IIACACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

LETTER FROM THE PRESIDENT

Vol. 116

A Year in Review:
2017 - Positioning for Sweeping Change in Challenging Markets

HIGHLIGHTS:

Good news: industry profit was better than expected driven by strong retail performance. Bad news: earning gains uneven, skewed to large integrated firms and mid-sized self-clearing firms.

Retail revenue up strongly at large and small dealers. Strong performance matched by massive transformation as firms shift to fee-based products and services, and the expansion and digitalization of wealth platforms. Financial advice at the core of successful wealth management.

Domestic institutional firms battered by difficult new issue markets for small and mid-cap companies and weak trading operations. Further consolidation in the industry will be led by withdrawal of institutional firms.

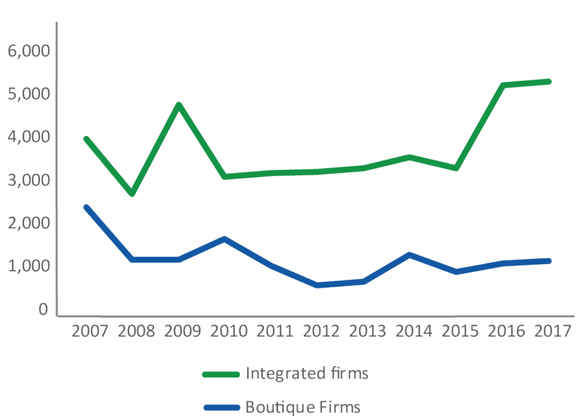
Structural change in the industry will come, not just firm amalgamations and withdrawals, but from the pressing need to adapt financial technology to expand product offerings, improve efficiencies and broaden reach through digitalization.

OVERVIEW: BUSINESS PRESSURES RELENTLESS

Performance of the investment industry has been handicapped in recent years by the steady drumbeat of rising operating costs coinciding with weak resource markets and poor investment banking conditions in the small and mid-cap corporate sector. The small and mid-sized independent dealers have fared the worst, with nearly fifty firms succumbing to difficult conditions and withdrawing from the business in the last five years.

The industry outlook for the next couple of years looks like more of the same. Economic growth will remain modest; energy prices are likely to hover around current levels; small and mid-cap companies will find it difficult to raise capital in public equity markets; and costs will continue to rise. The industry will continue to consolidate around the firms that have stayed profitable through the period—a tribute to strategic vision and focus, sound management practices and cost control. It will be a lean and resilient industry that eventually emerges, but one that will be smaller.

Operating Profits ($M)
Integrated firms vs Boutiques



Source: IIROC and IIAC Securities Industry Performance Reports

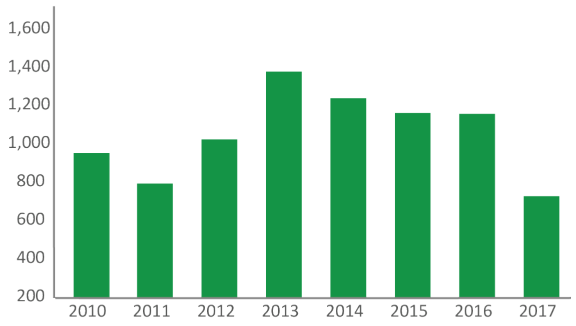
2017 RESULTS: BETTER THAN EXPECTED

We anticipated that as the Trump market rally took hold in early 2017, the wealth management business, the engine driving industry performance throughout the post-financial crisis period, would propel earnings higher last year. And so it was. The Trump rally, based on expectations of tax reform and deregulation, and fueled by surprisingly strong consumer-led growth, extended through the year, with the U.S. stock market indices (the Dow Jones Industrial Average, S&P 500 and Nasdaq Composite) up 19-28 percent, and the S&P/TSX Composite Index posting a smaller increase of 6 percent. Industry operating profits rose just 2.3 percent year-over-year in 2017 to reach $6.5 billion, but are still 53 percent higher than two years ago.

The fall-off in the pace of common equity offerings in Canada in the second half of last year, as domestic share values plummeted and moved in wide swings, was in response to signs of difficult NAFTA negotiations and the successful efforts at U.S. tax reform. All this fueled business uncertainties. Falling share values contributed to weak investment banking results in the last months of 2017, and dragged down earnings at the integrated dealers, even though corporate advisory fees held up remarkably well. Fixed income trading at the integrated dealers turned in a sub-par year, with net revenues down 37 percent to $732 million. The shift to electronic trading platforms, the ratcheting up in compliance and systems costs, and higher costs of capital from capital requirements, narrowed margins in market-making.

Robust trading with U.S. clients booked through Canadian desks nonetheless provided some offset. The bank-owned dealers capitalized on trading opportunities south of the border, both from Canadian and U.S. trading desks, as the heavy compliance burden from Dodd-Frank legislation and the Volcker rule has enabled well capitalized Canadian banks to expand their platforms south of the boarder due to lessening competitive pressures. In addition, as the Bank of Canada moved to tighten monetary policy in 2017 and increase its overnight target rate, there was significant volatility in the returns fixed income desks could generate.

