

**INDEPENDENT AUDITOR'S REPORT  
UPON AUDITING OF FINANCIAL STATEMENTS**

(Practice closed on 31 December 2009)

To: **THE GENERAL ASSEMBLY OF  
"ALBANIAN SAVINGS AND CREDIT UNION"**

Tirana

*Estimated sirs!*

We have audited the accompanying financial statements of "UNION" and "Union – SCA" Group, including the Balance Sheet as of 31 December 2009, changes in equity statement, cash flows statement, income statement for the year then ended, and other explanatory notes.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Standards of Financial Reporting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; for selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the given circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements, plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

The audit involves performing procedures to obtain auditing data about the amounts and the information presented in the financial statements. The procedures selected

depend on the judgment of auditor, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error.

In making these risk assessments, the auditor considers internal control relevant to the entity in the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing the opinion on the effectiveness of the internal control of the entity. Auditing also includes assessment of the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by management, as well as for evaluating the overall presentation of financial statements.

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

In our opinion, the financial statements of "UNION" and "Union – SCA" Group give a true and fair view of the financial situation of the institution as of 31 December 2009, and of the financial result and cash flows for the period then ended in accordance with National and International Standards of Financial Reporting.

**AUTHORIZED ACCOUNTING EXPERT**

**Studio "A.S.I.E." Sh.p.k. - Auditing Company**

**SANIJE Tafa**



**NOTES  
ON FINANCIAL STATEMENTS OF ASC UNION  
01.01.2009 – 31.12. 2009**

**ASC UNION BALANCE SHEET AND DIFFERENCES  
2008-2009**

**ALBANIAN SAVINGS AND CREDIT UNION BALANCE SHEET**

In thousands ALL

<b>ASSETS</b>	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Differences</b>
Cash & Bank	37,663	62,537	-24,874
Short term investments	1,114,530	775,782	338,748
Total loan portfolio	2,519,949	2,339,495	180,454
Fixed Assets	52,059	23,886	28,173
Other short term assets	138,321	42,774	95,547
<b>TOTAL ASSETS</b>	<b>3,862,522</b>	<b>3,244,474</b>	<b>618,048</b>
<b>LIABILITIES</b>			
Borrowings (credit lines)	2,501,204	2,032,527	468,677
Liabilities to customers (Savings)	211,249	179,626	31,623
Other liabilities	256,339	211,945	44,394
<b>TOTAL LIABILITIES</b>	<b>2,968,792</b>	<b>2,424,098</b>	<b>544,694</b>
<b>EQUITY</b>			
Paid up capital	543,147	543,147	0
Reserves for risks	200,476	200,476	0
Social shares	86,406	76,754	9,652
Past year result			0
Current year result	63,702		63,702
<b>TOTAL EQUITY</b>	<b>893,731</b>	<b>820,377</b>	<b>73,354</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,862,522</b>	<b>2,453,322</b>	<b>791,152</b>

**INCOME STATEMENT OF ASC UNION AND DIFFERENCES  
2008-2009**

**INCOME STATEMENT OF ASC UNION**

	In thousands ALL		
	<b>31.12.2009</b>	<b>31.12.2008</b>	
	(in 000 ALL)	(in 000 ALL)	<b>Difference</b>
Incomes from loans interest	284,508	241,894	42,614
Incomes from investments	163,195	115,985	47,210
<b>Total Financial Incomes</b>	<b>447,703</b>	<b>357,879</b>	<b>89,824</b>
<b>Financial Expenses</b>			
Interest for credit lines	120,871	81,768	39,103
Interest for savings	12,031	10,061	1,970
Others	2,681	1,127	1,554
<b>Total of Financial Expenses</b>	<b>135,583</b>	<b>92,956</b>	<b>42,627</b>
<b>Gross Financial Margin</b>	<b>312,120</b>	<b>264,923</b>	<b>47,197</b>
Provisions for standard loans	3,579	6,547	-2,968
Provisions for loans at risk	4,573	4,894	-321
<b>Net Financial Margin</b>	<b>303,968</b>	<b>253,482</b>	<b>50,486</b>
Staff expenses	110,254	92,427	17,827
Administrative expenses	103,217	84,880	18,337
Depreciation of fixed assets	9,151	7,152	1,999
<b>Total expenses</b>	<b>222,622</b>	<b>184,459</b>	<b>38,163</b>
<b>Net Operational margin</b>	<b>81,346</b>	<b>69,023</b>	<b>12,323</b>
Non financial incomes	99,143	18,082	81,061
Non financial expenses	119,160	26,415	92,745
<b>Result without subvention</b>	<b>61,329</b>	<b>60,690</b>	<b>639</b>
Subventions	2372	3163	-791
<b>Net result (profit)</b>	<b>63,701</b>	<b>63,853</b>	<b>-152</b>

