

## INSTRUCTION ON REAL ESTATE INVESTMENTS

### I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, “CPO”) pursuant to Section 26.2(b) of *Regulation No. 2000/8 on Bank Licensing and Supervision* (hereinafter, the “Regulation”).

### II. APPLICABILITY

This instruction applies to all banks organized in East Timor.

### III. DEFINITIONS

- A. **Persons** is defined in Section 49(q) of the Regulation as either an individual or a juridical person (a company, partnership, association, and group of persons acting together with a common purpose whether or not organized as a formal business entity).
- B. **Real estate investment** means a bank’s net investment in land and improvements (including leasehold improvements) whether made directly or indirectly or in whole or in participation with other persons.
- C. **Regulatory capital** is defined in the CPO’s *Instruction on Regulatory Capital*.

### IV. AUTHORIZATION FOR REAL ESTATE INVESTMENTS

Pursuant to Section 24.2(h) of the Regulation, banks shall be authorized to engage in the financial activities of acquiring, holding, and disposing of real estate investments:

- A. for current or documented anticipated future use as bank offices and facilities; or
- B. if acquired by the bank in lieu of repayment of a credit granted by the bank.

### V. POLICIES AND PROCEDURES

The Governing Board of each bank shall adopt, and ensure that senior management implements, a written policy on the bank’s real estate investments which shall be in line with the bank’s risk management policy (or separate credit and asset and liability management policies) and which shall comply with this instruction. Processes should be

established within the bank to allow the Governing Board to monitor compliance with the policy. The Governing Board shall review the policy on at least an annual basis.

## **VI. LIMITATIONS AND RESTRICTIONS**

- A. A bank's aggregate investment in real estate held for the bank's current and anticipated future use shall not exceed the greater of:
  - 1. 10% of total assets; or
  - 2. 25% of regulatory capital.
  
- B. A bank which acquires real estate in lieu of repayment of a credit granted by the bank shall entirely dispose of such real estate within one year from the date it is acquired or within such longer time period as the CPO may approve in response to a written request by the bank.
  
- C. A bank shall obtain a current appraisal showing the fair value of all real estate prior to acquisition. On an annual basis thereafter, a bank shall obtain appraisals showing the fair value of all real estate held by the bank unless the real estate is currently being used as an office or facility of the bank.