ČESKÁ CZECH
BANKOVNÍ BANKING
ASOCIACE ASSOCIATION

Standards of Banking Activities
Czech Banking Association Standard
Real Property Valuation Standards for Collateral Valuation Needs of Credit Institutions

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1. Introduction, Mission Statement

These standards for Collateral Valuation Needs of Credit Institutions (the “Standards”) come into existence thanks to an initiative by banks and savings and home loan associations (hereinafter collectively referred to as "banks”) aimed at harmonizing, and achieving a common and uniform interpretation of, the basic terms and approaches used in valuating real property that is to be pledged (used as collateral). In no sense are Standards meant to facilitate any illicit coordination of business activities among the various members of the Czech Banking Association (the “ČBA”). To the contrary, and in accordance with Article 3 of the ČBA Charter, these Standards seek to standardize working procedures in the banking sector, to ensure compliance with EU rules and regulations, and last, but not least, to elaborate on requirements set out in the law and on the requirements and expectations embodied in the conditions of supervision in the banking sector, which have been adopted with the primary goal of improving the quality of service rendered to the end user: bank customers.

The valuation of real property at banks should be governed by a clear and unambiguous methodology, both in the systemic realm (governance) and in the professional realm (**specialist** expertise). The responsibility for potential mistakes in methodology, expertise or governance always remains with the bank (or, as it were, the specialist department or staff member in charge), and cannot be passed to anyone else.

Banks must ensure adherence to the above principles by hiring suitably qualified personnel or external valuers, and by adopting an internal valuation system, methodology and procedures. The number of staff, their distribution across the country, and their professional expertise should all reflect the position of the given financial institution on the market, and the type, number, and volume of its transactions with a real estate component.

Given that each bank has a different organizational structure, strategy and financial stake in specific real estate segments, Standards not only contain a set of minimum standards of valuation, which is based primarily in Czech and EU law, but also a set of recommendations, procedures and best practices for individual tasks and areas of valuation, which need to be applied in (and suitably adjusted to) the given case (and established practice) of each bank.

The procedures described in these Standards properly address the risks associated with the valuation process and the actual appraisal of real property to be used as collateral to secure transactions of financial institutions that are members of the ČBA. The members of the ČBA recommend the use of these Standards to all parties to transactions in which real property located in the Czech Republic is used as collateral, and in which a bank participates. Ultimately, following these Standards should result in increased transparency and a more unified approach taken by individual appraisers in valuating real property, which primarily benefits the end user, i.e., clients of banks.

These Standards are expected to be used by qualified experts in the field of property valuation, which is why, in discussing procedures, methods and techniques, we have merely outlined the basic principles, without going into too much detail.

2. Binding Standards from Law and Best Practices in the Banking Sector

2.1. Basic Categories of Value in the Case of Real Property

2.1.1. Usual Price [1]

The **usual price** is the price that could be obtained when selling identical or similar asset or when rendering identical or similar services in usual commercial relations in the Czech Republic as of the day of valuation. At the same time, all circumstances influencing the price shall be taken into account. However, the influence of extraordinary market circumstances, personal situation of the seller or buyer, and influence of any special preference shall be disregarded. "Extraordinary market circumstances" shall mean, for instance, seller's or buyer's state of duress, consequences of natural or other disaster. "Personal situation" shall mean proprietary, family, and other personal relations between the seller and buyer, in particular. "Special preference" shall mean a particular value attributed to an asset or service arising from personal relationship thereto. The usual price expresses the value of the given piece of property and is determined by way of comparison.

2.1.2. Market Value

Section 2 of the Property Valuation Act defines **market value** as the estimated amount for which asset or service should exchange on the valuation date between a willing buyer and a willing seller in an arm´s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. In an arm´s length transaction is one between parties who do not have any special relationship and are acting independently.

Article 4 (76) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("**Regulation on prudential requirements**") also provides a further definition of **market value**: market value means the estimated amount for which the property 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 being under compulsion.

2.1.3. Mortgage Lending Value

The **Mortgage Lending Value** is defined by Section 29 of Act No. 190/2004 Coll. as usual price or market value according to the Property Valuation Act, further considering:
a) permanent qualities of the real property and qualities that are sustainable in the long run,
b) revenues that could be achieved by a third party if they properly manage the real property,
c) rights and defects connected with the property, and
d) the conditions on the local real estate market, including influences thereon and expected future development.

[1] The definition of the usual price is based on Section 2 of Act No. 151/1997 Coll., on the valuation of property (the "**Property Valuation Act**").

The Mortgage Lending Value must not exceed the usual price or the market value of appraised properties.

Article 4 (74) of Regulation on prudential requirements also provides a further definition of **Mortgage Lending Value**: Mortgage Lending Value means the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use, and alternative appropriate uses of the property

2.1.4. Application of Value

Irrespective of the value category used for the appraisal, the bank must make sure that the appraisal reflects and assesses especially the following:

(i) permanent qualities of the real property and qualities that are sustainable in the long run.

(ii) customary revenue that could be achieved by a third party if they properly manage the real property (by income properties).

(iii) rights (including the match between use/enjoyment and the “officially approved condition”) and defects connected with the property.

(iv) the local real estate market conditions, including influences thereon and expected future development.

(v) the risks associated with real property/buildings, such as, above all, market risk, location risk (including the risk associated with zoning procedures), ecological risk, technical risk, risks arising from leases and other contractual relationships, easements, tax, and legal risks; and

(vi) the need to ensure the fully functional, unencumbered enjoyment of the real property, which particularly implies the continuity of title; the legal and factual opportunity for each owner of the appraised property to access the same from public roads and ways in a customary manner; a legally enforceable arrangement as to connection to utilities and energy supplies for each owner; the standard character of lease relations and of the amount of rent; and the size and type of property typical for the given location.

In accordance with Article 4 (74) of Regulation on prudential requirements, the valuation should take into account permanent qualities of the real property, qualities that are sustainable in the long run and the conditions on the local real estate market, current use, and possibility of an alternative suitable use for it. A poor layout, a single-purpose design, a dedication to special manufacturing processes, or the integration with hard-to-remove technology will usually result in a situation in which real property (or a part thereof) whose potential alternative use would be unrealistic or economically infeasible to assume merely becomes notional collateral, the value of which cannot be determined and quantified. Valuer reflects usability of the valued property as well.

