SCOTTISH and YORK
1982
Annual Report

Board of Directors

R. D. ABBOT
R. W. BROUGHTON
S. F. CHAPMAN
W. G. HOLBROOK
ST. CLAIR McCABE
A. D. McEWEN
K. R. THOMSON
J. A. TORY
I. D. CROFT

Officers

R. W. BROUGHTON — *Chairman of the Board and Chief Executive Officer*
W. G. HOLBROOK — *President and Chief Operating Officer*
R. D. ABBOT — *Vice-President and Secretary-Treasurer*
S. F. CHAPMAN — *Vice-President — Finance*
D. A. BOYD — *Vice-President*

Transfer Agent

MONTREAL TRUST COMPANY

Auditors

THORNE RIDDELL

Bankers

THE ROYAL BANK OF CANADA

Executive Office

150 EGLINTON AVENUE EAST, TORONTO, CANADA

SCOTTISH & YORK HOLDINGS LIMITED

To The Shareholders

The 1982 results of the Scottish & York group in the United States were catastrophic. Indeed, the entire group survived only as a direct result of the substantial financial support of our major shareholder, The Standard St. Lawrence Company Limited. However, the magnitude of the loss in the U.S. obscured the fact that Canadian and other non-U.S. operations showed a substantial improvement.

While the company reported an overall net loss for the year amounting to $72.2 million, this was comprised of a loss in the U.S. of Cdn. $78.1 million, and a profit from Canadian and other operations of $5.9 million. These results compare with a 1981 loss of $8.8 million, comprised of a U.S. loss of Cdn. $10.2 million and a profit from Canadian and other operations of $1.4 million.

Despite the fact that our Canadian insurance companies have maintained adequate levels of capital and surplus, the effect of the U.S. losses on the company's consolidated capital and surplus has resulted in some concern on the part of regulators, insurance brokers and policyholders. To clarify the situation and to assure the continued acceptance of our Canadian insurance companies in the market place, the company, subsequent to the year end, accepted an offer from its major shareholder, The Standard St. Lawrence Company Limited, which has had the effect of transferring voting control of Scottish & York, Inc. to Standard St. Lawrence. Details of the transaction are set out in Note 2 to the financial statements and shareholders were advised by press release on June 3, 1983 of the highlights of the transaction. In part, that press release read as follows:

> "Scottish & York Holdings Limited ("S & Y Holdings") is pleased to announce that its Board of Directors has today accepted an offer from its major shareholder, The Standard St. Lawrence Company Limited ("Standard St. Lawrence"), under the terms of which Standard St. Lawrence will assume direct voting control of Scottish & York, Inc. ("S & Y Inc."), the group's U.S. holding company. As a result S & Y Holdings will no longer be required to include the U.S. group in its consolidated financial statements.
>
> S & Y Holdings will continue to hold, either directly or through a subsidiary, the common shares of S & Y Inc. and a class of S & Y Inc.'s preferred shares. However, Standard St. Lawrence will hold a class of redeemable voting preferred shares of S & Y Inc. which will carry the majority of votes.
>
> In summary, the results of the above and of other related transactions will be as follows:
>
> 1) S & Y Holdings will no longer consolidate the results of operations or the balance sheet of the U.S. group.
>
> 2) S & Y Holdings will be released from its guarantee of bank indebtedness of the U.S. group.
>
> 3) Standard St. Lawrence will assume voting control of the U.S. group and overall responsibility for the financing of such group.

4) Officers of S & Y Holdings will continue to be involved in the review and supervision of the management of the U.S. group.

5) S & Y Holdings will retain the right to reacquire voting control of S & Y Inc. if, as and when this is deemed desirable by the board of directors of S & Y Holdings."

The effect of the deconsolidation of the U.S. group on Scottish & York Holdings Limited is significant. While U.S. losses had almost totally eliminated shareholders' equity on the consolidated balance sheet, Scottish & York Holdings Limited now shows shareholders' equity amounting to approximately $28.6 million.

While we view the current year with optimism, competition in commercial lines in Canada remains strong and the prospects for growth in this area will be limited until the market place improves. Personal lines continue to be the principal growth field for the company and with both the improved results of Eaton Bay Insurance Company and the elimination of the U.S. operating losses, we anticipate that the company will show a satisfactory profit in 1983.

The company has moved to new premises, at attractive rental rates, which has allowed us to bring together all of our staff, including Eaton Bay personnel, under one roof and under one data processing system. This will substantially reduce our operating expenses.

