

Many firms dodge a bullet in 2011 relying on fairly stable retail revenue: Institutional firms bear the brunt of tough summer-fall markets

Industry snap-shot

The collapse in equity prices in the summer and fall of this year abruptly ended a promising earnings recovery for the Canadian securities industry. Operating profit will total about \$4 billion for the industry this year, about 20% below last year's level, within the range of profitability in the past three years. ROE will average about 12%, considerably below historic levels in the 2003-08 bull market.

Operating Profit - All Firms (\$B)



The impact of weak market conditions on corporate financing and trading operations in the second half of the year was responsible for the sharp earnings fall-off. Even though trading revenue only accounts for about 10% of overall revenue, the severe collapse in net trading revenue of nearly 50% in the year, reflecting substantial losses for equity market-makers, put a significant dent in overall earnings.

Principal Equity Trading Revenue - All Firms (\$M)



Debt and equity financing slowed significantly since mid-year, with activity mainly limited to larger companies seizing narrow financing windows. Private placement financings for smaller companies virtually ground to a halt. Despite these difficult business conditions, we anticipate revenue from investment banking has held fairly steady year-over-year, even if activity collapses in the final quarter of the year.

The real surprise has been the stand-out performance of the wealth management business across the industry for the year as a whole. Relatively strong revenues in the middle two quarters of this year mean that, even with, say, a 20% decline in revenue in the fourth quarter, retail revenues for the industry will be flat for the year. All aspects of the retail business, including commissions, fee revenues and net interest earnings, demonstrated resilience in the third quarter.

Integrated Firms

The large integrated firms managed to withstand significant market hits to their equity trading book better than other firm groups. However, trading revenue will still be down by at least 40% year-over-year to \$600 million, assuming no further losses in equity principal trading, and act as a drag on profitability.

On a positive note, even with a decline in investment banking revenue at the integrated firms from a weak fourth quarter, revenue should remain more or less unchanged for the year. The wealth management business similarly held up well through the first nine months of the year, based on a strong showing in the second and third quarters. As with investment banking revenue, retail revenue will register similar numbers to last year even if business weakens in the final quarter. On balance, operating profit at the integrated firms should total about \$3 billion for the year, down only 5% from a year ago.

Despite retail revenue holding fairly steady in the past several years – albeit below revenue levels in the 2003-07 bull market, wealth management operations at the larger dealers have been under significant earnings pressure. Part of this relates to much lower net interest earnings and reduced revenue from the distribution of debt and equity offerings, important funding sources for the retail franchise. However, pressure also comes from escalating operating costs, proxied by total operating costs. These costs were up 10% in the past year and average

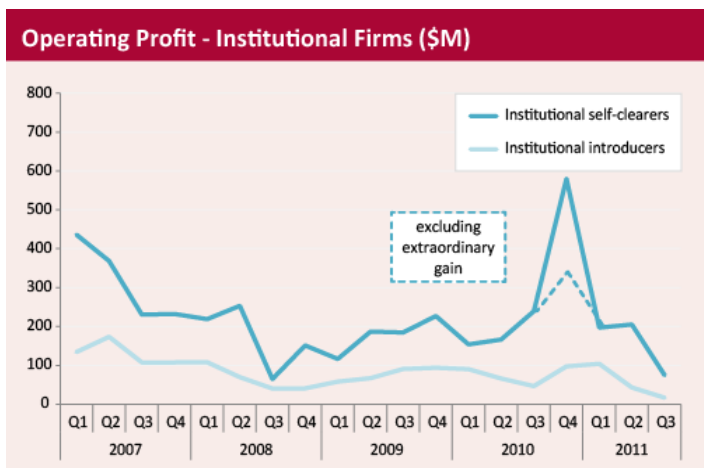
about 3% per annum over the past three years. The larger firms have moved aggressively to reduce broker pay-out grids sharply for lower gross revenue levels, and to eliminate low revenue producing brokers.

Institutional Firms

The institutional firm grouping will register the worst showing among industry firm groupings this year. Operating profit was down 16% year-over-year for the January-September period and estimated profit for the year will be down about 50%, even if losses from principal trading in the final quarter are minimal. If the extraordinary revenue gains in last year's fourth quarter are *excluded* from the revenue totals, operating profit for 2011 would still be down about 30% year-over-year. Nonetheless, estimated operating profit for the group, at \$750 million this year, will be the lowest profit on record since 2004.

Investment banking at the institutional firms was also hit hard in the second half of the year, compared to this business at the integrated firms. Investment banking revenue will be down an estimated 25% for the year, compared with fairly stable banking revenue at the integrated firms. Tough financing and trading conditions in the venture markets contributed to reduced revenue from investment banking and losses in principal equity trading at the smaller institutional boutiques.