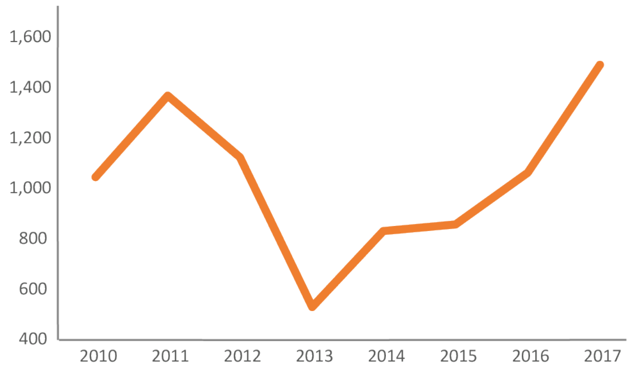
Fixed Income Trading ($M)
Integrated Firms



Source: IIROC Monthly Financial Reports

Net interest earnings, the interest spread on client cash balances, broke higher last year to reach the highest levels since 2011, accounting for 11 percent of total retail revenue. For the industry as a whole, net interest earnings rose 40 percent year-over-year, with roughly similar percentage gains across integrated and retail firms. This result reflected the rise in interest rates and wider spreads, as well as the buildup in cash holdings from perceived overvaluations in equity markets.

Net Interest ($M)



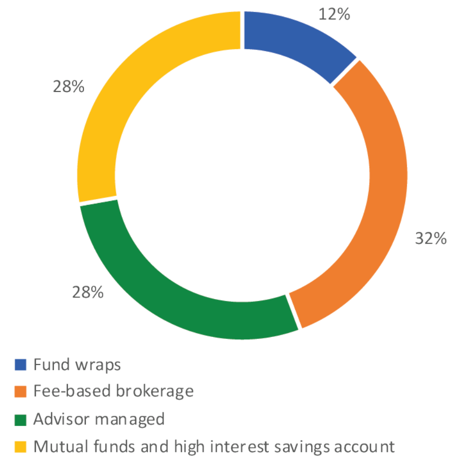
Source: IIROC Monthly Financial Reports

FEE-BASED BUSINESS POWERS RETAIL EARNINGS: EXPANDING THE AMBIT OF ADVISORY SERVICES

Industry retail revenues barreled ahead last year, up 14 percent at the integrated firms, and at an even faster 19 percent rate at the retail boutiques. Earning gains at the retail firms were driven by steady and rapid growth in fee-based client assets, up 12 percent year-over-year. Fee-based brokerage assets and advisor managed accounts were the fastest-growing fee-based categories, accounting for 60 percent of total fee-based assets at the full-service dealers. The growth in fee-based assets last year reflected increased client asset holdings or AUM, up 10 percent year-over-year, mainly from higher market valuations, and from asset shifts from commission-based products, and inflows of new money.

The popularity of fee-based products, from fee-based brokerage accounts to a range of discretionary managed accounts, such as fast-growing advisor-managed accounts, and third-party and in-house managed wrap accounts, can be traced to strong client demand for professional advice to make investment decisions, and provide long-term financial, estate and tax planning. These investors cover the full spectrum, not just high net worth clients, but affluent mass market clients as well.

Full-Service Brokerage ($B)
Fee-based assets



Source: SI Research (as of September 2017)

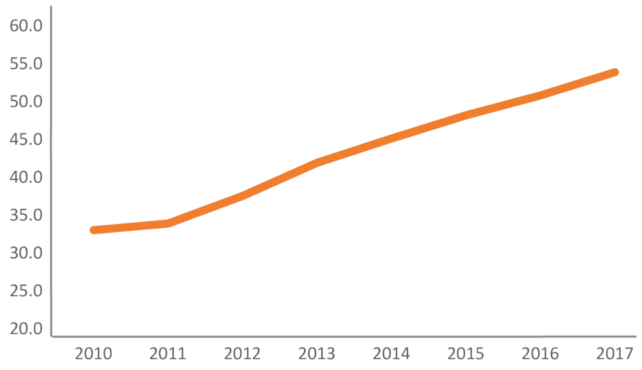
This demand for professional advice reflects the priority clients place on the savings-investment process to investors, and need to build portfolio assets, particularly as many investors draw closer to retirement; as investment products become more complex and costly; and as the need for higher market returns risk preservation of capital. While millennials may put a heavy premium on the convenience and independence of technology, they too recognize the pressing need to accumulate savings through reliance on professional advice.

EVOLUTION OF ONLINE WEALTH PLATFORMS: CLIENTS VALUE ADVICE, BUT DRIVE FOR DIGITALIZED CONVENIENCE

It is this powerful consumer drive for professional advice that is shaping the transition and evolution of online robo-advice wealth platforms. While advice has always been part of the online wealth platform when opening an account to set up portfolios and periodically to rebalance them, the emphasis was on low cost and convenience. The advice component consists mainly of collecting know-your-client information through online questionnaires. It was argued in some quarters (wrong-headedly, as it turned out) the online offering of discretionary third-party managed wraps would avoid the need for a traditional financial advisor altogether.

