

**LITHUANIAN CENTRAL CREDIT UNION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

**LITHUANIAN CENTRAL CREDIT UNION'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in EUR thousand unless stated otherwise)

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

To the Management of Lithuanian Central Credit Union (in Lithuanian language “Lietuvos centrinė kredito unija”)

Ernst & Young Baltic UAB has performed an audit of the financial statements of Lithuanian Central Credit Union (hereinafter - the Company) for the year ended 31 December 2023 prepared in the Lithuanian language. The accompanying set of financial statements is the translation into the English language and below is presented a translation of our auditor's report from the original, which was issued in the Lithuanian language. The Management of the Company is responsible for the translation of the financial statements. All possible care has been taken to ensure that the translation of the auditor's report and the accompanying financial statements is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

“INDEPENDENT AUDITOR'S REPORT

To the members of Lietuvos centrinė kredito unija

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the accompanying financial statements of Lietuvos centrinė kredito unija, registered in the Republic of Lithuania (hereinafter the Company), which comprise the statement of financial position as at 31 December 2023, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the effect of the matter discussed in section *Basis for qualified opinion*, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for qualified opinion

As at 31 December 2023 the Company accounted for the shares acquired by the Republic of Lithuania, legally denoting the participation in the equity of the Company and providing voting rights, in the amount of EUR 6 579 thousand in the shareholders' equity in its financial statements (Note 26). However, based on the European Commission's approval and signed agreement with the Ministry of Finance (Note 26) for this state aid (acquired shares), the amount has to be gradually repaid, interest is paid on it and the Company does not have the unilateral right not to repay the amount. Consequently, in accordance with the requirements of *IAS 32 Financial instruments: Presentation* the above amount had to be accounted for as a liability in the financial statements for the year ended 31 December 2023. Had the above amount been accounted for properly in accordance with IFRS, the shareholders' equity of the Company would decrease and liabilities would increase by EUR 6 579 thousand as at 31 December 2023. Our opinion on the financial statements as of 31 December 2022 was also qualified in respect to this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

Impairment of loans and receivables from customers and credit unions

As disclosed in the *Credit risk* disclosure under *Financial risk management* note as at 31 December 2023 the gross loans and receivables from customers and credit unions amounted to EUR 161 743 thousand, and the related impairment provision amounted to EUR 1 981 thousand. The basis of the Company's impairment accounting policy is presented in the section *Impairment of financial assets* of the accounting policies note to the financial statements. Also, attention is drawn to the use of judgements and estimates, set out in the accounting policies note of *Significant accounting estimates and judgements* part (a) *Impairment of financial assets* in this area in the preparation of financial statements disclosures.

Impairment of loans and receivables from customers and credit unions is a subjective assessment area due to the level of judgement applied by the management in determining the extent of expected credit losses, which is dependent on the methods and models used, significant assumptions applied and consideration of estimation uncertainty.

The significant assumptions applied by the management in determining the level of impairment for loans and receivables include selection of the appropriate method and model, identification of events of significant increase in credit risk, estimation of forward-looking information for different probability-weighted scenarios, the assessment of customers and credit unions that are defaulted, appropriate valuation of the related collaterals and the future expected cash flows relating to loans and receivables.

Due to the material nature of loans and receivables from customers and credit unions and the related judgment involved in the estimation of loans and receivables impairment, it is considered to be a key audit matter.

How our audit addressed the key audit matter

We, among other audit procedures, have gained an understanding (including understanding about assumptions, methods and models used) and tested operating effectiveness of the controls over the process of estimating individually and collectively assessed expected credit losses of loans and receivables from customers and credit unions.

We involved our internal IFRS specialist to assist us in assessing whether the existing accounting policy for the estimation of impairment of loans and receivables from customers and credit unions is in accordance with requirements of IFRS 9 "Financial instruments".

For individually assessed loans for impairment, we selected a sample of loans and receivables outstanding as at the reporting date and assessed whether the criteria for determining whether the credit losses expected to arise over the life of the asset or over next 12 months agrees to the applied accounting policy. For the selected sample of loans and receivables we assessed management's forecast of the recoverable cash flows, the valuation of collaterals, estimation of recovery on default and other sources of repayment.

For the collectively assessed loans for impairment, we involved our internal IFRS specialist to assist us in assessing the model's compliance with IFRS requirements and key inputs used (probability of default, loss given default and exposure at default) by reviewing the selected expected credit loss calculation. We assessed the computation of the key inputs (probability of default, loss given default and exposure at default) by agreeing data used in the calculation to the supporting evidence (e.g. default event and cash payments received) for a selected sample.

In addition, we performed analytical procedures and compared the provision amounts for expected credit losses disaggregated by loan type and stage as at 31 December 2023 against our set expectations.

We assessed forward-looking adjustments by comparing the management's estimate with the publicly available reputable sources of information (e.g. Bank of Lithuania).

We also assessed the adequacy of the related financial statements disclosures according to IFRS requirements in this area.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the

adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the members of Lietuvos centrinė kredito unija on 30 April 2021 we have been chosen to carry out the 2021 - 2023 years audit of the Company's financial statements. The period of total uninterrupted engagement is 9 years.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in section 'Qualified opinion' is consistent with the additional Audit report, which we have submitted to the Company and its Audit Committee.

Non-audit services

We confirm that to the best of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period we have not provided any other services except for the audit of Company's financial statements, the audit of the special-purpose combined financial statements of the Company and its members and financial statements translation service.

The partner in charge of the audit resulting in this independent auditor's report is Kęstutis Juozaitis.

UAB ERNST & YOUNG BALTIC
Audit company's license No. 001335

Kęstutis Juozaitis
Auditor's license
No. 000550

18 April 2024"

Kęstutis Juozaitis
28 June 2024

**LITHUANIAN CENTRAL CREDIT UNION'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in EUR thousand unless stated otherwise)

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended 31 December 2023	For the year ended 31 December 2022
Interest and other similar income	6	9,784	5,623
Interest and other similar expenses	6	(2,817)	(976)
Net interest income		6,967	4,647
Fee and commission income	7	760	642
Fee and commission expenses	7	(989)	(941)
Net fee and commission income (expenses)		(229)	(299)
Other income	8	2,254	2,291
Net result from securities transactions	9	541	434
Impairment of loans and other assets	10	(381)	(544)
Change in provisions		(117)	(49)
Payroll and related expenses		(3,762)	(2,933)
Depreciation of property, plant and equipment and right-of-use assets	17	(122)	(128)
Amortisation of intangible assets	18	(130)	(166)
Other operating expenses	11	(1,819)	(1,367)
Profit (loss) before tax		3,202	1,886
Income tax benefit/(expenses)	12	(338)	(247)
Net profit (loss)		2,864	1,639
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income			
Net change in fair value during the year		1,002	(2,210)
Change in expected credit loss		30	(4)
Reclassification to profit/(loss)		(40)	78
Deferred income tax related to the above	12	(144)	320
Net profit/(loss) on debt instruments at fair value through other comprehensive income		848	(1,816)
Other comprehensive income, net of deferred income tax	12	848	(1,816)
Total comprehensive income		3,712	(177)

The accounting policies and notes on pages 11 to 56 form an integral part of these financial statements.

The financial statements set out on pages 7 to 56 were authorized on 18 April 2024.

Head of Administration
Mindaugas Vijūnas

Chief Accountant
Jurgita Kubilienė

**LITHUANIAN CENTRAL CREDIT UNION'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in EUR thousand unless stated otherwise)

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2023	As at 31 December 2022
ASSETS			
Cash and cash equivalents held in central bank	13	14,269	25,437
Loans and receivables from credit institutions	14	89,906	70,332
Loans and receivables from other parties	15	69,856	60,845
Securities at amortised cost	16	52,006	54,537
Securities at fair value through other comprehensive income	16	21,445	33,000
Securities at fair value through profit or loss	16	5,351	4,802
Property, plant and equipment	17	1,072	1,102
Right-of-use assets	17	10	3
Intangible assets	18	331	367
Other assets	19	1,208	616
Deferred tax assets	12	172	331
TOTAL ASSETS		255,626	251,372
AMOUNTS DUE TO CREDIT INSTITUTIONS AND FUNDS			
Amounts due to credit and other financial institutions	20	215,753	216,312
Deposits from other parties	21	36	76
Liquidity facility	22	6,830	6,324
Subordinated loans	23	3,949	3,936
Provisions		207	90
Income tax payable		326	30
Other liabilities	24	1,586	1,816
Total liabilities		228,687	228,584
CAPITAL AND RESERVES			
Primary member shares	26	46	46
Additional member shares	26	22,049	21,610
Legal reserve	26	2,859	1,220
Financial asset revaluation reserve	26	(879)	(1,727)
Result for the reporting period		2,864	1,639
Total capital and reserves		26,939	22,788
Total liabilities, capital and reserves		255,626	251,372

The accounting policies and notes on pages 11 to 56 form an integral part of these financial statements.

The financial statements set out on pages 7 to 56 were authorized on 18 April 2024:

Head of Administration
Mindaugas Vijūnas

Chief Accountant
Jurgita Kubilienė

**LITHUANIAN CENTRAL CREDIT UNION'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in EUR thousand unless stated otherwise)

		For the year ended 31 December 2023	For the year ended 31 December 2022
STATEMENT OF CASH FLOWS			
	Notes		
Operating activities			
Interest income received		9,278	5,464
Interest paid		(2,325)	(1,130)
Fee and commission and other income receipts		760	642
Commission expenses paid		(989)	(941)
Wages and salaries, and social security contributions		(3,626)	(2,907)
Inflows related to non-finance income		2,193	2,366
Other operating expenses paid		(1,727)	(1 535)
Changes in assets/liabilities			
(Increase) decrease in loans to credit unions		(19,310)	(19,390)
(Increase) decrease in other loans granted		(9,203)	(16,088)
Increase (decrease) in deposits of credit and other financial institutions		(24)	14,089
(Increase) decrease in other assets and other financial assets		(592)	1
Increase (decrease) in demand deposits from legal persons		(40)	36
Increase in liquidity facility	22	506	1,155
Increase (decrease) in other liabilities		(289)	1,003
Net cash flows from operating activities before income tax		(25,388)	(17,235)
Income tax paid		(31)	(75)
Net cash flows from operating activities		(25,419)	(17,310)
Investing activities			
Acquisition of property, plant and equipment and intangible assets	17, 18	(193)	(207)
Acquisition of debt securities		(16,652)	(23,988)
Redemption of debt securities		31,965	13,840
Acquisition of equity securities		(75)	(600)
Redemption of equity securities		27	19
Net cash flows used in investing activities		15,072	(10,936)
Financing activities			
Payments from members for additional member shares		1,739	2,993
Payments to members for additional member shares		(1,300)	(504)
Other loans received	25	2,000	2,000
Subordinated loans received	23, 25	-	900
Funds received from INVEGA UAB and ŽŪPGF UAB	25	2,100	2,400
Funds repaid to INVEGA UAB and ŽŪPGF UAB	25	(5,154)	(4,443)
Principal portion of the lease for right-of-use assets		(7)	(5)
Net cash flows from/used in financing activities		(622)	3,341
Increase (decrease) in cash and cash equivalents		(10,969)	(24,905)
Cash and cash equivalents at the beginning of the period		25,720	50,625
Cash and cash equivalents at the end of the period:		14,751	25,720
Cash on hand and balances in correspondent account with the Bank of Lithuania	13	14,269	25,437
Balances in correspondent accounts with banks	14	482	283

The accounting policies and notes on pages 11 to 56 form an integral part of these financial statements.

The financial statements set out on pages 7 to 56 were authorized on 18 April 2024.

Head of Administration
Mindaugas Vijūnas

Chief Accountant
Jurgita Kubilienė

**LITHUANIAN CENTRAL CREDIT UNION'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in EUR thousand unless stated otherwise)

STATEMENT OF CHANGES IN EQUITY

	Notes	Primary member shares	Additional member shares	Financial assets revaluation reserve	Legal reserve	Retained earnings	Total
As at 31 December 2021		49	19,117	89	9	1,211	20,475
Net profit (loss)		-	-	-	-	1,639	1,639
Other comprehensive income		-	-	(1,816)	-	-	(1,816)
Total comprehensive income		-	-	(1,816)	-	1,639	(177)
Transfer to reserves		-	-	-	1,211	(1,211)	-
Repayment of additional member shares	26	(4)	(500)	-	-	-	(504)
Acquisition of additional member shares	26	1	2,993	-	-	-	2,994
As at 31 December 2022		46	21,610	(1,727)	1,220	1,639	22,788
Net profit (loss)		-	-	-	-	2,864	2,864
Other comprehensive income		-	-	848	-	-	848
Total comprehensive income		-	-	848	-	2,864	3,712
Transfer to reserves	26	-	-	-	1,639	(1,639)	-
Repayment of additional member shares	26	-	(1,300)	-	-	-	(1,300)
Acquisition of additional member shares	26	-	1,739	-	-	-	1,739
As at 31 December 2023		46	22,049	(879)	2,859	2,864	26,939

The accounting policies and notes on pages 11 to 56 form an integral part of these financial statements.

The financial statements set out on pages 7 to 56 were authorized on 18 April 2024.

Head of Administration
Mindaugas Vijūnas

Chief Accountant
Jurgita Kubilienė

(All amounts in EUR thousand unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

The Lithuanian Central Credit Union (in Lithuanian language "Lietuvos centrinė kredito unija", hereinafter "LCCU") was registered with the Lithuanian Register of Enterprises on 22 April 2002. On 28 November 2002, the Bank of Lithuania issued a license to LCCU No 54 to perform all operations provided for in the Law on Central Credit Union of the Republic of Lithuania. LCCU started its principal activities on 2 December 2002.

LCCU operates under the Lithuanian Law on Central Credit Unions. LCCU is a credit institution organized on co-operative basis, established by legal entities credit unions and the Lithuanian Government, and registered in the manner prescribed by the former Lithuanian Law on Central Credit Union. LCCU operates on the basis of share capital contributed by members and performs the functions of liquidity maintenance and solvency recovery of credit unions, performs clearing transactions, maintenance service of payment cards and internet bank for credit unions and their members, accepts deposits and other repayable funds, grants loans and takes on risks and responsibility relating to it. In addition, LCCU provides non-financial services to the credit unions.

The registered office of LCCU is at Savanorių ave. 363B-201, Kaunas. As at the end of the reporting period, LCCU had 94 employees (as at the end of 2022, 89).

In both 2023 and 2022, LCCU provided services to its member credit unions and their members, and certain legal persons. As at 31 December 2023, LCCU contained 46 members, 45 of which were credit unions and the Republic of Lithuania (as at 31 December 2022: 46 members, 45 of which were credit unions and the Republic of Lithuania). On 6 January 2023, Vievio Taupa Credit Union changed its name to Elektrėnai Credit Union. On 27 April 2023, Pakruojis Farmers Credit Union was renamed to Pakruojis Credit Union. On 11 May 2023, Širvintai Credit Union was renamed to KB Pilies Credit Union. As at 31 December 2023, the following credit unions were members of LCCU:

1. Achema Credit Union
2. Alytus Credit Union
3. Anykščiai Credit Union
4. Centras Credit Union
5. Druskininkai Credit Union
6. Elektrėnai Credit Union
7. Fortūna Credit Union
8. Grinkiškis Credit Union
9. Jurbarkas Credit Union
10. Jonava Credit Union
11. Kaunas Credit Union
12. Kaunas Region Credit Union
13. KB ARKU Credit Union
14. KB Pilies Credit Union
15. Kelmė Credit Union
16. Kėdainiai Region Credit Union
17. Klaipėda Credit Union
18. Gargždų Taupa Credit Union
19. Germanto Lobis Credit Union
20. Mėmelio Taupomoji Kasa Credit Union
21. Delta Credit Union
22. Neris Credit Union
23. Magnus Credit Union
24. Prienų Taupa Credit Union
25. Tikroji Viltis Credit Union
26. Sūduvos Parama Credit Union
27. Ebitum Credit Union
28. Taupa Credit Union
29. Kretinga Credit Union
30. Mažeikiai Credit Union
31. Pagėgiai Credit Union
32. Pakruojis Credit Union
33. Palanga Credit Union
34. Panevėžys Credit Union
35. Pasvalys Credit Union

**LITHUANIAN CENTRAL CREDIT UNION'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in EUR thousand unless stated otherwise)

- 36. Plungė Credit Union
- 37. Šeima Credit Union
- 38. Šilutė Credit Union
- 39. Tauragė Credit Union
- 40. Trakai Credit Union
- 41. Ukmergės Farmers Credit Union
- 42. Utena Credit Union
- 43. Vilkaviškis Credit Union
- 44. Vilnius Credit Union
- 45. Vytauto Didžiojo Credit Union

LCCU Group consists of LCCU, its member credit unions and the stabilization fund administered by LCCU (hereinafter “the Group”), which prepares special purpose combined (consolidated) financial statements on annual basis. These financial statements are available on the official website of the group of companies.

