

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, as amended.



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Colombo

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BANKING ACT DIRECTIONS NO. 1 OF 2014
REGULATORY FRAMEWORK ON VALUATION OF IMMOVABLE PROPERTY OF
LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

In the exercise of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues Directions No. 1 of 2014 on the Regulatory Framework on Valuation of Immovable Property of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs).

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| 1. Empowerment under the Banking Act | 1.1 In terms of sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such banks is to be conducted. |
| 2. Establishment and implementation of a policy on valuation of immovable property | <div>2.1 Every LCB and LSB shall ensure that appropriate board approved prudent policies and procedures on valuation of immovable property are in place. In the case of banks incorporated outside Sri Lanka, the 'Board of Directors' shall mean the Head Office or the Regional Office that supervises the respective bank.</div> <div>2.2 In establishing policies and procedures on valuation of immovable property as referred to in Direction 2.1 above, every LCB and LSB shall consider the following minimum requirements and shall</div> |

comply with all requirements set out by any other regulator or institution including the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

- 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 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.

3. Immovable Property

3.1 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 and building which are obtained as collateral against any accommodation extended by any bank including foreclosed properties.
- b) land, and land and building which are purchased or acquired for the purpose of conducting banking business by any bank which are measured and disclosed in accordance with Sri Lanka Accounting Standards (SLAS), e.g., LKAS 16: Property, Plant and Equipment.
- c) land, and land and building which are purchased or acquired as bank's investments, which are measured and disclosed in accordance with SLAS, e.g., LKAS 40: Investment Property.

4. Purposes

4.1 Immovable property valuation shall be made for the following purposes.

- a) To meet the regulatory requirements imposed in terms of the Banking Act, No. 30 of 1988.
- b) To value immovable property for financial reporting as required under SLAS.
- c) Other on-going business requirements of banks which necessitate valuation of immovable property.

5. Eligibility criteria for valuers

5.1 Every bank shall ensure that:

- a) eligibility criteria for valuers are set out as follows.

A. A corporate member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:

- 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.

B. A Fellow member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS).

C. Any other member of RICS with 3 years experience in such grade of membership.

- b) valuers eligible as per the qualifications set out in Direction 5.1 a) above acquire Continuous Professional Development as approved/recommended by the respective professional body; and
- c) 1 January 2015 onwards, internal valuation of immovable property is undertaken by valuers who satisfy the eligibility criteria in Directions 5.1 a) and b) above.

6. Threshold for internal and external valuation reports

- 6.1 In respect of immovable property obtained/to be obtained as collaterals against all loans and advances, as the case may be excluding non-performing loans and advances, banks shall establish an appropriate threshold for internal and external valuation as per the bank's policy.
- 6.2 The threshold for internal valuation reports in respect of non-performing loans, shall be in accordance with the requirements of the Banking Act Directions Nos. 3 and 4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning, i.e., facility/ies where the capital outstanding amount is less than Rs. 5,000,000 or 0.1% of the bank's capital base, whichever is less.

7. Frequency of valuation

- 7.1 The frequency of valuation as referred to in Direction 2.2 (f) above shall be as follows.
 - a) Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be made at the frequency as required under the Banking

Act Directions Nos. 3 and 4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning, i.e., in respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes: a report that is not more than four years old and all other credit facilities: a report that is not more than three years old.

- b) Revaluation of immovable property as referred to in Directions 3.1 b) and c) above shall be made:
 - A. annually depending on any significant and volatile changes in fair value of such immovable property are experienced; or
 - B. at least once in every three years.

8. Independence and Disclosure

- 8.1 Every bank shall ensure the independence of external valuers and that disclosures are made in the bank's Annual Report or in the Audited Financial Statements as set out below.
 - a) An external valuer shall not be a related party in terms of the Direction 3(7) (i) of the Banking Act Direction Nos. 11 and 12 of 2007 on Corporate Governance for LCBs and LSBs in Sri Lanka, 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 bank's Annual Report or in the Audited Financial Statements on the valuation policy, measurement and recognition of immovable property, under disclosures to be made in terms of paragraph 1.3 of the Specified Format for the Preparation of Annual Financial Statements of Licensed Commercial Banks and Licensed Specialised Banks issued along with Circular dated 11.02.2013 under reference 02/17/900/0001/004.