However, for large numbers of clients across the wealth spectrum, advice is seen as holistic and integral to the investment process, guiding short-term and long-term financial decisions in the context of a defined financial strategy and plan. The advisor, in effect, becomes the client's financial quarterback. This is even more critical as the financial and corporate worlds no longer fall into predictable patterns; as markets are more vulnerable to shocks and risk of savings loss; and as investment decisions take account of investment costs and tax implications and are framed in terms of financial and lifestyle objectives. This thinking applies equally to small investors, as high net worth clients. The online advisor is not a substitute for a trusted investment advisor.

Industry Fee Revenue as a Share of Retail Revenue (%)
Excluding mutual funds



Source: IIROC Monthly Financial Reports

These online platforms, now numbering more than fifteen, have had difficulty building scale, not because of too many platforms in the market, but because client scope is limited. While there will always be a core group of investors willing to allocate assets to robo-investing, the growth will plateau at some stage, not unlike that of the online discount brokers. Many investors recognize comprehensive advice is at the core of successful wealth accumulation. At the same time, investors and clients want the efficiency, cost advantages and convenience from online digitalized platforms. Full-service firms have recognized the synergies from bolting on a robo-advice digital model onto their existing wealth platforms, both to broaden the available client wealth options and in some cases to facilitate the shift to a fully digitalized wealth platform. The conflation of this dealer strategic decision with the need for online robo-advisor platforms to expand their business model, explains the transformation of the online wealth platform through a myriad of different structures into a fully integrated online digitized wealth platform.

- In the past year alone, Investor Economics lists twenty-two announcements by online wealth platforms of changes to their existing platform, or joint ventures between the online platform and dealer registrants. For example, several online robo-advisor platforms have been purchased or licensed by full service IIROC dealers, and ETF-mutual fund platforms licensed by Mutual Fund dealers.

- Some dealers have built proprietary robo platforms for their clients, integrated within their existing wealth platforms, while others have licensed white-labelled online robo-advisor platforms or entered into joint ventures.

- The independent online wealth platforms have bolstered the advice component of their platform, such as providing dedicated advisors, and expanded product offerings, including managed products, registered programs (RRSPs and RESPs).

- Wealth platforms have been launched to service Investment Advisors directly online. The IA sets up client assets on the robo-advisor platform and the platform provides the managed products and handles administration of accounts.

- Finally, IC-PM registrants have launched online platforms to offer proprietary products or have partnered with existing platforms to distribute in-house products.

In a relatively short period of time, the online wealth platforms have transformed into sophisticated hybrid integrated platforms, with full-service advice at the fulcrum, complemented with sophisticated investment products and research, accessed online through digital technology. The full-service dealers are moving to this model through acquisition and third-party relationships with online robo platforms to offer hybrid wealth services and accelerate the drive for broad based digitalized wealth platforms, with the sophisticated digitalized technology at the online wealth platforms. The online platform provides the mechanism for mid-sized and small dealers, with attractive options service clients with modest portfolios on economic terms through tailored advice and managed products.

Some of the online wealth platforms are moving to a similar end-point by building out advice and adding financial planning services to the platform. Some robo-advisor platforms will stick to their knitting, focusing on the niche market for robo-investing.

Operating Profit ($M)

Source: IIROC Monthly Financial Reports

The interesting question is where robo-investing is headed in the next few years. The online wealth platforms could expand operations in three possible directions: 1) They could broaden the platform into financial advice and planning; 2) move into broad technology applications in wealth manage services, such as administration and digital access; and 3) expand the robo-investing model into foreign jurisdictions to build market share. The dealers will acquire or form partnerships with the online wealth platforms to offer robo-investing as an ancillary service and accelerate the digitalization of their wealth platforms. Dealers will also employ a version of the online wealth platform for IAs to enable cost-effect onboarding of small mass market investors. This can build business scale, spreading increasing fixed costs in the retail business.

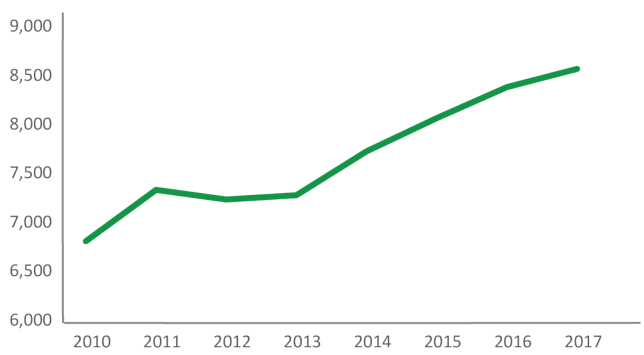
OPERATING COSTS HAMPER PERFORMANCE OF RETAIL BOUTIQUES

The retail boutique dealers turned in a mixed performance last year despite solid revenue growth across the boutique sector. On the one hand, the 29 self-clearing retail firms recorded the *highest* earnings in three years, with operating profit nearly doubling to $327 million in 2017 compared to 2014. Revenue gains outstripped operating costs by a wide margin. On the other hand, operating profit at the 62 introducer firms fell more than 50 percent to $68 million in the same period, the lowest level in five years. Operating costs rose at a proportionally faster rate than revenue growth, compared with the self-clearing firms.

