For the year ended 31 December 2016

1. Corporate information

The individual financial statements of FLAG JCS (the Company) for the year ended 31 December 2016 were authorized for issue by a decision of the Board of Directors dated 28 March 2017.

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 individual financial statements, and have been prepared in accordance with the requirements of the law effective in Bulgaria.

The company has made arrangements and consolidated financial statements for 2016 will be prepared in accordance with IFRS, as adopted by the European Union and in force in 2016. In line with the tentative schedule the management expects that the consolidated report will be finalized and approved by the Board of Directors by 30 April 2017 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 for consideration and co-financing the development and implementation of projects of the European Union.

As at 31 December 2016 the shareholders of the Company include:
Republic of Bulgaria represented by the Minister of Regional Development and Public Works - 100 percent.

2.1 Basis of preparation of the individual financial statements

These individual 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical 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).

Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board (IASB)/International Financial Reporting Interpretations Committee (IFRIC) which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company.

Standards issued by IASB/IFRIC and endorsed by EU, but not yet effective and not earlier applied

Standards issued but not yet effective and not early adopted up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in process of assessing the impact of the new standard on its financial position or performance.

IFRS 15 Revenue from Contracts with Customers

The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in process of assessing the impact of the new standard on its financial position or performance.

2.1 Basis of preparation of the individual financial statements (continued)

Standards issued by IASB, but not yet effective and not yet endorsed by EU

IFRS 14 Regulatory Deferral Accounts
The new standard is effective for annual periods starting on or after 1 January 2016. Endorsement process is postponed by EU for indefinite period. The Company is in process of assessing the impact of the new standard on its financial statements.

IFRS 16 Leases
The new standard is effective for annual periods starting on or after 1 January 2019. The Company is in the process of assessing the impact of the new standard on its financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
The effective date is deferred indefinitely. The adoption of these amendments by EU is postponed. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses
These amendments are effective for annual periods starting on or after 1 January 2017. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IAS 7: Disclosure Initiative
These amendments are effective for annual periods starting on or after 1 January 2017. The Company is in the process of assessing the impact of the amendments on its financial statements.

Clarifications to IFRS 15: Revenue from Contracts with Customers
These clarifications are effective for annual periods starting on or after 1 January 2018. The Company is in the process of assessing the impact of the clarifications on its financial statements.

Amendments to IFRS 2: Classification and Measurement of Share - based Payment Transactions
These amendments are effective for annual periods starting on or after 1 January 2018. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
These amendments are effective for annual periods starting on or after 1 January 2018. The Company is in the process of assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRS Standards 2014-2016 cycle
These improvements are effective for annual periods starting on or after 1 January 2017. The Company is in the process of assessing the impact of the improvements on its financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
This interpretation is effective for annual periods starting on or after 1 January 2018. The Company is in the process of assessing the impact of the interpretation on its financial statements.

Amendments to IAS 40: Transfer of Investment Property
These amendments are effective for annual periods starting on or after 1 January 2018. The Company is in the process of assessing the impact of the amendments on its financial statements.

The Company expects that the adoption of these standards, amendments and interpretations will not have significant impact on the financial statements of the Company in the period of initial application.

2.2 Summary of significant accounting policies

a) Foreign currency conversion

The financial statements are presented in Bulgarian Levas (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 estimated 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

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or due based on the agreed payment terms, net of discounts, rebates, and other sales taxes or customs duties. The Company analyses its selling arrangements against specific criteria to determine whether it acts as a principal or as an agent. It has concluded that it acts as principal in all such arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Interest income
Interest income is recognised using the effective interest rate method, i.e. the interest rate that discounts exactly the estimated future cash flows over the estimated useful life of the financial instrument, or a shorter period where appropriate, to the carrying amount of the financial asset.
The calculation includes all fees and consideration paid or received to/from the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.
Interest income is included in finance income in the statement of comprehensive income.

Service delivery
The income from service delivery is recognised in the period in which the services were delivered.

c) 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 temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or 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 can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.2 Summary of significant accounting policies (continued)

c) Taxes (continued)

Deferred income tax (continued)

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:

- 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 utilised.

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 utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised 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 realised 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 recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised 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.

d) Financial instruments – initial recognition and subsequent measurement

- **Financial assets**

Initial recognition

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, or loans and receivables, or held-to-maturity investments, or available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place (regular purchases) are recognised on the trade (transaction) date, which is the date that the Company commits to purchase or sell the asset.

