LIETUVOS BANKAS
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Review of the Activities of Credit Unions and the Central Credit Union of Lithuania of 2014

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Credit unions. As of 1 January 2015, 74 credit unions operated in Lithuania (63 credit unions were members of the Lithuanian Central Credit Union, LCCU), with a total membership of nearly 149.8 thousand (0.6 thousand less than at the beginning of the year). In 2014, the licenses of two credit unions were permanently revoked.

The assets of credit unions, according to 1 January 2015 data, amounted to EUR 617.2 million (LTL 2.1 billion), or 2.5 per cent of the assets of the system of operating banks (2.8% a year ago).

Dynamics of some performance indicators of the system of credit unions

Seq. No.	Indicator	Amount				Change Q2 2014, %	Change over a year (%)
		01-01-2014 LTL millions	01-10-2014 LTL millions	01/01/2015 LTL millions	01/01/2015 EUR millions		
1.	**Assets**	**2,144.2**	**1,994.9**	**2,131.2**	**617.2**	**6.8**	**-0.6**
2.	Money	16.9	12.7	18.0	5.2	41.7	6.5
3.	Funds with banks	30.4	19.0	42.0	12.2	2.2 t.	38.2
4.	Funds with the LCCU	292.2	227.1	297.7	86.2	31.1	1.9
5.	Government securities (GS)	646.1	721.9	764.2	221.3	5.9	18.3
6.	**Loans granted**	**1,027.6**	**925.5**	**909.9**	**263.5**	**-1.7**	**-11.5**
7.	Specific provisions for loans	63.0	40.6	59.6	17.3	46.8	**-5.4**
8.	Ratio of specific provisions for loans to loans (%)	5.8	4.2	6.2	6.2	–	–
9.	Debt to the LCCU	62.6	80.1	64.2	18.6	-19.9	2.6
10.	**Deposits**	**1,868.1**	**1,698.6**	**1,847.2**	**535.0**	**8.7**	**–1.1**
10.1.	Of members and associated members of credit unions	1,855.8	1,688.6	1,837.6	532.2	**8.8**	-1.0
11.	**Share capital**	**208.7**	**174.8**	**177.6**	**51.4**	**1.6**	**-14.9**
12.	Profit (loss) for current year	-39.4	10.3	2.1	0.6	–	–

Loans granted to members (EUR 263.5 million, or LTL 909.9 million) represented the largest share of the assets of credit unions (42.7%); they contracted by 11.5 per cent. By more conservatively assessing loan portfolios in accordance with the newest provisions of the loan assessment requirements and forming special provisions to cover possible costs of loan depreciation, credit unions revealed a more realistic quality of the loans granted. It should be noted that indicators defining the quality of the loans deteriorated in 2014. The ratio of special provisions formed by credit unions to loans increased by 0.4 p.p., — to 6.2 per cent, while the share of non-performing loans grew by 4.2 per cent — to 26.3 per cent of the loan portfolio. **The deteriorating indicators defining the loan portfolio quality of the system of credit unions suggest that they must pay particular attention to the accumulation of capital sufficient to ensure stability of operations.**

Credit unions continued to invest in long-term GS using the funds of attracted deposits, in which deposits with 12 month maturity account for the largest share, for that purpose. In 2014 credit union investment in GS rose by almost a fifth — to EUR 221.3 million (LTL 764.2 million) and accounted for 35.9 per cent of credit union assets on 1 January 2015. It should be noted that for tow consecutive years the GS of European Union Member States and European Economic Area countries for two consecutive years, in Q4 2014 again more actively invested in the GS of the Republic of Lithuania. Credit unions that invest quite a bit in long-term and lower investment grade GS have to assume the counterparty and market risk. Therefore, the Bank of Lithuania is going to apply individual supervisory and prudential measures for credit unions that aggressively invest in GS.

Moreover, the Bank of Lithuania, in implementing the provisions of the Law on Credit Unions on investment in securities, is preparing the Regulations on Credit Union Investment in Non-equity Securities. They are to lay down the requirements for the investment of temporarily spare funds, valuation of the investment portfolio and GS assessment requirements.

