Q3 2018 overview of banking sector

Sixteen credit institutions operated on the Estonian market as at Q3 2018, eight of which were branches of foreign credit institutions.

Key indicators	Q2 2018
Annual increase in loan balance	6,6%
Annual increase in deposit balance	7,2%
Loan-to-deposit ratio	105%
Long-term overdues as % of credit portfolio	0,69%
Liquidity coverage ratio	166%
Profit	87 mln €
Cost and income ratio	46%
Return on equity	10%
Return on assets	1,4%
Tier 1 Common Equity ratio	30,7%

The annual increase in the loan portfolio of the banks operating in Estonia slowed down in Q3 2018, from 6.6% in Q2 to 5%. The loan portfolio of private persons decreased from 6.5% to 5.7%. This was partly connected to the smaller growth of home loans, as well as to the deceleration of the loans taken to purchase goods or services. The growth in loans issued to corporations decreased from 6.1% in Q2 to 4.3%.

The annual increase in deposits dropped in the end of Q3 from 7.2% in Q2 to 3.6%. As the growth in loans exceeded the growth in deposits, the loan-to-deposit ratio of banks improved from 105% to 108%.

The loan quality of the Estonian banking sector was good. The share of long-term overdue loans (over 90 days) in the loan portfolio of banks continued to drop in Q3 and reached 0.64% in the end of the quarter. The share of problematic loans in the entire loan portfolio dropped to 1.6%.

The liquidity of the banking sector remained strong. The amount of liquid assets suitable for complying with the required liquidity coverage ratio increased by 5% in Q3, primarily based on the assets deposited in the Bank of Estonia. Banks met the liquidity coverage ration requirement with a buffer, with the average figure of the sector of 162%. In addition to the resources intended for complying with the liquidity coverage ratio requirement, banks also held other liquid assets (deposits in credit institutions) with which the share liquid assets formed 20% of all assets.

Banks and branches earned 73 million euros of profit in Q3, i.e. 16% less than in Q2. The decrease in profit in Q3 was caused by the cancellation of marking down of loans in Q2, as well as other extraordinary revenues which were not earned in Q3.

The annual return on equity of banks was 9.6% in the end of Q3. The average return on equity in the European Union as at the end of Q2 was 7.2%.

The consolidated Common Equity Tier 1 (CET1) of banks remained at 30.7% in Q3. This means that the equity of banks increased at the same pace with the growth in risk-adjusted assets.

Main developments and risks

- The financial situation of the banking sector remained strong. The banks operating in Estonia were liquid and the liquidity buffer is larger than required.
- The growth in loans issued to corporations as well as to private persons decelerated in Q3, the banks here have not relaxed the conditions for granting loans. The credit demand of private persons and corporations has, however, increased.
- In spite of a slight drop in Q3, the profitability of banks remains good.
- The share of long-term overdue loans (over 90 days) of banks remains under 1% and continues to decline. Long-term default interest is fully covered with write-downs.
- The Swedish real estate sector should continue to be monitored, as the realisation of the risks thereof may have an impact on the Estonian banking sector.

Quarterly reviews of the banking sector

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