

FUND FLAG JSC
PREVIOUS NAME: FUND FOR LOCAL AUTHORITIES AND
GOVERNMENTS IN BULGARIA – FLAG JSC

ANNUAL DIRECTORS' REPORT AND
SEPARATE FINANCIAL STATEMENTS
31 December 2020

FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)

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Independent Auditor's Report to the sole shareholder of FUND FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC)

General information

Board of directors:

Dobromir Prodanov Simidchiev - Chairperson
Plamen Todorov Iliev – member
Dobrinka Veselinova Krasteva – member
Evgeni Dimitrov Stoev - member
Nadiya Yordanova Dankinova - member and Executive Director
Valeriya Svetoslavova Kalcheva - Bochukova – member
Yulia Petkova Tsolova–Ilieva – member

Registered address

Sofia, 1, 6-th September Str., 3rd floor

Business address

Sofia, 1, 6-th September Str., 3rd floor

Legal advisor

Law Firm „Lozanova and Groysman”

Servicing banks

Unicredit Bulbank AD
UBB EAD
DSK Bank EAD
Eurobank Bulgaria AD
European Investment Bank

Auditor

Baker Tilly Klitou and Partners OOD
1000 Sofia
5, Stara Planina Str., 5th floor

**ANNUAL REPORT
OF
FUND FLAG JSC
PREVIOUS NAME:
FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN
BULGARIA – FLAG JSC
FOR 2020**

I. OVERVIEW

This Report has been prepared in accordance with the Company's Articles of Incorporation, the Commercial Act and the Public Enterprises Act.

1. General information about Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC)

Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) is a financial institution, joint-stock company, created on the basis of Ordinance № 1 of Council of Ministers of Republic of Bulgaria dated 7 March 2007 as an instrument of Government policy for regional development.

FLAG is an independent legal entity with principal activity of providing financing in order to encourage investments for urban and regional development in Bulgaria, with funds that are not raised through public attraction of deposits or other repayable funds. According to the Financing Rules, FLAG undertakes credit transactions in which it provides fund in the form of loans.

The mission of the Company is to support Bulgarian local authorities and public enterprises in the implementation of their investment programs and the effective use of European funds. Managing financial instruments as a financial intermediary and creating conditions for easier access to financial resources through innovative and flexible forms of financing. Creating new financial instruments and opportunities depending on the needs of public authorities for successful and sustainable development of local communities and stimulating economic development and improving the quality of life in cities and regions in Bulgaria.

The main objectives of the Company are to effectively manage the public resource and to multiply it by attracting additional private capital; to attract funds from international financial instruments for the creation of new, useful and effective financial instruments; to ensure sustainable development of the company, by applying best practices and policies; to continue to develop and upgrade the capacity and expertise for managing financial instruments and providing loan financing to public authorities.

Directors' Report

2. Management

The Fund is managed by a Board of Directors (BoD), which is composed of seven members. The BoD organizes and manages the current activity of the Fund. In 2020 no changes were made in the composition of the BoD and as of 31 December 2020 it is as follows:

Dobromir Prodanov Simidchiev – Chairperson

Plamen Todorov Iliev – member

Dobrinka Veselinova Krasteva – member

Evgeni Dimitrov Stoev – member

Nadiya Yordanova Dankinova - member and Executive Director

Valeriya Svetoslavova Kalcheva - Bochukova – member

Yulia Petkova Tsoleva–Ilieva – member

In 2020 twenty board meetings were held.

According to the Bulgarian legislation, the Management is required to prepare separate financial statements for each financial year that give a true and fair view on the financial position of the Company as at the year end, its financial performance and cash flows.

Management confirms that adequate accounting policies have been consistently applied in preparing the annual separate financial statements as of 31 December 2020, and reasonable and prudent judgments, assumptions and estimates have been made.

Management also acknowledges that it has applied the existing accounting standards and the separate financial statements have been prepared under the going concern principle.

Management is responsible for the proper keeping of accounting records, for the appropriate asset management and for the undertaking of all necessary measures for avoidance and detection of fraud and other irregularities.

3. Organizational structure

In 2020 the Fund has its core employees with appropriate qualifications and experience for the performance of its lending and other activities.

The Fund operates through its administration, which includes the following structure:

- Directorate „Finance, financial instruments and risk management”;
- Directorate „Lending and monitoring”;
- Directorate „General Administration”;
- Internal Audit Unit.

The legal services, as well as the maintenance of the computer network, are outsourced.

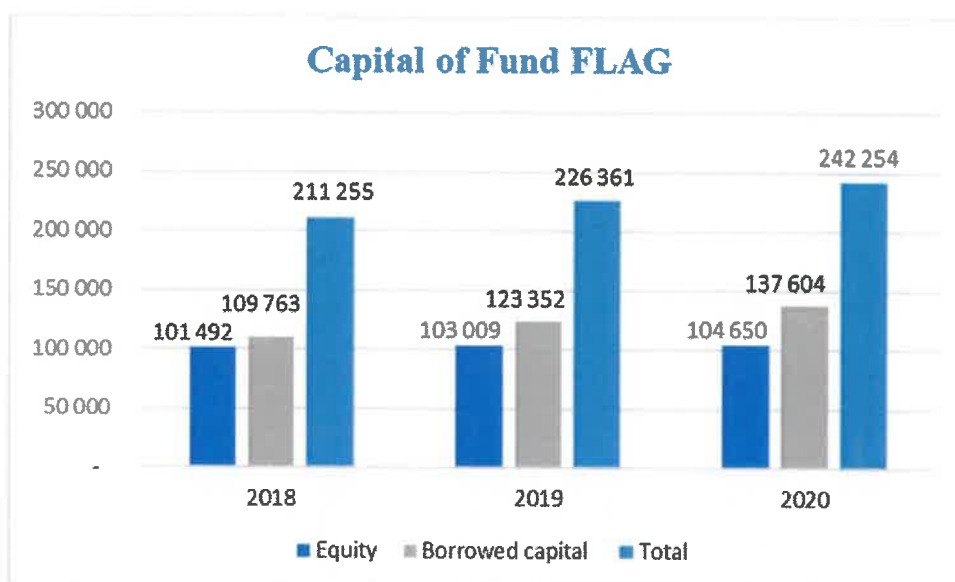
Directors' Report

II. FINANCIAL POSITION

1. Capital structure

The Fund implements its credit activity through its equity and through borrowed funds. The ratio between own and borrowed capital is maintained within the limits of no more than 2,5, and for 2020 the ratio is 1,31.

The graph reflects the changes in the capital during the last 3 years. The equity has been steadily increasing. The growth is due to the positive result of company for each of these years. FLAG allocates 10% of its profit to “Reserve” Fund and after the payment of dividend to the owner, in this case the state, it sets aside the balance as retained earnings in view of the need for cash for the credit activity of the company.



2. Income and expense statement for 2020

The Company's revenues for 2020 amount to BGN 6,822 thousand. The revenue structure for 2020 is presented in the table below, with 86% of the total revenue of the company being generated by the lending activity.

	REVENUES	Amount in BGN thousand	Share in total revenue in %
1	Interest income from loans granted	5,893	86,38%
2	Penalty interest on loans granted	32	0,47%
3	Fees on loans granted	609	8,93%
4	Income from management and commitment fees under loans granted to subsidiary	11	0,16%
5	Dividend income	276	4,05%
6	Other income	1	0,01%
	Total	6,822	100%

FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)

Directors' Report

The Company's expenses for 2020 amount to BGN 3,316 thousand (excluding the income tax expense).

The structure of expenditures in 2020 by types and their share in total expenditures is presented below:

	EXPENSES	Amount in BGN thousand	Share in total expenses in %
1	Maintenance costs	41	1,24%
2	Hired services	156	4,70%
3	Depreciation	68	2,05%
4	Remunerations and social securities	1,133	34,17%
5	Bank fees, including Managing bank fees	911	27,47%
6	Interest expenses	959	28,92%
7	Impairment of loans granted	48	1,45%
	Total	3,316	100%

FLAG ends 2020 with a financial result before tax of BGN 3,506 thousand. The net profit of the Company amounts to BGN 3,183 thousand.

3. Financial ratios

In connection with the risk management policies and signed bank loan agreements and in order to guarantee its financial stability and ensure the effectiveness of its operations, FLAG has to maintain certain financial ratios, as follows:

- Ratio of overdue loans (loans 90 days or more past due to current exposure of all loans);
- Debt coverage ratio (debt/equity);
- Ratio of liquid assets to total assets (available cash and bank deposits with a remaining maturity of 90 days or less to total assets).

The table below presents the reported values of these ratios as of 31.12.2020.

№	Indicators	Requirements	Results as of 31.12.2020
1	Ratio of overdue loans: <i>the coefficient of the current exposure of loans past due 90 days or more in the portfolio of the Borrower no greater than 5% of the total current exposure on all loans in the portfolio.</i>	Not more than 5%	0 %
2	Ratio debt to equity: <i>"Debt" - financial debt of the Borrower; to "Equity" - Capital of the Borrower.</i>	Not more than 2.5	1,31
3	Ratio of liquid assets to total assets: <i>Liquid assets - cash and bank deposits (including in BNB) with remaining maturity of 90 days or less.</i>	Not less than 5%	11,22 %

Directors' Report

4. Borrowed capital

In order to perform its activity, FLAG obtains capital, through financing from commercial banks and international financial institutions. The total contracted credit resource as of 31.12.2020 is for the amount of BGN 246 million and is distributed as follows:

	Contracted amount (thousand BGN)	Maturity	Exposure as of 31.12.2020 (thousand BGN)
Contract for revolving loan from 22.11.2016, concluded with UBB	39,117 (20 000 thousand EUR)	22.11.2023	34,117
Contract for loan from 22.11.2016 concluded with UniCredit Bulbank	40,000	22.11.2023	17,143
Contract for revolving credit from 17.05.2017 concluded with DSK Bank	40,000	17.05.2024	3,718
Contract for revolving credit from 31.08.2018 concluded with UniCredit Bulbank	38,000	31.08.2021	38,000
Contract for revolving credit from 12.10.2018 concluded with UBB	40,000	12.10.2025	31,222
Financial agreement with EIB concluded on 27.07.2020.	48,895 (25 000 thousand EUR)	Up to 240 months from the last request for utilization	13,691
Total	246,012		137,891

5. Dividends and distribution of profit

By decision of the Board of Directors, taken with Protocol 201 of 30 June 2020, pursuant to Article 247 "a" of the Commercial Act and Order № 2 of the Council of Ministers of 16 June 2020 on the establishment and payment in favor of the state of deductions of the profit from state-owned enterprises and commercial companies with state participation in the capital, the Company allocated funds for the "reserve" fund in the amount of BGN 281 thousand, then distributed a dividend to the state in the amount of BGN 1,542 thousand, which was paid in the current year.

