LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Review of the Credit Union Sector

2020

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The Survey was prepared by
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CREDIT UNION MARKET IN 2020

Lithuanian Central Credit Union (LCCU)

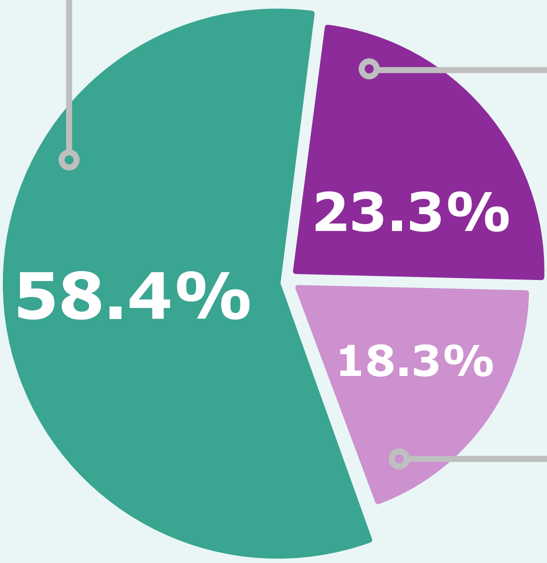
LCCU group assets - €566.0 million

includes
45 credit unions

United Central Credit Union (UCCU)

UCCU group assets - €225.5 million

includes
11 credit unions



Under restructuring into a specialised bank

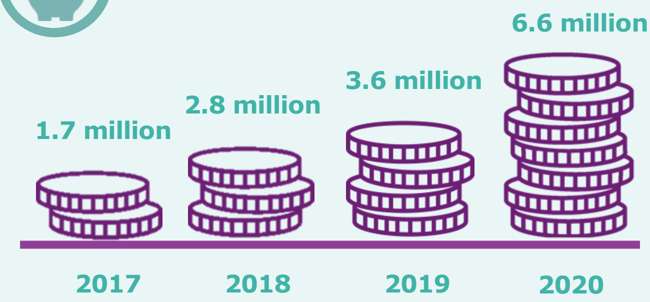
LTL credit union
Saulėgrąža credit union
Taupa credit union
Ratas credit union

Total assets of four credit unions - €177.1 million

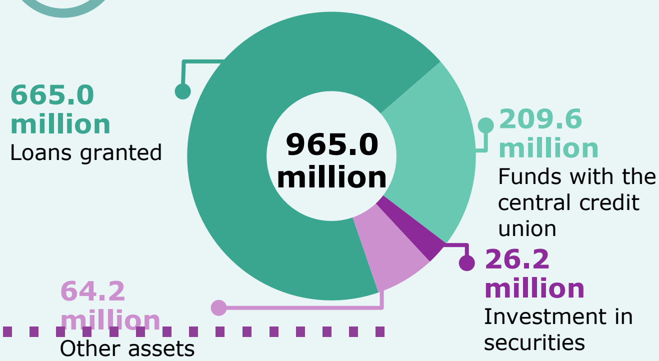
In total
4 credit unions

CREDIT UNION SECTOR* IN 2020

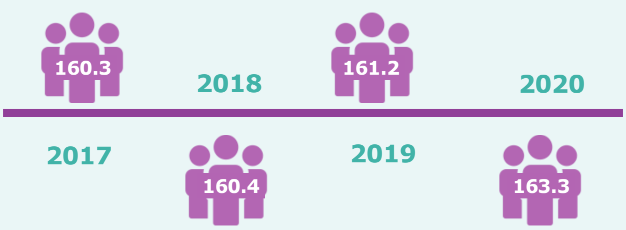
Profit, EUR

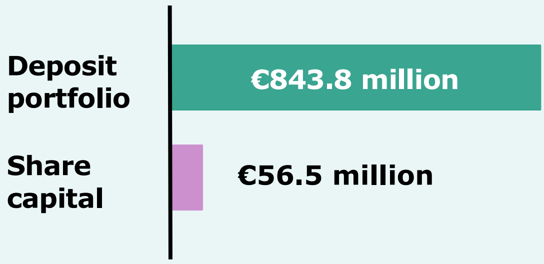


Assets, EUR



Members, thousand





* Financial indicators of the credit union sector are calculated from the data of 60 credit unions, excluding central credit unions.