Both categories of institutional firms, self-clearing firms and introducers, will turn in poor results for the year. Operating profit for these two institutional groups, with equal number of firms (about 40 firms) in each group, was down 15% and 19% respectively in January-September 2011 compared with the previous year. Both groups focus mainly on investment banking and trading in junior resource markets. Better prospects for these businesses will turn on recovery in these markets. Relative performance among these firm groups, with similar lines of business, will depend on scope to expand business, and, for the self-clearing firms with two-thirds of the business volume, the capacity to extract economies of scale.

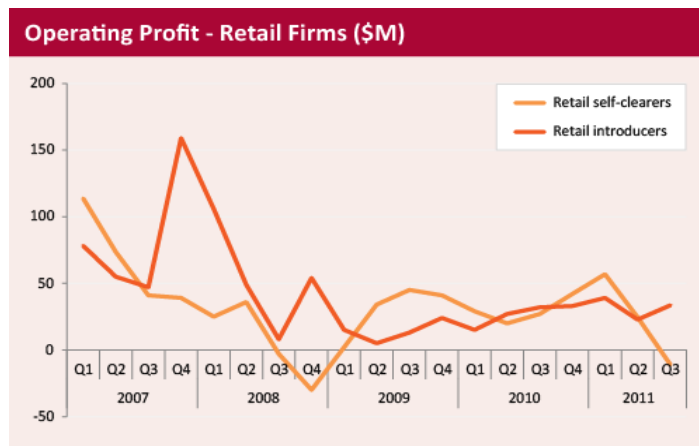


Retail Firms

The surprising development since mid-year has been the sustainability in wealth management earnings at all firms, particularly since mid-year. Fee income held up for most of the third quarter with some erosion in recent months as asset values fell. Further, sustained brokerage business, partly in response to portfolio rebalancing as markets weakened, provided some support. However, as weak market conditions persist, retail brokerage and fee income could weaken further.

It is interesting to note the retail introducer firms, about 80 firms accounting for one-third of the retail boutique business, turned in markedly *different* performance than the larger retail self-clearers. Operating profit for the introducer group totaled \$95 million in January-September 2011, up 29% year-over-year, a strong performance in light of difficult market conditions since mid-year.

The self-clearing retail firms, 34 firms accounting for two-thirds of the retail boutique business, have struggled this year. Operating profit for the latest nine months ended September was down 8% year-over-year. The reason is straightforward. These self-clearers, as a group, carry out significant investment banking and securities trading as an adjunct to their retail business, with revenues from these businesses accounting for nearly one-third of total revenue. It is these businesses that have run into serious problems, with banking and trading activity focused on the small cap marketplace. A further drag on earnings for this group is the escalating costs of clearing operations.



However, it should be noted that there are a number of large self-clearing retail firms with exclusive focus on the retail business that will notch up good performance this year, reflecting strategic focus on the brokerage and discretionary management business, and well managed business models.

The better performance of the retail introducer firms compared to their self-clearing counterparts – based on solid retail earnings and good cost control, belies strong headwinds for the group next year. Retail earnings performance is likely to

move steadily lower from fourth quarter revenues in response to continued weak markets. Further, operating costs for this group, averaging a steady \$600 million a year for the past several years, will escalate as compliance requirements for the Client Relationship Model are brought into effect over the next year. Another negative factor will be the costs of meeting U.S. Treasury tax-reporting obligations.

Without question, the retail self-clearing firms will face a similar assault on their operating margins. However, these firms have a larger revenue cushion to absorb the shocks of market developments and regulatory demands.

Summary

In the past six months, the securities industry has weathered difficult market conditions fairly well. Good results for the wealth management business provided a solid underpinning for the earnings of the integrated and retail boutique firms. On the other hand, difficult and treacherous trading conditions and a slowdown in investment banking activity contributed to a collapse in the earnings of the institutional boutiques. What does this year's performance tell us about the prospects for the industry next year?

A conservative assumption would argue that sovereign debt problems in Europe, and the rancorous fiscal debate in the United States, will not be resolved in the immediate near term, at least not before we move closer to the precipice of a financial crisis. This means market turbulence and sub-par equity markets will keep pressure on the investment banking and trading businesses. In these markets, institutional firms will find it challenging to generate satisfactory earnings results. Grinding market volatility and the risk of an evaporating global recovery will also erode investor confidence and market participation, with feedback to a slowing in the retail business. In sum, the earnings performance of all firm groupings will remain under siege in the near future.

