

**FUND FOR LOCAL AUTHORITIES
AND GOVERNMENTS
IN BULGARIA –FLAG JSC**

ANNUAL ACTIVITY REPORT
INDEPENDENT AUDITOR’S REPORT
AND ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2015

FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

Table of Contents

General information	1
Directors` report	2
Individual Statement of Comprehensive Income	13
Individual Statement of Financial Position	14
Individual Statement of Changes in Equity	15
Individual Cash flows statement	16
Notes to the individual Financial Statements	
1. Corporate information	17
2.1 Basis of preparation	17
2.2 Summary of significant accounting policies	19
3. Revenue and expenses	26
4. Income tax	27
5. Cash and cash equivalents	28
6. Receivables and prepayments	28
7. Plant and equipment	29
8. Investment in subsidiaries	29
9. Loans granted	29
10. Loans payable	31
11. Salary and social security liabilities	32
12. Income tax receivable (payable)	32
13. Other liabilities	32
14. Share capital and reserves	33
15. Dividend distribution	33
16. Commitments and contingencies	33
17. Related party disclosures	34
18. Financial risk management objectives and policy	34
19. Financial instruments	38
20. Events after the reporting period	38
Independent Auditor's Report to the sole shareholder of FLAG JSC	

General information

Bord of directors:

Dobromir Prodanov Simidchiev - Chairperson
Asya Petrova Stankova - member
Emil Rumenov Savov - member
Susan Mary Goranson - member
Nadya Yordanova Dankinova – member and Executive director
Maria Blagoeva Lazarova– member
Yulia Petkova Tsoleva–Ilieva – member

Registered address

Sofia, 17-19 St. Saint Cyril and Methodius Street

Business address

1 Sixth September Street, Fourth Floor, Sofia

Legal advisor

Law Firm „Lozanova and Atanasov”

Servicing banks

Unicredit Bulbank
Ci Bank
DSK Bank
Municipal Bank

Auditor

Baker Tilly Klitou and Partners Limited
1612 Sofia
104 Akademik Ivan Geshov, Seventh Floor

ANNUAL REPORT

on the principal activities of Fund for Local Authorities and Governments in Bulgaria – FLAG JSC in 2015

This Report has been drawn up in compliance with the requirements laid down in Article 23 of the Regulation laying down the rules for exercising the rights of the government in state-owned commercial undertakings and the Commercial Act.

Mission

Fund for Local Authorities and Governments in Bulgaria – FLAG JSC is created on the basis of Ordinance № 4 of Council of Ministers of Republic of Bulgaria dated 7 March 2007 as an instrument of Government policy for Regional development.

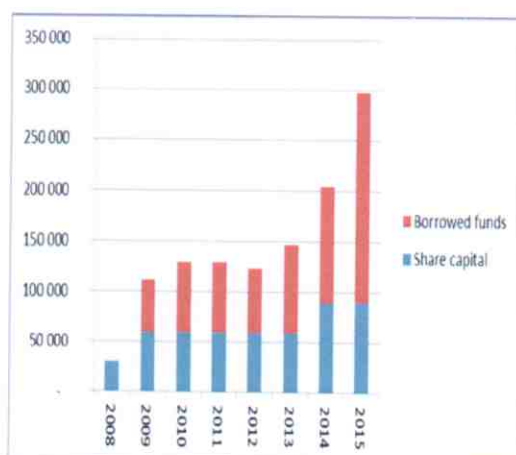
The mission of the Fund is to support the efforts of Bulgarian municipalities, associations of municipalities (including associations of Water suppliers), companies with municipal or mixed state-municipal participation in the process of preparation and successful implementation of projects under the Operational Programmes (OPs) / Rural development Programme (RDP) / Programs for Cross-Border cooperation (CBC) programs, which aim modernization and expansion of municipal infrastructure and to create sustainable and modern communities.