The results of the credit union sector in 2020 reflected the importance of the reform carried out by the Bank of Lithuania – the sector was profitable even under the circumstances of the pandemic, whereas assets and share capital of credit unions was growing rapidly. Asset growth was driven by a significant rise in time and demand deposits. Loan growth rates were slightly slower than a year ago, whereas higher net interest rates had the largest positive impact on the sector's operating result. The credit union sector earned the unaudited profit of €6.6 million in 2020, which was €3 million higher than in 2019. Under the conditions of prevailing uncertainty, one of the most urgent issues continued to be a proper assessment of the impact of COVID-19 on loan quality and the allocation of the profit earned for the strengthening of capital.

Three credit union groups operated in the credit union sector: the Lithuanian Central Credit Union (LCCU) group uniting 45 credit unions, the United Central Credit Union (UCCU) group uniting 11 credit unions and 4 credit unions undergoing restructuring into specialised banks. The credit union sector's assets grew by 22.9% in 2020 and amounted to €968.6 million according to the data of unaudited reports as of 1 January 2021. No major changes were recorded in 2020. As shown in Chart 1, the assets of the LCCU group comprised the largest share of the credit union sector (58.4%), same as earlier.

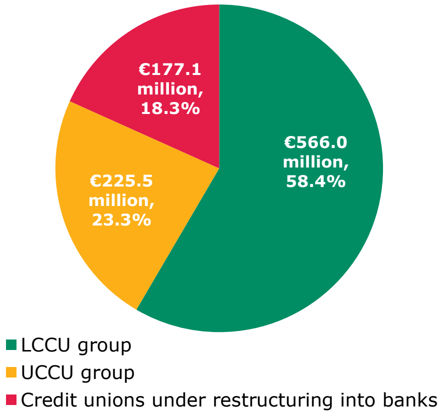
According to the data provided by credit unions, all credit unions complied with prudential requirements.

Central credit unions. At the end of 2020, two central credit unions (CCUs) operated in Lithuania. They not only provided financial services, but were also required to maintain liquidity of member credit unions,

ensure their solvency as well as monitor and check the risks assumed by them. CCUs also have to ensure the CCU group's compliance with prudential requirements. In the third year after the reform of the credit union sector, CCUs continued to strengthen supervision of their member credit unions, provided accounting or internal audit services to some of them, organised training of credit union staff and inspected their members. Exercising the right envisaged in the Republic of Lithuania Law on Central Credit Unions (hereinafter - the CCU Law), the LCCU conducted inspections and imposed enforcement measures on five member credit unions in 2020.

The total assets of both CCU groups amounted to €791.5 million at the end of 2020, with the LCCU assets comprising the largest share (71.5%). Over the year, the assets of CCU groups increased by as much as €155.2 million (24.4%), which is the largest growth since the creation of the current structure of the credit union market at the end of 2018. Asset growth was determined by a record increase in deposits, which grew by €136.7 million (to €694.9 million) and were the main funding source of CCU groups. In the period under review, the loan portfolio went up by €87.4 million (18%), to €573.9 million,

Chart 1. Lithuanian credit union market composition in terms of assets
(1 January 2021)



Source: Bank of Lithuania.