Directors' Report

III. Report on activities

1. Main results from lending activities

In 2020 the Fund received 93 credit requests from 53 municipalities, 2 Water and sanitation companies and 1 municipal company amounting to BGN 157 million. In 2020 the Fund reviewed and evaluated 93 loan applications, all of which were approved. The applications were for the total amount of BGN 157 million, supporting the implementation of projects for BGN 704 million.

The average percentage share of the credit in the total budget of the financed project is 34.6%. In 2020, the average amount of the credit for bridge financing provided to municipalities is BGN 1.4 million, with an average maturity of 13 months. The average amount of the credit repaid with own funds is BGN 2.7 million, with an average maturity of 85 months. The information on the credits approved in 2020 by types of credits and by source of principal repayment is as follows:

Type of credits	Number of credits	Value of approved credits (in thousand BGN)
Long-term	36	86,702
incl. bridge financing	19	30,603
incl. own contribution	17	56,099
Short-term	57	69,803
incl. bridge financing	52	65,953
incl. own contribution	5	3,850
Total	93	156,505

During the year, funding was sought for the implementation of projects under all operational programs. The structure of credits approved during the year, by operational programs and by sources for repayment of principal, is as follows:

By Operational programme	Number of credits	Total amount (in BGN thousand)	Min. (BGN thousand)	Max. (BGN thousand)
OPRD	33	46,486	186	10,396
OPE	28	88,874	207	8,000
RDP	13	9,109	153	3,363
CBC	16	10,628	96	4,750
Program LIFE	1	691	691	691
MFP	2	717	253	464
Total	93	156,505		

By source of repayment	Number of credits	Total amount (in BGN thousand)	Min. (BGN thousand)	Max. (BGN thousand)
Operational programmes	71	96,556	96	8,000
Own contribution	22	59,949	186	10,396
Total	93	156,505		

Directors' Report

In 2020 the funds utilised under credit agreements amounted to BGN 115,323 thousand, while the repayments amounted to BGN 100,196 thousand.

The active loans as of 31.12.2020 are 256 in the amount of BGN 193,371 thousand. The loans are distributed by type as follows:

- Bridge financing – BGN 97,826 thousand (49,61% of the active loans)
- Co-financing for own contribution – BGN 95,545 thousand (50,39 % of the active loans)

2. Summary of results from activity for the reporting and the previous year

The activity of the fund in 2020 marks an increase compared to 2019. The results are summarized in the table below. Given the specifics of the activity, the factors that affect the volumes and turnovers are:

- Stage of implementation of the Operational programs;
- The deadlines within which the Managing authorities verify the requests submitted by the beneficiaries;
- The specific requirements of each Operational program /advance payments, structure of interim payments; conditions for verification and others/;
- The availability of other accessible sources of funding – such as interest-free loans provided by the Ministry of Finance, financing by commercial banks at favorable interest rates;
- New financial instruments that provide the necessary co-financing – e.g. OPE 2014-2020 and financial instrument for the projects under the Priority axis: Water, as well as the opportunity created in 2021 for urban development funds to provide funding for their own participation in projects;
- Various measures and targeted funding related to overcoming the consequences of the pandemic and crisis caused by COVID-19.

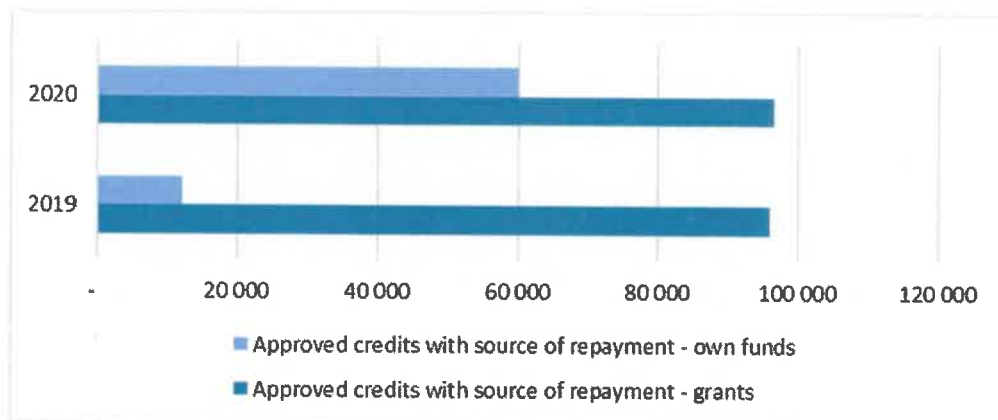
Approved loans – value (in BGN `000) and number

Year	Sum of approved long-term credits	Sum of approved short-term credits	Total amount of approved credits	Number of approved long-term credits	Number of approved short-term credits	Total number of credits
2019	36,630	71,331	107,961	26	60	86
2020	86,702	69,803	156,505	36	57	93

Approved credits, according to the source of repayment, are shown in the table below.

Approved credits according to source of repayment (BGN `000)

	Approved credits with source of repayment - grants	Approved credits with source of repayment –own funds
2019	95,930	12,031
2020	96,556	59,949



IV. Participation of FLAG in the management of other financial instruments

1. New investment projects

On July 27, 2020 a Framework Loan Agreement was concluded between the European Investment Bank and Fund FLAG for the amount of EUR 25 million for the implementation of “Bulgarian investment and coordination platform for urban development” (hereinafter referred to as the Platform) with the objective to finance important public and public-private projects that do not have another source of funding. The Platform was established to complement the funding provided by the Urban Development Funds for territories and sectors that are ineligible for funding through financial instruments.

In relation with the expansion of the activity of FLAG, the Articles of Incorporation of the company were changed, as well as the Rules for financing, approved by the Representative of the owner in the person of the state - the Minister of Regional Development and Public Works. Based on these amendment and per decisions of the Board of Directors of Fund FLAG, the following internal rules and policies were supplemented: the Rules of Procedure, the Pricing Policy, the Risk Assessment and Management Methodology and the Internal Rules for Financial Management and Control (FMCS).

A package of documents regarding the application, evaluation and submission of proposals for consideration and approval were also developed and approved.

After the completion of the application documents on 02.10.2020 the first requests for funding under the Platform were submitted.

On 23.11.2020 was created and presented a request for utilization of the first tranche under the contract with EIB for the amount of EUR 7 million. The request was approved in December and the funds were transferred to the account of Fund FLAG.

In December 2020 the first 10 loans for projects financing under the Platform, for the total value of BGN 29,782 thousand, were reviewed and approved.

2. Operational agreements for financial instruments

Fund FLAG is a party to the following Operational agreements concluded with Fund Manager of Financial Instruments in Bulgaria (FMFIB):

- Operational agreement, concluded on 30.05.2012, for management of financial instrument Urban Development Fund for Sofia under the JESSICA initiative with funds provided under the Operational programme Regional Development 2007-2013;

Directors' Report

- Operational agreement, concluded on 20.09.2018, for management of financial instrument Urban Development Fund for Sofia with funds provided under the Operation programme Regions in Growth 2014-2020;

- Operational agreement, concluded on 20.09.2018, for management of financial instrument Urban Development Fund for Southern Bulgaria, with funds provided under the Operational programme Regions in Growth 2014-2020

During 2020, the urban development funds were actively working in the following areas:

- Under the JESSICA initiative, established under the Operational programme Regional Development 2007-2013 - for negotiating new projects with funds from the reinvestment stage, for utilization of the concluded contracts and for monitoring of the implemented projects;

- The funds for urban development, established under Operational programme Regions in Growth 2014-2020 – for identification of new projects as well as for implementation of the already concluded contracts and utilization of the approved financing.

3. Financing provided to the subsidiary FSUD EAD for the implementation of the JESSICA and UDF financial instruments

The subsidiary “Fund for Sustainable Urban Development” EAD was established in 2012 specifically with the aim to implement various financial instruments. For the purpose of its activity, Fund FLAG provides credit lines, according to the need for implementation of the respective financial instrument. As of 31.12.2020, two credit lines are provided as follows:

- **Credit line for implementation of Operational Agreement of 30 May 2012 under OPRD 2007 - 2013**

With contract dated 28.11.2012 FLAG granted credit line to its subsidiary Fund for Sustainable Urban Development, amounting to BGN 24,500 thousand for the purpose of investing in urban projects under JESSICA initiative. These funds represent 50% of the required financial resources. After successfully investing all funds in 2015, FUGR received the right to reinvest the repaid funds in new eligible projects. In 2020, disbursements were made with a total amount of BGN 433 thousand. As of 31.12.2020, the FUGR's liability to FLAG amounts to BGN 20,508 thousand, ie nearly 84% of the provided funding has been invested and reinvested in eligible projects.

- **Credit Line for Implementation of Operational Agreements from 20 September 2018 under OPRD 2014 - 2020**

On 28 November 2018, FLAG signed a new credit line agreement with Fund for Sustainable Urban Development EAD for the amount of BGN 15,000 thousand and maturity up to 31 December 2043 with the aim of providing the necessary co-financing for eligible projects under the two new urban development funds (UDF Sofia and UDF South). In 2020, disbursements were made in the total amount of BGN 1,333 thousand. The current exposure as of 31.12.2020 is BGN 1,713 thousand.

V. Information and publicity

For information, publicity and transparency, FLAG maintains a website with up-to-date and complete business information.

Directors' Report

In 2020 an entirely new website of the company has been developed with a new, modern vision and information about all activities of the fund, up-to-date information about the activity and a full set of guidelines and application documents for maximum convenience of the clients.

Given the state of emergency in the country related to the COVID-19 pandemic, the planned events were canceled, but many targeted discussion meetings were held on various topics through online platforms.

In 2020, the intensive communication with the Managing Authorities of all programs under which the municipalities submitted requests continued, regarding the implementation of their projects, as well as about the condition of problematic projects with already granted loans from FLAG. A regular connection has been made for the exchange of information on payments and verifications, on identified irregularities and others.

VI. Monitoring

A system for periodic and ongoing monitoring has been established for all credit records. A reliable information system for tracking and control has been created. An ongoing portfolio review and analysis of the clients' financial position are carried out in order to take the necessary actions for ensuring the regular servicing of the loans and avoiding overdue payments.

As a result of the introduced monitoring system, there are no delays of more than 30 days and non-payment of debts by borrowers.

VII. Additional information to the report for 2020

1. Investments

As of 31 December 2020 FLAG is the sole shareholder in "Fund for sustainable urban development" JSC, which is registered in the Registry agency on 23.04.2012.

As of 31 December 2020, FLAG holds a 5% interest in the jointly controlled company incorporated under the Obligations and Contracts Act "Fund for Sustainable Cities".

2. Information under Art. 187 d and Art. 247 of the Commercial Act

In 2020 no shares of the Company have been issued, acquired or transferred.

The remuneration of the key management personnel for 2020 amounted to BGN 347 thousand.

