JSC Microfinance Organization Crystal

Annual Report and Financial statements

For the year ended 31 December 2010

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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 2010

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 ("IFRSs").

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 IFRSs 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 IFRSs
- 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 2010 were approved on behalf of the management on ____________________ 2011 by:

General Director ________________________________ M. Dzadzua

Financial Manager ________________________________ D. Bendeliani

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, 2010, 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.

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, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO LLC

29 March 2011

JSC Microfinance Organization Crystal

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

(In GEL)

	Note	2010	2009
Assets			
Current assets			
Cash and cash equivalents	6	931,172	1,762,503
Gross loan portfolio	7	14,332,683	7,197,796
Loan loss allowance	7	(188,619)	(262,464)
Net loan portfolio	7	**14,144,064**	**6,935,332**
Interest receivable		448,938	131,622
Held for sale		113,496	-
Other current assets	8	30,991	8,466
		15,668,661	**8,837,923**
Non-current assets			
Intangible assets	9	137,651	94,051
Property, plant, equipment	9	485,713	493,749
Deferred tax asset	10	10,049	1,888
		633,413	**589,688**
		16,302,074	**9,427,611**
Liabilities and equity			
Current liabilities			
Accounts payable	11	29,407	29,818
Short-term loans	12	540,000	-
Current portion of long-term loan	12	2,072,021	4,861,779
Restricted revenue from received grants	13	-	41,132
Interest payable	14	233,021	61,982
Tax payable	15	40,966	53,503
		2,915,415	**5,048,214**
Non-current liabilities			
Long-term loans	12	9,705,849	2,056,675
		9,705,849	**2,056,675**
Equity			
Statutory capital	16	1,530,898	1,530,898
Retained earnings		2,149,912	791,824
		3,680,810	**2,322,722**
		16,302,074	**9,427,611**

General Director ______________________________ M. Dzadzua

Financial Manager ______________________________ D. Bendeliani

Notes on pages 9-39 are the integral part of these financial statements.

JSC Microfinance Organization Crystal

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2010

(In GEL)

	Note	2010	2009
Interest income	17	4,109,394	2,991,126
Financial service fee	17	508,116	230,670
Income from penalties	17	325,434	281,669
Other income	17	82,182	59,984
Interest expense	18	(851,560)	(431,892)
Loan loss provision (expenses) / gain		73,845	(48,234)
Loans (written off)/recovered		16,913	(324,036)
Interest expense from written off loans		(38,266)	(58,282)
Gross profit		**4,226,058**	**2,701,005**
General and administrative expenses	19	(981,179)	(743,713)
Commissions regarding loans received		(178,036)	(17,321)
Salaries and bonuses		(1,537,551)	(1,089,722)
Depreciation and amortization		(187,799)	(166,678)
Other bad debt and written off losses		2,300	(76,767)
Tax expenses		(86,564)	(45,420)
Loss (income) from exhange rate difference		2,425	(11,896)
Marketing expenses		(32,682)	-
Gain/loss from fixed asset disposal and revaluation		74,761	-
Other expenses		(14,043)	(20,320)
Profit from operations		**1,287,690**	**529,168**
Unrestricted revenue from received grants	13	288,757	191,128
Profit before income tax		**1,576,447**	**720,296**
Income tax expenses	20	(215,081)	(175,829)
Net profit		**1,361,366**	**544,467**
Total comprehensive income		**1,361,366**	**544,467**

Earnings per share for profit (Loss) attributable to the equity holders of the company during the year (expressed in GEL per share):

	Note	2010	2009
Basic	21	0.89	0.36
Diluted	21	0.89	0.36

General Director ______________________________ M. Dzadzua

Financial Manager ______________________________ D. Bendeliani

Notes on pages 9-39 are the integral part of these financial statements.

