REED STENHOUSE / ANNUAL REPORT 1984

"Reed Stenhouse Companies Limited announced in Canada and the United Kingdom today that agreement has been reached on the terms for a merger of Reed Stenhouse and Alexander & Alexander Services Inc. of the United States and the combination of their worldwide insurance broking interests."

—December 4, 1984

With this announcement, the management of Reed Stenhouse Companies Limited took the penultimate step of joining Alexander & Alexander, the second largest insurance broking company, to form the strongest truly international insurance broking group in the world. What remained were regulatory consents and the satisfaction of other conditions including the approval of shareholders of both companies.

For the shareholders of Reed Stenhouse, the proposed merger meant the opportunity to take part in a process which began with the formation in 1968 of Reed Shaw Osler Limited, whose three component Canadian insurance groups had origins going back over 100 years. That process took on an international character in 1973 with the merger of the insurance interests of Stenhouse Holdings plc of the United Kingdom.

The announcement of December 4, 1984 signalled a continued evolution towards size and international capability in the insurance broking industry.

Reed Stenhouse Companies Limited, with 6,100 employees, conducts insurance broking, risk management and related financial services in more than 180 offices in 33 countries. The predominance of the company's business is outside the United States.

Alexander & Alexander Services Inc., with 11,000 employees, is engaged in insurance broking, risk management and financial services in 80 U.S. cities and in 48 other countries through wholly-owned offices, joint venture corporations and correspondent relationships. The predominance of the company's business is within the United States.

The terms of the proposed merger—for every 3 class A or class C shares of Reed Stenhouse, 2 A&A common shares or their equivalent—were structured so as to provide the optimum tax advantage to Reed Stenhouse shareholders and to protect the integrity of the international ownership of the merged group.

At the completion of the merger, shareholders of Reed Stenhouse would own 28.8 per cent of the common shares of Alexander & Alexander, or the equivalent. This proportionate ownership would be reflected in the representation of Reed Stenhouse directors on the board of the merged group.

In the end, Reed Stenhouse Companies Limited and Alexander & Alexander Services Inc. would join in an enterprise designed and dedicated to providing a geographic spread and a quality of service unmatched by any other insurance broking company in the world.

Une version française du présent rapport est disponible sur demande à l'adresse suivante:

Le Secrétaire
Les Compagnies Reed Stenhouse, Limitée
B.P. 250
Toronto Dominion Centre
Toronto Canada M5K 1J6

Report to Shareholders

The past year was momentous in the history of Reed Stenhouse Companies Limited, a corporation which was formed in 1968 but whose antecedents date back to the last century. It was a year during which your management, confronted by turbulent competitive and regulatory change across the spectrum of financial services industries, decided that the interests of shareholders would best be served if Reed Stenhouse were to remain in the business it knows best and does best. This considered determination led to the agreement under which your company would combine its operations with Alexander & Alexander Services Inc. of New York.

The merger with A&A has yet to be consummated: it remains subject to your endorsement and certain other formal approvals. And while the agreement in principle occurred after the fiscal period under review in this report, your company's operating experience in the year ended September 30, 1984 illuminates some of the reasons the merger would enhance the development of Reed Stenhouse as a major international presence in insurance broking.

Reed Stenhouse Companies Limited had record gross revenues of \$336 million in the last fiscal year, up 6 per cent from a restated \$317.9 million the previous year. Operating expenses rose 8 per cent to \$303.8 million from a restated \$281 million. After taking into account certain non-recurring gains, as well as interest expense and income taxes, net earnings were down 11 per cent to \$11.7 million from \$13.2 million, and earnings per share fell 15 per cent to 70 cents from 82 cents in fiscal 1983.

Elsewhere in this report there is a more detailed review of our operations, broken down according to the major geographical areas of our activities. It is important to note that, because almost two-thirds of the total revenue of Reed Stenhouse is generated outside Canada, foreign exchange rates have a major effect on reported results.

The enduring strength of the U.S. dollar meant that higher losses from the operations of Reed Stenhouse Holdings Inc., your company's principal U.S. subsidiary, had an even greater impact on final accounts when translated into Canadian dollars.

In contrast, the strong U.S. dollar accentuated the improvement in sterling earnings from operations in the United Kingdom. This is because a portion of our revenues in Britain are denominated in U.S. dollars while expenses are almost entirely in sterling. Unfortunately, these results in turn lose some of their attractiveness when translated into Canadian dollars, which remain strong vis-a-vis sterling.

For several years, almost all of the activities of Reed Stenhouse have been affected by difficult economic conditions and depressed insurance rates. The net result has been that carriers have been selling below cost, and have relied for their survival on investment income. Now we are starting to see a perceptible trend towards a firming of rates, which should shortly be reflected in your company's earnings.

A continuation of this trend to higher rates is important not only for the future profitability of Reed Stenhouse but also for the viability of insurance underwriters. Over the last five years, corporate insureds have enjoyed the most inexpensive period of insurance since World War II. It is in the nature of the insurance business that there be long-term equilibrium; it also is in the interests of insureds that their carriers remain healthy and solvent.

During the past year, Reed Stenhouse extended the reach of its operations by opening new offices in Germany, Holland and Hong Kong. In Australia, we completed the acquisition of Edward Lumley (Brokers) Limited, the remaining major independent insurance broker in that country, and in New Zealand, Reed Stenhouse widened the range of its services by acquiring a majority interest in the actuarial consultancy business of E. S. Knight and Co. We also purchased the 30.8% minority interest outstanding in Singapore-based Reed Stenhouse Leow Pte. Ltd.

In March of 1984, shares of Reed Stenhouse were listed on the London Stock Exchange. This was the concluding requirement of the merger with Stenhouse Holdings plc which brought to Reed Stenhouse 2,800 new shareholders. While your company is the only insurance broker listed on Canadian stock exchanges (in Toronto, Montreal and Vancouver), it now is among a half dozen such companies traded on the London Stock Exchange.

Also during the past year, Reed Stenhouse sold its 50 per cent interest in Continental Life Insurance plc, with a consequent gain on divestiture of $3,560,000. The proceeds will be re-invested according to your management's philosophy of concentrating on insurance broking and services directly related to that activity.

It is this same philosophy that guided Reed Stenhouse in its merger negotiations with Alexander & Alexander Services Inc. The United States represents half the world market in dollar volume of insurance premiums, and A&A is the largest direct broker of insurance in the United States. The activities of Reed Stenhouse in the United States complement that strength, while at the same time bringing to A&A a leading position in direct broking in Canada and a number of other countries around the world.