Credit union sector reform

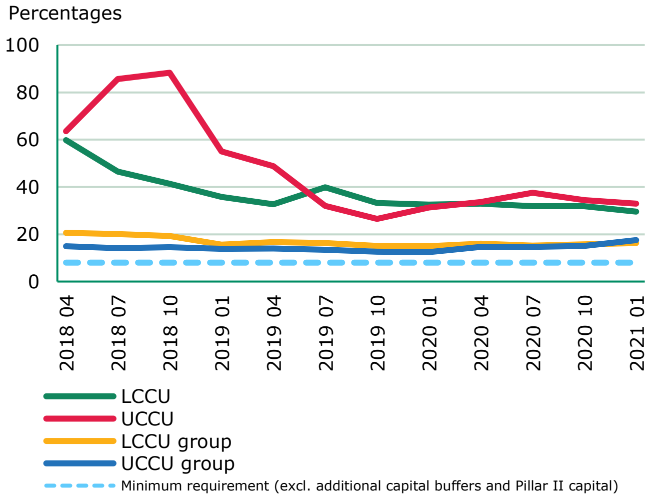
The credit union sector reform initiated by the Bank of Lithuania was carried out from 2016 to 2018. It was necessary, as credit unions did not follow the cooperative activity model, there was a lack of sustainable capital and the sector was not profitable. Owing to improper risk assessment or asset depletion, 13 credit unions were liquidated in the period from 2013 to 2018. The credit union sector grew stronger after the reform and is currently operating profitably and expanding the volume of its activities in a sustainable manner for the third consecutive year. Credit unions that chose to be members of one of the central credit unions are working with their partners and sharing a joint vision and responsibility as well as creating a joint business model that is acceptable to members. Credit unions that decided to become specialised banks have to prepare for that by 2023.

whereas the largest share of loans was granted to credit union members. The loan portfolio, which grew rapidly last year, remained the largest part of the assets of CCU groups (72.5%). The newly attracted funds were channelled into accounts with the Bank of Lithuania or credit institutions. Funds held with the Bank of Lithuania grew more than two times – by €42.5 million, to €75.2 million. Another €14.2 million was held as funds with credit institutions or as cash. Debt securities investment portfolio increased by almost one-fourth (24%) in the period under review, to €108.2 million, however, its share in assets remained unchanged over the year, comprising 13.7% of the assets of CCU groups, same as last year.

Liabilities of the LCCU and UCCU groups amounted to €726.9 million at the end of 2020, rising by €144.7 million (24.8%) year on year. The share of deposits by credit union members comprised 95.6% of total liabilities of CCU groups at the end of the year, while the ratio of loans to members and deposits by members was 82.6%. One CCU had liabilities to central banks, since it participated in the refinancing operations announced by the European Central Bank, during which it borrowed €6 million (0.8% of total liabilities of CCU groups). The equity of CCU groups amounted to €64.6 million at the end of 2020.

Both CCU groups finished the year profitably. In total, CCU groups earned the unaudited net profit of €4.4 million in 2020, which was €2.2 million higher than a year ago. The assessment of profitability of CCU groups revealed that the negative effect of the coronavirus pandemic was mainly felt by CCU groups through the increase in loan impairment costs. However, crediting growth resulted in higher net interest income, which favourably affected the operating result of CCU groups.

Chart 2. CCU capital adequacy ratios
(1 April 2018–1 January 2021)



Source: Bank of Lithuania.

Table 1. CCU capital adequacy ratios
(percentages)

Indicator	Q3 2020 value	Q4 2020 value	Requirement
LCCU	31.91	28.3	13.2
UCCU	34.45	33.49	14.8
Total	**32.29**	**29.02**	**–**
LCCU group	15.72	15.45	11.8
UCCU group	15.08	15.92	12.2
Total	**15.53**	**15.58**	**–**

Source: Bank of Lithuania.

The overall capital adequacy ratio of CCU groups was higher at the end of 2020, compared to 2019, whereas both groups complied with the capital adequacy requirements set for them, as indicated in Table 1. At the end of the reporting period, the ratio stood at 15.6%, increasing over the year by 1.4 percentage points. CCU groups boosted their capital base by including the operating profit for 2019 in it and by share contributions of credit union members, whereas one CCU attracted external capital in the form of subordinated loans. Nevertheless, the trend of increasing capital requirement to cover credit risk mentioned in previous periods still prevailed in CCU groups.

After the Supervisory Review and Evaluation Process, the overall capital adequacy requirement of 11.8% was set for the LCCU group, which replaced the previous requirement of 12.5%. The set capital requirements (see Table 1) will be in effect until the Bank of Lithuania takes new supervisory decisions after conducting a supervisory review and evaluation process. It should be noted that, in response to the coronavirus outbreak, the ECB and the Bank of Lithuania granted a temporary exemption from compliance with the combined capital buffer requirement to their directly supervised institutions. In the case of CCU groups, the latter requirement consists of capital conservation (2.5%) and anti-cyclical capital (0.0%) buffers.

