

# U.S. tax reform takes a big toll

Had the big banks and life insurers not taken significant charges, the average earnings gain would've been 29% rather than only 6.6%

BY CATHERINE HARRIS

**ABOUT HALF OF THE FINANCIAL services companies** included in *Investment Executive's* quarterly profit survey posted earnings gains in the most recent fiscal quarter for which data are available.

The average increase in net income was 6.6% for the 42 publicly traded companies in the fiscal quarter that ended between Nov. 30, 2017, and Jan. 31, 2018, compared with the corresponding quarter a year earlier. That was despite significant charges that the big banks and life insurance companies were forced to take because of U.S. tax reform. Without those charges, the average gain would have been 29%.

(These figures exclude **Great-West Lifeco Inc.** [GWL] and **IGM Financial Inc.**, as the results of both are consolidated with those of **Power Financial Corp.**)

Of these companies, 17 saw their earnings increase and four posted positive net income vs a loss in the corresponding quarter a year prior. That left 18 companies with lower earnings and three in a loss position.

In total, the Big Five banks and the Big Three life insurance companies (lifecos) combined were forced to take \$3.2 billion in charges related to U.S. tax reform.

This may sound counterintuitive, as these companies will pay less tax on their U.S. earnings as a result of the reduction in the U.S. corporate tax rate to 21% from 35%. However, the initial impact on the companies' balance sheets is a reduction in the value of deferred tax assets.

(Deferred tax assets are based on the tax rates that are expected to apply when these assets are reported for tax purposes. This expectation involves anticipated future taxable profits to offset projected tax deductions, such as for previous net losses. When tax rates decline, the value of those future tax assets and liabilities also decline.)

"For the banks, the charges are a short-term impact, as the lower corporate tax rate will allow the banks to earn back these charges over the next few quarters," says Robert Colangelo, senior

## FINANCIAL SERVICES PROFIT SURVEY

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DEC. 31, 2017, UNLESS OTHERWISE NOTED

	ASSETS		REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		EFFICIENCY RATIO (%) <sup>3</sup>		CASH FLOW <sup>4</sup>		ROE (%) <sup>5</sup>	
	(\$BIL.)	% CHG.	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	'16	'17	(\$MIL.)	% CHG.	'16	'17
<b>Banks and deposit-taking institutions</b>														
Bank of Montreal (Jan. 31) <sup>1,6</sup>	728	5.1	5,801	5.1	976	-28.7	2.01	1.43	60.9	62.6	8,224	3.3	12.1	13.3
Bank of Nova Scotia (Jan. 31)	923	4.1	7,088	3.2	2,337	16.3	1.57	1.86	52.2	47.7	8,678	43.8	13.8	14.6
CIBC (Jan. 31) <sup>1</sup>	587	14.3	4,612	6.6	1,335	14.9	2.88	2.96	52.6	55.9	2,593	N/A	18.1	16.8
Canadian Western Bank (Jan. 31)	28	12.5	193	10.3	66	23.3	0.56	0.69	46.2	44.6	-190	N/A	9.1	9.7
Equitable Group	21	8.8	89	0.8	40	-3.0	2.56	2.36	33.9	37.3	-4	N/A	15.1	15.9
Home Capital Group	18	-14.3	110	-24.7	31	-39.6	0.79	0.38	48.8	59.8	-999	N/A	16.6	2.5
HSBC Bank Canada	96	1.8	540	5.5	152	-19.1	0.36	0.28	62.9	60.6	2,317	N/A	14.8	14.1
Laurentian Bank of Canada (Jan. 31) <sup>1</sup>	47	10.0	267	10.5	61	17.5	1.40	1.43	67.4	65.0	-114	N/A	9.9	11.1
National Bank of Canada (Jan. 31) <sup>1</sup>	251	7.2	1,868	9.4	556	10.8	1.35	1.48	56.5	54.6	3,682	96.1	12.8	18.0
Royal Bank of Canada (Jan. 31) <sup>1,6</sup>	1,276	9.9	10,920	11.8	3,020	7.1	1.83	2.02	54.7	54.8	14,574	97.6	15.1	16.7
TD Bank (Jan. 31) <sup>1,6</sup>	1,261	6.3	9,465	2.5	2,425	-4.3	1.32	1.28	57.1	53.1	2,231	-76.7	13.0	14.9
VersaBank (Jan. 31) <sup>1,7</sup>	2	-3.7	12	8.5	4	-67.8	0.59	0.16	56.5	55.5	-72	N/A	4.5	10.6
<b>Subtotal</b>	<b>5,238</b>	<b>7.4</b>	<b>40,965</b>	<b>6.1</b>	<b>11,003</b>	<b>1.9</b>			<b>55.6</b>	<b>54.4</b>	<b>40,920</b>	<b>53.3</b>	<b>14.0</b>	<b>15.2</b>

