

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

ANNUAL ACTIVITIES REPORT AND FINANCIAL  
STATEMENTS

31 December , 2011

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

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**Board of Directors:**

Dobromir Prodanov Simidchiev - Chairperson  
Ivelina Vesselinova Vassileva – Deputy Chairperson  
Emil Rumenov Savov – member  
Daniel Bryan Berg – member  
Nadya Yordanova Dankinova - member  
Denitsa Plamenova Nikolova - member  
Yulia Petkova Tsoleva –Ilieva - member

**Registered address**

17-19 Sv. Sv. Kiril i Metodi St.  
Sofia 1202

**Management address**

27 Solunska St.  
Sofia 1000

**Legal advisor**

Dessislava Ivanova-Atanassova

**Servicing banks**

UniCredit Bulbank  
Raiffeisen bank  
Bank DSK  
MKB - Unionbank

**Auditor**

Earns & Young Audit Ltd.  
Polygraphia office center  
47A Tzarigradsko shosse boulevard  
4<sup>th</sup> floor  
Sofia 1124

## ANNUAL REPORT

### On the Activity of Fund for Local Authorities and Governments in Bulgaria – FLAG JSC/FLAG/ for FY 2011

This Report was prepared in compliance with the requirements of article 23 of the Regulation on the Way the State shall exercise its Rights in Commercial Entities with State Interest in Owner's Equity and in compliance with the Commerce Act.

#### 1. Business Programme

##### 1.1. Equity and Loan Resource

The share capital of the company stands at BGN 60 million, paid in three installments in 2008 and 2009. The borrowed long-term resource is in the amount of EUR 35 million, granted under Loan Agreement № 37525 of 22.12. 2008 concluded with the European Bank for Reconstruction and Development. FLAG has been in command of a credit resource in the amount of BGN 128.8 million in FY 2011.

##### 1.2. Management

The Fund is managed by a Board of Directors (BoD), consisting of seven members. The BoD organizes and manages the current activities of the Fund in delivering all its functions. The BoD held 13 meetings in 2011.

The following changes in the composition of the BoD were made during the period under review, upon decision of the sole proprietor of the Fund:

- ✓ On 27 June , 2011 with Protocol № T3 - 36/27.06.2011 the Minister of Regional Development and Public Works, as a representative of the state as a sole proprietor, made structural changes in the BoD, replacing the second representative of the Ministry of Finance by a representative of the Minister of EU Funds Management.
- ✓ On 14 July , 2011 with Protocol № T3 - 40/14.07.2011 the Minister of Regional Development and Public Works, as a representative of the state as a sole proprietor , made changes in the membership of the Board of Directors. Vessela Danailova Danova was relieved of her duties as a member of BoD and replaced by Nadya Yordanova Dankinova as a representative of the National Association of Municipalities in the Republic of Bulgaria/NAMRB/. Emil Rumenov Savov, member of the BoD and representative of NAMRB, was designated as a representative of the Minister of EU Funds Management.
- ✓ On 15 September, 2011 with Protocol № T3 - 56/15.09.2011 the Minister of Regional Development and Public Works, as a representative of the state as a sole proprietor, made changes in the membership of the BoD, appointing Denitsa Plamenova Nikolova as a member of the BoD, to replace Lilyana Pavlova Nikolova.

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At the end of 2011, the Board of Directors consists of the following members: Dobromir Simidchiev (representative of MRDPW) – Chairperson, Ivelina Vassileva (representative of MEW) – Deputy Chairperson, Denitsa Nikolova (representative of MRDPW) – member, Emil Savov (representative of Minister of EU Funds Management – member, Yulia Tsoleva (representative of MoF) – member, Daniel Berg (representative of EBRD) – member, and Nadya Dankinova (representative of National Association of Municipalities in RB) – member and Executive Director.

Under Bulgarian law the management should prepare financial statements for every financial year, giving a true and fair view of the financial condition of the company as at the year-end, its financial performance and cash flows.

The management acknowledges that it has been consistently applying adequate accounting policies in preparing the annual financial statements as at 31 December, 2011 and has come up with reasonable and prudent judgments, assumptions and estimates.

The management also acknowledges that it has applied the existing accounting standards and has observed the going concern principle when drawing up the financial statements.

The management is responsible for the proper management of the accounting ledgers, for the expedient asset management and adoption of necessary measures in order to avoid and reveal any possible fraud or other irregularities.

### **1.3. Human Resources**

The Fund's key staff has the appropriate qualifications in order to perform the lending activities in 2011. The structure and number of staff are presented in the table below.