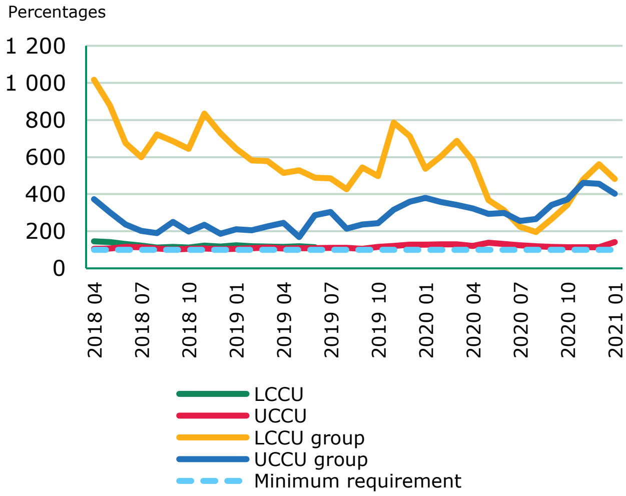
In 2020, the liquidity level of CCU groups was high. It was determined by the accumulated liquid assets (cash, funds held with the Bank of Lithuania and government securities issued by the EU countries), which were more than three times higher than the total liquidity outflow. The solid liquidity situation of CCU groups was ensured by stable main funding sources of CCU groups, as deposits held with credit unions by their members continued to grow in 2020. The liquidity coverage ratio (LCR), the main liquidity indicator of CCU groups, exceeded the minimum requirement of 100% more than four times and comprised 450% (see Table 2).

Despite the social and economic restrictions related to the global coronavirus (COVID-19) pandemic, the trend of loan portfolio quality indicators of CCU groups remained positive. The share of non-performing loans decreased by 1.7 percentage points to 10% (the share of non-performing loans of non-financial corporations in the portfolio stood at 16.8%, whereas that of households comprised 8.1%). The ratio of loans to specific provisions decreased from 2.15% to 1.86%, whereas the indicator of coverage of non-performing loans with specific provisions declined by 2.1 percentage points to 13.8%. CCUs incurred loan impairment costs of €1.6 million in 2020.

Stabilisation funds administered by CCUs accumulate resources to be used for restoring solvency of group members, if necessary. At the end of 2020, the LCCU and the UCCU stabilisation funds amounted to €3.9 million and €0.68 million respectively. In the period under review, the LCCU and its members paid mandatory contributions to the stabilisation fund amounting to €1.2 million, whereas payments to member credit unions stood at €0.3 million. Moreover, the previously granted subordinated loan of €0.5 million was repaid, thus the stabilisation fund increased by €1.4 million in absolute terms over the year. The resources from the UCCU stabilisation fund were not used to finance measures for ensuring solvency of member credit unions in 2020, while its amount increased by €0.3 million after the UCCU and its members paid mandatory contributions to the stabilisation fund. It should be noted that the amount no lower than 1% of the assets of the LCCU and its member credit unions and 1% of the assets of the UCCU and its member credit unions should be accumulated and held in the stabilisation funds of both CCUs by 2028. At the end of the period under review, the LCCU stabilisation fund comprised 0.51% and the UCCU stabilisation accounted for 0.24% of the amount of assets of respective CCU and its members.

Funds in the liquidity support reserve (formed by CCUs voluntarily) accumulated by the LCCU increased by €0.6 million over the year, to €4.4 million, whereas funds accumulated by the UCCU remained unchanged and amounted to €1.3 million.

Chart 3. Liquidity coverage ratios of CCUs (1 April 2018–1 January 2021)



Source: Bank of Lithuania.

Table 2. Liquidity coverage ratios of CCUs (percentages)

Indicator	Q3 2020 value	Q4 2020 value	Requirement
LCCU	–	–	–*
UCCU	114.0	141.6	100
Total	–	–	–
LCCU group	342.4	481.7	100
UCCU group	371.1	402.2	100
Total	**352.9**	**450.0**	–

* Under the decision of the Bank of Lithuania, the LCCU is exempt from the requirements of Part VI of the Regulation No. 575/2013 on an individual basis.

