Smythe
ADVISORY

2017

Property & Casualty Insurance Brokerage Report

A Changing Landscape:

Uncovering the financial performance of the Canadian Insurance Industry

Smythe LLP
Property & Casualty Insurance Brokerage Report

Published by:

Smythe Advisory
700 - 355 Burrard Street
Vancouver, BC V6C 2G8
T: (604) 694-7548
mberris@smythecpa.com

www.smytheadvisory.com

Preface

Dear Readers,

This is the 6th Edition of the *Smythe Property & Casualty Insurance Brokerage Report*. This report will provide you with information on the financial performance of insurance brokerages collected from a Canada-wide sample.

The data collected for this report is from approximately 59 brokerage companies, representing 119 branches and what we believe is the largest available database of independent brokerage financial performance in Canada. The data represents financial results between January 2016 and February 2017. This year's report has focused in on independent brokerage companies with physical locations that range from 1 to 10.

Our report provides information on a variety of current economic trends and conditions in the industry. We have endeavored to present the information in a meaningful and user-friendly format. However, we understand that the inter-relationship between data may be complex and difficult to understand. We welcome inquiries and comments from readers who require specific data presented in this report.

Our report also contains some editorial opinion based on my experience as a chartered professional accountant (CPA), chartered business valuator (CBV) and merger and acquisition (M&A) advisor to the P&C industry over the past 25 years.

All information provided to us is held in the strictest confidence, and is only presented in the aggregate. In some cases, we have excluded data that was unique and that we believed might identify participants.

I would especially like to thank the research and financial modelling skills of my colleagues William Tam, CPA, CA and Brendan le Nobel, CPA, CA. In addition, this report would not be possible without the trust of brokerage owners from across Canada who took the time and effort to complete our survey and provide their financial data.

Sincerely,

Mike Berris, CPA, CA, CBV

About Smythe Advisory

Formally established in 2013, Smythe Advisory is a BC-based advisory practice with locations in Vancouver, Langley and Nanaimo. Smythe Advisory builds upon the business advice and consulting services that Smythe has been providing its accounting clients since the firm was founded in 1980. In addition to transaction advisory services, Smythe Advisory provides business valuations, financial modelling and corporate finance services.

Leading the Smythe Advisory practice is Partner Mike Berris, CPA, CA, CBV. Mike has been advising the insurance distribution industry for over 25 years and is recognized throughout the country as a leading advisor in this field. He frequently speaks to industry groups and contributes articles and papers to various insurance publications.

At Smythe Advisory, our goal is to deliver an exceptional level of client service and add value to our clients' businesses. Our team consists of five qualified chartered business valuators and three analysts. Mike can be reached directly at 604 694 7548 or mberris@smythecpa.com.

Contents

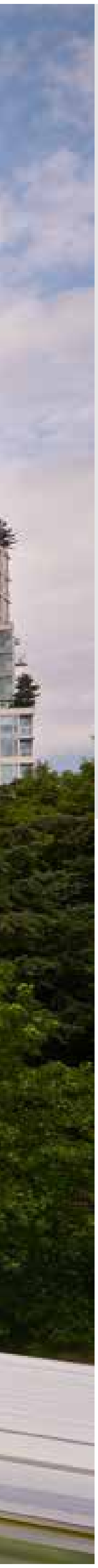
Industry Observations

The P&C market in Canada can be viewed as a mature industry that is highly competitive. With overall industry growth tied to GDP, individual companies are limited in their ability to increase premiums, and must grow through either acquisition or the development of new distribution channels.

P&C INDUSTRY OVERVIEW

Property and casualty (P&C) insurance is also known as general insurance as it provides protection for a wide array of interests. Property insurance provides financial protection in the event of damage to physical property, such as automobiles, buildings or other valuable possessions. Casualty insurance mainly covers legal liability against individuals and organizations for negligent acts or omissions. Insurance is an effective way of spreading risk by having an entire group share the losses for a few.

P&C companies collect premiums upfront for insuring risks. This pool of funds is invested and then used to pay insurance claims and other operating expenses over time. The timing difference in the collection of premiums and the payment of claims creates a capital pool that the insurance companies can invest. Almost all the profit earned in P&C insurance results from investment returns.



BROKERS' ROLE IN THE P&C INDUSTRY

A broker acts as an intermediary between the customer (individual or business) and the insurance company. The customer is charged a premium for the insurance policy, and the premium is paid to either the insurance broker (agency bill) or directly to the insurance company (direct bill). Insurance agents are like brokers; however, they represent a single insurer. Some insurance companies also sell and deliver policies directly to policy holders, they are known as direct writers. Other key participants in the P&C industry include underwriters, managing general agents (MGAs) and reinsurers. Underwriters evaluate risks, coverage and premium rates. MGAs generally have access to specialty insurance markets that they make available to brokers for a split of the commission. Reinsurers provide protection against large claims and catastrophic losses that may negatively affect an insurer's financial position.

The bulk of compensation for brokers comes in the form of premium-based commissions, usually a flat percentage of premiums, which varies across lines of business and insurers. The commission typically ranges from 11% to 20% depending on the type of policy purchased. In the case of agency bill, the broker collects the premium and remits to the insurance company net of the agreed commission. In the case of direct bill, the insurance company collects the premium and then pays the broker the commissions earned.

Insurance brokers may also receive contingent profit commission (CPC). CPC is paid if a broker places profitable business with the insurer. CPC is generally calculated based on the percentage of claims paid to premiums earned (earned loss ratio), along with the volume of business placed with the insurer; the lower the earned loss ratio, the greater the CPC. These payments can vary significantly from year to year.

While the above outlines the mechanics of the brokers' role, it is important to understand the importance of the customer/broker relationship. In most transactions, the broker plays the role of a "market maker" for the insurance underwriter. The broker helps the customer identify their coverage needs, and then matches those needs with insurers who have the capability of meeting those needs at an appropriate price.

While it is natural for an insurance company to want to protect their markets, the brokers' mandate is to represent their customers. The integrity of the competitive bidding process is critically important to the health of the market place.

CANADIAN P&C LANDSCAPE

The P&C market in Canada can be viewed as a mature industry that is highly competitive. With overall industry growth tied to GDP, individual companies are limited in their ability to increase premiums, and must grow through either acquisition or the development of new distribution channels.

There has been a significant industry consolidation over the past 15 years. In 1999, the top 5 and 10 insurers accounted for 34% and 54% of the market, respectively. In 2015, the top 5 and 10 insurers accounted for 42% of the market, and the top 10 had combined market share of 61%. It would not be unreasonable to expect that consolidation of the industry will continue.

Total premiums written in Canada in 2015 was more than $57 billion with approximately 200 companies competing. The market can be viewed as fragmented when there is only one insurer with a market share greater than 10% (Intact at 14%). We have summarized the market as follows: ❶

The overall market growth has approximated 4%[1] over the five-year period ended December 31, 2015. This is higher than the average GDP growth rate of 2.1%[2] over the same period. Personal property premiums have grown the fastest with an average growth rate of approximately 6%[3]. This may be a function of increases in home values, earthquake premiums and claims cost.

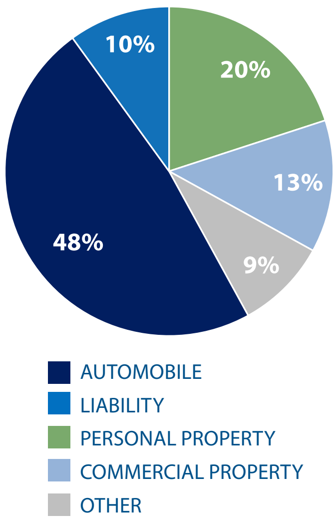
1 MSA 2016 Benchmark Report
2 Statista portal 2016
3 MSA 2016 Benchmark Report

The Canadian insurance market is comprised of four major lines of business including personal and commercial property, automobile and liability. Most larger insurers provide coverage for all lines of insurance. Having said that, there are a significant number of insurers that specialize in certain lines of business or even risk classes. It is the brokers job to know where they can best cover their customers insurance needs. We summarized the overall market as follows: ❷

❶ CANADIAN MARKET SHARE

	Direct Premiums Written (millions)		
	2015	2014	Market Share
Intact	7,957	7,332	14%
ICBC	4,646	4,233	8%
Aviva	4,109	3,957	7%
Desjardins	4,092	2,236	7%
TD Assurance	3,074	3,006	5%
RSA	2,859	2,999	5%
Wawanesa	2,741	2,573	5%
Lloyd's	2,693	2,204	5%
Co-operators	2,669	2,385	5%
Economical	2,004	1,959	4%
Other	20,373	21,338	35%
TOTAL	**$57,217**	**$54,222**	**100%**

❷ CANADIAN MARKET LINE OF BUSINESS



DISTRIBUTION CHANNELS

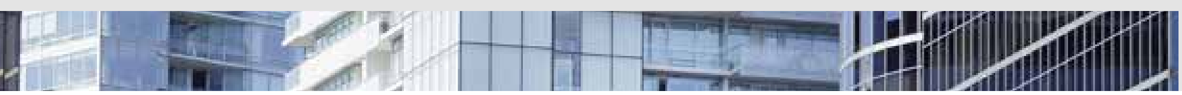
There are three primary distribution channels in Canada:

- Insurance brokers who match customers with insurance from multiple insurers;
- Insurance agents who work directly for an insurance company and offer products from that insurer alone; and
- Direct distribution by insurers, usually using the internet, call centres and affinity programs to reach the customer. 1

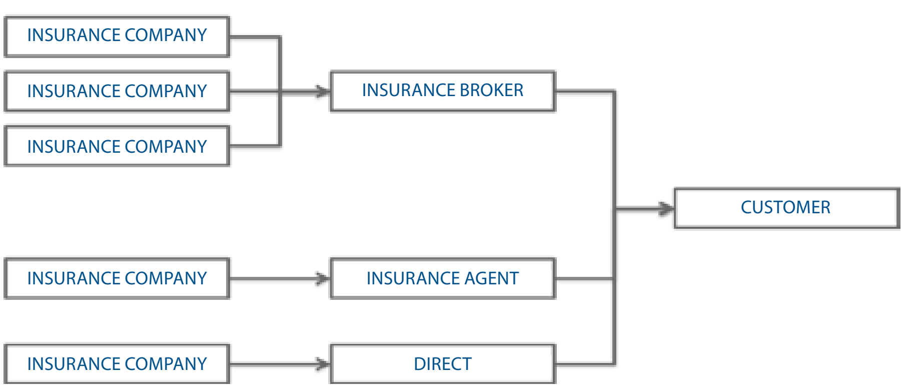
Historically, most personal lines insurance companies have distributed through insurance brokers. For over 20 years, technology, market pressures and more sophisticated underwriting models have led insurance companies down the road of direct distribution (including agents). While there are good reasons for brokers to be concerned, we believe the threat of direct distribution may be overstated. If we look at the US experience, actual direct distributors such as GEICO and Progressive have done well in that they increased their share of the automobile and personal lines market by 11% and 7%, respectively. The direct distributors took the market share primarily from the national brokers and exclusive agents. In fact, independent brokers also increased their market share in automobile and personal lines by 5% and 9%, respectively. In 2013, US direct distribution excluding agents can be summarized as follows:[4] 2

We have not been able to provide a similar market share analysis in Canada, as the data used in this

[4] 2013 Independent Insurance Agents & Brokers of America report and AM Best data



1 INSURANCE DISTRIBUTION CHANNELS



2 2013 US DIRECT DISTRIBUTION MARKET SHARE

Automobile	19%
Personal Property	15%
Commercial	1%
OVERALL MARKET	**8%**

report combines direct distributors and exclusive agents. We believe that the Canadian market would have less direct distribution than in the US mainly due to public automobile insurers such as ICBC, MPI and SAF.