<b>Position</b>	<b>Number of staff approved for 2011</b>	<b>Number of staff as at 31.12.2011</b>
Director, Projects and Monitoring Directorate	1	1
Director, Lending Directorate	1	1
Director, Finance and Risk Management Directorate	1	-
Experts, Projects and Monitoring Directorate	2	2
Experts, Lending Directorate	3	3
Experts, Finance and Risk Management Directorate	1	1
Internal auditor	1	1
Office manager	1	1
Expert, General Administration Directorate	2	-
<b>Total</b>	<b>13</b>	<b>10</b>

The accounting and legal servicing, as well as the maintenance of the computer network have been contracted out to external suppliers.

#### 1.4. External Auditor for 2011

At a meeting on 18 October , 2011 the Board of Directors approved the results of a public procurement procedure for selection of an external auditor for 2011 pursuant to article 2, par. 1 p. 2 of the Regulation on Awarding Small Public Procurement and approved Earns & Young Audit Ltd. as contractor. With Protocol T3 - 68/02.11.2011 this decision was later endorsed by the Minister of Regional Development and Public Works, as a representative of the state as a sole proprietor.

#### 1.5. Loan Agreements with EBRD

The loan resources under Loan Agreement № 37525 of 22.12 2008 concluded with the European Bank for Reconstruction and Development, amounting to EUR 35 million have been fully absorbed and are at the disposal of the Fund. Because of sufficient unemployed funds for execution of the operations, it was not necessary to have any funds disbursed under the second loan agreement, signed on 3 July , 2009 and it was terminated on 13 October , 2011.

#### 1.6. Managing Bank

At its meeting held on 20 May , 2011, taking into account that the term of the existing contract with the Managing Bank would expire on 22.12. 2011, the Board of Directors made a decision to conduct a selection procedure for a lending institution, which should perform the functions and activities of a managing bank for FLAG JSC and should assist its lending activities to municipalities and municipal commercial entities.

After a successful public procurement procedure, on 18 October , 2011 the BoD made a decision , approved by the sole proprietor, to award the contract to UniCredit Bulbank SC . The contract was signed on 21.11. 2011.

#### 1.7. Main Results of the Lending Activity in 2011

In 2011 the Fund has received 132 loan requests for a total of BGN 123.9 million for implementation of projects the value of which amounts to BGN 349.7 million. The BoD has considered 115 loan requests, 106 of which were approved, 2 were rejected and 7 postponed.

106 loans were extended to 70 municipalities in 2011, amounting to BGN 95.4 million, supporting the implementation of projects in the amount of BGN 309.6 million. The average share of the loan within the budget of the respective supported project was 30.8%. The typical loan extended to a municipality was one for bridge financing in the amount of BGN 900 thousand, with maturity of 15 months. FLAG included in its scope of work new programmes, namely the 5 Cross-border Cooperation Operational Programmes.

The table below presents loans extended in 2010 and 2011 by type and principal repayment source.

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Types of loans	Number of loans in 2010	Amount of loans extended in 2010 (BGN)	Number of loans in 2011	Amount of loans extended in 2011 (BGN)
Long-term	13	17,043,122	44	44,695,556
incl. bridge financing	9	14,687,438	37	40,636,431.28
incl. with own funds	4	2,355,684	7	4,059,124.72
Short-term	43	45,742,136	62	50,747,926.62
incl. bridge financing	43	45,742,136	62	50,747,926.62
incl. with own funds	0	0	0	0
<b>Total</b>	<b>56</b>	<b>62,785,258</b>	<b>106</b>	<b>95,443,482.62</b>

The three tables that follow present the typology of the lending activity in 2011 by type of projects, by OPs and by source for repayment of principals.

By type of loans	Number of loans	Total value in BGN	Value in BGN			Maturity in months		
			Min.	Max.	Average	Min.	Max.	Average
Investment	96	91,677,609.41	57,088.80	6,433,749.50	954,975.10	3	88	15
Preparation with TA	10	3,765,873.21	98,766	1,490,305	376,587.32	6	60	15

By Operational Programmes	Number of loans	Total value in BGN	Value in BGN			Maturity in months		
			Min.	Max.	Average	Min.	Max.	Average
Regional development	35	55,463,531.38	140,800	4,427,752.17	1,584,672.33	6	82	15
Environment	13	10,687,457.25	98,766	6,433,749.50	822,112.10	6	60	15
EEA Financial Mechanism	3	1,051,155.02	184,000	590,000	350,385.01	7	9	8
RDP	47	18,719,738.42	57,088.80	1,339,126.60	398,292.31	7	88	15
CBC	6	8,919,656.55	836,357.97	2,566,448.48	1,486,609.43	3	21	15
OPAC	1	330,000	330,000	330,000	330,000	24	24	24
Preparation of project proposal	1	271,944	271,944	271,944	271,944	48	48	48

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By repayment source	Number of loans	Total value in BGN	Value in BGN			Maturity in months		
			Min.	Max.	Average	Min.	Max.	Average
Operational programmes	99	91,384,357.90	57,088.80	6,433,749.50	923,074.32	3	24	12
Own funds	7	4,059,124.72	85,303.60	2,467,948.39	579,874.96	48	88	61

The funds absorbed in 2011 under signed loan contracts amount to BGN 61,552 thous. (BGN 64,116 thous. in 2010), and the repaid loans stand at BGN 42 750 thous. (against BGN 64,994 thous. in 2010).

