Joint Stock Company

Microfinance Organization Crystal

(Identification Code: 212896570)

Final Prospectus on the Emission of Bonds

Inportant information for investors:

Prospective investor must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the "**Prospectus**") and prospective investor is therefore advised to read this carefully before reading, accessing or making any other use of the attached Prospectus. By accessing and using the Prospectus (including for investment purposes), prospective investor agrees to be bound by the following terms and conditions (modified from time to time). If the prospective investor receives the Prospectus via electronic means, he/she acknowledges that this electronic transmission (with attached Prospectus) is confidential and intended only for him/her. Therefore the investor agrees that he/she will not forward, reproduce or publish this electronic transmission or the attached Prospectus to any other person.

The present Prospectus may be supplemented with additional information as stipulated by the law.

Limitation of the Liability:

Approval of the Prospectus by the National Bank applies to the Prospectus form only and may not be regarded as a conclusion on the accuracy of its content or the value of the investment described therein.

Except for the cases stipulated by the applicable laws, no person other than the issuer, including the placement agent, the bondholders' representative, the calculation and paying agent, the registrar, other advisers to the company nor any of their affiliates, Directors, Advisors or Agent shall bear responsibility for the content of the present Prospectus, the authenticity or completeness of the information presented therein, or any statement made by them or on behalf of them with regard to the company or issuance and offering of securities described in the present Prospectus. Therefore, the placement agent and the advisors of the company disclaim any legal or other liability they might have in this respect of this Prospectus or any other statement.

For purposes of this offer, the placement agents act exclusively for the issuer; they do not represent any other person in relation to the offer and they do not consider any other person (no matter whether such a person has received this Prospectus) as their client. Consequently, they are not responsible to anyone other than the company for providing service or giving advice on the operation or transaction referred to herein.

This Prospectus does not constitute and can not be used for purposes of making an offer in any jurisdiction where such an action is not permitted by law. It cannot be used to make an offer to a person if such action is considered illegal. In any jurisdiction (other than Georgia), no action is taken to obtain a permit for offering the bonds set forth in the present Prospectus or to disseminate the Prospectus (or other offer related to the bonds).

The investor's representation: the Prospectus is delivered to the investor at his/her own request, provided that the investor has confirmed to the relevant placement agent (hereinafter referred to as the "**placement agent**") and JSC "Microfinance Organization Crystal" (hereinafter "**Company" or "Issuer**") that the Investor (i) is located outside of the United States and is not a US citizen (as defined by S regulation of the United States Securities Act of 1933) and (ii) is located outside the United Kingdom and the European Economic Area, and (iii) is the person to whom this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which he/she is located.

In case if this Prospectus has been provided to the investor in electronic form, neither the company nor the placement agent and/or any of their affiliates shall bear responsibility or be held liable for the discrepancies between the electronic and hard copies of the Prospectus and/or for protection against computer software viruses or other malware, which may arise from alterations and changes made in the course of the electronic transfer of the document. By accessing the Prospectus, the investor gives his/her consent on its receipt in an electronic form.

Hard copy of the Prospectus will be made available upon filing a request to the placement agents.

Restriction: in case if a person gains access to this document in spite of the foregoing restrictions, he/she will not be authorized to acquire any of the securities specified herein.

Approved by the National Bank	Emission Registration Number:
---	---
	International Securities Identification Number #

Approval of the Prospectus by the National Bank of Georgia applies to the Prospectus form only and cannot be construed as a conclusion on the accuracy of its content or the value of the investment described herein.

Joint Stock Company

"Microfinance Organization Crystal"

(Identification Code 212896570)

Final Prospectus

Coupon bonds (150 pieces) with the total nominal value of 15,000,000 (fifteen million) GEL at a floating interest rate. Maturity period: 2 years from the date of their issue and placement. Nominal value of each bond upon issuance: 100,000 (hundred thousand) GEL. Issue price: 100% of the nominal value (one hundred percent). Interest on the bonds is payable on a quarterly basis, at the annual rate of 400 basis points over the National Bank (NBG) monetary policy (refinancing) rate.

Change of the credit rating

The coupon rate payable on the bonds will be subject to adjustments in the event if any rating agency endorsed by the National Bank of Georgia reduces the Company's rating as described below.

If any rating agency endorsed by the National Bank of Georgia changes the rating of the company by the score described below, the coupon rate of the bonds defined at the time of the issue will be increased/decreased by the percentage presented next to the respective rating in the table below.

Rating*	Percentage
BB-	-0.50% per annum
B+	-0.25% per annum
B	+0% per annum (no change)
B-	+0.25% per annum
Below B- /no rating	+0.75% per annum

To avoid further ambiguities, in case if Crystal has been rated by several rating agencies listed above, the highest rating shall prevail while calculating the coupon rate.

The given Prospectus contains a clause. Please refer to the section Regulatory Framework "A*greement between the Issuer and the National Bank of Georgia on dissemination of economic standards and limits*"

General Information about the Prospectus and the Offering

The present Prospectus on Bond Issuance ("Prospectus") has been prepared by JSC "Microfinance Organization Crystal", incorporated in accordance with the laws of Georgia on 23 August 2007 with identification code 212896570. Legal address of the company: 72 Tamar Mepe Street, Kutaisi, Georgia.

This Prospectus is prepared in relation to the issuance of 150 (one hundred and fifty) coupon bonds (debt securities at floating interest rate) of the Company. The nominal value of each bond is 100,000 (hundred thousand) GEL; The interest rate (coupon) for each "Interest Period" is determined as 400 basis points premium over the National Bank monetary policy (refinancing) rate *(the NBG's monetary policy rate is available on the following link: http://www.nbg.ge/index.php?m=619&lng=eng (see the paragraph of the Prospectus "Terms of the Bond Issuance", sub-paragraph 6 "Interest Rate" as well as sub-paragraph 6, Article "Change of the Credit Rating").* Interest accrual will start from the date of the bond issuance throughout the maturity period. Accrued interest will be payable on a quarterly basis on the dates specified in "*Main Terms and Conditions of the Offer",* pg. 11. The first payment will be made on 30 April 2019. The bonds will be redeemed on 1 February 2021 upon repayment of the principal and accrued and outstanding interest (if any).

The Company is also entitled to make an early and full redemption of the Bonds at any time at the principal (at the nominal value) amount together with the interest accrued and outstanding (if any) for the date of redemption in case of certain changes affecting taxation in Georgia (see the terms of the Prospectus "*Bond Issuance Terms*", subparagraph 7 (b) –„*Redemption for Taxation Purposes*");

The Issuer and the Placement Agent will carry out public offering and placement of the bonds. The Prospectus shall remain valid until the redemption of debt securities described herein and fulfillment of relevant liabilities.

Bonds constitute unsecured and unsubordinated liability of the Company.

Following the issuance of the Bonds, the issuer is authorized to apply to the Georgian Stock Exchange for admission of the bonds in the official list of GSE trading system. In case of admission, bond transactions will be performed on the Georgian Stock Exchange.

In general, investment in bonds entails high risk. Any investor acquiring the bonds should be well-prepared to assume the economic risk of the investment, bearing in mind that repayment of the principal amount and the accrued interest will largely depend on the Issuer's solvency. For the information on specific risk factors related to the investment, see the section of the Prospectus – "Risk Factors". Neither the Prospectus nor any information supplied by the Company and/or the Placement Agent in relation to the offering and placement of the Bonds is intended for assessing the risks associated with investment in Bonds. Every investor should evaluate potential risks at his/her own discretion.

This Prospectus as well as the information contained herein may be modified and amended in response to changes in the existing circumstances. The Issuer shall inform investors of such changes in accordance with the procedure established by the law. The Bonds described herein can only be sold or publicly offered once the National Bank of Georgia approves the Prospectus.

The Bonds described by the given Prospectus are offered in the Georgian jurisdiction in the manner prescribed by the Georgian laws. It does not constitute and offer of the securities for sale in any jurisdiction where such an action would be deemed unlawful. The Issuer's bonds have not and will not be registered in any other country. As well as that, the Bonds are not registered and will not be registered under the US Securities Act of 1933 (or other US Statutory Act); except for the cases explicitly envisaged by the given Act, the Bonds may not be sold, offered or provided in the United States.

An offer may be extended to financial institutions, well-informed investors as well as physical and legal persons with extensive experience in the field of investment.

The final Prospectus is prepared in accordance with the Law of Georgia on Securities Market. The final Prospectus will be made available to the public and posted on the company's website in compliance with the laws of Georgia.

The Company is responsible for the information presented in this Prospectus. To the best knowledge and belief of the Company (which has taken reasonable care to confirm accuracy of the information), the data contained herein are based on the facts and do not omit any details likely to have a significant impact on the accuracy and completeness of the information.

Neither the Company nor the Placement Agent makes any statement or representation to the perspective or actual buyer of the Bonds in respect to legality of the investment by the latter under any investment or similar law applicable to such buyer.

No person is entitled to provide information on behalf of the Company or the Placement Agent or to make a statement other than the ones contained in this Prospectus. Otherwise, such information or statement will not be deemed as authorized by the Company or the Placement Agent. Neither delivery of the Prospectus not sale of the related bonds should, under any circumstances, be construed in a way that no changes have taken place in the affairs of the Company since the date of the present Prospectus.

This Prospectus should not be construed as containing legal, investment, business or tax advice. When taking an investment decision, all investors are expected to undergo consultations with their private advisers and to determine at their own discretion whether purchase of the securities described herein would be legally permitted under applicable investment or similar laws and regulations.

Any investment decision of the investor should rely on his/her own analysis of the Company, Bonds, proposed terms, benefits and risks. For further details, see "Risk Factors". All potential investors should determine expediency of capital investment in light of their own circumstances. Since the issue of the Bonds is public, they may be offered to resident and non-resident, retail and well-informed investors. Meanwhile, each potential investor should have:

i. Sufficient knowledge and experience to make a meaningful evaluation of the Bonds, benefits and risks of investing in Bonds as well as the information contained in the present Prospectus and any of its supplements.
ii. Access to and knowledge of relevant analytical tools to assess expediency of investing in Bonds and to measure the impact of such investment on the overall investment portfolio given its specific financial setting;
iii. Sufficient financial resources and liquidity position to bear all the risks of investing in Bonds, including the cases when the currency for principal and interest differs from the one in which the perspective investor raises or makes investments.
iv. Full understanding of the Bond terms and deep knowledge of the financial market;
v. Ability to forecast (on its own or with help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear risks.

Table of Contents

Forward-Looking Statements

Some of the statements presented in this Prospectus may be considered to be future looking. Such statements include: company plans, expectations, projections, milestones, goals and objectives, strategies, future activities, revenues, capital expenditures, funding needs, plans or intentions for acquiring other businesses or companies, competitive advantages and weaknesses, plans and goals related to the financial standing of the company, future operations, development and business strategy, future trends anticipated by the company in the country's economy or other sectors, in political and legal environment as well as any other information that is not historical. Forward-looking statements are found in several sections of this Prospectus including the following ones under the heading: *"Risk Factors", "Use of Proceeds from the Bonds", "Description of Business", and "Overview of the Company's Operations and Financial Standing by the Management".*

Words, such as: "believe", "expect", "anticipate", "estimate", "potentially", "expected", "intended", "pre-defined", "projected", "possible", "may", "will", "plan", "target", "seek" and other similar statements are to identify future oriented statements but they are not exclusive means for identifying such statements.

By their nature, forward-looking statements involve essential risks and uncertainties, both general and specific. There is a risk that preliminary estimates, projections and other types of forward looking statements may not be fulfilled. These risks, uncertainties and other factors include, among other things, the ones listed in the section "*Risk Factors*", as well as elsewhere in this Prospectus. Investors should realize that a number of important factors may cause actual results to materially differ from the plans, objectives, expectations, estimates and intentions set forth in the forward-looking statements.

Consequently, investors shouldn't unduly rely on the forward-looking statements and should carefully consider the foregoing factors and other uncertainties and events, especially in light of political, economic, social and legislative environment in which the company operates. The forward-looking statements contained herein are only relevant for the date of the Prospectus. The Company bears no responsibility for their update or revision (based on new information, future events or other issues) unless otherwise required by the applicable laws. The company makes no representation or warranty that the results anticipated by such forward-looking statements will be achieved. In each case, these statements reflect one of many possible scenarios and cannot be construed as the most probable or standard scenario. These cautionary statements apply to all forward-looking statements made by the Company or persons acting on its behalf or to projections made by third parties included in the present Prospectus.

Presentation of financial and other information

Financial information

The financial statements of the Company prepared for the years 2017 and 2016 and included in the present Prospectus are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as the "IFRS") approved by the International Accounting Standards Board (hereinafter referred to as the "IASB") and including all the international accounting standards and interpretations that are issued by IASB and International Financial Reporting Interpretations Committee of IASB and are relevant to the Company's activities. 2017 financial statements were audited by the independent auditor Deloitte and Touche LLC and audited financial statements of the Audit of 2016 by the independent auditor of the company KPMG Georgia (the "Auditor") in compliance with international audit standards (hereinafter "International Audit Standards").

Certain amounts that appear in this Prospectus have been subject to rounding adjustments.

Market, Indutry and economic information

For purposes of this Prospectus, the Company has obtained market data from unofficial internal surveys, sources reflecting the market situation and available public information. The National Bank of Georgia, the International Finance Corporation (IFC), the European Investment Bank ("EIB"), the World Bank ("WB") are the main sources of the market and exchange rate data used in this Prospectus.

The Company mostly obtained the data on Georgia's macroeconomic situation from the studies conducted by LELP National Statistics Office of Georgia (hereinafter "Geostat"), Government of Georgia and Galt & Taggart. The Company accepts responsibility for accurate reproduction of the information obtained from third parties and so far as the Company is aware and has been able to ascertain the information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

General information

Unless otherwise specified, the information contained in this Prospectus (including historical financials) is information of the company.

Capitalized terms bear the meaning that is ascribed to them in the *"Definitions"* section of this Prospectus.

Currency and Exchange Rate

Any reference to "GEL" or "Lari" in the present Prospectus applies to the lawful currency of Georgia, any reference to "USD" or "dollars" applies to the lawful currency of the US, and any reference to "EUR" applies to the lawful currency introduced at the third stage of the European Economic and Monetary Union pursuant to the International Treaty establishing the European Community (as amended). Solely for convenience of the readers, the Prospectus presents US dollar denominated amounts in equivalent GEL amount at the exchange rates established by the National Bank and effective as of the date of the operation or for the reporting period. It may differ from the actual exchange rates used for preparation of the financial statements and from other financial information outlined in the given Prospectus. Indication of the exchange rate is not meant to suggest that the amounts denominated in Lari actually equal the same amount in US dollars, or that these funds have been converted into US dollars at any specific exchange rate or have been converted at all.

The following table presents the high, low, average and period-end official exchange rate, for the years indicated, as reported by the NBG, in each case for the purchase of Lari with US dollar

	High	Low	Average	Period-end
			(GEL to USD)	
2017	2.7674	2.3824	2.5086	2.5922
2016	2.7846	2.1272	2.3667	2.6468
2015	2.4499	1.8780	2.2702	2.3949
2014	1.9527	1.7241	1.7659	1.8636
2013	1.7376	1.6348	1.6634	1.7363
2012	1.6751	1.6193	1.6513	1.6567
2011	1.8111	1.6388	1.6860	1.6703
2010	1.8875	1.6929	1.7826	1.7728

The following table presents the high, low, average and period-end official exchange rate of GEL, for the months indicated, as reported by the NBG, in each case for the purchase of Lari with US dollar.

	High	Low	Average	Period-end
			(GEL to USD)	
November 2018	2.7656	2.6585	2.6970	2.6896
October 2018	2.7082	2.6133	2.6608	2.7027
September 2018	2.6226	2.5783	2.6098	2.6151
August 2018	2.6343	2.4469	2.5344	2.5803
July 2018	2.4546	2.4401	2.4469	2.4474
June 2018	2.4735	2.4464	2.4578	2.4516
May 2018	2.4805	2.4315	2.4543	2.4719
April 2018	2.4791	2.3912	2.4256	2.4617
March 2018	2.4692	2.4144	2.4425	2.4144
February 2018	2.4962	2.4427	2.4643	2.4795
January 2018	2.5967	2.4578	2.5473	2.4969

Source: National Bank of Georgia

Overview of the Offering

Overview of the offering describes the terms and conditions under which the Bonds are issued, offered and placed. Meanwhile, this overview is not complete and terms and conditions of the Bonds are more thoroughly outlined in other sections of this Prospectus, including "Terms and Conditions of the Bonds".

The Offer	Debt securities (bonds) with total nominal worth of GEL 15,000,000 maturing on 1 February 2021
Issuer	JSC Microfinance Organization "Crystal". Identification Number: 212896570
Facility	Coupon bond (floating interest bearing debt security)
Nominal Value	GEL 100,000 (one hundred thousand)
Number of Bonds	150 (one hundred fifty)
Total Issue Price	GEL 15,000,000 (fifteen million)
Interest (coupon)	The Bonds will bear interest at the rate of 400 basis points premium over the NBG Monetary Policy (refinancing) Rate, as published by the NBG on the following link: https://www.nbg.gov.ge/index.php?m=554&lng=eng including applicable taxes. Interest rate is contingent upon the international credit rating of the Company and may be altered in accordance with the rules set in Terms and Conditions of the Bonds (See *"Terms and conditions of the Bonds"*, paragraph 6 *"Interest" as well as its subparagraph "Change of Credit Rating".*
Issue price	100% of the Bonds nominal value
Bond Issuance Date	The Bonds will be issues on 31 January 2019
Deferred Placement Date	Any time from the Bond Issue Date till the Offering Completion Date, when Bonds are placed at deferred placement price
Offering Completion Date	30 June 2019
Redemption date:	The Bonds will be redeemed on 1 February 2021 at the principal amount together with the accrued and unpaid interest (if any)
Placement Agent	JSC „Galt& Taggart" (Identification Number: 211359206)
Bondholders' Representative	„Nodia, Urumashvili and Partners" LLC (Identification Number: 204484628)
Calculation and Paying Agent	JSC „Galt& Taggart" (Identification Number: 211359206)
Registrar	„Kavkasreestri JSC" (211369115)
Interest Accrual and Payment	Interest will accrue on the Bonds at the above given from the Bond issuance and placement date to the date of its redemption. 365-day year will be used as a basis for interest accrual. The interest accrued on bonds will be payable on the dates defined in paragraph 6 of the "Terms and Conditions of the Bond". The first payment of accrued interest falls due on 30 April 2019.

Status and Ranking of the Bonds	The Bonds constitute unsecured and unsubordinated obligations of the Company and shall at all times rank *pari passu* and without preference amongst themselves. The Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least *pari passu* in priority of payment with all other unsecured and unsubordinated creditors of the Company
Form of the Bonds	Bonds will be issued in dematerialized, registered form. Ownership title over the Bonds are confirmed by Securities Register maintained by the Registrar and/or by the registries of nominal holders (as defined in the "Terms and Conditions of the Bonds"). Transfer of the Bonds may only be effected by moving relevant entries in the register / registries.
Cancellation / Redemption	The Company may redeem the Bonds in the secondary market prior to maturity and hold such Bonds on the treasury account for purposes of further trading. Upon agreement with the Bondholders, the Company is entitled to redeem the Bonds by offering the Bondholders payment of the outstanding principal amount together with the interest accrued and unpaid for the date of redemption. Bonds will be considered redeemed upon securing consent from relevant Bondholders. To avoid all ambiguities, Bondholders are free to accept or decline such offer at their sole discretion. Also, in certain cases, the Bonds may be redeemed at the option of the Company in whole (but not in part) at any time upon giving notice to the Bondholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption in the event of certain changes affecting taxation in Georgia (see "*Terms and Conditions of the Bonds*", Condition 7 (b) –"*Redemption for Taxation*").
Negative Pledge and other Covenants	Congruent to the terms and conditions of the Bonds, the Issuer is subject to certain limitations in terms of pledging or otherwise disposing of assets, except for permitted transactions. The Issuer is also subject to other restrictions on business activities, alienation of assets and finances (see the section "*Terms and Conditions of the Bonds*", condition 5, "Covenants").
Event of Default	If an Event of Default has occurred, the Bondholders' Representative (and in certain circumstances, Bondholders and/or Nominal Holders) may give notice that the Bonds are due and payable at 100% of the principal amount together with (if applicable) accrued interest. See "*Terms and Conditions of the Bonds"* – Condition 10 (*Events of Default).*
Withholding Tax	All payments of principal and interest by or on behalf of the Company in relation to the Bonds shall be made net of any applicable Georgian withholding tax.

Use of Proceeds	Net income derived from the issuance of the Bonds will be used to finance the company's core business activities and not to refinance the Company's current liabilities (see Section of the Prospectus "Use of Proceeds").
Admission to Trading	The Issuer intends to apply to the Georgian Stock Exchange for the Bonds to be admitted to the trading system and GSE official listing.
Restrictions of selling and alienation	The Bonds will be offered within the Jurisdiction of Georgia in the manner stipulated by the Georgian laws.
Governing Law	Georgian law
Jurisdiction	Any dispute related to the Bonds shall be settled by means of applying to the courts in line with the rules set out in this Prospectus.
Risk Factors	Prior to making a decision on investing in the Bonds, potential investors should carefully analyze all the information presented in this Prospectus and especially in the section "*Risk Factors*".
Issuer's contact details:	JSC Microfinance Organization Crystal (Identification Code: 212896570) Address: 72 Tamar Mepe Str, Kutaisi, Georgia; Hotline: (0 431) 25 22 44; E-mail: director@crystal.ge
Contact details of the Placement Agent	JSC Galt & Taggart (Identification Code: 211359206); Address: 79 Aghmashenebeli Ave. 0179 Tbilisi, Georgia; Tel: (995 32) 2444-132 (995 32) 24401-111; E-mail: st@gt.ge
Contact details of the Bondholders' representative	Nodia, Urumashvili and Partners LLC (Identification Code: 204484628) Address: 71 Vazha-Pshavela Avenur, 4th floor, room N28, 0186 Tbilisi, Georgia; Tel: (995 32) 2207-407; E-mail: eprem@nplaw.ge
Contact details of the Registrar	„Kavkasreestri JSC" (211369115); Address: 71 Vazha Phshavela Avenue, Block 10, 7th store, 0186 Tbilisi; Tel: (+995 32) 2 500 211; contact person: Tamaz Khizanishvili; e-mail: tkhizanishvili@gse.ge
International Securities Identification Number (ISIN)	Security Number will be assigned following approval of the final Prospectus by the National Bank

There is no conflict of interest between the Company and the Placement Agent (as well as the related bank), the Parties do not represent related and/or affiliated companies.

Information on the Bonds issued on 28 December 2017

Nominal Value of Placed Bonds	GEL 100,000 (one hundred thousand)
Number of placed bonds	100 (one hundred)
Total issue value	GEL 10,000,000 (ten million)

Status and Ranking of Placed Bonds	The Bonds constitute unsecured and unsubordinated obligations of the Company and shall at all times rank *pari passu* and without preference amongst themselves. The Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least *pari passu* in priority of payment equally with all other unsecured and unsubordinated creditors of the Company

As of 1 December 2018, the Company does not have redeemed obligations.

Risk Factors

Investment in Bonds involves certain risks. Prior to making an investment decision, potential investors should carefully read this Prospectus. In addition to other information provided herein, prospective investors should carefully study the risks described below in light to their own financial circumstances and investment goals, before investing in bonds. Any of the risks set forth below can have a material adverse impact on the company's activities, financial standing and operating results. Upon onset of any of the risks, the market value of the bonds may be negatively affected. In addition, the factors that play an important role in the course of assessing bond-related market risks are also outlined below. Although the company believes that described risk factors constitute major risks associated with investing in bonds, additional risks and uncertainties that the company currently considers as immaterial or is not aware of, may arise and any of these risks and uncertainties may cause an impact similar to the one described below. Consequently, the Company does not claim that the statements on the risks inherent in the Bonds are exhaustive.

Risks Related to the Company's Activities

1. The Company's business is regulated by the National Bank of Georgia. The laws and regulations applicable to the sector are yet new and at the stage of development; the need to swiftly adapt to unforeseen and frequent changes in these laws and regulations may negatively affect the Company operations and financial performance;

The Company's business is regulated by the National Bank of Georgia. Failure of the Company to align its business operations with existing laws and regulations, or to obtain and comply with all authorizations and permits required for business conduct, or violation detected by tax authorities may result in the imposition of material fines or penalties or more severe sanctions, including preventing the Company from continuing substantial parts of its business activities, suspension or revocation of registration, or in criminal penalties being imposed on employed officers.

If the Company fails to comply with the laws and regulations applicable to business operations, it may be prohibited from extending consumer loans. Imposition of an upper cap on the annual interest rate can also deteriorate the financial performance of the company.

Although the National Bank of Georgia regulates microfinance organizations in a different manner than commercial banks, any change in these regulations and compliance with them jeopardize future operations of the company (see greater details about the Light Supervision Regime in "Regulatory Framework"). Certain changes are also expected to be moved to the existing regulations as the Government of Georgia has initiated new draft laws concerning issues such as the minimum amount of authorized capital and transparency issues (see the "Regulatory Framework' for more information about the proposed changes in the law).

2. Comliance with existing and future licensing requirements of NBG may impede the Company's activities and even lead to suspension of business operations

To operate in the sector, microfinance organizations need to comply with the requirements of the National Bank concerning licensing. The main requirements for microfinance organizations are the following: 1) minimum amount of authorized capital - 1,000,000 GEL, 2) maximum amount of loan - up to 100,000 GEL, 3) conduct only credit operations and do not receive deposits from customers, 4) charge effective annual interest rate up to 50% of the principal amount of the loan 5) charge annual penalty interest rate under the cap of 150% of the principal amount of the loan. These requirements are being enforced step by step. Imposition of an upper cap on effective annual interest rates in January 2017 caused several microfinance organizations to stop their operations, as they could no longer generate the operating profit to sustain their activities. Furthermore, new cap imposed on the annual interest rate in July 2018 (100% cap set in January 2017 was reduced to make up 50% in July 2018) forced other players to leave the sector as the operating profit fell short to provide for their functioning. Thus, any change in the existing requirements or introduction of new ones may force the company to stop its operations due to inconsistency or inability of the business to comply with such strict requirements.

In July 2018, the National Bank adopted two new rules: “Supervision and Regulation Rules” and “Rule on Assets Classification and Use of Reserves for Losses”. Another regulation, which will take effect from January 2019 with regard to responsible lending also merits attention. Microfinance organizations and other credit institutions will not be entitled to extend loans to individuals failing to satisfy certain criteria set by the National Bank. For further details, see the *“Regulatory Framework”*.

3. The Company’s business operatins are subject to complex and evolving laws and regulations concerning right to privacy, data protection and other issues.

The Law of Georgia on Personal Data Protection defines the grounds for sharing customer information with third parties. While the company keeps its employees constantly informed about the laws and regulations concerning the right to privacy, data protection and other matters, it cannot guarantee that all employees will adhere to such laws and regulations at all times. Failure of “Crystal” employees to comply with such laws and regulations in future may result in the imposition of fines and penalties on the Company, which, in turn, may damage its reputation and inflict a serious negative impact on business, financial performance, outcomes, prospects, or cash flows.

Meantime, checking of the personal information should be done on the basis of a preliminary consent of the individual. While the Company may have secured such consent, a person may still consider search for information to be devoid of due grounds and may accuse the Company of violating laws and regulations. In addition, there is a risk that an individual’s consent may not exist for all similar cases (for information retrieval), which in turn poses a risk to the company, as it may become subject to fines or penalties that could damage its reputation and bear a material adverse impact on the business, financial performance, operating results, prospects or cash flows.

4. Existing fierce competition in the banking and microfinance sector may adversely affect the Company’s current operations and its future expansion plans

“Crystal” has a number of competitors. As some of them do not have well-organized business model, they may face a risk of breaching regulatory requirements; however, bigger microfinance organizations like “Lazika”, “Kartuli Krediti” and even commercial banks are regarded as strong competitors. Customer segment of “Crystal” differs from the target audience of commercial banks. However, due to fierce competition in the banking sector, some banks have switched focus on the clients of microfinance organizations, thus showing up as competitors on the market. Given their portfolio, Rico Credit and Swiss Capital are also big players and competitors of Crystal; though, in contrast to Crystal, their business is more specialized in fast and pawnshop loans.

Furthermore, new regulations introduced by the National Bank in 2018 in relation to responsible lending have greatly affected the microfinance sector, rendering substantial part of the borrowers no longer eligible for lending by the companies operating in this sector. Since Crystal has long been distinguished by its conservative approaches towards lending, new regulations did not have any material impact on the company’s target market. The company is well aware of its borrower’s creditworthiness. Nearly 40% of its branches 25 branches out of 65) are based in the regions where the outreach of other microfinance and banking institutions is quite low, which offers a competitive advantage in the market.

The Company can offer no assurance that it will be able to compete successfully against any or all of its current or future competitors. As a result, Crystal could lose market share and its revenue could decline, thereby affecting business ability to generate sufficient cash flow to service their indebtedness or fund their operations

5. Inability to swiftly adapt to evolving market preferences adversely affects the Company’s profitability.

Microfinance sector is a relatively new and highly dynamic field. The company needs to stay abreast of rapidly changing customer habits, equilibrium prices and legislative amendments. “Crystal” has a well-organized system of procedures and rules for managing its operations and credit risks. Appropriate corporate governance and risk management policies that are in place will help the Company to cope with changing environment and to make smooth transition towards the new trends. In addition, the regulatory body may introduce more complex laws and amendments to existing regulations. The company’s inability to cope with ongoing changes within the sector may adversely affect its business operations.

6. The Company’s inability to attract sufficient funds for operations, business inherent liquidity risk, FX and market interest rate fluctuations may adversely affect the Company’s financial performance and its future operations.

Two new regulations adopted in July 2018, the “Supervision and Regulation Rules” and “Rule on Assets Classification and Use of Reserves for Losses” serve to regulate the liquidity position of the Company. In particular, the National Bank established two types of liquidity ratios – standard and non-standard. Standard rate of liquidity ratio is > = 18%, and nonstandard rate > = 25%. Apart from the regulations adopted by NBG, liquidity and working capital requirements derive from the increase or decrease in the demand for credit products, loans by customers. An important factor for assuring future performance of the company is its ability to manage business inherent liquidity risk. If cash flows from operations are not sufficient to finance ongoing cash needs, the company may have to use available credit facilities to satisfy these needs, or may as well search for potential sources of additional capital. Also, an economic or industry downturn may increase the level of non-performing loans. Significant deterioration in debt collection is also expected to affect cash flows and working capital as well as to have an adverse impact on the cost or availability of financing to the Company.