FLAG grants credits to beneficiaries and/or their associates, who prepare or implement projects under the operational programs under the Programme for Rural Development, on the Cross Border Cooperation program or other programs and financial mechanisms, funded by the European Union or other international programs after an explicit decision of the Board of the Fund (currently include: financial mechanism of the European economic Area from 2009 to 2015, the Norwegian financial mechanism 2009-2015, the Bulgarian-Swiss cooperation Programme to reduce economic and social disparities within the enlarged Union 2009-2019).

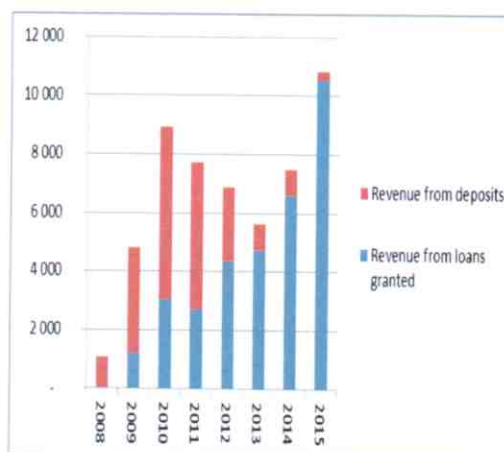
Development of the fund

1. Working capital and revenues

Working capital (BGN `000)

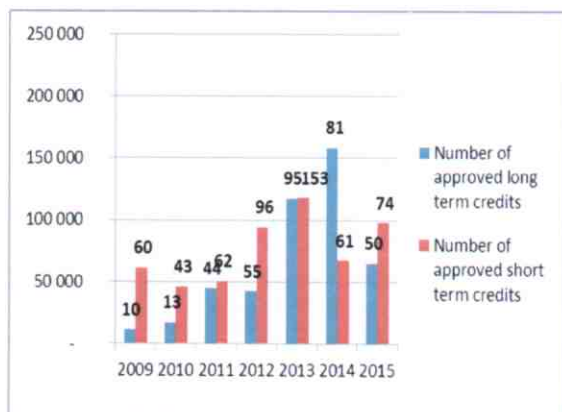


Revenue from interest (BGN `000)

