Letter from the President

Looking Back – and Ahead: What 2013, and Consistently Weak Boutique Firm Earnings, Tell Us About Structural Changes

Vol. 69

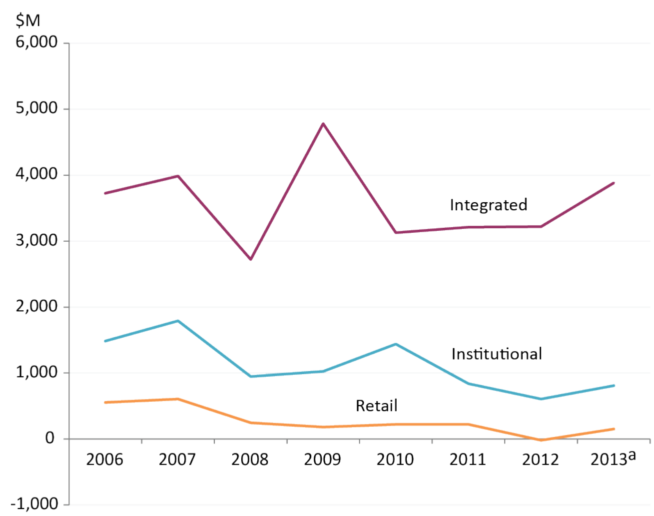
Profits increased in the securities industry last year – but nearly all of the gains accrued to Canada's eight integrated firms. What about the rest – what are their prospects? This President's Letter examines the industry's performance in 2013, focusing on ongoing trends in the Canadian securities industry, in particular the existential struggle faced by the 180 or so boutique firms saddled with chronic weak business conditions and poor earnings, a tough competitive landscape and a heavy, accumulating regulatory burden. Financial data are now available for the first nine months of 2013, and we have annualized these figures (denoted as 2013[a] in all charts) to extrapolate revenue and earnings to year-end. Since the wealth management businesses received a modest boost in the closing quarter, reflecting robust equity markets, these quarterly estimates may be somewhat conservative. In particular, given continued anemic financing and institutional trading in small and mid-cap markets, institutional boutique earnings likely stayed at the depressed levels of earlier in the year.

Overall Performance: Feast for Some, Famine for Others

Operating profit in the securities industry rose 27% to $4.8 billion last year, a respectable earnings rebound for the industry. As mentioned above, however, the eight integrated firms accounted for nearly all the earnings gains. A modest uptick in earnings in the retail firm sector contributed to the overall industry profit gains. This divergence in earnings performance last year is consistent with the pattern over the past five years – relatively strong earnings at the largest firms, contrasted with mediocre results at the specialized boutiques. Integrated firm operating profit rose on average 43% in the last five years, with steady gains for most of the period. Operating profit in the retail sector declined 39% in the same period, with steep losses in 2012 accounting for much of the earnings fall-off. For the 58 domestic institutional boutiques, earnings declined 67% over the period, with earnings tumbling to successively lower levels over the last three years.

The sustained divergence in performance across the firm groupings has triggered a complementary shift in the allocation of shareholder equity. Over the past five years, an overall additional $5 billion in equity was deployed in the industry. The integrated firms, led by the bank-owned dealers, accounted for all of the increase, totaling about $4.9 billion. This additional capital reflects the required phase-in of regulatory capital for the institutional trading businesses under the Basel reforms, as well as additional capital to support the build-out of the wealth management business.

Operating Profit



Source: IIAC

The Shifting Tectonic Plates of Invested Capital

Almost $600 million in equity capital has exited the boutique firm sector since 2010, most of it from the domestic institutional boutiques, driven by capital erosion from the extended period of negative earnings, the transfer of registrants from IIROC to the Exempt Market Dealer category, and the shuttering of individual firms and disbursement of capital to shareholders. More modest capital losses in the retail sector relate to the absorption of several mid-sized retail firms by the large integrated firms in 2009-12. The capital base in the boutique sector will likely shrink further this year from continued losses at the institutional firms, additional firm closures and possible acquisitions of retail firms.