If the financial resources of the company are not sufficient to meet its capital requirements, “Crystal” will have to attract additional funds. The company may not be able to attract (if attracted at all) sufficient additional resources on favorable terms. Failure of the Company to attract funds will significantly limit its ability to finance ongoing operations, to take advantage of strategic opportunities or to otherwise respond to competitive pressures, which will have a material adverse impact on business, financial performance, operating results, prospects, or cash flows.

The Company is also exposed to the liquidity risk deriving from the mismatch between the maturities of its assets and liabilities, which may prevent “Crystal” from performing its obligations in a timely manner. As of 31 December 2017, the company has a negative net position (assets minus liabilities) by less than 1 month and more than 5 years maturity analysis (see section “Analysis of Financial Statements” – paragraph 11 - *“Liquidity Analysis*”). Lack of access to short-term and long-term financing in international capital markets or mismatch between the maturities of assets and liabilities may have a material adverse impact on business, financial performance, operating results, prospects, or cash flows.

Internal procedures of financial risk management and continuous practices for FX rate exposure reduction by means of shrinking the share of foreign currency denominated funds in total capitalization allows the company to manage potential liquidity problems. However, the company’s inability to manage liquidity risk in future may negatively affect its operations.

Also, the risk of interest rate fluctuation is inherent to business operations. As market interest rates affect the company’s revenues generated through interest income and the interest expenses payable on liabilities, sharp fluctuations in the market interest rates directly affect the company’s cost of funding, interest income, net interest margin, the company’s profit margin and the financial performance. Market interest rates fluctuations stem from various factors beyond the control of the company, such as the sector regulatory framework and economic and political environment in Georgia.

7. Existing and future funding terms may impose financial and operating restrictions on the Company

Conditions of existing financing of the Company may include certain negative covenants on leverage (financial risk), change of business profile, change of control, dividend payout policy, acquisition and disposal of assets. The given covenants may restrict the Company's ability to fund its operations or make capital expenditures, acquisitions or other investments in the future. Breach of any of these covenants under the existing and future financing schemes may be deemed as an event of default, allowing creditors, among other things, to discontinue the availability of future credits, increase the interest rate on the debt and/or accelerate the maturity for outstanding liabilities. As of 1 December 2018, the company's leverage ratio (liabilities to equity; see detailed breakdown of the covenant in subsection *"8. Main Covenants"*) is 4.36, while the limit imposed by one of the creditors is <= 5. In case of liability increase, the Company is at risk of violating the covenant, which may cause creditors to limit access to financing and ask for repayment of outstanding amount. Any such default is expected to have a material adverse impact on business, financial performance, operating results, prospects and cash flows.

8. Difficulties related to proper assessment of potential borrowers' credit risk may adversely affect the quality of credit portfolio.

While the company has a credit rating system and more complicated procedures for approving a loan as well as a loan approval committee (see more information about approval procedures in "loan application and approval procedures"), it may not be able to correctly assess financial status and repayment capacity of each potential borrower. Decisions are partly based on the information provided by loan applicants. Potential borrowers may fraudulently provide inaccurate information and if the fraud goes unnoticed, it may serve as the basis for credit rating. Failure to appropriately assess potential customers' credit risk – no matter whether it is due to incorrect assessment of a customer or inaccurate information provided by the customer in a fraudulent manner - will have a material adverse impact on business, financial performance, operating results, prospects or cash flows and may even trigger regulatory sanctions (including fines and penalties, suspension of activities or revocation of registration).

One of the most important components of credit risk management is portfolio diversification by sector and consumer concentration. Approximately 75% of the company's portfolio is comprised of loans extended to businesses operating in four different sectors, 20 % is represented by consumer loans and 5% - by pawnshop loans, which bearing a high risk but are all secured by premium amount (for detailed portfolio analysis, see the section "Key Indicators"). As of 30 September 2018, the total credit portfolio concentration by sectors looks as follows: agriculture - 31%; service - 25%; trade - 15%; non-business (consumer loans) - 20%, manufacturing - 5% and other - 5%. The highest concentration has been observed in the agricultural sector, which, compared to other sectors, bears a higher inherent risk. However, the company diversifies its portfolio, extended loans are relatively short-term; they are denominated in the national currency and secured by collateral or personal guarantee. Besides, the factors beyond the Company's control, such as the impact of macroeconomic trends, political or adverse events affecting the sectors' key jurisdictions, or natural disasters may cause non-performing loans to increase. Bad debt allowances may fall short to cover increase in the amount of non-performing loans or any future deterioration in the overall credit portfolio quality. If the overall credit portfolio deteriorates, the company may need to increase allowances for bad debts that will have a material adverse impact on business, financial performance, operating results, prospects, or cash flows.

There is also a risk of fraud by client – a client may forge financial data and submit misleading information about the size and scale of his/her operations and available opportunities.

9. Asset impairment loss allowance may not be sufficient to cover future credit losses

The Company sets up an allowance for impairment of extended loans in accordance with International Accounting Standards (IAS). Impairment loss is determined on the basis of the Company's internal provisioning procedures and guidelines, incorporating a number of factors such as characteristics of the borrowers and their activities, creditworthiness, economic conditions and trends, value of collateral and guarantees. *(For detailed analysis of impairment risk management, see "Loan Loss Provisioning Procedures").*

Since the accounting standards require measurement and assessment of future credit risks over a certain period of time, the Company may not adequately evaluate future risks and the allowance may fall short to cover actual credit losses. Such could be a case in the event of unforeseen or undesirable changes in the Georgian economy, alterations to the laws and regulations or other circumstances adversely affecting a particular borrower, industry or market. In such event, the Company may need to create an additional reserve that will significantly reduce its profit and will bear a material adverse effect on its business, financial condition and results of operations.

10. Collateral or guarantees securing the loans may not be sufficient to cover potential losses or may not be fully realized

For most of the financial products, the Company asks for collateral or guarantees to secure potential losses. In case of violating the loan agreement terms, the Company is entitled to exercise its security rights against such collateral and/or collect the loan amount by means of selling pledged property. Although the Company conducts examination of collateral on loan pre-approval stage, its value may decrease significantly and may be materially and adversely affected by factors including damage, losses, excess supply, devaluation or a decrease in market demand. To avoid the risk of devaluation of the collateral, the Company has special clause in the mortgage agreement, which enables it to request additional collateral in case of devaluation.

Similarly, material deterioration of the guarantors' financial condition or creditworthiness may significantly affect the amount the Company could recover under the respective guarantees.

If the value of the collateral or guarantees securing the loans proves to be insufficient to compensate the losses from the relevant overdue loan payments, the Company may need to obtain additional security from the borrower or other sources. However, there can be no assurance that the Company will be able to achieve that. Any decline in the value of the collateral or guarantees securing the loans, or the Company's failure to obtain additional security, may cause the Company to make additional allowance for, or write off the Company's non-performing loans, which may, in turn, materially and adversely affect the Company's business operations and financial condition.

The Company also may not be able to immediately liquidate or otherwise realize the mortgaged assets upon a default. Procedures for liquidating or otherwise realizing the collateral may be protracted, and such collateral may not be liquid either. Therefore, it may be difficult to enforce such charges or pledges.

Regulatory approached to loan collateral:

- Steadily secured loan – a loan secured by collateral and with LTV ratio (the ratio of the loan (s) to the average market value of its collateral) equal to or less than 75% and/or a loan secured by gold, valuables and liquid asset and with LTV ratio equal to or less than 90 % and/or a loan secured by movable property and with LTV ratio equal to or less than 40%;
- Unsteadily secured loan – loan which is not firmly secured.

11. The existing insurance coverage may not adequately protect the business against losses, and successful claims that exceed their insurance coverage could harm the results of operations and diminish the Company's financial position

The Company maintains insurance coverage of different types and in the amounts that they believe are commensurate with their operations, including the Company's movable and immovable assets insurance, directors' and officers' liability insurance, cash collection and cash desk insurance. However, in certain cases, insurance policies may fail to provide adequate coverage and may be subject to certain deductions, exclusions and restrictions. Furthermore, Crystal requires its clients under the credit agreement to indemnify the Company against potential losses due to non-repayment of the loan and to make insurance of all movable and/or immovable assets that are presented as loan collateral. Insurance should be maintained with the same terms and conditions throughout the lifetime of the loan. There can be no assurance that the existing insurance policies will be adequate and sufficient to cover all types' losses that the Company may face.

In addition, there are various types of risks and losses for which Crystal does not maintain insurance, such as credit insurance. The Company is currently working with several insurance companies to receive credit insurance. Still, the risk of not receiving insurance policies with acceptable terms and conditions for the Company, or not receiving adequate coverage in case of the insurance event can have adverse effect on Crystal's business operations.

12. Introduction of new products and services might not be successful and have negative affect on profitability of the business

Crystal's revenues primarily derive from micro and small size lending. Accordingly, any decrease in demand for existing products could have a significant impact on the Company's revenues. A variety of factors could influence demand for the Company's products, such as regulatory restrictions that inhibit customer access to particular financial services, increased availability or attractiveness of competitive financial products, changes in customer expectations and spending or borrowing patterns; changes in the financial condition of existing customers of the Company that prompt them to seek loans with longer maturities and/or of larger size from other lending institutions or, alternatively, to exit the lending market entirely. If the Company fails to keep pace with new market trends and introduce new services and products emerging on financial markets, its operations might be adversely affected. On the other hand, introduction of new services and products might not be successful and might be resisted or even reject by customers. Thus, product diversification or change cannot serve as an assurance that it will have positive effect on business operations. It may even result in a loss of revenue and may have a material adverse effect on business, financial condition, operating results, prospects or cash flows.

13. If the Company fails to maintain effective internal control over financial reporting in the future, the accuracy and timing of Crystal's financial reporting may be adversely affected

The Company takes steps intended to enhance internal controls commensurate to the size of their business, primarily through the formation of a designated internal audit team with additional technical accounting and financial reporting experience. However certain matters such as fraud and embezzlement cannot be eliminated entirely given the pecuniary nature of the business. If the Company fails to enhance its internal controls in line with relevant requirements, it might be unable to accurately report financial results and to prevent fraud. While Crystal will exert efforts to remedy such issues, it cannot assure that it will be able to do so in a timely manner, which could impair its ability to accurately and timely report the financial position, results of operations or cash flows (*for detailed internal control mechanisms, please see "Decision Making, Committees and Related Procedures"*).

14. The Company might be adversely affected by contractual claims, complaints, litigation and negative publicity

The Company might be adversely affected by contractual claims, complaints and litigation, resulting from relationships with counterparties, customers, competitors or regulatory authorities, as well as by any adverse publicity that Crystal may attract. Any such litigation, complaints, contractual claims, or adverse publicity may have a material adverse effect on business, financial condition, results of operations, prospects or cash flows.

Defence in any lawsuit, even if successful, could take substantial time and attention of the Company's management and could require the expenditure of significant amounts for legal fees and other related costs. The business is also subject to regulatory proceedings, and could suffer losses from the interpretation of applicable laws, rules and regulations in regulatory proceedings, including the ones in which they are not a party. Any of these events could have a material adverse effect on business, financial condition, results of operations, prospects or cash flows.

15. Failure to comply with anti-money laundering laws and a special decree on the risk of financing terrorism, enacted by the National Bank of Georgia in 2016, could adversely affect the Company's reputation and business operations

The business is subject to anti-money laundering laws and the risks of financing terrorism. Although Crystal, as a financial institution, is required to comply with regulations that are generally less restrictive than those applicable to banks, it is still exposed to the risk of non-compliance and the risk of registration being suspended by the National Bank of Georgia. The company has anti-money laundering strategies and procedures in place. However, these strategies may not prevent all possible violations of the law. Failure to comply with all anti-money laundering laws may result in criminal and civil law sanctions and other remedies. Any sanctions, remedies or investigations into alleged violations of the Anti-Money Laundering Act will undermine Crystal's reputation and will have a serious adverse effect on business, financial condition, results of operations, prospects or cash flows.

16. Non-compliance with anti-corruption laws, including bribery laws, can adversely affect the Company's reputation and business

Notwithstanding its obligation to conduct business in accordance with the laws against corruption and bribery, the Company still risks that any stakeholder - be it a director, employee or business partner - may engage in such activities or establish relationships that violate such anti-corruption laws or maylead to lawsuits. Corruption is one of the major risks faced by the company since start of operations in Georgia. According to the International Monetary Fund, Georgia is an emerging market and thus more vulnerable to corruption. According to Transparency International 2017 Corruption Perception Index, which rates corruption worldwide from 1 (the lowest level of corruption) to 180 (the highest level of corruption), Georgia ranks 46th. For comparison purposes, Armenia ranks 107th, Bulgaria – 71st and Lithuania 38th. It is difficult to predict the impact of corruption on the Company's business operations. In some cases, this may result in regulatory changes that may adversely affect the Company's financial position, results of operations, prospects or cash flows.

17. Damage to the Company's reputation and brand name or deterioration of service quality may undermine the Company's ability to attract new customers and retain existing ones.

The Company's ability to attract new customers and retain existing ones depends, in part, on its brand recognition and reputation for delivering high-quality services. Crystal's reputation and brand name may come at stake if it fails to effectively provide new or existing services, due to technical difficulties, regulatory sanctions or for any other reasons. Damage to reputation and brand name or deterioration in service quality can have a material adverse effect on business, financial condition, operating results, prospects or cash flows.

18. Business operations largely depend on efficient and uninterrupted functioning of information systems

IT systems are vulnerable to certain problems, including computer viruses, unauthorized access, physical damage to server and software or hardware malfunctions. Any disruption in, or security breach of IT systems, could have a material adverse effect on business operations, such as the ability to serve customers in a timely manner, to accurately record financial data and to protect business and customers from financial fraud or theft. If business operations are compromised, the Company's reputation and client confidence may deteriorate and Crystal may suffer significant financial losses, any of which may have a material adverse effect on business, financial condition, results of operations, prospects or cash flows.

In addition, there can be no assurance that the Company will be able keep abreast of modern technological developments due to financial or technical limitations. Any inability to successfully develop or complete planned upgrades of the Company's IT systems and infrastructure or to adapt business operations and software may have a material adverse effect on business, financial condition, results of operations, prospects or cash flows.

19. The Company's business will suffer if it fails to attract and retain key management, employees or other qualified personnel

The success of the Company's business model is partly determined by uninterrupted service of its key management and employees and its ability to attract, retain and motivate qualified personnel. In addition, the Company's key management and other personnel have established important working relationships with regulators and have detailed knowledge of the Company and the markets in which it operates. The Company's success will depend, in part, upon its ability to retain such personnel and hire qualified staff as required. There can be no assurance that the Company will be able to attract, recruit and retain duly qualified personnel. Failure to do so could have a material adverse effect on business, financial condition and results of operations.

20. Strikes and other actions could disrupt the Company's operations or make it costlier to operate the Company's facilities

As of 31 December 2017, the Company employed up to 896 full-time equivalent employees ("FTEs"). Any reduction in headcount or pay could lead to labour disturbances. Labour disruption or failure to attract and retain operating personnel could have an adverse effect on the Company's business, financial condition and results of operations.

Till now, the company has not recorded any cases that would be classified as a strike, litigation or voluntary refusal to fulfil contractual obligations under the Georgian Law and the 49th article of the Labour Code.

21. Negative public perception of the business could cause the demand to decline and the business operations to deteriorate.

The sector in which the Company operates is exposed to public dislikes and negative media coverage. The interest towards the sector keeps on increasing over the recent years as the credit portfolio size has almost tripled (credit portfolio reached approximately GEL 1,209 billion by 2018 while it was only GEL 349 million by the end of 2011 - source: *National Bank of Georgia*). Certain groups, non-governmental organizations and politicians have advocated governmental actions designed to protect customers from disproportionately high interest rates and penalties imposed by MFOs and to impose stringent restrictions on MFO activities. Negative characterization of these type of lending practices could lead to more restrictive or adverse legislative or regulatory changes, which, in turn, may have a material adverse effect on business, financial condition, results of operations, prospects or cash flows.

In addition, Crystal's ability to attract new customers and retain current ones is highly contingent upon the success of its marketing campaigns and public reputation. Negative perceptions or publicity regarding short-term lending in general could erode trust towards the Company and damage Crystal's reputation among existing and potential customers, which could make it difficult to maintain or expand customer base or could reduce the demand for financial products and services, causing a material adverse impact on business, financial condition, results of operations, prospects or cash flows.

22. Business operations could be affected by natural disasters and other business disruptions, which could adversely impact the Company's future revenues and financial condition, increasing its costs and expenses

Crystal's services and operations are susceptible to damages or interruptions from hurricanes, earthquakes, power interruptions, failures in telecommunications, terrorist attacks, acts of war, human errors and similar events. A significant natural disaster, such as a hurricane, earthquake, fire or flood, could have a material adverse impact on the Company's ability to conduct business, whereas the insurance coverage may be insufficient to compensate for resulting losses. Any such event could cause consumer trust to diminish, ultimately leading to decline in the number of extended loans. Any of these occurrences may have a material adverse effect on business, financial condition, operating results, prospects or cash flows.

23. Downgrading of the credit rating could increase Crystal's cost of fundraising and could make it difficult to raise new funds in the future or renew maturing debt

Downgrading of the Company's credit rating would increase the cost of raising funds. In addition, Crystal could find it more difficult and expensive to renew maturing debt. Downgrade in credit rating and inability to renew maturing debt may also adversely affect perceptions about the Company's financial stability.

Macroeconomic and Risk Factors affecting Georgia

Regional tensions could have an adverse effect on the local economy and the Company's business

Georgia borders on Russia, Azerbaijan, Armenia and Turkey and could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia, since Georgian independence in 1991. These disputes have led to sporadic violence and breaches of peace-keeping operations. In August 2008, the conflict in Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war. Although Georgia and Russia signed French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russia breached the agreement and recognized the independence of the breakaway regions. Tensions persist as Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia. For example, in the summer of 2013, Russian border guards erected barbed wire fences along certain portions of the demarcation line between Georgia and South Ossetia; similar actions in future could further exacerbate the tension. Russia also opposes the eastward enlargement of NATO, potentially including former Soviet republics such as Georgia. The Georgian Government has taken certain steps towards improving relations with Russia, but, as of the date of this Prospectus, they have not brought any formal or legal changes in the relationship between the two countries.

Relations between Azerbaijan and Armenia still remain tense and there are sporadic acts of violence between the two countries.

Georgia has close trade relations with Turkey. In recent years, Turkey's national currency has depreciated sharply due to political instability that, together with rising inflation, will have a negative impact on the country's current account deficit and external debt servicing. Consequently, the current political and economic instability in Turkey may have a negative impact on the trade relationship between Georgia and Turkey, mainly reflected by decline in exports. According to Geostat, Georgia-Turkey trade turnover for 2017 was 14.9% of Georgia's total trade turnover. This figure has been decreasing since 2014 (17.2%). The high trade turnover with Turkey, which is the leader in Georgia's import structure, is mainly due to the large volume of imports from Turkey. According to Geostat, as of 2017, imports from Turkey accounted for 17.3% of Georgia's total imports, 18.6% in 2016, and 18.2% and 20.1% in 2015 and 2014, respectively. It is noteworthy that Turkey is among the top ten countries that export the largest quantity of goods from Georgia. According to Geostat, exports to Turkey constituted 7.9% of Georgia's total exports in 2017, 8.2% in 2016, and 8.5% and 8.4% in 2015-2014, respectively.

Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy. The crisis in Ukraine, which is still ongoing, broke out in late 2013. While the economy seems to be reviving now, it is hard to make any projections. The United States and EU have imposed trade sanctions on Russia and various Russian and Crimean officials, including several Russian banks and companies. The ongoing political instability, civil disturbances and military conflict in Ukraine, and any prolongation or further escalation of the geopolitical conflict between Russia and Ukraine, any further decline in the Russian economy due to the impact of the trade sanctions, falling oil prices or currency depreciation, increasing levels of uncertainty, increasing levels of regional, political and economic instability and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia

Hence, any of the following factors may affect political and economic stability of Georgia:

- Deterioration of Georgia's relations with Russia, including those related to border and territorial disputes;
- Change in the importance of Georgia as of the energy transit country;
- Changes in the amount of aid granted to Georgia or in the ability of Georgian producers to access export markets worldwide;
- Significant deterioration of relations between Azerbaijan and Armenia.
- Deterioration of economic and financial situation in Turkey

There are additional risk factors associated with investing in emerging markets such as Georgia

Emerging markets are characterized by greater volatility, limited liquidity and fewer export bases. Compared to developed markets, they are affected by more frequent changes in the political, economic, social, legal and regulatory framework. As emerging markets are experiencing rapid changes, they are more susceptible to market conditions and economic crises occurring in any part of the world.

In addition, international investors' response to certain events is sometimes characterized by a "chain effect", when investors deny the entire region or class of investment. If such a chain effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging markets. Georgia has already experienced a chain effect in the past, including the ones during 1998 financial crisis in Russia and global financial crisis afterwards. Georgia may become subject to a similar negative impact in the future.

Financial or political instability in emerging markets could also have substantial negative implications for capital markets and the overall economy, as investors tend to prefer to inject their money in more developed markets as they are believed to be much more stable. It is all coupled with lack of complete, reliable, accessible and timely economic and statistical data about Georgia, including the information contained in this Prospectus.

Depreciation of GEL against USD and EUR may have a material adverse effect on the Company's operations

Although GEL is a fully convertible currency, there is no exchange market for converting it outside Georgia. There is a market in Georgia for converting GEL into other currencies, but its size is limited. According to the National Bank, in 2017, the total trade turnover in Lari-US dollar and Lari-Euro markets (including total sales and purchases, excluding the activities of the National Bank) made up US $ 25.2 billion and EUR 6.9 billion respectively; by the first eight months of 2018, the given indicator totaled US $ 19.0 billion and 5.8 billion EUR respectively. According to the National Bank of Georgia, its official reserve amounted to $ 3.15 billion as of September 30, 2018. Although the government says that the reserves are sufficient to prevent excessive volatility of exchange rate in the short-term horizon, worsening of underlying fundamental factors could hinder the country's economic development, adversely affecting the businesses of its corporate customers and ultimately, of the company itself.

In addition, volatility in the foreign exchange market can have a major impact on the Georgian economy. Over the years, GEL exchange rate against the dollar has been significantly fluctuating due to Russian financial crisis in August 1998, 2008 conflict with Russia and slowdown in economic growth caused by dropping oil prices in 2015. During the first eight months of 2014, GEL appreciated in light of external conditions and economic growth, but after that, it started to depreciate against USD despite continued economic growth and foreign currency inflows. In 2015, the National Bank allowed GEL to depreciate by 22% in the attempt to avoid negative effects of economic slowdown in neighboring countries on the Georgian economy. Although GEL appreciated against the US dollar and other currencies by June 2016 due to the increase in the number of tourists, it started to depreciate again after June. As of December 2016 the rate was 2.6468. In 2017, Lari started to strengthen again, but due to negative expectations formed in previous years, it depreciated again in the fourth quarter. The rate remained stable for the first seven months of 2018. However, depreciation of Turkish Lira from August 18 made an impact on GEL. As of November 29, it depreciated by 7.99% compared to August 1 and hit 2.66. Rapid strengthening of GEL in the beginning of the year and afterwards enabled the National Bank to purchase USD 197.5 million at foreign exchange auctions in April-December 2018 and to replenish reserves. (Source: National Bank of Georgia)

The ability of the government and the National Bank to mitigate GEL fluctuations depends on a number of political and economic factors, including control of inflation by the National Bank and the Government, access to foreign currency reserves and foreign direct investment, as well as other inflows of hard currency. Weak control of these factors or sharp depreciation of GEL can have a negative impact on the Georgian economy. Geostat estimates that based on the consumer prices as of December, annual inflation constituted 2.0% in 2014, 4.9% in 2015, 1.8% in 2016, and 6.7% in 2017.

Prices came under pressure in 2017 due to factors such as a sharp increase in excise tax, a rise in commodity prices, a delayed effect of depreciated Lari and a low base effect.

Consumer prices have started to decline sharply from early 2018, with annual inflation totaling 1.9% in November, which is well below the National Bank's targeted inflation of 3%.

High inflation can lead to volatility in the currency and financial markets, drop in consumers' purchasing power and a decline in their confidence. All of this could lead to poor performance of Georgian economy and could make a material adverse impact on the company's corporate clients, which in turn may negatively affect the company.

Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Company's business

After gaining independence from the former USSR in 1991, Georgia has experienced a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

Need for implementing further economic and political reforms is one of the challenges faced by Georgia. However, passing of business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of existing reform policies or as a result of a rejection of reform policies by the president, the parliament or other agencies.

In October 2010, the Parliament of Georgia approved certain amendments to the Constitution of Georgia (**the Constitution**) that were intended to enhance the primary governing authority of the parliament, to increase the powers of the Prime Minister of Georgia and to limit the scope of functions of the President of Georgia. In March 2013, the Parliament unanimously adopted certain constitutional amendments further limiting the powers of the President of Georgia. Any further changes to Georgian parliamentary, presidential or prime ministerial powers might lead to political disruption or political instability or otherwise negatively affect the political climate in Georgia.

As none of the candidates managed to get more than 50% of the votes in the presidential elections of 28 October 2018, a second round was scheduled. The pre-election environment was quite tense and it is not excluded that the tension might continue after the second round. Such political tensions/turmoil could have a negative impact on the local economy and consequently, on the business of the company.

There may be challenges associated with legislative harmonization of the Georgian regulatory environment with the EU driven by the DCFTA

On 27 June 2014, Georgia signed the EU Association Agreement and established a DCFTA with the EU, which envisages bilateral trade liberalization with the EU. The implementation of the EU Association Agreement is expected to create new business opportunities, although it may pose challenges for businesses, households and the state. The implementation of the EU Association Agreement and the DCFTA may require Georgia to conform to EU trade and sector-specific legislation, which is expected to be challenging, especially in the areas of environmental protection and customer safety, including product and information security.

Georgia has been gradually approximating its trade legislation to EU norms and practices since it became a member of the World Trade Organization in 2000. Some of the recent regulatory changes include the 2013 amendments to the labor code that were intended to approximate Georgian labor regulations to commitments under the EU Association Agreement and the DCFTA. These amendments required employers to pay overtime, increased severance pay (totaling one to two months' salary), enhanced workers' rights to appeal employers' decisions in courts, prohibition of dismissal without clear grounds, and basic working conditions. The amendments also strengthened the competition laws in Georgia, which could restrict the Company's ability to make further expansions in line with its growth strategy.

Other changes may be expected in governmental policy, including changes in the implementation or approach of previously announced government initiatives. In addition, the implementation of the EU Association Agreement may place a significant burden on regulatory bodies, divert their resources from on-going reforms and slow down their efficiency.

As a result of expected regulatory amendments to achieve harmonization with EU legislation, the Company may be required to adjust its policies and procedures to comply with any resulting changes in laws and regulations. For example, the company has amended its labor contracts to reflect the above-mentioned changes to the labor code. Even though the company expects further changes, it cannot predict what the effect of such changes will be or whether it will manage to comply with new amendments.

In addition, the Association Agreement envisages approximation of securities legislation with the European law. It may cause the company, being an accountable enterprise, to be subject to additional regulations.

Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Company. There may be changes in current tax laws and policies

Compared to more developed market economies, it has not been long for tax laws to be enforced in Georgia. The given fact poses challenges while complying with tax laws, to the extent that such tax laws are ambiguous or leave room for interpretations. As a result, companies face the risk that their attempted compliance could be challenged by the tax authorities.

Furthermore,such tax laws are subject to changes and amendments, which can result in unusual complexities for businesses. A new tax code (the Tax Code) came into effect on 1 January 2011. There are differing opinions regarding the interpretation of various provisions of the Tax Code among and within ministries and organizations, including the tax authorities, which leads to uncertainties, inconsistencies and areas of conflict. The Tax Code provides for adoption of preliminary rulings by tax authorities on the issues that taxpayers raise. While Management believes that the Company is currently in compliance with the tax laws, it is possible that the relevant authorities could take differing position with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that the Company could face fines or penalties as a result of regular tax audits.

In addition, tax laws and government tax policies may be subject to modifications in the future, including the ones resulting from a change of government (see "*political and governmental instability in Georgia could have a material adverse effect on the local economy and the Company's business*"). Such changes could include the introduction of new taxes or an increase in the tax rates applicable to the Company or its customers, which may, in turn, have a material adverse effect on the Company's business.

In May 2016, changes were moved to the regulations of the corporate profit tax, whereby only distributed income, defined as cash or non-cash dividend payment to owners - private individuals or non-resident legal entities – is subject to taxation. Retained earnings are no longer taxable. All major changes to the Tax Code came into force on 1 January 2017.

Disruptions in Georgia's neighbouring markets may have an adverse effect on Georgia's economy

The Georgian economy is dependent on the economies of other countries within the region (Azerbaijan, Armenia, Russia, and Turkey).

Azerbaijan and Armenia were historically the two largest markets for Georgian exports. According to figures published by Geostat, Azerbaijan and Armenia accounted for approximately 10.9% and 8.2% of Georgia's total exports, respectively, in 2015. Their share in Georgia's total exports decreased to 7.2% and 7.1%, respectively, in 2016, and these countries accounted for 9.9% and 7.7% Georgia's total exports, respectively in 2017.

