IIAC ACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

LETTER FROM THE PRESIDENT

Vol. 124

Investment industry performance, nine months ended September 2018: Strong results likely for the year, but storm clouds gathering on the near horizon

HIGHLIGHTS:

Strong gains in operating profit at integrated firms, and retail and institutional firms, in the nine-months ended September 2018. Even if profit falls 20 percent in the fourth quarter, industry earnings will still total a record $7.1 billion.

Earnings performance will likely fall across all firm groupings in 2019 as weaker market and economic conditions erode retail and investment banking revenues.

Industry costs rose 6 percent year-over-year in the latest nine-months versus an annual average 3.5 percent in the past three years. Costs jumped 9 percent at full-service retail firms and a whopping 18 percent at retail introducer firms.

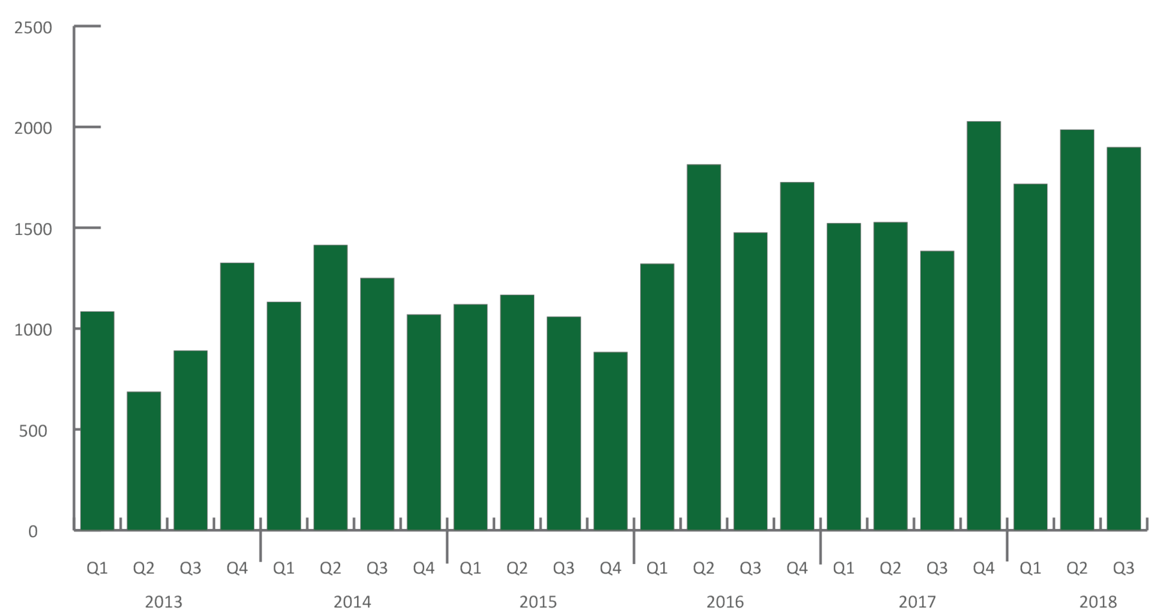
Canada's investment industry turned in another strong performance in the nine months ended September 2018, led by robust retail financial operations. Operating profit was up 28 percent in the latest January-September period, compared to the corresponding period in 2017.

Even if industry profit falls 20 percent in the final quarter of 2018, a likely event given weakening market and economic conditions at year-end, overall profit will still total a record $7.1 billion, ahead of 2017 by roughly 10 percent. Further, over the past three years, operating profit has averaged well above 2014-15 levels (roughly 50 percent higher). The accelerating demand for wealth management services in recent years has been a key driver of earnings growth, a trend that is likely to continue for the foreseeable future.

Many of the independent retail firms shared in the strong earnings gains reflecting their effectiveness in competing for the expanding advisory business. The year was nicely rounded out with institutional firms making solid gains in investment banking, particularly in the second and third quarters of last year. The corporate advisory business at the boutiques also turned in good results, despite a slumping energy sector. Active financing in small and mid-cap non-resource companies, both in public and private markets, provided a boost in business activity. For example, IPOs launched on the venture exchange doubled last year and secondary financings rose 13 percent, with cannabis companies and REITs as active issuers in the marketplace.

Investment banking, however, showed only modest gains at the integrated firms in the January-September 2018 period, as financing activity for large cap firms

Industry Operating Profits ($ Millions)

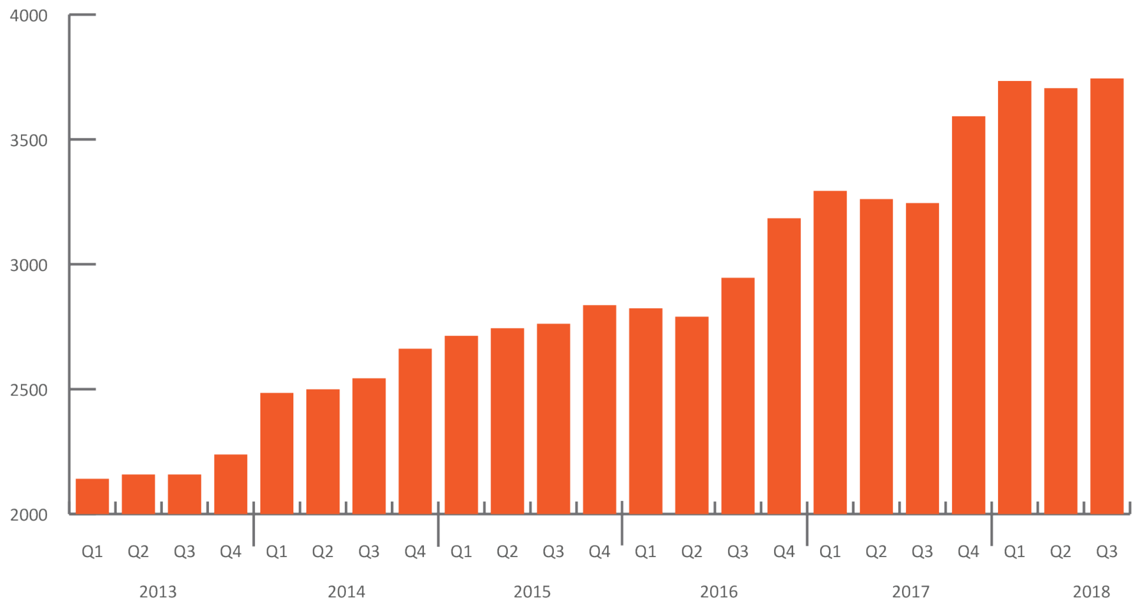


Source: IIROC Monthly Financial Reports

fell off in the third quarter, a trend that likely continued through the year-end. Total equity financings on the TSX and TSXV combined were down 25 percent year-over-year through December 2018, led by more than a 50 percent drop in energy sector issues and weaker financings elsewhere in the corporate sector.