In Canada, in the United States, and in the United Kingdom, there is a strong movement towards a blurring of the roles of financial services institutions. Reed Stenhouse could have chosen to be swept up in that movement: we could have diversified into other areas of endeavour, or we might have become part of a more diversified organization. But to follow such a course, in the view of your management, inevitably would impair the quality of service that we provide. Moreover, it would dilute the specialized skills of our personnel.

Reed Stenhouse believes that it can comport itself most efficiently and profitably, both for its clients and for its shareholders, by building upon the talents it has developed over many years.

For all our clients, the proposed merger with Alexander & Alexander would lead to a stronger organization better able to cope with a world which is becoming increasingly international. The geographic fit of Reed Stenhouse and A&A is most vividly illustrated by the fact that A&A generates more than 80 per cent of its revenues in the United States, while Reed Stenhouse derives approximately the same proportion of its revenues from outside the United States.

For our staff, belonging to the merged group would create new opportunities and widen career prospects. As part of a larger and stronger entity, they would enjoy more scope to develop existing and new specialist skills.

At the outset of these remarks, I said that the past year was a momentous one for Reed Stenhouse. There is some considerable moment, as well, in the pending retirement of James W. Whittall as one of your company's directors.

Mr. Whittall has been with Reed Stenhouse and its predecessors for almost 50 years, and distinguished himself as President and Chief Executive Officer from 1968 to 1979 when the company underwent the period of its most rapid growth. On behalf of management and shareholders, I want to express our very sincere appreciation for all that he has done for the company over so many years. I also want to recognize the contribution made by another retiring director, John S. Davidson, who joined the group in 1959 and has been a member of the board since 1968. Mr. Davidson's far-sighted counsel has made a valuable contribution to encouraging the growth of Reed Stenhouse in Canada and abroad.

Reed Stenhouse Companies Limited has traversed some difficult economic territory during the past two or three years. With the continued dedication of our staff, Reed Stenhouse may be expected to take full advantage of an improved environment.

William M. Wilson
President and
Chief Executive Officer

February 20, 1985

Report on Operations

Canada

Canada's economy performed reasonably well during fiscal 1984, as real gross domestic product rose by approximately $4\frac{1}{2}$ per cent. However, this overall performance masked some sectoral and regional weaknesses which adversely affected our results in the past year. While inflation fell to less than 5 per cent, interest rates remained little changed on a year-to-year basis. Unemployment continued to hover around 11 per cent, housing starts fell more than 17 per cent during calendar 1984, and capital spending increased only marginally, reflecting the low level of capacity utilization in most manufacturing industries.

British Columbia and Alberta, the two provinces most dependent for their prosperity on natural resource industries, were problem areas for the Canadian economy and for your company. Metals prices have continued to languish, and Alberta's welfare is tied to complex influences which affect prices and markets for oil and natural gas.

Within this context, the insurance market in Canada remained soft during fiscal 1984. Competition was most aggressive for industrial and large commercial accounts, and although most of our branches met or exceeded their targets, our renewal premium base was subjected to some erosion as a result of further rate reductions, depressed sales, lower payrolls and profits, reduced inventories and the lack of construction activity.

Our personal lines insurance group, represented by Reed Stenhouse Services Limited, enjoyed a most satisfactory year, with profit substantially in excess of both 1983 results and our budgeted target for 1984. In every area in which it operates, Reed Stenhouse Services was able to expand its revenue base and meet its revenue objectives. The reasons were success in new business production and sharing in underwriter profitability.

H.B. Group Insurance Management Ltd., which provides homeowners' and personal automobile insurance through payroll deduction plans for employees of our large clients, also enjoyed an excellent year. H.B. Group exceeded its budgeted profit projections as a result of increased sales activity and a widening acceptance of its product by employers. New large accounts, together with the annualization of revenue produced in prior years, combined to increase revenues by almost 80 per cent in fiscal 1984.

Reed Stenhouse Associates Limited, our employee benefit and pension consulting operation, had a disappointing year despite a small increase in revenues. Major structural and administrative changes in this subsidiary should bring about a substantial improvement in 1985.

Universal Reinsurance Intermediaries expanded its revenue base during fiscal 1984 but due to soft market conditions, net earnings, while acceptable, did not reach budgeted projections. We expect earnings to increase at a more favourable rate in the coming year.

Owner of a potash extraction facility in New Brunswick, Canada, is a Reed Stenhouse client.

CN Tower in downtown Toronto (left) is backdrop for landing of Dash 8, Canada's entry in competition to sell short takeoff and landing (STOL) aircraft. Insurance programmes for aviation enterprises are a Reed Stenhouse specialty around the world.

Report on Operations

Looking ahead, the prospects for Canada's economy are murky. There is likely to be a slowing of growth this year but, paradoxically, some of those areas which have an important impact on our profitability—such as construction and capital spending—are forecast to show substantial increases.

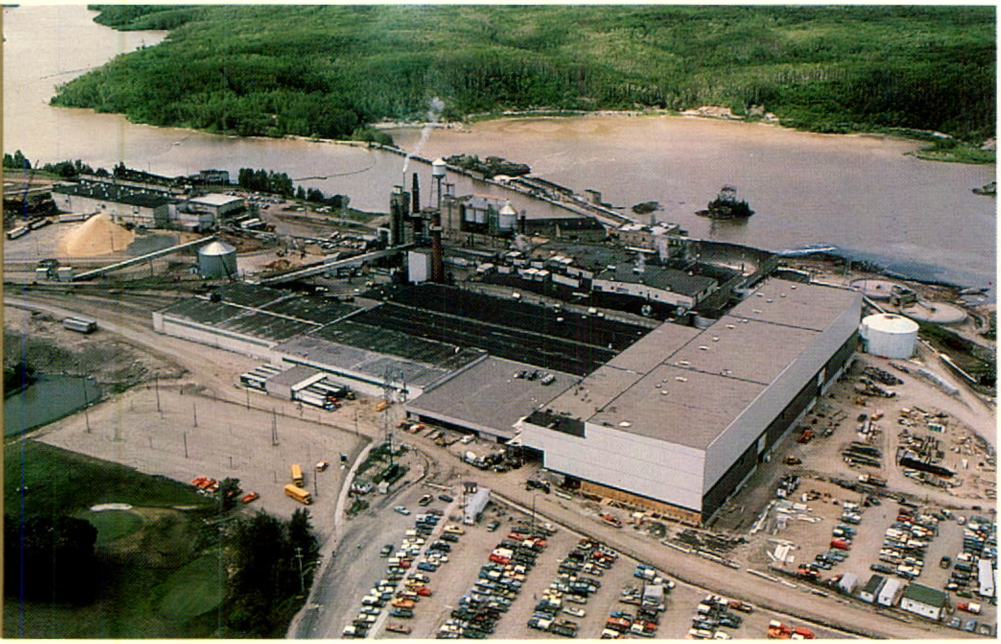
Much depends on what happens in the United States, Canada's major trading partner, and on the climate created by the country's new federal government, whose commitment has been to encourage activity in the private sector. The course of commodity prices, however unpredictable, will have important consequences for Canada's economy.

