

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

CONSOLIDATED ANNUAL DIRECTOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

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FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

General information

Board 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 advisors

Law Firm „Lozanova and Atanasov”
Antoniya Svetlinova Mladenova

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

CONSOLIDATED 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.

1. Business Program

1.1. Equity and loan resources

Share capital of the Group is BGN 90,000 thousand, and it is paid on four instalments in 2008, 2009 and 2014.

The contracted long-term credit resource from the European Bank for Reconstruction and Development (EBRD) amounts to EUR 70,000 thousand as negotiated in two Loan contracts dated 22 December 2008 and 31 October 2013. The total amount of principal payable to EBRD as of 31.12.2015 amounts to EUR 49.5 million /BGN 96.8 million/.

During 2014 FLAG increased its utilisable loan resources with additional BGN 40 million, which the Group received 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 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

According to an operational agreement between European Investment Bank, Fund for Sustainable Urban Development of Sofia EAD and Fund for Local Authorities and Governments in Bulgaria – FLAG EAD, signed on 30.05.2012, a contingent loan in the amount of BGN 24,600 thousand was granted for financing urban development projects under the JESSICA initiative. As at 31.12.2015 the unutilized amount of BGN 2,653 thousand, intended for sub-loans, has been deposited into the special account.

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 Tsoleva – member, Susan Mary Goranson – member and Nadya Yordanova Dankinova – member and executive director.

According to the Bulgarian legislation, the Management is required to prepare annual consolidated financial statements that provide a true and fair view on the financial position of the Group 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 consolidated 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 consolidated 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 Group's staff has the appropriate qualifications for performing the lending activities in 2015. The 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. Loan agreements with EBRD and EIB

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, the Group continued 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 amounts to EUR 49,477 thousand /BGN 96,768 thousand/.

As at 31.12.2015 the Operational Agreement, concluded between the European Investment Bank, the Fund for Sustainable Urban Development of Sofia EAD and the Fund for Local Authorities and Governments - FLAG EAD on 30 May 2012, for provision of contingent loan, is still in force. The entire loan amount has been made available to the borrower while the unutilized amount intended for sub-loans to final recipients in the special account amounts to BGN 2,653 thousand.

Amendment agreement №1 to the Operational Agreement was signed in 2014 under which the sanctions for breaching the first period for disbursement of funds to final recipients – 31.12.2013 are waived under condition. The Amendment was signed due to the inability for disbursement of the funds under the JESSICA initiative in the predetermined period. This was due to circumstances beyond the Fund's control. In particular, there was a six month delay in the signing of an Operational Agreement; another six months were needed for establishing the method for assessment of the state aid available for projects and the method for certification, through independent expert assessment, and selection of eligible experts to undertake the assessment. The volatile political situation and the frequent change of the governments, which deteriorated investors' confidence, as well as the innovative nature of the JESSICA financial instrument and the lack of experience in its application in Bulgaria, also played a role in delaying the investment process.

Under this additional agreement an "administration amount" of BGN 923 thousand was paid in exchange for future repayments by final recipients. The contingent loan was effectively reduced by this amount.

Amendment Agreement №2 was signed on 18.12.2014. Under this agreement the period for disbursing funds under project funding agreements is extended to 31.12.2015 and the "administration amount" of BGN 923 thousand is specified as being deducted from the loan amount. The amount of the contingent loan is changed to BGN 23,685 thousand.

Amendment agreement №3 was signed on 10.07.2015 in relation to the changes in the criteria for selection of new partner bank of FSUDS. Under Amendment agreement №4 dated 11.12.2015, the final disbursement date for the funds provided under the Contingent loan was extended to 30.06.2016. The provision for reimbursement of the administrative amount withheld in line with Amendment agreement №1 is discarded. The amount of the contingent loan remains BGN 23,685,093.

On 07.12.2015 FSUDS was informed that the Funding Agreement between Republic of Bulgaria and EIB will expire on 31.12.2015 and in line with decision of the Managing Authority of JHF Bulgaria and the Investment Board, it will not be extended. On the basis of article 14.04B of the Operational Agreement, EIB assigns all of its rights, obligations and interests by way of novation to the OPRD Managing Authority, which will take on its functions for a transition period until it is further transferred to the Fund Manager of Financial Instruments. A Transfer and Substitution Agreement was signed on 14.12.2015 between EIB, MRDPW, FSUDS and FLAG, where the transfer process and EIB's continuing obligations during the interim period are agreed.