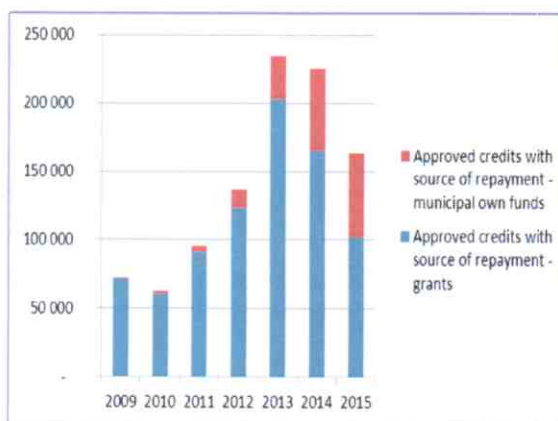


2. Approved credits

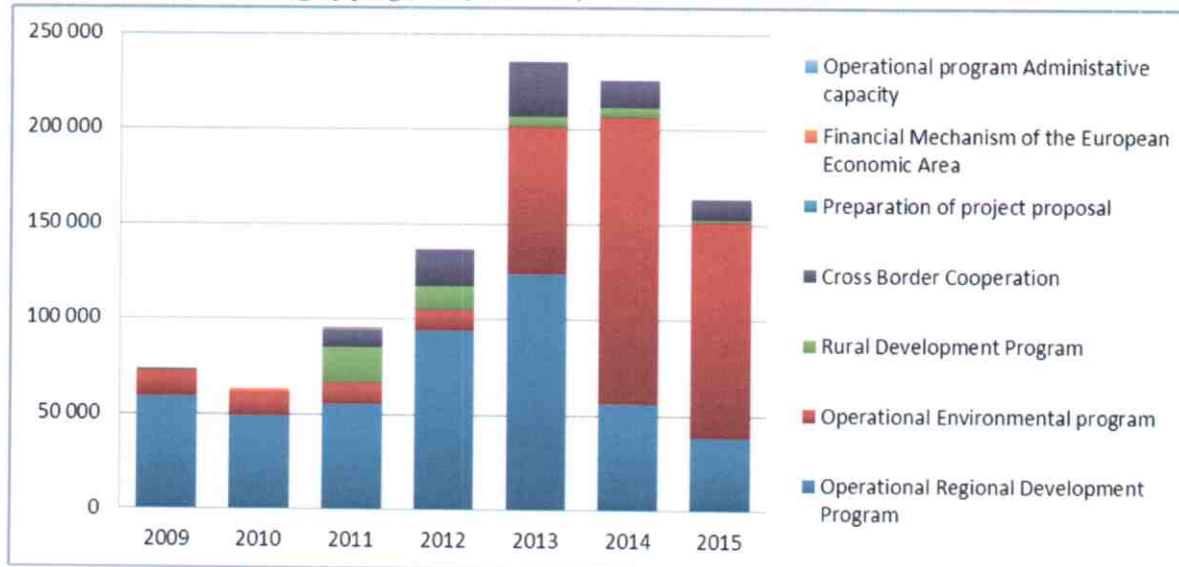
Approved credits according to maturity (BGN `000)



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



Approved credits according by programs (BGN `000)



1. Business Program

1.1. Equity and loan resources

Share capital of the Company is BGN 90,000 thousand, and it is fully paid in four instalments, two in 2008, one in 2009 and one in 2014. As of 31.12.2015 total equity of the Company include share capital, reserves and retained earnings altogether amounting to BGN 97,2 million.

The contracted long-term credit resource from EBRD amounts to EUR 70,000 thousand as negotiated in two Loan contracts dated 22 December 2008 and 31 October 2013 with the European Bank for Reconstruction and Development. The total amount of principal payable to EBRD as of 31.12.2015 amounts to EUR 49.5 million (BGN 96,8 million).

Directors' Report

During 2014 FLAG increased its utilisable loan resources with additional BGN 40 million, which the Company receive under the form of revolving credit facility, included as an additional function during public procurement tender for choice of Managing bank. As of 31.12.2015 the outstanding principal related to this loan is BGN 20 million.

During 2015 FLAG increased borrowed resources with 3 new revolving loan contracts as follows:

- BGN 40 million from DSK bank
- EUR 20 million from Ci Bank
- BGN 14 million from Municipal bank

As of 31.12.2015 r. total outstanding balance related to loans stated above is as follows:

- BGN 38,4 million payable to DSK bank
- EUR 19.9 million payable to Ci Bank
- BGN 13.1 million payable to Municipal bank

As of 31.12.2015 total borrowed capital is BGN 207 million.

1.2. Management

The affairs of the Fund are managed by a Board of Directors (BoD), which is composed of seven members and is responsible for all ongoing activities of the Fund. In 2015 seventeen board meetings were held.

During the reporting period the following changes in the composition of the BoD were made pursuant to a decision of the sole shareholder:

➤ On 07 January 2015 with Protokol № T3-104/16.12.2015 the Minister of Regional Development, in his capacity of representative of Government as a sole shareholder, approved changes to the composition of the BoD. Minister of Regional Development released Radoslav Rusev Rusev as a member of BoD and elected on his place Denitza Plamenova Nikolova.

➤ On 25 September 2015 with Protokol № T3-108/16.09. 2015 the Minister of Regional Development, in his capacity of representative of Government as a sole shareholder, approved changes to the composition of the BoD. Minister of Regional Development released Denitza Plamenova Nikolova and Yana Nikolova Georgieva as members of BoD and elected on their places Asya Petrova Stankova and Maria Blagoeva Lazarova.