The response of insurance markets continues to be erratic, which is not surprising in view of the uncertain economic outlook and an intense competitive environment. However, there are some indications of firming rates for excess, umbrella and other specialty casualty lines; property risks continue to be a problematical area.

With less reinsurance capacity available, we may expect a return to more conservative underwriting practice, with loss experience dictating more favourable rate levels. At the same time, additional revenues may be partially offset as large clients continue to introduce self-insurance.

In summary, we believe that the momentum gained in new business development will carry forward and enable us to exceed 1984's record level. Further growth in revenues combined with continued refinements to our administrative procedures, should allow us to overcome any vagaries in economic conditions and more particularly in insurance markets.

Megaprojects in industries ranging from resources to space technology call for insurance protection provided by Reed Stenhouse. Pulp and paper plant in northeastern Canada (below), and communications satellite Anik D1 (right) being lifted into orbit.



United States

The present recovery phase of the U.S. economy, which began in early 1983, continued apace during 1984. Through the recovery, the U.S. government has borrowed at record levels, which in turn has propped up interest rates and contributed to the extraordinary strength of the dollar vis-a-vis all other currencies. While interest rates declined through the latter half of 1984 (after rising during the first half), it is generally felt that interest rates, and more particularly real interest rates, can continue to drop only if the government acts to reduce its unprecedented deficit spending.

Following several years of fierce competition, premium rates in the United States now are increasing markedly, propelled by the decline in carriers' shareholder surplus combined with a drop in investment income. These circumstances have yet to make a significant effect on the results of Reed Stenhouse Inc., your company's principal subsidiary in the United States. The result was a reversal last year in the upward earning trend experienced in 1983.

Conditions in the past year in the United States have prompted Reed Stenhouse Inc. to optimize the efficiency of operations: a streamlining of operations has included the rationalization of staff and office space and has embraced the reorganization of several of the largest branches, conspicuously the New York branch. New production incentive plans are aimed at taking advantage of opportunities that occur in the rapidly changing U.S. insurance market.

Our continuing development of market specializations has resulted in an important expansion of Reed Stenhouse Associates, Inc. and the establishment of R.S. Administrative Services Group, Inc. The latter subsidiary provides services in the benefits

A drill rig (left) is gingerly transported beneath a bridge span in the southwestern United States. The energy industry long has been a Reed Stenhouse specialty. Above, a tracking station in the Marshall Islands uses a "super-radar" facility operated on behalf of the U.S. Air Force.

Report on Operations

field in the form of claims administration, pension and profit sharing record-keeping, and flexible spending plans. This benefits group is expected to make an important contribution to U.S. revenues in a growing sector of the market.

The continued improvement of results generated by the Aviation and International groups reflects the intensified demand for these worldwide facilities, a demand which we anticipate will continue to grow. The reduction in revenues experienced by the Marine Cargo group has been caused by the strength of the U.S. dollar and its retarding effect on U.S. exports; the decline in revenues of this group should arrest itself this year.

Sten-Re, Cole & Associates, Inc. had a record performance in 1984, its fifth year since this entity commenced operations. Sten-Re, Cole & Associates, in keeping with the reduction in available capacity for domestic facultative business, plans to expand its activities in this, its principal area of its business.

Continental Reed Stenhouse Management Company Limited, which manages syndicates in the New York Insurance Exchange, further improved its profits and continued to seek a third syndicate to absorb its unused administrative capabilities.

Great Eastern Associates, Inc. our marine broking and claims adjusting subsidiary, continued to show strong results.

For our U.S. operations, 1984 was a year during which a number of activities were either begun or reorganized. The past year was disappointing; now that we have reorganized our administrative functions, the emphasis henceforth will be on new business development and the servicing of existing business.

Water flow tests are conducted at natural gas plant (left) in the U.S. state of Wyoming.

Domestic as well as international transportation is a significant source of revenues for Reed Stenhouse.


7857
7857
SOUTHERN PACIFIC
SP
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SOUTHERN PACIFIC
7850
PIGGYBACK

Report on Operations

United Kingdom and Ireland

A high level of real interest rates, lower prices for North Sea oil production and the strike of the National Union of Mineworkers cast long shadows over the U.K. economy last year. Although authorities maintained interest rates above those prevailing in the United States, sterling depreciated by 17 per cent against the U.S. dollar during the fiscal year ended September 30. The further deterioration in the relative value of the pound since that time aggravates the dilemma facing the U.K. government which, if it is to stave off fears of renewed inflation, must keep a firm rein on the money supply. In this respect the government's resolve is being tested by borrowing pressure from the corporate sector and the apparently contradictory phenomena of a buoyant personal sector and continued increases in unemployment.

Despite this backdrop, the United Kingdom group of Reed Stenhouse recorded higher revenues and earnings in fiscal 1984.

In the general broking area, we found our commercial clients were trading under better circumstances. The resultant increase in premium spending combined with containment of expenses to produce substantially improved profitability in this area.

Reed Stenhouse Financial Services Ltd., which has administered our employee benefits and personal financial planning services since the beginning of fiscal 1983, enjoyed another satisfactory year in fiscal 1984. Although investment markets frustrated our hoped-for progression in earnings, the performance of the Stenhouse Exempt Fund (our Unit Trust designed especially for pension funds) continued to be exceptional. The transferring of investment management in-house to Reed Stenhouse Investment Services Ltd. has enabled this subsidiary to build an investment team on an increased asset base, providing the group with excellent opportunities to exploit an already outstanding investment record.

The contribution to profits from the provision of employee benefit services to corporate clients kept pace with further growth in fee-based non-insured plans and expansion of the client base.

Reed Stenhouse Marketing Ltd., the group's main Lloyd's broking company, achieved another increase in revenues despite continued intense competition in the international market and little relief from the recession in world-wide marine freight movement. However, profits from this subsidiary were marginally lower than in 1983 due to development and other expenses and the cost of an expanded computer-based program.

