</b>	26,547
	<b><u>22,951,258</u></b>	<u>12,649,936</u>	<b><u>23,754,796</u></b>	<u>12,707,988</u>
<b>2. Interest expense</b>				
Bonds	<b>4,426,660</b>	3,685,496	<b>4,426,660</b>	3,685,496
Loans	<b>833,240</b>	208,210	<b>838,652</b>	208,210
Time and other deposits	<b>5,698,024</b>	2,255,856	<b>5,698,024</b>	2,255,856
	<b><u>10,957,924</u></b>	<u>6,149,562</u>	<b><u>10,963,336</u></b>	<u>6,149,562</u>
<b>3. Fees and commission income</b>				
Processing fee	<b>883,184</b>	273,030	<b>915,805</b>	274,735
Foreign transactions	<b>290,038</b>	211,127	<b>290,038</b>	211,127
Charges on transactions (COT)	<b>757,287</b>	363,666	<b>764,936</b>	363,666
Brokerage fee	<b>32,039</b>	60,793	<b>32,039</b>	60,793
Others	<b>632,127</b>	416,809	<b>638,164</b>	920,779
	<b><u>2,594,675</u></b>	<u>1,325,425</u>	<b><u>2,640,982</u></b>	<u>1,831,100</u>
<b>4. Operating expenses</b>				
Operating expenses includes:				
Staff costs (Note 5)	<b>3,325,941</b>	2,274,809	<b>3,778,100</b>	2,520,309
Depreciation (Note 19)	<b>672,418</b>	790,308	<b>729,925</b>	853,692
Directors' emoluments	<b>273,584</b>	253,396	<b>324,920</b>	288,256
Auditor's remuneration	<b>23,000</b>	22,000	<b>71,382</b>	26,000
Amount spent on fulfilling social responsibility	<b>90,142</b>	12,118	<b>90,142</b>	12,118
	<b><u>3,325,941</u></b>	<u>2,274,809</u>	<b><u>3,778,100</u></b>	<u>2,520,309</u>
<b>5. Staff costs</b>				
Wages and salaries	<b>1,968,656</b>	1,155,077	<b>2,266,039</b>	1,292,570
Social security benefits	<b>245,067</b>	167,545	<b>287,608</b>	191,444
Other staff benefits	<b>1,112,218</b>	952,187	<b>1,224,453</b>	1,036,295
	<b><u>3,325,941</u></b>	<u>2,274,809</u>	<b><u>3,778,100</u></b>	<u>2,520,309</u>

The average number of persons employed by the group during the year was **264** (2006: 185).

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**6. Other income**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Profit on disposal of assets (Note 19)	<b>3,947</b>	11,556	<b>3,947</b>	11,556
Sundry income	<b><u>109,749</u></b>	<u>93,504</u>	<b><u>446,028</u></b>	<u>163,736</u>
	<b><u>113,696</u></b>	<u>105,060</u>	<b><u>449,975</u></b>	<u>175,292</u>

**7. National reconstruction levy**

**The Bank**

	<b>Balance at 01/01/07</b>	<b>Charge for the year</b>	<b>Payments in the year</b>	<b>Balance at 31/12/07</b>
2006	16,371	-	-	<b>16,371</b>
2007	-	-	-	-
	<b><u>16,371</u></b>	<u>-</u>	<u>-</u>	<b><u>16,371</u></b>

**The Group**

2006	<b>26,053</b>	-	-	<b>26,053</b>
2007	-	-	-	-
	<b><u>26,053</u></b>	<u>-</u>	<u>-</u>	<b><u>26,053</u></b>

National reconstruction levy has been abolished from the Tax law effective 1 January 2007.

**8. Income tax expense**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Current tax (Note 22)	<b>1,321,791</b>	424,050	<b>1,368,138</b>	473,710
Deferred tax (Note 23)	<b><u>(152,616)</u></b>	<u>4,870</u>	<b><u>(153,163)</u></b>	<u>(1,285)</u>
	<b><u>1,169,175</u></b>	<u>428,920</u>	<b><u>1,214,975</u></b>	<u>472,425</u>

**9. Dividend**

At 1 January	<b>559,130</b>	457,400	<b>559,130</b>	457,400
Proposed dividend	<b><u>1,016,600</u></b>	<u>559,130</u>	<b><u>1,016,600</u></b>	<u>559,130</u>
	<b>1,575,730</b>	1,016,530	<b>1,575,730</b>	1,016,530
Dividend paid in the year (Note 21)	<b><u>(466,345)</u></b>	<u>(457,400)</u>	<b><u>(466,345)</u></b>	<u>(457,400)</u>
<b>At 31 December</b>	<b><u>1,109,385</u></b>	<u>559,130</u>	<b><u>1,109,385</u></b>	<u>559,130</u>

The payment of dividend is subject to the deduction of withholding tax at a rate of **8%** (2006: 10%).

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**10. Cash and balances with Bank of Ghana**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Cash in hand	<b>4,438,268</b>	1,947,939	<b>4,438,268</b>	1,948,124
Balances with Bank of Ghana	<b><u>8,489,553</u></b>	<u>4,916,923</u>	<b><u>8,808,080</u></b>	<u>4,916,923</u>
	<b><u>12,927,821</u></b>	<u>6,864,862</u>	<b><u>13,246,348</u></b>	<u>6,865,047</u>

Balances with Bank of Ghana include mandatory reserve deposits of **GH¢5,166,820** (2006: GH¢6,256,000). These funds are not available to finance the Bank's day to day operations.

