

UNIVERSITY OF TARTU

Faculty of Social Sciences

School of Economics and Business Administration

Markus Sossi

FINANCIAL PERSPECTIVES OF COOPERATIVE FINANCIAL INSTITUTIONS IN THE
TRANSFORMATION OF SAVINGS AND LOAN ASSOCIATIONS INTO
ASSOCIATION BANKS IN THE REPUBLIC OF ESTONIA

Bachelor Thesis

Supervisor: PhD Maire Nurmet

Tartu 2024

I have written this Bachelor Thesis independently. Any ideas or data taken from other authors or other sources have been fully referenced.

Table of contents

Introduction	4
1. Theoretical foundations of cooperative financial institutions	5
1.1 Definition and organization of cooperative financial institutions	6
1.2. The main features and functions of the cooperative financial institutions.....	8
1.3. Financial characteristics of cooperative financial institutions	12
2. Financial analysis of transforming Saving and Loan Associations into Association banks	15
2.1. Data and methodology	15
2.2. Analysis of problems and consequences of the transformation of Saving and Loan Associations into Association banks or creation of a central cooperative	19
2.2.1. Transformation of Saving and Loan Associations into Association banks.....	19
2.2.2. Creation of a central cooperative	21
2.3. Results of financial analysis of SLAs in Estonia	22
Conclusion.....	29
List of references	32
Resümee	35

Introduction

According to Estonian law (Savings and Loan Association Act, 1999), financial services can be provided today as a cooperative in two ways: either as a Savings and Loan Association (SLA) or as an Association bank (AB). SLA has the potential to promote the economic and social sphere and improve the availability of financial services outside the main economic centres of Estonia. According to the statistics of the Estonian Central Bank (Savings and Loan Association, 2024), as of April 10 2024, there are currently 16 SLAs operating in Estonia with 13,747 members. An AB has yet to be founded. The Savings and Loans Association Act, passed on February 2, 1999, is Estonia's primary legislation governing SLA operations. SLA is the only type of financial institution currently outside the Estonian Financial Supervision and Resolution Authority's control.

ABs are subject to Basel III in the majority of European nations. Some of the most enormous ABs (in Germany, France, and the Netherlands) are considered systemically significant. Although the Basel III Accord does not apply to credit unions, several national and provincial credit union authorities have incorporated specific Basel standards or regulatory reforms influenced by Basel principles. Recent regulatory reform has included revised capital and liquidity requirements, asset and activity restrictions, the implementation of supervisory stress testing arrangements, and the identification and closer supervision of systemically important financial institutions, as captured by the Basel III Accord. (McKillop et.al.,2020)

In the future, SLA has two options: either reorganized into AB or cease operations. The purpose of the reorganization is to protect the deposits of SLA members. According to the umbrella organisation of the SLA, this will end the historical business direction that has filled the niche of banks and between the so-called grassroots level. The amendment of the Law on Savings and Loan Association was caused by cases where two SLAs ran into difficulties, with the potential loss of savings for people who have made financial investments in them. Although several experts, including Eesti Pank, had already drawn attention to possible problems, these cases triggered severe alarm bells for the Ministry of Finance, indicating that one part of the financial sector in Estonia is weakly regulated. There is essentially no financial supervision over it, and there is no deposit insurance. (Estonia, 2023)

The current thesis focuses on how the SLAs operate and differ from cooperative banks. What are the specific requirements and regulations for SLAs based on new policies set by the Ministry of Finance? Also, it goes over the steps that SLAs and their chairmen are expected to follow to transform into ABs.

The current thesis focuses on how the SLAs operate and differ from cooperative banks. What are the specific requirements and regulations for SLAs based on new policies set by the Ministry of Finance? Also, it goes over the steps that SLA and their chairmans are expected to follow to transform into ABs.

The thesis aims to determine the financial performance of SLAs. Give overview of two potential ways that The Ministry of Finance could follow to restructure the structure of SLAs. Also, compares them, bringing out their main differences and positive and negative sides.

The author develops several theoretical and empirical research tasks to fulfil the thesis's aim:

- Define the definition and organization of cooperative financial institutions.
- Bring out the main features and functions of the cooperative financial institutions.
- Based on previous studies, investigate the financial characteristics of cooperative financial institutions.
- Analyse, what are the possible problems and consequences of the transformation of SLAs into ABs or creation of a central cooperative.
- Analyse the financial indicators calculated based on the annual report and from the rankings of SLAs in Estonia to see which SLAs would be able to turn into ABs if needed.

The thesis consists of a theoretical and an empirical part. The framework of the thesis provides that the first three tasks of the thesis are completed in the theoretical part. The rest of the research is conducted in the empirical part. The overall theme of the theoretical part is to define the main concepts of the thesis. Based on previous studies bring out the main features, functions and characteristics of SLA and cooperative banks. The empirical part focuses on analyzing the financial indicators from the previous studies to evaluate the financial performance of SLAs and give an overview of the past year's changes in the number of members, assets and stock of deposits. Also, analyze possible problems and consequences if SLAs would need to transform into AB or a central cooperative is created.

Keywords: Saving and Loan Association, Association bank, Union of Estonian Savings and Loan Associations, cooperative banks, central cooperatives

1. Theoretical foundations of cooperative financial institutions

This thesis focuses on their comparative study of the structural and distinguishing features of ABs and SLAs. The first part of this study focuses on characterising these financial

organisations, investigating their organisational structures, and emphasising their similarities and differences.

1.1 Definition and organization of cooperative financial institutions

Cooperative financial institutions are member-owned and member-governed financial organisations that aim to achieve pre-determined economic and social objectives. A majority of cooperatives have a membership that is concentrated at a local or regional level and cater to the financial needs of individual members, community groups and small firms. Each member has only one vote, irrespective of how many shares held. This reduces the ability of any member or group of members to impose a controlling influence on the direction of the institution. Cooperative financial institutions are often small. Traditionally, the membership of cooperative financial institutions has been structured around a common identity usually based on geographical location. This means that information asymmetry (adverse selection) is reduced, leading to better loan decisions, as borrowers are less able to under-represent risk (McKillop et al., 2020).

Their members own and run cooperative banks and function on the cooperative model. A village or other community's financial needs are met by people banding together to pool resources and offer banking services, including savings accounts, loans, and other financial services. (Singh, 2023)

The central cooperative is the joint property of its members, which they jointly own, use, and dispose of through the cooperative's management bodies. Members exercise their ownership rights through the cooperative as a legal entity by the guidelines outlined in the Cooperative Act of the Republic of Estonia and the central cooperative's articles of association. Once a year, the general assembly of members decides how much each member will own in co-ownership. The assets of the central cooperative are derived from member contributions, additional payments and receipts, and revenue generated by the cooperative's operations. (Eesti Vabariigi ühistuseadus, 2008)

Credit unions are entities, that provide financial services to members. A **credit cooperative** is a financial institution owned and managed by its members, who can borrow money at favourable interest rates from the collective savings of the organization (Cambridge University Press and Assessment, 2024). **Cooperative banks** are organisations that provide financial services to both members and non-members. Cooperative banks do not seek to maximise profits but rather generate profit in order to bolster capital and fund long-term growth. Shareholder-based commercial banks seek to maximise profits (McKillop et al., 2020). From a conceptual standpoint, cooperative banks are credit institutions and

cooperatives, primarily serving their members/owners and clients by offering financial services. The cooperative ideas of democratic participation and decision-making (one person, one vote) are the foundation for their governance. (Castelló, Trias, & Arribas, 2018)

According to Fried et al. (1993), cooperative banks' goals can be understood as maximizing the benefits they offer members because they are owned and run by their members. Benefits are defined as the credit union's services for loans and savings. This implies right away that maximizing profits is not the right goal. Nonetheless, given that credit unions and other financial intermediaries compete in many of the same marketplaces, Fried et al. (1993) concede that it is inappropriate to disregard the services provided by other financial intermediaries when creating a behavioural model for credit unions.

In Figure 1, the author gives an overview of the organization's structure. This helps to understand how different entities are characterized and how to operate on a cooperative level. It also clarifies the definitions and helps to compare them to the Estonian framework.