For Sten-Re Ltd., the group's international reinsurance broking subsidiary, 1984 was a year of consolidation, made necessary by changing market conditions and the requirements of ceding companies. These changes resulted in the absence of profit growth in the two main operating companies, Universal Reinsurance Intermediaries Ltd. in Canada, and Sten-Re (U.K.) Ltd.

Reed Stenhouse arranged coverages for the owner of this crane shown placing a 200 ton section of a flare jacket for an offshore platform.

Continental Europe

France: Société Générale de Courtage d'Assurances S.A. again accomplished a significant improvement in earnings despite on-going weakness in the economy of France. The acquisition of Le Zodiac, good business development and close control over expenses contributed towards the excellent results.

Belgium: The economy remained depressed, with negative consequences for marine-based accounts. Nonetheless, profit levels in fiscal 1984 were about the same as in the previous year due to strenuous new business development and a careful watch on expenses. NV Reed Stenhouse SA has negotiated a majority shareholding in Ascover, which has added substantial volume to the operation and which creates opportunities for more business development.

Italy: Reed Stenhouse SpA attracted a substantial volume of new business. Profit was satisfactory. Additional business and an apparent improvement in the political and economic climate should sustain or improve the level of profits through 1985.

Spain: Results were disappointing at Reed Stenhouse (Espana) SA. A new business plan is being prepared to make this subsidiary profitable.

Sweden: J. Akerman AB (50 per cent owned) produced acceptable results in fiscal 1984, maintaining much of its activity in the political risks area. Strengthening of human and technical resources is expected to raise growth to another plateau.

Switzerland: A very satisfactory year both in direct broking and reinsurance underwriting resulted in higher earnings. The Reed Stenhouse Group last year exercised options to increase ownership of both Caviezel AG and Reinsurance Underwriting Agency Ltd. from 40 per cent to 100 per cent.

In Holland, CB Reed Stenhouse BV, which commenced activities in November, 1983, is showing the wisdom of the group's expansion into the Netherlands.

Later in the past fiscal year, a new company, Reed Stenhouse GmbH, was formed in West Germany in association with a major German broker.

Cable car at Chamonix in French Alps, one of the highest in the world, is insured by an associate company of Reed Stenhouse.

Report on Operations

Asia and Pacific Region

Earnings of Reed Stenhouse's Australian group declined for the second consecutive year in 1984. This result, encompassing the group's activities in Australia and Papua New Guinea, should not obscure the fact that the Australian group last year increased its volume of new business by more than 50 per cent. Further, Reed Stenhouse reinforced its presence in Australia with the acquisition, in December, 1983, of Edward Lumley (Brokers) Limited, the last remaining major independent insurance broker in Australia.

The Australian group has been afflicted by a soft insurance market and an economy whose performance recently has been reflected in a sharp decline in the value of the Australian dollar relative to most other currencies.

Insurance rates in Australia did not firm, as expected, in 1984; in many instances they were lower than during the previous year. In addition, increased demand for risk management and other services put pressure on expense ratios. And investment income showed a decline from the previous year in line with lower interest rates.

In New Zealand, earnings in 1984 failed to exceed those of the previous year. Soft markets and intense competition inhibited profitability, as did a very low (less than 3 per cent) rate of inflation which held back income growth on the existing client base. There was, however, a record volume of new business, which bodes well for the future.

In the Asia and Pacific Region, the Reed Stenhouse Group has taken measures to streamline management and control costs without compromising opportunities for growth and profitability which will return with a healthier economic environment.

International Marketing, Development and Services

In the aftermath of the recession which deeply affected the economies of so many countries in the early 1980s, multinational corporations and others whose businesses flow across international boundaries were particularly sensitive to the need to control costs. The cost-effectiveness of insurance programmes became even more important, and in this respect Reed Stenhouse international specialists provided valuable assistance in analyzing risks and designing and implementing the most appropriate insurance programmes.

Insurance Managers Limited, based in Bermuda, found a responsive market for its specialty of managing client subsidiary insurance companies. As part of IML's continued expansion, a new subsidiary, Insurance Managers (Barbados) Limited, has been incorporated to serve those clients who feel the Barbados jurisdiction best meets their circumstances.

Increasing demand from international clients for centralized insurance programmes has created new opportunities for Reed Stenhouse personnel versed in local taxation and insurance legislation and expert in finance, insurance, reinsurance, investment, and corporate matters on an international scale.

The expansion of the Reed Stenhouse international branch network is in step not only with the number of our new clients but also in keeping with what we perceive to be the potential for new opportunities. Certain countries which are on the road to recovery from economic and/or political afflictions, such as Brazil and Mexico, are considered to be fertile areas for the future growth of the international operations of Reed Stenhouse.

The peculiar hazards of offshore operations require specialist Reed Stenhouse services. This vessel lays pipe for carriage of oil to land-based refineries.

Reed Stenhouse enjoys long tradition of service to marine industries. At left, HMS Success is launched at Sydney Australia.

Five Year Summary

Operating results (in thousands)	1980*	1981*	1982*	1983*	**1984**
Commissions and fees earned – net	$229,201	$266,272	$286,438	$297,092	**$308,611**
Interest and other income	19,358	25,688	28,273	20,797	**27,380**
	248,559	291,960	314,711	317,889	**335,991**
Operating expenses	207,490	243,697	269,435	281,046	**303,757**
	41,069	48,263	45,276	36,843	**32,234**
Interest expense	3,504	4,812	8,022	6,810	**6,298**
	37,565	43,451	37,254	30,033	**25,936**
Income taxes	18,340	21,739	19,266	14,636	**12,349**
	19,225	21,712	17,988	15,397	**13,587**
Earnings from affiliates less minority interest	(1,103)	(2,204)	(1,544)	(883)	**(185)**
	18,122	19,508	16,444	14,514	**13,402**
Reduction of intangible assets	(506)	(532)	(893)	(1,348)	**(1,682)**
Net earnings	$ 17,616	$ 18,976	$ 15,551	$ 13,166	**$ 11,720**
Net earnings per share	$1.17	$1.25	$1.01	82.0¢	**70.0¢**
Dividends per share	50.0¢	57.0¢	60.0¢	60.0¢	**60.0¢**

*Figures prior to 1984 have been restated to reflect the consolidation of a related company that was previously accounted for on an equity basis.

REED STENHOUSE
COMPANIES LIMITED
as at September 30, 1984

Principal Subsidiaries & Affiliates

Australia
Reed Stenhouse Ltd.
Sten-Re (Australia) Ltd. (80%)
Reed Stenhouse Benefit Consultants
Reed Stenhouse Investment Services Ltd.

