



INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HFC BANK GROUP

Report on the Audit of the Financial Statements



Opinion

We have audited the consolidated financial statements of HFC Bank (Ghana) Limited, (the Bank) and its subsidiaries (the group) set out on pages 36 to 106 which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179) and the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act 2007 (Act 738).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing audits of HFC Bank (Ghana) Limited and its subsidiaries. We have fulfilled our other ethical responsibilities in accordance with the IFAC Code, and in accordance with other ethical requirements applicable to performing the audits of HFC Bank (Ghana) Limited and its subsidiaries. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures,

including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter

Impairment of loans and advances in line with IFRS

The group's loans and advances, and related impairment provision for the year form 50% of total assets 18% of total expenses respectively. Impairment of loans and advances involves the application of significant estimates, judgements and assumptions by management. Determination of the impairment loss provision are an inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, estimated time to realisation of collaterals and expected net selling price. This process therefore required significant audit attention as changes in these judgements and assumptions could produce significantly different estimates of loan loss provisions.

How the matter was addressed in the audit

We assessed and tested the design and operating effectiveness of the controls over individual and collective impairment calculations including the quality of underlying data and systems.

For loan loss provisions calculated on an individual basis we tested the assumptions underlying the main triggers for specific impairment assessment, the process for estimating impairment loss including forecasts of future cash flows, valuation of underlying collateral, estimated period to realisation and estimates of recovery on default.

For loan loss provisions calculated on a collective basis we tested, the reasonableness of the underlying assumptions in relation to industry norms.

Refer to note 21 for details on the loan impairment

Adequacy of regulatory credit risk provisioning

Regulatory Credit Risk Reserve is governed by Bank of Ghana specific regulatory provisions rules aside the IFRS impairment provision. Unlike IFRS impairment rules however, regulatory provision rules are more deterministic and triggered mainly by the number of days a facility has been in default. The excess of regulatory provision over IFRS provision is recognised directly in equity as credit risk reserves. The balance on this account as at 31 December 2016 was GHS2.4million. Regulatory credit risk provisions represent a key risk area for the bank as misstatements in the carrying amount of this balance could

have significant impact on the banks financial statements including the accuracy of its capital adequacy computations and other key industry performance indicators.

We assessed the systems and related controls instituted by management to ensure the accurate determination of these provisions.

We reviewed the process for aging and categorisation of the various loan buckets and the application of related regulatory provision rates.

We tested a sample of these provisions based on our overall risk assessment of this account.

Refer to note 36 for details on the adequacy of regulatory credit risk provisions

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Information, Report of Directors and Corporate Governance report. Other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 1963 (Act 179) and the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act 2007 (Act 738), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal requirements

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

- 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;
- In our opinion proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- Proper returns adequate for the purpose of our audit have been received from branches not visited by us; and
- The balance sheet (statement of financial position) and

the profit or loss account are in agreement with the books of account.

The Banking Act, 2004 (Act 673) Section 78(2) requires that we state certain matters in the report. We confirm that:

- The accounts give a true and fair view of the state of affairs of the bank and its results for the period.
- We were able to obtain all relevant information and explanations required for the efficient performance of our functions.
- The bank's transactions were within the powers of the bank and
- The bank has generally complied with the provisions of the Banking Act, 2004 (Act 673), as amended.



Signed by Pamela Des Bordes (ICAG/P/1329)

For and on behalf of Ernst & Young (ICAG/F/2017/126)

Chartered Accountants

Accra, Ghana

Date: 22nd March, 2017



FINANCIALS

HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year period to 31 December 2016

<i>In thousands of GHS</i>	Note	2016		2015	
		Bank	Group	Bank	Group
Interest income	8	276,012	287,572	251,081	256,676
Interest expense	9	(156,383)	(156,383)	(113,672)	(113,672)
Net interest income		<u>119,629</u>	<u>131,189</u>	<u>137,409</u>	<u>143,004</u>
Fee and commission income	10a	20,096	35,768	14,894	28,934
Fee and commission expense	10b	(729)	(729)	(400)	(427)
Net fee and commission income		<u>19,367</u>	<u>35,039</u>	<u>14,494</u>	<u>28,507</u>
Net trading income	11	11,503	11,503	26,761	26,761
Other operating income	12a	2,372	12,359	9	5,567
Other income	12b	<u>19,990</u>	<u>11,510</u>	<u>5,127</u>	<u>5,722</u>
Operating income		172,861	201,600	183,800	209,561
Net impairment loss on financial asset	21e	(69,781)	(72,781)	(85,203)	(81,848)
Personnel expenses	13	(84,264)	(97,770)	(75,801)	(90,111)
Operating lease expenses	14	(6,870)	(7,981)	(4,975)	(6,066)
Depreciation and amortization	15	(11,957)	(12,999)	(8,940)	(9,732)
Other expenses	16	(56,984)	(73,851)	(45,960)	(54,034)
Loss before income tax for the period		(56,995)	(63,782)	(37,079)	(32,230)
National Stabilization Levy	23b	-	(393)	-	(353)
Tax expense	17	<u>18,389</u>	<u>16,446</u>	<u>(2,162)</u>	<u>(3,752)</u>
Loss for the period		(38,606)	(47,729)	(39,241)	(36,335)
Other comprehensive income, net of income tax		-	-	-	-
Total comprehensive income for the period		(38,606)	(47,729)	(39,241)	(36,335)
Profit / (loss) attributable to:					
Controlling Equity holders of the bank		(38,606)	(47,982)	(39,241)	(37,071)
Non-controlling interest		-	253	-	736
Loss for the period		(38,606)	(47,729)	(39,241)	(36,335)
Total comprehensive income attributable to:					
Controlling Equity holders of the bank		(38,606)	(47,982)	(39,241)	(37,071)
Non-controlling interest		-	253	-	736
		(38,606)	(47,729)	(39,241)	(36,335)
Basic earnings per share (Ghana pesewas)	47	(12.98)	(16.13)	(13.19)	(12.46)
Diluted earnings per share (Ghana pesewas)		(12.98)	((16.13)	(13.19)	(12.46)