LCCU management approved these financial statements on 18 April 2024. The financial statements have to be approved by the general meeting of members of LCCU within the period of four months from the end date of the financial year.

(All amounts in EUR thousand unless stated otherwise)

NOTE 2. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements of LCCU have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and valid as at 31 December 2023. The financial statements have been prepared under the historical cost basis, except for financial assets stated at fair value. The financial statements are prepared on a going concern basis.

All amounts in these financial statements are presented EUR, which is a functional and presentation currency of LCCU.

Due to rounding of certain amounts to thousand, figures in the tables may differ. Such rounding errors are immaterial in these financial statements.

LCCU's accounting policies are consistent with those of the previous financial year except for the amended IFRSs which have been adopted by LCCU as at 1 January 2023:

- **IFRS 17 Insurance Contracts,**
- **IAS 1 Presentation of Financial Statements, and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The management assessed the accounting policies and disclosed only material accounting policies in these financial statements.
- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
- **IAS 12 Income tax: International Tax Reform - Pillar Two Model Rules (Amendments)**

These amendments had no material impact on LCCU's financial statements, except for IAS 1 and IFRS 2, the impact of which had already been assessed in these financial statements.

Standards issued but not yet effective and not early adopted

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**
- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**
- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**
- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

LCCU plans to apply the above new standards/amendments, where applicable, as they become effective and approved for application in the EU. There are no other new standards, amendments to standards or interpretations that are not yet effective that would be expected to have a material impact on LCCU.

Revenue and expense recognition

Effective interest rate application

Interest income and expenses for all interest-bearing financial instruments are recognized using the effective interest rate (EIR). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. EIR (including cost of amortized asset) calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of EIR, transaction costs and all other premiums or discounts.

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If expected cash flows are revaluated because of different reasons than changes in credit risk, the corresponding gain or loss is recognized in the statement of comprehensive income, increasing or reducing other revenue.

Interest and similar income and expenses

For gross carrying amount calculation, LCCU calculates interest income applying EIR on financial assets, except for impaired assets.

When financial assets are impaired and therefore are considered as Level 3 financial assets (see explanation below), LCCU calculates interest income using EIR on net value of an amortized cost. If financial assets become performing and are no longer credit impaired, LCCU reverts to interest income calculation from the gross carrying amount.

For purchased or originated credit impaired financial assets (POCI), LCCU calculates interest income by calculating the credit-adjusted effective interest rate and applying this rate to the amortized cost of the financial assets. Credit-adjusted effective interest rate is an interest rate which, at the moment of recognition, discounts expected cash flows (including expected credit losses) to the amortized cost of such assets.

Commission income and expense

Commission income on transactions is recognized when the related transaction has been performed, except for commissions that are part of effective interest rate. Commission expenses are recognized when incurred.

Income tax

Pursuant to the Lithuanian Law on Corporate Income Tax, income tax rate of 15% is applied with effect from 1 January 2010. The standard corporate tax rate for companies registered in the Republic of Lithuania is 15%. Taxable operating losses may be carried forward to future periods for an indefinite period, provided that the entity's operations giving rise to the losses are not changed, unless the unit is no longer operating for reasons beyond its control. Losses arising from the disposal of securities and/or derivatives may be carried forward indefinitely. Starting from 1 January 2014, the tax loss carries forward that is deductible cannot exceed 70% of the current financial year taxable profit in Lithuania. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is provided using tax rates and rates of utilization at the date of the statement of financial position that are expected to apply at the time of disposal of the deferred tax asset or the settlement of the deferred tax liability.

Taxable profit, exceeding the threshold of EUR 2 million, in the period starting from 1 January 2020 is subject to an additional 5% income tax rate. Taking into account the profit earned by LCCU, LCCU calculates an additional income tax. Accordingly, LCCU's deferred tax asset and liability were measured using a tax rate of 15%.

The principal temporary differences arise from the revaluation of financial assets and from accrued expenses. The rates in force or approved at the reporting date are those used to calculate deferred income tax. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability at the time of the business combination and does not affect either accounting or taxable profit or loss at the time of the transaction.

When the total deferred tax asset is calculated, it is recognized in the financial statements only to the extent that management believes that it is probable that it will be realized.

Deferred tax asset arising from the revaluation of securities carried at fair value through other comprehensive income is also included in other comprehensive income.

Temporary solidarity contribution

The obligation to pay a temporary solidarity contribution has been established for the period from 16 May 2023 to 31 December 2024. A 60% temporary solidarity contribution rate will be charged on net interest income that is 50 % greater than the average net interest income in the four-year reference period. The interest income earned on credit agreements concluded on or after 1 January 2023 shall be exempt from the calculation of the temporary solidarity contribution (except for agreements with financial sector entities). The temporary solidarity contribution is also reduced by the deposit insurance premiums paid to the Deposit Insurance Fund, and the net interest income of the current payment period, after paying the temporary solidarity contribution of that period, should amount to at least net interest income of the year 2022 increased by 15%. The temporary solidarity contribution is payable in advance quarterly instalments, as well as annual.

Given that the solidarity contribution is temporary and its base does not meet the definition of taxable profit under the Law on Corporate Income Tax of the Republic of Lithuania, as it is payable on the surplus of the interest rather than on the taxable profit, the temporary solidarity contribution is not considered as a corporate income tax.

(All amounts in EUR thousand unless stated otherwise)

Given the net interest income of the LCCU Group, LCCU calculated and paid an advance solidarity contribution of EUR 676 thousand, but it is not subject an annual contribution liability. The overpaid temporary solidarity contribution is accounted for as other assets.

Cash and cash equivalents

Cash and cash equivalents represent amounts with maturity of 3 months or less from the date of their acquisition. Cash and cash equivalents comprise cash on hand and cash balances correspondent accounts with the Bank of Lithuania and commercial banks.

Financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Moment of initial recognition

Financial assets and liabilities, other than loans and receivables from customers and liabilities to customers, are initially recognized at settlement date. Loans and receivables from customers are recognised when funds are transferred to customers' accounts. Liabilities to customers are recognized when funds are transferred to LCCU.

Initial recognition and evaluation

The initial recognition of a financial asset to a relevant group depends on the contractual cash flow characteristics of the financial asset and the business model defining the management of the financial asset. Excluding other receivables that do not have a significant financing component, LCCU initially measures financial assets at fair value plus transaction costs, when the financial asset is not carried at fair value through profit or loss. Other receivables that do not have a significant financing component are measured at transaction price under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This measurement is referred to as the SPPI test and is performed at a financial instrument level.

The financial asset management model specifies how financial assets are managed to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model and the SPPI test are explained in more detail below.

Groups of financial assets and financial liabilities

LCCU groups all financial assets under the business management model and the contractual terms of the assets into the following:

- amortized cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

LCCU classifies and measures derivatives and investments in collective investment undertakings at fair value through profit or loss. LCCU may also classify other financial instruments at fair value through profit or loss, if it would significantly reduce the discrepancies of measurement or recognition (otherwise known as accounting mismatch).

Financial liabilities, other than loans and financial guarantees, are measured at amortized cost or fair value through profit or loss when these are derivatives either held for trading or measured at fair value.

Receivables from credit institutions, loans granted to and receivables from other customers, financial investments measured at amortized cost

LCCU measures loans and receivables from credit institutions, loans and receivables from other customers and other financial investments at amortized cost, only if both of the following conditions are met:

- financial assets are held within the business model whose objective is to hold financial assets to collect their contractual cash flows; and
- the contractual terms of financial assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

LCCU determines its business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. LCCU's business model is not measured by an instrument-by-instrument approach to classification, but at a higher level of portfolio aggregation and is based on factors such as:

(All amounts in EUR thousand unless stated otherwise)

- (a) how the results of the business management model are measured, and financial assets held under the business model treated, how they are reported to the management;
- (b) the risk affecting the result of the business model (and financial assets held under the business model), foremost how those risks are managed;
- (c) how the business managers are remunerated (for example, what is the remuneration based on – the fair value of the assets or contractual cash flows collected);
- (d) the expected frequency, value and timing of sales are also important aspects of assessment.

The assessment of the business management model is based on reasonably plausible scenarios, regardless of “worst case” or “stress case” scenarios. If cash flows after initial recognition are realized in a way that differs from LCCU's initial expectations, LCCU does not change the classification of the remaining financial assets under the business model but considers such information when measuring newly acquired financial assets.

Solely payments of principal and interest (SPPI) test

During the second part of grouping process, LCCU evaluates contractual terms of financial assets, to check whether they correspond to SPPI test. For financial asset would be attributed and valued at amortised cost or at fair value through other comprehensive income, cash flows coming from financial asset should be only solely payments of principal and interest (SPPI) from main unfulfilled amount. This measurement is referred to as the SPPI test and is performed at a financial instrument level.

Principal amount is the real value of financial assets during the moment recognition. Interest is comprised of time value of money, main uncovered amount related with credit risk for certain period and other main credit risk and expenses together with profit margin.

Due to contractual terms which tolerate larger than *de minimis* risk or which cause to originate contractual cash flows unrelated with principal amount and interest payments of main non-covered amount, financial assets should be carried at fair value through profit or loss.

Debt financial instruments carried at fair value through other comprehensive income

LCCU classifies its financial assets as debt financial instruments carried at fair value through other comprehensive income if both of the following conditions are met:

- Instrument is kept based on the business model, which is successful in collection of cash flows and in selling of financial assets.
- Contractual terms of financial asset comply with SPPI test.

Subsequently financial instruments that are accounted for at fair value through other comprehensive income are measured at fair value profit or loss to be presented in other comprehensive income. As well as financial assets valued at amortized cost, interest revenue and gain (loss) from changes in foreign currency are recognized through profit or loss. Valuation principles of expected credit losses for debt instruments valued at fair value through other comprehensive income are described below. When LCCU has more than one investment into the same investment security, it is considered that investment acquired earlier is realized first. Following derecognition of such debt instruments, accumulated profit or loss earlier recognized through other comprehensive income are reclassified to income (loss).

Financial liabilities

Borrowings are recognized initially at fair value equal to proceeds received net of transaction costs incurred. Subsequently borrowings are stated at amortized cost, which is calculated by taking into account any discount or premium on acquisition and costs that are an integral part of the effective interest rate. Borrowings are recognized on the day of settlement. The liquidity facility established by LCCU is accounted for at amortised cost.

Guarantees and loan commitments

LCCU grants guarantees and loan commitments.

The guarantee represents a guarantee letter issued by LCCU by which it unilaterally undertakes to pay the specified amount to the beneficiary of the guarantee if the person against whom LCCU's guarantee is given fails to fulfil or improperly fulfils the obligation to the beneficiary of the guarantee. Such guarantee agreements fall into expected credit loss requirements application scope.

Income from guarantees issued are recognised in the statement of comprehensive income as fee and commission income.

Loan commitments are liabilities under which LCCU must grant its client a loan on earlier predetermined conditions. Such loan commitments fall into expected credit loss requirements application scope.

(All amounts in EUR thousand unless stated otherwise)

When the agreed guarantee or loan meets market conditions, the nominal contractual value of guarantees and loan commitments is not included into the statement of financial position.

Reclassification of financial assets and liabilities

LCCU does not perform reclassification of financial assets and financial liabilities after their initial recognition, except extraordinary cases when LCCU acquires, disposes or discontinues part of the business. Financial liabilities are never reclassified.

Derecognition of financial assets and liabilities

(a) Derecognition due to material changes in contractual terms

LCCU derecognises financial asset (e.g. loan granted to the customer), when the terms have been revised to the extent that it becomes a substantially new loan and the difference is recognized as derecognition profit or loss for that part for which has not been impaired. Newly granted loans are classified as level 1 (described below) loans for expected credit loss evaluation purposes, unless the new loan would be considered as purchased or originated credit impairment financial asset (POCI).

Upon deciding whether to derecognize a loan, LCCU considers factors mentioned below:

- Changes in loan currency;
- Indication of ownership;
- Changes in contractual party;
- Whether the change is such that instrument would not meet criteria of SPPI test.

If a change does not have a material effect on cash flows, such change does not indicate the derecognition of financial asset. On a basis of changes in cash flows, which have been discounted based on the original EIR, LCCU recognizes replacement income or loss to the extent, to which impairment has not been recognized. Cash flow from derecognition of POCI assets is accounted for in cash flows from operating activities.

(b) Derecognition due to other reasons than material changes in contractual terms

Financial assets

Financial asset (or, when applicable, the part of financial asset or the part of similar financial assets' group) is derecognised (i.e. it is excluded from LCCU's statement of comprehensive income), when:

- The rights to receive cash flows from the financial asset have expired; or
- LCCU transfers the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; and

(a) LCCU has transferred substantially all the risks and rewards of the asset; or

(b) LCCU has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When LCCU has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement with a third party, LCCU evaluates it and to reliant extent it continues its involvement in the asset with its risk and rewards. When LCCU has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, nor transferred control of the asset, LCCU continues to recognise the transferred asset to the extent of its continuing involvement. In such case, LCCU also recognizes related liability. Transferred asset and its related liability are valued based on rights and obligations kept by LCCU. Gain or loss on transfer of loans acquired is recognised as a part of expected credit loss.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that LCCU could be required to repay (guarantee amount).

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised as profit or loss.

(All amounts in EUR thousand unless stated otherwise)

Impairment of financial assets

Summary of expected credit losses (ECL) valuation principles

LCCU recognized an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. Under IFRS 9, equity instruments are not subject to valuation of expected credit losses.

The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss.

A 12-month ECL is a part of expected credit loss exposure, reflecting expected credit losses, which occur due to unfulfilled obligations of financial instruments and are likely to occur within 12 months from the reporting date.

Both 12-month and lifetime ECL are calculated on individual or collective basis, depending on portfolio type of financial instruments. The principles for grouping the financial assets measured by LCCU on a collective basis are explained below.

At the end of each reporting period, it is considered if the credit risk of financial instrument has significantly increased since its initial measurement, considering changes in default risk during the remaining period of financial instrument. During this process, LCCU categorizes its loans and purchased or originated credit impairment financial assets (POCI) into Level 1, level 2 and level 3 loans, as described below:

- Level 1: When loans are initially recognized, LCCU recognises 12-month ECL. Loans with improved credit risk and which were transferred from Level 2 are also considered to be Level 1.
- Level 2: If loan's credit risk has increased significantly after initial recognition, LCCU records a lifetime ECL. Loans with impaired credit risk and which were transferred from level 3 are also considered to be level 2.
- Level 3: Loans considered credit-impaired. LCCU records a lifetime ECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

If LCCU does not have reasonable expectations to recover all or part of its financial asset, gross carrying amount is reduced. This is considered a derecognition (partial) of financial asset.

Calculation of expected credit loss

LCCU calculates expected credit losses based on probability weighted scenarios, in order to evaluate expected short-falls in cash flows, discounted at approximate EIR. A shortfall in cash flows is a difference between contractual cash flows due in accordance with the contract and all the cash flows that LCCU expects to receive.

Main elements used for calculation of expected credit loss are as follows:

- PD – probability of default.
- EAD – exposure at default (credit principal and accrued interest).
- LGD – loss given default, calculated on historic data of the LCCU Group. It represents the difference between the contractual cash flows due and those that the lender expects to receive, including recovery of any collateral.

In calculation of expected credit losses for 2023 and 2022 and taking into account increasing offered market rates (EURIBOR) and uncertainty due to geopolitical situation, LCCU considered the following three possible scenarios:

- Scenario of economic downfall (pessimistic): assuming, that future macroeconomic changes will be significant taking into account the assumptions used by LCCU in the stress test;
- Most likely scenario: assuming, that future macroeconomic changes will reflect the projections of economic experts;
- Optimistic scenario: assuming, that positive macroeconomic changes will reflect realistic economic forecasts published by Bank of Lithuania.