The US market has a number of well-established exclusive agents including State Farm, Liberty Mutual, Allstate and Nationwide. These agents control a sizable portion of the US market. We have summarized a breakdown of US and Canadian premium distribution channels by line of business below[5]. It is important to note that the Canadian market share between direct/agents and brokers has remained constant for the past five years. 3

While direct and agency writers should have a financial advantage over companies that distribute through the broker network because they do not have to pay broker commissions, the US experience indicates that broker writers are still very competitive. We have summarized the net operating expense ratio for various distribution channels based on 2013 A.M. Best data as follows: 4

In Canada, the average five-year net loss ratio is 70% for both broker and direct writers. The five-year return on equity for direct writers is 11.9% compared to 8.5% for broker writers. Industry participants have shared with us that client retention is generally weaker with direct writers.

The better return on equity numbers would suggest that we can expect to see continued interest in the direct distribution channels in both Canada and the US.

5 AM Best 2013 data and MSA 2016 Market Share Report

3 ESTIMATED US AND CANADIAN MARKET CHANNEL ANALYSIS

		Direct/Agent	Broker
Automobile	USA	69%	31%
	Canada	37%	63%
Personal Property	USA	65%	35%
	Canada	44%	56%
Commercial/ Other	USA	21%	79%
	Canada	18%	82%
Canadian Market Share	2015	31.0%	68.0%
	2014	31.3%	68.7%
	2013	30.9%	69.1%
	2012	31.0%	69.0%
	2011	31.9%	68.1%

4 2013 US AVERAGE OPERATING EXPENSE RATIO BY SALE CHANNEL

National Broker Writers	40.9%
Regional Broker Writers	38.3%
Exclusive Agent Writers	41.2%
Direct Writers	25.9%

Operating expenses is a combination of acquisition, advertising general and administration expenses.

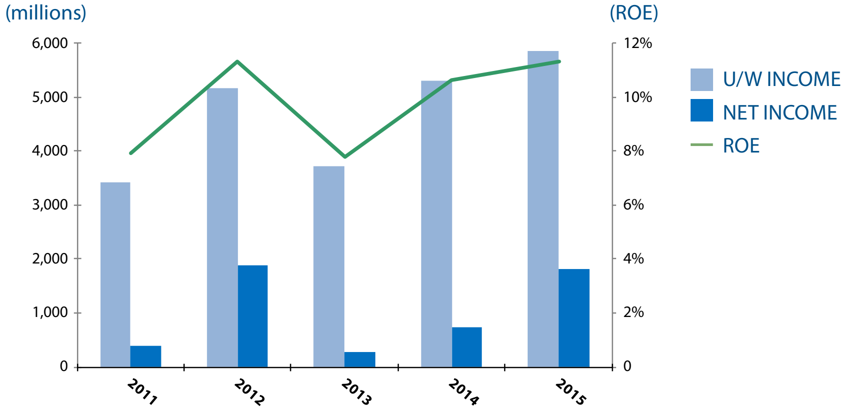
INDUSTRY PROFITABILITY

The Canadian P&C industry tends to have consistent profitability with an average pre-tax return on equity over the five years ended 2015 of approximately 12%. The return has primarily been earned from investment income on capital held.

Insurance company underwriting profit equals premiums less claims and expenses. In a competitive environment, underwriting profit will trend to less than 1% of net premiums. One key performance indicator (KPI) is the combined ratio, which is the inverse of the underwriting profitability (claims plus operating expenses divided by net premiums). The average combined ratio over the five-year period ended 2015 was 100.7% indicating a continuing soft market. This suggests that the industry is competitive with market forces keeping premium levels in check, forcing companies to earn profits through their investment portfolios.

We have summarized various profitability measures as follows:

P&C INDUSTRY PROFITABILITY



MARKET DISRUPTION

While we have no way of predicting when, or even whether, there will be a significant disruption in insurance distribution channels, we are aware that a significant amount of money has been invested in software distribution channels with the hope they can capture market share.

We have noted that brokers have done two things very well. First, they have effectively informed the marketplace of the value they create through strong advertising and customer service. Second, they have defended their role in the distribution chain making it very difficult for underwriters to make a wholesale change in distribution patterns. Having said that, most Canadian insurance companies have a direct distribution channel.

We believe a good first step for brokers to protect their position is to understand potential changes to the distribution models and value chain. The following outlines some of the changes currently being experienced in the marketplace. 1

Generally, larger brokers have the scale and financial resources to use technology to offer better products, service and pricing to the marketplace. Some of the changes that are starting to emerge include the following:

- While Google has dropped its attempt to provide price comparisons for insurance, aggregation companies such as Check24 in Germany have proven to be a significant market disruptor by giving direct distributors a competitive advantage;
- Online platforms are growing exponentially for the marketing of specialized lines such as equipment, event and liability coverage. Trov now offers insurance for single items such as a bicycle or musical instrument;
- Large brokers are working directly with underwriters to develop more online underwriting models and processes to reduce the time and complexity related to applying for and renewing insurance; and
- Millennial shoppers may not require a completely automated experience, but they are less interested in driving to and dealing with a traditional retail outlet.

Ultimately, the above changes are going to increase consumers' ability to find appropriate insurance at lower prices. The travel industry is an example where aggregation companies disrupted the industry value chain. It is likely that market success will come to those brokers who have the resources to invest in robust online systems.

It is our view that scale has never been more important. Larger brokers can offer underwriters premium volume, technology and better front line underwriting. In exchange, they get advantageous premium pricing and higher commissions.

1

INSURANCE VALUE CHAIN

PRODUCT DESIGN	PRICING & UNDERWRITING	DISTRIBUTION	ADMIN & CLAIMS MANAGEMENT
PRODUCT SPECS, RATE CALCULATION, MARKET LAUNCH	ACTUARIAL ANALYSES, RISK SELECTION, REINSURANCE	MARKETING, SALES, DISTRIBUTION, CHANNEL MANAGEMENT	CUSTOMER MANAGEMENT, BILLING/COLLECTION, CLAIMS
BIG, ONE-SIZE FITS ALL POLICIES, HIGH DEDUCTIBLES	LIMITED DATA AND HISTORICAL REGRESSION ANALYSIS	IN-PERSON AGENTS, CALL CENTERS, BASIC ONLINE FUNCTIONALITY	MANUAL, ON-PREMISE ADMIN AND CLAIMS PROCESSING
CUSTOMIZED, CONNECTED, LOW DEDUCTIBLE, PER-USE	BIG DATA AND MACHINE-LEARNING PREDICTIVE ANALYSIS	ONLINE, MOBILE, SOCIAL QUICK COMPARISON SHOP	CLOUD-BASED AUTOMATIC, INSTANTANEOUS BILLING

TRENDS IN M&A ACTIVITY

M&A activity and deal flow continues to be strong in the Canadian market. In a number of recent transactions, prices have been 25% to 30% higher than in similar transactions in 2015.

From the seller's perspective, the most successful transactions occur when the broker can bring a number of qualified buyers to create the competitive tension required to get the highest selling price and purchase terms that are fair and reasonable. Given the prices being paid, it is equally important that you can understand, speak to and demonstrate the value of the business to potential purchasers. Particularly important is presenting information that is of interest to the purchaser, such as strong margins, growth potential, scalability, quality of the book, good front line underwriting and the potential to leverage sales channels.

Some of the factors that are driving current valuation include the following:

- Mature Market – There is little organic growth. To achieve sales targets, consolidators continue to acquire brokers.
- Insurance Companies – Insurance companies continue to make direct investments, loan money and guarantee loans for brokers to make acquisitions. In exchange the underwriters hope to protect and expand their market share.
- Reliable Revenues – In general, customer retention rates are over 90% with predictable costs.
- Financing Available – The Bank of Montreal and National Bank have well-established brokerage loan programs that allows for both broker acquisition and management succession.

It is important to understand that there is considerable market discipline being demonstrated by the larger consolidators. They will pay at significant Revenue and EBITDA multiples if they are convinced that the book of business and your team can be profitably integrated into their organization. This must be demonstrated when you offer the business to the market. We have seen deals priced as high as 14X EBITDA, but one must be careful to understand the unique circumstance related to a specific deal before assuming this is the new normal in broker valuations.

MARKET SIZE BASED ON ESTIMATED COMMISSIONS

We have estimated the amount of P&C commissions available to the brokerage industry assuming direct premiums written of approximately $57.2 billion and commission data obtained from various sources[6]. The commission available has been calculated using a commission factor as follows:

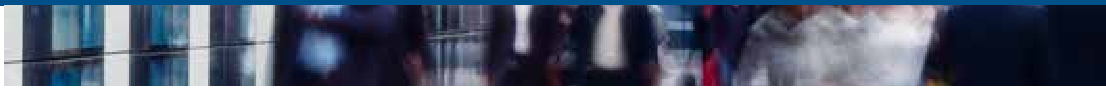
- Private automobile: 10%
- Public automobile: Actual
- Personal lines: 19%
- Commercial lines: 17%
- Other lines: 15%

6 2016 MSA P&C market share report; ICBC, SAF and MPI annual reports and other proprietary data

While we acknowledge that commissions can vary widely depending on the insurance company, use of MGAs, special programs and the size of the agency, we compared these rates to actual premium data provided by report participants and found them to be relatively accurate. It should also be noted that the calculation was based on the entire premium market including all distribution channels.

We have estimated the total possible amount of commissions available in Canada to be approximately $7.9 billion allocated by province as follows: 1

Despite the pace of consolidation, the brokerage industry is still fragmented with over 13,000 brokerage outlets throughout the country of which 50% have fewer than five employees. Physical retail brokerage locations still dominate the Canadian P&C distribution system.



