
Q3 2020 overview of investment firm sector

Five investment firms operate in the market under authorisations issued by Finantsinspektsioon. There are no branches of foreign investment firms operating in the market for investment firms in Estonia.

The assets of the investment firm sector continued to grow relatively quickly from profits. The volume of assets increased by 5% in the third quarter to pass 100 million euros.

Key indicators	Q2 2020	Change	Q3 2020
Value of client assets	371 mln €	?	374 mln €
Value of assets of investment firms	96 mln €	?	101 mln €
Profit/loss	5 mln €	?	5.4 mln €
Gross income	20 mln €	?	21 mln €
Return on equity (cumulative, annualised)	57.9%	?	47.0%
CET1 ratio, consolidated	28.71%	?	29.28%

Of the assets of investment firms, 41% were deposits in banks and financial institutions. Securities investments accounted for 18% of assets, with 12% of the assets in bonds held for liquidity purposes, while 5% were invested in subsidiaries and associated enterprises. Loans issued to clients were 28% of assets, and this did not change over the quarter.

Investment firms cover 80% of their financing from equity. Loan liabilities to financing institutions accounted for 10% of the balance sheet, and these are mainly short-term liabilities in the form of overdrafts from US and Russian financial institutions.

Investment firms had client assets of 374 million euros under management. The volume of client assets did not change particularly over the quarter. At 79%, the largest part of these assets was again assets of residents of Russia. The assets of Estonian clients were in second place by volume at 6%.

Investment firms earned 21 million euros in gross revenue in the third quarter, which is the same amount as in the previous quarter. Investment firms earned twice as much income in the first nine months of the year as in the same period last year. The income base increased because they earned substantially more income from trading in 2020. Income earned from trading with instruments assessed at fair value is the main source of income for the sector, providing 84% of total revenues. Investment firms earned 5 million euros in profit in the third quarter, which is about the same amount as in the previous quarter. The annualised return on equity of investment firms for the first nine months of the year was 47%, which represents very high profitability.

Main development trends and risks

- The income base and profitability of the sector remain at high levels. The results were better than they were last year.
- The balance sheets of investment firms are liquid, as more than half of the assets on them are highly liquid.
- Investment firms have very large market risk exposures, which allowed them to earn large profits from the volatility in the market caused by the Covid-19 crisis.
- The capitalisation of investment firms is sufficient to cover their risks.
- The sector operates mainly cross-border, and in consequence holds large amounts of non-resident funds.

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