

OPERATION OF COOPERATIVE CREDIT UNIONS

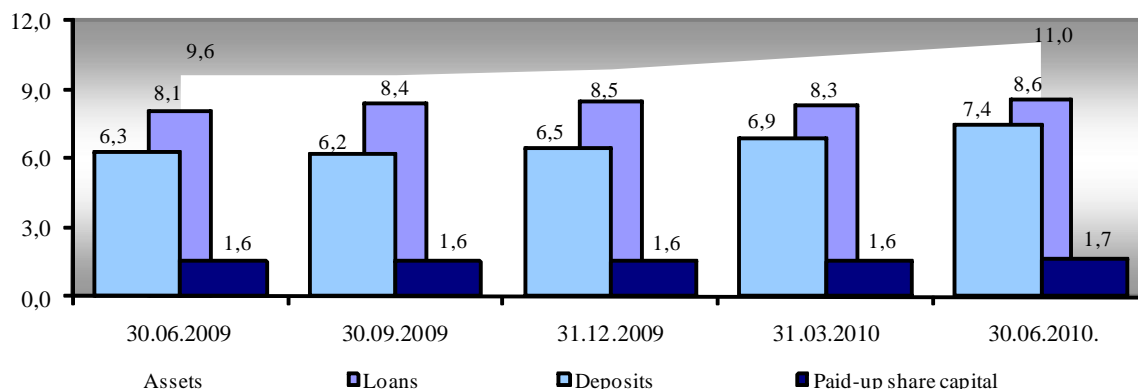
GENERAL INFORMATION

At end-Q2 2010, there were 34 cooperative credit unions still operating in Latvia.

In the reporting quarter, the amount of assets of credit unions rose by 692 thousand lats, or 6.7%, and at end June totalled 11.1 million lats (0.05% of banking sector assets) (compared to Q1 2010 – increased by 5.1% or 503 thousand lats) (see Figure 1).

Figure 1

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



The key business line of credit unions is lending to their members. The amount of credit union member loan balance in the reporting quarter grew by 307 thousand lats, or 3.7%, and at end June totalled 8.6 million lats, i.e. 77.5% of total assets of credit unions (in Q1 2010, loan balance shrank by 207 thousand lats or 2.4%).

At end-2010, of total credit union loan portfolio, 21.6% were short-term loans (up to one year), 41.7% – medium-term loans (from one to five years) 36.6% – long-term loans (more than five years) in comparison with 21.5%, 42% and 36.4% at end Q1 2010).

At end of the reporting quarter, 67.4% of the credit unions' loan portfolio was assessed as standard loans, 28.8% – as close-watch loans and 3.8% as total sum of substandard, doubtful and lost loans (compared to 66.4%, 29.6% and 3.9% in Q1 2009). Special loan loss provisions at the end of June still were 5.1% of total credit union loan portfolio.

The main source of funds attracted by credit unions constituted member deposits and their amount in the reporting quarter rose by 570 thousand lats, or 8.3%, and by end-June totalled 7.4 million lats, i.e. 67.3% of total liabilities of credit unions (compared to increase of 403 thousand lats, or 6.2%, in Q1 2010). Deposits of private persons constituted a greater part (84.4%) of total credit union member deposits.

By the end of reporting quarter, 66.8% of total deposits were short-term deposits up to one year, 27% were medium-term deposits (from one to five years) and 6.2% – were long-term deposits (more than 5 years), compared to 66.9%, 27.2% and 5.9% at end Q1 2010).

At end 2Q 2010, total capital and reserves of credit unions accounted for 2.3 million lats, including paid up share capital – 1.7 million lats.

PERFORMANCE INDICATORS

In the first half of 2010, the credit unions earned a total of 111.6 thousand lats¹ after tax (compared to 113.2 thousand lats in the respective period of 2009). Of total, 19 credit unions ended the first half of the year with a profit while 15 credit unions posted losses totalling 11.5 thousand lats.

In Q2 2010, income from interest on loans issued to credit union members (73.9%) was the main source of credit union income (compared to 73.9% at end-Q1 2010), 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 the end of June constituting 43.4%, 24.3% and 21.7%, respectively, of total expenditures (compared to 44.2%, 22.4% and 23.6% at end-Q1 2010).

By the end of the reporting quarter, the return on equity (ROE)² accounted for 10.3%, while return on assets (ROA)³ – 2.5% (compared to 8.7% and 1.8% at end Q1 2010).

At the end of June the capital adequacy ratio for the credit union sector was 20.6% (compared to 20.8% at end Q1 2010) (minimum capital adequacy requirement is 10%).

¹ Non-audited data.

² ROE – peļņas/zaudējumu no gada sākuma attiecība pret kapitālu un rezervēm (vidējām).

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