

Valuation of Real Estate - Country Banking

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1. Purpose

This policy outlines the Bank's requirements for the adoption of the value of real estate provided to the Bank as security by Country Banking clients in Australia and New Zealand.

These requirements are an important part of the Bank's credit risk management framework, as security properties enable the Bank to (partly) recover its debt in the event of cash flow failure. Security property values allow the Bank to measure impaired assets, calculate provisions and ultimately its capital. The requirements also enable the Bank to fulfil its regulatory responsibilities including those to APRA, RBNZ and the ECB. These regulations require the Bank to assess the value of real estate property provided to the Bank as security on a regular basis, independent from both front office and Credit.

The Bank uses the following terminology:

Term	Meaning
Account Manager	The Bank's employee managing the client relationship or his/her delegate.
Internal Appraiser	Senior Manager Internal Appraisals, Manager Internal Appraisals.
External Valuer	An Independent Valuer who is included on the Bank's 'Acceptable Valuation Firm List' (aka 'Panel').
Appraisal	The value of a security property as adopted by an Internal Appraiser, an employee within the Bank's Internal Appraisal Unit.
Valuation	The value of a security property as provided by an External Valuer, the Valuer General (AU) or the Rateable Valuer (NZ).
Market Value	The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.
Total Facility Limit	The client's term loan exposure and/or All-in-One exposure in CMS+. This excludes Equipment Finance exposures, Risk Management facilities and Cotton Seasonal Loans.

2. General Standards

Appraisals and Valuations are governed by the General Standards as set out below. Credit reserves the right to call for an Appraisal or Valuation at any time, and the Bank retains the right to reject any Valuation.

2.1 Market Value

'As is' Basis

Wherever possible, the Bank requires all assets to be valued at their Market Value on an 'as is' basis except for the occasions where the Bank will accept a Valuer General or Rateable Valuer valuation. Where the property relies on associated assets such as contracted off-take agreements then the 'as is' value may also represent a 'going concern' value (refer below).

‘As if complete’ Basis

Where the credit application’s purpose includes the funding of a property development, the Bank requires the Internal Appraiser to adopt the market value on an “as-is” basis. An “As if Complete” value will not be adopted until the successful completion of the development, the Account Manager has inspected the property to ascertain whether the development has been completed to a satisfactory level as expected and an appraisal has been performed in line with this policy.

Refer to the Construction Finance policy in Section 8.1.14.

‘Going concern’ Basis

A ‘going concern’ Appraisal or Valuation takes into account an associated asset separate to the real estate but which enables the property to be put to a greater use (such as a licence to operate a premises as a hotel and an agricultural commodity off-take agreement).

Where an element of management ability is fundamental to the value of the property then it should only be incorporated on the basis of ‘average efficient management’.

2.2 Value other than Market Value**‘Replacement cost’ Basis**

This is only applied to improvements to or on the property, not to the underlying land. Replacement cost applies to the level of insurance that should be obtained to ensure that the improvement could be fully replaced if it were destroyed.

‘Forced sale’ Basis

Any requirement to value a property on a forced sale basis must be authorised by Credit or SAM. A ‘forced sale’ value generally represents a discount to the market value and should only be attributed to an impaired asset.

2.3 Specific Value

The Bank only accepts Appraisals and Valuations that report a specific value for a property. The final figure adopted by the External Valuer or Internal Appraiser must be a single \$ figure. The purchase price is not conclusive evidence of the value of any security property.

2.4 Other Factors & Concerns**Timelines to Market and Sell a Property**

To determine a security property’s market value, it should be assumed that the property has been exposed or marketed for a period of up to 12 months. A longer period may be adopted for specialised or unusual properties (up to a maximum of 24 months).

Multiple Landholders’ Interests

Where a property contains more than one title, it may be subject to multiple landholders.

Account Managers should:

- Identify which parts of the property including vital improvements are held by each landholder at the time of appraisal, and
- Determine whether a separate valuation or appraisal of each landholder’s portion of the total property is required

Environmental Factors

The Internal Appraiser and External Valuer should be mindful of any existing or future environmental factors that may have an impact on the marketability and sale price of rural real estate. Examples of environmental issues include land degradation, use of chemicals, intensification of farming practices and the (potential) impact of any (future) legislative changes.

All environmental issues of a rural property should be summarised in its Property Inspection Report.

Encumbrances

The Internal Appraiser and External Valuer should consider influencing factors for both the property being valued and supporting market sales evidence provided. Examples are long-term leases, other investments, carbon agreements and agistment agreements. In determining values based on existing use, care must be exercised in imputing future income streams that are not already contracted.