The broadening in the wealth platform at dealers to include financial and estate planning and other fee-based services and accounts, has driven earnings higher, reflected in the steady rise in fee earnings. Industry fee revenues have topped the $2 billion mark in each of the latest two quarters, more than double fee earnings five years ago. While fee-based revenue is vulnerable to portfolio valuation changes from market swings, the earnings are much more stable than traditional transactional commissions.

Industry Retail Revenues ($ Millions)



Source: IIROC Monthly Financial Reports; IIAC estimates

Continued strong retail demand for advice and financial services boosted not just the traditional retail business but encouraged firms to respond to growing demand for online services by building out hybrid online wealth models and online self-directed discount trading models through internal investment, joint ventures, and a restructuring of existing businesses. This has been spurred by competitive pressure from online wealth providers or independent 'robo-advisors' attempting to diversify business into new customer channels, including group retirement plans, advisor and dealer partnerships. The number of advisor offerings from these fintech firms will likely continue to expand in 2019, further altering the fabric of financial advice.

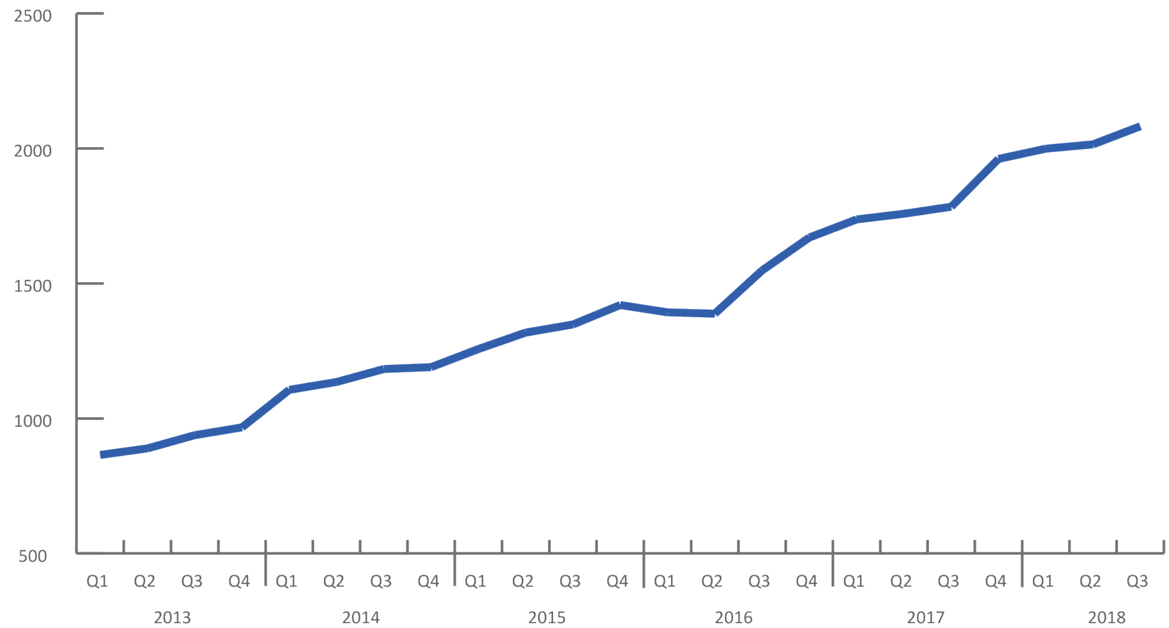
A strong uptick in net interest earnings (the spread between deposit rates for cash balances and market rates) also boosted retail revenues in 2018. Net interest earnings were up roughly one-third over the previous year, to total $2 billion (if fourth quarter earnings spreads match the previous two quarters), with the rise in short rates widening retail lending spreads. Net interest earnings account for 10 percent of total revenue, roughly double the share in the last several years. The rise in short-term interest rates in 2018 contributed to this widening in interest spreads.

The momentum in the institutional and retail businesses in the past year, before petering out in late summer, was propelled by robust market conditions, a resurgent U.S. economy and surprisingly strong domestic economy fueled by consumer spending, housing and non-residential construction, and export-led growth. A modest uptick in interest rates and flattening in the yield curve spurred stepped-up trading in debt markets.

