Activities of financial market participants

Review of the Credit Union Sector

2021

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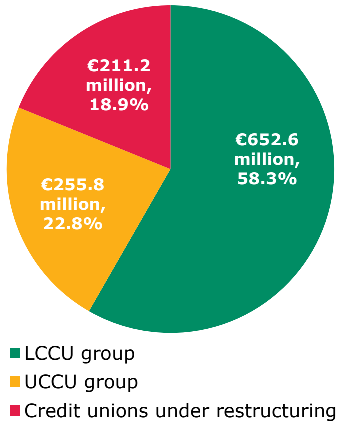
Credit unions successfully weathered the challenges posed by the pandemic, however, the challenging geopolitical situation calls for continued close monitoring of the liquidity situation and other supervisory indicators, and for timely and appropriate measures to be taken if necessary. In 2021, the assets of credit unions grew by 16% and amounted to €1,119.7 million according to the data of unaudited reports submitted. Due to the slower growth in demand deposits, the pace of asset growth was slower than a year ago. Driven by an increase in lending to both natural and legal persons, the volume of lending grew rapidly during the period under review. It should be noted that the volume of lending to legal entities was significantly higher than in the previous year. Increased lending was the main contributor to the operating result of the credit union sector. In the period under review, credit unions earned 17% higher net interest income and 22% higher net income from services and commissions. In 2021, the credit union sector's activities resulted in the unaudited profit of €9.5 million, which was €3.2 million more than in 2020.

In the period under review, there were three groups of credit unions operating 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 process of credit union mergers, which started a few years ago, continues. At the beginning of 2022, Radviliškis Credit Union merged with Grinkiškis Credit Union, also Trakai Credit Union was granted consent to merge with Magnus Credit Union.

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

Chart 1: Lithuanian credit union market composition in terms of assets (1 January 2022)



Source: Bank of Lithuania.

During the period under review, the credit union sector's assets grew by 15.6% and amounted to €1,119.6 million according to the data of unaudited reports as of 1 January 2022. No major changes were recorded in this period. As shown in Chart 1, the assets of the LCCU group comprised the largest share of the credit union sector (58.3%), same as earlier.

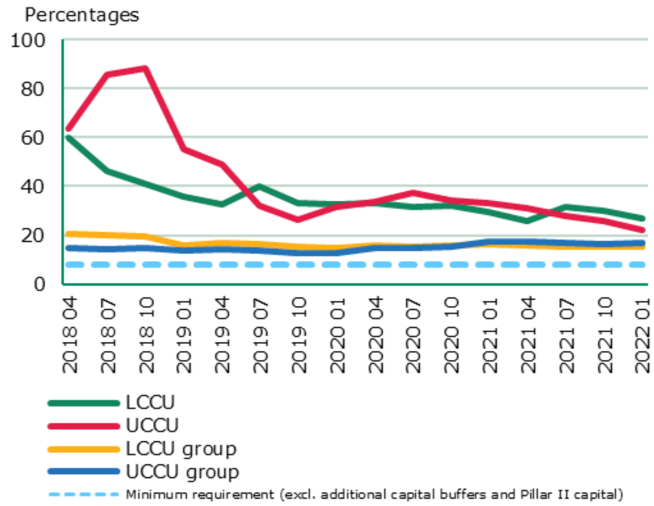
Central credit unions. At the end of 2021, two central credit unions (CCUs) operated in Lithuania. They not only provided financial services but were also required to maintain liquidity of member credit unions, ensure their solvency as well as monitor and check the risks assumed by them. CCUs also have to ensure the CCU group's compliance with prudential requirements. In the fourth 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, the LCCU conducted inspections and imposed enforcement measures on two-member credit unions.