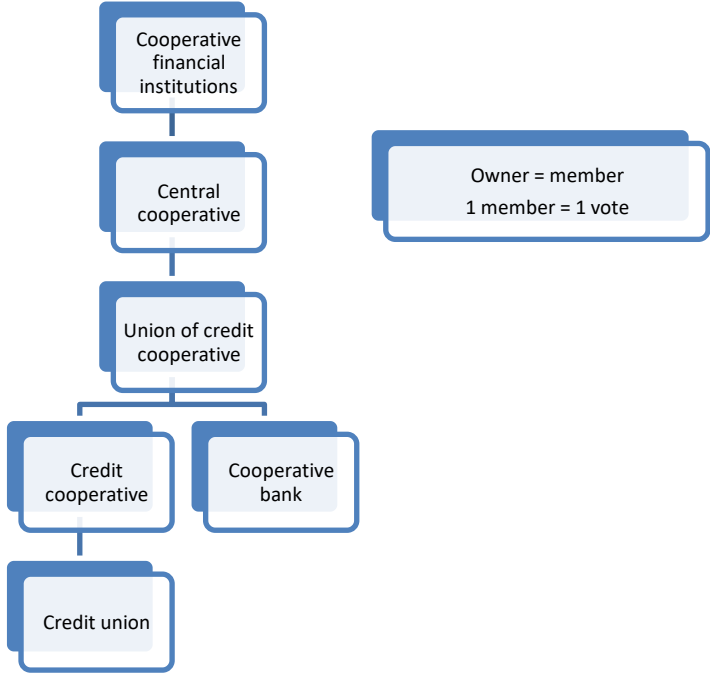


Figure 1. Structure of cooperative financial organizations

Source: compiled by the author

Tafenau (2015) claims that between 2004 and 2014, the credit cooperatives were not as severely impacted by the financial crisis as the commercial banks were. Credit unions can provide loans at lower interest rates and offer higher interest rates on savings than commercial banks. This is because their primary focus is to benefit their members by providing them with favourable services instead of generating profits for the owners, which is the banks' primary

objective. Although credit cooperatives currently only provide a small range of financial services, making them not a complete substitute for banks, there are still benefits for their members.

1.2. The main features and functions of the cooperative financial institutions

A representative organisation for credit cooperatives (SLAs) in Estonia is the Estonian Union of Credit Cooperatives, also known as the Union of Estonian Savings and Loan Associations. The union's mission is to advance credit cooperatives and stand for their interests in domestic and international institutions and those of the European Union. Regardless of how much each member contributed to the cooperative's capital, each credit cooperative member will have one vote at the general meeting. A small group of people owns all other credit and financial organisations and has highly compensated management that sets the institution's overall direction and profit-sharing policies. (Eesti Hoiu-laenuühistute Liit | EHLÜL, n.d.)

Currently, per Estonian law, financial services can be provided in an association format, such as the AB or the SLA. According to the Savings and Loan Association Act (1999), which regulates the activity of SLAs, an SLA is a type of financial organisation whose main ongoing business is to complete the following transactions:

- depositing money to use for other repayable funds and saves;
- loan transactions, such as factoring, mortgage loans, and consumer credit;
- lease agreements;
- participation of securities, assurances, benefits, and repaid funds with specific allocations provided by foundations, structural funds, or payment agencies established by the European Commission or states that have signed the EEA Agreement (referred to as the "contracting state") or other comparable entities, and their intermediaries;
- participation in the intermediation of securities, guarantees, and other repayable money provided by insurers, financial institutions, or credit institutions;
- offering guidance on matters about economic activity;
- additional transactions with a similar nature to the financial services offered.

There is a considerable difference between AB and traditional banks. Realign on the Credit Institutional Act, established in 1999, the ownership and governance structure separates AB from the rest. The ownership of the ABs consists of different members, with every member having one vote when making decisions. At the same time, traditional banks

are owned by shareholders or private investors. ABs prioritize member benefits, while traditional banks focus on having a diverse range of financial services.

According to the Credit Institution Act (1999), which regulates the activity of ABs, ABs are recognized as credit institutions that are in charge of the following transactions and acts:

- deposit transactions for the receipt of deposits and other repayable funds from the public;
- borrowing and lending operations, including consumer credit, mortgage credit, factoring and other transactions for financing business transactions;
- leasing transactions;
- payment services for the Paying Institutions and E-Money Institutions Act;
- issue and administer non-cash means of payment, e.g., electronic payment instruments, electronic money, traveller's cheques and bills of exchange;
- guarantees and commitments and other transactions creating binding obligations to people in future;
- transactions for either their own account or the accounts of clients involving traded securities;
- transactions and acts related to the issue and sale of securities;
- provide advice to clients on issues concerning economic activities and transactions and acts related to the merger or division of companies or participation therein;
- money broking;
- portfolio management and consultation on investment issues;
- safekeeping and administration of securities;
- collection, processing and transmission of credit information;
- safe custody services;
- other transactions and acts which are essentially similar to the financial transactions

SLA focuses on more narrowed down to savings and loan transactions, such as factoring, mortgage loans, consumer credit, and depositing money to repayable funds and savings. AB has provided the possibility to issue and administer non-cash means of payments, money broking, portfolio management, consultation on investment issues, safekeeping and administration securities, safe custody services, and other transactions and acts that are essentially similar to financial transactions.

The minimum share capital for an SLA is 31,950 euros (Savings and Loan Association Act, 1999). When founding a new business, a bank must have a paid-in share capital of at least 5 million euros. Share capital can only be represented by the amounts paid. In the case of the operating business, the bank's founding capital must be at least five million euros. The capital and reserves of the European Parliament and the Council make up the starting capital. (Credit Institution Act, 1999)

The Estonian Union of Credit Cooperatives members formed the Deposit Guarantee Fund (DGF). DGF will guarantee deposits made by members who have joined the Fund up to a maximum of EUR 20,000. Only SLAs that have signed a contract with the Fund and consistently contribute to it will have their deposits insured. The SLA must show that its operations comply with the Savings and Loan Associations Act and that its finances are sound enough to be accepted into the DGF. Currently, DGF guarantees the deposits of five SLAs: Maaelu Edendamise SLA, Saaremaa SLA, Kehtna SLA, Kambja SLA, and Põlvamaa SLA. (Eesti Hoiu-laenuühistute Liit | EHLÜL, n.d.)

Based on the example of Lithuania, the services provided by USLA are (Republic of Lithuania, 2016):

- aid in maintaining the liquidity of SLAs;
- speak for member cooperatives' interests and provide support to the central cooperative's Stabilisation Fund;
- accept associations of SLAs, public organizations, congregations, local and federal governments, rates cooperatives, and other housekeeping groups;
- grant loans;
- handle transactions involving collateral and guarantee; provide financial assistance to rate cooperatives;
- purchase securities using funds provided by the government, central bank, or other governments (Group A);
- carry out rate cooperative clearing activities and take part in other organizations' or the Bank of Lithuania's clearing systems;
- take part in programmes designed for government and elected country savings and loan cooperatives, obtain the resources required from them, and offer relevant technical and other support to savings and loan cooperatives;
- gather, handle, and distribute credit data regarding interest cooperatives;
- execute settlement and funds transfer procedures;

- non-cash payment methods, such as the issuing and administration of electronic payment methods, traveller's checks, and bills of exchange;
- carry out a transaction using foreign currency;
- offer suggestions and remarks on laws about cooperative savings and loans;
- plan Saving and Loan Association staff training and assist with methodological training;
- accept the paperwork, information sharing, and financial matters of the tariff cooperatives, establish suitable mechanisms, and collect cash;
- to act as a rate cooperative reorganizer and liquidator;
- to open savings accounts in both local and foreign currencies at the central bank and other banks;
- to purchase, sell, lease, pledge, or otherwise transfer real estate required for the activity;
- to issue and sell securities of both the company and others;
- to render other services appropriate for the central cooperative.

The author makes a summary based on the above that operating on the cooperative model, USLA, ABs, and SLAs strongly emphasize member ownership, democratic governance, and the provision of financial services for their members' benefit. Every organization offers various financial services, such as administering and issuing non-cash payment methods, leases, deposits, lending, and other transactions that result in legally enforceable liabilities. ABs, USLA, and SLAs are all community-focused financial institutions that serve specific communities needs. Furthermore, they are recognized by law under particular acts or regulations. The Credit Institutions Act of 1999 provides the basis for ABs, while the Credit Cooperatives Act Amendment Act of 2001 provides the basis for USLA. The Savings and Loan Cooperatives Act of 1999 provides the basis for the SLA.

Based on the information above, the author has conducted Figure 2, which presents the organizational structure of Estonia.

