



Pursuant to Article 23, paragraph 1; Article 35, subparagraph 1.1; and Article 65, paragraph 1; of the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No. 77/16 August 2010), and Article 1, and Article 85, paragraph 1 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (Official Gazette of the Republic of Kosovo, No. 11/11 May 2012), the Board of the Central Bank of the Republic of Kosovo at the meeting held on **26 February** 2015, approved the following:

REGULATION ON APPRAISAL OF IMMOVABLE PROPERTIES

Article 1 Purpose and Scope

1. The purpose of this Regulation is to establish the minimum requirements and standards to be applied by any financial institution (hereinafter “FI”) during the appraisal of immovable property in relation to the transactions by which the immovable property is used as collateral for any credit instrument issued by the FI, and identification of the real-estate transactions that require the services of an licensed appraiser
2. This Regulation applies to all crediting financial institutions licensed by the Central Bank of Kosovo.

Article 2 Definitions

1. All terms used in this Regulation are as defined in Article 3 of the Law No.04/L-093 on Banks, Micro-finance Institutions and Non-Bank Financial Institutions (hereinafter: the Law on Banks), the CBK Regulation on Residential Mortgages, and/or the following definitions used for the purpose of this Regulation:
 - a) **Appraisal** - means a written statement, prepared independently and impartially by a qualified appraiser setting forth an opinion as to the market value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market and other essential information;

- b) **Appraisers Licensing Board** - is the Supervisory Board for Licensing Appraisers of Immovable Properties, established by the Ministry of Finance;
- c) **Business Loan** - means a loan or any other loan instrument to any business organization;
- d) **Banking Transaction** - means any real estate related financial transactions entered into after the effective date hereof that: any regulated FI engages in or contracts for; and requires the services of an appraiser.
- e) **Immovable Property or Real Estate** – is a specific part of the land surface, which has boundaries or boundaries can be set. Immovable properties include land, physical building affixed to the land, business buildings, residential buildings, and parts of the buildings (apartments) as separate units of residential buildings, or mineral wealth. Land is immovable property that is part of the earth’s surface as defined in the Cadaster, which has only minor building improvements
- f) **Immovable Property - Related FI Transaction** - means any transaction involving:
 - 1) The sale, lease, purchase, investment in or exchange of immovable property, including interests in immovable property, or the financing thereof;
 - 2) The refinancing of immovable property or interests in immovable property; or
 - 3) The use of immovable property or interests in immovable property as security for a loan or investment.
- g) **Licensed appraiser** - means any appraiser who meets the requirements for a License in Kosovo granted by the Kosovo Appraisal Licensing Board. All licensed appraisers are required to adhere to the Code of Ethics and Conduct of the European Appraisal Institute-TEGoVA and the Code of Conduct of Kosovo Appraisal Licensing Board.
- h) **Market Value** - means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, a willing buyer and a willing seller each acting prudently and knowledgeably, in an arm’s length transaction, and assuming the price is not affected by undue influence. This is further defined as:
 - 1) The consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: Buyer and Seller are typically motivated;
 - 2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
 - 3) A reasonable time is allowed for exposure in the open market; Payment is made in terms of cash in euros or in terms of financial arrangements comparable thereto; and

- 4) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
- i) **Internal Appraiser** - an appraiser who works directly for a FI.
 - j) **External Appraiser** – an appraiser who works independently from any FI and charges a fee for his service.
 - k) **Transaction value** - means the amount of the loan (extension of credit) or the market value of the immovable property interest involved for sales, leases, purchases, and investments in or exchanges of immovable property.