As of 31.12.2020 the members of the Board of Directors have the following participation within the meaning of Art. 247, ph. 2, p. 4 of the CA:

- Nadya Yordanova Dankinova – executive director and member of the Managing Board of "Fund for sustainable urban development" JSC;
- Dobromir Simidchiev – executive director and member of the Board of Directors of "HIDROLIA" AD, shareholder in "TYUBOR" OOD with 50% share;

Directors' Report

3. Branches and subsidiaries

In 2012, the company established a subsidiary – “Fund for sustainable urban development” JSC, 100% owned by Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) with share capital of BGN 5 000 000.

As of 31.12.2020 the company has no branches.

4. Financial risk management and financial instruments

The main financial liabilities of the Company include interest-bearing loans and borrowings, and trade and other payables. The main purpose of these financial instruments is to provide financing for the operations of the Company. The Company has financial assets such as loans granted and cash and cash equivalents.

In 2020 as in prior years the Company does not own and does not trade with derivative financial instruments.

The main risks arising from the financial instruments of the Company are interest rate risk, liquidity risk, currency risk and credit risk. The policy that the management of the Company applies to manage these risks is summarized below.

Interest rate risk

The Company is exposed to risks from changes in market interest rates, mainly regarding its long-term financial liabilities with variable (floating) interest rate. The Company's policy is to manage interest expenses by providing loans with floating interest rates.

Liquidity risk

The effective management of the Company's liquidity presumes that sufficient working capital will be available mainly through maintaining a given amount of money on deposit. A cash flow movement plan is prepared based on short-term budgets as well as based on long-term planning.

Currency risk

The Company has no purchases, sales and lending in foreign currencies and the loans received are denominated in EUR or BGN. Currently the company does not have loans granted in euro.

Credit risk

Credit risk is the risk that the clients / counterparties will not be able to pay in full the amounts due to the Company within the envisaged / agreed deadlines. As at the end of 2020 the remaining liability of third parties to the Company amounts to BGN 188,190 thousand. As at 31.12.2020 the Company has receivables on loan granted to related parties amounting to BGN 22,225 thousand.

Credit risk management in 2020 is carried out by the “Lending and monitoring” Directorate and is monitored simultaneously by the Executive Director and the Board of Directors. The credit risk management function is to ensure the implementation of an appropriate investment policy in respect of the funds available and respectively, the compliance of this policy with the related procedures and controls for current monitoring of the respective loan or receivable.

Directors' Report

The credit risk exposure is managed through an ongoing analysis of counterparties' ability to meet their contractual obligations to pay interest and principal, as well as by setting appropriate credit limits. In addition, there is ongoing monitoring of the existence of concentration of receivables in a specific counterparty, and in the case of identifying one - the respective counterparty is subject to special ongoing supervision. The accrued impairment on loans granted as at 31 December 2020 is based on the Fund's Credit loss impairment policy, developed in accordance with IFRS 9 Financial Instruments.

5. Research and development activity

In 2020, the Company has not been engaged in research and development activities.

6. Covid-19 pandemic – impact and effects

On 11 March 2020, the World Health Organization declared the Covid-19 pandemic. On March 13, 2020 the National Assembly declared a state of emergency in Bulgaria and as a result, measures were introduced in order to control the infection, including work from home, the temporary closure of schools, universities, restaurants, cinemas, theaters, museums, sport facilities, and small retailers with the exception of food retailers, grocery stores and pharmacies.

As a result of the imposed restrictions, the normal functioning of businesses in a number of sectors of the economy was disrupted. There were difficulties with the supply of raw materials from suppliers, shipments to clients and procuring workforce. Almost all companies, though to a different extent, had to take certain actions and measures to reorganise their business operations, work schedules, business communication and other aspects of relations with counterparties, partners and state institutions.

The entity operates in a sector, whose normal operation was not significantly affected by the imposed restrictions.

The entity has sufficient funding in order to meet its liquidity needs.

The management has not identified areas in the separate financial statements, where the pandemic has a direct and significant impact or effect, including in terms of the valuation of the assets and liabilities.

7. Significant events after the reporting period

No events occurred after 31 December 2020, which would require additional adjustments and / or disclosures in the Company's separate financial statements for the year ended 31 December 2020.

.....
Nadya Dankinova – Executive director
31.03.2021



*This document is a translation of the original text in Bulgarian,
in case of divergence the Bulgarian original is prevailing.*

INDEPENDENT AUDITOR'S REPORT

To the sole shareholder of FUND FLAG EAD (PREVIOUS: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG EAD)

Opinion

We have audited the separate financial statements of *FUND FLAG EAD (PREVIOUS: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG EAD)* („the Company“), which comprise the separate statement of financial position as at 31 December 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and the notes to the separate financial statements, including summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company within the meaning of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by International Ethics Standards Board for Accountants (IESBA Code) and the Independent Financial Audit Act (IFAA) applicable to our audit of the separate financial statements in Bulgaria and we have also fulfilled our other ethical responsibilities in accordance with the requirements of IFAA and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information, different from the separate financial statements and auditors report

Management is responsible for the other information. Other information consists of Annual separate management report, prepared by management in accordance with Chapter Seven from Accountancy Act, but does not include the financial statements and our auditor's report.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance thereon, unless if it is explicitly stated in our report, and to the extent it is stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional matters for reporting required by Accountancy Act

In addition to our reporting requirements in accordance with ISA, related to the Annual activity report, we have performed the procedures added to those required by the ISAs, in accordance with guidelines of the professional organization of Certified Public Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures comprise checks on the existence, as well as checks of the form and content of this other information with the purpose to support us in forming of opinion, whether the other information includes the disclosures and reporting requirements, provided in Chapter Seven of the Accountancy Act, applicable in Bulgaria.

Opinion in accordance with Art. 37, para. 6 of Accountancy Act

On the basis of the procedures performed, our opinion is that:

- a) The information, included in the Annual separate management report for the financial year is consistent with the separate financial statements for the same reporting period.
- b) The Annual separate management report has been prepared in accordance with the requirements of Chapter Seven from the Accountancy Act.

Responsibilities of Management for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with IFRS, as adopted by EU 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.

During the preparation of these separate financial statements management has the responsibility to make an assessment regarding Company's ability to continue as going concern, and to disclose when it is applicable, questions related to the going concern assumption and to using the accounting framework based on going concern assumption, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the separate 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 Independent Financial Audit Act and 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 entity'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management, 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.



Ivaylo Yanchev
Registered auditor

31 March 2021
Sofia



Krassimira Radeva – Managing Director
Baker Tilly Klitou and Partners OOD

5, Stara Planina str., Floor 5
Sofia, 1000, Bulgaria

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
SEPARATE STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2020

	Notes	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Interest income	3.1	5,925	5,536
Interest expenses and charges	3.2	(1,870)	(1,652)
Dividend income		276	261
Other operating income	3.3	621	566
Net operating income		4,952	4,711
Expenses for impairment of loans granted	9	(48)	(260)
Payroll expenses	3.4	(1,133)	(827)
Depreciation expenses	7	(68)	(73)
Other operating expenses	3.5	(197)	(163)
Profit before tax		3,506	3,388
Income tax expense	4	(323)	(313)
Profit for the year		3,183	3,075
Other comprehensive income for the year, net of taxes		-	-
Total comprehensive income for the year, net of taxes		3,183	3,075

These separate financial statements were authorized for issue by the Board of Directors on 31 March 2021.
The notes on pages 18 to 45 are an integral part of these separate financial statements.



Nadya Yordanova Dankinova
Executive Director






Kalinka Ruskova Todorova
Chief Accountant

In accordance with an Independent Auditor's Report:



Ivaylo Yanchev
Registered auditor
31 March 2021





Krassimira Radeva
Managing director
Baker Tilly Klitou and Partners OOD

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
SEPARATE STATEMENT OF FINANCIAL POSITION**

As of 31 December 2020

	Notes	31 December	
		2020 BGN'000	2019 BGN'000
ASSETS			
Cash and cash equivalents	5	27,247	26,025
Receivables and prepayments	6	65	37
Loans granted	9	188,190	173,115
Loans granted to related parties	9,17	22,225	22,571
Deferred tax assets	4	4	2
Plant and equipment	7	19	15
Right of use assets	7	48	93
Software	7	-	3
Investment in subsidiary	8.1	5,000	5,000
Investment in joint venture	8.2	10	10
TOTAL ASSETS		242,808	226,871
EQUITY AND LIABILITIES			
Liabilities			
Payroll and social security payables	11	166	114
Tax liabilities	12	85	73
Other liabilities	13	303	323
Loans payable	10	137,604	123,352
Total liabilities		138,158	123,862
Equity			
Share capital	14.1	90,000	90,000
Statutory reserves	14.2	3,281	3,000
Retained earnings		11,369	10,009
Total equity		104,650	103,009
TOTAL EQUITY AND LIABILITIES		242,808	226,871


These separate statements were authorized for issue by the Board of Directors on 31 March 2021. The notes on pages 18 to 45 are an integral part of these separate financial statements.


Nadya Yordanova Dankinova
Executive Director





Kalinka Ruskova Todorova
Chief Accountant

In accordance with an Independent Auditor's Report


Ivaylo Yanchev
Registered auditor
31 March 2021



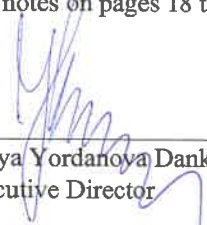

Krassimira Radeva
Managing director
Baker Tilly Klitou and Partners OOD

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
SEPARATE STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2020

	Share capital (Note 14.1)	Retained earnings	Statutory reserves (Note 14.2)	Total
	BGN'000	BGN'000	BGN'000	BGN'000
As at 1 January 2019	90,000	8,780	2,712	101,492
Profit for the year	-	3,075	-	3,075
Total comprehensive income	-	3,075	-	3,075
Dividend distribution	-	(1,558)	-	(1,558)
Transfer to reserves	-	(288)	288	-
As at 31 December 2019	90,000	10,009	3,000	103,009
As at 1 January 2020	90,000	10,009	3,000	103,009
Profit for the year	-	3,183	-	3,183
Total comprehensive income	-	3,183	-	3,183
Dividend distribution	-	(1,542)	-	(1,542)
Transfer to reserves	-	(281)	281	-
As at 31 December 2020	90,000	11,369	3,281	104,650


These separate financial statements were authorized for issue by the Board of Directors on 31 March 2021.
The notes on pages 18 to 45 are an integral part of these separate financial statements.


