NOTE 9
Property, plant and equipment, intangibles, and investment properties

Business Context

Central banks require buildings, secure facilities, and equipment to fulfill their mandates. While these are necessary to support the central bank’s ability to operate, these investments are secondary to the main purpose of the central bank which is to achieve monetary policy and financial stability objectives.

IFRS does require disclosure of such items but central banks can decide when and if they are material to the user of the financial statements. The issuers of the financial statements must apply a balanced approach. The main purpose of the financial statements is to provide the user with information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions. (IASB conceptual framework 1.2). For a central bank whose balance sheet is 50 percent foreign assets, 40 percent domestic assets and 2 percent Property, Plant and Equipment, the detail and transparency included in the disclosures should be reasonably proportionate.

ACCOUNTING POLICY – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES, AND INVESTMENT PROPERTIES

Initial recognition
Property, plant and equipment, intangible assets and investment properties are initially recognized at cost.

Carrying Value
Property, plant and equipment, intangibles, and investment property assets (aside from land) have finite useful lives and are measured at cost less accumulated amortization, depreciation, and impairment losses.

Amortization and Depreciation
Amortization and depreciation are calculated using the straight-line method and is applied over the estimated useful lives of the assets when the asset is available for use, ranging from three to seventy-five years. Land is not depreciated.

<table>
<thead>
<tr>
<th>Buildings and facilities</th>
<th>over the estimated future lives which range from ten to seventy-five years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant within buildings</td>
<td>over periods ranging from five to twenty years</td>
</tr>
<tr>
<td>IT equipment</td>
<td>over periods ranging from three to seven years</td>
</tr>
<tr>
<td>Intangibles</td>
<td>over periods ranging from three to fifteen years</td>
</tr>
<tr>
<td>Other equipment</td>
<td>over periods ranging from three to twenty years</td>
</tr>
</tbody>
</table>

The estimated useful life and the depreciation and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis.
**Impairment**

Assets that are subject to depreciation are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. An asset’s carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value (less costs to sell) and value in use.

**Subsequent valuation**

Professional valuations of the Bank’s properties, excluding investment properties, are carried out every 5 years with subsequent additions included at cost and provisions made for depreciation. Any surplus arising on revaluation is recognized directly in a Revaluation Reserve within Equity, except to the extent the surplus reverses a previous revaluation deficit on the same asset recognized in profit or loss in which case the credit is to the income statement.

**Impairment of non-financial assets.**

Non-financial assets are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying amount exceeds their recoverable amount.

Judgement is required when determining:

- the costs that are attributable to the asset;
- for assets where valuation is applied, the fair value of the properties;
- the appropriate useful life over which the assets should be depreciated or amortized;
- the depreciation method; and,
- whether the existing assets are subject to impairment.
The Bank’s investment in its property, plant and equipment, its intangible assets, and investment properties at yearend were:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Land, buildings and installations</th>
<th>Furniture and Office Equipment</th>
<th>Vehicles</th>
<th>Computers &amp; Accessories</th>
<th>Total Property and Equipment</th>
<th>Computer software</th>
<th>Total Intangible Assets</th>
<th>Investment properties</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2018</td>
<td>79,147</td>
<td>63,029</td>
<td>15,981</td>
<td>64,318</td>
<td>222,476</td>
<td>45,613</td>
<td>45,613</td>
<td>20,000</td>
<td>288,089</td>
</tr>
<tr>
<td>Additions</td>
<td>50</td>
<td>6,260</td>
<td>6,492</td>
<td>16,410</td>
<td>29,212</td>
<td>12,806</td>
<td>12,806</td>
<td>–</td>
<td>42,018</td>
</tr>
<tr>
<td>Transfers</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposal</td>
<td>(885)</td>
<td>(2,224)</td>
<td>(772)</td>
<td>(5,117)</td>
<td>(8,998)</td>
<td>(336)</td>
<td>(336)</td>
<td>–</td>
<td>(9,334)</td>
</tr>
<tr>
<td>At December 31, 2018</td>
<td>78,313</td>
<td>67,066</td>
<td>21,701</td>
<td>75,611</td>
<td>242,690</td>
<td>58,084</td>
<td>58,084</td>
<td>20,000</td>
<td>320,774</td>
</tr>
<tr>
<td>Additions</td>
<td>15,500</td>
<td>15,293</td>
<td>13,675</td>
<td>15,284</td>
<td>59,752</td>
<td>7,013</td>
<td>7,013</td>
<td>–</td>
<td>66,765</td>
</tr>
<tr>
<td>Transfers</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposal</td>
<td>(2,335)</td>
<td>(2,311)</td>
<td>–</td>
<td>(774)</td>
<td>(5,420)</td>
<td>(300)</td>
<td>(300)</td>
<td>–</td>
<td>(5,720)</td>
</tr>
<tr>
<td>At December 31, 2019</td>
<td>91,477</td>
<td>80,048</td>
<td>35,376</td>
<td>90,121</td>
<td>297,021</td>
<td>64,797</td>
<td>64,797</td>
<td>20,000</td>
<td>381,818</td>
</tr>
</tbody>
</table>