	ASSETS		REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		CASH FLOW <sup>4</sup>		CF/SHARE <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$BIL.)	% CHG.	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	(\$MIL.)	% CHG.	'16	'17	'16	'17
<b>Finance companies</b>														
Accord Financial <sup>1</sup>	NP	NP	9.9	28.7	2.4	9.9	0.27	0.29	NP	NP	NP	NP	NP	NP
ECN Capital <sup>1,8</sup>	3.5	-45.4	30.0	-17.2	-5.6	N/A	-0.04	-0.02	-247.4	N/A	0.33	-0.66	NC	2.3
Element Fleet Management <sup>1,8</sup>	17.6	-4.6	229.8	-1.6	10.3	-90.5	0.26	0.00	164.7	-11.1	0.46	0.40	NC	8.6
First National Financial <sup>1</sup>	32.8	7.8	133.9	-18.8	45.9	-36.0	1.18	0.75	505.1	103.2	4.13	8.41	43.4	54.5
MCAN Mortgage	2.2	-2.8	14.4	17.7	10.8	20.0	0.39	0.47	19.1	-36.7	1.31	0.82	15.0	13.2
Timbercreek Financial <sup>1,8,9</sup>	1.7	5.8	23.3	13.1	12.9	-2.2	0.17	0.17	17.8	46.6	0.16	0.23	NC	8.1
<b>Subtotal</b>	<b>57.7</b>	<b>-34.9</b>	<b>441.4</b>	<b>-7.1</b>	<b>76.8</b>	<b>-59.7</b>			<b>459.3</b>	<b>-24.0</b>			<b>29.4</b>	<b>10.2</b>

	ASSETS UNDER MGMT.		REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		CASH FLOW <sup>4</sup>		CF/SHARE <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$BIL.)	% CHG.	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	(\$MIL.)	% CHG.	'16	'17	'16	'17
<b>Life insurers</b>														
E-L Financial	8.9	7.2	924	2,728.9	305	220.9	22.77	58.81	56	-32.1	20.02	1.99	9.1	9.4
Great-West Lifeco <sup>10</sup>	496.3	8.0	12,888	64.9	561	-37.9	0.70	0.52	2,287	64.7	1.20	2.27	13.5	13.0
Industrial Alliance <sup>1</sup>	51.0	2.7	3,680	438.0	140	-8.5	1.48	1.26	-186	N/A	-1.67	-1.79	9.5	12.0
Manulife Financial <sup>1</sup>	618.3	8.0	16,247	N/A	-1,681	N/A	0.03	-0.82	5,136	6.4	2.38	2.62	8.0	9.8
Sun Life Financial <sup>1</sup>	812.2	9.4	8,648	265.5	306	-64.0	1.21	0.44	650	-52.8	2.07	0.99	12.2	13.9
<b>Subtotal</b>	<b>1,986.7</b>	<b>8.4</b>	<b>42,387</b>	<b>471.0</b>	<b>-369</b>	<b>N/A</b>			<b>7,943</b>	<b>5.9</b>			<b>10.4</b>	<b>11.7</b>

	ASSETS		REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		COMBINED RATIO (%) <sup>11</sup>		CASH FLOW <sup>4</sup>		ROE (%) <sup>5</sup>	
	(\$BIL.)	% CHG.	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	'16	'17	(\$MIL.)	% CHG.	'16	'17
<b>Property &amp; casualty and mortgage insurers</b>														
Co-operators General Insurance	5.9	1.2	732.1	8.4	64.9	-49.6	5.84	2.84	85.5	100.3	19.4	N/A	8.3	11.8
Echelon Financial Holdings	0.6	-26.2	68.2	38.7	-2.4	N/A	-0.52	-0.21	90.3	115.2	14.1	N/A	N/A	N/A
Fairfax Financial Holdings (US\$)	64.1	47.7	5,321.5	199.9	856.8	N/A	-30.77	30.87	90.1	100.8	-625.0	N/A	2.8	1.2
Intact <sup>1</sup>	27.9	22.1	3,244.0	59.6	239.0	29.2	1.38	1.65	92.5	92.6	23.0	-85.0	10.2	11.8
Growth MI Canada	6.9	4.7	234.7	-8.7	132.0	-5.7	1.52	1.45	37.5	28.8	134.8	-4.5	10.6	14.1
<b>Subtotal</b>	<b>105.5</b>	<b>32.6</b>	<b>9,600.5</b>	<b>100.5</b>	<b>1,290.3</b>	<b>N/A</b>					<b>-433.6</b>	<b>N/A</b>	<b>6.6</b>	<b>7.1</b>