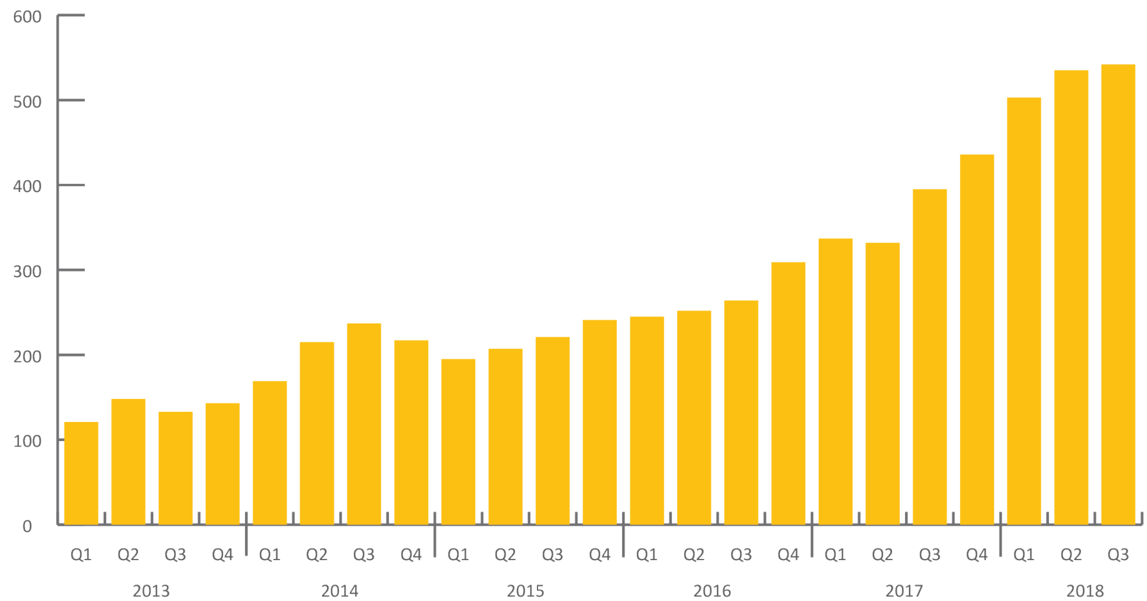
THREATS BELOW THE WATERLINE

The strong financial results should not be the key take-away from recent industry results. The sudden weaker domestic economic and market conditions that dragged down performance in the fourth quarter of 2018, and the sharp upward move in operating costs, will likely continue well into 2019, placing further pressure on operating margins and putting at further risk the viability of small and mid-sized dealers struggling to cope with transforming retail markets, rising operating costs and stiff competition.

Industry Fee Revenues ($ Millions)



Industry Net Interest Revenues ($ Millions)



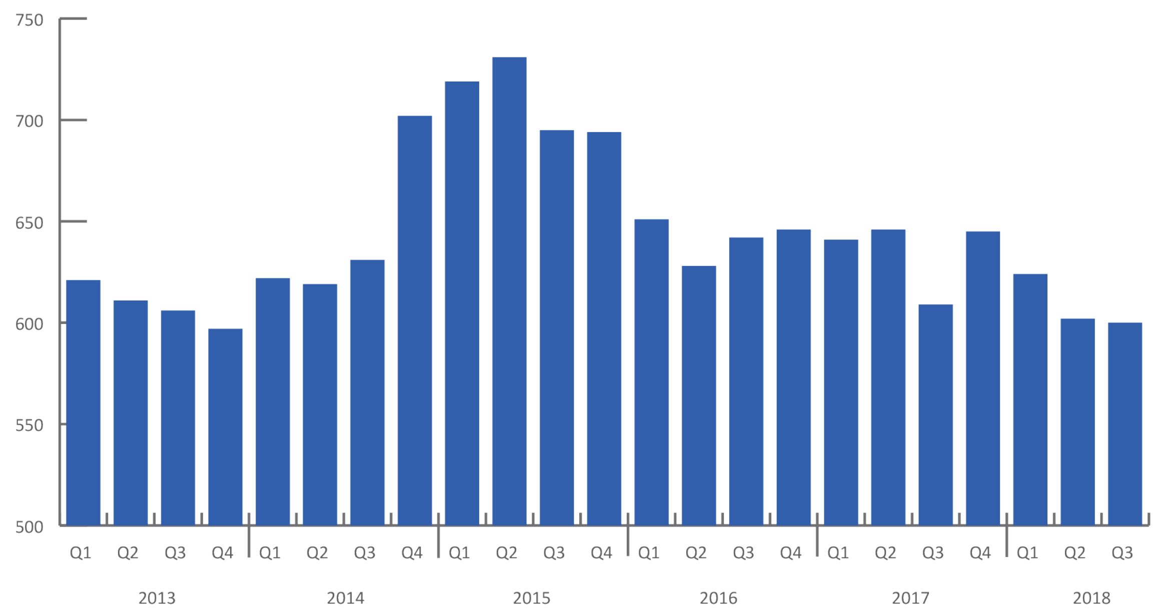
Sources: IIROC Monthly Financial Reports

More recently, economic indicators have turned more negative, with no sign of relief from high corporate and personal tax rates and the heavy regulatory burden across the corporate sector, notably for resource project development, such as pipeline construction. Despite support from the accelerated depreciation allowance and assumed approval of the Canada-United States-Mexico Agreement (CUSMA) by the new U.S. congress, growth in business spending is expected to be modest, led by weakness in the energy sector. Most seriously, the negative business climate in the country, combined with attractive opportunities south of the border, have spurred significant outflows of domestic capital as well as much diminished interest by foreign investors in investing in Canada. The sharp decline in Canadian equity markets, with the S&P/TSX Composite Index down 11 percent since early September, and a depreciating Canadian dollar hammered by the combination of lower commodity prices and anticipated slower global growth, underlines the unfolding negative outlook for business. All eyes will be on the February-March federal budget for further measures that will signal a shift to pro-growth macro policies.

ACCELERATING OPERATING COSTS RISK CAPSIZING THE INVESTMENT INDUSTRY

The factor that poses the greatest threat to dealer earnings and performance, and the viability of small dealers in the coming year, is the worrisome steady upward trend in operating costs driven by steadily expanding compliance costs and technology/systems applications for front and back office operations.