Article 3

Transactions requiring a licensed appraiser

1. An appraisal performed by a licensed appraiser is required on immovable property for all financial transactions where immovable property is used as collateral for the loan except those in which:
 - 1.1. The transaction value is less than thirty thousand euros (€ 30,000) for natural person, for a residential immovable property of first priority;
 - 1.2. The transaction is a business loan that:
 - 1.2.1. The transaction value is less than fifty thousand euros (€ 50,000);;

There are no physical or material changes in market conditions that may adversely affect the mortgage value related to the transaction, even when the transaction is renewed with the same mortgage;
2. For a transaction that does not require the services of a licensed appraiser under this Article, the FI shall obtain an appropriate appraisal of the immovable property collateral that is consistent with safe and sound banking practices.
3. FI-s may also use the tax base of the immovable property established by the Municipalities in accordance with Law on Taxes on Immovable Property in Kosovo for the crediting purposes.
4. The CBK reserves the right to require an appraisal under this Article whenever they believe it is necessary to address safety and soundness concerns.

Article 4

Appraisal Policy

1. FIs are required to have an adequate program establishing policies and procedures on appraisal of immovable properties. This policy should address the requirements of this regulation and provide specifics on how the Bank will adopt and enforce the appraisal

program. FI-s must report any inappropriate behavior by an appraiser to the CBK and the Appraisal Licensing Board for review and action.

2. Even in the cases when an external appraiser is engaged, FIs shall determine internal appraisals within their appraisal policies for the immovable properties used as mortgage, to ensure the application of the appraisal standards in order to verify the adequacy of external appraisers when engaged.

Article 5

Minimum Appraisal Standards

1. All appraisals shall, at a minimum, conform to generally accepted appraisal standards as evidenced by the European Valuation Standards (EVS 2012).
2. All appraisals shall, at a minimum, be written and contain sufficient information and analysis to support the institution's decision to engage in the transaction;
3. The appraisal report must contain the information from the inspection of the interior and exterior of the property, and shall include at a minimum the following elements:
 - 3.1. **Subject:** basic information such as the address, legal description, owner's and borrower's name and other information for the identification of the client;
 - 3.2. **Contract:** information on sale-and-purchase agreement, change of ownership that is about to happen, when applicable;
 - 3.3. **Property data:** the physical characteristics of the immovable property, size, age, form, materials, existing conditions supported by the descriptive photographs;
 - 3.4. **Site and mapping:** streets map and location of the property in report to other properties used as a reference for comparison and comparable date on their sales values, zoning and access to public utilities
4. All appraisals shall, at a minimum, analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units;
5. All appraisals shall, at a minimum, be based upon the definition of market value as set forth with the definition of this regulation; and
6. All appraisals shall, be performed by a licensed appraiser in accordance with requirements set forth in this regulation.

Article 6

Appraiser Independence

1. If an appraisal is prepared by an internal appraiser, that appraiser must be independent of the lending, investment, and collection functions and not involved, except as an appraiser, in the related transaction, and have no direct or indirect interest, financial or otherwise, in the immovable property.
 - 1.1. If the only qualified persons available to perform an appraisal are involved in the lending, investment, or collection functions of the FI, the FI shall take appropriate steps to ensure that the appraisers exercise independent judgment and that the appraisal is adequate.
 - 1.2. Such steps include, but are not limited to, prohibiting an individual from performing appraisals in connection with FI transactions in which the appraiser is otherwise involved and prohibiting management and other staff of the FI from participating in any vote or approval involving assets on which they performed an appraisal.
 - 1.3. In addition, to ensure independence from lending or fund investment functions, the internal appraiser should report to the Credit Risk Committee (or an equivalent committee) or to the Audit Committee.
2. If an appraisal is prepared by an external appraiser, the appraiser shall be engaged directly by the FI or its agent, and have no direct or indirect interest, financial or otherwise, in the immovable property or transaction.
3. FI may also accept an appraisal prepared by an appraiser engaged directly by another financial institution, if:
 - 3.1. The appraiser has no direct or indirect interest, financial or otherwise, in the immovable property or the transaction; and
 - 3.2. The FI determines that the appraisal conforms to its requirements and is otherwise acceptable.
4. **FIs may engage internal or external appraisers, who should be licensed by the Appraiser Licensing Board in case they conduct the appraisal of immovable property for transaction for which is required a licensed appraiser according to the Article 3 of this Regulation.**