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
<b>11. Due from other banks</b>				
Placements	<b><u>4,389,019</u></b>	<u>5,425,312</u>	<b><u>4,297,783</u></b>	<u>5,597,900</u>

**12. Government securities**

Treasury bills:

Maturing within 90 days of the date of acquisition (Note 36)	<b>308,044</b>	344,721	<b>400,014</b>	436,002
Maturing after 90 days of the date of acquisition	<b>56,502</b>	538,274	<b>256,502</b>	600,638
Treasury bonds	<b>29,370,447</b>	20,613,040	<b>29,396,368</b>	20,902,646
Government of Ghana Index Linked Bonds (GGILB)	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
	<b><u>29,734,993</u></b>	<u>21,696,035</u>	<b><u>30,052,884</u></b>	<u>22,139,286</u>

**13. Interest receivable and other assets**

Receivables and prepayments	<b>2,060,492</b>	953,655	<b>2,435,635</b>	1,001,517
Accrued interest receivable	<b><u>1,661,740</u></b>	<u>1,029,773</u>	<b><u>1,910,823</u></b>	<u>1,040,340</u>
	<b><u>3,722,232</u></b>	<u>1,983,428</u>	<b><u>4,346,458</u></b>	<u>2,041,857</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**14. Loans and advances to customers**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
<b>Analysis by type of customer</b>				
Individuals	<b>36,235,491</b>	39,842,473	<b>36,235,491</b>	39,842,473
Private enterprises	<b>69,132,102</b>	27,780,565	<b>69,132,102</b>	27,780,565
Staff	<b><u>807,490</u></b>	<u>556,596</u>	<b><u>807,490</u></b>	<u>556,596</u>
Gross loans and advances	<b>106,175,083</b>	68,179,634	<b>106,175,083</b>	68,179,634
Less provision for impairment:				
Specific provisions	<b>(2,455,099)</b>	(1,785,394)	<b>(2,455,099)</b>	(1,785,394)
General provision	<b>(1,099,728)</b>	(395,681)	<b>(1,099,728)</b>	(395,681)
Interest in suspense	<b><u>(154,370)</u></b>	<u>(64,398)</u>	<b><u>(154,370)</u></b>	<u>(64,398)</u>
	<b><u>102,465,886</u></b>	<u>65,934,161</u>	<b><u>102,465,886</u></b>	<u>65,934,161</u>
<b>Analysis by type of advance</b>				
Commercial loans	<b>60,144,853</b>	41,051,865	<b>60,144,853</b>	41,051,865
Consumer loans	<b>18,000,730</b>	549,501	<b>18,000,730</b>	549,501
Mortgage loans	<b>27,222,010</b>	26,021,672	<b>27,222,010</b>	26,021,672
Staff loans	<b><u>807,490</u></b>	<u>556,596</u>	<b><u>807,490</u></b>	<u>556,596</u>
<b>Gross loans and advances</b>	<b>106,175,083</b>	68,179,634	<b>106,175,083</b>	68,179,634
Less provision for impairment:				
Specific provisions	<b>(2,455,099)</b>	(1,785,394)	<b>(2,455,099)</b>	(1,785,394)
General provision	<b>(1,099,728)</b>	(395,681)	<b>(1,099,728)</b>	(395,681)
Interest in suspense	<b><u>(154,370)</u></b>	<u>(64,398)</u>	<b><u>(154,370)</u></b>	<u>(64,398)</u>
	<b><u>102,465,886</u></b>	<u>65,934,161</u>	<b><u>102,465,886</u></b>	<u>65,934,161</u>

The maximum level of staff indebtedness during the year did not exceed **GH¢807,490** (2006: GH¢556,596)

**Analysis by business segments**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Housing	<b>34,424,907</b>	26,175,285	<b>34,424,907</b>	26,175,285
Construction	<b>6,247,660</b>	1,570,376	<b>6,247,660</b>	1,570,376
Commerce and finance	<b><u>65,502,516</u></b>	<u>40,433,973</u>	<b><u>65,502,516</u></b>	<u>40,433,973</u>
Gross loans and advances	<b>106,175,083</b>	68,179,634	<b>106,175,083</b>	68,179,634
Less provision for impairment:				
Specific provisions	<b>(2,455,099)</b>	(1,785,594)	<b>(2,455,099)</b>	(1,785,394)
General provision	<b>(1,099,728)</b>	(395,681)	<b>(1,099,728)</b>	(395,681)
Interest in suspense	<b><u>(154,370)</u></b>	<u>(64,398)</u>	<b><u>(154,370)</u></b>	<u>(64,398)</u>
	<b><u>102,465,886</u></b>	<u>65,934,161</u>	<b><u>102,465,886</u></b>	<u>65,934,161</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**14. Loans and advances to customers (continued)**

The movement in mortgage loans is as follows:

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
At 1 January	<b>24,603,173</b>	18,487,252	<b>24,603,173</b>	18,487,252
Disbursements during year	<b>4,436,532</b>	5,455,715	<b>4,436,532</b>	5,455,715
Interest charged	<b>2,683,547</b>	3,744,283	<b>2,683,547</b>	3,744,283
Exchange difference	<b>922,619</b>	2,507,630	<b>922,619</b>	2,507,630
Inflation adjustment	<b><u>1,602,773</u></b>	<u>2,785,322</u>	<b><u>1,602,773</u></b>	<u>2,785,322</u>
	<b>34,248,644</b>	32,980,202	<b>34,248,644</b>	32,980,202
Less: Repayments	<b><u>(7,026,634)</u></b>	<u>(6,958,530)</u>	<b><u>(7,026,634)</u></b>	<u>(6,958,530)</u>
	<b>27,222,010</b>	26,021,672	<b>27,222,010</b>	26,021,672
Bad and doubtful debts expense	<b><u>(1,903,709)</u></b>	<u>(1,418,499)</u>	<b><u>(1,903,709)</u></b>	<u>(1,418,499)</u>
<b>At 31 December</b>	<b><u>25,318,301</u></b>	<u>24,603,173</u>	<b><u>25,318,301</u></b>	<u>24,603,173</u>

