Q1 2021 overview of the banking sector

Growth in the Estonian economy was unexpectedly high in the first quarter of 2021 at 5.4%. The pandemic means that risks in the economy, including in banking, remain high, especially in certain sectors. The share of loans with a payment holiday in the loan portfolio fell from 2.5% at the end of last year to 2.1% by the end of March. The share of corporate loans with a payment holiday in the corporate loan portfolio was 2.6% in the first quarter of 2021, while the figure for loans to households was 1.7%.

Key indicators	Q4 2020	Change	Q1 2021
Yearly growth in the loan stock	2.3%	?	2.8%
Yearly growth in the stock of deposits	20.3%	?	21.6%
Loan-to-deposit ratio	83%	?	82%
Share of long-term overdue loans in the portfolio	0.59%	?	0.60%
Liquidity coverage ratio	180%	?	183%
Net profit	113 million €	?	117 million €
Ratio of expenses to income	47.9%	?	48.2%
Return on equity	8.8%	?	9.6%
Return on assets	1.00%	?	1.08%
Core Equity Tier 1 ratio	26.3%	?	26.5%

At the end of 2020, the extraordinary weekly reporting by the banks put overdue loans at 2.5% of the portfolio of household and corporate loans, but at the end of March 2021 this was down to 1.9%. Restructured loans were 3.2% of the portfolio at the end of last year and 2.9% in March. The share of non-performing loans in the banking sector was 1.8% at the end of the first quarter. Data for the first three months indicate though that while the share of non-performing corporate loans increased from 1.9% at the end of last year to 2.1% in the first quarter, the figure for households fell from 1.6% to 1.4%.

The modest growth in the loan stock in the second half of last year following the small decline in the second quarter picked up a little further in the first quarter of 2021. The increase in the loan portfolio of the banking sector by the end of March from a year previously was 2.8%, taking it to 28.53 billion euros, and the increase in 2020 was 2.3%. The growth last year in loan volumes was led above all by private individuals, but the growth in the loan stock to local governments also made a major contribution. The decline over the year in the loan stock to state-owned companies meant the portfolio to non-financial companies declined a little, but in the first three months of 2021 there were encouraging signs in this area. The portfolio of loans to non-financial companies grew by 1% over the previous quarter, so making a substantial contribution to the growth in the loan stock of the whole sector. The quarterly growth came mainly from the construction, real estate and transport sectors.

The share of the loan stock overdue by more than 90 days remained at 0.6% at the end of March. A year earlier it was 0.8%. Write-downs were 1.38 times as much in value as loans overdue more than 90 days at the end of the first quarter, having been 1.44 times as much three months earlier.

The general picture for the quality of loans remains good. A major part in this has certainly been played by payment holidays and other support measures. The increase in certain risks has been indicated in previous quarters by the growth in the share of non-performing consumer loans and this year by the slow growth in the share of non-performing corporate loans and by the volume of corporate loans with payment holidays ceasing its fall or even increasing in May.

Deposits continued to grow rapidly in the first quarter of the year as they had in the preceding quarters, growing by 22% over the year and 2.1% over the quarter to reach 34.9 billion euros. Some calming was evident in the first quarter as smaller amounts of deposits were added than in the previous three quarters on average. The deposits of households, companies, financial institutions and the state have all grown over the year.

The rapid growth in deposits pushed the loan-to-deposit ratio down by one percentage point to 82% from 83% in the third quarter of 2020. The liquid assets of the banking sector shown by the liquidity coverage ratio (LCR) also continued to grow slowly, increasing by 6.1% in the first three months of the year to 12.6 billion euros. The ratio of liquid assets to total assets in the sector rose in consequence from 27.2% in the previous quarter to 28.1%, and the LCR rose from 180% to 183%. All the banks continued to meet the liquidity coverage requirement of an LCR of 100%. Alongside the funds dedicated for meeting the liquidity coverage ratio, the banks have other liquid assets, notably deposits in credit institutions, and including these, liquid assets increased by the end of March to 35.3% from 34.0% three months earlier.

The banking sector earned net profit of 117 million euros on an individual basis in the third quarter, which was 7.2 million euros more than in the same quarter of the previous year. Despite the reduced revenues and increased operating expenditures, the net profit of the banking sector was given a substantial boost by smaller credit losses of 15 million euros in the first quarter of 2021, down from 40 million euros in the first quarter of 2020. The return on equity of the sector reached 9.6% in the first quarter having been 8.8% in 2020. The expenses-to-income ratio remained at the same level as in the previous quarter at 48%. The CET1 ratio at the consolidated level was 0.06 percentage point higher than at the end of December at 27.1%, having been 26.3% a year earlier. The capital adequacy ratio increased by 0.13 percentage point over the quarter to 28.0%.

Main development trends and risks

- The loan quality the banking sector remained good in the first quarter of 2021. However, the good results in the first quarter and last year were achieved partly because of various support measures.

- The share of non-performing loans and long-term overdue loans remained at the same level in the first quarter of 2021 as it was at the end of 2020, but the share of non-performing corporate loans and of stage 2 loans increased. Non-performing loans increased as a share not only in the accommodation and food service and entertainment sectors that were hit hardest by the pandemic, but also in the transport and real estate sectors.

- After the initial impact of the pandemic, the growth in the loan stock of the banking sector has picked up. It grew by 2.8% in the first quarter over the same quarter of the previous year.

- The liquidity risks in the Estonian banking sector at the end of the first quarter of 2020 may be considered low.

- The profitability of the banks in Estonia is high. Despite the success of vaccination however, the economic risks from the pandemic have not yet disappeared.

- Its strong capitalisation would help the Estonian banking sector to cope successfully with possible credit losses, and so reduces the risks to capital.

Quarterly reviews of the banking sector

Page last edited on 26/08/2021