We have been saying for some time the dual pressures of difficult market conditions and an increased regulatory burden will accelerate consolidation among firms across the industry. The last couple of years have already witnessed several strategic acquisitions: GMP-Richardson, Blackmont-Macquarie, NBF-Wellington West, and NBF-HSBC. So what's next? We will likely see two types of industry structural change: the amalgamation of mid-tier firms to build strategic critical mass, and acquisition of smaller firms by the larger players.

The more likely development is ongoing amalgamation among small firms in the industry. There are 113 firms earning gross revenues of less than \$20 million a year, most firms falling into the introducer category. Many of the 81 retail introducers will find the going especially difficult, both from a slowing in the retail business and phased implementation of the Client Relationship Model with significant compliance requirements

for client suitability, conflict of interest management, account disclosure and portfolio performance reporting.

The 41 institutional introducer firms focusing on market-making and investment banking will also face difficult business challenges. These firms account for about one-quarter of the specialized institutional business and, for the most part, are focused exclusively on financing and trading of small cap and venture-listed stocks. The difficulty in sourcing risk capital for small cap transactions will continue to complicate financings in public and private markets. Further, continued poor liquidity in venture markets will result in high risk of loss from equity market-making. Finally, the inability to build up capital reflecting poor retained earnings, coupled with ongoing risk of capital loss, could adversely impact the institutional boutique business. The need to build and preserve capital therefore should encourage strategic amalgamations among the introducer and self-clearing mid-sized institutional boutiques across the industry.

INDUSTRY HIGHLIGHTS

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	204	205	197	-0.5%	3.6%	201	200	202	203	0.5%	-1.0%	-0.5%
Number of employees	40,489	40,657	39,793	-0.4%	1.7%	39,917	39,894	40,836	42,329	0.1%	-2.3%	-3.5%
Revenue												
Commissions	1,368	1,442	1,285	-5.1%	6.5%	5,631	5,052	5,592	6,315	11.5%	-9.7%	-11.4%
<i>Mutual fund only commissions</i>	520	546	472	-4.8%	10.2%	1,950	1,605	1,860	2,249	21.5%	-13.7%	-17.3%
Investment banking	776	1,161	867	-33.2%	-10.5%	4,029	3,915	3,077	4,546	2.9%	27.2%	-32.3%
<i>New issues equity</i>	417	611	392	-31.8%	6.3%	2,234	2,356	1,580	2,589	-5.2%	49.1%	-39.0%
<i>New issues debt</i>	155	208	211	-25.6%	-26.5%	809	653	483	581	23.9%	35.2%	-16.9%
<i>Corporate advisory fees</i>	204	341	264	-40.2%	-22.6%	986	906	1,014	1,376	8.8%	-10.7%	-26.3%
Fixed income trading	176	229	349	-23.2%	-49.5%	1,173	2,109	1,045	698	-44.4%	101.8%	49.7%
Equity trading	-150	34	77	-542.9%	-294.4%	267	459	-11	460	-41.8%	4272.7%	-102.4%
Net interest	342	355	275	-3.6%	24.4%	1,054	914	1,894	1,794	15.3%	-51.7%	5.6%
Fees	751	758	685	-0.9%	9.6%	2,721	2,385	2,624	2,636	14.1%	-9.1%	-0.5%
Other	234	185	175	26.3%	33.5%	1,004	1,473	371	674	-31.8%	297.0%	-45.0%
Operating revenue	3,497	4,164	3,712	-16.0%	-5.8%	15,878	16,306	14,593	17,123	-2.6%	11.7%	-14.8%
Operating expenses¹	1,809	1,813	1,669	-0.2%	8.4%	6,825	6,555	6,528	6,279	4.1%	0.4%	4.0%
Operating profit	660	1,200	1,067	-45.0%	-38.2%	4,789	5,987	3,914	6,382	-20.0%	53.0%	-38.7%
Net profit (loss)	253	616	446	-58.9%	-43.3%	2,395	2,869	1,875	2,771	-16.5%	53.0%	-32.3%
Shareholders' equity	15,747	15,619	18,197	0.8%	-13.5%	16,988	15,225	13,507	12,655	11.6%	12.7%	6.7%
Regulatory capital	30,947	31,393	32,095	-1.4%	-3.6%	31,647	29,559	27,461	23,413	7.1%	7.6%	17.3%
Client cash holdings	38,842	37,139	35,987	4.6%	7.9%	37,952	36,816	33,677	28,500	3.1%	9.3%	18.2%
Client debt margin outstanding	14,154	14,469	12,838	-2.2%	10.2%	13,731	11,048	8,846	14,001	24.3%	24.9%	-36.8%
Productivity² (\$ thousands)	345	410	373	-15.7%	-7.4%	398	409	357	405	-2.7%	14.4%	-11.7%
Annual return³ (%)	6.4	15.8	9.8	-9.3%	-3.4%	14.1	18.8	13.9	21.9	-4.7%	5.0%	-8.0%

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.