Source: Bank of Lithuania.

Credit unions under restructuring. On 1 January 2021, 4 credit unions were in the process of restructuring into a specialised bank. These credit unions should complete their restructuring process by 1 January 2023. In 2020, one credit union applied to the Bank of Lithuania for a bank licence and the decision on this application should be taken this year.

In 2020, the credit unions under restructuring continued to meet the financial objectives of the transitional period established in restructuring plans, however, their assets grew slower than in 2019. The economic downturn caused by the COVID-19 outbreak and related quarantines did not have a significant impact on performance results of credit unions in the process of restructuring into specialised banks. The assets of credit unions under restructuring grew by 16.6% (32% in 2019) and amounted to €177 million (18% of the assets of credit unions in operation) on 1 January 2021. In 2020, deposits taken and loans granted by this group of credit unions grew slower than last year. Deposits taken by credit unions under restructuring grew by €22.8 million or 16.1% in 2020 (31.8% in 2019), whereas loans granted by them went up by €20.9 million or 18% (40.6% in 2019). As of 1 January 2021, loans granted by credit unions under restructuring comprised 20.6% of loans granted by credit unions in operation, whereas deposits taken by them stood at 19.4% of deposits taken by credit unions in operation. As of 1 January 2021, loans granted by credit unions under restructuring to their members and associated members amounted to €137.2 million, of which, €88.2 million were granted to natural persons and €49 million were granted to legal entities. In 2020, credit unions under restructuring earned the unaudited profit of €1.3 million or one-fifth of the profit earned by credit unions in operation. (in 2019, credit unions in this group earned the audited profit of €1.4 million).

In the period under review, credit unions in the process of restructuring into specialised banks complied with prudential requirements set for them. As of 1 January 2021, the overall capital adequacy ratio of credit unions in the process of restructuring into specialised banks comprised 12.89% (the minimum required capital adequacy ratio was 10.2% in 2020), whereas their liquidity ratio stood at 541.24% (the minimum required liquidity ratio was 100%).

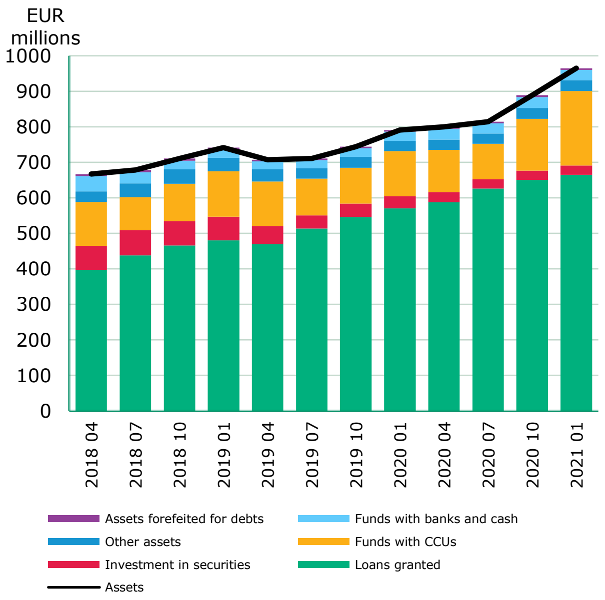
Credit unions. On 1 January 2021, financial and supervisory reports were submitted to the Bank of Lithuania by 60 credit unions that had 163.3 thousand members. In addition to their head offices, credit unions also provided their services via 67 branches.

According to unaudited financial statements as of 1 January 2021, credit union assets grew by 21.9% and amounted to €965 million or 2.6% of the banking system's assets in 2020 (same as a year ago). Asset growth was the largest in recent years. The change in the amount of the sector's assets was determined by the growth of demand and time deposits. A year ago, the growth of credit union assets comprised almost 15% (with the impact of Mano unija credit union eliminated).

As shown in Charts 4 and 5, the largest growth was recorded in credit union funds with central credit unions and loans granted, whereas, securities investment continued to decline. No essential changes were observed in the composition of credit union assets. Loans granted continued to account for the largest share of assets, whereas securities investment comprised just 2.7% of credit union assets after its contraction. The amount of funds held with CCUs and their share in assets increased, whereas the share of loans granted declined slightly.