In February 2015, the Central Bank of Azerbaijan devalued the Manat by 33.6% against the US Dollar and by 33.8% against the Euro. In December 2015, the Central Bank of Azerbaijan moved to a managed floating exchange rate, resulting in a devaluation of the Manat by 32.3% against the US Dollar and by 32.3% against the Euro. The Manat stabilised throughout 2016 and 2017. Between October 2014 and February 2015, the Armenian Dram depreciated against the US Dollar by approximately 14.3%. Between 31 December 2015 and 29 February 2016, the Armenian Dram depreciated against the US Dollar by 1.5%. The Armenian Dram remained stable throughout 2017. Russia is one of the largest markets for Georgian exports and imports, accounting for approximately 7.4% and 9.8% of Georgia's total exports and approximately 8.6% and 9.3% of Georgia's total imports in 2015 and 2016, respectively, according to Geostat. Exports from Georgia to Russia significantly increased and accounted 14.5% in 2017, while imports share in total imports has slightly increased to reach 10%. In the spring of 2013, Russia lifted its trade embargo and the Russian market was reopened to Georgian producers. The export of Georgian products to Russia increased threefold in 2013. Throughout 2015-2016, the Russian economy has witnessed an economic slowdown due, in part, to the decline in global oil prices and US and EU sanctions imposed as a result of the on-going political tensions between Russia and Western countries arising from the conflict in Ukraine and Syria. In January 2016, the Russian Ruble declined to an all-time low against the US Dollar. Between 31 December 2016 and December 2017, the Russian Ruble appreciated against the US Dollar by 5.3%.

Turkey represents the biggest importer to Georgia; according to Geostat, it accounts for 16.1% of Georgia's total imports by 11 month figured of 2018. While the Turkish economy is estimated to have grown by 4.5% during 9 months of 2018, according to Turkstat, political uncertainty, unfavorable geopolitical developments, a sharp weakening of the Turkish Lira and rising inflation in Turkey (Annual inflation was 24.5% in September 2018) are potential obstacles to further economic growth.

According to Geostat, rebuilding of relations with Georgia's main trading partners has resulted in better-than-expected economic growth in Georgia (by 4.8% in 9M17). Any ongoing or further economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy, which, in turn, could have a material adverse effect on the Company's business, financial condition and results of operations

Because the Company operates primarily within Georgia, it will be affected by changes in Georgian economic conditions

The Company's operations are located in, and its revenue is sourced from, Georgia. The Company's operating results are, and are expected to continue to be, significantly affected by financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia. Factors such as gross domestic product (**GDP**), inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand for its products and services.

Global and regional economic conditions remain volatile and the country experiences significant economic uncertainty. According to Geostat, real GDP growth in Georgia made up 2.8% in 2016 and 4.8% in 2017. According to the IMF's World Economic Outlook published in October 2018, GDP growth is expected to be positive in 2018, as economic conditions are favorable in most economies in the Commonwealth of Independent States (CIS), primarily due to a spill-over effect from the recovery in the Russian economy. The IMF projects 2.4 % growth rate in CIS economies in 2019 and an average growth rate of 2.2% over 2020-2023.

In addition, the IMF expects 5.0% growth in Georgia in 2018, with an average growth rate of 5.1% expected in 2019-2023. Georgia continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of its customers in Georgia. Uncertain and volatile global economic conditions, such as heightened political tensions in in the region and in the EU, could have substantial political and macroeconomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy. If any of these risks materialize, they could have a material adverse effect on the Company's business, financial condition and results of operations

The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on the business

Georgia is still developing an adequate legal framework with several fundamental civil, criminal, tax, administrative and commercial laws recently becoming effective. The recent introduction of this legislation and the rapid evolution of the Georgian legal system have resulted in ambiguities and inconsistencies in their application, including their enforceability. In addition, the court system in Georgia is understaffed and has been undergoing significant reform. Judges and courts in Georgia are generally less experienced in commercial and corporate law than in certain other countries, particularly in Europe and the United States. The uncertainties of the Georgian judicial system could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on the Company.

Risks Related to the Bonds

The market price of the Bonds may be volatile

The market price of the Bonds could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results; actual or anticipated variations in the operating results of the Company's competitors; adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts; actual or expected sales of a large number of Bonds, as well as any other factors affecting the Company, including economic and market conditions in Georgia. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Bonds without regard to the Company's business, financial condition and results of operations. If an active trading market for the Bonds develops, there can be no assurance that events in Georgia or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Bonds or that economic and market conditions will not have any other adverse effect. If the Bonds are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of the Company or other factors, some of which may be beyond the control of the Company.

The Bonds constitute unsecured obligations of the Company

The Company’s obligations under the Bonds will constitute unsecured obligations of the Company. Accordingly, any claims against the Company under the Bonds would be unsecured claims that would be satisfied after the claims of secured creditors. The ability of the Company to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

Any change of law in Georgia in the future may have a material adverse effect on the Bonds, including their GSE listing

The terms and conditions of the Bonds are based on the laws of Georgia in effect as of the date of this Prospectus. There can be no assurance in terms of the impact of judicial decisions or changes in law or administrative practice in Georgia after the date of this Prospectus.

The Company will have the right to submit an application to the GSE for the Bonds to be admitted to listing on the GSE's official list and to trading on the GSE. The Parliament of Georgia was considering certain changes to securities legislation in 2013 that could negatively affect listing of the Bonds and their admission to trading on the GSE as well as maintaining such listing and admission in the future. Although these draft amendments were widely criticized and were not adopted, any future changes to the securities legislation could have a negative effect on the listing and admission to trading of the Bonds and the trading market for the Bonds.

Investors whose financial activities are denominated in a currency other than GEL, may earn less than expected interest or principal due to exchange rate fluctuations or currency transaction adjustments.

The company will pay interest and principal on the Bonds in GEL. This involves certain FX-related risks for investors if they predominantly perform financial operations in a currency other than GEL (in investor's currency). This includes the risk that exchange rates may change significantly (including the changes triggered by GEL devaluation or revaluation of the investor currency) as well as the risk that the government of the jurisdiction in which the company or the investor operates, may impose regulations or modify rules for currency operations. Strengthening of the investor’s currency in relation to GEL will reduce (i) equivalent revenues on the bonds in the investor’s currency, (ii) equivalent principal amount payable on the bonds in the investor’s currency, and (iii) equivalent market value of the bonds in the investor’s currency.

The government and fiscal authorities may impose (there has been similar experience in other countries) certain regulations on currency operations that could adversely affect the relevant exchange rate. As a result, investors may earn less than expected interest or principal on the Bonds.

An investment in the Bonds involves certain legal investment considerations

The investment activities of certain investors are subject to legal investment laws and regulations, or supervision or regulation, by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Bonds are legal investments for them; (ii) the Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under minimum reserve requirements or similar rules.

Transfer of the Bonds will be subject to certain restrictions

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or any US state securities laws. Prospective investors may not offer or sell the Bonds, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable state securities laws. It is the obligation of prospective investors to ensure that their offers and sales of the Bonds within the United States and other countries comply with any applicable securities laws.

Investors in the Bonds must rely on procedures of the Registrar, the Bondholders' Representative and in corresponding cases - Nominal Holders of the Bonds

The Company will discharge its payment obligation under the Bonds by making payments to Bondholders and Nominal Holders of the Bonds registered in the primary Register maintained by the Registrar (as such terms are defined in the Terms and Conditions of the Bonds). A Bondholder must rely on the procedures of the Registrar and of the Nominal Holders (where applicable) to receive payments under the Bonds. The Company bears no responsibility or liability for the accuracy of the records or payments made in respect of, beneficial interests in any Bonds.

The Terms and Conditions of the Bonds provide that the Bondholders’ Representative will be required to take action on behalf of the Bondholders in certain circumstances, but only if the liability of the Bondholders’ Representative is insured and/or pre-funded and/or secured to the satisfaction of the company. It may not be possible for the Bondholders' Representative to take certain actions and accordingly in such circumstances, the Bondholders' Representative will be unable to take such actions, notwithstanding the provision of an indemnity and/or prefunding and/or security to it, and it will be for Bondholders and nominal holders to take such actions directly.

The terms and conditions of the Bonds may be modified or waivers for breaches of the terms and conditions may be issued in the future

The terms and conditions of the Bonds contain provisions for calling meetings of Bondholders to consider the matters affecting their interests in general. These provisions permit defined majorities to take binding decisions for all Bondholders, including the Bondholders who did not attend the relevant meeting and Bondholders who voted against the majority. (See "Terms and Conditions of the Bonds", condition 11 "Meeting of Bondholders, Modification and Waiver")

There may not be an active trading market for the Bonds

There can be no assurance that an active trading market for the Bonds will develop, or, if one does develop, that it will be maintained. If an active trading market for the Bonds does not develop or is not maintained, the market or trading price and liquidity of the Bonds may be adversely affected by a number of factors, some of which may be beyond the control of the Company. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Company.

Risk of Early Redemption *(see "Terms and Conditions of the Bonds", condition 7 "Redemption and Purchase")*

In certain cases specified in this Prospectus, the Bonds may be redeemed prior to their Maturity Date. If the Bonds are redeemed prior to their Maturity Date, the Bondholder is exposed to the risk of a lower yield than expected due to such early redemption. Moreover, such redemption may be done at the moment when the yield of comparable bonds on the capital markets is reduced, which means that the investor may be able to reinvest the redeemed yields only in bonds bearing a lower yield.

Other Regulatory Risks

The Company is a Reporting Entity and as such, is subject to additional regulations and reporting requirements.

The Company is a Reporting Entity within the meaning of the Law of Georgia on Securities Market (the "**Securities Law**"). The Securities Law sets certain approval and transparency requirements for transactions in which the members of the governing bodies of a Reporting Company and direct or indirect owners of 20% or more of its shares are involved as "**Interested Parties**" (such cases are defined in the Securities Law). According to the Securities Law, a transaction involving Interested Parties shall be approved by the supervisory board or the general meeting of shareholders. Transactions exceeding 10% of the value of the assets of the Company shall be approved by the general meeting of shareholders. The given requirements do not apply to the transactions executed between a reporting company and its 100% subsidiaries and 100% shareholders. Consequently, the Company's Meeting of Partners has to approve transactions involving Interested Parties.

Furthermore, the Securities Law imposes specific reporting obligations on a Reporting Company. A Reporting Company is obliged to submit to the NBG, publish or provide to the registered owners of its securities annual, semi-annual and current reports. If the Bonds are traded on the GSE, such information should also be supplied to the GSE. The NBG is entitled to request additional information from the Reporting Companies.

Requirements of approval of transactions with Interested Parties and reporting requirements pose additional regulatory burden on the Company and may affect the efficiency of its operations. In certain cases, the failure to obtain required approvals may cause invalidation of the relevant transactions.

Anti-monopoly regulations could adversely affect the Company' operations

In March 2014, significant changes were moved to the Law of Georgia on Competition (the "**Competition Law**"). While general competition rules were previously lacking (with the exception of some sectors, such as the banking sector and telecommunications), the changes introduced various restrictions on the concentration of economic agents, abuse of dominant position, state assistance, etc. In April 2014, a Competition Agency was established under the Law on Competition. The given agency is authorized to monitor the implementation of Georgia's anti-monopoly laws by private organizations. Among other powers, it is also entitled to charge penalties for violating the Competition Law. The Competition Agency is expected to shortly issue various normative acts on the basis of the Law on Competition. The novelty of anti-monopoly regulations and the unpredictable nature of the Agency's enforcement process may create additional regulatory burden for the company, adversely affecting its expansion plans.

Use of Proceeds

Net proceeds from the bonds will be used to finance the Company's core business operations. In particular, 45% will be used to finance agricultural projects, 20% - for financing trade sector projects, 20% - for financing service sector projects, 12% - financing of manufacturing and 3% - financing of projects in tourism sector. At least 50% of this facility is intended for female borrowers / entrepreneurs.

Net proceeds from the bonds will be gradually used for the above-mentioned purposes in the first half of 2019.

The proceeds will not be used for refinancing the Company's existing debts.

Growing demand for credit products in the sector and the Company's portfolio growth strategy have triggered the need for resources.

Capitaliation and Indebtedness

The following table sets forth the Company's capitalization as of 31 December 2017 and as of 31 December 2016, also as of 9 months of 2018 and 2017. This table should be read in conjunction with the sections entitled "*Selected Consolidated Financial and Operating Information*" and "*Management Discussion and Analysis of the Company's Financial Condition and Operating Results*", as well as financial statements for 9 months of 2018 and 2017 (which are unaudited figures), together with the related notes, all of which are presented in this Prospectus.

	30-Sep -2018*	30-Sep -2018	30-Sep-2017	31-Dec-2017	31-Dec-2016
(GEL, thousands)					
Long-term liabilities					
Loans (principal and interest accrued)	230,295	230,295	155,330	167,700	132,142
GEL Bonds	24,871	9,871	-	9,880	-
Total liabilities	**255,166**	**240,166**	**155,330**	**177,580**	**132,142**
Equity:					
Share capital	3,061	3,061	3,052	3,052	3,024
Share premium	12,718	12,718	12,551	12,551	12,130
Share based payment reserve	0	0	0	68	362
Retained earnings	37,435	37,435	29,489	30,645	23,510
Total equity	**53,214**	**53,214**	**45,092**	**46,316**	**39,026**
Total capitalization	**308,380**	**293,380**	**200,422**	**223,896**	**171,168**

* - *Assumption that as of 30 September 2018, the company has already issued GEL 15 million bonds and other financials remain unchanged*

The company will finance its future operations both by attracting financial resources from the local market and by raising funds from international financial organizations. Negotiations with new partners for additional resources are already underway considering the year-end working capital requirements as well as 2019 plan (see Chapter 7. "*Working Capital Statement").*

Outstanding debts as of 1 December 2018

1 December 2018 (Figures are in thousands, in GEL)				
	Currency	Remaining period	2018	Repayment schedule
Blueorchard	GEL	35 months	24,736	Bullet
FMO	GEL	65 months	24,060	Annuity
Proparco	USD	52 months	18,827	Annuity
Symbiotics	GEL/USD	35 months	18,041	Bullet
Bank Im Bistum	USD	32 months	16,138	Annuity
Incofin	USD	15 months	16,138	Bullet
Bank of Georgia	GEL/USD/EUR	10 months	15,664	Bullet
responsAbility	USD	29 months	13,448	Bullet
Triple Jump	USD	32 months	10,758	Bullet
Frankfurt School	USD	30 months	8,741	Bullet
MCE	USD	21 months	8,069	Annuity
Agricole	USD	25 months	8,069	Annuity
Microvest	USD	20 months	8,069	Annuity
EFA	USD	21 months	6,724	Bullet
Oikocredit	GEL/USD	23 months	6,514	Annuity
Finance in Motion	GEL/USD	43 months	5,274	Annuity
Pasha Bank	GEL	16 months	4,810	Annuity / Bullet
TBC Bank	GEL	9 months	4,517	Bullet
KFW	GEL	7 months	4,198	Bullet
Lendahand	EUR	43 months	433	Annuity
Interest bearing debts, total			**223,228**	

The Company repays short-term interest-bearing liabilities either by assuming a new liability or by extending the same one (the so-called "roll-over"). While planning its working capital needs, the Company considers the obligations for repaying short-term interest-bearing liabilities (for more information, see Chapter 7 of the Company's Financial Analysis under "*Working Capital Statement*").

There is no significant change in interest-bearing liabilities from the date of disclosure in the Prospectus to the date of its approval.

Note: information on the average interest rate for the interest bearing liabilities attracted by the company can be found in the financial overview of the company - "6. Long-term liabilities".

SELECTED FINANCIAL AND OPERATING INFORMATION

The financial information of the Company set forth below as of 30 September 2018, 30 September 2017, 31 December 2017 and 31 December 2016 has been extracted from, should be read in conjunction with, and is qualified in its entirety by the consolidated financial statements, including the related notes, contained elsewhere in this Prospectus.

Investors should be aware that the financial data for the Company set out in "Management Discussion and Analysis of the Company's Financial Condition and Operating Results —Results of Operations for the Year ended 31 December 2017 and 31 December 2016" is taken from the 2017 and 2016 audited financial statements. Results of Operations for the period ended 30 September 2018 and 30 September 2017 is taken from the 2018 and 2017 half year management report that were prepared in accordance with IFRS (financials for the first half of 2017 are unaudited).

Prospective investors should read the selected financial and other information in conjunction with the information contained in the following sections of this Prospectus: "Risk factors", "Capitalization and Indebtedness", "Management Discussion and Analysis of the Company's Financial Condition and Operating Results", "Description of Business" and the consolidated financial statements, including the related notes and other financial data appearing elsewhere in this Prospectus.

Statement of Financial Position (GEL, '000)

	3 Quarter 2018	3 Quarter 2017	2017	2016
Assets				
Cash and cash equivalents	15,138	13,254	14,320	10,355
Financial instruments at fair value through profit or loss held by the Company	980	1,615	1,585	7,657
Loans to customers	262,345	174,536	198,045	145,510
Fixed assets	6,379	4,976	5,309	4,562
Intangible assets	1,399	1,369	1,325	1,190
Deferred tax assets	1,954	1,457	1,954	1,457
Other assets	5,929	3,126	3,615	2,268
Total assets	**294,124**	**200,333**	**226,153**	**172,999**
Liabilities				
Financial instruments at fair value through profit or loss held by the Company	-	-	591	-
Loans and borrowings	230,295	155,330	167,700	132,142
Issued bonds	9,871		9,880	-
Current tax liability	(260)	(354)	297	830
Other liabilities	1,004	265	1,369	1,001
Total liabilities	**240,910**	**155,241**	**179,837**	**133,973**
Equity				
Share capital	3,061	3,052	3,052	3,024
Share premium	12,718	12,551	12,551	12,130
Share based payment reserve	-	-	68	362
Retained earnings	37,435	29,489	30,645	23,510
Total equity	**53,214**	**45,092**	**46,316**	**39,026**
Total liabilities and equity	**294,124**	**200,333**	**226,153**	**172,999**

Statement of Profit and Loss and Comprehensive Income (GEL, '000)

	3 Quarter 2018	3 Quarter 2017	2017	2016
Interest income	53,669	38,625	53,847	43,250
Interest expense	(14,746)	(9,800)	(13,754)	(10,132)
Net interest income	**38,923**	**28,825**	**40,093**	**33,118**
Loan impairment provision, net	(5,237)	(2,394)	(3,712)	(2,935)
Net interest income after provision for loan impairment	**33,686**	**26,431**	**36,381**	**30,183**
Fee and commission income	1,754	1,157	1,719	2,335
Net gain (loss) on financial instruments at fair value through profit or loss	(1,410)	(4,643)	(3,877)	2,186
Net foreign exchange loss	(3,320)	2,591	893	(5,238)
Other income	40	9	30	70
Salary and bonus	(12,332)	(9,557)	(14,157)	(11,779)
Depreciation and amortization expenses	(1,776)	(1,404)	(1,919)	(1,617)
Other operating and administrative expenses	(7,630)	(6,374)	(9,005)	(6,929)
Profit before taxes	**9,012**	**8,210**	**10,065**	**9,211**
Income tax expense	(1,352)	(1,231)	(1,930)	(1,872)
Profit and total comprehensive income for the reporting year	**7,660**	**6,979**	**8,135**	**7,339**

Cash Flow Statement (GEL, '000)

	3 Quarter 2018	3 Quarter 2017	2017	2016
Cash flows from operating activities				
Income before taxes	9,012	8,210	10,065	9,211
Adjustments:				
Net income on financial instruments at fair value through profit or loss	1,410	4,643	3,877	(2,186)
Depreciation and amortization	1,776	1,404	1,919	1,617
Interest income	(53,669)	(38,625)	(53,847)	(43,250)
Interest expense	14,746	9,800	13,754	10,132
Loan impairment provision	5,237	2,394	3,712	2,935
Exchange rate loss	3,320	(2,591)	(893)	5,238
Loss from disposal of fixed assets	27		37	10
Share-based payments	108	87	155	588
Cash outflows from operating activities before changes in operating assets and liabilities	**(18,033)**	**(14,678)**	**(21,221)**	**(15,705)**
(Increase) / decrease in financial instruments at fair value through profit or loss	(1,395)	1,399	2,786	(1,233)
Increase in loans to customers	(66,337)	(32,451)	(56,732)	(37,046)
Increase in other assets	(2,328)	(856)	(1,334)	(977)
Increase in other liabilities	(373)	(731)	294	62
Decrease (increase) in term deposits	-	-	-	100
Cash used in operating activities	**(70,433)**	**(32,639)**	**(54,986)**	**(39,094)**
Interest received	50,198	37,087	52,898	41,339
Interest paid	(11,906)	(8,788)	(13,093)	(9,335)
Income tax paid	(1,909)	(2,415)	(2,960)	(1,962)
Cash used in operating activities	**(52,083)**	**(21,433)**	**(39,362)**	**(24,757)**
Cash flows from investing activities				
Purchases of fixed assets	(2,454)	(1,603)	(2,437)	(2,420)
Purchases of intangible assets	(346)	(394)	(432)	(237)
Cash from disposal of fixed assets	-	-	31	-
Cash used in investing activities	**(2,800)**	**(1,997)**	**(2,838)**	**(2,657)**

Cash flows from financing activities				
Cash from loans and borrowings	101,945	95,020	118,487	64,658
Repayment of loans and borrowings	(43,545)	(66,019)	(81,371)	(41,058)
Proceeds from issuance of bonds	-	-	9,871	-
Proceeds from issuance of shares	-	-	-	9,601
Dividends paid	(870)	(1,000)	(1,000)	(475)
Cash flows from financing activities	**57,530**	**28,001**	**45,987**	**32,726**
Net increase (decrease) in cash and cash equivalents	**2,647**	**4,571**	**3,787**	**5,312**
Effect of exchange rate changes on cash and cash equivalents	(1,829)	(1,672)	178	389
Cash and cash equivalents at the beginning of the year	14,320	10,355	10,355	4,654
Cash and cash equivalents at the end of the year	**15,138**	**13,254**	**14,320**	**10,355**

MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND OPERATING RESULTS

The following discussion and analysis of the Company's financial condition and operating results principally covers the years 2017 and 2016 and first quarter of 2018 and 2017 (9-month figures of 2017 and 2018 are unaudited). Unless otherwise specified, the financial information for the periods presented in this document has been extracted and/or derived from the financial statements. This section should be read in conjunction with the financial statements and the other financial information included elsewhere in the Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this prospectus includes forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by the forward-looking statements. See the sections - "Risk Factors" and "Forward-Looking Statements".

Factors Affecting the Company's Financial Statements

The key factors affecting the Company's financial statements are discussed below:

Macroeconomic conditions

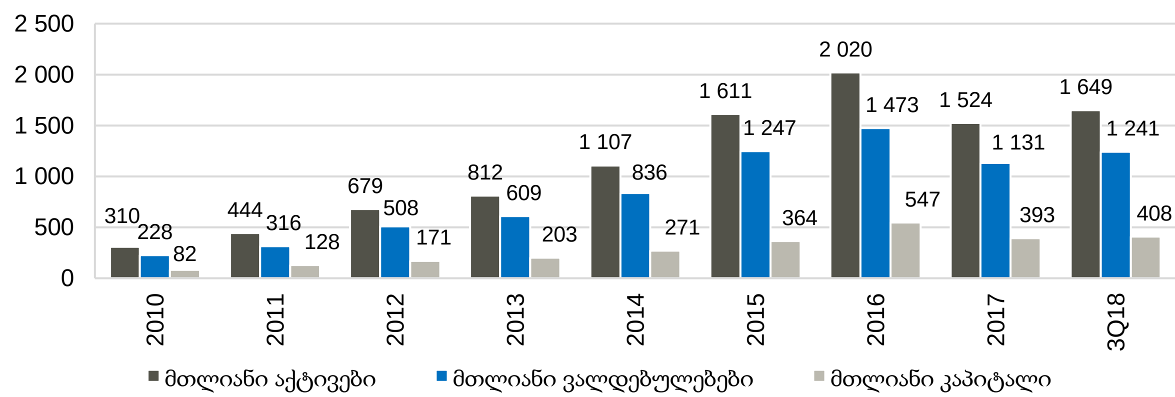
According to the National Statistics Office of Georgia, the real GDP growth rate made up 5.0% in 2017. This figure was significantly lower in 2016 and 2015, totaling 2.8% and 2.9% respectively, due to the difficulties on the global and regional markets. From the second half of 2014, the Georgian economy has been affected by falling world commodity prices and negative spillovers of the recession in Russia, as well as by currency depreciations among Georgia's main trading partners. As a result of these factors, in 2015, Georgia's exports decreased significantly and migrant remittances declined, particularly from Russia and Greece (which are the largest sources of remittances to Georgia). Exports fell further in 2016, though remittances increased in the second half of 2016. The resulting shortfall in foreign earnings, combined with the worldwide strengthening of the US Dollar and slowly adjusting imports, caused the Lari to depreciate by 22.2% against the US Dollar from 31 December 2014 to 31 December 2015 and by a further 9.5% from 31 December 2015 to 31 December 2016. In order to mitigate the impact of GEL depreciation on inflation expectations, the NBG gradually tightened its monetary policy in 2015. NBG relaxed the monetary policy stance in 2016 as weak aggregate demand and falling world commodity prices eased price pressures and inflation dropped to 1.8% by the end of 2016. Despite the regional economic slowdown, tourism increased during the review period; tourism revenues increased by 13% to reach USD 2.1bn in 2016, accounting for 14.7% of GDP. From the beginning of 2017, the National Bank had to tighten its monetary policy anew, mainly due to the increase in the excise tax on petroleum products and tobacco. As a result of the latter, inflation reached 6.7% by the end of 2017. Nevertheless, the economy recovered significantly in 2017, with real GDP growth reaching 4.8%; Remittances increased by 19.8% (9.1% of GDP), tourism revenues increased by 28.1% (17.9% of GDP); high growth rate of 29.5% was recorded in exports of goods, whereas it dropped by 4.2% in 2016 and by 22.9% in 2015. Moreover, FDI increased by 21.0% in 2017, reaching $ 1.9 billion (12.6% of GDP).

Market overview

The microfinance sector accelerated significantly since 2010 and maintained an upward trend till the end of 2016. However, due to significant legislative changes, the number of microfinance companies decreased in 2017. In addition, JSC Credo, one of the biggest players of the sector, transformed into a bank at the beginning of last year, greatly affecting the aggregate indicators of the microfinance sector.

As a result, by the end of 2017, total assets of microfinance organizations amounted to GEL 1,524 million (25% annual decline), while total liabilities and total capital totaled GEL 1,131 million (23% annual decline) and GEL 393 million (28% annual decline), respectively. It should be noted that in December 2016, online credit companies were registered as microfinance organizations and contributed to the growth of aggregate indicators of the microfinance sector in 2016, and in 2017 some of them left market. As of the third quarter of 2018, the sector has grown compared to the previous year.

Figure 1: Microfinance sector in Georgia, GEL, millions

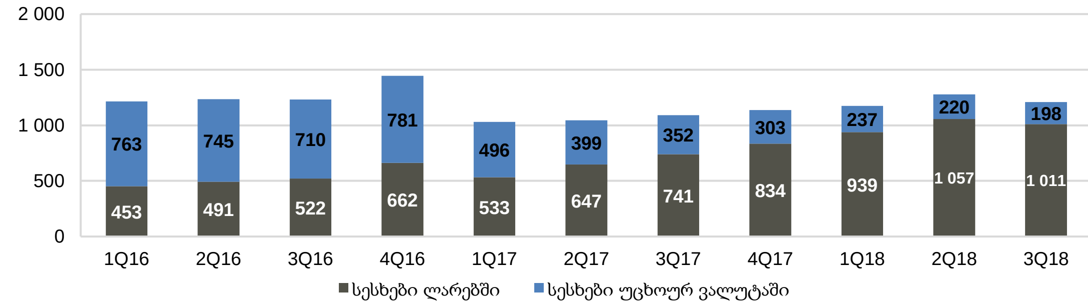


Source: National Bank of Georgia

As of the end of 2017, net loan portfolio of the sector made up GEL 1,137 mn (21% annual decline).) According to the National Bank, such decrease is caused by the exit of JSC Credo from the microfinance sector. Other changes that have affected 2017 total loan portfolio include the Larization program, new regulations and imposition of an upper 100% cap on effective interest rates.

According to the “Larization” scheme enacted in January 2017, loans up to GEL 100,000 should be disbursed to resident individuals in the national currency. This regulation significantly reduced the share of foreign currency loans in the total loan portfolio.

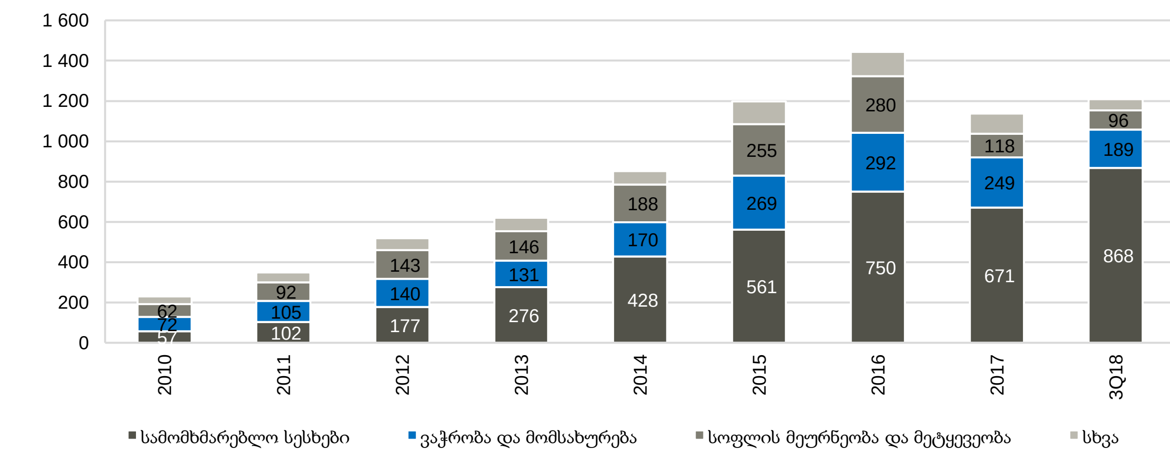
Figure2: Loan portfolio distribution, GEL, millions



Source: National Bank of Georgia

By the end of 2017, consumer loans (GEL 671 million) held the leading position in the total loan portfolio, followed by trade and service (GEL 249 million) and agriculture (GEL 118 million). In the period between 2010 and 2017, the share of consumer loans in the total loan portfolio increased from 25% to 59%, whereas the share of trade and services decreased from 31% to 22%. Loans in the agricultural sector declined sharply as a result of the exit of JSC Credo from the sector, amounting to GEL 118 million (58% annual decline). As for the loans to legal entities, their share was always insubstantial in the total loan portfolio (1% in 2017).