Integrated firms

Firms that are national in scope and have extensive retail and institutional operations; includes dealers of the six major chartered banks.

INTEGRATED FIRMS												
(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	11	11	11	0.0%	0.0%	11	11	11	11	0.0%	0.0%	0.0%
Number of employees	25,045	25,069	24,851	-0.1%	0.8%	24,955	25,131	25,973	26,925	-0.7%	-3.2%	-3.5%
Revenue												
Commissions	925	966	869	-4.3%	6.4%	3,767	3,384	3,675	4,145	11.3%	-7.9%	-11.3%
<i>Mutual fund only commissions</i>	401	415	360	-3.5%	11.3%	1,471	1,226	1,414	1,665	20.0%	-13.3%	-15.1%
Investment banking	552	797	525	-30.8%	5.2%	2,566	2,598	1,874	2,642	-1.2%	38.6%	-29.1%
<i>New issues equity</i>	306	382	223	-19.9%	37.0%	1,311	1,587	967	1,421	-17.4%	64.1%	-31.9%
<i>New issues debt</i>	130	171	170	-23.8%	-23.6%	682	546	405	461	24.9%	34.8%	-12.1%
<i>Corporate advisory fees</i>	117	245	133	-52.4%	-12.2%	573	465	502	758	23.2%	-7.4%	-33.8%
Fixed income trading	81	194	283	-58.2%	-71.4%	960	1,690	782	514	-43.2%	116.1%	52.1%
Equity trading	-15	-31	4	50.6%	-479.9%	38	332	106	184	-88.6%	213.2%	-42.4%
Net interest	295	305	234	-3.2%	26.2%	906	790	1,488	1,399	14.7%	-46.9%	6.4%
Fees	547	565	499	-3.3%	9.5%	1,994	1,764	1,877	1,857	13.0%	-6.0%	1.1%
Other	108	107	120	0.6%	-10.0%	415	1,233	-1	436	-66.3%	n.m.	-100.2%
Operating revenue	2,493	2,905	2,535	-14.2%	-1.7%	10,645	11,792	9,801	11,177	-9.7%	20.3%	-12.3%
Operating expenses¹	1,181	1,186	1,116	-0.4%	5.8%	4,497	4,300	4,145	4,029	4.6%	3.7%	2.9%
Operating profit	546	905	722	-39.7%	-24.4%	3,127	4,782	2,722	3,985	-34.6%	75.7%	-31.7%
Net profit (loss)	291	544	356	-46.5%	-18.3%	1,610	2,422	1,502	2,006	-33.5%	61.3%	-25.1%
Shareholders' equity	10,942	10,718	11,080	2.1%	-1.2%	11,585	10,029	8,637	7,761	15.5%	16.1%	11.3%
Regulatory capital	22,732	22,316	21,671	1.9%	4.9%	22,882	21,372	19,334	15,669	7.1%	10.5%	23.4%
Client cash holdings	32,440	30,986	30,311	4.7%	7.0%	31,677	31,451	28,157	23,811	0.7%	11.7%	18.3%
Productivity² (\$ thousands)	398	464	408	-14.1%	-2.4%	427	469	377	415	-9.1%	24.3%	-9.1%
Annual return³ (%)	10.6	20.3	12.9	-9.7%	-2.2%	13.9	24.1	17.4	25.8	-10.3%	6.8%	-8.5%

