

Q1 2020 overview of investment firm sector

Five investment firms operate in the market. The value of the assets of investment firms increased by 26% during the second quarter to 90 million euros. The growth in assets was related to the extraordinary large quarterly profit of 14 million euros. The funds received as profit were mainly invested in deposits in credit and financial institutions in the USA, the United Kingdom and Estonia. Some of the profit earned had not yet been received at the end of the quarter, and so claims outstanding for services provided accounting for 5% of total assets were carried over. Deposits made up 49% of the assets of the sector and bonds 15% of the assets, meaning 64% of the assets of investment firms were invested in liquid assets.

Key indicators	Q4 2019	Change	Q1 2020
Value of client assets	331 mln €	?	301 mln €
Value of assets of investment firms	72 mln €	?	90 mln €
Profit/loss	0,5 mln €	?	14 mln €
Gross income	10,9 mln €	?	25,7 mln €
Return on equity (cumulative, annualised)	10,9 %	?	89,8 %
CET1 ratio, consolidated	25,98 %	?	35,89 %

The client assets of investment firms continued to decline and stood at 301 million euros at the end of the first quarter. Client assets declined by 12% in volume over the quarter and by 53% in total over the year. The decline came in the assets of residents of Russia and Latvia.

The investment firm sector maintains large market risk exposures that totalled 67 million euros, or 110% of the own funds of the sector. The investment firm sector earned record profit of 14 million euros in the first quarter. The annualised return on equity of the sector was 90% in the first quarter. The extraordinarily large profit came from trading income of 24 million euros from instruments recorded at fair value. For comparison, the total trading income of the sector in 2019 was 35 million euros. Trading income grew in the first quarter because clients were more active in trading in response to the increased volatility in financial markets caused by Covid-19. Income was largely earned on the spreads of buy and sell rates.

Main development trends and risks

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- The investment firm sector earned a large profit because of increased client trading activity in response to the Covid-19 crisis.
 - Investment firms made a profit of 14 million euros in the first quarter and the return on equity rose to 90%.
 - The market risk exposures of the sector have shrunk sharply.
 - The assets of non-resident clients continue to decline rapidly.

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Page last edited on 06/08/2020