Chart 4. Composition of credit union assets

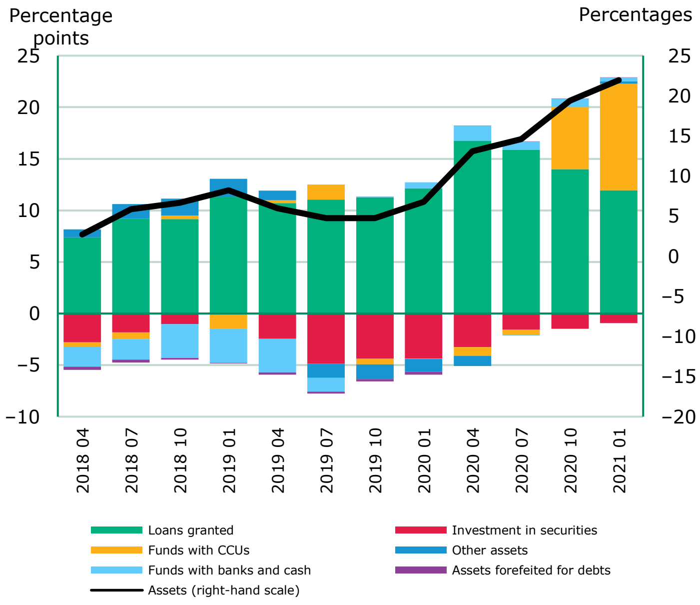
(1 April 2018–1 January 2021)



Source: Bank of Lithuania.

Chart 5. Contributions to the annual change of credit union assets

(1 April 2018–1 January 2021)



Source: Bank of Lithuania.

At the end of 2020, loans granted by credit unions to their members and associated members amounted to €665 million, of which, €530 million were granted to natural persons and €135 million were granted to legal entities. The net value of loans granted by credit unions in 2020 went up by €94.5 million or 16.6%, whereas their share in the composition of credit union assets declined by 3 percentage points to 69%. The loan portfolio growth was driven by more active crediting of natural persons, as loans granted to them increased by €73.5 million (loans to legal entities went up by €21 million). Early repayment of loans had a substantial impact on loan developments.

The composition of credit union loan portfolio remained broadly unchanged, with loans to natural persons comprising 80% of the loan portfolio. According to the reported data, the largest growth was recorded in housing loans (€62.6 million), whereas the share of these loans comprised more than 40% of the total loan portfolio.

Despite the social and economic restrictions related to the global coronavirus (COVID-19) pandemic, credit union portfolios maintained the positive trend of developments in loan portfolio quality indicators. The volume of overdue loans declined: the share of loans overdue by more than 60 days contracted from 4.2% to 2.7%. The distribution of loans by risk group also improved: the share of loans of III–V risk groups declined by 3 percentage points over the year, to 17%. Accordingly, the share of non-performing loans calculated for credit unions[1] declined to 8.8% of the loan portfolio (a year ago, this indicator stood at 12.4%), whereas the ratio of specific provisions to loans went down to 1.1% (a year ago, it was 1.6%). Loan portfolio quality was positively affected by measures related to credit union loan moratoria and the temporary state aid to the domestic economy. Nevertheless, under the circumstances of uncertainty, a proper assessment of the impact of COVID-19 on loan quality remains one of the most important issues.

As deposits grew faster than loans granted, credit unions held available funds at CCUs, therefore, the share of funds with CCUs in assets increased, whereas the volume of securities investment

[1] Non-performing loans include unimpaired loans overdue for more than 60 days and impaired loans.

and its share in assets declined, same as in the previous year. Credit union funds with CCUs increased by €81.8 million in the period under review, to €209.6 million, whereas their share in assets went up by 5.5 percentage points over the year, to 21.7%. As in previous periods, credit union investment in securities continued to decline. In the period under review, credit union investment in securities contracted by €7.4 million, to €26.2 million, while their share in assets went down by 1.5 percentage points, to 2.7%. Government securities of the Republic of Lithuania comprised the largest share of the securities portfolio (89.6%). All credit unions operated in compliance with the requirement of the Regulations on Credit Union Investment in Non-equity Securities for the size of the securities portfolio share in the on-balance-sheet assets with a significant reserve: in the period under review, securities comprised no more than 30% of their on-balance-sheet assets.