The difference in performance, in relation to cost increases, between the self-clearers and the introducers, has a lot to do with the timing of cost increases. The self-clearing firms began putting in place significant capital investments in systems and people to comply with CRM2, FATCA and AML requirements in 2015 or earlier, and continued to deploy capital investments through 2015-16, as rules clarified. The introducer firms, on the other hand, have relied almost exclusively on their carrier firms to invest in the technology and systems, and manage compliance requirements. The introducers were hit with major fee increases last year, once these requirements became effective.

Both the self-clearers and introducers, with annual operating cost increases averaging 5-7 percent through the 2014-17 period, will be slammed with another round of costs to meet the compliance needs for the "targeted reforms" (now a work in progress), and as additional tax-reporting obligations under the FATCA and CRS systems come into play.

Industry Operating Expenses ($M)



Source: IIROC Monthly Financial Reports

OPERATING COSTS CAUGHT IN THE PINCERS OF CONTINUED REGULATION AND FINTECH APPLICATIONS

The rapid escalation in industry operating costs in the past two years can be traced to the investment and ongoing costs related to technology systems and professionals needed to comply with new rules and requirements, most importantly the CRM2 rule framework and recent tax-reporting obligations. However, in the past year or so, the integrated and specialized retail firms have increasingly adopted financial technology for back-office purposes, initially to meet increased and increasingly complex compliance requirements, but more recently at the front office to meet client demand for more face-time with the advisor, greater convenience in accessing products and services and reduced costs. Firms have begun to put in place technology to provide timely and convenient digitalized access to client accounts and other information, administrative tasks to free up the advisor and provide additional services such as online trading and investing. The challenge for many small retail firms is the capacity to shift limited resources and time from the ongoing and substantive compliance agenda to the strategic application of technology for more competitive business operations.

RETAIL BUSINESS BENEFITS FROM STRONG STEADY CLIENT DEMAND FOR WEALTH MANAGEMENT SERVICES

On balance, the steady and broad-based growth in wealth management revenues over the past three years 2014-17, from rising portfolio valuations, client asset inflows and new services such as financial and estate planning, have outstripped the steady above-inflation rate increase in operating costs. Profits have nonetheless been volatile in the period and not shared evenly across firms in the retail business. That said, many small firms have effectively met the demanding business and regulatory challenges and continued to build successful businesses.

The number of small retail firms in the last three years has remained steady on balance, with self-clearing firms between 27-29 firms, and introducer firms totaling 60-65 firms. Despite the appearance of stability in the retail grouping, in the past five years, 17 retail firms resigned their IIROC registration. The composition of the small firm grouping has altered, with many small and mid-sized vibrant firms taken out by acquisitions and largely replaced by startup firms and specialized fintech players.

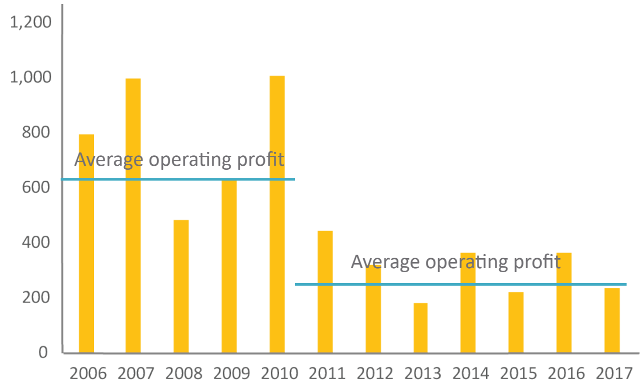
DOMESTIC INSTITUTIONAL INDEPENDENTS CONFRONT BUSINESS CHALLENGES

The biggest disappointment in industry performance last year was the collapse in the earnings of the domestic institutional group. These firms, totaling just over 40 firms, have found conditions in their core investment banking business difficult—not just last year but over the past six years since the 2011 collapse in resource markets. The energy-focused boutiques had a brief respite as the steady rise in oil prices coming out of the recession provided equity market financing opportunities for many small and mid-cap conventional energy producers. This rebound was cut short with the collapse in oil prices in 2015, the widening price discount for Canadian oil, increasing transportation costs, and more economic energy plays south of the border. The outflow of capital has accelerated in the past year or so, despite higher oil and gas prices, and north-bound capital has dried up. Many small institutional firms have struggled. The capital financing needs of the mining sector, reflecting a rebound in metals prices and a flurry of new businesses in cannabis-related businesses provided some relief for the small institutional dealers.

Common equity financings, measured in issue size of $25 million or less, totaled about $3.6 billion in 2017, well below comparative annual financings in 2009-12. M&A fees at the boutiques were dismal last year, one-third below average annual fees in the previous three years. The anticipated boost in corporate advisory earnings from extensive restructuring in the small cap sector never materialized. In contrast, M&A earnings at the integrated firms had two good back-to-back years.