The total assets of both CCU groups amounted to €908.4 million at the end of 2021, with the LCCU assets comprising the largest share (71.8%). Over the year, the assets of CCU groups increased by €117.2 million (14.8%). Asset growth was due to an increase in deposits, which grew by €88.8 million (to €783.7 million) and were the main source of funding for CCU groups, as in previous periods. In the period under review, the loan portfolio went up by €114 million (20%), to €687.7 million, with the largest share of loans granted to credit union members. The loan portfolio, which grew rapidly in 2021, remained the largest part of the assets of CCU groups (75.7%). The newly attracted funds were held with the Bank of Lithuania or credit institutions. Funds held with the Bank of Lithuania increased by €11.6 million, to €86.8 million. Another €19.3 million was held as funds with credit institutions or as cash. Debt securities investment portfolio (DIP) decreased by 8.5%, to €99 million, over the period under review, its share decreased over the year and comprised 10.9% of the assets of CCU groups (13.7% in 2020).

Liabilities of the LCCU and UCCU groups amounted to €832 million at the end of 2021, rising by €105.3 million (14.5%) year on year. The share of deposits by credit union members comprised 96.1% of total liabilities of CCU groups at the end of the year, while the ratio of loans to members and deposits by members was 86%. The equity of CCU groups amounted to €74.4 million at the end of the period under review.

Both CCU groups finished 2021 profitably. In total, CCU groups earned the unaudited net profit of €7.2 million, which was €2.9 million higher than a year ago. Crediting growth resulted in higher net interest income (17%), which favourably affected the operating result of CCU groups.

Chart 2. CCU capital adequacy ratios
(1 April 2018 - 1 January 2022)



Source: Bank of Lithuania.

Table 1. CCU capital adequacy ratios
(percentages)

Indicator	01 01 2021 value	01 01 2022 value	Requirement
LCCU	29.56	26.96	13.2
UCCU	32.92	22.14	14.8
Total	**30.03**	**26.18**	**–**
LCCU group	16.33	15.21	11.8
UCCU group	17.52	17.09	12.2
Total	**16.67**	**15.75**	**–**

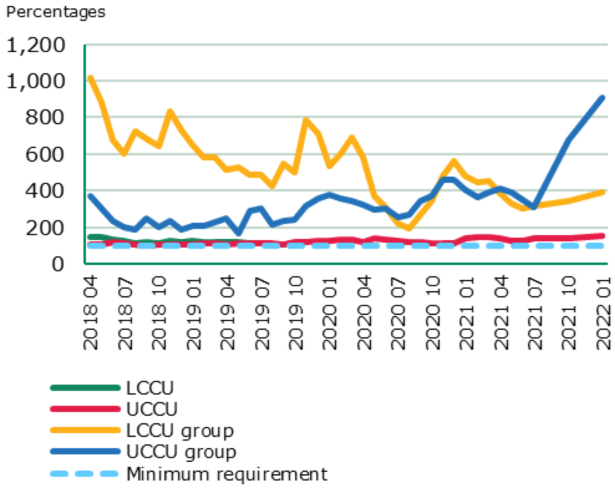
Source: Bank of Lithuania.

Both CCU groups complied with the capital adequacy requirements set for them, as indicated in Table 1. Compared to 2020, the value of the overall capital adequacy ratio of CCU groups decreased by 0.9 percentage points to 15.8% at the end of the reporting period, due to the increase in the capital requirement to cover credit risk. CCU groups boosted their capital base by including the operating profit for 2020 in it and by share contributions from members of credit unions, also CCU groups attracted external capital in the form of subordinated loans the amount of which was €4.2 million at the end of the reporting period.

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 countercyclical capital (0.0%) buffers.

In 2021, the liquidity level of CCU groups was high and the available liquidity buffer was sufficiently big. The cooperative model of CCU groups predetermines the funding of CCU groups’ activities through sustainable deposits held by members of credit unions. In 2021, deposits held by CCU members continued to grow at a strong pace, which allowed CCU groups to further boost their liquidity. The liquid assets accumulated by CCU groups (funds held with the Bank of Lithuania, government securities issued by the EU countries and cash) were almost five times higher than the net liquidity outflow. The liquidity coverage ratio (LCR), the main liquidity indicator of CCU groups, was well above the minimum requirement of 100% and comprised 488.6% (see Table 2).

Chart 3. Liquidity coverage ratios of CCUs
(1 April 2018 – 1 January 2022)



Source: Bank of Lithuania.