1

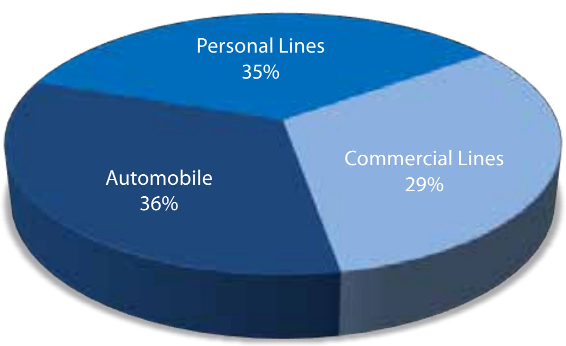
2015 MARKET SIZE BASED ON ESTIMATED COMMISSIONS (Millions)

PROVINCE	PRIVATE AUTO	PUBLIC AUTO	PERSONAL LINES	COMM LINES	OTHER LINES	TOTAL COMM	MARKET SHARE
Newfoundland and Labrador	40	0	39	32	0	111	1.4%
Prince Edward Island	8	0	7	9	0	24	0.3%
Nova Scotia	52	0	67	48	1	169	2.1%
New Brunswick	45	0	46	46	1	138	1.8%
Quebec	290	0	482	452	0	1,225	15.6%
Ontario	1,179	0	1,067	878	10	3,134	39.9%
Manitoba	1	77	88	81	2	249	3.2%
Saskatchewan	19	58	89	105	7	279	3.5%
Alberta	404	0	440	463	12	1,320	16.8%
British Columbia	24	381	371	387	16	1,180	15.0%
Yukon	3	0	3	4	0	10	0.1%
Northwest Territories	3	0	3	9	0	15	0.2%
Nunavut	1	0	1	4	0	5	0.1%
TOTAL	**$2,069**	**$516**	**$2,705**	**$2,520**	**$49**	**$7,859**	**100.0%**

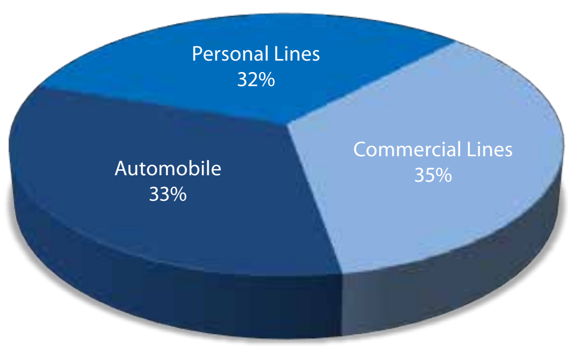
MARKET COMPOSITION

We have compared our sample sales mix to the overall Canadian market. While our sample is weighted towards commercial business, we believe it to be representative of typical retail brokerages. It should be noted that the automobile insurance comprises approximately 48% of the premium market, lower commissions give it less of an impact on the potential commission revenue sales mix.

CANADIAN SALES MIX



2016 SAMPLE SALES MIX



OUR APPROACH

The methodology for our analysis of the Canadian P&C insurance industry involved us soliciting brokerages from British Columbia to Ontario to provide internal operating income statements and to participate in a written survey. In response, we received financial information from 62 brokerage companies with 127 individual branches or retail outlets. Branch revenues ranged from $66,000 to $9 million and operating profits from a 25% loss to a 60% profit. After eliminating outliers, we used 59 companies and 119 brokerage outlets for the analysis. The fiscal data entered included both 2015 and 2016 fiscal year-ends. Our total sample earned commissions totalling $190 million or an estimated 3.0% of the commissions available. 1

Our objective is to present the data in a clear and unbiased manner. We adjusted the data provided to make it as comparable as possible. Some of the adjustments include:

- Where applicable, head office income and expenses were allocated to branches based on a ratio of branch income to total income.
- EBITDA was considered the best measure of operational performance, and therefore, we added back interest, amortization and income taxes.
- Where possible, we normalized owner manager salaries to $90,000 as a proxy for non-owner manager salaries.
- We reclassified certain expenses for sample consistency purposes. Having said that, inconsistent expense allocation is an issue that continues to be a challenge.

1

P&C INSURANCE BROKERAGE INDUSTRY REPORT SAMPLE SIZE TO AVAILABLE MARKET (Millions)

SAMPLE POPULATION COMMISSIONS		
Automobile	62	3.4%
Personal Lines	61	3.1%
Commercial Lines	66	2.9%
TOTAL	**$189**	**3.1%**

ESTIMATED BROKER SHARE OF MARKET*	
Automobile	1,809
Personal Lines	1,928
Commercial Lines	2,293
TOTAL	**$6,030**

* assumes brokers distribute 70% of personal lines and 91% of commercial lines

2016 Benchmark Results

With total revenue of approximately $204 million from commissions, we believe our report represents the overall Canadian market for privately-owned insurance brokerages.

OVERALL RESULTS

With total revenue of approximately $204 million, we believe our report is continuing to evolve and represent the overall Canadian market for privately-owned insurance brokerages.

In our analysis, we have defined and entered data to reflect operating profit to approximate earnings before interest, taxes, depreciation and amortization (EBITDA), plus adjust for unusual or one-time events. In this way, we attempt to measure the core business profitability regardless of special circumstances or capital structure.

The operating profit margin of our sample stood at 26%, representing a 2.7% decline from 28.7% in 2013. Brokers have continued to successfully deal with the continued soft market conditions, and limited premium growth through expense control measures. One area of concern is employee productivity. Brokers must introduce new systems in all aspects of the business to ensure employees are most effectively used. In this year's report, personnel expenses as a percentage of revenue increased by 2.0% to 54.2%. Without significant premium increases and/or efficiency gains, we would expect to see personnel costs continue to rise. The balance of profitability decline relates to increased administration costs.

We will review sales mix in more detail later in the report. It is worthwhile to note that our sample sales mix closely matched industry sales mix based on our commission assumptions. This gives us confidence that our sample is representative of the overall market.

Contingent profit commissions comprise 5.0% of total revenue and is a significant contributor to overall profit in that theoretically there are no additional costs associated with delivering this revenue. It should be noted that approximately 1.3% of all premiums collected by Canadian insurers is returned to brokers in the form of contingent profits.[7]

The following schedule provides an aggregation of operating revenue and expenses for the current report, and comparative data from our 2013 report: 1

The following chart reflects the line operating profit and expense mix as a percentage for the current and previous report results: 2

In additional to renewable commission, 9% of income is derived from CPC and other income. Given the mature status of the industry, CPC and other income plays a significant role for future growth. The Top 20% in profitability earned 11% of income from sources other than renewable premiums. We expect other income sources to play an important part in the growth of brokerages in future years.

7 MSA 2016 Benchmark Report

1

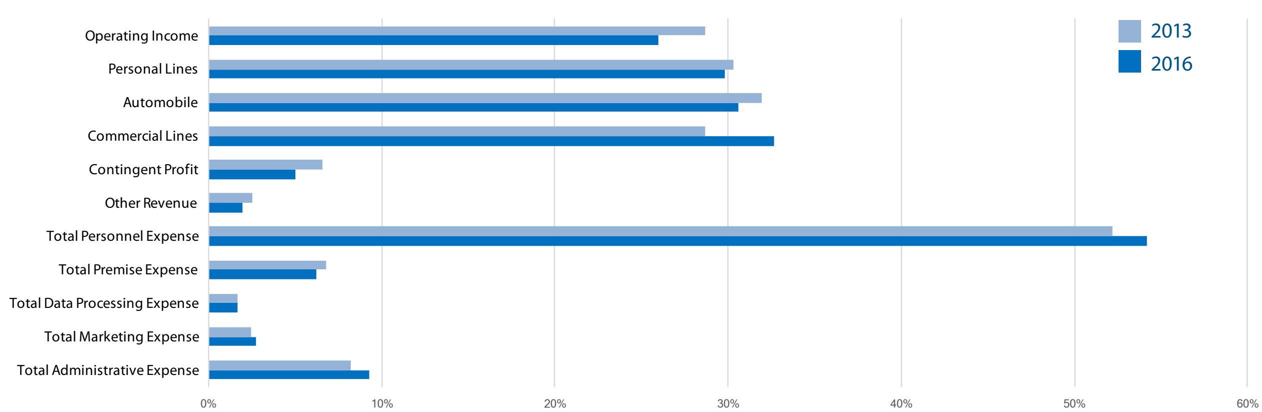
AGGREGATE INCOME AND EXPENSES OF BROKERAGES IN 2016 AND 2013

	2016			2013		
	Total	Average	%	Total	Average	%
Automobile	62,312,817	519,273	31%	120,310,582	360,211	32%
Personal Lines	60,709,419	505,912	30%	114,220,403	341,977	30%
Commercial Lines	66,488,954	554,075	33%	108,186,633	323,912	29%
Contingent Profit	10,185,972	84,883	5%	24,747,000	74,093	7%
Other Revenue	3,914,660	32,622	2%	9,415,728	28,191	2%
Total Income	$203,611,822	$1,696,765	100%	$376,880,346	$1,128,384	100%
Total Personnel Expense	110,308,651	919,239	54%	196,755,265	589,088	52%
Total Premise Expense	12,574,837	104,790	6%	25,681,994	76,892	7%
Total Data Processing Expense	3,399,766	28,331	2%	6,254,618	18,726	2%
Total Marketing Expense	5,616,505	46,804	3%	9,329,636	27,933	2%
Total Administrative Expense	18,801,368	156,678	9%	30,805,389	92,232	8%
Total Expense	$150,701,127	$1,255,843	74%	$268,826,902	$804,871	71%
OPERATING INCOME	**$52,910,696**	**$440,922**	**26%**	**$108,053,444**	**$323,513**	**29%**

>> the details: see Appendix A

2

REVENUE AND EXPENSE COMPARISON



	Total Administrative Expense	Total Marketing Expense	Total Data Processing Expense	Total Premise Expense	Total Personnel Expense	Other Revenue	Contingent Profit	Commercial Lines	Automobile	Personal Lines	Operating Income
2013	8%	2%	2%	7%	52%	2%	7%	29%	32%	30%	29%
2016	9%	3%	2%	6%	54%	2%	5%	33%	31%	30%	26%

TOP PERFORMER RESULTS

Throughout this report, we will be comparing results to the Top 20%. The Top 20% are the brokerages with operating income percentage greater than the remaining 80% of our sample.