2.2. Basic Expectations of a Valuation System and its Parameters

The bank develops and maintains a transparent valuation system for real property collateral in place. In accordance with the management and control system, in particular with regard to the risk management system, the valuation system used by the bank should address and resolve the following issues, in particular:

- clear (prescribed and verifiable) basic valuation methodology – including a defined form that the appraisal report and its annexes must take;
- specification of the minimum scope of risks that must be taken into account and assessed;
- methods to be followed by appraisers, which may also be integrated in software / applications that they use;
- means of ensuring the independence/impartiality of the appraiser – rules and definitions;
- description of the hiring/commissioning procedure and of the rules of remuneration;
- verification of external/internal appraisals – systems and rules of verification;
- relationship with the appraiser – defined responsibilities and obligations of the parties;
- selection of appraisers, and requirements as to their qualification, education, certification, previous practice, on-going training etc. (also in the case of internal valuers);
- internal appraisers of the bank – define the qualification of employees who may perform valuations and the further development of their professional expertise; create special positions in charge of valuations inside the credit institution, outside the commercial division of the bank – preferably as a part of risk management;
- manner and degree to which individual steps in the process may be automated;
- appraisals prepared outside the valuation system of the bank (of the credit institution);
- manner of valuation and of determining pledgeability in the case of non-standard real property – e.g., one-of-a-kind structures, single-purpose properties that can hardly be put to universal use, buildings with non-removable installations of technology, etc.;
- setting an 'expiry date' by which the results of the appraisal will remain valid;
- real estate market monitoring; rules for monitoring and updating the values of real estate collateral;
- scope of basic required documents and input needed for the appraisal of real property.

2.3. The Appraiser

The bank should ensure that a qualified valuer is commissioned with, and carries out, the appraisal, who should be independent from all participants and interested parties who may be expected to derive benefits from the consummation of the transactions ("**appraiser**"). In accordance with the Guidelines on loan origination and monitoring effective on 30 June 2021[2] (the "**EBA Guidelines**"), an appraiser may be considered an independent expert if

a. is professionally competent and meets any national or international requirements and accepted professional standards that apply to the valuer or for carrying out a particular valuation assignment;
b. has the appropriate technical skills and experience to perform the assignment;

2 European Banking Authority: Guidelines on loan origination and monitoring – Final Report

c. has the necessary knowledge, i.e., knowledge of the subject of the valuation, the relevant property market, and the purpose of the valuation;
d. is independent from the credit decision process.

According to the chapter 7.3 of EBA Guidelines, which stipulate general criteria for the valuers the fee or the salary of the valuer and the result of the valuation cannot be linked in a way that creates a conflict of interest. Bank should ensure, that in the above cases, the appraiser shall state the conflict of interests himself, notify the bank thereof, in which case the bank shall exclude him from processing the valuation due to bias.

The appraiser must not have a personal (direct or indirect) stake in the resulting price/value estimate or assessment of risks associated with the to-be-pledged real property. In line with the wording of the EBA Guidelines appraisers who are going to carry out the actual appraisal of a given property and their first-degree relatives meet all the following conditions:

- they are not involved in the loan application, assessment, decision, or administration;
- they are not guided or influenced by the borrower’s creditworthiness;
- they do not have an actual or potential conflict of interest regarding the property in question, the valuation process, and the result of the valuation;
- they do not have any direct or indirect interest in the property;
- they are not related to either the buyer or the seller of the property.

The appraiser should avoid valuations in case of:

- assignments which involve the appraiser's friends, relatives, customers, suppliers, business partners, etc.
- if the appraiser is in any other contractual relationship with the borrower, the person commissioning the appraisal, the evaluated property owner, a person who plans or carries out construction work of evaluated property or is involved in the financing. If there exists a certain degree of partiality of this particular kind which is, however, negligible, then the appraiser must mention and quantify this degree of partiality and make an express declaration to the effect that it has had no influence on the completion of the appraisal.
- appraisals for their superiors or colleagues
- the appraiser himself or herself is interested in the to-be-appraised real property, or is the owner, or co-owner

Bank should ensure, that in the above cases, the appraiser shall state the conflict of interests himself, notify the bank thereof, in which case the bank shall exclude him from processing the valuation due to bias.

The bank ought to implement adequate mechanisms and procedures which safeguard the independence and impartiality of the expert from unauthorized interferences or pressure exercised by stakeholders in the commercial division or by the parties to the transaction. In this context, the bank will ensure sufficient separation of appraisers' activities from the lending business process.

External appraisers may be both individuals or firms, chosen and kept on file for external collaboration by a specialized valuation department inside the bank. With a view to the need for knowledge of the conditions in the local market, appraisers chosen for collaboration with the bank should be categorized by individual regions, based on their place of permanent residence, or established office, or on the centre of their activities. The bank itself will decide, depending on its needs, how many appraisers to keep on file in the individual regions. None of them has an enforceable claim on collaboration with the bank. The contractual partner of the bank may also be an authorized third party who acts as an umbrella organization for the other appraisers and ensures that the following requirements are fulfilled.

The bank has a clearly defined set of rules and requirements for the selection of internal and external appraisers (education, practice, certification) and a description of the selection system, and evaluates both appraisers and their work product on an on-going basis (including a blacklist of appraisers whose appraisals shall not be accepted). In choosing external appraisers, the bank shall always proceed transparently and in accordance with the laws and regulations of the Czech Republic and with the present Standards, so as to avoid any distortion of free competition among appraisers.

In accordance with Section 6 (1) of the Trade Licensing Act (Act No. 455/1991 Coll.), all appraisers must have full legal capacity and no criminal record.

Aside from a proven track record, certification as a real estate appraiser under the international standard EN ISO/IEC 1702 is required. Fulfilment of the criteria of proper certification may only be waived in justified special cases, e.g., because the given individual has only recently begun to pursue his or her trade, but always on the condition that they then obtain certification within a set time period.