JSC Microfinance Organization Crystal

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2010

(In GEL)

	Statutory capital	Dividends paid in advance from retained earnings	Retained Earnings	Total
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**
Paid dividends	-	-	(3,278)	**(3,278)**
Withdrawal by shareholders	-	87,579	(87,579)	**-**
Net profit	-	-	1,361,366	**1,361,366**
Balance at 31 December 2010	**1,530,898**	**87,579**	**2,062,333**	**3,680,810**

General Director ______________________________ M. Dzadzua

Financial Manager ______________________________ D. Bendeliani

Notes on pages 9-39 are the integral part of these financial statements.

JSC Microfinance Organization Crystal

CASH FLOW STATEMENT

For the year ended 31 December 2010

(In GEL)

	2010	2009
Cash flows from operating activities		
Income (loss) before taxation	1,576,447	720,296
Adjustments to:		
Depreciation and amortization	77,946	166,678
Loan loss allowance	73,845	48,234
Loans written off	(16,913)	324,036
Unrestricted revenue from received grants	(288,757)	(191,128)
Fixed assets write off	74,761	-
Interest expenses	851,560	431,892
Exchange rate loss (income)	-	1,219
Operating cash flows before working capital changes	**2,348,889**	**1,501,227**
Decrease (Increase):		
Loan portfolio	(7,265,664)	(627,535)
Accounts payable	(411)	10,148
Interest receivable	(317,316)	15,186
Other current assets	(136,021)	40,775
Taxes payable	(235,779)	(227,016)
Cash generated from operations	**(5,606,302)**	**712,785**
Paid interests	(680,521)	(446,583)
Paid dividends	(3,278)	(256,456)
Net cash provided from operating activities	**(6,290,101)**	**9,746**
Cash flows from investing activities		
Purchase of fixed assets	(177,947)	(330,133)
Purchase of intangible assets	(71,679)	(79,970)
Disposal of fixed assets	61,355	-
Net cash used in investing activities	**(188,271)**	**(410,103)**
Cash flows from financial activities		
Redemption of short-term loans	-	(16,520)
Receiving short-term loans	540,000	-
Redemption of long-term loans	(9,452,567)	(1,753,937)
Receiving from long-term loans	14,311,983	3,224,703
Received grants	247,625	232,260
Net cash used in financing activities	**5,647,041**	**1,686,506**
Net increase/decrease in cash and cash equivalents	**(831,331)**	**1,286,149**
Cash and cash equivalents at the beginning of the year	**1,762,503**	**476,354**
Cash and cash equivalents at the end of the year	**931,172**	**1,762,503**

General Director ______________________ M. Dzadzua

Financial Manager ______________________ D. Bendeliani

Notes on pages 10-39 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 Str., 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 Supervisory 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 ten service centers (Kutaisi, Ozurgeti, Samtredia, Senaki, Khoni, Mestia, Chkhorotsku, Lanchkhuti, Tsalendzhikha, Martvili).

2. Adoption of new IFRSs

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods:

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. In current period this amendment does not have any impact on the Company's financial statements.
- IAS 24 (amendment), 'Related party disclosures'. The amendment relaxes the disclosures of transactions between government- related entities and clarifies related-party definition. The amendment does not have an impact on the Company's financial statements.
- IAS 27 (revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The amendment is not expected to have an impact on the Company's financial statements. The amendment does not have an impact on the Company's financial statements.

- IAS 32 (amendment), 'Classification of rights issues'. The amended standard allows rights issues to be classified as equity when the price is denominated in a currency other than the entity's functional currency. The amendment is effective for annual periods beginning on or after 1 February 2010 and should be applied retrospectively. The amendment does not have an impact on the Company's financial statements.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the Companying of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company or Company's financial statements. The amendment does not have an impact on the Company's financial statements.
- IAS 39 (amendment), 'financial instruments: Recognition and measurement -Eligible hedged items'. The amendment was issued in July 2008. It provides guidance in two situations: on the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The amendment does not have an impact on the Company's financial statements.
- IFRS 3 (revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. All acquisition-related costs should be expensed. The amendment does not have an impact on the Company's financial statements.
- IFRS 5 (amendment), 'Measurement of non-current assets classified as held for sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5, 'Non-current assets held for sale and discontinued operations' specifies the disclosures required in respect of non-current assets (or disposal Company's) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly IAS1 paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The amendment does not have an impact on the Company's financial statements.
- IFRIC 17, 'Distribution of non-cash assets to owners'. The interpretation is part of the IASB's annual improvements project published in April 2009. It provides guidance on accounting for arrangements whereby an entity distributes noncash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The amendment does not have an impact on the Company's financial statements.
- IFRIC 18, 'Transfers of assets from customers', was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The amendment does not have an impact on the Company's financial statements.