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

<b>The Group</b>	<b>Specific credit risk provision</b>	<b>General provision</b>	<b>Total</b>
<b>Year ended 31 December 2007</b>			
At 1 January 2007	1,785,394	395,681	<b>2,181,076</b>
Doubtful debts expense	<u>669,705</u>	<u>858,417</u>	<b><u>1,528,121</u></b>
<b>At 31 December 2007</b>	<b><u>2,455,099</u></b>	<b><u>1,254,098</u></b>	<b><u>3,709,197</u></b>
<b>Year ended 31 December 2006</b>			
At 1 January 2006	1,212,997	334,239	1,547,236
Doubtful debts expense	<u>572,397</u>	<u>61,442</u>	<u>633,839</u>
<b>At 31 December 2006</b>	<b><u>1,785,394</u></b>	<b><u>395,681</u></b>	<b><u>2,181,075</u></b>

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 **GH¢2,748,695**. Unrecognised interest related to such loans amounted to **GH¢154,370**.

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Loan loss provision ratio	<b>4%</b>	3%	<b>4%</b>	3%
Gross non-performing loans ratio	<b>3%</b>	2%	<b>3%</b>	2%
Ratio of 50 largest exposures	<b><u>32%</u></b>	<u>40%</u>	<b><u>32%</u></b>	<u>40%</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**15. Investment securities**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Debt securities	<u><b>266,059</b></u>	<u>342,725</u>	<u><b>300,692</b></u>	<u>437,073</u>

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:

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
At 1 January	<b>342,725</b>	387,791	<b>437,073</b>	387,791
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,348</u>
	<b>342,725</b>	387,791	<b>437,073</b>	482,139
Redemption	<u><b>(76,666)</b></u>	<u>(45,066)</u>	<u><b>(136,381)</b></u>	<u>(45,066)</u>
<b>At 31 December</b>	<u><b>266,059</b></u>	<u>342,725</u>	<u><b>300,692</b></u>	<u>437,073</u>

**16. Other short-term investments**

Treasury dealings	-	158,918	<b>773,223</b>	158,918
Call Investments	<b>1,500,000</b>	-	<b>1,500,000</b>	20,000
Unit Trusts	<u><b>608,213</b></u>	<u>450,139</u>	<u><b>703,107</b></u>	<u>654,480</u>
	<u><b>2,108,213</b></u>	<u>609,057</u>	<u><b>2,976,330</b></u>	<u>833,398</u>

**17. Investments in subsidiaries and associated companies**

Investment in subsidiaries	<b>1,034,667</b>	410,000	-	-
Investment in associated companies	<u><b>124,499</b></u>	<u>124,499</u>	<u><b>124,499</b></u>	<u>124,499</u>
	<u><b>1,159,166</b></u>	<u>534,499</u>	<u><b>124,499</b></u>	<u>124,499</u>

Investment in associated companies represents equity shares in Gambia HFC and UG HFC Limited.

During the year, the Bank invested **US\$450,000**, in Boafo Microfinance Services Limited. The consolidated financial statements include the results of HFC Investment Services Limited, HFC Realty Limited, HFC Brokerage Services Ltd and Boafo Microfinance Services Limited.

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**17. Investments in subsidiaries and associated companies (continued)**

The following are the percentage holdings of HFC Bank in its various subsidiaries:

<b>Name of company</b>	<b>Holding</b>	<b>Nature of business</b>	<b>Country of incorporation</b>
HFC Investment Services Limited	100%	Investment management	Ghana
HFC Brokerage Services Limited (Subsidiary of HFC Investment Services Limited)	100%	Brokerage services	Ghana
HFC Realty Company Limited	100%	Property management and valuation	Ghana
Boafo Microfinance Services Limited	51%	Micro finance	Ghana
Gambia Home Finance Company	10%	Mortgage finance	Gambia
UG-HFC	60%	Property development	Ghana

UG-HFC is not consolidated because its main object, the development of a commercial property is yet to be significantly implemented.

**18. Investment properties**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
At 1 January	-	-	<b>157,592</b>	173,457
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,035</u>
	-	-	<b>157,592</b>	248,492
Disposal	<u>-</u>	<u>-</u>	<u><b>(75,035)</b></u>	<u>(90,900)</u>
<b>At 31 December</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><b>82,557</b></u>	<u>157,592</u>
<b>Profit on disposal of investment properties</b>			<b>2007</b>	2006
Cost			<b>75,035</b>	90,900
Sales proceeds			<u><b>(75,035)</b></u>	<u>(100,155)</u>
<b>Profit on disposal</b>			<u><u>-</u></u>	<u>9,255</u>

Investment properties are stated at cost. If investment properties were stated at fair value, the amount would have been **GH¢192,000** (2006: GH¢197,000).

