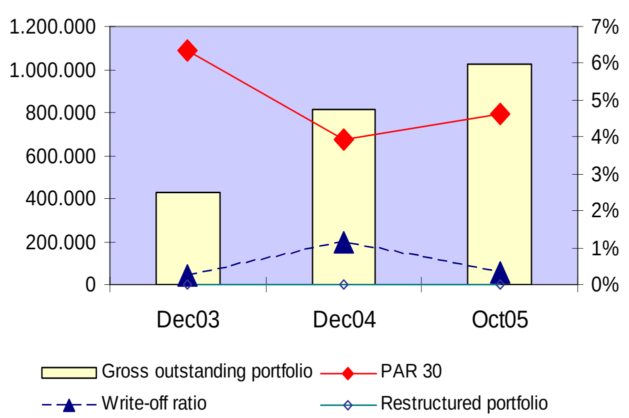
Crystal Fund – Georgia

Final Rating	BB
First rating	Validity: 1 year if no relevant changes in operations or within the operation context will happen.
Previous rating: **B+** (CHCA)	

Crystal Fund is the spin-off of the local non-governmental organization Charity Humanitarian Center Abkhazeti (CHCA), and it was founded in 2004. Crystal Fund is the result of the microlending program of CHCA (1998-2003) and it is now a business-oriented financial institution, increasingly relying on self-financing. Since 2003 the institution has started leveraging its equity with subsidized and commercial borrowed funds, which currently represent respectively 2/3 and 1/3 of the total funding liabilities. Crystal Fund is currently providing individual, group, consumer and agricultural loans and long term credit lines to urban and peri-urban microenterprises of the Western Region of Georgia. The Fund has a Head Office, which also operates as a branch, two branches and three field offices, and covers 3 regions of West Georgia.

Legal Form	Foundation
Year of inception	2004
Area of intervention	Urban, peri-urban, rural
Credit methodology	Individual lending (mainly)

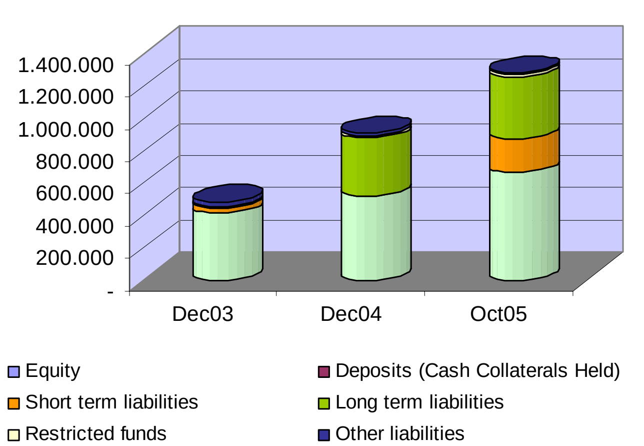
Evolution of credit portfolio



US$	Oct05
Average disbursed loan size	832
Gross outstanding portfolio	1.022.524
Total assets	1.285.961

Number	Dec03	Dec04	Oct05
Active borrowers	1.061	1.431	1.719
Active loans	1.061	1.431	1.719
Branches (hubs)	3	3	3
Satellites	1	2	3
Total staff	23	26	30
Loan officers	9	11	14

Liabilities and Equity - US$



Financial Indicators	Dec03	Dec04	Oct05
PAR 30	6,3%	3,9%	4,6%
Write-off ratio	0,2%	1,1%	0,3%
Restructured loans	0,0%	0,0%	0,0%
ROE	-0,2%	7,5%	16,3%
AROE	-7,0%	-1,5%	7,0%
Oper. Self-sufficiency (OSS)	106,0%	118,1%	135,0%
Fin. Self-sufficiency (FSS)	98,8%	101,1%	116,8%
Staff productivity (borrow.)	46	55	57
LO productivity (borrow.)	118	130	123
Operating expense ratio	45,2%	24,1%	26,1%
Funding expense ratio	0,7%	1,1%	3,9%
Provision expense ratio	2,6%	1,6%	2,7%
Portfolio yield	51,4%	44,6%	49,9%
Risk coverage ratio	93,1%	97,3%	97,7%
Cost of funds ratio	15,8%	3,6%	6,6%
Debt/Equity ratio	0,2	0,8	0,9

When necessary, for October 2005, data are on annual basis

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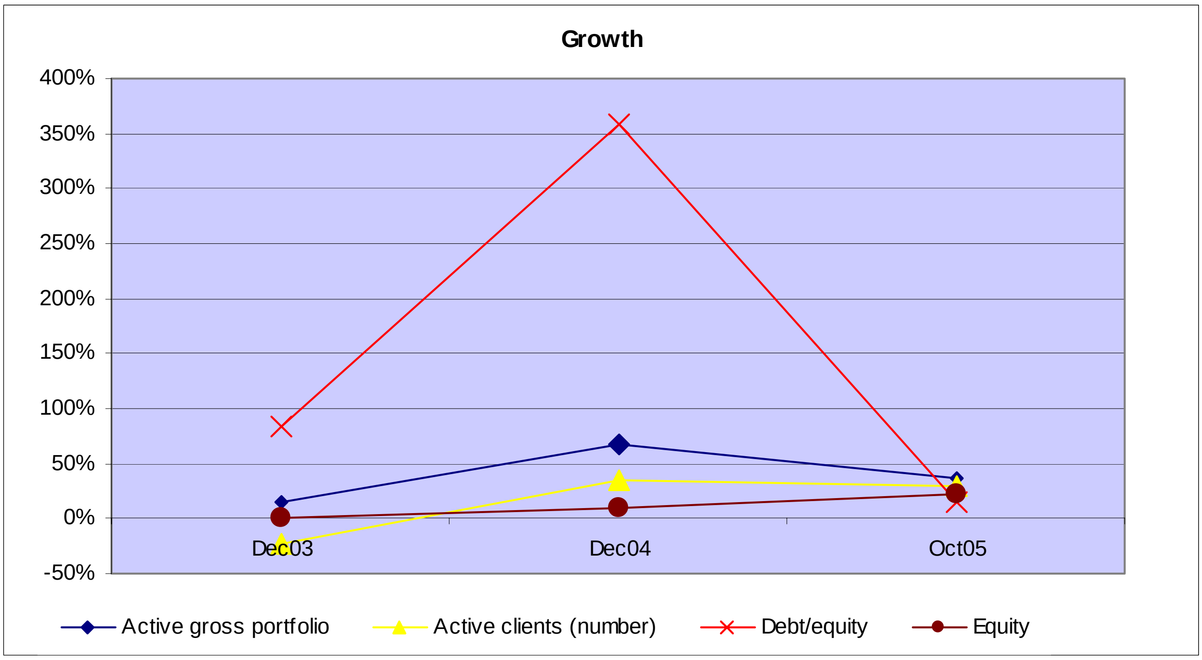
AREA	Risk factors	Relevance*
External environment	Lack of a specific legal framework for microfinance	Medium
	Strong competition	Medium-high
	Lack of systematic exchange of credit information among microfinance providers	Medium
Governance, management and operations	Improvable organization of BoD functions	Medium-high
	MIS authomatic reporting	Medium
	Lack of internal auditor	High
	Lack of human resource dedicated function	Medium-low
	Lack of systematic tracking of client drop-out	Medium
	High staff turn-over in one branch	Medium-high
Financial products and asset quality	Improvable culture of PAR as delinquency indicator	Medium-low
	Lack of sistematic write-off policy	Medium
	Agriculture lending product not tracked separately	Medium-low
Financial structure and ALM	High liquidity level	Medium
	Currency risk	Medium-low
Financial and operational results	Improvable efficiency	Medium
	Improvable productivity	Medium-high
	Limited growth of outstanding portfolio in 2005	Medium
Strategic objectives and future evolutions	Lack of scenario analysis within the business plan document	Medium
	Lack of a detailed description of the institutional evolution strategy within the business plan	Medium
	Lack of a description of the actions to be taken for reaching strategic objectives, within the business plan	Medium-high

*** Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.**

Strengths	Opportunities
→ Efficient disbursement process → Full financial sustainability and satisfactory profitability → Good relations with local commercial banks	→ New law on microfinance institutions → Transformation into a commercial institution → Expansion in Central and East Georgia



Final opinion

Crystal is a still young and small microfinance institution which has managed to achieve good performances in terms of profitability and sustainability in the last year and a half. The main challenge is to improve efficiency and productivity, also through growth and economies of scale, as more pressure on price reduction will arrive. Besides it will be of critical importance to improve risk management and internal control, and to institutionally evolve into a commercial entity.

Benchmarking

All figures are referred to the *MicroBanking Bulletin* (MBB) database[1] updated as of December 2003. Crystal Fund's financial ratios indicated here not fully correspond to the ratios presented in the report as they are calculated according to the *MicroBanking Bulletin* (MBB) methodology[2].

Financial ratios	Crystal Fund	ECA Small broad	NGOs (FSS MFIs)	Individual	Individual/ Solidarity
Gross Loan Portfolio gross loan portfolio adj for standardised write-offs (US$)	995.467	1.103.684	8.585.397	40.819.908	12.477.373
Average Loan Balance per Borrower gross loan portfolio / n. of active borrowers (US$)	595	745	467	1.202	645
Portfolio at Risk> 30 Days oustanding balance of loans overdue> 30days/gross loan portfolio (%)	4,6%	1,9%	3,9%	7,0%	4,2%
Adjusted Return on Equity AROE adj net operating income after taxes/avg tot equity (%)	10,7%	-5,1%	-2,5%	18,4%	3,0%
Debt/ Equity Ratio adj.tot.liabilities/adj.tot.equity	0,9	1,0	2,2	5,9	(0,9)
Operating Expense/ Loan Portfolio (operating expense + In-Kind donations)/avg gross loan portfolio (%)	26,1%	43,4%	35,6%	24,2%	31,5%
Borrowers per Loan Officer n. of active borrowers/n. of loan officers	123	125	292	245	255

ECA Small broad, Eastern Europe and Central Asia, Gross Loan Portfolio (US$) < 2 million, Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%

Important matters of the *benchmarking*

For benchmarking purposes Crystal Fund has been compared to the identified peer groups (ECA small broad, NGOs financial self sufficient MFIs, individual lending methodology and mixed individual/solidarity lending methodology

As for the indicators considered, the benchmarking analysis has resulted into the following considerations:

- Crystal **outstanding loan portfolio** is still quite small compared to NGOs FSS MFIs;
- Crystal **average loan balance per borrower** shows a good outreach in depth;
- Crystal **portfolio quality** is improvable to reach the standards of ECA small broad and NFOs FSS MFIs;
- Crystal presents quite high levels of **profitability** respect to all the peer groups except the individual loan methodology
- Crystal **financial leverage** has still wide room for increasing, mainly if compared with NGOs FSS MFIs;
- Crystal **efficiency** seems in line, if not better, with the benchmarks, but low **productivity** indicates that potentialities are not yet adequately exploited

1 www.mixmbb.org

2 The MBB adjusts financial data in order to uniform them among MFIs. Adjustments are made for: a) inflation, b) subsidies, c) loan loss provisions (*MBB*, Annex I: Notes on Adjustments and Statistical Issues).

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1. External Environment and Crystal Fund positioning

Institutional background

Crystal Fund was founded in 2004, as an independent and formally established non-banking microfinance foundation, by the local non-governmental organization – Charity Humanitarian Center "Abkhazeti" (CHCA). CHCA has been operating in West Georgia since 1995 financed by UNCHR, Dutch Refugee Foundation and USAID. Crystal Fund derives from the microlending program of CHCA (2001-2003) and it is now a business-oriented financial institution, increasingly relying on self-financing.
Crystal Fund is registered with the Ministry of Justice in Tbilisi and its legal institutional form is **"Foundation"**. The institution is currently providing individual, group, consumer and agricultural loans and long term credit lines to urban and peri-urban microenterprises of the Western Region of Georgia. The Fund has a Head Office in Kutaisi, which also operates as a branch, two branches (Zugdidi and Poti) and three field offices (Ozurgeti, Samtredia and Senaki), covering 18 towns and surrounding villages in 3 regions of West Georgia.

Political and economic context

Governance problems and political corruption led in 2003 to the **Rose Revolution** and to a regime change. The new government has taken decisive actions in combating corruption, restoring fiscal performances and accelerating the reform process. In fact, the **slow pace of structural reforms development**, together with the phenomenon of corruption and the burden of massive external debt have hampered in Georgia a smooth transition process.

Sovereign Risk

Georgia	Foreign currency		Domestic currency	Rating Outlook
	Short term	Long term	Long term	
MOODY'S	na	na	na	na
S&P	B	B+	B+	Positive
Fitch	na	na	na	na

Georgia's economy has been heavily suffering from the consequences of the break-up of the Soviet Union and the **civil conflicts** which soon arose in the two regions of Abkhazia and Ossetia. The civil war, in early nineties, resulted in mass extermination, expulsion of natives from their homes, genocide and ethnical cleaning. The situation is not yet normalized and the over 170.000 displaced people have still not returned home. The structural reforms implemented by the government in the mid-1990 such as legal, tax and regulatory reforms, price and trade liberalization, and freeing of the exchange rate, although having had a stabilizing effect, were not completely adequate for supporting **Georgia's economic recovery**.
Georgia's real GDP was in 2004 40% below its pre-transition level and its recovery continues to be **behind** those of other **CIS countries**.

Georgia

Macroeconomic Indicators	Dec03	Dec04	Oct05
Exchange rate in US$ (end of period)	2,1	1,8	1,8
Exchange rate variation	-0,7%	-12,0%	-1,9%
Inflation rate (end of period)	7,0%	7,5%	8,4%
Deposit rate	9,2%	7,7%	5,8%
Lending rate	32,3%	31,2%	21,5%
Real GDP growth	11,1%	6,2%	8,5%
GDP per head (US$)	797	1.250	1.273

Source International Finance Statistics, EIU; WEO

Nevertheless in 2001 Georgia's economy started a **consistent growth path** driven by agricultural recovery, and growth in transport, communications, construction and trade. The construction of the Baku-Tbilisi-Ceyhan oil pipeline has had a positive impact on the economy.
Driven by a new political climate, Georgia has had in 2004 a remarkable economic performance in terms of growth, inflation and fiscal gains. However decaying transport infrastructure, as well as dilapidated power generation and distribution, are still key obstacles to growth. GDP growth averaged 6,9 percent over 2001-2004 and 8,5% from January to October 2005

Year-on-year **inflation rate** increased from 7% in 2003 to just above 7,5% in 2004. In the 12 months to October 2005 the consumer price inflation has increased to 8,4% and constitutes a main concern as especially food prices have raised significantly. As a result of measures implemented by the government to improve tax obedience, the demand on the national currency increased in Georgia, which led to the appreciation of Lari nominal exchange rate against the US Dollar, from an average of 2,19 in 2002 to 1,8 as of October 2005.

Banking Sector

Georgian banking system includes **21 banks** - 19 Georgian and two foreign. Having overcome the crisis in the mid 90s, when several banks went bankrupt, banking institutions have shown sustainable growth in deposits since 2000-2001. The total number of deposits during the first half of 2005 alone was benchmarked by a 22% increase.

Despite the **reduction of the number of banks** in the last decade, banking sector grew dynamically year by year as the banking business developed, exceeding the growth rates of other sectors of economy. The main sector financed by Bank's credit was in 2004 trade and services (34% of the loans issued).
Banking sector presented in 2004 high levels of liquidity, which were mainly conditioned by the growth of deposits. In 2004 the market interest rate fluctuated around 10-25% for the majority of the loan issued.

2005 has witnessed an **increase in investments into the country's banking sector** and large banks became more active in strengthening their market positioning and acquiring new market segments. Banks have become therefore more interested in mergers and acquisitions. Furthermore there has been an influx of foreign investments into some major Georgian banks (Bank of Georgia, United Georgian, Georgian Investbank, among others). 83% of total assets and 85% percent of total deposits were in 2004 concentrated in 6 large banks.

Regulation and Supervision

Georgian legislation does not include at the moment any special law for microfinance institutions. On February 25, 2005, the Georgian Parliament voted to amend the Georgian Civil Code, adding the definition of what constitutes a microfinance organization. The **amendment of the Civil Code** means that foundations and associations have now the possibility to re-register as microfinance organizations with the Ministry of Justice and legally lend to the poor. Microfinance institutions have few obligations at the moment as the civil code establishes that microlending by an enterprise using its own resources is not subject to prudential regulation and supervision. However microfinance institutions must publish annual audited financial statements and must not lend more than US$ 5.600 to a single borrower. The amendment of the Civil Code included a recommendation addressed to the National Bank of Georgia, which should draft a special law on "Microfinance Organizations Activities".

The Central Bank, together with several actors belonging to the international and national microfinance community, have been working on the **draft of a law regulating microfinance institutions**, which should be presented to the Parliament in December 2005 or at the beginning of 2006. The draft law will induce **microfinance institution to transform into commercial entities** - either LTD or Joint-Stock Companies – and designate the National Bank of Georgia as the supervisory body for the microfinance sector. The draft law defines the activities which can be carried out by microfinance institutions and establishes the maximum amount of a loan to one client at about US$ 17.000. The law clearly **forbids microfinance institutions to collect savings**. The law being approved, microfinance institutions in Georgia will have 6 months to adjust their legal structure accordingly. The approval of the law on microfinance would increase the transparency of the sector and potentially increase the flow of investment into microfinance institutions.

Microfinance Industry

Microfinance has been introduced in Georgia in 1997 by International donors such as World Vision, Save the Children and USAID. The microfinance sector in Georgia is currently composed of a **dozen of microfinance institutions**, mainly foundations with some credit unions and cooperatives, and few banks which are increasingly penetrating the market of micro-loans due to the growing competition and the nearly saturation of the market of macro-loans. The microfinance sector in Georgia has grown quite rapidly in the last three years and most of the microfinance institutions have now at least reached operational self sufficiency.

The microfinance sector[3] is currently **serving more than 55.000 clients** and the aggregate outstanding microloan portfolio amounted in June 2005 at about US$ 59 million[4]. According to a sector analysis conducted by Chemonics in 2003 the potential market for microfinance amounted at that date at about 200.000 borrowers. Although the sector has grown significantly since then, there remain many potential clients still to be reached. The market of loans below US$ 1.000 seems to be still dominated by credit unions and foundations, while commercial banks prevail in the market ranging from 1.000 to 10.000 US$. Credit Unions appear to be the weak side of the microfinance sector in Georgia. They have in fact a rather low average number of members (115 in 2003) and their number has decreased in time, from 120 in 2003 to 50 as of 2004.

A positive recent development in the microfinance industry has been the constitution of an association of microfinance institutions by five organizations, namely Crystal Fund, Constanta, Credo World Vision, Finca and SBDF. The **Association of Georgian Microfinance Organizations (AGMO)** is currently acting to increase transparency in the microfinance sector and it is lobbying with the government for the setting in place of a specific law which is tailored to the need of microfinance institutions in Georgia.
Despite the steps forward undertaken by the microfinance sector in Georgia there are still some issues which have to be addressed. There still **lacks in Georgia a Credit Bureau** for microfinance institutions. A Credit Bureau has been set up recently by three banks including ProCredit. This institution is however still at an embryonic stage and does not enjoy the trust of microfinance organizations, which fear potential inferences by the participant banks, currently turning to the market of micro-loans. Moreover it has been reported the scarce efficiency of the existent civil law regulating the procedures for property seizures for default loans, which are rather lengthy especially after positive decision by the court.

Market Positioning

Crystal Fund provides financial services to the **urban and peri-urban micro and small entrepreneurs** in **West Georgia**, focusing on the regions surrounding its three main branches, namely Kutaisi, Zugdidi and Poti and the sub-offices of Ozurgeti, Samtredia and Senaki. Its management is planning to open a new branch office in the capital city, Tbilisi, thus beginning to penetrate East Georgia, and successively a branch in Batumi in order to begin to expand in the Adjara region. Crystal Fund’s loans are used by the borrowers mainly for trading (52% of the total), agriculture (12,5%), services and manufacturing. The products currently offered are: individual loans (60%), group loans (8%), consumer loans (19%), long-term credit lines (0,1%) and agro-business loans (12,5%).

Although the potential demand for microfinance services is still much bigger than the offer currently available, **competition in the sector is rapidly growing** in Georgia. Banks such as ProCredit, United Georgian Bank and Bank of Georgia are increasingly accessing the microloan market and

[3] For microfinance sector it is meant here the existing non-banking microfinance institutions providing microloans (Crystal Fund, Constanta, GRDF, FINCA, SBDF, CREDO, SDA, DRC, BBK, BAI) together with Pro Credit, former Microfinance Bank of Georgia, whose portfolio is for almost 30% composed of small loans (< US$ 10.000). Credit Unions have not precise disclosed figures for their outreach and seem to serve a limited number of members in small area still not reached by microfinance institutions.
[4] This amount includes about US$ 23.000.000 of the portfolio of microfinance non-banking organizations and US$ 26.000.000 by ProCredit.

pose a serious competitive threat to microfinance institutions. The geographical area covered by Crystal Fund still enjoys less competition if compared to the area surrounding the capital city Tbilisi. Nevertheless competitors are getting increasingly aggressive in terms of coverage, services and conditions offered and borrowers are benefiting from progressively lower interest rates, products differentiation and a more capillary branches distribution on the territory. The main competitors of Crystal Funds are ProCredit, United Georgian Bank, Credo, Constanta, FINCA and few small non-profit organizations, three of them coming from the spin-off of the IRC (International Refugee Committee), namely BAI, SFD and UOT, and a fourth which is a partner of the Dutch Refugee Committee (DRC), called SDA.

ProCredit Bank Georgia is for Crystal Fund the main competitor. It in fact not only covers most of the areas served by Crystal Fund, but also targets similar categories of clients offering a wide range of financial services.
Although ProCredit's **outstanding portfolio** has been **growing rather quickly** in the last few years, it seems that the growth is mostly focused on the loans above US$ 1.000. However ProCredit is now targeting more aggressively the market of loans below US$ 1.000.
ProCredit competitive advantage lies in the **variety of financial products** and in their availability of funds from savings and several investors. Especially the diversity of their financial services could be a competitive threat for Crystal, whose higher stratum clients, composed by those who reach already the maximum amount disbursable and need larger loans, could drift to ProCredit. Moreover offering money transfer services can be a way for attracting potential clients for loan and saving services. Finally ProCredit is part of the Small Enterprise Lending Program Georgia (SELP), which is co-financed by the EBRD and TACIS, and provides technical assistance and on-lends to four banks (Bank of Georgia, United Georgian Bank, Tbiluniversal, ProCredit). Through these, SELP finances approximately 6.000 clients with over $12 million.

Other two Georgian banks which have been receiving funds from the SELP, the **United Georgian Bank and Bank of Georgia**, are at the moment becoming more and more aggressive in penetrating the microenterpise market. They have several branches in West Georgia and enjoy two main competitive advantages. First of all they can offer reasonable interest rates. Secondly, as it happens for ProCredit, they disburse larger loans and therefore may attract Crystal's clients who need large loans to expand their business. In regard to competitive disadvantages, the United Georgian Bank and Bank of Georgia still do not target the micro loan market (below 1.000 US$), their disbursement process is costlier (there are several fixed costs to be covered by the clients) and more burdensome in terms of time and bureaucracy. Besides, these two banks are still not present in some of the regions covered by Crystal Fund.
Constanta Foundation is another competitor of Crystal Fund. Constanta is an indigenous microfinance institution which has been operating in Georgia since 1997. It has received in the first five years of activities donations from Save the Children, UNHCR, USAID, Shorebank Advisory Services and CGAP. Constanta has been so far a competitor for Crystal Fund mainly for the lower stratum of Crystal potential clients as most of its portfolio is constituted of group loans. Nevertheless Constanta Foundation is increasingly focusing on individual loans and could represent a competitive threat in the next future. Since 2003, within the framework of the **Community Investment Programme (CIP)**, aimed at facilitating and stimulating sustainable income generation through establishing micro-loan schemes for communities settled along the BTC/SCP pipeline route, Constanta has been collaborating with International Organizations such as BP Exploration Ltd, CARE and Mercy Corps.

Vision Fund Credo Foundation could represent, although to a minor extent, a competitor for Crystal Fund. Credo started its operations in 1997 as a small micro lending project financed by World Vision and the Canadian International Development Fund. Credo strictly requires collaterals and offers rather conservative products (group and individual loans). Although the demand in the rural and agricultural areas is still much bigger than the offer, Credo could represent for Crystal Fund a reality to face in the next future.

Finca Georgia is a not-for-profit organization part of the **FINCA International network**. Finca's **main focus is on group loans**. Finca covers most of the territory served by Crystal Fund and represents one of Crystal's major competitors for the lower stratum of its potential clients.

Main competitors

Institution	Products	Outstanding Portfolio	Number of Active Borrowers	Average disbursed loan size	Loan maturity	Interest rate	Period of loan processing	Guarantees
Crystal Fund	Individual, group, consumer loans, credit line	US$ 1.022.524	1.719	850 USD	4-24 months	1,5%-3%	3-5 days	no collateral - gold - movable properties - mortgages - group solidarity
Pro-Credit	Housing, consumer, business express loan, business micro loan, agro loan, corporate loan.	US$ 26.000.000 loans below US$ 10.000	16.000 below 10.000	US$ 1.625 USD for loans below US$ 10.000	up to 48 months	1,75%-3%	2-7 days	no collateral - gold - movable properties - mortgages - stable source of income
CREDO	Individual and group agricultural/urban loans	US$ 1.881.533	1.939	970 USD	4-24 months	2%-3%	n/a	n/a
Costanta	Group, individual urban, individual agricultural, seasonal credit.	US$ 5.800.000	18.000	322 USD	3 - 12 months	2%-4%	n/a	collateral - group solidarity
United Georgian Bank	Micro loans, express loans	n/a	n/a	n/a	3-24 months	1,5%-3%	n/a	Physical collaterals
FINCA	Group loans, agricultural group loans, individual loans with and without collateral	US$ 7.357.800	11.990	614 USD	4-24 months	2%-3%	n/a	no collateral
Bank of Georgia	Group, individual urban, group loans for agricultur, individual loans without collaterals	n/a	n/a	n/a	3-32 months	1,33%-2%	n/a	Physical collaterals

Beside these large microfinance institutions, there exist in Georgia **four small non-profit organisations** operating in the same area of Crystal Fund. Three are the spin-offs of IRC (International Refugee Committee), called BAI, SFD and UOT, and the forth is a partner of the Dutch Refugee Committee (DRC), called SDA. They provide credit, business training and other

socially-oriented services. However, they **do not directly compete with Crystal** because of their dimension and the scarce orientation towards becoming sustainable MFIs.
Within this rather competitive context Crystal Fund presents some **competitive advantages**:

- Better allocation on the territory compared to some competitors.
- Long and proven experience in West Georgia.
- Transparent, simple and flexible (non-bureaucratic) procedures for disbursement.
- Quick disbursement (from 3 to 5 days).
- A friendlier approach compared to banks.
- Flexible products and collateral requirements (progressively declining according to loan cycle).

Crystal Funds main **competitive disadvantages** can be identified in the followings:

- Lack of cross-selling services compared especially to banks.
- Loan amount ceiling
- Less availability of funds compared to banks and some MFIs such as Credo (part of the World Vision network) and Constanta (well backed by the CIP, donors and investors).

2. Governance and operational structure

Ownership and Governance

Crystal Fund is registered with the Ministry of Justice Tbilisi as a **foundation.** Crystal is a spin off of the microlending program of CHCA and has been shifting in the last few years its focus from a social oriented microfinance project to a financial institution targeting sustainability and institutional building.

Crystal Fund **governance system relies on the Board of Directors**, which is composed of **three members**. The three members of the Board seem to have an **adequate mix of skills**, as two of them have consistent previous experience in microfinance and in social development programs and the third is the executive director of a local enterprise. There exists therefore a **satisfactory equilibrium** in Crystal Fund's Board between social and commercial approaches.

Members	Charge	Background and current profession
Archil Bakuradze	Chairman	Special Advisor to Secretary General International Association of Business and Parliament in London; former Crystal Fund and CHCA Director.
Alu Gamakharia	Member	Business man; general director of a local enterprise; since 2003 active role in two NGOs.
Paata Tsotsonava	Member	Credit Manager of TBC Bank at Kutaisi Branch; former Income Generating Program Coordinator of Danish Refugee Council, (DRC) Georgia

The Board of Directors' members **meet at least quarterly**. However in 2005 they met on average once every two months and they are generally available by e-mail. Crystal's Board seems to be currently **undersized**, also given the fact that although the members seem to be well committed to their role in the Board, they might not be able to dedicate an adequate amount of time to Crystal Fund, as they are professionals occupying important positions, and the chairman being resident in London. The institution is aware of this issue, and is **already assessing** the possibility of involving other members in the BoD. In fact Crystal has recently begun to consider few **candidates**.

A **written manual** defining the working methodology of the functions of the Board of Directors is currently lacking, and, in particular, a specific **management assessment policy** has not been set in place

The Board is **not organized into Committees** with specific delegated tasks (i.e. internal control, funding, assets management, etc).

Furthermore communication flow, especially from the Board toward the management, could be improved.

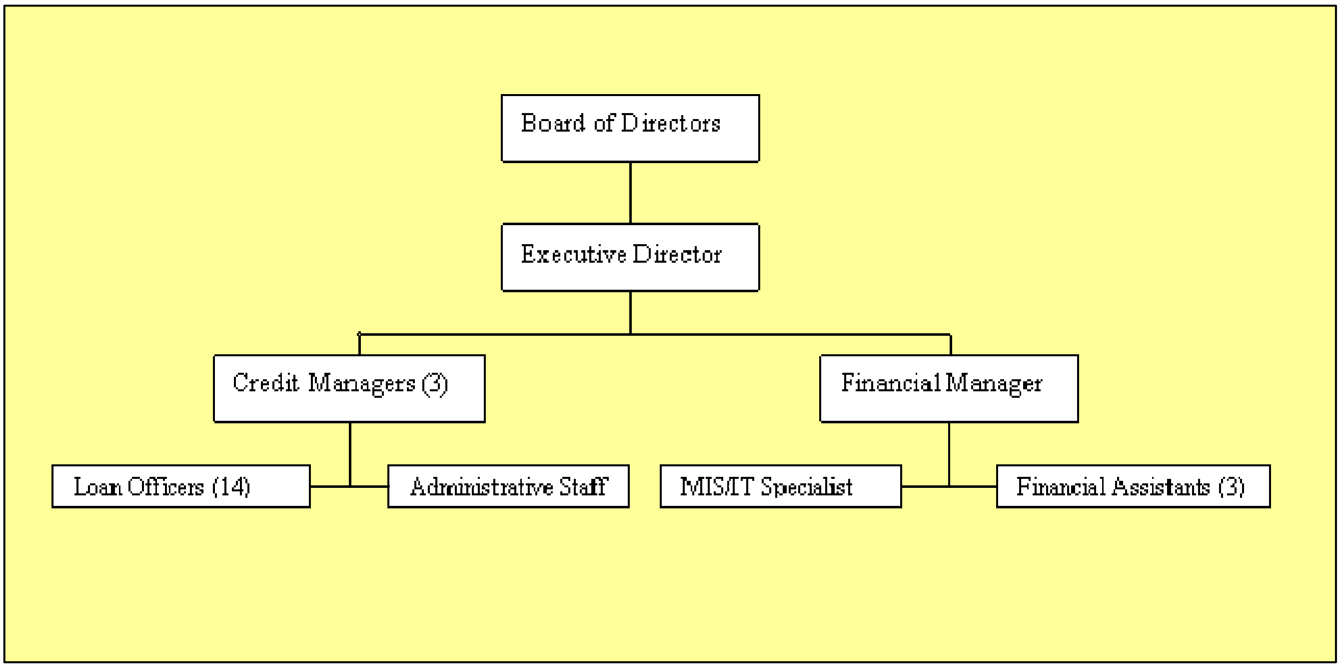
The **new law on microfinance,** which is likely to be approved at the beginning of 2006, will force microfinance institutions and Crystal Fund within them, to **modify their governance structure**. According to the draft of the law on microfinance MFIs must have a **supervisory board** and a board of directors. The Supervisory board will have the specific functions of controlling the implementation of microfinance policies, appointing and dismissing Directors and monitoring of their activities. Crystal Fund has not planned yet the changes in its structure foreseen by the new legislation.

Management and staff

As of October 2005 Crystal Fund operates through **30 staff members**. Out of them 14 are loan officers. Staff **allocation rate** (46,7%) could be improved even if it has increased since the spin off from CHCA, when it was 39,1%. Loan officer productivity is still quite low, namely 123 borrowers on average per loan officer, declining from 130 in 2004. **Low loan officer productivity** is especially noticeable for the **Poti branch**, where on average, as of October 2005, each of the 5 loan officers had about 90 clients and about US$ 50.000 outstanding portfolio. This could be due to the high staff turnover in the Poti branch, where two loan officers have left in October 2005 and had just been replaced at the moment of the analysis, and to the fact that one of the two loan officers operating in the Ozurgeti sub office was hired in August 2005.

Personnel	Dec03	Dec04	Oct05
Total	**23**	**26**	**30**
Loan officers	9	11	14
Other staff	14	15	16

Crystal Fund's management consists of an **Executive Director, a Financial Manager and three Credit Managers**, who basically carry out the functions of branch managers.
The operational structure of Crystal Fund is divided into **two main departments**, the **credit department and the financial department**, both reporting to the Executive Director.
Crystal Fund has well managed the substitution of the previous CEO, now Chairman of the BoD, who was one of the founders of CHCA and left to attend an MBA in the United Kingdom. The **new director**, who was previously working as the Micro-lending Program Coordinator of CHCA and enjoys **relevant experience in microfinance**, has been successfully managing Crytal Fund for the last two years.



There is the lack in Crystal Fund of an Internal Auditor. The functions of **internal control** are at the moment **undertaken by the Credit Managers** in the branches and by the Financial Manager. Credit managers check quarterly 10% of portfolio clients through the review of the relative documentation and draft a complete and appropriate report which is sent to the Executive Director. Besides at times they visit a sample of the clients and control the accuracy of the information collected by the credit officers and the proper use of the loan by the borrowers. The financial manager quarterly visits the branches and undertakes there a control of credit and financial information.
Although the controls already in place mitigate the risk of frauds and recurrent mistakes, **the professional figure of an internal auditor is highly needed** in Crystal Fund. Crystal top management has already been trying to introduce the internal control dedicated function, but it has realized the difficulty to find qualified professional profiles in Kutaisi. Therefore the decision has

been taken to establish the internal control function in Tblisi, as soon as the new office will be opened there. The absence of an internal auditor constitutes a relevant risk for Crystal Fund, especially considering the already high level of operational decentralization.

Organization and Structure

Crystal Fund operates in West Georgia through a **network of three branches** (Kutaisi, which is also the head office, Zugdidi and Poti) and three sub-offices. **Other two branches will be opened** and start their operation in the next future, the first one in **Tbilisi**, and the second one in **Batumi,** in the Adjara Region. Moreover in order to better reach current and potential clients, other **5 sub-offices** will be opened throughout the whole country.
The **branches** are typically **composed** of a **credit manager** (branch manager), a **financial assistant** in charge of accounting and MIS management, a **chief logistic** (both driver and in charge of branch logistic) and **credit officers**. In the head office the Executive Director is supported by the financial manager, the MIS specialist, a lawyer and the office assistant. The structure of the **sub-offices** is much simpler, as they usually just include **credit officers**.

The structure presents a **good and efficient level of administrative decentralization**. The branches represent cost centres and monthly projections of financial needs are sent to the head office. The resulting budget is managed by the branches with a high degree of autonomy. Each branch also monitors and manages systematically the liquidity related to loan disbursements.
As for lending operations, all the credit dossiers, produced by the credit committees, have to be approved by the Executive Director. While a system of ceilings for loan approval by the branches could be considered, the lack of dedicated internal control function brings about the need to keep such a level of **centralization**, which anyway does not seem to affect the time of loan disbursement.

Information technology and MIS

The **Management Information System** in Crystal Fund is based on **two software**, namely a loan tracking system (**Loan Keeper**) and an accounting program (**ORIS**). The loan management system, Loan Keeper, has been introduced in November 2004. The project was financed by **GSME**, the Georgia Microfinance Stabilization and Enhancement (Chemonics), and was aimed at creating in Crystal **an integrated MIS system**.

There have been **some issues in 2005 in the implementation process** of Loan Keeper and its integration with ORIS, especially linked to exchange rate conversion and write offs calculation, which brought about differences between the loan tracking, the accounting system and manual consolidations carried out by the staff. Most of these issues have been solved and the MIS seems to be adequately supporting Crystal Fund's operations. **Loan Keeper and ORIS are sufficiently integrated**, the former transferring automatically relevant information to the latter. The difference between the outstanding portfolio resulting from the two programs, originated by the fact that Loan Keeper operations are denominated in US dollars while ORIS uses the local currency, has been minimized using a middle software which **converts automatically** the amounts in US$ in correspondent amounts in GEL. Every Monday the **financial assistants** in the branches **send weekly updates from Loan Keeper to the Head Office** in Kutaisi, where they are uploaded to the consolidated database. **The updates from ORIS are sent monthly** by the branches to the main office. According to the software developer and the MIS officer, from January 2006 these updates will be made automatically through an enhanced virtual network which will connect all the branches.

Although the MIS system appears to be rather solid there are still **some issues** which have to be addressed, especially in the **area of reporting**. Some of the reports produced by the MIS are not adequate yet and the output have to be **further elaborated in excel** in order to contain all the information needed by the management for their day by day activities and by the Executive Director and the Board of Directors for strategic planning. This is especially significant in the case of information about **Portfolio at Risk** and **write offs**, whose calculations are not consistent with Crystal's internal manual reporting (Excel). These inaccuracies can **mislead an external observer** and force the staff to **further work on the MIS outputs** in order to create adequate and consistent reports. It is important to stress that the MIS Officer and the software house in charge of implementing the MIS are already working on these issues and are confident they will be able to quickly solve them.

<u>Personnel policy</u>
Also due to the still small dimension of Crystal Fund a dedicated position for **Human Resource Management does not exist**. Crystal's human resource management is at the moment **responsibility of the Executive Director**, the office assistant and, to a minor extent, of the other top managers. Considering the projected growth of Crystal's staff it is likely that the burden on the top management will **become increasingly heavier**. This in spite of the fact that positions advertising and first selection of the candidates is externalized to a specialized recruiting firm. The management of typical HR activities such as assessment of training needs, management of carrier paths and salaries and performance evaluations, will become in time gradually more complex and will risk diverting the top management attention from their main activities.
Crystal Fund's personnel are generally characterized by a satisfactory level of experience and dedication to their job. All the staff, a part from the executive director, is **hired through a temporary contract** which lasts 6 months. Twice a year the employees are **evaluated against specific objective** established at the beginning of the working relationship, and if the performance has been satisfactory, the contract is extended for other 6 months. The executive director contract lasts 1 year, in order to ensure some continuity in his work. In regards to key top management positions the features of the working agreements represent a **critical aspect when considering stability and continuity of operations** as it brings about an increased risk of staff drop out.

Loan officers undergo a training period of 1 month under the supervision of the credit manager and are in probation from 1 to 3 months. At the end of the probation period the performance and skills of the candidate are assessed and the top management decides accordingly whether to hire her/him.

Since August 2005 a new **bonus system** has been introduced in Crystal Fund. This system takes into consideration for assigning the bonus, which can reach up to 100% of the fixed salary, the **number of active clients, the delinquency rate (PAR) and the loan portfolio in terms of amount**. The administrative staff can also reach a bonus, which is calculated on the basis of branch efficiency indicators. The performance evaluation of the staff takes place every 6 months. In the case of loan officers there are several factors which might influence this assessment and their possibility to be promoted to **higher loan officers' categories**. In fact loan officers are divided in **6 categories** according to qualitative and quantitative indicators.
The bonus system in Crystal Fund seems to be **well calibrated** as it considers several indicators of performance and represents a strong incentive for loan officers and administrative staff. A **carrier path is missing for the other staff in Crystal Fund** and this lack should be addressed in order to avoid the risk of staff drop out due to the absence of professional and personal growth prospective within the institution.

3. Financial operations

<u>Credit Policy</u>

Crystal Fund is lending to microenterpreneurs engaged in **trading** (52% of the total), **agriculture** (12,5%), **services and manufacturing**.

Loans can be disbursed to **both physical and legal persons**. Crystal does not require microenterprises applying for a loan to be formally registered although most of the activities financed have some kind of local registration.
Multiple loans to a single client are generally **not allowed**. A client which is already benefiting from a loan issued by Crystal Fund or another financial institution can only access to consumer loans.

Repeated clients benefit from better conditions (lower interest rates, longer terms and smaller collaterals) thanks to the existence of a disbursement policy based on the credit history of previous loans.
It is forbidden in Crystal Fund to issue loans to the employees of the fund, board members as well as immediate members of their families and business partners.

Crystal Fund disposes of a **"Loan Policy Manual"** which includes information about the key policies regulating the loan products. The manual still misses a detailed description of the loan disbursement process in terms of interest rate and amount ranges divided by loan product and according to loan cycle.

<u>Credit Products</u>

Crystal Fund offers **5 different financial products**: individual loans, representing the big majority, agricultural loans, consumer loans, group loans and long-term credit lines.

Two financial products have been recently introduced, the consumer loan and the credit line. Crystal Fund has been offering consumer loans since spring 2004 with satisfactory results (more than 440 loans already disbursed). Since the same period, Crystal has introduced a credit line product addressed at borrowers who have an excellent loan history. This product could prove itself crucial to retain the best performing clients who might otherwise turn to commercial banks in order to obtain larger amounts. However, since its introduction, **only three clients have accessed to a credit line** and this service does not seem to be adequately developed yet. This could be due to the fact that the access to the credit line seems at the moment to be excessively restricted as only clients with a long and virtuous credit history are allowed to apply for it.

Crystal Fund has inherited the **main part of its group loan portfolio from the International Rescue Committee** (beginning 2002) and **Save the Children** (September 2002), which handed over a consistent portion of their lending portfolios in West Georgia. However Crystal does not consider this product as a priority and has not therefore further enlarged the group loans portfolio, which has **declined** by 77% since 2002, from 17% of the total outstanding portfolio in 2002 to the actual 1,7%. Considering this trend and the **unwillingness of the management to promote group loans** due to the relevant risk related to group lending and to the inadequate credit methodology adopted, this product is likely to become less and less relevant for eventually disappearing.

The **agro-business loan** has still to be further developed as a distinct product. In fact at the moment it is considered as **part of the individual loan** and therefore it is not adequately tailored to the need of rural microenterprises (e.g. with balloons payments and customized grace periods) and it is not systematically tracked separately. The scarce adaptation of the agricultural products to the rural context brings about the **risk of default in repayments**; at the same time Crystal Fund is

Credit methodology

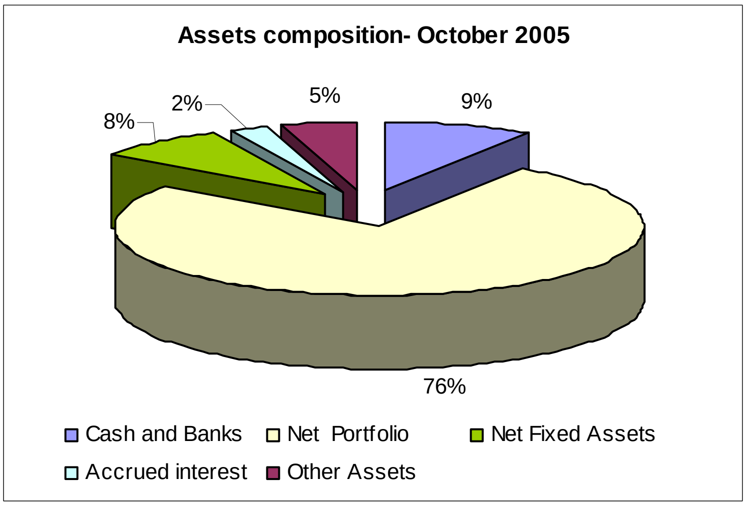
Credit products	Individual	Group	Consumer	Credit line	Agro-business
Credit methodologies	Individual	Group Solidarity	Individual	Individual	Individual
Currency of the credit	US$	GEL	US$	US$	US$
Type of interest	Flat	Flat	Flat	Declining	Flat
Min. interest rate (%)	18%	24%	24%	18%	18%
Max. interest rate (%)	36%	30%	30%	24%	36%
Average interest rate (%)	30%	24%	27%	24%	28%
Description of commissions	1% of loan amount	No commissions	No commissions	No commissions	1% of loan amount
Min. credit amount (US$)	US$ 300	GEL 200	US$ 100	US$ 5.000	US$ 300
Max. credit amount (US$)	US$ 5.000	GEL 600	US$ 1.000	US$ 10.000	US$ 5.000
Max credit amount for the first loan (US$)	US$ 1.000	GEL 600	US$ 1.000	US$ 10.000	US$ 1.000
Average credit amount (US$)	US$ 981	US$ 310	US$ 557	US$ 1.510	US$ 1.076
Min. loan maturity (months)	4	4	4	12	6
Max. loan maturity (months)	24	10	10	24	24
Average loan maturity (months)	10	8	6	24	15
Periodicity of interests payments	Monthly	Monthly	Monthly	Monthly	Monthly
Periodicity of principal payments	Monthly	Monthly	Monthly	Not fixed	Not fixed - it depends on business activity
Grace period (months)	1 month	No grace period	No grace period	Not fixed	1 - 3 months
Collaterals / guarantees	Gold for the 10-25% of the value (declining for subsequent loans) - movable properties - mortgage for loans above US$ 4.000	Group solidarity	No collateral	Mortgage, movable property.	Gold for the 10-25% of the value (declining for subsequent loans) - movable properties - mortgage for loans above US$ 4.000

not at the moment able to properly analyze the performance of rural portfolio. However Crystal management is already working on the improvement of the agro-business product.

<u>Procedures for loan issuing</u>
Crystal Fund enjoys a **rather quick procedure for loan disbursement,** which generally takes 3-5 days from the application of the client to the disbursement of the loan. This represents a **satisfactory and competitive performance** in terms of efficiency and quality of the service, compared to other microfinance institutions and in particular to banks.
The evaluation of the client's ability to repay is undertaken through an **accurate analysis** of the **economic and financial situation (cash flow)** of the household. Although the cash flow analysis is quite precise, **it lacks** of an investigation of the **period preceding the disbursement of the loan** and the inclusion of the family expenses and revenues.
The loan request, after the approval by the loan officer in charge, is discussed within the **Credit Committee** which includes credit officers and the Credit/Branch manager, and therefore revised by the Executive Director for the final approval. The same process is repeated for each loan cycle and any of Crystal Fund's financial services.

Crystal Fund's **loan disbursement procedure and assessment methodology**, though it seems to be quite effective, could be improved by introducing specific assessment methodologies for the different kind of credit products.

4. Assets structure and quality



Assets structure

As of October 2005, Crystal's **net portfolio represents 76% of the total assets** which is a good level of concentration of resources into the core business. **Net fixed assets** are 8% and **liquidity** is 9%[5], which is quite a high level for a credit-only financial institution like Crystal. Crystal does not have yet a specific investment and liquidity management strategy and, so far, it has never held neither short term nor long term financial assets.

Portfolio structure

In the last three years Crystal's portfolio has grown respectively at a rate of 16% in 2003, 67,5% in 2004 and 37% in 2005 (as of October). The good growth trend of 2004 has not been replicated in 2005 as one would expect from a small institution as Crystal, operating in an increasingly competitive market.
Crystal's loan portfolio structure, as of October 2005, presents a concentration into **individual loans** (73% of the total outstanding portfolio), which include loans for trade, service, manufacture. **Agriculture loans** are not tracked separately by the MIS and are registered within the individual lending category. As of October 2005, they represent already a relevant part of the total portfolio (17,7%). Consumer lending has also grown notably between 2004 and 2005, while group loans are gradually disappearing and credit line is quite a new product and therefore still occupying a modest share.

Portfolio features	Jan03-Dec03	Jan04-Dec04	Nov04-Oct05
Gross outstanding portfolio (US$)	**427.903**	**815.038**	**1.022.524**
Individual	395.830	759.942	743.653
Group Lending	32.073	26.407	15.951
Consumer Loan	0	13.204	67.564
Credit Line	0	15.485	14.052
Agricultural Lending	0	0	181.303
Gross outstanding portfolio (GEL)	**887.899**	**1.487.445**	**1.832.874**
Growth of active gross portfolio	15,9%	67,5%	37,2%
Average disbursed loan amount (US$)	746	842	832
Av. disbursed loan size on per capita GDP	94%	67%	65%
Average maturity (months)	12	10	10
Number of active borrowers	1.061	1.431	1.719
Number of active loans	1.061	1.431	1.719
% of active borrowers women	71,0%	62,0%	55,4%
Drop-out ratio	49,1%	50,0%	51,9%

The **average disbursed loan size** between 2004 and 2005 has maintained around US$ 830-840, after the increase from 2003. The introduction of consumer lending (half 2004), which is characterized by a low average size (around US$ 500), is contributing to the stability of the average disbursed loan size.

[5] Monthly average January 2005 – October 2005 is 8,4%.

As shown in the table, Crystal's portfolio is concentrated into five different sectors. **Concentration into trade sector** is still high, even if clearly declining (it was about 75% as of December 2004) with the introduction of new loan products.

October 05

By sector	N. of active borrowers	% number of active borrowers
Trade	1.009	58,7%
Manufacture	59	3,4%
Service	106	6,2%
Agriculture	215	12,5%
Consumer	330	19,2%
TOTAL	**1.719**	**100%**

Clients drop-out ratio has maintained quite high (around 50%) during the last three years The main reason of clients drop-out identified by the institution is the need for bigger loan amounts by graduated clients who can approach banks.

So far the institution has **neither been using any specific ratio for measuring clients drop-out, nor has it been systematically and deeply monitoring this aspect**. Nevertheless there is awareness within the institution of the importance of dedicating more systematic attention to customer care and marketing, including a constant monitoring of client retention. The establishment of a **Department of Marketing and Human Resources** is planned for 2006.

As of October 2005, the **portfolio by branches** shows a concentration into Kutaisi and the situation has not varied much since December 2004. This is mainly due to the still small dimension of the other branches.

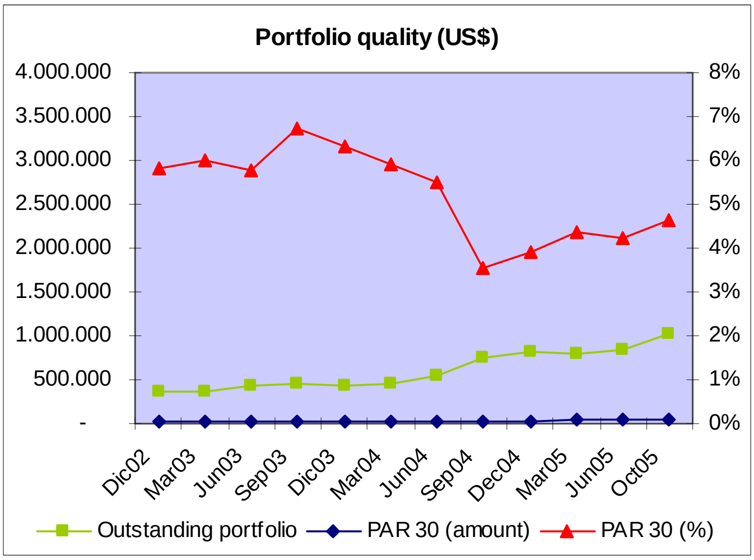
October 05

Branch	outstanding portfolio (US$)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR > 30 weighted
Kutaisi	480.604	47,0%	909	0,5%	0,2%
Zugdidi	302.532	29,6%	378	6,0%	1,8%
Poti	239.388	23,4%	432	11,2%	2,6%
TOTAL	**1.022.524**	**100%**	**1.719**		**4,6%**

Loan portfolio quality

Crystal has maintained in the last two years an acceptable loan portfolio quality at consolidate level. As of October 2005, PAR30 is 4,6%, the biggest part concentrated into the aging category 90-365 days. **Poti** branch is "contributing" to most of the total level of PAR30, being its **weighted PAR30 at 2,6%.**

Portfolio Quality Indicators	Jan03-Dec03	Jan04-Dec04	Nov04-Oct05
Consolidated PAR30	**6,3%**	**3,9%**	**4,6%**
1-30	2,1%	1,8%	3,1%
31-60	1,2%	0,9%	0,6%
61-90	0,0%	0,4%	0,0%
91-180	2,1%	0,6%	1,4%
181-365	3,0%	2,1%	2,6%
>365	0,0%	0,0%	0,0%
Arrears rate (> 1 day)	10,6%	6,5%	8,1%
Restructured portfolio	0,0%	0,0%	0,0%
Provision expense ratio	2,6%	1,6%	2,7%
Loan loss reserve ratio	5,9%	3,8%	4,5%
Risk coverage ratio (30 days)	93,1%	97,3%	97,7%
Write off ratio	0,2%	1,1%	0,3%



The **high level of portfolio at risk matured in Poti branch**[6] (PAR30 at 11%) is mainly caused by the low experience and professionalism of the former loan officers which has led to a high **staff turn-over during 2005.** 3 out of 5 loan officers of Poti branch have in fact left or were fired in the second half of 2005 and have been recently replaced with better selected staff.
In Kutaisi, a relevant part of the portfolio at risk is represented by problematic old **group loans** (aging category > 180 days), still not written off. Crystal has stopped the disbursement of group loans as they are perceived more risky and less adequate to the market demand.

Crystal's middle management (credit managers in particular) is not systematically using the portfolio at risk ratio as the main indicator for portfolio quality. **PAR culture** could be improved.

Write-off ratio has reduced from 1,1% in 2004 to 0,3% as of October 2005.
Concerning **restructured portfolio**, this has always been inexistent, reflecting the very conservative policy adopted by the institution on this aspect.

The level of provisioning is very good, resulting in a **risk coverage ratio** (> 30 days) of almost 100%.

Analyzing the **portfolio quality by sector and by credit product**, it has been detected that the higher PAR30 is concentrated into the individual loans, which are mostly dedicated to trade, also representing the biggest share of outstanding portfolio. The same trend is confirmed concerning PAR>1.

October 05

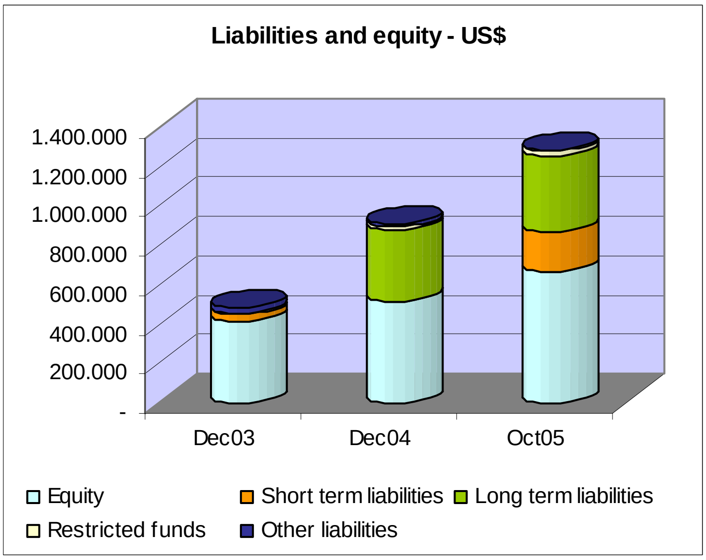
Loan product	% of outst. portfolio	PAR >30 days	PAR > 30 weighted	PAR >1 day	PAR > 1 weighted
Individual	72,7%	5,7%	4,1%	9,5%	6,9%
Group Lending	1,6%	14,0%	0,2%	14,0%	0,2%
Consumer Loan	6,6%	3,0%	0,2%	5,5%	0,4%
Credit Line	1,4%	0,0%	0,0%	0,0%	0,0%
Agricultural Lending	17,7%	0,5%	0,1%	1,3%	0,2%
TOTAL	100,0%		4,6%		7,7%

In general Crystal portfolio quality has been so far affected by specific problems related to staff turn-over and to the inadequate management of group lending activities. The **challenge** for the institution will be to improve the portfolio quality also thanks to the initiatives recently undertaken of introduction of new loan officers and the gradual elimination of the solidarity group lending.

[6] Including the 2 service centres based in Ozurgeti and Senaki.

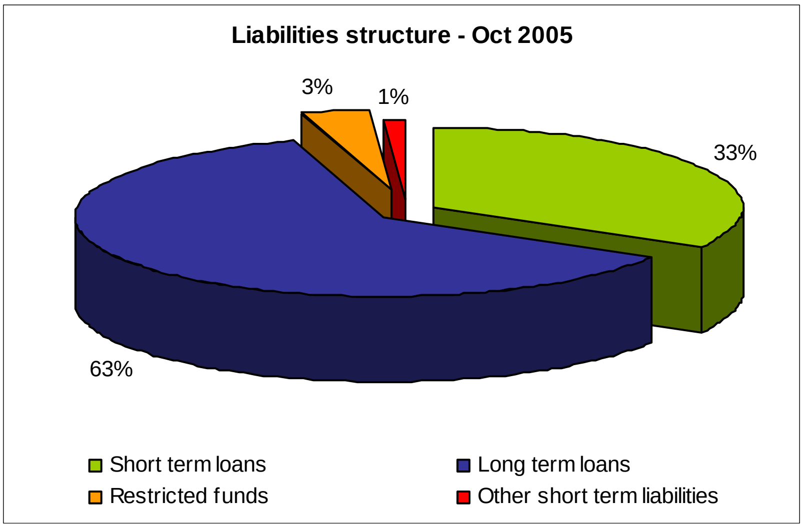
5. Financial structure and ALM

Since 2003, Crystal has started borrowing funds and increasing its **debt to equity ratio**, from 0,17 in 2003 to 0,76 in 2004 up to 0,93 as of October 2005. There is still wide room for increasing the financial leverage and this will be further facilitated by the institutional evolution towards a commercial legal status and by the introduction of a microfinance law by the Georgian Government.



A **more formalized and regulated institutional status**, though not allowing yet to collect public deposits, will be better recognized by the variety of potential financial partners of Crystal, from donor agencies to international social investors up to local commercial banks. Looking at its current liabilities structure, Crystal already demonstrates to have the capacity to access to this **variety of sources of funds**, plus there are no legal limitations (as in some other countries of the region) for international direct investments.

Liabilities and ALM
As of October 2005, Crystal presents total liabilities worth of US$ 620.000, out of which more than 60% are long term borrowed funds and about 30% are commercial (market rates) borrowings.



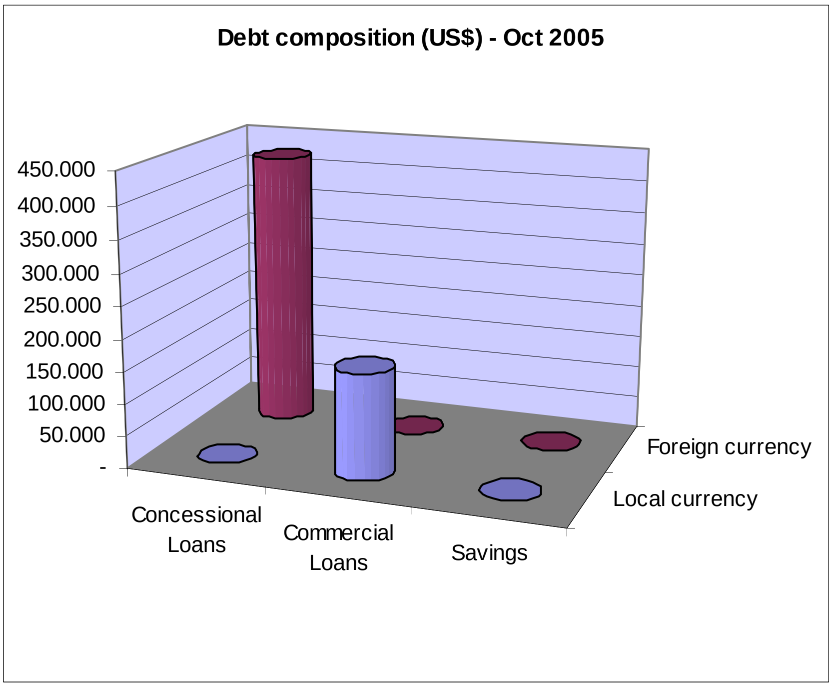
Between May and August 2004, Crystal borrowed funds from the “mother” NGO CHCA and from CORDAID. This influx of funds allowed Crystal to almost double its gross outstanding portfolio. In October 2005 Crystal obtained a 100.000 US$ loan from the **local bank TBC Bank**, with which it has also stipulated a 1 million US$ credit line. Given the still high cost of money (16%), Crystal will use the credit line only in case of strict necessity.

The **cost of funds ratio** has shifted from 3,6% in 2004 to 6,6% as of October 2005, reflecting the higher costs of the local commercial sources of funds (TBC Bank). This trend will most likely continue as the institution will more systematically access to commercial borrowings.

As of October 2005**, liquidity level seems too high** for an institution like Crystal which is not mobilizing savings and has short term liabilities representing, on average[7], only 17,5% of the total

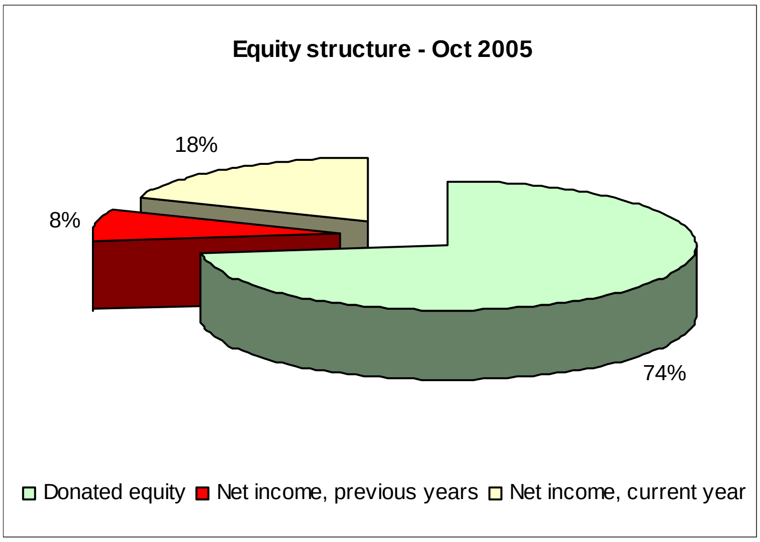
[7] Monthly average January-October 2005

liabilities and 7,6% of the total assets. Liquidity over total assets is, on average[8], at 8,4% and it used to be on average[9] 11,6% in 2004.
Cash flow analysis is carried out at the beginning of every year. **State of liquidity** is checked on a daily basis, and a monthly and quarterly planning review is undertaken.



Crystal presents an assets-liabilities structure with **no maturity mismatch**. Nevertheless, as of October 2005 the current ratio is 5,14 which has sensibly reduced since the previous years. This means that the value of short term assets is still much bigger (5 times) than the value of short term liabilities, but in a reducing trend. Given the existing trend and the most likely introduction of more commercial borrowings into the liabilities structure, the risk of maturity mismatch could be higher in perspective for Crystal. Furthermore the institution sometimes misses to appropriately reclassify, within the short term liabilities, the current portion of long term liabilities, therefore distorting the assessment of the maturity matching.

Out of the three loans borrowed only the biggest one, received from CORDAID, is denominated in US$ and the original amount is worth about US$ 420.000. The net currency position in US$ results anyway widely positive (more than US$ 500.000), as the total outstanding loan portfolio of Crystal is denominated in US$ with the exception of a small part dedicated to group loans. The reevaluation trend of the GEL on the US$, even if clearly reduced in 2005 (less than 2%) after the exploit of 2004 (12%), represents a **currency risk** for Crystal.
A wise policy is to keep the net currency position close to zero, while Crystal does not present a real policy to manage such a risk which could become relevant as soon as the volume of borrowings in foreign currency will increase.



Crystal does not perform on a regular basis a sensitivity analysis of the interest rate gap. Given that the interest rates charged on the active loans are fixed, Crystal does not present yet a specific policy for the management of the **risk related to interest rate gap**.

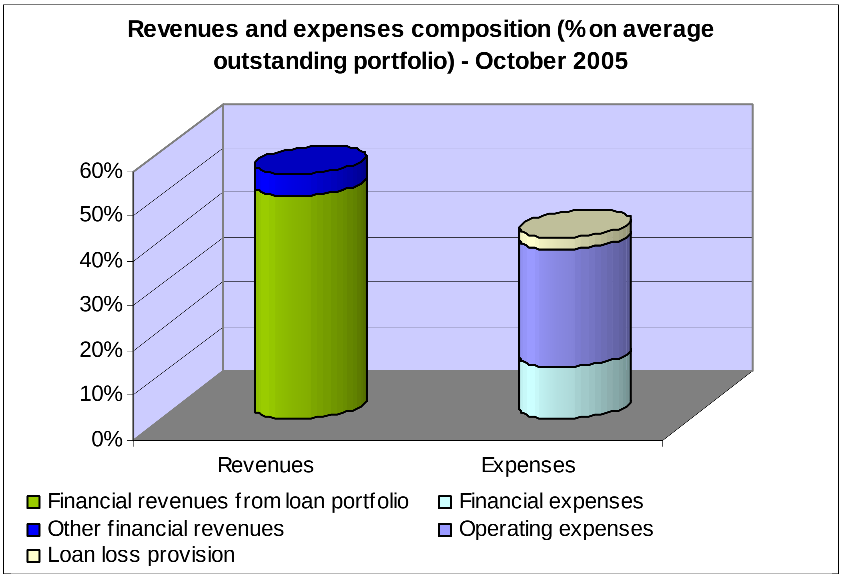
<u>Equity</u>
Total equity of Crystal is worth about US$ 665.000 as of October 2005 (US$ 517.000 as of December 2004). 74% of equity comes from donations, originally received by CHCA (UNHCR, USAID, SV

[8] Monthly average January-October 2005
[9] Monthly average January-December 2004

Dutch Refugees Foundation, part of them channeled through IRC and Save the Children), and then transferred to Crystal when it was founded by CHCA in 2004. The remaining part of equity (26%) comes from the accumulated net income since 2004.

Crystal **capitalization strategy**, as described in its business plan, foresees an increase in equity of more than US$ 1 million in 3 years (2008) and about US$ 2,7 million in 5 years (2010). The capitalization strategy strictly depends on the institutional evolution that Crystal will undertake, mainly after the approval of the “Law on Microfinance Organizations”. The top management of the institution indicates the transformation into a joint-stock company, in the short run, and then into a commercial bank, although the equity investment strategy is not clear at all. The new equity structure, future investors and owners have not been yet defined, leaving a relevant level of **uncertainty about the institution’s prospective**.

6. Financial and operational results



As of October 2005 Crystal has performed good results in terms of **profitability and sustainability**, clearly improving since December 2004. ROE has increased from 7,5% to 16,3%, ROA from 5,1% to 8,7%, OSS from 118% to 135%. Also ratios adjusted mainly for the inflation (and to a less extent for subsidies) are at good level, as AROE is 7% (-1,5% in 2004), AROA is 3,8% (-1% in 2004) and FSS is 117% (101% in 2004).

The reason behind such improvements is the increasing of the **portfolio yield**, which has shifted from 44,6% in 2004 to 49,9% as of October 2005. This is due to a different portfolio structure in 2005, as the group lending share has reduced in favor of an increasing in consumer loans which bear higher average interest rates.

Concerning **efficiency**, Crystal is still in an investment phase and does not benefit yet from economies of scale. The operating expense ratio has not reduced, actually even slightly increased from 24% in 2004 up to 26% as of October 2005.
The same pattern can be noticed for **productivity**, which remains quite low, both in terms of number of borrowers and in terms of amount, and has been affected by the high turn-over in the Poti branch. Also there is a low staff productivity ratio (57 active borrowers per staff member) due to an improvable staff allocation ratio, which anyway shows a slow positive trend during the last three years.
Funding expense ratio has increased and will further increase in a relevant manner given the commercialization of sources of funds. Loan loss provision ratio has also increased due to the worsening of portfolio quality between 2004 and 2005.

Financial and operational indicators (US$)	Jan03-Dec03	Jan04-Dec04	Nov04-Oct05
Operating expenses ratio (aver. gross portf.)	**84,1%**	**24,1%**	**26,1%**
Staff allocation ratio	39,1%	42,3%	46,7%
Loan officer productivity (borrowers)	118	130	123
Loan officer productivity (amount)	98.655	135.222	130.920
Branch productivity (amount)	295.966	495.815	610.958
Cost per loan lent	377	182	193
Cost per borrower	306	230	272
Funding expense ratio	**1,3%**	**1,1%**	**3,9%**
Provision expense ratio	**4,8%**	**1,6%**	**2,7%**
Portfolio yield (gross portfolio)	95,7%	44,6%	49,9%

At the current stage Crystal still presents a **wide margin** between the revenues and the expenses. Nevertheless it must be considered that the operational environment is becoming much **more competitive** and market interest rates are likely to undergo soon reduction pressures. At the same time financial expenses will increase along with the inclusion of commercial sources of funds within the liabilities structure. Other **pressures for profit margin reduction** could eventually derive from

the costs of inflation and from the need of increasing loan loss provisioning during the growth process (small fast growing institutions are more exposed to portfolio quality worsening).
In order to maintain an adequate profit margin, Crystal should work mainly for the **improvement of its efficiency and productivity**. It is also important for Crystal to keep focusing on the **portfolio structure**, in order to reach a better balance between more profitable lending product and less profitable ones.

7. Strategic objectives and financial needs

General guidelines for future evolution

Crystal Fund has produced a 5-year **Business Plan for the period 2005-2010**. This document, dated April 2005, indicates the main strategic objectives of the institution, and namely: the strengthening of governance, the improvement of financial performance while keeping the social focus, the growth of the portfolio, an increasing emphasis on customer satisfaction and product diversification.

The business plan document includes 5-year financial and operation projections which are summarized in the following table.

Projected figures (US$)	Oct 2005	2006	2007	2008	2009	2010
Gross outstanding portfolio	1.022.524	1.812.530	2.820.133	4.201.541	5.416.167	6.348.802
Total liabilities	620.220	1.124.369	1.755.297	2.667.215	3.160.006	3.102.039
Total equity	665.741	867.694	1.223.625	1.771.963	2.508.921	3.400.251
Net income	123.087	226.178	355.932	548.337	736.958	891.330
ROE	16,31%	24,10%	30,60%	35,70%	33,70%	28,80%

The **growth rate** projections of the credit portfolio are quite aggressive for 2006 (77%) and persist at about 50% for 2007 and 2008. This seems to redirect the negative trend observed in 2005 when the growth rate has been less than 30%, being more than 60% in 2004. Planning and performing an aggressive growth is important for a small institution like Crystal operating in a potentially very competitive market such as Georgia.
The business plan presented by Crystal Fund does not include a detailed description of possible institutional evolutions and transformation into a commercial legal entity, as they have been orally described by the top management during the rating visit. This is probably due to the uncertainty still linked to the **possible approval of the new "Law on Microfinance Organizations"** by the end of 2005. The declared strategy, after the introduction of the new law, considers the transformation into a Joint-Stock company, and, after few years, (2008) into a commercial bank. CHCA, the only founder of Crystal Fund, will not play any role in the creation of the Joint-Stock company and will not be involved within the ownership. **Ownership** is a crucial issue to be clarified within the institutional strategy of Crystal Fund: at this stage it is not clear who will be the owner of Crystal commercial entity, given that Crystal Foundation will be liquidated.
The business plan, while indicating the strategic objectives, is not addressing in detail the actions to be taken in order to reach these objectives and in particular is not disclosing Cystal's **funding strategy**.

The financial projections, presented within the Business Plan document, are based on a single growth scenario and do not include a sensitivity analysis. Since funding processes can take considerable time before disbursement, and as a consequence the planned growth could get slower, a good practice would be to include in the business plan financial projections based on three **different growth strategies**: a conservative one, a controlled one and an aggressive one.

Financial needs

Crystal has a 1 million US$ credit line agreement with TBC Bank which it wants to use only when strictly needed, given the still very high interest rate charged by TBC (16%). The credit line will be much more accessible (lower interest rate) to Crystal as soon as a guarantee fund from USAID will be offered to endorse the credit line. In the meanwhile, a US$ 300,000 loan is under negotiation with Oikocredit and other commercial or more concessional sources of funds will be considered by the institution.

8. Details of the risk factors

AREA	Risk factors	Relevance*	Main measures implemented and/or to implement in the short term	Observations
External environment	Lack of a specific legal framework for microfinance	Medium	–	A law on microfinance is under discussion and expected to be approved in the shortest period
	Strong competition	Medium-high	Crystal is very much focussed on constant improvement of the quality of relationship with clients	At least 3 strong MFIs plus ProCredit Bank are direct competitors of Crystal
	Lack of systematic exchange of information among microfinance providers	Medium	–	The existing credit bureau only includes banks
Governance, management and operations	Improvable organization of BoD functions	Medium-high	–	Only 3 members. Lack of a specific methodology for the assessment and monitoring of top management performances. No written manual for the BoD functions. BoD not organized in specific Committees
	MIS authomatic reporting	Medium	Efforts for improvements are on-going.	Automatic reporting functions of the MIS are still weak. Some inconsistencies between MIS reporting and manual reporting.
	Lack of internal auditor	High	The BoD and the top management have already agreed to recruit the internal auditor in Tiblisi, during 2006 when the new branch will also be opened there	Not adequate professional profile has been found in Kutaisi.
	Lack of Human Resource dedicated function	Medium-low	HR Department planned for 2006	The top management deals with HR policy implementation
	Lack of systematic tracking of client drop-out	Medium	Marketing and HR Department planned within 2006	Clients drop-out ratio has maintained quite high (around 50%) during the last three years
	High staff turn-over in one branch	Medium-high	–	In Poti branch, all loan officers are quite new

*** Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.**

AREA	Risk factors	Relevance*	Main measures implemented and/or to implement in the short term	Observations
Financial products and asset quality	***Improvable culture of PAR as delinquency indicator***	**Medium-low**	–	PAR not systematically used by middle management (credit managers)
	Lack of sistematic write-off policy	**Medium**	–	Write-off policy not systematically linked to the aging of the PAR
	Agriculture lending product not tracked separately	**Medium-low**	–	Agriculture lending portfolio is not disaggregated and monitored separately from individual lending
Financial structure and ALM	***High liquidity level***	**Medium**	–	Monthly average liquidity level for the last 2 years has been quite high for an institution like Crystal (credit-only, little short-term liabilities)
	Currency risk	**Medium-low**	–	Net currency position in US$ is widely positive (about US$ 500,000)
Financial and operational results	***Improvable efficiency***	**Medium**	–	Operating expenses (26% of average outstanding portfolio) could be reduced and economies of scale will appear with growth
	Improvable productivity	**Medium-high**	–	As of October number of active borrowers per loan officers has been 123, less than December 2004 (130).
	Limited growth of outstanding portfolio in 2005	**Medium**	The growth strategy announced within the business plan is going back to an average of 60% for the next three years	Growth is a crucial factor for a small institution as Crystal, operating in such a potential competitive environment. Growth rate has reduced from more than 60%, in 2004, to less than 30% in 2005

*** Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.**

AREA	Risk factors	Relevance*	Main measures implemented and/or to implement in the short term	Observations
Strategic objectives and future evolutions	*Lack of scenario analysis within the business plan document*	**Medium**	–	Different evolution scenarios (conservative, controlled and aggressive) should be considered in the business plan
	Lack of a detailed description of the institutional evolution strategy within the business plan	**Medium**	On-going discussions with the authorities	Uncertainty still existing on the introduction of the new law on microfinance. However the new legal framework is considered imminent by the top management and it is still not clear what the ownership structure will be for the new commercial entity.
	Lack of a description of the actions to be taken for reaching strategic objectives, within the business plan	**Medium-high**	–	Operational planning is not disclosed

*** Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.**

Annex 1 - Financial statements

Crystal Fund			
Balance sheet (US$)	**Dec03**	**Dec04**	**Oct05**
ASSETS			
Cash and bank deposits	19.187	24.665	117.394
Short term financial assets	-	-	-
Net outstanding portfolio	402.665	784.000	976.393
Gross outstanding portfolio	427.903	815.038	1.022.524
Performing portfolio	400.801	783.130	975.285
Portfolio at risk > 30 days	27.102	31.908	47.238
(Loan loss reserve)	25.238	31.038	46.131
Accrued interest	19.199	28.270	27.830
Other short term assets	32.295	43.636	48.056
Total short term assets	**473.346**	**880.571**	**1.169.673**
Long term financial assets	-	-	-
Net fixed assets	8.223	28.288	103.148
Other long term assets	1.452	1.609	13.140
Total long term assets	**9.674**	**29.898**	**116.288**
Total assets	**483.020**	**910.469**	**1.285.961**
LIABILITIES and EQUITY			
LIABILITIES			
Sight deposits	-	-	-
Short time deposits	-	-	-
Short term loans	34.320	-	207.298
Other short term liabilities	26.036	14.122	7.600
Total short term liabilities	**60.356**	**14.122**	**214.898**
Long term time deposits	-	-	-
Long term loans	-	363.075	383.762
Other long term liabilities	-	-	-
Restricted funds	8.096	15.468	21.560
Total Long term liabilities	**8.096**	**378.544**	**405.322**
Total liabilities	**68.452**	**392.665**	**620.220**
EQUITY			
Paid-in capital from shareholders	-	-	-
Donated equity	422.246	480.088	488.793
Quasi-capital	-	-	-
Reserves	-	-	-
Total retained earnings	- 7.678	37.716	176.948
Net income, previous years	- 7.273	- 8.730	53.861
Net income, current year	- 405	46.445	123.087
Other equity accounts	-	-	-
Total equity	**414.568**	**517.804**	**665.741**
Total liabilities and equity	**483.020**	**910.469**	**1.285.961**

Annex 1

Crystal Fund			
Income Statement (US$)	**Jan03-Dec03**	**Jan04-Dec04**	**Nov04-Oct05**
Interest & commissions received on loans	204.671	290.346	441.119
Financial revenue from investment	-	2.301	12.733
Other financial revenues	-	20.220	31.493
A) Financial revenue	**204.671**	**312.867**	**485.346**
Interest paid on borrowings	2.710	7.224	34.096
Interest paid on savings	-	-	-
Interest paid on mortgage	-	-	-
Other financial expenses	-	90.217	70.928
Inflation adjustment	-	-	-
B) Financial expenses	**2.710**	**97.441**	**105.024**
Gross financial margin (A - B)	**201.961**	**215.426**	**380.322**
Loan loss provision	10.370	10.676	23.429
Net financial margin	**191.591**	**204.750**	**356.893**
Other operating revenue	-	-	-
Personnel expenses	88.503	88.230	100.525
Administrative expenses	91.468	68.594	130.482
C) Operating expenses	**179.971**	**156.824**	**231.007**
Net operating income	**11.620**	**47.926**	**125.885**
Extraordinary revenue	-	-	-
Extraordinary expense	-	-	-
Net income before donations, before tax	**11.620**	**47.926**	**125.885**
Taxes	12.026	10.818	27.163
Net income before donations	**- 405**	**37.108**	**98.723**
Donations in cash	-	9.337	24.365
Revenue not from the operations	-	-	-
Expenses not from the operations	-	-	-
Net income	**- 405**	**46.445**	**123.087**

Annex 2 - Financial statement adjustments

The financial statements in Annex 1 are the result of **standard reclassification**. They are expressed in US$. The numbers are based on audited financial statements except for the period November 2004-October 2005 based on the financial statements prepared by Crystal Fund.

Financial statements have been then adjusted to allow a comparison with other institutions which use a different logic of presentation of the information and to evaluate the level of sustainability of the institution with market conditions. The main adjustments normally are:

- adjustment for the accrued interest on delinquent loans
- elimination of subsidies (donations in kind[10] and soft loans[11])
- provisions are calculated with a standard formula[12]
- adjustments for inflation
- adjustments for write-off[13]

The most relevant adjustments for Crystal Fund in the considered periods are those related to the inflation which has been gradually increasing, adjustments for subsidized cost of funds, and in particular to the loan from CORDAID.
The cumulative effect of these adjustments reduces the net income in all the periods.

Adjustments (US$)	Jan03-Dec03	Jan04-Dec04	Nov04-Oct05
Reversal of accrued interest on non-perf loans	-	-	-
Subsidized cost of fund adjustment	-	8.836	10.978
Inflation adjustment	14.153	35.598	45.187
- Inflation rate used	7,0%	7,5%	8,4%
Loan loss provision adjustment	-	-	-
In-kind subsidy adjustment	-	-	-
Total variation of net income	14.153	44.434	56.165

[10] Donations in kind are valorized and added to operational expenses.
[11] In the income statement it is registered the value of the difference between financial costs of the institutions and financial cost evaluated at the market rate.
[12] Provisions are calculated according to the following formula:

Portfolio:	1-30 days	10%	Restructured loans	0-30 days	50%
	31-60 days	30%		> 30 days	100%
	61-90 days	50%			
	>90 days	100%			

[13] Loans past due more than 180 days are written-off.

Annex 3 - Financial ratios

Crystal Fund (US$)

	Jan03-Dec03	Jan04-Dec04	Nov04-Oct05
PROFITABILITY			
Return on Equity (ROE)	-0,1%	7,5%	16,3%
Adjusted Return on Equity (AROE)	-13,2%	-1,5%	7,0%
Return on Assets (ROA)	-0,1%	5,1%	8,7%
Adjusted Return on Assets (AROA)	-6,4%	-1,0%	3,8%
Operational self-sufficiency (OSS)	106,0%	118,1%	135,0%
Financial self-sufficiency (FSS)	93,0%	101,1%	116,8%
Profit Margin	5,7%	15,3%	25,9%
LOAN PORTFOLIO QUALITY			
Portfolio at risk (PAR30)	6,3%	3,9%	4,6%
Arrears rate (> 1 day)	5,4%	3,4%	4,3%
Restructured loans	0,0%	0,0%	0,0%
Provision expense ratio	2,6%	1,6%	2,7%
Loan loss reserve ratio	5,9%	3,8%	4,5%
Risk coverage ratio (30 days)	93,1%	97,3%	97,7%
Write-off ratio	0,2%	1,1%	0,3%
Adjusted write-off ratio	3,6%	3,9%	3,5%
EFFICIENCY AND PRODUCTIVITY			
Staff allocation ratio	39,1%	42,3%	46,7%
Loan officer productivity (borrowers)	118	130	123
Loan officer productivity (amount)	98.655	135.222	130.920
Staff productivity (borrowers)	46	55	57
Staff productivity (amount)	38.604	57.209	61.096
Branch productivity (amount)	295.966	495.815	610.958
Operating expenses ratio (average gross portf.)	45,2%	24,1%	26,1%
Operating expenses ratio (average assets)	40,7%	21,5%	20,4%
Cost per loan lent	377	182	193
Cost per borrower	306	230	272
Personnel expenses ratio (average gross portf.)	22,2%	13,6%	11,4%
Admin. expenses ratio (average gross portfolio)	23,0%	10,5%	14,8%
ASSETS/LIABILITIES MANAGEMENT			
Portfolio yield (gross portfolio)	51,4%	44,6%	49,9%
Portfolio yield (gross portfolio) - accrued	51,4%	44,6%	49,9%
Funding expense ratio*	0,7%	1,1%	3,9%
Cost of funds ratio*	15,8%	3,6%	6,6%
Provision for inflation (average gross portfolio)	0,0%	0,0%	0,0%
Adjusted provision for inflation (av. gross port.)	6,8%	5,5%	5,1%
Current ratio	7,70	60,91	5,14
Liquidity over total assets	4,0%	2,7%	9,1%
Debt/equity ratio	0,17	0,76	0,93
Equity multiplier	1,2	1,8	1,9
Capital adequacy ratio	85,8%	56,9%	51,8%

* exchange rate variations are not included in the calculation of the ratio

Crystal Fund (US$)

	Jan03-Dec03	Jan04-Dec04	Nov04-Oct05
OUTREACH			
Average disbursed loan size	1.548	1.536	1.491
Average outstanding balance	837	1.039	1.066
Average disbursed loan size on per-capita GDP	82,3%	69,9%	69,3%
Average outstanding balance on per-capita GDP	38,1%	47,3%	49,6%
Percentage of active borrowers women	71,1%	62,1%	54,0%
GROWTH (amount in US$)			
Growth of active gross portfolio	15,9%	67,5%	37,2%
Growth of active borrowers	-23,1%	34,9%	29,4%
Growth of active loans	-23,1%	34,9%	29,4%
Growth of total assets	20,2%	65,8%	31,8%
Growth of staff	-4,2%	13,0%	20,0%
Growth of funding liabilities	na	830,5%	33,9%
*Growth of operating expenses**	na	-23,4%	86,8%
Growth of equity	12,3%	9,9%	22,2%

*The growth rate is calculated on the period Nov04-Oct05

na = not applicable

Annex 4 - Definitions

	Description of the ratio	Formula
Profitability	**Return on equity (ROE)**	Net income before donations / Average equity
	Adjusted return on equity (AROE)	Adjusted net income before donations / Average equity
	Return on assets (ROA)	Net income before donations / Average assets
	Adjusted return on assets (AROA)	Adjusted net income before donations / Average assets
	Operational self-sufficiency (OSS)	(Financial revenue + Other operating revenue) / (Financial expenses + Loan loss provision expenses + Operating expenses).
	Financial self-sufficiency (FSS)	(Adjusted financial revenue + Other operating revenue) / (Adjusted financial expenses + Adjusted loan loss provision expenses + Adjusted operating expenses)
	Profit margin	Net operating income / operating revenue
Portfolio quality	**Portfolio at Risk (PAR30)**	Portfolio at Risk > 30/ Gross portfolio
	Provision expense ratio	Loan loss provision expenses / Average gross portfolio
	Loan loss reserve ratio	Accumulated reserve / Gross portfolio
	Risk coverage ratio (>30 days)	Accumulated reserve / Portfolio at risk >30 days
	Write-off ratio	Write-off of loans / Average gross portfolio
Efficiency and productivity	**Staff allocation ratio**	Loan officers / Total staff
	Loan officer productivity – Borrowers	Number of active borrowers / Number of loan officer
	Loan officer productivity – Amount	Gross portfolio / Number of loan officer
	Staff productivity – Borrowers	Number of active borrowers/ Number of staff
	Staff productivity – Amount	Gross portfolio / Number of staff
	Operating expenses ratio	Operating expenses / Average gross portfolio
	Cost per borrower	Operating expenses / Number of borrowers
	Administrative expenses ratio	Administrative expenses / Average gross portfolio
	Personnel expenses ratio	Personnel expenses / Average gross portfolio
Financial management	**Portfolio Yield (gross portfolio)**	Interest income from portfolio / Average gross or net portfolio
	Cost of fund ratio	Interest expenses on funding liabilities / Period average funding liabilities
	Funding expense ratio	Interests and fee expenses on funding liabilities / Average gross portfolio
	Current ratio	Short term assets / Short term liabilities
	Debt/Equity ratio	Liabilities / Equity
	Capital adequacy ratio	Total equity / Total assets
Outreach	**Average disbursed loan size**	Amount issued in the period / Number of issued loans
	Average disbursed loan size on per-capita GDP	Average disbursed loan size / Per-capita GDP

Other definitions:

Funding liabilities: Liabilities that finance the loan portfolio and the cash investments necessary to manage the loan portfolio

Operating expenses: Personnel expenses + Administrative expenses

Recovery from write-off ratio: Income from write-off (payments received from loan already written-off) / Average gross portfolio

Restructuring of delinquent loans: includes rescheduling loans (extending the term of the loan or relaxing the schedule of required payments) and refinancing loans (paying off a problem loan by issuing a new loan).

Annex 5 - Guidelines of reporting and accounting

Separation of financial statements
Crystal Fund does not offer non-financial services. Its financial statements reflect only the results of financial activities. The closing data of financial statements is December 31 of each year. Yearly financial statements are audited.

Reporting
The Financial Department produces the following main reports on a regular basis:
- Balance sheet and income statement on a monthly and quarterly basis;
- Internal audit on a monthly and quarterly basis;
- Portfolio reports on a monthly and quarterly basis
- Daily and monthly liquidity report: planned and realized disbursement, cash flow analysis;

Loan loss provision and write-off
Crystal Fund sets and reviews the loan loss reserve on a monthly basis. The current policy is settled as follows:

Aging of delinquency	% provision
0 days	1%
1 - 30 days	25%
31-90 days	50%
91 - 180 days	75%
>180 days	100%
rescheduled loans	25%

The cost of the provision is recorded in the income statement and it is cumulated as a loan loss reserve in the balance sheet as a negative item of the assets.

Crystal Fund writes off a loan only in the following circumstances:
- death of the owner of the business and stop of the business;
- decision of the special committee (Executive Director, financial manager and lawyer) and final approval of the Board of Directors;

Accrued interest
Crystal Fund registers accrued active and passive interests on loans on a monthly basis.

Portfolio quality
Crystal Fund reports data on portfolio at risk which is calculated as the ratio of the outstanding balance of the loans past due out of the total outstanding portfolio.

Restructured loans
Crystal Fund policy only considers loans rescheduling (not refinancing). Each credit officer is limited to reschedule only one loan per month maximum.
Restructured loans are tracked separately in the MIS; and, they are subject to a special provisioning policy.
As of October 2005 there are no active rescheduled loans.

Insider loans
Crystal Fund does not provide loans to board and staff members.

Donations received (US$)

Year	Amount	Destination	Source
2005	US$ 23,928	Grant for conducting West Georgia Rural Market Research	Chemonics
Sub-total	US$ 23,928		
2004	US$ 8,000	Co-financing of first rating evaluation of CHCA micro lending program	CGAP
	US$ 15,600	Grant for acquiring of new MIS and computer equipment	Chemonics
Sub-total	US$ 23,600		

Donations

October 05

Loans borrowed

Source	Currency (in which the loan is due)	Outstanding Balance (US$)	Outstanding Balance Short term (US$)	Outstanding Balance Long term (US$)	Agreement, kind of product and collateral
Cordaid	US$	426.402	42.640	383.762	Loan contract
CHCA	GEL	64.240	64.240	0	Loan contract
TBC Bank	GEL	100.418	100.418	0	Loan contract
Sub-total		591.060	207.298	383.762	

October 05

Funding liabilities features

Source	Loan amount (US$)	Disbursement date	Maturity date	Principal repayments	Interest repayments	Interest rate
Cordaid	426.402	01/08/2004	01/08/2009	Semi-annual	Semi-annual	6,00%
CHCA	64.240	18/05/2004	18/05/2006	End of period	Quarterly	12,00%
TBC Bank	100.418	27/03/2006	27/03/2006	Monthly	Monthly	16,00%

Details of liabilities

Other accounting policy

The financial statements are prepared on accrual basis.

Fixed assets are initially recognized at cost, subsequently depreciated using the straight-line system and then revaluated at the end of the year by applying officially published indices for retail price increase.

Crystal Fund does not consider the effects of the inflation in the financial statements.

Exchange rate variations

Monetary assets and liabilities in currencies different from GEL are translated into GEL at rate of exchange of the end of period and the resulting gains or losses are registered in the income statement.

October 05

US$	US$*	Local currency	Total
Assets	**976.393**	**309.567**	1.285.960
Cash and banks		117.394	117.394
Financial assets			-
Portfolio	976.393		976.393
Fixed assets		116.288	116.288
Other assets		75.885	75.885
Liabilities	**432.716**	**853.244**	1.285.960
Loans	426.401	164.658	591.060
Other liabilities	6.315	1.285	7.599
Grants		21.560	21.560
Capital		665.741	665.741
NET POSITION	**543.677**	**-543.677**	**0**

* Exchange rate GEL/US$: 1,79

The following table shows Crystal's net position as of October 2005.

Annex 6 - Rating Scale

Rating grade	Definition
AAA	Extremely strong capacity to meet its financial obligations. Excellent operations. Very stable and highly unlikely to be adversely affected by foreseeable events.
AA	Very strong capacity to meet its financial obligations. Very good operations. Stable and unlikely to be adversely affected by foreseeable events.
A	Strong capacity to meet its financial obligations. Very good operations. Stable even if it could be affected by major internal or external events.
BBB	Adequate capacity to meet its financial obligations. Good operations. Quite stable even if it could be affected by significant internal or external events.
BB	Limited vulnerable capacity to meet its financial obligations. Adequate operations. Quite stable even if it could be affected by internal or external events.
B	Partially vulnerable capacity to meet its financial obligations. Sufficient operations. Not completely stable and vulnerable to internal or external events.
CCC	Vulnerable capacity to meet its financial obligations. Basic operations. Potentially unstable and vulnerable to external or internal events.
CC	Highly vulnerable capacity to meet its financial obligations. Poor operations. Potentially unstable and vulnerable to external or internal events.
C	Very high vulnerable capacity to meet its financial obligations. Very poor operations. Unstable and very vulnerable to external or internal events.
D	Not able to meet its financial obligations. Insufficient operations. Very unstable and completely vulnerable to external or internal events.

The rating grade can be corrected with a + or – sign, which implies a slight positive or negative variation respect to the main grade.