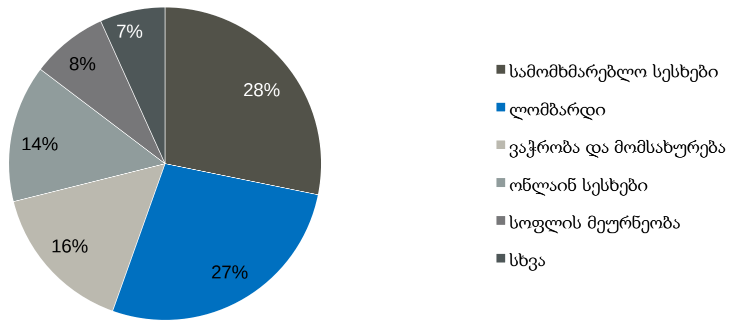
Figure 3: Gross loan portfolio, GEL, millions



Source: National Bank of Georgia

In 2018, the National Bank started to apply a new classification for publishing the credit portfolio of the microfinance sector. As of the third quarter of 2018, total loan portfolio increased to GEL 1,209 million (6.3% increase compared to end-2017). Online loans made up GEL 172 million and 358,224 loans were active. After consumer loans, pawnshop loans were the second largest category with GEL 329 million.

Figure 4: Distribution of total loan portfolio, Q3 2018



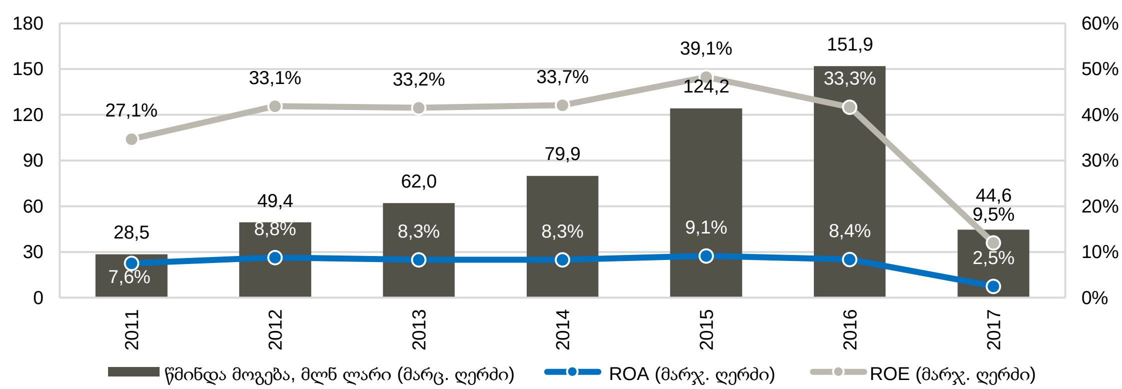
Source: National Bank of Georgia

The microfinance sector had higher profitability due to high margins compared to the banking sector. In 2016, the currency exchange rate and the decline in interest rates and margins adversely affected profitability indicators, which was partially offset by the registration of online credit companies as microfinance organizations in December 2016.

In 2017, profitability indicators further declined due to new regulations and online lending microfinance organizations. MFOs had attracted resources in foreign currency whereas extended loans in GEL.

In 2017, the sector's net profit amounted to GEL 44.6 million. Return on Equity and Return on Assets dropped to 9.5% and 2.5%, respectively. Net profit of microfinance organizations constituted GEL 35.8 million by the end of Q3 2018.

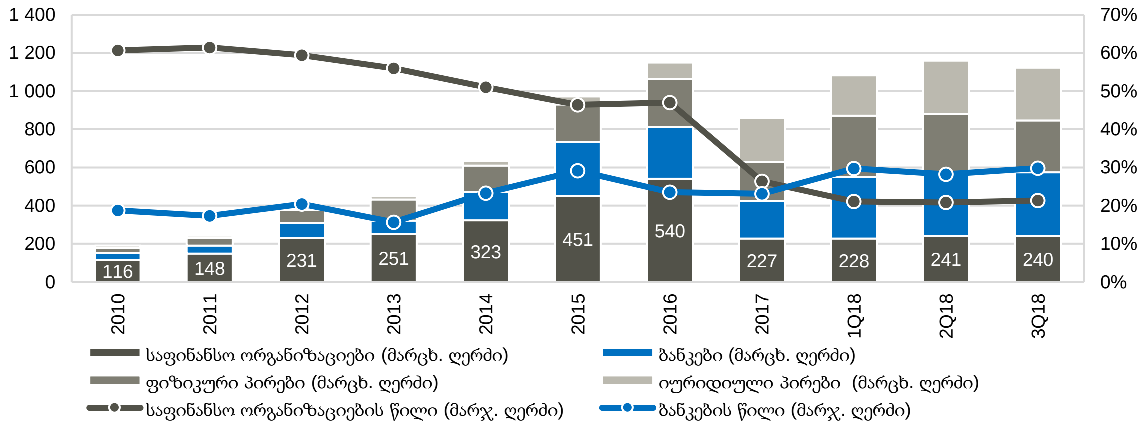
Figure 5: Net profit and profitability ratios



Source: National Bank of Georgia

Total borrowings of microfinance organizations reached GEL 1,123 mln as of Q3 of 2018, of which 51% (GEL 575mn) was loans from financial organizations and commercial banks. National Bank of Georgia requires MFOs to design an action plan in order to gradually shift borrowing from individuals to more qualified investors. In addition, a new regulation enacted in January 2017 prohibits borrowing of funds from more than 20 physical persons if borrowing per individual is less than 100 000 GEL. That will reflect in a decrease of small borrowings share from individuals in future. As of Q3 of 2018, 24% of total borrowings were sourced from individuals.

Figure 6: Total borrowing by sources, GEL, million



Source: National Bank of Georgia

As of Q3 of 2018, the microfinance sector was represented by 70 companies, 395 service offices and 4,590 employees. MFO companies offer customers fast/online loans, consumer loans, mortgage loans, auto loans, business loans and pawn loans, while several of them are specialized in only one type of the loan. Most of the companies which registered as MFOs in December 2016, used to be online credit companies. They offer only small consumer loans and charge up to 50% annual interest rate.

Crystal is the largest employer in MFO sector and has the biggest coverage in terms of the branches throughout Georgia. Furthermore, by its loan portfolio size, the company is the leading player in the sector.

Figure 1: Top 10 companies by net loan portfolio, Q3 - 2018

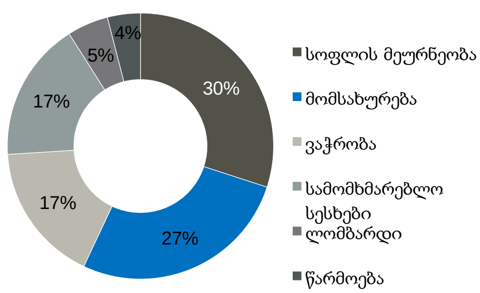
Microfinance Organization	Number of employees	Number of branches	Total assets, GEL, mln	Net loan portfolio, GEL, mln
Crystal	1022	62	301.9	261.8
Rico Express	374	33	396.4	209.9
Lendo	16	1	86.1	71.0
Euro Credit	258	7	84.9	71.0
Swiss Capital	285	19	73.3	56.8
Georgian Credit	251	15	49.9	42.4
Micro Business Capital	154	12	49.1	42.0
Lazika Capital	248	19	51.0	40.1
CreditService+	279	31	27.7	21.5
4Finance	136	1	68.7	38.5
Smart Finance	108	14	36.6	28.8

Source: National Bank of Georgia, company data

Gross loan portfolio of Crystal reached GEL 203 mln in 2017 (36.5% annual growth). Agriculture holds the largest share in the total loans disbursed by Crysal, followed by service and trade sectors. Based on the microfinance sector consolidated data as of the end of 2017, 36% of total loan portfolio in trade and service sector is disbursed by Crystal, while the company holds 52% share (the figure totalled 15% in 2016) of MFOs' total loan portfolio in agriculture. Overall, 18% of MFO sector loan portfolio was held by Crystal at the end of 2017 year.

As of the third quarter of 2018, Crystal's total loan portfolio increased to GEL 270.2 million, accounting for 22.4% of the microfinance sector total loan portfolio.

Figure 7: Crystal's loan portfolio distribution by sectors 2017



Source: company data

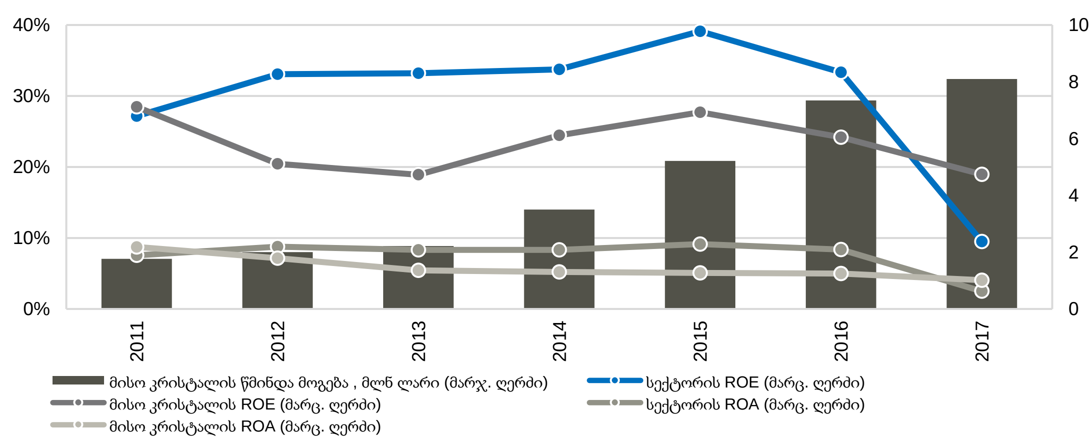
Figure 2: Crystal's loan portfolio distribution by sectors, GEL, mln

Sector	2016	2017	Annual growth
Agriculture	43.2	60.9	40.8%
Service	40.1	55.9	39.1%
Trade	27.6	34.6	25. %
Consumer loans	24.7	33.7	36.7%
Pawnshop	7.8	10.0	29.5%
Manufacturing	5.5	8.2	49%
Total	**149.0**	**203.4**	**36.5%**

Source: company data

Net profit of Crystal increased in 2017 to make up GEL 8.1 mln (10.8% annual growth). Financial ratios decreased slightly in line with the sector performance. While 2017 was a transition year for the microfinance sector, Crystal managed to show higher return on assets and equity than the consolidated average of the sector. In previous years, high return ratios in the sector were mainly driven by the companies offering online and high risk bearing loans. Crystal's net profit for the nine months of 2018 made up GEL 7.7 million.

Figure 8: Crystal performance indicators



Note: ROE and ROA are calculated based on average equity and average asset indicators.

Source: company data

1. **Company overview**

JSC Microfinance Organization Crystal (Crystal) was formed on the platform of Crystal Fund under the Georgian "Law on Microfinance Organization" in 2007. Until that time, Crystal Fund was engaged in financing activities and was practicing micro lending. As the Georgian "Law on Microfinance Organization" was enforced in 2007 it became necessary to establish JSC Microfinance Organization Crystal (Crystal). The formation of platform of Crystal Fund is dated back to 2004, when Charity Humanitarian center "Abkhazeti" made spinoff and registered independent entity of Crystal Fund.

In 2011, a US emerging and frontier investment manager "Developing World Markets" (DWM) became the first institutional investor of Crystal.

Crystal supports development of micro and small size enterprises and farmers locally, by offering them: micro, SME and agro loans. The company offers financial services and products to average and low income individuals.

The Company is headquartered in western part of Georgia, Kutaisi. It operates across the country and is represented by 58 branches and service points, with total number of employees exceeding 950.

Crystal has several prestigious international awards for transparency and social responsibility:

The Company has also received International Credit Rating of BBB from Micro Finanza Rating Agency in 2012, G.I.R.A.F.E. rating of B- from Planet Rating Agency in 2010 and International Credit Rating of B from Fitch Rating in August 2017. On 7 June 2018, Fitch Rating re-affirmed its credit scoring by awarding B to Crystal.

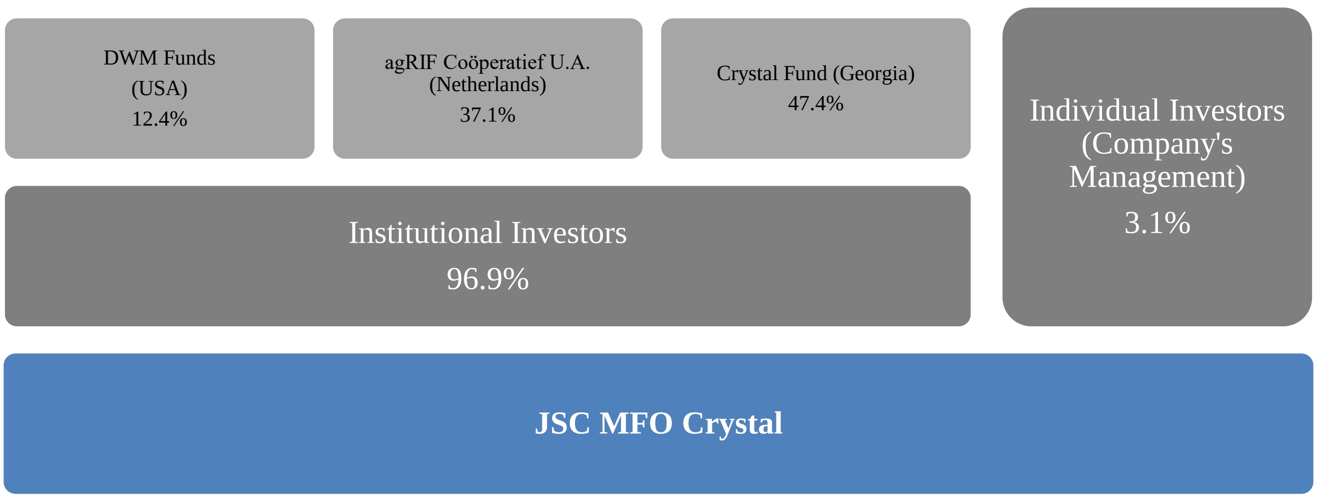
The Company is actively engaged in international and local customer protection initiatives. Since 2014 Crystal participates in global financial education program "Borrow Wisely". The international campaign is managed by the Microfinance Center-Poland and aims to inform and consult on the way to borrow wisely: the questions one needs to ask before borrowing money, critical points that need to be covered while negotiating with potential lenders, optimal size of a loan, the way risks should be measures, etc.

- **Shareholding structure**

As of 1 December 2018, the Company has 3,061,182 outstanding common shares, with the number of placed shares being 3,061,182. The Company has no redeemed treasury shares.

Major shareholders of the Company are institutional investors, only 3.1% of shares are held by the Company's Supervisory Board and key management members under the Share Management Agreement. 47.4% of MFO Crystal is owned by Georgian non-commercial legal entity - Crystal Fund and 49.5% - by international financial organizations (USA/Luxembourg and Belgium/Netherlands). Chairman of Crystal Fund and majority of the Board members are local individuals.

From the 1,450,192 shares owned by Crystal Fund, 1,371,287 shares are currently disputed by founding shareholders and the group of ESOP (Employee Stock Option Plan) holders. The dispute stemmed from the wrongful actions against the Company in the first half of 2012 by Georgia's Chief Prosecutor's Office, which among various legal consequences resulted in a forceful transfer of shares from individual shareholders to Crystal Fund. In May 2015, a specially created department within Prosecutor General launched an investigation concerning the mentioned wrongdoings by state representatives. Risks arising from the unresolved dispute may have a spill-over effect on the company's reputation, willingness of debt-providers or equity investors to continue refinancing of the Company. The legal remedy resulting in return of shares to founding shareholders as well as transfer of shares to ESOP holders will eliminate the dispute, leading to a better alignment of economic incentives of founders and key managers to those of investors and Bondholders.



- **Financial services and products**

Crystal offers a wide range of financial services and products, including:

Products
- Micro and small business loans;
- Agro loans;
- Consumer loans;
- Housing loans;
- Installments;
- Pawnshop loans;

Services:
- Currency exchange;
- Money transfers;
- Utility payments;

Each product is designed to finance certain customer need. Purpose of loan is determined in advance at the approval stage and is monitored after the loan disbursement. For security purposes, the Company accepts movable and immovable assets (real estate) for financial products above 20,000 GEL, precious metals and stones for pawnshop loans only and third party guarantees for loans above 10,000 GEL.

Micro and small loans are disbursed to micro and small size businesses for the purpose to expand business operations or improve them via acquiring fixed assets or investing in working capital. Unlike micro business loans, pre-approval stage is more complex for small business loans, as it required more thorough analysis. Also small business loans are offered with minimum amount of 10,000 US Dollars (equivalent in GEL) and only to registered legal entities with relatively organized accounting policies and procedures. Under this category, the Company has introduces **Tourism Loan**. The purpose of the loan can only be acquisition of fixed assets by micro and small size enterprises operating in hospitality sector.

Agro loans are disbursed to smallholder farmers or agro-enterprises, with revenues being mostly generated from agricultural activities. The Purpose of the loan can be acquisition of fixed assets or investment in working capital.

Consumer loans are disbursed to average and low income individuals, having fixed salary, remittances, pension or other fixed and permanent cash inflows as income source. The purpose of the loan is to finance consumer needs related to tuition, health-care expenses or temporary cash shortage.

Housing Loans are disbursed to individuals with low and average income for acquisition or renovation of real estate.

Installment loan is a special purpose financial product available only at certain commodity or service providers, with whom Crystal has pre-agreed vendor agreement. Such loans are approved through automatic underwriting. Following the approval, funds are transferred to service providers directly. The Company uses the online platform akido.ge, which offers customers a wide range of products on instalment.

Pawn shop loans are fully collateralized by precious metals or stones.

Analysis of main portfolio sectors:

The Company's loan portfolio is comprised of the loans disbursed in 4 main sectors, namely: agriculture, service, trade and manufacturing. Loans in various sectors are characterized by different a) maturity, b) repayment schedule and c) NPL in relation to portfolio.

The following spreadsheet provides information for each of these three indicators (as of September 30, 2018):

Maturity

Sector	</= 3 months	3-6 months	6-12 months	12-24 months	24-36 months	36-48 months	48-60 months	> 60 months
Agriculture	2.70%	4.75%	13.79%	21.77%	28.40%	20.21%	6.66%	1.73%
Service	2.02%	0.63%	4.03%	13.00%	24.03%	27.07%	19.43%	9.79%
Trade	3.01%	1.74%	9.67%	17.88%	27.37%	21.88%	12.44%	6.03%
Manufacturing	3.32%	6.65%	12.05%	15.08%	25.00%	20.76%	11.12%	6.04%
Consumer	12.09%	1.46%	9.42%	20.93%	21.95%	18.81%	10.37%	4.98%

Total portfolio	**4.78%**	**2.51%**	**9.54%**	**18.46%**	**25.49%**	**21.94%**	**11.89%**	**5.40%**

<u>Repayment schedule</u>

Sector	Equal installments	End-of-period bullet payment
Agriculture	79.24%	20.76%
Service	97.06%	2.94%
Trade	94.96%	5.04%
Manufacturing	93.34%	6.66%
Consumer	87.24%	12.76%
Total portfolio	**88.71%**	**11.29%**

<u>NPL ratio in relation to portfolio:</u>

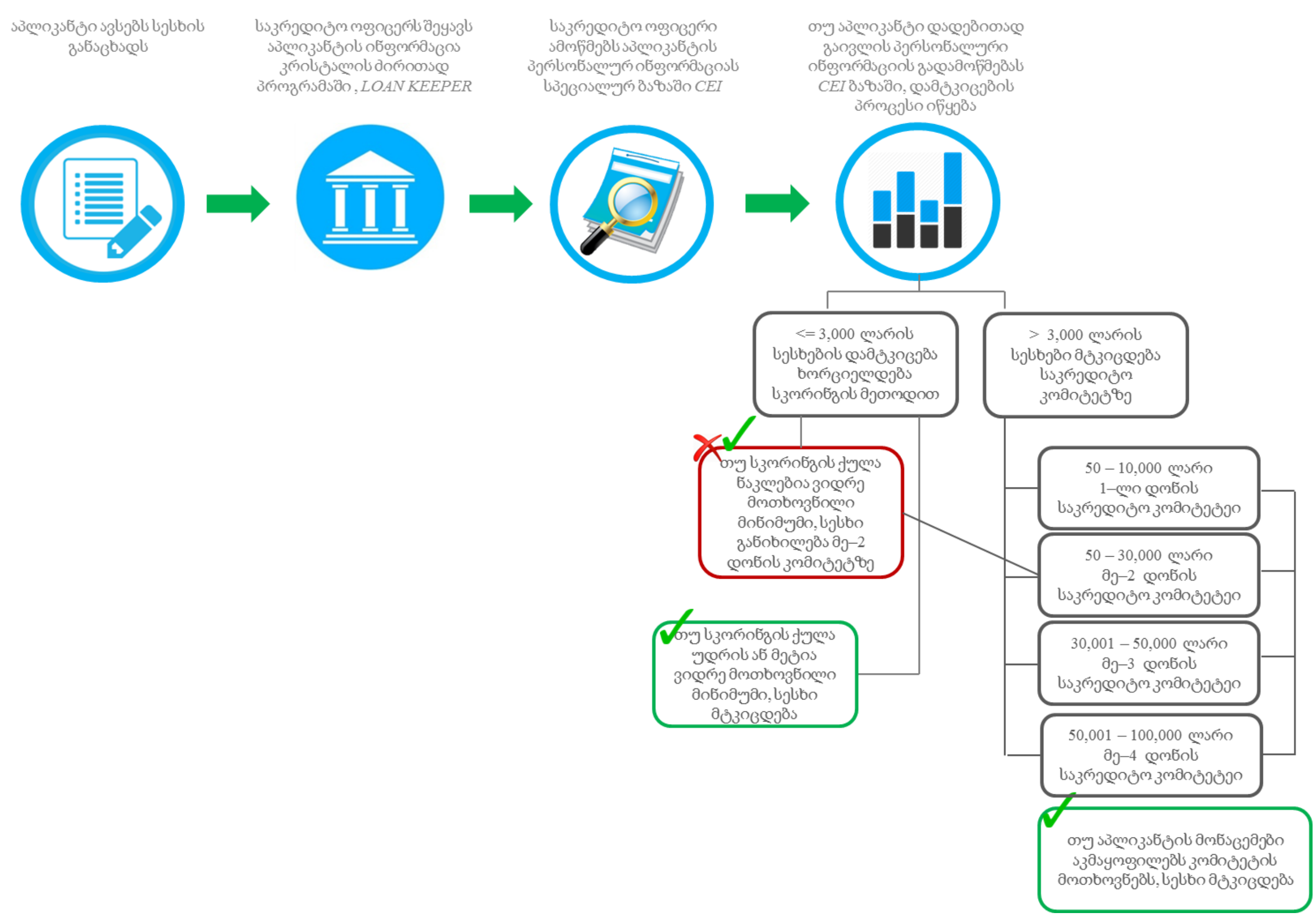
Sector	NPL *
Agriculture	5.45%
Service	3.59%
Trade	5.47%
Manufacturing	7.85%
Consumer	2.86%
Total portfolio	**4.46%**

** NPL = Non-Performing Loans = Par 30 + restructured portfolio + loans written off over the recent 12-month period.*

Product characteristics matrix

Product	Range (GEL)	Cost of finance	Effective annual interest rate range Min. - Max.	Maximum maturity	Up-front fee	Prepayment fee	Collateral required	Product type (fast/main)
Micro and small business loan	70 - 100,000	18% - 48%	10.0% - 50.0%	60 months	2.0% - 3.8%	0%-2%	Contingent	Fast/main
Tourist loan	70 - 100,000	20% - 35%	50.0%	60 months	2.0% - 3.8%	0%-2%	Contingent	Fast/main
Agro loan	70 - 100,000	19% - 38%	50.0%	60 months	2.5% - 3.8%	0%-2%	Contingent	Fast/main
Consumer loan	70 - 20,000	20% - 38%	10.0% - 50.0%	36 months	3.0% - 3.5%	0%-2%	Contingent	Fast/main
Housing loan	1,000 - 100,000	20% - 26%	10.0% - 50.0%	60 months	2.0% - 3.0%	0%-2%	Contingent	Fast/main
Installment	50 - 5,000	0% - 48%	0.0% - 50.0%	24 months	0% - 10%	0%-2%	N/A	Fast
Pawnshop loan	50 - 100,000	18% - 36%	12.85% - 50.0%	36 months	0%	0%-2%	Required	Fast

- **Loan application and approval process**



Crystal is a micro finance organization specialized on in-store loans only (no online loans). Potential customer applies for loan either by visiting one of Crystal's branches or service centers or its partner companies, may it be real store or online shopping platform (providers of different types of goods and services, with whom Crystal has pre-agreed vendor terms, which provide installment loans to customers, are referred as a partner companies). After client fills out the application form, where hr/she specifies the type of loan, amount and tenor, Crystal's employee, mostly, loan officer, enters this information in the Company's core software, *Loan Keeper*. After the information is loaded into the core software, employee in charge checks the applicant's personal information in other supporting software called CEI (Customer External Information). CEI has two main data bases integrated, credit info and lenders' registry. Permission to access these data bases are purchased from private and state providers. Credit Info is the country's only Credit Reference Agency, a privately held company, which provides financial institutions with historic credit data on individuals or legal entities. Lenders' registry is run by the National Bureau of Enforcement and represents electronic database on individuals, legal entities or other organizational entities subject to enforcement.

After these steps are completed -application is filled out, applicant information is transferred into the core software and applicant is checked in CEI – loan officer either approves the loan on the basis of scoring or transfers the loan file to the members of Credit Committee for further review and final decision-making.

If loan amount does not exceed GEL 3,000, loan officer uses an automated scoring system for loan underwriting. Credit scoring system enables an assessment of customer solvency through assigning separate grades to each of the underwriting criteria and then generating an aggregate grade for each loan application. The following criteria are deployed in credit underwriting: financial position of the client, client reliability, quality of collateral (if any), client's credit record and social status. For each type of a loan, the Company has set appropriate approval threshold.

All loans above GEL 3,000 should be approved by Credit Committee. There are four levels of Credit Committee

- Credit Committee level 1 – approves loans from GEL 50 up to GEL 10,000;
- Credit Committee level 2 – approves loans from GEL 50 up to GEL 30,000 (in certain cases, depending on project complexity, loan within the range of GEL 50-10,000 might need to be approved on credit committee level 2);
- Credit Committee level 3 – approves loans from GEL 30,001 up to GEL 50,000;
- Credit Committee level 4 – approved loans from GEL 50,001 up to GEL 100,000.

GEL 100,000 is a maximum cumulative amount that microfinance organizations are entitled to disburse per borrower under the National Bank of Georgia regulation on Microfinance Institutions.

Credit Committee members differ according to decision-making levels. Level 1 is represented by the branch or service center representatives and head of the credit unit. Level 2 brings in a representative of the Risk Department. At Level 3, participation of the Regional Manager in the committee is optional while it is mandatory at Level 4.

After loan is approved, Loan Officer prepares all needed legal documentation. If it is a collateralized loan, in-branch Lawyer processes all the documents and authorizes the mortgage agreement. After the execution of a loan agreement and registration of a mortgage, if relevant, a loan is disbursed to personalized account in tranches or in whole. This personalized loan account can only be used for loan disbursements and repayments. Crystal, on client's request, can transfer the loan amount to the client's bank account.

- **Pricing policy of financial products**

Pricing policy of financial products involves determination of interest rates, up-front and prepayment fees and imposition of penalties. All decisions are made by the Management Team.

Interest rate determination is comprised of two parts: base rate and premium. Base rate often reflects high operating and funding costs inherent to micro lending format. Base rate is determined on a periodic basis, as needed. Credit department approaches the Management Team with a proposal and recommendation on revision of product pricing. Final approval is made by the members of the Management Team.

Determination of premium for each loan involves a complex analysis of borrower's financial position and solvency level. The Company uses 30/360-day method for interest expense calculation. Interest expense accrual starts on the date of disbursement and ends on the day of full repayment of the loan. NBG regulates the maximum cap on the effective interest rate (100% APR) and the amount of financial cost that Crystal can charge for any type of loan should not exceed 150% of principal amount

Up-front and prepayment fees are determined on a case-by-case basis, representing fixed percentages of disbursed and prepaid amounts. Up-front fee is intended to cover administrative expenses associated with loan application processing. Amount of prepayment fee is capped by the regulatory body to protect customers from disproportionately high charges. Prepayment fee is intended to partly cover unrealized interest income of the lender. Amount of prepayment fee is capped at 2% of prepaid principal amount.

Penalties are imposed for overdue payments on the loan and start to accrue from the following business day after the missed payment. Once arrears exceed 90 days, the accrual of penalty is suspended and the Company starts the loan recovery procedure.

- **Financial risk management**

Financial risk management is one of the crucial parts of business operations. The Company groups financial risks into several categories:

- **FX risk,**
- **Capital adequacy risk,**
- **Liquidity risk and**
- **Interest rate risk**

The company has elaborated different management policies for each type of risk.

In general, management of any risk starts with determination of the Company's risk appetite, which is handled by the Supervisory Board.

Currency swaps are applied to manage short-term **FX risk** and to convert foreign currency funding into local currency on pre-agreed terms. Crystal also employs back-to-back loans which are relatively longer-term FX risk hedging mechanism. Three leading Georgian banks are main providers of FX hedging instruments. The Company follows its internal policy regarding acceptable level of foreign currency concentration in total funding. As of the end of November 2018, the Company has approximately 88% of its foreign currency liabilities hedged through swaps and back-to-back loans.

For **capital adequacy risk** management the Company uses two main ratios: leverage ratio, which measures the mixture of capital and borrowed funds, and capital adequacy ratio, which measures the portion of its assets financed by the capital.

As of 30 September 2018, the Company's Leverage Ratio (Liabilities to Equity) is 4.36, while by covenant of one of the lenders, the Company has to maintain Leverage Ratio of <= 5.

In the nearest terms, the National Bank of Georgia plans to introduce new regulations, including the introduction of a limit on capital ratio limit. Two approaches will be used towards limits, standard and non-standard.

