

Q2 2021 overview of investment fund sector

Six investment firms operate in the market. Two of the investment firms had more wide-ranging licences that allow them to trade on their own account and so to take on the trading portfolio risk, which comes with a higher initial capital requirement of 750,000 euros. The investment firms with the broader licence account for the majority of the balance sheet of the market and of the income earned. Two investment firms had limited operating authorisations that come with an initial capital requirement of 150,000 euros. Two other investment firms had very limited authorisations with an initial capital account of 75,000 euros, and those market participants qualified as small and non-interconnected investment firms under the European Union capital regulation.

Key indicators	Q1 2021	Change	Q2 2021
Value of client assets	473 million €	?	507 million €
Value of assets of investment firms	103 million €	?	99 million €
Profit/loss	-0.9 million €	?	-0.04 million €
Net income	6.9 million €	?	5.8 million €
Return on equity (cumulative, annualised))	-4.7%	?	-0.2%
CET1 ratio, consolidated	323%	?	346%

The balance sheets of investment firms declined by 4% over the quarter to 103 million euros. The structure of the balance sheet did not particularly change over the quarter. Short-term deposits and liquid bonds are still the majority of assets, accounting for 42% of them. Loans to clients were the second largest group of assets, accounting for 37%.

Client assets managed by investment firms increased by 6% in the second quarter to 507 million euros. Client assets increased mainly through equity instruments. Equity investment accounted for 67% of client assets, bond investment for 20%, and cash funds for 8%. The three countries with the largest share in equity investments by residency of the issuer were Jersey with 42%, Russia with 21%, and Estonia with 13%. The three largest shares in bond investments were Estonia with 20%, Finland with 16%, and Ireland with 13%.

Investment firms earned 6 million euros in net revenue in the second quarter, which is around 1 million euros less than in the previous quarter. The revenue base was reduced because of losses in the trading portfolio, which were carried over from precious metals and Nasdaq CFDs. As the

management costs of the sector were around 3 million euros less than in the first quarter, the final result of activities in the second quarter improved notably. The sector made a net loss of 0.9 million euros in the first quarter, but in the second quarter the result was zero.

Main development trends and risks

- The trading income of the sector has become volatile, with losses from trading in equity instruments becoming more frequent.
- Trading income declined in the second quarter, but savings from management costs helped the sector reduce its losses.
- The balance sheet of the sector remains liquid and capital requirements are on average met with sufficient margin.
- Large-scale cross-border activity in numerous jurisdictions and the geographical extension of activities has caused significant legal liability risks and requires appropriate internal control systems for the investments.

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