The scenarios that allow to assess the potential losses under different market conditions were reviewed in 2023 using macro trends and recent data. In view of a still prevalent uncertainty in the market and potential indications of recession, the worst-case scenario parameters were recalculated based on the parameters used by LCCU in the stress test. Weights attributed to scenarios allow appropriate assessment of potential losses, consequently a weight of 50% for the most likely scenario (in 2022: 45%), 30% for the pessimistic scenario (in 2022: 30%) and 20% for the optimistic scenario (in 2022: 25%).

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Except for instruments of revolving credits, maximum period for expected credit loss is financial instrument's validity period, unless LCCU has a legal right to retrieve it earlier.

PD and LGD parameters and the ECL calculation depend on the risk level of the loan:

For loans at risk Level 1, the 12-month ECLs are recognised – a part of ECL exposure, reflecting expected credit losses, which occur due to default events that are possible within 12 months after the valuation date;

For loans at risk Level 2 and 3, a lifetime ECLs are recognised – ECLs that result from all possible default events over the expected life of the lending position.

Impairment (reversal) losses are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying amount. The calculation of ECLs in 2023 was based on a number of factors that may have an adverse effect on the payment status of customers, collateral liquidity and higher expected loss.

At the end of 2023, there was still uncertainty due to geopolitical tension and the potential impact on individual sectors, and there is therefore a likelihood that actual results may differ from estimates made. The aggregate impact of negative externalities was taken into account in both the assessment of specific risk exposures and the use of relevant parameters in recognition of ECLs. The risk Level 2 was assigned to the segments of natural and legal persons most adversely affected or potentially indirectly affected by geopolitical factors, debtors who applied for additional financing intended as an aid to war-affected farms. Taking into account the above criteria, the quality structure of the loan portfolio in 2023 was adjusted with additional transfer of loans amounting to EUR 5,775 thousand to risk Level 2 (in 2022: EUR 5,197 thousand). Due to the reclassification between risk levels, additional ECLs were recognised in amount of EUR 86 thousand (in 2022: EUR 4 thousand).

In 2023, when calculating ECLs, account was taken of the most current macroeconomic trends at the time and actual negative return from LCCU's loan portfolio for 2013–2023 (period of 2012–2022 was considered in 2022).

Moreover, the impact of changes in parameters on the results of ECLs was assessed taking into account the structure of the loan portfolio for 2023 and the results of ECLs, a 1% increase in LGD would result in 0.2% impact (in 2022: 0.7%) on the final increase of ECLs.

Individual and collective assessment

LCCU's lending exposure can be assessed on individual or collective basis:

- Individual ECL assessment – ECL valuation method, when ECL is set individually for each lending exposure and is based on expected credit return schedules and their probabilities determined by provided scenarios.
- Collective ECL assessment – ECL valuation method, when ECL is set collectively for a segment of borrowers (in case of lending positions) or for subgroup of homogenic group having been assigned financial instrument (in case of debt securities) with respective PD, LGD and EAD parameters ($ECL = EAD \times PD \times LGD$, based upon different scenarios and their weights).

ECL of debt securities are based on publicly available Moody's (or other publicly available and trustful institution) PD and LGD (or recovery coefficient) data.

The individual assessment generally applies to significant lending exposures assigned to LCCU's level and to all lending exposures of other credit institutions.

Expected credit loss accounting of debt securities valued at fair value through other comprehensive income

ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in other comprehensive income is recycled to the profit and loss upon derecognition of the assets. ECLs for debt instruments measured at fair value through other comprehensive income in 2022 and 2023 were insignificant.

Expected credit loss accounting of Purchased or Originated Credit Impairment financial assets (POCI)

For POCI financial assets LCCU recognizes cumulative expected credit loss changes from initial recognition. POCI financial assets are remeasured at least annually with gains and losses on remeasurement or result of a sale recognised in *Other income* (POCI remeasurement and sale result was EUR 287 thousand in 2023, and EUR 522 thousand in 2022). In 2023, LCCU did not acquired POCI financial assets (in 2022, acquired POCI financial instruments with acquisition cost of EUR 940 thousand). The cumulative expected credit losses recognised for these instruments amounted to EUR 129 thousand as at 31 December 2023 (in 2022: EUR 167 thousand).

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Instruments of revolving credit

LCCU's product offering includes such revolving credit instruments as credit lines. LCCU calculates expected credit losses during period, which reflects LCCU's expectations on clients' behaviour, their possibility of defaulting and LCCU's future risk mitigation measures, which could include radical or derecognition of revolving credit instruments' limits. Based on previous experience and LCCU's expectations, calculation periods of expected credit loss parameters are same as for other instruments.

Valuation of whether credit risk of revolving credit instrument has significantly increased is performed constantly. Interest rate used for discounting the expected credit losses is calculated based on average effective interest rate, which, as expected, will be applied during anticipatory validity period of revolving credit instruments. Calculation of expected credit losses, including calculation of expected maturity and discount rate, is performed on individual basis, considering that, in LCCU case, most of revolving credits are granted to other credit institutions.

Future-oriented information

In its expected credit loss models, LCCU relies on broad range information, including forward looking information, such as GDP growth, unemployment level and housing price index. PDs and LGDs of LCCU and the Group of credit unions borrowers' segments are adjusted by basis of yearly GDP/unemployment level/housing price index changes (regression models for future PD and LGD predictions are made). For the assessment of results for 2023, the forecast models based on historical data (2013–2023) and forward-looking macroeconomic indicators were used to assess PD and LGD parameters (in 2022, historical data of 2012–2022 was used for PD and LGD parameter assessment).

During each quarter, LCCU observes factual unemployment level and forecasts of the Bank of Lithuania, and analyses their effect on creditworthiness of respective borrowers' segments. Continued growth of unemployment and/or negative GDP change, exceeding set threshold values, is considered as a signal of anticipated worsening of LCCU and the Group of credit unions borrowers' creditworthiness. Whenever unemployment level and/or GDP change exceeds the marginal threshold, weight of scenarios and predictive PD structures are being updated. In an uncertain market situation and in order to reflect ECLs as accurately as possible, parameters may be updated, and weight of scenarios may be allocated on individual basis.

Valuation of collateral

To mitigate credit risk on financial assets, LCCU seeks to use collateral when possible. Collaterals may come in form of cash, investment securities, credits/guarantees, real estate, trade receivables, inventories, other non-financial assets and etc.

Collateral (unless repossessed) is not recognized on LCCU's statement of financial position, however, the value of collateral has effect on expected credit loss calculation in case of both individual and collective ECL valuation. Generally, collateral's value is assessed at the moment of inception and later is reassessed. Details of the various collateral available to LCCU are provided in the Credit Risk Management section below.

Whenever possible, LCCU uses active market data to measure financial assets that are considered collateral. Other financial assets, without easily determined market values, are valued using valuation techniques. Non-financial collaterals, e.g. real estate, are valued using third parties' (e.g. property assessors') data or based on housing price index.

Reposessed assets

LCCU's policy is to determine whether a reposessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their reposessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (in case of financial assets) and fair value less cost to sell (in case of non-financial assets). In 2023 and 2022, the assets taken over by LCCU for debts were accounted for under other assets.

Financial assets write-off

Financial assets are written off either in part or in full only when LCCU no longer expects to recover any amounts related to the assets and, accordingly, no longer performs asset recovery actions. If written-off amount is larger than expected credit loss, the difference is treated as additional impairment loss deducted from the gross carrying value. Any other recoveries of financial assets are credited to impairment expenses in the statement of comprehensive income.

Forborne and restructured loans

Under certain circumstances, LCCU in reaction to borrower's financial difficulties, does not take over collateral or does not realize it by other means, but provides discounts or amends initial terms of agreements.

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LCCU considers a loan restructured if such changes are made due to current or expected financial difficulties of a borrower and no such changes would be made, if a borrower was financially capable. Factors indicating financial difficulties are failure to fulfil obligations or other material observations on borrower side made by Credit risk department. Restructuring may result in extension of payment's due date or changes in loan agreement terms. After consideration of terms, any loss in value is measured using initial EIR, calculated before changing agreement terms. LCCU's policy is to properly monitor all restructured loans to ensure, that future payments will be made.

Decisions for recognition and classification between Level 2 and 3 are set individually for each individual case. If these procedures identify losses related to the loan, such loan is considered impaired Level 3 restructured loan until it is collected, or loan is written-off.

Where a loan has been renegotiated or modified but is not derecognised, LCCU also reassesses whether the credit risk has materially increased. LCCU also considers whether such loan should be classified as Level 3 financial asset. If a loan was restructured, it should remain as such during whole 12-month monitoring period, during which the borrower should meet certain conditions in order to be transferred to a lower risk level.

If changes in contractual agreements are material, recognition of loan is terminated, as described above.

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Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment. An equal amount of depreciation expense is recognized in each month, starting from the month in which the asset is available for use and taking into account its useful life, unless depreciation is included in the cost of self-creation of the other asset. Property, plant and equipment are depreciated on a straight-line basis. The estimated useful lives of tangible fixed assets are as follows: 25 years for buildings, 6 years for cars, 6 years for furniture, 3 years for computer hardware, and 3 to 5 years for other assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Gains and losses on disposals of tangible fixed assets are determined by reference to their carrying amount and are recognized in the statement of comprehensive income.

The assets' book values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Repair and maintenance costs are charged to the profit and loss in statement of comprehensive income when they are incurred. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to LCCU and the cost of the item can be measured reliably.

Impairment of non-financial assets

Assets that are amortized/depreciated are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An asset is classified as a cash-generating unit for the purpose of assessing impairment. Non-financial assets that were previously impaired are also assessed annually for reversal of impairment.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by the European Union, requires to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of potential income and expenses as at the date of financial statements as well as the amounts of income and expenses disclosed over the reporting period. Although these estimates are based on the best estimate of events and actions made by the management, factual results may differ from these estimates.

LCCU makes accounting estimates and assumptions that affect amounts of assets and liabilities reported in current and subsequent financial years. Estimates and judgements are continually reviewed and evaluated and are based on historical experience and other factors.

(a) Impairment of financial assets

Assessment of impairment losses on various financial assets are required to be based on some judgements: firstly, estimated future cash flows and collateral's value and timing need to be reassessed and considered whether, after initial recognition, credit risk has increased significantly. Such decisions are based on multiple factors, which can lead to different level of impairment. LCCU calculation of estimated credit losses consists of complex models, containing multiple assumptions on applied data/entry choices and their interdependence. Elements of expected credit loss models, which are considered significant accounting estimates and judgements, includes:

- LCCU's internal credit grading model, which assigns PDs to the individual grades;
- LCCU's qualitative and quantitative criteria applied (credit risk indications), according to which assessments are made if credit risk has increased significantly, and accordingly, if credit losses should be evaluated applying life-time or 12-month expected credit losses (see Note 4 "Credit Risks");
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and GDP, house pricing index and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The methodology and assumptions used are reviewed regularly taking into consideration actual incurred losses.

(All amounts in EUR thousand unless stated otherwise)

(b) Deferred tax assets

The strategy was developed taking into account that the majority of the current LCCU members continue operations within LCCU, LCCU and its member credit unions focus on operational efficiency, accumulation of sustainable capital and ensuring continuous going concern. Utilization of deferred income tax is based on 8-year taxable profit forecasts based on the business strategy approved by LCCU.

(c) LCCU member shares owned by the State of Lithuania

State owned shares in LCCU's financial statements (in accordance with the decision No 1084 of the Government of the Republic of Lithuania of 20 December 2017 „Regarding the membership in LCCU“, by which government acquired one main and 29,596 additional shares from central credit union and provided EUR 8,879,800 capital help, and the agreement signed on 15 March 2018 “Regarding redemption of LCCU shares” and subsequent amendments) or their remaining balance after redemptions, are accounted in LCCU's equity as share capital. Service costs paid for State capital assistance are recognised on an accrual basis as interest and other similar expenses. Further information is provided for in Note 26.

(d) Assessment of the impact of the Russian military invasion of the Republic of Ukraine and increase in EU-RIBOR

While the report assessed the impact of the Russian military invasion of the Republic of Ukraine, there was still uncertainty about the further development of geopolitical tension and the impact of the European Central Bank's interest rate decisions on Lithuania, which may have a greater direct and indirect impact on borrowers whose activities are related to the said economic uncertainties. The management of LCCU considered this impact insignificant given the profile of LCCU's customers, moreover, the restrictive measures may also have an indirect impact on both other borrowers as a result of the evolving economic situation and the securities portfolio held by the LCCU due to potential fluctuations in market prices.

While increasing interest rates have an impact on the fair value of debt securities held by LCCU, including those held-to-maturity, this impact is considered insignificant (Note 3). The management of LCCU has assessed that restrictive measures will not have a significant impact on the LCCU's ability to continue as a going concern, since the sanctions imposed are currently not having significant an adverse effect on LCCU.

(e) Accounting of funding to those affected by COVID-19 and war

In 2023 and 2022, LCCU participated in the implementation of the COVID-19 targeted financial measures of INVEGA UAB and Žemės Ūkio Paskolų Garantijos Fondas UAB as a financial intermediary. As at 31 December 2023, LCCU had issued EUR 15,317 thousand of loans to finance those affected by the COVID-19 pandemic through these measures (EUR 31,173 thousand in 2022). Additionally, LCCU's not granted funds, related to aforementioned COVID-19 targeted financial measures, totalled EUR 2,740 thousand as at 31 December 2023 (as at 31 December 2022, EUR 3,566 thousand). From 2022, LCCU participated as financial intermediary in the implementation of the targeted financial measures of Žemės Ūkio Paskolų Garantijos Fondas UAB for those affected by war. As at 31 December 2023, LCCU had issued EUR 18,386 thousand of loans to finance those affected by the war through these measures (in 2022: EUR 6,993 thousand). The not granted funds, related to aforementioned targeted financial measures for those affected by war, totalled EUR 440 thousand (in 2022: EUR 8 thousand). Given that LCCU has undertaken a liability to pay all received cash flows to a third party based on related contracts without significant overdue and that LCCU transfers substantially all the risks and rewards of the financial assets transferred, the loans, funds and related liabilities granted under those instruments are not recognised in LCCU's statement of financial position.

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NOTE 3. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the price which would be received for the sale of an asset or liability transfer in arm's length transaction between market participants at measurement date. Fair value assessment assumes that the transaction of asset disposal or liability transfer takes place:

- on the principal asset or liability market;
- in the absence of a principal market, on the most favourable market for the given asset or liability.

The principal or most favourable market must be accessible for LCCU.

Fair value indicates a discounted value of expected future cash flows. Expected cash flows are discounted at current market interest rates (EURIBOR/UNIBOR) plus current margin applicable to similar products as at the balance sheet date to determine the fair value.

Fair value of securities carried at amortized cost is determined by reference to quoted market prices or interbank quotes. These securities are considered to have quoted market prices. For securities held at amortised cost, the fair value is determined based on active market prices, using Level 1 data.

Fair value of other financial assets and liabilities is determined using the discounted cash flow models. Other assets and liabilities are not measured at fair value in the financial statements, however, fair value is disclosed. Other assets and liabilities are measured using the present value method as effective discount rates – attributed to Level 3. Fair values of financial liabilities and financial assets carried at amortized cost, except for held-to-maturity securities, loans granted to credit unions and loans received, do not significantly differ from their carrying amounts due to approaching maturity dates and interest rates which approximate to or do not differ significantly from market interest rates.

	2023		2022	
Financial assets:	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents held in central bank	14,269	14,269	25,437	25,437
Loans and receivables from credit institutions	89,906	89,803	70,332	70,286
Balances in correspondent and deposit accounts with the banks	482	482	283	283
Loans to credit unions	89,424	89,320	70,049	70,003
Loans and receivables from other parties	69,856	71,837	60,845	58,260
Securities	78,802	76,699	92,339	89,070
At fair value through other comprehensive income	21,445	21,445	33,000	33,000
At amortized cost	52,006	49,903	54,537	51,268
At fair value through profit or loss	5,351	5,351	4,802	4,802
As at 31 December	252,833	252,608	248,953	243,053
Financial liabilities:				
Amounts due to credit and other financial institutions	215,753	216,762	216,312	216,470
Deposits from other parties	36	36	76	76
Liquidity facility	6,830	6,830	6,324	6,324
Subordinated loans	3,949	3,949	3,936	3,936
Other financial liabilities	803	803	1,097	1,097
As at 31 December	227,371	228,380	227,745	227,903

As at 31 December 2023 and 2022, LCCU assets measured at fair value were investment securities at fair value through other comprehensive income and investment securities at fair value through profit or loss. As at 31 December 2023 and 2022, LCCU had no liabilities carried at fair value.