By the standard approach, the company's capital ratio should be> = 18%, and in case of a non-standard approach -> = 24% (these limits will be enforced from June 2019). The standard and non-standard approaches are applied based on the share of funds raised from natural and non-financial legal entities in the regulatory capital *. If the funds raised from individuals and non-financial legal entities, including bonds, are less than 50% of the regulatory capital, then the company falls within the standard limits; otherwise, non-standard limits will apply. As of 30 September 2018, the Company's regulatory capital totals GEL 54,275 thousand. The Company does not have funds from individuals, and after the issuance of these bonds, the total value of bonds will equal GEL 25 million. Thus, the company will not exceed the 50% limit and will therefore be subject to the standard approach. Under the given approach, the company satisfies the capital adequacy ratio (it equals 17.89%). While the set limit is> = 16%, it will be increased from June 2019 to become > = 18%. The company is already taking measures to raise relevant capital before the new limit comes into effect.

** The regulation defines regulatory capital as follows: The regulatory capital is calculated as the sum of total equity, subordinated liabilities and equity convertible debt, minus the following deductions: Asset revaluation reserve, residual value of intangible assets and investments in the charter capital of a subsidiary.*

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations that should be settled by cash or other financial assets. Liquidity risk occurs when the maturities of assets and liabilities do not match. While managing liquidity risk, the Company seeks to ensure availability of funds at all times to honour all cash flow obligations as they become due. Liquidity policy is reviewed and approved by the Management Team and Supervisory Board.

The Company actively supports establishment of a diversified and stable funding base, comprising long-term and short-term loans from other banks and financial institutions and accompanied by diversified portfolios of highly liquid assets, in order to respond quickly and smoothly to unforeseen liquidity requirements. The company is also continuously working with banks for credit lines, which it effectively uses in liquidity management process.

Liquidity management policy requires to:

- project cash flows by major currencies and resulting level of liquid assets
- maintain a diverse range of funding sources
- manage concentration and profile of debts
- maintain funding plans
- maintain liquidity and funding contingency plans

Liquidity position is monitored by the Finance Department and the ALCO – Assets and Liabilities Committee comprised of the members of the Supervisory Board and the Management Team. Under the normal market conditions, information on the liquidity position is reported to the Risk Committee on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Finance Department

Interest rate risk is associated with potential changes in fair value or future cash flows of a financial instrument due to changing market conditions. The Company is exposed to the effects of interest rate fluctuations, with its financial position and cash flows being affected. Interest rate risk is managed principally through monitoring interest rate gaps, which means that fixed or variable rates on attracted facilities are revised and affecting factors are analyzed to determine whether the growth trend is of short-term or long-term nature, whether the increased costs will need to be reflected in the Company's portfolio by means of increasing interest rates on the loan products offered by the Company. The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring of the sensitivity of financial assets and liabilities.

- **Decision Making, Committees and Related Procedures**

Supervisory Board of the Company is the supreme decision-making body. **Internal Audit, Human Resources Management and Remuneration, Strategy and Innovation, Risk, Social and ALCO Committees** are subordinated to the SB. Supervisory Board also directs and oversees the Management Team, which represents the main decision-making body and executes the Company's core business activity.

Internal Audit Committee manages the internal auditing activities designed to add value and improve organizational processes through independent, objective opinions and consulting activities. Internal audit aims to facilitate:

- Compliance of the Company's operations with existing laws, regulations and third party agreements;
- Efficient and effective functioning of control mechanisms and corporate governance processes;
- Compliance of business operations with existing internal regulations;
- Authenticity and accuracy of financial and operational reporting;
- Proper and efficient employment of intellectual and physical assets of the Company;
- Study of the fraud level within and outside the Company;
- Prompt identification and management of internal and external risks of the Company. This activity is carried out in close cooperation with Risk Management Department and Risk Committee

To ensure implementation of its objectives, the internal audit department 1) studies all documents regarding organizational activities, procedures, processes etc. (charter, agreements with third parties, policies and procedures of all departments, minutes and orders of internal regulatory body etc.); 2) conducts planned, ad hoc and special purpose inspections. Inspections are made on the level of departmental as well as at the branches and service centres in order to gain a good understanding of ongoing business processes and application of control mechanisms. Planned inspections are made on a monthly basis, while ad hoc inspections are made randomly and unexpectedly, or on the basis of well-grounded suspicion for increased risk level or fraud. Special purpose inspections are made at the request of the Supervisory Board or the Audit Committee and can be conducted on any business unit level; 3) surveys and 4) interviews with employees and clients.

Internal audit controls activities across all business operations, through certain audit units:

- **Credit audit** aims to inspect disbursed loans and all corresponding documents. Inspection process encompasses collection of all related documents from loan registry, extraction of information from the Company's software (*Loan Keeper*) and interview with credit committee members. By analyzing all these data, credit audit members evaluate the level of compliance with all related procedures, reveal fraud cases, measure effectiveness of existing procedures and draw conclusion on overall work quality;
- **Procurement audit** evaluates efficiency of conducted acquisitions of goods and services and their compliance with budgeted figures.
- **Cash desk audit** inspects all documentation related to cash operations and safety standards at cash desk.
- **MIS (management information system)** audit goal is to reveal any existing discrepancy between the information on disbursed loans in online version (Loan Keeper) and in hardcopies. It also aims to check information security level and evaluate effectiveness of information systems.
- **Administrative audit** monitors functional parallelism of different departments and staff members and reveals any existing functional gaps. It also aims to eliminate any excessive bureaucracy of business operations. Besides, the administrative audit monitors: 1) information flow and quality of communication among structural units; 2) equipment of branches and services

centers with all needed facilities; 3) adherence to the policy and rules on accessing, collecting and storing online and printed information;

- Fraud prevention unit studies: 1) professional relations among employees and reveals any existing or possible conflicts of interest; 2) partners of the Company, third parties and defines risk involved in such business relations. On a quarterly basis, the unit dedicates a special chapter to the findings in the internal audit report.

Internal audit plan covers activities through the end of the current year and for the upcoming fiscal year and is approved by the Internal Audit Committee. Planned activities should encompass examination procedures on the level of departments as well as branches and service centers. Prior to each inspection activity, the audit unit elaborates a brief action plan, which serves as a toolkit for executing and monitoring parties.

HR Management and Remuneration Committee is supervising HR policies and practices, manages nominations and approves decisions related to senior management remuneration. The Committee meets on a quarterly basis.

Strategy and Innovation Committee is in charge of overseeing the implementation of the overall strategy and annual milestones. It is also in charge of elaborating strategic innovative initiatives and projects.

Risk committee is an advisory body of the Company. It does not produce any resolutions, but provides a space for regular review and identification of internal and external risks. The Committee issues recommendations to be undertaken by the Company to manage or mitigate those risks. The Committee meets on a quarterly basis.

Social Committee is in charge of overseeing the Company's social and environmental impact issues. It recommends the CSR policy, sets social and environmental objectives and performs their follow-up monitoring.

ALCO committee is a supervisory group the Company employs to manage its assets and liabilities, with ultimate goal to receive adequate returns and manage existing spread. ALCO committee sessions are held on a monthly basis with participation of Supervisory Board members; it is held on a weekly basis at the management team level.

- **Loan Loss Provisioning Procedures**

Loan loss provisioning (LLP) is one of the most important aspects of credit risk management for all financial institutions and especially for microfinance organizations which bear higher risk given the nature of the financial products they offer. It is crucial to have an appropriate provisioning system which would comply with international standards and would cover all existing and potential portfolio related risks of the Company.

Crystal has adopted LLP procedures that reflect IFRS 9 requirements. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities. Crystal launched the given standard on 1 January 2016 (version of July 2014). From 1 January 2017, Crystal has moved certain changes to the model it elaborated and introduced as early as 2016. The model has been refined, becoming more complex and incorporating more factors. Modifications to the model are divided into two parts:

1. We started to reserve parallel loans (several loans by 1 borrower) by applying the highest loan provisioning rates, regardless of their individual quality. As a result, the approach has become more conservative, with more loans being given a higher reserve than they would have on the basis of individual valuation. Financial effect – reserve has grown by approximately 1,100 thousand GEL;

2. An additional criterion has been introduced for determining the quality of loans, assigning risks and allocating appropriate reserves: if the probability of a loan default from the date of disbursement to the end of the reporting period (in this case 31-Dec-2007) has increased by at least 50%, it goes from the 1st stage to the 2nd, whereby it is assigned a higher reserve rate. Financial effect – reserve growth by approximately 100 thousand GEL.

The remaining portion of the reserve growth from the end of 2016 until the end of 2017, i.e. approx. 685 thousand GEL represents increase in reserve at the expense of portfolio growth.

Significant changes in accounting policies arising from the adoption of IFRS 9 by the Company from 1 January 2016 are the following:

Classification of financial assets and financial liabilities

Financial Assets Impairment. IFRS 9 replaces the "Incurred Loss" model of IAS 39 with the "Expected Credit Loss" (ECL) model. The new impairment model is also applicable to specific debt obligations and financial guarantee agreements, but not to equity investments.

IFRS 9 recognizes credit losses earlier than IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (July 2014 issue) are as follows:

1. Comparable periods have been revaluated. Changes in the carrying amounts of financial assets and financial liabilities caused by IFRS 9 have been recognized in retained earnings as of 1 January 2016. Accordingly, the information presented for 2015 does not reflect the requirements of IFRS 9 and, therefore, it is not comparable to 2016 information under IFRS 9.
2. The evaluation below is based on facts and circumstances at of the the date of first application.
    - Definition of the business model used as a basis for holding the financial asset;
    - Earlier definitions of specific financial assets and financial liabilities are revised on the basis of FVTPL
    - Classification of specific investments in non-traded equity instruments - based on FVOCI.
    - For financial liabilities under FVTPL, determination of whether credit risk in other comprehensive income for liabilities will create or increase accounting inaccuracies in profit or loss.
3. If the loan collateral has low credit risk at initial application of IFRS 9, the Company has determined that the value of the credit risk associated with the asset has not increased since its initial recognition.

The table below describes the impact from transition to IFRS 9 (excluding taxes) on retained earnings as of 1 January 2016.

GEL '000 **Retained earnings**	**Impact of IFRS 9 adoption as of 1 January 2016**
Ending balance under IAS 39 (31 December 2015)	16,334
Expected credit loss recognition under IFRS 9 (excluding 15% tax)	211
Starting balance under IFRS 9 (1 January 2016)	**16,545**

Classification of financial assets and financial liabilities at the date of initial recognition of IFRS 9

The following table sets forth the starting valuation categories based on IAS 39 and new valuation categories based on IFRS 9 for each class of the Company's financial assets and financial liabilities as of 1 January 2016.

GEL '000	Initial classification under IAS 39	New classification under IFRS 9	Initial carrying amount under IAS 39	New carrying balance under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and claims	Amortized cost	4,654	4,654
Term deposit	Loans and claims	Amortized cost	100	100
Financial instruments at fair value through profit or loss	FVTPL	FVTPL	4,238	4,238
Loans to clients	Loans and claims	Amortized cost	105,123	105,334
Other financial assets	Loans and claims	Amortized cost	490	490
Other financial assets			**114,605**	**114,816**
Financial liabilities				
Debts	Other financial liabilities	Other financial liabilities	97,966	97,966
Other financial liabilities	Other financial liabilities	Other financial liabilities	500	500
Other financial liabilities			**98,466**	**98,466**

The table below presents carrying values of financial assets and liabilities under IAS 39 relative to IFRS 9 carrying values as of 1 January 2016:

GEL 000	Carrying value as of 31 December 2015 under IAS 39	Reclassification	Revaluation	Carrying value as of 1 January 2016 under IFRS 9
Financial assets amortized cost				
Loans disbursed to clients:				
Starting balance	105,123			
Revaluation		0	211	
Ending balance				**105,334**
Total	**105,123**	**0**	**211**	**105,334**

Firstly, the Company groups the loans with the same characteristics into one pool and assigns a specific grade to each loan upon disbursement. Grading is based on certain criteria, such as loan amount, loan type, level of security, borrowers' profile etc. During the loan lifetime, grade can deteriorate due to bad repayment history, delinquency, restructuring or any other negative changes in the loan or borrower's profile and vice versa. More specific causes of grade change are: arrears - loans fall into different grades based on the overdue days; restructuring – whether in arrears or not, the loan falls into different grades; in case of force majeure or death, the loan grade is changed; in the event of increased risks in the sector, the loan grade changes; Also, in case of increasing default rate for specific loan group, the loan grade changes.

Afterwards LLC rate is calculated, which is an aggregate figure of the following rates: Probability of Default rate (PD), Exposure at Default rate (EAD) and Loss Given Default rate (LCD)

- PD is calculated by applying migration matrix to the loan portfolio of last three years. Macroeconomic conditions are one of the factors that are considered for PD calculation;
- For calculating EAD figure the Company uses its own risk management default model which reflects its expertise and past experience in the field;
- LCD, which represents a portion of loss per defaulted loan, is also calculated based on the Company past experience. The Company uses last 5 years statistics to generate the figure. When calculating LCD rate, the macroeconomic factors are considered including the following: inflation, monetary policy rate, GDP, nominal effective exchange rate.

The Company has elaborated a special formula for LLC rate calculation, which is linked to the Company's core software *Loan Keeper*. The formula extracts all needed information about the outstanding loans from the software, assigns respective grades to the loans, allocates provision rate to each loan pool and arrives at the final LLC rate, which is then sent back to the software. Reserve amount, which is LLC rate multiplied by the outstanding loan amount, is generated in the *Loan Keeper*.

- **Collateral appraisal procedure**

To appraise proposed collateral, loan officer fills out a special appraisal form (SAF), which includes the following information: Borrower's identification details, owner's or authorized person's identification information, collateral cadastral code and main characteristics. Filled out SAF is signed by the Branch Manager and is sent to the credit committee members at the Head Office (to different levels of credit committee depending on the amount of the loan). Credit committee members analyze the SAF and make comparative analysis with analogies using movable and immovable asset brokerage web sites. Ultimately market price of the collateral is determined. All collateral items are subject to haircut, which varies by types of collateral:

- Real estate – 40%;
- Movable assets – 60%;
- Precious metals and stones – 6

Value of the collateral after haircut should be at least 100% of the loan amount. Reappraisal of the collateral is conducted only if the borrower applies for additional credit product.

As of September 2018, the average market value of the collateralized real estate is approximately GEL 64,600.

The main reason for such concentration is that Crystal is mainly represented in the regions and almost forth of its credit portfolio is comprised from borrowers operating in agricultural sector.

- **Loan recovery procedures**

Loan, if in arrears, goes through two different stages during its lifetime. First stage is a recovery stage, when a loan officer -who initially worked on the loan application, approved and disbursed it, managed subsequent payments and monitored the loan –transfers the loan to the recovery and lawyers group, if arrears exceed 35 days. Starting from that point up until the overdue days reach 90, recovery representatives and lawyers get in touch with the client concerning the loan repayment. If Agreement between the client and the Company fails to be reached, enforcement proceedings will start on the loan once the arrears exceed 90 days.

If loan enforcement cannot be applied or the loan is not subject to enforcement for some factors, at the point of arrears reaching 180 days, it will be written-off and reflected in the corresponding financial statement as a loan impairment charge.

Just recently the Company has launched a trial version of recovery call center. Loans in arrears of 3 days are transferred to the recovery call center for soft collection.

- **Expected changes in IFRS and their impact on the Company's financial performance**

As of 2017, the following new and revised international standards (IFRSs) and interpretations have been adopted: IAS 7, IAS 12 and changes to IFRS 12 under IFRS 2014-2016 Annual Changes.

The adopted accounting standards are consistent with the policy that the Company used in the previous financial year. Accordingly, revised and new international standards have not caused any changes to the Company's accounting policies. The new standards have not in any way affected the Company's financial statements.

- IFRS 16 (effectuated for the period beginning on or after 1 January 2019) - Leases - Management of the Company believes that application of this new standard may affect the Company's financial statements. However, it is impossible to give additional information on the likely impact on the Company's financial position until a reliable estimate of such impact can be made. The Company plans to perform an impact analysis in the fourth quarter of 2019, as by this time, the standard will be fully developed and it will be possible to make a reliable estimate.
- With respect to changes in other international standards (IFRS 2 – share based payment, IFRIC 22 - foreign currency transactions, IFRIC 23 - profit tax, etc.) - Management believes that introduction of changes to this standard will not cause material impact on the Company's financial statements.

2. Key performance indicators

1. Brief overview of profitability and portfolio quality:

	For 3 quarters ended September 30		Year ended December 31	
	2018	2017	2017	2016
	'000, GEL, except of percentages			
Profit before tax	9,012	8,210	10,065	9,211
Net loan portfolio	262,345	174,536	198,045	145,510
Average interest rate on loans	24.40%	26.17%	25.28%	27.80%

As the Company fulfilled its end-of-year annual growth plan, the credit portfolio increased by 36% in 2017 compared to 2016 and by 50% in the first three quarters of 2018 compared to the same period of 2017.

2. Return on average total assets and average equity

<u>The following table presents selected financial data and ratios for the periods indicated. This is a good illustration of the profitability of the Company and how it relates to its equity capitalization</u>

	3 quarters ended on September 30		Year ended 31 December	
	2018	2017	2017	2016
	'000, GEL, except of percentages			
Profit for the period	7,660	6,979	8,135	7,338
Total assets	294,124	200,333	225,562	172,999
Total equity	53,214	45,092	46,316	39,026
ROA	*3.9%**		*4.1%*	*5,0%*
ROE	*20.5%**		*19.1%*	*24,2%*

For purposes of the ratio calculations, the company's 9-month profit is annualized by simple average.

Profit for the period increased by 11% in 2017 compared to 2016, while profit for the three quarters of 2018 increased by 10% compared to the same period of 2017. Profit growth is driven by high rate of portfolio growth over the period. Portfolio growth was conditioned by growth of the sector on the one hand and increasing demand for agro loans in the regions on the other (due to favorable natural conditions, the investment period in the agricultural sector started earlier in the beginning of the year). However, one of the most important determinants of growth has been in-house staff specialization. In particular, the company refined the lending procedure; loans were broken down into different sizes and designated group of employees were assigned to each category. Groups were set up based on the experience and criteria specific to each loan category (ex. Project processing skills, etc.). This helped to attract loans and therefore to trigger portfolio growth.

ROA and ROE decreased in both comparable periods, 2017 and the first 3 quarters of 2018. This is partly explained by the fact that a) revenues from increased credit portfolio have not yet been reflected in financial results, while increased financial costs have been directly reflected, and b) the average interest rate on loans is experiencing year-on-year decline due to market competition and the adoption of new regulations.

Loan portfolio quality

The table below presents gross and net loans to customers:

	3 quarters ended 30 September		Year ended on 31 December	
	2018	**2017**	**2017**	**2016**
		In thousands, GEL		
Gross loans to customers	270,779	179,049	203,436	149,016
Impairment allowance	(8,434)	(4,513)	(5,391)	(3,506)
Net loans to customers	**262,345**	**174,536**	**198,045**	**145,510**

By three quarters of 2018, the impairment allowance increased by 0.59 percentage points compared to three quarters of 2017 (from 2.52% to 3.11%, which is the ration of impairment to gross loans to customers), while total loans to customers increased by 51.2% during the same period. Compared to 2016, the impairment allowance for 2017 increased by 0.30 percentage points (from 2.35% to 2.65%), while total loans to consumers increased by 36.5% over the same period. Such increase in impairment is caused by changes to the accounting standards under the conservative approach of IFRS 9. As mentioned above, though IFRS 9 was introduced in January 2016, changes were moved in January 2017, in particular: a) the Company started to reserve parallel loans, i.e. provisioning of loans by arrears is performed in the context of borrowers and not specific loan agreements (as was the case in 2016) and b) if the loan default rate goes above 1.5% throughout its lifetime, it moves to the new category and gets reserved at a higher provisioning rate.

The following table depicts loan portfolio doversification by sectors:

	3 quarters ended September 30		Year ended December 31	
	2018	**2017**	**2017**	**2016**
		In thousands, GEL		
Agriculture	84,524	56,573	60,970	43,296
Service	67,658	47,863	55,885	40,172
Trade	41,939	30,744	34,562	27,579
Consumer	54,472	29,880	33,730	24,677
Pawn shop	12,619	7,249	10,085	7,786
Manufacturing	9,567	6,740	8,204	5,506
Total gross loans to customers	**270,779**	**179,049**	**203,436**	**149,016**
Impairment allowance	(8,434)	(4,513)	(5,391)	(3,506)
Net loans to customers	**262,345**	**174,536**	**198,045**	**145,510**

The table below presents loan portfolio analysis by arrears

	Year ended 31 December 2017			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	In thousands, GEL			
Not overdue	195,498	(2,653)	192,845	1.4%
Arrears < 30 days	2,085	(379)	1,706	18.2%
Arrears 30-89 days	1,753	(650)	1,103	37.1%
Arrears 90-179 days	906	(555)	351	61.3%
Restructured	3,194	(1,154)	2,040	36.1%
Total loans to customers	**203,436**	**(5,391)**	**198,045**	**2.6%**

Compared to 2016, the share of restructured loans in total portfolio dropped from 2% to 1.7%. The ratio of impairment allowance to gross loans increased year-on-year from 2.4% to 2.6% due to the adoption of new conservative IFRS 9 accounting approach.

	Year ended 31 December 2016			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	In thousands, GEL			
Not overdue	143,015	(1,893)	141,122	1.3%
Arrears < 30 days	1,507	(197)	1,310	13.1%
Arrears 30-89 days	874	(288)	586	33.0%
Arrears 90-179 days	582	(294)	288	50.5%
Restructured	3,038	(834)	2,204	27.5%
Total loans to customers	**149,016**	**(3,506)**	**145,510**	**2.4%**

	3 quarters ended 30 September 2018			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	In thousands, GEL			
Not overdue	256,108	(3,340)	252,768	1.30%
Arrears < 30 days	5,763	(1,121)	4,642	19.5%
Arrears 30-89 days	2,871	(1,156)	1,715	40.3%
Arrears 90-179 days	1,901	(1,238)	663	65.1%
Restructured	4,136	(1,579)	2,557	38.2%
Total loans to customers	**270,779**	**(8,434)**	**262,345**	**3.11%**

Compared to the same period of 2017, the share of restructured loans in total portfolio dropped from 1.55% to 1.53% during the first three quarters of 2018. The ratio of impairment allowance to gross loans increased quarter-on-quarter from 2.5% to 3.11% due to the adoption of new conservative IFRS 9 accounting approach.

	3 quarters ended 30 September 2017			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	In thousands, GEL			
Not overdue	171,513	(2,241)	169,272	1.31%
Arrears < 30 days	2,632	(419)	2,213	15.9%
Arrears 30-89 days	1,130	(404)	726	35.8%
Arrears 90-179 days	1,002	(527)	475	52.6%
Restructured	2,772	(922)	1,850	33.3%
Total loans to customers	**179,049**	**(4,513)**	**174,536**	**2.5%**

3. Portfolio break-down by collateralization

	3 quarters ended 30 September				Year ended 31 December			
	2018	Loan portfolio %	2017	Loan portfolio %	2017	Loan portfolio %	2016	Loan portfolio %
	In thousands, GEL, except percentages							
Non-collateralized loans	160,855	61%	108,458	62%	117,423	59%	93,004	64%
Collateralized loans	101,490	39%	66,078	38%	80,622	41%	52,506	36%
Total loan portfolio, net	**262,345**	**100%**	**174,536**	**100%**	**198,045**	**100.0%**	**145,510**	**100.0%**

4. Portfolio breakdown by type of collateral

	3 quarters ended 30 September				Year ended 31 December			
	2018	Loan portfolio %	2017	Loan portfolio %	2017	Loan portfolio %	2016	Loan portfolio %
	In thousands, GEL, except percentages							
Mortgage	86,932	33%	57,988	33%	69,244	35%	44,252	30%
Precious metals and stones	12,604	5%	7,279	4%	10,093	5%	7,774	5%
Movable property	1,954	1%	811	0%	1,285	1%	480	0%
Non-collateralized	160,855	61%	108,458	62%	117,423	59%	93,004	64%
Total	**262,345**	**100%**	**174,536**	**100%**	**198,045**	**100%**	**145,510**	**100%**

5. Collateral market value

	3 quarters ended 30 September		Year ended 31 December	
	(in thousands, GEL)			
	2018	**2017**	**2017**	**2016**
Mortgage	272,001	184,891	228,768	154,088
Precious metals and stones	23,125	13,723	18,657	15,439

Vehicles	6,451	2,984	4,032	2,510
Total market value of collateral	**301,577**	**201,598**	**251,457**	**172,037**

6. Portfolio breakdown by performing and non-performing loans

	3 quarters ended 30 September				Year ended 31 December			
	2018	Loans portfolio %	2017	Loans portfolio %	2017	Loans portfolio %	2016	Loans portfolio %
	In thousands, GEL, except percentages							
Net performing loans	252,768	96.3%	169,272	97.0%	192,845	98.4%	141,122	97.9%
Net non-performing loans	9,577	3.7%	5,264	3.0%	5,200	1.6%	4,388	2.1%
Total loan portfolio, net	**262,345**	**100.0%**	**174,536**	**100.0%**	**198,045**	**100.0%**	**145,510**	**100.0%**

The following are the criteria for determining non-performing loans: arrears, restructuring, expected risk measurement.

7. Restructuring policy

Restructuring refers to a change in the loan repayment schedule, caused by deterioration of the client's financial position and applied in response to increasing probability of default.

Restructuring may also be applied when the loan is not overdue and the company is driven by the goal to avoid potential losses (penalties) and reduce credit risk as quickly and effectively as possible.

Restructuring can be handled in two ways:

1. **Restructuring by extending maturity for the current loan** - when the principal amount, accrued interest expenses and penalties are allocated over an extended period of time;
2. **Restructuring by disbursing a new loan** - when a new loan is extended to the client or a related party that will be used to fully cover the non-performing loan(s) (principal, interest and penalty).

Restructuring can be considered if one of the following conditions is present:

- The new repayment schedule corresponds to actual and expected solvency of the client;
- The client offers additional collateral or surety.

:

Analysis of the Company's financial statements:

1. Interest income and expense

	3 quarters ended 30 September		Year ended 31 December	
	2018	**2017**	**2017**	**2016**
	In thousands, GEL, except percentages			
Interest income	53,669	38,625	53,847	43,250
Interest expense	(14,746)	(9,800)	(13,754)	(10,132)
Net interest income	**38,923**	**28,825**	**40,093**	**33,118**
Loan impairment recovery / (charge), net	(5,237)	(2,394)	(3,712)	(2,935)
Net interest income after provision for loan impairment	**33,686**	**26,431**	**36,381**	**30,183**

A 25% increase in net interest income in 2017 compared to 2016 is driven primarily by portfolio growth in line with the Company's growth strategy. Overall, the growth of the micro finance market has contributed to the company's expansion strategy.

To implement its growth strategy, the company refined its lending procedure. Crystal broke down the loans into different sizes, assigning a designated group of employees to each. This new approach has contributed to the rapid growth of the portfolio while maintaining the quality at the same level (the share of restructured loans in the total portfolio decreased from 1.55% to 1.53% in the first three quarters of 2018 compared to the same period of 2017, while the number of employees did not increase proportionally to the portfolio).

Impairment expense in the first three quarters of 2018 in relation to interest income increased by 3.6 percentage points compared to the three quarters of 2017 (from 6.2% to 9.8%, as the percentage of interest income). 118.8% increase was recorded in absolute figures in the first three quarters of 2018 compared to the same period of 2017. The given indicator increased by 0.1% percentage points in 2017 compared to 2016 (from 6.8% to 6.9%, as the percentage of the interest income). The increase is caused by adoption of new conservative accounting standards under IFRS 9.

2. Expenses

	3 quarters ended 30 September		Year ended 31 December	
	2018	**2017**	**2017**	**2016**
	In thousands, GEL			
Fee and commission income	1,754	1,157	1,719	2,335
Net gain (loss) on financial instruments at fair value through profit or loss	(1,410)	(4,643)	(3,877)	2,186
Net foreign exchange loss	(3,320)	2,591	893	(5,238)
Other income	40	9	30	70
Salary and bonus	(12,332)	(9,557)	(14,157)	(11,779)
Depreciation and amortization expenses	(1,776)	(1,404)	(1,919)	(1,617)
Other operating and administrative expenses	(7,630)	(6,374)	(9,005)	(6,929)
Total expenses	**(24,674)**	**(18,221)**	**(26,316)**	**(20,972)**

Operating expenses were maintained at the same level. Their share in interest income constituted 48.5% and 48.9% in 2016-2017, respectively. Fee and commission income increased in pace with the loan portfolio. Net gain (loss) on financial instruments at fair value through profit or loss decreased due to the local exchange rate. Crystal has back-to-back loans and swaps with local banks, which has a negative impact due to local exchange rates.

In line with the new employee classification approach, the share of personnel expenses in interest income decreased from 24.7% to 23.0% in the three quarters of 2018 compared to the three quarters of 2017, while the absolute rate for the same period increased by 29.0%.

Other income is mainly comprised of penalty income and is in line with portfolio growth.

3. Comprehensive income for the year

	3 quarters ended 30 September		Year ended 31 December	
	2018	**2017**	**2017**	**2016**
	In thousands, GEL			
Profit before income tax	**9,012**	**8,210**	**10,065**	**9,211**
Income tax expense	(1,352)	(1,231)	(1,930)	(1,872)
Profit and total comprehensive income for the year	**7,660**	**6,979**	**8,135**	**7,339**

Profit before income tax increased by 9.77% in the first quarters of 2018 compared to the same period of 2017. As mentioned above, it is mostly caused by: increasing demand and new approach to employee classification.

4. Current assets

	3 quarters ended 30 September		Year ended 31 December	
	2018	**2017**	**2017**	**2016**
	In thousands, GEL			
Cash and cash equivalents	15,138	13,254	14,320	10,355
Financial instruments held at fair value through profit or loss	980	1,615	1,585	7,657

The share of **cash** in total assets in three quarters of 2018 decreased from 6.6% to 5.1% compared to the same period of 2017. The given decline is caused by increasing demand and rapid portfolio growth.

Financial instruments at fair value through profit or loss is the difference between the funds raised by the Company in foreign currency and the funds raised in local currency by means of employing back to back transactions. As GEL continuous to depreciate, the amount of financial instruments at fair value through profit or loss held by the Company is positive. Consequently, it is reflected on assets side. It will turn into a liability if local currency appreciates.