As of 31 December 2015, Board of Directors has the following members: Dobromir Simidchiev – Chairperson, Asya Stankova – member, Maria Lazarova – member, Emil Savov - member, Yulia Tsoлова – member, Susan Mary Goreanson – member and Nadya Yordanova Dankinova – member and executive director.

According to the Bulgarian legislation, the Management is required to prepare annual financial statements that provide a true and fair view on the financial position of the Company as at the year end, its financial results and cash flows.

Management confirms that adequate accounting policies have been consistently applied in preparing the annual individual financial statements as of 31 December 2015, and reasonable and prudent judgments, assumptions and estimates have been made.

Management also acknowledges that it has applied the existing accounting standards and the individual 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.

1.3. Human Resources

The Fund's staff has the appropriate qualifications for performing the lending activities in 2015. Organizational structure includes 4 Directorates, as follows: "Projects and monitoring", "Finance and Risk management", "Lending" and „General administration“. As of 31.12.2015 the approved number of personnel is 21 employees. As of 31.12.2015 there are 4 vacant places for employees, and one employee is on maternity leave. The legal services, as well as the maintenance of the computer network, are outsourced.

1.4. External auditor for 2015

On BoD meeting dated 26 August 2014 BoD approved the results from public tender for external auditor for 2014 and 2015 and approved „Baker Tilly Klitou and Partners” OOD. Subsequently this choice has been confirmed with Protokol T3-67/04.09.2014 from the Minister of Regional Development, in his capacity of representative of Government as a sole shareholder.

1.5. Borrowed capital

➤ **Loan agreements with EBRD**

During 2015 credit resources under loan agreements dated 22.12.2008 and 30.10.2013 with European Bank for reconstruction and Development amounting to EUR 70,000 thousand (BGN 136,908 thousand) are fully utilized and loans are repaid regularly. In 2015, FLAG continue to repay the loans and two instalments were paid on 03.02.2015 and on 03.08.2015 amounting to EUR 8,853 thousand (BGN 17,315 thousand)

As of 31.12.2015 total loan payable related to borrowed capital from EBRD amounting to EUR 49,477 thousand (BGN 96,768 thousand).

➤ **Managing bank**

During 2015 Unicredit Bulbank continued to carry out the functions of managing the bank and providing revolving credit facility in the amount of BGN 40,000 thousand. Cost of funds is determined by one Sofibor and allowance of 2.50%.

As of 31.12.2015 the amount payable under revolving loan from Unicredit Bulbank is BGN 20,000 thousand.

➤ **Other loans**

After successfully conducted procedure with a decision of the Board on April 29, 2015 and approved by the sole shareholder had approved the results of the public procurement "Selection of Financing Institution for providing revolving loans to "Fund for local authorities and governments in Bulgaria-FLAG" EAD in two lots: Lot №1 - Providing revolving credit facility in the amount of BGN 40,000 thousand. and Lot № 2 Provision of revolving credit in the amount of EUR 20,000 thousand as follows:

Lot №1 - Providing revolving credit facility in the amount of BGN 40,000 thousand for the contractor is selected DSK Bank with a proposal for an annual management fee of revolving credit of 0.5 percent and price of the resource forming of 1 -month SOFIBOR and a margin of 2%

Lot № 2 Provision of revolving credit in the amount of EUR 20,000 thousand for the contractor is selected Ci Bank Bank PLC with a proposal for an annual management fee of revolving credit of 0.5 percent and price of the resource forming of 1 SOFIBOR month and a margin of 1.4%

As of 31.12.2015 amount payable under revolving loans is as follows:

➤ DSK Bank – BGN 38,356 thousand

➤ Si Bank - EUR 19,898 thousand (BGN 38,918 thousand)

By Decision № 16 set out in Protocol 124 / 01.10.2015, the Board of Directors of FLAG approve the results of a public procurement under Chapter 8A of the Law on public procurement "Selecting a financial institution to provide short-term overdraft in the amount of BGN 14,000 thousand to the "Fund for local authorities in Bulgaria FLAG". The determined contractor was Municipal Bank, the cost of the resources provided is formed by 1m SOFIBOR +addition of 0.47%

As of 31.12.2015 the amount payable under this loan is BGN 13,080 thousand.

