JSC Microfinance Organization Crystal

Annual Report and Financial statements

For the year ended 31 December 2011

Contents:

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

As and for the year ended 31 December 2011

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 2011 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 2011 were approved on behalf of the management on ___________________ 2012 by:

General Director ______________________________ M. Dzadzua

Financial Manager ______________________________ D. Bendeliani

BDO

Tel: +995 32 254 58 45
Fax: +995 32 239 92 04
bdo@bdo.ge
www.bdo.ge

42 Kazbegi Avenue
4th floor
0186 Tbilisi
Georgia

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, 2011, 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, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO LLC

12 March 2012

JSC Microfinance Organization Crystal

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(In GEL)

	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents	6	2,574,888	931,172
Gross loan portfolio	7	22,315,979	14,550,806
Loan loss allowance	7	(285,405)	(188,619)
Net loan portfolio	7	**22,030,574**	**14,362,187**
Receivable from penalties		3,877	230,815
Held for sale assets	8	112,130	113,496
Other current assets	9	160,529	30,991
		24,881,998	**15,668,661**
Non-current assets			
Intangible assets	10	202,599	137,651
Property, plant, equipment	10	810,207	485,713
Deferred tax asset	13	-	10,049
		1,012,806	**633,413**
		25,894,804	**16,302,074**
Liabilities and equity			
Current liabilities			
Accounts payable	11	145,905	29,407
Current portion of long term loans	12	7,718,865	2,845,042
Income tax payable		91,606	40,966
		7,956,376	**2,915,415**
Non-current liabilities			
Long-term loans	12	9,157,294	9,705,849
Deferred tax liability	13	20,662	**-**
		9,177,956	**9,705,849**
Equity			
Share capital	14	2,179,142	1,530,898
Share premium		2,660,356	-
Retained earnings		3,920,974	2,149,912
		8,760,472	**3,680,810**
		25,894,804	**16,302,074**

General Director ________________________________ M. Dzadzua

Financial Manager ________________________________ D. Bendeliani

Notes on pages 9-40 are the integral part of these financial statements.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2011

(In GEL)

	Note	2011	2010
Interest income	15	6,994,914	4,530,993
Income (expenses) from penalties	16	(120,200)	325,434
Other income	17	149,371	105,329
Interest expense	18	(1,404,656)	(1,029,596)
Loan loss provision expenses/gain	7	(96,787)	73,845
Loans written off/recovered	19	129,967	35,993
Gross profit		**5,652,609**	**4,041,998**
General and administrative expenses	20	(1,267,958)	(1,067,743)
Salaries and bonuses	21	(2,153,479)	(1,537,551)
Depreciation and amortization	10	(224,830)	(187,799)
Other bad debt provision written off expenses		4,930	2,300
Loss (income) from exhange rate difference		26,459	2,425
Marketing expenses		(61,858)	(32,682)
Gain/loss from fixed asset disposal and impairment	22	(22,524)	80,786
Other expenses		(1,272)	(14,043)
Profit from operations		**1,952,077**	**1,287,691**
Unrestricted revenue from received grants	23	166,000	288,757
Profit before income tax		**2,118,077**	**1,576,448**
Income tax expenses	24	(354,626)	(215,081)
Net profit		**1,771,061**	**1,361,367**
Total comprehensive income		**1,771,061**	**1,361,367**

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

Basic	25	1.08	0.89
Diluted	25	1.08	0.89

General Director ______________________________ M. Dzadzua

Financial Manager ______________________________ D. Bendeliani

Notes on pages 9-40 are the integral part of these financial statements.

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2011

(In GEL)

	Share Capital	Share Premium	Retained Earnings	Total
Balance at 31 December 2009	**1,530,898**	**-**	**791,824**	**2,322,722**
Paid dividends	-	-	(3,278)	**(3,278)**
Net profit	-	-	1,361,367	**1,361,367**
Balance at 31 December 2010	**1,530,898**	**-**	**2,149,913**	**3,680,811**
Issue of common share	465,115	1,908,805	-	**2,373,920**
Issue of preferred share	183,129	751,551	-	**934,680**
Net profit	-	-	1,771,061	**1,771,061**
Balance at 31 December 2011	**2,179,142**	**2,660,356**	**3,920,974**	**8,760,472**

General Director _________________________________ M. Dzadzua

Financial Manager _________________________________ D. Bendeliani

Notes on pages 9-40 are the integral part of these financial statements.

JSC Microfinance Organization Crystal

CASH FLOW STATEMENT

For the year ended 31 December 2011

(In GEL)

	2011	2010
Cash flows from operating activities		
Income/loss before taxation	**2,118,078**	**1,576,447**
Adjustments to:		
Depreciation and amortization	224,830	77,946
Loan loss allowance expenses	96,787	73,845
Loans written off expenses	79,998	(16,913)
Receivables written off from penalties	231,057	-
Unrestricted revenue from received grants	(166,000)	(288,757)
loss from fixed assets disposal and impairment	14,158	74,761
Interest expenses	1,404,656	851,560
Exchange rate loss/income	(137,121)	-
VAT expenses from held for sale assets' disposal	8,366	-
Operating cash flows before working capital changes	**3,874,809**	**2,348,889**
Decrease (Increase):		
Loan portfolio	(8,255,239)	(7,265,664)
Accounts payable	100,694	(411)
Receivable from penalties	(15,457)	(317,316)
Other current assets	(181,373)	(136,021)
Cash generated from operations	**(4,476,566)**	**(5,370,523)**
Paid income tax	(265,666)	(235,779)
Paid interests	(1,329,446)	(680,521)
Paid dividends	-	(3,278)
Net cash provided from operating activities	**(6,071,678)**	**(6,290,101)**
Cash flows from investing activities		
Purchase of fixed assets	(527,448)	(177,947)
Purchase of intangible assets	(86,824)	(71,679)
Disposal of fixed assets	38,114	61,355
Advances paid for purchase of fixed assets	(9,931)	-
Net cash used in investing activities	**(586,089)**	**(188,271)**
Cash flows from financial activities		
Received loans	8,810,488	14,796,948
Redemption of loans	(3,983,605)	(9,397,532)
Proceeds from issued shares	3,308,600	-
Received grants	166,000	247,625
Net cash used in financing activities	**8,301,483**	**5,647,041**
Net increase/decrease in cash and cash equivalents	**1,643,716**	**(831,331)**
Cash and cash equivalents at the beginning of the year	**931,172**	**1,762,503**
Cash and cash equivalents at the end of the year	**2,574,888**	**931,172**

General Director ________________________________ M. Dzadzua

Financial Manager ________________________________ D. Bendeliani

Notes on pages 9-40 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 2,179,142 GEL.

Statutory capital is divided into 2,179,142 ordinary shares with principal value of GEL1. 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

a) New standards, interpretations and amendments effective from 1 January 2011

None of the new standards, interpretations and amendments, effective for the first time from 1 January 2011, have had a material effect on the Organization's financial statements.

b) New standards, interpretations and amendments not yet effective

None of the other new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2011 and which have not been adopted early, are expected to have a material effect on the Organization's future 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 2010	4.00
At the end of 2010	11.20
Average in 2011	10.00
At the end of 2011	2.00

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***
Exchange rate as at 31.12.10	1.7728	2.3500
Exchange rate as at 31.12.11	1.6703	2.1614
Average exchange rate for 2010	1.7823	2.3643
Average exchange rate for 2011	1.6860	2.3473

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%
Restructured loans in the month of restructuration	50%
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.

Insiders loans

From October of 2005 “Crystal“ started issuing loans to “insiders”. Insiders 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	
1,501 - 3,000 GEL	22%	4-15 Months	Not less than 12 months	1 guarantor
3,001 - 5,000 GEL	20%	5-18 Months	Not less than 18 months	2 guarantor
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 2011:

	Portfolio at risk	Number of clients
Normal loans		
Current	22,035,830	12,157
1-30 days late	102,482	106
31-60 days late	17,995	6
61-90 days late	6,082	3
91-180 days late	19,516	13
More than 180 days late	-	-
Restructured	134,074	32
Delayed	-	-
	22,315,979	**12,317**

Outstanding principal balance (%) as at 31 December 2011:

	Portfolio at risk (%)	Number of clients (%)
Normal loans		
Current	98.74%	98.73%
1-30 days late	0.46%	0.84%
31-60 days late	0.08%	0.05%
61-90 days late	0.03%	0.02%
91-180 days late	0.09%	0.10%
More than 180 days late	0.00%	0.00%
Restructured	0.60%	0.25%
Delayed	0.00%	0.00%
	100%	**100%**

Outstanding principal balance as at 31 December 2010:

	Portfolio at risk	Number of clients
Normal loans		
Current	14,356,018	7,450
1-30 days late	49,982	31
31-60 days late	21,861	4
61-90 days late	14,266	4
91-180 days late	13,989	5
More than 180 days late	-	-
Restructured	69,977	17
Delayed	24,712	-
	14,550,806	**7,511**

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

	Portfolio at risk (%)	Number of clients (%)
Normal loans		
Current	98.66%	99.19%
1-30 days late	0.34%	0.41%
31-60 days late	0.15%	0.05%
61-90 days late	0.10%	0.05%
91-180 days late	0.10%	0.07%
More than 180 days late	0.00%	0.00%
Restructured	0.48%	0.23%
Delayed	0.17%	0.00%
Total	**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% 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:

Financial assets	**Loans and receivables**	
	2011	**2010**
Cash and cash equivalents	2,574,888	931,172
Gross loan portfolio	22,315,979	14,550,806
Receivable from penalties	3,877	230,815
	24,894,744	**15,712,793**

Financial Liabilities	Financial liabilities at amortised cost	
	2011	**2010**
Accounts payable	145,905	29,407
Current portion of long term loans	7,718,865	2,845,042
Long-term loans	9,157,294	9,705,849
	17,022,064	**12,580,298**

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 GEL1,000 are approved locally by the smaller branch committee and in this case the Risk Department is not the decision maker. The Credit Director participates in the review of loan applications exceeding USD10,000.

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. Since 2011 the Organization launched a new monitoring system. 10% of total loans are monitored by the manager of service-centre on monthly basis. After, the results are documented in loans program and presented to the top management. Also, from 2011 monitoring and quality management service was created in the Organization . This service provides monitoring on the 10 % of total loans. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. New monitoring system helps to manage credit risks and timely neutralize them.

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.

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 and other variable factors. 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 Organisation, 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 2011 the Organisation's financial assets and financial liabilities were denominated in the following currencies:

	GEL		USD		EUR		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Financial assets								
Cash and cash equivalents	255,670	69,973	2,242,248	796,693	76,970	64,506	2,574,888	931,172
Gross loan portfolio	12,738,142	7,091,808	9,577,837	7,458,999	-	-	22,315,979	14,550,806
Receivable from penalties	3,066	36,373	811	194,442	-	-	3,877	230,815
	12,996,878	**7,198,154**	**11,820,896**	**8,450,134**	**76,970**	**64,506**	**24,894,744**	**15,712,793**
Financial liabilities								
Accounts payable	128,590	28,826	17,315	581	-	-	145,905	29,407
Current portion of long term loans	3,054,740	751,084	4,664,125	2,093,958	-	-	7,718,865	2,845,042
Long-term loans	1,042,577	2,562,319	8,114,717	7,143,529	-	-	9,157,294	9,705,849
	4,225,907	**3,342,229**	**12,796,157**	**9,238,068**	**-**	**-**	**17,022,064**	**12,580,298**

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 2011	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Cash and cash equivalents	2,574,888	-	-	**2,574,888**
Gross loan portfolio	9,038,440	13,277,539	-	**22,315,979**
Receivable from penalties	3,877	-	-	**3,877**
	11,617,205	**13,277,539**	**-**	**24,894,744**
Liabilities				
Accounts payable	145,904	-	-	**145,904**
Current portion of long term loans	7,718,865	-	-	**7,718,865**
Long-term loans	-	8,547,864	609,430	**9,157,294**
	7,864,769	**8,547,864**	**609,430**	**17,022,064**
Net liquidity gap	**3,752,436**	**4,729,675**	**(609,430)**	**7,872,680**
Cumulative liquidity gap	**3,752,436**	**8,482,111**	**7,872,681**	**7,872,680**

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	6,040,190	8,510,617	-	**14,550,807**
Receivable from penalties	230,815	-	-	**230,815**
	7,202,177	**8,510,617**	**-**	**15,712,794**
Liabilities				
Accounts payable	29,407	-	-	**29,407**
Current portion of long term loans	2,845,042	-	-	**2,845,042**
Long-term loans	-	9,705,849	-	**9,705,849**
	2,874,449	**9,705,849**	**-**	**12,580,298**
Net liquidity gap	**4,327,728**	**(1,195,232)**	**-**	**3,132,496**
Cumulative liquidity gap	**4,327,728**	**3,132,496**	**3,132,496**	**3,132,496**

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 2011 and at 31 December 2010 were as follows:

	2011	2010
Loans	16,876,159	12,550,891
Less: cash and cash equivalents	(2,574,888)	(931,172)
Net debt	**14,301,271**	**11,619,719**
Total equity	8,760,472	3,680,810
Less: Amounts in the cash flow hedging reserve	-	-
Total adjusted capital	**8,760,472**	**3,680,810**
Debt to adjusted capital ratio (%)	**163%**	**316%**

6. Cash and cash equivalents

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

Cash and cash equivalents	2011	2010
Cash on hand (National Currency)	238,788	52,867
Cash on hand (Foreign Currency)	440,401	72,396
Cash in Bank (National Currency)	16,882	17,106
Cash in Bank (Foreign Currency)	12,012	253,307
Deposits in Bank (Foreign Currency)	1,866,805	535,496
	2,574,888	**931,172**

Deposits in Bank (Foreign Currency)	2011	2010
TBC Bank	1,697,025	354,560
Republic Bank	169,780	180,936
	1,866,805	**535,496**

Main part of the deposits is demand deposits with banks.

The Organization has created cash funds reserve at an amount USD200,000 according to the Supervisory Board desicion. The part of this amount – USD100,000 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:

	2011		2010	
Loan type	**Amount**	**Share of Total (%)**	**Amount**	**Share of Total (%)**
Standard micro-loans	4,512,488	20.22%	2,445,178	16.80%
Express micro-loans	3,257,347	14.60%	3,059,792	21.03%
Agro-Business Loans	3,298,308	14.78%	2,422,155	16.65%
Universal business loans	3,642,331	16.32%	1,800,703	12.38%
Special micro-loans	1,770,204	7.93%	1,310,294	9.00%
Universal consumer loans	1,719,498	7.71%	703,630	4.84%
Consumer-loans	1,594,189	7.14%	1,462,541	10.05%
Pawnshop	1,285,165	5.76%	281,165	1.93%
Repair loans	725,623	3.25%	429,529	2.95%
Credit Line	241,943	1.08%	346,347	2.38%
Educational loans	61,905	0.28%	89,396	0.61%
Car purchase	85,567	0.38%	37,281	0.26%
Mortgage loans	69,228	0.31%	77,615	0.53%
Insiders loans	48,829	0.22%	74,836	0.51%
Group loans	3,354	0.02%	10,344	0.07%
Total Loan Portfolio	**22,315,979**	**100.00%**	**14,550,806**	**100.0%**
Loan loss reserve	(285,405)	-1.28%	(188,619)	-1.32%
Net Loan Portfolio	**22,030,574**	**98.7%**	**14,362,187**	**98.7%**

Calculation of Allowance for loan loss in 2011 is as follows:

	Outstanding loan portfolio		Allowance for loan loss	
	Amount	**Share of Total (%)**	**Percent (%)**	**Amount**
Normal Loans				
Current	21,766,168	97.54%	1%	217,662
1-30 days late	107,288	0.48%	25%	26,822
31-60 days late	21,020	0.09%	50%	10,510
61-90 days late	14,138	0.06%	50%	7,069
91-180 days late	23,075	0.10%	75%	17,306
More than 180 days	-	0.00%	100%	-
Prolonged in December	12,072	0.05%	50%	6,036

	Outstanding loan portfolio		Allowance for loan loss	
	Amount	Share of Total (%)	Percent (%)	Amount
Interest receivable	372,218	1.67%	0%	-
Delayed Loans	-	0%	-	-
Total	**22,315,979**	**100%**		**285,405**

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

	Outstanding loan portfolio		Allowance for loan loss	
	Amount	Share of Total (%)	Percent (%)	Amount
Normal Loans				
Current	14,209,743	97.66%	1%	142,098
1-30 days late	49,233	0.34%	25%	12,308
31-60 days late	14,126	0.10%	50%	7,063
61-90 days late	11,089	0.08%	50%	5,544
91-180 days late	13,779	0.09%	75%	10,335
More than 180 days	-	0.00%	100%	-
Prolonged in December	10,371	0.07%	50%	5,185
Interest receivable	218,123	1.50%	0%	-
Delayed Loans	24,342	0%	0	6,086
Total	**14,550,806**	**100%**		**188,619**

Movements in loan loss allowance:

	2011	2010
Loan loss allowance, 1 January	188,619	262,464
Loan loss provision expense	161,018	140,652
Loans written off expenses	(64,231)	(214,497)
Loan loss allowance, 31 December	**285,405**	**188,619**

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

	2011	2010
Loans collateralized by:		
Real estate	11,368,807	7,394,761
Gold	1,422,693	163,225
Inventory and equipment	660,045	3,914,517
Vehicles	334,909	59,638
Guarantor	41,976,082	10,352,907
	55,762,536	**21,885,048**

Information about loan principal and interest at 31 December is as follows:

Information About Loan portfolio	**2011**	**2010**
Principal	21,943,761	14,332,683
Interest Receivable	372,218	218,123
	22,315,979	**14,550,806**

Amount of the loans issued to an individual ranges from USD100 to USD10,000 (maximum 50,000 Georgian lari) with 4 to 24 month term (maximum 5 years).

The Organisation issues the loans at flat and declining interest rate. ALL business loans are issued by declined interest rate. Consumer loans are issued by flat interest rate. Depending on the type and the amount of loan the Interest rates can be from 20% to 42% per annum.

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.

Collaterals are evaluated by the Organization's expert-evaluator.

Amortized value of loans and information in accordance with the agreement of December 31 2011:

	Effective Rate	**Agreement**	**Deference**
Principal	21,943,761	21,733,393	210,368
Interest Receivable	372,218	387,608	(15,391)
	22,315,979	**22,121,001**	**194,977**

8. Held for sale assets

Information about held for sale assets at 31 December is as follows:

	2011	**2010**
Apartments	110,630	113,496
Vehicle	1,500	-
	112,130	**113,496**

Held for sale Long term Assets mainly include collateralized real estate.

Management plans realization of assets by auction or web site.

9. Other current assets

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

	2011	2010
Advance payments	42,779	27,074
Receivable from commission	10,780	7,180
Receivable from cash transfer	41,454	1,222
Receivable from deposit	53,198	-
Other receivables	12,318	44,441
Bad debt provision	-	(48,926)
	160,529	**30,991**

10. 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, 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**
Inflows	6,518	-	21,567	182,969	146,401	171,493	86,824	**615,772**
Outflows	-	-	(9,503)	(42,576)	(1,630)	(19,537)	(2,572)	**(75,818)**
Transfer to Held for sale	-	(8,673)	-	-	-	-	-	**(8,673)**
As at December 31, 2011	**95,408**	**77,335**	**66,488**	**342,524**	**346,191**	**301,350**	**284,044**	**1,513,340**
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)**
Accrued for the year	(2,739)	(11,001)	(16,546)	(55,955)	(57,014)	(59,699)	(21,876)	**(224,830)**
Accumulated depreciation of disposed fixed assets	-	7,173	9,503	42,576	1,630	19,537	2,572	**82,991**
As at December 31, 2011	**(17,192)**	**(37,093)**	**(31,760)**	**(98,749)**	**(125,336)**	**(108,960)**	**(81,444)**	**(500,534)**
Net book value								
As at December 31, 2010	**74,437**	**52,743**	**29,707**	**116,761**	**131,468**	**80,596**	**137,652**	**623,364**
As at December 31, 2011	**78,216**	**40,242**	**34,728**	**243,775**	**220,855**	**192,390**	**202,600**	**1,012,806**

11. Accounts payable

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

	2011	2010
Salary payables	74,598	-
Dividends of preferred shares	16,507	-
Trade payables	14,419	8,788
Uncertain amounts	20,246	12,919
Personal income tax payable	14,836	-
Property tax payable	2,019	-
Amounts received from former customer for redemption its property	-	7,700
Other payable	3,280	-
	145,905	**29,407**

12. Received loans

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

Current portion of long term loans	Currency	Maturity	Interest rate %	2011	2010
Microvest	USD	28-Oct-12	8.25%	1,129,989	622,317
Microvest II	USD	9-Nov-12	8.25%	280,501	147,733
Microcredit Enterprises	USD	30-Oct-13	10.00%	509,602	18,359
TBC Bank I	GEL	5-Apr-12	10.00%	859,678	-
TBC Bank II	GEL	7-Jun-11	15.00%	-	544,913
TBC Bank III	GEL	5-Apr-12	10.00%	342,656	-
TBC Bank IV	GEL	29-Apr-12	13.00%	504,769	-
Symbiotics/DUAL RETURN FUND SICAV	USD	2-Dec-12	8.50%	841,315	-
SICAV (mediator - Symbiotics Credit Suisse) II	USD	29-Apr-12	10.00%	846,104	-
SICAV (mediator – Symbiotics Credit Suisse) I	USD	23-Mar-11	10.50%	-	354,560
RURAL IMPULSE FUND SICAV-FIS	USD	29-Aug-13	8.50%	425,578	-
Rural Impulse Fund (mediator - Incofin IM)	USD	28-Feb-13	8.50%	430,130	628
EBRD I	GEL	31-Mar-13	Libor + 16%	368,834	388,021
EBRD II	USD	31-Mar-13	Libor + 6.49%	342,333	369,200
Oikocredit II	GEL	8-Nov-12	Libor + 14.64%	377,002	307,620
Oikocredit I	USD	28-Sep-14	8.50%	1,104	27,165

Current portion of long term loans	Currency	Maturity	Interest rate %	2011	2010
Ministry of Finance	USD	1-Feb-19	Libor + 2.43%	258,201	6,248
Ministry of Finance	GEL	1-Feb-19	Libor + 11.15%	91,575	12,912
SNS Fund II	GEL	15-Sep-13	14.50%	96,051	-
SNS Fund III	USD	17-Sep-13	9.50%	5,377	-
DWM III	USD	10-Sep-13	9.50%	8,066	-
Pettelaar II	GEL	15-Sep-13	14.50%	-	23,386
Pettelaar III	USD	17-Sep-13	9.50%	-	5,904
Symbiotics I	USD	23-Mar-11	10.50%	-	810
Symbiotics II	USD	29-Apr-12	10.00%	-	15,266
				7,718,865	**2,845,042**

Long-term loans	Currency	Maturity	Interest rate %	2011	2010
Ministry of Finance	USD	1-Feb-19	Libor + 2.43%	1,586,461	1,221,459
Ministry of Finance	GEL	1-Feb-19	Libor + 11.15%	440,741	323,176
Oikocredit I	USD	28-Sep-14	8.50%	1,169,210	1,240,960
Oikocredit II	GEL	8-Nov-12	Libor + 14.64%	-	275,835
RETURN FUND SICAV	USD	7-Jul-13	8.50%	870,792	-
RETURN FUND SICAV /financial inclusion fund	USD	19-Aug-13	8.50%	858,977	-
SNS Fund II	GEL	15-Sep-13	14.50%	846,703	921,605
SNS Fund III	USD	17-Sep-13	9.50%	334,060	354,560
Symbiotics/finetic	USD	22-Nov-13	8.75%	841,230	-
Microcredit Enterprises	USD	30-Oct-13	10.00%	509,316	1,063,680
DWM Funds S.C.A-SICAV SIF	USD	10-Sep-13	9.50%	501,090	-
RURAL IMPULSE FUND SICAV-FIS	USD	29-Aug-13	8.50%	427,935	-
Rural Impulse Fund (mediator - Incofin IM)	USD	28-Feb-13	8.50%	429,549	886,400
EBRD I	GEL	31-Mar-13	Libor + 16%	174,200	522,600
EBRD II	USD	31-Mar-13	Libor + 6.49%	167,030	531,840
Microvest	USD	28-Oct-12	8.25%	-	1,181,867
Microvest II	USD	9-Nov-12	8.25%	-	295,467
SICAV (mediator - Symbiotics Credit Suisse) II	USD	29-Apr-12	10.00%	-	886,400
				9,157,294	**9,705,849**

	Current		Non-current	
Long-term loans	**2011**	**2010**	**2011**	**2010**
Originated Borrowings	7,409,959	2,612,012	9,157,294	9,705,849
Accrued interest	308,906	233,030	-	-
	7,718,865	**2,845,042**	**9,157,294**	**9,705,849**

Loans received from TBC bank is colateralised by the deposit in TBC bank (cash cover). The amount of deposit equals 1,000,000 USD.

13. Deferred tax liabilities

Recognized liabilities 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
	2011	**2011**	**2011**	**2011**	**2011**
Property plant and equipment	-	(1,372)	(1,372)	(1,345)	-
Intangible assets	-	(1,402)	(1,402)	(1,922)	-
Gross loan portfolio	-	(29,247)	(29,247)	(29,247)	-
Receivable from penalties	-	(582)	(582)	(10,138)	-
Held for sale	1,650	-	1,650	1,650	-
Accounts payable	13,428	-	13,428	13,428	-
Permanent differences	-	(3,137)	(3,137)	(3,137)	-
Tax asset/(liabilities)	**15,078**	**(35,740)**	**(20,662)**	**(30,711)**	
Set off of tax	(15,078)	15,078			-
Net tax assets/(liabilities)	**-**	**(20,662)**	**(20,662)**	**(30,711)**	**-**

	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**	**-**

	2011	2010
At 1 January	10,049	1,888
Recognized in profit and loss	-	-
Tax income (expense)	(30,710)	8,161
Recognized in other comprehensive income	-	-
At 31 December	**(20,661)**	**10,049**

14. Share capital

Share capital as at December 31 can be presented as follows:

Shareholder	Number of shares	Common/ Preferred	Share%	Nominal (GEL)	Capital (GEL)
DWM Funds S.C.A-SICAV SIF	465,115	Common	23.30%	1	465,115
Archil Bakuradze	451,165	Common	22.60%	1	451,165
Malkhaz Dzadzua	320,469	Common	16.06%	1	320,469
"Crystal" Fund	296,910	Common	14.88%	1	296,910
Davit Bendeliani	191,158	Common	9.58%	1	191,158
Alu Gamaxaria	120,371	Common	6.03%	1	120,371
Paata Tsotsonava	95,520	Common	4.79%	1	95,520
Keith Young	55,305	Common	2.77%	1	55,305
DWM Funds S.C.A-SICAV SIF	183,129	Preferred	0.00%	1	183,129
	2,179,142		**100%**		**2,179,142**

15. Interest income

Interest income for 2011 can be presented as follows:

	2011	2010
Interest income	6,070,589	3,873,270
Commission fee	644,045	478,944
Commission fee from prepaid loans	261,299	178,779
Other income	18,981	-
	6,994,914	**4,530,993**

16. Income/expenses from penalties

Income (expenses) from penalties for 2011 can be presented as follows:

	2011	2010
Income from penalties	110,857	325,434
Penalties written off	(231,057)	-
	(120,200)	**325,434**

17. Other income

Other income for 2011 can be presented as follows:

	2011	2010
Income from deposit	89,899	25,773
Financial service fee	27,801	29,172
Net gain from convert of exchange currency	17,201	28,628
Income from other penalty	12,080	3,539
Return of Court fees	2,317	12,686
Other income	73	5,531
	149,371	**105,329**

18. Interest expenses

Interest expenses for 2011 can be presented as follows:

	2011	2010
TBC Bank	(174,976)	(204,769)
SNS Fund (mediator - Developing World Market Asset Manager)	(166,032)	-
Oikocredit	(160,577)	(59,234)
EBRD	(156,109)	(124,454)
Microvest	(154,376)	(31,254)
symbiotics/DUAL RETURN FUND SICAV	(114,970)	(93,148)
Microcredit Enterprises	(101,181)	(18,287)
Ministry of Finance	(83,889)	(36,787)
SICAV (mediator - Symbiotics Credit Suisse)	(80,865)	-
Rural Impulse Fund (mediator - Incofin IM)	(72,140)	(628)
RURAL IMPULSE FUND SICAV-FIS	(56,584)	-
DWM Funds S.C.A-SICAV SIF	(44,016)	-
Deutche Bank	-	(128,787)
Pettelaar	-	(149,526)
Cordaid	-	(4,686)
Commissions regarding loans received	(22,510)	(178,036)

	2011	2010
Dividends of preferred share	(16,431)	-
	(1,404,656)	**(1,029,596)**

19. Loans written off/recovered

Loans written off/recovered for 2011 can be presented as follows:

	2011	2010
Principal written off	(64,231)	(214,497)
Principal recovered	159,989	231,411
Interest written off	(15,767)	(38,266)
Interest recovered	49,976	57,345
	129,967	**35,993**

20. General and administrative expenses

General and administrative expenses for 2011 can be presented as follows:

	2011	2010
Office Rent	(268,676)	(192,826)
Utilities and communication	(160,051)	(112,320)
Fuel expenses	(122,707)	(96,103)
Car rent	(121,118)	(78,150)
Organization membership fees	(105,596)	(97,921)
Repair and maintenance	(102,139)	(66,091)
Tax expense	(58,520)	(86,564)
Audit and consulting services fees	(61,429)	(81,149)
Bank fees commission	(50,402)	(62,653)
Social project	(39,164)	(5,916)
Expenses for staff qualification	(34,926)	(40,567)
Security expenses	(32,905)	(36,379)
Business trips	(29,466)	(18,000)
Stationery	(29,455)	(25,234)
Insurance expense	(23,197)	(11,076)
Representative expense	(5,964)	(11,956)
Other general expenses	(22,243)	(44,838)
	(1,267,958)	**(1,067,743)**

Organisation gained grant of EBRD. Employees of the company were trained of qualification gaining courses, which were financed by EBRD. Total cost of training was 100 000 USD. The grant did not satisfied requirements of revenue recognition by IAS-18, so this grant did not reflected to the financial statement.

21. Salaries and bonuses

Salaries and bonuses for 2011 can be presented as follows:

	2011	2010
Salary	(1,523,963)	(1,200,152)
Bonus	(353,893)	(178,148)
Premium	(216,973)	(112,941)
Insurance	(50,479)	(42,808)
Other	(8,171)	(3,502)
	(2,153,479)	**(1,537,551)**

22. Gain/loss from fixed asset disposal and impairment

Gain/loss from fixed asset disposal and impairment for 2011 can be presented as follows:

	2011	2010
Loss from held for sale impairment	(11,002)	-
Loss from held for sale disposal	(11,522)	-
Gain from fixed asset disposal	-	80,786
	(22,524)	**80,786**

23. Unrestricted revenue from received grants

On June 2011 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 Samegrelo – Zemo Svaneti region purposes. The total amount of the project was up to USD100,000. The duration of project is June 2, 2011 to December 10, 2011.

Grant was received for special purposes:

- All loans disbursed must support the populations residing and operating in 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 40% of all loans disbursed must support income generation activities within the agricultural sector
- A minimum of 50% of all loans disbursed must support women entrepreneurs
- A minimum of 10 loans disbursed must support start-up enterprises (e.g., a loan recipient, who began performing income generation activities within three months or less of receiving the loan)
- A minimum of 50% of all loans disbursed must be to the populations residing and operating in rural communities

- A minimum of 60% of all loans disbursed must not exceed GEL 2,500.00 per household
- A maximum of 40% of all loans disbursed must not exceed GEL 2,500.00 but will not exceed GEL 5,000 per household.
- A minimum of 30 loans disbursed must support the direct clients of the Business Educational and Consultation Program of the Shota Meskhia State Teaching University of Zugdidi

The Recipient Institution agrees to receive, renew and consider business plans, which were prepared with the support of the Implementing Partner's business development service providers and submitted by the loan applicants in addition to loan applications.

The recipient Institution is expected to disburse the full amount of Georgian lari (GEL) equivalent of USD 100,000.00 to the project's beneficiaries/borrowers in accordance to the Lending Criteria.

24. Income tax expenses

Income tax expenses for the year ended December 31, 2011 can be presented as follows:

	2011	2010
Income tax at the rate of 15%	(316,306)	(226,894)
Effect of previous period income tax return adjustment	-	3,653
Deferred income tax at the rate of 15%	(30,710)	8,161
Expenses related to income tax at the rate of 15%	**(347,016)**	**(215,081)**

Reconciliation of Effective Tax Rate and the Effective One

	2011	2010
Income before taxation	2,118,078	1,576,447
Income tax rate	15%	15%
Theoretical income tax	(317,712)	(236,467)
Permanent differences	(29,305)	21,386
Income tax expenses	**(347,017)**	**(215,081)**

25. 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

	2011	2010
Profit / Loss attributable to the Company's equity holders	1,771,061	1,361,366
Weighted average number of ordinary shares in issue	1,647,177	1,530,898
Basic earnings per share	1.08	0.89

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.

26. 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	2011	2010
Loans granted			
Metreveli Maka	Tbilisi Branch Manager	-	939
Chukhua Medea	Group Manager	113	-
Megeneishvili Giorgi	Risk Manager	2,876	7,907
Chitaishvili Manuchar	Interim Auditor	1,570	1,036
Giorgobiani Tamar	Risk Manager	-	1,499
Dzhordzholiani Vladimer	IT Manager	-	2,504
Gegeshidze Nikoloz	lawyer Manager	-	400
Fichkhaia Demna	Credit Manager	1,218	2,720
Khublava Sofio	Chief Accountant	-	4,531
Kukulava Levan	Credit Manager	245	2,962
Phaiqadze Giorgi	Quality Control Manager	1,899	-
Other staff	Other staff	40,908	44,326
		48,829	**68,824**

Balance sheet caption	Relationship	2011	2010
Borrowings			
DWM Funds S.C.A-SICAV SIF	Shareholder	1,791,348	-
		1,791,348	**-**

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.

Income Statement caption	Relationship	2011	2010
Interest on loans granted			
Metreveli Maka	Tbilisi Branch Manager	111	200
Bendeliani Davit	Financial Manager	-	243
Chukhua Medea	Group Manager	445	-
Megeneishvili Giorgi	Risk Manager	1,011	1,219
Jishkariani Manana	Group Manager	85	322
Manuchar Chitaishvili	Internal auditor	158	348
Giorgobiani Tamar	Risk Manager	32	329
Dzhordzholiani Vladimer	IT Manager	188	737
Gegeshidze Nikoloz	lawyer Manager	8	130
Javakhadze Sofio	Group Manager	34	606
Shedania Lasha	Zugdidi Branch Manager	-	111
Fichkhaia Demna	Credit Manager	287	647
Khublava Sofio	Chief Accountant	240	460
Kukulava Levan	Credit Manager	356	742
Phaiqadze Giorgi	Quality Control Manager	283	-
Other staff	Other staff	9,536	7,836
		12,774	**13,930**

Income statement caption	Relationship	2011	2010
Interest expenses			
DWM Funds S.C.A-SICAV SIF	Shareholder	(210,048)	-
Rendering of service			
"Crystal" Fund	Shareholder	9,785	-
Transfer of social benefit			
"Crystal" Fund	Shareholder	(17,137)	-
Transfer of social benefit			
Charity humanitarian centre "Abkhazeti"	Company's shareholder is chairmen of charity humanitarian centre "Abkhazeti"	(17,394)	-
		(234,794)	**-**

The top management of the organisation are defined as Chief Executive Officer, Chief Financial Officer and Credit Director.

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

Income statement caption	2011		2010	
	Key management salaries	Salaries total	Key management salaries	Salaries total
Salaries and bonuses	233,820	2,153,479	193,468	1,537,551

27. 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.

Lease agreements

The company has Head office and service centers by operational lease. Maximum lease period is to 2021 year. The company has potential commitments for future lease payments.

Lease payments for next year in December 31 include:

Contingencies and Commitments	2011	2010
Within one year	244,105	151,629
Later than one year but within five years	446,260	301,299
Later than five years	32,718	52,868
	723,083	**505,796**

28. 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.