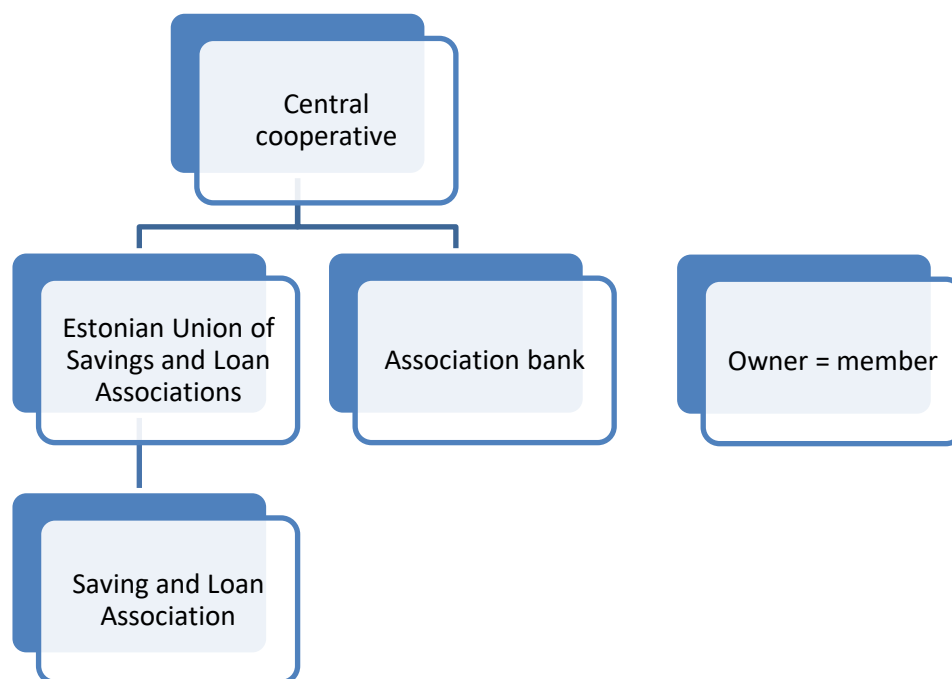


Figure 2. Structure of cooperative organizations in Estonia

Source: compiled by the author

The most significant difference between SLA and AB is that SLAs are not under Financial Inspection (FI) supervision. The Estonian Financial Supervision and Resolution Authority, or FI, is an independent body that oversees and resolves financial crises on behalf of the state of Estonia. It has its own budget and autonomous responsibilities. Banks, insurance companies, insurance intermediaries, investment firms, fund managers, pension and investment funds, payment institutions, e-money institutions, creditors and credit intermediaries, and the securities market are all subject to state supervision by FI, which grants activity licences for these businesses. (Estonian Financial Supervision and Resolution Authority, 2018) Not having financial control is the main reason for the SLAs' restructuring.

Compared to SLAs, ABs offer a broader range of services - deposits, loans, payment services, and guidance on economic matters. On the other hand, USLA prioritizes assisting other cooperatives over providing direct services to customers.

1.3. Financial characteristics of cooperative financial institutions

Under the financial perspective, the goal of a financial institution is to ensure that it earns a return on the investments made and manages key risks involved in running the business. (Stankeviciene & Mencaitė, 2012)

Analysis of financial perspectives focuses on financial analysis, which evaluates the SLA's ability to earn a return on capital. The return on capital must be at least equal to the

cost of that capital. The focus is on the growth and profitability of operations and the generation of enough cash to meet obligations and pursue opportunities. (CFA Institute, 2024)

According to Cornett et al. (1999), one method of determining a financial institution's shortcomings and issue areas is to use ratio analysis to analyze its financial statements. They suggest two methods for analyzing financial statements. The first strategy is time series analysis, which is applied when analyzing the financial institution's ratios over time to track its performance. The second method, known as cross-sectional analysis, is used when comparing the financial institution's performance against competing financial institutions at a particular moment.

Since the purpose of the SLA transformation proposal is to protect the deposits of SLA members, the essential critical (absolute) indicators used to characterise the cooperative bank by McKillop et al. (2020) are Savings (US\$ mil.), Loans (US\$ mil.), Assets (US\$ mil.), Reserves (US\$ mil.), Loans/assets (%), Reserves/assets (%).

Return on equity (ROE) and return on assets (ROA) were the two metrics utilized by Athanasoglou et al. (2005) to depict bank performance. The ability of a bank's management to make money off its assets is reflected in ROA in theory, albeit off-balance-sheet operations may skew the results. The return on equity (ROE) to shareholders is calculated by multiplying the ROA by the total assets-to-equity ratio. The latter, which gauges financial leverage, is frequently called the bank's equity multiplier. ROA is often considered a more reliable measure of profitability than ROE because it considers the leverage impact on efficiency performance (European Central Bank, 2010). Generally, banks with higher equity (less leverage) will report better ROA but lower ROE. Since financial leverage is frequently governed by regulations and a study of ROE ignores the higher risks associated with excessive leverage, ROA becomes the crucial ratio for assessing bank profitability (IMF, 2002).

Naceur (2003) uses return on assets (ROA) and net interest margin (NIM) to gauge performance. Net interest income divided by total assets is the definition of the NIM variable. Divide net income by total assets to get the return on assets (ROA) ratio. In most banks' performance studies, NIM and ROA were employed. While NIM focuses on the profit made from interest-related operations, ROA measures the profit earned per dollar of assets and indicates how successfully bank management uses the bank's natural investment resources to generate profits. Additionally, before-tax profit/total assets and net interest margin are used by Demircuc-Kunt et al. (1999) as indicators of financial performance.

Several variables that are significant for the examination of the performance of financial institutions have been identified by Sangali (2013). Table 1 lists those variables and explains what they are intended to measure.

Table 1

The function of ROE, ROA, EM, PM, and AU in financial institution performance analysis

Variable	Measures
Return of Equity	Calculates the FI's total profitability per EUR of equity.
Return on Assets	Calculates profit in relation to the assets of the FI.
Equity Multiplier	Evaluates the proportion of equity funding to debt used to fund the FI's assets.
Profit Margin	Evaluate a capacity to cover costs and profit from both interest and non-interest sources.
Assets Utilization	Calculates the amount of revenue, both interest and non-interest, produced per EUR of total assets.

Note: Important indicators evaluate the performance of financial institutions, exposing their funding structure, profitability, and efficiency

Source: Cornett and Sander, (1999)

McKillop et al. (2020) suggests that ABs are less risky than commercial banks. According to European institutions, ABs are more stable than commercial banks during difficult times, have better loan quality, and have lower asset risk than shareholder-owned banks. Under typical economic circumstances, the opposite is true. According to a large sample of commercial banks, ABs are more steady in their returns while being less lucrative and capitalised than commercial banks. More expansive membership fields result in less adequately capitalised credit unions and more volatile earnings.

Enforced government intervention, rather than the more common motivation of wanting to boost efficiency, is a primary factor driving mergers. According to mergers in German cooperative banks, regulatory pressure is the main driver behind these transactions rather than increased operational efficiency. Look at Japanese cooperative banks' (Shinkin banks') consolidation. They conclude that the regulatory body's goal of maintaining banking stability is the primary driver of much of the activity. They discover that significant, sick, and

inefficient banks amalgamate with smaller, inefficient banks to survive and receive a subsidised deposit rate. (McKillop et al., 2020)

Following the merger, members of the target credit unions immediately see improvements in the cost of their products, the quality of their services, and their financial stability. Mergers may dilute the focus on membership for the healthier of the two merging firms, increase loan arrears, and decrease dividends, among other unfavourable effects. Smaller credit unions, which have a higher percentage of liquid assets, have low loan-to-assets ratios, and are highly capitalised, are more vulnerable to failure. European cooperative banks benefit significantly from network arrangements in terms of efficiency in mergers and acquisitions. (McKillop et al., 2020)

A review on previous studies has concluded financial ratios that help to analyse the performance of financial institutions. It presents two primary methods for ratio analysis as a tool for identifying weaknesses: cross-sectional study and time series analysis. Profitability, funding structure, and efficiency are assessed using metrics including asset utilization (AU), equity multiplier (EM), profit margin (PM), return on equity (ROE), and return on assets (ROA). Different scholars emphasize different measures. Credit unions also require more distinct goals, highlighting the advantages of membership over maximizing profits. The various methods and measurements offer a comprehensive perspective on evaluating the effectiveness of financial institutions.

2. Financial analysis of transforming Saving and Loan Associations into Association banks

In the empirical part of the work, the author will focus on the financial analysis of SLAs. Analyse the potential problems and consequences if SLAs are transformed into ABs or central cooperatives are formed. Provide assumptions and draw conclusions based on the results of the analyses.

2.1. Data and methodology

Selecting appropriate data and methodology is essential to evaluate the financial performance of SLAs in Estonia. In this subchapter, the author explains the process of financial analysis.

The methodology used throughout the thesis is divided into four sections, illustrated in Figure 3.