1.6. 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 month 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.

A procedure for selection of Partner-bank of FSUDS was undertaken in 2015 due to the expiry of the contract with Raiffeisenbank Bulgaria EAD on 20.06.2015. With decision 47 from 28.04.2015 a public tender procedure with subject: "Selection of Partner-bank for FSUDS EAD" was initiated. Two offers were submitted within the statutory term – from UniCredit Bulbank and CiBank EAD. Taking into account the method for assessment of the candidates and the requirements of the Public procurement law, the Committee selected CiBank EAD. A decision with the selection process results was published on 09.06.2015.

Amendment agreement №3, which provides for candidates that do not have the rating required under the Operational agreement to be admitted to the procedure, and Annex 1 to the Accounts receivable pledge agreement with EIB were signed on 10.07.2015. Contract for assigning the functions of a Partner-bank, Agreement for special terms and conditions on bank accounts, and Pledge agreement on government securities were signed on 27.07.2015 between FSUDS and CiBank EAD.

1.7. Other loans

After successfully conducted procedure with a decision of the Board on April 29, 2015 and approval of the sole shareholder, the approved 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 are as follows:

Lot №1 - Providing revolving credit facility in the amount of BGN 40,000 thousand - for 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 formed of 1-month SOFIBOR and a margin of 2%

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

1.8. 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 for 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. On 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 BGN 1.1 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.

FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS IN BULGARIA – FLAG JSC

Consolidated Directors' Report

The table below presents information for credits granted by FLAG EAD in 2014 and 2015 by type of credits and source of repayment of principals of credits.

Type of credits	Number of credits in 2014	Value of granted credits in 2014 (in thousand BGN)	Number of credits in 2015	Value of granted credits in 2015 (in thousand BGN)
Long-term	81	158,399	50	65,461
<i>Incl. Bridge financing</i>	30	98,058	2	5,852
<i>Incl. own contribution</i>	51	60,341	48	59,609
Short-term	61	67,158	74	97,654
<i>Incl. Bridge financing</i>	61	67,158	67	96,084
<i>Incl. own contribution</i>	0	-	7	1,570
Total	142	225,557	124	163,115

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

			Amount of credit In thousand BGN			Maturity in months		
By Operational programme	Number of credit	Total amount (in BGN thousand)	Min.	Max.	Average	Min.	Max.	Average
Regional Development	53	38,107	53	2,800	719	5	120	25
Environmental	51	113,181	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

			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 with FLAG EAD amounted to BGN 257,081 thousand, while the repayments amounted to BGN 155,853 thousand.

In 2015 were 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 of FLAG EAD 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 the subsidiary company, FSUDS EAD, signed 5 contracts for project financing. All available funds were successfully contracted as at 31.01.2015, following the signing of the contracts with Pazari Sever EAD, Sofiiski Imoti EAD, SBALO EAD, UMBAL Sv. Ivan Rilski EAD.

The Investment committee of FSUDS has reviewed 1 additional project for approval for financing, which could utilize any additional funds, freed due to undertaken public tenders and reduced amount of the loans. The fifth project funding agreement was signed with Medical Center Salvebis OOD on 24.08.2015.

The total amount of the signed project funding agreements by FSUDS EAD as at 31.12.2015 is BGN 50,121 thousand; with the EIB sublimit amounting to BGN 25,104 thousand compared to the amount of the contingent loan of BGN 23,685 thousand.

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 and governments in Bulgaria FLAG" EAD and attachments to them.

By decision set out in Protokol № 127/30.11.2015 BoD of FLAG adopted new Rules for activities of "Fund for local authorities and governments in Bulgaria – FLAG" EAD. Newly adopted rules replace current Rules for activities of "Fund for local authorities and governments in Bulgaria - FLAG" EAD adopted with Decision of BoD dated 30 October 2008 and bring Regulations in line 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 cn 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. Procedure for selection of 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 and governments in Bulgaria - FLAG" EAD. The procedure includes buying back of the car currently owned by FLAG.