Deposits attracted by credit unions, amounting to the major share of liabilities, was the main financing source. According to the data of the reports, in the first half year of 2014 deposits had decreased by two bankrupt credit unions withdrawing from the market; however, in the second half year the deposits increased. On 1 January 2015 the deposit portfolio amounted to EUR 535 million (LTL 1.8 billion) and was 1.1 per cent less than in the beginning of the year. It is likely that the growth in deposits was a result of the approaching euro adoption date, as demand deposits grew more than fixed-term deposits. The deposits of natural persons continued to account for the largest share of deposits (97%).

With the decrease in the number of credit union members the share capital in 2014 decreased by almost 15 per cent and on 1 January 2015 data , amounted to EUR 51.4 million (LTL 177.6 million). The amendments to the Law on Credit Unions provide credit unions with the opportunity to increase its capital when its members acquire preferred shares.

According to the data of the financial statements approved by the general meetings of the members of credit unions, in 2014 the credit union sector earned more income and experienced lower costs than in 2013. Interest income, which represented 60 per cent of total income, was the main income source for credit unions. A significant portion of the income comprised of income of one-off character, earned from securities operations. The result of the credit union operations — a profit of EUR 0.6 million (LTL 2.1 million) (in 2013 credit unions experienced losses amounting to EUR 11.4 million [LTL 39.4 million]). Profit was reported by 53 credit unions, while 21 credit unions ended year at a loss.

It should be noted that most credit unions, seeking to strengthen the capital base, usually allocate the earned profit to a reserve capital; however, the strengthening opportunities for this capital was not used by all of the unions. Some credit unions, particularly those that actively invest in GS, purchased expensive and of questionable necessity investment consultation or other services and for these the service providers were paid substantial wages, thus experiencing significant expenditure. These expenses have a negative effect on the capital of credit unions. Decreased share capital also had a negative effect on the capital of credit unions. **Given that, as was also mentioned in the previous reviews, strengthening of capital is one of the central tasks for the sector of credit unions; for the formation of sustainable capital, they must take every measure, including the use of their profit earned.**

On 1 January 2015 the credit union sector's capital adequacy ratio amounted to 22.65 per cent (minimum requirement — 13%), while the liquidity ratio — 69.84 per cent (minimum requirement — 30%).

The Lithuanian Central Credit Union As was mentioned, on 1 January 2015, the LCCU united 63 credit unions. The assets of the LCCU, with the growth of deposits, increased by EUR 5.2 million (LTL 18.1 million) — to EUR 111.4 million (LTL 384.6 million). The loan portfolio of the LCCU also increased — at the end of the year they amounted to EUR 21.8 million (LTL 75.3 million). The loans issued to credit union members of the LCCU amounted to EUR 18.1 million (LTL 62.5 million). The LCCU liquidity support reserve, once the funds belonging to credit unions were returned, decreased and at the end of 2014 amounted to EUR 4.2 million (LTL 14.4 million). Having provided support to three credit unions, funds in the stabilisation fund, for restoring the solvency of the credit unions (LCCU members), also decreased (to EUR 1.4 million, or LTL 4.7 million), although the LCCU member credit unions made advance payments to this fund. **Taking into account, that credit unions paid in advance the 2015–2017 contributions, in the future the LCCU could encounter difficulties in dealing with issues of the credit union solvency.**

On 1 January 2015 the share capital of LCCU made up EUR 9.4 million (LTL 32.5 million). Although the Republic of Lithuania Government was returned its acquired shares, the LCCU's share capital in 2014 increased by almost 6 per cent, as the members of the LCCU brought in additional shares. According to the data of audited accounts, the LCCU's operating result for 2014 was a profit of EUR 0.1 million (LTL 0.4 million) (in 2013 — EUR 0.3 million or LTL 0.9 million).

In the second half year of 2014 the LCCU's target inspection was performed. During it the credit union's management and internal control, as well as management of credit risk and operational risk, was inspected.