AVERAGE RESULTS - TOP 20%

	Top 20%	%	Remaining	%
Automobile	704,824	24%	1,143,981	32%
Personal	725,438	24%	1,104,857	31%
Commercial	1,276,997	43%	1,089,415	31%
Contingent Profit	237,143	8%	156,519	4%
Other Revenue	38,065	1%	73,421	2%
Total Income	$2,982,467	100%	$3,568,193	100%
Total Personnel Expense	1,276,287	43%	2,017,776	57%
Total Premise Expense	155,163	5%	227,625	6%
Total Data Processing Expense	44,390	1%	60,931	2%
Total Marketing Expense	81,483	3%	98,623	3%
Total Administrative Expense	221,448	8%	342,972	10%
Total Expenses	$1,778,771	60%	$2,747,928	77%
OPERATING INCOME	**$1,203,696**	**40%**	**$820,265**	**23%**

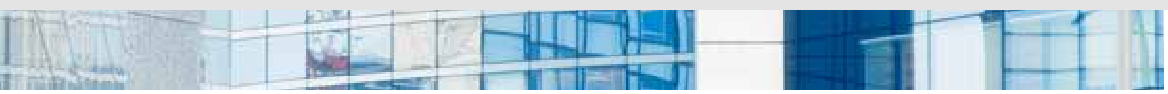
>> the details: see Appendix B

SALES MIX

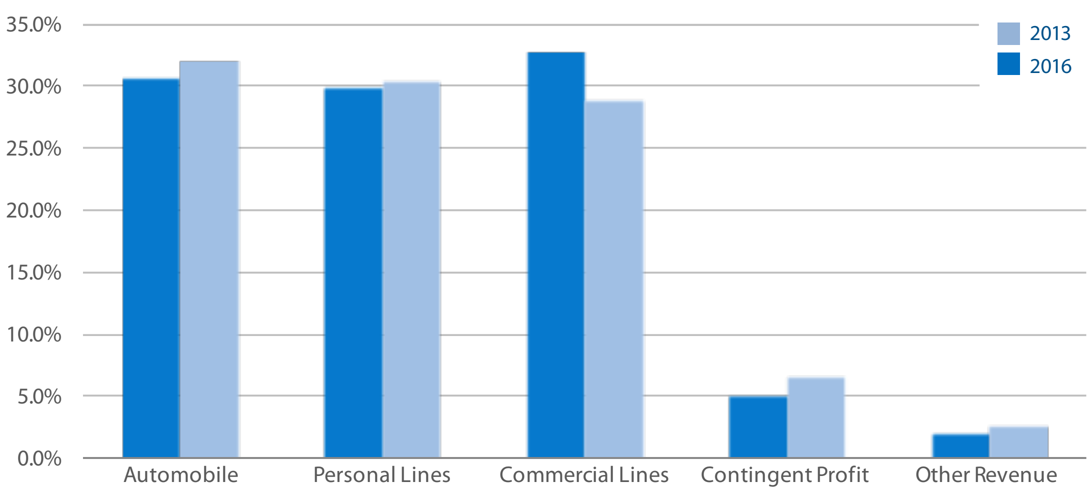
As mentioned previously, the sales mix in this year's report is weighted to commercial business. Given the mature state of the industry, commission rates including overrides, CPC and other income will play an ever-increasing role in broker profitability. The overall sample sales mix was as follows: 1

In addition to renewable commissions, approximately 6.9% of income is derived from CPC and other income. Given the mature status of the industry, CPC and other income play an important role in brokerage profitability. On average, underwriters return approximately 1.3% of premium to brokers in the form of CPC[8], if we adjust for non-CPC paying public automobile insurers the expected CPC as a percentage of premium is approximately 1.5%, or an estimated 5.7% of commission received.

8 2016 MSA Benchmark Report



1 **TOTAL SALES MIX**



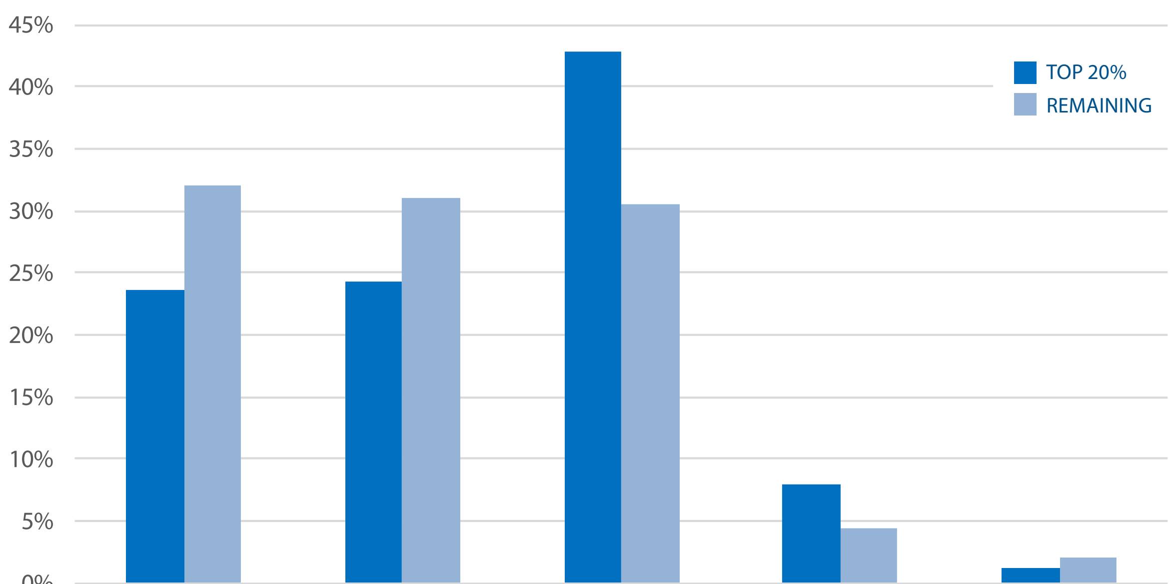
	Automobile	Personal Lines	Commercial Lines	Contingent Profit	Other Revenue
2016	30.6%	29.8%	32.7%	5.0%	1.9%
2013	31.9%	30.3%	28.7%	6.6%	2.5%

The Top 20% of performing brokers tended to be more commercially oriented. We have compared the sales mix of the Top 20% to the balance of the sample populations as follows: 2

While most brokers are challenged to introduce new sources of revenue, premium financing arrangements have proven to be very profitable to those brokers who have the resources and ability to manage it.

It is our view that the sales mix is less important than either the brokerage management or the ability to develop appropriate systems to efficiently handle the sales volume and mix of business.

2 **SALES MIX COMPARISON OF TOP 20%**



	Automobile	Personal Lines	Commercial Lines	Contingent Profit	Other Revenue
Top 20%	24%	24%	43%	8%	1%
Remaining	32%	31%	31%	4%	2%

EXPENSE BREAKDOWN

We have categorized brokerages' expenses into five categories: personnel, premise, data processing, marketing and administration. The following bar chart shows the breakdown of brokerages in 2016 and 2013, and the Top 20% expenses by these categories. 1

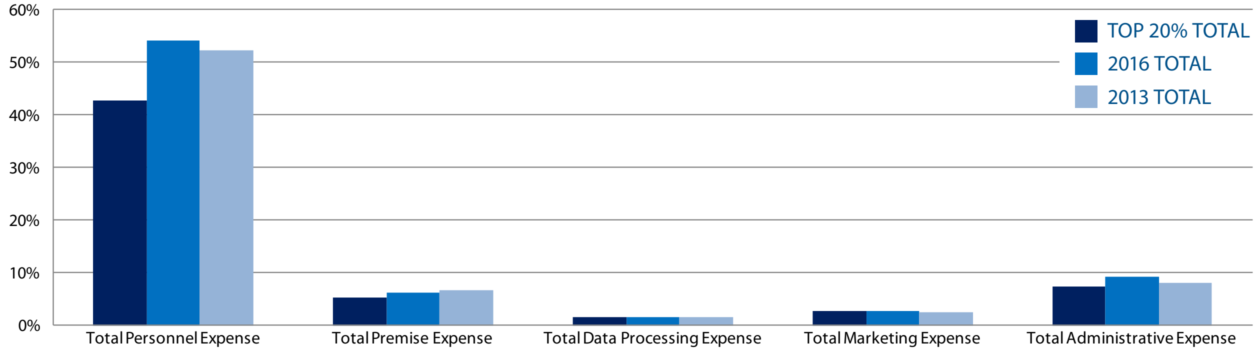
While systems continue to be improved, the fact remains that labour costs are increasing at a rate greater than commission income.

The brokerage business model is predicated on high levels of customer service, which requires well-trained staff. Most of our clients have found it challenging to recruit and retain quality people. Therefore, it is not surprising that wage costs as a percentage of revenue has increased to 54% from 52% and 48% in 2013 and 2009, respectively. Other expense categories have not varied significantly since 2009.

The Top 20% continue to exercise strong expense control in all categories. As in our previous research, personnel costs continue to be the significant difference in profitability for the top performers. Wage levels were not lower for the top performers. Instead, we attribute the profitability to employee engagement, scale of offices and work-flows.

1

TOTAL EXPENSE MIX



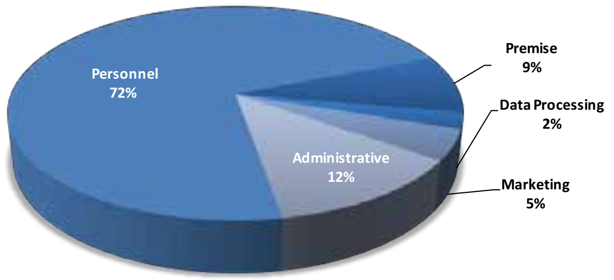
	Total Personnel Expense	Total Premise Expense	Total Data Processing Expense	Total Marketing Expense	Total Administrative Expense
Top 20% Total	43%	5%	1%	3%	7%
2016 Total	54%	6%	2%	3%	9%
2013 Total	52%	7%	2%	2%	8%

OVERALL EXPENDITURE INVESTMENT

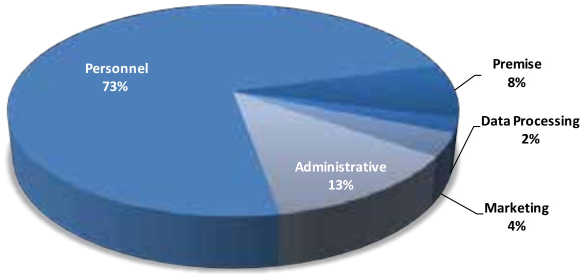
The following two charts outline the investment of total expenditure dollars to the five expense categories.