**CASH FLOW STATEMENT**

	<b>31.12.2009</b> <b>(in 000 ALL)</b>	<b>31.12.2008</b> <b>(in 000 ALL)</b>
<b>Cash Flow from Operational Activity</b>		
Current year result	<b>63,701</b>	<b>63,852</b>
Adjustment to obtain net cash used		
- Depreciation	<b>9,151</b>	<b>7,152</b>
- Provisions	<b>8,152</b>	<b>11,442</b>
- Accrued Income	<b>-30,611</b>	<b>-34,679</b>
- Accrued Expenses	<b>62,736</b>	<b>33,006</b>
- Depreciation of grants	<b>-2,372</b>	<b>-3,163</b>
Net Cash Used	<b>110,757</b>	<b>77,610</b>
<b>Differences in operational assets and liabilities</b>		
(Increase)/Decrease of member's loans	-180,454	-329,010
(Increase)/Decrease of member's deposits	31,623	15,542
(Increase)/Decrease of other assets	-95,547	-22,884
(Increase)/Decrease of other liabilities	44,394	138,963
<b>Net Cash used in operational activities</b>	<b>-199,984</b>	<b>-197,389</b>
<b>Cash- Flow from investment activity</b>		
Decrease /(Increase) of term deposits	-445,831	-250,859
Decrease /(Increase) of treasury bonds	140,000	-140000
Purchase of fixed assets	-39,420	-5,884
<b>Net cash used in investment activity</b>	<b>-345,251</b>	<b>-396,743</b>
<b>Cash- Flow from financial activity</b>		
Differences in long-term loans received	468,677	550,043
Differences in grants received		
Differences in equity and reserves	9,653	16,205
<b>Net Cash used in financial activity</b>	<b>478,330</b>	<b>566,248</b>
<b>Decrease/Increase of cash</b>	<b>43,852</b>	<b>49,726</b>
Cash at the beginning of the period	62,536	12,810
<b>Cash at the end of the period</b>	<b>106,388</b>	<b>62,536</b>

## **1. General**

Albanian Savings and Credit Union is a non-profit institution, which operates according to the Law Nr. 8782, date 03.05.2001, "On Savings and Credit Associations. ASC Union is licensed from the Bank of Albania on 9 August 2002. All assets, liabilities and capitals of Rural Financial Fund have been transferred to ASC Union in May, 2003.

ASC Union has as its activity mission to support financially and technically the Savings and Credit Associations, which are rural financial institutions, funded and managed by members which have as their aim to promote the production activities in rural areas.

Main aims of ASC Union activity are:

- To increase the activities to generate incomes in intervention areas,
- To collect savings from members of Savings and Credit Associations.

The ASC Union Head Office is located in Tirana. By the end of 2009, ASC Union operates in 16 districts of the country, with 106 SCAs.

## **2. Summary on accounting policies**

### **(a) Basis of preparation**

The financial statements have been prepared in accordance to the bank of Albania Regulation "On the Supervision of Savings and Credit Associations and their Unions". Due to the character of the institution (activity in microfinance) the accounting process should be in conformity with the needs of the institution as well as of the partners with whom it cooperates.

### **(b) Used Currency**

Financial statements are expressed in Albanian currency. The Union, during its activity, offers financial services in the local currency "ALL" and in foreign currency "EURO", which are converted in ALL at the moment of operation. At the end of the fiscal year, regulations are made to the position of all bank accounts and loans in foreign currency according to the Bank of Albania exchange rate as of 31 December.

### **(c) Liquid assets**

Liquid assets include the cash on hand and bank.

### **(d) Investments**

Investments comprise bank deposits and Treasury Bonds with a determined maturity. Periodically, the gained incomes from investments as recorded to the result account.

**(e) Interests from loans and deposits as incomes and expenses.**

Income from loans is booked in the result account at the moment of its factual depositing, whereas expenses from deposits interest are booked in the results account through calculation.