The financial assets of the Company include cash and cash equivalents, loans granted, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

2.2 Summary of significant accounting policies (continued)

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

- **Financial assets (continued)**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method (EIR), less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised as other expenses in the statement of comprehensive income.

Derecognition

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset or transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case the Company also recognises as associated liability. The transferred asset and the related liability are recognised on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortised cost

Due to its specific activity, the Company accrues allowance for impairment as follows:

2.2 Summary of significant accounting policies (continued)

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

- **Financial assets (continued)**

Specific impairment

The purpose of the specific impairment is to adjust the value of specific loans granted, for which objective evidence of impairment exists, to their recoverable amount and to set aside provisions reflecting the risk of non-repayment of the respective loans.

Impairment on a portfolio basis

Impairment is charged in consideration of the common risk nature of the portfolio and takes into account the overall structure of the loan portfolio, the amount of receivables overdue as at the reporting date and the management's expectations as to the recoverable amount of loans granted.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans granted and the related allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the statement of comprehensive income.

- **Financial liabilities**

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as effective hedging instruments, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.
The Company's financial liabilities include interest-bearing loans, trade and other liabilities.

Subsequent measurement

The subsequent valuation of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans are subsequently measured by the Company at amortised cost using the EIR method. Gains and losses relating to loans and borrowings are recognised in the statement of comprehensive income for the period when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discounts or premiums on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest expenses in the statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the contract is discharged or cancelled or expires.

When an existing financial 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 recognised in the statement of comprehensive income

2.2 Summary of significant accounting policies (continued)

e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and the Company intends to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a regular transaction between market participants on the measurement date.

Fair market measurement is based on the assumption that the sale of the asset or the transfer of the liability takes place on:
- the principal market of 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 favourable 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 market participant, who will use the asset in the best and most efficient way.
The Company applies valuation techniques, which are appropriate given the circumstances and for which sufficient data are available to assess the fair value, by maximizing the use of observable parameters and minimizing the use of unobservable ones.

All assets and liabilities, for which a fair value is measured or disclosed, are divided into the following three levels of hierarchy based on the assumptions of the valuation techniques:

- Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques in which the parameters of a fair value measurement can be observed directly or indirectly;
- Level 3 - Valuation techniques in which the parameters of a fair value measurement cannot be observed directly or indirectly.

At each balance sheet date, the management analyses the changes in the fair value of the assets and the liabilities and monitors their impact on the financial statements in accordance with the adopted accounting policies. The Company makes an assessment whether there has been a change in the categorization of the assets or the liabilities in accordance with the assumptions of the valuation techniques. With the help of certified appraisers the Management compares any change in the fair value of the assets and the liabilities with observable parameters to verify that the changes are reasonable.
The Company determines the assets and liabilities, for which a disclosure has to be made in relation to their fair value, on the basis of their nature, risk profile and the level of hierarchy as mentioned 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 ***Reserves Fund*** in accordance with the Commercial Act. Sources for the fund may include:

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

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

2.2 Summary of significant accounting policies (continued)

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 recognised in the carrying amount of the respective assets as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised 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 derecognised 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 derecognised.

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

The assets residual values, useful lives and methods of depreciation/amortisation are reviewed at each financial year end and if expectations differ from previous estimates, these are changed in future periods.

j) Impairment of fixed tangible assets (FTAs)

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 recognised 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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

l) Investments in subsidiaries and consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Investments in subsidiaries are stated at cost, less any impairment, in the separate financial statements.

2.2 Summary of significant accounting policies (continued)

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 at Company's request without this causing serious financial losses.

For the purposes of the cash flow statement, cash and cash equivalents include those defined above.

n) Provisions

General

Provisions are recognised 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 of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised 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 recognised as a finance cost.

o) Significant accounting judgments, estimates and assumptions

The preparation of the individual 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. The uncertainties associated with these assumptions and estimates could lead to actual results, which would require a material adjustment to the carrying amounts of the respective assets or liabilities in subsequent periods.

Estimates and assumptions

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

Impairment of financial receivables

The Company uses an allowance account to report the provision for impairment of doubtful and bad debts. Management assesses the adequacy of this impairment based on an ageing analysis of the receivables, historical experience as to the write-off rates of bad debts, as well as solvency analysis of the respective counterparty, changes in the contractual payment terms, etc. If the financial position and financial performance of the counterparties deteriorate (more than expected), the amount of the receivables to be written off in the next reporting periods may be higher than the one estimated at the date of the statement of financial position.