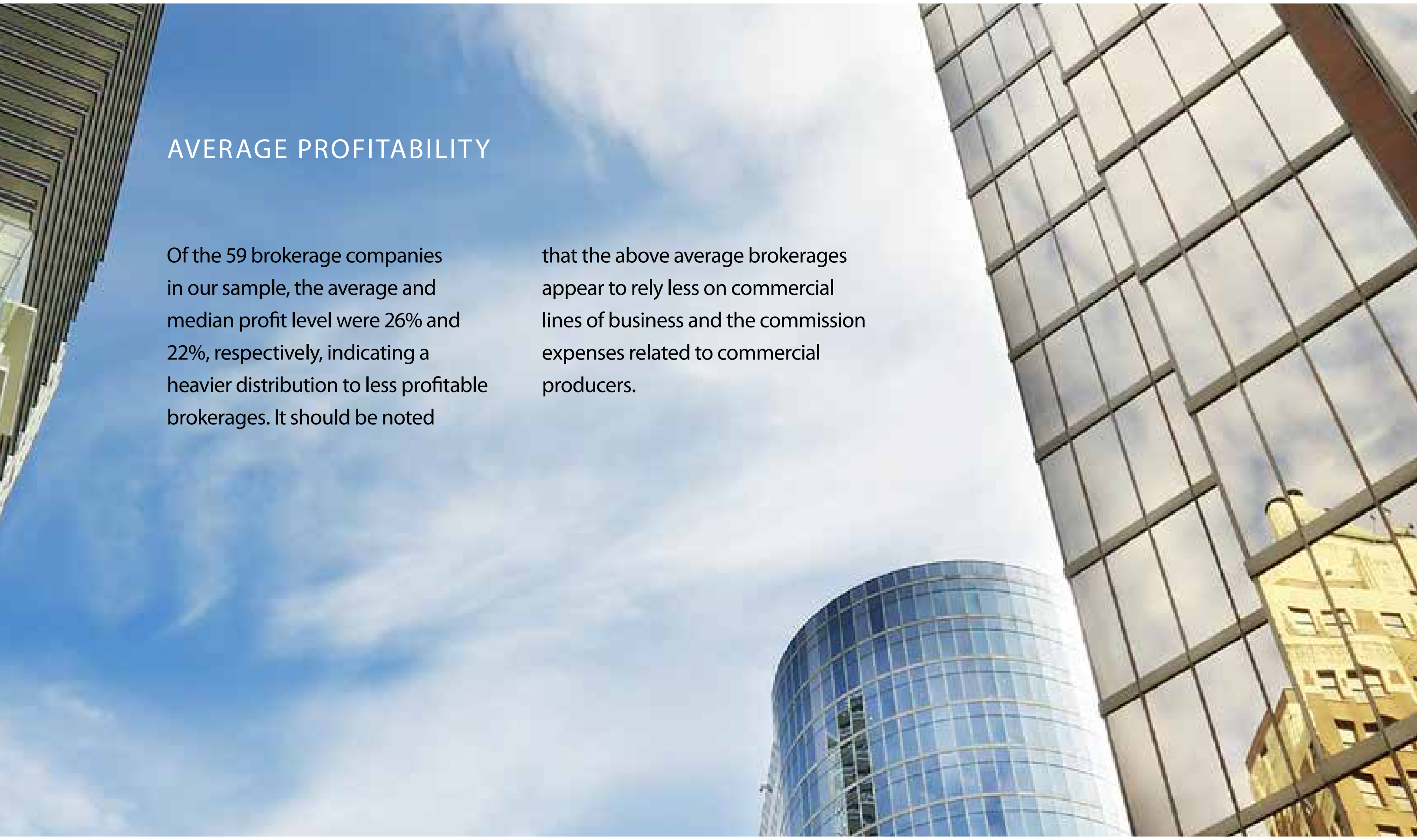
Expense structure has changed little over the past two years. Given the slow growth in Canadian premiums and related broker commissions, there continues to be the challenge of maintaining profitability while there is upward pressure on wages. In 2016, wages continued to comprise over 70% of all expenditures with little variance over the past three years or with top performers.

EXPENSE INVESTMENT TOP 20% AS A PERCENTAGE OF TOTAL EXPENSES



EXPENSE INVESTMENT BOTTOM 80% AS A PERCENTAGE OF TOTAL EXPENSES





AVERAGE PROFITABILITY

Of the 59 brokerage companies in our sample, the average and median profit level were 26% and 22%, respectively, indicating a heavier distribution to less profitable brokerages. It should be noted that the above average brokerages appear to rely less on commercial lines of business and the commission expenses related to commercial producers.

AVERAGE PROFITABILITY

	Operating Profit <26% (34 Brokerages)		Operating Profit >26% (25 Brokerages)	
	Total	%	Total	%
Automobile	16,615,074	19%	45,697,743	39%
Personal	25,594,758	30%	35,114,661	30%
Commercial	38,875,665	45%	27,613,289	24%
Contingent Profit	3,741,779	4%	6,444,193	6%
Other Revenue	1,898,301	2%	2,016,359	2%
Total Income	$86,725,576	100%	$116,886,245	100%
Total Personnel Expense	54,075,424	62%	56,233,227	48%
Total Premise Expense	6,155,216	7%	6,419,621	5%
Total Data Processing Expense	1,791,771	2%	1,607,995	1%
Total Marketing Expense	2,126,757	2%	3,489,748	3%
Total Administrative Expense	9,395,830	11%	9,405,538	8%
Total Expense	$73,544,997	85%	$77,156,129	66%
OPERATING INCOME	**$13,180,579**	**15%**	**$39,730,116**	**34%**

>> the details: see Appendix C

PROFITABILITY BY BROKERAGE SIZE

Distribution by brokerage size is based on sales volume of the brokerage company regardless of the number of branches.

The overall size or scale of a brokerage continues to be a key factor in insurance brokerage profitability. Small brokerage offices tend to be profitable as they are directly managed by the owner and are often in smaller communities with lower cost structures. As organizations get larger, there are certain infrastructure costs that must be put in place. They tend to be fixed in nature, but are scalable, resulting in greater profitability as the organization grows.

We also believe management ability becomes crucial as a brokerage grows. Those entrepreneurs who can seek out, attract then retain top managers are well rewarded: ❶

The following chart graphically represents operating metrics of different sized brokerage companies: ❷

❶

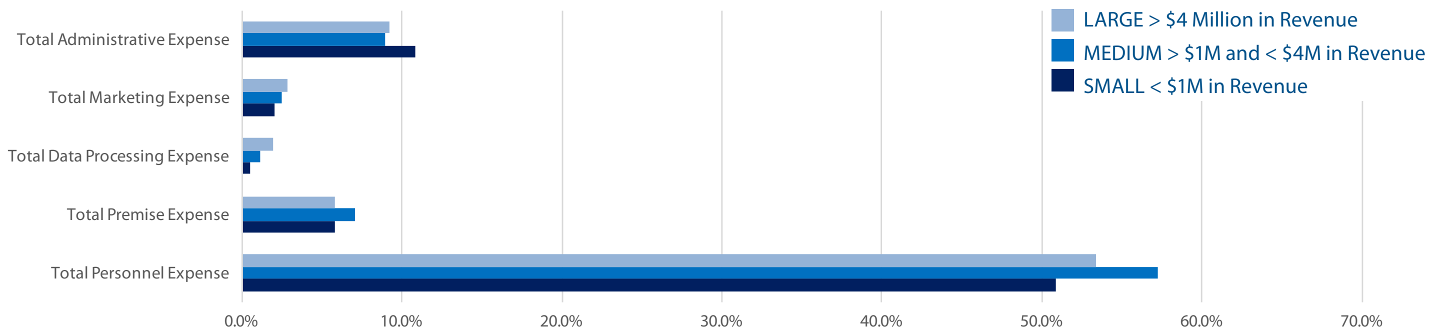
PROFITABILITY BY BROKERAGE SIZE

	SMALL < $1 Million in Revenue		MEDIUM > $1 Million and < $4 Million in Revenue		LARGE > $4 Million in Revenue	
Number of Brokerages	20		23		16	
	Total	**%**	**Total**	**%**	**Total**	**%**
Automobile	4,356,851	41%	11,204,698	23%	4,751,268	33%
Personal	3,918,821	37%	10,236,051	21%	46,554,547	32%
Commercial	1,944,028	18%	23,890,452	49%	39,654,475	27%
Contingent Profit	182,846	2%	2,239,572	5%	7,763,554	5%
Other	185,849	2%	1,116,665	2%	2,612,145	2%
Total Income	$10,588,395	100%	$48,687,437	100%	$144,335,989	100%
Total Personnel Expense	4,383,817	41%	27,864,775	57%	77,060,058	53%
Total Premise Expense	617,255	6%	3,460,513	7%	8,438,958	6%
Total Data Processing Expense	52,429	0%	571,036	1%	2,776,301	2%
Total Marketing Expense	218,772	2%	1,229,656	3%	4,168,077	3%
Total Administrative Expense	1,144,867	11%	4,361,528	9%	13,294,973	9%
Total Expense	$ 6,417,140	61%	$37,487,509	77%	$105,738,367	73%
OPERATING INCOME	**$4,171,256**	**39%**	**$11,199,928**	**23%**	**$38,597,622**	**27%**

>> the details: see Appendix D

2

EXPENSES AS A PERCENTAGE OF REVENUE BASED ON BROKERAGE SIZE



PROFITABILITY OF TOP PERFORMERS

In this year's analysis, the Top 20% is comprised of 12 top performing brokers that operated 39 individual branch locations. On average the Top 20% performed 17% better than the remaining sample population in terms of operating profit.

While the top performing brokers sales mix was weighted to commercial lines, we continue to believe other factors including scale, expertise and business systems have a greater impact on profitability. A focus on profitability is not dependent on what type of business you write, but how you deliver that service.

It is our experience that top performers have similar characteristics including:

- Development of expertise in certain lines of business or industry specialization
- Creation of systems that align with customer needs creating efficiency
- Ability to analyze financial results and make the necessary changes
- Strong employee engagement
- Operating scale allowing for investment in better technology and systems
- Focus on front line underwriting
- Strong relationship with markets delivering both profit and volume to key insurance company partners
- Management of commercial producer costs
- Professional management.

While one might expect to see the top performing brokers more weighted to commercial lines, it is important to recognize that commercial business is highly competitive, both in terms of investment to acquire the business and the cost of retention. We have seen a trend where commercially oriented brokerages are trying to achieve growth by aggressively recruiting producers with generous compensation packages. It remains to be seen if this is a good long-term strategy.

