

Independent Auditor's Report

To the sole owner of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS - FLAG EAD

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS - FLAG EAD and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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Registered in Bulgaria (ID – 131 349 346). List of directors can be found at the Company's Registered Office.

An independent member of Baker Tilly International

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS - FLAG EAD as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union.

Other Reports on regulatory requirements – Annual activity report of the Group according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4, we have read the accompanying Annual consolidated activity report of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS - FLAG EAD. The Annual consolidated activity report of the Group, prepared by the Group's management is not a part of the consolidated financial statements. The historical financial information, presented in the Annual consolidated activity report of the Group, prepared by the management is consistent, in all material respects, with the financial information, disclosed in the Consolidated financial statements of the Group as of December 31, 2014 prepared in accordance with IFRS, as adopted by the EU. Management is responsible for the preparation of the Annual consolidated activity report of the FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS – FLAG EAD.



Baker Tilly Klitou and Partners Ltd

**19 May 2015
Sofia, Bulgaria**