Article 7

Approved list of licensed appraisers

1. **FIs should prepare a list of licensed appraisers approved by the committee for risk management, who are selected to be engaged in appraisal of immovable properties for FIs, in accordance with the requirements set by the Appraisers Licensing Board, which require engaging appraisers depending on the type of license they possess. In case of the foreign appraisers, the decision of the Board on recognition of the foreign appraisers for the immovable property shall be acquired.**

2. 2. FIs shall send the list of engaged appraisers for the following year to the CBK before December, 15th. The list of appraisers and application of the requirements emerging from this Regulations shall be subject of the FIs examinations.

The appraisers included on the appraisers list must meet requirements on professional objectivity, meaning they should be aware of anything that could be perceived as being conflict of interest.

For each appraisal, the appraiser shall require from the borrower to identify other involved interests or other related party in order to decide whether there is a potential conflict of interest for appraiser, partner appraisers, co-leaders or close relatives

4.If such a conflict exists, it must be displayed in written to the IFs that after may choose or not to confirm the appointment of appraisers, in accordance with the regulations and policies of the institutions.

- 5 **In any case when borrower is obliged to pay for the appraisal, and costs should be transparent and discussed in advance with the borrower, who must be given a copy of the full appraisal report.**

In order to increase transparency, IF can enable the borrower to choose an appraiser from a list without names, prepared by IF, showing only costs and deadline for submission of the appraisal report by different appraisers.

3.

Article 8 Immovable Property Obtained through Collateral Execution

1. The immovable property title obtained by the financial institution following collateral execution is subject to periodic valuation. The financial institution shall decide a reasonable and prudent time frame, for keeping such a real estate, in compliance with CBK Regulation on Limits to Holdings of Real Estate and Movable Property.
2. Upon the transfer of the immovable property title to the financial institution, it should:
 - 2.1.Re-evaluate the immovable property;
 - 2.2.Compile a collateral appraisal policy to monitor the value for each obtained immovable property to be in line with prudential banking practices.
3. Such immovable property must be sold by the institution within the period set out in the CBK regulation on limits to holdings of real estate and movable properties and, in any case,

as soon as reasonable and prudent. IF shall document efforts made to sell such immovable property, including:

- 3.1.Documenting all inquiries and offers by potential buyers;
 - 3.2.Methods used for advertising the sale of the real estate either by the FI or its agent, and;
 - 3.3.Other information reflecting efforts made to sell the real estates.
4. The management of the financial institution may approve to extend the retention period for a certain immovable property, provided that the extension is endorsed by the above-mentioned documentation, which shows clearly that there is no market demand for this real estate.

Article 9 Transitory Provisions

1. This regulation applies to all credit instruments originated by FIs after this regulation enters into force.
2. The requirements for a licensed appraiser shall enter into force from 01 of January 2016 unless the CBK determines differently with a decision issued for this specific issue. However, appraisals will be required on the transactions specified in Article 3 with the entry into force of this regulation.
3. The CBK may issue Appraisal Guidelines to provide FI with clarification on the implementation of this regulation and expectations for prudent appraisal and valuation policies, procedures, and practices.

Article 10 Enforcement, Remedial Measures and Civil Penalties

1. FIs found to be in violation of this Regulation shall be subject to the remedial measures and penalties as determined by the Law on Banks.
2. FIs and FI-affiliated parties, including internal appraisers and external appraisers, may be subject to removal and/or prohibition orders, cease and desist orders, and penalties as determined by the CBK.

Article 11 Entry in to Force

This Regulation shall enter into force one-hundred twenty (90) days after Board of the CBK approves it.

The Chairman of the Central Bank of the Republic of Kosovo Board

(Chairman of the Board)