Operating profit for the domestic institutional firms totaled $239 million in 2017, just above record low earnings in 2013. There has been significant earnings volatility over the past seven years. In this period, the collapse in trading revenue from reliance on algorithmic trading by asset managers has put further pressure on earnings. The outlook is for continued weak performance, reflecting a weakened energy sector and a general fall-off in the pace of capital formation, notably in public markets from decelerating economic growth and deteriorating business conditions. Over the past five years, 35 institutional dealers resigned from IIROC, with two-thirds of these resignations in the 2012-14 period. Ten firms dropped out of the business in the past two years, either from amalgamation or shuttered operations. The continued business pressures on small institutional firms suggest consolidation of the grouping will accelerate over the next several years.

Domestic Institutional Firms
Operating Profits ($M)



Source: IIROC and IIAC Securities Industry Performance Reports

CONCLUSION

The industry turned in a mixed earnings performance last year, in terms of business, evident in continued buoyant retail business, but weaker investment banking and debt trading, and in terms of performance of firm groupings, with the self-clearing retail firms leading the industry with strong earnings gains, but mediocre results from the integrated firms and dismal earnings from retail introducers and institutional boutiques.

This year will be marked by continued economic and business uncertainties and greater market volatility, reduced capital-raising by small and mid-sized firms in public and private markets, reflecting depressed resource markets. The wealth management business at large and small firms will continue as the driving force in the industry, but handicapped by continued increases in operating costs.

Structural change will remain an over-arching theme in the investment industry this year, and change will be sweeping – both macro-change from continued amalgamations and IIROC resignations among firms in the industry, and joint ventures and partnerships with online platforms, and the firm-level internal need to adapt financial technology to broaden products and services, improve cost-effectiveness and deliver convenience through digitalization. This transformation to a more tech-driven digitalized business will be more challenging for smaller firms in the industry coping with business and regulatory challenges, that leave limited human and capital resources to seize strategic fintech opportunities.

Yours sincerely,

Ian C. W. Russell, FCSI
President & CEO, IIAC
March 2018

Industry

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q4 17	Q3 17	Q4 16	Q4/Q3	Q2 17/16	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	166	165	163	0.6%	1.8%	166	163	168	175	1.84%	-2.98%	-4.0%
Number of employees	40,865	40,636	40,130	0.6%	1.8%	40,865	40,130	39,936	39,918	1.83%	0.49%	0.0%
Revenue												
Commissions	1,468	1,291	5,715	13.7%	-74.3%	5,697	5,715	5,838	5,800	-0.32%	-2.11%	0.7%
Mutual fund only commissions	645	609	2,567	6.0%	-74.9%	2,541	2,567	2,840	2,576	-1.00%	-9.60%	10.2%
Investment banking	935	737	3,744	26.9%	-75.0%	3,610	3,744	3,246	3,793	-3.57%	15.33%	-14.4%
New issues equity	458	280	1,994	63.6%	-77.0%	1,681	1,994	1,578	2,057	-15.71%	26.39%	-23.3%
New issues debt	247	224	783	10.4%	-68.4%	928	783	814	801	18.47%	-3.81%	1.6%
Corporate advisory fees	230	233	967	-1.3%	-76.2%	1,002	967	855	934	3.62%	13.15%	-8.5%
Fixed income trading	449	351	1,439	27.8%	-68.8%	1,021	1,439	1,466	1,644	-29.03%	-1.81%	-10.9%
Equity trading	-41	-573	129	-92.8%	-131.9%	-331	129	8	243	-356%	1547%	-96.8%
Net interest	436	395	1,070	10.3%	-59.3%	1,500	1,070	864	839	40.19%	23.86%	3.0%
Fees	1,961	1,784	5,998	9.9%	-67.3%	7,240	5,998	5,343	4,614	20.71%	12.26%	15.8%
Other	445	237	1,356	87.7%	-67.2%	1,110	1,356	980	983	-18.17%	38.37%	-0.3%
Operating revenue	5,797	4,913	20,275	18.0%	-71.4%	21,156	20,275	17,754	17,915	4.35%	14.20%	-0.9%
Operating expenses[1]	2,124	2,082	8,405	2.0%	-74.7%	8,588	8,405	8,086	7,739	2.17%	3.95%	4.5%
Operating profit	2,027	1,323	6,335	53.2%	-68.0%	6,479	6,335	4,228	4,866	2.28%	49.84%	-13.1%
Net profit (loss)	1,317	707	3,504	86.3%	-62.4%	3,710	3,504	2,063	2,382	5.87%	69.85%	-13.4%
Shareholders' equity	25,514	24,802	23,117	2.9%	10.4%	25,514	23,117	28,373	45,367	10.37%	-18.52%	-37.5%
Regulatory capital	37,281	38,078	39,009	-2.1%	-4.4%	37,281	39,009	44,951	62,363	-4.43%	-13.22%	-27.9%
Client cash holdings	62,026	56,555	59,944	9.7%	3.5%	62,026	59,944	50,677	45,291	3.47%	18.29%	11.9%
Client debt margin outstanding	26,267	25,386	23,740	3.5%	10.6%	26,267	23,740	21,173	18,913	10.64%	12.12%	12.0%
Productivity[2] ($ thousands)	567	484	505	17.3%	12.3%	518	505	445	449	2.47%	13.65%	-0.9%
Annual return[3] (%)	**20.7**	**11.4**	**15.2**	**81.1%**	**36.3%**	**15**	**15**	**7.3**	**5.2**	**-4.07%**	**108.46%**	**2.0%**