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

19. **Property and equipment**

**The Bank**

	<b>Land and buildings</b>	<b>Computers</b>	<b>Furniture and equipments</b>	<b>Motor vehicles</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>Cost/valuation</b>						
At 1 January 2007	2,346,788	1,385,205	1,471,363	427,806	180,114	<b>5,811,276</b>
Additions	13,176	232,026	54,586	198,203	810,125	<b>1,308,116</b>
Disposals	-	-	-	(20,941)	-	<b>(20,941)</b>
Transfers	-	-	608,367	-	(608,367)	<b>-</b>
<b>At 31 December 2007</b>	<b><u>2,359,964</u></b>	<b><u>1,617,231</u></b>	<b><u>2,134,316</u></b>	<b><u>605,068</u></b>	<b><u>381,872</u></b>	<b><u>7,098,451</u></b>
<b>Accumulated depreciation</b>						
At 1 January 2007	153,531	1,289,817	653,356	284,005	-	<b>2,380,709</b>
Charge for the year	47,199	77,342	426,863	121,014	-	<b>672,418</b>
Released on disposals	-	-	-	(20,941)	-	<b>(20,941)</b>
<b>At 31 December 2007</b>	<b><u>200,730</u></b>	<b><u>1,367,159</u></b>	<b><u>1,080,219</u></b>	<b><u>384,078</u></b>	<b><u>-</u></b>	<b><u>3,032,186</u></b>
<b>Net book value</b>						
<b>At 31 December 2007</b>	<b><u>2,159,234</u></b>	<b><u>250,072</u></b>	<b><u>1,054,097</u></b>	<b><u>220,990</u></b>	<b><u>381,872</u></b>	<b><u>4,066,265</u></b>
At 31 December 2006	<u>2,193,257</u>	<u>95,387</u>	<u>818,007</u>	<u>143,801</u>	<u>180,114</u>	<u>3,430,567</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

19. **Property and equipment (continued)**

**The Group**

	Land and buildings	Computers	Furniture and equipments	Motor vehicles	Capital work in progress	Total
<b>Cost/valuation</b>						
At 1 January 2007	2,346,788	1,607,754	1,482,957	549,260	181,060	<b>6,167,819</b>
Additions	13,176	277,561	74,063	249,370	810,125	<b>1,424,295</b>
Disposals	-	-	-	(20,941)	-	<b>(20,941)</b>
Transfers	-	-	609,313	-	(609,313)	<b>-</b>
<b>At 31 December 2007</b>	<b><u>2,359,964</u></b>	<b><u>1,885,315</u></b>	<b><u>2,166,333</u></b>	<b><u>777,689</u></b>	<b><u>381,872</u></b>	<b><u>7,571,173</u></b>
<b>Accumulated depreciation</b>						
At 1 January 2007	153,531	1,394,703	683,770	351,127	-	<b>2,583,131</b>
Charge for the year	47,199	95,255	439,069	148,402	-	<b>729,925</b>
Released on disposals	-	-	-	(20,941)	-	<b>(20,941)</b>
<b>At 31 December 2007</b>	<b><u>200,730</u></b>	<b><u>1,489,958</u></b>	<b><u>1,122,839</u></b>	<b><u>478,588</u></b>	<b><u>-</u></b>	<b><u>3,292,115</u></b>
<b>Net book value</b>						
<b>At 31 December 2007</b>	<b><u>2,159,234</u></b>	<b><u>395,357</u></b>	<b><u>1,043,494</u></b>	<b><u>299,102</u></b>	<b><u>381,872</u></b>	<b><u>4,279,058</u></b>
At 31 December 2006	<u>2,193,257</u>	<u>213,051</u>	<u>799,187</u>	<u>198,133</u>	<u>181,060</u>	<u>3,584,688</u>

Messrs. Bortey Consulting, an independent chartered valuer, revalued the Bank's landed properties at open market value on 31 December 2005, in line with the Bank's policy of revaluing its landed properties every five years.

If land and buildings were stated at the historical cost, the amount would be as follows:

	The Bank 2007	The Bank 2006	The Group 2007	The Group 2006
Cost	<b>413,721</b>	400,545	<b>413,721</b>	400,545
Accumulated depreciation	<b><u>(62,942)</u></b>	<u>(54,667)</u>	<b><u>(62,942)</u></b>	<u>(54,667)</u>
Net book value	<b><u>350,779</u></b>	<u>345,878</u>	<b><u>350,779</u></b>	<u>345,878</u>
<b>Profit on disposal of property and equipment</b>				
Gross book value	<b>20,941</b>	74,953	<b>20,941</b>	74,953
Accumulated depreciation	<b><u>(20,941)</u></b>	<u>74,953</u>	<b><u>(20,941)</u></b>	<u>(74,953)</u>
Net book value	-	-	-	-
Sale proceeds	<b><u>(3,947)</u></b>	<u>(11,556)</u>	<b><u>(3,947)</u></b>	<u>(11,556)</u>
<b>Profit on disposal</b>	<b><u>(3,947)</u></b>	<u>(11,556)</u>	<b><u>(3,947)</u></b>	<u>(11,556)</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

20. **Customer deposits**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Demand accounts	<b>21,644,358</b>	13,309,451	<b>21,644,358</b>	13,309,451
Savings deposits	<b>17,699,939</b>	11,600,135	<b>17,699,939</b>	11,600,135
Time deposits	<b><u>44,215,015</u></b>	<u>30,566,582</u>	<b><u>44,215,015</u></b>	<u>30,565,582</u>
	<b><u>83,559,312</u></b>	<u>55,476,168</u>	<b><u>83,559,312</u></b>	<u>55,476,168</u>

**Analysis by type of deposits**

Individual/private enterprise	<b>64,172,024</b>	44,380,934	<b>64,172,024</b>	44,380,934
Public enterprise	<b><u>19,387,288</u></b>	<u>11,095,234</u>	<b><u>19,387,288</u></b>	<u>11,095,234</u>
	<b><u>83,559,312</u></b>	<u>55,476,168</u>	<b><u>83,559,312</u></b>	<u>55,476,168</u>

Ratio of 20 largest deposits to total deposits	<b><u>37%</u></b>	<u>31%</u>	<b><u>37%</u></b>	<u>31%</u>
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21. **Interest payable and other liabilities**

Creditors	<b>4,894,185</b>	1,701,768	<b>5,594,862</b>	1,870,887
Accrued interest	<b>1,956,562</b>	1,035,688	<b>1,956,562</b>	1,035,688
Dividend payable (Note 9)	<b><u>1,109,385</u></b>	<u>559,130</u>	<b><u>1,109,385</u></b>	<u>559,130</u>
	<b><u>7,960,132</u></b>	<u>3,296,586</u>	<b><u>8,660,809</u></b>	<u>3,465,705</u>