The market prices of securities are based on quoted market prices, if such prices are publicly available.

The fair value is measured using 2 methods: on the basis of active market prices and using the present value method. The fair value is measured using inputs that are categorized into different levels:

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Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 inputs are unobservable inputs for the asset or liability.

As at 31 December 2023 and 2022, the fair value of securities valued at fair value through other comprehensive income was determined based on active market price, using Level 1 inputs.

As at 31 December 2023 and 2022, the fair value of collective investment undertakings recognized at fair value through profit or loss - were measured according to the information published by the issuer using Level 3 inputs.

The level of inputs used is indicated in the table below.

	2023			2022		
Financial assets:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents held in central bank	14,269	-	-	25,437	-	-
Loans and receivables from credit institutions	482	-	89,320	283	-	70,003
Balances in correspondent and deposit accounts with the banks	482	-	-	283	-	-
Loans to credit unions	-	-	89,320	-	-	70,003
Loans and receivables from other parties	-	-	71,837	-	-	58,260
Securities	71,348	-	5,351	84,268	-	4,802
At fair value through other comprehensive income	21,445	-	-	33,000	-	-
At amortized cost	49,903	-	-	51,268	-	-
At fair value through profit or loss	-	-	5,351	-	-	4,802
As at 31 December	86,099	-	166,508	109,988	-	133,065
	2023			2022		
Financial liabilities:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Amounts due to credit and other financial institutions	-	-	216,762	-	-	216,470
Deposits from other parties	-	-	36	-	-	76
Liquidity facility	-	-	6,830	-	-	6,324
Subordinated loans	-	-	3,949	-	-	3,936
Other financial liabilities	-	-	803	-	-	1,097
As at 31 December	-	-	228,380	-	-	227,903

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NOTE 4. FINANCIAL RISK MANAGEMENT

To ensure proper management of risks faced by LCCU in its operations, LCCU has implemented risk management policy, the responsibility for and performance of which is undertaken by LCCU's Board and Head of Administration. Assessment and management of LCCU's credit risk also involves the participation of LCCU's Loan Committee. LCCU has a separate Risk Management committee which principal functions involve management of the various types of risks (including credit, market, operational, liquidity risks) and improvement of management.

LCCU has implemented the risk assessment and risk management procedures and policies approved by LCCU's Board that help to identify and analyse the risks assumed by LCCU, to set appropriate exposure limits and controls, and to monitor the risks and compliance with the exposure limits. LCCU reviews its risk management policies and systems to reflect changes in markets, products, requirements of supervising authorities and emerging best practice on regular basis, at least once per year. Responsibility for the independent review of the risk management and control environment is assigned to the Supervisory Council.

The key risks that LCCU is exposed to are credit risk, market risk, operational risk, concentration risk and liquidity risk. In 2023, LCCU assessed the risk of environmental, social and governance factors.

LCCU's risk control function is separated from the risk assuming activities, i.e. from the business units dealing with the customers directly.

Credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements is described below:

Credit risk exposures relating to on-balance sheet assets:	2023	2022
Cash and cash equivalents held in central bank	14,269	25,437
Loans and receivables from credit institutions	89,906	70,332
Balances in correspondent accounts with banks	482	283
Loans to credit unions	89,424	70,049
Loans and receivables from other parties	69,856	60,845
Securities	78,802	92,339
At fair value through other comprehensive income	21,445	33,000
At amortized cost	52,006	54,537
At fair value through profit or loss	5,351	4,802
As at 31 December	252,833	248,953
Credit risk exposures relating to off-balance sheet items:		
Loan commitments	11,738	11,502
Guarantees provided	3,597	1,630

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Maximum exposure to credit risk taking into account collateral held or other credit enhancements is described below:

2023 As at 31 December	Exposure value	Collateral value*					Total value of collaterals	Unsecured exposure value before ECL assess- ment	ECLs
		Government guarantees	Residential real estate	Commercial real estate	Land	Other collaterals			
Cash and cash equivalents held in central bank	14,269	-	-	-	-	-	-	14,269	-
Loans and receivables from credit institutions	89,908	-	-	-	-	-	-	89,908	(2)
Balances in bank correspondent accounts and overnight deposits	482	-	-	-	-	-	-	482	-
Loans to credit unions	89,426	-	-	-	-	-	-	89,426	(2)
Other loans and receivables	71,835	1,875	31,971	18,409	31,049	71,820	155,124	3,456	(1,979)
Securities	78,802	-	-	-	-	-	-	78,802	-
At fair value through other comprehensive income	21,445	-	-	-	-	-	-	21,445	-
At amortized cost	52,006	-	-	-	-	-	-	52,006	-
At fair value through profit or loss	5,351	-	-	-	-	-	-	5,351	-
Total	254,814	1,875	31,971	18,409	31,049	71,820	155,124	186,435	(1,981)

2022 As at 31 December	Exposure value	Collateral value*					Total value of collaterals	Unsecured exposure value before ECL assess- ment	ECLs
		Government guarantees	Residential real estate	Commercial real estate	Land	Other collaterals			
Cash and cash equivalents held in central bank	25,437	-	-	-	-	-	-	25,437	-
Loans and receivables from credit institutions	70,334	-	-	-	-	-	-	70,334	(2)
Balances in bank correspondent accounts and overnight deposits	283	-	-	-	-	-	-	283	-
Loans to credit unions	70,051	-	-	-	-	-	-	70,051	(2)
Other loans and receivables	62,474	2,618	21,609	15,178	33,521	63,561	136,487	98	(1,629)
Securities	92,339	-	-	-	-	-	-	92,339	-
At fair value through other comprehensive income	33,000	-	-	-	-	-	-	33,000	-
At amortized cost	54,537	-	-	-	-	-	-	54,537	-
At fair value through profit or loss	4,802	-	-	-	-	-	-	4,802	-
Total	250,584	2,618	21,609	15,178	33,521	63,561	136,487	188,208	(1,631)

* The collateral value is estimated in accordance with the requirements approved by LCCU and does not represent a fair value as at the date of the statement of financial position.

In the ordinary course of business, LCCU takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The purpose of credit risk management is to minimize risk of credit losses from loans. When granting loans to the credit unions members of LCCU, the main criteria of borrower's financial position are taken into consideration. Based on those criteria, the borrower is assessed before issuing

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the loan and throughout the whole period from the loan issue moment to its repayment. The criteria used for the assessment of credit unions include credit union's reputation and rating, risk indicators, operating efficiency, credit history of the credit union, quality of the credit union's loan portfolio, assessment of a credit union's balance sheet, income statement, business plan and collateral, assessment of the required funds, consideration of the anticipated use of funds. The assessment criteria of members of credit unions (legal and natural persons) include reputation, financial capacity, assessment of collateral, business plan and environment, collateral and the required funding. The assessment of borrowers' financial position is performed on a quarterly basis and each time when objective evidence arises that LCCU will be unable to collect the loan in full, impairment losses on such loan are recognized.

For the purpose of credit risk management, LCCU's management does not grant operating, development and liquidity loans to credit unions with the repayment term exceeding 5 years without a separate decision passed by LCCU's management. The repayment term of subordinated loans is 5–8 years. The maximum maturity of loans granted to member credit unions is 30 years.

When LCCU's Loan Committee and/or the Board examine application for loan or if during the loan repayment period occur any doubts as to the repayment of the loan, the Loan Committee and/or the Board may request to provide collateral as security of loan repayment. The Loan Committee evaluates and determines the market value and cash flows of collateral. Loans to members of credit unions (natural and legal persons) are granted only upon provision of collateral, which meets requirements approved by LCCU. If real estate is provided as collateral, the Loan Committee may request assistance of independent property appraisers for evaluation of this property.

When LCCU's Loan Committee receives an application for loan from the credit union, it performs analysis of the application and, if necessary, other documents necessary to obtain the loan, examines the condition of the applicant, and submits its conclusions to LCCU's Board as to the possibilities of granting the loan. LCCU has implemented its internal risk management, assessment and rating system. Based on the system's data and other information, a preliminary assessment of the applicant's condition and follow-up monitoring of the borrower's condition is performed. Before making a decision to grant or not to grant a certain loan, the Loan Committee evaluates the borrower's condition. The condition of debtors is periodically reassessed in accordance with the procedures of LCCU. The main criteria for assessing the borrower's – credit union's condition before granting a loan and throughout the entire term from loan origination to its repayment are: the credit union's rating and credit history of the credit union. The main criteria for assessing the condition of the member of the credit union (legal/natural person) include the member's financial capacity, reputation, project's business plan and business environment, and the progress of absorption of funding. Based on the established approach, each criterion affecting the borrower's condition is given a score between 1 to 5, where 1 stands for very good, 2 – good, 3 – satisfactory, 4 – unsatisfactory, and 5 – very poor. In line with the established approach, the borrower's condition is assessed in view of the weight of individual components.

The table below includes an analysis of the quality of LCCU's loan portfolio according to classes of LCCU loans (working capital, liquidity, subordinated loans, credit lines used by credit unions to grant loans from the funds of INVEGA UAB ir ŽŪPGF, syndicated loans to members of credit unions and other loans with taken over claims):

As at 31 December 2023						
Category of loan						
Borrower's condition	Subordinated	Working capital	Credit lines	Other	Syndicated	Total
1 – very good	-	4,585	2,155	-	8,732	15,472
2 – good	2,996	24,795	3,422	-	44,559	75,772
3 – satisfactory	2,871	41,882	2,847	-	9,579	57,179
4 – unsatisfactory	70	2,738	1,063	-	6,671	10,542
5 – very poor	-	-	-	-	315	315
Total	5,937	74,000	9,487	-	69,856	159,280

As at 31 December 2022						
Category of loan						
Borrower's condition	Subordinated	Working capital	Credit lines	Other	Syndicated	Total
1 – very good	145	2,053	3,245	-	9,030	14,473
2 – good	4,593	44,563	7,056	776	19,447	76,435
3 – satisfactory	1,499	3,580	568	-	20,959	26,606
4 – unsatisfactory	-	1,693	1,018	-	9,351	12,062
5 – very poor	-	-	36	169	1,113	1,318
Total	6,237	51,889	11,923	945	59,900	130,894

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The following table shows the collaterals for syndicated loans and loans from other parties by the borrowers' risk groups, after additional assessment of known correlation or borrowers' related parties:

As at 31 December 2023	Loans value before ECL assessment			Expected credit losses	Collateral value	Unsecured part of loans before ECL assess- ment
Borrower's group	POCI	Syndicated	Total			
1 – very good	-	8,851	8,851	(119)	15,585	2,477
2 – good	-	45,808	45,808	(1,249)	94,594	285
3 – satisfactory	-	9,656	9,656	(77)	28,513	-
4 – unsatisfactory	-	6,864	6,864	(193)	15,439	-
5 – very poor	129	527	656	(341)	993	694
Total	129	71,706	71,835	(1,979)	155,124	3,456

As at 31 December 2022	Loans value before ECL assessment			Expected credit losses	Collateral value	Unsecured part of loans before ECL assess- ment
Borrower's group	POCI	Syndicated	Total			
1 – very good	-	9,120	9,120	(90)	13,846	-
2 – good	943	19,619	20,562	(339)	54,171	-
3 – satisfactory	-	21,604	21,604	(645)	44,647	-
4 – unsatisfactory	-	9,646	9,646	(295)	21,074	-
5 – very poor	203	1,339	1,542	(260)	2,749	98
Total	1,146	61,328	62,474	(1,629)	136,487	98

Working capital loans are not granted to credit unions if they fail to comply with conditions stipulated in LCCU's Procedure for Granting of Loans. When LCCU's Board receives from the Loan Committee conclusions and recommendations as to the possibilities of granting the loan, the collateral required and etc., it once again assesses the possibilities of granting the loan and makes decision as to granting the loan or not. The Loan Committee examines and monitors the status of repayment of loans previously granted, considers the reasons for failure to repay the loans, assesses the results of loans classification, estimates the need for expected credit losses, assesses controls over the repayment of loans, and provides LCCU's Board with the above-mentioned and other necessary information.

In accordance with the loan agreement provisions, LCCU has the right to deduct loan payments from the accounts of credit unions.

To mitigate credit risk, the Bank of Lithuania has set a limit on maximum exposure to a single borrower – it should not exceed 25% of LCCU eligible capital. LCCU's Board has established internal limits on different types of loans and the amount of the loan. LCCU sets and reviews internal maximum loan and exposure rates that are more conservative than those set by the Bank of Lithuania. In any case, the exposure is an assessment of whether an exposure will be assigned to a group of related persons. As at 31 December 2023, the maximum single exposure comprising loans to several related borrowers treated as a single borrower amounted to EUR 4,965 thousand, which is 19.84% of LCCU's eligible capital (as at 31 December 2022: EUR 4,246 thousand and 20.27% of LCCU's eligible capital, respectively).

On 20 May 2019, the decision No 241-133 of the Bank of Lithuania was obtained Regarding the permission of the Central Credit Union of Lithuania not to apply certain requirements set by the *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012* (hereinafter the Decision No 241-133) authorizing LCCU to derogate from the requirements of Article 113(1) of the Regulation (EU) No 575/2013, i.e. LCCU is not subject to the maximum exposure amount calculated for the group of clients to which the related institutions (credit unions) belong.

All loans of LCCU (excluding deposits, balances in other credit institutions, prepayments, guarantees and sureties) are issued to the credit unions, which are members of LCCU and natural and legal persons – farmers, limited liability companies and cooperatives, which are members of credit unions.

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In 2023, LCCU acquired POCI financial assets with acquisition cost of EUR 0 thousand (in 2022: EUR 940 thousand). The cumulative expected credit losses recognised for these instruments amounted to EUR 129 thousand as at 31 December 2023 (in 2022: EUR 167 thousand).

The following table shows LCCU's loan portfolio in terms of delays and available collateral:

	Loans and receivables from credit institutions	Other loans and receivables	Total	Expected credit losses	Collateral value	Unsecured part of loans and receivables
As at 31 December 2023						
Not overdue	89,909	51,410	141,319	(933)	116,118	204
Overdue 1–30 days	-	18,858	18,858	(717)	33,027	2,569
Overdue 31–60 days	-	1,048	1,048	(1)	5,484	64
Overdue 61–90 days	-	-	-	-	-	13
Overdue more than 90 days	-	519	519	(330)	495	606
Total:	89,909	71,835	161,744	(1,981)	155,124	3,456

	Loans and receivables from credit institutions	Other loans and receivables	Total	Expected credit losses	Collateral value	Unsecured part of loans and receivables
As at 31 December 2022						
Not overdue	70,334	55,993	126,327	(1,064)	127,297	-
Overdue 1–30 days	-	4,173	4,173	(150)	6,949	-
Overdue 31–60 days	-	108	108	(1)	419	-
Overdue 61–90 days	-	-	-	-	-	-
Overdue more than 90 days	-	2,200	2,200	(416)	1,822	98
Total:	70,334	62,474	132,808	(1,631)	136,487	98

Value from collateral is recovered in case of borrowers' default on the basis of contractual terms and conditions and other legal acts.

The table below provides information on outstanding balances and expected credit losses on loans and receivables issued by LCCU:

	2023	2022
Loans and receivables from credit institutions	89,909	70,334
Loans and receivables from other parties and institutions	71,835	62,474
Total loans granted	161,744	132,808
Total allowance for impairment:	(1,981)	(1,631)
To credit institutions	(2)	(2)
To other parties	(1,979)	(1,629)
Total net loans and receivables	159,762	131,177

Changes in expected credit losses during the year are presented below:

As at 1 January 2023	(1,631)
Allowance for loan impairment	(1,222)
Reversal of the allowance for loan impairment	872
Uncollectible loans written off during the period	1
As at 31 December 2023	(1,981)
As at 1 January 2022	(1,082)
Allowance for loan impairment	(742)
Reversal of the allowance for loan impairment	192
Uncollectible loans written off during the period	1
As at 31 December 2022	(1,631)

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As at 31 December 2023, impairment of debt instruments measured at fair value through other comprehensive income amounted to EUR 48 thousand (as at 31 December 2022 – EUR 18 thousand).