Industry Commissions from Mutual Funds ($ Millions)

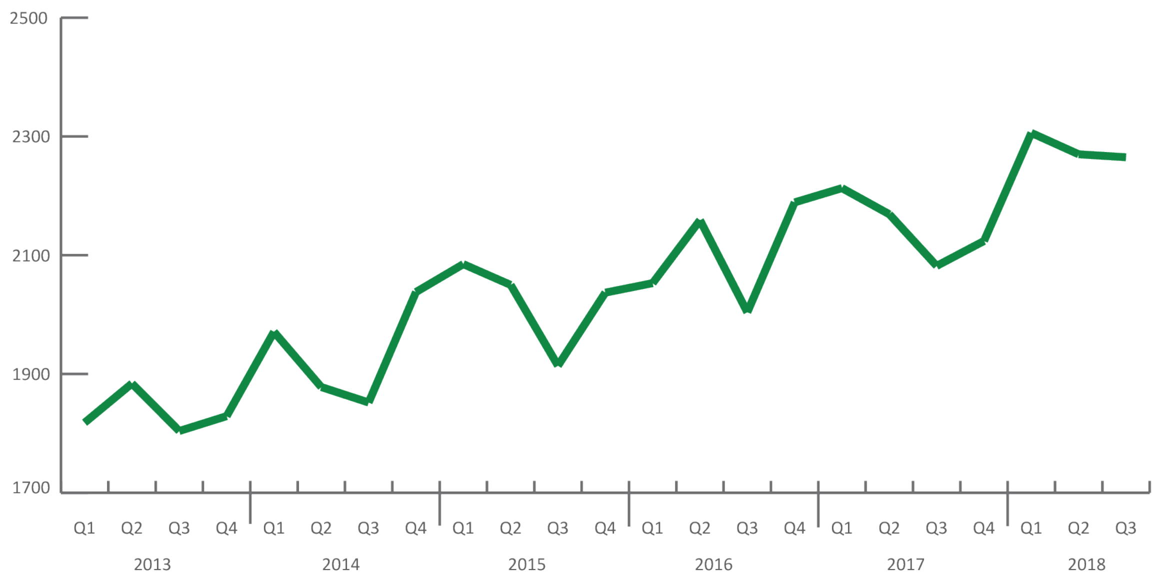


Source: IIROC Monthly Financial Reports

The weakened economic outlook and a slumping stock market will feed back to slower revenue growth and earnings at IIAC member firms. Retail revenue growth, the core business of the investment industry, accounting for about two-thirds of overall business, will unlikely maintain the torrid pace of average annual growth of 12 percent over the past four years. We have already seen retail revenues level off. Relatively flat to downward trending share prices will put downward pressure on fee revenues and lower investor participation in traditional and online businesses. Moreover, the shift from mutual funds to lower fee-paying ETFs will continue apace and put further pressure on commission revenue. For example, in the past four years, mutual fund commission revenue has been on a steady downward trajectory, falling from a high of $730 million in the second quarter of 2015 to $600 million in the third quarter of 2018, an 18 percent decline.

These operating cost increases have vaulted to much higher levels in the past year: an overall industry increase of 6 percent compared with an annual average of 3.5 percent in the previous three years. These recent cost increases are astounding in an economy with inflation rates averaging in the 1-2 percent range. The ramp-up in operating costs in the past year relates to the relentless buildup in the regulatory burden carried by industry firms, notably finalization of the CRM2 requirements and compliance costs related to the implementing new systems for tax-reporting under FATCA and the OECD Common Reporting Standard. Technology and systems costs have been a key driver of overall cost increases, to meet both regulatory compliance demands, as well as efficiency and convenience improvements for clients of retail financial services. This upward trend in costs will continue, with the industry facing the upcoming client-focused reforms, as well as competitive pressures to improve efficiency and convenience in the delivery of financial services.

Industry Operating Expenses ($ Millions)



Source: IIROC Monthly Financial Reports

Operating cost increases this past year have hit the small and mid-sized dealers harder than the large integrated firms. Operating costs through the first three quarters of 2018 rose 9 percent at the full-service firms, and a record 18 percent at the introducer firms, with these introducers coping with substantial fee increases from service providers. Operating costs at the retail boutiques averaged an annual 5-6 percent through 2014-17. Significant and continued gains in retail revenue have, up to now, exceeded operating cost increases and kept the independent retail firms profitable over the past five years. However, the prospect of sliding growth in retail revenue from slumping stock markets, combined with further ratcheting up in operating costs, may push small dealers to the brink.

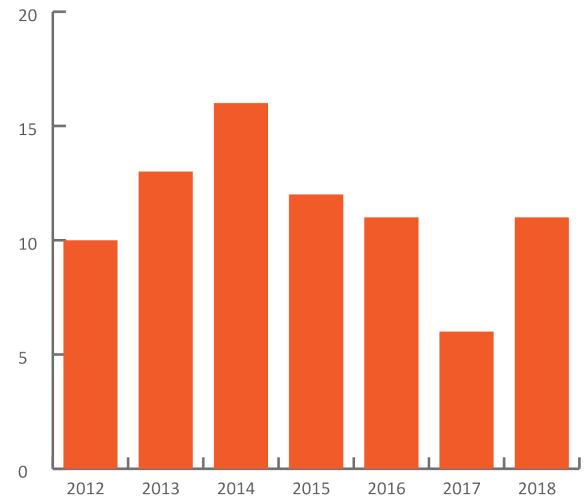
Over the past five years, i.e. 2013-18, over fifty small and mid-sized independent dealers, many with successful niche businesses, have exited the business through amalgamation and take-overs. The pace of industry exit slowed in 2017—with five dealers resigning their IIROC registration—likely due to a more positive outlook for the retail business and ability for technology to compensate for business scale. In 2018, the pace of dealer exits from the business picked up with eleven dealers amalgamating with other firms or shutting operations.

We anticipate even more firms to leave the business in 2019, given the ratcheting up in operating costs and prospect of an extended period of depressed market conditions and decelerating growth in retail and investment banking revenues. If history is a guide, the number of independent investment dealers could fall below 100 in a year or so.

CONCLUSION

Over the past five years or so, operating costs in the investment industry have climbed steadily year-after-year, with cost increases averaging 3-5 percent annually for the small and mid-sized dealers. While over fifty dealers have succumbed to amalgamation and closings since 2013, a core 70-80 retail and institutionally-focused dealers have survived. These firms have found successful business niches and developed resilient and effective business models to survive the turbulence of variable and, at times, difficult market conditions, the disadvantage of limited business scale and a structural escalation in operating costs to meet

Number of IIROC Firms Resigning or Amalgamating



Source: IIAC

expanding rule compliance requirements and ongoing business needs. A continuation in this trend will lead to a significant consolidation in the investment industry with the corresponding damaging impact on the competitive diversity in the domestic retail marketplace and capital-raising for small and mid-sized businesses in public and private markets. The one factor on the horizon that could make a positive difference to the viability of the small dealer community is the recently announced Ontario government deregulation initiative that could translate into significant streamlining and simplification of the regulatory system in Ontario, putting a brake on the escalation in compliance costs and raising the prospect of some reduction in operating costs.

