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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these individual 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 the individual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on these individual 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 individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the individual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the individual financial statements 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 Company'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 individual financial statements.

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

Opinion

In our opinion, the individual 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 Company 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 activity report of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS - FLAG EAD. The Annual individual activity report of the Company, prepared by the Company's management is not a part of the individual financial statements. The historical financial information, presented in the Annual individual activity report of the Company, prepared by the management is consistent, in all material respects, with the financial information, disclosed in the annual individual financial statements of the Company as of December 31, 2014 prepared in accordance with IFRS, as adopted by the EU. Management is responsible for the preparation of the Annual activity report of the FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS – FLAG EAD.



Krassimira Radeva
CPA, Registered Auditor



Managing Director
Baker Tilly Klitou and Partners OOD

17 March 2015
Sofia, Bulgaria