The attached notes on pages 41 to 106 form an integral part of these financial statements.

HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 As at 31 December 2016

<i>In thousands of GHS</i>		2016		2015	
	Note	The Bank	The Group	The Bank	The Group
Assets					
Cash and cash equivalents	18	638,851	642,944	411,920	413,458
Non-Pledged trading assets	19	68,607	68,607	72,263	72,262
Pledged assets	19	22,300	22,300	10,000	10,000
Other investments	20	42,838	28,376	17,423	24,887
Loans and advances to customers	21	919,964	919,436	924,736	890,890
Investment securities	22	8,612	26,225	32,946	33,441
Current income tax assets	23	25,111	25,275	9,830	9,740
Deferred tax assets	24	15,199	15,263	-	-
Intangible asset	25	6,512	6,685	9,654	9,893
Other assets	26	45,200	76,900	19,728	75,334
Property, plant and equipment	27	<u>62,977</u>	<u>65,545</u>	<u>57,919</u>	<u>60,424</u>
Total assets		<u>1,856,171</u>	<u>1,897,556</u>	<u>1,566,419</u>	<u>1,600,329</u>
Liabilities and equity					
Deposits from banks	28	-	-	24,000	24,000
Deposits from customers	29	1,558,210	1,558,210	1,189,454	1,189,454
Borrowing	30	41,845	41,845	28,463	28,463
Deferred tax	24	-	-	3,189	3,098
Other liabilities	31	<u>114,967</u>	<u>149,903</u>	<u>141,558</u>	<u>159,987</u>
Total liabilities		<u>1,715,022</u>	<u>1,749,960</u>	<u>1,386,664</u>	<u>1,405,002</u>
Equity					
Stated capital	32	96,191	96,191	96,191	96,191
Income surplus	33	(47,682)	(43,750)	(13,475)	(167)
Revaluation reserve	34	32,293	32,309	32,819	32,835
Statutory reserve fund	35	57,203	57,203	57,203	57,203
Regulatory credit risk reserve	36	2,400	2,400	6,273	6,273
Housing development assistance reserve	37	<u>744</u>	<u>744</u>	<u>744</u>	<u>744</u>
Total equity attributable to equity holders of the Bank		141,149	145,097	179,755	193,079
Non-controlling interest	38	-	2,501	-	2,248
Total equity		<u>141,149</u>	<u>147,598</u>	<u>179,755</u>	<u>195,327</u>
Total liabilities and equity		<u>1,856,171</u>	<u>1,897,556</u>	<u>1,566,419</u>	<u>1,600,329</u>

The financial statements on pages 41 to 106 were approved by the Board of directors on February 8, 2017 and signed on its behalf by:

Chairman: 
 Date: 8th February, 2017

Managing Director: 
 Date: 8th February, 2017

HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2016

The Bank-2016 <i>In thousands of GHS</i>	Stated Capital (note 32)	Income surplus account (note 33)	Statutory reserve (note 35)	Revaluation reserve (note 34)	Housing dev't assistance reserve (note 37)	Regulatory credit risk reserve (note 36)	Total Equity
Balance at 1 January 2016	96,191	(13,475)	57,203	32,819	744	6,273	179,755
Loss for the year		(38,606)	-	-	-	-	(38,606)
Transfers to income surplus from reserves recorded directly in equity							
Transfer from revaluation surplus	-	526	-	(526)	-	-	-
Movement from regulatory credit risk reserve	-	3,873	-	-	-	(3,873)	-
At 31 December 2016	96,191	(47,682)	57,203	32,293	744	2,400	141,149