It is important to keep in mind that depressed market conditions for capital-raising and institutional trading, from low share prices, cautious investors and predatory algorithmic trading, have not been solely responsible for the earnings collapse in the boutique sector. Other factors, both the compliance costs of the mounting regulatory burden and rising costs of technology and systems for securities execution and clearing/settlement, have eaten into profit margins.

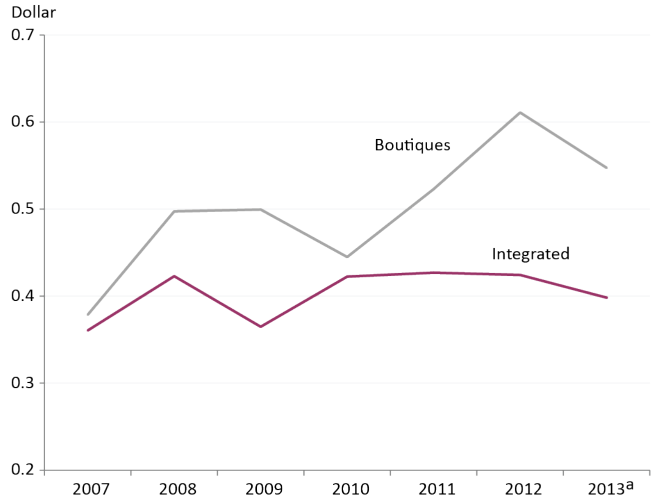
Invested Capital
Integrated v. Boutiques

Source: IIAC

The cost impact on boutique performance is not always immediately obvious from the published data. Operating costs at the boutiques were roughly flat over the past five years. However, the resilience of high operating costs in the face of a marked fall-off in institutional and retail boutique business and revenue indicates the high level and steady build-up in fixed costs. As variable costs have been slashed in response to collapsing business, additional fixed costs have filled the gap. For example, revenue at the institutional boutiques fell roughly 7% in the past five years; yet operating costs have risen 10%. Similarly, revenue at the retail firms dropped 10% in this period. Operating costs at the retail boutiques marginally declined reflecting the withdrawal of several mid-sized firms from the industry, through acquisition and otherwise, in the last three or four years.

The ratio of operating costs per dollar revenue is at record levels in the boutique industry, reflecting the rapid build-up in fixed costs in the past decade or so. The pincer effect of downward spiraling revenue and the inexorable rise in fixed costs have cut heavily into earnings to the extent that nearly half the boutiques have been losing money over much of the past three years. It is not surprising that firms have exited the business and the deployment of capital in the boutique sector has eroded.

Operating Cost per Dollar Revenue



Source: IIAC

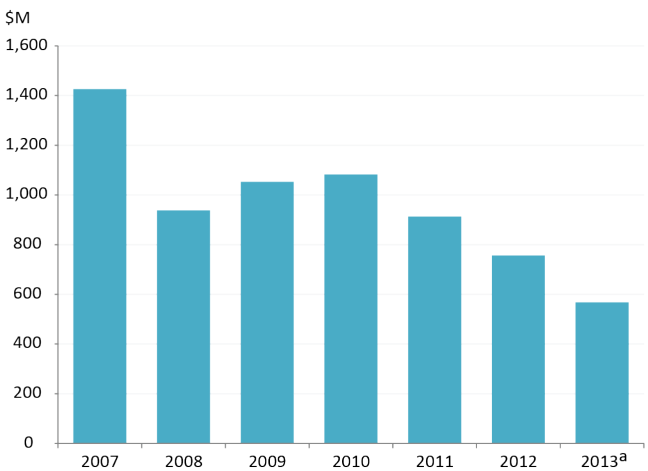
The securities industry had been counting on a significant turnaround in business conditions in the next year or so to bring some relief to distressed earnings. The reality is that the industry will likely face further challenges this year and next, from continued weakness in small business resource markets, and from stiff competition from the integrated firms in the wealth management business, as well as from the Exempt Market Dealers in arranging financings for small business.