At 31 December 2016, the best estimate of management for the necessary impairment of receivables amounts to BGN 5,015 thousand (2015: BGN 4,268 thousand). Further details are given in Note 9.

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.

For the year ended 31 December 2016

3. Income and expenses

3.1 Income from interest

	2016	2015
	BGN'000	*BGN'000*
Interest income on deposits and bank accounts	92	306
Income on loans granted and receivables	9,133	10,527
Total interest income	**9,225**	**10,833**

3.2 Interest expenses and charges

	2016	2015
	BGN'000	*BGN'000*
Interest expenses on loans and borrowings	2,650	3,720
Expenses on fees and commissions and FX differences	2,391	1,126
Total interest expenses and charges	**5,041**	**4,846**

3.3 Other operating income

	2016	2015
	BGN'000	*BGN'000*
Income from sales of services	9	1
Income from sales of fixed tangible assts	7	-
Income from management and commitment fees	282	618
Total other operating income	**298**	**619**

3.4 Payroll costs

	2016	2015
	BGN'000	*BGN'000*
Salaries and wages	526	524
Social securities	73	71
Total payroll costs	**599**	**595**

For the year ended 31 December 2016

3. Income and expenses (continued)

3.5 Other operating expenses

	2016	2015
	BGN'000	*BGN'000*
Accounting and audit services	11	12
Rent	57	59
Materials	17	20
Legal services	7	21
Communication services	6	8
Hardware maintenance	6	7
Consulting services	-	1
Social expenditure	14	2
Insurances	4	1
Other expenditure	78	62
Total other operating expenses	**200**	**193**

4. Income tax

The main components of income tax expense for the years ended 31 December 2016 and 2015 include:

	2016	2015
	BGN'000	*BGN'000*
Current income tax expense	290	291
Deferred income taxes related to occurrence and reversal of temporary differences	1	-
Income tax expense	**291**	**291**

In 2016 the applicable statutory tax rate is 10% (2015: 10%).

Reconciliation between income tax expense and the accounting profit multiplied by the statutory tax rate for the years ended 31 December 2016 and 31 December 2015 is presented below:

	2016	2015
	BGN'000	*BGN'000*
Accounting profit before taxes	2,963	2,953
Income tax expense at statutory tax rate of 10% for 2016 (2015: 10%)	296	295
Permanent differences	(5)	(4)
Income tax expense	**291**	**291**

As of 31.12.2016 the Company owes corporate income tax in the amount of BGN 70 thousand.

As of 31.12.2015 the Company does not owe corporate income tax and has overpaid corporate income tax in the amount of BGN 89 thousand.

4. Income tax (continued)

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

	Temporary difference	Tax	Temporary difference	Tax
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	BGN '000	BGN '000	BGN '000	BGN '000
Unpaid income to individuals and related social security expense	15	2	13	1

5. Cash and cash equivalents

	31 December 2016	2015
	BGN'000	*BGN'000*
Cash in hand and in current accounts	7	16,119
Short-term bank deposits	32,010	10,153
Total cash and cash equivalents	**32,017**	**26,272**

Cash in bank accounts bears floating interest rates based on the daily interest rates on bank deposits. For one of the current accounts is agreed preferential interest rate of 0,65% until the end of April 2016. The term of short-term deposits is one year, but the amounts therein can be changed depending on the liquidity needs of the Company. Contracted interest rate over short term deposits for 2016 varies between 0,15% and 0,45% per annum (2015: 1,3% per annum). The balances of interest receivables on deposits are included in cash and cash equivalents since the amounts accrued are available to the Company on demand. The fair value of cash and short-term deposits equals their carrying amount.

Current and future claims on bank acccunts of the Company are pledged as collateral per bank loans from UniCredit Bulbank AD, CiBank EAD and DSK Bank EAD (Note 10).

