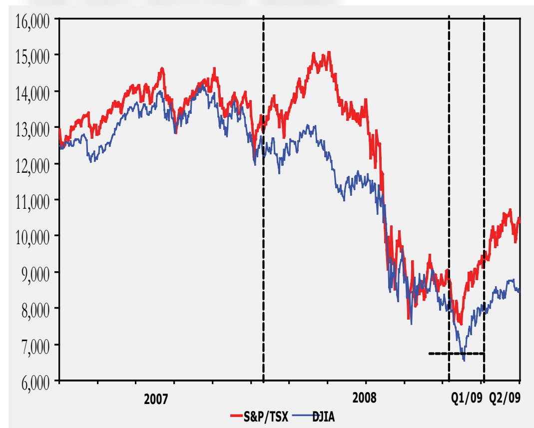
Canada's Securities Industry A Year in Review

2008-2009

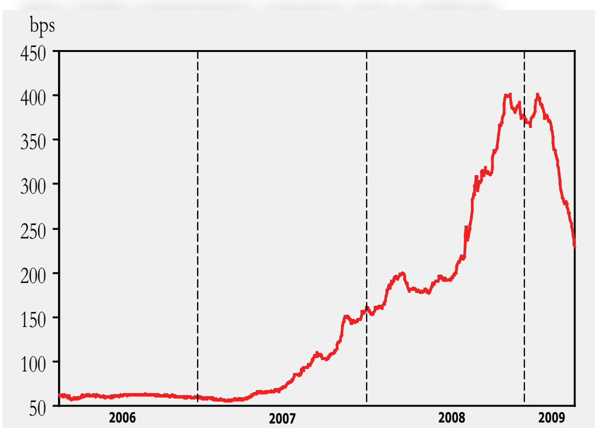
INVESTMENT INDUSTRY ASSOCIATION OF CANADA

The financial crisis that emerged in 2007 intensified in 2008 and put tremendous strain on the functioning of the global financial system while bringing the world's economy to a near halt. Investor confidence was shattered resulting in a widespread sell off in financial markets globally. In Canada, the S&P/TSX Composite plunged 35% in 2008, in line with other major indices through out the world. As investors fled to the safety of government debt securities a re-pricing of risk in global credit markets resulted in a significant widening of credit spreads impairing the markets' ability to function efficiently as a source of financing. The resulting credit crunch had severe implication for the real economy forcing policy makers around the world to ease monetary conditions and deploy stimulus plans aimed at injecting much needed liquidity to the markets. The Bank of Canada lowered its overnight rate to unprecedented levels, one quarter of a percent, and signaled its intentions to leave it unchanged until the second quarter of 2010. Canada's federal government unveiled its Extraordinary Financing Framework which shored up existing funding programs while introducing new facilities to assist in providing access to credit for both businesses and consumers.

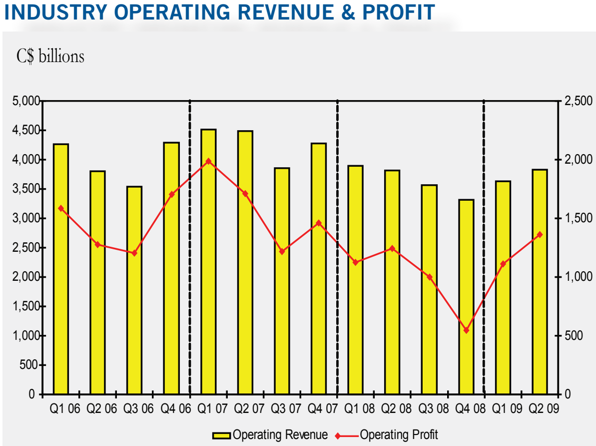
S&P/TSX COMPOSITE INDEX VS DOW JONES INDUSTRIAL AVERAGE



MID-TERM CORPORATE CANADA YIELD SPREAD

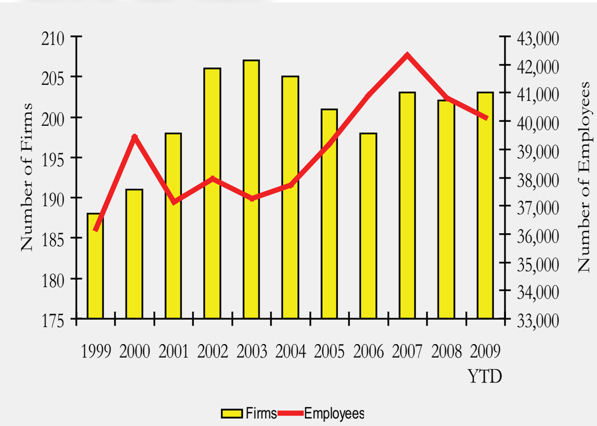


INDUSTRY OPERATING REVENUE & PROFIT



In the wake of the financial crisis, the performance of Canada's securities industry came under intense pressure. In 2008, industry operating revenues and profits plunged 15% and 39%, respectively. The pull-back was broad-based with most of the industry's business lines succumbing to the market turmoil. Most heavily impacted were the dealers' investment banking and equity trading operations which saw revenues plummet as a result of reduced underwriting and market-making opportunities.