The Challenge Facing Institutional Boutiques

The small cap trading and underwriting business has collapsed steadily since mid-2011. Forecasts of continued sluggish growth this year and continuing depressed conditions in resource markets suggest liquidity and share prices for smaller cap companies will stay depressed. Other negative factors include the continued risk aversion of retail and institutional investors that will discourage investment in speculative equities, the risk that "box-ticking" regulatory oversight of suitability rules could discourage speculative investments, the flexibility for large and small institutional portfolios (traditionally active participants in these markets) to look beyond speculative domestic equities to foreign investments for return, and the proliferation of Exempt Market Dealers to distribute small cap equities in the exempt markets.

Investment banking revenues for the institutional boutiques, cut by half in three years, could slide even further. In this environment, the institutional boutique sector will continue to retrench through consolidation, closure and migration of registration to the exempt dealer regime, restricting their business to accredited investors and institutions. The extended weakness in business conditions, infrastructure build-up to offer necessary research and trading services to clients, high execution and market data costs from the order protection rules (notably compared with other jurisdictions) and escalating compliance costs have eroded earnings and forced cost-cutting, hollowing out many institutional firms in terms of senior personnel, specialized research expertise, trading desks, infrastructure cutbacks, and reduced capital, making them less effective in the marketplace and less attractive as acquisition candidates. The slower than expected pace of acquisition, and the fact many boutiques have simply closed down operations, is testament to this hollowing out. As a result, the opportunities to build stronger viable independent boutiques through acquisition is limited, an unhealthy development for the venture marketplace.

Investment Banking Revenue
Institutional Firms



Source: IIAC

Even if venture market conditions return to health over the next year or so, the substantial costs and expertise involved in rebuilding diversified institutional trading and investment banking boutiques, or even setting up a limited exempt dealer operation under the new regulatory regime, will constrain new firm entry into the marketplace.

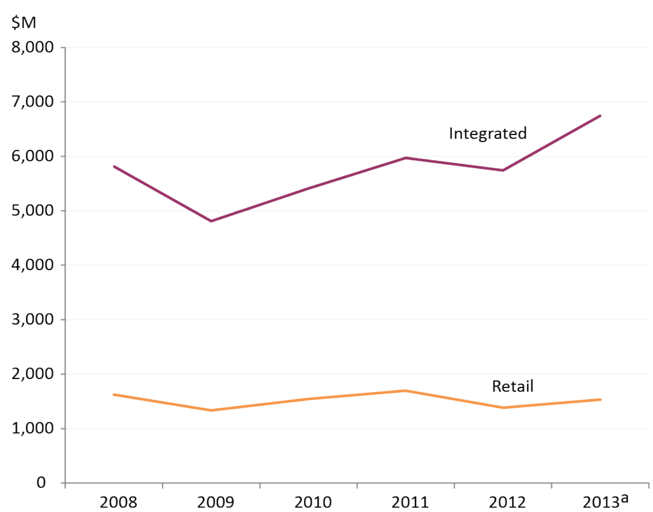
The Changing Environment for Exempt Market Dealers and Resource Companies

Small resource companies, conscious of financing costs, have in the past turned to exempt dealers to distribute new share offerings. These dealers had been more lightly regulated than IIROC-registered dealers, particularly entities in western Canada that had been outside the regulatory ambit, using the so-called "North-West" exemption. These "finders", along with Exempt Market Dealers, have used regulatory arbitrage to compete on more cost-effective terms for small business offerings. Unlike IIROC dealers that offer wide share distribution, company research and after-market support, finders and Exempt Market Dealers are generally one-dimensional, distributing shares to exempt buyers, notably individuals purchasing under the accredited investor exemption, but not contributing to liquid venture markets.

The CSA has proposed a new prospectus exemption to buttress the critical support that IIROC dealers bring to the junior market, as well as reinvigorate retail participation in new junior capital financings. The existing shareholder exemption would allow investors that currently hold securities in certain TSX-V issuers to participate in exempt financings up to a limit of $15,000 without the benefit of investment dealer advice, and above that level if investments are made through an IIROC dealer. This proposed exemption should facilitate a more efficient, less costly and expedited means for junior issuers to raise capital from existing retail shareholders. It also recognizes the critical role of registered investment dealers in issuer support and investor protection.