The Bank-2015 <i>In thousands of GHS</i>	Stated Capital (note 32)	Income surplus account (note 33)	Statutory reserve (note 35)	Revaluation reserve (note 34)	Housing dev't assistance reserve (note 37)	Regulatory credit risk reserve (note 36)	Other reserves	Total Equity
Balance at 1 January	95,424	20,180	57,203	32,819	744	29,506	194	236,070
Loss for the year		(39,241)	-	-	-	-	-	(39,241)
Proceeds from ESOP	767	-	-	-	-	-	-	767
Dividend	-	(17,841)	-	-	-	-	-	(17,841)
Transfer from other reserve to income surplus	-	194	-	-	-	-	(194)	-
Movement from regulatory credit risk reserve	-	23,233	-	-	-	(23,233)	-	-
At 31 December	96,191	(13,475)	57,203	32,819	744	6,273	-	179,755

HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2016

The Group-2016 In thousands of GHS								
	Stated capital (note 32)	Income surplus account (note 33)	Statutory reserve (note 35)	Revaluation reserve (note 34)	Housing dev't. assistance reserve (note 37)	Regulatory credit risk reserve (note 36)	Non- controlling interest	Total equity
Balance at 1 January	96,191	(167)	57,203	32,835	744	6,273	2,248	195,327
Profit/(Loss) for the year	-	(47,982)	-	-	-	-	253	(47,729)
Transfers to income surplus from reserves, recorded directly in equity								
Transfer from capital surplus	-	526	-	(526)	-	-	-	-
Transfer from regulatory credit risk reserve	-	3,873	-	-	-	(3,873)	-	-
At 31 December	96,191	(43,750)	57,203	32,309	744	2,400	2,501	147,598

The Group-2015 In thousands of GHS									
	Stated capital (note 32)	Income surplus account (note 33)	Statutory reserve (note 35)	Revaluation reserve (note 34)	Housing dev't. assistance reserve (note 37)	Regulatory credit risk reserve (note 36)	Other reserves	Non- controlling interest	Total equity
Balance at 1 January	95,424	31,318	57,203	32,835	744	29,506	194	1,512	248,736
Profit/(Loss) for the year	-	(37,071)	-	-	-	-	-	736	(36,335)
Proceeds from ESOP	767	-	-	-	-	-	-	-	767
Dividend	-	(17,841)	-	-	-	-	-	-	(17,841)
Transfer from other reserve to income surplus	-	194	-	-	-	-	(194)	-	-
Transfer from regulatory credit risk reserve	-	23,233	-	-	-	(23,233)	-	-	-
At 31 December	96,191	(167)	57,203	32,835	744	6,273	-	2,248	195,327

HFC BANK (GHANA) LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
 For the year ended 31 December 2016

<i>In thousands of GHS</i>		2016		2015	
	Note	Bank	Group	Bank	Group
Cash flows from Operating activities					
Cash generated from operations	40	277,552	278,872	97,711	105,490
Interest paid-long term bonds and borrowing	30/31a	(17,454)	(17,454)	(16,968)	(16,968)
Tax paid	23	(11,377)	(13,456)	(9,996)	(11,555)
National stabilization levy paid	23	<u>(2,119)</u>	<u>(2,527)</u>	<u>(2,142)</u>	<u>(2,489)</u>
Net cash generated from operating activities		<u>246,602</u>	<u>245,435</u>	<u>68,605</u>	<u>74,478</u>
Cash flows from investing activities					
Purchase of property, plant and equipment	27	(14,103)	(15,265)	(11,111)	(12,682)
Purchase of Intangible asset- software	25b	(742)	(785)	(6,522)	(6,559)
Proceeds from sale of property, plant and equipment	27	740	935	179	271
Purchase of government securities		(4,394,445)	(4,394,531)	(1,627,452)	(1,667,350)
Sale of government securities		4,385,804	4,385,815	1,614,251	1,653,516
(Purchase)/sale of other investments		(8,127)	(3,489)	18,617	8,272
(Purchase)/sale of investment securities		6,134	(10,984)	(11,612)	(9,794)
Investment in venture capital fund		<u>913</u>	<u>18,200</u>	<u>716</u>	<u>716</u>
Net cash used in investing activities		<u>(23,826)</u>	<u>(20,104)</u>	<u>(22,934)</u>	<u>(33,610)</u>
Cash flows from financing activities					
Dividend paid		-	-	(17,843)	(17,843)
Redemption of bonds	31a	(16,766)	(16,766)	(25,628)	(25,628)
Borrowings repaid	30	(32,902)	(32,902)	(48,962)	(48,962)
Proceeds from borrowings	30	<u>43,245</u>	<u>43,245</u>	<u>26,839</u>	<u>26,839</u>
Net cash generated from financing activities		<u>(6,423)</u>	<u>(6,423)</u>	<u>(65,594)</u>	<u>(65,594)</u>
Increase in cash and cash equivalents		<u>216,353</u>	<u>218,908</u>	<u>(19,923)</u>	<u>(24,726)</u>
Net foreign exchange difference		10,578	10,578	6,143	6,143
At 1 January		<u>411,920</u>	<u>413,458</u>	<u>425,700</u>	<u>432,041</u>
Cash and cash equivalents as at 31 December		<u>638,851</u>	<u>642,944</u>	<u>411,920</u>	<u>413,458</u>

The attached notes on pages 41 to 106 form an integral part of these financial statements.