Integrated

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q4 17	Q3 17	Q4 16	Q4/Q3	Q2 17/16	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	10	10	10	0.0%	0.0%	10	10	10	10	0.00%	0.00%	0.0%
Number of employees	25391	25,226	25,886	0.7%	-1.9%	25,391	25,886	25,590	25,430	-1.91%	1.16%	0.6%
Revenue												
Commissions	969	863	3,871	12.3%	-75.0%	3,810	3,871	4,019	3,920	-1.57%	-3.69%	2.5%
Mutual fund only commissions	458	443	1,928	3.4%	-76.2%	1,858	1,928	2,145	1,916	-3.61%	-10.13%	12.0%
Investment banking	678	550	2,722	23.3%	-75.1%	2,606	2,722	2,291	2,749	-4.27%	18.81%	-16.7%
New issues equity	316	209	1,448	51.1%	-78.2%	1,202	1,448	1,158	1,540	-17.00%	25.04%	-24.8%
New issues debt	208	185	634	12.4%	-67.2%	760	634	652	659	19.89%	-2.81%	-1.0%
Corporate advisory fees	154	155	640	-0.5%	-75.9%	644	640	481	550	0.58%	33.13%	-12.6%
Fixed income trading	398	305	1,162	30.6%	-65.7%	732	1,162	1,168	1,243	-37.04%	-0.55%	-6.0%
Equity trading	-201	-696	-183	-71.1%	9.7%	-676	-183	-69	83	-269.65%	-164.51%	-183.1%
Net interest	379	348	954	8.9%	-60.3%	1,311	954	746	686	37.38%	27.90%	8.7%
Fees	1503	1,401	4,691	7.3%	-68.0%	5,638	4,691	4,226	3,590	20.18%	11.01%	17.7%
Other	313	116	967	169.9%	-67.6%	690	967	565	601	-28.68%	71.10%	-5.9%
Operating revenue	4290	3,674	15,188	16.8%	-71.8%	15,663	15,188	13,041	12,873	3.13%	16.47%	1.3%
Operating expenses[1]	1457	1,447	5,808	0.7%	-74.9%	5,920	5,808	5,561	5,290	1.93%	4.44%	5.1%
Operating profit	1679	1,142	5,241	47.0%	-68.0%	5,322	5,241	3,327	3,572	1.55%	57.55%	-6.9%
Net profit (loss)	1164	660	3,099	76.4%	-62.4%	3,302	3,099	1,752	2,014	6.56%	76.88%	-13.0%
Shareholders' equity	19987	19,390	17,973	3.1%	11.2%	19,987	17,973	23,420	40,082	11.21%	-23.26%	-41.6%
Regulatory capital	28733	29,663	30,896	-3.1%	-7.0%	28,733	30,896	37,167	53,841	-7.00%	-16.87%	-31.0%
Client cash holdings	52117	47,792	51,281	9.1%	1.6%	52,117	51,281	43,294	38,448	1.63%	18.45%	12.6%
Productivity[2] ($ thousands)	676	583	587	16.0%	15.2%	617	587	510	506	5.14%	15.14%	0.7%
Annual return[3] (%)	**23.3**	**13.6**	**17.2**	**71.2%**	**35.2%**	**17**	**17**	**7.5**	**5.0**	**-4.18%**	**130.48%**	**2.5%**

[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

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q4 17	Q3 17	Q4 16	Q4/Q3	Q2 17/16	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	91	90	87	1.1%	4.6%	91	87	90	94	4.60%	-3.33%	-4.3%
Number of employees	13,141	13,055	11,860	0.7%	10.8%	13,141	11,860	11,645	11,537	10.80%	1.85%	0.9%
Revenue												
Commissions	373	309	1,246	20.8%	-70.0%	1,344	1,246	1,240	1,263	7.88%	0.44%	-1.8%
Mutual fund only commissions	186	165	632	12.6%	-70.6%	677	632	681	644	7.05%	-7.21%	5.7%
Investment banking	75	58	218	29.1%	-65.6%	285	218	200	213	30.50%	8.79%	-6.1%
New issues equity	54	33	138	63.6%	-60.8%	179	138	104	130	29.85%	32.10%	-19.8%
New issues debt	13	17	60	-22.8%	-78.1%	63	60	63	57	4.83%	-4.14%	10.0%
Corporate advisory fees	8	9	20	-13.5%	-61.6%	42	20	33	26	112.06%	-39.98%	27.6%
Fixed income trading	18	21	118	-12.8%	-84.5%	115	118	60	74	-2.33%	97.32%	-18.7%
Equity trading	18	5	24	253.1%	-26.2%	36	24	8	8	48.90%	200.34%	-1.0%
Net interest	63	51	136	23.0%	-53.8%	201	136	137	220	48.13%	-0.99%	-37.6%
Fees	412	347	1,047	18.6%	-60.7%	1,374	1,047	901	783	31.19%	16.21%	15.1%
Other	76	56	213	35.5%	-64.4%	241	213	193	178	13.04%	10.43%	8.1%
Operating revenue	950	819	3,002	16.0%	-68.4%	3,490	3,002	2,740	2,740	16.24%	9.57%	0.0%
Operating expenses[1]	424	389	1,462	9.0%	-71.0%	1,599	1,462	1,422	1,348	9.37%	2.84%	5.4%
Operating profit	89	72	319	23.2%	-72.2%	395	319	212	329	23.86%	50.63%	-35.6%
Net profit (loss)	89	45	119	98.8%	-25.1%	237	119	103	132	99.23%	15.56%	-22.1%
Shareholders' equity	1,666	1,633	1,319	2.0%	26.3%	1,666	1,319	1,174	1,025	26.29%	12.36%	14.6%
Regulatory capital	2,170	2,106	1,802	3.0%	20.4%	2,170	1,802	1,623	1,526	20.42%	11.00%	6.4%
Client cash holdings	7,380	6,367	6,151	15.9%	20.0%	7,380	6,151	4,900	4,389	19.98%	25.53%	11.6%
Productivity[2] ($ thousands)	289	251	253	15.2%	14.2%	266	253	235	237	4.96%	7.53%	-0.9%
Annual return[3] (%)	**21.5**	**11.0**	**9.1**	**94.9%**	**137.1%**	**14**	**9**	**8.8**	**12.9**	**58.14%**	**2.60%**	**-4.1%**