5. Long-term assets

3 quarters ended 30 September		Year ended 31 December	
2018	**2017**	**2017**	**2016**

	In thousands, GEL			
Loans to customers	**262,345**	**174,536**	**198,045**	**145,510**
Principal amount	255,086	169,978	194,076	142,490
Interest accrued	7,259	4,558	3,969	3,020
Fixed assets	6,379	4,976	5,309	4,562

Loan portfolio growth is conditioned by the fact that the Company has launched its expansion strategy. Increase is apparent in 2017 compared to the previous year and the first 3 quarters of 2018 (for more information on loan portfolio please see section *"Key Performance Indicators").*

6. Long-term liabilities

	3 quarters ended 30 September		Year ended 31 December	
	2018	**2017**	**2017**	**2016**
	In thousands, GEL			
Loans and borrowings	**230,295**	**155,330**	**167,700**	**132,142**
Principal	225,320	151,963	164,693	129,787
Interest accrued	4,975	3,367	3,007	2,355

Borrowing increased at the same pace as the loan portfolio.

As of December 2018, the Company has issued 1,000 Corporate Bonds worth of GEL 10 million, maturing in December 2019. The Bonds bear a floating coupon rate, with a premium of 4.5% over the refinancing rate of the National Bank of Georgia.

Throughout 2017, there has been not a single case of covenant violation with any of the lenders. In the same year, the Company notified FMO in advance about an anticipated breach of the covenant. As a result, the Company obtained a waiver on 13 April 2018 for the following 1-year period. As for the year of 2018, negotiations were conducted with the lenders, in particular FMO, KFW and Triple Jump for revision and softening of the capital adequacy covenant. Specifically, capital adequacy was set at 17% with the lenders, who classify subordinated loans as equity while it was set at 18% with lenders not viewing subordinated loans as such.

As of 30 September 2018, the Company does not have any overdue and unpaid debt to any lender.

	Year ended December 31				
		(in thousands, GEL)			
	Currency	**Maturity**	**Interest rate**	**2017**	**2016**
Unsecured loans from financial institutions	USD	2018 - 2021	5.77% - 8.48%	102,568	100,780
Unsecured loans from financial institutions	GEL	2018 - 2024	9% - 14.75%	59,409	24,078
Unsecured loans from financial institutions	EUR	2018	6.5% - 8%	1,369	2,911
Unsecured loans from financial institutions	GEL	2019	11%	4,354	4,373

Interest bearing liabilities, total	**167,700**	**132,142**

Outstanding loans as of 30 September 2018

	September 30 (in thousands, GEL)			
	Currency	**Nominal interest rate**	**Maturity**	**30 September 2018**
Unsecured loans from financial institutions	USD	5.70% - 9.58%	2018 – 2023	136,256
Unsecured loans from financial institutions	GEL	10% - 13.66%	2018 – 2024	88,532
Unsecured loans from financial institutions	EUR	5% - 7%	2018 - 2022	1,270
Unsecured subordinated loan	GEL	11%	2019	4,237
				230,295

7. Working capital statement

The Company's Management used the third and fourth quarters of 2018 for planning the year 2019. Out of 19 international partners the Company is currently negotiating with, 4 have already conducted Due Diligence and agreed on investment terms. By preliminary estimates, the Company will need $ 55 million in 2019. The exact amount depends on market activity, which directly affects the growth of the company's portfolio. In conditions of the present growth, the investment unit of the Company will fully provide for raising adequate resources.

In addition, the company currently has approximately 22 million GEL of additional credit lines in local banks, which it effectively uses for purposes of liquidity management. If this amount is fully utilized, the Company's Leverage Ratio, which makes up 4.36%, will rise to 4.77%. Thus, the Company will not violate the Leverage limit, which is <= 5%. In addition, the company has signed a term-sheet with a prospective partner for raising capital and in January 2019, it will receive GEL 10 million in equity. With the given fact in mind, the Company will still meet the Leverage Ratio limit even if it fully utilizes the Bonds issued under this Prospectus. Each year, the company has access to about 25% excess resources to be on the safe side, remain flexible and maintain the required level of liquidity

8. Main covenants

Main covenants	Indicators	Company status as of 1 December 2018	Contractual amount, 1 December 2018	Financial Institution	Calculation formula
Debt to Equity (Leverage)	*<=5*	*4.36*	153,595	BOG, EFA, Graamen Credit Agricole, MCE social capital, Pasha Bank,	(Liabilities minus back-to-back loans) / equity
Capital adequacy	*>=17%*	*18.18%*	167,892	FMO	(Capital minus intangible assets) / (Total assets minus back-to-back loans)
Risk coverage / provisioning	*>75%*	*89.49%*	143,011	BIB, BOG, EFA, GLS/FSFS/Wallberg, Incofin, Lenka Capital / MicroVest, Proparco, Triple Jump / Micro Build	Loan loss reserve / (PAR>30 plus restructured loans)
Portfolio quality (PAR)	*<5%*	*2.31%*	185,324	Microfinance Enhacement Facility, Pasha Bank, TBC Bank	PAR>30 / Gross loan portfolio
Liquidity ratio	*>10%*	*40.79%*	20,275	EFA, GLS/FSFS/Wallberg	Current assets / Total assets

The table above presents the main but not an exhaustive list of the covenants, set by lenders. In case of the same covenant by different lenders, the Company has selected the most stringent one.

9. Shareholders' equity

	3 quarters ended 30 September		Year ended 31 December	
	2018	**2017**	**2017**	**2016**
	In thousands, GEL			
Share capital	3,061	3,052	3052	3,024
Share premium	12,718	12,551	12551	12,130
Share-based payment reserve	-	-	68	362
Retained earnings	37,435	29,489	30645	23,510
Total equity	**53,214**	**45,092**	**46,316**	**39,026**

In 2016 the Company issued new shares, part of which were acquired by the Netherlands institutional investor - agRIF Coöperatief U.A and another part – by existing investor DWM.

Dividend payout policy is defined by the Shareholders' Agreement: if, for any fiscal year, the company reaches a post-dividend return on equity of at least 17%, shareholders may decide to pay out dividends to all shareholders commensurate with held common shares with the caveat that total amount of dividend payment should not exceed 25% of net profit for the same year.

10. Cash from operating activities

	Three quarters 2018	Three quarters 2017	2017	2016
Cash from operating activities				
Profit before tax	9,012	8,210	10,065	9,211
Adjustments:				
Net gain (loss) from financial instruments held at fair value through profit or loss	1,410	4,643	3,877	(2,186)
Depreciation and amortization	1,776	1,404	1,919	1,617
Interest income	(53,669)	(38,625)	(53,847)	(43,250)
Interest expense	14,746	9,800	13,754	10,132
Loan impairment charge	5,237	2,394	3,712	2,935
Currency exchange loss	3,320	(2,591)	(893)	5,238
Loss from realization of fixed assets	27		37	10
Share-based payment	108	87	155	588
Cash outflows from operating activities before changes in operating assets and liabilities	**(18,033)**	**(14,678)**	**(21,221)**	**(15,705)**
(Increase) / decrease in financial instruments at fair value through profit or loss	(1,395)	1,399	2,786	(1,233)
Increase in loans to clients	(66,337)	(32,451)	(56,732)	(37,046)
Increase in other assets	(2,328)	(856)	(1,334)	(977)
Increase in other liabilities	(373)	(731)	294	62
Decrease (increase) in term deposits			-	100
Cash used in operating activities	**(70,433)**	**(32,639)**	**(54,986)**	**(39,094)**
Interest received	50,198	37,087	52,898	41,339
Interest paid	(11,906)	(8,788)	(13,093)	(9,335)
Income tax paid	(1,909)	(2,415)	(2,960)	(1,962)
Cash used in operating activities	**(52,083)**	**(21,433)**	**(39,362)**	**(24,757)**

The volume of loans extended to clients in the three quarters of 2018 increased by GEL 64.3 million compared to the end of 2017, which is a significant increase compared to the growth of GEL 29 million in the same period of 2017. This fact was reflected in the volume of cash used in operating activities, with the given figure reaching GEL 52 million in the three quarters of 2018. This drastic change is driven by an unexpected increase in demand, which, in turn, has been fueled by changes the Company has made for boosting efficiency - a new approach to employee classification.

The Company's growth and substantially increased portfolio explains the fact that the company used 59% more cash for operations in 2017 than it did in 2016, with GEL 39.4 million.

The Company financed its needs by issuing Bonds of GEL 9.9 million and raising funds from financial institutions, with the effect totaling GEL 37.1 million in 2017.

	3 quarters 2018	3 quarters 2017	2017	2016
Cash from investing activities				
Acquisition of fixed assets	(2,454)	(1,603)	(2,437)	(2,420)
Acquisition of intangible assets	(346)	(394)	(432)	(237)
Cash from disposal of fixed assets	-	-	31	-
Cash used in investing activities	**(2,800)**	**(1,997)**	**(2,838)**	**(2,657)**

In the first three quarters of 2018, the Company received no cash from its investment activities; on the contrary, the Company invested GEL 2.8 million in fixed and intangible assets.

	3 quarters 2018	3 quarters 2017	2017	2016
Cash from financing activities				
Cash from loans and borrowings	101,945	95,020	118,487	64,658
Repayment of loans and borrowings	(43,545)	(66,019)	(81,371)	(41,058)
Proceeds from bond issuance	-	-	9,871	-
Proceeds from share issue	-	-	-	9,601
Dividends paid	(870)	(1,000)	(1,000)	(475)
Cash flows from financing activities	**57,530**	**28,001**	**45,987**	**32,726**
Net increase (decrease) in cash and cash equivalents	**2,647**	**4,571**	**3,787**	**5,312**
Effect of changes in exchange rates on cash and cash equivalents	(1,829)	(1,672)	178	389
Cash and cash equivalents as at the beginning of the year	14,320	10,355	10,355	4,654
Cash and cash equivalents as at the end of the year	**15,138**	**13,254**	**14,320**	**10,355**

The Company raises funds from international financial institutions and through issuance of Bonds on the local market. The volume of raised funds depends on the Company's growth rate and market position. Funds raised from financial activities (from loans and bonds) increased significantly in 2017 compared to 2016, driven by the growth of the Company's portfolio.

11. Key ratios

	3 quarters ended September 30			Year ended December 31	
	2018*	**2018**	**2017**	**2017**	**2016**
			In thousands, GEL, except percentages		
Loan portfolio, net	**277,345**	**262,345**	**174,536**	**198,045**	**145,510**
Capital/assets ratio	17.21%	18.09%	22.51%	20.48%	22.56%

Capital / net loan portfolio	19.19%	20.28%	25.84%	23.39%	26.82%
Profit before tax, margin [1]	23.15%	23.15%	28.48%	25.10%	27.81%
Return on Equity [2]	19.19%	19.19%	n/a	17.56%	18.81%
Operating expenses/interest income	50.26%	50.26%	51.08%	53.47%	53.78%
Net impairment expense / revenues	9.76%	9.76%	6.20%	6.89%	6.79%
Share of non-performing loans in total loans disbursed	3.65%	3.65%	3.02%	2.63%	3.02%
EBITDA	25,534	25,534	19,414	25,738	20,960
EBITDA / interest expense (ICR)	1.73	1.73	1.98	1.87	2.07
EBIT / interest expense	1.61	1.61	1.84	1.73	1.91
Debt/Equity	4.81	4.53	3.44	3.88	3.43
Current ratio (Current assets / current liabilities)	2.14	2.14	1.95	1.42	1.41
Cash used in operating activities	(52,083)	(52,083)	(21,433)	(39,362)	(24,757)
Cash used in investment activities	(2,800)	(2,800)	(1,997)	(2,838)	(2,657)

** Calculation of the ratios as of 30 September 2018 considers the new emission.*

[1] *Profit before tax margin = Profit before tax divided by net interest income before deducting impairment expense*

[2] *Return on equity = Total equity as percentage of net annual profit*

12. FX risk

Certain portion of the Company's assets and liabilities are denominated in several foreign currencies.
Although the Company applies FX risk hedging ("derivatives") through back-to-back loans, such activity is not qualified as hedging by IFRS standards.

The following table illustrates the structure of assets and liabilities denominated in foreign currencies as of December 31, 2017

	EUR	USD	Total
Assets			
Cash and cash equivalents	1,504	7,329	8,833
Loans to clients	-	19,895	19,895
Other assets	2	124	126
Total assets	**1,506**	**27,348**	**28,854**
Liabilities			
Loans and borrowings	1,369	102,568	103,937
Other liabilities	5	30	35
Total liabilities	**1,374**	**102,598**	**103,972**
			-
Net position	**132**	**(75,250)**	**(75,118)**
			-
Effect of derivatives used for FX risk management	-	**75,090**	**75,090**

				-
Net position after use of derivatives	**132**	**(160)**	**(28)**	

The table below sets forth the currency exchange rates used during the year:

GEL	Average exchange rate		Spot rate for the reporting date	
	2017	**2016**	**2017**	**2106**
USD 1	2.5086	2.3667	2.5922	2.6468
EUR 1	2.8322	2.6171	3.1044	2.7940

In all other equal terms, depreciation of GEL, as set out in the table below, may increase or (decrease) profit or loss for the years ended December 31, 2017 and 2016 by the amounts shown below. The analysis takes into account all taxes and reflects the Company's expectations on the exchange rate fluctuations.

	2017	**2016**
10% appreciation of USD relative to GEL	(14)	(38)
10% appreciation of EUR relative to GEL	11	50

In all other equal terms, GEL appreciation is expected to have the same reverse effect as of December 31, 2017 and 2016.

13. Liquidity analysis as of 31 December 2017

The table below presents analysis of assets and liabilities based on their maturities:

Assets	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Termless**	**Maturing**	**Total**
Cash and cash equivalents	14,320	-	-	-	-	-	-	14,320
Financial instruments held at fair value through profit or loss	-	175	1,410	-	-	-	-	1,585
Loans to customers	6,736	25,126	71,728	91,230	61		3,164	198,045
Fixed assets	-	-	-	-	-	5,309	-	5,309
Intangible assets	-	-	-	-	-	1,325	-	1,325
Deferred tax assets	-	-	-	-	-	1,954	-	1,954
Other assets	1,503	180	991	298	-	643	-	3,615
Total assets	**22,559**	**25,481**	**74,129**	**91,528**	**61**	**9,231**	**3,164**	**226,153**
Liabilities								
Financial instruments held at fair value through profit or loss	-	364	227	-	-	-	-	591
Loans and borrowings	26,227	4,070	53,667	76,518	7,218	-	-	167,700
Bonds issued	-	9	-	9,871	-	-	-	9,880
Current tax liabilities	-	-	297	-	-	-	-	297
Other liabilities	947	18	297	106	-	-	-	1,368
Total liabilities	**27,174**	**4,461**	**54,488**	**86,495**	**7,218**	**-**	**-**	**179,836**
Net position	**(4,615)**	**21,020**	**19,641**	**5,033**	**(7,157)**	**9,231**	**3,164**	**46,317**

Regulatory Framework

Legal Environment

The microfinance sector is regulated by the following laws and legal acts:

Law/regulations	Date	Recent amendment
Organic Law of Georgia on the National Bank of Georgia	09/2009	09/2018
Law of Georgia on Microfinance Organizations	07/2006	07/2018
Order of the President of the National Bank of Georgia on Approval of the Rule of Supervisory Reporting on Microfinance Organizations' AML and Counter Terrorist Financing Risk	05/2016	06/18
On approval of the Rules of Determining, Imposing and Enforcing the Amount of Monetary Penalty for Microfinance Organizations, Currency Exchange Bureaus and Money Remittance Units	02/2012	06/2018
On approval of the Rule on the Form of Financial Reports, the Date of Submission and Accounting to the National Bank of Georgia	02/2018	
On Approval of the Rules and Conditions for Registration of Microfinance Organization at the National Bank	04/2018	
On Approval of the Rule for Liquidation of a Microfinance Organization	04/2018	
On Approval of the Rules of Supervision and Regulation of the Activities of Microfinance Organizations	07/2018	
On Approval of the Rules on Assets Classification and Creation of Reserves for Possible Losses by Microfinance Organizations	07/2018	

The Law of Georgia on Microfinance Organizations entered into force in 2006. According to the Law, MFO can be registered by the National Bank of Georgia as a limited liability or a joint-stock company with the minimum authorized capital of GEL 1,000,000. The National Bank of Georgia is authorized to set minimum regulatory capital requirements for the microfinance organizations and to prohibit them from conducting certain activities. By the latest amendment, the law also specifies the possible parties to whom borrower's information can be disclosed. MFOs are entitled to extend micro loans to business and private entities with a maximum amount of GEL 100,000. On the other hand, MFOs cannot collect deposits from any kind of source.

MFOs can issue and get loans from private and legal entities, invest in securities, provide an insurance agent function, perform currency exchange and money remittance services and provide other financial services. Microfinance institutions can also issue, sell and redeem bonds and bills of exchange. MFOs can hold shares of other business entities, which should not exceed 15% of MFO's authorized capital.

According to the regulation, director of MFO cannot be a person, who does not have sufficient knowledge and/or working experience, previously was convicted for economic crimes or has record of important damage / bankruptcy of bank and other financial institutions under his/her management. Director of MFO cannot be involved in management or hold shares of other banks, microfinance institutions or credit unions.

A person cannot buy or hold 10% or more share of MFO, if he/she was convicted for terrorism financing, legalization of illicit income and other economic crimes. Potential buyer of MFO shares (>10%) should submit an application and required documents to National Bank of Georgia. NBG takes decision about alienation of shares within 15 working days.

Congruent to the new order enacted in 2012, the National Bank of Georgia is authorized to register, cancel registration, monitor and impose penalties on microfinance organizations. MFO can operate after successful registration at the National Bank of Georgia. The National Bank of Georgia issues its decision regarding registration of a microfinance organization within 45 working days. In addition, the applicant is given 30 days to move required adjustments. MFOs are obliged to have video surveillance system in headquarters and all branches.

MFOs are obliged to submit monthly financial statements to the National Bank of Georgia and publish quarterly reports on their website no later than 15th of the following month.

In 2016, a special order regarding AML and Counter Terrorist Financing Risk entered into force, obligating all MFOs to submit their semi-annual report of AML and Counter Terrorist Financing Risk from January 2017. The report should summarize information about clients' citizenship, transactions, high risk bearing loans and clients, MFO ownership, overseas branches/ affiliates and etc.

If microfinance organization fails to submit the above-mentioned reports or to meet other regulations, the National Bank of Georgia can impose a fine or revoke MFO registration. In April 2018, the National Bank approved a new order on the liquidation of microfinance organizations, authorizing the National Bank to appoint a liquidator upon cancellation of MFO registration.

Starting from January 2017, all credit institutions are required to charge annual maximum effective interest rate of no more than 100% of the loan; as for the annual penalty rate, it should not exceed 150% of the loan.

In July 2018, the maximum annual interest rate on a loan was reduced to 50%. The National Bank of Georgia monitors microfinance organizations for compliance with these requirements.

According to the amendment moved to the Civil Code of Georgia in January 2017, if a microfinance institution raises funds from more than 20 physical persons, the amount collected per person shall not be less than GEL 100,000 (or its equivalent in foreign currency). If a microfinance institution is required to comply with such requirements, it shall pay the amount less than 100,000 GEL from less than 20 natural persons within one year of the occurrence of such obligation.

Another regulation entered into force in January 2017 pertained to "Larization". Loans up to GEL 100,000 can be disbursed to resident individuals just in the local currency.

In July 2018, the National Bank of Georgia approved two new orders. The first decree concerns the classification of assets and creation of reserves for possible losses by microfinance institutions, whereas the second pertains to the supervision and regulation of the activities of microfinance organizations.

Approved Legal Changes

An important regulation, which will come into force from January 2019, concerns responsible lending. Microfinance organizations and other credit institutions will not be able to lend to individuals unless these requirements are met:

- An individual should have a document verifying regular income and should be duly assessed before disbursement of a loan;

- It is prohibited to issue a loan where the borrower pays only the accrued interest until the loan expires and repays the principal at the end of the entire period. Such method is employed by fast online loan lenders;
- Lending organizations are prohibited from applying such quantitative and statistical methodology in the process of lending that would not be agreed with the National Bank.
- Loan servicing costs should not exceed a certain percentage of net monthly income:

Net monthly income, GEL	**Maximum maturity for unhedged borrowers / for contractual installments**	**Maximum maturity for hedged borrowers / for contractual installments**
<1000	20% / 25%	20% / 35%
>=1000-2000<		35% / 45%
>=2000-4000<	25% / 30%	45% / 55%
>=4000	30% / 35%	50% / 60%

From 2019, introduction of capital ratios is also planned for microfinance organizations. Limits will be introduced in two approaches, standard and non-standard. According to the standard approach, the company's capital ratio should be> = 18%, and in case of non-standard -> = 24%. The standard and non-standard approaches are applied based on the share of funds raised from physical and non-financial legal entities in the regulatory capital. If the funds raised by a company from physical and non-financial legal entities, including from issuance of Bonds, are less than 50% of the regulatory capital, then the company falls within the standard limits; otherwise, non-standard limits are applied.

Agreement between the Issuer and the National Bank of Georgia on Imposition of Economic Norms and Limits

The company has reached an agreement with the National Bank, whereby economic standards and limits will apply to JSC Crystal upon issuance of the Bonds, as envisaged by the supervision and regulation rule the National Bank approved by its order N143/04 of 5 July 2018:

1. If the bonds issued and placed by JSC Crystal are fully classified as funds raised from physical individuals and legal entities other than financial institutions (hereinafter referred to as "legal entities") and the funds totally raised by JSC Crystal from physical individuals and non-finance legal entities do not exceed 50% of the Company's regulatory capital, JSC Crystal will be subject to the following norms and limits:

1.1. Capital ratio – ratio of regulatory capital to total assets after deductions – 18%,

1.2. Liquidity ratio - ratio of average current assets to average current liabilities of a reporting month – 18%.

2. Unless the requirements set forth in paragraph 1 are fully complied with, only a portion of the bonds issued by JSC Crystal shall be classified as funds raised from natural or legal persons whose registered owner is not a financial institution. In such case, if funds raised from physical and legal persons calculated by this method:

2.1. Constitutes less than 40% of JSC "Crystal" regulatory capital, the Company will be subject to the following norms and limits:

2.1.1. Capital ratio – ratio of regulatory capital to total assets after deductions – 18%

2.1.2. Liquidity ratio - ratio of average liquid assets to average liquid liabilities of a reporting month – 18%

2.2. Is in the range from 40% to 45% of JSC "Crystal" regulatory capital and Crystal fails to reduce the given percentage to 40% or less within 90 days, Crystal will be subject to the following norms and limits:

2.2.1. Capital ratio – ratio of regulatory capital to total assets after deduction – 24%

2.2.2. Liquidity ratio - ratio of average liquid assets to average liquid liabilities of a reporting month – 25%

2.3. Is in the range from 45% to 50% of JSC Crystal regulatory capital and Crystal fails to reduce the given percentage to 40% or less within 30 days, Crystal will be subject to the following norms and limits:

2.3.1. Capital ratio – ratio of regulatory capital to total assets after deduction – 24%;

2.3.2. Liquidity ratio - ratio of average liquid assets to average liquid liabilities of a reporting month – 25%.

2.4. Exceeds 50% of the JSC "Crystal" regulatory capital, JSC Crystal will be immediately subject to the following norms and limits:

2.4.1. Capital ratio – ratio of regulatory capital to total assets after deduction – 24%

2.4.2. Liquidity ratio - ratio of average liquid assets to average liquid liabilities of a reporting month – 25%

2.5. If, in the cases referred to in paragraphs 2.2 and 2.3 above, JSC Crystal managed reduce the ratio of funds raised from natural and legal persons to the regulatory capital of JSC Crystal within the defined timeframe, so that it represents 40% or less of JSC Crystal's regulatory capital, JSC Crystal will be subject to the following norms and limits:

2.5.1. Capital ratio – ratio of regulatory capital to total assets after deduction – 18%

2.5.2. Liquidity ratio - ratio of average liquid assets to average liquid liabilities of a reporting month – 18%.

For purposes of identifying the registered owners of the aforementioned bonds, which will serve as the basis for classifying proceeds as either funds raised from individuals and legal entities or from financial institutions, the securities brokers are required to perform the following actions for any operation relating to the issuance of securities.

- In case of primary placement or selling of the securities held by a financial institution to a physical or legal person not bearing a status of a financial institution, immediately notify the issuer about the following transaction details: legal status of the purchasing party (whether it is a legal or physical person), total nominal value of bonds, quantity and transaction date, regardless of whether the transaction involves a resident or a non-resident.
- In case of primary placement or selling of the securities held by a physical or non-finance legal person to a financial institution, immediately notify the issuer about the following transaction details: legal status of the purchasing party (whether it is a financial institution or not), total nominal value of bonds, quantity and transaction date, if the purchasing

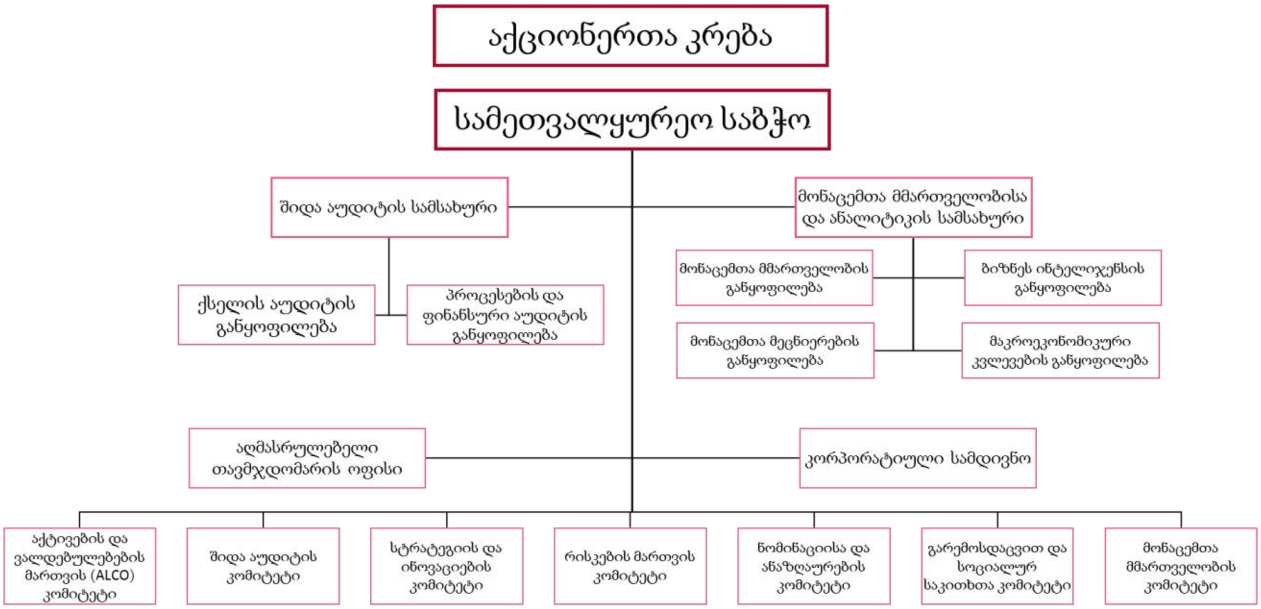
party is a financial institution and/or non-resident financial institution and/or it is impossible to determine the status of the purchasing party.

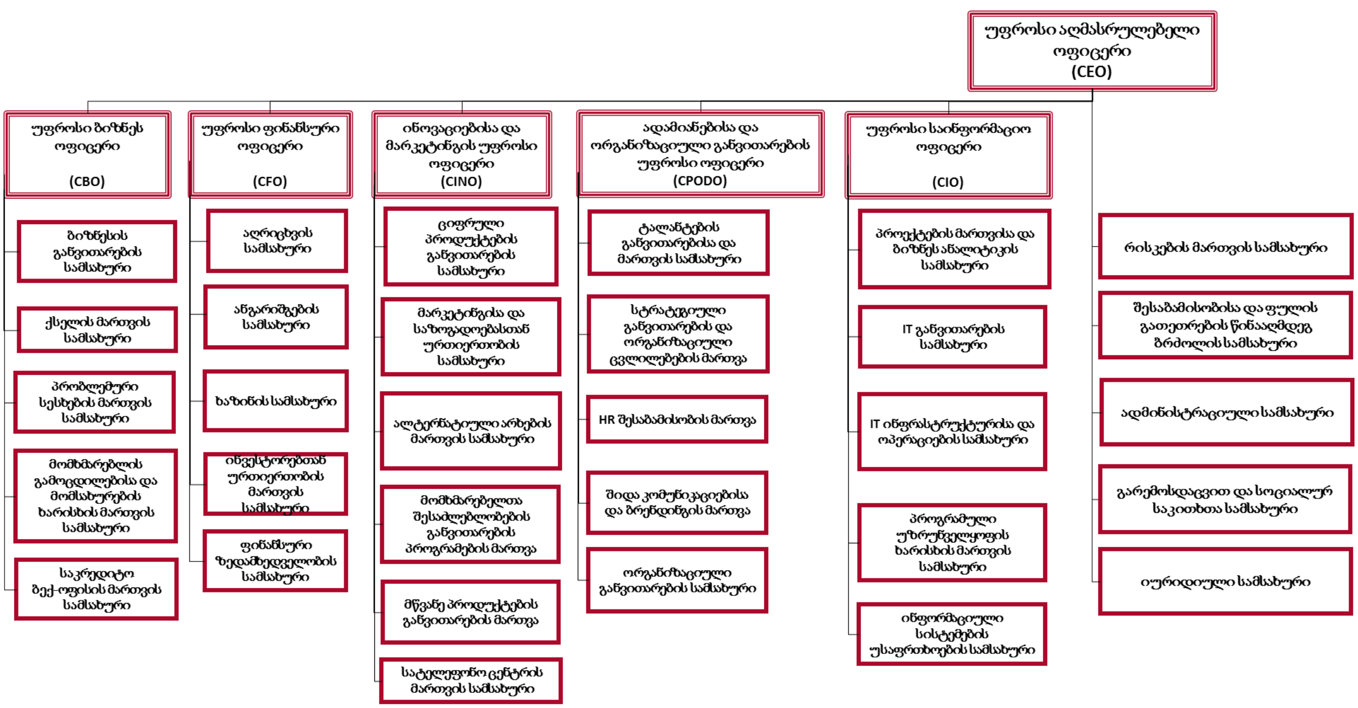
- For the transactions carried out by the securities broker, provide the Issuer with a complete report on holding of the securities as of the last day of the previous month within 5 working days of each month. The given report should include the following information about the owners:
    - the total nominal value, quantity and date of acquisition of the bonds owned by the holder;
    - the legal status of the owner;
    - information on whether the holding legal entity is a financial institution;
    - Owner’s residence.