As at 31 December 2023, EUR 207 thousand of expected losses were recognised on LCCU's loan commitments and guarantees (as at 31 December 2022, EUR 90 thousand) under LCCU's model for expected credit losses.

Principles of LCCU's expected credit loss model are provided below.

For the calculation of expected credit losses, all financial instruments are divided into homogeneous groups, taking into account general characteristics of risk. LCCU has distinguished such groups of financial instruments:

- Syndicated loans issued by LCCU together with other group members;
- Lending positions for other credit institutions.
- Debt securities.
- Funds (deposits) in banks.
- Other financial assets (trade receivables, rent receivables and others).

Exposures of syndicated loans are grouped into 3 segments of debtors:

- Lending exposures for natural non-commercial persons. Lending exposures for LCCU Group's employees are also prescribed to this segment of debtors.
- Lending positions for legal persons, except lending positions for agricultural development. Lending positions for legal persons for agricultural development are prescribed to agricultural lending positions;
- Agricultural lending positions.

Debt securities are classified into two subgroups:

- Debt securities issued by issuers, having investment rating prescribed by ECAI.
- Debt securities issued by other issuers, having speculative rating prescribed by ECAI.

Lending exposures inside LCCU Group are guaranteed by cross-warranty system – LCCU Group members' mutual protection and assistance mechanism of LCCU Group members, which provides help for LCCU Group members during insolvency and other similar cases of financial difficulties. Considering that lending positions within LCCU Group are considered as fully guaranteed positions and have short realization term, no expected credit losses are formed for them.

Debt securities issued by issuer, which due to low risk has ECAI investment rating, are considered as fully guaranteed financial instruments and in such case zero value expected credit losses are recognized.

Funds in bank accounts and deposits are considered as very low risk fully guaranteed financial instruments, considering their short term and ratings of the banks, holding the funds. For these financial instruments zero value expected credit losses are recognized.

For LCCU expected credit loss model methodology development, all information of LCCU Group (LCCU and its member unions) credit data of year 2009–2018 was used (information of credit unions, which left the Group, was not used).

Considering the increase of financial instrument's credit risk after its initial recognition, financial instruments are classified into three risk levels: Level 1, Level 2 and Level 3.

Risk level allocation to debt financial securities, funds in banks and deposits:

- Risk level 1 is assigned to:
 - Securities that were issued by issuer having investment rating.
 - Securities that were issued by issuer having non-investment rating, but being a government of EU country.
 - Funds in bank accounts and deposits.
- Risk level 2 is assigned to investment securities, having lower rating than BB+, but higher than CCC+;
- Risk Level 3 is assigned to securities, having lower than CCC+ rating.

It is considered that applied credit risk to lending position has increased significantly from its initial recognition, if increased credit risk indicator is noted to such lending position. In such case, the debtor is moved from risk Level

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1 to 2. If loss event is recognized, it is considered that debtor has failed to fulfil its obligations and, therefore, is transferred from risk Level 1 or 2 to 3.

Increased credit risk indicator is the criteria, objectively proving that financial instrument's default risk has increased significantly from its recognition and it should be assigned to risk Level 2. The following events are considered indicators of increased credit risk:

- Credit overdue – non-payment of periodic credit instalments (principal credit part, interest, commitment fee), delay of credit terms of more than 30 days;
- deterioration of a borrower's financial position, which is a borrower's credit risk indicator reflecting reliability and financial capacity of the borrower, determined by taking into account the criteria for creditworthiness assessment;
- Reorganization of credit due to deterioration of the borrower's financial position, which is carried out not more than twice and there are no reasonable indications of default.
- Preferential postponements of instalments and discounts, which does not show any reasonable indications of default.
- Direct and indirect impact as a result of the economic situation, taking into account uncertainty due to geopolitical situation and inflation;
- Other events:
 - Use of funds granted to the borrower not in accordance with the designated purpose stipulated in loan agreement, however, the amount is not significant;
 - Violation of investment project's and/or business plan's execution terms and conditions, but the resulting risk is not significant to the borrower's cash flows;
 - Other event, due to which the borrower should be transferred to a higher risk level.

Loss event – criteria, objectively proving that default of financial obligations is recognized to financial instrument and such instrument should be classified as defaulted – assigned to risk Level 3. The following are considered major loss events:

- Credit overdue – non-payment of periodic credit instalments (principal credit part, interest, commitment fee), delay of credit terms of more than 90 days;
- Significant deterioration of borrower's financial position;
- Reorganization of credit due to the borrower's financial position, which is carried for more than second time or there are no reasonable indications of default.
- Preferential postponements of instalments and discounts, which show reasonable indications of default.
- Other events:
 - Use of funds granted to the borrower not in accordance with the designated purpose stipulated in loan agreement and the amount is significant;
 - Violation of investment project's and/or business plan's execution terms and conditions and the resulting risk is significant to the borrower's cash flows;
 - Revealing of document forging or of other illegal activity, etc.;
 - Initiation of bankruptcy against the borrower (initiated by credit union or other creditors);
 - Initiation of borrower's reorganization process;
 - Deterioration in the value of collateral in terms of loans, if repayment terms of loan being assessed directly depend on the value of collateral;
 - Legal processes (e.g. credit or other assets are recognized in corresponding balance sheet article only after fulfillment of guarantee or individual guarantee liability to the third party, except cases, if such commitment was predetermined in agreement between union and borrower);
 - Default on obligations by persons related to the borrower;
 - The death of a borrower, if there are no inheritors, or inheritors are not capable of fulfilling financial obligations;

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- Termination of credit agreement;
- Acquired/realized transactions of increased credit risk;
- Other loss events due to which the borrower should be recognised as likely to default.

If a person related to the borrower is transferred to a higher risk level, the debtor is also transferred to a higher risk level, if there are no substantive reasons to determine otherwise.

Borrower's transfer to a lower risk level of one qualitative level (e.g. from 2 to 1 or from 3 to 2) is possible if there are no reasons to doubt that borrower will fulfil all credit obligations, i.e. during monitoring period (which may last from 3 to 12 months given the loss event or increased credit risk indicator) all specific conditions set for the borrower are met, implying that borrower will meet its obligations. If a person related to the borrower is transferred to a lower risk level and the borrower itself meets all requirements of a transfer to a lower risk level, the borrower is also transferred to a lower risk level. Just because a credit is forbore/restructured, its credit risk is not considered as automatically lowered. If credit is forbore/restructured and, therefore, expected cash flows set in the primary credit agreement change, borrower's credit reassessment is done according to existing LCCU's rules of procedures.

Changes in risk levels of loans from other parties during 2023 and 2022 are described in the table below:

	Risk level 1		Risk level 2		Risk level 3 (incl. POCI)		Total	
	Loan value	ECL	Loan value	ECL	Loans Value	ECL	Loan value	ECL
As at 1 January 2022	11,608	(107)	31,549	(653)	2,743	(320)	45,900	(1,080)
New financial assets recognised	-	-	-	-	968	(167)	968	(167)
Loans granted	11,947	(164)	10,177	(252)	-	-	22,124	(416)
Loans repaid and derecognition of financial assets	(3,335)	65	(1,910)	290	(1,501)	302	(6,746)	657
Between Level 1 and 2; From Level 2 to 1	8,954	(33)	(8,954)	33	-	-	-	-
Between Level 1 and 2; From Level 1 to 2	(458)	7	458	(7)	-	-	-	-
Between Level 2 and 3; From Level 3 to 2	-	-	956	(29)	(956)	29	-	-
Between Level 2 and 3; From Level 2 to 3	-	-	(1,121)	215	1,121	(215)	-	-
Between Level 1 and 3; From Level 3 to 1	-	-	-	-	-	-	-	-
Between Level 1 and 3; From Level 1 to 3	(53)	7	-	-	53	(7)	-	-
Interests accrued	76	-	96	-	57	-	229	-
Decrease (increase) in expected credit losses	-	(37)	-	(537)	-	(50)	-	(624)
Write-offs	-	-	-	-	(1)	1	(1)	1
As at 31 December 2022	28,739	(262)	31,251	(940)	2,484	(427)	62,474	(1,629)
New financial assets recognised	-	-	-	-	-	-	-	-
Loans granted	14,644	(252)	3,731	(89)	-	-	18,375	(341)
Loans repaid and derecognition of financial assets	(1,953)	203	(5,283)	77	(2,152)	409	(9,388)	689
Between Level 1 and 2; From Level 2 to 1	14,036	(555)	(14,036)	555	-	-	-	-
Between Level 1 and 2; From Level 1 to 2	(14,624)	402	14,624	(402)	-	-	-	-
Between Level 2 and 3; From Level 3 to 2	-	-	-	-	-	-	-	-
Between Level 2 and 3; From Level 2 to 3	-	-	(313)	148	313	(148)	-	-
Between Level 1 and 3; From Level 3 to 1	36	-	-	-	(36)	-	-	-
Between Level 1 and 3; From Level 1 to 3	(68)	54	-	-	68	(54)	-	-
Interests accrued	194	-	157	-	24	-	375	-
Decrease (increase) in expected credit losses	-	(511)	-	(59)	-	(129)	-	(699)
Write-offs	-	-	-	-	(1)	1	(1)	1
As at 31 December 2023	41,004	(921)	30,131	(710)	700	(348)	71,835	(1,979)

Expected credit losses of financial assets were assessed individually and collectively, as it is described in accounting policies part of these financial statements.

Analysis of gross value of LCCU financial assets and their impairment according to risk levels, individual/collective assessment and segments as at 31 December 2023 is as follows:

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		As at 31 December 2023								
		Risk levels								
		Level 1		Level 2		Level 3		POCI		
Segments		Indi- vidual as- sessment	Collec- tive as- sessment	Indi- vidual as- sessment	Col- lective as- sessment	Individ- ual as- sessment	Collec- tive as- sessment	Indi- vidual as- sessment	Col- lective as- sessment	Total
Loans to natural persons	Carrying amount	223	3,171	-	64	-	-	-	129	3,587
	Impairment	(4)	(2)	-	-	-	-	-	(129)	(135)
Loans to legal persons	Carrying amount	34,633	1,702	28,282	469	391	78	-	-	65 555
	Impairment	(909)	(5)	(671)	(7)	(202)	(8)	-	-	(1,802)
Loans to agricul- tural entities	Carrying amount	-	1,275	917	399	38	64	-	-	2,693
	Impairment	-	(1)	(28)	(4)	-	(9)	-	-	(42)
Loans from credit institutions	Carrying amount	89,426	-	-	-	-	-	-	-	89,426
	Impairment	(2)	-	-	-	-	-	-	-	(2)
Debt securities	Carrying amount	75,946	-	2,856	-	-	-	-	-	78,802
	Impairment	-	-	(48)	-	-	-	-	-	(48)
Loan commit- ments	Value of loan com- mitments (off-bal- ance)	3,770	8,441	3,125	-	-	-	-	-	15,336
	Impairment	(77)	(7)	(107)	-	-	-	-	-	(191)

Analysis of gross value of LCCU financial assets and their impairment according to risk levels, individual/collective assessment and segments as at 31 December 2022 is as follows:

		As at 31 December 2022								
		Risk levels								
Segments		Level 1		Level 2		Level 3		POCI		Total
		Indi- vidual as- sessment	Collec- tive as- sessment	Indi- vidual as- sessment	Col- lective as- sessment	Individ- ual as- sessment	Collective as- sessment	Indi- vidual as- sessment	Col- lective as- sessment	
Loans to natural persons	Carrying amount	-	3,527	226	11	-	47	-	203	4,014
	Impairment	-	(4)	(2)	-	-	(7)	-	(34)	(47)
Loans to legal persons	Carrying amount	21,965	2,200	28,684	866	1,153	-	-	943	55,811
	Impairment	(246)	(11)	(831)	(56)	(215)	-	-	(167)	(1,526)
Loans to agricul- tural entities	Carrying amount	-	1,047	947	517	108	30	-	-	2,649
	Impairment	-	(2)	(29)	(21)	(1)	(3)	-	-	(56)
Loans from credit institutions	Carrying amount	70,051	-	-	-	-	-	-	-	70,051
	Impairment	(2)	-	-	-	-	-	-	-	(2)
Debt securities	Carrying amount	86,903	-	5,436	-	-	-	-	-	92,339
	Impairment	-	-	(18)	-	-	-	-	-	(18)
Loan commit- ments	Value of loan com- mitments (off-bal- ance)	284	9,537	3,311	-	-	-	-	-	13,132
	Impairment	(3)	(7)	(64)	-	-	-	-	-	(74)

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The following table shows the breakdown of collateral and loans at risk Level 3 by segment as at 31 December 2023:

Segment	Carrying amount	Impairment	Collateral value					Total value of collat-erals	Unse-cured expo-sure value
			Gov-ernment guar-antees	Residen-tial real estate	Commer-cial real estate	Land	Other collat-erals		
Natural persons	-	-	-	-	-	-	-	-	-
Legal persons	469	(210)	182	215	-	119	318	833	8
Agricultural entities	102	(9)	-	-	-	323	113	436	12
POCI	129	(129)	-	26	2	17	9	54	-
Total	700	(348)	-	26	2	340	122	490	20

The following table shows the breakdown of collateral and loans at risk Level 3 by segment as at 31 December 2022:

Segment	Carrying amount	Impairment	Collateral value					Total value of collat-erals	Unse-cured expo-sure value
			Gov-ernment guar-antees	Residen-tial real estate	Commer-cial real estate	Land	Other collat-erals		
Natural persons	47	(7)	-	-	-	-	-	-	-
Legal persons	1,153	(215)	-	-	-	-	-	-	-
Agricultural entities	139	(4)	27	-	-	272	153	453	-
POCI	1,146	(201)	-	26	2	2,213	9	2,250	98
Total	2,485	(427)	27	26	2	2,485	162	2,703	98

Additional information on valuation of expected credit losses on financial assets is disclosed in "Significant accounting estimates and judgements" section of the accounting policy.

For the purpose of concentration risk management, LCCU has established internal ratios in respect of individual positions. Maximum exposure to a single borrower should not exceed 25% of the calculated capital base of LCCU or an internal limit/ratio established by the Board, depending which is lower. There are also internal limits for individual types of loans and investments. Concentration risk arising from LCCU's investments in cash balances with other credit institutions is assessed with reference to internal ratios.

Balances in correspondent bank accounts and term deposits held with the banks categorized by ratings of the banks in which deposits are held (based on Fitch ratings or ratings of a similar international rating agency) are as follows:

Balances in correspondent bank accounts, term deposits:	2023	2022
High rating (AAA-BBB-)	482	283

As at 31 December 2023 (including 31 December 2022), LCCU kept its funds in the accounts of banks that are registered in Lithuania or subdivisions in Lithuania of foreign banks (in this case ratings of parent banks are provided).

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Liquidity risk

In the ordinary course of business, LCCU is exposed to the possible risk of mismatches in cash flows. The purpose of liquidity risk management is to ensure that LCCU will be able to meet its obligations in full. The key elements of liquidity risk management include LCCU's management's reporting system, control over liquidity management, diversification of financing sources, planning of expected commitments, formation of liquidity buffers, calculations of projected cash receipts/payments and net funding gap. LCCU's liquidity risk management is divided into current, short-term, medium-term and strategic liquidity risk management. The liquidity risk is managed by complying with the liquidity coverage ratio (hereinafter "LCR") as well as LCCU's internal liquidity ratios, preparing LCCU's monthly cash flow reports, performing stress testing of liquidity risk, assessing liquidity buffers, counterbalancing capacity, net funding gap, etc.

In the end of each operation day at LCCU, a responsible employee is required to check the compliance with the liquidity ratio and ensure that all cash flows have been matched, cash payments and receipts and to assess scheduled future cash flows. When internal ratios established by LCCU are achieved, management of LCCU should be notified. At least once per month, following the established procedure depending on the size of the liquidity ratio, LCCU's management analyses and assesses information as to the matching of cash flows and compliance with the liquidity ratio. When decisions are made in relation to granting a loan or accepting a large deposit, LCCU's management assess how this would affect the cash flows and compliance with the liquidity ratio.

