JSC Microfinance Organization Crystal

Annual Report and Financial statements

For the year ended 31 December 2009

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

As and for the year ended 31 December 2009

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of JSC Microfinance Organization Crystal (hereinafter - the Organization).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Organization at 31 December 2009 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently
- Making judgments and estimates that are reasonable and prudent
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Organization will continue in business for the foreseeable future

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Organization
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Organization, and which enable them to ensure that the financial statements of the Organization comply with IFRS
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Organization operates
- Taking such steps as are reasonably available to them to safeguard the assets of the Organization, and
- Preventing and detecting fraud and other irregularities

The financial statements for the year ended 31 December 2009 were approved on behalf of the management on ____________________ 2010 by:

General Director ________________________________ M. Dzadzua

Financial Manager ________________________________ D. Bendeliani

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Independent Auditor's report

To the Shareholders of JSC Microfinance Organization Crystal

Report on the Financial Statements

We have audited the accompanying financial statements of JSC Microfinance Organization Crystal (hereinafter - the Organization), which comprise the balance sheet as at December 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO LLC, a Georgian Limited Liability Company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.
BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of JSC Microfinance Organization Crystal as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Zurab Lalazashvili

Managing Partner

26 February 2010

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JSC Microfinance Organization Crystal

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

(In GEL)

	Note	2009	2008
Assets			
Current assets			
Cash and cash equivalents	6	1,762,503	476,354
Gross loan portfolio	7	7,197,796	6,894,297
Loan loss allowance	7	(262,464)	(214,230)
Net loan portfolio	7	6,935,332	6,680,067
Interest receivable		131,622	146,808
Other current assets	8	8,466	49,341
		8,837,923	7,352,570
Non-current assets			
Intangible assets	9	94,051	29,793
Property, plant, equipment	9	493,749	315,699
Deferred tax asset	10	1,888	-
		589,688	345,492
		9,427,611	7,698,062
Liabilities and equity			
Current liabilities			
Accounts payable	11	29,818	19,670
Short-term loans		-	16,520
Current portion of long-term loan	12	4,861,779	1,140,228
Restricted revenue from received grants	13	41,132	-
Interest payable	14	61,982	76,673
Tax payable	15	53,503	97,000
		5,048,214	1,350,091
Non-current liabilities			
Long-term loans	12	2,056,675	4,307,459
Deferred tax liability	10	-	5,802
		2,056,675	4,313,261
Equity			
Statutory capital	16	1,530,898	1,530,898
Retained earnings		791,824	503,812
		2,322,722	2,034,710
		9,427,611	7,698,062

General Director ________________________ M. Dzadzua

Financial Manager ________________________ D. Bendeliani

Notes on pages 9-36 are the integral part of these financial statements.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2009

(In GEL)

	Note	2009	2008
Interest income	17	2,991,126	2,849,982
Financial service fee	17	230,670	145,172
Income from penalties	17	281,669	196,526
Other income	17	59,984	15,818
Interest expenses	18	(431,892)	(582,250)
Loan loss provision expenses		(48,234)	(108,668)
Loans written off expenses		(324,036)	12,615
Interest expense from written off loans		(58,282)	(5,228)
Gross profit		**2,701,005**	**2,523,967**
Administrative expenses	19	(761,034)	(530,292)
Salaries and bonuses		(1,089,722)	(1,094,824)
Depreciation and amortization		(166,678)	(118,658)
Other bad debt and written off losses		(76,767)	-
Tax expenses		(45,420)	(44,610)
Loss (income) from exchange rate difference		(11,896)	14,751
Other expenses		(20,320)	(24,774)
Profit from operations		**529,168**	**725,560**
Unrestricted revenue from received grants	13	191,128	-
Profit before income tax		**720,296**	**725,560**
Income tax expenses	20	(175,829)	(134,169)
Net profit		**544,467**	**591,391**
Total comprehensive income		**544,467**	**591,391**

General Director ________________________________ M. Dzadzua

Financial Manager ________________________________ D. Bendeliani

Notes on pages 9-36 are the integral part of these financial statements.

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2008

(In GEL)

	Statutory capital	Retained Earnings	Total
Balance at 31 December 2007	1,530,898	2,877	1,533,775
Paid dividends		(2,877)	(2,877)
Withdrawal by shareholders		(87,579)	(87,579)
Net profit		591,391	591,391
Balance at 31 December 2008	1,530,898	503,812	2,034,710
Paid dividends	-	(256,455)	(256,455)
Net profit	-	544,467	544,467
Balance at 31 December 2009	1,530,898	791,824	2,322,722

General Director ______________________________ M. Dzadzua

Financial Manager ______________________________ D. Bendeliani

Notes on pages 9-36 are the integral part of these financial statements.

JSC Microfinance Organization Crystal

CASH FLOW STATEMENT

For the year ended 31 December 2009

(In GEL)

	2009	2008
Cash flows from operating activities		
Income (loss) before taxation	720,296	725,560
Adjustments to:		
Depreciation and amortization	166,678	118,658
Loan loss allowance	48,234	108,668
Loans written off	324,036	(12,615)
Unrestricted revenue from received grants	(191,128)	-
Interest expenses	431,892	582,250
Exchange rate loss (income)	1,219	12,736
Operating cash flows before working capital changes	1,501,227	1,535,257
Decrease (Increase):		
Loan portfolio	(627,535)	671,741
Accounts payable	10,148	(89,876)
Advances and prepayments	-	(3,281)
Interest receivable	15,186	(39,184)
Other current assets	40,775	4,329
Taxes payable	(227,016)	(177,457)
Cash generated from operations	712,785	1,901,529
Paid interests	(446,583)	(554,759)
Paid dividends	(256,456)	(90,456)
Net cash provided from operating activities	9,746	1,256,314
Cash flows from investing activities		
Purchase of property, plant and equipment	(330,133)	(113,107)
Purchase of intangible assets	(79,970)	(7,872)
Disposal of investment in other Organizations equity	-	39,690
Net cash used in investing activities	(410,103)	(81,289)
Cash flows from financial activities		
Redemption of short-term loans	(16,520)	(1,179,935)
Redemption of long-term loans	(1,753,937)	267,134
Proceeds from long-term loans	3,224,703	-
Received grants	232,260	-
Net cash used in financing activities	1,686,506	(912,801)
Net increase/decrease in cash and cash equivalents	1,286,149	262,224
Cash and cash equivalents at the beginning of the year	476,354	214,130
Cash and cash equivalents at the end of the year	1,762,503	476,354

General Director _______________________________ M. Dzadzua

Financial Manager _______________________________ D. Bendeliani

Notes on pages 10-36 are the integral part of these financial statements.