Belgium
N. V. Reed Stenhouse S.A. (68.7%)

Bermuda
Insurance Managers Ltd.
Reed Stenhouse International Insurance Services Ltd.
Sten-Re (Bermuda) Ltd.
Scottish & Commonwealth Insurance Company Ltd.

Brazil
Reed Stenhouse Power Corretores de Seguros Ltda.

Brunei
Stenhouse Insurance Services Sdn. Bhd. (38.1%)

Cameroun
Société Générale de Courtage d'Assurances Cameroun (21.9%)

Canada
Reed Stenhouse Ltd.
Reed Stenhouse (Insurance) Ltd.
J. Meloche Inc.
Monnex Insurance Brokers Ltd.
Reed Stenhouse Personal Insurance Ltd.
Reed Risk Management International Ltd.
Reed Stenhouse Associates Ltd.
Universal Reinsurance Intermediaries Ltd.
H. B. Group Insurance Management Ltd. (90%)

Fiji
Reed Stenhouse Ltd. (85%)

Percentages in parentheses indicate equity ownership when less than 100%.

France
Société Générale de Courtage d'Assurance S.A. (49.9%)
Sten-Re France S.A.

Hong Kong
Reed Stenhouse South China Ltd. (50%)
Reed Stenhouse Leader Ltd. (69.2%)
Sten-Re Asia (Hong Kong) Ltd.

Italy
Reed Stenhouse S.p.A. (50%)

Malaysia
Stenhouse Leow (Malaysia) Sdn. Bhd. (70%)
Stenhouse Insurance Services Sdn. Bhd. (51%)

The Netherlands
C. B. Reed Stenhouse B.V. (60%)

New Zealand
Reed Stenhouse Ltd.
Knight Reed Stenhouse Ltd. (70%)

Papua, New Guinea
Reed Stenhouse (PNG) Pty. Ltd. (62.6%)

Philippines
Reed Stenhouse Insurance Brokers, Inc. (20.8%)

Republic of Ireland
Reed Stenhouse Ltd.

Singapore
Reed Stenhouse Leow Pte. Ltd.
Sten-Re Asia Pte. Ltd.
Stenhouse Leow (Singapore) Pte. Ltd.

South Africa
Stenhouse Bankorp Brokers (Pty) Ltd. (22%)

Spain
Reed Stenhouse (Espana) S.A. (9.5%)
Reed Stenhouse Pension Consultants S.A. (51%)
Sten-Re, S.A. (50%)

Sweden
J. Akerman A.B. (50%)

Switzerland
Reed Stenhouse International S.A.
Caviezel A.G.
Reinsurance Underwriting Agency Ltd.

Taiwan
Reed Stenhouse (Taiwan) Ltd. (50%)

Thailand
Reed Stenhouse Jenkid Co. Ltd. (49%)

United Arab Emirates
Reed Stenhouse Middle East

United Kingdom
Reed Stenhouse & Partners Ltd.
Reed Stenhouse U.K. Ltd.
Reed Stenhouse Marketing Ltd.
Sten-Re Ltd.
Stenhouse Syndicates Ltd.
Reed Stenhouse Financial Services Ltd.
Reed Stenhouse Gibbs International Ltd.
Reed Stenhouse International Ltd.
Reed Stenhouse Energy Ltd.
Reed Stenhouse Investment Services Ltd. (51%)
Holmes Johnson Lessiter Ltd. (73.9%)
Stenhouse Holdings plc

United States of America
Reed Stenhouse Inc.
Great Eastern Associates, Inc.
Reed Risk Management Inc.
Reed Stenhouse International Inc.
Sten-Re, Cole & Associates Inc. (51%)
Continental Reed Stenhouse Management Company Ltd. (50%)
Reed Stenhouse Associates, Inc.

West Germany
Reed Stenhouse Gmbh. (68.5%)

Zimbabwe
Associated Brokers International (PVT) Ltd. (25%)

Directors

Eric G. Bale, C.A.

John S. Davidson

John B. Devine
Chairman & Chief Executive Officer, Reed Stenhouse & Partners Ltd.

David C. French
Chairman & Chief Executive Officer, Reed Stenhouse Inc., United States

W. Douglas H. Gardiner
Chairman

Angus Grossart, M.A., LL.B., C.A.

Cedric G. E. Gyles
Chairman & Chief Executive Officer, Reed Stenhouse Ltd., Canada

Harry J. Harvey
Director – International Division

Herbert Houghton

James W. Whittall

William M. Wilson, C.A.
President & Chief Executive Officer

Executive Committee
John B. Devine
David C. French
Cedric G. E. Gyles
Harry J. Harvey
William M. Wilson
Chairman

Audit Committee
John S. Davidson
W. Douglas H. Gardiner
Chairman
Angus Grossart
Herbert Houghton
James W. Whittall

Transfer Agents
The Canada Trust Company in Toronto
Canada Permanent Trust Company in other major Canadian cities
Lloyds Bank in the United Kingdom

Stock Listings
The Company's class A and class C common shares trade on the following stock exchanges:
The Toronto Stock Exchange
The Montreal Exchange
The Vancouver Stock Exchange
The Stock Exchange, London

Auditors' Report

To the Shareholders of
Reed Stenhouse Companies Limited:

We have examined the consolidated balance sheet of Reed Stenhouse Companies Limited as at September 30, 1984 and the consolidated statements of earnings, retained earnings 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 September 30, 1984 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, except for the change in accounting for foreign currency translation as explained in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

Thorne Riddell
Chartered Accountants

Toronto, Canada,
December 17, 1984.

Consolidated Balance Sheet

REED STENHOUSE COMPANIES LIMITED
(Incorporated under the laws of Canada)
September 30, 1984
(with comparative figures as at September 30, 1983)

ASSETS	**1984**	1983 (restated, note 11)
	(in thousands)	
Current:		
Cash and bank deposit receipts	**$205,705**	$146,184
Short-term deposits and loans	**20,570**	41,990
Accounts receivable	**399,308**	371,661
Prepaid expenses and other current assets	**18,055**	16,214
	643,638	576,049
Investments:		
Affiliated companies	**5,845**	7,611
Securities on deposit and other quoted investments	**1,114**	1,209
Mortgages, loans and other investments	**7,984**	8,180
	14,943	17,000
Fixed assets:		
Land, buildings and building improvements	**14,947**	21,255
Office furniture, equipment and vehicles	**45,765**	41,788
Leasehold improvements	**14,161**	11,503
Total, at cost	**74,873**	74,546
Less accumulated depreciation and amortization (note 2)	**32,868**	27,788
	42,005	46,758
Intangible and long-term assets:		
Goodwill	**102,198**	96,053
Deferred income taxes (note 9)	**2,995**	1,288
Deferred debit, foreign currency translation (note 2)		7,609
	105,193	104,950
	$805,779	$744,757