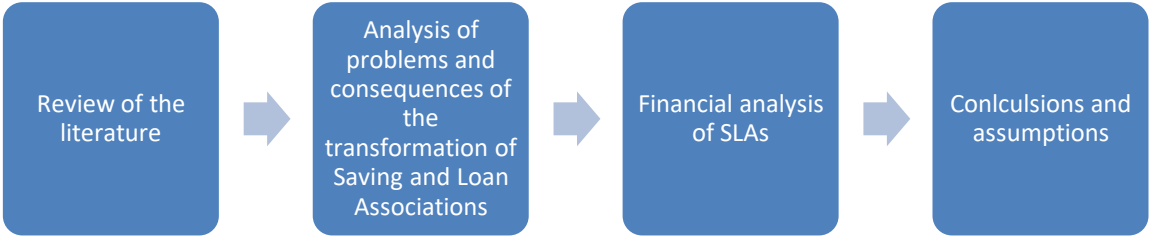


Figure 3. Methodology of the thesis

Source: compiled by the author

To conduct any analysis, it is essential to define clearly the key terms used in the thesis. Definitions of the organization's overall structure differ from the Estonia’s model, so the author recognizes the importance of giving a clear and understandable overview of the definitions and models. An overview of the previous studies is the foundation of conducting a financial analysis of SLAs. Reviewing previous studies helps to understand the basics of economic analysis and the key ratios that help to analyse the organization's performance. Besides doing financial analysis using the financial indicators and key ratios calculated based on the data from annual reports, the empirical part focuses on analysing the possible problems and consequences if the SLAs are transformed into ABs or a central cooperative is formed. This part of the work is realized in the author's notes from two different meetings with the chairmen of SLAs and the Ministry of Finance. Meetings took place on 15. November 2023 and 19. December 2023 at the Ministry of Finance building. To draw any conclusions or make assumptions, the rakings of SLA are formed to show how well each SLA is performing and help the author determine if the SLA can turn into AB or if creating a central cooperative is the only viable option.

Currently, 16 SLAs operating in Estonia as of April 10 2024, are used in the financial analysis. In Table 2, there is a list of those SLAs with register code and the year of establishment.

Table 2

Savings and Loan Associations in Estonia

Name	Register Code	Year of establishment
Leie SLA	10070303	01/2004
Loo SLA	10098023	01/2004
Kambja SLA	10320674	01/2004
Maaelu-Edendamise SLA	10575428	01/2004
Põlvamaa SLA	10695368	01/2004
Tartu SLA	11319532	01/2007
Tallinna SLA	11961369	07/2010
Eesti Korterühistute SLA	12119210	06/2011
Octotron SLA	12526026	09/2013
Eestihoius SLA	12541563	10/2013
Raha SLA	12569596	12/2013
Intus SLA	12748028	11/2014
Kodumaa Kapital SLA	12782505	01/2015
Hea Koostöö SLA	12938421	11/2015
Geldex Eesti SLA	14103465	09/2016
Balti SLA	16091826	11/2020

Note: SLA names with register code and the year of establishment

Source: E-Business Register, 2024

In order to get a clear overview of the performance of SLAs in past years, the author is gathering information from all of the SLAs' annual reports. Annual reports are made visible to anyone, and at the time of writing this paper, the latest year of annual reports is 2022. The data gathered from the annual reports is used to calculate the ratio in Table 1. The formulas of these ratios are seen in Table 3.

Table 3

Financial indicators with formulas

Variable	Formulas
Return of Equity	Net income / Equity
Return on Assets	Net income / Total assets
Equity Multiplier	Total assets / Equity
Profit Margin	Net income / Revenue
Assets Utilization	Revenue / Total assets

Note: Ratios of the financial indicators are calculated using these formulas

Source: author's calculation

Usually, the ratios in Table 3 are calculated as the annual average, which is more accurate if the amount of equity or assets has changed significantly in some years. Since the

amount of equity or assets has been stable over the years, we calculate the ratios as of the end of the year. Usually, the conversion to an annual average results from the fact that if there is a ratio that contains the quotient of the profit statement and the balance sheet indicator, then the period average of the balance sheet indicator is calculated to convert to the so-called common period.

Table 4

Key financial ratios

Variable	Formulas
Debt Ratio	Liabilities / Total assets
Equity Debt Ratio	Liabilities / Equity
Solvency Ratio	Equity / Total assets
Liquidity Ratio	Liquid assets / Current liabilities

Note: Key financial ratios from annual reports of SLAs

Source: author’s calculation

For the 2022 annual report, every SLA has brought out key financial ratios for 2022 and 2021. Ratios with formulas can be seen in Table 4. Debt Ratio, Equity Debt Ratio and Solvency Ratio characterize the capital structure and are similar to Equity Multiplier in content.

Finance and insurance sector organizations are responsible for almost 30% of overdue reports. When a business fails to pay its taxes on schedule, it typically takes 43–55 days (depending on the rules of tax debt consideration) for such a business to submit its annual report instead of a business that pays its taxes on time. This could point to potential financial issues and the impact of management's attitude on the company's annual report presentation. (Rahandusminisiteerium, 2020)

Businesses with a loss submit fiscal year reports eight days later than profitable businesses; if the company's profit declines, the report is turned in even quicker—1.4 days. As a result, realizing a loss has greater significance as a catalyst for reporting. Profitable companies submit their reports ahead of schedule; the average return on assets (ROA), return on equity (ROE), and share of net profit from sales revenue of those who file on time are, on average, four percentage points greater than those that file after the deadline. On average, a corporation with poor solvency delivers its report eighteen days later than one with better liquidity. In addition, it is startling to learn that a business with a negative operating cash flow submits its report 18 days quicker on average than one with a positive operating cash flow.

The report is typically filed 53–62 days later if the company has trouble fulfilling the net assets (equity) criteria or if the net assets are almost nil. This implies that there may be a desire to conceal one's actual financial situation from other people. (Rahandusministeerium, 2020)

Annual reports are available for everyone in the Centre of Registers and Information Systems. When writing this paper, four SLAs must submit their 2022 annual report. One of the main reasons is that there is a need for more auditors. For instance, Tartu SLA recently changed their auditor, who had to start everything from the beginning, and therefore, they still need to submit the 2022 years annual report. Besides the Tartu SLA, Hea Koostöö SLA, and Balti SLA have not submitted their annual reports.

Not submitting the annual report at the right time can have different potential sanctions. At the start, there can be warnings and fines of up to 32,000 euros, but it can also end with SLA being obliged to cease operations. According to the Commercial Register Act (2022), if the annual report is not submitted on time or is not submitted, the registrar has the right to fine both the legal entity and all people obliged to submit the report without warning. Suppose the financial year report is not submitted six months after the deadline for submitting the report provided by law. In that case, the register initiates a supervisory procedure against the legal entity, which may result in the deletion of the legal entity from the register or forced termination.

2.2. Analysis of problems and consequences of the transformation of Saving and Loan Associations into Association banks or creation of a central cooperative

The transformation of SLA is a complicated process. Currently, there are two possible ways how to move forward with this matter: the transformation of SLAs into AB or the creation of a central cooperative with SLAs as members. Both of these ways have some possible problems and consequences if one of those two options should be finalised.

2.2.1. Transformation of Saving and Loan Associations into Association banks

The SLA's transformation into an AB comes with many regulation changes. For example, current regulations state that SLAs must hold at least 5% of their deposits in some bank or other liquid fund. The transformation raises this to 10% (Rahandusministeerium, 2023). In the financial stability review, Eesti Pank stated that the capital and liquidity buffers of all SLAs may not be as required. On average, it reaches 20%, but it is below 10% in many cases. Some SLAs need more liquid funds, which are used to return deposits quickly. SLA's

cash and receivables are less than 5%. This means that if this regulation takes effect, many Savings and Loan Associations could be forced to declare bankruptcy. (Eesti Pank, 2023)

Another big concern, that was also one big concern brought out at the first meeting with the Ministry of Finance, with the current plan to transform the SLA, is that after January 1, 2026, SLAs will not be allowed to accept new members or extend savings and loan agreements. This would mean SLAs are exposed to financial instability and limited growth. On the other hand, this means that the profitability of the SLA is at risk, and all of this could seem to the current members as a sign of instability. This could result in members taking out their deposits.

The current action plan formed by the Ministry of Finance states that as of April 1, 2024, the advertisement of deposit interest rates will be prohibited. This is primarily because the National Guarantee Fund does not protect such deposits. After the law enters into force, new SLAs cannot be established. It is also essential to ensure that the SLA member receives all the information he needs - information about the status of their deposit and accumulated interest income, as well as about the borrower to whom the SLA will lend their money by 2025. By January 1, authorization will be restricted (when joining, voting rights are given away and usually to the managers of the SLA), and members will be given more rights to elect a commissioner representing their interests. Lending to other financial institutions is also restricted, which may create an apparent conflict of interest. Several other changes will be made - the capital requirement will be increased, the requirements for audit will be supplemented, and the admission and contribution rates will be increased. Acceptance of new members will also be stopped by 2027. By January 1, the SLA must decide whether it will continue its activities as an AB. From the beginning of 2029, SLAs have three ways to continue:

- if the desire is to continue to include deposits, then SLA can continue to operate only in the form of a regular bank or an AB;
- if the desire is to offer payment services or loans to consumers, then SLA can continue to operate either as a payment institution or as a credit provider;
- if the desire is not to provide financial services, it can continue as a regular profit-making cooperative. (Rahandusministeerium, 2023)

To sum up, the process of converting SLAs to ABs involves a multitude of regulations. SLAs are now required to maintain a minimum deposit of 10% in a bank or liquid fund, as opposed to the previous 5%. These new regulations present significant challenges to SLAs, and they may require assistance to comply with them. The Ministry of Finance has

outlined a clear action plan specifying the activities that will be prohibited after a specific date and presents three options for SLAs to move forward.