Nadya Yordanova Dankinova
Executive Director





Kalinka Ruskova Todorova
Chief Accountant

In accordance with an Independent Auditor's Report:


Ivaylo Yanchev
Registered auditor
31 March 2021




Krassimira Radeva
Managing director
Baker Tilly Klitou and Partners OOD

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
SEPARATE CASH FLOW STATEMENT**

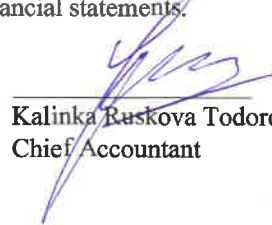
For the year ended 31 December 2020

	Notes	2020 BGN'000	2019 BGN'000
Cash flows from operating activities			
Loans granted to municipalities		(115,331)	(95,121)
Loans repaid by municipalities		100,196	86,152
Loans granted to related parties		(1,766)	(641)
Loans repaid by related parties		2,111	1,741
Interest received on loans granted		5,937	5,521
Payments to suppliers		(724)	(618)
Payments to personnel and for social security		(1,098)	(815)
Other proceeds and payments, net		628	523
Income tax paid		(313)	(281)
Net cash flows used in operating activities		(10,360)	(3,539)
Cash flows from investing activities			
Purchase of plant, equipment and software		(24)	(4)
Dividends received		276	261
Investment in joint venture		-	(10)
Net cash flows from investing activities		252	247
Cash flows from financing activities			
Loans received		52,913	34,148
Repayment of loans		(38,695)	(20,496)
Dividends paid		(1,542)	(1,558)
Interest paid		(954)	(815)
Fees and commissions paid		(345)	(382)
Payments under lease agreements		(47)	(48)
Net cash flows from financing activities		11,330	10,849
Net increase in cash and cash equivalents		1,222	7,557
Cash and cash equivalents at the beginning of the period	5	26,025	18,468
Cash and cash equivalents at the end of the period	5	27,247	26,025


These separate financial statements were authorized for issue by the Board of Directors on 31 March 2021.
The notes on pages 18 to 45 are an integral part of these separate financial statements.


Nadya Yordanova Dankinova
Executive Director





Kalinka Ruskova Todorova
Chief Accountant

In accordance with an Independent Auditor's Report:


Ivaylo Yanchev
Registered auditor
31 March 2021




Krassimira Radeva
Managing director
Baker Tilly Klitou and Partners OOD

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

1.1 Corporate information

The separate financial statements of Fund FLAG JCS (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) (the Company) for the year ended 31 December 2020 were authorized for issue by a decision of the Board of Directors dated 31 March 2021.

Fund FLAG JCS (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) is a joint-stock company incorporated by virtue of Decision No 1 dated 4 July 2007 under company file 10151/2007 of the Sofia City Court, having its seat in the city of Sofia, Sofia Region, Bulgaria. The financial year of the Company ends on 31 December.

These financial statements are separate financial statements and have been prepared in accordance with the requirements of the law effective in Bulgaria.

The company has made arrangements for the process of preparing its consolidated financial statements for 2020 in accordance with IFRS, as adopted by the European Union, in force for 2020. In line with the tentative schedule the management expects that the consolidated report will be finalized and approved by the Board of Directors by 25.05.2021 at the latest and will thereafter be available to third parties.

The core activity of the Company includes financing of municipal infrastructure and other projects and co-financing the development and implementation of projects of the European Union.

As at 31 December 2020 the shareholders of the Company include:

Republic of Bulgaria represented by the Minister of Regional Development and Public Works – 100.00%.

1.2. Covid-19 pandemic – impact and effects

On 11 March 2020, the World Health Organization declared the Covid-19 pandemic. On March 13, 2020 the National Assembly declared a state of emergency in Bulgaria and as a result, measures were introduced in order to control the infection, including work from home, the temporary closure of schools, universities, restaurants, cinemas, theaters, museums, sport facilities, and small retailers with an exception of food retailers, grocery stores and pharmacies.

As a result of the imposed restrictions, the normal functioning of businesses in a number of sectors of the economy was disrupted. There were difficulties with the supply of raw materials from suppliers, shipments to clients and procuring workforce. Almost all companies, though to a difference extent, had to take certain actions and measures to reorganise their business operations, work schedules, business communication and other aspects of relations with counterparties, partners and state institutions.

The entity operates in a sector, whose normal operation was not significantly affected by the imposed restrictions.

The entity has sufficient funding in order to meet its liquidity needs.

The management has not identified areas in the separate financial statements, where the pandemic has a direct and significant impact or effect, including in terms of the valuation of the assets and liabilities.

2.1 Basis of preparation of separate financial statements

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). They have been prepared under the historical cost convention.

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

2.1 Basis of preparation of separate financial statements (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.2 o).

New and amended standards and interpretations

During the current year, the Company has adopted all new and amended IFRSs, which are related to its activities and are effective for the reporting period beginning on 1 January 2020.

At the date of preparation of the financial statements, the IASB / IFRIC has issued standards and interpretations that are not yet effective. Some of them have been adopted by the European Union and others not yet.

Published standards, which are not yet effective and not early adopted

Standards issued by IASB/IFRIC and approved by EU but not yet effective and not early adopted up to the date of issuance of the Company's financial statements are listed below:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (in force for annual periods beginning on or after 1 January 2021) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9 (in force for annual periods beginning on or after 1 January 2021) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.

New standards and amendments, issued by IASB but not yet endorsed by the EU

At present, the IFRS endorsed by EU are not materially different from those approved by the IASB, with the exception of the following new standards, amendments to existing standards and new interpretations, which have not yet been endorsed by EU as at the date of these financial statements (the effective dates stated below refer to full IFRS):

- IFRS 17 Insurance Contracts (in force for annual periods beginning on or after 1 January 2023) - The management does not expect the adoption of this standard to have a significant effect on the financial statements of the Company.
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current and Non-current (in force for annual periods beginning on or after 1 January 2023) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, Annual improvements 2018-2020 (in force for annual periods beginning on or after 1 January 2022) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Disclosure of accounting policies (effective for annual periods beginning on or after 1 January 2023) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.
- Amendments and IAS 8 Accounting policies, changes in accounting estimates and errors: Definition of Material (in force for annual periods beginning on or after 1 January 2023) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.
- Amendments to IFRS 16 Leases: Covid-19-Related rent concessions beyond June 30, 2021 (effective for annual periods beginning on or after 1 April 2021) - The management does not expect the adoption of these amendments to have a significant effect on the financial statements of the Company.

The Company expects that the adoption of these standards and amendments to existing standards will not have a material effect on the Company's financial statements in the year of their first-time adoption.

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

2.2 Summary of significant accounting policies

a) Foreign currency conversion

The financial statements are presented in Bulgarian Leva (BGN), which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the end of each month by applying the closing exchange rate published by the Bulgarian National Bank for the last working day of the respective month. All foreign currency differences are recognised in the statement of comprehensive income. Non-monetary assets and liabilities which are measured in terms of historical cost in a foreign currency are translated into the functional currency using the exchange rate as at the date of the initial transaction (acquisition).

b) Revenue recognition

Interest income

Interest income is included in the statement of comprehensive income (in profit or loss for the year), as it arises and consists of interest income on loans granted and term deposits.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets, except for financial assets that are credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their amortized value (the gross carrying amount adjusted for impairment).

c) Recognition of interest expenses and fees

Interest expenses and charges are included in the statement of comprehensive income (in profit or loss for the year), when incurred, separately from interest income and comprise: interest expense on borrowings, bank fees on loans and guarantees, net loss from exchange differences.

d) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Management analyses the individual items of the tax return for which the applicable tax provisions are subject to interpretation and recognises provisions where appropriate.

Current income tax is recognised directly in the equity (and not in the statement of comprehensive income) where the tax relates to items that have been recognised directly in the equity.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences cannot be controlled by the Company and it is not probable that the temporary differences will reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

2.2 Summary of significant accounting policies (continued)

d) Taxes (continued)

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed by the Company at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Company only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

e) Financial instruments – initial recognition and subsequent measurement

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

• **Financial assets**

Initial recognition, classification, and measurement

Upon initial recognition, financial assets are classified in three groups, according to which they are subsequently measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. The Company initially measures financial assets at fair value and, in the case of financial assets not reported at fair value through profit or loss, plus any direct transaction costs. Exceptions are trade receivables that do not contain a significant financing component - they are measured at the transaction amount determined in accordance with IFRS 15.

The classification of financial assets upon initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and the business model within which the asset is held. In order to be classified and measured at amortized cost or at fair value through other comprehensive income, the contractual terms of the financial asset should give rise to cash flows that are solely payments of principal and interest (SPPI) on the outstanding amount of the principal. For this purpose, a SPPI test is performed on an instrument by instrument basis.

The Company's business model reflects how it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows result from collecting contractual cash flows, selling the financial assets, or both.

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

2.2 Summary of significant accounting policies (continued)

e) Financial instruments – initial recognition and subsequent measurement (continued)

Subsequent measurement

For the purposes of subsequent measurement, the Company's financial assets are classified in the following category:

- Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost when both of the following conditions are met:

- the financial asset is held and used within a business model that is designed to hold it in order to collect the contractual cash flows from it, and
- 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 outstanding principal amount.

Financial assets at amortized cost are subsequently measured using the effective interest rate method. They are subject to impairment. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year), when the asset is written-off, modified or impaired.

The Company's financial assets at amortized cost include: cash and cash equivalents at banks, loans granted to related and third parties.

Interest bearing loans and other financial resources granted

All loans and other financial resources granted are initially presented at cost (nominal amount), which is taken to be the fair value of the amount provided in the transaction, net of the direct costs associated with those loans and resources provided. After initial recognition, interest-bearing loans and other resources granted are subsequently measured and presented in the statement of financial position at amortized cost, determined by applying the effective interest rate method. They are classified in this group because the Company's business model is solely with the purpose of collecting contractual cash flows from the principal and the interest. The amortized cost is calculated taking into account all types of fees, commissions and other amounts associated with these loans. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) as income (interest) or expense during the amortization period or when the receivables are repaid, written off or reduced.

Interest income is recognized in accordance with the stage in which the relevant loan or other receivable is allocated on the basis of the effective interest rate method.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized from the statement of financial position of the Company when:

- the rights to the cash flows from the assets have expired, or
- the Company has transferred the contractual rights to receive the cash flows from the asset, or the Company has assumed a contractual obligation to remit those cash flows without significant delay to a third party under a transfer arrangement wherein: a) the Company has transferred substantially all the risks and rewards of ownership of the asset; or b) the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the asset but has not retained control of it.

When the Company has transferred its rights to receive cash flows from the asset or has entered into a transfer agreement, it assesses whether and to what extent it retains the risks and rewards of ownership. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, it continues to recognize the transferred asset to the extent of its continuing involvement in the asset. In this case, the Company also recognizes the related obligation. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement in the form of a guarantee on the transferred asset is measured at the lower of: the initial carrying amount of the asset and the maximum amount of remuneration that the Company may be required to pay.

For the year ended 31 December 2020

2.2 Summary of significant accounting policies (continued)

e) Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial assets

The Company recognizes an allowance for expected credit losses on all debt instruments that are not measured at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the terms of the contract and all cash flows that the Company expects to receive discounted at the original effective interest rate. Expected cash flows also include the cash flows from the sale of the collateral held or other credit enhancements that form an integral part of the terms of the contract.