On behalf of the Board:

Director

Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1984	1983 (restated, note 11)
	(in thousands)	
Current:		
Due to banks	$ 44,096	$ 43,717
Accounts payable	504,784	451,063
Sundry payables and accrued charges	37,606	31,169
Income taxes payable (recoverable)	(584)	523
Term bank loans and notes payable (note 5)	1,550	1,379
Deferred income taxes	18,235	17,728
Deferred commissions	1,510	1,419
	607,197	546,998
Long-term:		
Term bank loans and notes payable (note 5)	46,015	33,226
Income taxes due beyond one year	1,759	4,211
Other liabilities	4,226	2,776
	52,000	40,213
Minority interest	7,228	7,730
Shareholders' equity:		
Share capital (note 6)	132,864	38,691
Contributed surplus	14,732	14,732
Retained earnings	99,234	96,393
Cumulative foreign currency translation adjustment (note 2)	(17,416)	
	229,414	149,816
Less the company's interest in its own shares held by a subsidiary (Stenhouse Holdings plc)	90,060	
	139,354	149,816
	$805,779	$744,757

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Earnings

REED STENHOUSE COMPANIES LIMITED
for the year ended September 30, 1984
(with comparative figures for 1983)

	1984	1983 (restated, note 11)
	(in thousands)	
Revenues:		
Commissions and fees earned, net	**$308,611**	$297,092
Interest and other income (note 10)	**27,380**	20,797
	335,991	317,889
Operating expenses:		
General	**296,674**	274,454
Depreciation and amortization of fixed assets	**7,083**	6,592
	303,757	281,046
	32,234	36,843
Interest expense:		
Long-term debt	**4,559**	3,471
Other	**1,739**	3,339
	6,298	6,810
Earnings before income taxes and other items	**25,936**	30,033
Income taxes:		
Current	**13,035**	15,600
Deferred	**(686)**	(964)
	12,349	14,636
Earnings before other items	**13,587**	15,397
Add (deduct) other items:		
Equity in earnings of affiliated companies	**620**	690
Minority interest	**(805)**	(1,573)
	(185)	(883)
Earnings before reduction of goodwill	**13,402**	14,514
Reduction of goodwill	**(1,682)**	(1,348)
Net earnings for the year	**$ 11,720**	$ 13,166
Net earnings per share (note 7(a))	**$0.70**	$0.82

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Retained Earnings

REED STENHOUSE COMPANIES LIMITED
for the year ended September 30, 1984
(with comparative figures for 1983)

	1984	1983
	(in thousands)	
Balance, beginning of year		
As previously stated	**$ 96,943**	$ 93,526
Deduct prior period adjustment (Note 11(b))	**550**	550
As restated	**96,393**	92,976
Add net earnings for the year	**11,720**	13,166
	108,113	106,142
Deduct dividends paid (note 7(b))	**8,879**	9,749
Balance, end of year	**$ 99,234**	$ 96,393

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position

REED STENHOUSE COMPANIES LIMITED
for the year ended September 30, 1984
(with comparative figures for 1983)

	1984	1983 (restated, note 11)
	(in thousands)	
Source of funds:		
Operations—		
Net earnings for the year	$ 11,720	$ 13,166
Add (deduct) items not involving working capital:		
Depreciation and amortization of fixed assets	7,083	6,592
Increase (decrease) in income taxes due beyond one year and other long-term liabilities	(2,596)	50
Reduction of goodwill	1,682	1,348
Equity in earnings of affiliated companies and minority interests	185	883
Working capital provided from operations	18,074	22,039
Proceeds from disposal of class A shares held by a subsidiary	1,440	
Decrease (increase) in affiliated companies	4,486	(273)
Increase in term bank loans and notes payable	12,789	3,619
Issue of shares for cash		16,987
Net increase in working capital on consolidating a company previously accounted for on an equity basis		353
	$ 36,789	$ 42,725

	1984	1983 (restated, note 11)
	(in thousands)	
Application of funds:		
Non-current assets and liabilities relating to insurance businesses acquired—		
Goodwill	$ 4,781	$ 2,423
Fixed and other assets	1,265	20
	6,046	2,443
Less:		
Notes payable and other liabilities, long-term portion		720
Minority interest in businesses acquired		850
Issue of shares	1,998	
	1,998	1,570
Net non-current assets acquired	4,048	873
Decrease in working capital resulting from acquisition of Stenhouse Holdings plc (note 3)	2,964	
Price adjustment for goodwill in connection with businesses acquired previously	2,407	(132)
Increase in fixed and other assets	887	1,672
Decrease in minority interest in businesses acquired previously	1,307	1,194
Dividends paid in cash	7,979	8,932
Increase in cumulative foreign currency translation adjustment	9,807	2,053
	29,399	14,592
Net increase in working capital	7,390	28,133
Working capital, beginning of year	29,051	918
Working capital, end of year	$ 36,441	$ 29,051
Represented by:		
Current assets	$643,638	$576,049
Less current liabilities	607,197	546,998
Working capital, end of year	$ 36,441	$ 29,051

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

REED STENHOUSE
COMPANIES LIMITED
September 30, 1984

1. Summary of significant accounting policies

(a) Basis of consolidation–
The accompanying consolidated financial statements consolidate the accounts of Reed Stenhouse Companies Limited and all its subsidiary companies. The merger of Reed Stenhouse Companies Limited and Reed Stenhouse & Partners Limited is accounted for using the "pooling of interests" accounting method. Acquisitions of businesses are accounted for using the purchase method of accounting.

(b) Revenue recognition–
Commission revenue is generally recognized on the effective date of the policies. Where the policy and premium term exceed one year, a portion of the revenue is deferred to subsequent applicable years. Fees for actuarial and other consulting services are recognized when the services are rendered (general expenses include the costs of servicing clients, which costs are expensed as incurred).

(c) Foreign currency translation–
Assets and liabilities of the company which are stated in a foreign currency are translated into Canadian dollars using the current rate method. Under this method assets and liabilities are translated at rates of exchange in effect at the balance sheet date while statement of earnings items are translated at average rates of exchange prevailing during the year. Exchange gains and losses resulting from the settlement and translation of revenue and expenses are included in net earnings.