	ASSETS UNDER MGMT.		REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		CASH FLOW <sup>4</sup>		CF/SHARE <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$BIL.)	% CHG.	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	(\$MIL.)	% CHG.	'16	'17	'16	'17
<b>Mutual fund and investment management companies</b>														
AGF Management (Nov. 30)	36.4	8.7	120.8	15.3	16.8	23.0	0.18	0.21	29.9	5.1	0.37	0.37	4.2	5.3
Brookfield Asset Management (US\$)	283.1	18.1	13,065.0	88.4	2,083.0	2,047.4	0.14	1.02	NP	NP	NP	NP	9.2	1.9
CI Financial	143.0	21.3	594.4	17.4	128.7	6.2	0.45	0.47	143.0	-25.3	0.72	0.52	28.0	25.9
Fiera Capital <sup>1</sup>	128.9	10.2	142.0	17.4	7.9	-1.3	0.09	0.08	47.5	85.9	0.29	0.48	5.4	4.5
Gluskin Sheff <sup>9</sup>	9.0	2.7	56.7	-12.2	19.1	-20.5	0.78	0.61	31.2	53.7	0.66	1.00	28.0	33.5
Guardian Capital Group	27.3	-0.1	63.1	65.1	31.8	60.1	0.65	1.07	24.3	63.5	0.49	0.81	12.4	13.5
IGM Financial <sup>10</sup>	156.5	9.7	792.7	-1.1	193.6	-17.7	0.97	0.79	215.1	-6.7	0.95	0.88	16.0	17.4
Integrated Asset Management <sup>9</sup>	2.4	-5.3	3.5	51.2	0.5	N/A	0.00	0.02	-2.1	N/A	-0.05	-0.07	N/A	10.2
Sprott	7.3	-20.8	20.9	-53.9	2.5	234.1	0.00	0.01	-14.6	N/A	0.08	-0.06	7.6	1.1
Stone Investment Group	0.5	-8.6	2.6	-10.6	0.2	N/A	0.00	0.01	0.9	-4.7	0.04	0.04	NA	NA
<b>Subtotal</b>	<b>794.5</b>	<b>13.6</b>	<b>14,861.8</b>	<b>72.4</b>	<b>2,484.1</b>	<b>378.1</b>			<b>475.2</b>	<b>-10.4</b>			<b>16.3</b>	<b>16.5</b>

	REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		CASH FLOW <sup>4</sup>		CF/SHARE <sup>2</sup>		ROE (%) <sup>5</sup>			
	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	(\$MIL.)	% CHG.	'16	'17	'16	'17		
<b>Brokerages</b>														
Canaccord Genuity Group	309.4	48.7	36.6	705.4	0.01	0.29	77.0	-44.7	1.38	0.65	N/A	4.0		
GMP Capital	55.1	-11.4	6.4	98.6	0.03	0.07	122.0	14.9	1.51	1.75	N/A	N/A		
Oppenheimer Holdings (US\$)	265.0	21.0	21.2	N/A	-0.13	1.61	18.3	N/A	-3.22	1.39	N/A	N/A		
<b>Subtotal</b>	<b>629.6</b>	<b>28.7</b>	<b>64.2</b>	<b>950.5</b>			<b>217.3</b>	<b>7.2</b>			<b>N/A</b>	<b>N/A</b>		

	REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		CASH FLOW <sup>4</sup>		CF/SHARE <sup>2</sup>		ROE (%) <sup>5</sup>			
	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	(\$MIL.)	% CHG.	'16	'17	'16	'17		
<b>Stock exchanges</b>														
TMX Group <sup>1</sup>	170.9	-2.3	49.5	-5.9	0.95	0.89	59.4	-23.6	1.40	1.06	0.2	7.2		

	ASSETS		REVENUE		NET INCOME		EPS (\$) <sup>2</sup>		CASH FLOW <sup>4</sup>		CF/SHARE <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	(\$MIL.)	% CHG.	'16	'17	(\$MIL.)	% CHG.	'16	'17	'16	'17
<b>Holding companies</b>														
Desjardins Group <sup>1</sup>	275	6.5	4,625	87.6	437	-15.6	N/A	N/A	958	N/A	1.50	N/A	7.2	8.1
Power Financial <sup>10</sup>	440	5.2	13,622	58.8	593	-44.6	0.78	0.56	2,422	53.1	3.11	10.3	12.5	
<b>Subtotal</b>	<b>715</b>	<b>5.7</b>	<b>18,247</b>	<b>65.3</b>	<b>1,030</b>	<b>-35.1</b>			<b>3,380</b>	<b>N/A</b>			<b>8.6</b>	<b>10.0</b>

N/A = NOT APPLICABLE; NA = NOT AVAILABLE BECAUSE THE COMPANY HAS NEGATIVE SHAREHOLDERS' EQUITY; NP = NOT PROVIDED; NC = NOT CALCULABLE BECAUSE COMPARABLE DATA WAS NOT PROVIDED

1. UNUSUAL, NON-RECURRING ITEMS HAVE BEEN EXCLUDED WHERE POSSIBLE. IN SOME CASES, THESE FIGURES HAVE BEEN ESTIMATED

2. PER-SHARE DATA ARE FULLY DILUTED EXCEPT WHEN THERE IS A LOSS OR NEGATIVE OPERATING CASH FLOW IN EITHER THIS QUARTER OR THE CORRESPONDING QUARTER A YEAR EARLIER, IN WHICH CASE THE