

THE BIHAR STATE CO-OPERATIVE BANK LTD
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Policy for Revaluation of Assets

It has been observed that different banks follow different policies for valuation of properties and appointment of valuers for the purpose. The issue of correct and realistic valuation of fixed assets owned by banks and that accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of banks. In this context, there is a need for putting in place a system/procedure for realistic valuation of fixed assets and also for empanelment of valuers for the purpose.

Banks may be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

(a) Policy for valuation of properties

- Banks should have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
- The valuation should be done by professionally qualified independent valuers i.e. the valuer should not have a direct or indirect interest.
- The banks should obtain minimum two Independent Valuation Reports for properties valued at Rs.50 crore or above.

(b) Revaluation of bank's own properties

In addition to the above, the banks may keep the following aspects in view while formulating policy for revaluation of their own properties.

- i) The extant guidelines on Capital Adequacy permit banks to include revaluation reserves at a discount of 55% as a part of Tier II Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy should *inter alia* cover procedure for identification of assets for revaluation, maintenance of separate





set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc. The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc.

- ii) As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks should adhere to these principles meticulously while changing the frequency of revaluation/method of depreciation for a particular class of asset and should make proper disclosures in this regard.

(b) Policy for Empanelment of Independent valuers

- i) Banks should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.
- ii). Banks may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, banks may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

However, Bank has adopted Board approved policy for Valuation of property and empanelment of Valuer.

3. Banks may also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.