2.2.2. Creation of a central cooperative

Both meetings with the Ministry of Finance reveal that there are significant challenges in creating a new SLA central cooperative, which would, on the one hand, help achieve the goal of increasing depositor protection and, on the other hand, effectively balance the existing system. Creation of SLA central cooperative raises question about the potential benefit for the country as the are EAS/Kredex and MES. EAS and Kredex help with business and business model development, entering new markets and adding value (Estonian Business and Innovation Agency, n.d.). MES allows intelligent ideas to take root and become reality in the countryside and boosts the competitiveness of rural areas (Maaelu Edendamise Sihtasutus, n.d.). Coordinating state involvement alongside these existing structures while justifying the need for a new central cooperative requires a nuanced approach. Balancing the advantages of a centralized system of cooperatives with the efficiency of established entities is a significant challenge.

If the SLA central cooperative were to operate as a regulated credit institution under national supervision, setting up a complex secondary system would be a challenge. The definition of reporting obligations will become crucial, especially for SLAs linked to an SLA central cooperative. Clarifying the sanctioning mechanisms for breaches of this framework remains complex, requiring delineating obligations and supervisory roles.

Forming a consolidation group composed of a SLA central cooperative and its affiliated SLAs will require strict adherence to regulatory standards. Aligning these entities with the financial side and with the working protocols of regulatory bodies also promises to be complex. Ensuring compliance with these requirements while maintaining the individuality of member cooperatives will be a significant challenge.

The SLAs Guarantee Fund is an essential guarantee for deposits within this cooperative. In case of bankruptcy of the SLA, the guarantee fund established within the framework of the SLA central cooperative acts as the primary recourse. However, if the guarantee fund turns out to be insufficient, in that case, the SLA central cooperative must provide additional funds to guarantee deposits, strengthening the financial stability of the cooperative ecosystem.

If the central cooperative becomes illiquid or insolvent, or there is a money laundering case, or the operating license is revoked for other reasons. In that case, a definite action plan should be sent to the SLAs and their members.

Forming a consolidation group composed of an SLA central cooperative and its affiliated SLAs will require strict adherence to regulatory standards. This can be explained by organizational economics theory. According to the organizational economics theory, the questions involve the following: What are the vertical boundaries of the organization? What is bought from outside, and what is made inside for the firm's own use? How are relations with suppliers and customers organized: in arm's-length market dealings or through long-term relationships? Who owns which of the assets used in production? How are the activities of the organization financed? How is governance defined and exercised, both within the organization and by different parties with ownership or other claims? What are the horizontal boundaries of the firm: what products or services does it produce, for what users, using what technologies, and in what locations? How are subunits within the firm defined, linked and coordinated? How are resources of different types allocated? Where does decision-making on different issues occur within the organization? What is the role of hierarchy, how many levels are there, and what are the spans of control (the number of individuals reporting directly to a hierarchic superior)? What are the behavioural and performance effects of delegation? Is the organization fundamentally an expression of authority, or is it a "nexus of contracts?" What are the roles of formal, legally enforceable contracts within and between organizations versus relational contracts (shared understandings that cannot be enforced in courts and so must be self-enforcing, perhaps through reputation concerns)? How is power achieved and exercised, and what role does politics play within organizations? (Gibbons & Roberts, n.d., pp. 4-5)

Answers to these questions depend on the markets in which the organization operates, the strategies it adopts to compete, the social, legal, regulatory and technological environment in which it is embedded, and how all of these choices interact and affect performance.

The author concludes that the creation of a comprehensive and functional central cooperative in Estonia will require navigating these complex challenges. Balancing the benefits of centralization with the diverse needs of member credit unions while ensuring regulatory compliance, financial stability, and continuity of services forms the core of the complexity of this undertaking. Systematically addressing these challenges is essential for an Estonian central cooperative's successful formation and sustainable functioning.

2.3. Results of financial analysis of SLAs in Estonia

SLAs are financial institutions that belong to the financial industry and are also competitive. Unlike banks SLAs are not currently under FI's observation. Technology is essential in this field, as everything has to be very precise, and all of the work and reports are done using technology. The primary determinant for this industry is how good a state is in the

current economy. The significant factor is the interest rates and the fact that SLAs compete with banks. SLAs are currently in the maturity stage of the development cycle and at the fall stage of the economic cycle, but this could change as they are the start of SLAs being restructured.

In order to get a clear overview of past years' performance of SLAs, the author gathers information about how many assets have SLAs in total, how much the stock of deposits is, and the number of members. The comparison of the last three years can be seen in Table 5.

Table 5

Total assets, stock of deposits and number of members of Estonian SLAs

	2021	2022	2023	Change 2021-2022	Change 2022-2023	Change 2021-2023
Total assets	146 mln	135.6 mln	134.6 mln	-7.1%	-0.7%	-7.8%
Stock of deposits	112.8 mln	102.3 mln	100.9 mln	-9.3%	-1.3%	-10.6%
Number of members	14,317	13,777	13,747	-3.8%	-0.2%	-4%

Note: Number of assets, stock of deposits and members 2021-2023

Source: Eesti Pank (2023)

Total assets between 2021-2023 have shown a decrease. In 2021, there were 146 million total assets that decreased by 7.1%, and in 2023 it decreased even further by 0.7%. It shows a 7.8% decrease in total assets. The stock of deposits is decreasing by 9.3% for 2022, and for 2023, it decrease by 1.3%, making it into a total of 10.6% decrease from 2021-2023. Finally, the number of members has decreased by 3.8% and for next year 0.2%. In total, there is a 4% decrease in the number of members.

As the latest annual report is in 2022, the base year for this thesis is 2022. To get a more detailed look at the current situation of the SLAs, table 6 shows the amount of assets and the number of members for each SLA. This table categorizes the SLAs into three groups based on the amount of assets. Tartu SLA, Raha SLA, Tallinn SLA and Eeestihoius SLA belong to the big SLA group, while Hea Koostöö SLA and Blati SLA are to the small SLA group. Other SLAs belong to the medium SLA group. As Tartu SLA, Hea Koostöö SLA and Balti SLA have not filed the annual report for 2022, there is no information about the number of members.

Table 6

Savings and Loan Associations in Estonia

Name	Amount of Assets (2024)	Number of Members
Tartu SLA	96,745,888 €	3,898
Raha SLA	4,578,867 €	501
Tallinna SLA	3,697,856 €	2,222
Eestihoius SLA	2,116,535 €	1913
Geldex Eesti SLA	1,197,554 €	243
Loo SLA	1,191,139 €	110
Kambja SLA	931,252 €	489
Põlvamaa SLA	467,906 €	829
Maaelu-Edendamise SLA	412,791 €	360
Kodumaa Kapital SLA	392,874 €	1,098
Intus SLA	390,732 €	11,174
Eesti Korterühistute SLA	362,609 €	49
Leie SLA	279,997 €	554
Octotron SLA	254,270 €	33
Hea Koostöö SLA	37,772 €	-
Balti SLA	36,031 €	-

Note: SLA names with the number of assets and members, where "-" indicates that there is missing information about this.

Source: E-Business Register, 2024

Table 7 shows the calculated values of the ratios in Table 3. ROE indicates a company's profitability in relation to its equity, and the value is generally considered good when it is above 10%. Eestihoius SLA and Kodumaa Kapital SLA are SLAs that can be considered with good ROE, with Loo SLA and Tallinna SLA also being close to 10%. Leie and Kambja SLA have moderate ROE, while others have low ROE. The ROA indicates how efficiently the company is using its assets. The good range for this is over 5%. Only Loo SLA has a good ROA. Other SLAs have a ROA Under 5%, which shows a low ROA. Eestihoius SLA, Intus SLA and Kodumaa Kapital SLA have relevantly high equity multipliers, showing higher financial risk as they rely more on debt financing. Kambja SLA, Maaelu-Edendamise SLA, Põlvamaa SLA and Tallinna SLA fall in the category of having moderate equity multiplier. Other SLAs have a low equity multiplier. Profit margins are good for most SLAs, except Maaelu-Edendamise SLA, which has a negative profit margin, and Põlvamaa SLA, Raha SLA and Intus SLA, which have a profit margin Under 5%. Asset utilization is high for Loo SLA and low for Maaelu-Edendamise, Eesti Korterühistute SLA and Raha SLA. Other SLAs have moderated asset utilization.