For the calculation of the expected credit losses on loans granted, including cash and cash equivalents at banks, the Company applies the general approach for impairment set by IFRS 9. Under this approach, the Company applies a "three stage" impairment model based on changes in the credit quality of the financial asset subsequent to initial recognition.

Expected credit losses are recognized in two stages:

- a. A financial asset that is not credit impaired at its initial origination / acquisition is classified in Stage 1. These are loans granted to borrowers with low risk of default, with healthy and stable key financial and non-financial indicators, regularly serviced, and without any overdue amounts. Since initial recognition, the credit risk and credit quality of these financial assets are subject to continuous monitoring and analysis. Expected credit losses on financial assets classified in Stage 1 are determined on the basis of credit losses that could arise from possible events of nonperformance that could occur within the next 12 months of the life of the asset (12-month expected credit losses for the instrument).
- b. In the event that the credit risk of a financial instrument has increased significantly since initial recognition and as a result its performance deteriorates, it is classified in Stage 2. The expected credit losses of the financial assets classified in Stage 2 are determined for the total remaining life of the asset (lifetime expected credit losses).

The management of the Company has developed a policy and a set of criteria for analyzing, identifying and assessing the occurrence of "significant increase in the credit risk".

In the event that the credit risk of a financial asset increases to the point indicating that a default event has occurred, the financial asset is considered impaired and is classified in Stage 3. At this stage, the losses incurred for the entire remaining life (term) of the respective asset are calculated and determined.

The management of the Company has performed relevant analyzes, based on which it has defined a set of criteria for non-performing events in accordance with the specifics of the respective financial instrument. One of these is contractual payments that are over 90 days past due, unless there are circumstances that render this claim rebuttable for certain financial instruments. Meanwhile, other events, based on internal and external information, are also monitored for indication that the debtor is not able to repay all outstanding contractual amounts, incl. after taking into account all credit reliefs provided by the Company.

The Company adjusts the expected credit losses, determined based on historical data, with estimated macroeconomic indicators that are found to be correlated and are expected to affect the amount of expected credit losses in the future.

Derecognition

Impaired financial assets are written off when there is no reasonable expectation of collection of contractual cash flows.

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

2.2 Summary of significant accounting policies (continued)

e) Financial instruments – initial recognition and subsequent measurement (continued)

• **Financial liabilities**

Initial recognition, classification, and measurement

The Company's financial liabilities include trade and other payables, loans and other borrowed funds. Upon initial recognition, they are usually classified as liabilities at amortized cost.

Initially, all financial liabilities are recognized at fair value, and in the case of loans and borrowings and trade and other payables, net of directly related transaction costs.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification. They are usually classified and measured at amortized cost.

Classification groups

Loans received and other borrowed funds

In the statement of financial position, all loans and other borrowed financial resources are initially presented at acquisition cost (nominal amount), which is taken to be the fair value of the transaction proceeds net of the direct costs associated with those loans and borrowed resources. After initial recognition, interest-bearing loans and other borrowed funds are subsequently measured and presented in the statement of financial position at amortized cost, determined by applying the effective interest rate method. The amortized cost is calculated taking into account all types of fees, commissions and other expenses, incl. discount or premium associated with these loans. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) as financial income or financial expenses (interest) during the amortization period or when the liabilities are written off or reduced.

Interest expenses are recognized over the term of the financial instrument based on the effective interest rate method.

Interest-bearing loans and other borrowed financial resources are classified as current, except for the portion of them for which the Company has an unconditional right to settle its liability for more than 12 months from the end of the reporting period.

Derecognition

A financial liability is derecognized when, and only when the obligation specified in the contract is either discharged or cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income (in profit or loss for the year).

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when, and only when, there is a currently enforceable legal right to off-set the recognized amounts and the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

This requirement stems from the idea for the real economic substance of the Company's relationships with a certain counterparty and that, in the presence of these two requirements, the expected actual cash flow and the benefits for the enterprise are the net cash flows, i.e. the net amount reflects the actual right or obligation of the Company regarding these financial instruments - in all circumstances to receive or pay only the net amount. If these conditions are not simultaneously met, it is assumed that the Company's rights and obligations in respect of such balances (financial instruments) are not exhausted in all situations solely by the receipt or payment of the net amount.

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2.2 Summary of significant accounting policies (continued)

e) Financial instruments – initial recognition and subsequent measurement (continued)

The offsetting policy also relates to the assessment, presentation and management of the actual credit and liquidity risk associated with these balances.

The criteria that apply in establishing that the entity has "currently enforceable legal right to off-set" are:

- the right to set-off must be available today rather than being contingent on a future event
- to be enforceable and defensible by legal means in the course of (cumulatively):
 - normal activity,
 - in case of default, and
 - in case of insolvency or bankruptcy.

The applicability of the criteria is assessed against the requirements of the Bulgarian legislation and the established agreements between the parties. The condition that the entity has a "currently enforceable legal right to off-set" must always be assessed together with the condition for "mandatory intention to settle these balances on a net basis".

f) IFRS 13 Fair value measurement

At each reporting date the Company applies IFRS 13 Fair value measurement to the financial instruments and non-financial assets measured at fair value.

The fair value is the price that would be obtained for the sale of an asset or paid for the transfer of a liability in an arm's length transaction between market participants at the valuation date.

Fair value measurement is based on the assumption that the sale of the asset or the transfer of the liability takes place on:

- the principal market for the asset or liability,
- in the absence of such market, the market that is most advantageous for the asset or liability.

The main or the most favorable market should be accessible to the Company.

The fair value of the asset or liability is determined by assuming that market participants will use this value in the valuation of the asset or liability and will act in line with their best economic interest.

The fair value of the non-financial assets is determined by taking into account the ability of the participants to generate economic benefits by using the asset or selling it to another counterparty in the market who will use it with maximum efficiency.

The Company is applying valuation techniques that are appropriate in the circumstances, maximizing the use of observable parameters and minimizing the use of ones that cannot be observed.

All assets and liabilities measured at fair value or for which fair value is disclosed are arranged into the following three levels of the fair value hierarchy based on the hypotheses underlying the valuation techniques:

- Level 1 — Quoted (unadjusted) prices on active markets for identical assets or liabilities;
- Level 2 — Valuation techniques, which allow the fair value parameters to be observed directly or indirectly;
- Level 3 — Valuation techniques, under which the parameters for arriving at the fair value cannot be observed directly.

As at each balance sheet date the Management carries out an analysis of the changes of the fair value of the assets and liabilities and monitors their impact on the financial statements in line with the approved accounting policy. The Company must ascertain whether or not a change has occurred in the categorization of assets or liabilities in accordance with the hypotheses underlying the valuation techniques. With the assistance of certified valuers the management compares each change in the fair value of the assets and liabilities with observable parameters in order to ascertain that the changes are reasonable.

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2.2 Summary of significant accounting policies (continued)

f) IFRS 13 Fair value measurement (continued)

The Company determines the assets and liabilities whose fair value should be disclosed based on their nature, risk and level in the hierarchy as noted above.

g) Share capital and reserves

The share capital is presented at the par value of shares issued and paid. The Company is obliged to set aside a *Reserve Fund* in accordance with the Commercial Act. Sources for the fund may include:

- portion of the profit set by the sole owner of the capital, but no less than 1/10 until the funds in the Reserve Fund reach 1/10 of the capital;
- funds, received in excess of par value of shares at issue thereof;
- other sources in accordance with a decision at the General Meeting.

The Reserve Fund may be used only to cover current and prior year losses. When the Reserve Fund reaches the minimum amount set out in the Articles of Incorporation, the excess may be used to increase the share capital.

h) Plant and equipment

Items of plant and equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When a major inspection of an item of plant and/or equipment is performed, its cost is recognized in the carrying amount of the respective assets as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of comprehensive income for the period in which they have been incurred.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets, as follows:

Computers	2 years
Plant and equipment	5 years
Motor vehicles	4 years
Fixtures and fittings	5 years

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income for the year in which the asset is derecognized.

i) Software

Software is measured on initial recognition at cost, less any accumulated amortisation and accumulated impairment losses.

Amortisation is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

Software	2 years
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The assets' residual values, useful lives and methods of depreciation/amortisation are reviewed at each financial year end, and are adjusted prospectively, if appropriate.

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
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2.2 Summary of significant accounting policies (continued)

j) Impairment of fixed tangible assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

k) Leases

Company as a lessee

Identifying a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Initial recognition and measurement

At the commencement date of the lease (the date on which the underlying asset is available for use) the Company recognizes a "right of use" asset and a lease liability.

The cost of the right-of-use asset includes:

- the amount of the lease liability as initially measured;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred in dismantling and removing the underlying asset.

The Company depreciates the right of use assets on a straight line basis for the shorter of: the useful life of the right of use asset and the lease term.

The right of use assets are included in Property, plant and equipment in the statement of financial position, and their depreciation – in Expenses for depreciation in the statement of comprehensive income.

The lease liability includes the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease;
- amounts expected to be payable by the lessee under residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined or with the Company's incremental borrowing rate, which is the rate of interest that would apply if the entity had to borrow the funds over a similar term, with a similar security, in a similar economic environment. Lease payments are comprised of a certain portion of the finance costs (interest) and a corresponding portion of the lease liability (principal). Finance costs are charged to the statement of comprehensive income on a systematic basis during the period of the lease so as to achieve a constant interest rate on the remaining outstanding part of the principal of the lease liability.

Subsequent measurement

The company has selected to apply the cost model for all of its right of use assets. The assets are measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurements of the lease liability.

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2.2 Summary of significant accounting policies (continued)

k) Leases (continued)

The Company subsequently measures the lease liability by:

- increasing the carrying amount to reflect the accrued interest;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount of the liability to reflect any reassessments or lease modifications.

Accounting for lease reassessments and lease modifications

Following lease reassessment, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is lower, any remaining amount of the remeasurement is recognized in profit or loss.

A lessee shall account for a lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Payments in relation to short-term leases and leases of low value assets, as well as variable lease payments, which are not included in the lease liability, are directly expensed in the statement of comprehensive income on a straight line basis over the period of the lease.

Company as a lessor

IFRS 16 does not introduce significant changes in the accounting treatment of leases by the lessors. They continue to classify every lease agreement as either a finance or operating lease, applying rules similar to those in IAS 17, which are essentially transferred to the new IFRS 16.

l) Investments

• **Investments in subsidiaries and consolidation**

Subsidiaries are all entities (including structured entities) in which the Company has the power to manage the financial and operating policies, and has over 50% of the voting rights. The Company assess that control exists when it does not hold over 50% of the voting rights but is in a position to manage the financial and operating policies under de-facto control.

• **Investments in joint ventures**

A joint venture is a joint arrangement in which the parties that have joint control over the arrangement have rights over the net assets of the arrangement.