JSC Crystal is obliged to provide the aforementioned information to the National Bank of Georgia in documentary and electronic form, as provided by the securities market brokers. Electronic reporting should be submitted in MS Excel format at capitalmarket@nbg.gov.ge. In addition, securities brokers are required to get familiar with the scheme presented in the Prospectus on the status and reporting of registered securities owners.

In case of breach of the covenants disclosed by the Issuer in the Prospectus, the National Bank of Georgia will take appropriate regulatory measures.

Management and Employees





Management and Employees

Shareholder's Resolutions

The shareholders of the Company are the persons that duly hold shares of the Company and are registered in the share registry of the Company. The shareholders of the Company may be legal entities registered in Georgia and/or abroad as well as the citizens of Georgia and/or any other country.

The shareholders shall have the following rights:

1. Dispose their own shares in the manner provided by the effective laws, Crystal's charter and the shareholders' agreement, if any. Unless otherwise provided by the shareholders' agreement, if any, in the event of transfer of ownership title to its shares by a shareholder, the other shareholders shall have right of first refusal to purchase such shares in proportion to their respective shareholding in the total number of the Company shares. A shareholder shall give the other shareholders a notice of its intention to transfer ownership title to its shares by sending the relevant notice to them. The shareholders wishing to exercise the right of first refusal shall purchase the shares within 20 days from the date of receipt of the notice. If the shareholders do not purchase the shares, after expiry of such term the right of first refusal shall be deemed cancelled;
2. Attend personally or through a representative the general meetings of shareholders and in case of common shares -take part in voting (in either case through physical attendance or by means of direct electronic communication) and exercise their voting rights pursuant to this charter and shareholders' agreement, if any.
3. Take part in distribution of profits and receive dividends pro-rata with the number of shares held by them, taking into account provisions of the shareholders' agreement:
4. In the event of the liquidation of JSC Crystal, receive share or equivalent values of the Company's property, pro-rata with the number of held shares, remaining after settlement with lenders as provided by the Company's Charter and Shareholders' Agreement, which envisages running of the share registry of JSC Crystal by JSC MFO Crystal itself or by an independent registrar in accordance with the effective law.
5. Any shareholder shall have the right to meet with the Company auditors and to discuss with them the issues of business operations and audit
6. The holders of 5% or more of all shares may request a special inspection of business transactions or of the entire balance sheet if they believe that there have been violations;
7. The holders of 5% or more of all shares may request that a special general meeting of shareholders is convened in accordance with the effective laws
8. Any shareholder may request clarifications from the Director and the supervisory board concerning each particular item of the agenda of the general meeting of shareholders. Such request, if submitted in writing at least 10 days prior to the date of the general meeting of shareholders, shall either be fulfilled or considered as one of the items of the agenda.
9. Holders of 5% of voting shares shall have right to demand copies of the transaction documents entered into on behalf of the Company and/or information on the to-be-entered transactions;
10. The holders of voting shares may exercise their votes for their own interests except where the decision concerns conclusion of a transaction with them or approval of their report in which cases such shareholder(s) shall be required to abstain from voting.

Shareholders' agreement, if any, may envisage additional rights of the shareholders and/or determine different regulations applicable to shareholders rights.

The shareholders of the Company shall be obligated to observe and comply with the obligations and other conditions envisaged by this charter, shareholders' agreement, if any, and the effective laws.

Director General

Day-to-day management and representation of the Company is vested upon the General Director in accordance with the Company's charter.

The General Director shall lead the Company business diligently and faithfully, observing the provision of the charter, requirements of applicable laws and of a respective employment (service) contract.

Director General – Mr. Davit Bendeliani

Mr. Davit Bendeliani was appointed as Director General in early 2018, once Malkhaz Dzadzua left the office at JSC MFO Crystal. Previously from August 2004 up to 2011, he held the position of Financial Manager at JSC Crystal. From April 1997 to July 2004, he worked as a Financial Manager at Charity Humanitarian Center "Abkhazeti".

Chief Financial Officer – Mr. Davit Bendeliani

Mr. Davit Bendeliani was designated as Chief Financial Officer in 2012.

During 2004 -2007, he served as a Financial Manager at Crystal Fund. From 2007 to 2011, he held the position of a Financial Manager at JSC Crystal. From April 1997 to July 2004, he worked as a Financial Manager at Charity Humanitarian Center 'Abkhazeti".

Chief Business Officer - Mr. Kakha Gabeskiria

Chief Business Officer – Mr. Kakha Gabeskiria joined Crystal in 2009. Since then, he has been Chief Operations Officer of the Company.

Before that, from 2001 to 2009, he held various middle and top managerial positions at JSC ProCredit Bank Georgia, Poti and Zugdili Branches.

From 2000 to 2001, he was a loan officer at Charity Humanitarian Centre of "Abkhazia".

Chief Innovations and Marketing Officer – Mr. Manuchar Chitaishvili

Mr. Manuchar Chitaishvili joined Crystal in 2006 as Risk Manager and was designated as a CINO in 2014.

Previously in 2005, he served as Head of Kutaisi Self-Government Department. Starting from 2001, he worked in different positions in private and public sector.

Chief People and Organizational Development Officer – Sergo Nozadze

Mr. Sergo Nozadze joined Crystal in 2018 as Chief People and Organizational Development Officer. Prior to that, he served as Head of the Human Resources Department at Bank Republic.

Chief Information Officer (CIO) – Mr. Beka Tsitskishvili

Mr. Beka Tsitskishvili joined Crystal in 2018 as Chief Information Officer. Before that, he held the office of "Adjarabet" IT Director.

Members and Chairman of the Supervisory Board

Archil Bakuradze is the Chairman of the Supervisory Board of the Company.

Archil Bakuradze has been involved in Crystal's management and governance since founding it in 1998. He is a Founder of JSC "Mobile Finance Eurasia". He is also Chairman of the Board at "Business and Economic Centre. Archil Bakuradze holds a BA in Economics from the Georgian Institute of Sub-tropic Agriculture and MBA degree from the Lancaster University. He is UK FCO Chevening scholar and a fellow of the John Smith Memorial Trust

Keith Young MBE is the Member of the Board of Crystal Fund. He has extensive experience in the internet, communications and publishing sectors. He is a co-founder and deputy chairman of NetBenefit plc, a quoted internet domain name and services provider. Mr. Young holds a degree in Economics from the London School of Economics. He has been a longstanding supporter and investor in Georgia's financial and technology sector companies.

Nikoloz Loladze He is a social entrepreneur and development consultant with more than 10 years of experience in economic development work. Mr. Loladze is a founder and board member of a number of prominent business and not-for-profit organizations in Georgia. In his capacity as a governance expert, Mr. Loladze is an advisor and board member of a number of business and not-for-profit organizations, including Georgian Stock Exchange, JSC Brokerage Company Caucasus Capital Group, JSC Mobile Finance Eurasia, UK-Georgia Professional Network, Anchor Consulting LLC, etc. In recent years he has been actively involved in civil society and government capacity-building initiatives focused on better -more transparent and accountable -Public Financial Management in Georgia. Mr. Loladze also frequently works as a business development consultant (corporate governance, business planning, financial modeling, market research) to various commercial enterprises in Georgia. Mr. Loladze holds postgraduate qualifications in Management (Warwick, UK), and Physics (Tbilisi, Georgia), as well as certificates in Project Management, Policy Analysis, and Public Administration.

Aleem Remtula has been on the Board of Crystal since DWM's equity investment in 2011 and leads the Company's Strategy Committee. Mr. Remtula started his career in Investment Banking at JPMorgan and has over a decade of impact investing experience with socially responsible, double and triple bottom line venture capital and private equity funds in the U.S. and Europe. Mr. Remtula is a Director on DWM's private equity team covering Central and South Asia and the Caucasus. Mr. Remtula received Master's Degree in Business Administration from Harvard Business School and BA in Economics and Finance from Princeton University.

Jan Dewijngaert is a member of Supervisory Board of Crystal since February 2016. Since 2015 Mr. Dewijngaert is a Director at Private Equity Fund Incofin IM. Previously. He was a Partner at Gimv (2012-2015); Managing Director at Eagle Venture Partners (2001-2015); Analyst, Investment Manager, Senior Investment Manager, Executive Senior Investment Manager and Director at Gimv (1989-2011); Advisor at KBC Bank (1983-1989). Mr. Dewijngaert graduated as a Civil Engineer in Construction (1977-1982) and in Industrial Policy (1983) at the Catholic University of Leuven (Belgium), Corporate Financial Strategy at Insead, France in 1995.

Lilith Garayan - Co-Founder and Chief Executive Officer of ADWISE consultancy. She supervises business consultancy line, which also includes banking advisory services. Lilith has over 16 years of experience in various sectors, including 8 years in managerial positions in banking and finance. Her banking experience includes work in the following positions: Head of Budgeting and Control Department, Head of Internal Audit Department, Member of the Board of ProCredit Bank of Armenia; she was in charge of HR and Operations, she also supervised financial planning and financial analysis at Farm Credit Armenia UCO. Lilith holds an MBA degree in finance from American University of Armenia, as well as a master's degree from Armenian State University and certificate from ACCA.

Jan Dewijngaert is a member of Supervisory Board of Crystal, representing Incofin. Since 2015 Mr. Dewijngaert is a Director of Private Equity at Incofin IM. In 2012-2015, he was a Partner at Gimv. In 2001-2015, he served as a Managing Director at Eagle Venture Partners; During 1989-2011, he held various positions at Gimv, such as: Analyst, Investment Manager, Senior Investment Manager, Executive Senior Investment Manager and Director; In 1983-1989, he was an Advisor at KBC Bank. Mr. Dewijngaert graduated as a Civil Engineer in Construction (1977-1982) and in Industrial Policy (1983) at the Catholic University of Leuven (Belgium); He graduated from the faculty of Corporate Finance Strategy at Insead, France in 1995.

Management Incentive Plan, share based payments

On 29 March 2016, the Supervisory Board approved the Management Incentive Plan (MIP) for 2016. The purpose of the MIP mechanism is to increase motivation and incentivize the Company's executive team in order to deliver the equity growth strategy, foster and safeguard the interests of the Company, its shareholders and a wider group of stakeholders.

MIP remuneration pool includes fulfillment of the following:

- Companywide targets - 60% of MIP,
- Individual targets – 30% of MIP and
- Discretionary - 10% of MIP.

The remuneration package of the MIP included division of the incentive pool into cash payments (50% of the incentive pool) and share-based payment (50% of the incentive pool) based on performance results.

Main conditions determined in the MIP is to meet the Company wide targets for the ratios such as the Gross Loan Portfolio, Non-Performing Loans and return on assets (ROA).

As the terms of the Management Incentive Plan were met based on 2017 results, the Company recognized 50% of the Incentive Pool (in cash) as a commitment to the Management Executive Team as of 31 December 2016. The other 50% portion of the incentive pool (share-based payments) was used to determine the number of unregistered common shares that needed to be issued. To calculate this number, the 50% pool was divided by the share value. The value of each share was determined by dividing the total number of shares outstanding as of 31 December 2011 by total equity.

As of 31 December 2017, the fair value of issued 3,706 common shares was defined by GEL 68,000; for 27,892 common shares as of 31 December 2016 - by GEL 362,000. Fair value is the amount of money received from the sale of an asset in the ordinary course of trade between market participants.

In equity change reporting, share-based payment transaction is reflected as an increase in share-based payment reserve.

The timeline for the Management Incentive Plan is summarized below:

MIP year	Status	Basis of transaction	Supervisory Board authorization date	Number of common shares
2016	Shares issued and unregistered	Based on fulfillment of company-wide targets	9 August 2017	27,892
2017	Shares issued and unregistered	Based on fulfillment of company-wide targets	N/A	3,706

- **Litigation Statement**

As of the date of this Prospectus, no senior manager of the Company, for at least the previous five years, has:

- any convictions in relation to fraudulent offences;
- held an executive function as a senior manager or a member of the administrative management or supervisory bodies of any company at the time of or preceding bankruptcy, receivership or liquidation;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conducting the affairs of a company

Shareholders and Related Party Transactions

1. Transactions with members of the Supervisory and Executive Boards

Total remuneration and consulting fees included in personnel expenses for the years ended 31 December 2017 and 2016 is as follows:

	As of December 31	
	2017	2016
	In thousands, GEL	
Salaries and bonuses	729	442
Share-based payment transaction	194	719
Profit sharing program	123	233
Consulting fees	16	327
Total personnel expenses	**1,062**	**1,721**

For the years 2017 and 2016 ended December 31, remuneration and management consultancy fees included in other liabilities are as follows:

	As of December 31	
	2017	2016
	In thousands, GEL	
Share based payment	194	719
Profit sharing program	123	233
Total	**317**	**952**

2. Other related party transactions

	Transaction value as of 31 December		Outstanding balance as of December 31	
	2017	2016	2017	2016
	In thousands, GEL			
JSC „Mobile Finance Service – Georgia“	141	84	53	84

JSC “Mobile Finance Service – Georgia” is owned by three members of the Supervisory Board of the Company. The given operation has been an arm’s length transaction. There is no conflict of interest between the Company’s management and the registrar.

Currently, the Company is not engaged in any material legal disputes, other than the one discussed in the section of "Shareholding Structure", which does not imply any kind of financial or operational risk and other than the judicial disputes that might arise from time to time concerning everyday operational issues and being immaterial in financial terms.

Key terms of the agreement with the Placement Agent

The agreement concluded with the Placement Agent obligates JSC Galt & Taggart to provide for underwriting of the Bonds solely on a non-guaranteed basis. It is the duty of the Placement Agent to prepare the documentation required for placement of the Bonds (including the Prospectus of Bonds), to perform the functions of the Placement Agent, and to advise the Company on the issues concerning issuance, realization and settlement of the Bonds.

Terms and Conditions

The issue of bonds with the nominal value of GEL 15,000,000 at floating interest rate was authorised by resolution of the Supervisory Board of the Company adopted on 16 May 2018.

1 February 2021 has been defined as the redemption date for the Bonds. Terms of the Bonds as well as the Bondholders' rights are governed by the Prospectus, including these Terms and Conditions and by the Agreement on Terms and Conditions of the Bonds between the Issuer and Nodia, Urumashvili and Partners LLC, as the Bondholders' Representative dated 31 December, 2018 (the "Agreement"). In addition to the specific terms and conditions outlined in other sections of the Prospectus (including without limitation "Overview of the Offering") these Terms and Conditions include certain additional representations, covenants and other conditions which are also outlined in the Agreement.

Copies of the Agreement are available for inspection during usual business hours at the principal office of the Bondholders' Representative: at Nodia, Urumashvili and Partners LLC, Office No. 28, 4th Floor, 71 Vaja-Pshavela Ave., Tbilisi 0186, Georgia and at the offices of the Issuer: 33 M.Kostava 1st Lane, Tbilisi 0179, Georgia. In addition to the Prospectus, including these Terms and Conditions, the Bondholders (as defined below), and in certain cases (envisaged by the Prospectus, including these Terms and Conditions), the Nominal Holder of the Bonds, are entitled to the benefit of, are bound by, and are deemed to be subject to the relevant terms of the provisions of the Agreement and such terms apply to them. In Particular, by acquiring the Bond(s), a Bondholder consents and agrees that it is entitled to the benefit of the covenants set forth in Condition 5 of these Terms and Conditions and in Clause 6 of the Agreement (the "**Covenants**") and it will enjoy the rights and obligations deriving from performance, partial performance and/or non-performance of such Covenants only on the condition that it authorizes the Bondholders' Representative to act on its behalf in respect of such Covenants pursuant to Condition 4(a) of these Terms and Conditions. Accordingly, neither a Bondholder nor a Nominal Holder has the right to act directly against the Issuer for breach of any of these Covenants and only the Bondholders' Representative may take actions against the Issuer in respect of breach of such Covenants, except as provided in Condition 12 of these Terms and Conditions.

1. FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued as dematerialized book-entry bonds, in registered form, in denomination of GEL 100,000 each.

Title to the Bonds shall be evidenced by registration of ownership rights in (i) the register of securities (the "**Register**") that the Issuer shall procure to be kept by the registrar indicated in "Overview of the Offering" (the "**Registrar"**) in accordance with the provisions of the agreement between the Issuer, on the one hand, and the Registrar, on the other hand; and/or (ii) such other registries/records as shall be maintained by any Nominal Holder of the Bonds. The Register and such other registries/records as referred to in the foregoing clause (ii) are hereinafter a "**Registry**."

2. OFFERING AND PLACEMENT OF BONDS, CHANGES TO THE OFFERING AND DISPOSAL OF BONDS

(a) Bond Offering Process

The Placement Agent takes charge of offering of the Bonds on behalf of the Issuer and on the basis of the agreement concluded with the Issuer. Before commencement of the public offering, in order to trigger interest in the Bonds, the Placement Agents and/or their authorized intermediary/intermediaries are entitled to send the approved Prospectus to potential investors.

Following approval of the Prospectus by the National Bank of Georgia, the Issuer carries out the public offering of the Bonds in accordance with Georgian law. The Issuer will publish a notice on offering of Bonds on its web-site. The Issuer, the Placement Agents and/or a financial intermediary(ies) involved in the placement process will provide to potential investors, in accordance with their preference, electronic link to the Prospectus, its scanned or printed version. The final Prospectus will be provided to potential investors (including by means of uploading it to the Issuer's website) before or right after commencement of the sale of publicly offered Bonds or in the process of such sale

Potential investors may express interest of purchasing Bonds by submitting an application/notice to any of the Placement Agents. It is possible to express such interest via electronic means of communication or any other means accepted by the Placement Agents. The deadline for accepting the application(s) for the Bonds is determined unilaterally by the Placement Agents. If such deadline is not a Business Day, the preceding Business Day will be deemed as the final day for accepting the application(s).

In the process of offering bonds to potential investors, based on the demand/terms for the purchase of the bonds (as a result of the book-building), the final value (number of bonds and nominal value of total issue) was set at GEL 15,000,000.

If in the process of book-building the potential investors express interest for purchase of more Bonds than are being offered based on this Prospectus, such demand will be satisfied partially, in proportion to the numbers indicated in the relevant applications from the investors or otherwise, as determined by the Issuer at its discretion. Furthermore, if the application of a potential investor has been only partially satisfied, such potential investor is entitled to refuse or continue to participate in the process of purchasing the Bonds. The Placement Agents must be notified of such decision immediately (no later than 2 pm Tbilisi time of the Business Day following the day when the investor was informed of correction of its application (with respect to the number of the Bonds). Failure to notify the Placement Agents of such decision entitles the Placement Agents, at their discretion, to continue to consider the initial application of the investor (with respect to full number of Bonds requested), or refuse the application.

Following completion of the book-building process, the Placement Agents will make an announcement on determination of the final size of the Offer and will notify those investors (individually or as a group) whose applications (including those with corrected numbers) have been satisfied. Such notification must contain the number of the Bonds in relation to which the purchase orders of potential investors have been satisfied. Upon announcement of final size of the Offer, the applications of the potential investors that have been satisfied will be irrevocable and binding upon such investors ("**Subscribing Investors**").

The Issuer and/or Placement Agent shall be entitled to place the Bonds at the Deferred Placement Price in the period from the date of issue to the offer closing date (included). Deferred placement of bonds will be carried out at deferred placement price. Investors can express interest in the purchase of such Bonds by means of submitting an application/notice to the Placement Agent. Notice of the intention to purchase the Bonds may be served through electronic communication and/or any other means acceptable for the placement agent.

"Subscribing Investors" and those investors who purchase the Bonds on the Deferred Placement Date (hereinafter collectively "Investors") are required to fully deposit the amounts required for purchasing the Bonds into the Brokerage Account at least 2 business days prior to the Issue Date or the Deferred Placement Date. This brokerage account should be opened by the Investor with the Placement Agent. The same account will be used for delivering the Bonds by the Issuer to the Investor on the Issuance Date or Deferred Placement Date. In exceptional cases, the Placement Agent may unilaterally authorize the Investor to deposit the Bond redemption amount on the Issuer's nominal ownership account instead of the brokerage amount opened with the Placement Agent. In such a case, the Bonds shall be delivered to the Investor on the Investor's Account with the "Registrar" or other authorized "Nominal Holder".

Following placement of Bonds, the Bondholders are entitled to hold the Bonds on account(s) open with other Nominal Holders or in the form of entry with the Registrar.

The Issuer will not issue the Bonds pursuant to the Offer described in this Prospectus, or to the extent issued, will revoke any Bonds and return the payments made by the Bondholder(s) for the purchase of the Bond(s), if the Minimum Placement Amount is not subscribed for and placed by the Bond Issuance and Placement Date.

If the total Number of the Bonds issued pursuant to the final Prospectus is not placed by the Offering Completion Date, the Bonds that remain unplaced shall be deemed cancelled and the Issuer shall submit to the National Bank of Georgia information on the number of the issued and placed Bonds, to the GSE – Bonds listed on the stock exchange and make the announcement to the public pursuant to the requirements of Georgian law

(b) Changes during Public Offering

If during the public offering (period between the commencement of offering until the Offering Completion Date), the Issuer decides to change material information about the Bonds, such as the number of securities to be issued pursuant to the final Prospectus, Minimum Placement Amount, price, period of offering, etc., the Issuer shall take the following steps:

(i) submit to the National Bank of Georgia an amendment to the Prospectus explaining all alterations made to the Prospectus;

(ii) publish an announcement on the Issuer's web-site or other means determined by applicable Georgian law, indicating all such changes made or proposed; announce cancellation of the offering in the existing form and make an offer on cancellation of all agreements on the sale of the Bonds up to that date;

(iii) set time limit of no less than 10 calendar days for investors to respond whether they agree to cancellation of the offering in the existing form. After this period has passed, the Issuer is entitled to carry out amended public offering.

If the information in relation to any material event is changed in the Prospectus, the investors who have purchased the Bonds are entitled to revoke the purchase and request redemption of the Bonds at their principal amount together with any accrued interest. In such event the Issuer shall redeem such Bonds within 10 days of revocation by the investors. The Investors (Bondholders) who choose not to revoke the purchase of the Bonds, will be subject to new terms of offering.

If non-material information is changed during public offering, the Issuer must submit to the National Bank of Georgia the document reflecting such new information (change) before incorporating such changes in the Prospectus in accordance with the procedure established by the National Bank.

(c) Disposal of the Bonds

The Bonds may be disposed of in accordance with Georgian legislation (including Securities Law) within the jurisdiction of Georgia. Disposal of and transfer of title to the Bonds shall be valid only if the title change is registered in the relevant Registry. After placement of the Bonds, the Issuer will have the right to submit an application to the Georgian Stock Exchange for the Bonds to be admitted to listing and trading on the GSE. In case of such admission, the Bonds may be traded on the GSE pursuant to the GSE rules and legal requirements applicable to the securities admitted for trading on the GSE.

3. Status

The Bonds constitute unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. At all times the claims against the Issuer under the Bonds and the Agreement shall rank at least pari passu in right of payment with the claims of all other unsubordinated creditors of the Issuer (subject to Condition 5(a)), save for those claims that are preferred by mandatory provisions of applicable law.

4. Appointment of Bondholders' Representative

(a) By purchasing the Bonds (whether as an initial Bondholder, or as an acquirer (transferee) from an initial Bondholder), each Bondholder and/or Nominal Holder appoints the Bondholders' Representative to act as its agent in all matters relating to the Bonds and in particular those regulated by Condition 5 below and Article 6 of the Agreement, and authorises the

Bondholders' Representative to act on its behalf (without first having to obtain its consent, unless such consent is specifically required by these Terms and Conditions, the Agreement and/or applicable laws) in any legal proceedings relating to the Bonds held by such Bondholder and/or such Nominal Holder.

(b) Each Bondholder and/or Nominal Holder shall immediately upon request provide the Bondholders' Representative with any such documents, including a written power of attorney (in the form and substance satisfactory to the Bondholders' Representative), that the Bondholders' Representative deems necessary for the purpose of exercising its rights and/or carrying out its duties under, and protecting the Bondholders' interest pursuant to these Terms and Conditions and the Agreement. The Bondholders' Representative bears no obligation to represent a Bondholder which does not, or whose Nominal Holder does not, comply with such request.

(c) A Bondholder (or a Nominal Holder acting on behalf of a Bondholder) may act directly against the Issuer for breach of its obligation to pay the principal amount of the Bond under Condition 7(a) and Clause 2.2 of the Agreement, and/or breach of its obligation to make any interest payment when due under Condition 6 and Clause 2.2 of the Agreement, or as provided in Condition 12.

5. Covenants

(a) Negative Pledge: As long as any Bond remains outstanding, the Issuer shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Security Claims (or other legal restriction), other than permited ones, on or over any of its or their assets, now owned or hereafter acquired, securing any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Agreement are secured equally and rateably with such other Indebtedness or have the benefit of such security or other arrangements, as the case may be, as are satisfactory to the Bondholders' Representative, or are approved by an Extraordinary Resolution of the Bondholders

(b) Business continuity, maintenance of authorizations and legal validity:

(i) The Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its corporate existence (except as otherwise permitted by Condition 5(c) (Mergers)), and its business and the use of all material intellectual property relating to its business as well as all consents, licences, approvals and authorisations necessary in that regard

(ii) The Issuer shall do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and take or cause to be taken all measures required by the laws and regulations of Georgia to enable it lawfully perform its obligations under the Bonds and the Agreement and ensure the legality, validity, enforceability or admissibility in evidence in Georgia of the Bonds and the Agreement

(c) Merger: The Issuer shall not, without the prior written consent of the Bondholders' Representative, (1) enter into any reorganisation (whether by way of a merger, division, or transformation to another legal form) or undergo any other type of corporate reconstruction or (2) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or sell, convey, transfer, lease or otherwise dispose of, all or substantially all of the Issuer's properties or assets (determined on a consolidated basis), unless, in any case:

(i) immediately after the transaction referred to in (1) or (2) above:

(a) the resulting or surviving entity or the transferee (the "**Successor Entity**") shall be the Issuer or, if not the Issuer, the Successor Entity shall expressly assume in form and substance satisfactory to the Bondholders' Representative, executed and delivered to the Bondholders' Representative, all the rights and obligations of the Issuer under the Bonds and the Agreement; and

(b the Successor Entity (if not the Issuer) shall retain or succeed to all of the rights and obligations of the Issuer under all of its material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates; and

(ii) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom;

(iii) the relevant transaction referred to in (1) or (2) above does not result in a material adverse effect.

(d) Disposal: Except as otherwise permitted by these Conditions and without prejudice to the provisions of Condition 5(c) (*Mergers*) and Condition 5(e) (*Transactions with Affiliates*), the Issuer shall not, and shall ensure that none of its Material Subsidiaries will, sell, or otherwise dispose of, to a Person other than the Issuer or a Subsidiary of the Issuer, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or assets, unless:

(1) each such transaction is on arm's-length terms for Fair Market Value; and

(2) with respect to any such transaction providing for a disposal of assets constituting more than 25% per cent of the total consolidated assets of the Issuer determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Issuer shall, prior to the disposal, provide the Bondholders' Representative with a written opinion from an Independent Appraiser to the effect that the transaction is at Fair Market Value.

This Condition 5(d) shall not apply to (i) any transaction between the Issuer and any of its wholly-owned Subsidiaries, (ii) any sale, lease, transfer or other disposal of any assets or property (including cash and securities) constituting a Permitted Security Interest; (iii) the leasing, sale and disposal of assets from its inventory in the ordinary course of conducting its business and operations, or (iv) any present or future assets or revenues or any part thereof that are the subject of any securitisation or any receivables, asset-backed financing or similar financing structure and whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the value of such assets or revenues, which are the subject of the relevant financing structure when aggregated with the value of all assets or revenues subject to a Security Interest permitted under paragraph (g) of the definition of "Permitted Security Interests", does not, at any time, exceed 25% per cent of the Issuer's assets, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period

(e) Transactions with affiliates

(i) The Issuer shall not, and shall ensure that none of its Material Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "Affiliate Transaction"), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing of the relevant Affiliate) no less favourable to the Issuer or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a Person that is not an Affiliate of the Issuer or any of its Material Subsidiaries.

(ii) With respect to an Affiliate Transaction or a series of related Affiliate Transactions involving aggregate payments or value in excess of 5% per cent of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Issuer shall, prior to the relevant Affiliate Transaction, deliver to the Bondholders' Representative a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction (or series of Affiliate Transactions) is at Fair Market Value and is fair from a financial point of view to the Issuer or the relevant Material Subsidiary, as the case may be.

(iii) The following shall not be deemed to be Affiliate Transactions and therefore shall not be subject to the provisions of (i) and (ii) above:

(a) any employment agreement entered into by a member of the Group in the ordinary course of the business and consistent with the past practice of such member of the Group;

(b) transactions between or among the Issuer and its wholly-owned Subsidiaries;

(c) payment of reasonable remuneration to members of the management bodies who are not otherwise affiliated to the Issuer;

(d) any loan or other form of financing extended by any direct or indirect founder(s)/shareholder(s) to the Issuer on the arm's length basis;

(e) any insurance contracts with Affiliates made available on the arm's length basis for the purpose of insuring the operations/assets/liabilities of the Issuer.

(f) Payment of taxes and other claims: The Issuer shall, and shall ensure that its Material Subsidiaries will, pay or cause to be paid, before the same shall become overdue all Tax levied or imposed upon, or upon the income, profits or property of, the Issuer and/or its Material Subsidiaries, provided that for the purposes of this Prospectus neither the Issuer nor any Material Subsidiary shall be required to pay or cause to be paid any such Tax or similar claims (a) the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (b) the amount of which, together with all such other unpaid Tax or similar claims, does not in the aggregate exceed USD 1,000,000 (one million US dollars) (or equivalent).