Contributory assets

Where properties with contributory assets (e.g. irrigation licenses and consents, portable silos, plant and machinery) are appraised, the Internal Appraisers and External Valuers should:

- Comment on the attachment of the assets to the real estate, and the requirement of other security arrangements (such as GSA), and
- Conduct adequate research to satisfy themselves that they have determined the underlying values involved.

Plant and Machinery (P&M) that is effectively attached to the real estate is considered to be a part of the real estate and should be valued as part of the security property. P&M considered to be specialised may require a separate valuation.

Water Assets

The Internal Appraiser or External Valuer should be mindful of any recent or forthcoming changes to water assets.

Refer to the Bank's Valuation of Water Assets policy in [Section 8.1.16](#) for guidance on the appraisal of water assets by the Internal Appraiser.

Timber Farming, Carbon Rights or Other Agreements

Consideration needs to be given to the impact of certain agreements on the value of the security property. These include any timber farming agreements, forestry rights/partnership, carbon storage, wind farming agreements, profits a prendre, etc. Where such agreements are involved, assessment should be made of the proportion of the security property affected and whether the agreement would affect the mortgagor's use of the land.

Refer to credit policy in Section 8.1.12 for further information.

Artificially inflated value

Where there are any concerns that the property's current value may be artificially inflated, or that the existence of a lease or other investments may be detrimental or restrictive on the future saleability of the property, then the Internal Appraiser or the External Valuer should provide clarification or apply a discount to the adopted value.

3. Framework

3.1 General

To determine the value of real estate provided to the Bank as security the Bank has developed a Framework, including Appraisal Types, Trigger Events and Thresholds. This Framework applies to all real estate categories.

3.2 Internal Appraisals

In completing property appraisals Internal Appraisers should consider all factors that will influence the property value and saleability. The appraisal methodology used should be in line with industry practice. This is generally through the comparable sales approach (see Guidelines).

An Internal Appraiser will only undertake an Appraisal following an Appraisal Request by an Account Manager using the appropriate CMS+ work request.

Internal Appraisals are for the Bank's use only and **must not be released to any other party unless authorised by Legal**.

3.3 External Valuations

External Valuers are to be instructed by an Internal Appraiser and only external valuers that are on the Bank's Panel of Acceptable Valuers (aka "Panel Valuers") should be engaged. The use of an External Valuer that is not on the Bank's Panel of Acceptable Valuers is only allowed following approval by the Head of Asset Quality Management or his/her delegate of a specific request by an Internal Appraiser. The Value needs to be adopted by the Internal Appraiser to become a "valid" valuation report for credit submission purposes.

3.4 Property Sales Database

Branches are required to continuously update the database in CMS+ with property sales in their region. This data should contain records of property sales (including details of the property characteristics) that may be used as comparable sales in future valuations. The Internal Appraisers will monitor the quality of the database.

3.5 Property Inspection

Depending on the Appraisal Type ([Section 3.6](#)), the Account Manager has to provide the Internal Appraiser with an up-to-date inspection report of the property to be appraised. The Inspection Report has to properly reflect the status of the property at the time of the Appraisal.

Account Managers should check the client's insurance policy and confirm to the Internal Appraiser that the actual coverage is reflective of the value as adopted by the Internal Appraiser.

3.6 Appraisal Types

The Bank accepts four levels of appraisal types for the adoption of the value of real estate:

Level	Appraisal Type	Description
1	Desktop Appraisal a. Rural	An appraisal of a rural property where the Internal Appraiser determines the value as follows: <ul style="list-style-type: none"> if the resulting LSR is below 70% the property's most recent Valuer General / Rateable value; in all other cases by analysing a minimum of two recent comparable sales; if no up-to-date photos of improvements are available only the land-value of the property will be adopted. A Rural Desktop Appraisal does not require a physical inspection of the property.
	b. Residential	An appraisal of a residential property where the Internal Appraiser determines the value of a residential property as follows: <ul style="list-style-type: none"> if the resulting LSR is below 70% by adopting the property's most recent Valuer General / Rateable value or other independently determined market value (such as Valocity IVal in New Zealand); in all other cases by analysing a minimum of two recent comparable sales. A Residential Desktop Appraisal does not require a physical inspection of the property and the adopted value combines land value and the value of the improvements.
2	Joint Appraisal	An appraisal of a property where the inspection is carried out by the Account Manager and the value adoption by an Internal Appraiser.
3	Full Appraisal	An appraisal of a property where the inspection and the value adoption is carried out by the Internal Appraiser.
4	External Valuation	A valuation by an External Valuer.

The type of appraisal applied is dependent upon the relevant Trigger Event, and the client's Total Facility Limit.

The Internal Appraiser reserves the right to be able to conduct an Appraisal one level above the determined level where appropriate.