In order to ensure that the appraiser is sufficiently familiar with the local conditions on the real estate market, the bank should establish the rule, that appraiser should preferentially value real property in locations close to their centre of activities.

In order to ensure the maximum level of impartiality of the appraiser and the transparency of the property valuation process, the appraiser should be exclusively concerned with real property valuation, but should in no way be involved in (especially commercial) activities such as:

- sales brokerage of real property that he or she has appraised;
- procurement of loans;
- mortgage loan consulting; or
- insurance brokerage.

Pursuant to Article 235 of the EBA Guidelines bank should ensure an adequate rotation of appraisers and define the number of sequential individual valuations of the same property that can be performed by the same valuer. Any further revaluations beyond this number should result in the rotation of the valuer, resulting in the appointment of either a different internal appraiser or a different external appraiser.

Bank should assess the performance of the appraisers.

2.4. The Appraisal

Bank should ensure that the appraisers provide an impartial, clear, transparent, and objective valuation, and each valuation should have a final report providing the necessary information on the valuation process and property. Appraisal should be prepared at the point of loan origination.

The appraisal should be prepared specifically for the purposes of the valuation of collateral for a bank and should be designated for (addressed to) that specific bank, whereas the latter is entitled to make recommendations to the expert appraiser as to the manner in which they should prepare the appraisal but must not influence or pre-empt the results of the appraisal. The appraiser is directly liable vis-à-vis the bank for any damage they may have caused, in accordance with the Civil Code / Labour Code.

2.4.1. The Appraisal

The appraisal should clearly state who ordered it and that the valuation was requested for the purpose of application, renewal, or contractual adjustments of the loan.

Appraisals should be carried out (internal valuation) or ordered (external valuation) by the institution or a collateral agent (in the case of syndicated loans) unless it is subject to a request from the borrower.

At the end of the valuation process, bank should ensure that it have obtained, for each property collateral, a clear and transparent valuation report documenting all elements and parameters that determine the value of the collateral, including all the information necessary and sufficient for easy understanding of these elements and parameters, in particular:

- the reference value of the collateral;
- the approaches, methodology and key parameters and assumptions that have been used to assess the value;
- a description of the collateral, including its current use or multiple uses if applicable, and the property type and quality, including age and state of preservation;
- a description of the location of the collateral, the local market conditions, and the liquidity;
- the legal and actual attributes of the collateral;
- any known circumstances that may affect the value in the short term, including drawing attention to and commenting on any issues affecting the degree of certainty or uncertainty.

Bank should critically review the valuation it receives, from the appraiser, in particular focusing on aspects such as comprehensibility (whether the approaches and assumptions are clear and transparent), the prudence of assumptions (e.g., as regards cash flow and discount rates), and the clear and reasonable identification of comparable properties used as a value benchmark.

The appraisal should contain a note to the effect that it was produced in accordance with these Standards.

In the case of real estate appraisal serving as the subject of consumer credit collateral, the appraisal must be recorded in paper form or on another permanent data carrier in accordance with Section 113 of Act No. 257/2016 Coll., On Consumer Credit.

The appraisal must specify the value at which it arrived.

The preparation of any appraisal must always include an on-site inspection (interior and exterior), which should also include, for verification purposes, a re-measurement of those dimensions of the given buildings (i.e., in particular, floor size, acreage, footprints), which are authoritative for the value estimate. The appraiser should state the date of the on-site inspection and the reference date for which the value is being estimated.

The subject matter of appraisals made for the needs and purposes of the lender's (pledgee's/creditor's) divestment of real property is always strictly limited to real property, i.e., it does not include business operations, revenues from the same, or revenues in connection with the operation of a commercial enterprise (such as, for instance, a business valuation within the meaning of Section 24 of the Property Valuation Act, etc.).

Advanced statistical models for the purposes of valuation of residential properties can be used.

2.5. Risks Associated with Real Property and their Assessment

The risk assessment should address, in particular, the following areas of potential issues:

2.5.1. Identification of Real Property for Purposes of Pledge

- Pledgeability (origination of the pledge title);
- Possibility of creation of a pledge title to land plots, completed buildings, buildings in progress, unfinished residential or non-residential units; ownership of the work;
- Integrity (cohesiveness) of the property;
- Access to the property from public roads and ways, across land in the ownership of the client/pledgor, with the use of easements (rights of way/passage);
- Connection to utility networks via land plots in the ownership of the client/pledgor or secured by way of easements;
- Assigned building/street number - temporary character of a given structure; state recorded in the zoning plan;
- Existence of the real property and compliance of the way in which it is used with the zoning documentation; potential risks arising from changes at the local level or in the nearby vicinity;
- Comparison of the legal state of affairs as accounted for in the cadastral record (as per the extract and the cadastral map) with the actual state of affairs on the ground, to be performed during an on-site inspection;
- Buildings/structures not accounted for in the cadastral register, e.g., because the building did not receive the final approval of the building office, is being used without an occupancy permit, etc.;
- Deviations of the footprint (floor size) or cubic volume of the building from the planning documents, the entry in the cadastral record, the specification in lease agreements, etc., to the extent that such a deviation can be identified by standard actions taken by an expert appraiser and by re-measurements for verification purposes;
- The way in which the building is actually used is in conflict with the manner of use stated in the cadastral record;
- Does the technical condition of the real property allow for its proper use?

2.5.2. Ownership Situation; Restrictions on Ownership Rights

This concerns the title to buildings and land, unfinished buildings (buildings in progress), such risks as action for a declaratory judgment awarding ownership, pending restitution proceedings, foreclosure, etc. The assessment of these risks should include a review of the extract from the cadastral record and the cadastral map from the following perspectives:

- Rights in rem restricting the property, or as the case may be, for the benefit of the to-be-appraised property; check all contractual documents, including any schedules containing visual representations;
- Preemptive rights, especially where the conditions for invoking such right are ambiguous; operating facilities that have been privatized (has the holding period been observed during which the facility must be used for the intended purpose? Was the property bought at book value? etc.);
- Pledge titles – as a rule, these will not be reflected in the valuation, but their existence should always be expressly mentioned in the appraisal;
- Purchase agreements and other acquisition titles (in particular, occupancy permit, commencement/approval of usage, deeds of inheritance, court awards, etc.);
- Other registered rights.