6. Receivables and prepayments

	31 December 2016	2015
	BGN'000	*BGN'000*
Other receivables	25	10
Total receivables and prepayments	**25**	**10**

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

For the year ended 31 December 2016

7. Plant and equipment, software

	Hardware	Fixtures and fittings	Plant and equipment	Vehicles	Software	Other Fixed assets	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN'000*	*BGN'000*
Book value:							
As of 1 January 2015	40	7	21	36	11	5	120
Additions	1	4	1	-	3	1	10
Disposals	(4)	(1)	-	-	-	-	(5)
As of 31 December 2015	37	10	22	36	14	6	125
Additions	3	-	-	49	15	-	67
Disposals	(2)	-	-	(36)	-	-	(38)
As of 31 December 2016	38	10	22	49	29	6	154
Depreciation:							
As of 1 January 2015	(36)	(7)	(8)	(36)	(11)	(2)	(100)
Depreciation charge	(3)	-	(4)	-	(1)	(2)	(10)
Written-off depreciation	4	1	-	-	-	-	5
As of 31 December 2015	(35)	(6)	(12)	(36)	(12)	(4)	(105)
Depreciation charge	(2)	(2)	(4)	(10)	(1)	(1)	(20)
Written-off depreciation	2	-	-	36	-	-	38
As of 31 December 2016	(35)	(8)	(16)	(10)	(13)	(5)	(87)
Carrying amount							
As of 1 January 2015	**4**	**-**	**13**	**-**	**-**	**3**	**20**
As of 31 December 2015	**2**	**4**	**10**	**-**	**2**	**2**	**20**
As of 31 December 2016	**3**	**2**	**6**	**39**	**16**	**1**	**67**

8. Investment in subsidiary

By a decision dated 3 April 2012 of the sole owner of FLAG JSC, the Ministry of Regional Development and Public Works, 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 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, FLAG JSC and FSUDS EAD.

On 14.12.2015 a transfer and substitution agreement was signed between EIB, Ministry of Regional Development and Public Works, FSUDS EAD and FLAG EAD 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 EAD starts functioning.

9. Loans granted

	31 December	
	2016	2015
	BGN'000	*BGN'000*
Loans granted to municipalities	136,216	263,926
Accrued, but unpaid interest related to loans granted to municipalities	123	259
Impairment of receivables related to loans granted to municipalities	(5,015)	(4,268)
Total loans granted to municipalities, net	131,324	259,917
Loans granted to related parties	23,023	17,953
Accrued, but unpaid interest on loans granted to related parties	315	7
Total loans granted to related parties	23,338	17,960
Total loans granted	**154,662**	**277,877**

Loans granted represent loans provided to municipalities and one state-owned company. One part of the loans granted – BGN 21,349 thousand is used as bridge financing under European programmes and BGN 114,867 thousand for financing of municipalities' own activities.
As of 31.12.2015 bridge financing loans amounted to BGN 129,469 thousand and those for financing own activities amounted to BGN 134,457 thousand.
Current and future receivables on loans granted are pledged as collateral per bank loans from UniCredit Bulbank AD, CiBank EAD and DSK Bank EAD (Note 10).
Impairment of receivables on loans granted is made in accordance with the Impairment policy adopted by FLAG EAD and is portfolio based. The specific impairment is accrued after the review of the loans granted to nine separate municipalities. The assessment is made in accordance with the Fund`s Impairment policy in the case of credit losses.
As of 31.12.2016 the impairment of bridge financing loans amounts to BGN 107 thousand (BGN 647 thousand as of 31.12.2015), and the impairment of loans repaid by own funds as of 31.12.2016 amounts to BGN 4,908 thousand (BGN 3,621 thousand as of 31.12.2015).
Loans granted are secured mainly with specific pledges over the future receivables of the municipalities under the grant agreements and the future own revenue of the municipalities.
The changes in the accrued impairment on loans granted in 2016 and 2015 are as follows:

	Impairment of loans granted
As of 1 January 2015 incl.	**(1,373)**
- for bridge financing	*(573)*
- for own financing	*(800)*
Charged for the year – incl.	(2,895)
- for bridge financing	*(74)*
- for own financing	*(2,821)*
As of 31 December 2015 incl.	**(4,268)**
- for bridge financing	*(647)*
- for own financing	*(3,621)*
Charged/Reintegrated for the year – incl.	(747)
- for bridge financing	*540*
- for own financing	*(1,287)*
As of 31 December 2016 incl.	**(5,015)**
- for bridge financing	*(107)*
- for own financing	*(4,908)*

As of 31.12.2016 the accrued impairment on portfolio basis is BGN 1,374 thousand (31.12.2015: BGN 2,226 thousand).
As of 31.12.2016 the specific impairment accrued is BGN 3,641 thousand (31.12.2015: BGN 2,042 thousand).