22. **Tax**

<b>The Bank Current tax</b>	<b>Balance at 01/01/07</b>	<b>Charge for the year</b>	<b>Payments in the year</b>	<b>Balance at 31/12/07</b>
2006	(410,859)	-	-	<b>(410,859)</b>
2007	-	<u>1,321,791</u>	<u>(928,870)</u>	<b><u>392,921</u></b>
	<b><u>(410,859)</u></b>	<u>1,321,791</u>	<u>(928,870)</u>	<b><u>(17,938)</u></b>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

22. **Tax (continued)**

**The Group**

**Current tax**

	Balance at 1/1/06	Charge for the year	Payments during year	Balance at 31/12/07
2006	(401,458)	-	-	<b>(401,458)</b>
2007	<u>-</u>	<u>1,368,138</u>	<u>(991,162)</u>	<u><b>376,976</b></u>
	<u>(401,458)</u>	<u>1,368,138</u>	<u>(991,162)</u>	<u><b>(24,482)</b></u>

23. **Deferred income tax**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of **25%** (2006:25%) for the bank and its subsidiaries. The movement on the deferred tax account is as follows:

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
At 1 January	<b>210,676</b>	205,806	<b>207,752</b>	209,037
Income statement (credit)/charge for the year	<u><b>(152,616)</b></u>	<u>4,870</u>	<u><b>(153,163)</b></u>	<u>(1,285)</u>
<b>At 31 December</b>	<u><b>58,060</b></u>	<u>210,676</u>	<u><b>(54,589)</b></u>	<u>207,752</u>

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

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
<b>Deferred income tax liabilities</b>				
Property and equipment	<u><b>250,574</b></u>	<u>241,833</u>	<u><b>247,103</b></u>	<u>238,909</u>
<b>Deferred income tax assets</b>				
Mortgages and other advances	<u><b>(134,052)</b></u>	35,447	<u><b>(134,052)</b></u>	35,447
Long-term bonds	<u><b>(58,462)</b></u>	<u>(66,604)</u>	<u><b>(58,462)</b></u>	<u>(66,604)</u>
	<u><b>(58,060)</b></u>	<u>210,676</u>	<u><b>54,589</b></u>	<u>207,752</u>

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

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

23. **Deferred income tax (continued)**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Property and equipment	<b>8,740</b>	(22,195)	<b>308,664</b>	(28,350)
Long term bonds	<b>8,143</b>	(10,967)	<b>8,143</b>	(10,967)
Mortgage loans	<b>(169,499)</b>	<u>38,032</u>	<b>(169,499)</b>	<u>38,032</u>
	<b>(152,616)</b>	<u>4,870</u>	<b>(147,308)</b>	<u>(1,285)</u>

24. **Long-term bonds**

At 1 January	<b>26,310,809</b>	28,489,152	<b>26,310,809</b>	28,489,152
Issued	<b>3,637,678</b>	-	<b>3,637,678</b>	-
Interest charged	<b>608,776</b>	601,734	<b>608,776</b>	601,734
Exchange loss	<b>223,847</b>	266,414	<b>223,847</b>	266,413
Inflation adjustment	<b><u>2,763,204</u></b>	<u>2,417,800</u>	<b><u>2,763,204</u></b>	<u>2,417,800</u>
	<b>33,544,314</b>	31,775,100	<b>33,544,314</b>	31,775,100
Redemptions	-	(4,874,828)	-	(4,874,828)
Interest paid	<b><u>(400,679)</u></b>	<u>(589,463)</u>	<b><u>(400,679)</u></b>	<u>(589,463)</u>
<b>At 31 December</b>	<b><u>33,143,635</u></b>	<u>26,310,809</u>	<b><u>33,143,635</u></b>	<u>26,310,809</u>
<b>Analysis by type of bond:</b>				
Ghana Government bonds (Note (i))	<b>8,052,509</b>	7,121,689	<b>8,052,509</b>	7,121,689
Social Security & National Insurance Trust bonds (Note (ii))	<b><u>18,917,850</u></b>	<u>16,877,048</u>	<b><u>18,917,850</u></b>	<u>16,877,048</u>
Total cedi bonds	<b>26,970,359</b>	23,998,737	<b>26,970,359</b>	23,998,737
HFC dollar housebonds (Note (iii))	<b><u>6,173,276</u></b>	<u>2,312,072</u>	<b><u>6,173,276</u></b>	<u>2,312,072</u>
<b>At 31 December</b>	<b><u>33,143,635</u></b>	<u>26,310,809</u>	<b><u>33,143,635</u></b>	<u>26,310,809</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**24. Long-term bonds (continued)**

**i. Ghana Government Bond**

The International Development Association (IDA) has made available to the Government of Ghana (GoG) a credit of **US\$70 million** for the Urban II Project. GoG has on-lent an amount of **US\$7 million** from the proceeds of the credit to HFC Bank (Ghana) Limited for home mortgage financing. The term of the bond is 30 years. These are fully indexed to inflation and attract interest at the rate of 1% per annum.

**ii. Social Security and National Insurance Trust Bonds**

**(a) Uncompleted housing scheme**

A loan of **GH¢200,000** 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) has lent the cedi equivalent of **US\$16.2 million** to the Bank for the implementation of the home mortgage finance Pilot Scheme. The loan, which has a 20-year term, is fully indexed to inflation and attracts interest at the rate of 1% per annum.