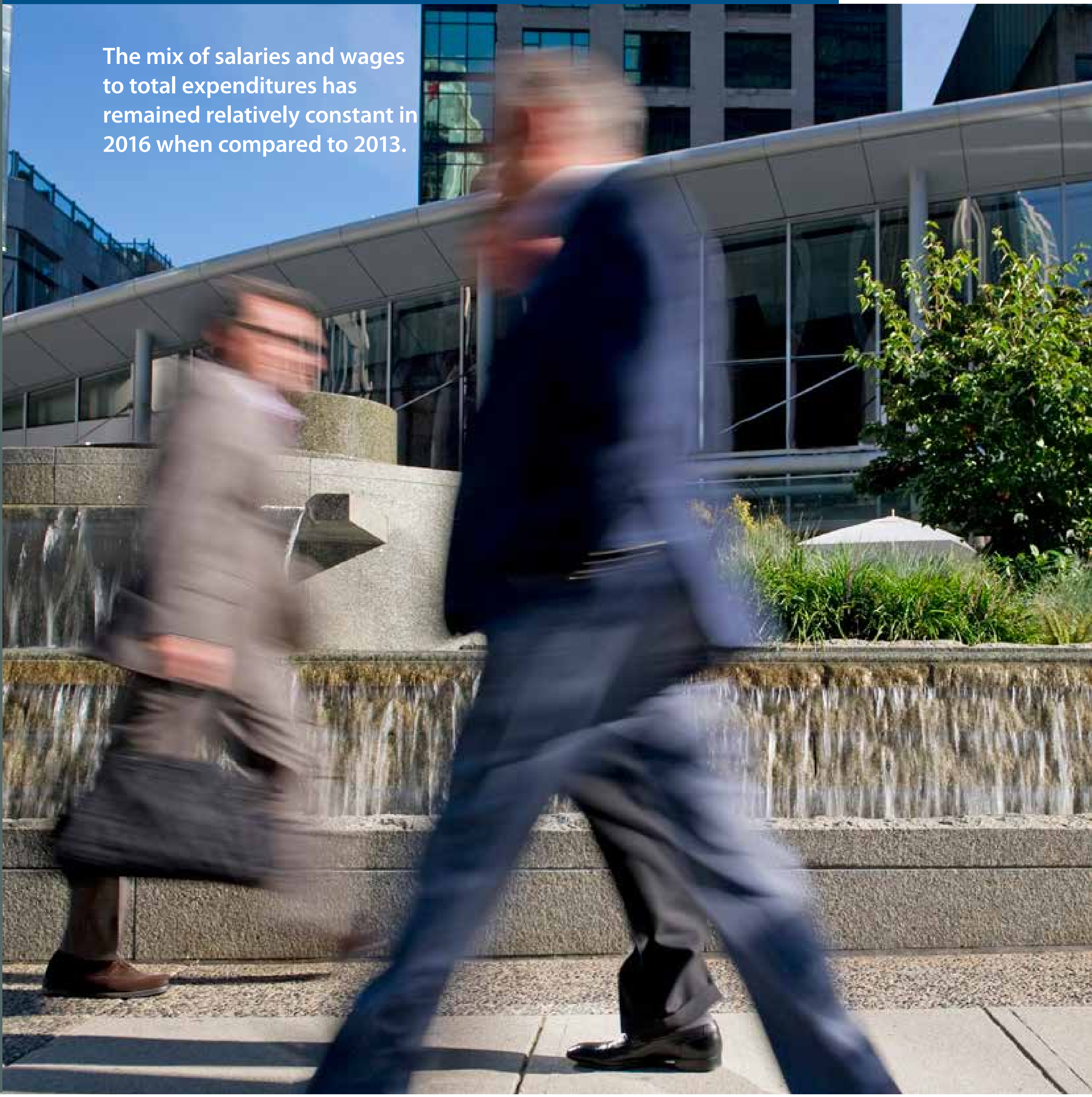
AGGREGATE AND AVERAGE INCOME AND EXPENSES OF THE TOP 20% BASED ON OPERATING PROFIT PERCENTAGE

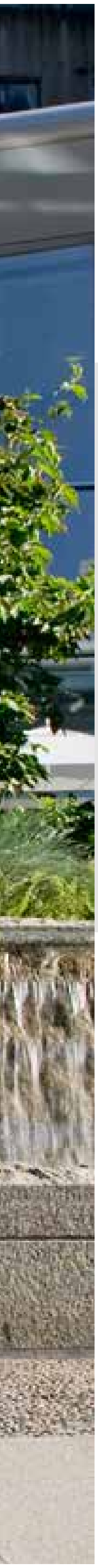
	Top 20%		Remaining Firms (80%)	
Number of Branches	**12**		**47**	
	Total	%	Total	%
Automobile	8,316,926	24%	53,995,891	32%
Personal	8,560,163	24%	52,149,256	31%
Commercial	15,068,561	43%	51,420,393	31%
Contingent Profit	2,798,290	8%	7,387,682	4%
Other Revenue	449,169	1%	3,465,491	2%
Total Income	$35,193,109	100%	$168,418,712	100%
Total Personnel Expense	15,060,187	43%	95,239,028	57%
Total Premise Expense	1,830,929	5%	10,743,908	6%
Total Data Processing Expense	523,803	1%	2,875,963	2%
Total Marketing Expense	961,494	3%	4,655,011	3%
Total Administrative Expense	2,613,088	7%	16,188,280	10%
Total Expenses	$20,989,501	60%	$129,702,189	77%
OPERATING INCOME	**$14,203,608**	**40%**	**$38,716,523**	**23%**

>> the details: see Appendix E

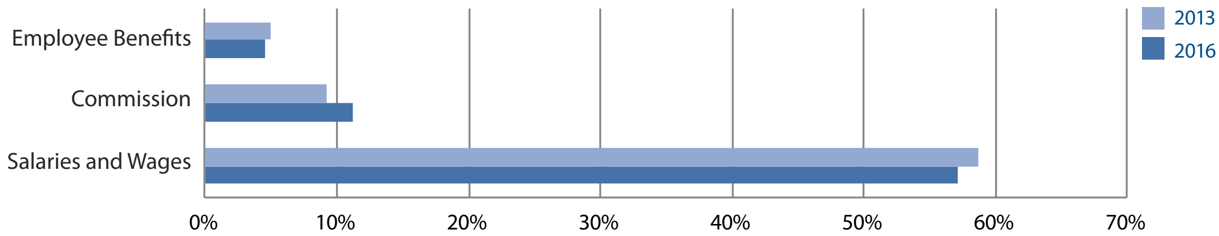
Personnel Expenditures

The mix of salaries and wages to total expenditures has remained relatively constant in 2016 when compared to 2013.





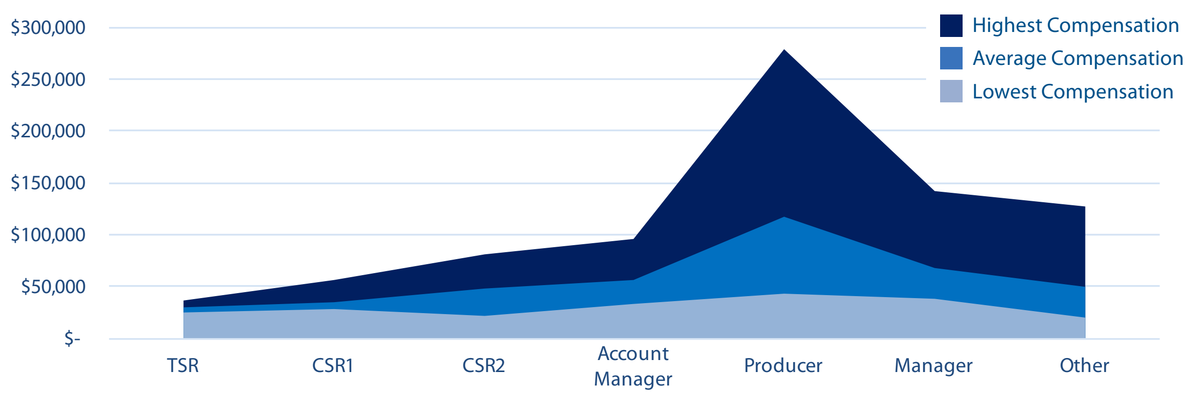
PERSONNEL EXPENSES AS A PERCENTAGE OF TOTAL EXPENSES



PERSONNEL EXPENDITURES

The following chart graphically represents the salary levels compiled from the responses from study participants. Please keep in mind that only 13 of the 59 broker participants provided detailed salary information and that allocation between various employee categories is subjective and may be different. Many brokerage associations conduct detailed salary surveys on behalf of their members. Regardless of this, the following information provides some sense of salaries for different employee roles.

SALARY LEVELS

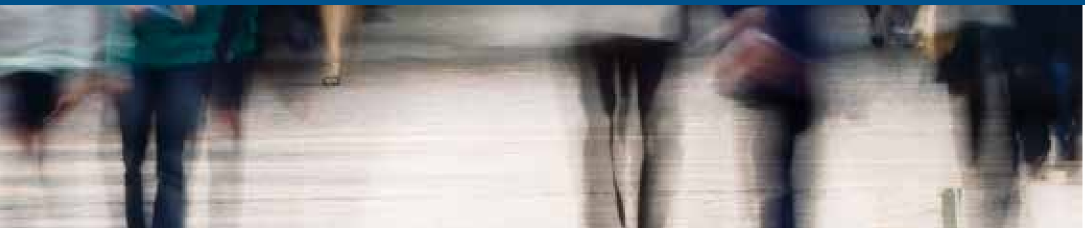


	TSR	CSR1	CSR2	Account Manager	Producer	Manager	Other
Highest Compensation	37,128	57,000	81,930	95,970	278,352	142,543	128,000
Average Compensation	30,043	34,810	48,124	56,894	118,254	68,687	49,657
Lowest Compensation	25,000	28,263	22,517	33,701	43,568	38,512	19,500

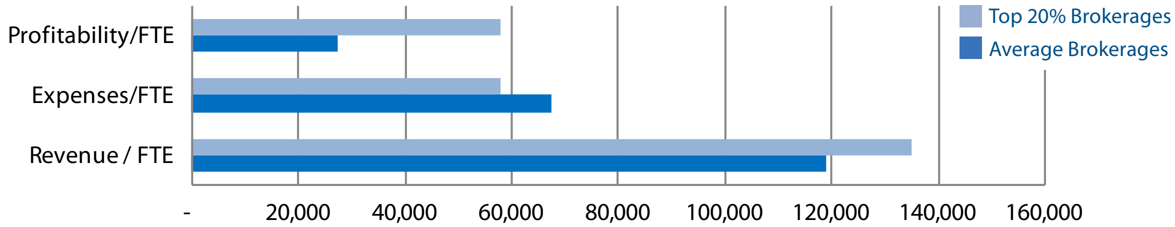
EMPLOYEE EFFECTIVENESS

The following table shows employee key performance information related to full time equivalents (FTE) based on the responses from study participants. 1

Based on participant responses on wages costs, we have estimated that average salaries plus benefits is approximately $67,000 compared to $58,000 for the Top 20% of brokerages. Employee effectiveness as measured by revenue per FTE is $119,000 as compared to $118,000 per employee in our 2013 report. If we look at the Top 20%, revenue per FTE is approximately $134,000 compared to $127,000 in 2013. The additional contribution by employees at top performing brokerages adds approximately $3.9 million or 11% of the 17% profit margin advantage of the top performers in the study. This shows that employee effectiveness is the single most important differentiator for brokerage profitability.



1 **PER FTE ANALYSIS**



	Revenue / FTE	Expenses/FTE	Profitability/FTE
Top 20% of Brokerages	134,839	57,702	57,702
Average Brokerages	118,940	67,259	27,342

PRODUCER COMMISSION RATES

As we have discussed earlier, revenue growth has proven to be difficult in the mature insurance industry. There is lots of competition for good brokerages, and premium rate growth has been flat. While there are still brokerages that try to attract producers with high commission rates, we have found that there is considerably more discipline in the marketplace with many brokers limiting producer compensation including benefits in the range of 35% to 40% of the book production.

