Q1 2020 overview of banking sector

The yearly rate of growth in the lending of the banking sector was 0.9% in the first quarter over the same quarter of last year. This rate of growth includes the Latvian and Lithuanian branches of Luminor, without which the growth in the loan stock would have been 5.7%. The loan stock of the Estonian banking sector grew by 0.5% over the fourth quarter of last year. The growth was driven by households, which continued to show great interest in housing loans. The loan stock of non-financial companies, including state-owned companies, grew by 1% over the year, the amount borrowed by state-owned companies growing by 21%. The loan stock of privately-owned companies meanwhile was 0.5% smaller than in the same quarter of the previous year.

Key indicators	Q4 2019	Change	Q1 2020
Yearly growth in the loan stock	7,3%	?	0,9%*
Yearly growth in the stock of deposits	12%	?	12%
Loan-to-deposit ratio	101%	?	97%
Share of long-term overdue loans in the portfolio	0,75%	?	0,80%
Liquidity coverage ratio	146%	?	144%
Profit	75 mln €	?	109 mln €
Ratio of expenses to income	54%	?	52%
Return on equity	7,7%	?	9,2%
Return on assets	0,96%	?	1,14%
Core Equity Tier 1 ratio	25,7%	?	26,3%

* Includes the branches of Luminor; for comparison with the previous quarter, the yearly growth in the loan stock without the Luminor branches was 5.7%

The rapid growth in deposits continued in the first quarter. Deposits grew by 12% over the same quarter of last year and by 1% over the fourth quarter. Faster growth in deposits than in loans brought the loan-to-deposit ratio down from 101% in the previous quarter to 97%, which is the lowest figure seen since 2002.

The share of non-performing loans at the consolidated level was similar to what it was in the fourth quarter of last year at 1.6% of all loans. The banks that are focused on consumer loans to private individuals stood out for having the largest share of non-performing loans in their loan portfolio. A deterioration was apparent in the quality of loans overdue for more than 90 days, as such loans made up 0.8% of the loan stock of the banking sector by the end of the first quarter. The figure for the end of the fourth quarter was 0.75%. Equally though, the share of long-term overdue loans was still lower at the end of the first quarter than it was a year earlier, when it was 0.93%.

The Covid-19 crisis did not substantially affect the Estonian banking sector in the first quarter, and the liquidity of the banks remained good. All the banks met the Liquidity Coverage Ratio (LCR) with sufficient margin, and the average LCR indicator for the sector was 1.4 times the minimum.

The banking sector earned net profit of 109 million euros on an individual basis in the first quarter, which was 35 million euros more than in the previous quarter and 24 million euros more than a year previously. The banking sector mainly earned its increased income from dividends and from reductions in interest expenses and service fee expenses.

The share of housing loans in the assets of the banks in Estonia is double the share at banks in the European Union as a whole.

The differences that stand out most between the structures of the assets of the Estonian and European Union banking sectors are their shares of housing loans and tradable assets, as is shown in data from the European Central Bank. Data for 2019 show that housing loans made up 29% of the assets of the Estonian banking sector and 15% of the assets in the European Union. At the same time, tradable assets and derivatives totalled 18% of the assets of banks in the European Union but only 0.4% on average of the assets of Estonian banks. This means the Estonian banks are taking more credit risk and the European Union banks are taking more financial market risk. The shares of cash and claims on the central bank are also notably different as they average 16% for Estonian banks and 7% for European Union banks, indicating the assets of the Estonian banking sector have a lower risk level than those of banks in the European Union as a whole.

Main development trends and risks

- The Covid-19 crisis did not particularly affect the indicators for the Estonian banking sector in the first quarter of 2020.
- Growth in lending slowed, but interest from households in housing loans and consumer loans remained relatively high in the first three months of the year. The rapid growth in loans affected the smaller banks most of all.
- The risks for all loan types come primarily from the economic environment, which has deteriorated this year because of the Covid-19 crisis.
- The credit quality of the banks remains good as the share of bank loans overdue more than 90 days was only a little higher at end of the first quarter than three months earlier having climbed from 0.75% to 0.8%, and it remained below where it was a year earlier.
- The share of long-term overdue loans may rise in the coming year because of the general deterioration in the economic environment and because payment holidays and state support measures will end. Long-term overdue loans continued to be covered by write-downs at the end of the first quarter.
- The banks have liquidity and were working to increase that liquidity at the end of the first

quarter.

- The profitability of the banks was good with ROE of 9.2%, which exceeded the average figure for ROE in the European Union of around 6%. ROE shows how much the banks earn as net profit in comparison to equity. Profitability was given strong support in the first quarter by extraordinary dividend income.
- The capital adequacy figures of the banks strengthened. Strong capitalisation helps them to cope successfully with a possible increase in credit losses caused by the crisis.

Quarterly reviews of the banking sector

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