Table 2. Liquidity coverage ratios of CCUs
(percentages)

Indicator	01 01 2021	01 01 2022	Requirement
	value		
LCCU	–	–	–*
UCCU	141.6	150.9	100
Total	–	–	–
LCCU group	481.7	392.8	100
UCCU group	402.2	908.0	100
Total	**450.0**	**488.6**	–

Source: Bank of Lithuania.

* 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.

As of 30 June 2021, another mandatory liquidity requirement entered into force: the Net Stable Funding Ratio NSFR), which must be no less than 100%. The NSFR is used to assess the liquidity of credit institutions over a longer time horizon, which means that CCU groups, like banks, must have sufficient stable funding to cover their funding needs for a period of one year under both normal and stressed conditions. CCU groups complied with the NSFR with a safety margin of 151.6% at the end of the reporting period (see Table 3).

Despite the social and economic restrictions related to the global COVID-19 pandemic, the trend of loan portfolio quality indicators of CCU groups remained positive. The share of non-performing loans fell by 3.9 percentage points to 6.1% (the share of non-performing loans of non-financial corporations in the portfolio stood at 7.4%, whereas that of households comprised 5.7%). The ratio of loans to specific provisions decreased from 1.86% to 1.47%, whereas the indicator of coverage of non-performing loans with specific provisions declined by 2.2 percentage points to 15.98%.

Table 3. Net stable funding ratios of CCUs
(percentages)

Indicator	01 01 2021	01 01 2022	Requirement
	value		
LCCU	–	–	–*
UCCU	–	122.7	100
Total	–	–	–
LCCU group	–	148.2	100
UCCU group	–	161.0	100
Total	–	**151.6**	–

Source: Bank of Lithuania.

* 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.

Stabilisation funds administered by CCUs accumulate resources to be used for restoring solvency of group members, if necessary. At the end of 2021, the LCCU and the UCCU stabilisation funds amounted to €5.3 million and €1.1 million respectively. In the period under review, the LCCU and its members paid mandatory contributions to the stabilisation fund amounting to €1.4 million, and the resources from the LCCU stabilisation fund were not used to finance measures for ensuring solvency of member credit unions. Over 2021, the resources from the UCCU stabilisation fund were not used to finance measures for ensuring solvency of member credit unions either, the fund's volume changed by €0.5 million as the UCCU and members thereof paid mandatory contributions to the stabilisation fund. It should be noted that by 2028, the amount no lower than 1% of the assets of the LCCU, UCCU and their member credit unions should be accumulated and held in the stabilisation funds of both CCUs. At the end of the period under review, the LCCU stabilisation fund comprised 0.59% and the UCCU stabilisation fund accounted for 0.36% of the amount of assets of a respective CCU and its members.

Credit unions under restructuring. On 1 January 2022, there were four credit unions that had been authorised by the Bank of Lithuania to carry out the process of restructuring. Three of them applied to the Bank of Lithuania for a specialised bank licence and are currently undergoing the process of examination of the submitted documents, while one credit union decided not to seek the specialised bank licence and has commenced the process of joining a CCU. These credit unions should complete their restructuring process by 1 January 2023. Credit unions converting to a specialised bank are obliged to draw up contingency plans in case they fail to obtain a banking licence by 1 January 2023.

In 2021, the assets of credit unions under restructuring grew rapidly and were higher than in 2020. Their assets grew by 19.2% (16.6% in 2020) and amounted to €211.2 million (19% of the assets of operating credit unions) on 1 January 2022. During the period under review, deposits taken and loans granted by credit unions in this group also grew faster than in the previous year. Deposits taken by credit unions under restructuring grew by €27.3 million or 16.7% in 2021 (16.1% in 2020), while loans granted by them went up by €33.6 million or 24.5% (18% in 2020). As of 1 January 2022, loans granted by credit unions under restructuring comprised 21.4% of loans granted by credit unions in operation, whereas deposits taken by them stood at 19.9% of deposits taken by credit unions in operation. As of 1 January 2022, loans granted by credit unions under restructuring to their members and associated members amounted to €170,8 million, of which €101.8 million were granted to natural persons and €69 million were granted to legal entities. In 2021, credit unions under restructuring earned the unaudited profit of €1.9 million or one fifth of the profit earned by credit unions in operation (€1.3 million of audited profit in 2020).