Yours sincerely,

Ian C. W. Russell, FCSI
President & CEO, IIAC
January 2019

Industry

($ millions unless otherwise noted)

	Quarter-over-Quarter						Annual Year-over-Year						
	Quarters			% Change			Years				% Change		
	Q3 18	Q2 18	Q3 17	Q3/Q2	Q3 18/17	YTD 2018/ YTD 2017	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	163	163	165	0.0%	-1.2%		166	163	168	175	1.8%	-3.0%	-4.0%
Number of employees	41,877	42,002	40,636	-0.3%	3.1%		40,865	40,130	39,936	39,918	1.8%	0.5%	0.0%
Revenue													
Commissions	1,377	1,412	1,291	-2.5%	6.6%	2.2%	5,697	5,715	5,838	5,800	-0.3%	-2.1%	0.7%
Mutual fund only commissions	600	602	609	-0.4%	-1.5%	-3.7%	2,541	2,567	2,840	2,576	-1.0%	-9.6%	10.2%
Investment banking	866	1,079	737	-19.8%	17.5%	2.3%	3,610	3,744	3,246	3,793	-3.6%	15.3%	-14.4%
New issues equity	312	457	280	-31.6%	11.6%	-8.1%	1,681	1,994	1,578	2,057	-15.7%	26.4%	-23.3%
New issues debt	212	292	224	-27.5%	-5.4%	0.0%	928	783	814	801	18.5%	-3.8%	1.6%
Corporate advisory fees	341	329	233	3.6%	46.5%	20.7%	1,002	967	855	934	3.6%	13.2%	-8.5%
Fixed income trading	430	534	351	-19.5%	22.6%	117.9%	1,021	1,439	1,466	1,644	-29.0%	-1.8%	-10.9%
Equity trading	-156	-238	-573	34.2%	72.7%	330.9%	-331	129	8	243	-356.0%	1547.0%	-96.8%
Net interest	542	535	395	1.3%	37.1%	48.5%	1,500	1,070	864	839	40.2%	23.9%	3.0%
Fees	2,082	2,026	1,784	2.8%	16.7%	15.7%	7,240	5,998	5,343	4,614	20.7%	12.3%	15.8%
Other	359	313	237	14.4%	51.3%	54.7%	1,110	1,356	980	983	-18.2%	38.4%	-0.3%
Operating revenue[4]	5,757	5,839	4,913	-1.4%	17.2%	12.3%	21,156	20,275	17,754	17,915	4.4%	14.2%	-0.9%
Operating expenses[1]	2,265	2,270	2,082	-0.2%	8.8%	5.8%	8,588	8,405	8,086	7,739	2.2%	4.0%	4.5%
Operating profit[4]	1,899	1,986	1,323	-4.4%	43.5%	27.5%	6,479	6,335	4,228	4,866	2.3%	49.8%	-13.1%
Net profit (loss)	1,121	1,131	707	-0.8%	58.6%	33.9%	3,710	3,504	2,063	2,382	5.9%	69.9%	-13.4%
Shareholders' equity	27,943	27,077	24,802	3.2%	12.7%	12.7%	25,514	23,117	28,373	45,367	10.4%	-18.5%	-37.5%
Regulatory capital	39,562	38,654	38,078	2.3%	3.9%	3.9%	37,281	39,009	44,951	62,363	-4.4%	-13.2%	-27.9%
Client cash holdings	57,470	57,921	56,555	-0.8%	1.6%	1.6%	62,026	59,944	50,677	45,291	3.5%	18.3%	11.9%
Client debt margin outstanding	30,519	29,455	25,386	3.6%	20.2%	20.2%	26,267	23,740	21,173	18,913	10.6%	12.1%	12.0%
Productivity[2] **($ thousands)**	550	556	484	-1.1%	13.7%		518	505	445	449	2.5%	13.7%	-0.9%
Annual return[3] **(%)**	**16.1**	**16.7**	**11.4**	**-3.9%**	**40.8%**		**15**	**15**	**7.3**	**5.2**	**-4.1%**	**108.5%**	**2.0%**

Integrated

($ millions unless otherwise noted)