10. Loans payable

	Maturity	31 December 2016	31 December 2015
		BGN'000	*BGN'000*
Payables to EBRD under Loan 1	August 2023	-	45,636
Payables to EBRD under Loan 3 T1	August 2018	-	25,054
Payables to EBRD under Loan 3 T2	August 2023	-	26,078
Deferred fees under EBRD loans		-	(757)
Accrued interest due		-	986
Total loans payable to EBRD		**-**	**96,997**
Revolving loan payable to UniCredit Bulbank	January 2018	-	20,000
Revolving loan payable to CiBank	June 2018	9,385	38,918
Revolving loan payable to DSK	June 2019	-	38,356
Revolving loan payable to Municipal bank	March 2016	-	13,080
Long-term loan payable to UniCredit Bulbank	November 2023	40,000	-
Revolving loan payable to CiBank	November 2023	39,116	-
Deferred fees per loans agreements		(342)	(334)
Accrued interest due		19	40
Total loans payable to banks		88,178	110,060
Total loans payable		**88,178**	**207,057**

Loans payable by the Company to the European Bank for Reconstruction and Development (EBRD) as of 31.12.2015 result from the utilisation of funds under two loan agreements.
The first loan with a limit of EUR 35,000 thousand (BGN 68,454 thousand), which amount has two components:

1. Loan "a" – amounting to EUR 18,000 thousand (BGN 35,205 thousand)
2. Loan "b" – amounting to EUR 17,000 thousand (BGN 33,249 thousand).

The contractual interest rate is based on the six-month EURIBOR plus a floating margin based on the amount of bad debts within the Company's loan portfolio.
The second loan has a limit of EUR 35,000 thousand, which has two components:

1. Tranch 1 (Loan 3 T1) – in the amount of EUR 20,000 thousand (BGN 39,117 thousand)
2. Tranch 2 (Loan 3 T2) - in the amount of EUR 15,000 thousand (BGN 29,337 thousand).

The contractual interest rate is based on the six-month EURIBOR plus a floating margin based on the amount of bad debts within the Company's loan portfolio.
The payables under both contracts signed with the European Bank for Reconstruction and Development (EBRD) were repaid in advance in 2016.

The revolving loan, signed on 06.11.2014 with UniCredit Bulbank AD, was repaid and terminated in 2016. As of 31.12.2015 the utilized amount was BGN 20,000 thousand. The agreed interest rate on this loan is based on one-month SOFIBOR plus margin.

From the 3 revolving loans agreements signed in 2015, the loan from Municipal Bank with utilized amount of BGN 13,080 thousand as of 31.12.2015 was fully repaid and terminated in 2016. The agreed interest rate on this loan is based on one-month SOFIBOR plus margin.

The contract with CiBank EAD from 04.06.2015 has a utilized amount of BGN 9,385 thousand as of 31.12.2016 (BGN 38,918 thousand as of 31.12.2015). The agreed interest rate on this loan is based on six-month EURIBOR plus margin.

The contract with DSK Bank EAD is still in force at the end of 2016, but there are no utilised amounts as of 31.12.2016 (as of 31.12.2015 they were BGN 38,356 thousand). The agreed interest rate on this loan is based on one-month SOFIBOR plus margin.

In 2016 the Company signed 2 new loan agreements as follows:
- with UniCredit Bulbank AD dated 22.11.2016 for the amount of BGN 40,000 thousand, for a period of 84 months. As of 31.12.2016 the loan is fully utilized. The agreed interest rate on this loan is based on three-month SOFIBOR plus margin.

10. Loans payable (continued)

- with CiBank EAD dated 22.11.2016 for a revolving loan for the amount of EUR 20,000 thousand, for a period of 84 months. As of 31.12.2016 the loan is fully utilized. The agreed interest rate on this loan is based on six-month EURIBOR plus margin.

The collaterals per bank loans from UniCredit Bulbank AD, CiBank EAD and DSK Bank EAD include pledge on current and future claims on bank accounts of the Company and current and future receivables on loans granted (Note 5 and Note 9).