Further, the CSA is taking positive steps to protect investors and level the playing field making Exempt Market Dealers across the country subject to the new CRM standards of disclosure of the investing process, conflicts, fees charged and compensation to the advisor, enhanced suitability rules and portfolio performance reporting. There is also a move to closely examine, and possibly abolish, the North-West Exemption. This broad application of the rules across all registrants will force rule equivalence and level the playing field. However, the challenge for the provincial commissions across the country will be to provide vigorous and effective oversight, particularly as recent surveys of Exempt Market Dealers have indicated that compliance with disclosure and suitability rules have fallen short of acceptable standards. How will the CSA marshal effective resources to provide effective oversight to over 700 Exempt Market Dealers?

Retail Revenue



Source: IIAC

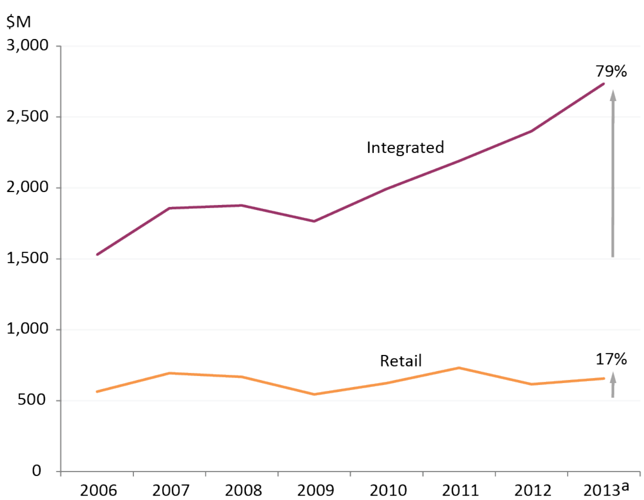
Retail Boutiques: A Cost Challenge – and a Niche Opportunity

Retail revenue at the integrated firms rose significantly in the past four years, outpacing modest gains at the retail firms. Last year accounted for much of the revenue increase, reflecting improved conditions in equity markets, especially the U.S. equity markets. On balance retail revenue at the retail boutiques remains well below 2011 levels, related in part to acquisitions of independent firms by the bank-owned dealers.

The steady gains in fee revenue at the integrated firms, up 46% in five years, and more than double in the past eight years, account for the difference in earnings performance. Fee revenue has expanded at a 13% clip in the past two years. Fee revenue as a share of retail revenue at the integrated firms has risen to account for nearly one-half. The rapid growth in fee income, in absolute terms and as a share of retail revenue, reflects the expanding client shift to discretionary managed accounts and the offerings of specialized services, such as tax and estate planning for aging clients.

Fee income has the attraction of mitigating the cyclical volatility of transaction-based commissions, providing stability to retail revenue. Fee-based accounts can provide a steady source of income, even in volatile and uncertain markets. Further, discretionary managed accounts keep the client effectively engaged in the market, benefitting both client and advisor. The proportionately higher share of client cash holdings at the boutique firms may indeed reflect the predominance of traditional brokerage accounts at the small firms.

Fee Revenue



Source: IIAC

It is also interesting to note the substantial increase in operating costs at the integrated firms, up 18% in the past five years. A significant share of these costs relate to expenditure in the wealth management business, with significant outlays in retail products and services to meet expanded demands as the investor demographic ages. Higher compliance costs are another significant factor behind the cost increases. Broker compensation is not included in these operating costs.

Operating costs in the retail sector have not gone up as much. The operating cost in the retail sector, however, is biased downward, reflecting the acquisition of retail firms by the integrated dealers in recent years. Fixed costs have increased at the retail firms during this period, and will continue to increase in the coming two years, as retail firms meet the CRM requirements. The fact remains that retail firms have not had the same access to funds to build-out their wealth management businesses to meet demands of a rapidly changing clientele. Moreover, these smaller boutiques lack the advantage of scale. These factors foreshadow competitive pressures on the boutique firms to retain and build clientele.