Retail Full Service

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q4 17	Q3 17	Q4 16	Q4/Q3	Q2 17/16	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	29	28	27	3.6%	7.4%	29	27	27	29	7.41%	0.00%	-6.9%
Number of employees	5,982	5,998	5,893	-0.3%	1.5%	5,982	5,893	5,827	5,706	1.51%	1.13%	2.1%
Revenue												
Commissions	202	171	719	18.1%	-71.9%	753	719	683	657	4.78%	5.22%	4.1%
Mutual fund only commissions	107	102	408	4.5%	-73.9%	421	408	426	396	3.20%	-4.29%	7.6%
Investment banking	52	45	149	15.0%	-65.4%	204	149	150	156	36.75%	-0.89%	-3.5%
New issues equity	34	21	77	64.1%	-55.4%	111	77	65	80	44.46%	17.71%	-18.2%
New issues debt	13	16	57	-21.5%	-78.1%	60	57	60	54	4.54%	-4.48%	11.2%
Corporate advisory fees	5	7	15	-32.6%	-68.3%	33	15	25	22	119.59%	-40.61%	13.7%
Fixed income trading	11	15	89	-27.5%	-87.8%	90	89	44	49	0.71%	104.47%	-10.3%
Equity trading	9	3	12	212.8%	-20.7%	21	12	2	-2	74.86%	551.47%	185.0%
Net interest	39	31	78	25.1%	-50.2%	124	78	83	149	59.06%	-5.52%	-44.4%
Fees	207	183	560	13.1%	-63.0%	734	560	497	433	30.99%	12.66%	14.7%
Other	28	20	85	39.9%	-66.9%	92	85	82	85	8.67%	3.66%	-3.0%
Operating revenue	548	467	1,692	17.3%	-67.6%	2,018	1,692	1,541	1,525	19.25%	9.82%	1.0%
Operating expenses[1]	232	219	846	5.9%	-72.6%	908	846	829	755	7.29%	2.10%	9.7%
Operating profit	102	68	176	50.4%	-41.9%	327	176	105	188	85.77%	68.08%	-44.3%
Net profit (loss)	61	36	70	69.2%	-12.4%	174	70	31	95	148.82%	124.38%	-67.2%
Shareholders' equity	940	872	793	7.8%	18.6%	940	793	716	668	18.58%	10.78%	7.2%
Regulatory capital	1,213	1,159	1,076	4.7%	12.8%	1,213	1,076	972	906	12.77%	10.71%	7.3%
Client cash holdings	5,196	4,603	4,711	12.9%	10.3%	5,196	4,711	3,521	3,139	10.30%	33.80%	12.2%
Productivity[2] ($ thousands)	366	311	287	17.6%	27.5%	337	287	264	267	17.53%	8.54%	-1.1%
Annual return[3] (%)	**25.9**	**16.5**	**8.8**	**56.9%**	**195.6%**	**19**	**9**	**4.4**	**14.2**	**105.81%**	**106.51%**	**-9.9%**