A part of LCCU's investments in securities are classified as available-for-sale (measured at fair value through other comprehensive income), therefore, in case of any possible interruptions in cash flows or liquidity, these investments may be sold immediately. In the event of any actual or anticipated interruptions in LCCU's liquidity, LCCU uses the available liquidity sources, taking into account the costs of their utilization, and at the same time suspends the process of lending and investing.

Analysis of LCCU's assets and liabilities by maturity as at 31 December 2023 is as follows:

	On demand	3 months	3–6 months	6–12 months	1–3 years	3–5 years	5–10 years	> 10 years	Maturity undefined	Total
Assets										
Cash and cash equivalents held in central bank	14,269	-	-	-	-	-	-	-	-	14,269
Securities	-	4,129	12,695	9,140	33,679	13,669	139	-	5,351	78,802
Loans and receivables from credit institutions	482	3,473	12,280	29,498	27,131	4,749	12,293	-	-	89,906
Other loans	-	-	1,750	5,347	25,383	4,997	22,350	10,029	-	69,856
Property, plant and equipment, intangible assets and right-of-use assets	-	-	-	-	424	105	-	-	884	1,413
Other assets and deferred tax assets	54	482	-	840	-	-	-	-	4	1,380
Total assets	14,805	8,084	26,725	44,825	86,617	23,520	34,782	10,029	6,239	255,626
Liabilities, capital and reserves										
Amounts due to credit and other financial institutions	71,736	81,295	18,499	24,442	3,983	15,798	-	-	-	215,753
Deposits from other parties	36	-	-	-	-	-	-	-	-	36
Liquidity facility	6,830	-	-	-	-	-	-	-	-	6,830
Subordinated loans	-	49	-	-	-	1,900	2,000	-	-	3,949
Other liabilities and provisions	451	1,342	326	-	-	-	-	-	-	2,119
Capital and reserves	-	-	-	-	-	-	-	-	26,939	26,939
Total liabilities, capital and reserves	79,053	82,686	18,825	24,442	3,983	17,698	2,000	-	26,939	255,626
Difference between assets and liabilities, capital and reserves	(64,248)	(74,602)	7,900	20,384	82,635	5,822	32,782	10,029	(20,700)	-
Off-balance sheet commitments	-	11,738	-	-	-	-	-	-	3,597	15,335

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Analysis of LCCU's assets and liabilities by maturity as at 31 December 2022 is as follows:

	On demand	3 months	3–6 months	6–12 months	1–3 years	3–5 years	5–10 years	> 10 years	Maturity undefined	Total
Assets										
Cash and cash equivalents held in central bank	25,437	-	-	-	-	-	-	-	-	25,437
Securities	-	517	8,891	11,415	43,188	19,135	4,391	-	4,802	92,339
Loans and receivables from credit institutions	283	7,561	10,656	14,688	19,603	3,060	4,714	9,767	-	70,332
Other loans	-	2,335	3,104	4,390	20,428	10,183	13,078	7,327	-	60,845
Property, plant and equipment, intangible assets and right-of-use assets	-	-	-	-	438	146	-	-	888	1,472
Other assets and deferred tax assets	37	702	-	204	-	-	-	-	4	947
Total assets	25,757	11,115	22,651	30,697	83,657	32,524	22,183	17,094	5,694	251,372
Liabilities, capital and reserves										
Amounts due to credit and other financial institutions	101,461	45,540	13,610	21,129	18,033	14,533	2,006	-	-	216,312
Deposits from other parties	76	-	-	-	-	-	-	-	-	76
Liquidity facility	6,324	-	-	-	-	-	-	-	-	6,324
Subordinated loans	-	36	-	-	-	-	3,900	-	-	3,936
Other liabilities and provisions	315	1,591	30	-	-	-	-	-	-	1,936
Capital and reserves	-	-	1,300	-	2,600	3,979	-	-	14,909	22,788
Total liabilities, capital and reserves	108,176	47,167	14,940	21,129	20,633	18,512	5,906	-	14,909	251,372
Difference between assets and liabilities, capital and reserves	(82,419)	(36,052)	7 711	9,568	63,023	14,012	16,277	17,094	(9,215)	-
Off-balance sheet commitments	-	11,502	-	-	-	-	-	-	1,630	13,132

The LCR is intended to determine the short-term resilience of the liquidity risk of LCCU. This ratio means that LCCU has risk-free liquid assets that can be easily liquidated in the market, to make necessary payments, excluding received payments, during the 30-day period of crisis without central bank support. Under the Decision No 241-133, LCCU is allowed to individually exempt from the Part Four requirements of the Regulation (EU) No 575/2013, i.e. LCCU is not subject to the liquidity coverage requirement, but LCCU has established and applies the internal system for compliance with LCR indicator ("traffic lights").

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The structure of LCCU's financial liabilities based on the remaining period at the date of financial statements to the contractual maturity date as at 31 December 2023 and 2022 is presented below. The amounts reported represent contractual undiscounted cash flows:

	On demand	3 months	3–6 months	6–12 months	1–3 years	3–5 years	5–10 years	> 10 years	Total
As at 31 December 2023									
Amounts due to credit and other financial institutions	71,736	81,529	18,933	25,493	4,401	16,255	1,447	-	219,794
Deposits from other parties	36	-	-	-	-	-	-	-	36
Liquidity facility	6,830	-	-	-	-	-	-	-	6,830
Subordinated loans	-	40	82	164	654	1,781	2,293	-	5,014
Other financial liabilities	-	749	-	10	-	-	-	-	759
Total financial liabilities	78,602	82,318	19,015	25,667	5,055	18,036	3,740	-	232,433
	On demand	3 months	3–6 months	6–12 months	1–3 years	3–5 years	5–10 years	> 10 years	Total
As at 31 December 2022									
Amounts due to credit and other financial institutions	101,461	45,578	13,689	21,365	18,507	14,602	3,805	-	219,007
Deposits from other parties	76	-	-	-	-	-	-	-	76
Liquidity facility	6,324	-	-	-	-	-	-	-	6,324
Subordinated loans	-	29	68	127	507	507	4,411	-	5,649
Other financial liabilities	-	1,046	-	3	-	-	-	-	1,049
Total financial liabilities	107,861	46,653	13,757	21,495	19,014	15,109	8,216	-	232,105

Market risk

Market risk assessment

LCCU takes on exposure to market risk, which means the risk to incur losses due to unfavourable fluctuations in market variables such as interest rates (interest rate risk) and foreign exchange rates (foreign currency risk). LCCU assesses its exposure to market risk, which means the risk that the fair value of future cash flows from financial instruments may change as a result of changes in market prices.

Possible changes in market risk are determined by taking into account the effects of its component parts, i.e. interest rate risk and foreign exchange risk.

For the assessment of its exposure to market risk, LCCU uses testing scenarios. The testing involves the use of standard, the most probable and the worst-case scenarios. Testing scenarios are carried out by assessing changes in several risk factors which occur simultaneously and reflect events that, in LCCU's opinion, are probable in future. Testing scenarios are based on historical events that had significantly affected the market or probable (presumed) events that may occur in the market in future.

LCCU assesses the impact of fluctuations in interest rates on its net interest income. When determining this impact, LCCU assesses the impact of 1% interest rate change on-balance sheet assets and liabilities that are sensitive to fluctuations in interest rates with maturities up to one year.

Foreign exchange risk

Exchange rate risk is measured as the open position in assets and liabilities in a particular currency. In 2023 and 2022, LCCU mostly used EUR, therefore there are no significant currency positions.

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Interest rate risk

Cash flow interest rate risk is the risk that, in the future, cash flows from financial instruments may fluctuate due to changes in market interest rates. Fair value interest rate risk of financial instruments is the risk that the fair value of financial instruments may change in the future due to changes in market interest rates. LCCU's management manages interest rate risk by reviewing the interest rate risk report quarterly and managing interest rates risk limits and their performance indicators (minimum weighted average interest rate on loans granted, maximum weighted average interest rate on term deposits, carried out limits of differences between assets and liabilities according to different maturities at the end of the reporting period) and by regularly reviewing the interest rates on loans and deposits provided by LCCU by deciding whether to issue loans with fixed or variable interest rates and by deciding on the structure of assets and liabilities of LCCU. As from 24 November 2016, interest rate risk is managed by applying variable interest rate to all LCCU's loan and deposit transactions. The internal rating of a credit union is also taken into account when determining the interest rates on new loans.

The tables below summarize LCCU's exposure to interest rate risk during 2023 and 2022. LCCU's assets and liabilities are categorized by the earlier of contractual repricing or redemption (maturity) dates.

LCCU's interest rate risk as at 31 December 2023:

	Les than 1 month	1–3 months	3–6 months	6–12 months	1–3 years	More than 3 years	Non-interest- bearing and negative in- terest	Total
Assets								
Cash and cash equivalents held in central bank	-	-	-	-	-	-	14,269	14,269
Securities	-	4,129	12,695	9,140	33,679	13,808	5,351	78,802
Loans and receivables from credit institutions and other loans	18,895	33,634	57,973	48,778	-	-	482	159,762
Property, plant and equipment and intangible assets	-	-	424	105	-	-	884	1,413
Other assets and deferred tax assets	-	-	-	-	-	-	1,380	1,380
Total assets	18,895	37,763	71,092	58,023	33,679	13,808	22,366	255,626
Liabilities and reserves								
Amounts due to credit and other financial institutions	67,758	13,538	18,499	24,442	3,983	15,797	71,736	215,753
Deposits from other parties	-	-	-	-	-	-	36	36
Liquidity facility	6,830	-	-	-	-	-	-	6,830
Subordinated loans	-	-	3,949	-	-	-	-	3,949
Other liabilities	-	-	-	-	-	-	2,119	2,119
Capital and reserves	-	-	-	-	-	-	26,939	26,939
Total liabilities and reserves	74,588	13,538	22,448	24,442	3,983	15,797	100,830	255,626
Balance difference due to interest sensitivity	(55,693)	24,225	48,644	33,581	29,696	(1,989)	(78,464)	-

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LCCU's interest rate risk as at 31 December 2022:

	Les than 1 month	1–3 months	3–6 months	6–12 months	1–3 years	More than 3 years	Non-interest- bearing and negative in- terest	Total
Assets								
Cash and cash equivalents held in central bank	-	-	-	-	-	-	25,437	25,437
Securities	8,578	11,379	26,535	28,772	11,198	810	5,067	92,339
Loans and receivables from credit institutions and other loans	20,038	29,928	47,204	33,129	595	-	283	131,177
Property, plant and equipment and intangible assets	-	-	438	146	-	-	888	1,472
Other assets and deferred tax assets	-	-	-	-	-	-	947	947
Total assets	28,616	41,307	74,177	62,047	11,793	810	32,622	251,372
Liabilities and reserves								
Amounts due to credit and other financial institutions	39,620	5,920	15,266	19,573	17,424	17,048	101,461	216,312
Deposits from other parties	-	-	-	-	-	-	76	76
Liquidity facility	6,324	-	-	-	-	-	-	6,324
Subordinated loans	-	-	3,936	-	-	-	-	3,936
Other liabilities	-	-	-	-	-	-	1,936	1,936
Capital and reserves	-	-	1,300	-	2,600	3,979	14,909	22,788
Total liabilities and reserves	45,944	5,920	20,502	19,573	20,024	21,027	118,382	251,372
Balance difference due to interest sensitivity	(17,328)	35,387	53,675	42,474	(8,231)	(20,217)	(85,760)	-

The table below summarizes LCCU's assets and liabilities by type of interest as at 31 December 2023:

	Fixed interest	Variable in- terest	Non-interest- bearing	Total
Assets				
Cash and cash equivalents held in central bank	-	14,269	-	14,269
Securities	78,802	-	-	78,802
Loans and receivables from credit institutions	6,350	83,074	482	89,906
Other loans and receivables	2,477	67,379	-	69,856
Property, plant and equipment and intangible assets	-	-	1,413	1,413
Other assets and deferred tax assets	-	-	1,380	1,380
Total assets	87,629	164,722	3,275	255,626
Liabilities and reserves				
Amounts due to credit and other financial institutions	128,520	5,441	81,792	215,753
Deposits from other parties	-	-	36	36
Liquidity facility	-	-	6,830	6,830
Subordinated loans	-	3,949	-	3,949
Other liabilities	-	-	2,119	2,119
Capital and reserves	6,579	-	20,360	26,939
Total liabilities and reserves	135,099	9,390	111,137	255,626
Balance sheet difference	(47,470)	155,332	(107,862)	-

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LCCU's assets and liabilities by type of interest as at 31 December 2022:

	Fixed interest	Variable interest	Non-interest-bearing	Total
Assets				
Cash and cash equivalents held in central bank	-	25,436	1	25,437
Securities	92,339	-	-	92,339
Loans and receivables from credit institutions	640	69,409	283	70,332
Other loans and receivables	26,604	34,241	-	60,845
Property, plant and equipment and intangible assets	-	-	1,472	1,472
Other assets and deferred tax assets	-	-	947	947
Total assets	119,583	129,086	2,703	251,372
Liabilities and reserves				
Amounts due to credit and other financial institutions	65,032	3,743	147,537	216,312
Deposits from other parties	-	-	76	76
Liquidity facility	-	-	6,324	6,324
Subordinated loans	-	3,936	-	3,936
Other liabilities	-	-	1,936	1,936
Capital and reserves	7,880	-	14,908	22,788
Total liabilities and reserves	72,912	7,679	170,781	251,372
Balance sheet difference	46,671	121,407	(168,078)	-

LCCU performs worst-case scenario testing for credit risk, liquidity risk, market risk, concentration risk and operational risk. The purpose of worst-case scenario testing is to assess whether LCCU has sufficient capital to cover the extraordinary losses that LCCU might incur in the event of unfavourable conditions, and to prepare LCCU's business continuity plan. Standard, possible, and worst-case scenarios are used to estimate the losses that may occur as a result of the above risks. The results of the stress tests shall be submitted to LCCU Board as required, but at least once a year. LCCU uses the UNIBOR index to determine the interest rate on term deposits and working capital loans, which is determined by calculating the average cost of the credit union resources of LCCU system.

The table below summarizes the impact of LCCU 1% interest rate risk on net interest income at the reporting date, as at 31 December 2023 and 2022:

	As at 31 December 2023	As at 31 December 2022
1% increase in interest rate	508	1,142
1% decrease in interest rate	(508)	(1,142)

Operational risk

Operational risk is defined as the risk that LCCU will incur loss resulting from inadequate or failed internal processes, personnel mistakes and/or illegal actions, IT systems failures or from impact of external events. Operational risk also includes legal and reputational, compliance, money laundering and terrorist financing, information and communication technology security and other risks, unless assessed separately, as well as disasters and crises in which Group's assets are at risk.

The primary objective of operational risk assessment and management is to ensure that the management and assessment of the operational risk assumed by LCCU is properly organised, effective, continuous and guarantees the safe and stable operation of LCCU. At least once each calendar year (during LCCU's self-assessment, operational risk assessment in the internal audit or by the decision of the head of administration of LCCU), the LCCU Group's processes, the operations of the structural units, the products (services) are assessed and the emergence of any new events that may pose a significant operational risk to LCCU Group is identified.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023**

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NOTE 5. CAPITAL MANAGEMENT

LCCU's main objectives when managing capital are as follows:

- to ensure compliance with and control of prudential ratios;
- to ensure LCCU's ability to continue as a going concern – business stability guarantee;
- growing capital base enables LCCU to increase LCCU's assets and maximum exposure to a single borrower.

Three capital adequacy ratios are used: Tier I capital ratio, additional Tier I capital ratio, and the total capital ratio. The ratios are calculated under the requirements of the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation (CRR), which is directly applied. Credit, market, operational and currency risks are assessed when calculating capital adequacy. LCCU assesses credit risk using a standard risk assessment approach; market risk is assessed using a standard method; operational risk is measured using a basic indicator approach. Compliance with the capital adequacy ratio and the use of capital are monitored by LCCU's management on a daily basis. Information regarding the compliance with capital adequacy ratio and the use of capital is submitted to the supervising authority on a quarterly basis. LCCU has implemented the Internal Capital Adequacy Assessment Process (ICAAP). These requirements represent additional requirements (Tier II) supplementing general (Tier I) capital adequacy calculation requirements. Based on the ICAAP, LCCU performs a thorough analysis, which includes identification of risks, assessment of risk management and assessment of internal required capital.

