
Q3 2021 overview of investment fund sector

At the end of the third quarter there were six participants in the Estonian investment firm market. The total value of assets of the investment firms was 99 million euros.

Key indicators	Q2 2021	Change	Q3 2021
Value of client assets	507 mln €	?	485 mln €
Value of assets of investment firms	99 mln €	?	99 mln €
Profit/loss	-0,04 mln €	?	-0,9 mln €
Net income	5,8 mln €	?	7,3 mln €
Return on equity (cumulative, annualised)	-0,2%	?	-0,1%

Investments in bonds declined as a share of the assets of the sector over the quarter, falling from 14% to 8%. This is most probably because of changes introduced to liquidity risk regulation that allowed investment firms to cover their mandatory liquidity requirements from deposits in credit institutions, which was earlier not possible. This created a cheaper alternative to bond investments.

The share of short-term deposits in the assets of the sector fell over the quarter from 29% to 25%. Even so, a large share of assets were liquid. Liquid assets together with bonds accounted for 33% of the total assets of the sector. Loans from investment firms to clients increased from 37% to 42%, with the main growth in loans to private individuals. Investment firms generally issue loans to clients in connection with the provision of investment services. The loans are short-term and are backed by all of the assets that the client deposits with the investment firm. The short maturities and good collateral mean that the credit risk of loans from investment firms is relatively low.

Client assets managed by investment firms declined by 4% in the third quarter to 485 million euros. The biggest fall was in equities. Equity investment accounted for 66% of client assets, bond investment for 21%, and cash funds for 7%. Equities issued in Estonia as a share of assets was 9%, and Estonian bonds were 4%.

The own funds of the sector were 3.5 times the Pillar 1 capital requirements in the third quarter. Companies in the sector on average met the liquidity requirement 11 times over.

Investment firms earned 7 million euros in net revenue in the quarter, which is 1.5 million euros more than in the previous quarter. Of this, 72% was revenue from the trading portfolio in the profit from repricing of instruments, and 8% was interest income. Service fees for exchanging securities provided 3% of revenues in the third quarter, and fees for investment consulting brought in a further 3%.

Investment firms earned 0.9 million euros in profit in the third quarter and annualised return on equity was 5%. The sector suffered a small loss of 54,000 euros in the first nine months of the year, and the return on equity was close to zero. The poor result came from losses in the trading portfolio in the first and second quarters that were not completely recovered by the modest profit in the third quarter.

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