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Securities Industry Performance

Business and Profitability Trends
January - March 1998

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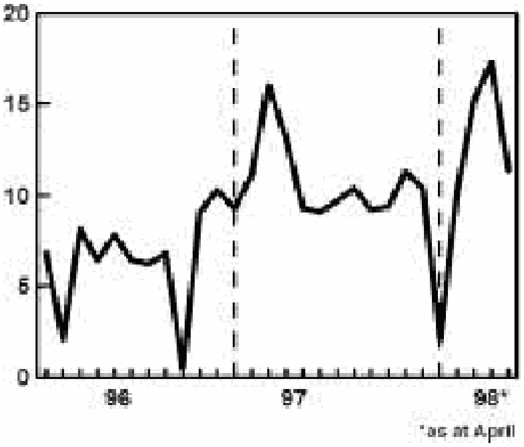
Operating profit totalled $516 million in January — March 1998, maintaining the stable quarterly trend evident over the past two years. Strong seasonal gains in retail commission earnings which rose 12% in the latest quarter offset a sharp decline in under-writing revenues, enabling the industry to record steady earnings in the first quarter this year. Tight control over operating costs in the quarter was a contributing factor.

The industry return on equity rose sharply in the quarter to 26%, up from 18% in the previous quar-ter, despite modest gains in net profit and a steady level of operating profit. Regulatory capital, how-ever, declined nearly $500 million in the latest quar-ter. This reduction reflected a corporate restruc-turing at a large member firm as the organization shifted the ownership of an investment in a sub-sidiary or affiliate out of the member. This change of ownership and corresponding reduction in capi-tal had no net effect on the member's ability to conduct business as capital invested in subsidiar-ies or affiliates is not available to finance the bro-kerage operations of a member and is recorded as a non-allowable asset for regulatory capital purposes.

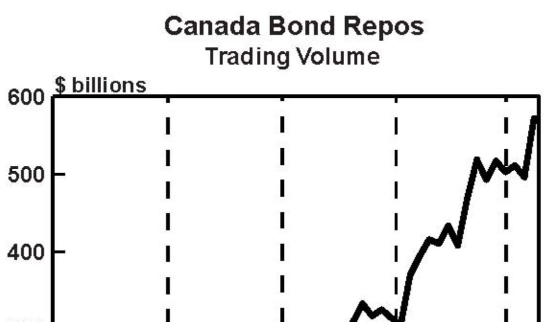
Stepped up mutual fund sales and more active trad-ing in equities in the January — February period prior to the retirement savings deadline at the end of last February boosted commission earnings in the first quarter this year. Mutual fund sales for the lat-est quarter $47 billion, up one-third from sales in the previous quarter. Share turnover on the four Canadian stock exchanges was up 11 % in the quar-ter. Commissions rose 12% in the first quarter 1998 to $1.1 billion.

Mutual Fund Industry Monthly Gross Sales

$ billions



The pace of common equity financings slowed through the first quarter this year weakening earn-ings performance. For example, common equity financings totalled nearly $6 billion in January — March 1998, down from $9 billion in the preceding quarter and less than the average quarterly level of $8 billion throughout last year. Corporate debt financings also tailed off in the first quarter, with financings totalling $2 billion compared with $4-5 billion in the middle two quarters of last year. Earn-ings from underwriting operations fell 27% to $529 million in January — March 1998. This revenue de-cline was similar in proportionate terms for inte-grated and institutional firms.



For the second consecutive quarter, the industry posted gains in fixed income trading operations. Gross trading revenues rose 8% in January — March 1998 on the heels of improved results in the pre-ceding quarter. Stable interest rate spreads as well as active secondary markets for corporate bonds contributed to good results. Active repo markets in the first quarter, and throughout last year, underpinned strong performance in fixed income trading operations. Dealers have used the repo market to finance portfolio transactions for client and for proprietary accounts. Moreover, repo transactions have become a popular short-term asset, particu-larly among international institutions, reflecting spreads over assets such as Canada treasury bills.

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