	Quarter-over-Quarter						Annual Year-over-Year						
	Quarters			% Change			Years				% Change		
	Q3 18	Q2 18	Q3 17	Q3/Q2	Q3 18/17	YTD 2018/ YTD 2017	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	10	10	10	0.0%	0.0%		10	10	10	10	0.0%	0.0%	0.0%
Number of employees	25,914	26,118	25,226	-0.8%	2.7%		25,391	25,886	25,590	25,430	-1.9%	1.2%	0.6%
Revenue													
Commissions	915	925	863	-1.1%	6.0%	0.1%	3,810	3,871	4,019	3,920	-1.6%	-3.7%	2.5%
Mutual fund only commissions	418	420	443	-0.4%	-5.7%	-9.1%	1,858	1,928	2,145	1,916	-3.6%	-10.1%	12.0%
Investment banking	595	804	550	-26.0%	8.2%	0.4%	2,606	2,722	2,291	2,749	-4.3%	18.8%	-16.7%
New issues equity	211	327	209	-35.5%	0.9%	-15.1%	1,202	1,448	1,158	1,540	-17.0%	25.0%	-24.8%
New issues debt	168	231	185	-27.3%	-9.2%	-0.6%	760	634	652	659	19.9%	-2.8%	-1.0%
Corporate advisory fees	216	246	155	-12.2%	39.5%	29.9%	644	640	481	550	0.6%	33.1%	-12.6%
Fixed income trading	369	472	305	-21.8%	21.1%	216.0%	732	1,162	1,168	1,243	-37.0%	-0.6%	-6.0%
Equity trading	-109	-441	-696	75.2%	84.3%	209.9%	-676	-183	-69	83	-269.7%	-164.5%	-183.1%
Net interest	458	451	348	1.6%	31.7%	43.3%	1,311	954	746	686	37.4%	27.9%	8.7%
Fees	1,621	1,589	1,401	2.0%	15.7%	14.9%	5,638	4,691	4,226	3,590	20.2%	11.0%	17.7%
Other	227	182	116	24.4%	95.4%	65.0%	690	967	565	601	-28.7%	71.1%	-5.9%
Operating revenue[4]	4,250	4,349	3,674	-2.3%	15.7%	11.4%	15,663	15,188	13,041	12,873	3.1%	16.5%	1.3%
Operating expenses[1]	1,563	1,594	1,447	-2.0%	8.0%	6.5%	5,920	5,808	5,561	5,290	1.9%	4.4%	5.1%
Operating profit[4]	1,559	1,654	1,142	-5.7%	36.5%	25.9%	5,322	5,241	3,327	3,572	1.6%	57.6%	-6.9%
Net profit (loss)	988	995	660	-0.7%	49.7%	29.5%	3,302	3,099	1,752	2,014	6.6%	76.9%	-13.0%
Shareholders' equity	22,531	21,645	19,390	4.1%	16.2%	16.2%	19,987	17,973	23,420	40,082	11.2%	-23.3%	-41.6%
Regulatory capital	31,070	30,145	29,663	3.1%	4.7%	4.7%	28,733	30,896	37,167	53,841	-7.0%	-16.9%	-31.0%
Client cash holdings	48,536	48,836	47,792	-0.6%	1.6%	1.6%	52,117	51,281	43,294	38,448	1.6%	18.5%	12.6%
Productivity[2] **($ thousands)**	656	666	583	-1.5%	12.6%		617	587	510	506	5.1%	15.1%	0.7%
Annual return[3] **(%)**	**17.5**	**18.4**	**13.6**	**-4.6%**	**28.8%**		**17**	**17**	**7.5**	**5.0**	**-4.2%**	**130.5%**	**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

	Quarter-over-Quarter						Annual Year-over-Year						
	Quarters			% Change			Years				% Change		
($ millions unless otherwise noted)	Q3 18	Q2 18	Q3 17	Q3/Q2	Q3 18/17	YTD 2018/ YTD 2017	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	91	91	90	0.0%	1.1%		91	87	90	94	4.6%	-3.3%	-4.3%
Number of employees	13,664	13,548	13,055	0.9%	4.7%		13,141	11,860	11,645	11,537	10.8%	1.9%	0.9%
Revenue													
Commissions	356	356	309	-0.1%	15.2%	13.6%	1,344	1,246	1,240	1,263	7.9%	0.4%	-1.8%
Mutual fund only commissions	180	181	165	-0.6%	9.3%	11.6%	677	632	681	644	7.1%	-7.2%	5.7%
Investment banking	61	89	58	-31.3%	5.5%	13.6%	285	218	200	213	30.5%	8.8%	-6.1%
New issues equity	37	54	33	-30.9%	13.6%	27.3%	179	138	104	130	29.9%	32.1%	-19.8%
New issues debt	14	22	17	-35.7%	-15.2%	-5.5%	63	60	63	57	4.8%	-4.1%	10.0%
Corporate advisory fees	9	12	9	-25.5%	3.3%	-11.2%	42	20	33	26	112.1%	-40.0%	27.6%
Fixed income trading	24	24	21	-2.4%	13.7%	-16.1%	115	118	60	74	-2.3%	97.3%	-18.7%
Equity trading	4	7	5	-45.7%	-26.9%	-10.8%	36	24	8	8	48.9%	200.3%	-1.0%
Net interest	80	80	51	0.0%	57.0%	69.1%	201	136	137	220	48.1%	-1.0%	-37.6%
Fees	431	395	347	9.1%	24.3%	27.4%	1,374	1,047	901	783	31.2%	16.2%	15.1%
Other	71	74	56	-4.5%	26.2%	40.0%	241	213	193	178	13.0%	10.4%	8.1%
Operating revenue	1,027	1,020	819	0.6%	25.4%	23.0%	3,490	3,002	2,740	2,740	16.2%	9.6%	0.0%
Operating expenses[1]	442	431	389	2.4%	13.6%	12.8%	1,599	1,462	1,422	1,348	9.4%	2.8%	5.4%
Operating profit	155	148	72	4.8%	114.7%	57.3%	395	319	212	329	23.9%	50.6%	-35.6%
Net profit (loss)	73	78	45	-7.0%	61.3%	62.4%	237	119	103	132	99.2%	15.6%	-22.1%
Shareholders' equity	1,768	1,736	1,633	1.9%	8.3%	8.3%	1,666	1,319	1,174	1,025	26.3%	12.4%	14.6%
Regulatory capital	2,286	2,244	2,106	1.9%	8.6%	8.6%	2,170	1,802	1,623	1,526	20.4%	11.0%	6.4%
Client cash holdings	6,915	6,809	6,367	1.6%	8.6%	8.6%	7,380	6,151	4,900	4,389	20.0%	25.5%	11.6%
Productivity[2] **($ thousands)**	301	301	251	-0.2%	19.8%		266	253	235	237	5.0%	7.5%	-0.9%
Annual return[3] **(%)**	**16.4**	**18.0**	**11.0**	**-8.7%**	**49.0%**		**14**	**9**	**8.8**	**12.9**	**58.1%**	**2.6%**	**-4.1%**