The year 2011 saw the signing of 160 annexes to 92 loan contracts, referring mainly to the repayment schedule.

24 of the loan applications, submitted in 2011 for a total amount of BGN 17.8 million, are in a process of consideration as at 31.12. 2011.

52 of the loans amounting to BGN 4.3 million were repaid in full in 2011.

As at 31.12. 2011 the active loans were 97, with total principals standing at BGN 66.4 million.

As at the end of 2011 the municipalities of Brezovo, Elin Pelin, Yakoruda, Dolna Banya and Madan were in arrears of 6 days. No municipality had arrears of over 30 days.

One of the submitted 116 loan applications was not approved by the Board of Directors, 2 were rejected by UniCredit Bulbank and the consideration of another 7 was postponed. An approved loan application was withdrawn by the municipality. A summary description of the rejected applications is presented below.

Status	Total number	Incl. OPRD	Incl. OPE	Incl. RDP	Total amount
Rejected by BoD	1			1	2,200,978.23
Rejected by UniCredit Bulbank	2	1		1	2,137,635.26
Postponed by BoD	7	1		6	4,198,261.96
Withdrawn by the municipality	1			1	130,465.00
<b>Total</b>	<b>11</b>	<b>2</b>		<b>9</b>	<b>8,667,340.45</b>



### **1.8. Changes in the Lending Policy**

With its decision dated 18 February , 2011, the BoD has approved lending to finance municipal investment projects under the Cross-border Cooperation programmes. It also approved lending for financing municipal projects for GIS and preparation of integrated development plans. It also approved the proposal to remove the limitations regarding the time line for repayment of loans for preparation of project proposals and eventually structuring such loans as long-term ones. The changes are consistent with the policy of covering all operational programmes that finance investment projects.

### **1.9. Information and Publicity**

It is a tradition for representatives of the Fund to participate in major events of the municipalities, organized by the National Association of municipalities in RB where the opportunities offered by the Fund are presented and the municipalities are given specific consultations.

The information on the Internet site of FLAG is regularly updated and maintained. An information material was also published in 2011, reflecting the lending activities of the Fund from the time of its establishment until November, 2011.

## **2. Financial Condition**

### **2.1. Report and Structure of Income and Expenses**

#### **2.1.1. Statement of Income and Expenses**

<b>EXPENSE ITEMS, BGN thous.</b>		<b>4,282</b>
1	Remun. BoD, Exec. Director and social security contributions	71
2	Rental office and utilities (electricity, heating, water-supply)	49
3	Accounting services	24
4	Auditor services	26
5	Consultant services	45
6	Hired services (legal, IT maintenance)	21
5	Other hired services (notary fees, courier services, insurance, translation)	22
6	Communication services	9
7	Other expenses (cleaning, janitorial, car-wash, subscriptions, hospitality)	10
8	Stationery	8
9	Fuel and automotive materials	3

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10	Other materials	4
11	Depreciation	14
12	Salaries and social security contributions	262
13	Business trips	1
15	Bank charges	1,033
16	Expenses on interest charged on EBRD loan	1,169
17	Expenses on interest charged on EBRD loan, paid in 2011	1,446
18	Expenses on impairment	65
<b>INCOME ITEMS, BGN thous.</b>		<b>7,794</b>
1	Income from interest on loans	2,644
2	Income from default interest on loans	64
3	Income from fees on loans	70
4	Income from interest on deposits, charged but not received in 2011	1,077
5	Income from interest on deposits, charged and received in 2011	3,939
<b>DEPOSITS, BGN thous.</b>		<b>6,7596</b>
1	Raiffeisenbank	36,649
2	UniCredit Bulbank	3,647
3	UniCredit Bulbank – res. account EBRD	4,300
4	Bank DSK	13,000
3	MKBUnionbank	10,000

**2.1.2. Structure of Expenses**

<b>Groups of expenses</b>	<b>Amount, BGN thous.</b>	<b>Share of total expenses</b>
Operational costs	106	2.48%
Hired services	116	2.73%
Acquisition of LTTA and depreciation	14	0.32%
Remuneration – staff, BoD	333	7.77%
UniCredit Bulbank Management fee, other fees	6	0.14%
On EBRD loans - interest	2,615	61.04%
On EBRD loans – fees	1,027	23.99%
Impairment/provisions	65	1.53%
	<b>4,282</b>	