3.7 Trigger Events

The Bank requires a Valuation or Appraisal of real estate held as collateral to be completed in the following Trigger Events:

Trigger Event	Description of Trigger Event
Lapse of Time	If nothing changes in the client's circumstances for a period of three years since the last valuation or appraisal.
Client Event	The Bank acquiring a new client , An existing client acquiring a new property .
Credit Event	These events include (but are not limited to) a transfer of a client to Special Asset Management ("SAM"), a deterioration of a client's risk profile and change in market / sector conditions.

Note: Credit reserves the right to call for a Valuation or Appraisal at any time.

4. Real Estate Categories

4.1 Standard rural properties

If an Internal Appraiser is of the opinion that a rural property meets the following requirements:

1. there are sufficient comparable sales available (historically and/or geographically) for the Internal Appraiser to perform an accurate comparable sales analysis; **and**
2. there is sufficient data on the subject property available (including an updated and informative Inspection Report) for the Internal Appraiser to accurately analyse the property in detail and to identify relevant comparable sales;

then they are to perform an Appraisal of the property in line with the requirements as included in Section 4.3.

These properties are labelled Standard Rural Properties.

Should the Internal Appraiser not feel comfortable to perform an appraisal of a Standard Rural Property, e.g. because of the inclusion of considerable or aged infrastructure or a substantial commercial component requiring extensive cash flow analysis, they are to contact their manager to discuss the best approach, which could include assigning the appraisal request to another Internal Appraiser or instructing an External Valuer.

4.2 Specialised rural properties

If a rural property does not meet the requirements of Section 4.1, this property is labelled a Specialised Rural Property.

All Specialised Rural Properties are to be valued by an External Valuer (see Section 3.3).

4.3 Appraisal Thresholds

After a Trigger Event is identified, the client's Total Facility Limit determines the Appraisal Type applicable.

Refer to the Lending Ratio policy in [Section 8.1.13](#) for further information.

Thresholds and Appraisal Types in case of "Lapse of Time"

Total Facility Limit Threshold	Appraisal Type
≤ \$1,000,000	Rural Desktop Appraisal
> \$1,000,000 and ≤ \$16,000,000	Joint Appraisal
> \$16,000,000	Full Appraisal

Thresholds and Appraisal Types in case of "Client Event"

The Appraisal Type in case of a Client Event is determined as follows:

- for new clients to the Bank by the proposed Total Facility Limit.
- for an existing client acquiring a new property, by the value of the property to be acquired.

Total Facility Limit / Property Value Threshold	Appraisal Type
≤ \$8,000,000	Joint Appraisal
> \$8,000,000 and ≤ \$32,000,000	Full Appraisal
> \$32,000,000	External Valuation

Exceptions

To request an Internal Appraiser to conduct an Appraisal below the determined appraisal level (Section 3.6) an Account Manager must:

1. obtain the endorsement of the Regional Manager,
2. obtain the endorsement of the Internal Appraiser,
3. outline factors supporting an exception including whether
 - the properties are of large individual scale for the region or not;
 - the properties are within a recognised region for the particular land use and unique in nature;
 - there is market depth/liquidity;
 - the sale of the total farm business would/would not impact local market conditions, and
 - the value of the property does not represent a significant percentage of the security pool,

and

4. obtain approval from Credit.

Thresholds and Appraisal Types in case of “Credit Event”

In case of a Credit Event, Credit or SAM will determine the best appraisal approach on a case-by-case basis.

4.4 Residential properties

In case of “Lapse of Time”

In all “Lapse of Time” Trigger Events, the value of a residential property will be adopted by the Internal Appraiser through a Residential Desktop Appraisal.

Subject to Credit approval, the Bank may accept market appraisals for residential property completed by Real Estate Agents, where deemed appropriate (e.g. comprises a minor proportion of the total security).

In case of “Client Event”

Property Value	Appraisal Type
≤\$2,000,000	Joint Appraisal
>\$2,000,000	External Valuation

4.5 Other properties

For all other properties not covered by Section 4.1 or Section 4.2 an External Valuation is required, irrespective of the Trigger Event and/or the client’s Total Facility Limit. These properties include but are not limited to:

- all commercial properties;
- all industrial properties;

- any properties that have specialised/limited alternative use due to the presence of infrastructure that forms an important part of the value and will influence the ability to realise on the asset at the determined value (e.g. processing plants, abattoirs, glass houses);
- any properties that have a going concern value attributed to them;
- any properties determined by either the Internal Appraiser or Credit.

For exceptions to the requirement of an External Valuation, the Account Manager has to obtain Credit's approval as well as endorsement by the Internal Appraiser. The Internal Appraiser will base their endorsement on specific knowledge/experience they may have on the specific asset or sector. Following approval and endorsement as an exception, the property will be treated as "non-specialised rural properties" (Section 4.2).