Retail Full Service

	Quarter-over-Quarter						Annual Year-over-Year						
	Quarters			% Change			Years				% Change		
($ millions unless otherwise noted)	Q3 18	Q2 18	Q3 17	Q3/Q2	Q3 18/17	YTD 2018/ YTD 2017	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	30	30	28	0.0%	7.1%		29	27	27	29	7.4%	0.0%	-6.9%
Number of employees	6,226	6,187	5,998	0.6%	3.8%		5,982	5,893	5,827	5,706	1.5%	1.1%	2.1%
Revenue													
Commissions	192	192	171	0.1%	12.4%	8.6%	753	719	683	657	4.8%	5.2%	4.1%
Mutual fund only commissions	105	104	102	0.4%	2.5%	0.6%	421	408	426	396	3.2%	-4.3%	7.6%
Investment banking	43	59	45	-28.1%	-5.3%	9.4%	204	149	150	156	36.8%	-0.9%	-3.5%
New issues equity	24	30	21	-20.0%	15.9%	32.9%	111	77	65	80	44.5%	17.7%	-18.2%
New issues debt	13	20	16	-34.4%	-17.0%	-7.6%	60	57	60	54	4.5%	-4.5%	11.2%
Corporate advisory fees	5	9	7	-41.8%	-28.8%	-22.8%	33	15	25	22	119.6%	-40.6%	13.7%
Fixed income trading	18	18	15	-0.8%	20.0%	-21.4%	90	89	44	49	0.7%	104.5%	-10.3%
Equity trading	1	3	3	-73.9%	-74.4%	-43.0%	21	12	2	-2	74.9%	551.5%	185.0%
Net interest	50	52	31	-4.8%	59.9%	74.3%	124	78	83	149	59.1%	-5.5%	-44.4%
Fees	236	208	183	13.5%	28.8%	24.1%	734	560	497	433	31.0%	12.7%	14.7%
Other	27	28	20	-1.8%	35.5%	31.6%	92	85	82	85	8.7%	3.7%	-3.0%
Operating revenue	566	560	467	1.1%	21.2%	16.6%	2,018	1,692	1,541	1,525	19.3%	9.8%	1.0%
Operating expenses[1]	246	240	219	2.3%	12.3%	8.9%	908	846	829	755	7.3%	2.1%	9.7%
Operating profit	117	107	68	9.6%	71.7%	50.5%	327	176	105	188	85.8%	68.1%	-44.3%
Net profit (loss)	63	60	36	4.2%	74.7%	65.4%	174	70	31	95	148.8%	124.4%	-67.2%
Shareholders' equity	1,056	1,014	872	4.1%	21.1%	21.1%	940	793	716	668	18.6%	10.8%	7.2%
Regulatory capital	1,331	1,292	1,159	3.1%	14.9%	14.9%	1,213	1,076	972	906	12.8%	10.7%	7.3%
Client cash holdings	5,103	5,025	4,603	1.6%	10.9%	10.9%	5,196	4,711	3,521	3,139	10.3%	33.8%	12.2%
Productivity[2] **($ thousands)**	364	362	311	0.5%	16.7%		337	287	264	267	17.5%	8.5%	-1.1%
Annual return[3] **(%)**	**23.8**	**23.8**	**16.5**	**0.2%**	**44.3%**		**19**	**9**	**4.4**	**14.2**	**105.8%**	**106.5%**	**-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		
	Q3 18	Q2 18	Q3 17	Q3/Q2	Q3 18/17	YTD 2018/ YTD 2017	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	61	61	62	0.0%	-1.6%		62	60	63	65	3.3%	-4.8%	-3.1%
Number of employees	7,438	7,361	7,057	1.0%	5.4%		7,159	5,967	5,818	5,831	20.0%	2.6%	-0.2%
Revenue													
Commissions	164	164	138	-0.3%	18.9%	20.2%	591	527	557	607	12.1%	-5.4%	-8.2%
Mutual fund only commissions	76	77	62	-2.0%	24.7%	32.1%	255	224	255	248	14.0%	-12.1%	2.7%
Investment banking	19	30	14	-37.8%	113.8%	23.1%	81	68	50	57	18.7%	35.9%	-12.9%
New issues equity	13	24	12	-44.8%	98.7%	16.9%	68	60	39	50	13.3%	53.6%	-22.4%
New issues debt	1	2	1	-47.7%	116.8%	56.3%	3	3	3	3	10.2%	2.7%	-9.2%
Corporate advisory fees	4	4	1	10.0%	nm	59.1%	9	5	8	4	89.5%	-38.0%	106.0%
Fixed income trading	6	6	6	-7.2%	5.6%	6.0%	26	29	16	25	-11.7%	78.2%	-34.9%
Equity trading	3	4	3	-23.9%	26.4%	32.7%	15	12	6	10	23.0%	95.2%	-39.9%
Net interest	31	28	20	9.1%	39.9%	60.2%	77	58	55	72	33.4%	5.8%	-23.6%
Fees	196	188	164	4.2%	14.6%	31.5%	640	487	404	349	31.4%	20.6%	15.6%
Other	44	46	36	-6.1%	28.9%	44.2%	148	128	111	94	15.9%	15.4%	18.0%
Operating revenue	461	461	352	0.0%	30.9%	31.1%	1,472	1,309	1,199	1,214	12.5%	9.2%	-1.2%
Operating expenses[1]	196	191	170	2.6%	12.3%	18.1%	691	617	593	593	12.1%	4.1%	0.0%
Operating profit	38	41	4	-7.7%	nm	61.3%	68	143	107	141	-52.3%	33.6%	-24.0%
Net profit (loss)	10	18	9	-45.3%	97.2%	50.4%	63	50	72	37	25.8%	-30.4%	93.2%
Shareholders' equity	713	721	760	-1.2%	-5.1%	-5.1%	725	526	458	357	37.9%	14.8%	28.4%
Regulatory capital	955	952	947	0.3%	0.6%	0.6%	956	726	652	620	31.8%	11.4%	5.1%
Client cash holdings	1,812	1,784	1,764	1.5%	1.1%	1.1%	2,184	1,440	1,379	1,251	51.7%	4.4%	10.3%
Productivity[2] ($ thousands)	248	250	200	-1.0%	25.5%		206	219	206	208	-6.1%	6.3%	-1.0%
Annual return[3] (%)	**5.5**	**9.8**	**4.7**	**-44.6%**	**107.9%**		**9**	**10**	**15.7**	**10.4**	**-13.3%**	**-36.2%**	**5.3%**

Institutional

($ millions unless otherwise noted)