On behalf of the Board I wish to thank our many clients who have supported us during a very difficult year and also our staff for their untiring efforts.

For the Board of Directors

R.W. Broughton

R.W. BROUGHTON
Chairman of the Board and
Chief Executive Officer.

Auditors' Report

To the Shareholders of
Scottish & York Holdings Limited

We have examined the consolidated balance sheet of Scottish & York Holdings Limited as at December 31, 1982 and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 11, 1983
(June 3, 1983 with respect to note 2)

THORNE RIDDELL
Chartered Accountants

SCOTTISH & YORK HOLDINGS LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1982

ASSETS

	1982	1981 (as restated – note 2)
Cash	$ 3,056,665	$ 1,911,419
Marketable securities		
Term deposits	48,868,459	22,358,922
Bonds (market value 1982, $29,035,719; 1981, $18,507,576)	32,382,220	26,281,746
Stocks (market value 1982, $7,585,414; 1981, $7,220,739)	9,254,112	9,741,085
Accrued interest on bonds and term deposits	2,429,183	828,272
Accounts and notes receivable	35,208,375	43,936,846
Income taxes recoverable	636,375	336,732
Property and equipment (note 4)	545,209	431,179
Marketing agreement, net of amortization	665,000	—
Investment in Scottish & York, Inc. (note 2)	—	2,891,114
	$133,045,598	$108,717,315

Approved by the Board

W. G. HOLBROOK, Director
R. D. ABBOT, Director

LIABILITIES

	1982	1981 (as restated – note 2)
Accounts payable and accrued liabilities	$ 18,931,624	$ 6,989,107
Provision for outstanding claims	63,101,171	56,079,736
Income and premium taxes payable	4,227,085	1,164,104
Deferred revenue	18,083,773	13,944,225
Interest of minority common shareholders of subsidiary companies	132,546	88,759
	104,476,199	78,265,931

SHAREHOLDERS' EQUITY

	1982	1981
Capital stock (note 6)		
Authorized		
6,000,000 Class A Floating Rate Preference Shares		
250,000 Class B Floating Rate Preference Shares		
50,000,000 Common shares without par value		
Issued		
4,200,000 Class A preference shares	42,000,000	—
8,000,000 Common shares	3,701,000	3,701,000
Retained earnings (deficit)	(17,131,601)	26,750,384
	28,569,399	30,451,384
	$133,045,598	$108,717,315

Commitments (note 7)

SCOTTISH & YORK HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1982

	1982	1981 (as restated – note 2)
Gross premiums written and other income	$184,589,353	$109,238,599
Underwriting loss	$ 4,905,776	$ 10,152,045
Investment income	12,560,103	12,055,741
Income before undernoted items	7,654,327	1,903,696
Income taxes	1,741,125	464,037
	5,913,202	1,439,659
Interest of minority common shareholders of subsidiary companies	43,787	(50,952)
Income from continuing operations	5,869,415	1,490,611
Losses from operations no longer consolidated (note 2)	(49,751,400)	(10,244,994)
LOSS FOR THE YEAR	$ 43,881,985	$ 8,754,383
Earnings (loss) per share (note 8)		
Earnings per common share from continuing operations	$ 0.62	$ 0.19
Loss per common share	$ (5.60)	$ (1.09)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
YEAR ENDED DECEMBER 31, 1982

	1982	1981
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 26,750,384	$ 36,784,767
Loss for the year	43,881,985	8,754,383
	(17,131,601)	28,030,384
Dividends	—	1,280,000
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ (17,131,601)	$ 26,750,384

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1982

	1982	1981 (as restated – note 2)
RESOURCES PROVIDED		
Income from continuing operations	$ 5,869,415	$ 1,490,611
Items not involving cash		
Depreciation and amortization	222,765	126,158
Amortization of marketing agreement	35,000	—
Interest of minority common shareholders of subsidiary companies	43,787	(50,952)
Increase in deferred revenue	2,443,548	3,427,293
Increase in provision for outstanding claims	2,539,435	5,249,112
Increase in accounts payable and accrued liabilities	9,818,517	4,003,533
Decrease (increase) in accounts and notes receivable	8,946,560	(13,575,139)
Resources provided from continuing operations	29,919,027	670,616
Proceeds of issuance of preference shares	42,000,000	—
Decrease in term deposits	—	4,656,853
Sale of marketable securities, net		
Stocks	1,411,973	—
Bonds	1,390,526	339,635
Increase in income and premium taxes payable, net	2,763,338	1,600,021
	$77,484,864	$ 7,267,125
RESOURCES APPLIED		
Investment in Scottish & York, Inc.	$46,860,286	—
Increase in cash	1,145,246	$ 1,368,166
Increase in term deposits	25,851,537	—
Acquisition of subsidiary (note 3)	2,591,000	—
Purchase of marketable securities, net		
Stocks	—	3,536,813
Purchase of property and equipment, net	336,795	457,046
Dividends on common shares	—	1,280,000
Increase in net change in other assets and liabilities	700,000	625,100
	$77,484,864	$ 7,267,125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1982