1.11. 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.

FLAG, together with FSUDS, participated in the exhibition for municipal projects held on 17 and 18 May 2015 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.

In 2015 FSUDS continued to maintain a website setting out relevant information that is updated on a regular basis. A facebook page of the fund was created in 2015.

Representatives of FSUDS took part in a number of trainings, workshops and forums. Final recipients under loans granted organized many events promoting the project results, which enhanced the positive image of the JESSICA Initiative in 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 position

3.1 Consolidated structure of revenue and expenses of the Group

3.1.1. Consolidated statement of income and expenditure

EXPENDITURE, BGN '000		9,013
1	Remuneration	723
2	Social securities	84
3	Accounting and audit services	25
4	Legal and consulting services	112
5	Other hired services	65
6	Rent	59
7	Communication services	8
8	Expenses for materials	23
9	Other costs (cleaning, subscription, representative expenses)	19
10	Depreciation charge	11
11	Bank fees	1,150
12	Interest expenses	3,720
13	Impairment costs	3,014

REVENUE, BGN '000		12,043
1	Interest on loans	10,738
2	Penalty interest on loans	45
3	Fees on loans granted	913
4	Interest on deposits, accrued and received in 2015	305
5	Interest on deposits, accrued but not received in 2015	3
6	Income from evaluation of projects	39

DEPOSITS, BGN '000		10,294
1	Unicredit Bulbank	10,294

3.1.2. Structure of expenses

Group of expenses	Amount in BGN thousand	Share in total expenditure in %
Maintenance Costs	101	1%
Hired services	210	2%
Depreciation expense	11	0%
Remuneration of staff, BoD	807	9%
Bank fees including Managing bank fees	1,150	13%
Interest expenses	3,720	41%
Impairment expense	3,014	34%
	9,013	100%

3.1.3. Revenue

Total revenues of the Group for the period are BGN 12,043 thousand, and are presented split by types below:

Revenue in BGN '000	2015	Share
Interest and fees on loans and other income	11,735	97%
Interest on deposits	308	3%
Total	12,043	100%

✓ **Revenue from lending activities** – around 97% from total revenues are from lending activities. The return includes interest, management and commitment fees.

✓ **Management of temporary free funds** – As of 31.12.2015 FLAG EAD has signed contract for reserve account for the purpose of servicing of loan agreements with EBRD and contract for current account with preference rate.

Total revenue of the Group from management of temporary free funds amounts to BGN 308 thousand.

3.2 Results from current period

The Group's profit before tax for 2015 is BGN 3,030 thousand and net profit is BGN 2,727 thousand.

3.3 Dividends and distribution of profit

In 2015, the Board of Directors approved allocation of 10% from the profit for 2014 amounting to BGN 232 thousand to "Reserve Fund", and from the rest of the profit for 2014 distributed 60% dividend to the Government amounting to BGN 1,253 thousand, which are fully paid during the year.

3.4 Subsidiary company

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 signed 13 loan contracts for financing of urban projects, 9 of which have been completed. Since FSUDS has started its operations, a total of 60 disbursements have been made for the amount of BGN 41,214 thousand, of which BGN 22,068 thousand under the EIB sublimit or 93% of the Contingent loan.

4. Foreseen development of the Group 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 being processed as at the end of 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
Total	32,397	19,846	52,243

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

In FSUDS it is planned that all available funds – under the Contingent loan as well as additional funds from the Group in line with the requirement for co-financing of loans granted under Jessica initiative - to be invested by the first half of 2016. After the full disbursement date occurs, FSUDS will commence reinvestment in new eligible urban development projects. Mature projects seeking financing for over BGN 2 million have been identified. It is planned that 2 funding agreements with final recipients will be signed during the year. FSUDS plans to participate in the process of forming future funds for urban development by the Fund Manager of Financial Instruments in Bulgaria.

4.2 Financial proceeds and results

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

4.3 Information as per article 187 d and article 247 of the Commercial Act

In 2015 no equity transfers or acquisitions were made.

4.4 Branches and subsidiaries

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

20 May 2016