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, %*
Average in 2009	5.00
At the end of 2009	3.00
Average in 2010	4.00
At the end of 2010	11.20

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*
Exchange rate as at 31.12.09	1.6858	2.4195
Exchange rate as at 31.12.10	1.7728	2.3500
Average exchange rate for 2009	1.6705	2.3305
Average exchange rate for 2010	1.7823	2.3643

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).

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, and 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 2010:

	Outstanding loans	Portfolio at risk	Number of clients
Normal loans			
Current	-	14,209,743	7,467
1-30 days late	8,166	49,233	31
31-60 days late	1,802	21,533	4
61-90 days late	2,578	14,052	4
91-180 days late	4,070	13,779	5
More than 180 days late	-	-	-
Delayed		24,342	
Total	**16,616**	**14,332,683**	**7,511**

Outstanding principal balance (%) as at 31 December 2010:

	Outstanding loans (%)	Portfolio at risk (%)	Number of clients (%)
Normal loans			
Current	0.0%	99.14%	99.41%
1-30 days late	0.1%	0.34%	0.41%
31-60 days late	0.0%	0.15%	0.05%
61-90 days late	0.0%	0.10%	0.05%
91-180 days late	0.0%	0.10%	0.07%
More than 180 days late	0.0%	0.00%	0.00%
Delayed	0.0%	0.17%	0.00%
Total	**0.12%**	**100%**	**100%**

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.

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 and declining interest rate)
- Interest receivable
- Other receivables
- Received loans
- Trade and other payables

Financial assets	Loans and receivables	
	2010	**2009**
Cash and cash equivalents	931,172	1,762,503
Gross loan portfolio	14,332,683	7,197,796
Interest receivable	448,938	131,622
	15,712,793	**9,091,921**

Financial Liabilities	Financial liabilities at amortised cost	
	2010	**2009**
Accounts payable	29,407	29,818
Short-term loans	540,000	-
Long-term loans with current portion	11,777,870	6,918,454
Restricted revenue from received grants	-	41,132
Interest payable	233,021	61,982
	29,407	**29,818**

General objectives, policies and processes

The Supervisory Board together with its committees (ALCO – Assets and liabilities committee, Risk Committee, Internal Audit Committee and Social Performance Committee) have 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 Supervisory 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.

However, the Organisation has a current credit from foreign financial institutions that is 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 2010 the Organisation's financial assets and financial liabilities were denominated in the following currencies:

	GEL		USD		EUR		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Financial assets								
Cash and cash equivalents	69,973	255,779	796,693	1,455,402	64,506	51,322	931,172	1,762,503
Gross loan portfolio	6,984,037	1,934,421	7,348,646	5,263,375	-	-	14,332,683	7,197,796
Interest receivable	338,585	37,876	110,353	93,746	-	-	448,938	131,622
	7,392,595	**2,228,076**	**8,255,692**	**6,812,523**	**64,506**	**51,322**	**15,712,793**	**9,091,921**
Financial liabilities								
Accounts payable	28,826	6,681	581	3,660	-	19,477	29,407	29,818
Short-term loans	540,000	-	-	-	-	-	540,000	-
Long-term loans with current portion	2,667,451	-	9,110,419	6,918,454	-	-	11,777,870	6,918,454
Interest payable	105,953	-	127,068	61,982	-	-	233,021	61,982
Restricted revenue from received grants	-	41,132	-	-	-	-	-	41,132
	3,342,230	**47,813**	**9,238,068**	**6,984,096**	**-**	**19,477**	**12,580,298**	**7,051,386**