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 FIRM HIGHLIGHTS

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	78	79	72	-1.3%	8.3%	74	72	69	68	2.8%	4.3%	1.5%
Number of employees	3,108	3,197	2,785	-2.8%	11.6%	2,793	2,801	2,926	2,988	-0.3%	-4.3%	-2.1%
Revenue												
Commissions	166	167	146	-0.6%	13.9%	655	623	777	783	5.1%	-19.8%	-0.8%
Investment banking	155	271	273	-42.7%	-43.1%	1,082	1,052	938	1,425	2.9%	12.2%	-34.2%
<i>New issues equity</i>	64	159	123	-59.8%	-47.9%	634	568	438	767	11.6%	29.7%	-42.9%
<i>New issues debt</i>	9	18	23	-49.2%	-59.6%	58	51	42	76	13.7%	21.4%	-44.7%
<i>Corporate advisory fees</i>	82	94	128	-12.3%	-35.9%	390	433	458	581	-9.9%	-5.5%	-21.2%
Fixed income trading	89	0	28	n.m.	218.7%	122	249	94	82	-51.0%	164.9%	14.6%
Equity trading	-121	71	50	-269.3%	-341.5%	145	46	-61	199	215.2%	175.4%	-130.7%
Net interest	5	7	10	-24.0%	-50.3%	35	33	212	201	6.1%	-84.4%	5.5%
Fees	25	29	15	-12.0%	67.5%	104	77	79	85	35.1%	-2.5%	-7.1%
Other	66	28	29	133.9%	128.2%	453	101	174	126	348.5%	-42.0%	38.1%
Operating revenue	387	573	552	-32.5%	-30.0%	2,596	2,182	2,214	2,901	19.0%	-1.4%	-23.7%
Operating expenses¹	253	254	211	-0.2%	20.1%	899	923	990	889	-2.6%	-6.8%	11.4%
Operating profit	92	248	286	-63.0%	-67.9%	1,440	1,025	947	1,790	40.5%	8.2%	-47.1%
Net profit (loss)	-12	59	90	-120.9%	-113.7%	752	444	382	660	69.4%	16.2%	-42.1%
Shareholders' equity	3,600	3,653	5,853	-1.5%	-38.5%	4,108	3,972	3,803	3,768	3.4%	4.4%	0.9%
Regulatory capital	6,550	6,616	8,793	-1.0%	-25.5%	7,068	6,607	6,118	5,937	7.0%	8.0%	3.0%
Client cash holdings	1,500	1,382	911	8.5%	64.6%	1,306	859	1,326	1,034	52.0%	-35.2%	28.2%
Productivity² (\$ thousands)	497	717	793	-30.6%	-37.3%	929	2,337	757	971	-60.2%	208.9%	-22.1%
Annual return³ (%)	-1.4	6.4	6.2	-7.8%	-7.5%	18.3	11.2	10.0	17.5	7.1%	1.1%	-7.5%

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.

RETAIL FIRM HIGHLIGHTS

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	115	115	114	0.0%	0.9%	116	117	122	124	-0.9%	-4.1%	-1.6%
Number of employees	12,336	12,391	12,157	-0.4%	1.5%	12,169	11,962	11,937	12,416	1.7%	0.2%	-3.9%
Revenue												
Commissions	277	309	270	-10.2%	2.6%	1,208	1,045	1,140	1,387	15.6%	-8.3%	-17.8%
<i>Mutual fund only commissions</i>	120	132	112	-9.1%	7.3%	478	375	440	577	27.5%	-14.8%	-23.7%
Investment banking	68	92	68	-26.1%	0.3%	381	265	265	481	43.8%	0.0%	-44.9%
<i>New issues equity</i>	47	70	46	-33.1%	2.0%	289	201	176	400	43.8%	14.2%	-56.0%
<i>New issues debt</i>	16	20	18	-19.0%	-12.0%	69	56	36	43	23.2%	55.6%	-16.3%
<i>Corporate advisory fees</i>	5	3	4	103.4%	35.9%	23	8	54	36	187.5%	-85.2%	50.0%
Fixed income trading	6	36	38	-83.5%	-84.5%	91	169	170	103	-46.2%	-0.6%	65.0%
Equity trading	-14	-7	23	-102.8%	-159.8%	84	81	-56	76	3.7%	244.6%	-173.7%
Net interest	42	43	31	-3.5%	34.9%	113	91	194	195	24.2%	-53.1%	-0.5%
Fees	179	164	170	9.4%	5.4%	623	544	667	694	14.5%	-18.4%	-3.9%
Other	59	49	26	20.6%	128.4%	137	138	198	111	-0.7%	-30.3%	78.4%
Operating revenue	618	686	625	-10.0%	-1.1%	2,637	2,332	2,578	3,045	13.1%	-9.5%	-15.3%
Operating expenses¹	375	373	342	0.5%	9.5%	1,428	1,332	1,394	1,361	7.2%	-4.4%	2.4%
Operating profit	22	47	58	-52.4%	-61.2%	222	180	245	606	23.3%	-26.5%	-59.6%
Net profit (loss)	-26	13	0	-300.4%	n.m.	33	3	-8	104	1000.0%	137.5%	-107.7%
Shareholders' equity	1,206	1,248	1,264	-3.4%	-4.6%	1,295	1,224	1,067	1,126	5.8%	14.7%	-5.2%
Regulatory capital	1,665	2,461	1,631	-32.3%	2.1%	1,697	1,580	1,744	1,807	7.4%	-9.4%	-3.5%
Client cash holdings	4,896	4,772	4,665	2.6%	5.0%	4,820	4,506	4,194	3,655	7.0%	7.4%	14.7%
Productivity² (\$ thousands)	200	222	206	-9.6%	-2.6%	217	194	216	245	11.6%	-10.1%	-11.9%
Annual return³ (%)	-8.6	4.1	0.3	-12.7%	-8.9%	2.5	0.2	-0.7	9.2	2.3%	1.0%	-10.0%

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.