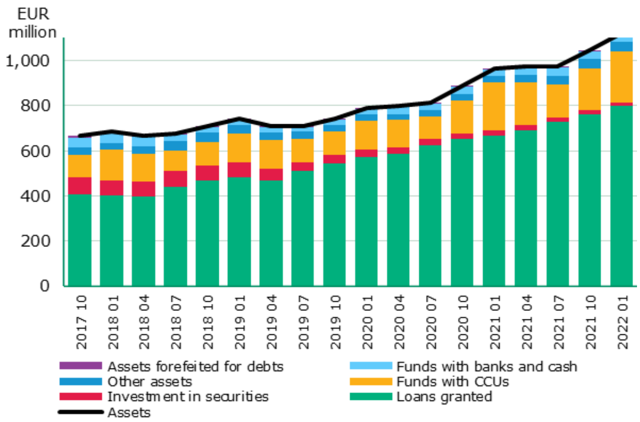
In the period under review, credit unions in the process of restructuring into specialised banks complied with prudential requirements set for them. According to the reports submitted on 1 January 2022, the overall capital adequacy ratio of credit unions in the process of restructuring into specialised banks comprised 13.86% (the minimum required capital adequacy ratio was 11.6% in 2021), whereas their liquidity ratio stood at 216.59% (the minimum required liquidity ratio was 100%).

Credit unions. On 1 January 2022, financial and supervisory reports were submitted to the Bank of Lithuania by 60 credit unions that had 167.7 thousand members. In addition to their head offices, credit unions also provided their services via 75 branches. At the beginning of 2022, the assets, rights and obligations of Radviliškis Credit Union were transferred to Grinkiškis Credit Union, i.e. Radviliškis Credit Union was merged with Grinkiškis Credit Union. Credit union mergers over the last few years have been strengthening credit unions' capital and increasing their performance efficiency.

According to unaudited financial statements, the assets of credit unions grew by 16% (22% in 2020) and amounted to €1,119.7 million or 2.6% of banking sector assets in 2021 (same as a year ago). The change in the amount of the sector's assets was determined by the growth of demand and time deposits.

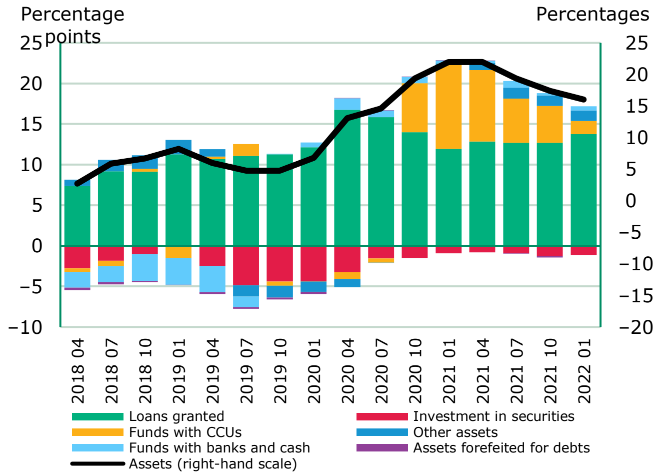
As the submitted data show, the largest growth was recorded in the loans granted by credit unions, while investment in securities continued to decline in 2021. No essential changes were recorded in the composition of credit union assets, with loans granted continuing to account for the largest share of assets, whereas declined securities investment comprised just 1.4% of credit union assets. In 2021, the share of loans granted in assets increased by more than 2 percentage points, while the share of funds held with CCUs declined slightly. Furthermore, the volume of other assets increased significantly, but their share remained negligible at around 1% of assets. In 2021, other assets almost doubled (€5.6 million) and amounted to €11.2 million. The amount of other assets increased as a result of the purchase of claim rights by individual credit unions.