**(f) Loan portfolio**

Loan portfolio consists of loans that the Union lends to the Savings and Credit Associations. Each given loan is object of a refinancing contract between the parties. Loan portfolio is presented in gross value.

Loans are given to SCAs with a term of 1-3 year with an interest of 12%.

Also, Union supports the SCAs network development with a fund for capitalization, in the form of loans with a term of 5 years and interest of 5%.

Loan policies and Bank procedures are in accordance with to the Bank of Albania guidelines. The Union classifies its loans based on the following categories by applying these percentages for provisions (in accordance with the Bank of Albania regulations):

<b>Loan Type</b>	<b>Provision</b>
Standard Loans	2%
Sub-standard loans (overdue 31-90 days)	30%
Doubtful loans (overdue 91- 365 days)	75%
Lost loans (overdue more than 365 days)	100%

Provisions for overdue loans are reported with minus in the assets of balance sheet, whereas provisions for standard loans, foreseen for possible loss are reported under the liabilities of the balance sheet.

**(f) Fixed Assets**

Properties and equipments of the Union are kept with the real value by subtracting depreciation. Depreciation is calculated on the straight line basis over the initial value of assets. The annual percentages of depreciation are as follows:

	<b>Annual % of depreciation</b>
Building	5%
Vehicles	20 %
Furniture and fittings	12 %
Work equipment (computers, photocopies, appliances)	25 %

**(g) Borrowings**

In order to realize its activity, in addition to its own capital, the Union borrows funds in ALL, USD, EUR as per the terms defined in the agreement. Borrowing is one of the most important sources of the Union. These funds are reported at their remaining real value. Interest expenses are made on a calculation basis. The borrowed funds in foreign currency are expressed in ALL converted with the spot exchange rate. At the end of each quarter, their revaluation is done, recording the differences in the result.

The borrowed funds as at 31 December 2009 are reported at their remaining balance evaluated with the rate as of 31.12.2009, meanwhile interest expenses are calculated on the basis of the norm defined on the agreement.

**(h) Own equity of the Union comprises:**

- Rural Financial Fund capitals transferred at a historic cost.
- Grants and reserves from CEFA according to the Agreement between ASC Union and “European Community for Forming Agriculture” of November 2003.
- Paid – up capital (SCA proportional shares and membership dues)
- Reserves created from the result
- Reserves of the current year.

**(i) Operational Expenses**

Operational expenses are presented when incurred.

**(j) Transactions in foreign currency**

For a normal functioning of the financial activity, the Union uses accounts in foreign currency as well.

During the year, the transactions are performed on the base of the daily exchange rate of the bank with which is operated. At the end of the year, the positions are revaluated according to the exchange rate of Bank of Albania as at 31 December.

Differences from the revaluation are recognized in the result account.

	31 December 2009	31 December 2008
USD	95.81	87.91
EUR	137.96	123.8

**(k) Taxes**

ASC Union is created as a non-profit institution. Based on the law No. 8782, date 03.05.2001, ASC Union is excluded from the tax on profit and tax on income. ASC Union is subject not only to tax on income of the staff and social insurances for employees.

**3. Liquid Assets**

Cash and Central Bank include cash balance on hand and in the Central bank, as follows:

		31 December 2009	31 December 2008
Cash on Hand	ALL	5	14
Current accounts	ALL	34,661	45,816
Current accounts	EUR	1,697	499
Current accounts	USD	1,300	1.207
Transit			15,000
<b>Total</b>		<b>37,663</b>	<b>62,536</b>

#### 4. Investments

Investments are as follows:

		In thousand ALL	
		31 December 2009	31 December 2008
Treasury Bonds	ALL		140,000
Deposits in Banks	EUR	1,073,498	627,666
Deposits in Banks	ALL		
Accrued Interest	ALL	41,032	8,116
<b>Total</b>		<b>1,114,530</b>	<b>775,782</b>

#### 5. Loan Portfolio and Provision

Loan portfolio and provisions are presented as below:

		In thousand ALL	
		31 December 2009	31 December 2008
Loan Portfolio		2,529,582	2,344,556
Provisions for lost loans		(9,633)	(5,060)
<b>Net portfolio</b>		<b>2,519,949</b>	<b>2,339,496</b>

Movements in provisions for overdue loans are as follows:

		In thousand ALL	
		31 December 2009	31 December 2008
At the beginning of the year		5,060	166
Additions for the year		9,146	9,791
Decreases		4,573	4,897
<b>At the end of year</b>		<b>9,633</b>	<b>5,060</b>

Based on the Bank of Albania regulations, the provisions for standard loans are presented as statistical provisions under liabilities as follows:

		In thousand ALL	
		31 December 2009	31 December 2008
At the beginning of the year		46,757	40,210
Amount for the year		3,579	6,547
Reversal for provisions			
<b>End of the year</b>		<b>50,336</b>	<b>46,757</b>

## 6. Fixed Assets

Fixed assets are presented as below:

In thousand ALL

	Transport Vehicle	Furniture and Equipment	Electronic & office equipment	Information Program	Buildings	Land	Total
<b>31.12.2008</b>	<b>17,262</b>	<b>14,657</b>	<b>15,633</b>	<b>7,981</b>	<b>1,600</b>	<b>2,250</b>	<b>59,383</b>
Additions		4,647	5,118		29,656		39,421
Decreases	11	2,286	4,599				6,896
<b>31.12.2009</b>	<b>17,251</b>	<b>17,018</b>	<b>16,152</b>	<b>7,981</b>	<b>31,256</b>	<b>2,250</b>	<b>91,908</b>
<b>Accumulated Depreciation</b>							
<b>31.12.2008</b>	<b>(14,395)</b>	<b>(4,530)</b>	<b>(10,852)</b>	<b>(5,320)</b>	<b>(400)</b>		<b>(35,497)</b>
Additions	819	1,897	4,964	1,996	970		10,646
Decreases	11	1,684	4,599				6,294
<b>31.12.2009</b>	<b>(15,203)</b>	<b>(4,743)</b>	<b>(11,217)</b>	<b>(7,316)</b>	<b>(1,370)</b>		<b>(39,849)</b>
<b>Net value</b>							
<b>31.12.2008</b>	<b>2,867</b>	<b>10,127</b>	<b>4,781</b>	<b>2,661</b>	<b>1,200</b>	<b>2,250</b>	<b>23,886</b>
<b>31.12.2009</b>	<b>2,048</b>	<b>12,275</b>	<b>4,935</b>	<b>665</b>	<b>29,886</b>	<b>2,250</b>	<b>52,059</b>

## 7. Other Assets

Are composed of:

In thousand ALL

	31 December 2009	31 December 2008
Fond for SCA capitalization	28,500	16,000
Expenses Compensation (SCA/ Union)	20,795	18,893
Prepayment	409	1,068
Warehouse	3,558	3,552
Others	85,028	3,261
<b>Total</b>	<b>138,320</b>	<b>42,774</b>

## 8. Borrowings

Borrowings are detailed below:

In thousands ALL

	Currency	31 December 2009	31 December 2008
1. Loans in line with Agreement Cr. 3253 ALB	ALL	434,435	480,165
2. Loans in line with Agreement AGA	ALL	188,265	194,756
3. Raiffeisen Loans	ALL	125,000	

4. Credins Bank loans	EUR	30,000	
5. Spanish Government loan 1	EUR	275,920	247,600
6. Spanish Government loan 2	EUR	689,800	619,000
7. Spanish Government loan 2	ALL	275,920	
8. International Bank Loan	ALL	65,000	
9. International Bank Loan	ALL	143,000	146,400
10. Banka Popullore loan 1	ALL	51,255	98,000
11. Banka Popullore loan 2	ALL	147,000	147,000
12. Credins Bank loan	ALL	57,333	86,026
<b>Total loans</b>		<b>2,482,928</b>	<b>2,018,947</b>
11. Accrued interests		18,275	13,580
<b>Total</b>		<b>2,501,203</b>	<b>2,032,527</b>