Investments in joint ventures are carried at cost less accumulated impairment.

m) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash in bank accounts, cash on hand, and short-term deposits with an original maturity of twelve months or less that are available to the Company on demand without incurring significant financial losses.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

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NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

2.2 Summary of significant accounting policies (continued)

m) Cash and cash equivalents (continued)

Subsequent measurement

Cash and cash equivalents at banks are subsequently presented at amortized cost less accumulated impairment for expected credit losses.

n) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all the expenditures for settling the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

o) Significant accounting judgments, estimates and assumptions

The preparation of the separate financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the respective assets or liabilities in the next reporting periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Calculation of expected credit losses on loans granted, guarantees, and cash and cash equivalents

The measurement of expected credit loss for financial assets carried at amortized cost (loans granted, receivables, contract assets, cash and cash equivalents), as well as financial guarantees provided, is an area requiring the use of complex models and material assumptions for future economic conditions and credit behavior of customers and debtors (for example, the likelihood that counterparties will default on their obligations and the resulting losses).

In applying these requirements, the Company's management makes a number of material judgments, such as: (a) establishing criteria for identifying and assessing a significant increase in credit risk; (b) selecting appropriate models and assumptions to measure expected credit losses; (c) the formation of groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; (d) establishing and assessing the relationship between historical default rates and the behavior of certain macro indicators in order to reflect the effects of forecasts for those macro indicators in calculating expected credit losses in future.

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For the year ended 31 December 2020

2.2 Summary of significant accounting policies (continued)

o) Significant accounting judgments, estimates and assumptions (continued)

If the financial position and performance of municipalities deteriorate (more than expected), the value of receivables to be written off in subsequent reporting periods may be greater than that expected at the date of the statement of financial position.

Corporate income tax

A significant judgement is required to determine the overall tax provision. There are many transactions and calculations, for which the final tax cannot be determined precisely in the normal course of activity. The Company recognises liabilities for estimated tax payables in the event of future tax audits based on the management's judgement as to whether additional taxes will be assessed or not. When the tax finally set as due as a result of such events differs from the one initially reported, the corresponding differences will be reported in the short-term corporate income tax payables and will have an effect on the deferred taxes for the period in which this clarification has been made.

Estimated useful lives of property, plant and equipment

Management uses significant accounting estimates and judgements for the purpose of determining the useful lives of its property, plant and equipment, which are based on a study and judgements of the technical staff that assesses the useful lives of tangible and intangible assets.

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3. Income and expenses

3.1 Income from interest

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Income on loans granted and receivables	5,925	5,536
Total interest income	<u>5,925</u>	<u>5,536</u>

3.2 Interest expenses and charges

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expenses on loans and borrowings	959	823
Expenses on fees, commissions and foreign exchange differences	911	829
Total interest expenses and charges	<u>1,870</u>	<u>1,652</u>

3.3 Other operating income

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Income from management and commitment fees	620	564
Insurance income	-	2
Other income	1	-
Total other operating income	<u>621</u>	<u>566</u>

3.4 Payroll costs

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Salaries and wages	1,016	723
Social securities	117	104
Total payroll costs	<u>1,133</u>	<u>827</u>

**FUND FLAG JSC (PREVIOUSLY: FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC)
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For the year ended 31 December 2020

3. Income and expenses (continued)

3.5 Other operating expenses

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Social expenditure	36	21
Legal services	31	8
Materials	26	11
Accounting and audit services	11	15
Consulting services	10	-
Communication services	8	7
Hardware maintenance	8	6
Insurances	2	2
Training	2	28
Other	63	65
Total other operating expenses	<u>197</u>	<u>163</u>

4. Income tax

The main components of the income tax expense for the years ended 31 December 2020 and 31 December 2019 include:

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Current income tax expense	325	313
Deferred income taxes related to occurrence and reversal of temporary differences	(2)	-
Income tax expense	<u>323</u>	<u>313</u>

In 2020 the applicable statutory tax rate is 10% (2019: 10%).

Reconciliation between income tax expense and the accounting profit multiplied by the statutory tax rate for the years ended 31 December 2020 and 31 December 2019 is presented below:

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Accounting profit before taxes	3,506	3,388
Income tax expense at statutory tax rate of 10% for 2020 (2019: 10%)	351	339
Permanent differences	(28)	(26)
Income tax expense	<u>323</u>	<u>313</u>

As of 31.12.2020 the Company owes corporate income tax amounting to BGN 85 thousand. (31.12.2019: BGN 73 thousand).

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4. Income tax (continued)

Deferred income tax is linked to the following balance sheet positions:

	Temporary difference	Tax	Temporary difference	Tax
	31.12.2020	31.12.2020	31.12.2019	31.12.2019
	BGN '000	BGN '000	BGN '000	BGN '000
Unpaid income to individuals and related social security expense	40	4	20	2

5. Cash and cash equivalents

	31 December	
	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Cash in hand and in current accounts	27,247	26,025
Total cash and cash equivalents	27,247	26,025

Cash in bank accounts bears floating interest rates based on the daily interest rates on bank deposits. The fair value of cash and short-term deposits equals their carrying amount.

The present and future receivables on the bank accounts of FLAG are pledged as collateral under bank loan agreements concluded with Unicredit Bulbank AD, UBB AD, DSK Bank EAD and EIB (Note 10).

As a result of the analyzes made and the methodology used to calculate expected credit losses on cash and cash equivalents, management determined that no impairment of cash and cash equivalents is required. Therefore, the Company has not recognized an allowance for expected credit losses as of 31 December 2019 and 31 December 2020.

6. Receivables and prepayments

	31 December	
	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Other receivables	65	37
Total receivables and prepayments	65	37

Other receivables comprise contingent fees for loan assessment, advances to suppliers, guarantees provided and non-financial deferred expenses.

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For the year ended 31 December 2020

7. Plant and equipment, software, and right of use assets

	Hardware	Fixtures and equipment	Plant and equipment	Vehicles	Software	Other Fixed Assets	Right of use assets	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Book value:								
As of 1 January 2019	57	10	22	49	35	6	-	179
Recognized on 1 January 2019 under IFRS 16	-	-	-	-	-	-	138	138
Additions	4	-	-	-	-	-	-	4
As of 31 December 2019	61	10	22	49	35	6	138	321
Additions	21	3	-	-	-	-	-	24
As of 31 December 2020	82	13	22	49	35	6	138	345
Depreciation:								
As of 1 January 2019	(37)	(10)	(21)	(34)	(29)	(6)	-	(137)
Depreciation charge	(11)	-	(1)	(13)	(3)	-	(45)	(73)
As of 31 December 2019	(48)	(10)	(22)	(47)	(32)	(6)	(45)	(210)
Depreciation charge	(18)	-	-	(2)	(3)	-	(45)	(68)
As of 31 December 2020	(66)	(10)	(22)	(49)	(35)	(6)	(90)	(278)
Carrying amount								
As of 1 January 2019	20	-	1	15	6	-	-	42
As of 31 December 2019	13	-	-	2	3	-	93	111
As of 31 December 2020	16	3	-	-	-	-	48	67

The recognized right of use assets are related to the right to use the office in which the Company is located.

8.1. Investment in subsidiary

By a decision of the sole owner of Fund FLAG JCS (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) the Ministry of Regional Development and Public Works, from 03.04.2012, and after a meeting of the Board of Directors of the Fund, a new company was incorporated – “Fund for Sustainable Urban Development of Sofia” EAD, with share capital of BGN 500 thousand. The company was registered on 23 April 2012 with the Registry Agency and the share capital was paid in full by Fund FLAG EAD (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC).

The purpose of the newly established subsidiary is to implement financing under the European programme JESSICA in accordance with a trilateral agreement signed by EIB, Fund FLAG EAD (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) and FSUDS EAD.

On December 14, 2015, a transfer and replacement agreement was signed between the EIB, MRDPW, FSUDS EAD and Fund FLAG EAD (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC), according to which, as of 01.01.2016 due to the expiry of the EIB's commitment to the Jessica Initiative, all EIB rights and obligations under the Operational Agreement will be transferred to the MRDPW until the Fund Manager of Financial Instruments in Bulgaria EAD becomes operational. As of December 31, 2018, all rights and obligations of the MRDPW under the Operational Agreement have been transferred to the FMFIB.

By Protocol TZ-12 of 22 March 2017 the Minister of Regional Development and Public Works, in its capacity of representative, authorized FLAG to acquire long-term financial assets in the subsidiary “Fund for Sustainable Urban Development of Sofia” EAD amounting to 4,500,000 BGN, representing 4,500 new, ordinary, available, shares with nominal value of BGN 1,000 each. With this act and following a decision of the Fund's Board of Directors on 28 March 2017, it was proceeded to the registration of the change and the respective increase of the capital of “Fund for Sustainable Urban Development of Sofia” EAD from BGN 500,000 to BGN 5,000,000. On 4 May 2017 the name of the company was changed to “Fund for Sustainable Urban Development” EAD.

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8.2. Investment in joint venture

On December 13, 2017, an agreement was concluded between Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC), FSUD JSC, Cibank EAD, United Bulgarian Bank AD (UBB) and Bulgarian Consulting Organization EOOD (BCO) for establishment of a company incorporated under the Obligations and Contracts Act “Fund for Sustainable Cities” (FSC). The purpose of the newly established company is to participate in a procurement procedure with the subject “Implementation of a financial instrument Urban Development Fund, financed by funds from the Operational Program “Regions in Growth” 2014-2020”. The company is managed jointly by all the founders. According to the founding agreement, the share of FLAG is 5%. In 2019 FLAG invested BGN 10 thousand in FSC. As of 31.12.2020 and 31.12.2019, the investment in “Fund for Sustainable Cities” is in the amount of BGN 10 thousand.

9. Loans granted

	31 December	
	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
Loans granted to municipalities and other third parties	193,371	178,235
Accrued, but unpaid interest related to loans granted to municipalities and other third parties	110	123
Impairment of loans granted to municipalities and other third parties	<u>(5,291)</u>	<u>(5,243)</u>
Total loans granted to municipalities, net	<u>188,190</u>	<u>173,115</u>
Loans granted to related parties	22,221	22,566
Accrued, but unpaid interest on loans granted to related parties	<u>4</u>	<u>5</u>
Total loans granted to related parties	<u>22,225</u>	<u>22,571</u>
Total loans granted	<u>210,415</u>	<u>195,686</u>

Loans granted include loans provided to municipalities, four local initiative groups and three state-owned companies. One part of the loans - BGN 97,825 thousand is used for bridge financing under European programs, and BGN 95,545 thousand is for funding of municipalities' own activities.

As of 31 December 2019 loans for bridge financing and funding of own activities are BGN 91,534 thousand and BGN 86,701 thousand, respectively.

Current and future receivables under loans granted are pledged as collateral under bank loan agreements concluded with UniCredit Bulbank AD, UBB AD, DSK Bank EAD and EIB (Note 10).