In addition to the rights registered in the Real Estate Cadastre, it is necessary to evaluate the risks arising from other legal regulations in connection with specific property restrictions, such as protection zones or legal easements not registered in the Real Estate Cadastre but arising from regulations.

Appraisers should base their assessment on the body of documents that they receive for the appraisal of the collateral (“technical/objective approach”). The review should focus on the subject matter of the acquisition title (contract, etc.), the identity of the involved parties, risks (restrictions, encumbrances, etc.), conditions precedent, transparency of contractual provisions, signatures, proper dating, annexes, and schedules, etc. The review of the contract’s validity, sufficient determinateness, enforceability, etc., and of other legal risks depending on the specific task at hand, should be left to the bank’s legal experts.

Any specific risks that were found must be brought to the attention of the pledgee, preferably in the final section of the appraisal.

2.5.3. Lease Agreements for Rental Space/Usufructuary Leases

The appraiser should assess the amount of rent and the extent to which expectations of future rent revenues are realistic and take a position on the usual market rent. The related checks should focus in particular on the following:

- Does the contractual relationship reflect the customary standard at the given time and place?
- Rent charged, compared to the usual rent for the given type of space and the given time and place, type of rent (base rent / turnover rent);
- Lease for a limited term/unlimited term, duration of the lease relationship, options, the possibility of termination of the lease by the tenant;
- Current occupancy rate as a percentage of total rental space (or, as the case may be, current rent revenues as a percentage of anticipated total income from rent); rent shortfalls due to the imminent expiry of contracts (e.g., one or two years ahead); identification of critical years in which fixed leases for a significant percentage of the rental space are set to expire; anticipated rent-free periods for newly occupied space;
- Assessment of the vacancy rate inside the building, based on the given type of premises, and taking into account the situation on the local market and the anticipated development thereof;
- Number of tenants; quality (creditworthiness) of tenants;

- The matter of whether leases are for a fixed term or indefinite term is particularly relevant where residential units are let to tenants under the Civil Code, and in cases in which lease agreements have been made with terms of cancellation that are unfavorable for the landlord and involve long notice periods – risk of blocked premises/foregone opportunities, landlord may siphon off large rent payments upfront, followed by long periods of low and unfavorable rent, etc.;
- Agreements made within a group of financially affiliated entities;
- Assessment of the risk associated with the existence of a single lease agreement for the entire property;
- Amount of the service fees; potential participation in the payment of operating/maintenance costs or payments towards upgrades/improvements;
- Performance of a standard review of all lease agreements, including amendments and annexes.

2.5.4. Documents Related to Building Permission Process and Commissioning of Building

- Check whether the development potential of the land plot within the meaning of the Building Act corresponds to the planned building activities;
- Building-law documentation, i.e., the land-use planning (zoning) process through all instances; notification of the building office; building permit (issued/not issued/has attained legal force); objections brought by participants to the proceedings; planned changes to the project; temporary structures; buildings on land for which a building freeze has been announced; buildings within a zone designated to be razed, ... etc.;
- Is the building being used in accordance with the Building Act?
- Project planning documentation; observance of the entire building-law documentation.

2.5.5. Zoning Documentation, Municipal Land Designated as Building Land, Location of Building

Use restrictions within individual parts of the municipality as per the approved zoning map must be observed, and the building must be placed on land earmarked for development within the borders of the given municipality. The assessment should focus on the following:

- Do the land plots for the building project form a coherent whole, and correspond to the intended use and operation of the facility?
- Access to the land plots from public roads and ways;
- Are the intended function and character of the building project in line with those in the immediate vicinity? The broader surroundings? The expected future development of the location?
- Traffic connections and infrastructure – accessibility; external accessibility; on-site (internal) accessibility; catchment area;
- Potential for future development; the degree to which the target area has been developed/is serviced;
- Protection zones – habitat corridors, no-build areas around utility lines;
- Monument protection;
- Location within flood-prone areas, in an area with inherited ecological burden;
- Risks inherent to the land plot, the price of the land;

- Further restrictions on the layout of the area and the appearance of the buildings resulting from the regulatory plan, if issued for the site.

2.5.6. Building Costs and Total Project/Building Expenditure

When determining the projected value of a future real property and assessing the building costs, the following aspects should be taken into consideration:

- Comprehensiveness of budgeting, depending on the stage of project planning as per the submitted documents;
- Global comparison of individual items of the building budget against standard values;
- Assessment of the price per cubic meter of enclosed space or square meter of floor space in comparison to standard reference prices for construction work;
- Expenses that are specific to the given project;
- In the case of contracts for work for larger buildings, the review should focus on the definition of the work, the ownership of the work, the price for the work, the budgeting of construction costs, clauses on the increase of the price for construction work, technical supervision by the building owner, the procedure for inspection and acceptance of completed milestones, billing and invoicing terms, building interruptions, completion deadlines, penalties and fees, bank guarantees and warranties, withdrawal options, warranty periods for individual subsections and installations, including technology, annexes and schedules to the contract for work, etc.;
- For technically sophisticated buildings or large-scale projects, it is advisable to establish on-going project controlling, to the necessary level of detail and with the components laid out above.

2.6. What Real Property is Suitable as Pledge

Banks should only accept such real property as collateral that is normally traded on the real estate market, which is entered in, and accounted for by the cadastral record, the status of which is uncontested in terms of ownership title, pledge titles, and other rights in rem, and whose technical condition allows for their unlimited enjoyment. The real property should not be encumbered by any material risks or other limitations that could substantially hamper the sale of the property (liquidity concerns). The bank may also stipulate risks that are specific to its strategy or business.

As part of their property valuation system, banks should define what kind of real property is (not) suitable as a pledge.

Where specific property is offered as collateral composed of a combination of real property and movable installations (usually technical equipment), the bank should proceed with caution and perform a valuation that is mindful of the peculiar aspects of the case.

2.7 Eligible Floor Space

As a rule, the size of a residential property may be described using what is known as ‘eligible floor space’. The eligible floor space should be calculated by applying an eligibility factor (of 0%, 50% or 100%) to the floor size of a given specific room or space. The procedure to be followed in calculating the eligible floor space is set out in the Annex to these Standards.