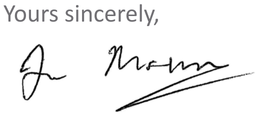
The boutique firms, however, have an important niche business opportunity offering customized wealth management services to clients with smaller sized portfolios, say less than $100K. These clients typically fall under the radar screen of the integrated firms. The boutique dealers and their advisors, with their wide product range and market expertise, can attract significant business from clients in the mass-market channel dealing with financial planners. The new CRM rules mean that small boutiques will be subject to the comprehensive regulations whatever the registration category. However, some retail firms may shift to ICPM (Investment Counsel Portfolio Manager) registration as discretionary portfolio management may be viewed as less exposed to regulatory and civil risk than recommending individual equities, particularly high-risk speculative equities, to clients through traditional brokerage operations.

Conclusion

For the securities industry, 2013 was like a Rorschach test. What it looked like depends on your point of view. For the large integrated firms, earnings gains were significant. But boutique firms faced – and continue to face – challenges they must address, shaping strategies that will allow them to survive and thrive in the midst of change.

Special recognition to Eon Song, Capital Markets Analyst, for analytical and technical support.

Yours sincerely,



Ian C. W. Russell, FCSI
President & CEO, IIAC
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Industry

($ millions unless otherwise noted)	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
	Q3 13	Q2 13	Q1 13	Q4 12	Q3/Q2	Q2/Q1	Q1/Q4 2012	2013[a]	2012	2011	2010	13[a]/12	12/11	11/10
Number of firms	192	194	192	196	-1.0%	1.0%	-2.0%	192	196	201	201	-2.0%	-2.5%	0.0%
Number of employees	39,405	39,571	39,380	39,555	-0.4%	0.5%	-0.4%	39,405	39,555	40,427	39,917	-0.4%	-2.2%	1.3%
Revenue														
Commissions	1,323	1,386	1,417	1,250	-4.6%	-2.1%	13.4%	5,502	5,117	5,817	5,631	7.5%	-12.0%	3.3%
Mutual fund only commissions	606	611	621	550	-0.8%	-1.6%	13.0%	2,451	2,175	2,156	1,950	12.7%	0.9%	10.6%
Investment banking	693	711	800	1,049	-2.5%	-11.1%	-23.8%	2,939	3,565	3,977	4,029	-17.6%	-10.4%	-1.3%
New issues equity	335	319	365	478	5.2%	-12.5%	-23.7%	1,359	1,782	2,165	2,234	-23.7%	-17.7%	-3.1%
New issues debt	219	229	175	235	-4.4%	30.9%	-25.6%	829	816	826	809	1.6%	-1.2%	2.1%
Corporate advisory fees	139	164	260	336	-14.8%	-37.1%	-22.7%	751	967	986	986	-22.3%	-1.9%	0.0%
Fixed income trading	454	477	472	262	-4.8%	0.9%	80.3%	1,871	1,176	1,064	1,173	59.1%	10.5%	-9.3%
Equity trading	74	-160	175	-5	146.1%	-191.6%	3765.6%	118	118	-1	267	0.3%	8703.7%	-100.5%
Net interest	466	469	427	285	-0.6%	9.7%	49.9%	1,817	1,131	1,376	1,054	60.7%	-17.8%	30.5%
Fees	938	889	865	841	5.5%	2.8%	2.9%	3,590	3,206	3,094	2,721	12.0%	3.6%	13.7%
Other	201	209	207	341	-3.8%	1.0%	-39.3%	822	1,020	810	1,004	-19.4%	25.9%	-19.4%
Operating revenue	4,150	3,981	4,363	4,023	4.2%	-8.8%	8.5%	16,659	15,332	16,136	15,878	8.7%	-5.0%	1.6%
Operating expenses[1]	1,804	1,844	1,818	1,808	-2.1%	1.4%	0.5%	7,288	7,249	7,355	6,825	0.5%	-1.4%	7.8%
Operating profit	1,223	1,017	1,390	1,060	20.3%	-26.8%	31.2%	4,841	3,806	4,273	4,789	27.2%	-10.9%	-10.8%
Net profit (loss)	477	347	515	598	37.7%	-32.7%	-13.9%	1,785	2,155	2,036	2,395	-17.2%	5.8%	-15.0%
Shareholders' equity	18,370	17,643	17,219	17,087	4.1%	2.5%	0.8%	18,370	17,087	15,269	16,988	7.5%	11.9%	-10.1%
Regulatory capital	35,118	34,161	33,753	34,343	2.8%	1.2%	-1.7%	35,118	34,343	30,383	31,647	2.3%	13.0%	-4.0%
Client cash holdings	39,653	40,658	38,594	38,684	-2.5%	5.3%	-0.2%	39,653	38,684	39,304	37,952	2.5%	-1.6%	3.6%
Client debt margin outstanding	15,829	16,158	15,531	14,432	-2.0%	4.0%	7.6%	15,829	14,432	13,458	13,731	9.7%	7.2%	-2.0%
Productivity[2] ($ thousands)	421	402	443	407	4.7%	-9.2%	9.0%	423	388	399	398	9.1%	-2.9%	0.3%
Annual return[3] (%)	10.4	7.9	12.0	14.0	2.5%	-4.1%	-2.0%	9.7	12.6	13.3	14.1	-2.9%	-0.7%	-0.8%