In 2020, the loan-to-deposit ratio declined and comprised 79% at the end of the year (82% a year ago). In the period under review, deposits rose by €149.1 million (21.5%). They were used to finance 87% of credit union assets. On 1 January 2021, deposits amounted to €843.8 million, of which, time deposits stood at €571.7 million and demand deposits totalled €272.1 million. Same as every year, deposit developments in some credit unions were affected by seasonality, however, it did not have a substantial influence on the overall growth of deposits. In 2020, an increase was observed both in time deposits (11%) and demand deposits (51.4%). In the second half of 2020, as credit union members started to receive funds for the sales of agricultural production, demand deposits grew rapidly and comprised almost one-third of total deposits as of 1 January 2021. Time deposits accepted by credit unions expanded by €56.7 million and comprised 68% of total deposits as of 1 January 2021 (a year ago, 74% of total deposits). As usual, deposits of natural persons accounted for the largest share of the deposit portfolio (94%), since residents continue to choose deposits as a means of saving and investment. According to the reported data, 17 credit unions raised their interest rates on time deposits in euro with a maturity of 12 months since the beginning of the year, whereas 13 credit union reduced them, with the average interest rate for these deposits standing at around 1.1% (a year ago, 1%). Owing to a rapid expansion, the need for working capital increased in some credit unions, therefore, they borrowed from CCUs. In 2020, the debt of credit unions to CCUs grew by €8.9 million and amounted to €39.6 million as of 1 January 2021. This debt consisted of loans for working capital and subordinated loans.

According to the data provided by credit unions, their share capital increased by €7.1 million or 14.4% in 2020, amounting to €56.5 million as of 1 January 2021. The growth of the share capital is related to the rising capital requirement, the growth of credit union lending volume and the increase in the share capital of several credit unions under restructuring into specialised banks. Taking into account the economic situation due to the COVID-19 pandemic, the growth of the share capital should be considered as an important measure to increase the capitalisation level of credit unions. According to the reported data, sustainable shares of credit unions, which can be used to cover the losses incurred by credit unions, increased to €54.7 million, whereas their share comprised 97% of the share capital at the end of the period under review. Unsustainable additional shares comprising another portion of the share capital, which as of 1 January 2018 are not included in a credit union's adjusted capital used for the calculation of capital-related prudential requirements, can be returned to members who apply for their return, without permission of the Bank of Lithuania. On 1 January 2021, credit unions still had unsustainable additional share capital amounting to €1.8 million.

In 2020, the credit union sector's activities resulted in the unaudited profit of €6.6 million. 53 credit unions that operated profitably earned a profit of €7.1 million profit, while 7 credit unions incurred a loss of €0.5 million. In 2019, credit unions earned a profit of €3.6 million (according to the audited data).

Active lending led to an improvement in the main income and expense items of credit unions. The comparison of the developments in income and expenses of credit unions in 2020 with those of 2019 reflects that credit unions earned 24% higher net interest income and 25% higher net income from services and commissions. Moreover, the performance result of 2019 was substantially affected by the restoration of value of credit union loans, which amounted to €0.4 million, whereas in 2020 it decreased to €18 thousand.

As reflected by the data submitted to the Bank of Lithuania, active crediting had a favourable impact on the sector’s performance result. In 2020, interest income of credit unions was 22.3% higher than in 2019. They were mainly received for loans to members and associated members of credit unions. Same as in the previous year, interest income comprised the largest share of credit union income (81%). Operating expenses comprised the largest share of expenses (61.8%) in the period under review. Compared to 2019, they increased by 9%, and 51.4% of total income was needed for their coverage (a year ago, 57.5%). It should be noted that the issue of business optimisation is still relevant to some credit unions that operated with a loss, since their activity was not profitable in the previous years as well. As of 1 January 2021, 25 credit unions had accumulated unappropriated losses from the previous year for the amount of €6.6 million.