3. Set of Recommendations

3.1. How to Commission an Appraisal

Appraisals should be ordered by the bank itself, independent of its commercial section, client, and mortgage broker. The bank should set up the rules for the process of the ordering, processing, and submission of an appraisal, as well as the delivery of work results to clients.

Appraisal costs are covered by the bank.

The appraisal of the given real property serves the bank only, and is prepared in electronic form or hardcopy with the following structure:

- Title page with price results;
- Summary information on the real property subject to appraisal;
- Description of the real property appraised, calculations and assessment of the individual ancillary values (depending on the type of property), documents serving as the basis for the preparation of an appraisal;
- Attachments.

3.2. Valuation Approaches

The following approaches should apply to the appraisal of real property:

3.2.1. Property Replacement Value

Replacement value[3] comprises the replacement value of buildings and the price of land plots.

Building Replacement Value
The process deals with the determination of the costs of construction of a new building at current prices, lowered by wear and tear adequate to the age and actual condition (time value).

In order to determine the insured value of buildings, the summary will include the **actual cash value**, i.e., the replacement value of the main building(s), without deduction of wear and tear.

The replacement value of a building is calculated, in particular, using the relevant indicator of a unit price applied to 1m3 of the occupied space of the building (CZK/m3) or using another unit of measure. Such indicator must be specified in its estimated actual amount. The level of the wear and tear of a building is determined in % (rounded up to whole percentages) referring to the overall condition of the building, taking into account, in particular, the age of the building, the estimated life span, maintenance, construction adjustments and repairs performed, defects and methods of use. It will also contain the anticipated further life span (in years) with regular maintenance. Where the percentage of wear and tear of a building is determined as being higher, it is necessary to preferentially consider the appropriateness of collateral, and then specify the essential works and the cost thereof in order to maintain the building in regular condition under regular maintenance.

[3]Replacement value should be used as a reference for the amount of construction costs; as a rule, it should affect the ultimate appraisal outcome less than the remaining appraisal approaches.

Value of Land Plots
The value of land plots is determined based on the **evaluation** of the generated sales and the local property market, the approved maps of municipalities or the recommended guide prices for land plots for the individual municipal zones.

The appraisal of land plots is based on the legal status, the level of infrastructure development (utilities, roads, etc.) and the usability of the given land plots. When planning future development of the appraised land plots, it is desirable take the character and extent of such planned development into consideration.

Every land plot goes through certain stages of development affecting the value thereof. For instance, a land plot used for agricultural purposes may be transformed into a construction land plot with structures built on it. The appraisal must specify the phase in which the land plot subject to appraisal is as of the appraisal date, and in which phase it will be after the plans for it are realized. A land plot (of standard size, depending on the character of neighboring properties) is considered to be fully developed in terms of infrastructure, if power distribution cables, potable water pipes, waste water and rain water drainage systems, low-pressure gas piping, and paved access roads with final finish extend to its border and are put into operation or public networks or access roads are secured by easements.

Partial land plots created, for instance, by dividing the entire location, cannot be considered to be fully developed in terms of infrastructure if public utilities extend only to the border of the location.
The value of land plots must also reflect any costs of the removal of structures intended for demolition or of the removal of permanent vegetation, any costs of the removal of environmental burden, landfill, etc.
The overall replacement value of real property is determined as the sum of the replacement value of buildings and land plots.

3.2.2. Income Approach

The income approach is based on the conversion of future gains in the form of net proceeds from the lease of real property into a current value.

The income value is estimated using generally recognized methods of appraisal or a combination thereof (in particular, perpetual annuity, temporary annuity, discounted cash flows, direct capitalization or, as the case may be, compound income approach).

The following principles are the main principles that apply when determining the main valuation variables:

- Real property is being appraised whose (income) value is influenced particularly by the location and type of the property, its layout, structural and technical condition (lifespan), standard equipment and income potential, including the existing leases. The assessment of all these factors and their impact on the value is an integral part of the income approach.
- When estimating the rent, it is necessary to consider only such income that is repeatedly attainable by a third party if the financial management of the real property is proper. It is also appropriate to reflect the anticipated development of the market for real property leases. The appraiser will also take into account the level of vacancy/occupancy in the given place and

segment, the number of properties on the market and its expected changes (e.g., new housing development, demolitions, etc.).

- The leases should be analysed while considering, in particular, the type of area, term of lease, currency of lease, amount of actual rent, amount of total costs of use of the premises by the lessee (including other charges and fees for public services), and any inflation clause. In the case of retail premises, it is advisable to evaluate the rent component generated from retail sale. When appraising a hotel-type accommodation facility, day care centers and social welfare institutions, the appraisal will reflect income per room/bed.
- In the case of structural or long-term vacancy of real property or its part, it should be assessed whether the premises may likely be rented out in the near future for the estimated rent, considering the current situation on the market.
- The estimated costs of operation of the piece of real property must be secured, on a long-term basis, by proper financial management of the property regardless of the existing contractual arrangements. It is therefore necessary to reflect all future costs connected with the ownership of the property, i.e., its management, operation, required repairs and maintenance, lost rent, risk of necessity to upgrade and revitalize the property. Especially in the case of income approaches which assume perpetual rent, the appraisal should address the final residual lifespan of the piece of real property, which is given not only by technical factors but also economical or moral factors.
- The estimate of capitalization/discount level must reflect the long-term character of the investment in the property, the influence of inflation (nominal vs actual level), and all risks (legal, technical, and economic). The risk of anticipated future development on the property market should also be taken into account.

3.2.3. Sales Comparison Value

This is the result of appraisal of the recently performed or pending sales and leases of real property comparable in terms of its nature, situation, condition, size, and location.

The comparison is based on the findings and surveys of the appraiser, consultations with real estate agencies and reasonable evaluation of offer and demand on the property market in the given location. It compares entire properties (functional wholes), land plot prices, levels of rents recognized in the income approach, prices of eligible floor space per 1 m^2 etc.

The appraisal must include the sources of information, and the type, position, compared characteristics and values of the compared real property.

When using the appraiser’s own or other databases, the appraiser must always take into account the actual price as of the appraisal date.

