

Based on Article 53 of the Law on Microcredit Organizations of Republika Srpska ("Official Gazette of Republika Srpska", No. 64/06), Article 10, Paragraph 2, Point b of the Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No. 10/98, 16/00, 18/01, 17/02, 18/03, and 39/03) and Article 15, Paragraph 1, Line 11 of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska ", No. 67/04), on its session held on December 29, 2006, the Management Board of the Banking Agency of Republika Srpska, p a s s e d

DECISION
ON THE AMOUNT AND METHOD OF FORMING THE RESERVES
FOR LOAN LOSS COVERAGE OF MICROCREDIT ORGANIZATIONS

Article 1

This Decision stipulates the amount and method of forming and maintaining the reserves for loan loss coverage of microcredit organizations (hereinafter: MCO).

Article 2

The basis for the calculation of the amount of reserves referred to in Article 1 of this Decision is composed of non-repaid loan amount, accrued interest and fees, as well as of all other items making MCO exposed to a risk of collection unfeasible.

Article 3

MCO is obliged to distribute in groups, on a monthly basis, items referred to in Article 2 of this Decision, applying the criteria of days overdue in loan repayment, and it is obliged for each of those groups to set aside reserves for the coverage of loan losses and charge them to expenses according to the following groups and reserve rates:

Days Overdue	Reserve Rate
1-15 days	2%
16-30 days	15%
31-60 days	50%
61-90 days	80%
91-180 days	100%
over 180 days	write-off

If due interests (regular interest, default interest) and fees are not collected within 15 days, an MCO is obliged to establish the reserves for loan loss coverage in the amount of 100% of that receivable.

MCO is obliged to remove all receivables due over 180 days from the balance sheet and evidently keep records in the off-balance sheet until the payment of such receivables is executed or until definite write-off (removal from business books).

MCO is obliged to maintain any loan that is prolonged, restructured or in other way modified due to overdue repayment, with the same reserve rate for at least one reporting period.

MCO is obliged to set up a system that will enable forming and maintaining the reserves for coverage of loan loss prescribed by this Article.

Article 4

In accordance with provisions of this Decision, MCO is obliged to submit to the Banking Agency of Republika Srpska (hereinafter: the Agency) quarterly reports in a form prescribed by a separate

decision of the Agency, within 30 days following the reporting quarter. Such a report for the last quarter of the preceding year shall be prepared based on preliminary data and submitted no later than January 31 of the current year.

The deadline for submission of reports prepared based on final data for the preceding year, is March 05 of the current year.

MCO's report must be signed by the authorized person.

Article 5

This Decision shall become effective on the eight day from the day of its being published in the "Official Gazette of Republika Srpska".

UO number: 307/06
December 29, 2006
Banja Luka

PRESIDENT OF THE
MANAGEMENT BOARD
Ph. D. Novo Plakalovic
/signed/