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(xii) Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(xiii) Identification and Measurement of Impairment

The Group assesses at each reporting whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan and other observable data that suggests adverse changes in the payment status of the borrowers.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Available-for-Sale Financial Assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

•Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversal is recognised in profit or loss

(xiv) Designation at Fair Value through Profit or Loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

› the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
› the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
› the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 29 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss.

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j. Gold

Gold is held by the Group as part of its foreign reserves and is classified as available-for-sale for the purposes of measurement. Gold holdings are included in the statement of financial position at the prevailing closing spot market price on the London Bullion Market on that date.

Changes in the fair value of gold holdings arising from price changes are recognised directly in equity as part of other reserves.

Foreign exchange gains and losses on gold holdings are for the account of the Government of Ghana and consequently such gains and losses are transferred to Revaluation Account in accordance with section 7 of the Bank of Ghana Act, 2002 (Act 612). Refer to note 3(f).

k. Loans and Advances

Loans and advances originated by the Bank are classified as loans and receivables. Loans and advances are stated in the statement of financial position at the estimated recoverable amounts in accordance with note 3 i(iv).

The recoverable amounts of loans and advances are the present value of expected future cash flows, discounted at the instruments' original effective interest rate.

l. Securities

Domestic Securities

Domestic securities consist of Government of Ghana redeemable, negotiable and interest bearing securities. These securities are classified as held to maturity and are stated in the statement of financial position at amortised cost.

Foreign Securities

This represents interest bearing short-term instruments with fixed maturities held with correspondent banks. These securities are stated at amortised cost.

Long-Term Government Securities

This represents interest bearing and non-interest bearing fixed maturity securities issued by the Government of Ghana to cover the Bank in respect of net exchange losses arising on holdings of gold, SDRs or foreign securities recognised in the Revaluation Account in accordance with section 7 of the Bank of Ghana Act, 2002. The interest bearing and non-interest bearing components of these securities are stated at amortised cost to fairly present the substance of these securities.

m. Equity Shares and Participation Interests

Equity investments are classified as available-for-sale financial assets and measured at fair value after initial recognition. Where the fair value of these investments cannot be reliably measured, they are stated at cost less provision for impairments.

n. Property, Plant and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and labour, any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment ("PPE") have different useful lives, they are accounted for as separate items (major components) of PPE.

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(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the profit and loss as incurred.

The annual depreciation rates generally in use for the current and comparative year are as follows:

	%
Buildings	2-4
Plant and Equipment	10 - 33 1/3
Motor Vehicles	33 1/3
Furniture and Fittings	10-20

Capital work-in-progress is recorded at cost. Land is not depreciated.

(iii) Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment in order to reduce the value to residual value over the useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reassessed and adjusted if necessary at the reporting date.

An item of property, plant and equipment and any significant part is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are included in profit or loss.

(iv) Revaluation

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. Where assets carrying amount is increased as a result of revaluation, the increase is credited to other comprehensive income under the heading of Asset Revaluation Reserve. However, the increase is recognised in profit or loss account to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Conversely, where the carrying amount is decreased as a result of revaluation, the decrease shall be recognised in profit and loss. However, the decrease shall be debited directly to other comprehensive income under the heading Asset Revaluation Reserve to the extent of any credit balance existing in the Asset Revaluation Reserve in respect of that asset.

o. Intangible Assets

Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to five years.

Amortisation methods and useful lives are reassessed and adjusted prospectively if necessary at the reporting date.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are included in profit or loss.

p. Deposits

This is mainly made up of customer, government, commercial banks and other financial institutions' deposit accounts. They are categorised as other financial liabilities carried in the statement of financial position at amortised cost. Interest bearing deposits are stated at amortised cost.

q. Employee Benefits

(i) Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Defined Benefit Plans

The Bank of Ghana operates a defined benefit scheme which provides benefits based on final pensionable pay. The Bank's obligation for contribution to the scheme is recognised as an expense in the income statement.

The Bank's net obligation in respect of defined benefit pension plans is to be calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs. The discount rate is the yield at the reporting date on a long-dated instrument on the Ghana market. The calculation is performed by a qualified actuary using the projected unit credit method. Changes in the present value of the plan liabilities are to be recognised in profit or loss.