Total borrowed capital as of 31.12.2015 is BGN 207,057 thousand

FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

Directors' Report

1.6. Main results from lending activities in 2015

In 2015 129 credit requests are received from 65 municipalities and one government-owned company for total value of BGN 187,436 thousand. In 2015 124 credits are approved with total value of BGN 163,115 thousand, supporting execution of projects BGN 1,562,358 thousand.

Credit requests from Vidin municipality and Botevgrad municipality have been denied. Dobrich municipality and Kardjali municipality withdrew their credit requests. In average for the granted credits during the year, share of provided financing from the fund in relation to total value of credited project is 10.4 %.

The „Typical” credit, provided to municipalities for bridge financing is with average value of BGN 1.5 million and with average maturity of 10 months. The average amount of credits, repaid with own funds is BGN1.1 million with average maturity of 75 months.

Average interest rate of credits in 2015 is 4,984% and average risk premium for 2015 is 2,788%.

In 2015 decree of the Council of Ministers to implement the compensation mechanism to support municipalities in their access to finance by FLAG was not adopted. In this respect, the funding provided by the Fund is entirely on market principles in competition with commercial banks.

The table below present information for credits granted in 2015 by type of credits and source of repayment of principals of credits.

Type of credits	Number of credits in 2015	Value of granted credits in 2015 (in thousand BGN)
Long-term	50	65,461
<i>Incl. Bridge financing</i>	2	5,852
<i>Incl. own contribution</i>	48	59,609
Short-term	74	97,654
<i>Incl. Bridge financing</i>	67	96,084
<i>Incl. own contribution</i>	7	1,570
Total	124	163,115

The following two tables present the structure of the lending operations for 2015 by project type, operational programme and source of repayment of the principal.

By Operational programme	Number of credit	Total amount in BGN (thousand)	Amount of credit In thousand BGN			Maturity in months		
			Min.	Max.	Average	Min.	Max.	Average
Regional Development	53	38,107	53	2,800	719	5	120	25
Environmental	51	113,184	289	8,794	2,219	8	120	63
Rural Development	4	1,091	197	315	273	12	59	24
Cross-border Co-operation	16	10,736	56	3,400	671	7	15	10

FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

Directors' Report

			Amount of credit In thousand BGN			Maturity in months		
By source of repayment	Number of credit	Total amount in BGN (thousand)	Min.	Max.	Average	Min.	Max.	Average
Operational programmes	69	101,936	53	8,794	1,477	5	15	10
Own contribution	55	61,179	56	4,538	1,112	10	120	75

In 2015, the funds utilised under the concluded loan agreements amounted to BGN 257,082 thousand, while the repayments amounted to BGN 155,853 thousand.

In 2015 the Company signed 167 annexes and one additional agreement for termination of credit with Biala Municipality (Varna region).

The purposes for the requests for annexes are as follows:

- extension of maturity for repayment - 77,
- extension of utilization term - 38,
- extension of term of utilization and maturity of payment - 25.
- other reasons (changes in bank accounts, early repayment, amendment in repayment schedules). -27

During 2015 there are no restructured loans.

Board of Directors has approved 20 changes in decisions during 2015. Ten changes are approved on Board meeting in March 2015 and are related to OPOS projects, which have been approved at the end of 2014. During board meeting in October 2015 are approved additional 6 changes, related to OPOS projects.

