

Board Paper No2024/677/04/A

Board Meeting No; 72

Date 05.04.2024



VALUATION OF IMMOVABLE PROPERTIES POLICY AND PROCEDURES MANUAL

VERSION II

Owner:- DGM (Credit)

Approval:- Board of Directors

Date Approved 5th April 2024

VALUATION OF IMMOVABLE PROPERTIES

(Policy and Procedures)

1. We are required to adhere to Direction No I of 2021 dated 1st January 2021 issued as an amendment to Finance Business Act Direction No 4 of 2018 by the Monetary Board of the Central Bank of Sri Lanka, when obtaining valuation reports for granting advances against mortgage over such immovable properties and when computing Tier 2 Capital of the company as described below.

2. **ELIGIBILITY CRITERIA OF VALUERS**

(Quote)

- a. Eligibility criteria as set out as follows; -

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

- i. A fellow Member or
 - ii. A Professional Associate member with 5 years of experience in such grade of membership

For the purpose of determining number of years of experience in the grade of Professional Association Membership the transitional provision stated in Section 24 of the IVSL (amendment) act No 9 of 2019, shall be applicable.

2. Chartered Valuation Surveyor of the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom who shall be

- i. A Fellow member (FRICS) or
 - ii. Other members of RICS with 05 years' experience in such grade of membership.

- b. Valuer selected for the panel of Valuers of the Licensed Finance Company as per the qualifications set out in paragraph 2.a. above shall acquire continuous professional Development as approved / recommended by the respective professional body.

- c. Valuation of Immovable property undertaken by Internal Valuers shall satisfy the eligibility criteria set out in 2. a. above.

- d. Valuers who maintain highest levels of professional conduct, ethics and integrity in carrying out valuations of immovable property are to be included in the panel of valuers

3. **FREQUENCY OF VALUATION**

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 made at the frequency as follows for any regulatory purpose.

- i. In respect of credit facilities granted against residential property which is occupied by the borrower for residential purpose; a report that is not more than five years old.
 - ii. All other credit facilities; a report that is not more than four years' old
- b. Valuation of Immovable property obtained as collateral against loans and advances which are performing, shall be made at the time of initial granting and at a time of any subsequent enhancement of credit facilities.
- c. Revaluation of Immovable property referred to in Direction 3.1b and c of the Finance Business Act No Direction No 04 of 2018 (reproduced below) shall be made in line with the internal policies approved by the Board of Directors or depending on any significant and volatile changes in fair value of such immovable property are experienced. However, such gains can only be included in Tier 2 Capital once in three years

Direction 3.1b and c of the Finance Business Act No Direction No 04 of 2018

3 .1 b - Land and land and building which are purchased or acquired for the purpose of conducting business of LFC which are measured and disclosed in accordance with Sri Lanka Accounting Standards e.g. LKAS 16: Property Plant and Equipment.

3.1 c – Land and land and building which are purchased or acquired as LFC's investments, which are measured and disclosed in accordance with Sri Lanka Accounting Standards e.g. LKAS 40: Investment property.

Unquote

4. IMMOVABLE PROPERTIES

Immovable properties shall mean any land and building or any rights there in which, are obtained as collateral against any accommodation extended by the company including foreclosed properties, or which are purchased or acquired for the purpose of conducting business of the company, or which are purchased or acquired as investments of the company

5. APPOINTMENT OF PANEL VALUERS;

Appointment of Valuers to Panel Valuers of the company in terms of 2 above will be made by the Board of Directors and Manager Credit at the Head office Central Credit Department should maintain related records of approvals and update the panel of valuers as appropriate under advice to the Branch Managers and Legal Officers.

6. INDEPENDENCE AND DISCLOSURES;

It is necessary to ensure independence of external valuers and that disclosures are made in the 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 and management shall ensure that disclosures are made in the Annual Report or in the Audited Financial Statements on the valuation policy, measurement and recognition of immovable property.

7. NOTIFICATION TO BORROWERS;

The loan agreement shall include detailed specification of the manner and frequency of revaluation together with detailed description of the immovable property obtained as collateral

8. UPDATING THE SYSTEM

The date of the valuation should be recorded on the system's Loan module at the time of Disbursement of Credit facilities. Branch Managers should have the existing data base of the branch reviewed and where appropriate update the system if the date of the valuation report is not recorded.

9. THE VALUATION REPORT

- a) The valuation should be carried out at the specific written request of the Company. (Branch Manager to Assign valuer in writing)
- b) The Report should be addressed to the Branch Manager of the company and should be in triplicate
- c) Effective date of Valuation should be stated
- d) State purpose of valuation (collateral for lending / Business purpose of the company / for investment/ sale)
- e) If it is a Collateral for lending state name of borrower as notified by the Finance Company in the letter requesting the valuation.
- f) Confirm identification of the property to be valued against survey plan /
- g) Assessment No /. Ownership
- h) Description of buildings / Occupancy/ Tenancies
- i) Comment on the extent of the Property (Demarcations / Boundaries etc.,)
- j) Comment on Reservations for Street line / street line expansion
- k) Describe right of entry to the Property: (Describe in detail the Route to be taken from Public Road way to the property)
- l) Description of the neighborhood (Ongoing or planned Public & Private Development activities, available infrastructure, public utilities, contaminated land; that may have an effect on the valuation in the near future (May be Adverse or Favorable)
- m) State nature and source of information used
- n) State Assumptions used / Basis of Valuation
- o) State Forced Sale Value backed by computation details
- p) Market Value backed by computation details
- q) Any other relevant information deemed necessary for the guidance of the finance company with a view to safeguarding its interest, particularly in its lending operations.

10. INSPECTION OF IMMOVABLE PROPERTY BY THE BRANCH MANAGER

- a. On Receipt of a valuation report the Branch Manager should visit and inspect the property and submit his report stating the date of visit, confirming among others

the acceptability and accuracy of the valuer's comments under items (f) to (j) above and where appropriate item (m) as well.

- b. This inspection is necessary 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
- c. The Branch Manager's report should be addressed to the CEO/ Chief Executive Director (attaching a Copy of the Valuation Report) who will authorize under his hand the acceptance of the Valuation Report.
- d. The Approved Valuation report and the Manager's Report should be filed with the related collateral documents of the borrower after the disbursement of the credit facility
- e. When disbursing a credit facility those responsible for updating the system should ensure input of the forced sale value of the property and the date of the valuation report

11. VALUATION FEES

Each member of the panel should maintain an account with the closest branch to remit the respective fees payable as per the current internal circular and Branch manager is responsible to inform the borrower to make available sufficient funds for paying such fees in borrower's savings account.

Recommended to the Board of Directors to approve adoption of this reviewed Manual

Signed
Deputy General Manager (Credit)
Date; -

Signed
CEO/ EXECUTIVE DIRECTOR