Integrated

($ millions unless otherwise noted)	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
	Q3 13	Q2 13	Q1 13	Q4 12	Q3/Q2	Q2/Q1	Q1/Q4 2012	2013[a]	2012	2011	2010	13[a]/12	12/11	11/10
Number of firms	11	11	11	11	0.0%	0.0%	0.0%	11	11	11	11	0.0%	0.0%	0.0%
Number of employees	25,122	25,169	24,990	25,146	-0.2%	0.7%	-0.6%	25,122	25,146	25,595	24,955	-0.1%	-1.8%	2.6%
Revenue														
Commissions	930	971	991	877	-4.2%	-2.0%	13.0%	3,855	3,597	3,921	3,767	7.2%	-8.3%	4.1%
Mutual fund only commissions	467	468	474	431	-0.3%	-1.1%	9.8%	1,878	1,711	1,654	1,471	9.7%	3.5%	12.4%
Investment banking	530	521	595	729	1.8%	-12.5%	-18.3%	2,196	2,596	2,726	2,566	-15.4%	-4.8%	6.2%
New issues equity	261	231	282	332	12.9%	-17.9%	-15.2%	1,032	1,325	1,390	1,311	-22.1%	-4.7%	6.0%
New issues debt	185	190	136	184	-2.7%	39.8%	-26.2%	682	659	699	682	3.4%	-5.7%	2.5%
Corporate advisory fees	85	99	178	212	-15.1%	-44.0%	-16.3%	482	612	637	573	-21.3%	-4.0%	11.2%
Fixed income trading	332	389	347	261	-14.7%	12.4%	32.9%	1,424	1,031	800	960	38.1%	29.0%	-16.7%
Equity trading	77	-140	137	7	155.3%	-202.2%	1877.0%	99	166	25	38	-40.3%	556.3%	-33.5%
Net interest	372	374	334	236	-0.7%	12.1%	41.6%	1,439	942	1,165	906	52.8%	-19.2%	28.6%
Fees	723	679	649	629	6.5%	4.6%	3.2%	2,736	2,400	2,189	1,994	14.0%	9.6%	9.8%
Other	124	127	138	229	-2.4%	-7.6%	-39.9%	519	618	456	415	-16.0%	35.4%	9.9%
Operating revenue	3,089	2,922	3,190	2,967	5.7%	-8.4%	7.5%	12,266	11,350	11,283	10,645	8.1%	0.6%	6.0%
Operating expenses[1]	1,228	1,221	1,215	1,171	0.6%	0.5%	3.7%	4,884	4,817	4,818	4,497	1.4%	0.0%	7.1%
Operating profit	1,003	832	1,078	920	20.5%	-22.8%	17.2%	3,883	3,219	3,212	3,127	20.6%	0.2%	2.7%
Net profit (loss)	469	322	507	555	45.6%	-36.4%	-8.7%	1,731	1,978	1,801	1,610	-12.5%	9.8%	11.9%
Shareholders' equity	13,547	12,823	12,377	11,902	5.6%	3.6%	4.0%	13,547	11,902	10,475	11,585	13.8%	13.6%	-9.6%
Regulatory capital	26,846	25,912	25,478	24,989	3.6%	1.7%	2.0%	26,846	24,989	22,155	22,882	7.4%	12.8%	-3.2%
Client cash holdings	33,458	34,599	32,384	33,018	-3.3%	6.8%	-1.9%	33,458	33,018	33,088	31,677	1.3%	-0.2%	4.5%
Productivity[2] ($ thousands)	492	464	511	472	5.9%	-9.0%	8.2%	488	451	441	427	8.2%	2.4%	3.3%
Annual return[3] (%)	13.9	10.1	16.4	18.7	3.8%	-6.3%	-2.3%	12.8	16.6	17.2	13.9	-3.8%	-0.6%	3.3%