Active credits as of 31.12.2015 are 274 amounting to BGN 263,926 thousand. Credits are split by types as follows:

- Bridge financing – BGN 129,469 thousand (49% from active loans)
- Own financing – BGN 134,457 thousand (51% from active loans)

In 2015, completed the cycle of project funding from the programming period 2007 -2014. The activity of FLAG covers the period 2009. - 2015. The summarized results of Fund's activities in fulfillment of its mission to support of Bulgarian municipalities in the implementation of infrastructure projects financed by the European Union in Bulgaria for the first programming period is as follows:

- Approved total 899 credits with total value BGN 991,292 thousand
- Execution of 757 projects have been supported through different operational programs with total value of BGN 4,947,053 thousand.
- Financial support for the implementing of projects have been received by 195 municipalities and one state-owned company.

1.7. Credit line granted to „Fund for sustainable urban development of Sofia” EAD – subsidiary company

With contract dated 28.11.2012 FLAG granted credit line to FSUDS amounting to BGN 24,500 thousand for the purpose of investing in urban projects under JESSICA initiative. The term for utilization of the credit line has been extended to 30 June 2016, in connection with the extended term under the Operational Agreement dated 30 May 2012 between EIB, MRRB, FLAG and FSUDS.

Directors' Report

As of 31.12.2015 BGN 18,739 thousand from credit line has been utilized and BGN 786 thousand has been repaid. On 31.12.2015 amount payable from FSUDS to FLAG is BGN 17,953 thousand. There are 13 projects approved for financing from which, 9 are entirely completed and 4 are in process. Available financial resources are contracted on 100%.

Total credit portfolio of FLAG as of 31.12.2015 is BGN 281,879 thousand.

1.8. Operational agreement between FSUDS, FLAG, EIB and MRRB.

On 16.11.2015 BoD of FLAG took decision for approval and signing of Amendment agreement № 4 to Operational agreement from 30 May 2012 between EIB, FSUDS and FLAG. The Amendment agreement is signed on 11.12.2015. This additional agreement extend the deadline for investing till 30 June 2016 and makes changes in the goals set in operational agreement.

On 11.12.2015 BoD of FLAG took decision for approval and signing of Agreement for Transfer and substitution between EIB, MRRB, FSUDS and FLAG, with which the rights and obligations of EIB under the Operational agreement are transferred entirely to MRRB, effectively from 01.01.2016.

1.9. Changes in policies and internal regulations of FLAG

➤ By decision set out in Protokol №115 dated 05.03.2015 BoD of FLAG approves changes in "Methodology for evaluation of risks" and increase the addition for macroeconomical risk from 0.25 % to 0.50%.

➤ By decision set out in Protokol №119 dated 19.05.2015 BoD of FLAG approves "Rules for conducting of inspections regarding lawfulness of public procurement of goods, works and services by loan applicants or borrowers of the "Fund for local authorities in Bulgaria FLAG" EAD and attachments to them.

➤ By decision set out in Protokol № 127/30.11.2015 r. BoD of FLAG adopted new Rules for activities of "Fund for local authorities in Bulgaria - FLAG" EAD. Newly adopted rules reject current Rules for activities of "Fund for local authorities in Bulgaria - FLAG" EAD adopted with Decision of BoD dated 30 October 2008 and brings Regulations in accordance with the rules of financing approved by the Principal of the Company and consistent with the parameters of the operational programs of the 2014-2020 programming period.

➤ By decision set out in Protokol 127/30.11.2015 BoD of FLAG approves ammendment to Policy for impairment and credit lossess. Based on approved changes the percentage applied for impairment on portfolio basis is changed as follows: impairment of bridge financing credits – from 0.25% to 0.5%, impairment of credits – repaid with municipals own funds from 1% to 1.25%.

1.10. Management of temporary available funds

As per internal rules for management of temporary available funds, during December 2015 was conducted procedure for selection of depository bank. With Decision № 5 set out in Protocol 129/15.12.2015 BoD of FLAG approve the results from the conducted procedure for selection of depository bank and opening of special account, which should have characteristics of reserve account, which to guarantee servicing of debt under loan agreements between FLAG and EBRD.