Chart 4. Composition of credit union assets
(1 April 2018 – 1 January 2022)



Source: Bank of Lithuania.

Chart 5. Contributions to the annual change of credit union assets
(1 April 2018 – 1 January 2022)



Source: Bank of Lithuania.

At the end of 2021, loans granted by credit unions to their members and associated members amounted to €797.8 million, of which €598.5 million were granted to natural persons and €199.3 million to legal entities. In 2021, the net value of loans granted by credit unions went up by €132.8 million or 20%, whereas their share in the composition of credit union assets went up by 2 percentage points (to 71%), while a year earlier, loans increased by €94.5 million or 16.6%.

The increase in credit union lending was driven by growth in lending to both natural persons and legal entities, but the rate of lending to legal entities was stronger than a year earlier. Loans to natural persons increased by €68.6 million or 13%, while loans granted to legal entities went up by €64.2 million or 48% (by €73.5 million and €21 million in 2020 respectively). More active lending to legal entities led to a change in the composition of credit union loan portfolio: the share of loans to natural persons declined, comprising 75% of the loan portfolio by the end of 2021 (80% a year earlier).

Credit union loan 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 2.7% to 1.9%. Accordingly, the share of non-performing loans calculated for credit unions[1] declined to 8.4% of the loan portfolio (a year ago, this indicator stood at 8.8%) and the ratio of specific provisions to loans went down to 0.6% (a year ago, it was 1.1%). However, as new challenges emerge in 2022 due to geopolitical factors, ensuring adequate credit risk management in the credit union sector remains relevant.

In 2021, loans grew faster than deposits, which led to an increase in the loan-to-deposit ratio to 83% (79% a year ago). As already mentioned, loans granted by credit unions grew by 20% and deposits went up by 13.8% (16.6% and 21.5%, respectively, last year). In the period under review, deposits rose by €116 million, and they were used to finance 86% of credit union assets.

On 1 January 2022, deposits amounted to €959.9 million, of which time deposits stood at €664.1 million and demand deposits totalled €295.8 million. In 2021, both time and demand deposits increased. In the second half of 2021, as credit union members started to receive funds from the sale of agricultural production, demand deposits went up, however, at a slower pace than in the previous year. In the period under review, they grew by €23.6 million or 8.7%, while in 2020 this figure was €92.4 million or 51.4%. Time deposits of

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

credit unions grew faster than in 2020. In the period under review, time deposits went up by €92.4 million or 16.2% (€56.7 million or 11% in 2020) and comprised 69% of total deposits as of 1 January 2022 (68% of total deposits a year ago). As usual, deposits of natural persons accounted for the largest share of the deposit portfolio (92%), since members of credit unions 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. Over 2021, the debt of credit unions to CCUs grew by €14 million and amounted to €53.6 million as of 1 January 2022. This debt consisted of loans for working capital and subordinated loans.

According to the data provided by credit unions, their share capital increased by €6.8 million or 12% in 2021, amounting to €63.3 million as of 1 January 2022. 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. The growth of the share capital continues to be 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 €62 million, whereas their share comprised 98% 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 2022, credit unions still had unsustainable additional share capital amounting to €1.3 million.

In 2021, the credit union sector's activities resulted in the unaudited profit of €9.5 million (€6.3 million in 2020). The 57 credit unions that operated profitably earned a profit of €9.6 million, while 3 of them incurred a loss of €0.1 million.

The increase in lending had a positive impact on the sector's performance, with the number of profitable credit unions continuing to rise. 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 2021 with the audited figures for 2020 reflects that credit unions earned 17% higher net interest income and 22% higher net income from services and fees in 2021. Moreover, the performance result of 2021 was substantially affected by the restoration of value of credit union loans, which amounted to €1.5 million, whereas in 2020 it was minor (€10,000).