1. In conformity with Rural Microfinance Project Cr.3253 ALB, RFF has borrowed loans for credit lines 685,949,961 ALL, based on Sub-loan Agreement, dated 14.10.1999, between the Ministry of Finance and Rural Finance Fund for this project (actually Albanian Savings and Credit Union). This is a long-term loan (15 years of maturity) including a 5 years grace period. The interest rate is 2.5% with 6-months maturity, which Union has paid duly. Starting from 2004 the Union has paid in time the principal as per the defined schedule. As of 31.12.2009, the Union has a liability of 434.4 million ALL.
2. According to the Development Loan Agreement between Albanian and International Association for Development (IDA), Council of Ministers Decision No. 499 dated.23.7.2004, Ministry of Finance, based on the Sub-loan Agreement, has allocated to ASC Union an amount of 194,756,376 ALL. According to the agreement, this loan will be paid back in ALL. This loan has a long-term maturity (20 years), including 5 years grace period. The interest rate is 2.5 % and started to be paid back duly each 6 months, beginning from 2005. The principal started to be paid back in 2009. As of 31.12.2009, Union has a liability of 188.3 million ALL.
3. On 25.22.2004 ASC Union has signed an Agreement with "Institute of Credit Office" (ICO) for a borrowing of 2,000,000 Euro, which is disbursed in three installments. Interest rate of the borrowing is EURIBOR + 1.05%. This loan has a maturity period of 10 years with 5 years grace period. As of 31.12.2009 the liability of Union is 2,000,000 EUR, with a corresponding value of 275.9 million ALL.
4. ASC Union, on 29.09.2006 in Tirana and on 15.11.2006 in Madrid has signed an agreement with "Institute of Credit Office" (ICO) for a loan of 5,000,000 Euro. The loan is totally disbursed. The interest rate is 4.5%

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and the maturity period is 10 years with 5 years grace period. As of 31.12.2008, the liability is 5,000,000 EUR, with a corresponding value of 689.8 million ALL. ASC Union, on December 2008 has signed an agreement with "Institute of Credit Office" (ICO) for a borrowing in the amount of 10,000,000 Euro, which will be disbursed in three installments. The interest rate of the loan is 5%. This borrowing has a maturity period of 10 years, with a 5 years grace period. As of 31.12.2009 the liability is 2,000,000 EUR, with a corresponding value of 275.9 million ALL.

5. In order to maintain the equilibrium of the positions in foreign currency accounts, the Union is obliged to deposit into banks parts of the amount in foreign currency as collateral against the corresponding value of the loan in ALL.

During the year 2009, Union has in process loan agreements in ALL with three banks:

- Banka Popullore for the value of 98 million ALL, with an interest rate equal to 8.9%, maturity period of 1 year, having as collateral a deposit of 1 million EUR with 4.75% interest rate.
- International Commercial Bank for the value of 143 million ALL, with an interest equal to the weighted average of the 12 months treasury bonds yields, plus 1% margin, with a maturity period of 3 years, having as collateral a deposit of 800,000 EUR with an interest rate of 5.86 %.
- International Commercial Bank, for the value of 65 million ALL, with an interest rate equal to nominal interest rate for loan repayment will be 8.8% per year in fixed rate, calculated on monthly outstandings. The effective interest rate is 8.8% in annual basis. Maturity period is 1 year. The interest is payable each month. A deposit of 500,000 EUR with a maturity period of 36 months serves as collateral for this loan.
- Banka Popullore, for the value of 147 million ALL. The interest rate is equal to the weighted average of 12 month treasury bonds yields, at the last auction before the agreement date plus 1%. Maturity period is 3 years, of which 1 year is free of principal payment. The interest is payable each 3 months. A deposit of 851,680 EUR with a maturity of 36 months serves as collateral for this loan.
- Credins Bank, for the value of 57.3 million ALL, with an interest rate equal to weighted average of 12 months treasury bonds, at the last auction of the agreement date plus 1%. Maturity period is 3 years. Principal is payable on the maturity, whereas the interest each 3 months. A deposit of 500,000 EUR and with 12 months maturity period serves as a collateral for this loan
- Credins Bank, for the value of 30 million ALL, with an interest rate equal to weighted average of the 12 months treasury bonds, at the last auction of the agreement date plus 0.9 %. Maturity period is 3 years. Principal is payable each year, whereas interest is payable each 3 months. A deposit of

700,000 EUR and with 36 months maturity period serves as a collateral for this loan.

- Raiffeisen Bank, for the value of 125 million ALL. One year Tribor with an interest rate equal to one year Tribor on the disbursement date fixed for one year and changeable each year +1% (one) per year. Maturity period of the loan is 2 years. Principal is payable at the end of maturity period, whereas the interest is payable each 3 months. A deposit of 1 million EUR with a maturity period of 24 months serves as collateral for this loan.