1. General information

JSC Microfinance Organization Crystal (JSC MFO Crystal) was founded on August 23, 2007 on the basis of the decision of the Crystal Fund (Board's Resolution #20, August 21, 2007) according to the Georgian Law on Microfinance Organizations dated July 18, 2006. Organization's statutory capital is 1,530,898 GEL.

Statutory capital is divided into 1,530,898 ordinary shares with principal value of 1 GEL. Each Ordinary share entitles one vote to its owner at the General Meeting of Shareholders of the Joint Stock Organization. The legal address of the Organization is: # 72 Tamar Mepe St. Kutaisi, Georgia.

The supreme governing body of the Organization is the General Meeting of Shareholders. A supervision of the Organization's operations is conducted by the Board, members of which are appointed by the General Meeting of Shareholders. Daily management of the Organization is carried out by the Director General appointed by the Supervisory Board.

The Organization objects are to support and develop micro, small and medium businesses in Georgia, to improve the social and economic conditions of clients by providing them with accessible financial services.

The main activity of the "Crystal" is micro lending. The Organization's financial products are: individual business loans, agro-business loans, group loans, consumer loans, housing loans and long-term credit lines.

Organization has a head office (Kutaisi), four regional branches (Kutaisi, Zugdidi, Poti, Tbilisi) and nine service centers (Kutaisi, Ozurgeti, Samtredia, Senaki, Khoni, Mestia, Chkhorotsku, Lanchkhuti, Tsalendzhikha).

2. Adoption of new IFRSs

Standards and amendments to existing standards effective 1 January 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity.

  All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Organization has applied IAS 1 (revised) from 1 January 2009, and has elected to present solely a statement of comprehensive income. The adoption of this revised standard has not resulted in a significant change to the presentation of the Organization's performance statement, as the Organization has no elements of other comprehensive income.

- IFRS 7 (amendment) 'Financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the Organization's financial position or performance.

Standards, amendments and interpretations effective on 1 January 2009 but not relevant:

- IAS 23 (amendment), 'Borrowing costs'
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'
- IAS 39 and IFRIC 9 (amendments), 'Embedded derivatives' (effective for all periods ending on or after 30 June 2009)
- IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements
- IAS 39 and IFRS 7 (amendments), 'Reclassification of financial assets'
- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 July 2009)
- IFRS 1 (amendment), 'First-time adoption of IFRS', and IAS 27, 'Consolidated and separate financial statements'
- IFRS 2 (amendment), 'Share-based payment'
- IFRS 8, 'Operating segments'1; and
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009)
- IFRIC 15, 'Agreements for construction of real estates'
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009); and
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009)

Standards, amendments and interpretations that are not effective on 1 January 2009 and are not relevant for Organization:

- IFRS 1 (amendments), 'Additional exemptions for first-time adopters' (effective from 1 January 2010)
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010)

'Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

3. Critical accounting estimates and judgments

The Organization makes certain estimates and assumptions regarding the future. Estimates and

judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Income taxes.** During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Organization recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Organization's belief that its tax return positions are supportable, the Organization believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result Organization minimizes the risks related to this fact. The Organization believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.
- **Useful lives of intangible assets and property, plant and equipment**. Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.
- **Legal proceedings**. In accordance with IFRSs the Organization only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Organization's financial position. Application of these accounting principles to legal cases requires the Organization's management to make determinations about various factual and legal matters beyond its control. The Organization reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Organization's management as to how it will respond to the litigation, claim or assessment.

4. Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"), and are in accordance with IFRS as issued by the IASB.

The Organization keeps its books and records in Georgian lary in accordance with the requirements to the accounting in Georgia. The aforesaid financial statements are prepared on the basis of the Organization's accounting records, which are respectively adjusted and re-classified for the reliable presentation in accordance with IFRS.

The financial statements have been prepared on the historical cost basis. The reporting period for the Organization is the calendar year from January 1 to December 31.

Measurement and Presentation Currencies

Standing Interpretation Committee (hereinafter - SIC) included into the International Financial Reporting Standards Committee has accepted the interpretation SIC-19 "Reporting currency: measurement and presentation of financial statements under IAS-21 and IAS-29". This interpretation determines that measurement currency should provide information about the entity that is useful and reflects the economic substance of the underlying events and circumstances relevant to the entity. When certain currency is used to a significant extent in, or has a significant impact on, the entity, it is appropriate to use it as the measurement currency.

During its operating activities the Organization uses Georgian lary as a functional currency that has a significant impact on the Organization's transactions. As such, the Organization uses Georgian lary as the measurement currency for these financial statements.

Transactions in currencies different from the measurement currency are considered as foreign currency transactions and should be accounted in accordance with the requirement of IAS–21 "Effects of changes in foreign exchange rates".

Effect of hyperinflation

IAS–29 "Financial reporting in hyperinflation economies" does not establish the absolute criteria for definition of hyperinflation economy. One of such criteria is when the cumulative inflation index achieves the level of 100% for last three years. Georgian inflation indexes for the last years are presented in the table below:

Period	*Inflation index, %*
2005	6,20
2006	9,18
2007	9,25
2008	10,00
2009	9,00

The decision as to recalculation of the financial statements under IAS–29 is taken by the Organization's management. The Organization does not consider Georgian economy to be of hyperinflation nature and does not adjust its financial statements to the degree of change in consumer prices as at the date of its preparation.

Foreign Currencies Conversion

Assets and liabilities denominated in foreign currencies are subject to recalculation under the official exchange rates established by the National Bank of Georgia at the year-end. Exchange rate adjustments originating due to the converting are reported in the Income statement. Results denominated in foreign currencies are recalculated under the exchange rates at the date of

transaction.

