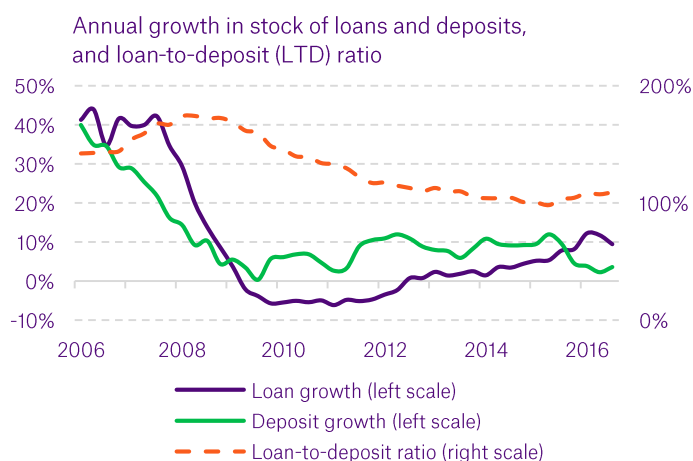


Banking sector overview for the 3rd quarter of 2016

	Q2 2016	Q3 2016
• Annual growth in stock of loans	11.7%	↓ 9.4%
• Annual growth in stock of deposits	2.2%	↑ 3.6%
• Loan-to-deposit (LTD) ratio	107%	↑ 109%
• Share of long-term overdue loans in loan portfolio	1.3%	1.3%
• Liquidity coverage ratio (LCR)	232%	↓ 211%
• Profit	90	↓ 81 million euros
• Cost-to-income ratio	48.0%	↑ 48.3%
• Return on equity	12%	12%
• Common Equity Tier (CET) 1 capital ratio	31.5%	↓ 31.3%

The annual growth in loan portfolio of banks operating in Estonia slowed somewhat in Q3, from 11.7% to 9.4%. The stock of loans granted to corporations grew 14%, mostly on account of financial corporations as several banks gave extraordinary loans inside their group. Excluding those transactions, the overall loan growth would have been 6.7%. The growth in stock of loans granted to non-financial corporations slowed from 8.2% to 7.2%. The growth in households' loan portfolio, however, fastened – from 4.4% to 4.6% –, including housing loans from 4.5% to 4.8%.



The annual growth in stock of deposits increased from 2.2% to 3.6% in Q3. The LTD ratio has risen a bit, from 107% in Q2 to 109%. In annual comparison, however, this ratio has increased noticeably, mostly on account of branches, while for local banks it has remained below 100%.

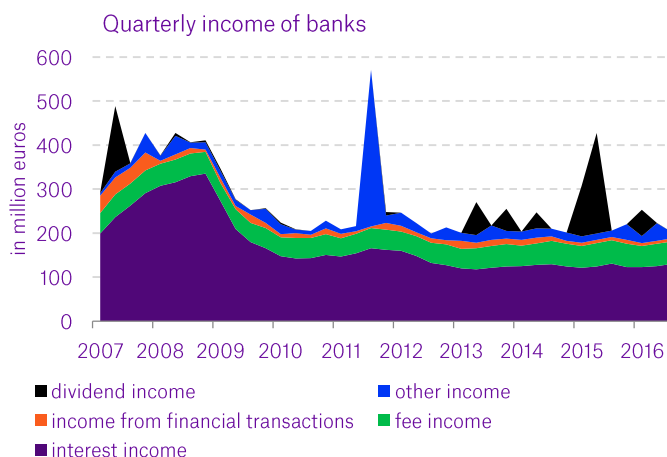
The quality of loans issued by banks remained good in Q3: the share of overdue loans in the loan portfolio stood unchanged at 3.7%. The volume of loans in overdue up to 10 days increased, and those in longer overdue decreased. Loans in long-term overdue, i.e. for more than 90 days, made up 1.3% of the loan portfolio. 1.8% of loans issued to corporations and 1.4% of those issued to households were in long-term overdue.