It is important to note that uncertainty of the situation in relation to the COVID-19 pandemic and its negative impact on the economy may negatively affect credit union performance results in the future, therefore, the allocation of the profit for 2020 for the strengthening of the capital base should be a priority issue.

According to the unaudited report data as of 1 January 2021, all credit unions complied with prudential requirements. Information on each credit union's key annual and quarterly performance indicators as well as on their compliance with prudential requirements is published on the website of the Bank of Lithuania.

Annex. Key performance indicators of the credit union sector

Table 1. Main items of the balance-sheet statement of CCUs and CCU groups (as of 31 December 2020)

No.	Indicator	CCUs			CCU groups		
		Amount, EUR millions	Change, %		Amount, EUR millions	Change, %	
		01 01 2021	2020 Q4	Over the year	01 01 2021	2020 Q4	Over the year
1.	Assets	268.4	30.0	58.5	791.5	10.3	24.4
1.1.	Debt securities	93.0	43.1	42.7	108.2	34.8	24.0
1.2.	Equity securities	3.2	3.5	15.6	3.2	3.5	15.6
1.3.	Cash	0.0	0.0	0.0	3.1	-20.1	-5.1
1.4.	Funds with central banks	75.2	70.0	132.8	75.2	70.0	130.0
1.5.	Funds with credit institutions	44.0	-10.0	35.1	11.1	2.9	47.6
1.6.	Loans to customers	49.8	18.3	47.8	573.9	2.8	18.0
1.6.1.	Non-financial corporations	40.4	24.7	60.3	125.5	11.9	26.9
1.6.2.	Households	9.4	-3.0	10.8	448.4	0.6	15.7
1.6.2.1	o/w loans for house purchase	3.1	7.3	21.8	219.1	6.4	34.0
1.7.	Other asset positions	3.3	0.4	13.5	16.9	-0.3	3.0
2.	Liabilities and equity	268.4	30.0	58.5	791.5	10.3	24.4
2.1.	Deposits of central banks	6.0	0.0	0.0	6.0	0.0	0.0
2.2.	Liabilities to credit institutions	188.9	40.4	62.0	0.3	-15.0	-94.5
2.3.	Deposits	30.9	33.1	82.3	694.9	11.8	24.5
2.3.1.	Other financial corporations	30.9	33.1	83.4	18.0	-4.5	58.2
2.3.2.	Non-financial corporations	0.0	25.0	-65.2	39.3	32.3	174.4
2.3.3.	Households	0.0	25.0	-54.5	637.6	11.3	19.7
2.4.	Other liability positions	21.7	-5.5	33.3	25.6	-8.4	39.7
2.5.	Total equity	20.8	5.9	7.0	64.6	5.0	19.4
2.5.1	Profit (loss) for the current year	0.8	–	–	4.4	–	–

Source: Bank of Lithuania.

Table 2. Dynamics of performance indicators of the credit union sector

No.	Indicator	Amount, EUR millions			Change (%)	
		01 01 2020	01 10 2020	01 01 2021	2020 Q4	over the year
1.	Assets	791.3	888.8	965.0	8.6	21.9
2.	Cash	3.5	4.2	3.3	-19.5	-3.8
3.	Funds with banks	22.7	26.1	25.8	-1.5	13.3
4.	Funds with CCUs	127.8	146.0	209.6	43.6	64.0
5.	Government securities	33.6	26.4	26.2	-0.7	-22.0
6.	Loans granted	570.5	650.3	665.0	2.3	16.6
7.	Specific provisions for loans	9.4	8.1	7.3	-10.5	-22.7
8.	Ratio of specific provisions for loans to loans (%)	1.6	1.2	1.1	–	–
9.	Debt to CCUs	30.7	46.0	39.6	-14.3	28.9
10.	Deposits	694.7	763.4	843.8	10.5	21.5
10.1	Credit union members and associated members	692.2	760.1	840.2	10.5	21.4
11.	Share capital	49.4	54.6	56.5	3.6	14.4
12.	Profit (loss) for the current year	3.6	5.1	6.6	–	–

Source: Bank of Lithuania.