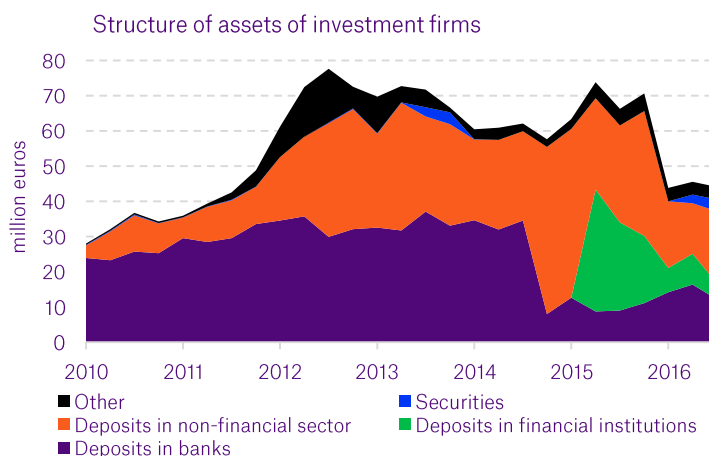


## Overview of investment firms in the 3rd quarter of 2016

	Q2 2016	Q3 2016
• Volume of assets of clients	921	↓ 917 million euros
• Volume of assets of investment firms	44	↓ 42 million euros
• Liquidity coverage ratio (LCR)	229%	↓ 222%
• Profit/loss	1.0	↓ -1.7 million euros
• Net service fee income	4.2	↓ 2.7 million euros
• Return on equity (annual basis)	3.2%	↓ -3.7%
• Common Equity Tier (CET) 1 capital ratio	42.8%	↓ 30.3%

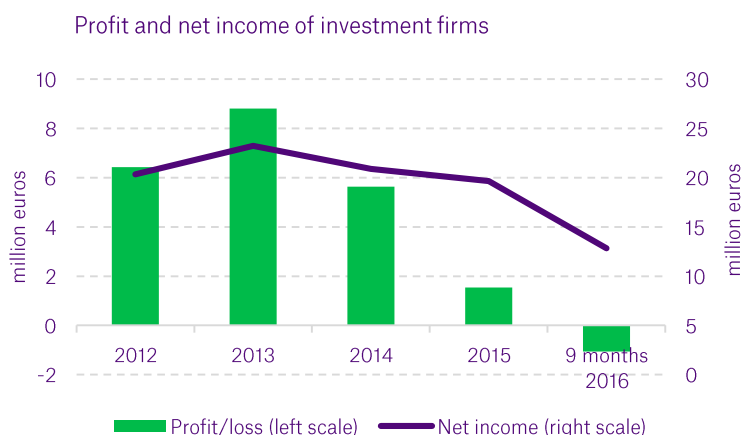
Investment firms operating in Estonia broker securities and sell derivative instruments. At the end of Q3 2016, the volume of assets of clients managed by local investment firms was 917 million euros.

The volume of assets of investment firms decreased by 6% to 42 million euros in Q3 2016. Majority, i.e. 55% of these assets comprised of deposits in banks and financial institutions, mainly those operating in Estonia, the US and the UK. Investment firms held an additional 8% of their assets in securities in order to meet the liquidity normative. The structure of the securities portfolio did not change during Q3.



All investment firms met the liquidity coverage ratio in Q3 2016, the sector as a whole with a large margin. The placement of assets is quite liquid—into securities and deposits in banks and financial firms; liquid assets made up 63% of total assets.

The investment firms registered a total loss of 1.7 million euros in Q3. Within the first three quarters of 2016, the outcome of the whole sector was also negative, by 1.1 million euros. The loss is a result of falling income: net income was 2.7 million euros in Q3, i.e. 34% less than in Q2. During the first three quarters of 2016, the sector earned 12.8 million euros in net income, 20% less than a year before. Income related to securities brokerage has diminished the most. An additional



effect on the size of the sector's loss has come from extraordinary write-downs. The write-downs were created to cover the claims that arose against clients due to fluctuations in the exchange rate.

The return on equity of investment firms was -3.7% on annual basis at the end of Q3.

## Finantsinspektsioon

The Common Equity Tier (CET) 1 capital ratio fell notably in Q3, from 42.8% to 30.3%, mostly because the currency positions grew. This ratio shows the amount of own funds the investment firms are holding compared to the risk positions they have taken. Although the CET 1 capital ratio has declined, it is still much higher than the 4.5% minimum set in the banking regulation.

## Main developments and risks

- Most of the investment firms operating in Estonia provide investment services outside Estonia. Extensive cross-border activities bring along significant compliance, operational and country risks.
- The income base of the sector has fallen to a low level. If the low levels in sales of investment services will continue for a longer period then it can notably impact the capitalisation of investment firms.
- Investment firms are open to a significant currency risk in their business activities. The total open currency positions in the sector amounted to 75 million euros at the end of Q3 2016, i.e. 206% compared to their own funds. The currency positions increased by more than twofold during the quarter as the positions were deliberately held small in Q2 due to the UK referendum in June.