Domestic institutional

Firms that generate most of their revenues from servicing institutional clients and have their head office located in Canada.

DOMESTIC INSTITUTIONAL FIRM HIGHLIGHTS												
(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	57	57	52	0.0%	9.6%	54	52	49	48	3.8%	6.1%	2.1%
Number of employees	2,289	2,374	1,989	-3.6%	15.1%	2,013	2,090	2,146	2,048	-3.7%	-2.6%	4.8%
Revenue												
Commissions	108	114	97	-5.7%	11.3%	448	439	517	537	2.1%	-15.1%	-3.7%
Investment banking	100	198	167	-49.5%	-40.2%	781	684	635	956	14.2%	7.7%	-33.6%
<i>New issues equity</i>	58	148	105	-60.6%	-44.6%	574	468	389	670	22.6%	20.3%	-42.0%
<i>New issues debt</i>	6	6	10	4.1%	-41.9%	17	17	9	12	0.0%	88.9%	-26.6%
<i>Corporate advisory fees</i>	36	45	53	-19.5%	-32.1%	190	198	237	274	-4.0%	-16.5%	-13.4%
Fixed income trading	11	3	6	288.8%	78.6%	17	38	25	6	-55.3%	52.0%	297.3%
Equity trading	-36	-15	26	-140.1%	-238.8%	101	113	-127	25	-10.6%	189.0%	-602.4%
Net interest	7	8	6	-2.5%	22.7%	20	19	50	51	5.3%	-62.0%	-2.3%
Fees	21	25	13	-12.5%	65.2%	93	69	64	66	34.8%	7.8%	-3.4%
Other	25	10	9	159.1%	176.0%	341	25	57	23	1264.0%	-56.1%	146.1%
Operating revenue	236	342	325	-30.9%	-27.3%	1,801	1,388	1,222	1,664	29.8%	13.6%	-26.6%
Operating expenses¹	155	162	127	-4.3%	21.9%	554	548	502	428	1.1%	9.2%	17.3%
Operating profit	47	115	147	-59.3%	-68.1%	1,008	635	484	1,000	58.7%	31.2%	-51.6%
Net profit (loss)	-45	39	12	-214.6%	-471.5%	536	277	137	386	93.5%	102.2%	-64.5%
Shareholders' equity	1,183	1,266	1,437	-6.6%	-17.7%	1,737	1,685	1,563	1,686	3.1%	7.8%	-7.3%
Regulatory capital	1,765	1,861	2,002	-5.1%	-11.8%	2,325	1,943	1,900	2,008	19.7%	2.3%	-5.4%
Client cash holdings	987	833	624	18.6%	58.2%	618	555	833	538	11.4%	-33.4%	54.9%
Productivity² (\$ thousands)	413	576	654	-28.3%	-36.9%	895	664	569	813	34.7%	16.6%	-29.9%
Annual return³ (%)	-15.1	12.3	3.3	-27.4%	-18.4%	30.9	16.4	8.8	22.9	14.4%	7.7%	-14.1%

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.

Foreign institutional

Firms that generate most of their revenues from servicing institutional clients and have their head office located offshore.