Table 7

Financial performance of SLAs

SLAs	Return of Equity	Return on Assets	Equity Multiplier	Profit Margin	Assets Utilization
Leie SLA	3.49%	0.90%	3.89	10.17%	0.09
Loo SLA	9.78%	9.71%	1.01	77.18%	0.13
Kambja SLA	4.68%	0.90%	5.2	18.12%	0.05
Maaelu-Edendamise SLA	-6.99%	-0.90%	7.74	-39.48%	0.02
Põlvamaa SLA	1.31%	0.20%	6.45	4.97%	0.04
Tallinna SLA	9.23%	1.40%	6.57	22.14%	0.06
Eesti Korterühistute SLA	1.62%	0.81%	2.00	100.00%	0.01
Octotron SLA	-	-	1.00	-	-
Eestihoius SLA	19.53%	1.88%	10.40	33.71%	0.06
Raha SLA	0.19%	0.09%	2.24	3.92%	0.02
Intus SLA	1.26%	0.11%	11.91	1.95%	0.05
Kodumaa Kapital SLA	18.98%	1.31%	14.50	18.05%	0.07
Geldex Eesti SLA	1.16%	0.58%	1.99	11.66%	0.05

Note: Financial indicators are calculated based on annual reports of 2022, where "-" indicates that there is missing information about this.

Source: author's calculation

The values of the ratios in Table 4 are shown in Table 8. The debt ratio shows how much of the assets is financed by debt. Loo SLA and Octotron SLA have low debt ratios, which indicates that there is not much financial risk. Eesti Korterühistute SLA, Raha SLA and Geldex Eesti SLA have moderate debt ratios, while other SLAs have high debt ratios. Leie SLA, Kambja SLA, Maaelu-Edendamise SLA, Põlvamaa SLA, Tallinna SLA, Eestihoius SLA, Raha SLA, Intus SLA and Kodumaa SLA have equity debt ratio over 1 that indicates SLA has more equity than debt. This also shows that these SLAs have more vital financial positions compared to others. Other SLAs have below 1, and Octotron SLA has exactly 1, the equity debt ratio. A solvency ratio over 0.5 shows that SLAs are in good positions to cover long-term debt obligations as the majority of their assets are financed by equity. Loo SLA has over 0.5, as Eesti Korteriteühistute SLA and Geldex Eesti SLA have precisely 0.5. Leie SLA and Raha SLA have moderated solvency ratios as they fall in the range of 0.2 to 0.5; others

have low solvency ratios. Leie SLA, Maaelu-Edendamise SLA, Eestihoius SLA, Raha SLA and Geldex Eesti SLA have liquidity ratios below 1, which could indicate that SLA would find it challenging to satisfy their short-term obligations with its present assets alone. Besides, Loo SLA, which has a relatively high liquidity ratio, which could be a sign of unused assets, has a good liquidity ratio.

Table 8

Key financial ratios of SLAs

SLAs	Debt Ratio	Equity Debt Ratio	Solvency Ratio	Liquidity Ratio
Leie SLA	0.74	2.89	0.26	0.85
Loo SLA	0.01	0.01	0.99	23.28
Kambja SLA	0.81	4.20	0.19	1.31
Maaelu-Edendamise SLA	0.87	6.74	0.13	0.55
Põlvamaa SLA	0.85	5.45	0.15	2.40
Tallinna SLA	0.85	5.57	0.15	1.53
Eesti Korterühistute SLA	0.50	1.00	0.50	1.16
Octotron SLA	-	-	1.00	-
Eestihoius SLA	0.90	9.40	0.10	0.61
Raha SLA	0.54	1.19	0.46	0.43
Intus SLA	0.92	10.91	0.08	2.21
Kodumaa Kapital SLA	0.93	13.50	0.07	2.83
Geldex Eesti SLA	0.50	0.99	0.50	0.95

Note: Key financial ratios are calculated based on annual reports of 2022, where "-" indicates that there is missing information about this.

Source: author's calculation

In order to assess SLAs that are performing better than others and identify those that could become ABs, it is essential to conduct SLA rankings. Table 9 presents the author's SLA rankings based on several factors: ROE, debt ratio, liquidity ratio, and assets. Among the SLAs evaluated, Eestihoius SLA, Kodumaa Kapital SLA, and Loo SLA had the highest ROEs, while Maaelu-Edendamise SLA, Raha SLA, and Geldex Eesti SLA were at the bottom of the rankings. Kodumaa Kapital SLA, Intus SLA, and Eestihoius SLA had the highest debt ratios, while Loos SLA, Eesti Korterühistute SLA, and Geldex Eesti SLA had the lowest. Loo SLA, Kodumaa Kapital SLA, and Põlvamaa SLA had the highest liquidity ratios, while Raha SLA, Maaelu-Edendamise SLA, and Eestihoius SLA had the lowest. Regarding assets, Raha SLA, Tallinna SLA, and Eestihoius SLA were the highest, while Leie SLA, Eesti

Korteriühistute SLA, and Intus SLA were the lowest. Overall, Kodumaa Kapital SLA, Tallinna SLA, and Eestihoius SLA were in the best position, while Leie SLA, Maaelu-Edendamise SLA, and Eesti Korterteühistu SLA were in the worst position.

Table 9

The rankings of SLAs

SLAs	ROE	Debt Ratio	Liquidity Ratio	Amount of Assets	Rakings
Leie SLA	6	8	9	12	12
Loo SLA	3	12	1	5	4
Kambja SLA	5	7	6	6	6
Maaelu-Edendamise SLA	12	4	11	8	11
Põlvamaa SLA	8	5	3	7	5
Tallinna SLA	4	5	5	2	2
Eesti Korteriühistute SLA	7	10	7	11	10
Eestihoius SLA	1	3	10	3	3
Raha SLA	11	9	12	1	9
Intus SLA	9	2	4	10	7
Kodumaa Kapital SLA	2	1	2	9	1
Geldex Eesti SLA	10	10	8	4	8

Note: The ranking is based on ROE, Debt Ratio, Liquidity Ratio and Amount of Assets

Source: author's calculation

In Figure 4, the line represents the average results of the ROE of SLAs. Above the line are SLAs with the higher ROE, and under the line are SLAs with lower ROE. SLAs with the higher ROE are further from the zero point on the graph, and the ROE is higher when either the profit margin or the debt ratio is high. The figure shows that there are more SLAs with lower ROE than higher.

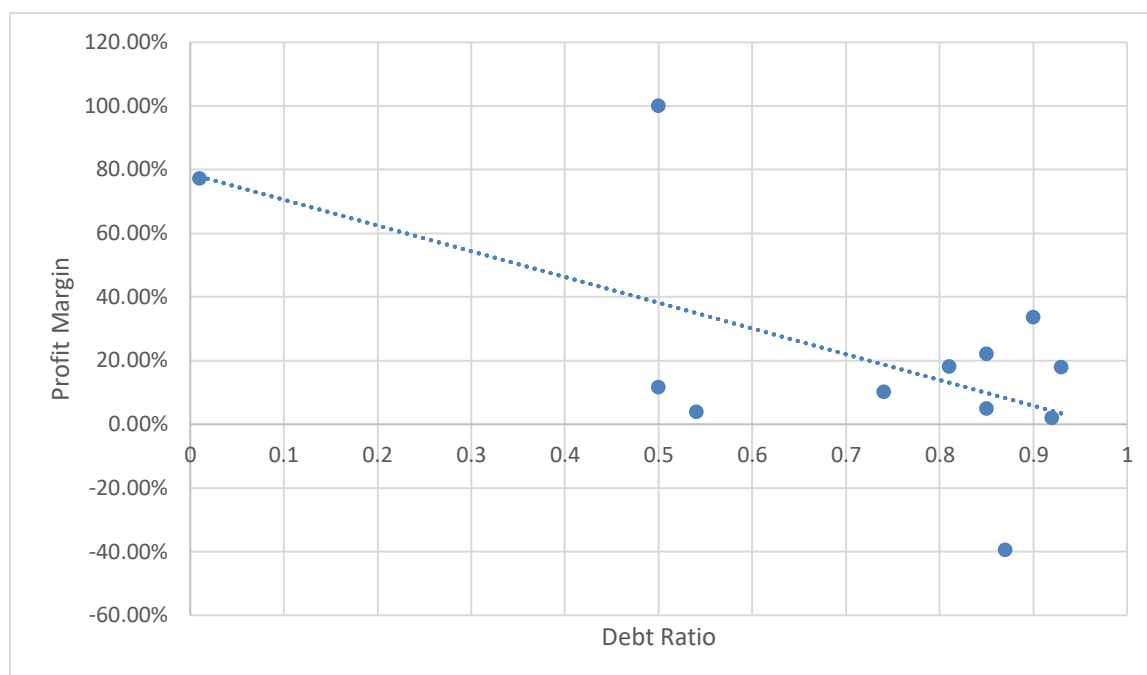


Figure 4. ROE of SLAs

Source: compiled by the author

The purpose of Table 10 is to rank the SLAs from the highest ROE to the smallest. At the top of the rankings are Eestihoius SLA and Kodumaa Kapital SLA, with considerable differences from the rest of the SLAs. The only SLA with a negative ROE is Maelu-Edendamise, which indicates that it incurs a net loss compared to its equity.

