

OPERATION OF COOPERATIVE CREDIT UNIONS

GENERAL INFORMATION

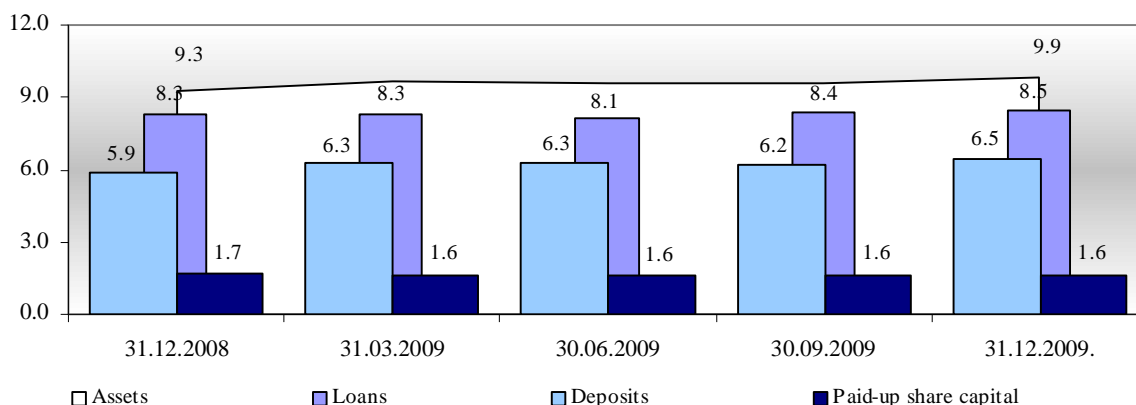
In 2009, the list of cooperative credit unions underwent several structural changes. At end-July 2009, the Financial and Capital Market Commission (the Commission) issued a cooperative credit union operating licence to the cooperative credit union *AlfaBeta* and in October a notification of starting the winding-up of cooperative credit union *Vidzemes dukāts* was submitted to the Commission, thereby at end-2009 there were 34 cooperative credit unions operating in Latvia.

ASSETS AND LIABILITIES

During 2009 the assets of credit unions grew by 565 thousand lats, or 6.1%, and by end December totalled 9.9 million lats (0.05% of banking sector assets) (see Figure 1).

Figure 1

ASSETS, LOANS, DEPOSITS AND PAID-UP SHARE CAPITAL OF CREDIT UNIONS (million lats)



The key line of credit institution operation is lending to their members. The amount of loans issued to the members of credit unions in the reporting year rose 1.7% and at end-December totalled 8.5 million lats or 86% of total assets of credit unions. Of total credit union loan portfolio, a greater part, or 62%, still was consumer loans while mortgage loans made up 35% (compared to 66% and 30% at end-2008).

At-end 2009, of total credit union loan portfolio, 22% were short-term loans (up to one year), 43% were medium-term loans (from one to five years) and 35% - long-term loans (more than five years) in comparison with 22%, 49% and 29% at end-2008.

At end of the year, 66.2% of the credit unions' loan portfolio was assessed as standard loans, 30.1% - as close-watch and 3.7% as total sum of substandard, doubtful and lost loans (compared to 69.1%, 28.3% and 2.6% at end of 2008). Special loan loss provisions at the end of December made up 5.1% of total loan portfolio (compared to 4.4% at end 2008).

A major source of finances in the reporting year was member deposits; their amount in the reporting year grew by 9.8% and by end-December totalled 6.5 million lats or 65.6% of total

liabilities of credit unions. Deposits of private persons constituted a greater part (83%) of total credit union member deposits.

By end of the reporting year, 66% of total deposits were short-term deposits up to one year, 28% were medium-term deposits (from one to five years) and 6% were long-term deposits (more than 5 years) compared to 80%, 14% and 6% by end of year.

At end-2009 total capital and reserves of credit unions still accounted for 2.1 million lats including paid-up share capital - 1.6 million lats.

PERFORMANCE INDICATORS

In 2009, credit unions earned a total of 57.3 thousand lats¹ after tax (compared to 45.2 thousand lats in 2008). In the reporting year, 12 credit unions ended the reporting year with a profit, whereas 22 credit unions posted losses totalling 22.3 thousand lats.

In 2009, the major income source for credit unions (74%) was income from interest on loans issued to credit union members (compared to 77% at end-2008), while major expenditure items for credit unions were made up by administrative expenses, interest expenses on deposits, as well as expenses on provisions for doubtful debts, at end of December constituting 38%, 28% and 23%, respectively, of total expenditures (compared to 41%, 26% and 23% at end-2008).

By the end of the reporting year the return on equity (ROE)² was 2.7%, while return on assets (ROA)³ – 0.6% (compared to 2.2% and 0.5% at end 2008).

At end-December, the capital adequacy ratio of the credit union sector was 21.1% in comparison with 23.4% at end-2008 (minimum capital adequacy requirement is 10%).

¹ Non-audited data.

² ROE – the ratio of the profit/loss from the beginning of the year to capital and reserves (average).

³ ROA – the ratio of the profit/loss from the beginning of the year to assets (average).