FOREIGN INSTITUTIONAL FIRM HIGHLIGHTS												
(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	21	22	20	-4.5%	5.0%	20	20	20	20	0.0%	0.0%	0.0%
Number of employees	819	823	796	-0.5%	2.9%	780	711	780	940	9.7%	-8.8%	-17.0%
Revenue												
Commissions	58	53	49	10.3%	19.2%	208	183	260	246	13.7%	-29.6%	5.6%
Investment banking	56	73	105	-24.2%	-47.1%	301	367	303	467	-18.0%	21.1%	-35.1%
<i>New issues equity</i>	6	12	18	-49.0%	-66.9%	60	99	49	96	-39.4%	102.0%	-49.2%
<i>New issues debt</i>	3	13	13	-72.6%	-73.2%	41	34	33	64	20.6%	3.0%	-48.1%
<i>Corporate advisory fees</i>	46	49	75	-5.7%	-38.6%	200	234	220	308	-14.5%	6.4%	-28.5%
Fixed income trading	79	-3	23	2696.2%	241.3%	106	212	69	76	-50.0%	207.2%	-9.1%
Equity trading	-85	86	23	-198.1%	-468.2%	44	-67	66	173	165.7%	-201.5%	-61.9%
Net interest	-2	-1	5	-138.0%	-147.8%	15	14	162	150	7.1%	-91.4%	8.1%
Fees	4	4	3	-9.1%	21.7%	11	8	15	19	37.5%	-46.7%	-20.2%
Other	41	19	20	121.0%	106.7%	111	76	118	103	46.1%	-35.6%	14.4%
Operating revenue	150	231	228	-35.0%	-34.1%	796	794	992	1,237	0.3%	-20.0%	-19.8%
Operating expenses¹	99	92	84	6.9%	17.3%	345	375	488	463	-8.0%	-23.2%	5.4%
Operating profit	45	133	139	-66.1%	-67.6%	432	390	463	790	10.8%	-15.8%	-41.4%
Net profit (loss)	32	20	78	62.8%	-58.6%	215	167	245	274	28.7%	-31.8%	-10.7%
Shareholders' equity	2,417	2,386	4,416	1.3%	-45.3%	2,371	2,287	2,239	2,082	3.7%	2.1%	7.5%
Regulatory capital	4,785	4,755	6,791	0.6%	-29.5%	4,742	4,664	4,218	3,929	1.7%	10.6%	7.4%
Client cash holdings	513	549	287	-6.7%	78.6%	688	304	493	496	126.3%	-38.3%	-0.6%
Productivity² (\$ thousands)	734	1,124	1,146	-34.7%	-35.9%	1,021	3,350	1,272	1,316	-69.5%	163.4%	-3.4%
Annual return³ (%)	5.3	3.3	7.1	2.0%	-1.7%	9.1	9.7	10.9	13.2	-0.7%	-1.2%	-2.2%

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.

Full service

Firms that generate most of their revenues from servicing retail clients and have their own front and back offices.

FULL SERVICE RETAIL FIRM HIGHLIGHTS												
(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	34	34	35	0.0%	-2.9%	35	35	34	36	0.0%	2.9%	-5.6%
Number of employees	6,320	6,379	6,151	-0.9%	2.7%	6,231	6,072	6,018	6,517	2.6%	0.9%	-7.7%
Revenue												
Commissions	151	167	153	-9.5%	-1.4%	675	605	659	810	11.6%	-8.2%	-18.6%
<i>Mutual fund only commissions</i>	72	77	68	-6.8%	5.7%	285	227	268	327	25.6%	-15.3%	-18.0%
Investment banking	47	62	48	-24.1%	-2.4%	271	192	156	306	41.1%	23.1%	-49.0%
<i>New issues equity</i>	29	44	31	-34.7%	-7.9%	195	128	107	249	52.3%	19.6%	-57.0%
<i>New issues debt</i>	14	17	15	-17.4%	-8.9%	61	48	27	33	27.1%	77.8%	-18.2%
<i>Corporate advisory fees</i>	5	1	2	230.3%	130.7%	16	17	22	23	-5.9%	-22.7%	-4.8%
Fixed income trading	-4	28	31	-113.0%	-111.8%	71	134	136	56	-47.0%	-1.5%	143.1%
Equity trading	-12	-4	13	-203.9%	-194.0%	40	42	-50	40	-4.8%	184.0%	-226.6%
Net interest	24	25	17	-3.2%	42.1%	62	49	104	108	26.5%	-52.9%	-3.4%
Fees	89	93	76	-3.8%	17.6%	321	288	292	294	11.5%	-1.4%	-0.5%
Other	29	28	14	4.5%	107.5%	71	57	58	59	24.6%	-1.7%	-2.4%
Operating revenue	324	398	352	-18.5%	-7.9%	1,511	1,367	1,356	1,670	10.5%	0.8%	-18.8%
Operating expenses¹	210	214	195	-2.2%	7.5%	819	752	780	778	8.9%	-3.6%	0.2%
Operating profit	-11	24	27	-145.0%	-140.9%	117	122	29	267	-4.1%	320.7%	-89.1%
Net profit (loss)	-15	5	7	-386.2%	-311.6%	34	31	-29	80	9.7%	206.9%	-136.4%
Shareholders' equity	824	849	874	-3.0%	-5.7%	900	804	894	899	11.9%	-10.1%	-0.6%
Regulatory capital	1,073	1,868	1,053	-42.6%	1.9%	1,115	987	1,094	1,104	13.0%	-9.8%	-0.9%
Client cash holdings	3,860	3,844	3,726	0.4%	3.6%	3,890	3,620	2,745	2,509	7.5%	31.9%	9.4%
Productivity² (\$ thousands)	205	250	229	-17.8%	-10.3%	242	225	225	256	7.7%	-0.1%	-12.1%
Annual return³ (%)	-7.2	2.4	3.2	-9.6%	-10.4%	3.8	3.9	-3.2	8.9	-0.1%	7.1%	-12.1%

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.

