Q3 2019 overview of banking sector

The yearly growth in loans was 7.1% at the end of the third quarter. The volume of loans to non-financial companies was down 1% over the year and fell further in the third quarter. The growth in loans to private individuals increased to 6.7% as growth accelerated in housing loans.

The yearly growth in deposits rose to 12.4% at the end of the third quarter. As deposits grew faster than loans did, the loan-to-deposit ratio fell to 103%.

Key indicators	Q2 2019	Change	Q3 2019
Yearly growth in the loan stock	7,2%	?	7,1%
Yearly growth in the stock of deposits	5,8%	?	12%
Loan-to-deposit ratio	107%	?	103%
Share of long-term overdue loans in the portfolio	0,85%	?	0,84%
Liquidity coverage ratio	143%	?	150%
Profit	120 million euros	?	78 million euros
Ratio of expenses to income	48%	?	50%
Return on equity	10,5%	?	9,8%
Return on assets	1,39%	?	1,18%
Core Equity Tier 1 ratio	26,5%	?	25,4%

The share of loans overdue more than 90 days did not change substantially over the quarter, and was 0.84% by the end of the third quarter. Provisions have exceeded long-term overdue loans for more than two years, and this upwards trend continues..

The liquidity position of the banks remains strong. All the banks met the Liquidity Coverage Ratio (LCR) with sufficient margin, and the average indicator for the sector was one and a half times more than the minimum at the end of the third quarter. Capital adequacy indicators fell at the consolidated level by one percentage point in the third quarter and the CET1 ratio stood at 25.4%. The fall in capitalisation was caused by Luminor reducing its equity in advance of the Blackstone transaction.

The banking sector earned an unconsolidated, or individual-level, 78 million euros in profit in the third quarter, meaning profit was down by more than 40 million euros over the quarter. The return on equity over the year for the banks was 9.8% at the end of the third quarter, having fallen by 0.7 percentage point over the quarter. The return on assets of the banks was 1.18% in the third quarter, and was also down.

The profitability of the Estonian banks is approaching the average for the European Union

The return on equity of the banks operating in Estonia has been moving towards the European Union average in recent years. A large part of the difference in the returns between Estonia and the European Union average can be explained by the declining profitability of the Estonian banking sector in recent years. Another cause has been the rise in income tax expenses in Estonia. In 2016 the banks paid 6% of their pre-tax profits as income tax, but in 2018 income tax took 20% of pre-tax profits.

Main development trends and risks

- The Estonian banking sector is in good health as the banks are well capitalised and their loan quality is good. The banks operating in Estonia are highly profitable in international comparison.
- If growth should slow in the Estonian economy, the ability of clients to service their loans may weaken and the loan losses of the banks may increase.
- The cross-border merger of Luminor has made risks in the Latvian and Lithuanian economic environments more significant for Estonia.
- Lending continues to grow rapidly at small banks.
- Systemically important banks and small banks have both issued securities that are publicly listed. Public listing broadens access to capital and funding, but at the same time makes the banks more vulnerable to changes in the external environment, and to the stances and opinions of investors.
- The Swedish central bank considers that the structural risks to financial stability in Sweden have not diminished. Swedish households continue to have very large debt burdens and the market is concentrated in the hands of just a few banks. The money laundering incidents that have been publicly revealed may have a negative impact on the funding options for parent banks. If the risks to the Swedish banks were to materialise, it could have a negative impact on the liquidity of their subsidiaries.

Quarterly reviews of the banking sector

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