[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

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q4 17	Q3 17	Q4 16	Q4/Q3	Q2 17/16	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	62	62	60	0.0%	3.3%	62	60	63	65	3.33%	-4.76%	-3.1%
Number of employees	7,159	7,057	5,967	1.4%	20.0%	7,159	5,967	5,818	5,831	19.98%	2.56%	-0.2%
Revenue												
Commissions	171	138	527	24.1%	-67.5%	591	527	557	607	12.11%	-5.41%	-8.2%
Mutual fund only commissions	79	62	224	27.8%	-64.6%	255	224	255	248	14.04%	-12.10%	2.7%
Investment banking	23	14	68	65.4%	-66.1%	81	68	50	57	18.73%	35.90%	-12.9%
New issues equity	20	12	60	62.8%	-67.6%	68	60	39	50	13.27%	53.63%	-22.4%
New issues debt	1	1	3	-44.5%	-79.1%	3	3	3	3	10.20%	2.74%	-9.2%
Corporate advisory fees	3	1	5	206.5%	-42.8%	9	5	8	4	89.46%	-37.99%	106.0%
Fixed income trading	7	6	29	24.2%	-74.4%	26	29	16	25	-11.68%	78.22%	-34.9%
Equity trading	8	3	12	175.8%	-31.5%	15	12	6	10	22.95%	95.15%	-39.9%
Net interest	24	20	58	19.7%	-58.5%	77	58	55	72	33.42%	5.83%	-23.6%
Fees	205	164	487	24.8%	-58.0%	640	487	404	349	31.42%	20.58%	15.6%
Other	48	36	128	33.1%	-62.7%	148	128	111	94	15.94%	15.43%	18.0%
Operating revenue	402	352	1,309	14.3%	-69.3%	1,472	1,309	1,199	1,214	12.45%	9.16%	-1.2%
Operating expenses[1]	192	170	617	13.1%	-68.8%	691	617	593	593	12.06%	4.05%	0.0%
Operating profit	-14	4	143	-438.3%	-109.5%	68	143	107	141	-52.33%	33.57%	-24.0%
Net profit (loss)	29	9	50	217.2%	-42.9%	63	50	72	37	25.82%	-30.35%	93.2%
Shareholders' equity	725	760	526	-4.5%	38.0%	725	526	458	357	37.92%	14.82%	28.4%
Regulatory capital	956	947	726	1.0%	31.7%	956	726	652	620	31.75%	11.42%	5.1%
Client cash holdings	2,184	1,764	1,440	23.8%	51.7%	2,184	1,440	1,379	1,251	51.65%	4.41%	10.3%
Productivity[2] ($ thousands)	225	200	219	12.7%	2.4%	206	219	206	208	-6.11%	6.25%	-1.0%
Annual return[3] (%)	**15.7**	**4.7**	**9.5**	**232.3%**	**65.6%**	**9**	**10**	**15.7**	**10.4**	**-13.29%**	**-36.18%**	**5.3%**

Domestic Institutional

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q4 17	Q3 17	Q4 16	Q4/Q3	Q2 17/16	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	37	37	41	0.0%	-9.8%	37	41	45	47	-9.76%	-8.89%	-4.3%
Number of employees	1,360	1,379	1,481	-1.4%	-8.2%	1360	1,481	1,751	1,981	-8.17%	-15.42%	-11.6%
Revenue												
Commissions	79	73	384	8.0%	-79.5%	337	384	372	434	-12.29%	3.31%	-14.3%
Investment banking	109	52	412	109.4%	-73.6%	308	412	376	490	-25.20%	9.45%	-23.2%
New issues equity	74	26	245	185.8%	-69.6%	194	245	201	324	-20.75%	21.96%	-38.0%
New issues debt	7	5	24	42.6%	-70.3%	24	24	23	26	0.90%	2.69%	-11.4%
Corporate advisory fees	27	22	143	24.7%	-80.8%	90	143	152	140	-37.21%	-6.04%	8.8%
Fixed income trading	3	0	15	#DIV/0!	-80.4%	13	15	-7	28	-14.86%	320.95%	-124.4%
Equity trading	28	-2	27	-1495.2%	1.6%	14	27	-17	-26	-48.34%	258.32%	35.0%
Net interest	8	1	3	663.2%	199.8%	7	3	17	15	117.67%	-81.99%	13.4%
Fees	10	10	154	0.5%	-93.5%	106	154	120	137	-31.31%	28.67%	-12.8%
Other	13	12	69	10.7%	-80.8%	45	69	68	62	-34.34%	0.87%	10.4%
Operating revenue	250	145	1,064	72.3%	-76.5%	830	1,064	929	1,139	-21.99%	14.53%	-18.5%
Operating expenses[1]	109	106	560	2.6%	-80.6%	455	560	558	573	-18.83%	0.33%	-2.6%
Operating profit	96	16	365	502.7%	-73.6%	239	365	223	365	-34.65%	63.65%	-38.8%
Net profit (loss)	41	-40	99	-201.8%	-59.0%	0	99	-20	52	-99.53%	595.32%	-138.5%
Shareholders' equity	713	682	822	4.6%	-13.2%	713	822	913	1,377	-13.22%	-9.92%	-33.7%
Regulatory capital	991	963	1,078	2.9%	-8.1%	991	1,078	1,162	1,963	-8.05%	-7.26%	-40.8%
Client cash holdings	1,318	1,161	1,269	13.5%	3.9%	1,318	1,269	1,428	1,467	3.84%	-11.14%	-2.7%
Productivity[2] ($ thousands)	735	421	719	74.7%	2.2%	610	719	531	575	-15.11%	35.51%	-7.7%
Annual return[3] (%)	**22.8**	**-23.5**	**12.1**	-197.3%	89.0%	**0**	**12**	**-2.2**	**3.8**	**-99.46%**	**647.87%**	**-6.0%**

[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.