As at the end of reporting period the Company has current account in Unicredit Bulbank with annual interest rate of 0.65% and reserve account with annual interest rate 1.30%.

1.11. Procedure for selection of Company vehicle

In November 2015 the Board of FLAG approved the initiation of procurement procedure under Chapter 8A from Public Procurement Act with subject "Delivery of factory-new car for the needs of "Fund for local authorities in Bulgaria - FLAG" EAD. The procedure includes buying back of the car currently owned by FLAG.

1.12. Information and publicity

The information on the website of FLAG is maintained and updated regularly. Fund representatives took part in meetings, discussion forums and training of the National Association of Municipalities in Republic of Bulgaria by presenting the policies of the Fund, opportunities for financing through the 2014-2020 program period, as well as provided specific advice to municipalities teams.

Directors' Report

FLAG participated on 17 and 18 May 2015 on exhibition for municipal projects in Hall №6 of International Fair Plovdiv. The exhibition was part of the program of the Annual Meeting of Local Authorities of South East Europe. During the exhibition, Executive Director of the Fund - Ms. Nadya Dankinova made presentation on the role of the FLAG as an established and reliable partner of Bulgarian municipalities for the implementation of infrastructure projects.

In May 2015 the project "FLAG" as a financial mechanism to support implementation of infrastructure projects of Bulgarian local authorities was approved and presented to the fifth Global Infrastructure meeting in Basel / The 5-th Global Infrastructure Basel Summit /, Switzerland. During the presentation it was stated, that FLAG is searching for financial resources to finance operations during the period 2016 - 2020 in order to provide funds for financing the projects in the next programming period.

Information about the results of the Fund and plans for 2016 is published in the newspaper. "Stroitelstvo - Gradat" and the newspaper "Stroitel".

Fund representatives regularly participate in the work of the monitoring committees of the OP "Regional Development and OP" Regions in growth, "OP Environment "as well as at meetings of the Board of the National Association of Municipalities in Republic of Bulgaria.

2. Monitoring

In 2015 continued the intensive communication with the Managing Authorities of OP "Regional Development" Operational Programme "Environment" State Fund Agriculture on the implementation of projects for which requests for financing have been submitted, as well as the status of problematic projects with already approved loans from FLAG. There is regular exchange of information about payments and verification checks for irregularities and others. Ongoing review of the portfolio and analysis of financial condition of the clients is conducted in order to undertake the necessary actions for regular servicing of loans and avoiding defaults.

As of 31 December 2015 there are no overdue loans granted.

3. Financial condition

3.1 Structure of revenues and expenses

Company's expenses for 2015 are BGN 8,539 thousand., from which BGN 2,895 thousand are expenses for impairment of loans granted. Total revenues are BGN 11,492 thousand. Breakdown of revenues and expenses is presented in the tables below:

	EXPENDITURE, BGN '000	8,539
1	Remuneration	524
2	Social securities	71
3	Accounting and audit services	12
4	Legal and consulting services	22
5	Other hired services (hardware and software maintenance, translation, insurance)	34
6	Rent	59
7	Communication services	8
8	Materials	20
9	Other costs (cleaning, maintenance, car wash, subscription)	38
10	Depreciation charge	10
11	Bank fees	1,126
12	Interest expenses EBRD	2,522
13	Interest expenses other loans	1,198
14	Impairment expense	2,895

	REVENUE, BGN '000	11,492
1	Interest on loans	10,482
2	Penalty interest on loans	45
3	Fees on loans granted	619
4	Interest on deposits	306
5	Dividend income	40

Structure of expenses

	Group of expenses	Amount in BGN thousand	Share in total expenditure in %
1	Maintenance Costs	125	1.46%
2	Hired services	68	0.80%
3	Acquisition of assets and depreciation	10	0.12%
4	Remuneration of staff, BoD	595	6.97%
5	Bank fees including Managing bank fees	1,126	13.19%
6	Interest expenses	3,720	43.56%
7	Impairment expense	2,895	33.90%
	Total expenses	8,539	100%