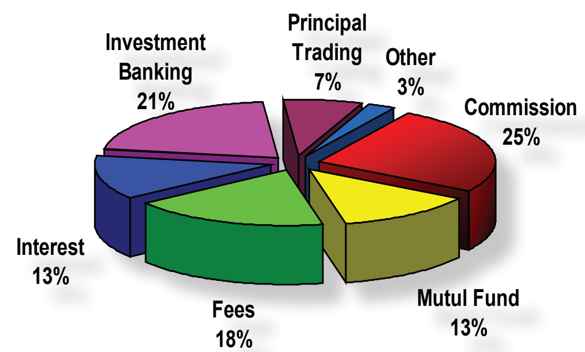
INDUSTRY EMPLOYMENT



The industry's wealth management operations also stalled as investor appetite for risk-taking dwindled. Members were forced to turned increased attention to cost containment, which included 1,500 positions being shed from the industry.

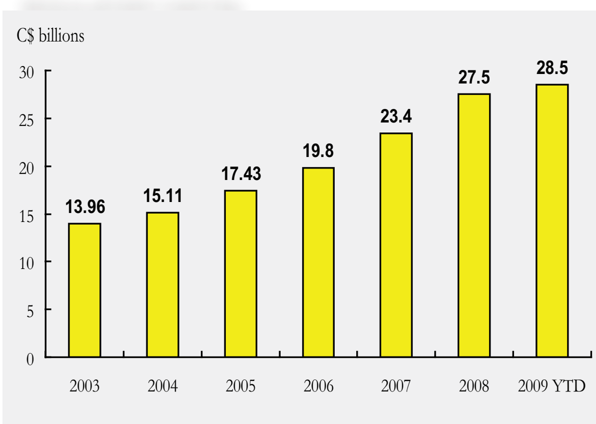
Despite the challenging environment and performance set-back, the industry proved resilient. Dealers managed to turn 2008 into the fourth most profitable year on record, with nearly $4 billion in operating profits, almost $350 million more than what the industry earned in 2000 during the height of the tech market. Benefiting the industry were the great strides it has made in diversifying its revenue stream and growing its less cyclical businesses such as its fee-based business which in 2008 represented nearly 20% of total industry revenue. Industry fundamentals also remained strong with shareholder's equity, regulatory capital and equity trading volumes reaching record highs in 2008.

INDUSTRY DIVERSIFICATION:
REVENUES BROKEN DOWN BY BUSINESS LINES

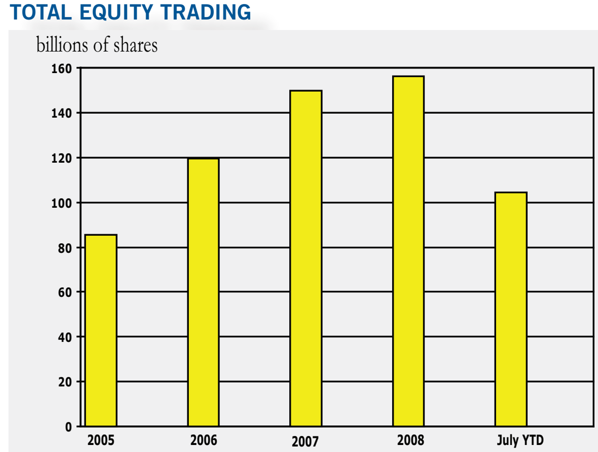


This year has provided a welcome turnaround in the markets. Improved sentiment in both financial and economic markets bolstered investor confidence and their tolerance for risk. The rally in equity markets that began late in the first quarter has continued through the third quarter, with the S&P/TSX Composite climbing 27% so far in 2009. Credit markets also began to slowly thaw and spreads have begun a gradual descent. As a result, issuers have once again begun to tap both equity and debt markets for capital and investors have turned towards rebuilding portfolios devastated by the financial crisis of 2008.

REGULATORY CAPITAL



TOTAL EQUITY TRADING



All this bodes well for the securities industry which saw revenues and profits in the first half of 2009 climb above the doldrums of 2008. Leading the resurgence has been members' fixed income business. Debt underwriting and trading revenues collectively totaled $1.5 billion in the first six months of 2009 and already have equalled the total for the whole of 2008. Increased risk-taking from investors has also lifted industry commission and mutual fund revenues which has benefited the wealth management area. Additional cost cutting measures within the dealers has reduced industry operating expenses and also contributed to the industry's financial performance in 2009. Looking ahead, the industry is well positioned to benefit from any further improvement to financial markets and global economy.

Prepared by – Jack Rando, CFA, Director, Capital Markets
TJ Jeyandran Financial Analyst, Capital Markets