5. Dispute Escalation

In the event an Account Manager disagrees with the value adopted by an Internal Appraiser, the matter may be escalated as follows:

1. The Account Manager provides the Internal Appraiser with additional data that could support an increase of the adopted property value; following assessment of the additional data the Internal Appraiser may increase the adopted value;
2. Where the Account Manager still disagrees with the adopted value the Internal Appraiser will submit the appraisal to his/her manager (the Senior Internal Appraiser) for review. As part of this review the Senior Internal Appraiser may request another Internal Appraiser to perform a peer review of the appraisal process and the adopted value. Based upon this review the Internal Appraiser may change the adopted value.
3. Where the Account Manager still disagrees with the adopted value the Internal Appraiser can submit the internal appraisal to the Senior Manager Quality Assurance (and "Chief Valuer" of the bank) for a review of the appraisal process and the adopted value. This review can include a valuation by an External Valuer, instructed by the Senior Manager Quality Assurance with associated costs to be covered by the Branch. Following this review the Senior Manager Quality Assurance determines the value to be adopted for the property.

6. Reporting and Monitoring

6.1 Reporting

The Bank requires External Valuers to prepare reports in a format that reflects the valuation standards and practices advocated by relevant professional bodies (e.g. Australian Property Institute, Property Institute of New Zealand) when preparing their reports.

Internal Appraisers are to properly document the appraisal process in order to create an audit trail for each appraisal.

Unless otherwise agreed by Credit, Appraisals and Valuations should not be more than three months old at the time when they are provided to Credit.

A valid valuation report is to be uploaded to CMS+ to accompany a relevant Work Request for submission to Credit (see the procedures listed in [Sections 8.1.3](#) to Section 8.1.6).

6.2 Monitoring

Where there is a material deterioration in the quality or value of security, Account Managers are to **report immediately** to Credit to evaluate whether it qualifies as a Credit Event.

All properties held as security for clients with a Total Facility Limit of over \$500,000 are assessed annually as part of the Bank's policy of reviewing credit exposures by either an Account Management Review or a Credit Review. These Reviews include an assessment of the validity of the adopted value of the properties held as security and may trigger a Credit Event.

Properties securing clients with Total Facility Limits of \$500,000 or less are monitored on a portfolio basis once a year by the Internal Appraiser, using his/her annual report regarding the property value developments in his/her region. Based upon this report the Internal Appraiser determines which specific properties would require a valuation review.

7. Quality Assurance

To monitor the reliability of market value estimations within appraisals, the accurateness of Inspection Reports and to ensure that Internal Appraisers are not unduly influenced in their determination of those market values, the Bank adopts the process of completing internal quality reviews on a sample of recently completed appraisals. These reviews are carried out under the responsibility of the Head of Asset Quality Management.

8. Supplementary Information

8.1 Related Documents

Document Title	Type	Link
8.1.1 Valuation Request Letter	Template	Country Banking AU Country Banking NZ
8.1.2 Property Inspection Report (Short Form/Long Form)	Template	Rural Banking
8.1.3 Complete a New All In One Loan Submission	Procedure	Rural Banking AU Rural Banking NZ Major Agri Clients Banking
8.1.4 Complete a Variation to a Settled Loan Facility	Rural Procedure	Rural Banking
8.1.5 Account Manger Review / Credit Review	Rural Procedure	Country Banking
8.1.6 Complete a Loan Facility Extension	Rural Procedure	Rural Banking
8.1.7 Regulated Loans	Credit Policy	Country Banking
8.1.8 Insurance	Credit Policy	Rural Banking Major Agri Clients Banking
8.1.9 Personal Property	Credit Policy	Country Banking AU Country Banking NZ
8.1.10 Panel Valuers	Reference	Asset Quality Management
8.1.11 Valuation of Non-Real Estate Security	Credit Policy	Country Banking
8.1.12 Consent to Carbon Farming related Lease or Agreement	Credit Policy	Rural Banking AU
8.1.13 Lending Ratios	Credit Policy	Country Banking
8.1.14 Construction Finance	Credit Policy	Country Banking
8.1.15 Group and Related Exposures	Credit Policy	Rural Banking
8.1.16 Valuation of Water Assets	Valuation Policy	Asset Quality Management

8.2 Relevant Regulations

Australia	APRA Prudential Standards (APS): 220 Credit Quality
New Zealand	BS2A Capital Adequacy Framework (Standardised Approach) Reserve Bank of New Zealand Act 1989
Europe	European Central Bank Capital Requirements Regulation Article 208 (CRR 208)

8.3 Document Management

Owner:	Head of Asset Quality Management	Author:	Head of Asset Quality Management
Authoriser:	Credit Policy Committee	Next Review Date:	31 May 2020