[1] Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.
[2] Annual revenue per employee.
[3] Annual return is calculated as net profit/shareholder's equity.

Institutional

	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
($ millions unless otherwise noted)	Q3 13	Q2 13	Q1 13	Q4 12	Q3/Q2	Q2/Q1	Q1/Q4 2012	2013a	2012	2011	2010	13a/12	12/11	11/10
Number of firms	81	82	81	79	-1.2%	1.2%	2.5%	81	79	78	74	2.5%	1.3%	5.4%
Number of employees	2,920	3,027	3,075	3,115	-3.5%	-1.6%	-1.3%	2,920	3,115	3,108	2,793	-6.3%	0.2%	11.3%
Revenue														
Commissions	127	141	142	131	-10.2%	-0.9%	8.5%	546	558	693	655	-2.1%	-19.4%	5.7%
Investment banking	127	143	156	266	-11.6%	-8.1%	-41.4%	567	756	912	1,082	-24.9%	-17.1%	-15.7%
New issues equity	54	63	54	112	-13.8%	15.3%	-51.4%	228	315	523	634	-27.8%	-39.8%	-17.5%
New issues debt	21	22	28	34	-5.0%	-20.7%	-17.8%	94	103	60	58	-8.7%	71.6%	3.7%
Corporate advisory fees	52	59	74	121	-11.8%	-20.5%	-38.8%	246	338	329	390	-27.3%	2.6%	-15.6%
Fixed income trading	102	76	101	-13	35.0%	-24.8%	884.9%	371	93	179	122	299.5%	-48.1%	46.7%
Equity trading	-8	-20	38	-14	58.4%	-151.3%	364.6%	14	-61	-44	145	123.0%	-38.8%	-130.1%
Net interest	59	60	59	18	-1.4%	1.9%	225.0%	238	63	49	35	277.0%	29.5%	39.0%
Fees	47	45	57	50	4.8%	-22.1%	15.5%	198	190	174	104	4.0%	9.4%	67.4%
Other	41	36	25	72	15.0%	40.4%	-65.0%	136	263	173	453	-48.4%	52.2%	-61.8%
Operating revenue	494	480	578	510	2.8%	-16.9%	13.4%	2,070	1,863	2,136	2,596	11.1%	-12.8%	-17.7%
Operating expenses[1]	258	284	273	300	-9.4%	4.0%	-8.9%	1,087	1,133	1,056	899	-4.0%	7.3%	17.4%
Operating profit	194	160	252	139	21.0%	-36.3%	81.2%	808	605	839	1,440	33.5%	-27.8%	-41.7%
Net profit (loss)	17	30	3	69	-41.3%	760.2%	-95.0%	67	276	213	752	-75.5%	29.6%	-71.7%
Shareholders' equity	3,862	3,865	3,910	3,982	-0.1%	-1.2%	-1.8%	3,862	3,982	3,632	4,108	-3.0%	9.6%	-11.6%
Regulatory capital	6,869	6,859	6,931	7,735	0.1%	-1.0%	-10.4%	6,869	7,735	6,617	7,068	-11.2%	16.9%	-6.4%
Client cash holdings	1,946	1,727	2,005	1,756	12.7%	-13.9%	14.2%	1,946	1,756	1,296	1,306	10.8%	35.5%	-0.7%
Productivity[2] ($ thousands)	677	635	752	655	6.6%	-15.6%	14.9%	709	598	687	929	18.5%	-13.0%	-26.1%
Annual return[3] (%)	1.8	3.1	0.4	6.9	-1.3%	2.7%	-6.6%	1.7	6.9	5.9	18.3	-5.2%	1.0%	-12.4%