	Official rate of the National Bank of Georgia		
	USD	***EUR***	***GBP***
Exchange rate as at 31.12.08	1,6670	2,3640	2,4240
Exchange rate as at 31.12.09	1,6858	2,4195	2,6735
Average exchange rate for 2008	1,4902	2,1886	2,7566
Average exchange rate for 2009	1,6705	2,3305	2,6143

Financial Instruments

Financial instruments recognized in the Organization's balance sheet include loans and receivables, cash and cash equivalents, borrowings, and other payables. Financial instruments are initially measured at fair value plus transaction costs, in the case of a financial asset or financial liability being not measured at fair value through profit and loss. Financial instruments are recognized in the balance sheet, when the Organization has become a party to the contractual arrangement of the instrument.

A financial instrument or a portion of a financial instrument is derecognized, when the Organization loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability and the amount paid or payable is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the entity upon initial recognition designates as available for sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

The Organization recognizes a financial asset in its statement of financial position when, and only when, the it becomes a party to the contractual provisions of the instrument; and derecognizes a financial asset when and only when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition.

After initial recognition, loans and receivables originated by the Organization are measured at amortized cost using the effective interest method less any provision for impairment or uncollectability.

For loans and receivables carried at amortized cost, a gain or loss is recognized in profit or loss when the loans and receivables are derecognized or impaired, and through the amortization process.

Loan loss allowances

The Organization assesses at the end of each reporting period whether there is any objective evidence that a loans and receivables are impaired. If any such evidence exists, the Organization determines the

amount of any impairment loss. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The loan loss allowance in the balance sheet represents an estimate of possible loan losses based on the CGAP (Consultative Group to Assist the Poor) standards, which is one of the best in micro finance industry worldwide, as well as the historic analysis of loan losses conducted by the Organization's management.

Management provisions for loan losses on a monthly, quarterly and annual basis to maintain an adequate allowance for doubtful loans. The allowance for loan loss is determined by applying predicted loss percentages to aged loans, grouped by lateness of payments. A loan becomes late as soon as a scheduled installment is missed. The predicted loss percentages are based on management's analysis of historical outcomes of late loans.

Percentage for loan loss allowance is as follows:

	Provisions rate
Net portfolio	1%
Deferred loans	25%
overdue	
1-30 days	25%
31-90 days	50%
91-180 days	75%
181 days and more	100%

The provisioning percentage is applied to the entire outstanding balance of the loans in each category, not just to the amount of the late payments.

Loans write-off policy

JSC MFO „Crystal" writes off loans only in the following cases:

- Owner of business dies and business stops functioning.
- Court receives appropriate decision.
- Delinquent loans for more then 180 days.

Write-offs are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

Renegotiation of delinquent loans

Renegotiation of delinquent loans is regulated by the Crystal's Loan Methodology. Under special procedures applied, it is possible to make prolongation of loans within the repayment schedule (mainly before next payment). Any type of loan restructuring and refinancing is forbidden.

Prolonged loans are accounted in organization's monthly program and financial accounts as a separate figure and the amount influences credit officers' bonus and organization's loan reserves.

Insider loans

From October of 2005 "Crystal" started issuing loans to "insiders". Insider loans are made according to policy which strictly defines the limit of borrowing:

Loan amount	% (Declining)	Period	Working experience	Minimal collateral
200 - 1,500 GEL	24%	4-12 Months	Not less than 6 months	Immovable property
1,501 - 3,000 GEL	22%	4-15 Months	Not less than 12 months	1 guarantor + immovable property
3,001 - 5,000 GEL	20%	5-18 Months	Not less than 18 months	2 guarantor + immovable property
5,001 - 10,000 GEL	18%	6-24 Months	Not less than 24 months	1 grantor + mortgage

Other terms and conditions for loan issue to insiders

- No commission charges when loans are taken by insiders
- Only current period interest accrual in case of prepayments from insiders
- Standard penalties for payment delays
- In case of prepayments, the following loans are granted to insiders only after 50% of time passed of previous loan time schedule
- Loans are granted to insiders only for personal purposes; Loans issue for business and third-party transfer purposes for insiders are forbidden

Interest accrual on overdue loans

Interest income on loans is collected with monthly loan repayments. Due but unpaid interest is accrued on late loans for up to 180 days. After 180 days, late loans are classified as nonperforming and further accrual of unpaid interest income ceases. Accrued interest on nonperforming loans, including written-off loans, is reversed out of income on an ongoing basis.

Loan portfolio quality

The MFO's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the allowance for loan loss).

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid.

	Outstanding principal balance - as at 31 December 2009		
	Outstanding loans	Portfolio at risk	Number of clients
Normal loans			
Current	-	6,957,539	4,416
1-30 days late	11,016	53,555	39
31-60 days late	6,884	25,924	14
61-90 days late	7,127	13,025	9
91-180 days late	45,639	111,643	37
More than 180 days late	30,878	36,110	19
Total	**101,544**	**7,197,796**	**4,534**

	Outstanding principal balance - as at 31 December 2009		
	Outstanding loans (%)	Portfolio at risk (%)	Number of clients (%)
Normal loans			
Current	0.00%	96.66%	97.40%
1-30 days late	0.15%	0.74%	0.86%
31-60 days late	0.10%	0.36%	0.31%
61-90 days late	0.10%	0.18%	0.20%
91-180 days late	0.63%	1.55%	0.82%
More than 180 days late	0.43%	0.50%	0.42%
Total	**1.41%**	**100.00%**	**100.00%**

Cash and cash equivalents

Cash and cash equivalents include cash with bank accounts and demand deposits with banks.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Organization has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense in the period in which they are incurred.

Share capital

Financial instruments issued by the Organization are treated as equity only to the extent that they do not meet the definition of a financial liability. The Organization ordinary shares are classified as equity instruments.

Accounts payable

Accounts payable are given in cost value representing the amounts to be reimbursed for received goods and services.

Payables with maturity date longer than a year are shown as long term payables.