Exchange gains and losses resulting from the translation of assets and liabilities of foreign subsidiaries, all of which are deemed to be self-sustaining, are included in a separate component of shareholders' equity described in the consolidated balance sheet as cumulative foreign currency translation adjustment. Exchange exposure on U.S. dollar denominated assets and liabilities are effectively hedged and, as such, are included in the cumulative foreign currency translation adjustment.

(d) Investments and marketable securities–

(i) Affiliated companies
Investments in affiliated companies in which the company exercises significant influence are accounted for by the equity method. Under this method the company's share of the net earnings or loss of such companies for the year is reflected in the consolidated statement of earnings. The investments are carried at cost of shares and advances plus the company's share of undistributed earnings since acquisition.

(ii) Other
Securities on deposit and other quoted investments are recorded at cost less amounts written off (this value approximates quoted market value).

Mortgages, loans and other investments are recorded at cost.

(e) Fixed assets–
Fixed assets are recorded at cost. Leasehold improvements are generally amortized over the terms of the related leases. Depreciation of other fixed assets, except land, is provided over their estimated useful lives, at 2% for Two South Place and at rates varying from 10% to 33⅓% for the remainder.

(f) Goodwill–
Goodwill is valued at cost less amounts written off. To comply with generally accepted accounting principles, goodwill on business acquisitions subsequent to March 31, 1974 is amortized on a straight-line basis over 40 years (1984–$1,682,000; 1983–$1,348,000) and goodwill arising before and after that date is reduced when it is considered that there is a permanent decline in its value.

(g) Income taxes–
For income tax purposes the Canadian companies are permitted to defer commission revenue in excess of the commission deferred in the accounts; the amount of income tax thus postponed is provided for in current liabilities as "deferred income taxes".
Since the company considers the undistributed earnings of foreign subsidiaries and affiliated companies to be permanently invested outside Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

2. Accounting change–foreign currency translation

Effective October 1, 1983 the company changed its method of accounting for translation of foreign currencies to conform with new recommendations issued by the Canadian Institute of Chartered Accountants. The accounting change was applied on a prospective basis and accordingly the comparative numbers for 1983 have not been restated for this change. The company's method of accounting for foreign currency translation is detailed in note 1(c).

Prior to September 30, 1983, non-current assets and liabilities of the company which were stated in a foreign currency and financial statements of foreign subsidiaries were translated into Canadian dollars as follows:

(i) At rates of exchange prevailing at the balance sheet date
–assets, other than Two South Place (the company's office building in London, England), related accumulated depreciation and goodwill
–liabilities

(ii) At rates of exchange prevailing at dates of acquisition
–Two South Place and related accumulated depreciation
–goodwill and related charges against earnings
–preferred shares of Reed Stenhouse & Partners Limited

(iii) At average rates of exchange prevailing during the year
–revenues
–expenses (except for those in (ii) above)
–dividends paid by subsidiary (note 7(b))

The net accumulated unrealized debits and credits arising from exchange translation of balance sheet items described in the consolidated balance sheet for 1983 as deferred debit, foreign currency translation, are now included in the cumulative foreign currency translation adjustment, a component of shareholders' equity. This change had no significant effect on consolidated earnings for the current year.

3. Significant event

During the year the company completed a share exchange with the shareholders of Stenhouse Holdings plc ("Stenhouse Holdings"), which is a U.K. based company, which held a substantial equity interest in Reed Stenhouse Companies Limited ("Reed Stenhouse"). The exchange involved one new type of class C share (new class C shares) in Reed Stenhouse, one new special dividend share in Stenhouse Holdings and 20 pence (Cdn. $0.37) in cash in exchange for every 5 ordinary shares of Stenhouse Holdings. The share exchange has been recorded as an acquisition using the purchase method of accounting effective March 1, 1984.

The acquisition equation is a follows (in thousands):

Net assets acquired:	
Working capital	$ 796
Investments	2,135
Other net assets	400
	$ 3,331
Consideration given:	
Class C shares	$91,091
Special dividend shares of Stenhouse Holdings	139
Cash and expenses related to share exchange	3,760
	94,990
Less Stenhouse Holdings interest in class B shares of the company	91,659
	$ 3,331

4. Segmented information

The directors have determined that the company's business consists of one dominant industry segment which is that of providing services as insurance and reinsurance brokers and risk management consultants. In this capacity the company earns commissions, fees and investment income. Revenue is also developed from actuarial and other services in the employee benefit and related fields.

The following information summarizes the company's operations on a geographic basis (in thousands):

	Revenues	Operating profit (loss)	Assets
1984			
Operating Regions:			
Canada	$117,023	$15,703	$171,875
United States of America	70,212	(3,766)	166,414
United Kingdom and Ireland	73,058	10,697	205,758
Australia, New Zealand and South East Asia	38,083	5,906	170,081
Other	37,615	5,652	85,860
Corporate		(1,958)	5,791
Total	$335,991	32,234	$805,779
Interest expense		(6,298)	
Earnings before income taxes and other items		$25,936	
1983 (restated, note 11)			
Operating Regions:			
Canada	$109,929	$17,087	$152,306
United States of America	66,586	(1,292)	159,380
United Kingdom and Ireland	69,753	9,944	203,353
Australia, New Zealand and South East Asia	33,060	7,184	136,645
Other	38,561	6,428	73,693
Corporate		(2,508)	19,380
Total	$317,889	36,843	$744,757
Interest expense		(6,810)	
Earnings before income taxes and other items		$30,033	

Notes to Consolidated Financial Statements

5. Term bank loans and notes payable

(a) Details (with current interest rates at September 30, 1984 indicated) are as follows:

	(in thousands)
Term bank loans–	
Due by instalments to May, 1991, payable in U.S. dollars (see (c) below)– interest at London Interbank Market rate on Eurodollars for various periods plus ½% (currently at various rates of approximately 12¼%)	$29,394
Due by instalments to May, 1987, payable in Canadian dollars–interest at Canadian bank prime less ¼% (currently at 12¾%)	7,760
Due by instalments to May, 1987, payable in U.S. dollars–interest at London Interbank Market rate on Eurodollars for various periods, plus ¾% (currently at various rates of approximately 12¼%)	7,260
Due by instalments to May, 1989, payable in Canadian dollars–interest at various rates of approximately Canadian bank prime (currently at various rates of approximately 12%)	1,285
	45,699
Less portion due within one year	928
	44,771
Notes payable–	
Notes due by instalments to January, 1993, payable in U.S. dollars–interest at various rates of approximately 11¼%	1,794
Other	72
	1,866
Less portion due within one year	622
	1,244
	$46,015

(b) Principal due within the next five years is as follows (in thousands): 1985–$1,550; 1986–$18,329; 1987–$15,353; 1988–$3,639; 1989–$3,882.