	Quarter-over-Quarter						Annual Year-over-Year						
	Quarters			% Change			Years				% Change		
	Q3 18	Q2 18	Q3 17	Q3/Q2	Q3 18/17	YTD 2018/ YTD 2017	2017	2016	2015	2014	17/16	16/15	15/14
Number of firms	62	62	65	0.0%	-4.6%		65	66	68	71	-1.5%	-2.9%	-4.2%
Number of employees	2,299	2,336	2,355	-1.6%	-2.4%		2,333	2,384	2,701	2,951	-2.1%	-11.7%	-8.5%
Revenue													
Commissions	106	131	120	-19.0%	-11.7%	-10.5%	542	598	579	617	-9.3%	3.3%	-6.1%
Investment banking	209	185	128	13.0%	63.4%	4.7%	720	804	755	830	-10.4%	6.5%	-9.0%
New issues equity	64	76	38	-15.5%	68.3%	0.4%	300	408	315	387	-26.6%	29.5%	-18.5%
New issues debt	29	39	21	-24.3%	40.4%	8.2%	105	88	99	85	18.9%	-11.2%	16.1%
Corporate advisory fees	116	71	69	64.1%	67.8%	7.4%	316	307	341	358	2.9%	-9.9%	-4.8%
Fixed income trading	37	37	25	-0.8%	48.3%	-20.4%	174	159	237	328	9.7%	-33.0%	-27.6%
Equity trading	-51	196	118	-125.7%	-142.8%	-22.3%	310	288	69	151	7.6%	317.2%	-54.4%
Net interest	3	4	-4	-11.4%	182.4%	271.9%	-12	-20	-19	-67	39.7%	-3.3%	71.2%
Fees	30	41	36	-28.4%	-17.8%	-29.9%	229	260	216	242	-11.9%	20.2%	-10.6%
Other	61	57	65	7.1%	-5.9%	44.1%	179	176	222	203	1.8%	-20.7%	9.2%
Operating revenue	481	464	392	3.7%	22.7%	1.1%	1,897	2,265	2,059	2,303	-16.2%	10.0%	-10.6%
Operating expenses[1]	260	245	245	6.3%	6.2%	-7.7%	1,068	1,135	1,103	1,100	-5.9%	2.9%	0.2%
Operating profit	185	179	115	3.8%	61.0%	17.1%	656	957	775	965	-31.5%	23.5%	-19.7%
Net profit (loss)	61	58	3	5.5%	nm	83.1%	170	286	208	235	-40.5%	37.5%	-11.7%
Shareholders' equity	3,644	3,696	3,780	-1.4%	-3.6%	-3.6%	3,861	3,825	3,779	4,261	1.0%	1.2%	-11.3%
Regulatory capital	6,205	6,265	6,309	-1.0%	-1.6%	-1.6%	6,378	6,310	6,160	6,997	1.1%	2.4%	-12.0%
Client cash holdings	2,019	2,276	2,397	-11.3%	-15.8%	-15.8%	2,528	2,512	2,483	2,453	0.7%	1.2%	1.2%
Productivity[2] ($ thousands)	837	794	666	5.4%	25.7%		813	950	762	780	-14.4%	24.6%	-2.3%
Annual return[3] (%)	**6.7**	**6.2**	**0.3**	**7.1%**	**nm**		**4**	**7**	**5.5**	**5.5**	**-37.0%**	**27.2%**	**0.0%**

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[2] Annual revenue per employee.

[3] Annual return is calculated as net profit/shareholder's equity.

Domestic Insitutional

($ millions unless otherwise noted)

	Quarter-over-Quarter						Annual Year-over-Year						
	Quarters			% Change			Years				% Change		
	Q3 18	**Q2 18**	**Q3 17**	**Q3/Q2**	**Q3 18/17**	**YTD 2018/ YTD 2017**	**2017**	**2016**	**2015**	**2014**	**17/16**	**16/15**	**15/14**
Number of firms	62	62	65	0.0%	-4.6%		65	66	68	71	-1.5%	-2.9%	-4.2%
Number of employees	2,299	2,336	2,355	-1.6%	-2.4%		2,333	2,384	2,701	2,951	-2.1%	-11.7%	-8.5%
Revenue													
Commissions	106	131	120	-19.0%	-11.7%	-10.5%	542	598	579	617	-9.3%	3.3%	-6.1%
Investment banking	209	185	128	13.0%	63.4%	4.7%	720	804	755	830	-10.4%	6.5%	-9.0%
New issues equity	64	76	38	-15.5%	68.3%	0.4%	300	408	315	387	-26.6%	29.5%	-18.5%
New issues debt	29	39	21	-24.3%	40.4%	8.2%	105	88	99	85	18.9%	-11.2%	16.1%
Corporate advisory fees	116	71	69	64.1%	67.8%	7.4%	316	307	341	358	2.9%	-9.9%	-4.8%
Fixed income trading	37	37	25	-0.8%	48.3%	-20.4%	174	159	237	328	9.7%	-33.0%	-27.6%
Equity trading	-51	196	118	-125.7%	-142.8%	-22.3%	310	288	69	151	7.6%	317.2%	-54.4%
Net interest	3	4	-4	-11.4%	182.4%	271.9%	-12	-20	-19	-67	39.7%	-3.3%	71.2%
Fees	30	41	36	-28.4%	-17.8%	-29.9%	229	260	216	242	-11.9%	20.2%	-10.6%
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Operating revenue	481	464	392	3.7%	22.7%	1.1%	1,897	2,265	2,059	2,303	-16.2%	10.0%	-10.6%
Operating expenses[1]	260	245	245	6.3%	6.2%	-7.7%	1,068	1,135	1,103	1,100	-5.9%	2.9%	0.2%
Operating profit	185	179	115	3.8%	61.0%	17.1%	656	957	775	965	-31.5%	23.5%	-19.7%
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Annual return[3] (%)	**6.7**	**6.2**	**0.3**	**7.1%**	**nm**		**4**	**7**	**5.5**	**5.5**	**-37.0%**	**27.2%**	**0.0%**

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[2] Annual revenue per employee.
[3] Annual return is calculated as net profit/shareholder's equity.