## 9. SCAs deposits into the Union

Liabilities to SCAs as of 31 December 2009

In thousand ALL

	31 December 2009	31 December 2008
Term deposits	208,151	177,172.9
Accrued Interest	3,098	2,453
<b>Total</b>	<b>211,249</b>	<b>179,626</b>

In compliance with the Bank of Albania regulations on the Savings and Credit Associations, the Union accepts deposits from Savings and Credit Associations. The annual interest rate is determined by the institution's policies, approved by the Union's Board.

## 10. Liquidities in Union

In thousand ALL

	31 December 2009	31 December 2008
Liquidities	188,412	142,035
<b>Total</b>	<b>188,412</b>	<b>142,035</b>

According to the Bank of Albania Regulation, the SCAs are obliged to deposit into the Union liquidities for their clients deposits with a maturity period not longer than 6 months, at the amount of 7% of the total value of deposits.

Also, the SCAs liquidities temporarily free are transferred into the Union.

## 11. Other Liabilities

Other liabilities result as follows:

In thousands ALL

	31 December 2009	31 December 2008
Tax on personal incomes	1,277	1,051
Social insurance payable	1,872	1,706
Expenses for the previous year		4,842

Bonus payable	3,000	4,000
Funds for Gerdeci	251	251
Exchange rate difference	-	-
Depreciable grants	4,178	8,357
Reserves for standard loans (2%)	50,336	46,757
Other liabilities	7,013	2,945
<b>Total</b>	<b>67,927</b>	<b>69,909</b>

## 12. Capacity building grants

		In thousands ALL			
		31	December	31	December
			2009		2008
WB Grants			4		4,183
- grants for operational expenses + capacity building	4			4	
- grants for fixed assets				4,179	
Rabobank grants	4,174		4,174	4,174	4,174
			<b>4,178</b>		<b>8,357</b>

The Union has used the amount taken from the World Bank through the Albanian Government for Capacity Building according to its destination. The amount of about 4 million ALL consists of the purchase of fixed assets with grants, which will be depreciated gradually by transferring periodically amounts (at depreciation value) to income. Part of Rabobank grants will be used during the year 2009.

## 13. Paid-up capital

Paid-up capital is composed as below:

		In thousands ALL	
		31 December	31 December
		2009	2008
SCAs membership dues		1,230	1,180
SCAs paid proportional shares		85,176	75,574
<b>Total</b>		<b>86 406</b>	<b>76 754</b>

In compliance with the SCA regulation, each SCA is obliged to pay membership due to the Union (at the value of 10.000 ALL), which is registered in the paid-up capital of the Union. Also, with a decision from the BoD of the Union, the SCAs pay to the Union an proportional share of 2% of assets.

## 14. Equity and Grants

Grants are presented as below:

In thousand ALL

	31 December 2009	31 December 2008
1. Inherited Capital	469,229	469,229
2. Government Grants	69,435	69,435
3. CEFA Grants	4,483	4,483
<b>Total</b>	<b>543,147</b>	<b>543,147</b>

1. Inherited Capital is composed of the RFF, transferred at the ASC Union, based on the Agreement dated 15 May 2003, between the RFF, represented by the Ministry of Finances and the ASC Union. Based on this agreement, the parties have decided to transfer RFF assets and liabilities to the ASC Union, except of the loan portfolio which was followed up by the RFF.
2. The Government Grant is given by the Albanian government, in reliance to the "Sub-Loan Agreement for Micro credit Project" Cr.3253 ALB for RFF. Based on this agreement, ASC Union has used this amount to refinance SCAs.
3. The "European Committee for Forming Agriculture" ("CEFA") Grant was allocated based on the agreement for "Loan transfer", No. 13523, date 30.11.2003, between the CEFA and ASC Union. According to this agreement, CEFA has donated the amount of 3.792.000 ALL and later the amount of 691.000 ALL, constituted of the disbursed funds in the Elbasan Branch. Also, based on this agreement, CEFA has given an additional amount of 2.879.442 ALL to be used as provision for lost loans. This amount, which is registered as reserve (see note 14 below) will be transferred into capital after the loans will be paid back completely.

