



CENTRAL BANK OF SRI LANKA

06 June 2018

FINANCE LEASING ACT DIRECTIONS

No. 4 of 2018

VALUATION OF IMMOVABLE PROPERTIES

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000

The Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred to as “Director”) issues Directions on the regulatory framework on Valuation of Immovable Properties for Specialized Leasing Companies (SLCs) as given below.

1. Empowerment under the Finance Leasing Act
 - 1.1 In terms of section 34 of the Finance Leasing Act, the Director is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as “Specialized Leasing Companies”).
2. Scope of the direction
 - 2.1 These Directions on valuation of immovable properties shall be applicable for the purpose of:
 - a. Meeting the regulatory requirements issued under the Finance Leasing Act, No. 56 of 2000 and,
 - b. Other on-going business requirements of SLCs which necessitate valuation of immovable property
3. Establishment and Implementation of a policy on valuation of immovable property
 - 3.1 Every SLC shall ensure that appropriate board approved prudent policies and procedures on valuation of immovable property are in place.
 - 3.2 In establishing policies and procedures on valuation of immovable property as referred to in Direction 2.1 above, every SLC shall consider the following minimum requirements.
 - a. Responsibility of the Board of Directors, senior management and other relevant committees (e.g., Credit Committee) on the formulation and periodical review of the policy.
 - b. Appointment of panels of valuers, both internal and external.
 - c. Procedures to identify and select qualified valuers for the appointment of panel(s) of valuers, subject to Direction 5 below.
 - d. Procedures to assess the reasonableness of the market value of an



CENTRAL BANK OF SRI LANKA

06 June 2018

FINANCE LEASING ACT DIRECTIONS

No. 4 of 2018

immovable property derived from the valuation model and, the reliability and the accuracy of data used for such valuation.

- e. Threshold for internal and external valuation reports obtained/to be obtained in respect of immovable property against all loans and advances, as the case may be, subject to Direction 6 below.
- f. Frequency of valuation, subject to Direction 7 below.
- g. Valuation criteria for internal valuations.
- h. Independence and disclosure, subject to Direction 8 below.
- i. Notification to borrowers: The loan agreement shall include detailed specifications of the manner and frequency of revaluation together with a detailed description of the immovable property obtained as collateral.
- j. Procedure of payment and fee structure for external valuers.

4. Immovable Property

- 4.1 For the purposes of these Directions, immovable property shall mean any land, land and building or any rights therein which are acquired or held for the purposes including the following:
- a. Land, and land & building which are obtained as collateral against any accommodation extended by any SLC including foreclosed properties.
 - b. Land, and land & building which are purchased or acquired for the purpose of conducting business of SLC which are measured and disclosed in accordance with Sri Lanka Accounting Standards, e.g., LKAS 16: Property, Plant and Equipment.
 - c. Land, and land & building which are purchased or acquired as SLC's investments, which are measured and disclosed in accordance with Sri Lanka Accounting Standards, e.g., LKAS 40: Investment Property.

5. Eligibility criteria for valuers

- 5.1 Every SLC shall ensure that:
- a. Eligibility criteria for valuers are set out as follows.
 - a.1 A member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:



CENTRAL BANK OF SRI LANKA
FINANCE LEASING ACT DIRECTIONS

06 June 2018

No. 4 of 2018

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- i. A Fellow member; or
 - ii. A Graduate member with 5 years' experience in such grade of membership; or
 - iii. A Graduate member who has been an Associate member at the time of his admission to the Graduate Membership, with number of years of experience equivalent to the period that the member would have taken to complete 10 years in the Associate Membership; or
 - iv. An Associate Member with 10 years' experience in such grade of membership.
 - a.2. A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be:
 - i. A Fellow member; or
 - ii. Any other member of RICS with 3 years' experience in such grade of membership.
 - b. Valuation of immovable property undertaken by internal valuers shall satisfy the eligibility criteria set out in Directions 5.1 a) above.
 - 6. Threshold for internal and external valuation reports
 - 6.1 An SLC shall establish an appropriate threshold for internal and external valuation in respect of immovable property.
 - 6.2 In the case of a non-performing loan, an internal valuation report could be obtained in respect of facility/ies where the capital outstanding amount is less than Rs. 1,000,000 or 0.1% of the SLC's capital base, whichever is less.
 - 7. Frequency of valuation
 - 7.1 The frequency of valuation of immovable property shall be as follows.
 - a. Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be not more than three years old.
 - b. Valuation of immovable property as referred to in Directions 4.1 b) and c) above shall be made:



CENTRAL BANK OF SRI LANKA

06 June 2018

FINANCE LEASING ACT DIRECTIONS

No. 4 of 2018

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- i. Annually depending on any significant and volatile changes in fair value of such immovable property are experienced; or
- ii. At least once in every three years.
8. Independence and Disclosure
- 8.1 Every SLC shall ensure the independence of external valuers and that disclosures are made in the SLC's Annual Report or in the Audited Financial Statements as set out below.
- a. An external valuer shall not be a related party, to avoid any conflict of interest that may arise from such engagement.
- b. The Board of Directors/senior management shall ensure that disclosures are made in the SLC's Annual Report or in the Audited Financial Statements on the valuation policy, measurement and recognition of immovable property.

A handwritten signature in blue ink, appearing to read 'W. Ranaweera'.

W. Ranaweera

Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka