State institution of “Dushanbe industrial entrepreneurship support fund”

Financial Statements
for the year ended December 31, 2020

and independent auditors’ opinion

State institution of “Dushanbe industrial entrepreneurship support fund”

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State institution of “Dushanbe industrial entrepreneurship support fund”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of the State institution of “Dushanbe industrial entrepreneurship support fund” (the “Institution”).

Management of the Institution is responsible for the preparation of the financial statements that present fairly the financial position of the Institution as at December 31, 2020, the results of its operations, cash flows and changes in net assets for the year then ended, in accordance with International Financial Reporting Standards (the “IFRS”).

In preparing the financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- compliance with IFRS; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Institution will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control, throughout the Institution;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Institution, and which enable them to ensure that the financial statements of the Institution comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Institution; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended December 31, 2020 were approved and authorized for issue on May 31, 2021 by the Management of the Institution.

On behalf of the Management of Institution:

Rahimzoda Olim Sharifi **Director**	**Yusupova Zumrad Mahmadulloevna** **Chief Accountant**
May 31, 2021	May 31, 2021
Dushanbe, Republic of Tajikistan	Dushanbe, Republic of Tajikistan

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INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of the State institution of "Dushanbe industrial entrepreneurship support fund":

Opinion

We have audited the accompanying financial statements of the State institution of "Dushanbe industrial entrepreneurship support fund" (the "Institution"), which comprise the statement of financial position as at December 31, 2020 and the statement of profit or loss and other comprehensive income, the statement of changes in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion the accompanying financial statements present fairly, in all material respects, financial position of the Institution as at December 31, 2020, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (hereafter, IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (the "ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Institution in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Tajikistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Institution's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Khairullaev Firdavs

Director,

Auditor Licence of the Republic of Tajikistan № 0000115, issued by the National Bank of Tajikistan from January 22, 2020

Baker Tilly Tajikistan LLC

License # 0000063 issued by the National Bank of Tajikistan from December 28, 2016.

May 31, 2021
Dushanbe, Republic of Tajikistan

State institution of “Dushanbe industrial entrepreneurship support fund”

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

(in Tajik Somoni)

	Notes	Year ended December 31, 2020
Interest income	4	456,365
INTEREST INCOME		456,365
Commission expenses	5	(15,144)
Accrual of allowance for impairment and expected credit losses	6	(210,067)
Operating expenses	7	(148,933)
PROFIT BEFORE INCOME TAX		82,221
Income tax	8	(22,819)
PROFIT FOR THE YEAR		59,402
Other comprehensive income:		-
TOTAL COMPREHENSIVE INCOME		59,402

On behalf of the Management of Institution:

Rahimzoda Olim Sharifi
Director

May 31, 2021

Dushanbe,
Republic of Tajikistan

Yusupova Zumrad Mahmadulloevna
Chief Accountant

May 31, 2021

Dushanbe,
Republic of Tajikistan

The notes on pages 9-31 form an integral part of the financial statements. The Independent Auditors’ Report is on pages 3-4.

State institution of "Dushanbe industrial entrepreneurship support fund"

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
(in Tajik somoni)

	Notes	December 31, 2020
ASSETS:		
Cash and cash equivalents	9	11,602,406
Loans to customers	10	18,610,209
Property and equipment	11	119,605
Intangible assets	12	3,740
Prepayment for income tax		4,200
TOTAL ASSETS		30,340,160
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
Unused vacation provision	13	5,758
		5,758
NET ASSETS:		
Contributions from the budget of the city of Dushanbe	14	30,275,000
Retained earnings		59,402
		30,334,402
TOTAL LIABILITIES AND NET ASSETS:		30,340,160

On behalf of the Management of Institution:

Rahimzoda Olim Sharifi
Director

May 31, 2021

Dushanbe,
Republic of Tajikistan

Yusupova Zumrad Mahmadulloevna
Chief Accountant

May 31, 2021

Dushanbe,
Republic of Tajikistan

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State institution of “Dushanbe industrial entrepreneurship support fund”

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020
(in Tajik somoni)

	Note	Contributions from the budget of the city of Dushanbe	Retained earnings	Total net assets
Balance at January 1, 2020		-	-	-
Contributions from the budget of the city of Dushanbe	14	30,275,000	-	30,275,000
Profit for the year		-	59,402	59,402
Balance at December 31, 2020	14	30,275,000	59,402	30,334,402

On behalf of the Management of Institution:

Rahimzoda Olim Sharifi
Director

May 31, 2021

Dushanbe,
Republic of Tajikistan

Yusupova Zumrad Mahmadulloevna
Chief Accountant

May 31, 2021

Dushanbe,
Republic of Tajikistan

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State institution of “Dushanbe industrial entrepreneurship support fund”

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

(in Tajik somoni)

	Notes	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from interest of loans		456,365
Total cash inflow from operating activities		456,365
Loans issued		(18,625,354)
Payment for goods and services		(25,177)
Payment of salary		(67,254)
Taxes		(28,003)
Bank fees expenses		(1,079)
Total cash outflow from operating activities		(18,746,867)
Payment for income tax	8	(27,019)
Net cash outflow from operating activities		**(18,317,521)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	11	(140,606)
Purchase of intangible assets	12	(4,400)
Net cash outflow from investing activities:		**(145,006)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from the budget of the city of Dushanbe	14	30,275,000
Net cash inflow from financing activities		**30,275,000**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,812,473**
Effect of expected credit loss for cash in bank	6	(210,067)
CASH AND CASH EQUIVALENTS, at the beginning of the year	9	-
CASH AND CASH EQUIVALENTS, at the end of the year	9	**11,602,406**

On behalf of the Management of Institution:

Rahimzoda Olim Sharifi
Director

May 31, 2021

Dushanbe,
Republic of Tajikistan

Yusupova Zumrad Mahmadulloevna
Chief Accountant

May 31, 2021

Dushanbe,
Republic of Tajikistan

The notes on pages 9-31 form an integral part of the financial statements. The Independent Auditors’ Report is on pages 3-4.

1. GENERAL INFORMATION

State institution of “Dushanbe industrial entrepreneurship support fund” (the “Institution”) was established by the decree of the Mayor of Dushanbe city #101 Dated February 21, 2019.

The institution was created with the aim of implementing government policy for the development of entrepreneurship, creating favorable conditions for attracting investors, encouraging entrepreneurs and creating new workplaces. The institution issues concessional loans with low-interest rates to enterprises in the field of production in the city of Dushanbe.

Since the Institution does not have a license from the National Bank of Tajikistan to issue loans, the Institution issues loans through the State Saving Bank of the Republic of Tajikistan "Amonatbank" by concluding a tripartite agreement.

The founder of Entity is the Executive body of the State Power of Dushanbe city.

The registered office of the Institution is 38/1 Rudaki Avenue, Dushanbe, Republic of Tajikistan. As at December 31, 2020 the Institution has no branches or divisions on the territory of the Republic of Tajikistan. As at December 31, 2020 the Institution has 8 employees.

The financial statements were approved by the Management of the Institution on May 31, 2021.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRS”) issued by the International Accounting Standards Board (the “IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (the “IFRIC”).

Functional and reporting currency

Items included in the Institution’s financial statements are estimated using the currency that best reflects the economic substance of the underlying events and circumstances related to the Institution (the “functional currency”). The functional and reporting currency of the accompanying financial statements is Tajik somoni (the “TJS” or “somoni”).

These financial statements are presented in thousands of Tajik somoni, unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments carried at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition and valuation of financial instruments

Financial assets and financial liabilities are recognized on the Institution’s statement of financial position when the Institution becomes a party to the contractual provisions of the instrument. The Institution reflects purchasing and sale of financial assets and liabilities, which have regular nature at the date of payment. Purchased in such way financial instruments, which will be subsequently estimated at fair value, from the date of the transaction and before the date fixed for the calculations are taken into account in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value. The acquisition cost of financial assets and liabilities that are not financial assets and liabilities and taken into account at fair value through profit or loss, adjusted for transaction costs, directly related to the acquisition or establishment of a financial asset or financial liability origination. The principles of the following valuation of financial assets and liabilities are disclosed in appropriate accounting policies set out below.

Institution classified financial assets into the following specified categories:

- Financial asset measured at amortized cost;
- Financial asset measured at fair value through other comprehensive income (FVOCI);
- Financial asset measured at fair value through profit or loss.

Debt instruments

The classification and subsequent accounting of debt instruments depend on:

a) Business model of the Institution used to manage financial assets;
b) Characteristics of the financial asset and the contractual cash flows.

Business model

Business model used by the Institution describes the way it manages its financial assets in order to generate cash flows, i.e. business model of the Institution determines whether the cash flows will result from the receipt of contractual cash flows, selling financial assets or both.

The Institution can apply various financial asset management models in the course of its activities, but it is expected that most financial assets will be held till maturity within the framework of the contractual cash flow model in accordance with the Institution’s development strategy and limited market tools in the Republic of Tajikistan.

SPPI criteria

In order to assess the compliance of contractual terms of a financial asset with SPPI criteria, the Institution conducts an SPPI test (the “SPPI test”) for each debt financial asset. During this assessment the Institution reviews whether the contractual cash flows are consistent with the basic lending arrangement, i.e. interest includes only the time value of money, credit risk, other major credit risks and profits in accordance with the basic lending agreement. If the contractual terms include any risk or volatility that does not correspond to the basic lending agreement, the relevant financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Institution classifies its debt instruments into the following three categories:

Financial assets measured at amortized cost:

a) The objective of the Institution’s business model is to hold the financial asset to collect the contractual cash flows.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The carrying amount of these assets is adjusted by expected credit losses. Interest earned on these financial assets is included in “Interest income” using the effective interest method.

Financial assets measured at fair value through Other comprehensive income (FVOCI):

a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the carrying amount are recognized in other comprehensive income. The recognition of expected credit losses, interest income and changes in foreign currency occurs in profit or loss. When a financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Interest earned on these financial assets is recognized in “Interest income” using the effective interest method.

Financial assets measured at fair value through profit or loss (FVTPL):

The Institution classifies financial assets at fair value through profit or loss if they do not meet the criteria to be measured at amortized cost or at fair value through other comprehensive income. Gains or losses on debt instruments measured at fair value through profit or loss (that are not part of the hedging instruments) are recognized in the statement of profit or loss as part of the “Net Trade Income” in the period in which they arise. Interest earned on these financial assets is recognized in “Interest income” using the effective interest method.

The Institution has an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces the measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

All other debt instruments that do not fit in any of the categories must be measured at fair value through profit or loss.

Equity instruments

All equity investments of the Institution are to be measured at fair value in the statement of financial position with fair value changes recognised in profit or loss, except for those equity investments for which the Institution has elected to present value changes in other comprehensive income.

Due to the limited market tools available for trading with equity securities in the Republic of Tajikistan, the Institution classifies equity instruments as measured at fair value through other comprehensive income when investments are held for purposes other than investment income. In such cases, changes in fair value are recognized in other comprehensive income and cannot subsequently be reclassified to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income.

Gains and losses on equity instruments measured at fair value through profit or loss are recorded in “Net trade income” in the statement of profit or loss.

Reclassification

The Institution reclassifies financial assets if and only if the business model objective for its financial assets changes so its previous model assessment would no longer apply. If reclassification is performed, it must be done prospectively from the reclassification date which is defined as the first day of the first reporting period following the change in business model. The Institution does not restate any previously recognised gains, losses or interest.

Derecognition of financial assets

The recognition of a financial asset (or, if applicable, part of a financial asset or part of a Institution of similar financial assets) ceases when:

- the rights to receive cash flows from the asset have ceased;
- the Institution transferred its rights to receive cash flows from the asset or reserved the right to receive cash flows from the asset, but became obliged to pay these cash flows without significant delay to a third party under the ‘transfer’ agreement; and
- the Institution either (a) transferred almost all the risks and rewards related to the asset, or (b) did not transfer and did not retain almost all the risks and rewards related to the asset, but transferred a control over the asset.

Modification of contractual cash flows

In circumstances where the Institution reviews or modifies the contractual cash flows for a financial asset, the Institution assesses how significant the change between the original conditions and the new ones is.

If new conditions differ significantly, the Institution derecognizes the original financial asset and recognizes a new financial asset at fair value and recalculates the new effective interest rate for the asset. At the date of modification, the Institution calculates revised expected credit losses and determines whether there is a significant increase in credit risk. However, the Institution also evaluates whether newly recognized financial asset is considered to be impaired upon initial recognition, especially in cases when the revision was due to the fact that the borrower was unable to make the originally agreed payments. The difference in the carrying value of financial assets is reflected in the statement of profit or loss.

If conditions do not differ significantly, then revision or change does not lead to derecognition. The Institution recalculates the carrying amount using initial effective interest rate according to the changes in cashflows and the effect is recognized as profit or loss on modification within the statement of profit or loss.

If modification results in increase of significant risks according to the methodology for calculating of expected credit losses, then the contract modification affects the impairment calculation according to the methodology presented in Note 29.

Classification and subsequent accounting of financial liabilities

The Institution classifies all financial liabilities as subsequently measured at amortized cost, except for:

a) financial liabilities measured at fair value through profit or loss. Such liabilities, including liability derivatives, are subsequently measured at fair value;

b) financial liabilities that arise when the transfer of a financial asset does not meet the requirements for derecognition or when the principle of continuing participation accounting is applied;

c) financial guarantee contracts and loan commitments at interest rate lower than the market. After initial recognition, such contracts should be subsequently evaluated on the basis of the largest of the following amounts:

i) the amount of the impairment allowance created by the Institution; and
ii) the amount initially recognized less the total amount of income, if applicable;

d) contingent consideration recognized by the acquirer in a business combination. Such contingent consideration is subsequently measured at fair value through profit or loss.

Upon initial recognition of a financial liability, the Institution may, in its own discretion, classify it, without the right of subsequent reclassification, as measured at fair value through profit or loss.

Offset of assets and liabilities

The Institution's financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derecognition of financial liabilities

A financial obligation (or part of it) is considered extinguished when the debtor:

(a) either fulfils this obligation (or part of it) by paying off the lender, generally in cash, other financial assets, goods or services,
(b) is either legally relieved of primary liability for that obligation (or part of it), as a result of the performance of the legal procedure or as a result of the creditor's decision.

Derecognition of financial liabilities occurs also in the case of significant changes in cash flows, i.e. if the present value of cash flows in accordance with the new conditions, including the payment of commission after deduction of commission received, discounted at the original effective interest rate, differs by at least 10% of the discounted present value of the remaining cash flows of the original financial liability.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on correspondent account which can be converted to the corresponding amount of cash in the short term.

Loans to customers

Loans to customers are financial assets that are not derivative financial instruments with fixed or determinable payments that do not have market quotations, except for assets, which are classified in other categories of financial instruments.

Loans issued by the Institution are initially recognized at fair value plus transaction costs directly attributable to the acquisition or establishment of such financial assets. If the fair value of the provided funds is not equal to the fair value of loans, for example, in the case of providing loans at rate below than market rates, difference between the fair value of provided funds and the fair value of loans is recognized as a loss on initial recognition of loans and is represented in the statement of profit or loss and other comprehensive income in accordance with the nature of such losses. Subsequently, loans are taken into account at amortized cost using the effective interest rate method. Loans to customers are taken into account after deduction of allowance for impairment.

Write-off of loans and advances

In the case of impossibility of recovery of loans, including through repossession of collateral, they are written-off against the allowance for impairment. Loans and provided funds are written - off after taking by management of the Institution measures to recover amounts owed to the Institution and after selling by the Institution all available collateral. Subsequent recoveries of previously written-off amount are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Allowance for expected credit loss

The Institution recognizes an estimated allowance for expected credit losses (the “ECL”) on loans issued. The Institution recognizes such losses at each reporting date by assessing the existence of impairment evidences. The impairment assessment model of financial assets provides for the assessment of expected credit losses within 12 months and throughout the lifetime of the financial asset.

The Institution’s expected losses model is based on the following principles:

Stage 1: 12-month expected credit losses - expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date;
Stage 2: full lifetime expected credit losses - expected credit losses that result from all possible default events over the life of the financial instrument;
Stage 3: expected credit losses that result from all possible default events over the life of the financial instrument, but interest income is calculated based on the gross carrying amount of the financial asset (using effective interest rate) less impairment allowance.

Expected credit losses reflect an objective calculation of the probability-weighted value, which is determined by assessing a number of possible outcomes.

The Institution estimates expected credit losses on a financial instrument using a model that reflects:

a) unbiased and probability-weighted amount determined by assessing the range of possible outcomes;
b) time value of money; and
c) reasonable and verifiable information on past events, current conditions and projected future economic conditions available at the reporting date without excessive cost or effort.

The Institution creates an estimated allowance for expected credit losses on the following financial instruments that are not measured at fair value along with the reflection of their change in profit or loss:

- financial assets that are debt instruments;
- receivables from (financial) leases;
- issued financial guarantee contracts; and
- issued loan obligations.

Impairment losses on equity-based investments are not reflected in the financial statements.

The Institution calculates an allowance for losses for the entire period of expected credit losses, except for the following instruments, for which such losses are estimated as expected credit losses within 12 months:

- debt investment securities, which are defined as having low credit risk at the reporting date; and
- other financial instruments (other than receivables) for which credit risk has not increased significantly after their initial recognition in the financial statements.

Estimated impairment allowance for receivables on (financial) leases is always calculated over the entire period of expected credit losses.

The Institution believes that a debt security has a low credit risk if its credit rating corresponds to the internationally accepted definition of the term “investment class”.

Expected credit losses in a period of 12 months are part of the expected credit losses that arise as a result of defaults on the financial instrument, expected within 12 months after the reporting date.

Expected credit losses are calculated taking into account the probability-weighted credit losses. They are evaluated as follows:

- *for financial assets that are not credit-impaired at the reporting date:* the present value of all cash flows that has not been received (the difference between the cash flows under the contractual terms and expected cash flows to be received by the Institution);
- *for financial assets that are credit-impaired at the reporting date:* the difference between the gross carrying amount and the present value of the estimated future cash flows;
- *for loan commitments:* the present value of the difference between the contractual cash flows if the commitment is used and expected cash flows to be received by the Institution; and
- *for financial guarantee contracts:* expected payments to the holders of the contracts, less any amounts that the Institution expects to collect as a penalty.

Changes in expected credit losses are recognized in the profit or loss using an allowance account. The assets reflected in the statement of financial position are reduced by the amount of expected credit losses. The following indicators are considered by the Institution when determining the existence of impairment evidence: the debtor’s or issuer's liquidity, their solvency, business and financial risks, levels and trends of defaults on similar financial assets, national and local forecasts on economic trends and conditions, and the fair value of collateral and guarantees. These and other factors, individually or collectively, provide an objective evidence for recognizing expected credit losses of a financial asset or Institution of financial assets.

More detailed information on calculation of expected credit losses is provided in Note 17.

The Institution calculates allowance for expected credit losses on loan portfolio according to the International Financial Reporting Standard 9 “Financial instruments”.

Property and equipment

Furniture, equipment, vehicles and other fixed assets are accounted at historical cost less accumulated depreciation. Buildings and constructions are accounted at revaluated cost less accumulated depreciation and/or accumulated impairment losses in case of their availability. Such cost includes cost of purchase or construction of buildings and eligible borrowing costs, in case of the long-term construction when recognition criteria are met. In case of need for replacement of significant items of the property and equipment Institution derecognizes replaced part and recognizes new components with appropriate useful life and depreciation rates.

Increase of the value at revaluation is accounted within equity as a revaluation reserve, except the case when such revaluation compensates previous impairment of those assets and is recognized through profit or loss. In this case the revaluation is recognized through profit or loss and other comprehensive income. Decrease of the value is recognized through profit or loss and other comprehensive income, except cases when such decrease compensates previous increase recognized within equity.

Depreciation is charged on the carrying value of fixed assets to amortize assets over their useful lives. Accrual of depreciation is implemented using straight line method using the following annual rates:

Office equipment	20%
Furniture	20%
Other	20%

Amortization of leasehold improvements is calculated over the useful life of the related leased assets. The cost of repair and overhaul are reflected in the statement of profit or loss and other comprehensive income within operating expenses as incurred unless they meet the requirements for capitalization.

On each reporting date the Institution estimates whether the carrying value of fixed assets does not exceed the replacement cost. Replacement cost is a higher value of fair value less selling costs and value in use. In case of exceeding the carrying value of fixed and intangible assets over their replacement value the Institution reduces the carrying value of fixed assets to their replacement cost. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the revised carrying value of assets, less its residual value (if any) over the remaining useful life.

During write-off of a revalued property and equipment, the amounts included in the revaluation reserve are transferred to retained earnings.

Leases

Operating Lease – Institution as lessee

An operating lease is a contract that permits the use of an asset but does not convey ownership rights of the asset. Operating lease payments are recognized as an expense on a straight-line basis over the lease term and are included in other operating expenses.

Taxation

Income tax expense represents sum of the current and deferred tax.

Current tax

Income tax payable for current period is recognized based on taxable income amount earned during the year. Taxable income differs from income that is reported in the statement of profit or loss and other comprehensive income, because it does not cover items of income or expense that are taxable or deductible in other years and and also excludes items that are not taxable or deductible for taxation purposes. The Institution's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deffered tax liabilities are usually recognized in relation to all temporary differences that increase taxable income, but deferred tax assets are recognized regarding with the availability of taxable income in future to offset respective deffered tax assets.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences, when the Institution is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized. Deferred tax is reflected in statement of profit or loss and other comprehensive income, except when they connected with items, which are directly related to equity, and in this case deferred tax is also reflected within equity.

The Institution conducts netting of deferred tax assets and liabilities and reflects summary difference in the financial statement, if:

- The Institution has a legally enforceable right for netting current tax assets against current tax liabilities; and
- Deferred tax assets and deferred tax liabilities relate to corporate taxes levied by the same taxation authority from the same taxable entity.

In addition to income tax there are requirements on accrual and payments of various taxes applicable to the Institution's activities in the Republic of Tajikistan where the Institution performs its activities.

Contingent liabilities

Contingent liabilities are not recognized in the statement of financial position but are disclosed in financial statements unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Credit related commitments

In the normal course of business, the Institution enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Institution to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make prepayment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is initially recognized at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Contributions from the budget of the city of Dushanbe

Cash contributions from the budget of the city of Dushanbe for the maintenance of the Institution and financing of its activities are reflected in the net assets section of the statement of financial position.

Pension liabilities

In accordance with the laws of the Republic of Tajikistan the Institution withholds the amount of pension contributions from employee's salaries and transfers them to the State pension fund. The existing pension system provides for the calculation of current payments by the employer as a percentage of current gross salary payments. Such expenses are recognized in period, which includes appropriately payment for employees. At retirement, all pension payments are implemented by above mentioned pension fund. The Institution does not have any pension arrangements separate from the State pension system of the Republic of Tajikistan. In addition, the Institution has no benefits provided to employees upon retirement, or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or Institution of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate by which future cash receipts are estimated to the net carrying amount on initial recognition of financial assets and liabilities. Discounting is made through the expected life of the debt instrument, or (where appropriate) a shorter period.

If a financial asset or a Institution of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of comission expenses

Fees for opening loan account and the direct expenses related of originating loans are recognized as an adjustment to the effective interest rate of the loans.

Foreign currency exchange

Monetary assets and liabilities denominated in foreign currencies are exchanged to Tajik somoni at the market rates prevailing at December 31. Transactions denominated in foreign currencies are reported at the rates of exchange prevailing at the date of the transaction. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss in the statement of profit or loss and other comprehensive income.

Exchange rate

The official exchange rates at year-end used by the Institution during preparation of the financial statements were:

	December 31, 2020
Tajik somoni / US dollar	11.3

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported in the balance net of the amount, if the Institution has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously. In case of transfer a financial asset that does not qualify as write off, the Institution does not recognize this operation as a write-off of the asset and associated liability.

Areas of significant use of estimates and assumptions of management

The preparation of financial statements requires from Management to make estimates and assumptions that have an influence on reported amounts of assets and liabilities of the Institution, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Institution's management conducts evaluations and judgments on an ongoing basis, based on previous experience and a number of other factors that are considered reasonable in the current environment. Actual results could differ from those estimates. The following estimates and assumptions are important to present financial position of the Institution.

Allowance for impairment of loans

The Institution regularly reviews its loans for impairment. Reserves of the Institution's loan impairment are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Institution considers accounting estimates related to the allowance for impairment of loans and receivables, a key source of uncertainty of estimation due to the fact that (i) they are highly susceptible to change from period to period as the assumptions on future non-compliance indicators and assessment of potential losses related to impaired loans and receivables, based on recent work, and (ii) any significant difference between the estimated losses and actual losses of the Institution requires from the Institution to create reserves, which could have a material impact on its financial statements in future periods.
The Institution uses management judgment to estimate the amount of any impairment loss in cases where the borrower has financial difficulties and there is little historical data relating to similar borrowers. Analogously, the Institution estimates changes in future cash flows based on past experience, the client's behavior in the past, the available data, indicating an adverse change in the status of repayment by borrowers in the Institution, as well as national or local economic conditions that correlate with defaults on assets in this Institution. Management uses estimates based on historical experience of losses on assets

with credit risk characteristics and objective evidence of impairment similar to those in this Institution of loans. The Institution uses an assessment of Management for adjusting the available data on a Institution of loans to reflect current circumstances not reflected in historical data.

It should be noted that evaluation of expected loan losses includes subjective factors. Management of the Institution assumes that the recognized impairment amount is enough to cover losses that result from risk effected assets at the reporting date taking into account forecasted data's, though it is not excluded that in determined periods the Institution may incur more losses in comparison to the recognized provision for loan impairment losses.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of economic and political conditions. The Institution is unable to predict what kind of changes in economic and political conditions will take place in the country, and what kind of impact these changes may have on the adequacy of the allowance for impairment of financial assets in future periods.

As at December 31, 2020 and 2019 the carrying amount of the allowance for impairment losses on loans amounted to 1,182,810 thousand somoni and 1,136,020 thousand somoni, respectively (Note 17).

Application of new and revised international financial reporting standards (IFRSs)

The Institution has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the "IFRIC") which became effective for the Institution's financial statement for the year ended December 31, 2020:

- The amendments to IFRS 3 "Business Combinations" clarify and distinguish between accounting methods to be used when the investor acquires a business or when the investor acquires just a Institution of assets.

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The adoption of the new or revised standards did not have significant effect on the financial position or performance of the Institution.

New and revised IFRSs in issue but not yet effective

A number of new Standards and Interpretations has been issued and not yet adopted as at December 31, 2020 and had not been applied in preparation of these financial statements. Following Standards and Interpretations are relevant to operations of the Institution. The Institution intends to adopt these Standards and Interpretations from their effective dates. The Institution has not analyzed potential effect of adoption of these standards on its financial statements.

- IFRS 17 "Insurance contracts" requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

- Amendments to IAS 1 "Presentation of financial statements" classification of liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
- Amendments to IAS 16 "Property, plant and equipment" - proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to IAS 37 “Provisions, contingent liabilities and contingent assets” onerous contracts - cost of fulfilling a contract. The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- The amendment to IFRS 1 “First-time adoption of IFRS” permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs.

- The amendment to IFRS 9 “Financial instruments” – clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

- The amendment to IAS 41 “Agriculture” removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

- The amendment to IFRS 16 “Leases” Covid-19 - related rent concessions provides lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification.

The Institution intends to adopt these new standards and amendments, if applicable, when they become effective.

4. INTEREST INCOME

Interest income of the Institution for the year ended December 31, 2020 are as follows:

	For the year ended December 31, 2020
Interest income	
Loans to customers	456,365
Total interest income	456,365

5. COMMISSION EXPENSES

Commission expenses of the Institution for the year ended December 31, 2020 are as follows:

	For the year ended December 31, 2020
Commission payments to Amonatbank for loan servicing	15,144
	15,144

6. ACCRUAL OF ALLOWANCE FOR IMPAIRMENT AND EXPECTED CREDIT LOSSES FOR ASSETS

Movement in allowance for impairment and expected credit losses on assets for the year ended December 31, 2020 was as follows:

	On cash in bank	TOTAL
at December 31, 2019	-	-
Accrual	210,067	210,067
at December 31, 2020	210,067	210,067

7. OPERATING EXPENSES

Operating expenses of the Institution for the year ended December 31, 2020 comprise:

	For the year ended December 31, 2020
Salary and related taxes	95,257
Depreciation of fixed assets and amortization of intangible assets	21,661
Utilities	11,480
Communication	6,261
Accrual of unused vacation provision	5,758
Stationery	1,500
Fixed assets maintenance	1,425
Bank fee	1,079
Rent	348
Business trip	170
Other	3,994
	148,933

8. INCOME TAX

The institution prepares tax calculations for the current period based on tax accounting data, carried out in accordance with the requirements of the tax legislation of the Republic of Tajikistan, which may differ from the International Financial Reporting Standards. For the year ended December 31, 2020, in the territory of the Republic of Tajikistan, the profit tax rate under the simplified regime was 5%.

	For the year ended December 31, 2020
Current income tax expenses	22,819
Income tax expenses	22,819

9. CASH AND CASH EQUIVALENTS

As of 31 December 2020 cash and cash equivalents presented in the statement of financial position comprise the following components:

	December 31, 2020
Cash on bank account	11,812,473
Expected credit loss for cash on bank account	(210,067)
	11,602,406

10. LOANS TO CUSTOMERS

As at December 31, 2020 and 2019 loans to customers of the Institution comprise of the following:

	December 31, 2020
Loans to customers	18,610,209
Interest accrued	-
Less allowance for expected credit losses for loans to customers	-
	18,610,209

The institution provides loans to its clients for the development of the manufacturing sector in the city of Dushanbe. Breakdown of loans by sectors is presented below:

Sector analysis	**December 31, 2020**
Manufacture	18,610,209
	18,610,209

The table below presents an analysis of changes in ECL provisions for loans to customers in 2020:

	12 month ECL	**ECL during the whole period - unimpaired loans**	**ECL during the whole period – impaired loans**	**Total**
January 1, 2020	-	-	-	-
Issued during the period	18,629,845	-	-	18,629,845
Accrued interest for the period	456,365	-	-	456,365
Repaid during the period	(476,001)	-	-	(476,001)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
December 31,2020	18,610,209	-	-	18,610,209

The table below provides information on the quality of loans to customers as at 31 December 2020:

	Loans before provision for expected credit losses	**Allowance for expected credit losses**	**Loans less allowance for expected credit losses**	**Expected credit losses to gross loans**
Loans to customers				
- not overdue	18,610,209	-	-	18,610,209
Total loans to customers	18,610,209	-	-	18,610,209

The table below summarizes carrying value of loans to customers analyzed by types of collateral:

Analysis by collateral type	**December 31, 2020**
Real estate	18,610,209
Less allowance for expected credit losses	-
	18,610,209

As of 31 December 2020 the loan portfolio amounted to 18,610,209 somoni. The loans were issued to customers operating in the Republic of Tajikistan, which represents a significant geographical concentration and maximum exposure to credit risk.

11. PROPERTY AND EQUIPMENT

As at December 31, 2020 property and equipment of the Institution comprise of the following:

	Office equipment	Furniture and fittings	Other	Total
Cost				
December 31, 2019	-	-	-	-
Additions	63,116	75,200	2,290	140,606
December 31, 2020	63,116	75,200	2,290	140,606
Accumulated depreciation				
December 31, 2019	-	-	-	-
Charge for the year	9,467	11,280	254	21,001
December 31, 2020	9,467	11,280	254	21,001
Net book value at December 31, 2020	53,649	63,920	2,036	119,605

As of 31 December 2020 the Institution did not have property, plant and equipment that were pledged as collateral for liabilities.

12. INTANGIBLE ASSETS

As of 31 December 2020 the intangible assets of the Institution are presented as follows:

	Intangible assets
Cost	
December 31, 2019	-
Additions	4,400
December 31, 2020	4,400
Accumulated depreciation	
December 31, 2019	-
Charge for the year	660
December 31, 2020	660
at December 31, 2020	3,740

13. UNUSED VACATION PROVISION

The movement in the provision for unused vacation for the year ended 31 December 2020 is as follows:

	For the year ended December 31, 2020
January 1	-
Accrual	5,758
December 31	5,758

14. CONTRIBUTIONS FROM THE BUDGET OF THE CITY OF DUSHANBE

On February 7, 2020, by the decree of the Mayor of Dushanbe city # 69 the Institution was allocated 30,000,000 somoni to ensure favorable conditions for the development of the production sector in the city of Dushanbe.

On February 24, 2020, by the decree of the Mayor of Dushanbe city # 124, the Institution was allocated 275,000 somoni to pay the salaries of the staff of the Institution and purchase the necessary equipment for the activities of the Institution.

15. CONTINGENT FINANCIAL LIABILITIES

Commitments for capital expenditure

As at December 31, 2020 the Institution had no capital expenditure commitments.

Loan related commitments, guarantees and other financial contracts

As of December 31, 2020, the Institution had no loan related commitments.

Legal proceedings

There were no any legal cases related to the Institution.

Taxation

Commercial legislation of the Republic of Tajikistan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Institution's business activities, was to be challenged by the tax authorities, the Institution may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. The management of the Institution believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Economic environment

The Institution's principal business activities are within the Republic of Tajikistan. Laws and regulations affecting the business environment in the Republic of Tajikistan are subject to rapid changes and the Institution's assets and operations could be at risk due to negative changes in the political and business environment.

Recoverability of financial assets

As at December 31, 2020 the Institution's financial assets amounted to 30,212,615 somoni. Recoverability of these financial assets is highly dependent on the effectiveness of fiscal and other measures taken in various countries to achieve economic stability and factors beyond control of the Institution. Recoverability of financial assets is determined by the Institution on the basis of conditions existing at the reporting date. The Institution's management believes that there is no need at present for additional provision on financial assets, based on the prevailing circumstances and available information.

Operating environment

Emerging market of the Republic of Tajikistan is subject to more risks than developed markets, including economic, political and social, and legal and legislative risks. Past experience shows that actual or potential existing financial problems along with the increase of potential risks associated with investing in emerging economies could adversely affect country's economy in general and its investment climate in particular.

Laws and regulations affecting businesses in the Republic of Tajikistan continue to change rapidly.Tax, currency and customs legislation within the country are subject to varying interpretations, and, also, other legal and fiscal difficulties that the Institution is facing while running its operations in the territory of the Republic of Tajikistan. The future economic direction of the Republic of Tajikistan is largely dependent on economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory developments.

These financial statements do not include any adjustments that would have been a solution for the given uncertainty in the future. Possible adjustments may be made to the statements in that period in which necessity of their reflection will become evident, and it will be possible to estimate their numerical values.

16. TRANSACTIONS WITH RELATED PARTIES

In the statement of profit or loss and other comprehensive income for the years ended December 31, 2020 the following amounts were represented which arose due to transactions with related parties:

	Year ended December 31, 2020	
	Related party transactions	**Total category as per the financial statements caption**
Operating expenses:		
- compensation to key management personnel	18,000	148,933
- contributions to the Social Fund of the Republic of Tajikistan	4,500	148,933

17. NET ASSETS MANAGEMENT

The institution manages net assets to ensure the continuation of its activities.

The structure of the Institution's net asset includes a contribution from the budget of the city of Dushanbe and retained earnings, which are disclosed in the statement of changes in net assets.

The structure of net assets is regularly reviewed by the management of the Institution and the Supervisory Board of the Institution. In the course of this review, management, inter alia, analyzes the net asset value and risks associated with each class of net assets. Based on the recommendations of the management, the Institution corrects the structure of net assets by an additional capitalization of retained earnings, attracting additional financial resources from the budget of the city of Dushanbe.

18. RISK MANAGEMENT POLICIES

Management of risk is fundamental in the Institution’s business. The main risks inherent to the Institution’s operations include:

- Credit risk;
- Operational risk
- Liquidity risk;
- Market risk.

As at December 31,2020 financial assets and financial liabilities as follows

	December 31, 2020
FINANCIAL ASSETS	
Cash and cash equivalents	11,602,406
Loans to customers	18,610,209
TOTAL FINANCIAL ASSETS	30,212,615
FINANCIAL LIABILITIES	
Unused vacation provision	5,758
TOTAL FINANCIAL LIABILITIES	5,758

The Institution recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Institution has established a risk management framework, whose main purpose is to protect the Institution from risk and allow it to achieve its planned objectives. These principles are used by the Institution to manage the following risks:

Credit risk

The Institution is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed by the credit committee of appropriate level and management of the Institution. Before any application is made by the credit committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved in prior by the management. Daily risk management is performed by the risk management department.

The Institution has developed policies and procedures to manage credit risk, which includes limiting portfolio concentration and the creation of the credit committee, which monitors the credit risk. The Institution's credit policy is reviewed and approved by the board of directors. The Institution structures the levels of credit risk by setting limits to the size of the risk taken in relation to one borrower or Institution of borrowers, as well as by sector of economy. Monitoring of the actual risks in relation to the established limits is conducted on daily basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet obligations related to payment of interest and principal amount, and by changing these lending limits when such necessity is arisen. Exposure to credit risk is also regulated by obtaining collateral and guarantees. Such risks are monitored on a permanent basis and subject to quarterly or more frequent reviews.

Definition of default

Default is the recognition by the Institution the fact that the counterparty has fully or partially failed to fulfill its financial obligations to the Institution.

Default occurs no later than the moment when a financial asset is delayed by 90 days, unless the Institution has reasonable and proven information demonstrating that the use of the default criterion with longer delay days is more appropriate. The definition of default used for this purpose is applied consistently to all financial instruments, except when information becomes available demonstrating a different definition of default being more appropriate for a particular financial instrument.

The Institution recognizes the default of the counterparty if either of the following criteria or both is met:

Qualitative criteria – the Institution has reasonable basis to believe that the counterparty is unlikely to fulfill his obligations to the Institution in full amount without use of such measures as sale of collateral (if available).

Quantitative criteria - the counterparty has overdue obligations to the Institution with a delay of more than 90 calendar days.

Qualitative criteria for recognition of default

Qualitative criteria for default recognition includes an analysis of indicators of financial stability, liquidity and profitability, as well as liquidity of collateral, which is used to determine the creditworthiness of the counterparty.

The most significant criteria characterizing the financial condition of the counterparty are indicators of the stability of financial flows, the sufficiency of own funds and the level of debt or liabilities.

Qualitative assessment should be supplemented with the monitoring of credit operations, as well as control over the issuance of loans.

The following events can be basis for recognizing a default:

1. Failure to comply with the terms of the contract.

The counterparty did not fulfill the terms of the contract (for example, covenants), as a result of which the Institution acknowledged the counterparty's default on the contract (according to the terms of the contract) and demanded early repayment of the debt.

This criterion is applied if the counterparty did not fulfill the Institution’s requirement for early repayment of the debt in full and in a timely manner.

The date of default in this case is the date of first overdue day on the debt requested for early repayment.

2. Restructuring of the claim

The Institution decided to restructure its claims due to the financial difficulties of the counterparty, including a significant reduction in the volume of payments on principal amount, interest or commissions and / or a significant delay in their payment.

The date of default is the date of the restructuring decision (the first restructuring, if there were several cases).
3. Bankruptcy of the counterparty

- The counterparty or the Institution has filed a lawsuit to declare the counterparty bankrupt; or
- The counterparty is declared bankrupt; or
- Bankruptcy procedures were introduced with respect to the counterparty, or the counterparty received a similar protection, which allows to avoid or delay the repayment of the Institution's claims.

4. Other events

In the case of revealing direct or indirect evidence of a high probability of negative events, recognition of default can be based on appropriate professional judgment.

In forming a professional judgment, the following facts should be taken into account:

- payments of debts (to the Institution or other creditors) are delayed (delay of principal, interest, commissions and other payments);
- the Institution has accrued an allowance or performed a negative revaluation on its claims due to the expected significant decrease in credit quality;
- loans and/or other financial assets were sold (transferred) by the Institution with an economic loss;
- loans and/or other financial assets were restructured on unfavorable conditions for the Institution;
- there were significant negative changes in the financial and economic activities of the counterparty;
- the fact of fraud on the part of the counterparty (in relation to the Institution or third parties) was detected and confirmed.

The date of default in this case is the date of the formation of the relevant professional judgment.

Quantitative criteria for the recognition of default

The counterparty has overdue payments to the Institution with a delay of more than 90 calendar days (unless the Institution has reasonable and corroborated information demonstrating that the use of a longer than 90 days period is more appropriate).

Significant increase in credit risk

The management of the Institution applies judgment to estimate a significant increase in credit risk, which is a critical element in estimating expected credit losses. The following factors are taken into account by the Institution when assessing a possible significant increase in credit risk:

- Continuous delays on payments by counterparty more than 30 calendar days;
- Loan restructuring due to the inability to maintain loans and/or other financial assets on current terms;
- The use of significant interventions by the Institution to reduce credit risks, such as direct control (management) of operating activities of the counterparty;

- The Institution projects that over the next 12 months the counterparty will have substantially insufficient cash for repayment the loan on current terms;
- Actual or expected significant negative change in the external credit rating of a financial instrument;
- Existing or projected adverse changes in commercial, financial or economic conditions that are expected to significantly alter the borrower's ability to meet its debt obligations;
- Significant increase in credit risk on other financial instruments of the same borrower;
- Granting a grace period for the loan payment;
- Availability of information on the involvement of the counterparty in litigation, which may worsen its financial condition.

Credit risk is low for financial instruments if:

1. The risk of a default on a financial asset / liability is low;

2. The borrower has a substantial invulnarability to fulfill his/her obligations to pay the contractual payments in the near future; and

3. Adverse changes in the economic conditions for conducting business in the longer term may lead, but not necessarily will lead to a decrease in the borrower’s ability to meet its obligations.

As part of its activities, the Institution excludes an increase in credit risk on government bonds denominated in national currency, as well as balances in financial institutions with a high credit rating.

Initial data for estimating expected credit losses (ECL)

The main initial datas for estimating expected credit losses are temporary structures of the following variables:

- probability of default (PD);
- the level of loss at default (LGD); and
- amount of credit exposured to default risk(EAD).

These indicators are derived from internal statistical models and other historical data. They are also adjusted for macroeconomic trends in order to reflect the forecast information.

As part of the assessment of expected credit losses, it was decided to divide the total portfolio into the following Company: legal entities (corporate borrowers, small and medium businesses, excluding banks), securities and contingent liabilities (guarantees, letters of credit, credit lines). This separation was made due to both economic substance and the availability of necessary information for modeling.

Estimated probability of default (PD) is calculated as at a specific date and based on:

- migration matrix models for consumer loans, SME loans, mortgage loans and multi-purpose loans;
- shadow rating models for financial organizations and securities where the emitter is a financial organization.

Migration matrix model for loans estimated on a Institution *basis.*

The probability of default of the retail loan portfolio and the SME portfolio is calculated on a Institution basis. The methodology can be divided into a number of stages:

1. At the first stage, data are generated for each customer as part of the retail loan portfolio and the SME portfolio, in the context of each loan product of the Institution.
2. At the second stage, the calculation of the probability of default for a Institution of loans that belong to the same credit product.
3. Then, the previously calculated probability of default (1 year PD) is used to calculate the adjustment taking into account macroeconomic forecasts.
4. Based on the calculated and previously adjusted macroeconomic forecasts of the probability of default for a Institution of loans evaluated on a collective basis, the probability of default of the loan is calculated for the entire life time of its PD.
5. Calculation of the value of LGD - losses in case of default, determined for a particular customer, for which the allowance is calculated, depending on the term of the overdue debt.

The calculation of expected credit losses is based on the use of Markov chains in predicting the probability of default. The method is based on the ability to simulate the dynamic condition of the system during its operation. Based on the possible probabilities of the implementation of a particular development scenario of the economic process, it is possible to predict the future condition of the economic system over a given forecasting horizon.

The shadow rating model for assessing the probability of default of a financial institution

This model has common rules with the shadow rating model for assessing the probability of default of a non-financial organization.
The Institution used following criteria for sample selection:

1. Commercial entities of the several countries were analyzed. As the base non-financial organizations of Russia were taken. Considering the fact that selection covered few companies, which had low external credit ratings, the consultant had decided to breaden selection and included commercial organizatons of the following countries: Kazakhstan, Ukraine, Georgia, Azerbaijan, Mongolia. Such expansion of selection has let to strengthen the accuracy of model forecast.
2. Only companies which possess long-term external credit rating of one (or several) world leading rating agencies – S&P, Moody's or Fitch and main Russian rating agencies– ACRA, RAEX were included in the sample.
3. Russian rating scale was calibrated in accordance with international scale of S&P.
4. In case of several credit ratings availability, values were attributed later in time.
5. If the credit rating was assigned before December 2018, the company was not added to the sample due to the irrelevance of the financial indicators for 2018.
6. As acceptable bottom line of time interval of external credit rating attribution date 2018 was determined. Such limitation was introduced to account specificity of existing risk more accurately at the moment of maximum approximation to the future.

Based on the results of the above algorithm application, a sample of 143 companies was compiled.

The selection of regression indicators was carried out step by step in accordance with the following criteria:

1. assessment of the statistical significance of the independent explanatory factor of regression;
2. assessment of the compliance of the sign of the coefficient factor in the model with its logical meaning.

The final model used the following independent variables:

1. Profit margin before tax and interests;
2. Debt leverage;
3. Revenue;
4. Ratio of loan long term assets to the balance currency;
5. Effective interest rate on interest bearing debt ;
6. Controlling stake of the government sovereign rating of the country in which the Institution operates.

The level of loss given default (LGD) is the level of losses from the total amount of debt at the time of a default event. This is an indicator of the actual losses that the Institution will incur shall the client default. When calculating expected credit losses, the Institution may apply one of three methods:

- *Economic LGD* is calculated on the basis of cash flows received as a result of the process of working with overdue debts (the volume of unreceived cashflows). In the framework of the economic LGD method, the level of losses from the amount of debt at the time of default is determined as discounted proceeds from the sale of the pledged property less selling expenses. Application of this method is limited to corporate and institutional borrowers.

- *Statistical LGD* is calculated on the basis of analysis of historical LGD data and instrument characteristics. The statistical method is based on statistical processing of data on the level of debt collection based on information from financial institutions on borrower defaults and penalties. Calculation of statistical LGD depending on the type of chosen collateral, namely Bank guarantee, movable property, real estate, mixed collateral, guarantee, jewelry, unsecured, deposit. The effective interest rate of the loan was used as discount rate. Applicable for all types of loans.

- *Market LGD* is calculated on the basis of market prices for similar bonds/loans not in default status. Market LGD is estimated based on open historical data and Institution researches. This approach does not take into account the peculiarities of the national economy and its application is mainly justified in case if the available data for calculating of economic and statistical LGDs is insufficient. Application is limited to corporate and institutional borrowers.