Received grants

Grants received are recorded as restricted revenue (deferred revenue) and an amount equal to the period's loan issue from the grant funds (which should be in accordance with grant agreement terms) is transferred to income as unrestricted revenue.

Income recognition

Revenues are recognized in the income statement if the gross inflow of economic benefits during the period arises in the course of the ordinary activities of the Organization and when those inflows result in increases in equity, other than increases relating to contributions from equity participants and can be measured reliably.

Revenue consists of loan interest, fees for loan services (revenue from financial service), penalties and other revenue.

Depending on the type and the amount of loan the Interest rates can be fixed (flat) or declining from 18% to 36% per annum.

Interest of loan accrued daily by the loan accounting software and automatically transacted to accounting software.

The interest is calculated according to the loan repayment schedule, which is individually agreed for each loan.

Interest income, penalties, fees on loan disbursement, exchange rate gains and other income are accounted on the accrual basis.

Recognition of expenses

The Organization incurs business expenses in the course of its normal operations, as well as other expenses not related to the main activity of the Organization.

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the income statement on the basis of direct comparison of expenses incurred and income on certain items.

If economic profit is expected to arise during several reporting periods and association with income can be traced only as a whole or indirectly, expenses in the income statement are recognized based on the method of rational distribution.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Interest expenses

Interest expenses for borrowings are recognized in the income statement using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Organization estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fixed and Intangible Assets

An item of property, plant and equipment that qualifies for recognition as an asset are measured at its cost.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item.

After recognition as an asset, an item of property, plant and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is accrued by equal parts during the term of property, plant and equipment useful life not including the expected residual value.

The Organization's intangible assets are represented by software. Intangible assets are recorded at their cost value net of accumulated amortization.

Amortization is accrued by equal parts during the term of the intangible assets useful life.

Below are the rates applied for fixed and intangible assets depreciation/amortization by categories:

Group	***%***
Buildings	4% per annum straight line
Vehicles	20% per annum straight line
Furniture and equipments	33% per annum straight line
Office equipments	33% per annum straight line
Intangible assets	10%, 17%, 20%, 30% per annum straight line

Impairment of Assets

The Organization's accompanying financial statements reflect the effect of the requirements of IAS 36 "Impairment of assets" in force for the reporting periods starting from January 1, 2005 and after this date. The above standard stipulates that the cost of fixed assets and intangibles should be revised when indications of possible impairment of the asset cost exist.

According to the requirements of IAS 36 the asset cost should be calculated as the higher of the net selling price or profitability of the asset use. The net selling price is the amount obtainable from the sale of an asset to non-related parties in an arm's length transaction less direct sales expenses. Profit from an asset use is the current value of expected cash flows from an asset use during its useful life and its disposal.

The above standard stipulates that during determination of an asset use profitability the Organization should apply expected cash flows which should reflect current state of an asset and present qualitative estimation made by the management regarding the totality of economic conditions existed during remaining useful life of an asset. Expected cash flows should be discounted at the rate that reflects current market assessments of the value of money in time and risks associated with the asset.

Deferred taxation

Current costs related to the payment of the Organization's operating activity tax are calculated in accordance with the Georgian tax legislation.

For financial reporting purposes current income tax expenses are adjusted for deferred taxes amounts originating due to temporary differences between the carrying amounts of assets and liabilities and their value accounted for taxation purposes. These adjustments result in reflection of the deferred tax assets or deferred tax liabilities.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Post balance-sheet events

Post-balance sheet events and events before the date of financial statements authorization for issue that provide additional information about the Organization's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Organization at the balance sheet date are disclosed in the notes to the financial statements when material.

5. Financial instruments – risk management

The Organization is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign exchange risk
- Other market price risk

In common with all other businesses, the Organization is exposed to risks that arise from its use of financial instruments. This note describes the Organization's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Organization, from which financial instrument risk arises, are as follows:

- Cash at bank
- Issued loans portfolio (with fixed-rate)
- Interest receivable
- Other receivables
- Received loans (with floating-rate)
- Received loans (with fixed-rate)
- Trade and other payables

General objectives, policies and processes

The Board has overall responsibility for the determination of the Organisation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organization's finance function.

The Board and appropriate committees receive monthly reports from the Organization Managers through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Organisation's internal auditor also reviews the risk management policies and processes and reports their findings to the management. Generally, there are discussed identified risks and recommendations about the improvement of the operational and other risk management.

The overall objective of the Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Organization's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit Risk

Credit risk is the risk of financial loss if a borrower or counterparty fails to repay the loan.

The main business of the Joint Stock Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organisations (MFO) risk management. The Organization is exposed to the credit risk when the borrower of a financial instrument fails to meet its contractual obligations. To avoid significant financial damage caused by this the Organization uses various methods to identify and manage effectively the credit risks.

Basing on the experience the Organisation uses the established credit policy which gives the following basic stages of credit risk management:

- Tasks of the Credit committee
- Monitoring of the issued loans
- Ways of working on the delinquent loans.

Credit Committee is the analytical body responsible for analyzing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Committee is the only independent body with MFO authorized to make the final decision about financing or rejecting the loan application.

Credit Committee members are basically from the Risk and Credit Departments. The Committee is headed by the risk manager. According to the policy, number of members on the committee depends on the type and size of the loan applied for, e.g. consumer loans under GEL 1,000 are approved locally by the smaller branch committee and in this case the Risk Department is not the decision maker. The General Director participates in the review of loan applications exceeding USD 10,000.

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant’s business and its credit risks. Eventually the Committee members assess the application against the established criteria (applicant’s credit history, financial condition, competitive ability, etc.) with maximum 100 points and if the application collects more than 60 points, the application is deemed approved.

Reduction of the credit risk is also possible through securing the loan with real estate or other material values.

Assessment of the applicant’s creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the

results to the management. The organisation does not maintain the strictly determined time-schedule for monitoring.

All parts of the repayable principle which have not been paid by the borrower according to the determined time-schedule or were paid partially are deemed by the Organisation as delayed loan.