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and with respect to the subsidiary insurance companies, differ in some respects from statutory accounting practices followed in the preparation of financial statements submitted to regulatory authorities.

(a) Basis of consolidation (see also note 2)

The consolidated financial statements include all subsidiary companies, after reflecting the subsequent event described in note 2:

	Percentage ownership
Canada	
Scottish & York Insurance Co. Limited	97.92
Central Canada Insurance Service Limited	100
Victoria Insurance Company of Canada	99.1
Eaton Bay Insurance Company	99.68
Bermuda	
Scottish International Insurance Limited	100
Netherlands	
Scottish & York B.V.	100
Netherlands Antilles	
Scottish & York N.V.	100

(b) Translation into Canadian dollars

The accounts of the subsidiary companies in Bermuda and the Netherlands have been translated into Canadian dollars on the following basis:

(i) assets and liabilities of a monetary nature at the rate of exchange prevailing at December 31,

(ii) all other assets and liabilities at the rate of exchange prevailing at the date the assets were acquired or the liabilities incurred,

(iii) income and expenses at the average rate for the year,

(iv) foreign currency gains and losses are included in income when realized.

(c) Marketable securities

(i) Term deposits are recorded at cost.

(ii) Bonds are recorded at cost or amortized cost.
Interest income is recorded on an accrual basis.

(iii) Stocks are recorded at cost.
Dividend income is recorded on a cash received basis.

(iv) Gains and losses on disposal of investments are included in investment income.

(d) Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization.

Office equipment, data processing equipment and computer software are depreciated on a straight line basis with useful lives ranging from 5 to 8 years.

Automobiles are depreciated at the rate of 30% reducing balance basis.

Leasehold improvements are amortized on a straight line basis over a maximum of 5 years.

(e) Marketing agreement

The company amortizes the marketing agreement with Eaton Bay Financial Services Limited over twenty years from the date of acquisition.

(f) Deferred revenue

(i) Policy acquisition costs, net of reinsurance allowances, are deferred and amortized over the terms of the related policies.
For the years 1982 and 1981 deferred commission income exceeded deferred acquisition costs. Accordingly, the net credit balance is included in deferred revenue.

(ii) Premium income is deferred until it is earned. The basis for taking premiums into income is prescribed by the regulating organizations under which the companies operate.

(g) Provision for outstanding insurance claims

The liabilities for outstanding insurance claims and related adjustment expenses are determined using case basis evaluations plus a provision for unreported claims and are estimates of the ultimate net cost of all insurance claims incurred through December 31, 1982.
Since the provisions are necessarily based on estimates of future trends in claim severity and frequency and other factors, which could vary as the claims are settled, the ultimate liability may be more or less than the estimated amounts. These liabilities have been stated net of reinsurance recoverable from other companies. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for insurance claims and related adjustment expenses are adequate. The estimates are continually reviewed and, as adjustments to these liabilities become necessary, they are reflected in current operations.

2. INVESTMENT IN SCOTTISH & YORK, INC.

Subsequent to the year-end, Scottish & York, Inc. ("S&YI"), formerly a wholly owned U.S. subsidiary, reorganized its share capital in a manner which has transferred voting control of S&YI to The Standard St. Lawrence Company Limited ("Standard St. Lawrence"), the company's major shareholder. The company continues to hold indirectly through Scottish & York B.V. all of the 100 issued common shares of S&YI and to hold directly the preferred shares of S&YI which were acquired in 1982 at a cost of approximately $42,000,000. These investments have been written down to a nil value in 1982.

