FitchRatings

Archil Bakuradze
Chairman of the Supervisory Board
JSC MFO "Crystal"
5, Marjanishvili str
Tbilisi, Georgia
August 30, 2017

Dear Archil,

Please find Indicative Rating letter for JSC MFO "Crystal":

Fitch (see definition below) assigns the following private point-in-time ratings:

Long-Term Foreign Currency Issuer Default Rating at 'B';
Long-Term Local Currency Issuer Default Rating at 'B';
Short-Term Foreign Currency Issuer Default Rating at 'B';
Short-Term Local Currency Issuer Default Rating at 'B';
Senior Unsecured Expected Rating at 'B(EXP)', Recovery Rating 'RR4'

The ratings reflect Crystal's business focus on microfinance lending in the relatively high-risk Georgian operating environment, its rapid recent growth, and market and refinancing risks resulting from the predominance of foreign currency wholesale funding. At the same time, the ratings also consider Crystal's sound performance to date, reflected in solid asset quality, profitability and capitalization metrics.

The ratings are constrained by the mono-line business model, as Crystal is focused on micro lending in Georgia. The franchise is only modest as Crystal accounts for 12% of total microfinance sector assets. At the same time, the company competes not only with other MFOs in the sector, but also with banks who have greater pricing power.

The ratings also reflect significant growth over the last few years (53% annual growth on average in 2013-2016, although partially driven by local currency depreciation), and potential risks to performance as the business model and loan book season. Internal capital generation has been strong but has lagged behind asset growth, with capitalisation supported by injections from new investors.

Significant market risk arises from the majority of funding being in foreign currency (FC, 63% of total liabilities at end-1H17), while the loan book is primarily in local currency, as the FC book comprised only 17% of total loans at end-1H17 and is in run-off mode due to recently introduced regulatory limitations. Crystal aims to operate with a minimal currency position and uses on- and off-balance sheet hedging; however, the hedges are relatively short-term and so the cost of hedging could be volatile.

Reported asset quality metrics have been good, with the share of NPLs (loans overdue by 90 days or more) constituting a very low 0.6% of the gross book at end-2016 (the latest available IFRS report) and fully reserved. The NPL origination ratio (defined as the net increase in NPLs for the period plus write-offs divided by average performing loans) was a low 1.9% in 2016, and loan impairment charges were equal to 2.3% of average loans. However, the metrics should be viewed in conjunction

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with Crystal's significant growth over the last years. The company reported only limited restructured loans at 2% of gross loans.

Profitability was solid, underpinned by high interest rates on loans (averaging 34% in 2016) and relatively cheap funding from IFIs and international funds. Net interest income was 24% of average earning assets in 2016, in line with the broader microfinance sector. Profitability was also supported by the cost- efficient business model with relatively cheap business origination channels (mobile offices) and centralized processing. Provisioning costs consumed a moderate 24% of pre-impairment profit in 2016. Return on equity was a solid 24% in 2016.

The Fitch Core Capital (FCC) to total assets ratio was a reasonable 22% at end-2016, up from 17% in 2015 thanks to sound internal capital generation and a GEL 9.5m equity injection (equal to 8% of end-2015 total assets). The equity-to-assets ratio was 23%, underpinned by the statutory minimum of 20%.

As a microfinance company, Crystal cannot take customer deposits and fully relies on wholesale funding. The company sources FC borrowings from IFIs and international funds, and Georgian Lari (21% of total funding) from local banks. Creditors are reasonably diversified by name, with the largest creditor accounted for 12% of total funding. Management plans to tap the domestic bond market to diversify funding.

Crystal keeps only a modest cash cushion (7% of total assets at end-1H17), yet liquidity is reasonable, as the assets are short-term (average loan tenor was 20 months), amortising and cash-generative. Borrowings are balanced by tenors with no significant spikes in repayments.

If monitored, Crystal's ratings would be primarily sensitive to the following factors:

An extended record of sound performance, asset quality and capitalization, coupled with a notable further strengthening of Crystal's franchise, could give rise to moderate upside potential for the ratings.

The ratings could be downgraded due to significant deterioration of asset quality and profitability, leading to capital erosion and greater pressure on liquidity.

You should notify Fitch within 10 business days if you wish to publish the rating. Fitch will then publicly disseminate the resulting rating and the rating will be monitored. Should you not request that the rating be made public, the rating will be point-in-time only or, subject to agreement with Fitch, monitored on a non-public basis.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact Konstantin Alekseenko at +7 (495) 956-2401.

Sincerely,

Fitch

By:

James Watson, Managing Director

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