The credit officer is first of all responsible to respond to the single-day delay in repayment. The management analyses the delayed loans and controls the proceedings with similar loans on monthly basis. To improve the quality of credit portfolio the management determines the existing credit risk limits per industries and other segments. Such limits are subject to regular review and are often updated in due course.

The delayed loans are classified per days delayed and are reserved for purpose of spreading the credit risk effect over the periods according to the reserve policy. In 2008 loan loss provision expenses have increased by 5%, hence the increase in delayed credits. The Organisation management decided to reserve the normal loan portfolio at 1,5% rate instead of 1%. Therefore we are able to state that the Organisation responds timely and adequately towards neutralizing the risk caused by change in the loan portfolio.

To neutralize credit risks relating to deposits, the Organisation has allocated the whole owned deposits in two separate banks – in case any of the serving banks faces the difficulties with meeting the contractual obligations, the Organisation will not be exposed to the total financial loss.

The Joint Stock Company aims to help reduction of poverty through supporting the micro, small and medium businesses in Georgia. The target market segment for the Organisation owns the relatively low ration of creditworthiness. To neutralise the general credit risk, the Organisation has established higher interest rates than those of bank products.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Organization's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk):

Interest Rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. JSC MFO Crystal gives all credits at fixed interest rate and respectively is never exposed to the risk of losing even small part of the interest receivables due to the market interest rate fall.

Although the Organisation has a current credit from Deutsche Bank which linked to LIBOR. The Organisation regularly controls the LIBOR changes and accounts for the credit related operations in due course. During the recent years LIBOR is reducing and the Organisation has not yet been exposed to any risks in this regard. No other interest rate risk hedging transactions are executed by Organizaton, but the process of introducing the methods for neutralizing such risks is now under consideration.

Foreign Exchange Risk

Foreign exchange risk arises through changing the value of the currency against the other currency. From 2009 the Organisation takes and gives loans both in operating currency and US dollars, so the exchange rate risk plays vital role in determining the financial risks of the Organization. However, the fact that the Organisation receives and gives loans are mostly in the same currency helps to reduce the exchange rate risk.

Management meetings are a monthly event where the exchange rate misbalance elimination tools and options are discussed, also the preferred currency for current period loans are determined. The Organisation has established the policy which specifies reserving the existing cash funds in US dollars.

As at 31 December 2009 the Organisation's financial assets and financial liabilities were denominated in the following currencies:

	USD	EUR	Total
Financial assets			
Cash and cash equivalents	1,455,401	51,322	1,506,723
Loan portfolio	5,263,375		5,263,375
Interest receivable	90,760		90,760
Total financial assets	6,809,536	51,322	6,860,859
Financial liabilities			
Loans and borrowings	4,103,958		4,103,958
Interest payable	29,529		29,529
Other payables	(2,148)	8,050	5,902
Total financial liabilities	4,131,339	8,050	4,139,389

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulties in meeting its financial obligations as they fall due. The providence tool of liquidity risk is to ensure that Organization will always have sufficient cash and credit recourses to allow it to meet the market demand.

In 2009 the Assets and Liabilities Committee (ALCO) has established in the Organization to manage its assets and liabilities and analyze related risks. Management of liabilities is emphasized; the Organization prepares forecasts and budgets, including timeframe and issues relating to operations in foreign currencies.

The following table sets out the contractual maturities of financial liabilities:

	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2009						
Trade and other payables	76,922	47,531	-	-	-	124,454
Loans and borrowings	211,288	4,987,649	337,160	632,175	750,181	6,918,453
Interest payable	60,212	1,770	-	-	-	61,982
Total	348,422	5,036,950	337,160	632,175	750,181	7,104,889

Capital disclosures

The Organization's objectives when maintaining capital are:

- To safeguard the Organization's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Organization sets the amount of capital it requires in proportion to risk. The Organization manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Organization may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December can be presented as follows:

	2009	2008
Cash and Bank	748,280	142,689
Georgian Lary	255,779	71,393
Other currencies	492,501	71,296
Deposits		
Georgian Lary	-	-
Other currencies	1,014,223	333,665
	1,762,503	476,354

Deposits

Deposits include:

	2009	2008
TBC Bank	842,900	166,700
Republic Bank	171,323	166,965
	1,014,223	333,665

Main parts of the deposits are demand deposits with banks.

The Organization creates cash funds reserve at an amount USD 200,000 according to the Board desicion in 2009. The part of this amount – USD 100,000 is deposited on TBC Bank account at 6-7% interest rate per annum. The second part is deposited on Republic Bank account at 5% interest rate per annum. These funds cannot be used for collateral purposes for any organizational liabilities.

7. Loan portfolio

Loan portfolio as at December 31 can be presented as follows:

	2009		2008	
Loan type	Amount	Share of Total	Amount	Share of Total
Standard micro-loans	185,149	2.57%	343,849	4.99%
Express micro-loans	2,500,298	34.74%	1,995,219	28.94%
Agro-Business Loans	884,447	12.29%	573,495	8.32%
Special micro-loans	268,807	3.73%	622,161	9.02%
Consumer-loans	949,546	13.19%	851,325	12.35%
Repair loans	521,081	7.24%	1,075,490	15.60%
Educational loans	70,816	0.98%	25,644	0.37%
Car purchase	11,835	0.16%	89,229	1.29%
Pawnshop	73,086	1.02%	-	-
Universal loans	1,143,533	15.89%	551,454	8.00%
Insiders loans	190,973	2.65%	246,912	3.58%
Group loans	18,029	0.25%	10,724	0.16%
Credit Line	225,778	3.14%	205,766	2.98%
Mortgage loans	154,418	2.15%	303,029	4.40%
Total Loan Portfolio	**7,197,796**	**100%**	**6,894,297**	**100%**
	-		-	
Loan loss reserve	(262,464)	(3.65%)	(214,230)	(3.11%)
Net Loan Portfolio	**6,935,332**	**96.35%**	**6,680,067**	**96.89%**

Calculation of Allowance for loan loss in 2009 is as follows:

	Outstanding loan portfolio (principal)		Allowance for loan loss	
	Amount	Share of Total	Percent	Amount
Normal Loans				
Current	6,934,582	96.3%	1.5%	104,019
1-30 days late	53,555	0.7%	25%	13,389
31-60 days late	25,924	0.4%	50%	12,962
61-90 days late	13,025	0.2%	50%	6,513
91-180 days late	111,643	1.6%	75%	83,732
More than 180 days	36,110	0.5%	100%	36,110
Delayed Loans	22,957	0.3%	25%	5,739
Total	**7,197,796**	**100.0%**		**262,464**

Movements in loan loss allowance

	2009	2008
Loan loss allowance, 1 January	214,230	105,562
Loan loss provision expense	372,270	96,053
Loans written off expenses	(324,036)	12,615
Loan loss allowance, 31 December	262,464	214,230

Information about collateral of loans granted at 31 December 2009 is as follows:

	2009	2008
Loans collateralized by:		
Real estate	1,639,891	1,858,601
Inventory and equipment	8,445,627	8,040,654
Gold	657,411	811,828
Other assets	1,259,800	880,445
Total	12,002,729	11,591,528

8. Other current assets

Other current assets as at December 31 can be presented as follows:

	2009	2008
Other receivables	53,348	49,341
Property tax	6,344	-
Bad dept provision	(51,226)	-
	8,466	49,341

9. Fixed assets, intangible assets

Fixed and intangible assets as at December 31 can be presented as follows:

Historical cost	Buildings	Vehicles	Furniture	Computers	Property improvement	Other fixed assets	Intangible assets	Total
As at December 31, 2008	118,090	26,811	45,019	182,677	58,347	71,486	50,663	553,093
Inflows	-	77,335	21,567	35,041	99,918	96,272	79,971	410,104
Outflows	-	(6,390)	(17,249)	(48,518)	-	(19,970)	(2,521)	(94,648)
As at December 31, 2009	118,090	97,756	49,337	169,200	158,265	147,788	128,113	868,549
Depreciation								
As at December 31, 2008	13,129	12,673	21,417	97,540	11,379	30,593	20,870	207,601
Accrued for the year	4,725	11,532	17,039	52,072	25,889	39,653	15,768	166,678
Accumulated depreciation of disposed fixed assets	-	(3,652)	(17,039)	(51,285)	-	(18,978)	(2,576)	(93,530)
As at December 31, 2009	17,854	20,553	21,417	98,327	37,268	51,268	34,062	280,749
Net book value								
As at December 31, 2008	104,961	14,138	23,602	85,137	46,968	40,893	29,793	345,492
As at December 31, 2009	100,236	77,203	27,920	70,873	120,997	96,520	94,051	587,800

10. Deferred tax asset

Recognized assets subject to deferred taxation as at December 31 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2008	2008	2008	2008	2008
Property plant and equipment	-	(5,986)	(5,986)	(7,335)	-
Intangible assets	184	-	184	(688)	-
Other assets	-	-	-	534	-
Tax asset/(liabilities)	184	(5,986)	(5,802)	-	-
Set off of tax	(184)	184	–	–	-
Net tax assets/(liabilities)	**-**	**(5,802)**	**(5,802)**	**(7,489)**	**-**

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2009	2009	2009	2009	2009
Property plant and equipment		(4,326)	(4,326)	1,660	-
Intangible assets	44	-	44	(140)	-
Restricted revenue	6,170	-	6,170	6,170	-
Tax asset/(liabilities)	6,214	(4,326)	1,888	-	-
Set off of tax	(4,326)	4,326	–	–	-
Net tax assets/(liabilities)	**1,888**	**-**	**1,888**	**7,690**	**-**

	2009	2008
At 1 January	**(5,802)**	**1,687**
Recognized in profit and loss	-	-
Tax income (expense)	7,690	(7,489)
Recognized in other comprehensive income	-	-
At 31 December	**1,888**	**(5,802)**

In 2009 the error made in calculation of the deferred tax asset for the past periods was subjected to correction - at the beginning and end of the year 2008 the deferred tax asset comprised GEL 89,266 and GEL 107,113 respectively. Calculation of these assets was incorrect and the error was caused by the loan loss charges included in the temporary differences between the tax and financial bases that in fact is a permanent difference.

The Tax Code of Georgia does not entitle the Organisation to deduct from the gross income (respectively include in the expenses) the doubtful debts not related to the sales made or services

rendered in the past periods. Considering that the loans given by the Organisation do not qualify as supply of goods or services, from the tax point of view the Organisation will not be able to recognize the loan principles as bad debts, because they were not included in the Organisation's gross income for the past periods. Respectively the difference between the tax and financial bases will never even out and is going to remain permanent, not temporary.

Although it must be mentioned that Georgian legislation allows exception for the banking institutions with letting them recognize the unrecoverable loans as bad debts even from tax point of view. As far as the micro financing entities are concerned they are not entitled to such allowances. This inconsistency is currently under consideration towards establishing the same allowance for micro financing entities so that they would be able to recognize unrecoverable loans as expenses. However, no draft project has yet been introduced in this regard.

11. Accounts payable

Accounts payable as at December 31 can be presented as follows:

	2009	2008
Trade payables	19,477	10,525
Uncertain amounts	10,341	9,145
	29,818	**19,670**

12. Received loans

Received loans as at December 31 can be presented as follows:

Long-term loan	Rate	2009	2008
Cordaid	6%	-	139,959
Deutche Bank	LIBOR+5%	-	3,334,000
Pettelaar	11%	-	833,500
Symbiotics	11%	337,160	-
TBC Bank	15%	337,159	-
IFAD	LIBOR+2%	1,382,356	-
		2,056,675	**4,307,459**

Current portion of long-term loan	Rate	2009	2008
Cordaid	6%	141,537	140,028
Deutche Bank	LIBOR+5%	3,371,600	-
Pettelaar	11%	842,900	-
Oikocredit	12%	-	166,700
Symbiotics	11%	337,160	833,500
TBC Bank	15%	168,582	-
		4,861,779	**1,140,228**

13. Restricted and unrestricted revenues from received grants

On July 2009 Micro-Capital Grant Agreement formed between JSC MFO Crystal and United Nations Development Programme – Georgia, to implement the project for increasing access to finance for micro businesses in the conflict affected regions purposes. The total amount of the project was up to USD 143,000. The duration of project is 2 July, 2009 to 30 June, 2010.