For the participants that responded, 100% commission producers were remunerated in the following ranges: 1

We suspect the participants of this year's study are not fully representative of the Canadian market in terms of the mix between salaries and commissioned staff. It is worth noting that the Top 20% of the sample earned 42% of their revenue from commercial lines compared to approximately 31% for the remaining population. At the same time, these brokers relied very little on commissioned producers. Most of these high-performing brokerages compensate with a combination of salaries and bonuses.

In today's environment, there must be appropriate compensation to attract good producers, and while this may involve the payment of commissions, there are specific factors that influence profitability some of which include:

- Regular performance reviews
- Performance goals
- Accountability to the goals
- Monitored service systems and standards
- Sharing production information
- Sales pipeline management.

INDICATION OF PRODUCER COMMISSIONS

	New Business	Renewals
Low	20%	15%
High	75%	75%
Average	45%	35%

Conclusion

People are the biggest influencer of profitability and perhaps the biggest challenge for Canadian insurance brokerages today.

People are the biggest influencer of profitability and perhaps the biggest challenge for Canadian insurance brokerages today.

As in past years, employee effectiveness is the single most important differentiator for brokerage profitability.

Our study shows that the Top 20% of brokerages earn approximately $135,000 per FTE, compared to $119,000 industry-wide. We do not believe wages are lower for the top performers. We attribute the profitability to employee engagement, scale of offices and systems.

Employee productivity is an area of concern. Personnel expenses as a percentage of revenue rose almost 42% when compared to the previous report. Labour costs are increasing at a rate greater than commission income. There is evidence that it is challenging to recruit and retain quality people. Without significant premium increases and/or efficiency gains, we would expect to see personnel costs continue to rise. Larger brokerages are better positioned to manage wage costs as a percentage of commissions because of greater commission rates and efficiencies that come from scale.

Sales mix is less important than either the brokerage expertise or the ability to develop appropriate systems to efficiently handle the sales volume and mix of business. Top performers are not necessarily more weighted to commercial lines books. It is our opinion that other factors such as scale, expertise, management and business systems have a greater impact on profitability. Brokerages that focus on specific industries or lines of business are also more profitable.

Given the mature status of the industry, CPC and other income plays a significant role for future growth.

The Top 20% of brokerages share many of best practices that support increased profitability:

- Development of expertise in certain lines of business or industry specialization
- Creation of systems that align with customer needs creating efficiency
- Ability to analyze financial results and adjust
- Strong employee engagement
- Operating scale allows for investment in better technology and systems
- Focus on underwriting
- Strong relationship with markets delivering both profit and volume to key insurance company partners
- Management of commercial producer costs
- Reliance on professional managers.

Many brokerage companies have tried to achieve growth through the recruitment of good producers. This often involves making expensive offers, with producers receiving commission rates of 55%, 60% and higher. Management of producer costs is more important than ever.

Efficiencies and profit may be improved through acquisitions, employee engagement, processing systems and technology.

Canadian brokers continue to enjoy strong before tax operating profits. It is important to note there has been a decline in the average operating profit in each of the last three reports we have produced. In 2013, the average operating profit was approximately 29% and this has dropped to 26% in this year's results. Rising wage costs are mostly responsible for the decline. High performing brokers continue to drive results through efficient use of employee resources.

Demand for P&C brokerages continues to be strong, and will remain robust, but acquirers are expected to be more strategic in their acquisitions to ensure they can easily be integrated into their operations.

Insurance companies are particularly active in either financing or direct acquisition of insurance brokers. We believe protection of market share is the driving force for these investments.

In closing, we would like to note that brokers have shown great resilience in dealing with changes to the marketplace and we see no reason why they will not continue to adapt and thrive as the marketplace changes.

APPENDIX A: AGGREGATE INCOME AND EXPENSES OF BROKERAGES IN 2016 AND 2013

OVERALL BROKERAGE OPERATING RESULTS						
	2016			2013		
	TOTAL	AVERAGE	%	TOTAL	AVERAGE	%
Automobile	62,312,817	519,273	30.6%	120,310,582	360,211	31.9%
Personal Lines	60,709,419	505,912	29.8%	114,220,403	341,977	30.3%
Commercial Lines	66,488,954	554,075	32.7%	108,186,633	323,912	28.7%
Contingent Profit	10,185,972	84,883	5.0%	24,747,000	74,093	6.6%
Other Revenue	3,914,660	32,622	1.9%	9,415,728	28,191	2.5%
Total Income	$203,611,822	$1,696,765	100.0%	$376,880,346	$1,128,384	100.0%
Salaries and Wages	86,126,242	717,719	42.3%	157,624,674	471,930	41.8%
Commission	16,954,903	141,291	8.3%	24,933,149	74,650	6.6%
Employee Benefits	6,806,875	56,724	3.3%	13,197,003	39,512	3.5%
Recruitment and Training	411,194	3,427	0.2%	668,879	2,003	0.2%
Commission Write-off	9,436	79	0.0%	331,560	993	0.1%
Total Personnel Expense	$110,308,651	$919,239	54.2%	$196,755,265	$589,088	52.2%
Rent	9,799,873	81,666	4.8%	20,924,633	62,649	5.6%
Property Taxes	242,475	2,021	0.1%	287,546	861	0.1%
Repairs and Maintenance	1,309,350	10,911	0.6%	2,609,991	7,814	0.7%
Utilities	347,498	2,896	0.2%	966,357	2,893	0.3%
Other	89,325	744	0.0%	105,800	317	0.0%
Insurance - Building and Contents	786,316	6,553	0.4%	787,667	2,358	0.2%
Total Premise Expense	$12,574,837	$104,790	6.2%	$25,681,994	$76,892	6.8%
Harware Maintenance	4,885	41	0.0%	900,668	2,697	0.2%
Other IT Operations	1,050,314	8,753	0.5%	3,827,331	11,459	1.0%
Software Maintenance	2,344,567	19,538	1.2%	995,819	2,981	0.3%
IT Wages and Benefits	0	0	0.0%	530,800	1,589	0.1%
Total Data Processing Expense	$3,399,766	$28,331	1.7%	$6,254,618	$18,726	1.7%
Advertising	5,223,656	43,530	2.6%	7,234,390	21,660	1.9%
Donations	49,041	409	0.0%	628,657	1,882	0.2%
Meals and Entertainment	343,808	2,865	0.2%	1,466,589	4,391	0.4%
Total Marketing Expense	$5,616,505	$46,804	2.8%	$9,329,636	$27,933	2.5%
Automobile and Parking	1,083,631	9,030	0.5%	1,365,098	4,087	0.4%
Bad Debt	520,934	4,341	0.3%	771,769	2,311	0.2%
Bank Charges	3,827,279	31,894	1.9%	4,836,260	14,480	1.3%
Membership and Dues	1,025,919	8,549	0.5%	1,553,473	4,651	0.4%
Office	4,417,096	36,809	2.2%	5,929,730	17,754	1.6%
Accounting and Legal	2,985,815	24,882	1.5%	2,671,239	7,998	0.7%
Postage and Courier	347,207	2,893	0.2%	2,553,464	7,645	0.7%
Telephone	1,698,124	14,151	0.8%	3,660,074	10,958	1.0%
E&O Insurance	1,392,007	11,600	0.7%	3,114,806	9,326	0.8%
Travel	1,234,335	10,286	0.6%	3,096,476	9,271	0.8%
Other	269,021	2,242	0.1%	1,253,000	3,751	0.3%
Total Administrative Expense	$18,801,368	$156,678	9.2%	$30,805,389	$92,232	8.2%
Total Expense	150,701,126	1,255,843	74.0%	268,826,902	804,871	71.3%
OPERATING INCOME	**$52,910,696**	**$440,922**	**26.0%**	**$108,053,444**	**$323,513**	**28.7%**

APPENDIX B: OPERATING PROFIT - TOP 20% OF BROKERAGES

OPERATING RESULTS - TOP 20%			
		2016	
	TOTAL	AVERAGE	%
Automobile	8,316,926	140,965	23.6%
Personal	8,560,163	145,088	24.3%
Commercial	15,068,561	255,399	42.8%
Contingent Profit	2,798,290	47,429	8.0%
Other Revenue	449,169	7,613	1.3%
Total Income	$35,193,109	$596,493	100.0%
Salaries and Wages	13,641,646	231,214	38.8%
Commission	296,615	5,027	0.8%
Employee Benefits	997,571	16,908	2.8%
Recruitment and Training	114,919	1,948	0.3%
Commission Write-off	9,436	160	0.0%
Total Personnel Expense	$15,060,187	$255,257	42.8%
Rent	1,385,209	23,478	3.9%
Property Taxes	8,228	139	0.0%
Repairs and Maintenance	264,236	4,479	0.8%
Utilities	47,367	803	0.1%
Other	11,341	192	0.0%
Insurance - Building and Contents	114,548	1,941	0.3%
Total Premise Expense	$1,830,929	$31,033	5.2%
Hardware	3,000	51	0.0%
Other IT Operating Costs	191,724	3,250	0.5%
Software Licensing and Fees	329,079	5,578	0.9%
IT Wages and Benefits	0	0	0.0%
Total Data Processing Expense	$523,803	$8,878	1.5%
Advertising	881,117	14,934	2.5%
Donations	32,063	543	0.1%
Meals and Entertainment	48,314	819	0.1%
Total Marketing Expense	$961,494	$16,297	2.7%
Automobile and Parking	238,553	4,043	0.7%
Bad Debt	38,230	648	0.1%
Bank Charges	326,262	5,530	0.9%
Membership and Dues	193,343	3,277	0.5%
Office	832,401	14,108	2.4%
Accounting and Legal	240,067	4,069	0.7%
Postage and Courier	41,121	697	0.1%
Telephone	196,327	3,328	0.6%
E&O Insurance	249,908	4,236	0.7%
Travel	220,390	3,735	0.6%
Other	36,486	618	0.1%
Total Administrative Expense	$2,613,088	$44,290	7.4%
Total Expense	20,989,501	355,754	59.6%
OPERATING INCOME	**$14,203,608**	**$240,739**	**40.4%**