As of 31 December 2020, a provision for expected credit losses in the amount of BGN 5,291 thousand has been calculated in accordance with IFRS 9. The provision for expected credit losses on loans classified within Stage 1 is in the amount of BGN 3,194 thousand, and the impairment on loans in Stage 2 - BGN 2,097 thousand.

In 2018, an impairment policy for expected credit losses was adopted in accordance with IFRS 9, according to which as at 31 December 2019 a provision for expected credit losses in the amount of BGN 5,243 thousand has been calculated. The provision for expected credit losses on loans classified within Stage 1 is in the amount of BGN 2,907 thousand, and the impairment on loans in Stage 2 - BGN 2,336 thousand.

The loans granted are mainly secured by a special pledge on the future receivables of the municipalities under the grant contracts and the future own revenues of the municipalities.

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9. Loans granted (continued)

The changes in the accrued impairment on loans granted in 2020 and 2019 are as follows:

	<i>Impairment of receivables on loans granted</i>
Opening balance of impairment allowance as of 1 January 2019, calculated under IFRS 9	<u>(4,983)</u>
Increase in credit loss adjustment, recognized in profit or loss during the year	(260)
As of 31 December 2019	<u>(5,243)</u>
Increase in credit loss adjustment, recognized in profit or loss during the year	(48)
As of 31 December 2020	<u>(5,291)</u>

10. Loans payable

	Maturity	31 December	
		2020	2019
		<i>BGN'000</i>	<i>BGN'000</i>
Revolving loan payable to UniCredit Bulbank	August 2021	38,000	30,000
Revolving loan payable to DSK	May 2024	3,718	21,218
Long-term loan payable to UniCredit Bulbank	November 2023	17,143	22,857
Revolving loan payable to UBB	November 2023	34,117	39,116
Revolving loan payable to UBB	October 2025	31,222	10,481
Loan payable to EIB	up to 240 months from the last request for utilization	13,691	-
Deferred fees under loan agreements		(308)	(341)
Accrued interest due		21	21
Total loans payable		<u>137,604</u>	<u>123,352</u>

Additional information for the loan agreements of FLAG listed in the table above:

- The revolving loan from Unicredit Bulbank AD was concluded on 31.08.2018 and has a two-year term, and as of 31.12.2018 has been fully utilized. The agreed interest rate on this loan is based on the basic interest rate plus margin. An annex was concluded on 15.07.2020 for extension of the term by one year and increase of the amount under the contract to BGN 38,000 thousand.
 - Under the contract with DSK Bank, effective at the end of 2020, the amount of BGN 3,718 thousand has been utilized (as of 31.12.2019 - BGN 21,218 thousand). The agreed interest rate on this loan is based on the basic interest rate plus margin.
 - The contract with Unicredit Bulbank AD dated 22.11.2016 is for BGN 40,000 thousand, for a period of 84 months. As of 31.12.2020 the utilized amount is BGN 17,143 thousand (as of 31.12.2019 - BGN 22,857 thousand). The agreed interest rate on this loan is based on the basic interest rate plus margin.
 - On 22.11.2016, a revolving loan agreement was signed with UBB AD for the amount of EUR 20,000 thousand for a period of 84 months. As of 31 December 2020, EUR 17,444 thousand (BGN 34,117 thousand) are utilized. As of 31 December 2019, EUR 20,000 thousand (BGN 39,116 thousand) were utilized. The agreed interest rate on this loan is based on a six-month EURIBOR plus margin.
 - Another loan contract was signed with UBB AD on 12.10.2018 for the amount of BGN 40,000 thousand. The utilization under it as of 31.12.2020 is BGN 31,222 thousand (as of 31.12.2019 - BGN 10,481 thousand). The agreed interest rate on this loan is based on the basic interest rate plus margin.
 - On 27.07.2020 a loan agreement was concluded with the European Investment Bank (EIB), amounting to EUR 25,000 thousand or BGN 48,895 thousand. The utilization under it as of 31.12.2020 is BGN 13,691 thousand.

The collaterals on the bank loans from UniCredit Bulbank AD, UBB AD, DSK Bank EAD and EIB include pledges on the current and future receivables on FLAG's bank accounts and current and future receivables on loans granted (Note 5 and Note 9).

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11. Payroll and social security payables

Payables to personnel and for social security as of 31 December 2020 relate to accrued wages for December 2020 and additional remunerations (bonuses) and are as follows:

	31 December	
	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Payables to personnel	142	95
Payables for social security	24	19
Total payables to personnel and for social security	166	114

12. Income tax payables

	31 December	
	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Tax payable as at 1 January	73	41
Tax paid throughout the year	(313)	(281)
Tax accrued for the year (Note 4)	325	313
Tax payable as at 31 December	85	73

13. Other liabilities

	31 December	
	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Other liabilities	303	323
<i>incl. Contingent fee for loan applicants</i>	<i>144</i>	<i>58</i>
<i>Good performance guarantee</i>	<i>60</i>	<i>126</i>
<i>Payables to suppliers</i>	<i>49</i>	<i>45</i>
<i>Lease liabilities</i>	<i>50</i>	<i>94</i>
Total other liabilities	303	323

14. Share capital and reserves

14.1 Share capital

	31 December	
	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
90,000 ordinary shares with a nominal value of BGN 1,000 each	90,000	90,000
Total share capital	90,000	90,000

At 31 December 2020 and 31 December 2019 the issued registered capital is fully paid-in.

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14.2 Statutory reserves

Statutory reserves are formed by Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) as profit distribution under Article 246 of the Commercial Act. They are set aside until the amount reaches one tenth or more of the share capital. Sources to form the statutory reserves include at least one tenth of the net profit, share premiums and funds set out in the Articles of Incorporation or in accordance with a decision of the General Meeting of Shareholders.

The statutory reserves may only be used to cover current and prior reporting period losses. As at 31 December 2020 statutory reserves amount to BGN 3,281 thousand (2019: BGN 3,000 thousand).

15. Dividend distribution

In accordance with ordinance № 1 of the Council of Ministers dated 20.07.2020 dividends were distributed to the sole shareholder in 2020 amounting to of BGN 1,542 thousand (2019: BGN 1,558 thousand). Dividend per share is BGN 17,13 (2019: BGN 17,31).

16. Commitments and contingent liabilities

Legal claims

As at 31 December 2020 and 31 December 2019 there are no litigations against the Company.

Guarantees

The Company has not provided any guarantees as of 31 December 2020 and 31 December 2019.

Loan commitments

As of 31.12.2020 the Company has loan commitments related to twelve loan contracts with municipalities amounting to BGN 26,701 thousand, under which no funds have been utilized at the year end. The loan commitments at the end of the previous year were twelve amounting to BGN 28,125 thousand.

Commitments related to rents / operating leases

The Company has an office lease contract, which entered into force on 01.03.2013 and is valid until 31.01.2022.

17. Related party disclosures

Composition of the related parties

Shareholder – sole owner

The Republic of Bulgaria through the Ministry of Regional Development and Public Works is the sole owner of the shares of Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC). “Fund for sustainable urban development” JSC is a fully-owned subsidiary of Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) with share capital of BGN 5,000 thousand fully paid by FLAG JSC.

„Fund for sustainable cities“ (FSC) – a jointly controlled entity.

Remuneration of management staff

In 2020, the remuneration of management staff amounted to BGN 347 thousand (2019: BGN 187 thousand).

Related party transactions

In 2012 an Operational agreement was signed between EIB, the subsidiary FSUDS JSC and Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC). On 14.12.2015 a transfer and substitution agreement was signed between EIB, Ministry of Regional Development and Public Works, FSUDS JSC and FLAG JSC whereby as of 01.01.2016 due to the expiration of the EIB's commitment to the initiative Jessica in Bulgaria, all rights and obligations of EIB under the Operational agreement are transferred to the Ministry of Regional Development and Public Works until the “Fund manager of financial instruments in Bulgaria” (FMFIB) JSC starts functioning.

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17. Related party disclosures (continued)

On February 14, 2018, a transfer and substitution agreement was concluded between MRDPW and the Fund Manager of Financial Instruments in Bulgaria EAD whereby MRDPW transfers to FMFIB all its claims, rights and obligations arising out of or in connection with the Operational Agreement.

Under an additional credit line agreement signed between FSUDS JSC and Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) a loan in the total amount of BGN 24,500 thousand was agreed.

During 2020 BGN 433 thousand of the loan were utilized, BGN 2,104 thousand were repaid, BGN 374 thousand interest income was accrued, interest of BGN 375 thousand was received and there is unpaid interest of BGN 4 thousand at the end of the year. The balance of the loan as of 31.12.2020 is BGN 20,508 thousand.

During 2019 BGN 254 thousand of the loan were utilized, BGN 1,741 thousand were repaid, BGN 410 thousand interest income was accrued, interest of BGN 411 thousand was received and there is unpaid interest of BGN 5 thousand at the end of the year. The balance of the loan as of 31.12.2019 is BGN 22,179 thousand.

During 2018 FSUD and FLAG signed a new credit line agreement for the amount of BGN 15 million. In 2020, BGN 1,333 thousand were disbursed under the loan, BGN 7 thousand were repaid, BGN 7 thousand of interest were accrued, and received, and there is no balance of uncollected interest at the end of the year. The balance of the loan as of 31.12.2020 is BGN 1,713 thousand.

In 2019 the disbursements under this loan amount to BGN 387 thousand. The balance of the loan as of 31.12.2019 is BGN 387 thousand.

In 2020, FLAG reported dividend income received from FUGR JSC in the amount of BGN 276 thousand (2019: BGN 261 thousand).

In 2020 FLAG reported revenues from management fee and commitment fee from FUG in the amount of BGN 10 thousand (2019: BGN 2 thousand), for which the Company has a receivable of BGN 4 thousand as of 31.12.2020.

18. Financial risk management objectives and policies

The main financial liabilities of the Company comprise interest-bearing loans and borrowings, and trade and other payables. The main objective of these financial instruments is to secure financing of the Company's operations. The Company has financial assets such as loans granted, cash and short-term deposits, which arise directly from its operations. In 2020 and 2019, the Company neither owned nor traded with derivative financial instruments. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, currency risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

Interest-rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term financial liabilities with variable (floating) interest rates. The Company's policy is to manage its interest expenses through granting loans with floating interest rates. Sensitivity to possible changes in interest rates (through the effect on loans granted and loans payable with floating interest rates) of the Company's profit before tax, with all other variables held constant is presented below.

	<u>Increase/Decrease in interest rates</u>	<u>Effect on the pre-tax profit</u> <i>BGN '000</i>
2020		
Loans payable in EUR	+0.5%	(239)
Loans payable in BGN	+0.5%	(450)
Loans granted in BGN	+0.5%	1,078
Loans payable in EUR	-1%	478
Loans payable in BGN	-1%	901
Loans granted in BGN	-1%	(2,156)

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18. Financial risk management objectives and policies (continued)

Interest-rate risk (continued)

	<u>Increase/Decrease in interest rates</u>	<u>Effect on the pre-tax profit</u> <i>BGN '000</i>
2019		
Loans payable in EUR	+0.5%	(196)
Loans payable in BGN	+0.5%	(423)
Loans granted in BGN	+0.5%	1,004
Loans payable in EUR	-1%	391
Loans payable in BGN	-1%	846
Loans granted in BGN	-1%	(2,008)

Liquidity risk

The effective management of the Company's liquidity presumes that sufficient working capital will be available mainly through maintaining a given amount of money on deposit. A cash flow movement plan is prepared based on short-term budgets as well as based on long-term planning.