Grant was received for special purposes:

- All loans disbursed must support the populations residing and operating in the Shida Kartli and/or Mtskheta – Mtianeti and/or Samegrelo – Zemo Svaneti regions of Georgia
- All loans disbursed must support income generation activities in the following three industries:
  - Agriculture
  - Service
  - Trade
- All loans disbursed must support activities not prohibited by Georgian legislation
- A minimum of 50% of all loans disbursed must support the agricultural sector
- A minimum of 45% of all loans disbursed must support women entrepreneurs
- A minimum of 10 loans disbursed must support start-up enterprises (e.g., an enterprise that exists from zero to three months) and, when feasible, priority should be given to internally displaced persons and resettled persons
- A minimum of 75% of all loans disbursed must be to the populations residing and operating in rural communities
- A minimum of 75% of all loans disbursed must not exceed the Georgian lari (GEL) equivalent of USD 1,500.00 per household
- A maximum of 25% of all loans disbursed must not exceed the Georgian lari (GEL) equivalent of USD 3,000.00 per household.

According to the Agreement between parties, funds for on-lending supplied by UNDP to the Organization shall remain the property of UNDP until the end of the Project, at which time UNDP shall determine the best use of these funds, in accordance with its Financial Regulations and Rules.

In the event that the Organization adheres to the terms and conditions set forth in this Agreement and based on a favorable decision from UNDP, it will transfer ownership of received funds on or before June 30, 2010.

Taking into the mind the fact that the Organization meets all terms and conditions of agreement (the purpose of loans issued, the control mechanisms of funds disbursement by clients) there is material evidence that the Organization will receive ownership of received funds.

In 2009 The Organization has received 232,260 Gel from UNDP. 191,128 Gel from the total funds received was lent to clients that fall into the category considered by the agreement between JSC MFO Crystal and UNDP. Consequently, the amount equal to issued loans was recognized as unrestricted revenue from received grants in 2009.

14. Interest payable

Interest payable as at December 31 can be presented as follows:

	2009	2008
TBC Bank	2,950	-
Pettelaar	45,885	51,886
Cordaid	2,125	4,201
Symbiotics	1,770	20,421
IFAD	9,252	-
CHCA	-	165
	61,982	**76,673**

15. Tax payable

Tax payable as at December 31 can be presented as follows:

	2009	2008
Income Tax payable	53,516	96,329
Personal income Tax payable	(13)	-
Property Tax	-	671
	53,503	**97,000**

16. Statutory capital

As at December 31, 2009 statutory capital can be presented in the following manner:

Shareholder	Number of shares	Share, %	Nominal (GEL)	Capital (GEL)
Archil Bakuradze	449,965	29.39%	1	449,965
Malkhaz Dzadzua	319,269	20.86%	1	319,269
"Crystal" Fund	292,110	19.08%	1	292,110
Davit Bendeliani	189,958	12.41%	1	189,958
Alu Gamaxaria	129,971	8.49%	1	129,971
Paata Tsotsonava	94,320	6.16%	1	94,320
Keith Young	55,305	3.61%	1	55,305
	1,530,898	**100.00%**		**1,530,898**

17. Incomes

Interest income

Interest income that comprises 2,991,126 Gel in 2009 represents interests on disbursed loans. Depending on the type and the amount of loan, the interest rates can be fixed (flat) or declining from 18% to 36% per annum. Customers taking flat interest rate loans receive the benefit in case of earlier repayment of the loan (20% of total interest).

Financial service fee

Financial service fee amounting to 230,670 Gel in 2009 comprises commission fees paid by borrowers at the moment of loan issue (1-2.5% of disbursed loan), as well as commission fees from partner trade companies (1% of disbursed loan). Partner trade companies pay financial service fee for goods sold to clients from received loans from JSC MFO Crystal.

Income from penalties

Income from penalties that comprises 281,669 Gel in 2009 includes amount, which is paid by borrowers in case of violating the loan agreement. The penalty is paid only for the principal amount and makes up 2% on every overdue day. If client informs Organization in advance in writing concerning the possible delay in payment he/she may receive a privilege not to pay the penalty, but this is strictly limited for each borrower and credit officer.

Other income

Other income that comprises 59,984 Gel in 2009 includes:

- Income from internships – 6,580 Gel. The Organization offers 3 month education services for interns. Each intern pays 50 GEL per month
- Deposit interest income from banks – 38,164 Gel
- The organization starts conversation operations in 2009. Income from the service was amounting to 10,678 Gel. However, conversation operations are not the main activity for the Organization and it presents only secondary service for clients
- Other Income (**4,562** Gel) also includes income from sales of fixed assets, cash surplus, income returned from expenses carried out in previous years and other incomes.

18. Interest expenses

Interest expenses for the year ended December 31, 2009 can be presented as follows:

	2009	2008
Deutche Bank	(217,947)	(266,963)
Cordaid	(12,632)	(18,772)
Pettelaar	(126,001)	(111,203)
Oikocredit	(14,999)	(29,450)
Symbiotics (Agreement #1)	(45,216)	(56,885)
Symbiotics (Agreement #2)	(1,770)	-
TBC Bank	(2,950)	(94,715)
IFAD	(9,220)	-
CHCA	(1,157)	(4,262)
	(431,892)	(582,250)

19. General and administrative expenses

Administrative expenses for the year ended December 31, 2009 can be presented as follows:

	2009	2008
Social benefits	(39,639)	(4,028)
Other general expenses	(163,963)	(60,651)
Bank fees commission	(36,033)	(46,655)
Office Rent	(176,285)	(108,713)
Fuel expenses	(66,867)	(72,680)
Car rent	(78,511)	(77,845)
Utilities	(77,256)	(60,568)
Audit and consulting services fees	(4,186)	(15,313)
Stationery	(21,863)	(15,052)
Business trips	(14,499)	(19,098)
Reparation expenses	(19,048)	(16,910)
Security expenses	(26,173)	(15,876)
Organization membership fees	(3,167)	(9,066)
Insurance expense	(20,439)	(4,345)
Representative expense	(13,105)	(3,492)
	(761,034)	**(530,292)**