Standard St. Lawrence subscribed for 400 voting redeemable preferred shares of S&YI at a price of 1¢ each. These shares are entitled to three votes each at meetings of shareholders and are redeemable by S&YI at a price equal to the amount paid up thereon. The common shareholders of S&YI have the right under the share conditions attaching to the reorganized share capital of S&YI to require such redemption to be made at any time. At present, all of the common shares are held by Scottish & York B.V., a wholly owned subsidiary of the company.

In addition, S&YI has authorized a new class of non-voting redeemable and retractable preferred shares which will be entitled to cumulative dividends at a rate equal to the U.S. prime rate from time to time. on redemption or retraction the holder will be entitled to the amount paid up on each share plus accrued but unpaid dividends. It is intended that these shares will be issued in the event that additional capital is required by S&YI or its subsidiaries and that such shares will be subscribed for by Standard St. Lawrence. It is the intention of the parties to enter into an agreement under which Scottish & York B.V. will agree not to cause the redemption of the voting preferred shares unless all of these financing shares have been redeemed by S&YI or acquired by the company. The agreement will also require the continued involvement of officers of Scottish & York Holdings Limited in the supervision of the operations of S&YI.

As a result of the foregoing, the company is no longer required to consolidate the financial statements of the companies in the S&YI group. For 1982, losses related to the S&YI group have been accounted for on the equity basis and the 1981 figures have been restated to conform with the 1982 presentation. For 1983, and subsequent years, as a result of this reorganization it will be appropriate to account for the company's investment in S&YI on a cost basis. Accordingly the company will no longer be required to disclose results attributable to S&YI except to the extent of dividends received.

2. INVESTMENT IN SCOTTISH & YORK, INC. (continued)

Losses attributable to S&YI as set out on the income statement are comprised of the following components:

	1982	1981
Operating losses	$(78,094,117)	$(10,244,994)
Write-down of investment	(48,020,639)	—
Less accumulated net operating losses no longer required to be consolidated	76,363,356	—
	$(49,751,400)	$(10,244,994)

3. ACQUISITION OF SUBSIDIARY

Effective January 5, 1982 the company acquired for cash 100% of the outstanding shares of Eaton Bay Insurance Company.

The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from the date of acquisition.

Net assets acquired, at fair value	
Cash	$ 658,000
Marketable securities	8,416,000
Accrued investment income	184,000
Due from agents and reinsurance companies	1,635,000
Deferred policy acquisition costs	290,000
Liabilities assumed (principally reserves)	(8,592,000)
Total purchase price	$2,591,000

The purchase agreement provides that to the extent that loss development on claims arising prior to January 1, 1982 exceeds the claims reserves established at that date, the company will be indemnified. To December 31, 1982 the company has been reimbursed in the amount of $1.3 million.

In addition the purchase agreement requires the company to make payments equal to one-half of the amount by which Eaton Bay Insurance Company's future income taxes are reduced by non-capital losses incurred prior to December 31, 1981. As at December 31, 1981, the potential tax benefit of the loss carry forward amounted to approximately $2.4 million.

4. PROPERTY AND EQUIPMENT

	1982	1981 (as restated – note 2)
Leasehold improvements	$ 96,766	$ 99,598
Office equipment	331,955	208,910
Computer software	365,458	292,728
Automotive equipment	103,180	86,564
	897,359	687,800
Less accumulated depreciation and amortization	352,150	256,621
	$ 545,209	$ 431,179

Depreciation and amortization charged to income was $222,765 and $126,158 in 1982 and 1981, respectively.

5. INCOME TAXES

At December 31, 1982 the company has the following losses available to reduce future years' income for tax purposes, the effect of which has not been recorded in the accounts:

Available until 1985	$ 252,000
Available until 1986	1,365,000
Available until 1987	1,368,000
	$ 2,985,000

6. CAPITAL STOCK

On September 10, 1982 the company received supplementary letters patent authorizing the following changes to its authorized share capital:

(a) a decrease in the authorized capital of the company by cancellation of the 10,000 authorized but unissued First Preference Shares with a par value of $50.00 each;

(b) an increase in the authorized share capital of the company by the creation of 6,000,000 special shares, designated as Class A Floating Rate Preference Shares with a par value of $10 each;

(c) an increase in the authorized capital of the company by the creation of 250,000 special shares, designated as Class B Floating Rate Preference Shares with a par value of $0.01 each;

(d) an increase in the number of authorized Common shares without par value of the company from 12,000,000 to 50,000,000.