APPENDIX C: BELOW AND ABOVE AVERAGE INCOME AND EXPENSES

OPERATING RESULTS -BELOW AND ABOVE AVERAGE OF 26%				
	BELOW AVERAGE		ABOVE AVERAGE	
	TOTAL	%	TOTAL	%
Automobile	16,615,074	19.2%	45,697,743	39.1%
Personal	25,594,758	29.5%	35,114,661	30.0%
Commercial	38,875,665	44.8%	27,613,289	23.6%
Contingent Profit	3,741,779	4.3%	6,444,193	5.5%
Other Revenue	1,898,301	2.2%	2,016,359	1.7%
Total Income	$86,725,576	100.0%	$116,886,245	100.0%
Salaries and Wages	39,282,406	45.3%	46,843,836	40.1%
Commission	11,177,410	12.9%	5,777,493	4.9%
Employee Benefits	3,519,171	4.1%	3,287,704	2.8%
Recruitment and Training	96,436	0.1%	314,758	0.3%
Commission Write-off	0	0.0%	9,436	0.0%
Total Personnel Expense	$54,075,424	62.4%	$56,233,227	48.1%
Rent	4,731,935	5.5%	5,067,938	4.3%
Property Taxes	179,581	0.2%	62,895	0.1%
Repairs and Maintenance	684,410	0.8%	624,940	0.5%
Utilities	137,074	0.2%	210,423	0.2%
Other	13,240	0.0%	76,085	0.1%
Insurance - Building and Contents	408,976	0.5%	377,340	0.3%
Total Premise Expense	$6,155,216	7.1%	$6,419,621	5.5%
Hardware	1,885	0.0%	3,000	0.0%
Other IT Operating Costs	710,000	0.8%	340,314	0.3%
Software Licensing and Fees	1,079,886	1.2%	1,264,681	1.1%
IT Wages and Benefits	0	0.0%	0	0.0%
Total Data Processing Expense	$1,791,771	2.1%	$1,607,995	1.4%
Advertising	1,957,857	2.3%	3,265,799	2.8%
Donations	15,715	0.0%	33,326	0.0%
Meals and Entertainment	153,185	0.2%	190,623	0.2%
Total Marketing Expense	$2,126,757	2.5%	$3,489,748	3.0%
Automobile and Parking	222,623	0.3%	861,008	0.7%
Bad Debt	249,727	0.3%	271,207	0.2%
Bank Charges	1,768,177	2.0%	2,059,103	1.8%
Membership and Dues	429,251	0.5%	596,668	0.5%
Office	2,168,660	2.5%	2,248,436	1.9%
Accounting and Legal	1,918,089	2.2%	1,067,726	0.9%
Postage and Courier	171,789	0.2%	175,417	0.2%
Telephone	818,997	0.9%	879,127	0.8%
E&O Insurance	621,223	0.7%	770,784	0.7%
Travel	908,170	1.0%	326,166	0.3%
Other	119,125	0.1%	149,896	0.1%
Total Administrative Expense	$9,395,830	10.8%	$9,405,538	8.0%
Total Expense	73,544,997	84.8%	77,156,129	66.0%
OPERATING INCOME	**$13,180,579**	**15.2%**	**$39,730,116**	**34.0%**

APPENDIX D: AGGREGATE AND AVERAGE INCOME AND EXPENSES BY SIZE

OPERATING RESULTS BY BROKERAGE SIZE						
	SMALL		MEDIUM		LARGE	
	< $1 MILLION IN REVENUE		$1 TO $4 MILLION		OVER $4 MILLION	
Number of Branches	20		23		16	
	Total	%	Total	%	Total	%
Automobile	4,356,851	41.1%	11,204,698	23.0%	47,751,268	33.1%
Personal	3,918,821	37.0%	10,236,051	21.0%	46,554,547	32.3%
Commercial	1,944,028	18.4%	23,890,452	49.1%	39,654,475	27.5%
Contingent Profit	182,846	1.7%	2,239,572	4.6%	7,763,554	5.4%
Other Revenue	185,849	1.8%	1,116,665	2.3%	2,612,145	1.8%
Total Income	$10,588,395	100.0%	$48,687,437	100.0%	$144,335,989	100.0%
Salaries and Wages	4,620,272	43.6%	20,388,497	41.9%	61,117,474	42.3%
Commission	243,839	2.3%	5,944,712	12.2%	10,766,353	7.5%
Employee Benefits	518,862	4.9%	1,423,120	2.9%	4,864,893	3.4%
Recruitment and Training	845	0.0%	108,447	0.2%	301,902	0.2%
Commission Write-off	0	0.0%	0	0.0%	9,436	0.0%
Total Personnel Expense	$5,383,817	50.8%	$27,864,775	57.2%	$77,060,058	53.4%
Rent	495,327	4.7%	2,918,328	6.0%	6,386,218	4.4%
Property Taxes	1,797	0.0%	3,111	0.0%	237,568	0.2%
Repairs and Maintenance	689	0.0%	245,946	0.5%	1,004,604	0.7%
Utilities	27,432	0.3%	58,946	0.1%	261,120	0.2%
Other	16,135	0.2%	13,240	0.0%	59,950	0.0%
Insurance - Building and Contents	75,875	0.7%	220,943	0.5%	489,498	0.3%
Total Premise Expense	$617,255	5.8%	$3,460,513	7.1%	$8,438,958	5.8%
Hardware	1,885	0.0%	3,000	0.0%	0	0.0%
Other IT Operating Costs	0	0.0%	3,451	0.0%	1,046,863	0.7%
Software Licensing and Fees	50,544	0.5%	564,585	1.2%	1,729,438	1.2%
IT Wages and Benefits	0	0.0%	0	0.0%	0	0.0%
Total Data Processing Expense	$52,429	0.5%	$571,036	1.2%	$2,776,301	1.9%
Advertising	203,887	1.9%	1,105,531	2.3%	3,914,238	2.7%
Donations	5,253	0.0%	20,598	0.0%	23,190	0.0%
Meals and Entertainment	9,632	0.1%	103,526	0.2%	230,649	0.2%
Total Marketing Expense	$218,772	2.1%	$1,229,656	2.5%	$4,168,077	2.9%
Automobile and Parking	77,465	0.7%	121,924	0.3%	884,242	0.6%
Bad Debt	34,730	0.3%	206,202	0.4%	280,002	0.2%
Bank Charges	195,415	1.8%	683,959	1.4%	2,947,906	2.0%
Membership and Dues	28,415	0.3%	168,849	0.3%	828,655	0.6%
Office	399,653	3.8%	1,237,050	2.5%	2,780,392	1.9%
Accounting and Legal	138,934	1.3%	760,429	1.6%	2,086,452	1.4%
Postage and Courier	6,649	0.1%	44,595	0.1%	295,962	0.2%
Telephone	82,741	0.8%	333,996	0.7%	1,281,387	0.9%
E&O Insurance	47,404	0.4%	440,380	0.9%	904,223	0.6%
Travel	130,123	1.2%	246,895	0.5%	857,318	0.6%
Other	3,338	0.0%	117,249	0.2%	148,434	0.1%
Total Administrative Expense	$1,144,867	10.8%	$4,361,528	9.0%	$13,294,973	9.2%
Total Expense	7,417,140	70.0%	37,487,509	77.0%	105,738,367	73.3%
OPERATING INCOME	**$3,171,256**	**30.0%**	**$11,199,928**	**23.0%**	**$38,597,622**	**26.7%**

APPENDIX E: AGGREGATE AND AVERAGE INCOME AND EXPENSES OF THE TOP 20% BASED ON OPERATING PROFIT PERCENTAGE

OPERATING RESULTS - TOP 20% AND REMAINING SAMPLE						
		TOP 20%			REMAINING SAMPLE	
Number Of Branches		12			47	
	Total	Average	%	Total	Average	%
Automobile	8,316,926	704,824	23.6%	53,995,891	1,143,981	32.1%
Personal	8,560,163	725,438	24.3%	52,149,256	1,104,857	31.0%
Commercial	15,068,561	1,276,997	42.8%	51,420,393	1,089,415	30.5%
Contingent Profit	2,798,290	237,143	8.0%	7,387,682	156,519	4.4%
Other Revenue	449,169	38,065	1.3%	3,465,491	73,421	2.1%
Total Income	$35,193,109	$2,982,467	100.0%	$168,418,712	$3,568,193	100.0%
Salaries and Wages	13,641,646	1,156,072	38.8%	72,484,596	1,535,691	43.0%
Commission	306,051	25,937	0.9%	16,648,852	352,730	9.9%
Employee Benefits	997,571	84,540	2.8%	5,809,304	123,078	3.4%
Recruitment and Training	114,919	9,739	0.3%	296,275	6,277	0.2%
Total Personnel Expense	$15,060,187	$1,276,287	42.8%	$95,239,028	$2,017,776	56.5%
Rent	1,385,209	117,391	3.9%	8,414,664	178,277	5.0%
Property Taxes	8,228	697	0.0%	234,248	4,963	0.1%
Repairs and Maintenance	264,236	22,393	0.8%	1,045,114	22,142	0.6%
Utilities	47,367	4,014	0.1%	300,130	6,359	0.2%
Other	11,341	961	0.0%	77,984	1,652	0.0%
Insurance - Building and Contents	114,548	9,707	0.3%	671,768	14,232	0.4%
Total Premise Expense	$1,830,929	$155,163	5.2%	$10,743,908	$227,625	6.4%
Hardware	3,000	254	0.0%	1,885	40	0.0%
Other IT Operating Costs	191,724	16,248	0.5%	858,590	18,190	0.5%
Software Licensing and Fees	329,079	27,888	0.9%	2,015,488	42,701	1.2%
IT Wages and Benefits	0	0	0.0%	0	0	0.0%
Total Data Processing Expense	$523,803	$44,390	1.5%	$2,875,963	$60,931	1.7%
Advertising	881,117	74,671	2.5%	4,342,539	92,003	2.6%
Donations	32,063	2,717	0.1%	16,978	360	0.0%
Meals and Entertainment	48,314	4,094	0.1%	295,494	6,260	0.2%
Total Marketing Expense	$961,494	$81,483	2.7%	$4,655,011	$98,623	2.8%
Automobile and Parking	238,553	20,216	0.7%	845,078	17,904	0.5%
Bad Debt	38,230	3,240	0.1%	482,704	10,227	0.3%
Bank Charges	326,262	27,649	0.9%	3,501,018	74,174	2.1%
Memberships and Dues	193,343	16,385	0.5%	832,576	17,639	0.5%
Office	832,401	70,542	2.4%	3,584,695	75,947	2.1%
Professional Fees	240,067	20,345	0.7%	2,745,748	58,173	1.6%
Postage and Courier	41,121	3,485	0.1%	306,085	6,485	0.2%
Telecommunications	196,327	16,638	0.6%	1,501,797	31,818	0.9%
E & O Insurance	249,908	21,179	0.7%	1,142,099	24,197	0.7%
Travel	220,390	18,677	0.6%	1,013,946	21,482	0.6%
Other	36,486	3,092	0.1%	232,535	4,927	0.1%
Total Administrative Expense	$2,613,088	$221,448	7.4%	$16,188,280	$342,972	9.6%
Total Expenses	20,989,501	1,778,771	59.6%	129,702,189	2,747,928	77.0%
OPERATING INCOME	**$14,203,608**	**$1,203,696**	**40.4%**	**$38,716,523**	**$820,265**	**23.0%**

Smythe ADVISORY

VANCOUVER
700 – 355 Burrard St
Vancouver, BC V6C 2G8
T: 604 694 7500
F: 604 688 4675

LANGLEY
305 – 9440 202 St.
Langley, BC V1M 4A6
T: 604 282 3600
F: 604 357 1376

NANAIMO
201 – 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 751 3383

smytheadvisory.com