The liquidity position of banks is strong and has improved even further. The share of liquid assets which qualify for the LCR requirement rose to 19.8% of own funds in Q3. Banks have additionally other liquid assets worth 7.7% of their funds. All banks met the LCR of 100% with sufficient margin: the average indicator for the whole sector is more than twice as high (211%).

The resource of banks increased 1.4% in Q3 and reached 20.8 billion euros. The volume of deposits of credit institutions and central government has risen the most. The share of resources from foreign banks remained at 21%. The volume of deposits with maturity up to 6 months decreased, while those with longer maturities increased. The share of demand deposits in the total resource has remained steadily a little above 60% since the start of 2015, reaching 62.6% at the end of Q3 2016.

Finantsinspektsioon

Banks and branches operating in Estonia earned a profit of 81 million euros in Q3, a fall of 9% compared to Q2. Income in the banking sector was 10% smaller. Other income has fallen the most, because several banks' business transactions in Q2 temporarily raised other income and resulted in an unexpected profit for the banks. Excluding those transactions, the profit in Q3 would have been 23% bigger than in Q2. Within the main income categories, interest income rose 3.5% and fee income 0.4% during Q3. The cost-to-income ratio has increase a bit, to 48.3%.



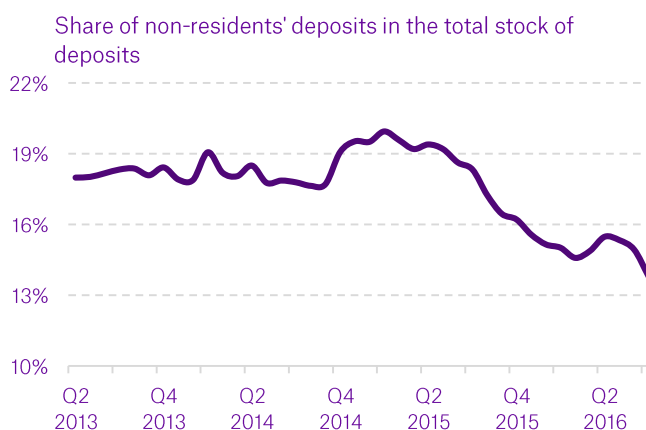
The return on equity of banks stood unchanged at 12% in Q3. This figure is approximately two times higher than the EU banks' average that was 5.7% in Q2, according to EBA.

Prudential standards of the banks were continuously high in Q3. CET 1 capital ratio reached 31.3% and capital adequacy 31.8%. These figures were 34.9% and 35.5% on the consolidated basis. Thus banks have sufficient reserves to cover possible unexpected losses.

Main developments and risks

- There were as many loss events of banks concerning business disruptions and system failures during the first three quarters of 2016 as a year before. As a result of supervisory activities the quality of reporting on incidents concerning disruptions and failures has improved for some banks. Thus the number of incidents has increased. However, the duration of incidents has declined in 2016: there have been fewer long-term incidents with recovery time up to several hours.

- The share of non-residents' deposits declined notably in 3Q, from 15.5% to 13.8%. Both offshore as well as other foreign area deposits declined. As non-residents' deposits tend to be very volatile, this development increases the stability of banks' resources and lowers liquidity risk. The outflow of non-residents' deposits has impacted the overall deposit growth that has been slower than before during the last year.



- Despite negative Euribor rates the banks have managed to increase interest income and hold profitability, mostly on the account of fast loan growth and management measures being taken. As the net interest income is increasing at a slower pace than the stock of loan portfolio, the net interest margin has declined.

- The main risk to the Estonian banking sector comes from the external environment, mostly from the fast growth of loan stock and real estate prices in the Nordic countries. Swedish banking groups make up an important share of the local banking market. If the risks in the Swedish market should realise, then its impact would carry over to the Estonian banking market. This risk is lowered by the large fund reserves owned by the banks.