Table 10

The rankings of SLAs based on ROE

SLAs	ROE	ROA	Solvency Ratio
Eestihoius SLA	19.53%	1.88%	0.10
Kodumaa Kapital SLA	18.98%	1.31%	0.07
Loo SLA	9.78%	9.71%	0.99
Tallinna SLA	9.23%	1.40%	0.15
Kambja SLA	4.68%	0.90%	0.19
Leie SLA	3.49%	0.90%	0.26
Eesti Korterühistute SLA	1.62%	0.81%	0.50
Põlvamaa SLA	1.31%	0.20%	0.15
Intus SLA	1.26%	0.11%	0.08
Geldex Eesti SLA	1.16%	0.58%	0.50
Raha SLA	0.19%	0.09%	0.46
Maelu-Edendamise SLA	-6.99%	-0.90%	0.13

Note: SLAs are ranked from the SLA with the biggest ROE to the smallest.

Source: author's calculation

Results of empirical studies conclude that, based on Table 5, the overall growth and the performance of the SLAs have shown a decline in past years. The number of assets has declined by 7.8%, stocks of deposits by 10.6%, and the number of members by 4%. ROE and ROA are vital indicators that show the profitability of the SLA. Annual reports for 2022 were only available for 13 of the SLAs, while Octotron SLA's annual report did not have certain ratios to calculate some key ratios. Half of the SLAs had good or moderate ROE. The ROA is good for only one SLA, while others had low ROA. This also indicates that SLAs are currently having a tide, although the profit margin for most of the SLAs is good.

The equity multiplier is mostly high for SLA established at the latest, which also shows higher financial risk. For most SLAs, the debt ratios are high, which also shows financial risk. The equity-debt ratio is also high for most SLAs, meaning that SLAs have more equity than debt. Solvency and liquidity ratios show that most SLAs must be better when facing short and long-term obligations.

The rankings of SLA show that Kodumaa Kapital SLA, Tallinna SLA, and Eestihoius SLA would be the SLAs that can turn into ABs by themselves if the Ministry of Finance decides to go with this option. It would be a real challenge for Leie SLA, Maaelu-Edendamise SLA and Eesti Korteriteühistu SLA, and there is a big chance that they would cease operation. Other SLAs would also struggle; some could continue by themselves, but others need to find a way to collaborate with other SLAs. Creating a central cooperative would be the best option to ensure that no SLAs have to close down.

Figure 4 and Table 10 focus on the difference in ROE between SLAs—the results of how different stages of SLAs are compared to each other. The financial performance of most of the SLAs should be better based on the results. This can change quickly as the SLA market changes very fast. This can also be seen from the fact that Intus SLA declared bankruptcy during the thesis, making it to two SLAs that ceased operation in 2024.

Conclusion

The thesis aimed to show two ways the Ministry of Finance can restructure the SLA's structure, give a detailed overview of transforming SLAs into ABs or create a central cooperative and how both of them would be implemented. Also, compare them, bringing out their main differences and positive and negative sides. The aim was also to evaluate the financial performance of SLAs in Estonia.

The first subchapter of the theoretical part focuses on providing the foundation of cooperative financial institutions. The author gives an overview of the definitions and the

organization's structure, which helps to understand how different entities are characterized and how to operate on a cooperative level.

The second subchapter brings out the main features and functions of cooperative financial institutions. The author provides the framework of Estonian organization. Explaining the definition of main features and functions helps to find out the current functioning of the SLA and how they differ from AB and USLA.

Based on previous studies, the last subchapter of the theoretical part provides financial indicators that characterize SLAs, cooperative banks and central cooperatives. ROE and ROA are indicators that give an overview of the performance of the SLA. Equity multiplier evaluates the proportions of equity funding to debt used by SLA. At the same time, profit margin evaluates the SLA's capacity to cover costs and profit from both interest and non-interest sources. Assets Utilization indicates the amount of revenue produced by total assets, which essentially shows how well the assets are used.

In the empirical part the author brings out the problems that will arise if SLAs are transformed into ABs. Also, explain the current action plan of transforming SLAs into ABs by the year 2029 that the Ministry of Finance forms. The second option is to form a central cooperative. The author brings out the possible challenges that SLAs will need to be ready to face and some requirements that need to be met to execute this option.

The empirical study results show that SLAs' performance and growth have been declining in past years. Also, the financial indicators calculated by the author show that the profitability of SLAs could be better for all of them. Both equity multiplier and debt ratio give insight into the fact that, for most, there is a considerable financial risk. Based on the results, some SLAs could have problems facing short or long-term obligations. Also, the rankings of SLAs are formed by the author based on ROE, debt ratio, liquidity ratio and amount of assets. The rankings give a clear overview that, besides Kodumaa Kapital SLA, Tallinna SLA and Eestihoius SLA, SLAs would face a big challenge to continue operating if the Ministry of Finance decided that SLAs need to be transformed into ABs by 2029. From the perspective of SLAs, creating a central cooperative would be a better option for them.

The thesis concludes that the analysis of SLAs' financial performance demonstrates how much SLAs differ from each other and how fast the market for SLAs can change. This is also based on the fact that in 2024, two SLAs have already ceased operation.

The author believes this research can be developed further when the Ministry of Finance decides on the options they will move forward. After this, future research could go more in-depth with the potential outcomes if SLAs are transformed into either ABs or a

central cooperative is created. Also, the annual report for 2023 has to be filed by June 30, 2024, which gives a chance to evaluate the financial performance of SLAs and see the effects of the ongoing discussions about the transformation of SLAs.

List of references

1. Athanasoglou, P.P., Brissimis, S.N., Delis, M.D. (2005). Bank-Specific, Industry-Specific and Macroeconomic Determinants of Bank Profitability. Economic Research Department, Bank of Greece, Athens.
2. Cambridge University Press and Assessment. (2024). Central cooperative. In *Cambridge Dictionary | English Dictionary, Translations & Thesaurus*. Retrieved from <https://dictionary.cambridge.org/us/dictionary/english/credit-co-operative?q=credit+cooperative>
3. Castelló, E., Trias, C., & Arribas, A. (2018). Europe's Cooperative Banking Models (Revised edition). European Economic and Social Committee. Retrieved from <https://www.eesc.europa.eu/sites/default/files/files/qe-01-18-233-en-n.pdf>
4. CFA Institute. (2024). Introduction to Financial Statement Analysis. Retrieved <https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/introduction-financial-statement-analysis>
5. Commercial Register Act. (2022). *Commercial Register Act–Riigi teataja*. Retrieved from <https://www.riigiteataja.ee/en/eli/530112022003/consolide>
6. Cornett, M.M., Sanders, A. (1999). *Fundamentals of Financial Institutions Management*. Irwin/Macraw-Hill.
7. Credit Institution Act. (1999). *Credit Institutions Act–Riigi Teataja*. Retrieved from <https://www.riigiteataja.ee/en/eli/508042015002/consolide>
8. Demirguc-Kunt A., Huizinga, H.(1999). Determinants of commercial bank interest margins and profitability: Some international evidence. *World Bank Economic Review*, Vol. 13: 379-408.
9. Estonian Business and Innovation Agency. (n.d.). Retrieved from <https://eas.ee/>
10. Eesti Hoiu-laenuühistute Liit | EHLÜL. (n.d.). Retrieved from <https://hoiu-laenu.ee/?lang=en>
11. Eesti Pank. (2023). Financial Stability Review 2023/1. Retrieved from <https://www.eestipank.ee/en/publications/financial-stability-review>
12. Eesti Pank. (2023). STATISTICAL RELEASE. The number of members of savings and loan associations started to rise again in the second quarter. Retrieved from <https://www.eestipank.ee/en/press/statistical-release-number-members-savings-and-loan-associations-started-rise-again-second-quarter-27072023>