(g) "Restricted Payments": The Issuer shall not, and shall procure and ensure that each of its Subsidiaries will not, (a) declare or pay any dividend in cash or otherwise or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Issuer or any of its Subsidiaries (and, if a Subsidiary is not a wholly-owned Subsidiary of the Issuer, to the other holders of its share capital on a pro rata basis); or (b) directly or indirectly voluntarily purchase, redeem or otherwise retire for value any shares or share capital of the Issuer or, prior to scheduled maturity or scheduled repayment, subordinated debt (except for the repayment of inter-company debt owed by any Subsidiary of the Issuer to the Issuer or to any other Subsidiary of the Issuer from time to time) (any such action in (a) or (b) being, a „**Restricted Payment**"), if**:**

(i) at the time of such payment an Event of Default or Potential Event of Default has occurred and is continuing or would result therefrom;

(ii) such Restricted Payment, when aggregated with all other Restricted Payments previously made since 31 December 2017, exceeds the sum of:

(a) 100% per cent of the Issuer's consolidated net profit (calculated in accordance with IFRS) aggregated on a cumulative basis during the period beginning on 31 December 2017 and ending on the last day of the immediately preceding fiscal year or semi-annual financial period; and

(b) 100% per cent of the aggregate net cash proceeds received from the issuance or sale of share capital by the Issuer from 31 December 2017 and the conversion or exchange any Indebtedness of the Issuer into or for share capital of the Issuer over this period.

(h) „Indebtedness"

1) The Issuer shall not and shall not permit any of its Material Subsidiaries to create, incur, assume or otherwise become liable in respect of any Indebtedness, if

a) Event of Default would occur as a result of incurrence of such financial indebtedness; or

b) the ratio of Net Financial Indebtedness of the Issuer and its Subsidiaries as of the date of such incurrence, after giving effect to such incurrence, to the amount of total equity for the most recent annual financial period exceeds 5 to 1 until the maturity of bonds.

2) Permitted indebtedness: part (1) above does not apply to following indebtedness:

(i) Inter-company indebtedness: between the Issuer and any Subsidiary and between the Subsidiaries;

(i) Financial Information:

(i) The Issuer hereby undertakes that it will deliver to the Bondholders' Representative, and also publish on the Issuer's web-site, within 120 days after the end of each of its financial years, copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied for the reporting period and together with the report of the Auditor thereon.

(ii) The Issuer hereby undertakes that it will deliver to the Bondholders' Representative, and also publish on the Issuer's web-site, within 60 days after the end of the second quarter of each of its financial years, copies of the Issuer's unaudited consolidated financial statements for six months, prepared in accordance with IFRS consistently applied for the reporting period.

(iii) If the Bondholders' Representative, acting reasonably, has cause to believe that an Event of Default or Potential Event of Default has occurred, then the Bondholders' Representative may request, and the Issuer shall provide to the Bondholders' Representative without delay, information that is directly relevant to the purported Event of Default or Potential Event of Default. Such information regarding an Event of Default or Potential Event of Default may also be requested by a written request of Bondholders (whether directly or through Nominal Holders) owning more than 25% of the outstanding Bonds, and in such event the Issuer shall provide the requested information without delay to the Bondholders' Representative and the Bondholders and Nominal Holders who have submitted the above written request. Such a request in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders and/or Nominal Holders. Such a request may also be adopted as an ordinary resolution at a meeting of bondholders.

(j) **Maintenance of Insurance:** The Issuer shall, and shall procure that its Material Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers, believed by the Issuer or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of similar character is usually so insured by companies in Georgia similarly situated and owning like properties

(k) **Compliance with Applicable Laws:** The Issuer will at all times comply, and shall procure that each of its Material Subsidiaries complies at all times, in all material respects with all provisions of applicable laws, including directives of governmental authorities and regulations.

(l) **Change of Business:** The Issuer shall procure that no material change is made to the general nature of the business of the Group, taken as a whole, from that carried on at the Issue Date.

(m) **Credit Rating:** The Issuer undertakes to maintain, at all times before the full repayment of the Bonds set forth in this Prospectus, credit ratings earned from the rating agencies endorsed by the National Bank in full force and effect. In addition, the Issuer shall notify the Bondholder's Representative about the updated ratings in the manner and form set forth in this Prospectus not later than 5 working days after receiving the rating.

6. Interest

Unless cancelled or redeemed prior to the Maturity Date pursuant to the terms of this Prospectus, each Bond shall bear the interest payable quarterly in arrears on 30 April 2019, 31 July 2019, 31 October 2019, 31 January 2020, 30 April 2020, 31 July 2020, 31 October 2020 and 1 February 2021 with the first interest payment to be made on 30 April 2019. Each date set for payment of interest in this Condition 6 is hereinafter referred to as an "**Interest Payment Date**".

Each Bond will bear an interest until the due date for redemption unless payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at the same rate until the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder.

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day–count fraction will be determined on the basis of a 365-day year.

The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

The rate of interest for each Interest Period shall be calculated by reference to the most recent NBG Monetary Policy (refinancing) Rate on the Interest Determination Date, with the premium in the scope of 400 basis points (as published by the NBG on the following link: http://www.nbg.ge/index.php?m=619&lng=eng) (see section "Terms and Conditions of the Bonds", Condition 6: Interest Rate and article "Change of the Credit Rating"). If the aforementioned rate is not posted/indicated on the above-mentioned link or the respective web site of NBG, then the interest rate on the bonds will be calculated at the rate that will be posted on the relevant link or web site indicated by the Calculation and Paying Agent.

If it is not possible to determine the rate of interest in accordance with the above paragraph, the rate for the next Interest Period shall be determined by the Calculation and Paying Agent in its sole discretion, acting in good faith and in a commercially reasonable manner.

"**Interest Determination Date**" means for any Interest Period, the day one Business Day before the first day of such Interest Period.

Change of Credit Rating

The coupon rate payable on the Bonds will be subject to adjustments upon downgrade of the Company rating by Fitch or S&P or Moody.

If the rating of the Company from any Rating Agency endorsed by the National Bank changes to therating set forth in the immediately following table, the coupon rate on the Bonds will increase/decrease from the coupon rate payable on the Bonds on the date of their issuance by the percentage set forth opposite to that rating:

Rating *	Percentage
BB-	-0.50% p.a.
B+	-0.25% p.a.
B	+0% p.a. (remains unchanged)
B-	+0.25% p.a.
Below B- / no rating	+0.75% p.a.

For avoidance of any doubt, in case the Company has rating obtained from two or more Rating Agencies listed herein above, the highest rating granted to the Company by either of them shall be taken into account for the purposes of calculating the increase of the coupon rate

7. Redemption and Purchase of Bonds

(a) Redemption: The Issuer may redeem the Bond(s) prior to their maturity for cancellation by offering to the Bondholder(s) payment of the outstanding principal amount together with accrued and unpaid interest to the date of redemption and upon securing consent of the Bondholder. The bonds shall be considered redeemed upon securing consent of the Bondholder in response to the offer. For avoidance of all doubts, waiver, acceptance or rejection of any such offer shall be considered as an absolute and unconditional discretion of the respective Bondholder (s). Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 1 February 2021. The Bonds may not be redeemed at the option of the Issuer other than as described in the Prospectus (including this Condition).

(b) Redemption for Taxation: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders and Nominal Holders who are registered at the Register (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Bondholders' Representative immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts of Tax related to the Bonds as a result of any change in, or amendment to, the laws or regulations of Georgia, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it

(c) **Purchase:** The Issuer and its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11(a).

8. Payments

(a) **Method of Payment:**

(i) The calculation of Principal and interest on each Bond shall be carried out 3 Business Days before (the "Calculation Date") the due date for payment. Payments shall be made by bank transfer in Georgian Lari to the bank account for such Bondholders and Nominal Holders as recorded in the Register on the Record Date. The Bondholders and Nominal Holders recorded in the Register shall procure that the Registrar has updated, complete and correct information regarding their respective bank account details where any payments pertaining to the Bonds shall be made. None of the Issuer, the Registrar nor the Calculation and Paying Agent shall be responsible for non-payment of any amount due if the Bondholder or Nominal Holder (as the case may be) has failed to provide its bank account details to the Registrar, or to update its bank account details as of the Record Date, as requested by the Issuer or the Registrar for its receipt of payments.

If NBG refinance rate changes during the period from Interest Determination Date to Interest Payment Date, the Issuer and the Calculation and Paying Agent shall have the right to recalculate interest amount 1 Business Day prior to the Record Date.

(ii) If the bank account of a Bondholder or Nominal Holder referred to in the previous paragraph is at any bank other than the Calculation and Paying Agent, then any bank transaction fees assessed on the payment (transfer) may be deducted from the payment. If the bank account of the Bondholder or Nominal Holder referred to in the previous paragraph is in any currency other than Georgian Lari, then the payment will be made to the Bondholder or Nominal Holder (as the case may be) net of currency conversion fees.

(iii) Without prejudice to the Bondholders' rights under these Terms and Conditions to receive full payments of interest and principal when due, if the amount of interest or principal being paid on any due date is less than the amount then due, then the Issuer shall pay or cause to be paid to all Bondholders their respective pro rata shares of the funds available for payment on such date

(iv) At the request of the Issuer and/or the Registrar, trading of the Bonds on the secondary market may be prohibited or restricted for the period starting from the Record Date and ending on the date when the relevant payment becomes due and payable

(b) **Appointment of Agents:** The Calculation and Paying Agent, Placement Agents and the Registrar and their respective specified offices are listed in "*Overview of the Offering*" as well as at the end of the Prospectus. The Calculation and Paying Agent, the Placement Agents, and the Registrar act solely as agents of the Issuer and for the purposes of this Prospectus and offering do not assume any obligation or relationship of agency or trust for or with any Bondholder or Nominal Holder. The Issuer reserves the right at any time with the approval of the Bondholders' Representative to vary or terminate the appointment of Calculation and Paying Agent, Placement Agents or the Registrar and to appoint additional or other Calculation and Paying Agent, Placement Agents or the Registrar, provided that the Issuer shall at all times maintain (i) a Calculation and Paying Agent, and (ii) a Registrar, in each case, as approved by the Bondholders' Representative.

Notice of any such change or any change of any specified office shall promptly be given to the Bondholders by announcement on the Issuer's web-site.

(c) **Calculation and Payment:** any payment to be made in relation to the Bonds (including interest) shall be calculated and paid in accordance with the terms of this Prospectus and Georgian law by the Calculation and Paying Agent. Furthermore, the amount(s) due as calculated by the Calculation and Paying Agent, except for manifest error, shall be binding on the Issuer. The Calculation and Paying Agent shall calculate the amounts at least 3 Business Days before the relevant payment date and notify the Issuer. At least 1 Business Day before the relevant payment date, the Issuer must place relevant funds in Georgian Lari on its bank account maintained with the Calculation and Paying Agent and instruct the latter to transfer such funds. If there are sufficient funds on the Issuer's account, the Calculation and Paying Agent is entitled, but not obliged, to transfer payments due on the Bonds without relevant instructions from the Issuer and in case the funds on the Issuer's account are not sufficient - notify the Issuer and Bondholders' Representative accordingly.

(d) Fiscal Laws : All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives of Georgia.

(e) Delay in Payment / Non-Business Days: The Bondholders will not be entitled to any interest, penalty or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Business Day. The due payment will be made on the following Business Day.

9. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made after deduction of any applicable Georgian withholding tax.

10. Events of default

If any of the following events ("**Events of Default**") occurs and is continuing the Bondholders' Representative at its discretion may, and if so directed by an Extraordinary Resolution shall (provided that the Bondholders' Representative shall have been indemnified to its satisfaction), give written notice to the Issuer that the Bonds are, and they shall immediately become due and payable at 100 per cent of their principal amount together (if applicable) with accrued interest:

(a) Non-Payment: the Issuer fails to pay the principal of, any interest or any other sum due on any of the Bonds or due pursuant to the Agreement when due and such failure to pay is not remedied within five Business Days of the due date for payment; or

(b) Breach of Other Obligations: the Issuer does not perform or comply with any one or more of its other obligations (other than those in Condition 10(a)) in the Prospectus or the Agreement which default is, in the opinion of the Bondholders' Representative (i) incapable of remedy and is material or repeated; or, (ii) is capable of remedy and it is not remedied within 30 calendar days after notice of such default shall have been given to the Issuer by the Bondholders' Representative; or

(c) Cross default (i) any other present or future Indebtedness of the Issuer or any Material Subsidiary for or in respect of moneys borrowed or raised becomes (or may become) due and payable prior to its stated maturity date by reason of any event of default (howsoever described), or (ii) any such Indebtedness is not paid when due, or (iii) the Issuer or any Material Subsidiary fails to pay when due any amount payable by it under any other present or future Indebtedness, provided that the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds 2 % of total consolidated assets (pursuant to IFRS); or

(d) Insolvency

(i) the occurrence of any of the following events: (i) initiating liquidation or insolvency proceedings towards the Issuer or any of its Material Subsidiaries; or (ii) filing of a claim by any Person in respect of the Issuer or any Material Subsidiary to initiate insolvency proceedings, where such claim is not dismissed within 60 days from the date of its filing; or (iii) entry into negotiations between the Issuer and its creditors for an out of court settlement of all or substantially all of the Issuer's debts; or (iv) commencement of liquidation proceedings in respect of the Issuer or any Material Subsidiary based on a decision of a court in a criminal case;

(ii) the Issuer or any Material Subsidiary fails or is unable to pay its debts generally as they become due; or

(iii) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer.

(e) Unsatisfied Judgments, Governmental or Court Actions:
the aggregate amount of unsatisfied final judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Issuer or any Material Subsidiary exceeds US$ 500,000 or the equivalent thereof in any other currency or currencies, or any such unsatisfied final judgment, decree or order results in (a) the management of the Issuer or any Material Subsidiary being wholly or partially displaced or the authority of the Issuer or any Material Subsidiary in the conduct of its business being wholly or partially curtailed, (b) all or a majority of the share capital of the Issuer or any Material Subsidiary or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets being seized, nationalised, expropriated or compulsorily acquired; or

(f) **Execution:** any execution is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, revenues or assets of the Issuer or any Material Subsidiary; or

(g) **Authorisations and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, decree, approval, authorisation, exemption, filing, licence, order, recording, registration or other authority) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its material rights and perform and comply with its payment obligations under the Bonds and the Agreement, its obligations under Condition 5 (*Covenants*) and its other material obligations under the Bonds and the Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds Prospectus, and the Agreement admissible in evidence in the courts of Georgia is not taken, fulfilled or done; or

(h) **Validity and Illegality:** the validity of the Bonds, Prospectus or the Agreement is contested by the Issuer or the Issuer denies any of its obligations under the Bonds, Prospectus or the Agreement or it is, or will become, unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds, Prospectus or the Agreement or any of such obligations becomes unenforceable or ceases to be legal, valid and binding.

The Issuer has undertaken in the Agreement that it will promptly upon becoming aware of the same inform the Bondholders' Representative of the occurrence of any Event of Default or event or circumstance that would, with the giving of notice, lapse of time and/or issue of a certificate, become an Event of Default (a "**Potential Event of Default**").

The Issuer has also undertaken in the Agreement that it shall within 14 days after the issuance of its annual audited financial statements, within 14 days after each Interest Payment Date and also within 14 days of any request by the Bondholders' Representative, send to the Bondholders' Representative a certificate of the Issuer signed by its General director (CEO) and its chief financial officer certifying that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as of the date of signing the certificate (the "**Certification Date**") no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Agreement or, if such an event had occurred, giving details of it.

11. Meeting of Bondholders, Modification and Waiver

(a) **Meeting of Bondholders:** The Agreement contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the resolutions passed at a meeting duly convened and held in accordance with this Prospectus and the Agreement by a majority of at least 75 per cent of the votes cast ("**Extraordinary Resolution**") of a modification of any of these Conditions or any provisions of the Agreement. Such a meeting may be convened by Bondholders (and/or Nominal Holders acting on their behalf) holding not less than 10 per cent in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the Bonds for the time being outstanding, or at any Adjourned Meeting - two or more persons being or representing more than 25% of the aggregate principal amount of the Bonds for the time being outstanding, or at any subsequent Adjourned Meeting - two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes, inter alia, consideration of the following proposals: (i) to change any date fixed for payment of principal or interest in respect of the Bonds; (ii) to alter the method of calculating the amount of any payment in respect of the Bonds; (iii) to change the amount of principal and interest payable in respect of the Bonds; (iv) to sanction the exchange or substitution for the Bonds of, or the conversion of the Bonds into, shares, bonds or other obligations or securities of the Issuer or any other entity; (v) to change the currency of payments under the Bonds (other than such change as may be required by applicable law); (vi) to change the quorum requirements relating to the Bondholders' meetings or the majority required to pass an Extraordinary Resolution; (vii) to alter the governing law of the Agreement; or, ((viii) without prejudice to the rights under Condition 12(b) (Modification and Waiver) below, change the definition of "Events of Default" under these Conditions, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any Adjourned Meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on the Bondholders (whether or not they were present at the meeting at which such resolution was passed).

A resolution in writing signed by or on behalf of the Bondholders who for the time being hold 75% or more of the outstanding Bonds will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification of the Agreeement and Waiver:** The Bondholders' Representative may agree with the Issuer, without the consent of the Bondholders, to (i) any modification to any of these Conditions or any of the provisions of the Agreement, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Prospectus and the Agreement or not being capable of modification under the applicable laws), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the these Conditions that is in the opinion of the Bondholders' Representative not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Bondholders' Representative so requires, such modification shall be notified to the Bondholders as soon as practicable pursuant to Condition 14.

(c) **Entitlement of the Bondholders' Representative:** In connection with the exercise of its functions the Bondholders' Representative shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Bondholders' Representative shall not be entitled to require, nor shall any Bondholder or Nominal Holder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

12. Enforcement

At any time after the Bonds become due and payable, the Bondholders' Representative may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Agreement and the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders and/or Nominal Holders holding at least one-quarter in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or pre-funded and/or secured to its satisfaction. No Bondholder or Nominal Holder may proceed directly against the Issuer unless the Bondholders' Representative, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing. For the avoidance of any doubt, any Bondholder may institute proceedings at the court (whether individually, or together with other Bondholders), if (i) at least 3 (three) months have passed since the date when payments on the Bonds became due and payable, (ii) the amount payable has not been paid by the Issuer in full, and (iii) no action has been taken by the Bondholders' Representative for any reason whatsoever..

13. Indemnification of Bondholder's Representative

The Agreement contains provisions for the indemnification of the Bondholders' Representative and for its relief from responsibility.

The Bondholders' Representative may rely, without liability to Bondholders or Nominal Holders, on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Bondholders' Representative or in any other manner) by reference to a monetary cap, methodology or otherwise.

14. Notices

Notices to the Bondholders from the Bondholders' Representative shall be made by publication in a widely-circulated Georgian newspaper (such newspaper to be chosen at the sole discretion of the Bondholder's Representative) and sent to the Issuer, Placement Agents and the Registrar. Notices to the Bondholders by the Issuer shall be made by publication in a widely-circulated newspaper approved by the Bondholders' Representative and/or on the Issuer's web-site, and sent to the Bondholders' Representative and the Registrar. The Issuer and/or the Bondholders' Representative may, if they consider it justified in the exercise of their sole discretion, mail notices to all Bondholders and Nominal Holders at their respective addresses in the Register, except that notice of any Adjourned Meeting shall be mailed in such manner to all Bondholders and/or Nominal Holders. In case of a published notice (including without limitation on the Issuer's web-site), any such notice shall be deemed to have been given on the date of publication or, if published more than once, on the first date on which publication is made.

15. Definitions

Unless the context shall require otherwise, the expressions used in these Conditions shall have the following meanings:

“Adjourned Meeting” means a meeting of the Bondholders which continues a prior meeting at which a quorum was not present for the conduct of business.

“Affiliate” of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a);

“**Bondholder**” means the registered owner (as such term is defined in the Securities Law) of a Bond.

“Business Day” means any day (other than a Saturday or Sunday) on which commercial banks settle payments and are open for general business (including in foreign exchange) in Tbilisi

“Fair Market Value” of a transaction means the value that would be obtained in an arm’s-length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A report of the Independent Appraiser of the Fair Market Value of a transaction may be relied upon by the Bondholders’ Representative without further enquiry or evidence

"Group" means the Issuer and its Subsidiaries, from time to time, taken as a whole.

“Control” as used in this definition, means the power to direct the management and the policies of the Issuer, whether through the ownership of share capital, by contract or otherwise

“IFRS” means International Financial Reporting Standards (formerly International Accounting Standards), issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

„**IFRS Fiscal Period**” means any fiscal period for which the Issuer has produced consolidated financial statements in accordance with IFRS, which have either been audited or reviewed by the Auditors

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto), excluding any letters of credit, guarantees, or other similar instruments issued in the ordinary course of its business;

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services;,

(e) all indebtedness of other Persons secured by Security Interests granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest annual financial statements (calculated in accordance with IFRS) of the Person granting the Security Interest) of such Person, whether or not such indebtedness is assumed by such Person,

(f) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person,

(g) any amount raised pursuant to any issue of securities which is expressed to be redeemable,

(h) net obligations under any currency or interest rate hedging agreements; and

(i) any amount raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing,

and the amount of indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation.

"**Independent Appraiser**" means an audit firm or third party expert in the matter to be selected by the Issuer and approved by the Bondholders' Representative, provided that such firm or third party appraiser is not an Affiliate of the Issuer;

"**Issue and Placement Date**" means the date when the Bonds are issued and placed, as indicated in "*Overview of the Offering*";

"**Material Subsidiary**" means any Subsidiary of the Issuer:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 5% per cent. of the consolidated revenues of the Group or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 5% per cent. of the total consolidated assets of the Group, determined by reference to the consolidated financial statements of the Issuer prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period; or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer was a Material Subsidiary.

"**Nominal Holder**" means the nominal holder of the securities, as such term is defined in the Securities Law.

"**Permitted Security Interests**" means:

(a) Security Interests in existence on the Issue Date;

(b) Security Interests granted by any Subsidiary in favour of the Issuer or any wholly-owned Subsidiary of the Issuer;;

(c) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Subsidiary of the Issuer or becomes a Subsidiary of the Issuer, provided that such Security Interests (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Issuer or any Subsidiary of the Issuer (other than those of the Person acquired and its Subsidiaries (if any));

(d) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Subsidiary of the Issuer, provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property;

(e) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition, provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property, transactional expenses and/or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(f) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its business for the purpose of netting debit and credit balances;

(g) any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest, are to be discharged solely from such assets or revenues, provided that the aggregate value of the assets or revenues (i) subject to such Security Interest when added to the aggregate value of assets or revenues (ii) subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Condition 5(d) (*Disposals*), does not, at any such time, exceed 25% per cent. of the Issuer's assets, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period ;

(h) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(i) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to interest rate and foreign currency hedging operations and under any agreement whereby the Security Interest is created upon the foreign currency funds held at the accounts of the Group at the financial institutions in connection with obtaining GEL denominated loans from such financial institution (GEL Loans), provided that the amount of foreign currency funds pledged to secure the Indebtedness under the GEL Loan, does not at any time exceed the outstanding Indebtedness under the GEL Loan which is secured by the foreign currency funds.

(j) any Security Interests arising by operation of law and in the ordinary course of business including tax and other non-consensual Security Interests; and;

(k) any Security Interests not otherwise permitted by the preceding paragraphs (a) to (j), inclusive, provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed the greater of US$ 45,000,000 or 50% per cent. of the total consolidated assets of the Group, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or any other entity, whether or not having separate legal personality;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes;

"**Restricted Payment**" has the meaning given to it in Condition 5(g);

"**Securities Law**" means the law of Georgia on Securities Market, adopted on 24 December 1998 as amended from time to time;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (a) whose affairs and policies the first Person directly or indirectly controls or (b) as to whom the first Person owns directly or indirectly more than 50 per cent. of the capital, voting share or other right of ownership;

"**Tax**" means any tax, levy, duty, impost or other charge or withholding of a similar nature, no matter where arising (including interest and penalties thereon and additions thereto) and no matter how levied or determined.

"Crystal Bonds" mean bonds issued by JSC Micro Finance Organization Crystal on 28 December, 2017, in an amount of GEL 10,000,000 (ten million). ISIN: GE2700603592

16. Governing Law and Jurisdiction

(a) Governing Law: The Prospectus and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, Georgian law.

(b) Jurisdiction: The courts of Georgia shall have exclusive jurisdiction in respect of any disputes which may arise out of or in connection with the Prospectus or the Bonds, (including any claim, dispute or difference regarding their issuance, existence, termination or validity or any non-contractual obligations arising out of or in connection with the Prospectus or the Bonds).

Taxation of the Bonds in Georgia

The following is a general description of certain material Georgian tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers as to acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and the consequences of such actions under the tax laws. This overview is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Bonds.

Withholding Tax on Interest

Pursuant to the Tax Code of Georgia, interest paid to Bondholders (whether they are individuals or legal entities, resident or non-resident) will be subject to withholding tax at the source of payment at the rate of 5%. Further, the above-mentioned interest taxed at source shall not be included by a recipient resident individual in his gross income. As to Georgian resident legal entities as well as permanent establishments of non-resident legal entities, they have the right to offset the amount of withholding tax paid on the interest.

Interest paid to Bondholders that are companies registered in countries having beneficial taxation systems and recognized as offshore jurisdictions by the Government of Georgia, will be subject to taxation at the rate of 15%.

The applicability of Georgian withholding tax on interest may be affected by a double tax treaty between Georgia and the country of residency of the non-resident Bondholder.

General overview: Taxation of sale of bonds

Pursuant to the Tax Code of Georgia, there will be no profit and income tax payable on the gain realized from the sale of Bonds if the Free Float Exemption applies. However, the practical availability of the Free Float Exemption is untested and there is no guarantee that such exemption will not be delayed or will be granted. Moreover, even if the Free Float Exemption is granted, it may be challenged by the tax authorities or may be lost if the 25% free float requirement is no longer met.

If the Free Float Exemption does not apply, the following tax liabilities may arise:

Taxation of sale of Bonds by Non-Resident Legal Entity Bondholders

If the Free Float Exemption does not apply, for non-resident legal entities the profit tax of 15% (the tax base being calculated after permitted deductions) will be assessed on the difference between the initial purchase and subsequent sale price. If such sale triggers a tax exposure, the selling non-resident entity will be under an obligation to properly report and pay such profit tax to the Georgian tax authorities, or if the sale is done through a Georgian brokerage company, such brokerage company will be responsible for withholding the applicable tax. The applicability of Georgian profit tax may be affected by a double tax treaty between Georgia and the country of residency of the selling entity.

Taxation of sale of Bonds by Non-Resident Individual Bondholders

If the Free Float Exemption does not apply, for non-resident individuals the income tax of 20% (the tax base being calculated after permitted deductions) will be assessed on the difference between the initial purchase and subsequent sale price. If such sale triggers a tax exposure, a relevant non-resident individual will be under an obligation to properly report and pay such income tax to the Georgian tax authorities, or if the sale is done through a Georgian brokerage company, such brokerage company will be responsible for withholding the applicable tax. The applicability of Georgian income tax may be affected by a double tax treaty between Georgia and the country of residency of the seller individual

Exemptions may be available to certain individual Bondholders if such individuals maintain ownership of Bonds for more than two calendar years and not use them in economic activity.

Taxation of sale of Bonds by Resident Legal Entity Bondholders

If the Free Float Exemption does not apply, Georgian resident legal entity will be liable to pay 15% profit tax upon the disposal of the Bonds. The profit tax base will be calculated as the difference between the acquisition and sale prices.

Taxation of sale of Bonds by Resident Individual Bondholders

If the Free Float Exemption does not apply, a Georgian resident individual Bondholder will have to pay income tax at 20% upon the disposal of the Bonds. The income tax will be assessed on the difference between the initial purchase and subsequent sale price. If the sale is done through a Georgian brokerage company, such brokerage company will be responsible for withholding the applicable tax.

Exemptions may be available to certain individual Bondholders if such individuals maintain ownership of Bonds for more than two calendar years and not use them in economic activity

Tax on Payment of Principal

The principal amount received by the Bondholders on redemption of the Bonds shall not be treated as their taxable income and, therefore, shall not be subject to taxation in Georgia to the extent that the redemption price at maturity does not exceed the original Issue Price.

Value Added Tax

Sales (supply) of the Bonds are exempt from Value Added Tax in Georgia.

General Information

1. The Company has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by the members of the Supervisory Board passed on 16 May 2018.

2. There has been no significant change in the financial or trading position of the Company and no material adverse change in the prospects of the Company since 31 December, 2017

3. In the previous 12 months, there have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had in the recent past, a significant effect on the Company's financial position or profitability.

4. Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the office of the Company:

   (a) The copy of this Prospectus together with any Supplement to this Prospectus or any further Prospectus;

   (b) The Agreement between the Issuer and Bondholders' Representative;

   (c) The audit report on the historical financial information of the Company set out in the annex to this Prospectus

5. Independent auditor of the Company has consented to the inclusion of their report in the annex of this Prospectus.

Information on the Issuer, Placement Agents, Bondholders' Representative, Registrar and Other Parties

Issuer

JSC Microfinance Organization Crystal
Kutaisi, Georgia
#72 Tamar Mepe Street

Placement Agent, Calculation and Paying Agent

JSC Galt & Taggart
79 D. Aghmashenebeli st, 0102,
Tbilisi, Georgia

Bondholders' Representative

LTD "Nodia, Urumashvili and Partners"
4th floor, office N28, N71 Vazha-Phshavela Avenue,
0186 Tbilisi, Georgia

Calculation and Paying Agent

JSC "Galt & Taggart"
0102 Tbilisi, Georgia
79 D. Aghmashenebeli Avenue

Registrar

„Kavkasreestri JSC" (211369115); address: 71 Vazha - Phshavela Avenue, Block 10, 7th floor, 0186 Tbilisi; Phone: (+995 32) 2 500 211; Contact person: Tamaz Khizanishvili; e-mail: tkhizanishvili@gse.ge

Auditor of consolidated financial statement

Deloitte and Touche LLC
36a Lado Asatiani Street
0105 Tbilisi
Georgia

Signed on behalf of JSC MFO Crystal:

Signatory

Name: Davit Bendeliani

Position: Director General

Signature:

Date:

Signed on behalf of JSC Galt &Taggart

Signatory

Name: Irakli Kirtava

Position: Director General

Signature:

Date: