

**JSC Microfinance Organization**  
**“CRYSTAL”**

*Financial Statements for the year ended 31 December 2008  
and Independent Auditors' Report*

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საქართველოს აუდიტორული და საკონსულტაციო კომპანია  
**Georgian Audit & Consulting Company**

**A Horwarth Business Alliance Association**

**INDEPENDENT AUDITOR'S REPORT**

**To the Supervisory Board of the JSC Microfinance Organization "CRYSTAL"**

We have audited the accompanying balance sheet of the JSC Microfinance Organization "Crystal" ("The Company") as of 31 December 2008, and related statements of income and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. 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 and Georgian Legislation. Those Standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Company present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and the results of its operations for the year then ended, in accordance with International Accounting Standards and requirements of Georgian legislation.

***Georgian Audit and Consulting Company***  
***A Horwarth Business Alliance Associate***

*February 10, 2009*

GACC



**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

**BALANCE SHEET**

*for the year ended December 31, 2008 (In GEL)*

	notes	2008	2007
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	1	476,354	214,130
Gross loan portfolio	2	6,894,297	7,469,985
Loan loss reserve	2	(214,230)	(105,562)
Net loan portfolio	2	<b>6,680,067</b>	<b>7,364,423</b>
Interest receivable	3	146,808	107,624
Other current assets		49,341	45,012
<b>Net current assets</b>		<b><u>7,352,570</u></b>	<b><u>7,731,189</u></b>
<b>Long-term assets</b>			
Fixed assets, net	4	315,699	312,489
Intangible fixed assets, net	4	29,793	30,681
Holdings in other entities		-	39,690
Deferred tax asset		107,113	89,266
<b>Net long-term assets</b>		<b><u>452,604</u></b>	<b><u>472,125</u></b>
<b>TOTAL ASSETS</b>		<b><u><u>7,805,174</u></u></b>	<b><u><u>8,203,314</u></u></b>
<b>LIABILITIES &amp; CAPITAL</b>			
<b>Current liabilities</b>			
Accounts payable to suppliers		19,670	10,987
Short-term loan	5	16,520	1,196,455
Current portion of long-term loan	6	1,140,228	775,070
Accounts payable to founders		-	98,559
Tax payable	7	97,000	46,224
Interest payable		76,673	49,182
<b>Total current liabilities</b>		<b><u>1,350,091</u></b>	<b><u>2,176,477</u></b>
<b>Long-term liabilities</b>			
Long-term loan	8	4,307,459	4,405,483
<b>Total long-term liabilities</b>		<b><u>4,307,459</u></b>	<b><u>4,405,483</u></b>
<b>Total liabilities</b>		<b><u><u>5,657,550</u></u></b>	<b><u><u>6,581,960</u></u></b>
<b>Equity</b>			
Owner's equity	9	1,530,898	1,530,898
Current year's profit		616,726	90,456
<b>Total equity</b>		<b><u>2,147,624</u></b>	<b><u>1,621,354</u></b>
<b>Total liabilities and equity</b>		<b><u><u>7,805,174</u></u></b>	<b><u><u>8,203,314</u></u></b>

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*The accompanying notes are an integral part of these financial statements.*

**JSC Microfinance Organization “Crystal”  
Notes to Financial Statements**

***INCOME STATEMENT***

***For the year ended December 31, 2008 (in GEL)***

	Notes	2008	2007
<b>Revenues</b>	10		
Interest income		2,849,982	708,228
Financial service fee		145,172	56,004
Penalties		196,526	36,650
Income from exchange rate		14,751	-
Other revenues		15,818	11,380
<b>Total revenues</b>		<b><u>3,222,249</u></b>	<b><u>812,261</u></b>
 <b>Expenses</b>	 11		
General and administrative expenses		1,634,577	400,076
Interest expense		582,250	199,439
Taxes		44,610	15,872
Depreciation and amortization		118,658	33,220
Interest expense from written off loans		5,228	205
Exchange rate difference expense		-	17,540
Loan loss provision expenses		96,053	27,984
Audit and consulting		15,313	4,856
<b>Total expenses</b>		<b><u>2,496,689</u></b>	<b><u>699,192</u></b>
 <b>PROFIT/LOSS BEFORE TAXATION</b>		 <b><u>725,560</u></b>	 <b><u>113,070</u></b>
Profit tax	12	<b><u>108,834</u></b>	<b><u>22,614</u></b>
<b>NET PROFIT</b>		<b><u>616,726</u></b>	<b><u>90,456</u></b>

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*The accompanying notes are an integral part of these financial statements.*

**JSC Microfinance Organization “Crystal”  
Notes to Financial Statements**

***CASH FLOW STATEMENT***

***For the year ended December 31, 2008 (in GEL)***

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2008</b>	<b>2007</b>
<b>Net profit</b>	<b>616,726</b>	<b>90,456</b>
<b>Adjustments:</b>		
Financial Investment	-	622,997
Cash investment	(90,456)	
Depreciation and amortization	118,658	23,905
<b>Net profit after Adjustments</b>	<b>644,928</b>	<b>737,357</b>
Short-term accounts receivable	683,308	(3,030,165)
Paid advances	(3,281)	(3,952)
Interest receivable	(39,184)	(39,711)
Deffered tax asset	(17,847)	(7,738)
Short-term liability	(62,385)	188,412
Tax liability	50,775	46,224
<b>Net cash flow from operating activities</b>	<b>1,256,315</b>	<b>(2,109,573)</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Changes in fixed assets	(113,107)	(6,996)
Changes in intangible fixed assets	(7,872)	(6,691)
Changes in of investmen of other Organisations equity	39,690	
<b>Net cash flow from investing activities</b>	<b>(81,290)</b>	<b>(13,687)</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
Sort-term loan	(1,179,935)	1,207,921
Long-term loan	267,134	1,129,469
<b>Net cash flow from financial activities</b>	<b>(912,801)</b>	<b>2,337,390</b>
<b>Net cash flow</b>	<b>262,223</b>	<b>214,130</b>
<b>Cash balance at the beginning of the year</b>	<b>214,130</b>	<b>-</b>
<b>Cash balance at the end of the year</b>	<b>476,354</b>	<b>214,130</b>

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*The accompanying notes are an integral part of these financial statements.*

**JSC Microfinance Organization “Crystal”  
Notes to Financial Statements**

***CHANGES IN SHAREHOLDERS’ EQUITY***  
***For the year ended December 31, 2008 (in GEL)***

	<b>2008</b>	<b>2007</b>
Shareholders’ equity at the beginning of the period	<u><b>1,621,354</b></u>	<u>-</u>
Emission of stocks	-	1,530,898
Dividends	(90,456)	-
Net profit	616,726	90,456
Shareholders’ equity at the end of the period	<u><b>2,147,624</b></u>	<u><b>1,621,354</b></u>

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*The accompanying notes are an integral part of these financial statements.*

**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

***NOTES TO FINANCIAL STATEMENTS***

**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. Company’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 Company. The legal address of the company is: # 72 Tamar Mepe St. Kutaisi, Georgia.

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

The company is established with the purpose of making a profit on the basis of independent entrepreneurial activity. The company 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 company’s financial products are: individual business loans, group loans, consumer loans, housing loans and long-term credit lines.

The loan agreements with borrowers were made according to the loan products both in a foreign and national currency. Loan disbursements and repayments were made in national currency at the rate defined by the National Bank of Georgia for the date of disbursement and repayment. Lending operations are conducted through bank accounts and cash office set up in Kutaisi branch since the 1<sup>st</sup> of May, 2008, according to the Standards by the National Bank of Georgia.

Company has a head office (Kutaisi), four regional branches (Kutaisi, Zugdidi, Poti, Tbilisi) and eight service centers (Kutaisi, Ozurgeti, Samtredia, Senaki, Khoni, Mestia, Chkhorotsku, Lanchkhuti). The lending operations are conducted through 4 partner banks, using 12 bank accounts.



# JSC Microfinance Organization “Crystal”

## Notes to Financial Statements

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

The financial statements include period from 1 January 2008 to 31 December 2008. The financial statements have been prepared in accordance with International Accounting Standards (IAS), established accounting norms of Georgia and internal financial regulations of the organization.

A general basis of organization’s accounting policy is IAS main assumptions – the accrual method and the going concern.

The organization conducts accounting operations with the licensed accounting software "Oris" and specialized loan operation accounting software “Loan keeper”. Bank operations are conducted by “bank client” and internet banking systems.

From 2008 the organization’s accounting software was shifted according to the new chart of accounts for microfinance organization, which is similar to one applied to commercial banks, herewith assets between them loans to costumers were converted in original currency (before loans were distributed in Georgian lari by the National Bank exchange rate and exchange differences were accounted by the software “Loan-Keeper”) from January 1, 2008 in software “Oris” distributing and covering of loans stated as original currency as well as in equivalents; for the end of month revaluation of receivables and payables accounted in foreign currency are conducted according to the National Bank exchange rate.

Organization was registered on April 1, 2008 in Georgian Financial Supervision Agency and is reporting to this agency. Organization conducts its activities in accordance with the Georgia’s Law on Prevention of Legalization of Illegal Income and provides necessary reporting to the Financial Supervision Agency.

#### Cash

Financial operations in 2008 were carried out both in national and foreign currencies (USD, EUR). Transactions in foreign currencies are accrued into GEL at the official exchange rate of the National Bank of Georgia for the date of a transaction. At the end of the financial year the value of all assets and liabilities in foreign currencies has been presented in the national currency according to the official exchange rate of the National Bank. The official exchange rates for the principal currency as of 31 December 2008 were:

	USD	EUR
1 Lari	<b>1,6670</b>	<b>2,3648</b>

#### Fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. An asset is considered a fixed asset when its useful life exceeds one year. Original historical cost of a fixed asset consists of purchase price, non-recoverable taxes and other expenses directly related to putting a fixed asset into use.

## **JSC Microfinance Organization “Crystal” Notes to Financial Statements**

Fixed assets are considered on purchase value with deduction of depreciation. Cost of fixed assets purchase includes all charges which are related to putting an asset to use and achieving necessary condition. Charges related to reparations are recognized as expense upon they have been incurred.

Value of liquidated and sold fixed assets and corresponding amount of depreciation is written off and reflected in the profit and loss account.

Depreciation is charged on the annual basis according to the historical cost for all fixed assets using the straight-line method. Rates for the main fixed asset groups are the following:

Buildings	4 %
Vehicles	33 %
Furniture and equipments	33 %
Office equipments	25 %

The organization timely conducted inventory of goods according to the financial and administrative regulations and all fixed assets are appropriately marked.

### **Revenue and expense recognition**

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

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

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

The interest is calculated according to the loan repayment schedule, which is individually agreed for each loan. Interest income, calculated by repayment schedule doesn't present interest profit calculated by the effective interest rate that is not within of the IAS. This is caused by company's IT system which doesn't enable to calculate profit by the effective interest rate.

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

Company accounts expenses on the accrual basis according to the IAS.

### **Taxation**

The company pays property tax of 1% from the average annual property cost and profit tax of 20%.

The company was obliged to deduct 25% of income tax on salaries.

# JSC Microfinance Organization “Crystal”

## Notes to Financial Statements

### LOANS

#### Basis of presentation

Loans are presented as disbursed loans and provision for loan losses.

The loan loss provision 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 Company’s management.

#### Loans reserve policy

The provision for loan losses depends on delinquencies and the level of risk. Actual losses on loans may differ from the current estimate.

Considering the absence of reliable information on borrowers’ solvency, it is almost impossible to determine expected losses precisely. Despite these circumstances, the management of the company believes that it made the best possible estimate on possible losses on loans, and that the present amount of reserve is adequate.

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

Generally, calculation of loan loss provision is conducted on a monthly, quarterly and annual basis.

#### 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.

#### Loan prolongation policy

Loan prolongation is regulated by the Crystal’s Loan Methodology. According to the procedure, sometimes it is possible to make prolongation of loans within the repayment schedule (mainly before next payment). Any type of loan restructuring and refinancing is forbidden.

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

**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

**Loan portfolio quality**

a) Portfolio in Arrears as of December 31, 2008 (in GEL)

Delinquencies Days	Kutaisi branch	Zugdidi branch	Poti branch	Tbilisi branch	All Total
1-30 days	12,851.25	7,366.77	1,148.75	2,458.12	<b>23,824.89</b>
31-60 days	4,672.36	1,868.93	205.44	1,072.22	<b>7,818.95</b>
61-90 days	-	587.12	2,671.55	2,183.57	<b>5,442.24</b>
91-180 days	2,159.00	1,119.16	6,067.20	2,565.96	<b>11,911.32</b>
181 days and more	-	-	-	-	-
<b>Total:</b>	<b>19,682.61</b>	<b>10,941.98</b>	<b>10,092.94</b>	<b>8,279.87</b>	<b>48,997.40</b>

b) Portfolio at risk as of December 31, 2008 (in GEL)

Delinquencies Days	Kutaisi branch	Zugdidi branch	Poti branch	Tbilisi branch	All Total
1-30 days	159,988.44	46,487.42	34,860.71	57,379.51	<b>298,716.08</b>
31-60 days	18,342.43	7,081.37	762.67	36,109.79	<b>62,296.26</b>
61-90 days	-	1,389.20	16,014.64	2,183.57	<b>19,587.41</b>
91-180 days	2,432.66	1,119.16	31,043.89	7,006.92	<b>41,602.63</b>
181 days and more	-	-	-	-	-
<b>Total:</b>	<b>180,763.53</b>	<b>56,077.15</b>	<b>82,681.91</b>	<b>102,679.79</b>	<b>422,202.38</b>

**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.

**Interest accrual on overdue loans**

Interest is accrued on overdue loans for the loan repayment period defined by loan agreement. After expiration of this period the interest is not accrued.

**Risk management policies**

Management of risk is fundamental to the microfinance organization and is an essential element of the operations. The main risks inherent to the company’s operations are related to credit, liquidity and market changes (interests and foreign exchange rates). Risk management policies of the company are tailored to unpredictable financial market and the main goal of the policy is to reduce impact to the minimal level. Risk management is accomplished by the senior management under the supervision of the Supervisory Board.

**Liquidity risk**

Liquidity risk is controlled by the company’s management. As of December 31, 2008 management believes, there is no substantial liquidity risk, because of high liquidity of current assets.

## **JSC Microfinance Organization “Crystal” Notes to Financial Statements**

### **Credit risk**

Organization is exposed to credit risk which occurs if the borrower is unable to repay the loan amount within the agreed schedule. The management regularly conducts an analysis of borrowers and market opportunities. A large part of loan portfolio is held in hard currency (appropriate USD rate in GEL). Also, important part of loans is secured by different types of collateral, which significantly reduces credit risk.

### **Market risk**

Company is exposed to market risk related to currency exchange and interest rate fluctuation. Management with the Supervisory Board establishes the risk limit, which is monitored on the regular basis. Despite, company cannot fully avoid such risks in case of significant changes on the market.

**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

**1. Cash**

For the year ended December 31, 2008:

	<b>2008</b>	<b>2007</b>
	(GEL)	(GEL)
Cash on hand	12,231	697
Cash in Bank	464,123	213,433
<b>Total:</b>	<b>476,354</b>	<b>214,130</b>

Cash resources of the organization are placed in four banking establishments on current, currency and depositary (poste restante) accounts opened by the organization.

The organization has been increasingly protected from a liquidity problem by the decision of the Supervisory Board to allocate at the end of 2008 the reserve of 200,000 US dollars, half of this sum of 100 thousand US dollars has been placed in the Kutaisi branch of TBC Bank, under the project "My Safe" under 7 % of the annual and the second part, for the purpose of a diversification of resources has been placed on depositary account in the Bank Republic Societe Generale, under 3% annual rate. The mentioned reserve is kept free and it cannot be utilised as a collateral for borrowing from these banks.

**2. Loans**

Loans portfolio by types of loans in Gel for the year ended December 31, 2008:

	<b>2008</b>	<b>2007</b>
	(GEL)	(GEL)
Standard micro-loans	343,849	602,520
Express micro-loans	1,995,219	1,488,550
Agro-Business Loans	573,495	856,275
Special micro-loans	622,161	786,621
Consumer loans	851,325	1,815,916
Repair loans	1,075,490	909,137
Educational loans	25,644	28,529
Car purchase	89,229	142,657
Travel loans	-	2,957
Universal loans	551,454	55,390
Insiders loans	246,912	213,766
Group loans	10,724	15,112
Credit Line	205,766	84,565
Mortgage loans	303,029	467,991
<b>Total Loan Portfolio</b>	<b>6,894,297</b>	<b>7,469,985</b>
Loan loss reserve	(214,230)	(105,562)
<b>Net Loan Portfolio</b>	<b>6,680,067</b>	<b>7,364,423</b>

**JSC Microfinance Organization “Crystal”  
Notes to Financial Statements**

**Loan loss reserve:**

<b>Delay</b>	<b>Sum</b>	<b>%</b>	<b>Reserve</b>
1-30 day	298,716	25	74,679
31-60 day	62,296	50	31,148
61-90 day	19,587	5	9,794
90-180 day	41,603	75	31,202
181 and more day	-	100	-
<b>Total</b>	<b>422,202</b>		<b>146,823</b>
Delayed loan	11,194	25	2,799
Healthy Portfolio	6,640,901	1	64,609
<b>Total</b>	<b>6,894,297</b>	<b>3,11</b>	<b>214,230</b>

**3. Interests Receivable**

Interests receivable is presented in the balance sheet as an amount which was accrued as of December 31, 2008 in accordance with the loan depreciation table.

**4. Fixed and Intangible Assets**

Schedule below represents changes in fixed assets during year 2008 and their structure as of December 31:

	<b>Buildings</b>	<b>Office Equipment</b>	<b>Vehicles</b>	<b>Furniture</b>	<b>Other Fixed Assets</b>	<b>Property Improvement</b>	<b>Total</b>
<i>Historical value</i>							
<b>December 31, 2007</b>	131,091	150,235	33,814	33,205	54,668	10,713	<b>413,725</b>
Acquisition	0	37,917	0	15,769	28,563	47,633	<b>129,883</b>
Liquidation and write off	(13,000)	(5,475)	(7,003)	(3,955)	(11,745)	0	<b>(41,178)</b>
<b>December 31, 2008</b>	<b>118,091</b>	<b>182,677</b>	<b>26,811</b>	<b>45,019</b>	<b>71,486</b>	<b>58,347</b>	<b>02,430</b>
<i>Accumulated Depreciation</i>							
<b>December 31, 2007</b>	10,092	46,807	11,263	11,837	19,453	1,785	<b>101,236</b>
Accrued during the period	4,238	56,209	4,562	13,535	21,761	9,593	<b>109,898</b>
Liquidation and write off	(1,200)	(5,475)	(3,152)	(3,955)	(10,621)	0	<b>(24,403)</b>
<b>December 31, 2008</b>	<b>13,129</b>	<b>97,540</b>	<b>12,673</b>	<b>21,417</b>	<b>30,593</b>	<b>11,379</b>	<b>86,731</b>
<i>Net Balance Value</i>							
<b>December 31, 2007</b>	<b>120,999</b>	<b>103,428</b>	<b>22,551</b>	<b>21,368</b>	<b>35,215</b>	<b>8,928</b>	<b>312,489</b>
<b>December 31, 2008</b>	<b>04,962</b>	<b>85,137</b>	<b>14,138</b>	<b>23,601</b>	<b>40,893</b>	<b>46,968</b>	<b>315,699</b>

**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

Schedule below represents changes in intangible assets during year 2008 and their structure as of December 31:

	<b>Intangible Assets</b>
<i>Historical value</i>	
<b>December 31, 2007</b>	43,331
Acquisition	7,872
Liquidation and write off	(540)
<b>December 31, 2008</b>	<b>50,663</b>
 <i>Accumulated Depreciation</i>	
<b>December 31, 2007</b>	12,650
Accrued during the period	8,760
Liquidation and write off	(540)
<b>December 31, 2008</b>	<b>20,870</b>
 <i>Net Balance Value</i>	
<b>December 31, 2007</b>	<b>30,681</b>
<b>December 31, 2008</b>	<b>29,793</b>

**5. Short-term Loans**

Short-term loan of 16,520 Gel is a loan received from the Charity Humanitarian Center "Abkhazeti" with annual interest rate 12%, the loan balance for the December 31, 2008 is 16,520 Gel. Loan will be repaid in 2009.

**6. Current Portion of Long-term Loan**

Current portion of the long-term liabilities 1,140,228 GEL comprises the following:

1. Part of the loan received from Dutch organization "Cordaid" in 2004-2005. 84,000 USD (140,028 GEL) should be repaid in 2009. Loan period is 4 years. Interest rate is 6%. Payments of principal and interest are made every 6 months;
2. Part of a long-term loan of 100,000 USD (159,160 GEL) received in 2006 from Dutch organization "Oikocredit". This loan should be covered in 2009. Credit is received for 3.5 years. Interest rate is 12%. Payments are made semi-annually;
3. Part of a loan received in 2008 from "Symbiotics" in amount of 833,500 GEL (500,000 USD). Loan received for 1.5 years. Interest rate is 10.5%. Loan should be covered in October 2009.



**JSC Microfinance Organization “Crystal”  
Notes to Financial Statements**

**7. Tax Liabilities**

For the year ended December 31, 2008:

	<b>2008</b>	<b>2007</b>
	(GEL)	(GEL)
Income Tax	96,329	30,352
Personal Income Tax	-	14,711
Property Tax	671	1,161
<b>Total:</b>	<b>97,000</b>	<b>46,224</b>

**8. Long-term Loans**

Long-term loans of 4,307,459 comprises:

1. Part of loan from Dutch organization "Cordaid" which will be covered in year 2010 (139,959 GEL).
2. In 2006-2007 organization received credit line of 2 million USD from the US-based financial organization "Deutsche Bank Micro Finance Consortium". Duration of the credit line is 4,5 years. Interest payment is made every year, twice a year with interest rate libor plus 5%. Principle amount will be repaid in 2010. Liability as of December 31, 2008 amounts 3,334,000 GEL (2 million USD).
3. In year 2007 the loan was received from Dutch Public limited company "Pettelaar Effectenbewaarbedrijf N.V." (Via "Deweloping World Market") in amount of 500,000 USD for 3 years with annual interest rate 10,875%. Interest payment is made twice in a year, while principal payment is made at the end of the period in year 2010. Liability as of December 31 2008 is 833,500 GEL (500,000 USD).

**9. Owner's Equity**

In result of reorganization of “Crystal” Fund, on August 23, 2007 the JSC “Crystal” was established which acquired all assets and liabilities of the Fund. The statutory capital was evaluated as of August 13, 2007 and its value was 1,530,898 GEL.

Loans (see Annex 1)	4,174,874	GEL
Minus loans loss reserve	(75,983)	GEL
Net loans	4,098,891	GEL
Interest receivable (see Annex 2)	82,835	GEL
Other current assets (see Annex 3)	42,706	GEL
Fixed assets (see Annex 4)	331,197	GEL
Intangible assets (see Annex 5)	26,790	GEL
Other long-term assets (see Annex 6)	121,612	GEL
<b>Total assets</b>	<b>4,704,031</b>	<b>GEL</b>

**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

Credit liabilities	3,461,476	GEL
Interest liabilities	50,619	GEL
Other short-term liabilities	5,560	GEL
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Total liabilities (See Annex 7)	3,517,655	GEL
Total contribution to the statutory Capital taking account of liabilities	1,530,898	GEL

**10. Revenues**

**Interest revenue**

Interest revenue is recognized in income statement on the accrual basis. Interest revenue represents interests on disbursed loans. Depending on the type and the amount of loan, the interest rates can be fixed (flat) or declining from 18% to 36% per annum. Customers taking flat interest rate loans receive the benefit in case of earlier repayment of the loan (20% of total interest).

**Revenue from financial services**

Revenue from financial services (145,172 GEL) comprises: commission fees paid by borrowers 127,438 (1-2% of disbursed loan, regulations on each borrower, except insider’s loan) group loan recipients for the loan disbursement procedures and commission fee paid by partner trading organizations for the financial services, (17,494,70 GEL) which is paid every month on basis of presented invoices, and other commissions - 240,00 GEL this include commission precious metal change in bank and given valuable notification.

**Revenue from penalties**

Revenue from penalties (196,526 GEL) includes amount, which is paid by borrowers in case of violating the loan agreement. The penalty is paid only for the principal amount and makes up 2% on every overdue day penalty payment from borrower goes to company’s bank account. If client informs company 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. The bylaws regulate penalties procedure for more than a moth overdue loans. The penalties paid by borrowers are reflected in the loan Management Information System and every day is transferred into the accounting software ”Oris”.

**The income from exchange rate difference**

The income and expense from the exchange rate difference is generated form organization’s lending and other operations. In case of lending operations the exchange rate difference occurs firstly due to the difference in exchange rate of the National Bank for the day of disbursement and loan repayment, secondly due to the difference in accrual and repaid interest. The difference is also generated from other financial operations.

Because of significant fluctuation of exchange rate in 2008 (in November), from revaluation of assets and liabilities company received a significant loss from revaluation of USD liabilities and significant profit from loans in USD. Total income received from this operation for the year end consist 14,750 GEL (income - 1,662,006 and loss - 1,647, 256)

**JSC Microfinance Organization “Crystal”**  
**Notes to Financial Statements**

**Other revenues**

Other revenues (15,818 GEL) include:

1. Revenues from internships 8,255 GEL. Organization offers 3 month education services for interns. Each intern pays 50 GEL per month.
2. Other revenues also include the revenue from sales of fixed assets. 3.557 GEL (realization one car and computer technique)
3. Account on deposit interest from banks. 1,399 GEL (100 thousand USD annually 7% and 100 thousand USD annually 3%)
4. Payment of insurance premium of 1,366 Lari (there was a burglary of Lanchkhuti service centre in 2008 and office inventory was stolen; the investigation is still in process).
5. Other income includes from the cash office surplus and income from transferring an investment into the loan.

**11. Expenses**

Expenses during financial year 2008 consist of the following items:

	<b>2008</b>	<b>2007</b>
	<b>GEL</b>	<b>GEL</b>
Salaries and bonuses	1,094,824	214,710
Interest expenses on credits and loans	582,250	199,439
Social benefits	4,028	42,942
Other general expenses	44,318	38,669
Depreciation and amortization	118,658	33,220
Loan loss provision expense	96,053	27,984
Bank fees commission	46,655	18,400
Currency difference expense	-	17,540
Office Rent	108,713	16,900
Taxes	44,610	15,872
Petrol and Oil expenses	72,680	14,808
Advertisement	24,774	10,255
Car rent	77,845	9,088
Commission fees for taking loans	319	8,894
Communication	46,358	8,292
Audit and consulting services fees	15,313	4,856
Stationery	15,052	4,680
Business trips	19,098	3,973
Reparation expenses	16,910	2,918
Administrative expenses	16,017	2,405
Electricity	9,174	1,309
Utilities (natural gas, recycling, water)	5,036	702
Security expenses	15,876	-
Organization membership fees	9,066	-
Insurance expense	4,345	573

**JSC Microfinance Organization “Crystal”  
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Representative expense	3,492	558
Interest expenses from written off loans	5,228	205
<b>Total :</b>	<b>2,496,689</b>	<b>699,192</b>

**12. Profit tax**

The organization pays the profit tax at 15% rate (in 2007 rate was 20%). In 2008 the profit before taxation was 844.540 GEL

Profit tax and deferred tax assets and liabilities are calculated below:

<b>Profit before taxation</b>	<b>844,540</b>	<b>151,762</b>
	<i>15%</i>	<i>20%</i>
	<b>126,681</b>	<b>30,352</b>
<b>Temporary differences</b>		
Revenue from soft loans and sale of fixed assets	3,557	8,230
Depreciation and amortization	(67,504)	(19,814)
Loan loss provision expense	(96,053)	(27,984)
Fixed assets expenses up to 1000 GEL	52,340	10,588
Reparation expenses	(7,292)	-
Other general expenses	(4,028)	(9,711)
<b>Total :</b>	<b>(118,980)</b>	<b>(38,692)</b>
<b>Deferred tax asset (liability)</b>	<b>(17,847)</b>	<b>(7,738)</b>
<b>Profit tax</b>	<b>108,834</b>	<b>22,614</b>
<b>Deferred tax asset</b>		

Deferred tax liability – 17.847 GEL occurred on basis of difference in recognition of expenses and revenues by tax legislation and financial accounting standards.

**13. Legal Environment**

Since 2009 according the Tax Code Georgia, the income tax was reduced from 25% to 20%. The dividend tax reduced from 10% to 5%, and tax from interest income reduced from 10% to 7.5%.

Since 2008 the amendments were introduced to the Tax Code of Georgia. In result, the social tax was abolished (20%), while personal income tax was increased from 12% to 25%. Income tax was reduced from 20% to 15%. Physical persons have been freed from the property tax related to rented property, but legal person are obliged to pay the property tax for property rented from physical person.

According to the amendments made in February 25, 2005 in the Civil Code of Georgia the status of microfinance organization was defined.

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On July 18, 2006 a new Law on Micro Finance Organizations was adopted which allowed organizations operating micro-lending activities to register as microfinance organizations and conduct their activities in frames of the established law and regulations.

***14. Going Concern***

JSC “Crystal” was established on August 23, 2007 in Kutaisi (registration # 212896570) according to the Georgian Civil Code, Company Laws and Georgia’s Law on Micro Finance Organizations. On September 18, 2007 “Crystal” was registered by the National Bank of Georgia (registration # 90907). At the end 2008 there are no risks, which would endanger company’s future functioning.

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