Depreciation/Amortization

<table>
<thead>
<tr>
<th>Cost</th>
<th>Land, buildings and installations</th>
<th>Furniture and Office Equipment</th>
<th>Vehicles</th>
<th>Computers &amp; Accessories</th>
<th>Total Property and Equipment</th>
<th>Computer software</th>
<th>Total Intangible Assets</th>
<th>Investment properties</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2018</td>
<td>32,110</td>
<td>50,814</td>
<td>11,451</td>
<td>50,426</td>
<td>144,801</td>
<td>45,218</td>
<td>45,218</td>
<td>4,000</td>
<td>194,018</td>
</tr>
<tr>
<td>Charge for year</td>
<td>2,535</td>
<td>2,575</td>
<td>1,822</td>
<td>4,326</td>
<td>11,258</td>
<td>866</td>
<td>866</td>
<td>1,000</td>
<td>13,124</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,335)</td>
<td>(1,065)</td>
<td>–</td>
<td>–</td>
<td>(3,401)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(3,401)</td>
</tr>
<tr>
<td>At December 31, 2018</td>
<td>32,310</td>
<td>52,324</td>
<td>13,273</td>
<td>54,751</td>
<td>152,658</td>
<td>46,084</td>
<td>46,084</td>
<td>5,000</td>
<td>203,741</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>2,235</td>
<td>5,762</td>
<td>2,158</td>
<td>5,230</td>
<td>15,385</td>
<td>3,713</td>
<td>3,713</td>
<td>1,000</td>
<td>20,098</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(1,311)</td>
<td>–</td>
<td>(4,275)</td>
<td>(5,586)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(5,586)</td>
</tr>
<tr>
<td>At December 31, 2019</td>
<td>34,545</td>
<td>56,775</td>
<td>15,431</td>
<td>55,706</td>
<td>162,457</td>
<td>49,797</td>
<td>49,797</td>
<td>6,000</td>
<td>218,254</td>
</tr>
</tbody>
</table>

Net carrying value

<table>
<thead>
<tr>
<th>Cost</th>
<th>Land, buildings and installations</th>
<th>Furniture and Office Equipment</th>
<th>Vehicles</th>
<th>Computers &amp; Accessories</th>
<th>Total Property and Equipment</th>
<th>Computer software</th>
<th>Total Intangible Assets</th>
<th>Investment properties</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At December 31, 2018</td>
<td>46,003</td>
<td>14,742</td>
<td>8,428</td>
<td>20,860</td>
<td>90,032</td>
<td>12,000</td>
<td>12,000</td>
<td>15,000</td>
<td>117,032</td>
</tr>
<tr>
<td>At December 31, 2019</td>
<td>56,932</td>
<td>23,273</td>
<td>19,945</td>
<td>34,415</td>
<td>134,565</td>
<td>15,000</td>
<td>15,000</td>
<td>14,000</td>
<td>163,565</td>
</tr>
</tbody>
</table>
Note 9.1 Property, plant and equipment

Business Context

A typical central bank’s major Property, Plant and Equipment (PPE) would include buildings and facilities; currency processing, storage and transporting equipment; and technological equipment.

The buildings would largely be used for administrative purposes on activities relating to central banking such as its head office and its branches in other regions. Specialized facilities would include secure facilities for printing, holding and processing currency as well as vaults for storing currency.

Property, Plant and Equipment are considered as fixed/tangible assets of the Bank if they are:

- Held by the Bank for use in the supply of service or for administrative purposes; and,
- Are expected to be used for more than three years.

Where applicable, figures for freehold land and buildings reflect independent professional valuations performed in accordance with the Utopian Appraisal and Valuation legislation. (BOE)

User Guidance

For the purpose of these financial statements, Property, Plant and Equipment is considered under IAS 16 and the following topics should be covered:

- Initial recognition where the criteria on whether an item is to be recognized as a PPE is considered;
- Subsequent costs largely relating to treatment of additional expenditures impacting on the PPE;
- Determination of gains and losses;
- Depreciation method, including useful life, residual value;
- Impairment of PPE; and,
- Subsequent valuation.

Land and buildings are separable assets and are accounted for separately, as land is usually not depreciated. Buildings are carried at cost or at revalued amounts. If applied, valuations are done by professional appraisers and usually at an interval of 5 years. Computer equipment is accounted for separately from the software that is deployed on the hardware. Software is treated as an intangible asset. Although some central banks revalue other fixed assets such as furniture and equipment largely to manage expected useful lives and residual values, it is a very uncommon practice, nevertheless.