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:

As at 31 December 2010	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Cash and cash equivalents	931,172	-	-	**931,172**
Gross loan portfolio	5,822,067	8,510,617	-	**14,332,683**
Interest receivable	448,938	-	-	**448,938**
	7,202,177	8,510,617	-	15,712,793
Liabilities				
Accounts payable	29,407	-	-	**29,407**
Short-term loans	540,000	-	-	**540,000**
Long-term loans with current portion	2,072,021	9,705,849	-	**11,777,870**
Interest payable	233,021	-	-	**233,021**
	2,874,449	9,705,849	-	12,580,298
Net liquidity gap	4,327,728	(1,195,232)	-	3,132,495
Cumulative liquidity gap	4,327,728	3,132,495	3,132,495	3,132,495

As at 31 December 2009	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Cash and cash equivalents	1,762,503	-	-	**1,762,503**
Gross loan portfolio	4,070,866	3,126,931	-	**7,197,796**
Interest receivable	131,622	-	-	**131,622**
	5,964,991	3,126,931	-	9,091,921
Liabilities				
Accounts payable	29,818	-	-	**29,818**
Long-term loans with current portion	4,861,779	2,056,675	-	**6,918,454**
Restricted revenue from received grants	41,132	-	-	**41,132**
Interest payable	61,982	-	-	**61,982**
	4,994,711	2,056,675	-	7,051,386
Net liquidity gap	970,280	1,070,256	-	2,040,535
Cumulative liquidity gap	970,280	2,040,535	2,040,535	2,040,535

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.

The debt-to-adjusted-capital ratios at 31 December 2010 and at 31 December 2009 were as follows:

	2010	2009
Loans	12,317,870	6,918,454
Less: cash and cash equivalents	931,172	1,762,503
Net debt	**13,249,042**	**8,680,957**
Total equity	3,680,810	2,322,722
Less: Amounts in the cash flow hedging reserve	-	-
Total adjusted capital	**3,680,810**	**2,322,722**
Debt to adjusted capital ratio (%)	**360%**	**374%**

6. Cash and cash equivalents

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

	2010	2009
Cash and Bank	**395,676**	**748,280**
Georgian Lary	69,973	255,779
Other currencies	325,703	492,501
Deposits		
Georgian Lary	-	-
Other currencies	535,496	1,014,223
	931,172	**1,762,503**

Deposits include:

	2010	2009
TBC Bank	354,560	842,900
Republic Bank	180,936	171,323
	535,496	**1,014,223**

Main parts of the deposits are demand deposits with banks.

The Organization has created cash funds reserve at an amount USD 200,000 according to the

Supervisory Board desicion. The part of this amount – USD 100,000 is deposited on Qutaisi branch of TBC Bank account at 5% interest rate per annum. For funds diversification purposes, the second part is deposited on Republic Bank account at 5% interest rate per annum. These funds can be used based on Supervisory Board desicins only.

7. Loan portfolio

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

	2010		2009	
Loan type	**Amount**	**Share of Total**	**Amount**	**Share of Total**
Standard micro-loans	2,414,285	16.8%	185,149	2.6%
Express micro-loans	3,014,051	21.0%	2,500,298	34.7%
Agro-Business Loans	2,383,641	16.6%	884,447	12.3%
Special micro-loans	1,291,785	9.0%	268,807	3.7%
Universal business loans	1,777,579	12.4%	-	0.0%
Consumer-loans	1,430,700	10.0%	949,546	13.2%
Universal consumer loans	691,640	4.8%	1,143,533	15.9%
Repair loans	421,870	2.9%	521,081	7.2%
Educational loans	87,924	0.6%	70,816	1.0%
Car purchase	37,429	0.3%	11,835	0.2%
Pawnshop	280,730	2.0%	73,086	1.0%
Insiders loans	74,199	0.5%	190,973	2.7%
Group loans	10,197	0.1%	18,029	0.3%
Credit Line	342,486	2.4%	225,778	3.1%
Mortgage loans	74,167	0.5%	154,418	2.2%
Total Loan Portfolio	**14,332,683**	**100.0%**	**7,197,796**	**100.0%**
Loan loss reserve	(188,619)	-1.32%	(262,464)	-3.7%
Net Loan Portfolio	**14,144,064**	**98.7%**	**6,935,332**	**96.4%**

Calculation of Allowance for loan loss in 2010 is as follows:

	Outstanding loan portfolio (principal)		Allowance for loan loss	
	Amount	Percent	Percent	Amount
Normal Loans				
Current	14,209,743	99.14%	1%	142,097
1-30 days late	49,233	0.34%	25%	12,308
31-60 days late	21,533	0.15%	50%	10,767
61-90 days late	14,052	0.10%	50%	7,026
91-180 days late	13,779	0.10%	75%	10,335
More than 180 days	-	0.00%	100%	-
Delayed Loans	24,342	0.17%	25%	6,086
	14,332,683	**100.00%**		**188,619**

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:

	2010	2009
Loan loss allowance, 1 January	262,464	214,230
Loan loss provision expense	(90,759)	372,270
Loans written off expenses	16,914	(324,036)
Loan loss allowance, 31 December	**188,619**	**262,464**

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

	2010	2009
Loans collateralized by:		
Real estate	7,430,217	1,639,891
Inventory and equipment	3,915,753	8,445,627
Gold	595,275	657,411
Other assets	13,108,543	1,259,800
	25,049,788	**12,002,729**

Amount of the loans issued to an individual ranges from USD 100 to USD10,000 (maximum 50,000 US dollars) with 4 to 24 month term (maximum 5 years).

The Organisation issues the loans at fixed and declining interest rate. Depending on the type and the amount of loan the Interest rates can be from 20% to 42% per annum. The Organisation does not measure the fixed rate loans at amortised cost using the effective interest method because this is not a feasible procedure in terms of the software. Although the Organisation is working on the procedures which would allow to measure the effect of above-mentioned shortcoming on the financial statements as well as the fixed rate loans calculation at amortised cots.

The loans are issued in US dollars and/or Georgian lari, but occasionally, considering the Organisation interests, the loans can be issued in other currency or currency combinations.

8. Other current assets

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

	2010	2009
Prepaid advances	19,857	760
Other receivables	59,772	52,588
Property tax	288	6,344
Bad dept provision	(48,926)	(51,226)
	30,991	**8,466**

9. Fixed assets, intangible assets

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

	Buildings	Vehicles	Furniture	Computers	Property improvement	Other fixed assets	Intangible assets	Total
Historical cost								
As at December 31, 2009	**118,090**	**97,756**	**49,337**	**169,200**	**158,265**	**147,788**	**128,113**	**868,549**
Inflows	-	1,211	15,409	77,209	53,868	30,250	71,679	**249,626**
Outflows	(29,200)	(12,959)	(10,322)	(44,278)	(10,713)	(28,644)	-	**(136,116)**
As at December 31, 2010	**88,890**	**86,008**	**54,424**	**202,131**	**201,420**	**149,394**	**199,792**	**982,059**
Depreciation								
As at December 31, 2009	**(17,854)**	**(20,553)**	**(21,417)**	**(98,327)**	**(37,268)**	**(51,268)**	**(34,062)**	**(280,749)**
Accrued for the year	(2,647)	(13,414)	(14,910)	(45,568)	(32,684)	(50,498)	(28,078)	**(187,799)**
Accumulated depreciation of disposed fixed assets	6,048	702	11,610	58,525	-	32,968	-	**109,853**
As at December 31, 2010	**(14,453)**	**(33,265)**	**(24,717)**	**(85,370)**	**(69,952)**	**(68,798)**	**(62,140)**	**(358,695)**
Net book value								
As at December 31, 2009	**100,236**	**77,203**	**27,920**	**70,873**	**120,997**	**96,520**	**94,051**	**587,800**
As at December 31, 2010	**74,437**	**52,743**	**29,707**	**116,761**	**131,468**	**80,596**	**137,652**	**623,364**

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
	2010	2010	2010	2010	2010
Property plant and equipment	-	(27)	(27)	4,299	-
Intangible assets	520	-	520	476	-
Restricted revenue	-	-	-	(6,170)	-
Interest receivable	9,556	-	9,556	9,556	
Tax asset/(liabilities)	**10,076**	**(27)**	**493**	**8,161**	**-**
Set off of tax	(27)	27			-
Net tax assets/(liabilities)	**10,049**	**-**	**493**	**8,161**	**-**

	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**	**-**

	2010	2009
At 1 January	1,888	(5,802)
Recognized in profit and loss	-	-
Tax income (expense)	8,161	7,690
Recognized in other comprehensive income	-	-
At 31 December	10,049	1,888

11. Accounts payable

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

	2010	2009
Trade payables	8,788	19,477
Uncertain amounts	12,919	10,341
Amounts received from former customers for redemption its property	7,700	-
	29,407	**29,818**

12. Received loans

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

Long-term loan	Rate	2010	2009
SNS Fund (mediator - Developing World Market Asset Manager) II	14.5%	921,605	-
SNS Fund (mediator - Developing World Market Asset Manager) III	9.5%	354,560	-
SICAV (mediator – Symbiotics Credit Suisse) I	10.5%	-	337,160
SICAV (mediator - Symbiotics Credit Suisse) II	10.0%	886,400	-
Oikocredit I	LIBOR+8.5%	1,240,960	-
Oikocredit II	LIBOR+14.02%	275,835	-
Rural Impulse Fund (mediator - Incofin IM)	8.50%	886,400	-
Microcredit Enterprises	10.00%	1,063,680	-
Microvest	8.25%	1,181,867	-
Microvest II	8.25%	295,467	-
EBRD I	LIBOR+13.3%	522,600	-
EBRD II	6.4%	531,840	-
TBC Bank	15%	-	337,159
IFAD	LIBOR+2%	1,221,459	1,382,356
IFAD	LIBOR6+2.5%	323,176	-
		9,705,849	**2,056,675**

Short term loan	Rate	2010	2009
TBC Bank II	15%	540,000	-

Current portion of long-term loan	Rate	2010	2009
SICAV (mediator – Symbiotics Credit Suisse) I	10.5%	354,560	337,160
Oikocredit II	14.0%	275,835	-
Microvest	8.5%	590,933	-
Microvest II	8.3%	147,733	-
EBRD I	13.3%	348,400	-
EBRD II	6.4%	354,560	-
Cordaid	6.0%	-	141,537
Deutche Bank	LIBOR+5%	-	3,371,600
SNS Fund (mediator - Developing World Market Asset Manager) I	10.5%	-	842,900
TBC Bank	15.0%	-	168,582
		2,072,021	**4,861,779**

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 remains as the property of UNDP until the end of the Project, at which time UNDP determines the best use of these funds, in accordance with its Financial Regulations and Rules.

According to the agreement with UNDP, should the Organisation strictly follow the contract terms and

base on the beneficial (favourable) decision made by the project Board, UNDP would award the ownership of grant funds until 30 June 2010.

Taking into account that the Organisation meets all terms and conditions of agreement (the purpose of loans issued, the control mechanisms of funds disbursement by clients), UNDP has granted the ownership of these funds to the Organization.

The Organisation received GEL232,260 and GEL247,625 grants from UNDP in 2009 and 2010 respectively. Out of 2009 and 2010 funds the Organisation issued GEL191,128 and GEL288,757 respectively to the clients selected for the category set by the agreement between UNDP and Crystal. Therefore the amounts received from grant funds were recognised in respective periods as unrestricted income in proportion with the issued loans.

14. Interest payable

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

	2010	2009
TBC Bank	-	2,950
TBC Bank II	4,913	-
Pettelaar	-	45,885
Cordaid	-	2,125
Symbiotics I	810	1,770
IFAD	12,912	9,252
Pettelaar II	23,386	-
Pettelaar III	5,904	-
Symbiotics II	15,266	-
Oikocredit I	27,165	-
Oikocredit II	31,785	-
Incofin IM	628	-
Microcredit Enterprises	18,359	-
Microvest	31,384	-
EBRD I	39,621	-
EBRD II	14,640	-
IFAD II	6,248	-
	233,021	**61,982**

15. Tax payable

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

	2010	2009
Income tax payable	40,966	53,516
Personal income tax payable	-	(13)
	40,966	**53,503**

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	451,165	29.47%	1	451,165
Malkhaz Dzadzua	320,469	20.93%	1	320,469
"Crystal" Fund	296,910	19.39%	1	296,910
Davit Bendeliani	191,158	12.49%	1	191,158
Alu Gamaxaria	120,371	7.86%	1	120,371
Paata Tsotsonava	95,520	6.24%	1	95,520
Keith Young	55,305	3.61%	1	55,305
	1,530,898	**100%**		**1,530,898**

17. Incomes

Interest income

Interest income that comprises GEL 4,109,394 in 2010 represents interests on disbursed loans. The interest rates can be fixed or declining. Depending on the type and the amount of loan, interest rates are from 18% to 36% per annum.

Financial service fee

Financial service fee amounting to GEL 508,116 in 2010 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 GEL 325,434 in 2010 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 0.5% 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 GEL 82,182 in 2010 includes:

- Deposit interest income from banks – GEL 25,773
- Income from rent – GEL 4,070
- Income from internships – GEL 1,450. The Organization offers 3 month education services for interns. Each intern pays GEL 50 per month
- Income from sale of fixed assets that was putted in pledge – GEL 6,026
- GEL12,686 income received from the returns on court and executive costs previously incurred on clients
- The organization starts conversation operations in 2009. Income from the service was amounting to GEL 28,628 in 2010. However, conversation operations are not the main activity for the Organization and it presents only secondary service for clients
- Other Income at an amount of GEL 3,549.

18. Interest expenses

Interest expenses for the year ended December 31, 2010 can be presented as follows:

	2010	2009
CHCA	-	(1,157)
Cordaid	(4,686)	(12,632)
Deutche Bank	(128,787)	(217,947)
EBRD I	(98,508)	-
EBRD II	(25,946)	-
IFAD	(30,539)	(9,220)
IFAD II	(6,248)	-
Incofin IM	(628)	-
Microvest	(31,254)	-
Oikocredit I	(59,234)	(14,999)
Pettelaar	(104,507)	(126,001)
Pettelaar II	(39,136)	-
Pettelaar III	(5,883)	-
Symbiotics I	(77,944)	(46,986)
Symbiotics II	(15,204)	-
TBC Bank	(158,801)	-
TBC Bank II	(45,968)	(2,950)
Microcredit Enterprises	(18,287)	-
	(851,560)	**(431,892)**

19. General and administrative expenses

General and administrative expenses for the year ended December 31, 2010 can be presented as follows:

	2010	2009
Social benefits	(5,916)	(39,639)
Other general expenses	(195,246)	(146,642)
Bank fees commission	(58,298)	(36,033)
Office Rent	(192,826)	(176,285)
Fuel expenses	(96,103)	(66,867)
Car rent	(78,150)	(78,511)
Utilities and communication	(112,320)	(77,256)
Audit and consulting services fees	(80,548)	(4,186)
Stationery	(22,937)	(21,863)
Business trips	(18,000)	(14,499)
Reparation expenses	(16,026)	(19,048)
Security expenses	(36,379)	(26,173)
Organization membership fees	(4,832)	(3,167)
Insurance expense	(11,076)	(20,439)
Expenses for staff qualification	(40,567)	-
Representative expense	(11,956)	(13,105)
	(981,179)	**(743,713)**

20. Income tax expenses

Income tax expenses for the year ended December 31, 2010 can be presented as follows:

	2010	2009
Income tax at the rate of 15 %	(226,894)	(183,519)
Effect of previous period income tax return adjustment	3,653	-
Deferred income tax at the rate of 15 %	8,161	7,690
Expenses related to income tax at the rate of 15 %	**(215,081)**	**(175,829)**

Reconciliation of Effective Tax Rate and the Effective One

	2010	2009
Income before taxation	1,576,447	720,296
Income tax rate	15%	15%
Theoretical income tax	(236,467)	(108,044)
Permanent differences	21,386	(67,785)
Income tax expenses	**(215,081)**	**(175,829)**

21. Earnings per share

a) Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company

	2010	2009
Profit / Loss attributable to the Company's equity holders	1,361,366	544,467
Weighted average number of ordinary shares in issue	1,530,898	1,530,898
Basic earnings per share	0.89	0.36

b) Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. But the company does not own the convertible share instruments and diluted earnings per share equals the basic earning.

22. Related party disclosure

Information about major related party transactions and balances as and for the year ended December 31, 2010 can be presented as follows:

Loans to insiders:

Balance sheet caption	Relationship	2010	2009
Loans granted			
Metreveli Maka	Tbilisi Branch Manager	939	2,052
Bendeliani Davit	Financial Manager	-	4,009
Chukhua Medea	Group Manager	-	6,489
Megeneishvili Giorgi	Risk Manager	7,907	4,113
Jishkariani Manana	Group Manager	-	3,554
Chitaishvili Manuchar	Interim Auditor	1,036	3,599
Fidiorova Emilia	Chief Administrator	-	2,254
Giorgobiani Tamar	Risk Manager	1,499	5,363
Dzhordzholiani Vladimer	IT Manager	2,504	5,355
Gegeshidze Nikoloz	lawyer Manager	400	4,493
Javakhadze Sofio	Group Manager	-	4,200
Shedania Lasha	Zugdidi Branch Manager	-	2,831
Fichkhaia Demna	Credit Manager	2,720	4,233
Sharashenidze Givi	Risk Manager	-	2,395
Khublava Sofio	Chief Accountant	4,531	3,741
Tirkia Zviad	Poti Branch Manager	-	1,796
Kukulava Levan	Credit Manager	2,962	4,608
Other staff	Other staff	44,326	126,305
		68,824	**191,390**

Income Statement caption	Relationship	2010	2009
Interest on loans granted			
Crystal Fund	Shareholder 19% of JSC MFO Crystal	-	17,288
Metreveli Maka	Tbilisi Branch Manager	200	903
Bendeliani Davit	Financial Manager	243	1,216
Megeneishvili Giorgi	Risk Manager	1,219	1,058
Jishkariani Manana	Group Manager	322	752
Manuchar Chitaishvili	Internal auditor	348	655
Giorgobiani Tamar	Risk Manager	329	971
Dzhordzholiani Vladimer	IT Manager	737	457
Gegeshidze Nikoloz	lawyer Manager	130	292
Javakhadze Sofio	Group Manager	606	189
Shedania Lasha	Zugdidi Branch Manager	111	1,008
Fichkhaia Demna	Credit Manager	647	565
Khublava Sofio	Chief Accountant	460	1,158
Kukulava Levan	Credit Manager	742	1,198
Other staff	Other staff	7,836	12,911
		13,928	**40,623**

The Organisation does not issue loans to the insiders at the interest rate lower than this is defined as per minimum tax free interest rate. Minimum loans issued to the insiders are reviewed quarterly by the management. Such rate is established by the Minister of Finance.

Salaries and bonuses of the key management staff are expressed in the following tab:

Income statement caption	2010		2009	
	Key management salaries	Salaries total	Key management salaries	Salaries total
Salaries and bonuses	372,573	1,537,551	295,724	1,089,722

23. 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.

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.

24. 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.