As reflected by the data provided to the Bank of Lithuania, the increased loan growth rate had a substantial positive impact on the sector's performance. In 2021, credit unions generated 18% higher interest income than in 2020, mainly on loans to members and associated members of credit unions. Like in the previous year, interest income comprised the largest share of credit union income (79%). Operating expenses comprised the largest share of expenses in the period under review (63.8%), which increased by 18.5% compared to 2020 and 50.7% of total income was needed for their coverage (51.8% a year ago). However, it should be noted that, as of 1 January 2022, 21 credit union had accumulated unappropriated losses from the previous year for the amount of €5.2 million, therefore, the issue of improving their operational efficiency remains relevant for them.

According to the unaudited report data as of 1 January 2022, 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 for the credit union sector

Table 1. Main items of the balance-sheet statement of the CCUs and CCU groups (as of 31 December 2021)

No.	Indicator	CCUs			CCU groups		
		Amount, EUR million	Change, %		Amount, EUR million	Change, %	
		01 01 2022	2021 Q4	Over the year	01 01 2022	2021 Q4	Over the year
1.	Assets	301.2	14.5	12.2	908.4	7.2	14.8
1.1.	Debt securities	90.4	36.6	−2.7	99.0	32.5	−8.5
1.2.	Equity securities	4.5	0.9	40.2	4.5	0.9	40.2
1.3.	Cash	0	0	0	3.5	−2.8	12.4
1.4.	Funds with central banks	86.8	9.8	15.4	86.8	9.8	15.4
1.5.	Funds with credit institutions	56.5	−1.1	28.6	15.8	19.2	42.3
1.6.	Loans to customers	60.0	12.9	20.5	682.8	4.1	19.0
1.6.1.	Other financial corporations	0.1	0.0	0.0	0.1	0	0
1.6.2.	Non-financial corporations	51.0	16.5	26.3	180.3	16.6	43.7
1.6.3.	Households	8.8	−4.0	−6.2	502.4	0.2	12.1
1.6.3.1.	o/w loans for house purchase	4.1	1.2	33.7	251.1	−2.2	14.6
1.7.	Other asset positions	3.0	−0.4	−7.0	16.0	−2.3	−3.9
2.	Liabilities and equity	301.2	14.5	12.2	908.4	7.2	14.8
2.1.	Deposits of central banks	0	0	0	0	0	0
2.2.	Liabilities to credit institutions	219.9	21.2	7.1	0.2	−20.1	−24.5
2.3.	Deposits	31.5	−4.1	116.8	799.9	7.4	15.1
2.3.1.	Other financial corporations	30.7	−4.4	115.0	31.2	−28.4	48.2
2.3.2.	Non-financial corporations	0.8	10.4	220.4	57.0	38.3	57.0
2.3.3.	Households	0.01	66.7	100.0	711.8	7.9	11.6
2.4.	Other liability positions	25.9	2.6	19.0	31.8	7.7	25.3
2.5.	Total equity	23.9	1.8	15.1	76.4	4.4	18.5
2.5.1.	Profit (loss) for the current year	1.2	–	–	7.2	–	–

Source: Bank of Lithuania.

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

No.	Indicator	Amount, EUR million			Change, %	
		01 01 2021	01 10 2021	01 01 2022	2021 Q4	Over the year
1.	Assets	964.9	1,043.3	1,119.7	7.3	16.0
2.	Cash	3.3	3.8	3.7	−2.6	11.0
3.	Funds with banks	25.8	28.8	30.2	4.7	17.3
4.	Funds with CCUs	209.6	186.2	225.1	43.6	7.4
5.	Government securities	26.2	15.4	15.4	–	−41.2
6.	Loans granted	665.0	763.2	797.8	4.5	20.0
7.	Specific provisions for loans	7.4	5.6	4.8	−10.5	−35.3
8.	Ratio of specific provisions for loans to loans (%)	1.1	0.7	0.6	–	–
9.	Debt to CCU	39.6	53.5	53.6	0.2	35.3
10.	Deposits	843.8	890.2	959.9	7.8	13.8
10.1.	Credit union members and associated members	840.2	885.5	955.4	7.9	13.7
11.	Share capital	56.5	61.3	63.3	3.3	12.0
12.	Profit (loss) for the current year	6.3	8.0	9.5	–	–

Source: Bank of Lithuania.