As to 'regular' properties (family houses, flats, land plots, etc.), it is necessary to respect the comparable location of the real property being compared, i.e., one must not compare real property from other towns, different locations, etc.

The benefits and disadvantages, salability of the real property being appraised and its eligibility to be used as collateral are analysed in the sales comparison approach.

The sales comparison approach should reflect the existing and new trends of the property market.

The result of the appraisal is a quantification of the sales comparison value, i.e., the estimated selling price of the appraised real property that could be achieved in a regular sale.

3.3. Contents of the Appraisal; Materials Used

3.3.1 Contents of Electronic/Printed Appraisals

A precise identification of the real property (current or future condition, as the case may be), which is being appraised, forms the fundamental part of the appraisal.

The title page of the appraisal should provide at least some basic identification, i.e., the reference number of the appraisal, title (type of real property) and address, purpose of the appraisal, client and provider, number of pages, date of the appraisal, date of issue, and electronic dispatch information (the latter required only for certain banks).

The appraisal is presented to the bank in electronic form (directly), or, upon request, in one printed undetachable counterpart (e.g., through a client). The appraiser will sign each printed counterpart and attach an imprint of their stamp, if applicable. Appraisals prepared by a legal entity must contain the name of the responsible person on the part of the provider. The electronic and printed version must not differ from each other in terms of contents. The bank may also use fully electronic applications (systems) with full auditability of all information.

Each appraisal should be prepared such that the bank receives the maximum information on the appraised properties on the minimum number of pages.

The appraisal deals with major buildings or individual units, garages, ancillary structures (with major influence on the value estimate, i.e., in particular, large buildings with high-quality construction, including potential income), major utilities, exterior adjustments (e.g., roads and reinforced area within the appraised site), and land plots. Other parts and appurtenances of the buildings and land plots (regular utilities, wells, exterior adjustments, and permanent greenery), which are not part of the individual (ancillary) appraisals, should be included and simply described (briefly specify the content, construction, and condition, in particular) in the descriptive section of the appraisal, and their influence on the value estimate should be taken into account.

As to certain development projects, collective appraisals (one appraisal) for the sets of units, land plots and family houses are preferred, e.g., in the construction and sale of new buildings.

3.3.2. Materials Used for the Appraisal

The materials used in the preparation of the appraisal should be specified in the descriptive or other section of the appraisal, including the precise specification of the individual materials used, unless an electronic application (system) with full auditability of the method and completeness of attachments in electronic form is used.

Underlying materials which should be part of the appraisal in the form of attachments:

- Copy of a current extract from the Cadastral Register (List of Titles) – acceptable is also the List of Titles obtained via prepaid remote access;
- Copy of a current cadastral map showing the land plots and buildings subject to appraisal (graphically highlighted);
- Copy of the approved and accepted geometrical plan of the Cadastral Register, unless already plotted on the cadastral map;
- Plan of situation of the real property in the municipality, with the appraised properties highlighted graphically;
- At least two-colour typical photographs (front and rear side) of the main building or one photograph of the building with the flat or land plot appraised, and a photograph of the interior of buildings; condition as at the appraisal date.

When appraisals are prepared by bank employees, attachments (particularly the List of Titles, geometrical plan and copy of the cadastral map) do not have to be obligatory for the appraisal, if already included in the client's file.

Other materials used for the appraisal include, in particular:

- Acquisition titles - purchase agreements, inheritance decisions, auction decisions, agreements on future purchase agreements, etc., and, for residential and non-residential premises also Declaration of Owner (or Construction Agreement) or its decisive parts;
- Basic project documentation of buildings – technical report, layout, floor plans, profiles;
- Budgets and calculations of costs;
- Legal documentation related to construction – for approval/notification of construction and occupancy permit;
- Contract for work (for construction);
- Information on the approved zoning documentation (e.g., the affected section of the zoning plan for the municipality or the regulation plan - only if a higher form of documentation is not already approved in the zoning and building proceedings);
- All existing agreement on lease/usufructuary lease, list of leases/usufructuary leases;
- Agreements on easements and on other encumbrances of the properties appraised;
- Agreements – insurance, property management;
- VAT return;
- Specialist literature on the topic of valuation;
- Approved pricing maps of municipalities;
- Real property magazines, publications and real estate market information, realtor agency viewpoints;
- Outcome of on-site inspections;

3.3.3. On-site Inspections

On-site inspection – examination of the appraised properties should always be performed by the appraiser in person.

The appraisal is usually performed as of the date of the on-site inspection.

As part of the on-site inspection, the appraiser performs, in particular: verification of the underlying materials submitted and their comparison to reality, identification of buildings with land plots, documentation of dimensions, construction design and layout, fixtures and fittings, age and technical visual condition of buildings, verification of use of the real property, documentation of all parts and appurtenances of properties, ancillary structures, evaluation of relations to the surroundings, including evaluation of access from public road, photo documentation.

3.3.4. Description of the Real Property

Property Topography – address (municipality, street, building numbers), detailed description of the situation of the real property in the municipality, accessibility of the center, public amenities and transportation, character of neighboring buildings, connection to utilities and roads, shape of the land plot, orientation towards cardinal points, usability of the land plot and options for its extension, description of risks and limitations - easements and other rights, protection zones, radon effects, relation to the zoning and regulation plan of the municipality, etc. The description should also specify the municipality character (town or municipality) and population (e.g., according to the lexicon of municipalities).

Description of Individual Buildings Appraised – description of the use and level of occupancy of the building (existing or previous and intended use), comparison of the use to the construction law condition, description of the layout of the individual floors, description of the structural design and fixtures and fittings of the building and its individual floors, description of the technical condition and maintenance, specification and extent of the defects identified. Identification of age and wear and tear, description of completed extensions, added floors, conversions, reconstructions, upgrades, and repairs.

Identification of main areas – built-up area on the 1st above-ground floor (and others, as the case may be) in case occupied space is needed (the sum of occupied space with the comparable thickness of foundations, lower structure, upper structure, and roofing), floor areas decisive for income appraisal and floor areas of residential and non-residential premises, eligible or usable premises. Description of the number of residential and non-residential units, specifying the size and the facilities (e.g., 2+1, 1st category) – this applies to all types of property with flats and service buildings which are (or may be) intended for sale one by one.