**iii. HFC Dollar Housbonds**

HFC Bank (Ghana) Limited made a shelf registration of **US\$35 million** bonds on the Ghana Stock Exchange on 17 September 1996. The issued bonds have a five year maturity period and investors have the option to redeem their holdings at a discount value of **US\$98.25** for every **US\$100** at the end of the second year of issue. The bonds are listed and traded on the Ghana Stock Exchange. At 31 December 2007, **US\$6.4 million** HFC dollar housbonds (2006: US\$ 2.5million) were outstanding.

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

25. **Long-term loans**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
IDA	<b>212,800</b>	212,799	<b>212,800</b>	212,799
SSNIT Loan	<b>2,431,083</b>	2,302,558	<b>2,431,083</b>	2,302,558
Stanchart Loan	<b>5,000,000</b>	-	<b>5,000,000</b>	-
Ghana International Bank (GHIB)	<b><u>6,486,259</u></b>	<u>4,605,115</u>	<b><u>6,486,259</u></b>	<u>4,605,115</u>
	<b><u>14,130,142</u></b>	<u>7,120,472</u>	<b><u>14,130,142</u></b>	<u>7,120,472</u>

The movement on long term loans is as follow:

At 1 January	<b>7,120,472</b>	811,406	<b>7,120,472</b>	811,406
Addition	<b>9,570,276</b>	6,907,673	<b>9,570,276</b>	6,907,673
Repayment	<b><u>(2,560,606)</u></b>	<u>(598,607)</u>	<b><u>(2,560,606)</u></b>	<u>(598,607)</u>
<b>At 31 December</b>	<b><u>14,130,142</u></b>	<u>7,120,472</u>	<b><u>14,130,142</u></b>	<u>7,120,472</u>

(i) **IDA Loan**

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

(ii) **GHIB Loan**

The GHIB loan represents an unsecured medium term loan of **US\$5.0 million** contracted to finance loans and advances. This is a 3 year floating rate facility of libor plus 3% payable quarterly with instalments that began on 16 November 2006.

(iii) **SSNIT Loan**

The SSNIT loan is a **US\$10 million** secured loan borrowed to finance the construction of houses at Dunkonah. The first drawdown of **US\$2.5 million** was made in September 2006. The loan attracts interest at 1-year treasury note rate plus 100 basis points. It has a 2 year maturity.

iv. **Stanchart loan**

The Stanchart loan is a three (3) year medium term facility. The interest rate is 4.49% below Standard Chartered Bank's base rate. Interest is payable quarterly in arrears.

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**26. Stated capital**

The Bank has authorised shares of **1,000,000,000** (2006: 1,000,000,000) of which **101,660,000** (2006: 101,660,000) have been issued. The movement in stated capital is as follows:

	2007		2006	
	No of shares	Proceeds	No of shares	Proceeds
Issued for cash consideration	<u>101,660,000</u>	<u>7,025,239</u>	<u>101,660,000</u>	<u>7,025,239</u>

There is no unpaid liability on any shares. There are no calls or instalments unpaid. There are **468,344** treasury shares (2006: 624,870).

**27. Statutory reserve**

	The Bank 2007	The Bank 2006	The Group 2007	The Group 2006
At 1 January	<b>3,132,554</b>	2,522,144	<b>3,132,554</b>	2,522,144
Transfer from retained profits	<u>1,603,059</u>	<u>610,410</u>	<u>1,603,059</u>	<u>610,410</u>
<b>At 31 December</b>	<u><b>4,735,613</b></u>	<u>3,132,554</u>	<u><b>4,735,613</b></u>	<u>3,132,554</u>

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

**28. Capital surplus account**

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

**29. Housing development assistance fund**

	The Bank 2007	The Bank 2006	The Group 2007	The Group 2006
At 1 January	<b>67,912</b>	6,871	<b>67,912</b>	6,871
Transfer from retained earnings	<u>160,306</u>	<u>61,041</u>	<u>160,306</u>	<u>61,041</u>
<b>At 31 December</b>	<u><b>228,218</b></u>	<u>67,912</u>	<u><b>228,218</b></u>	<u>67,912</u>

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

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

30. **Share deals accounts**

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
At 1 January	<b>24,855</b>	404,106	<b>24,855</b>	404,106
Purchase of treasury shares	<u>-</u>	<u>(379,251)</u>	<u>-</u>	<u>(379,251)</u>
<b>At 31 December</b>	<b><u>24,855</u></b>	<b><u>24,855</u></b>	<b><u>24,855</u></b>	<b><u>24,855</u></b>

There are **468,344** treasury shares (2006: 624,870).

31. **Contingent liabilities and commitments**

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

	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
Guarantees and bonds without cash collateral	<b>2,912,487</b>	1,013,029	<b>2,912,487</b>	1,013,029
Less: provision against impairment	<u>(28,111)</u>	<u>(18,944)</u>	<u>(28,111)</u>	<u>(18,944)</u>
	<b><u>2,884,376</u></b>	<b><u>994,085</u></b>	<b><u>2,884,376</u></b>	<b><u>994,085</u></b>

**Nature of commitments**

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

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

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

**Legal proceedings**

There were a number of legal proceedings outstanding against the Group as at 31 December 2007. No provision has been made as professional advice indicates that it is unlikely that any significant loss will rise.