## 15. Reserves

Reserves are composed as below:

In thousand ALL

	31 December 2009	31 December 2008	31 December 2007
Reserves from CEFA	2,879	2,879	2,879
Legal reserves	19,760	13,374	8,066
Statutory reserves	98,798	66,872	40,331
Other reserves	79,039	53,498	32,265
<b>Total</b>	<b>200,476</b>	<b>136,623</b>	<b>83,541</b>

Reserve for Grants from CEFA is a reserve created based on the agreement between the ASC Union and CEFA, on November 2003. According to this agreement, CEFA has allocated funds for loans to clients and an additional fund (2,879,442.60 ALL) to cover the risks of these loans. This amount will be kept as a reserve till the loans will be paid back fully. Actually, in 31.12.2009, it results only one client with the amount of 345.097 ALL. This client will close its loan on year 2012. After this loan will be paid back, this amount, according to the agreement will go as capital to ASC Union.

According to the Law No. 8782, date 03.05.2001, the net result of the year goes in the account of reserves: Legal reserves (1/10 of the annual surplus), Statutory reserves (according to the decision of the Board), and the difference of other reserves.

## 16. Incomes from Interest

Union's financial income is presented as below:

	In thousand ALL	
	31 December 2009	31 December 2008
Incomes from SME	9,164	10,732
Incomes from SCA Loan interest	274,974	230,910
Other incomes from loans (penalties)	371	253
Incomes from investment and deposits	87,537	52,027
Other Incomes (SCAs, Bank interests)	75,657	63,958
<b>Total</b>	<b>447,703</b>	<b>357,880</b>

The account "Other Incomes" represents the amount of payments done by the SCAs to the Union for the expenses compensation.

## 17. Interest Expenses

Expenses for borrowings and other liabilities interests are presented as below:

	31 December 2009	31 December 2008
Interests for borrowings	120,871	81,767
Interests for customer deposits	12,031	10,061
Other financial expenditure	2,681	1,127
<b>Total</b>	<b>135,583</b>	<b>92,955</b>

## 18. Other incomes from non financial services

Other incomes from non financial services are presented as follows:

	31 December 2009	31 December 2008
Difference from exchange rate	97,109	15,785
Difference from previous year	2	2,297
Other incomes	2032	
<b>Total</b>	<b>99,143</b>	<b>18,082</b>

**19. Other expenses from non financial services**

Other expenses from non financial services are presented as below:

	31 December 2009	31 December 2008
Difference from exchange rate	119,151	26,307
Difference from previous year	1	109
Provision for the current portfolio	3,579	6,548
Other expenses	8	
<b>Total</b>	<b>122,739</b>	<b>32,964</b>

**20. Staff Expenses**

Staff expenses:

	31 December 2009	31 December 2008
Salaries	97,512	78,319
Social insurances	12,411	11,603
Other	331	2,505
<b>Total</b>	<b>110,254</b>	<b>92,427</b>

**1. Other Administrative expenses**

	31 December 2009	31 December 2008
Accommodation and transport	18,374	17,429
Rent	16,540	12,917
Seminars, training materials		
Capacity building (support for SCAs)	39,447	28,344
- marketing	20825	
- Equipment & printing	9838	
- Assemblies & trainings	8784	
- Others		
Other expenses	7,901	11,300
Audit Expenses	2,252	2,252
Others	15,094	12,638
<b>Total</b>	<b>103,217</b>	<b>84,880</b>

**2. Incomes from Grants**

Grants incurred as income as below:

	31 December 2009	31 December 2008
Grants from Rabobank		
Grants from World Bank		
Retaining depreciation from grants	2,372	3,163
	<b>2,372</b>	<b>3,163</b>