Structure of revenues

	Group of revenue	Amount in BGN thousand	Share in total revenue in %
1	Interest on loans	10,482	91.21%
2	Penalty interest on loans	45	0.39%
3	Fees on loans granted	619	5.39%
4	Interest on deposits	306	2.66%
5	Dividend income	40	0.35%
	Total revenue	11,492	100%

- **Revenue from lending activities** – around 97% from total revenues of the Company are from lending activities
- **Management of temporary free funds** – Only 2.66 % from revenues are from management of temporary available funds.

3.2 Results from current period

The profit before tax for 2015 is BGN 2,953 thousand and net profit is BGN 2,662 thousand.

3.3 . Dividends and distribution of profit

In 2015, the Board of Directors approve allocation of 10% from the profit from 2014 amounted to BGN 225 thousand to "Reserve Fund", and from the rest of the profit for 2014 distribute 60% as dividend to the Government amounting to BGN 1,253 thousand, which are fully paid during the year.

3.4. Investments

As of 31 December 2015 FLAG EAD is the sole shareholder in the "Fund for Sustainable Urban Development of Sofia" EAD (FSUDS), which was registered in the Registry Agency on 23 April 2012. As of 31.12.2015 FSUDS has 13 loan contracts for financing of urban projects, from which 9 projects are entirely completed. The Company has fulfilled the objectives set in the Operational Agreement and as of 31.12.2015 BGN 18,739 thousand from Contingent loan has been invested, which represent of 76,5% from the Contingent loan.

4. Foreseen development of the Company in 2016

The 2016 Business Plan has been drawn up on the basis of:

- The loan agreements concluded in 2015 and previous years that will remain active in 2016
- Expected parameters of loan applications, which are submitted and processed as at the end of December 2015
- Indicatives lists and repayment schedules of OPRD and OPE, information about RDP and Financial Mechanism of European Economic Area, meetings with representatives of the Managing Authorities of OPE, OPRD and RDP, telephone calls with municipalities for collection of information regarding needs of credit resources, information from EUMIS;
- A set of assumptions, based on FLAG's accumulated experience for the period 2009-2015.
- Research conducted at the end of 2015 and in the beginning of 2016 for the planned demand of resources, schedules and results from published procedures for program period 2014 – 2020.

4.1 Overall assessment of loan demand

The Table below sets out a summary estimate of the expected new loans in 2016 in BGN thousand.

Programmes/type of loans	Bridge financing in thousand BGN	Municipal co-financing in thousand BGN	Total in thousand BGN
Operational Program Regional Development (OPRD)	-	1,246	1,246
Operational Program Environmental (OPE)	25,800	18,600	44,400
Rural Development Program (RDP)	-	-	-
Cross Border Cooperation (CBC) and European Economic Area	6,597	-	6,597
FSUDS	-	5,545	5,545
Total	32,397	25,391	57,788

The fund has sufficient resources to cover expected demand for financing in 2016.

4.2 Financial proceeds and results

The total expected revenues from operations for 2016 is estimated at a total value of BGN 7.8 million, 97% of them being the expected interest income on loans granted.

4.3 Information as per article 187 d of the Commercial Act

In 2015 there are no issues or transfers of shares of the Company.

FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

Directors' Report

4.4 Branches and subsidiaries of the Company

In 2012, the Company has established a subsidiary - "Fund for Sustainable Urban Development of Sofia" JSC, 100% owned by the "Fund for Local Authorities and Governments - FLAG" JSC with a capital of BGN 500 thousand. As at 31 December 2015, the capital of the company remains BGN 500 thousand. The capital has been fully paid up.

As of 31 December 2015 and 31 December 2014 there are no branches.

Prepared by: Nadya Dankinova – Executive Director

23 March 2016