32. **Maturity analysis of assets and liabilities**

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

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**32. Maturity analysis of assets and liabilities (continued)**

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

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2007 to the contractual maturity date:

	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and bank balances with Bank of Ghana	12,927,821	-	-	-	-	<b>12,927,821</b>
Other bank balances	4,389,019	-	-	-	-	<b>4,389,019</b>
Government securities	-	364,546	21,498,003	7,872,444	-	<b>29,734,993</b>
Interest receivable and other assets	-	-	3,722,232	-	-	<b>3,722,232</b>
Loans and advances to customers	-	-	-	78,623,969	23,841,917	<b>102,465,886</b>
Investment securities	-	-	-	266,059	-	<b>266,059</b>
Other short term investments	-	1,500,000	608,213	-	-	<b>2,108,213</b>
Investment in subsidiary	-	-	-	-	1,159,166	<b>1,159,166</b>
Property and equipment	-	-	-	-	4,066,265	<b>4,066,265</b>
Tax	-	-	-	17,938	-	<b>17,938</b>
<b>Total assets</b>	<b><u>17,316,840</u></b>	<b><u>1,864,546</u></b>	<b><u>25,828,448</u></b>	<b><u>86,780,410</u></b>	<b><u>29,067,348</u></b>	<b><u>160,857,592</u></b>
<b>Liabilities</b>						
Customer deposits	11,113,867	11,365,696	-	61,079,749	-	<b>83,559,312</b>
Due to banks and other financial institutions	-	9,000,000	-	-	-	<b>9,000,000</b>
Interests payable and other liabilities	-	-	7,960,132	-	-	<b>7,960,132</b>
Deferred tax	-	-	-	58,060	-	<b>58,060</b>
Long-term bonds	-	-	-	6,173,276	26,970,359	<b>33,143,635</b>
Long-term loans	-	-	-	14,130,142	-	<b>14,130,142</b>
<b>Total liabilities</b>	<b><u>11,113,867</u></b>	<b><u>20,365,696</u></b>	<b><u>7,960,132</u></b>	<b><u>81,441,227</u></b>	<b><u>26,970,359</u></b>	<b><u>147,785,281</u></b>
<b>Net liquidity gap</b>	<b><u>6,202,973</u></b>	<b><u>(18,501,150)</u></b>	<b><u>17,868,316</u></b>	<b><u>5,339,183</u></b>	<b><u>2,096,989</u></b>	
<b>At 31 December 2006</b>						
Total assets	12,290,174	503,638	3,382,700	62,236,756	28,818,237	<b>107,231,505</b>
Total liabilities	(937,108)	(4,000,000)	(57,835,646)	(9,432,544)	(24,209,413)	<b>(96,414,711)</b>
<b>Net liquidity gap</b>	<b><u>11,353,066</u></b>	<b><u>(3,496,362)</u></b>	<b><u>(54,452,946)</u></b>	<b><u>52,804,212</u></b>	<b><u>(4,608,824)</u></b>	

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**33. Credit risk**

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

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

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

**34. Currency risk**

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the bank's exposure to foreign currency exchange rate at 31 December 2007. Included in the table are the bank's assets and liabilities at carrying amounts categorised by currency:

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**34. Currency risk (continued)**

The Bank had the following foreign currency positions:

**At 31 December 2007**

	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CEDIS</b>	<b>Total</b>
<b>Assets</b>					
Cash and balance with central bank	425,486	1,830,338	848,076	9,823,921	<b>12,927,821</b>
Due from other banks	241,260	3,167,859	513,780	466,120	<b>4,389,019</b>
Government securities	-	-	-	29,734,993	<b>29,734,993</b>
Interest receivable and other assets	-	-	-	3,722,232	<b>3,722,232</b>
Loans and advances to customers	616	25,069,492	302,843	77,092,935	<b>102,465,886</b>
Investment securities	-	-	-	266,059	<b>266,059</b>
Other short term investments	-	-	-	2,108,213	<b>2,108,213</b>
Investment in subsidiary and associated companies	-	-	-	1,159,166	<b>1,159,166</b>
Property and equipment	-	-	-	4,066,265	<b>4,066,265</b>
Tax	-	-	-	17,938	<b>17,938</b>
<b>Total assets</b>	<b><u>667,362</u></b>	<b><u>30,067,689</u></b>	<b><u>1,664,699</u></b>	<b><u>128,457,842</u></b>	<b><u>160,857,592</u></b>
<b>Liabilities</b>					
Customers deposits	547,194	14,619,301	2,844,260	65,548,557	<b>83,559,312</b>
Due to other banks	-	-	-	9,000,000	<b>9,000,000</b>
Interest payable and other liabilities	-	370,210	-	7,589,922	<b>7,960,132</b>
Deferred tax	-	-	-	58,060	<b>58,060</b>
Long-term bonds	-	6,173,276	-	26,970,359	<b>33,143,635</b>
Long term loans	-	<u>6,699,059</u>	-	<u>7,431,083</u>	<b><u>14,130,142</u></b>
<b>Total liabilities</b>	<b><u>547,194</u></b>	<b><u>27,861,846</u></b>	<b><u>2,844,260</u></b>	<b><u>116,597,981</u></b>	<b><u>147,851,281</u></b>
<b>Net on balance sheet position</b>	<b><u>120,168</u></b>	<b><u>2,205,843</u></b>	<b>(1,179,561)</b>	<b><u>11,859,861</u></b>	<b><u>13,006,311</u></b>
<b>Net off balance sheet position</b>	<b><u>-</u></b>	<b><u>948,105</u></b>	<b><u>-</u></b>	<b><u>1,936,271</u></b>	<b><u>2,884,376</u></b>
<b>At 31 December 2006</b>					
Total assets	283,271	23,825,361	3,265,154	79,857,719	<b>107,231,505</b>
Total liabilities	<u>(596,698)</u>	<u>(22,952,170)</u>	<u>(3,355,954)</u>	<u>(69,509,889)</u>	<b><u>(96,414,711)</u></b>
<b>Net liquidity gap</b>	<b><u>(313,427)</u></b>	<b><u>873,191</u></b>	<b><u>(90,800)</u></b>	<b><u>10,347,830</u></b>	<b><u>10,816,794</u></b>
<b>Net off balance sheet position</b>	<b><u>-</u></b>	<b><u>872,683</u></b>	<b><u>-</u></b>	<b><u>121,402</u></b>	<b><u>994,085</u></b>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**35. Cash generated from/(used in) operations**