11. Payroll and social securities payables

Payables to personnel and for social security at 31 December 2016 relate to the accrued salaries for December 2016 and accrued additional remuneration (bonuses) and are allocated as follows:

	31 December	
	2016	2015
	BGN'000	*BGN'000*
Payables to personnel	63	64
Payables for social security	14	14
Total payables to personnel and for social security	**77**	**78**

12. Tax receivables (payables)

	31 December	
	2016	2015
	BGN'000	*BGN'000*
Tax receivable / (payable) as of 1 January	**89**	**(41)**
Tax paid throughout the year	132	421
Tax accrued for the year (Note 4)	(291)	(291)
Tax receivable / (payable) as of 31 December	**(70)**	**89**

13. Other liabilities

	31 December	
	2016	2015
	BGN'000	*BGN'000*
Other liabilities	369	482
incl. Contingent fee for loan applicants	*18*	*128*
Good performance guarantee	*348*	*348*
Payables to suppliers	*2*	*6*
Other tax payables	*1*	*-*
Total other liabilities	**369**	**482**

14. Share capital and reserves

14.1 Share capital

	31 December	
	2016	2015
	BGN'000	*BGN'000*
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 2016 and 31 December 2015 the issued registered capital is fully paid-in.

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14. Share capital and reserves (continued)

14.2 Statutory reserves

Statutory reserves are formed by FLAG JCS as a distribution of the profit as provided for 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 Association 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 2016 statutory reserves amount to BGN 2,188 thousand (2015: BGN 1,922 thousand).

15. Dividend distribution

In accordance with ordinance № 2 of the Council of Ministers dated 18.02.2016 dividends distributed to the sole shareholder in 2016 amount to BGN 1,245 thousand (2015: BGN 1,253 thousand). Dividend per share is BGN 13,83 (2015: BGN 13,93).

16. Commitments and contingencies

Legal claims

As at 31 December 2016 and 31 December 2015 there were no litigations against the Company.

Guarantees

As at 31 December 2016 and 31 December 2015 the Company has not issued any guarantees.

Loan commitments

As of 31.12.2016 the Company has loan commitment related to one loan contract with municipality amounting to BGN 1,000 thousand, under which no funds have been utilized at the year end. The loan commitment at the end of the previous year was per 1 contract totalling BGN 153 thousand.

Commitments related to rents / operating leases

The Company has a rental contract concluded for the rent of an office for a term of four years, which comes into force on 1 March 2013.

Other contingent liabilities

FLAG EAD is a guarantor under the Contingent loan of FSUDS EAD amounting to BGN 23,685 thousand.

17. Related party disclosure

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 FLAG JSC.

The Fund for Sustainable Urban Develcpment of Sofia EAD is a fully-owned subsidiary of FLAG EAD with a share capital of BGN 500 thousand fully paid by FLAG EAD in 2012.

Remuneration of management staff

In 2016, the remuneration of management staff amounted to BGN 124 thousand (2015: BGN 120 thousand)

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17. Related party disclosure (continued)

Related party transactions

In 2012 an Operational agreement was signed between EIB, the subsidiary FSUDS EAD and FLAG EAD. On 14.12.2015 a transfer and substitution agreement was signed between EIB, Ministry of Regional Development and Public Works, FSUDS EAD and FLAG EAD 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 EAD starts functioning.
Under a credit line agreement signed between FSUDS EAD and FLAG EAD a loan in the total amount of BGN 24,500 thousand was agreed. During 2016 BGN 5,544 thousand of the loan were utilized, BGN 474 thousand were repaid, BGN 589 thousand interest income was accrued, interest of BGN 281 thousand was received and there is unpaid interest of BGN 315 thousand at the end of the year.
During 2015 BGN 14,712 thousand of the loan were utilized, BGN 445 thousand were repaid, BGN 231 thousand interest income was accrued, interest of BGN 225 thousand was received and there is unpaid interest of BGN 7 thousand at the end of the year.
In 2016 FLAG EAD reported dividend income from FSUDS amounting to BGN 47 thousand (2015: BGN 40 thousand).

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 various financial assets such as loans granted, cash and short-term deposits, which arise directly from its operations.

In 2016 and 2015, 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 rate 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.

	Increase/ Decrease in interest rates	Effect on the pre-tax profit
		BGN '000
2016		
Loans payable in EUR	+0.5%	(243)
Loans payable in BGN	+0.5%	(200)
Loans granted in BGN	+0.5%	796
Loans payable in EUR	-1%	485
Loans payable in BGN	-1%	400
Loans granted in BGN	-1%	(1,592)

18. Financial risk management objectives and policies (continued)

Interest-rate risk (continued)

	Increase/ Decrease in interest rates	Effect on the pre-tax profit
		BGN '000
2015		
Loans payable in EUR	+0.5%	(678)
Loans payable in BGN	+0.5%	(357)
Loans granted in BGN	+0.5%	1,410
Loans payable in EUR	-1%	1,356
Loans payable in BGN	-1%	714
Loans granted in BGN	-1%	(2,819)