Retail introducers

Firms that generate most of their revenues from servicing retail clients and typically do not have back offices (use a “carrier” firm to manage their back office).

RETAIL INTRODUCER FIRM HIGHLIGHTS												
(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 11	Q2 11	Q3 10	Q3/Q2 11	Q3 11/10	2010	2009	2008	2007	10/09	09/08	08/07
Number of firms	81	81	79	0.0%	2.5%	81	82	88	88	-1.2%	-6.8%	0.0%
Number of employees	6,016	6,012	6,006	0.1%	0.2%	5,938	5,890	5,919	5,899	0.8%	-0.5%	0.3%
Revenue												
Commissions	126	142	116	-11.1%	8.9%	533	440	480	577	21.1%	-8.3%	-16.8%
<i>Mutual fund only commissions</i>	48	55	43	-12.4%	12.5%	192	148	172	251	29.7%	-14.0%	-31.4%
Investment banking	21	31	21	-30.3%	1.7%	110	73	110	175	50.7%	-33.6%	-37.0%
<i>New issues equity</i>	18	26	16	-30.3%	14.7%	94	73	69	151	28.8%	5.8%	-54.2%
<i>New issues debt</i>	2	3	3	-27.6%	-27.2%	9	8	9	11	12.5%	-11.1%	-19.6%
<i>Corporate advisory fees</i>	1	1	2	-35.6%	-58.9%	7	-8	32	14	187.5%	-125.0%	133.5%
Fixed income trading	10	8	7	26.2%	36.6%	20	35	34	46	-42.9%	2.9%	-26.8%
Equity trading	-2	-3	10	44.4%	-115.4%	43	38	-6	36	13.2%	733.3%	-116.7%
Net interest	18	18	14	-3.8%	26.3%	51	42	89	87	21.4%	-52.8%	2.7%
Fees	90	71	94	26.9%	-4.5%	302	256	375	401	18.0%	-31.7%	-6.6%
Other	30	21	12	41.3%	152.8%	66	81	140	51	-18.5%	-42.1%	174.3%
Operating revenue	293	288	273	1.9%	7.5%	1,125	966	1,222	1,376	16.5%	-20.9%	-11.2%
Operating expenses¹	165	158	148	4.1%	11.5%	609	580	614	582	5.0%	-5.5%	5.5%
Operating profit	34	23	32	47.4%	4.7%	105	57	216	339	84.2%	-73.6%	-36.3%
Net profit (loss)	-11	8	-7	-243.0%	-57.8%	-1	-27	21	23	96.3%	-228.6%	-8.0%
Shareholders' equity	382	399	389	-4.2%	-1.8%	395	420	173	227	-6.0%	142.8%	-23.8%
Regulatory capital	592	592	578	0.0%	2.4%	582	593	650	703	-1.9%	-8.8%	-7.5%
Client cash holdings	1,036	928	939	11.7%	10.4%	930	886	1,448	1,145	5.0%	-38.8%	26.5%
Productivity² (\$ thousands)	195	192	182	1.8%	7.3%	189	164	206	233	15.5%	-20.6%	-11.5%
Annual return³ (%)	-11.6	7.8	-7.2	-19.3%	-4.4%	-0.3	-6.4	12.1	10.1	6.2%	-18.6%	2.1%

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.

Comments please!

Securities Industry Performance is produced quarterly by the Investment Industry Association of Canada.

We want to hear from you. Send suggestions for future editions and feed back to capitalmarkets@iiac.ca.

Ian Russell, FCSI
President & CEO
irussell@iiac.ca
Tel: (416) 865-3037

Jack Rando, CFA
Director, Capital Markets
jrando@iiac.ca
Tel: (416) 687-5477

Eon Song
Administrator, Capital Markets
esong@iiac.ca
Tel: (416) 687-5480

Addresses

Toronto (Head Office)

11 King St West
Suite 1600
Toronto, ON M5H 4C7
Tel: (416) 364-2754
Fax: (416) 364-4861

Vancouver

701 West Georgia St
Suite 1500
Vancouver, BC V7Y 1C6
Tel: (604) 637-1676
Fax: (604) 801-5911

Montreal

1 Place Ville Marie
Suite 2001
Montreal, QC H3B 2C4
Tel: (514) 843-8950
Fax: (514) 866-2115