13. Eesti Vabariigi ühistuseadus. (2008). *Eesti Vabariigi ühistuseadus–Riigi Teataja* [Cooperative Act of the Republic of Estonia–Riigi Teataja]. Retrieved from <https://www.riigiteataja.ee/akt/30668>
14. Estonian Financial Supervision and Resolution Authority. (2018). Retrieved from <https://fi.ee/en/estonian-financial-supervision-and-resolution-authority>
15. European Central Bank (2010) Beyond ROE—How to Measure Bank Performance. European Central Bank, Frankfurt. Retrieved from <https://www.ecb.europa.eu/pub/pdf/other/beyondroehowtomeasurebankperformance201009en.pdf>
16. E-Business Register. (2024, April 3). Retrieved from <https://ariregister.rik.ee/eng>
17. Fried, H.O., Lovell, C.A.K. and Vanden Eekaut, P. (1993). Evaluating the Performance of US Credit Unions. *Journal of Banking and Finance*, Vol. 17, No. 2-3, pp. 251-265.
18. Gibbons, R., & Roberts, J. (n.d.). Organizational Economics. Retrieved from <https://emergingtrends.stanford.edu/files/original/08d1cc77e20c4f57f88aedc22e34963e3586a7b2.pdf>
19. Maaelu edendamise Sihtasutus. (n.d.). Maaelu Edendamise Sihtasutus. Retrieved from <https://www.mes.ee/>
20. McKillop, D., French, D., Quinn, B., Sobiech, A. L., & Wilson, J. O. S. (2020). Cooperative financial institutions: A review of the literature. *International Review of Financial Analysis*, 71, 101520. <https://doi.org/10.1016/j.irfa.2020.101520>
21. Naceur, B.S. (2003). The Determinants of the Tunisian Banking Industry Profitability: Panel Evidence. Universite de Libre de Tunis, Department of Finance.
22. Rahandusministeerium. (2023). Hoiu-laenuühistu seaduse muutmise ja sellega seonduvalt teiste seaduste muutmise seadus [Act amending the Savings and Loans Association Act and amending other related laws].
23. Rahandusministeerium. (2020). Majandusaasta aruannete mitte esitamise mõjuanalüüs Rahandusministeeriumile [Impact analysis of not submitting financial year reports to the Ministry of Finance].
24. Republic of Lithuania. (2016). Law Amending the Law on the Central Credit Union No VIII-1682 (Consolidated version as of 01/01/2017). TAR, 13/07/2016, identification code 2016-20319.
25. Sangali, P. D. (2013). *Comparative Analysis of financial performance of saving and credit cooperative societies in Kisarawe District*. Retrieved from <http://repository.out.ac.tz/997/>

26. Savings and Loan Associations. (2024). Retrieved from <https://statistika.eestipank.ee/failid/mbo/hlyi.html>
27. Savings and Loan Association Act. (1999). *Savings and Loan Associations Act–Riigi Teataja*. Retrieved from <https://www.riigiteataja.ee/en/eli/514112013018/consolide>
28. Singh, K. (2023, August 16). Cooperative Banking: Meaning, Structure & Advantages. *Razorpay Blog*. Retrieved from <https://razorpay.com/blog/business-banking/cooperative-banking/>
29. Stankeviciene, Jelena & Mencaitė, Evelina. (2012). The evaluation of bank performance using a multicriteria decision making model: A case study on Lithuanian commercial banks. *Technological and Economic Development of Economy*. 18. 10.3846/20294913.2012.668373.
30. Tafenau, E. (2015). Saving and loan associations vs. commercial banks in Estonia: Responses to the financial crisis. Retrieved from <https://ideas.repec.org/p/wiw/wiwrse/ersa15p1308.html>

Resümee

ÜHISTULISTE FINANTSASUTUSTE FINANTSPERSPEKTIIVID HOIU- LAENUÜHISTUTE MUUTMISEL ÜHISTUPANKADEKS EESTI VABARIIGIS

Markus Sossi

Lõputöö eesmärk on välja selgitada Hoiu-laenuühistute (edaspidi HLÜ) finantstulemused. Anda ülevaade kahest võimalikust viisist, mida Rahandusministeerium võiks HLÜ-de struktuuri ümberstruktureerimiseks järgida. Samuti võrrelda neid, tuues välja peamised erinevused ning positiivsed ja negatiivsed küljed.

Töö teoreetiline osa keskendub ühistuliste finantsasutuste vundamenti loomisele. Autor annab ülevaate definitsioonidest ja organisatsiooni struktuurist, mis aitab mõista, kuidas erinevaid üksusi iseloomustatakse ja kuidas ühistulisel tasandil toimida. Samuti toob autor välja ühistuliste finantsasutuste põhijooned ja funktsioonid, andes täpsema pildi läbi Eesti organisatsioonide raamistiku. Peamiste omaduste ja funktsioonide definitsioonide selgitamine aitab samuti paremini mõista, kuidas HLÜ-d praegu toimivad.

Varasematele uuringutele tuginedes on välja toodud finantsnäitajad, mis iseloomustavad HLÜ-sid, ühistupanku ja keskühistuid. ROE ja ROA on näitajad, mis annavad ülevaate HLÜ toimivusest. Aktsiakordaja hindab omakapitali rahastamise ja võla osakaalu, mida HLÜ kasutab. Samal ajal hindab kasumimarginaal HLÜ võimet katta kulusid ja kasumit nii intressi- kui ka mitteintressiallikatest. Varade kasutamine näitab koguvarade poolt toodetud tulu suurust, mis sisuliselt näitab, kui hästi varasid kasutatakse.

Empiirilises osas toob autor välja probleemid, mis tekivad HLÜ-de muutmisel ühistupankadeks. Samuti selgitab Rahandusministeeriumi poolt vormistatud tegevuskava HLÜ-de muutmist ühistupankadeks aastaks 2029. Teine võimalus on moodustada keskühistu, mille võimalikud väljakutsed ja nõuded, millega HLÜ-d peavad olema valmis silmitsi seisma, on autori poolt välja toodud.

Empiirilised uuringutulemused näitavad, et HLÜ-de jõudlus ja kasv on viimastel aastatel langenud. Samuti näitavad töö autori arvutatud finantsnäitajad, et HLÜ-de tasuvus võiks olla kõigil parem. Nii omakapitali kordaja kui ka võlakordaja annavad ülevaate sellest, et enamiku jaoks on tegemist märkimisväärse finantsriskiga. Tulemuste põhjal võib mõnel HLÜ-l tekkida probleeme lühi- või pikaajaliste kohustustega. ROE, võlasuhte, likviidsuskordaja ja varade suuruse alusel moodustatud HLÜ-de pingerida annab selge ülevaate, et peale Kodumaa Kapitali HLÜ, Tallinna HLÜ ja Eestihoiu HLÜ võib teistel HLÜ-del esineda suuri raskusi tegevuse jätkamisega, kui Rahandusministeerium võtab vastu

otsuse, et 2029. aastaks peavad kõik HLÜ-d muutuma ühistupankadeks. HLÜ-de vaatevinklist, oleks keskühistu loomine parem variant.

Finantstulemuste analüüsis näitab selgelt, kui erinevatest kohtades mõned HLÜ-d on võrreldes teistega. Asjaolust, et käimasoleva aasta jooksul on juba kaks HLÜ pidanud tegevuse lõpetama, mis näitab, et HLÜ-de turg on väga kiiresti muutuv.

Töö autor usub, et pärast Rahandusministeeriumi otsust on võimalik seda uuringut suuresti edasi arendada. Tulevased uuringud saavad olla rohkem spetsiifilised ja näidata, millised on tagajärjed Rahandusministeeriumi otsusel. Samuti tuleb 30. juuniks 2024 esitada 2023. aasta majandusaasta aruanne, mis annab võimaluse hinnata HLÜ-de majandustulemusi ja näha käimasolevate arutelude mõju HLÜ-de ümberkujundamise üle. Peagi esitavate 2023. aasta majandusaasta aruannete põhjal on võimalik analüüsida käimasolevate arutelude võimalikke mõjusid HLÜ-de tegevustele.

Non-exclusive licence to reproduce thesis and make thesis public

Markus Sossi,

1. herewith grant the University of Tartu a free permit (non-exclusive licence) to

reproduce, for the purpose of preservation, including for adding to the DSpace digital archives until the expiry of the term of copyright,

Financial perspectives of cooperative financial institutions in the transformation of Saving and Loan Associations into Association banks in the Republic of Estonia,

supervised by
Maire Nurmet

2. I grant the University of Tartu a permit to make the work specified in p. 1 available to the public via the web environment of the University of Tartu, including via the DSpace digital archives, under the Creative Commons licence CC BY NC ND 3.0, which allows, by giving appropriate credit to the author, to reproduce, distribute the work and communicate it to the public, and prohibits the creation of derivative works and any commercial use of the work until the expiry of the term of copyright.

3. I am aware of the fact that the author retains the rights specified in p. 1 and 2.

4. I certify that granting the non-exclusive licence does not infringe other persons' intellectual property rights or rights arising from the personal data protection legislation.

Markus Sossi

09/05/2024