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 31.12.2016

	On demand	< 3 months	3-12 months	1-5 years	> 5 years	Total
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Interest-bearing loans and borrowings	-	262	6,426	35,029	51,494	93,211
Trade and other payables	-	20	148	200	-	368
	-	282	6,574	35,229	51,494	93,579

As of 31.12.2015

	On demand	< 3 months	3-12 months	1-5 years	> 5 years	Total
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Interest-bearing loans and borrowings	-	23,497	11,328	158,059	28,235	221,120
Trade and other payables	-	482	-	-	-	482
	-	23,979	11,328	158,059	28,235	221,602

18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity structure of the Company's assets and liabilities at 31 December 2016 has been developed based on the expectations of management regarding the recoverability/settlement of amounts:

Assets	*Within 1 year*	*Over 1 year*	*Total amount*
Cash and cash equivalents	32,017	-	**32,017**
Other receivables	25	-	**25**
Loans granted	37,626	117,036	**154,662**
Total assets	**69,668**	**117,036**	**186,704**

Liabilities	*Within 1 year*	*Over 1 year*	*Total amount*
Other liabilities	168	200	**368**
Loans payable	5,733	82,445	**88,178**
Total liabilities	**5,901**	**82,645**	**88,546**

The maturity structure of the Company's assets and liabilities at 31 December 2015 has been developed based on the expectations of management regarding the recoverability/settlement of amounts:

Assets	*Within 1 year*	*Over 1 year*	*Total amount*
Cash and cash equivalents	26,272	-	**26,272**
Other receivables	10	-	**10**
Loans granted	181,908	95,969	**277,877**
Total assets	**208,190**	**95,969**	**304,159**

Liabilities	*Within 1 year*	*Over 1 year*	*Total amount*
Other liabilities	482	-	**482**
Loans payable	31,444	175,613	**207,057**
Total liabilities	**31,926**	**175,613**	**207,539**

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 2016 the remaining liability of municipalities to the Company amounts to BGN 136,339 thousand and at the end of 2015 it was BGN 264,185 thousand. As of 31.12.2016 the Company has receivables on loan granted to related parties amounting to BGN 23,338 thousand (31.12.2015: BGN 17,960 thousand).

Credit risk management in 2016 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.

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 impairment of loans granted as of December 31, 2016 is on a portfolio basis, while there are also impairments of specific exposures.

The maximum exposure of the Company to credit risk as at 31 December 2016 and 31 December 2015 is as follows:

	2016		*2015*	
	Gross	*Net*	*Gross*	*Net*
Exposure				
Cash and cash equivalents	32,017	32,017	26,272	26,272
Loans granted	159,677	154,662	282,145	277,877
Other receivables	25	25	10	10
Total assets	**191,719**	**186,704**	**308,427**	**304,159**

At the end of 2016 there are 3 loans that were overdue with more than 30 days and there are no restructured loans. At the end of 2015 no loans were overdue and there were no restructured loans.

Capital management

The primary objective of the Company`s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value.

The Company manages its capital structure and adjusts it, where necessary, depending on the changes in the economic environment. The Company is subject to the rulings of the Council of Ministers on distribution of dividends to the Ministry of Regional Development and Public Works. In 2016 and in 2015 there were no changes in the objectives, policies or processes for the management of capital.

19. 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 FLAG EAD believes that the fair values of the financial instruments, which 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 values as the applicable interest rates vary in accordance with the market conditions. The Company has analysed the fair values of fixed interest rate deposits and is of the opinion that they approximate their carrying amounts.

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20. Events after the reporting period

With Protocol T3-12 of 22 March 2017 the Minister of Regional Development and Public Works, as a representative authorizes FLAG to acquire long-term financial assets in the subsidiary "Fund for sustainable urban development of Sofia" EAD worth BGN 4,500,000, representing 4,500 new, ordinary, available, registered shares with a nominal value of BGN 1,000. With this act and the following a decision of the Board of Directors of the Fund from 28 March 2017 is proceeded with the registration of the change and a corresponding increase in the share capital of "Fund for sustainable urban development of Sofia" EAD from BGN 500,000 to BGN 5,000,000.

No other events have occurred after 31 December 2016 which require further adjustments and/or disclosures in the Company's individual financial statements for the year ended December 31, 2016.