If the Bank has a de minimis lower limit for capitalization, this should be disclosed as should other material criteria.
Note 9.2 **Intangible assets**

**Business Context**

Central banks acquire and develop their own intangible assets used to manage their daily operations. The most common of such intangible asset is software and it is accounted for under IAS 38. IAS 38 provides guidance on how to account for software that is both purchased and developed. Purchased software comprises applications developed by major vendors. Some software is developed internally to meet specific user needs or where commercial-off-the-shelf software is not available. Central banks typically own and manage mission critical systems for national payments Real Time Gross Settlement systems for high value payments, Automated Clearing House applications for low value payments and Central Securities Depository for transferring securities amongst participants who are largely banks which transact both on their own portfolio and also on behalf of their clients. Central banks may also host software that would allow banks and all other financial institutions to report directly to the central bank such as Bank Supervision Applications.

**DISCLOSURE – INTANGIBLE ASSETS**

Intangible assets are identifiable non-monetary assets without physical substance that present future economic benefits and are controlled by the Bank. The Bank’s intangible assets consist of computer software that has been internally developed or externally acquired.

Costs that are directly associated with the internal development of identifiable software are recognized as intangible assets if, in management’s best estimate, the asset can technically be completed and will provide a future economic benefit to the Bank. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. (BOC)

**User Guidance**

For the purpose of the financial statements, software as an intangible asset is considered under IAS 38 and 36 for impairment. The following topics should be further covered:

- Initial recognition where the criteria on whether an item is to be recognized as an intangible asset is determined;
- Amortization;
- Impairment.

Computer software is the most common if not the only intangible asset held by central banks due to the nature of their core central banking business. Some of the software is procured as commercial-off-the-shelf software and configured to meet the central bank’s needs or customized further to address deficiencies. The cost of this would be the initial perpetual license paid to use the applications plus all taxes, installation and testing costs charged by suppliers. Annual maintenance fees are expensed. Upgrades are typically expensed unless they significantly enhance the functionality of the software.

For internally developed software, the major expenditure would relate to foundational applications (database, security, etc.) which are integrated into the application as well as staff or external contractor costs engaged in the software development and implementation. Overheads may warrant allocation on significant software development projects. Care is usually exercised to allocate personnel time worked on the project obtained through timesheets. Training costs and business process reengineering are not capitalizable.
It is only the software that would bring economic benefits to the central bank that is capitalized and the useful life would be estimated. The upgrade policy of software providers would sometimes inform the useful life of software.

Software is assessed for impairment annually.

The central bank's intangible assets are software used for internal purposes. Central banks do not hold intangible assets that can be referred to in an active market for fair valuation. (IAS 38.75 and IAS 38.78)
Note 9.3 Investment properties

Business Context

Central banks do not normally invest in property but sometimes have surplus properties that are rented out. They may also find themselves owning properties for commercial banks that are under resolution. These may qualify as investment properties under IAS40.

A central bank's property is held to be used in its day-to-day operational and administrative activities affecting the central bank. Most central banks do not hold property with the sole purpose of letting out. However, as a central bank grows, it may acquire larger properties to meet future growth in activities. This may create excess capacity which may be available to be rented out. In this regard, the property ought to be accounted for under IAS 40 Investment Properties.

A central bank may also acquire properties from banks in resolution pledged as collateral. The central bank may also collect the properties left as collateral from the loans to its employees who have defaulted. Such buildings will not be used in the central bank's operations. As such they should be classified as investment properties unless they have been specifically classified as for disposal under IFRS 5.

Under IAS 40 Investment Properties may be accounted for at cost or valuation. Most central banks adopt a cost basis and depreciates the building using a straight-line method. The useful lives are assessed individually for each building depending on the circumstances and the condition of the building.

Central banks would adopt the route of taking all revaluation gains to Other Comprehensive Income to avoid distributing unearned profits.

Disclosure – Investment Properties

Investment properties (including property under construction for such purposes) are properties held to earn rental income and/or for capital appreciation but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. (NBG)

User Guidance

For the purpose of these financial statements, Investment Properties are considered under IAS 40 and the following topics should be further covered:

- Initial Recognition;
- Measurement subsequent to initial recognition: Fair Value model or Cost model.

Properties such as land or buildings or part of a building that are wholly rented out or held for capital appreciation are investment properties. The main distinction of these category of assets with the other tangible assets owned and occupied by the central bank (e.g. PPE) is the fact that investment properties generate cash flows largely independently of the other assets held by the central bank.

Where only part of a building is rented out and the remainder is occupied by the central bank, the portion rented out will be regarded as a separate property if it can be physically separated from other parts of the building.

If the portion of the building occupied by the central bank is insignificant then the whole building is an investment property.