When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses, unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The Group however accounts for the pension fund liability by making annual allocation towards the fund liability determined by the valuer.

(iii) Termination Benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-Term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

An accrual is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

r. Capital and Reserves

Stated capital represents non-distributable capital of the Bank.

With respect to the distribution of surplus for the year, the Bank of Ghana Act provides that after allowing for specified provisions, surplus for the year is distributed as follows:

- transfer of one-half of the net profit to the General Reserve, if the balance in the Reserve is less than the paid up capital of the Bank; or
- transfer of one quarter of net profit to the General Reserve, if the balance in the Reserve is less than twice the amount of paid up capital;
- any residual to be utilised to settle Government of Ghana indebtedness and/or where none exists, to be paid into the Consolidated Fund.

Except that where there is a net loss on the Revaluation Account, the net surplus for the year shall be credited to it.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

s. Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity in which case it is recognised in other comprehensive income or equity.

The Bank is not subject to tax in respect of its functions under the Bank of Ghana Act.

Tax on the profit of the Bank's subsidiaries, Ghana International Bank Plc, Central Securities Depository (CSD) and Ghana Interbank Payments and Settlements Systems Ltd for the year, comprises current tax charge and the change in deferred tax. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities on the taxable income for the year, using the tax rates (and tax laws) that have been enacted or substantively enacted by the financial reporting date.

t. Deferred Taxation

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that

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taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation with the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

u. Events after the Reporting Date

Events subsequent to reporting date are adjusted only to the extent that they provide evidence of conditions that existed at the end of the reporting period and their effect is material.

v. Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the financial statements.

w. Provisions

A provision is recognised if, as a result of past obligating event, the settlement amount can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the net present value of the lower of the expected cost to terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

x. Financial Guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

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4. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital Expenditure Commitment

The Group had capital expenditure commitments of GH¢38,668,532 not provided for in the financial statements as at 31 December 2011 (2010: GH¢993,719).

(b) Pending Legal Claims

There are contingent liabilities in respect of pending legal suits against the Group amounting to GH¢1,503.17 million. (2010: GH¢1,527.00 million).

(c) Documentary Credits

Contingent liabilities in respect of documentary credits held with Ghana International Bank Plc amounted to GH¢16.328 million (2010: GH¢86.35 million). Total commitments outstanding at 31 December 2011 was GH¢ 311.182 million (2010: 286.35 million)

5. EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES

The effective interest rates for the principal financial assets at 31 December 2011 and 2010 were in the following ranges:

	2011 GH¢'000	2010 GH¢'000
ASSETS		
Securities -Government	**0%-14%**	0 %–22.70%
External	**0.04-%4.55 %**	0.13% –4.72%
Loans and Advances	12.5% -13.5%	13.5% -18%
LIABILITIES		
Deposits	**0%**	0%
Liabilities under Money Market Operations	**11.99%-11.70%**	11.65% -18.25%

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6(i). INTEREST AND SIMILAR INCOME

	The Bank		The Group	
	2011	2010	**2011**	2010
	GH¢'000	GH¢'000	**GH¢'000**	GH¢'000
Interest on Overnight Lending, Government Securities, Medium/Long-Term Notes and Bonds	**257,027**	181,271	**270,221**	193,356
Interest on Foreign Correspondent Accounts and Foreign Investments	**37,780**	43,368	**37,780**	43,368
Total Interest Income	**294,807**	224,639	**308,001**	236,724
Discount on Treasury Bill Operations	**72,517**	24,362	**72,517**	24,362
	367,324	249,001	**380,518**	261,086

6(ii). INTEREST EXPENSE AND SIMILAR CHARGES

	The Bank		The Group	
	2011	2010	**2011**	2010
	GH¢'000	GH¢'000	**GH¢'000**	GH¢'000
IMF & SDR Allocations[1]	**690**	408	**690**	408
Foreign Loans and Credits	**2**	-	**2**	-
Forex Deposits	**-**	-	**-**	469
Interest on Money Market Instruments	**85,452**	109,143	**88,009**	109,143
Repo Expense and Other Commissions Paid	**68,343**	38,408	**68,308**	38,408
	154,487	147,959	**157,009**	149,873

[1]These are charges relating to transactions with IMF