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Securities Industry Performance

Business and Profitability Trends

January - September 1997

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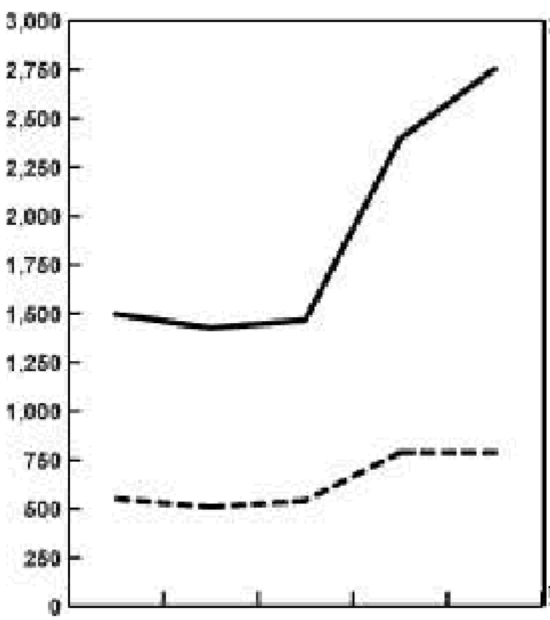
The Canadian securities industry is on track to matching last year's $2 billion record operating profit. Operating profit in the first nine months this year totalled $1.5 billion, slightly higher than the same period a year ago. Although markets have been quite volatile in recent months, preliminary data suggest that solid per-formance has held up through much of the fourth quarter 1997.

Brokerage Revenues

$ millions



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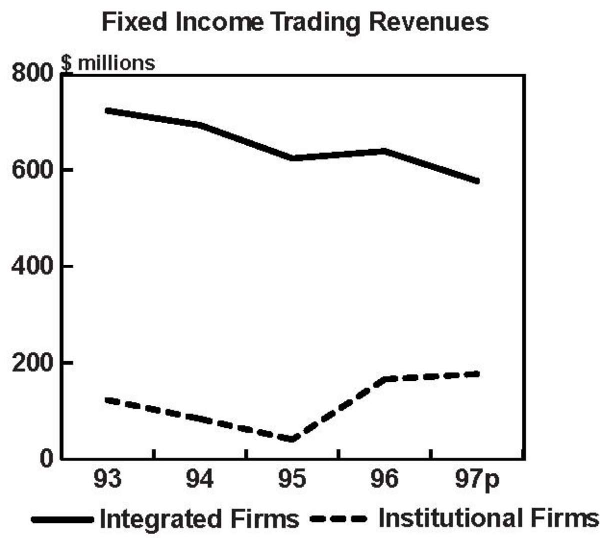
Integrated Firms --- Retail Firms

The industry has added nearly $2 billion in regulatory capital in the past year, split fairly evenly between shareholders' equity and sub-ordinated debt, to support increased proprietary trading and an active underwriting agenda and to finance infrastructure expansion. The larger capital base which totals over $8 billion means that shareholder return on equity will be less this year than last year, averaging about 20% versus 25%.

The underwriting business recorded the best revenue gains of any business operation in the latest nine month period, with revenues total-ling $1.6 billion, up 44% year-over-year. Pre-liminary data suggest that underwriting rev-enues will amount to more than $2 billion for the year, compared with record $1.7 billion earned in 1996. The integrated firms turned in the strongest performance in underwriting and advisory work this year, in terms of revenue gain, partly reflecting the proliferation of in-come trust deals managed by the integrated firms and distributed to their retail clientele. The underwriting business of the institutional firms, heavily focused on small and mid-cap financings, has been adversely affected by weaker emerging company markets this year, generally in junior mining companies, in the wake of the Bre-X fiasco. Despite a tougher environment, revenues this year will come in modestly close to the year ago level. In con-trast, revenues for the integrated firms for Janu-ary—September are already above revenues earned in all of last year. Over the past four years, all firms in the securities industry have benefited from a robust underwriting and cor-porate advisory business, with the integrated and institutional firms averaging annual gains of 18% and 10% respectively throughout this period.



Brokerage revenues, accounting for about one-half of industry revenue, have been the fastest-growing revenue component in the industry through the 1993-97 bull market. Revenues have expanded at an annual average rate of 18% through 1993-96. The integrated firms have posted the best figures in this period, with annual growth of 20%. These firms (the six bank-owned dealers and one independent firm) account for two-thirds of industry commission revenue. The specialized retail brokerage firms have recorded stellar per-formance, with annual increases in revenues av-eraging 14% in 1993-96. Brokerage revenue for the integrated and specialized firms this year will match or exceed last year's totals.

Fixed income operations at all firms took a battering in the July-September quarter, with industry revenues down 30% from the second quarter. Firms lost money on hedged posi-tions in response to the sudden widening in corporate and provincial spreads in early Sep-tember. For the year to date, industry fixed in-come trading revenues are up a meager 4%. In contrast, the affiliate firms of the US and Euro-pean investment banks turned in good results through the January-September 1997 period, with revenues up one-third year-over-year. This relatively strong performance reflected several factors. Some institutional clients switched busi-ness to the independent firms, with foreign af-filiate firms ending up as beneficiaries, in re-sponse to the acquisition of a large independ-ent firm by a bank-owned dealer. Also, for-eign affiliate firms benefited from good results trading corporate bonds.

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