The value of the credit exposure at default (EAD) is the expected value of total claims of the Institution at risk on the date of default. This indicator is calculated by the Institution for loans as the sum of the remaining debt and accrued interest; for unconditional credit lines as the sum of the full credit limit and accumulated interest; for conditional credit lines EAD is used as the amount of the issued loan amount and accrued interest; for guarantees as the sum of the issued guarantee payment.
In the framework of its activities, the Institution separates the following loan: corporate loans. Banks are subject to regular checks to ensure that credit risk exposures within a certain Institution has similar credit risk characteristics.

Forecast information

In accordance with IFRS 9, the Institution included forecast information both in its assessment of a significant increase of credit risk since the initial recognition and in the assessment of expected credit losses.

The Institution uses professional judgment to evaluate forecast information. This estimate is also based on information obtained from external sources. External information may include economic data and forecasts published by government agencies and monetary policy regulation authorities of countries in which the Institution operates, such as the NBT, as well as some external sources in relation to the country, such as the Trading Economics, as well as individual and scientific forecasts.

The Institution identified and documented a list of the main factors affecting the assessment of credit risk and credit losses related to the financial instruments of the Institution and using the analysis of historical data assessed the relationship between macroeconomic variables and credit risks. The key factors identified include growth forecast of exchange rate USD/TJS and key rates based on the consensus of basic and conservative predictions.

The forecast values of the key factors corresponding to the consensus scenario include the following values for the Republic of Tajikistan for the years ending December 31, 2020 and 2021.

	Rate USD/TJS	**Key rate**
2020	10.50	11.75%
2021	12.29	10.75%

Correlations between the key macroeconomic indicators and the events of default were developed based on analysis of historical data for the last 6 years.

Assessment of macroeconomic data was performed using a multivariate linear regression. The following indicators were tested as independent variables:

- GDP and real GDP growth rates;
- unemployment rate
- key rates;
- consumer price index;
- exchange rate;
- ratio of overdue debts of the banking system to total debts for previous periods.

After analyzing the model's variables for statistical significance and economic reasonability the Institution selected the following variables of the final model:

a) Rate USD/TJS for the next year after the reporting period (Trading Economics).
b) The change in the key rate for the next year after the reporting period (Trading Economics).

The adjusted coefficient of determination of the regression equation equaled to 0.95.

Working with collateral

In order to reduce credit risks on loans to customers and issued guarantees, the Institution requires whenever possible to receive collateral in form of cash, securities, letters of credit / guarantees, real estate, receivables, materials or other non-financial assets. The Institution's accounting policy in respect of collateral received under the loan agreements in accordance with IFRS 9 is similar to the accounting policy in accordance with IAS 39. Collateral is not recognized in the statement of financial position unless it was not foreclosed by the Institution. However, the fair value of collateral affects the calculation of ECL, and should be measured at least at the initial stage of a loan issuance and subsequently revised on a quarterly basis. The Institution uses available market data to evaluate financial assets held as collateral to the extent possible. Other financial assets, that do not have an easily determined market value, are valued using models.

Operational risk

The Institution is exposed to operational risk, which is a risk of loss arising from any system failures or interruptions of internal processes, systems, mechanical error of personnel or the influence of external negative factors.

The Institution's risk management policy is designed to identify and analyze risks and set appropriate risk limits and controls.

Maximum exposure

The Institution's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk on financial assets and contingent liabilities. For financial assets in the statement of financial statements, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet assets, the maximum exposure to credit risk is the maximum amount the Institution would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

Collateral pledged is determined based on its estimated fair value on the reporting date and limited to the outstanding balance of each loan as at reporting date.

Стоимость залогового имущества определяется на основе справедливой стоимости на день выдачи кредита и ограничен на сумму задолженности определенного займа, на отчетную дату.

					2020
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**Net exposure after offset and collateral**
Loans to customers	18,610,209	-	18,610,209	(18,610,209)	-

In instances where one party to a financial instrument fails to fully or partially discharge a credit obligation, the Institution has the right to ensure fulfillment of these obligations through the:

1 joint sale of the pledged assets;
2 transfer of ownership rights on pledged assets in accordance with the established law; and
3 exercising of the charge on pledged assets through judicial procedures.

Where there is a joint sale of the pledged assets, the Institution normally uses a tripartite sales agreement with the borrower and acquirer of the pledged assets. Under this agreement the acquirer of the pledged assets has an obligation to repay the full amount of the outstanding debt; the borrower has an obligation to transfer the right of ownership of the assets to the acquirer, and the Institution releases the obligation from the borrower and removes the pledge over the assets.

The Institution exercises the charge on pledged assets through judicial procedures if it is impossible or inefficient to use alternative methods or where the seizure of assets pledged is required in order to protect the rights on the Institution.

Geographical concentration

All financial assets and liabilities of the Institutions are concentrated in the Republic of Tajikistan

Risk management department exercises control over the risk associated with changes in the norms of the legislation and assesses its impact on the Institution. This approach allows the Institution to minimize potential losses from the investment climate in the Republic of Tajikistan.

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funds for the payment of obligations upon the occurrence of the actual date of payment and to meet cash requirements in the process of lending to clients. All financial assets and liabilities have maturities of up to 3 years.

For all assets on which interest is accrued, accruals are made at fixed interest rates.

Market risk

The Institution is not susceptible to the change of interest rate risk, since the Institution does not attract money with floating rate. In case of attracting funds with a floating interest rate, the risks will be managed by the Institution by maintaining the necessary ratio between loans at a fixed and floating rate.

Currency rate sensitivity

Interest rate risk refers to the risk that the fair value of instruments will fluctuate due to changes in market interest rates.

Management monitors interest rate risk by tracking the position of assets and liabilities exposed to interest rate movements, and ensures positive revenue from instruments with set limits on the maximum interest rate risk acceptable to the Institution. Management monitors the current financial performance of the Institution, assesses the Institution's vulnerability to changes in interest rates and the impact on the Institution's net profit.

As of December 31, 2020, the Institution did not have assets or liabilities with floating interest rates.

Market risk

Foreign exchange risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The financial position and cash flows of the Institution are not affected by fluctuations in foreign exchange rates, so all transactions are carried out only in the functional currency of the report, and the Institution has no foreign currency financial assets and liabilities.

19. SEGMENT REPORTING

The activity of the Institution refers exclusively to concessional lending to support producers in the city of Dushanbe and is concentrated in the Republic of Tajikistan.

20. EVENTS AFTER THE REPORTING DATE

On January 29, 2021, by the Decree of the Mayor of the city of Dushanbe # 40, 30,000,000 somoni was allocated to the Institution in order to further develop the industrial sector of the city of Dushanbe.

As at the date of issue of these financial statements no other significant events or transactions happened, except described above which should be disclosed in accordance with IAS 10 “Events after the reporting period”.