Buildings, their parts, or appurtenances, situated on land plots of other owners, should be clearly identified, and described in the appraisal.

As to buildings under construction (new buildings, extensions, added floors, conversions, and upgrades), there will be a description of the current condition, the estimated degree of completion in %, and it will be evaluated as to whether the construction smoothly continues or is suspended and approximately for how long. A description of unfinished constructions and facilities will be performed in accordance with the approved project documentation. As to upgrades and construction adjustments requiring demolitions and dismantling of certain constructions and facilities, the description should include their extent and the condition of the building after their completion, i.e., at the time of the minimum construction level of the building. It is always necessary to examine as to whether the construction / construction adjustments are being performed in compliance with the approved project documentation.

Description of Land Plots – inclusion of information from an extract from the Cadastral Register, pricing maps, description of the actual use, specification of surface areas decisive for the appraisal, the level of infrastructure development (utilities, roads, etc.), character and extent of the existing or planned buildings, buildings, relations to the zoning and regulatory plans of municipalities. The description and summary of the appraisal must contain all land plots that are the collateral, i.e., also the adjacent gardens, other agricultural, forest and other land plots, access roads owned, etc.

Ownership of access land plots – it must be specified, whether the access land plots are owned by the State (municipality); if not, then the owner must be specified, the precise cadastral identification, and it is advisable to add, as an attachment, an extract from the Cadastral Register obtained via remote free-of-charge access. The appraisal must further contain the information as to how the access to the mortgaged real property is or is to be treated. The appraiser will highlight the access road in the cadastral map or will otherwise define it (by providing the respective land plot numbers). All the materials used as basis for the statement on the securing of the access become the compulsory part of the respective appraisal.

Brief Description of Appurtenances - ancillary structures, wells, exterior adjustments, utilities, permanent greenery, etc. They will be briefly described (their type, variant, quantity, age, and condition, even if such appurtenances are not subject to individual valuations).
If the extent of the appraised and described real property which serves or is to serve as collateral is unclear, its extent must be consulted with the bank.

The prevailing variant/features should at all times be decisive when specifying structured parameters.

3.3.5. Monitoring Progress of Construction Work

The progress of construction is examined in respect of the properties under construction (new buildings, upgrades, etc.) and in respect of which the basic valuation has been prepared - estimate of the usual price of the current and future condition of the properties.

Examined is the condition of the construction as of the inspection date, the level of completion of the overall and individual constructions, fittings and fixtures, continuous progress of the construction, compliance with the project documentation and the permit from the Building Office, and the compliance with construction schedule dates.

As to the construction, it is possible to only appraise the in-built constructions, materials and fixtures and fittings (no constructions, materials and equipment on stock or being manufactured may be taken into account).

Description of the construction and appraisal of the usual price as of the inspection date is performed by completing the Protocol/Report on the Progress of Construction/Upgrade) – supplemented for the given phases of the construction by the up-to-date photo documentation, or, as the case may be, by entry in the bank's system supplemented by a photo documentation from the on-site inspection.

The Protocol/Report on the Progress of Construction/Upgrade will contain the estimated value of the current condition of the entire property that is being appraised (for instance, the main structures including appurtenances and land plots).

The protocols are delivered and authorized in the same way as appraisals, i.e., in electronic and printed version, as the bank requests. The bank may also use fully electronic applications (systems) with full auditability of all information.

4. Final Provisions, Legal Regulations

These Standards relate particularly to appraisals prepared by an external appraiser. In the case of internal appraisals, this will apply accordingly.

This edition of the standards replaces the previous edition of Real Property Valuation Standards for Collateral Valuation Needs of Financial Institutions as of 2016.

4.1. Related Legal Regulations

1. Act No. 151/1997 Coll., on Valuation of Property, as amended
2. Act No. 190/2004 Coll., the Bonds Act, as amended
3. Decree No. 2/2019 Coll., On the registration of covered blocks, as amended
4. Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013, on prudential requirements for credit institutions and investment firms
5. CNB Decree No. 163/2014 Coll., on the performance of the activity of banks, credit unions and investment firms, as amended
6. Official Notice of the CNB of June 16, 2015 – Recommendations for the Management of Risks Related to Provision of Retail Loans Secured by Residential Property
7. Act No. 183/2006 Coll., on Zoning and the Building Code (the “Building Act”), as amended
8. Act No. 256/2013 Coll., on Cadastral Register (the “Cadastral Act”), as amended
9. Act No. 89/2012 Coll., the Civil Code
10. Act No. 455/1991 Coll., the Trade Licensing Act, as amended
11. International standard ČSN EN ISO/IEC 17024
12. European Banking Authority: Guidelines on loan origination and monitoring – Final Report – EBA/GL/2020/06 from 29.5.2020
13. The European Group of Valuers' Associations: European Valuation Standards 2020
14. Act No. 257/2016 Coll., On consumer credit, as amended

Annex No. 1

Eligible Floor Space

Floor Space – Rooms/Premises

- All space enclosed by inner walls (without inner partition wall space);
- Measured in m2 at the floor level and rounded up to 2 decimal points;
- Floor space will include, for instance, space occupied by kitchen units, built-in wardrobes, radiators, or boilers, if relevant;
- Floor space will not include open door/window recesses, chimney space, installation shafts and air shafts.

Eligible Floor Space – is determined by the conversion of the floor space of the specific room/premises and the eligibility factor (see table below).

When appraising the value, the basic calculations are done based on the eligible floor space.
For whole buildings, it is calculated based on:

- The space of those rooms that are major rooms of the building;
- There are rooms designed for living and other rooms, such as saunas, laundry rooms, etc. and rooms intended for business (workroom – office, shop, etc.);
- Enclosed balcony, balcony, and terrace space;

For units, it is calculated based on:

- The space of the rooms within the unit itself ("under lock");
- The space of rooms - appurtenances outside the unit;
- Enclosed balcony, balcony, and terrace space.