LCCU's capital is divided into 2 tiers. Tier I capital includes equity, reserves and other ancillary capital and reserves, part of the revaluation reserve for financial assets and retained earnings and other comprehensive income. The following is deducted from Tier I capital: intangible assets, repayable member shares, losses of the previous periods, deferred tax asset, net negative change in expected credit losses in the year of the statement of comprehensive income. The Tier II capital consists of subordinated loans that meet the established requirements. Tier II capital may not exceed 1/3 of Tier I capital when calculating capital adequacy ratios. The capital is disclosed including current year profit.

Capital adequacy ratios as at 31 December 2023 and 2022 were as follows:

	2023	2022
Tier I capital		
Share capital	22,095	21,656
Part of revaluation reserve of financial assets	(879)	(1,727)
Reserves	2,859	1,220
Intangible assets	(331)	(367)
Retained earnings (deficit) of the previous reporting periods	-	-
Effect of insufficient non-performing loans coverage	(15)	(19)
Result for the reporting period	2,864	1,639
Deferred tax assets	(172)	(331)
Change in special provisions for loans through profit or loss	(1,398)	(1,120)
Total Tier I capital	25,023	20,951
Total Tier II capital	3,837	3,900
Total capital base	28,860	24,851
Required capital for credit risk, impairment risk of accounts receivable	90,431	86,238
Required capital for operational risk	13,894	10,474
Total required capital	104,325	96,712
Tier I capital adequacy ratio, %	23.99%	21.66%
Tier I and additional Tier I capital adequacy ratio, %	23.99%	21.66%
Total capital adequacy ratio, %	27.66%	25.70%

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The capital conservation buffer which came into effect on 30 June 2015 in Lithuania (2.5%) increased the Tier I common equity capital ratio from 4.5% to 7%, and the total capital ratio from 8% to 10.5%. As from 31 December 2018, the countercyclical capital buffer is valid in Lithuania, the amount of which depends on the value of available positions in Lithuania, assessed according to risk weights. The Bank of Lithuania, together with the European Central Bank (ECB), has announced a plan of measures in view of possible negative consequences of the COVID-19 pandemic on the financial market. As from 1 April 2020, the countercyclical capital buffer requirement was reduced to 0% in line with this plan. On 5 October 2022, the Board of the Bank of Lithuania decided to increase the countercyclical capital buffer rate to 1% from 1 October 2023, bringing it back to pre-pandemic levels. As at 31 December 2022, the countercyclical capital buffer requirement was waived, and, as at 31 December 2023, it was set at 1%

Taking into account the results of LCCU's supervisory review and assessment conducted by the Bank of Lithuania in 2021, the additional (Pillar II) capital adequacy ratio of 2.71% was set for LCCU in January 2023. Considering all the combined capital buffer requirements in force, LCCU had to comply with the following individual minimum own funds requirements on 31 December 2023: Tier I common equity capital ratio of 9.52%, Tier I capital ratio of 11.53% and total capital ratio of 14.21%. Additionally to minimum requirements, a supplementary Tier II capital requirement of 0.5% was also proposed in 2023. LCCU was in compliance with the capital adequacy ratio in 2023 and 2022.

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OTHER NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. NET INTEREST INCOME

	2023	2022
Interest income:		
for loans	2,246	1,321
for balances with central bank	566	88
On loans from other parties	5,975	3,537
On securities at fair value through other comprehensive income	160	175
On securities at amortized cost	788	379
Default interest income	49	123
Total interest income	9,784	5,623
Interest expenses:		
On deposits from credit institutions	1,162	334
On deposits from other financial institutions	344	159
Interest expenses on funds held in central bank	586	72
For subordinated loans received	313	145
For State capital assistance	279	256
For other loans and funds received	133	10
Total interest expenses	2,817	976
Net interest income	6,957	4,647

NOTE 7. NET FEE AND COMMISSION INCOME

	2023	2022
Fee and commission income from credit unions:		
On operations with payment cards	485	434
On money transfers	178	147
On utility bills	15	15
On guarantees provided	82	46
Total fee and commission income	760	642
Fee and commission expenses:		
On operations with payment cards	757	746
On money transfers	62	62
Charged by financial brokerage companies	61	58
Other fee and commission expenses	109	75
Total fee and commission expenses	989	941
Net fee and commission income (expenses)	(229)	(299)

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NOTE 8. OTHER INCOME

	2023	2022
Net gain on derecognition of financial assets	10	-
POCI revaluation income	287	522
Income from non-financial services rendered to credit unions	1,803	1,393
Other income	154	376
Total other income	2,254	2,291

LCCU also provides non-financial services (various hub services) to the credit unions, which are not part of LCCU's principal activities. These services are considered additional. Most income comes from services "i-Kubas" to LCCU members at amount of EUR 639 thousand (in 2022: EUR 587 thousand). A significant portion of other income in 2023 and 2022 consisted of the fee paid for the management of soft loans granted by Investicijų Garantijų Fondas UAB (INVEGA) through the measure Verslumo Skatinimas 2014–2020, financed by Europe's social fund.

NOTE 9. NET RESULT FROM SECURITIES TRANSACTIONS

	2023	2022
Realized gain on operations with securities at fair value through other comprehensive income	40	1
Realized loss on operations with securities at fair value through other comprehensive income	-	(79)
Realized gain on operations with securities at fair value through profit or loss	8	5
Unrealized gain on operations with securities at fair value through profit or loss	580	565
Unrealized loss on operations with securities at fair value through profit or loss	(87)	(58)
Net result from securities transactions	541	434

NOTE 10. LOANS AND OTHER ASSETS IMPAIRMENT (LOSS REVERSAL)

	2023	2022
(Impairment) reversal of impairment of loans and other receivables	(350)	(547)
Loans written off during the period	(1)	(1)
(Impairment) reversal of impairment of securities	(30)	4
(Impairment) of other assets	-	-
Impairment of loans and other assets	(381)	(544)

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NOTE 11. OTHER OPERATING EXPENSES

	2023	2022
Financial audit expenses*	73	53
Transportation, postal and communication expenses	88	89
Maintenance of IT equipment	174	120
Advertising and marketing expenses	211	126
Premises maintenance and utilities	70	81
Supervision fees paid to the Bank of Lithuania and European Central Bank and related expenses	69	53
Remuneration for attending meetings	152	99
Training expenses	136	81
Legal and consultation expenses	190	183
Membership fees	24	22
Rent of premises	2	-
Other expenses	630	460
Total	1,819	1,367

* of which, as at 31 December 2023, EUR 3 thousand were accrued expenses for translation services (as at 31 December 2022, EUR 3 thousand).

NOTE 12. INCOME TAX EXPENSES

	2023	2022
Current income tax	378	75
Adjustment of income tax of the previous period	(55)	(1)
Changes in deferred income tax	15	173
Total income tax expenses	338	247

Profit (loss) before tax	3,202	1,887
Income tax at a rate of 15%	480	283
Income tax calculated at an additional rate of 5%	69	-
Income tax on expenses not deductible for tax purposes	76	61
Adjustment of income tax of the previous period	(55)	(1)
Non-taxable income	(82)	(96)
Reduced income tax due to film tax incentive	(150)	-
Income tax (benefit)/expense	338	247

Movements in deferred tax asset (liability) account

Balance at the beginning of the year	331	184
Deferred tax (through other comprehensive income)	(144)	320
Expenses recognized in profit or loss	(15)	(173)
Balance at the year-end	172	331

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Deferred tax asset (liability)

	Value of securities	Accrued expenses and tax losses	Total
As at 1 January 2022	(12)	196	184
Income (expenses) through profit or loss	-	(173)	(173)
Deferred tax (through other comprehensive income)	320	-	320
As at 31 December 2022	308	23	331
Income (expenses) through profit or loss	-	(15)	(15)
Deferred tax (through other comprehensive income)	(144)	-	(144)
As at 31 December 2023	164	8	172

NOTE 13. CASH AND CASH EQUIVALENTS HELD IN CENTRAL BANK

Cash and cash at the Central Bank consists of credit union cash registers where members of LCCU held EUR 0 thousand as at 31 December 2023 (EUR 0,8 thousand as at 31 December 2022) and correspondent account with the Central Bank where, as at 31 December 2023, LCCU held EUR 14,269 thousand (EUR 25,436 thousand as at 31 December 2022). LCCU is obliged to keep and maintain compulsory reserves with the Bank of Lithuania; the amount of compulsory reserves as at 31 December 2023 amounted to EUR 182 thousand (as at 31 December 2022, EUR 92 thousand). The correspondent account in EUR bears 4% interest charged by the European Central Bank (2% as at 31 December 2022). The current and future funds held in the current accounts are related to INVEGA UAB or ŽŪPGF UAB measures, the balances which, as at 31 December 2023, were EUR 1,794 thousand and EUR 194 thousand, respectively (as at 31 December 2022, EUR 2,287 thousand and EUR 322 thousand, respectively) are pledged to INVEGA UAB and ŽŪPGF UAB for the purpose of securing repayment of the funds received, and these funds will have to be transferred to the aforementioned bodies to fulfil the contractual obligations (see also Note 20).

NOTE 14. LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

	2023	2022
Balances in correspondent accounts with banks	482	283
Loans to credit unions	89,424	70,049
Total	89,906	70,332

In 2023 and 2022, the effective interest rates on balances not exceeding EUR 1,000 thousand in correspondent accounts with the banks were 0%, and the effective interest rates on loans to credit unions varied from 2.14 % to 7.28 % in 2023 (from 1.63 % to 5.59 % in 2022). Information on impairment of receivables is disclosed in the significant accounting estimates and judgements of the Accounting Principles and in the Credit Risk section of Financial Risk Management.

NOTE 15. LOANS AND RECEIVABLES FROM OTHER PARTIES

	2023	2022
Loans to natural and legal persons	69,856	60,845
Total	69,856	60,845

Information on impairment of loans and receivables is disclosed in the significant accounting estimates and judgements of the Accounting Principles and in the Credit Risk section of Financial Risk Management.

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NOTE 16. SECURITIES

	2023	2022
Securities at fair value through comprehensive income	21,445	33,000
Securities at amortized cost	52,006	54,537
Securities at fair value through profit or loss	5,351	4,802
Total	78,802	92,339

Investment securities at fair value through other comprehensive income consist of investment securities of countries listed below:

	2023	2022
(Debt) securities of the Government of the Republic of Lithuania	14,932	17,300
(Debt) securities of the institutions of the Republic of Lithuania	1,539	1,164
Corporate (debt) securities of the Republic of Lithuania	930	2,544
Government (debt) securities of the EU countries	2,638	2,830
Corporate (debt) securities of the EU countries	510	6 359
(Debt) securities of the institutions of the EU countries	896	2,803
Total	21,445	33,000

Investment securities at amortized cost consist of investment securities of countries listed below:

	2023	2022
(Debt) securities of the Government of the Republic of Lithuania	38,306	40,395
Corporate (debt) securities of the Republic of Lithuania	3,307	3,295
(Debt) securities of the institutions of the Republic of Lithuania	1,957	1,898
Securities of the EU countries (debt)	4,947	4,955
Corporate (debt) securities of the EU countries	401	904
(Debt) securities of the institutions of the EU countries	3,088	3,090
Total	52,006	54,537

Securities at fair value through profit or loss consist of investment securities of the following countries:

	2023	2022
Government securities of the Republic of Lithuania (collective investment undertakings)	5,351	4,802
Total	5,351	4,802

The effective interest rates on securities vary from -0.39 % to 15.0 % (in 2022: from -0.39 % to 15.0%) and are fixed.

As at 31 December 2023, LCCU's pledged securities amounted to EUR 4,605 thousand (of which EUR 1,218 thousand were measured at fair value through other comprehensive income and EUR 3,387 thousand at amortized cost). These securities were pledged to the Central Bank of Lithuania as collateral for monetary policy operations. As a result of these ongoing monetary policy operations, the amount of the available but undrawn credit line amounted to EUR 4 million as at 31 December 2023. The unused credit line includes pledged securities with different enforcement periods as each of them has its own maturity date. As at 31 December 2022, LCCU's pledged securities amounted to EUR 11,562 thousand (of which EUR 7,667 thousand were measured at fair value through other comprehensive income and EUR 3,895 thousand at amortized cost). These securities were pledged to the Central Bank of Lithuania as collateral for monetary policy operations. As a result of these ongoing monetary policy operations, the amount of the available but undrawn credit line amounted to EUR 10 million as at 31 December 2022.

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NOTE 17. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Reporting year 2022	Computer hardware	Other equipment	Build- ings	Furni- ture	Cars	Right-of- use assets	Total
						Premises	
Net book value	56	21	924	113	61	7	1,182
Additions	29	9	-	13	-	-	51
Write-offs	(35)	(1)	-	(1)	-	-	(37)
Termination of contracts	-	-	-	-	-	-	-
Depreciation of as- sets written-off/dis- posed/terminated contracts	35	1	-	1	-	-	37
Depreciation charge	(39)	(8)	(36)	(24)	(17)	(4)	(128)
Net book value	46	22	888	102	44	3	1,105
As at 31 Decem- ber 2022							
Acquisition cost	511	40	1,203	144	101	16	2,015
Accumulated de- preciation	(465)	(18)	(315)	(42)	(57)	(13)	(910)
Net book value	46	22	888	102	44	3	1,105
Reporting year 2023							
Net book value	46	22	888	102	44	3	1,105
Additions	56	1	30	-	-	12	99
Write-offs	(10)	(3)	-	(2)	-	-	(15)
Termination of contracts	-	-	-	-	-	-	-
Depreciation of as- sets written-off/dis- posed/terminated contracts	10	3	-	2	-	-	15
Depreciation charge	(32)	(10)	(34)	(24)	(17)	(5)	(122)
Net book value	70	13	884	78	27	10	1,082
2023 As at 31 Decem- ber							
Acquisition cost	557	38	1,233	142	101	28	2,099
Accumulated de- preciation	(487)	(25)	(349)	(64)	(74)	(18)	(1,017)
Net book value	70	13	884	78	27	10	1,082

The depreciation charge of LCCU's property plant and equipment amounted to EUR 122 thousand in 2023 and EUR 128 thousand in 2022. The total amount was included in operating expenses. The part of LCCU's property plant and equipment with acquisition cost of EUR 450 thousand as at 31 December 2023 (EUR 415 thousand as at 31 December 2022) was fully amortized but still used in LCCU's activities.

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NOTE 18. INTANGIBLE ASSETS

	Software	LCCU's inter- nally developed software	Licenses	Total
As at 1 January 2022				
Acquisition cost	89	1,574	330	1,993
Accumulated amortisation	(43)	(1,247)	(326)	(1,616)
Net book value	46	327	4	377
Reporting year 2022				
Net book value	46	327	4	377
Additions	14	140	2	156
Amortisation charge	(21)	(143)	(2)	(166)
Net book value	39	324	4	367
As at 31 December 2022				
Acquisition cost	103	1,714	332	2 149
Accumulated amortisation	(64)	(1,390)	(328)	(1,782)
Net book value	39	324	4	367
Reporting year 2023				
Net book value	39	324	4	367
Additions	-	94	-	94
Amortisation charge	(26)	(102)	(2)	(130)
Net book value	13	316	2	331
As at 31 December 2023				
Acquisition cost	103	1,808	332	2,243
Accumulated amortisation	(90)	(1,492)	(330)	(1,912)
Net book value	13	316	2	331

LCCU is engaged in the development of computer software "i-Kubas". In 2023, employee remuneration expenses incurred in relation to the development of this computer software amounted to EUR 94 thousand (in 2022: EUR 140 thousand) and were recognised as intangible assets of LCCU. As at 31 December 2023, the net book amount of developed computer software brought into use was EUR 83 thousand and the net book amount of computer software not yet brought into use was EUR 11 thousand (as at 31 December 2022 – EUR 36 thousand and EUR 118 thousand, respectively). The amortisation charge of LCCU's intangible assets amounted to EUR 130 thousand in 2023 and EUR 166 thousand in 2022. All these costs were recorded in operating expenses. The part of LCCU's property plant and equipment with acquisition cost of EUR 1,699 thousand as at 31 December 2023 (EUR 1,360 thousand as at 31 December 2022) was fully amortized but still used in LCCU's activities.