	Notes	The Group 2007	The Group 2006
Profit before tax		<b>4,344,012</b>	1,753,580
Depreciation	19	<b>729,925</b>	853,692
Profit on disposal of property and equipment	19	<b>(3,947)</b>	(11,556)
Increase in bad and doubtful debt expense	14	<b>1,528,121</b>	633,839
Interest expense on long term bonds	24	<b>608,776</b>	601,734
Inflation adjustment on long term bonds	24	<b>2,763,204</b>	2,417,800
Exchange loss on long term bonds	24	<b><u>223,847</u></b>	<u>266,414</u>
<b>Cash generated from operations before changes in operating assets and liabilities</b>		<b>10,193,938</b>	6,515,503
Increase in loans and advances to customers		<b>(39,046,103)</b>	(36,693,213)
Increase in other assets accounts		<b>(2,304,601)</b>	1,707,468
Increase in deposits		<b>28,083,144</b>	27,449,936
Increase in creditors and accruals		<b><u>5,195,104</u></b>	<u>937,622</u>
<b>Cash generated from/(used in) operations</b>		<b><u>2,121,482</u></b>	<u>(82,684)</u>

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

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

	The Group 2007	The Group 2006
Cash and balances with Bank of Ghana (Note 10)	<b>13,246,348</b>	6,865,047
Due from other banks (Note 11)	<b>4,297,783</b>	5,597,900
Treasury bills (Note 12)	<b>400,014</b>	436,002
Call investments	<b>1,500,000</b>	-
Due to other banks	<b><u>(9,000,000)</u></b>	<u>(4,000,000)</u>
	<b><u>10,444,145</u></b>	<u>8,898,949</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

37. **Related party transactions**

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

<b>Type of related party</b>	<b>The Bank 2007</b>	The Bank 2006	<b>The Group 2007</b>	The Group 2006
<b>(i) Loans to directors</b>				
Loans outstanding at 1 January	<b>149,125</b>	123,440	<b>149,125</b>	123,440
Loans issued during the year	<b>131,025</b>	30,977	<b>131,025</b>	30,977
Interest income earned	<b>16,752</b>	6,435	<b>16,752</b>	6,435
Loan repayments during the year	<b><u>(27,963)</u></b>	<u>(11,727)</u>	<b><u>(27,963)</u></b>	<u>(11,727)</u>
<b>Loans outstanding at 31 December</b>	<b><u>268,939</u></b>	<u>149,125</u>	<b><u>268,939</u></b>	<u>149,125</u>

No provisions have been recognised in respect of loans given to related parties (2006: nil).

**(ii) Deposits from directors**

Deposit at 1 January	<b>105,887</b>	124,884	<b>105,887</b>	124,884
Deposit received during the year	<b>1,048,406</b>	2,328,798	<b>1,048,406</b>	2,328,798
Withdrawals during the year	<b><u>(1,018,800)</u></b>	<u>(2,347,794)</u>	<b><u>(1,018,800)</u></b>	<u>(2,347,794)</u>
<b>Deposit at 31 December</b>	<b><u>135,493</u></b>	<u>105,888</u>	<b><u>135,493</u></b>	<u>105,888</u>
Interest expense on deposits	<u>155</u>	<u>905</u>	<u>155</u>	<u>905</u>

**NOTES (continued)**

(All amounts are expressed in Ghana cedis unless otherwise stated)

**38. Country analysis**

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

	In Ghana 2007	Outside Ghana 2007	In Ghana 2006	Outside Ghana 2006
<b>Assets</b>				
Cash and balances with Bank of Ghana	12,927,821	-	6,864,862	-
Due from other banks	21,814	4,367,205	2,540,351	2,884,961
Government securities	29,734,993	-	21,696,035	-
Interest receivable and other assets	3,722,232	-	1,983,428	-
Loans and advances to customers	102,465,886	-	65,934,161	-
Investment securities	266,059	-	342,725	-
Other short term investments	2,108,213	-	609,057	-
Investment in subsidiaries and associated companies	1,131,813	27,353	500,000	34,499
Tax	17,938	-	410,859	-
Property and equipment	<u>4,066,265</u>	<u>-</u>	<u>3,430,567</u>	<u>-</u>
<b>Total assets</b>	<b><u>156,463,034</u></b>	<b><u>4,394,558</u></b>	<b><u>104,312,045</u></b>	<b><u>2,919,460</u></b>
<b>Liabilities</b>				
Customer deposits	83,559,312	-	55,476,168	-
Due to banks and other financial institutions	9,000,000	-	4,000,000	-
Interest payable and other liabilities	7,802,722	157,410	3,138,368	158,218
Deferred tax	58,060	-	210,676	-
Long term bonds	33,143,635	-	26,310,809	-
Long term loans	<u>7,643,883</u>	<u>6,486,259</u>	<u>2,515,357</u>	<u>4,605,115</u>
Total liabilities	<u>141,207,612</u>	<u>6,643,669</u>	<u>91,651,378</u>	<u>4,763,333</u>
<b>Net assets/(liabilities)</b>	<b><u>15,255,422</u></b>	<b><u>(2,249,111)</u></b>	<b><u>12,660,667</u></b>	<b><u>(1,843,873)</u></b>

**39. Minority interest**

	2007	2006
Balance at 1 January	-	-
Add: Profit and loss account	(122,015)	-
Less: Minority dividend payments	<u>-</u>	<u>-</u>
Balance at 31 December	<b><u>(122,015)</u></b>	<u>-</u>

**40. Comparative figures**

During 2007, the Bank of Ghana redenominated the country's currency by setting ten thousand cedis; ₵10,000 (old currency) to one Ghana cedi; GH₵1.00 (new currency). The comparative figures have therefore been converted to Ghana cedis.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.