**BALANCE SHEET OF UNION – SCA GROUP**

31.12.2009

<b>Assets</b>	<b>SCA</b>	<b>UNION</b>	<b>GROUP</b>
Cash & Bank	1,428,704.00	37,662,762.00	39,131,466.00
Union Liquidities	188,452,343.00		
Investments & Deposits	213,535,015.00	1,114,529,923.00	1,116,816,000.00
Proportional share and membership dues in Union	94,010,779.00		8,687,304.00
Total SCAs' Portfolio	3,865,759,311.00	2,529,582,211.00	3,913,950,861.00
(Reserves for loans at risk SCA)	(68,171,005.00)	(9,632,891.00)	(77,803,896.00)
Fixed Assets	15,255,741.00	91,907,740.00	107,163,481.00
(Depreciation of Fixed assets)	(4,531,204.00)	(39,848,544.00)	(44,379,748.00)
Other assets	18,167,651.00	138,320,966.00	127,988,617.00
<b>TOTAL ASSETS</b>	<b>4,323,907,335.00</b>	<b>3,862,522,167.00</b>	<b>5,191,554,085.00</b>
<b>DEBIT</b>			
<b>LIABILITIES</b>			
Borrowings (credit lines)	2,481,390,661.00	2,501,203,527.00	2,501,203,527.00
Savings	1,141,026,772.00	208,150,636.00	1,141,026,772.00
Accrued Interest	36,397,351.00	3,098,302.00	36,397,351.00
Other liabilities	125,252,030.00	256,338,580.00	193,178,267.00
<b>TOTAL LIABILITIES</b>	<b>3,784,066,814.00</b>	<b>2,968,791,045.00</b>	<b>3,871,805,917.00</b>
<b>EQUITY</b>			
Social shares	264,969,022.00	86,406,475.00	266,052,022.00
Rezerves for risk	213,952,411.00	200,476,336.00	414,428,747.00
Own capitals	28,500,000.00	543,146,717.00	543,146,717.00
Previous year not allocated earning			
Current year result	32,419,089.00	63,701,593.00	96,120,682.00
<b>TOTAL EQUITY</b>	<b>539,840,522.00</b>	<b>893,731,121.00</b>	<b>1,319,748,168.00</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,323,907,336.00</b>	<b>3,862,522,166.00</b>	<b>5,191,554,085.00</b>

**INCOME STATEMENT OF UNION – SCA GROUP**

31.12.2009

	<b>SCA</b>	<b>UNION</b>	<b>GROUP</b>
<b>FINANCIAL INCOMES</b>			
Incomes from loans at SCAs	584,700,006.00	284,507,810.00	594,486,641.00
Total income from loans	584,700,006.00	284,507,810.00	594,486,641.00
Incomes from investment	12,682,346.00	87,537,258.00	59,841,158.00
Int. from other financial services	3,906,530.00	75,657,446.00	317,236.00
Total other incomes	16,588,876.00	163,194,704.00	60,158,394.00
<b>TOTAL FINANCIAL INCOMES</b>	<b>601,288,882.00</b>	<b>447,702,514.00</b>	<b>654,645,035.00</b>
<b>FINANCIAL EXPENSES</b>			
Interest for credit lines	274,721,175.00	120,871,011.00	120,871,011.00
Interest for deposits	71,287,569.00	12,031,124.00	71,287,569.00
Other financial expenses	28,853,231.00	2,680,568.00	(402,817.00)
<b>Total financial expenses</b>	<b>374,861,975.00</b>	<b>135,582,703.00</b>	<b>191,755,763.00</b>
<b>Gross financial margin</b>	<b>226,426,907.00</b>	<b>312,119,811.00</b>	<b>462,889,272.00</b>
Provision for standard loans	6,179,370.00		6,179,370.00
Provision for lost loans	44,358,681.00	4,572,938.00	48,931,619.00
<b>Net financial margin</b>	<b>175,888,856.00</b>	<b>307,546,873.00</b>	<b>407,778,283.00</b>
<b>OPERATIONAL EXPENSES</b>			
<b>Staff expenses</b>	<b>12,931,986.00</b>	<b>110,254,218.00</b>	<b>123,186,204.00</b>
<b>Administrative expenses</b>	<b>130,294,878.00</b>	<b>103,216,865.00</b>	<b>157,854,296.00</b>
Depreciation of fixed assets	1,707,026.00	9,150,621.00	10,857,647.00
<b>Total operational expenses</b>	<b>144,933,890.00</b>	<b>222,621,704.00</b>	<b>291,898,147.00</b>
<b>Net Operational Margin</b>	<b>30,954,966.00</b>	<b>84,925,169.00</b>	<b>115,880,136.00</b>
Other non financial incomes	203,770.00	99,143,185.00	99,346,955.00
Other non financial expenses	64,596.00	122,739,229.00	122,803,825.00
<b>NET RESULT WITHOUT DONATIONS</b>	<b>31,094,140.00</b>	<b>61,329,125.00</b>	<b>92,423,266.00</b>
Donations, grants	1,324,948.00	2,372,469.00	3,697,417.00
<b>RESULT</b>	<b>32,419,088.00</b>	<b>63,701,594.00</b>	<b>96,120,683.00</b>