Overview of Rooms/Premises with Eligible Floor Area as %

Type of Room/Premises	Eligible Floor Space
Living/main room + related rooms such as sanitary facilities... (in addition to those specified below)	100%
Rooms with sloped ceiling in the upper part 1.3m of clearance above the floor	100%
Rooms with sloped ceiling in the lower part 1.3m of clearance above the floor	0%
Galleries, from which there is no access to other rooms with minimum clearance of 1.7 m	50%
Staircase (also applies to landings, lifts) – separate interior staircase – eligible only 1x	100% only 1x
Staircase – open staircase in a room - is part of the space of the room in which the staircase starts	0%
Pantry, cellar, laundry room, sauna room, fitness room, in-built swimming pool, etc. – except for garages ("inside" the unit /main part of the building, e.g., family house)	100%
Pantry, cellar, laundry room, sauna room, fitness room, in-built swimming pool, etc. – except for garages (outside the unit /in the recessed part of the building basement)	50%
Conservatory (provided that living room parameters are met)	100%
Balcony, enclosed balcony terrace (walkable roof) - up to 20% of the floor area of the flat	50%
Garage and garage parking spaces – in buildings /belonging to the units - calculated separately depending to the number of parking spaces	0%
Vehicle passageway, enclosed by 3 walls (upon valuation, passageway may be considered garage parking space)	0%
Rooms that are unfinished	0%

Premises not included in the table are not reflected in the eligible floor space.

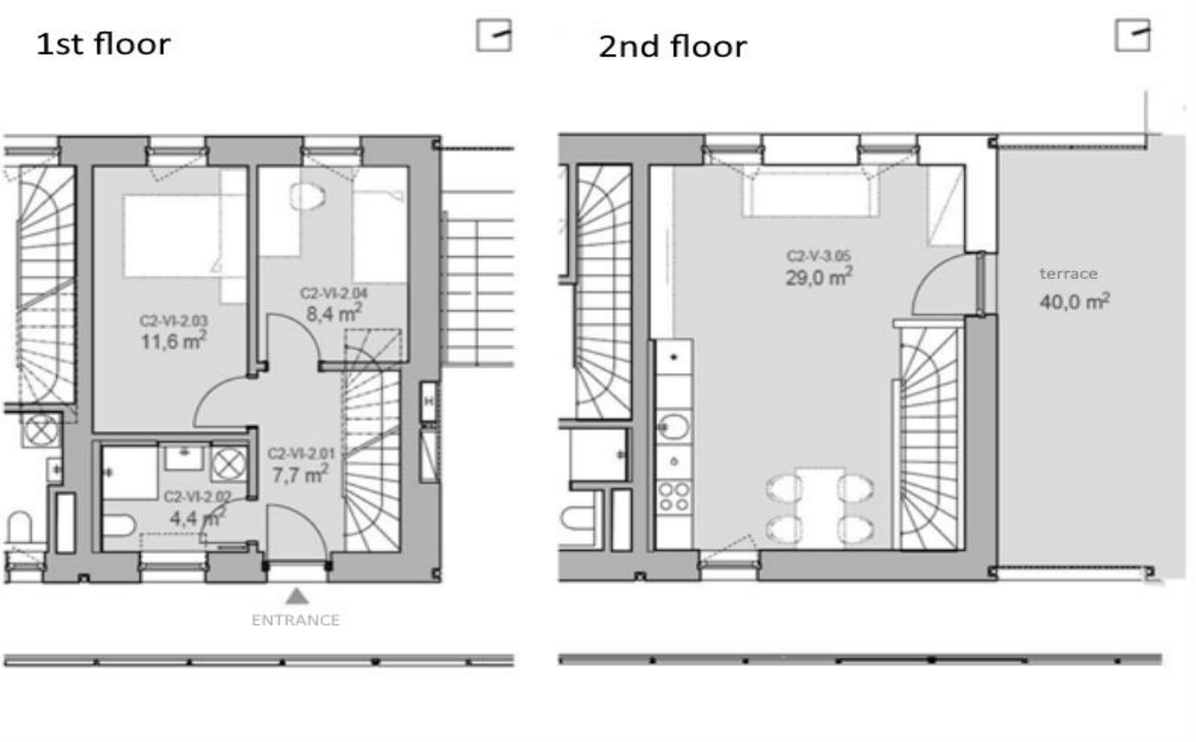
Explanatory Notes:

- A room is considered to have a sloped ceiling if at least one of its walls is sloped over most of its height;
- A gallery/embedded level is considered to mean usable premises covered by a fixed ceiling/roof construction. The gallery does not allow access to other living rooms, and the minimum clearance of the gallery is 1.7m (at the highest point of the defined space, e.g., uncovered ridge purlin, soffit,..);
- A terrace means a walkable flat roof accessible from another room (an arranged space on untreated terrain/land plot);
- Rooms are considered to be unfinished in the absence of flooring or wall finish, and if they are not ventilated.

Floor space (and thus eligible floor space) does not include:

- Building entrance area (e.g., of a family house), provided that it is not space enclosed from 4 sides:
- Common premises in buildings divided into units – courtyard balconies, corridors, staircases, pram rooms, etc.;
- Rooms and premises in ancillary structures, stand-alone garages, greenhouses, etc.;
- Outdoor premises – e.g., patios adjacent to the building, front steps, outdoor swimming pools;
- Garages (in-built garage, garage interconnected/not interconnected to the main building, or a garage parking space inside/outside the building) – to always be appraised separately.

Example of calculating the eligible area of an apartment:



The apartment is equipped with a cellar on the 1st underground floor with a floor area of 3 m2.

Floor	Room	Area enclosed by inner walls in m²	Coefficient	Eligible floor space in m²
UG	cellar	3,00	50%	1,50
1st AG	C2-VI-2.01	7,70	100%	7,70
1st AG	C2-VI-2.02	4,40	100%	4,40
1st AG	C2-VI-2.03	11,60	100%	11,60
1st AG	C2-VI-2.04	8,40	100%	8,40
2nd AG	C2-V-3.05	29,00	100%	29,00
Total for apartment		64,10		62,60
2nd AG	terrace	40,00	50%	20,00
20 % of total for apartment:				12,52
Eligible floor space for terrace:				12,52
Eligible floor space:				75,12