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NOTE 19. OTHER ASSETS

	2023	2022
Current assets	49	37
Other receivables	310	371
Deferred expenses	164	204
Advance solidarity contribution	676	-
Reposessed assets	4	4
Other assets	5	-
Total	1,208	616

NOTE 20. AMOUNTS DUE TO CREDIT AND OTHER FINANCIAL INSTITUTIONS

	2023	2022
Deposits of credit and other financial institutions:		
Term deposits	128,521	98,312
Demand deposits	71,736	101,461
Funds received from credit and other financial institutions	15,496	16,539
Targeted funding from INVEGA and ŽŪPGF funds (a)	11,479	14,533
Other loans (b)	4,017	2,006
Total	215,753	216,312

Interest rates on term deposits from credit unions varied from 0.83% to 3.98% (in 2022: from 0.1% to 1.22%), interest rates on demand deposits were subject to 0% (in 2022: 0%).

Funds received from credit and other financial institutions

(a) Targeted funding from INVEGA and ŽŪPGF funds:

In October 2016, LCCU representing a consortium of credit unions with Investicijų Garantijų Fondas UAB (INVEGA), has signed an agreement on the implementation of the Financial Instrument Verslumo Skatinimas 2014–2020, financed by Europe's social fund. As at 31 December 2023, the carrying amount of loans received under this contract was EUR 7,489 thousand (EUR 12,056 thousand as at 31 December 2022).

In 2023 and 2022, LCCU took part in implementation off the financial measures aimed at facilitating conditions for the activities of the country's agricultural entities. As at 31 December 2023, LCCU received loans under the Joint Activity (Consortium) Agreements per financial measures:

- Financial measure implemented by Žemės Ūkio Paskolų Garantijos Fondas UAB "Provision of loans funded using funds reimbursed under the financial measures of the Lithuanian Rural Development Programme 2007–2013, giving priority to entities engaged in primary production". As at 31 December 2023, the book value of loans received under this measure was EUR 1,425 thousand (EUR 1,737 thousand as at 31 December 2022).
- Financial measure implemented by Žemės Ūkio Paskolų Garantijos Fondas UAB "Loans to entities affected by adverse climatic events". The book value of loans received under this measure was EUR 464 thousand (EUR 740 thousand as at 31 December 2022).

In 2023, while representing a consortium of credit unions, LCCU signed an agreement with INVEGA on the implementation of the financial instrument Open Credit Fund 3 (OCF3). As at 31 December 2023, the carrying amount of loans received under this agreement was EUR 2,100 thousand.

As at 31 December 2023, balances with the Central Bank of EUR 1,989 thousand (as at 31 December 2022, EUR 2,609 thousand) were related to the financing of Group members under the measures of INVEGA and ŽŪPGF, and these funds will have to be transferred to the aforementioned bodies to fulfil the contractual liabilities. Further information is provided for in Note 25.

(b) Other loans:

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In September 2023, LCCU received a EUR 2,000 thousand loan from the Council of Europe Development Bank, with maturity in 2029 and an interest rate set at 4.36% (in 2022, LCCU received a EUR 2,000 thousand loans, with maturity in 2028 and an interest rate set at 2.05%).

As at 31 December 2023, the loans received by LCCU as part of monetary policy operations of the Eurosystem had not been utilised, and the amount of available loan was EUR 3.8 million. As at 31 December 2022, the loans also had not been utilised, and the amount of available loan was EUR 10 million. This is a credit line provided by the Bank of Lithuania for pledged debt securities.

The remaining amount of loans received from credit and other financial institutions consisted of funds received but not yet repaid in accordance with those commitments.

NOTE 21. DEPOSITS FROM OTHER PARTIES

	2023	2022
Demand deposits from legal persons	36	76
Total	36	76

0% interest rates were applicable on demand deposits from legal persons in 2023 and 2022.

NOTE 22. LIQUIDITY FACILITY

	2023	2022
Liquidity facility at the beginning of the year	6,324	5,169
Increase/(decrease) over the year	506	1,155
Liquidity facility at the end of the year	6,830	6,324

LCCU members of the credit union must keep a certain percentage of funds from all term and demand deposits in the credit union in an account opened at LCCU. In 2023 and 2022, the balances maintained amounted to 1% of funds. Annual interest rate for liquidity reserve maintenance was not paid for credit unions in both 2023 and 2022.

At the end of each quarter, the amount of balance maintained by the credit union in the liquidity reserve is reviewed. Loans to maintain the liquidity of credit unions may be granted when the liquidity of a credit union becomes lower than the required liquidity rate and when the structure of assets and liabilities of a credit union for the future months demonstrates a certain imbalance, which could adversely affect the fulfilment of the obligations. The credit union may maintain higher balances than the established minimum amount in the liquidity reserve.

The balances with LCCU's liquidity facility of a credit union, which is cancelling its membership, or which is under liquidation or whose membership is terminated, are repaid to the credit union after fulfilling its obligations to LCCU.

NOTE 23. SUBORDINATED LOANS

From August 2020, LCCU has received two subordinated loans from international funds. Approved subordinated loans totalled EUR 3,949 thousand. The total amount of subordinated loans disbursed to LCCU by 31 December 2022 was EUR 3,936 thousand. The subordinated loan of EUR 900 thousand was disbursed in December 2022. In 2023, interest rates on subordinated loans varied from 8.13% to 8.65% (in 2022: from 5.86% to 7.18%).

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NOTE 24. OTHER LIABILITIES

	2023	2022
Financial liabilities:	803	1,097
Collected fees payable	16	20
Finance lease liabilities	10	3
Funds received – instant monitoring	388	684
Other liabilities	389	390
Non-financial liabilities:	783	719
Vacation pay accrual	451	315
Accrued expenses	276	360
VAT payable	56	44
Total	1,586	1,816

Collected fees payable represent amounts collected payable to suppliers of utility and other services. The funds received consist of payments suspended during the instant monitoring of transactions.

NOTE 25. CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

	Subordinated loans	Commitment to INVEGA UAB	Commitment to ŽŪPGF UAB	Other loans
As at 1 January 2022	3,014	13,627	2,949	-
Cash flow items				
Received	900	2,400	-	2,000
Repaid	-	(3,971)	(472)	-
Non-cash flow items	-	-	-	-
Interests accrued	22	-	-	6
Balance as at 31 December 2022	3,936	12,056	2,477	2,006
Cash flow items				
Received	-	2,100	-	2,000
Repaid	-	(4,565)	(589)	-
Non-cash flow items	-	-	-	-
Interests accrued	13	-	-	11
As at 31 December 2023	3,949	9,591	1,888	4,017

NOTE 26. CAPITAL AND RESERVES

Primary and additional member shares, reserve capital

The member share capital of LCCU amounted to EUR 22,095 thousand (in 2022: EUR 21,656 thousand). It consists of primary and additional member shares. Nominal value per primary membership share is EUR 1,000 and per additional membership share – EUR 300. All the member shares of LCCU have been paid. Each member of LCCU holding a primary member share has one vote irrespective of the amount of additional member shares paid in by that member. As at 31 December 2023, the number of primary member shares was 46 (as at 31 December 2022, 46).

No new mergers took place in 2023. In 2022, Rokiškis Credit Union joined Grinkiškis Credit Union. Upon successful establishment of mandatory credit union membership in central credit unions, Taupa Credit Union joined LCCU on 1 December 2022. On 6 January 2023, Vievio Taupa Credit Union changed its name to Elektrėnai Credit Union. On 27 April 2023, Pakruojis Farmers Credit Union was renamed to Pakruojis Credit Union. On 11 May 2023, Širvintai Credit Union was renamed to KB Pilies Credit Union.

In 2017, the State of Lithuania became a member and acquired (primary and additional) member shares of LCCU. The total value of contributed shares of the State of Lithuania is EUR 8,879,800, which contains: (a) EUR 1,000 of

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primary member shares; (b) EUR 8,878,800 of additional member shares. Regardless of the treatment of this member share contribution under IFRS, it means the participation of the State of Lithuania in the capital of LCCU and provides the State of Lithuania with 10% voting rights. The balance as at 31 December 2023 was EUR 6,579,400 (as at 31 December 2022, EUR 7,879,600).

On 15 October 2018, LCCU and representatives of the Ministry of Finances of the Republic of Lithuania signed an agreement on redemption of LCCU's member shares. Under this agreement, LCCU committed to redeem these member shares within 10 years' time frame (last purchase on 31 December 2027). Service costs (in %) are also set for the State capital and recognized in the statement of comprehensive income under the caption "Interest and related expense". Part of these costs are borne by credit unions. In 2023, the total amount of State aid servicing costs incurred was EUR 449 thousand (in 2022: EUR 406 thousand). Considering the amount reimbursed by the credit unions, LCCU accounted for EUR 279 thousand of State aid servicing costs in 2023 (EUR 256 thousand in 2022).

As at 31 December 2023, the number of additional member shares was 73,496 (in 2022: 72,031). Additional member shares were acquired by members of LCCU, and in 2023, LCCU repaid additional State owned member shares at amount of EUR 1,300 thousand (in 2022, LCCU repaid additional State owned member shares at amount of EUR 500 thousand).

The reserve capital is made up of additional contributions from members of the Central Credit Union. LCCU's reserve capital may only be used to cover the operating losses of LCCU by decision of the general meeting of LCCU. LCCU's legal reserve or reserve capital is made up of the central credit union's profit deductions. Following the General Meeting of Members, the result for the reporting period is allocated to the reserve (in 2023, the legal reserve established by LCCU was EUR 1,639 thousand).

Financial assets revaluation reserve is created when securities held by a central credit union at fair value through other comprehensive income are revalued. The increase in the price of energy resources due to the outbreak of Russia's military invasion in 2022 contributed to a higher inflation, which was controlled by raising interbank interest rates. This led to a decrease in the fair value of securities bearing lower interest rates, and a negative financial asset revaluation reserves was therefore created. In 2023, the interbank interest rates were further increased to contain inflation which continued to grow. However, the negative revaluation reserve on financial assets decreased due to the approaching maturity of securities acquired earlier and the increasing share of higher coupon securities.

A member of LCCU willing to terminate its membership with LCCU must submit a request to LCCU's Board at least two years before the intended termination. Upon termination of a member's membership with LCCU, the member will be refunded the amounts of member shares and other amounts related to its participation in the share capital of the LCCU only after assessing LCCU's financial condition and conclusion that such refunding will not jeopardise the stability and credibility of LCCU's operations. The value of redeemed member shares or part thereof are reduced proportionally by the amount of the accumulated losses incurred by LCCU in previous years and the operating result of the current year in which LCCU membership terminated. LCCU is required to notify immediately in written form the supervisory authority of its decision to make refund to a member that terminated its membership with LCCU and provide it with documents and data pertaining to the assessment of effects of such refund on the stability and credibility of LCCU's operations. The supervisory authority has a right to request LCCU in a written form to suspend the refund until the term indicated in the written request, which can be defined as a specific date or linked with occurrence (disappearance) of certain circumstances, provided there are grounds to conclude that such refund would jeopardise the stability and credibility of LCCU's operations.

Stabilization Fund

Stabilization Fund is a fund managed by LCCU to ensure the solvency of LCCU and its member credit unions and consists of LCCU and member credit unions' funds and other assets. Stabilization Fund is not a legal person, it is administrated by LCCU which acts on its behalf. Stabilization Fund has been separated from LCCU assets and its accounting is administrated separately.

If there are 10 or more member credit unions in LCCU, Stabilization Fund not later than in 10 years from the day LCCU received its license must contain the amount which is not less than 1% of LCCU's and its members' total assets.

The funds from Stabilization Fund are used in these forms: used to provide subordinated loans and non-refundable payments to credit unions, if they are included in credit union's reserve capital.

LCCU and its members have to make periodical and additional contributions to the Stabilization Fund. Additional contributions are made, if there are insufficient funds for predetermined payments from Stabilization fund. The size of periodical and annual contributions is calculated considering LCCU's and its members' assets and business risk. LCCU sets business risks criteria for LCCU and its members. Contributions of LCCU and its members to the Stabilization Fund are expenses of LCCU and its members. Periodical contributions are not refundable. If additionally

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collected funds to Stabilization Fund are lent and returned to the Stabilization Fund, additional contributions proportional to additionally paid contributions are repaid to LCCU and credit unions.

The size of periodical and additional contributions to the Stabilization Fund is determined by Stabilization Fund Commission. Contributions to the Stabilization Fund are calculated on the basis certain union assets and risk level (internal rating of the credit union), which varied from 0.16% to 0.32% of deposits of credit unions. Credit unions, which have received non-refundable payments from Fund, make 100% higher contributions to the Fund.

The loans to ensure the stability and continuity of credit unions' activities can be granted in accordance with the conditions of the LCCU's Procedure for the Formation and Utilization of the Stabilization Fund. The decision on usage of resources of the Stabilization Fund and the method thereof is passed by the Stabilization Fund Commission.

As at 31 December 2023, net assets of the Stabilization Fund amounted to EUR 9,029 thousand (EUR 6,985 thousand as at 31 December 2022).

NOTE 27. RELATED PARTIES

LCCU's related parties are considered credit unions – members of LCCU, the Board and the Supervisory Council of LCCU, the Stabilization Fund Commission, and LCCU's management. In 2023 and 2022, 2 members were assigned to the management of LCCU:

	2023	2022
Management remuneration and related social security contributions	204	166
Management vacation accrual and related social security contributions	84	69
Total:	288	235
Management remuneration and social security contributions paid	204	166
Outstanding balance of liabilities to management	84	69
Balances of loans granted to management, including accrued interest	448	481

The details of related-party transactions are given in the following notes to these financial statements:

Note 6 – interest on loans granted, other interest, deposits accepted and funds contributed to the liquidity facility;

Note 7 – commission income;

Note 8 – other income;

Note 14 – loans granted;

Note 20 – deposits accepted;

Note 22 – contributions to liquidity facility;

Note 26 – share capital, reserves and contributions to the Stabilization Fund.

Loans granted to/repaid by related parties and deposits accepted from/repaid to related parties (balances at 31 December or income/expenses during the year):

	2023	2022
Loans granted to related parties – credit unions	88,794	69,216
Term deposits accepted from related parties – credit unions	92,740	75,500
Demand deposits accepted from related parties – credit unions	71,396	97,797
Contributions to liquidity facility accepted from related parties – credit unions	6,830	6,324
Interest income from related parties – credit unions	2,246	1,322
Interest paid to related parties – credit unions	-	-
Other income from related parties – credit unions	2,375	1,873

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NOTE 28. COMPLIANCE WITH LAWS

In accordance with the requirements of the Bank of Lithuania, LCCU is required to comply with the ratios set for its capital adequacy, maximum exposure amount to a single borrower, large exposures and open foreign currency position. As at 31 December 2023 and 2022, LCCU complied with all the requirements.

NOTE 29. OFF-BALANCE SHEET COMMITMENTS

The Tax Authorities may at any time during three successive years after the end of the reporting tax year carry out the inspection of accounting records and impose additional taxes or fines. LCCU's management is not aware of any circumstances that might result in a potential material liability in this respect.

As at 31 December 2023, the amount of loans granted but not yet disbursed by the decision of LCCU's Board was EUR 11,738 thousand (as at 31 December 2022, EUR 11,502 thousand). As at 31 December 2023, LCCU's guarantees, i.e. the guarantees issued by LCCU to credit unions for loans to their members, totalled EUR 3,597 thousand (in 2022: EUR 1,630 thousand). As at 31 December 2023, LCCU had issued EUR 15 million of loans to finance those affected by the COVID-19 pandemic through the measures of INVEGA UAB and ŽŪPGF (EUR 31 million of loans as at 31 December 2022), including related funds of EUR 2,740 thousand repaid by the customers (As at 31 December 2022, EUR 3,566 thousand). As at 31 December 2023, LCCU had issued EUR 18 million of new loans to finance those affected by the war through the measures of ŽŪPGF (as at 31 December 2022, EUR 7 million), including related funds of EUR 440 thousand repaid by the customers (as at 31 December 2022, EUR 8 thousand). These LCCU's loans are considered credit risk-free, therefore these loans and related funds are not recognised in the statement of financial position of LCCU.

NOTE 30. EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

On 27 March 2024, the Company signed a subordinated loan agreement for EUR 3,500 thousand, which is likely to be repaid in early May 2024. There were no other events, which could have a significant effect on these financial statements.