As at 31 December the maturity structure of the Company's financial and other liabilities, based on the agreed undiscounted payments, is presented below:

Liabilities

As of 31 December 2020

	<u>On demand</u> <i>BGN'000</i>	<u>< 3 months</u> <i>BGN'000</i>	<u>3-12 months</u> <i>BGN'000</i>	<u>1-5 years</u> <i>BGN'000</i>	<u>> 5 years</u> <i>BGN'000</i>	<u>Total</u> <i>BGN'000</i>
Interest-bearing loans and borrowings	-	266	44,469	83,159	13,640	141,534
Trade and other payables	-	205	34	64	-	303
	-	471	44,503	83,223	13,640	141,837

As of 31 December 2019

	<u>On demand</u> <i>BGN'000</i>	<u>< 3 months</u> <i>BGN'000</i>	<u>3-12 months</u> <i>BGN'000</i>	<u>1-5 years</u> <i>BGN'000</i>	<u>> 5 years</u> <i>BGN'000</i>	<u>Total</u> <i>BGN'000</i>
Interest-bearing loans and borrowings	-	289	36,461	80,554	10,582	127,886
Trade and other payables	-	180	34	109	-	323
	-	469	36,495	80,663	10,582	128,209

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18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity structure of the Company's assets and liabilities at 31 December 2020 has been developed based on the expectations of management regarding the recoverability/settlement of amounts:

Assets	<i>Within 1 year</i>	<i>Over 1 year</i>	<i>Total amount</i>
Cash and cash equivalents	27,247	-	27,247
Other receivables	65	-	65
Loans granted	124,167	86,248	210,415
Total assets	151,479	86,248	237,727
Liabilities	<i>Within 1 year</i>	<i>Over 1 year</i>	<i>Total amount</i>
Other liabilities	239	64	303
Loans payable	43,736	93,868	137,604
Total liabilities	43,975	93,932	137,907

The maturity structure of the Company's assets and liabilities at 31 December 2019 has been developed based on the expectations of management regarding the recoverability/settlement of amounts:

Assets	<i>Within 1 year</i>	<i>Over 1 year</i>	<i>Total amount</i>
Cash and cash equivalents	26,025	-	26,025
Other receivables	37	-	37
Loans granted	102,080	93,606	195,686
Total assets	128,152	93,606	221,748
Liabilities	<i>Within 1 year</i>	<i>Over 1 year</i>	<i>Total amount</i>
Other liabilities	214	109	323
Loans payable	35,737	87,615	123,352
Total liabilities	35,951	87,724	123,675

Currency risk

The Company has no purchases, sales and lending in foreign currencies and the loans received are denominated in EUR or BGN. Since the exchange rate BGN / EUR is fixed at 1.95583, the currency risk arising from Company's exposures in EUR is not significant.

Credit risk

Credit risk is the risk that the clients/counterparties will not be able to pay in full the amounts due to the Company within the envisaged/agreed deadlines. As at the end of 2020 the remaining liability of customers to the Company amounts to BGN 193,481 thousand and at the end of 2019 it was BGN 178,358 thousand. At the end of 2020 the Company has receivables under loans granted to related parties amounting to BGN 22,225 thousand (2019: BGN 22,571 thousand).

Credit risk management in 2020 is carried out by the "Lending and monitoring" Directorate and is monitored simultaneously by the Executive Director and the Board of Directors. The credit risk management function is to ensure the implementation of an appropriate investment policy in respect of the funds available and respectively, the compliance of this policy with the related procedures and controls for current monitoring of the respective loan, deposit or receivable.

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18. Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit risk exposure is managed through a current analysis of the ability of the counterparties/servicing banks to comply with their contractual obligations to pay interest and principal, as well as through setting appropriate credit limits. Cash deposits are placed with first-class banks having good reputation at the Bulgarian market. In compliance with the adopted internal rules for contracting cash deposits, invitations to submit an offer are sent only to banks that have the right to operate in the territory of the Republic of Bulgaria and have an assigned and not withdrawn (valid at the time of offer submission) credit rating not lower than a) BB assigned by the rating agencies Standard and Poor's or Fitch, b) Ba2 assigned by Moody's or c) BBB- assigned by BCRA.

Furthermore, subject to current monitoring is also the existence of concentration of receivables from a particular counterparty, and if such is identified – the respective counterparty is subject to special current supervision.

The Company measures the credit risk of loans granted to third and related parties using Probability of default (PD), Exposure at default (EAD) and Loss given default (LGD).

To determine credit risk, the Company's management uses internal estimates prepared with the assistance of external experts that reflect the probability of default for individual counterparties. The activity, financial position of the borrower and the value of the collateral received are included in the risk assessment.

The Company considers that a financial instrument has undergone a significant increase in credit risk (moving from Stage 1 to Stage 2) when one or more of the following quantitative or qualitative criteria are met:

- Delay of two consecutive monthly installments (principal and / or interest payments)
- Worsening of the borrower's financial indicators
- Deviation from budget parameters for the year by more than 20%
- Difficulties in settling liabilities to third parties
- Increase in the overdue amounts
- Inclusion in the list of municipalities subject to financial rehabilitation of the Ministry of Finance
- Presence of frozen accounts

The criteria used to determine a significant increase in credit risk are monitored and reviewed periodically by the Executive Director.

The Company determines that a financial instrument is in default and with a credit loss (transfer from Stage 1 or Stage 2 to Stage 3) when it meets one or more of the following criteria:

- Loans with delayed payments of three or more consecutive monthly installments (principal and / or interest payments).

Calculation of expected credit losses

Expected credit losses are calculated by discounting the resulting value of the product of: Probability of default (PD), Exposure at default (EAD) and Loss given default (LGD), determined as follows:

- PD represents the probability that the borrower will default on its financial obligation either within the next 12 months or throughout the life of the financial asset;
- EAD is the amount due to the Company at the time of default;
- LGD represents the Company's expectation of the amount of loss in case of default.

The discount rate used to calculate the Expected Credit Loss (ECL) is the instrument's original effective interest rate.

Forecast information is also used in the calculation of the 12-month and lifetime PD, EAD and LGD. The Company's management has performed a historical analysis and identified the major economic variables that affect credit risk and expected credit losses.

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18. Financial risk management objectives and policies (continued)

Credit risk (continued)

The table below presents the quality of financial assets arising from loans granted to third parties according to the credit rating accepted:

31.12.2020	Internal credit risk category	Expected credit loss (IFRS 9)	Gross carrying amount BGN '000	Impairment Loss (adjustment) BGN '000	Carrying amount BGN '000
Loans granted to third parties (principal)	Stage 1	12 months	182,508	(3,194)	179,314
Loans granted to third parties (principal)	Stage 2	Lifetime	10,863	(2,097)	8,766
			193,371	(5,291)	188,080
31.12.2019	Internal credit risk category	Expected credit loss (IFRS 9)	Gross carrying amount BGN '000	Impairment Loss (adjustment) BGN '000	Carrying amount BGN '000
Loans granted to third parties (principal)	Stage 1	12 months	166,133	(2,907)	163,226
Loans granted to third parties (principal)	Stage 2	Lifetime	12,102	(2,336)	9,766
			178,235	(5,243)	172,992

The Company has estimated the expected credit losses on loans granted to related parties and has concluded that they are insignificant.

The Company's maximum exposure to credit risk at 31 December 2020 and 31 December 2019 is as follows:

	2020		2019	
	Gross	Net	Gross	Net
Exposure				
Cash and cash equivalents	27,247	27,247	26,025	26,025
Loans granted	215,706	210,415	200,929	195,686
Other receivables	65	65	37	37
Total assets	243,018	237,727	226,991	221,748

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18. Financial risk management objectives and policies (continued)

Capital management

The main objective of the Company's capital management is to provide a stable credit rating and capital indicators, with a view to the continued functioning of the business and maximizing its value for the shareholder. The Company manages its capital structure and adjusts it, if necessary, in the light of changes in economic conditions. The Company is subject to the Decree of the Council of Ministers on distribution of dividends to the Ministry of Regional Development and Public Works. In 2020, as in 2019, there are no changes in the Company's capital management goals, policies or processes.

19. Cash flows from financing activities

Reconciliation of the movement of liabilities arising from financing activities

The table below presents the changes in financial liabilities, both monetary and non-monetary. Liabilities arising from financing activities are those for which cash flows are or future cash flows will be classified in the Company's cash flow statement as cash flows from financing activities.

	<i>1.1.2020</i>	<i>Dividend distribution</i>	<i>Change in cash flows from financing activities</i>	<i>Interest accrued</i>	<i>Other non-monetary changes</i>	<i>31.12.2020</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Loans payable	123,352	-	12,919	956	377	137,604
Dividend payables	-	1,542	(1,542)	-	-	-
Lease liabilities	94	-	(47)	3	-	50
Total	123,446	1,542	11,330	959	377	137,654

	<i>1.1.2019</i>	<i>Dividend distribution</i>	<i>Change in cash flows from financing activities</i>	<i>Interest accrued</i>	<i>Other non-monetary changes</i>	<i>31.12.2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Loans payable	109,763	-	12,455	815	319	123,352
Dividend payables	-	1,558	(1,558)	-	-	-
Lease liabilities	-	-	(48)	4	138	94
Total	109,763	1,558	10,849	819	457	123,446

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20. Financial instruments

Fair values

Fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, and which serves as the best indicator of its market price in an active market.

The Company determines the fair value of its financial instruments based on available market information or if none, by the means of appropriate valuation models. The fair value of financial instruments that are actively traded in organized financial markets is determined based on the “buy” quotes at the end of the last business day of the reporting period. The fair value of financial instruments, for which no active market exists, is determined on the basis of valuation models. These include the use of recent market transactions between knowledgeable, fair and willing parties; use of the current fair value of another instrument with similar characteristics; analysis of discounted cash flows or other valuation techniques.

The management of Fund FLAG JSC (previously: Fund for Local Authorities and Governments in Bulgaria – FLAG JSC) believes that the fair values of financial instruments that include cash and short-term deposits, trade and other receivables, interest-bearing loans and borrowings, trade and other payables do not differ from their carrying amounts and the applicable interest rates change according to market conditions. The Company has analyzed the fair values of fixed-rate deposits and considers that they approximate their carrying amounts.

21. Events after the reporting period

No events occurred after 31 December 2020, which would require additional adjustments and / or disclosures in the Company's separate financial statements for the year ended 31 December 2020.