Retail

	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
($ millions unless otherwise noted)	Q3 13	Q2 13	Q1 13	Q4 12	Q3/Q2	Q2/Q1	Q1/Q4 2012	2013a	2012	2011	2010	13a/12	12/11	11/10
Number of firms	100	101	100	106	-1.0%	1.0%	-5.7%	100	106	112	116	-5.7%	-5.4%	-3.4%
Number of employees	11,363	11,375	11,315	11,294	-0.1%	0.5%	0.2%	11,363	11,294	11,724	12,169	0.6%	-3.7%	-3.7%
Revenue														
Commissions	267	275	284	242	-2.7%	-3.2%	17.5%	1,101	961	1,203	1,208	14.6%	-20.1%	-0.4%
Mutual fund only commissions	137	141	145	122	-3.0%	-3.1%	19.4%	564	471	506	478	19.8%	-6.9%	5.8%
Investment banking	36	47	48	55	-22.6%	-2.8%	-11.4%	176	212	338	381	-17.2%	-37.2%	-11.2%
New issues equity	21	25	29	34	-18.4%	-12.0%	-16.3%	99	142	253	289	-30.0%	-43.8%	-12.6%
New issues debt	13	16	11	17	-22.6%	51.4%	-35.2%	53	53	67	69	0.2%	-20.0%	-3.4%
Corporate advisory fees	3	5	9	4	-42.4%	-39.2%	145.2%	23	17	19	23	35.6%	-10.6%	-16.9%
Fixed income trading	19	12	25	14	67.9%	-54.4%	79.5%	75	52	86	91	46.1%	-39.9%	-5.8%
Equity trading	5	-1	0	3	499.2%	-513.0%	-89.1%	5	13	17	84	-58.2%	-25.0%	-79.8%
Net interest	36	35	35	31	1.4%	0.3%	11.3%	141	126	162	113	11.9%	-22.0%	43.1%
Fees	168	166	159	162	1.2%	4.4%	-1.9%	656	616	731	623	6.5%	-15.7%	17.3%
Other	36	46	44	39	-22.2%	5.2%	12.1%	167	139	180	137	20.4%	-23.0%	31.7%
Operating revenue	567	579	595	545	-2.0%	-2.8%	9.2%	2,322	2,119	2,717	2,637	9.6%	-22.0%	3.0%
Operating expenses[1]	319	339	330	337	-5.9%	2.7%	-1.9%	1,317	1,300	1,482	1,428	1.3%	-12.3%	3.8%
Operating profit	27	25	61	1	7.0%	-58.6%	5406.6%	150	-18	221	222	921.2%	-108.2%	-0.2%
Net profit (loss)	-10	-5	5	-26	-76.9%	-213.1%	118.7%	-14	-99	22	33	86.0%	-559.6%	-34.7%
Shareholders' equity	962	956	931	1,202	0.6%	2.6%	-22.5%	962	1,202	1,162	1,295	-20.0%	3.5%	-10.3%
Regulatory capital	1,403	1,389	1,344	1,619	1.0%	3.4%	-17.0%	1,403	1,619	1,610	1,697	-13.4%	0.5%	-5.1%
Client cash holdings	4,249	4,332	4,204	3,910	-1.9%	3.0%	7.5%	4,249	3,910	4,920	4,820	8.7%	-20.5%	2.1%
Productivity[2] ($ thousands)	200	204	211	193	-1.9%	-3.3%	9.0%	204	188	232	217	8.9%	-19.0%	6.9%
Annual return[3] (%)	-4.0	-2.3	2.1	-8.6	-1.7%	-4.4%	10.7%	-1.4	-8.2	1.9	2.5	6.8%	-10.1%	-0.6%

[1] Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.
[2] Annual revenue per employee.
[3] Annual return is calculated as net profit/shareholder's equity.