

ASSOCIATION OF LATVIAN COMMERCIAL BANKS. LENDING INDEX.

ABOUT THE INDEX

The Association of Latvian Commercial Banks' (ALCB) Lending Index is a complex measure, which characterises the current ability and desire of Latvia's economy (comprised of both households and businesses) to borrow, as well as the ability and desire of the banking sector to lend.

Under the auspices of the ALCB Lending Index, a range of different indicators that analyse not only the financial data of the banking sector, but also such conditional external factors as changes in Gross Domestic Product, average salary dynamics, consumer attitudes, etc., thus creating an authentic picture of the complexity of lending as an economic driver.

The index's design was developed by ALCB specialists, in collaboration with macroeconomic experts, banks' leading lending specialists, as well as in consultation with specialists from the academic world.

METHODOLOGY

All information required to prepare the Lending Index is collated by the ALCB, using information from the following sources:

- Financial and Capital Market Commission (quarterly report "Banking Operations in Latvia").
- Bank of Latvia (monitoring of lending by Eurozone banks).
- European Central Bank (monitoring of lending by Eurozone banks).
- Monitoring of the Shadow Economy Index in the Baltic States (SSE Riga).
- Commercial banks' leading lending experts (evaluation of commercial banks' appetite for risk).
- Commercial banks' data (proportion of loan applications declined).
- Public quantitative survey (plans to borrow funds from commercial banks).
- Central Bureau of Statistics ("Economy and Finances" indicators).
- European Commission (European Union Economic Sentiment Indicator).

PUBLICATION OF THE INDEX

The ALCB Lending Index is published in three stages:



Every year in January, an index is presented, which encompasses the whole Latvian economy, thus providing a review of the previous year.

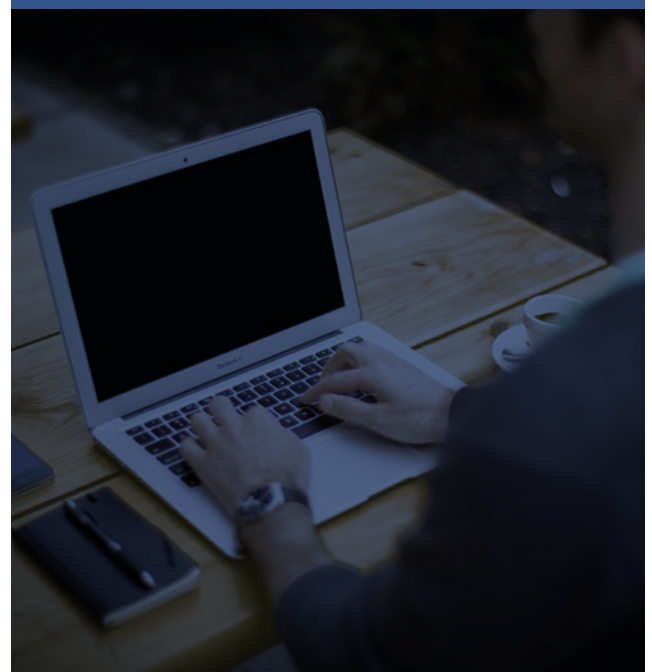


Every spring (in April) an index is presented, whose analysis is centred on the situation in the household segment.



Every year in October, an index is presented, whose analysis is centred on the corporate segment.

The results of the ALCB Lending Index make it possible for everyone to see the close link between various factors characterising the economic situation, which directly influence lending volumes nationally.



Methodologically, the index is created from four groups of different factors (categories): commercial banks' ability to lend, commercial banks' desire to lend, borrowers' ability to borrow and borrowers' desire to borrow.

Each of the four categories contain at least four changing measures and the weight of each index is equal (the weight of groups of factors within the overall index is equal, i.e. the weight of each group is 25%).

Index category indicators are chosen as the most appropriate characteristics of the specific categories (as reflected in Table No.1.).

Table No.1. ALCB Lending Index elements

Commercial banks' ability to lend	Commercial banks' desire to lend	Borrowers' desire to borrow	Borrowers' ability to borrow
<ul style="list-style-type: none"> Ratio of issued loans to deposits within the commercial banking sector Volume of liquid funds within the commercial banking sector Volume of assets within the commercial banking sector Proportion of borrowers' overdue payments 	<ul style="list-style-type: none"> Stringency of lending terms and conditions Commercial banks' appetite for risk Proportion of loans declined by commercial banks Proportion of the shadow economy in Latvia 	<ul style="list-style-type: none"> Proportion of residents that are considering the possibility of borrowing from commercial banks during the next six months Actual demand for loans Profits of businesses EU Economic Sentiment Indicator 	<ul style="list-style-type: none"> Unemployment level nationally Latvia's Gross Domestic Product Average monthly income of Latvia's inhabitants Volume of capital accumulated by Latvia's businesses

The ALCB lending base date against which measurements are conducted is January 2016. The dynamics of change in all indicators are calculated in relation to the situation on this date, using the proportion's basic property and the inverse function.

The majority of the indicators are generated from the statistical data provided by the aforementioned organisations, except for the indicators "stringency of lending terms and conditions" and "commercial bank's appetite for risk", which are based on an evaluation of the situation provided by experts.

INDEX RESULTS