20. Income tax expenses

Income tax expenses for the year ended December 31, 2009 can be presented as follows:

	2009	2008
Income tax at the rate of 15 %	(183,519)	(126,680)
Deferred income tax at the rate of 15 %	7,690	(7,489)
Expenses related to income tax at the rate of 15 %	**(175,829)**	**(134,169)**

Reconciliation of Effective Tax Rate and the Effective One

	2009	2008
Income before taxation	720,296	725,560
Income tax rate	**15%**	**15%**
Theoretical income tax	(108,044)	(108,834)
Permanent differences	(67,785)	(25,335)
Income tax expenses	**(175,829)**	**(134,169)**

21. Related party disclosure

Related party disclosure as and for the year ended December 31, 2009 can be presented as follows:

Key Management Staff

Balance sheet caption	Relationship	2009	2008
Loans granted			
Metreveli Maka	Tbilisi Branch Manager	2,052	-
Bendeliani Davit	Financial Manager	4,009	8,932
Chukhua Medea	Group Manager	6,489	-
Megeneishvili Giorgi	Risk Manager	4,113	7,500
Jishkariani Manana	Group Manager	3,554	
Chitaishvili Manuchar	Interim Auditor	3,599	2,064
Fidiorova Emilia	Chief Administrator	2,254	-
Giorgobiani Tamar	Risk Manager	5,363	8,202
Dzhordzholiani Vladimer	IT Manager	5,355	2,409
Zambakhidze Zviad	Administrative Manager	-	3,899
Tavadze-Dundua Svetlana	Kutaisi Branch Manager	-	3,188
Kukulava Levan	Credit Manager	-	9,243
Chokhonelidze Mariam	Tbilisi Branch Manager	-	5,180
Gegeshidze Nikoloz	lawyer Manager	4,493	-
Javakhadze Sofio	Group Manager	4,200	-
Shedania Lasha	Zugdidi Branch Manager	2,831	7,808
Fichkhaia Demna	Credit Manager	4,233	2,312
Sharashenidze Givi	Risk Manager	2,395	5,997
Khublava Sofio	Chief Accountant	3,741	-
Tirkia Zviad	Poti Branch Manager	1,796	4,196
Kukulava Levan	Credit Manager	4,608	-
Crystal Fund	Shareholder 19% of JSC MFO Crystal	-	96,851
		65,084	**167,780**

Other staff

Balance sheet caption	Relationship	2009	2008
Loans granted			
Other staff	Other staff	126,305	175,983
		126,305	**175,983**

Income Statement caption	Relationship	2009	2008
Interest on loans granted			
Crystal Fund	Shareholder 19% of JSC MFO Crystal	17,288	1,111
		17,288	**1,111**

22. Contingencies

Georgian economic trends

Georgian economy is still inherent in features and risks of developing market. These features include inadequately developed business infrastructure and normative base regulating activities of entities, limited convertibility of the national currency and limitations of performance of foreign currency transactions as well as the low level of liquidity on the capital market. The Government has undertaken certain measures targeted at such issues, however up to this moment the reforms necessary to establish financial, legal and regulatory systems are not completed yet.

Tax System

Among the recent reforms performed after the "Rose Revolution" the most significant were: reduction of administrative corruption, new wave of privatization, approval of the new Tax Code, which experts believe to be more liberal. Transparency of the modern political process, participation of the shareholders in establishment of new liberal business-environment (for instance, consulting between the government and industrialists in development of the new tax code), provisioning new regulations that bring lobbying of interests of groups within the framework of legislation – all of that created the necessary prerequisites for fair competition and minimized non-economical factors of risk and unpredictability.

The new Tax Code cancelled certain generating taxes on low income by reducing the number of taxes from 21 to 8. VAT rate was reduced from 20% to 18% and tax for payroll fund – from 33% to 20%. Income tax rate for individuals was fixed as 12% instead of marginal rates within 12-20%. Losses caused by reduction of taxes are planned to be compensated against excise duties, extension of tax base (reducing the number of tax exempts) and also by improvement of administration in area of more strict execution of tax requirements.

Though it must be mentioned that the significant changes were made in Tax Legislation at the end of 2007, according to which from 2008 the profit tax was reduced from 20% to 15 %, the social tax was abolished and the income tax was increased from 12% to 25 %. From 2008 the personal income tax changed again and reduced from 25% to 20 %. Non-resident income tax is abolished on the payments to reinsurers. Income tax on paid dividends and interests is reduced from 10% to 5% from 2009. Also non-resident income tax rate is reduced from 10% to 7, 5% from 2009.

One more principal distinction of the new Tax Code is its administrative part, which more precisely determines possible tax violations and penalties and also provides flexible scheme for issue settlement. Administration of tax collection was significantly improved even in the old Tax Code. This is the result of reforms in tax and custom departments. Improved institutional possibilities will assist the government to properly apply the new Tax Code.

Legal Liabilities

In the course of its business activity the Organization deals with court suits and claims. The management of the Organization is convinced that the ultimate responsibility for the commitments, which might result from suits and claims, should they arise, will not have any significant effect to the financial position or future business transactions of the Organization.

23. Going Concern Assumption

The Organization's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Respective, the financial statements do not include any adjustments related to the recorded asset amounts that would have been necessary should the Organization either had been unable to

continue as a going concern or if the Organization had disposed the assets outside the normal course of its operating plan.

24. Post balance sheet events

As per request of Tax Authorities JSC MFO Crystal has commenced filing tax returns in electronic forms since August of 2008. Due to some technical mistakes the company incorrectly filed Corporate Tax Return for 2008. Tax Authorities responded to MFO Crystal with respect to this issue after 10 months upon filing Tax Return. Tax Authorities imposed fines of GEL 57,006 on the Organization in January, 2010. The Organization appealed this decision to the local tax authority. The dispute was resolved in favor JSC MFO Crystal in February, 2010 and therefore, the aforementioned facts did not influence financial condition and financial performance of the Organization.