

Based on Article 27, Paragraph 2 and Article 37 of the Law on Microcredit Organizations ("Official Gazette of the Federation of BiH", No. 59/06), Article 4, 9 and 25 of the Law on Banking Agency of the Federation of BiH ("Official Gazette of the Federation of BiH", No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06 and 59/06) and Article 18 of the Statute of the Banking Agency of the Federation of BiH ("Official Gazette of the Federation of BiH", No. 42/04), on its session held on March 14, 2007, the Management board of the Banking Agency of the Federation of BiH, d e c l a r e d

D E C R E E
ON PERCENTAGE AND MANNER FOR FORMING AND MAINTAINING
RESERVES FOR THE COVERAGE OF LOAN LOSSES
OF MICROCREDIT ORGANIZATIONS

Article 1

This Decree stipulates the percentage and the manner for forming and maintaining reserves for the coverage of loan losses of microcredit organizations (hereinafter: MCO).

Article 2

The basis for the calculation of the percentage of reserves referred to in Article 1 of this Decree is composed of unpaid loan amount, accrued interest and fees, as well as all other items causing the MCO to be exposed to a risk of impossible collection, i.e. business failure.

Article 3

MCO is obliged to distribute in groups, on a monthly level, items referred to in Article 2 of this Decree, applying the criteria of days overdue in loan repayment, and is obliged for each group 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 accrued interests (regular interest, default interest) and fees are not collected within 15 days, the MCO is obliged to form reserves for the coverage of loan losses in a 100% amount of that receivable.

After bringing the legal proceeding, the MCO is obliged to remove all receivables due, but outstanding over 180 days, from the balance sheet and evidently keep them in off-balance sheet record until the payment of receivables is executed or until definite write-off (removal from business books).

MCO is obliged to maintain the repeated loan that represents the 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 establish a system that will enable forming and maintaining reserves for the coverage of loan losses prescribed by this Article.

Article 4

In accordance with provisions of this Decree, the MCO is obliged to submit to the Banking Agency of the Federation of BiH (hereinafter: FBA) the quarterly report in a form prescribed by a separate decree of FBA, within 30 days following the reporting quarter.

MCO is obliged to submit to FBA the report for the last quarter of the preceding year, prepared based on preliminary data, until 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.

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

Article 5

This Decree shall come into effect on the eight day after its being published in the "Official Gazette of the Federation of BiH".

No. 01-1-393-10/07
Sarajevo, March 14, 2007

PRESIDENT OF THE
MANAGEMENT BOARD

Eldar Arnautovic, M.A. (Econ.)