Class A Floating Rate Preference Shares

The holders of Class A preference shares are entitled to receive cumulative dividends at a rate of one-half the prime rate charged by The Royal Bank of Canada plus 1%. Dividends are payable, at the option of the directors, either in cash or by way of stock dividends in Class B shares. These shares are retractable at the holder's option on September 1, 1987 at the price of $10 per share plus accrued and unpaid dividends. The shares are redeemable at the company's option at a price equal to $10 per share plus accrued and unpaid dividends to the redemption date.

Class B Floating Rate Preference Shares

The holders of Class B preference shares are entitled to receive cumulative dividends at a rate of one-half the prime rate charged by The Royal Bank of Canada plus 1%. These shares are retractable at the holder's option on September 1, 1987 at the price of $100 per share plus accrued and unpaid dividends. The shares are redeemable at the company's option at a price equal to $100 per share plus accrued and unpaid dividends to the redemption date.

On September 21, 1982, the company issued 4,200,000 Class A preference shares to its major shareholder, The Standard St. Lawrence Company Limited, and received as consideration cash of $42,000,000.

No dividends were declared in 1982. Effective February 28, 1983 a dividend amounting to $1,380,400 was paid by way of stock dividend in the form of 13,804 Class B shares, representing dividends on the Class A shares from their issue date to February 28, 1983.

7. COMMITMENTS

Cash and short-term deposits in the amount of $25,318,717 are assigned as security against letters of credit in the same amount issued to ceding insurance companies to secure liabilities.

The company leases certain office space under a lease agreement expiring in 1992. The following is a schedule of future minimum lease payments for the lease:

Year ending December 31,	
1983	$ 564,000
1984	564,000
1985	564,000
1986	564,000
1987	564,000
1988 to remainder of lease term	2,679,000
	$5,499,000

8. EARNINGS (LOSS) PER SHARE

The 1982 "Earnings per common share from continuing operations" and "Loss per common share" have been calculated after giving effect to the accrual of the dividends, amounting to $896,700 to December 31, 1982, on the Class A Floating Rate Preference Shares (see note 6).

9. SEGMENTED INFORMATION

The company operates solely in the property and casualty insurance industry and conducts business in two geographic areas – Canada and Bermuda and Other.

	1982			1981 (as restated – note 2)		
	Canada	Bermuda and Other	Consolidated	Canada	Bermuda and Other	Consolidated
	(000's omitted)			(000's omitted)		
Total assets	$ 81,034	$ 52,012	$133,046	$ 56,438	$ 52,279	$108,717
Revenue	$131,377	$ 53,212	$184,589	$ 80,042	$ 29,197	$109,239
Income from continuing operations	$ 266	$ 5,900	$ 6,166	$ (466)	$ 2,129	$ 1,663
General corporate expenses			297			172
Income from continuing operations			$ 5,869			$ 1,491

10. STATUTORY INFORMATION

The company has made non-interest bearing loans totalling $157,321 (1981, $164,360) to certain directors who are also officers. The loans are payable in equal monthly installments over 25 years. The company has taken mortgages on real property as security for these loans.

	1982	1981
Direct remuneration of directors and senior officers (as defined by the Business Corporations Act)	$727,140	$521,699

Five Year Performance Record of Continuing Operations

(SEE NOTE 2 TO THE FINANCIAL STATEMENTS)

YEAR	GROSS PREMIUMS WRITTEN	NET PREMIUMS WRITTEN	DEFERRED REVENUE	INCOME BEFORE TAXES AND MINORITY INTEREST	INCOME TAXES	NET INCOME FROM CONTINUING OPERATIONS	EARNINGS PER SHARE FROM CONTINUING OPERATIONS	DIVIDENDS PAID PER COMMON SHARE
1982	$172,029,250	$74,669,083	$18,083,773	$7,654,327	$1,741.125	$5,869,415	*62¢	–
1981	97,182,858	32,099,641	13,944,225	1,903,696	464,037	1,490,611	19¢	16.0¢
1980	83,229,512	35,953,921	10,516,932	4,920,399	497,894	4,418,609	55¢	30.0¢
1979	74,842,482	34,538,516	10,175,577	9,686,238	2,046,906	7,625,108	95¢	24.0¢
1978	66,166,184	30,370,864	10,249,128	10,142,775	2,109,481	7,999,897	$1.00	20.25¢

*After giving effect to the accrual of dividends on the Class A Floating Rate Preference Shares