(c) Term bank loans–
While certain term bank loans are collateralized by demand notes, the repayment terms are included in (a) and (b) above.

6. Shareholders' equity

During the year the company restructured its share capital and created a new class C share replacing the previously authorized class C shares (the old class C shares).

(a) Authorized share capital–
The company is authorized to issue an unlimited number of class A, class B and class C common shares. The issue of a class C common share must be contemporaneous with the subscription for and issuance of one special related dividend share of Stenhouse Holdings (note 3).

(b) Issued and outstanding–

	1984	1983
	(in thousands)	
Common shares (note 6(c))	**$132,766**	$ 38,656
Special dividend shares of Stenhouse Holdings plc (note 6(d))	**98**	
Preferred shares of Reed Stenhouse & Partners Limited		35
	$132,864	$ 38,691

(c) Summary of common share transactions for the year (dollars in thousands)–

	Class A	Class C	Subtotal		Class B		Total
	Shares	Shares	Shares	Stated value	Shares	Stated value	Stated value
Balance, October 1, 1983	8,714,885		8,714,885	$ 30,561	8,095,159	$8,095	$ 38,656
Issued for insurance businesses acquired	201,606		201,606	2,637			2,637
Issued in exchange for shares of Stenhouse Holdings (note 3)		7,590,922	7,590,922	90,573			90,573
Issued as stock dividends (note 6(e))	72,869		72,869	900			900
Net conversion between class A and class C	2,191,121	(2,191,121)					
Balance, September 30, 1984	11,180,481	5,399,801	16,580,282	$124,671	8,095,159	$8,095	$132,766

(d) Rights–
Each class A, class B and class C share is entitled to one vote. Each class B share and each class C share may be converted at any time into a fully paid class A share on the basis of one class A share for each class B share or each class C share. Each class A share may be converted at any time into a fully paid class C share contemporaneous with the subscription for and issuance of one special related dividend share of Stenhouse Holdings for one pence.

Class A, class B and class C shares are entitled to the same per share dividends. Each class C share is held along with a special related dividend share in Stenhouse Holdings. Under this arrangement dividends are paid to class C shareholders through Stenhouse Holdings. Dividends paid on the special related dividend shares of Stenhouse Holdings reduce the dividends paid on the class C shares of the company. All of the class B shares are owned by Stenhouse Holdings and, upon consolidation of the financial statements of Stenhouse Holdings with the financial statements of the company, are eliminated for accounting and financial statement presentation purposes. Stenhouse Holdings holds all of the issued preferred shares of Reed Stenhouse & Partners Limited, which is also a U.K. based wholly-owned subsidiary of the company. This share ownership structure allows for dividends to be paid by Reed Stenhouse & Partners Limited to Stenhouse Holdings on the special preferred shares to obviate the need for any dividend payment on the class B shares of the company.

(e) Stock dividends–
Class A shareholders have the option to receive dividends in cash or class A shares of the company. During the year 72,869 class A shares were issued as stock dividends.

(f) Senior Executive Stock Purchase Plan–
Under the terms of the plan, eligible participants may be entitled to purchase class A common shares from the open market or from treasury at market prices existing at the date of issue using funds loaned to them by the company for this purpose. Shares purchased under this plan are held by a trustee until the related loans are repaid in full.

At September 30, 1984, there are loans amounting to $1,010,000 included in "mortgages, loans and other investments" and 40,000 class A common shares remain reserved for possible issue under this plan.

(g) Incentive Stock Option Plan–
There are no outstanding options under this plan; however, 257,876 class A shares remain reserved for possible issue under this plan at prices to be fixed by the directors.

7. Net earnings per share and dividends

(a) Net earnings per share–
The net earnings per share (1984–$0.70; 1983–$0.82) have been calculated using the weighted monthly average number of shares outstanding during the year (1984–16,683,986; 1983–16,131,925). The calculations are based on the net earnings as shown in the consolidated statement of earnings. No deduction is made for dividends paid on the special preferred shares of Reed Stenhouse & Partners Limited nor the special dividend shares of Stenhouse Holdings plc since, as explained in note 6(d), such dividends apply to reduce the dividend entitlements of the class B and class C shares.

(b) Dividends–

Dividends paid during the year:	**1984**	1983
	(in thousands)	
Dividends paid in cash		
Class A shareholders:		
Dividends on class A shares paid by Reed Stenhouse Companies Limited at 60¢ (60¢ in 1983) per class A share	**$ 5,014**	$ 4,061
Class B and old class C shareholders:		
Dividends on special preferred shares of Reed Stenhouse & Partners Limited equivalent to 15¢ (60¢ in 1983) per class B share	**1,214**	4,871
Class C shareholders:		
Dividends on special dividend shares of Stenhouse Holdings plc equivalent to 30¢ per share	**1,751**	
Amount paid in cash	**7,979**	8,932
Dividends paid in stock (note 6(e))	**900**	817
Total dividends paid	**$ 8,879**	$ 9,749

8. Commitments

(a) Lease–
Commitments under various leases for office premises call for minimum annual rentals within the next five years as follows (in thousands): 1985–$16,850; 1986–$15,060; 1987–$12,584; 1988–$11,117; 1989–$11,335.

There are no material capital leases.

(b) Pension plan–
The company and certain of its subsidiaries have obligations for unfunded past service pension benefits estimated at $8,100,000. It is intended that these past service pension obligations be funded by payments of various amounts not exceeding $900,000 annually over a period of 11 years and thereafter $700,000 for a further period of 11 years.

Notes to Consolidated Financial Statements

(c) Other–
In certain areas where the company operates, legislation and commercial agreements exist whereby premiums received by the company are deemed to be held for the account of insurance companies and use of such funds may be restricted.

9. Deferred income taxes

The balance of deferred income taxes comprises:

	1984	1983
	(in thousands)	
Deferred income tax benefits recorded with respect to losses carried forward	$ 6,157	$ 3,572
Deferred income tax liabilities arising from timing differences	(3,162)	(2,284)
	$ 2,995	$ 1,288

Deferred income tax benefits arise principally from the recognition of the tax benefits expected to be realized in future years from the utilization of net operating losses carried forward by the company's United States subsidiaries.

Deferred income tax liabilities arise from timing differences related to commission and fee income.

During the year, the company's United States subsidiaries incurred net operating losses for income tax purposes of $4,968,000, and such losses from 1984 and prior years have accumulated to $15,320,000 as at September 30, 1984; these losses will expire in the years 1992 to 1998. Management is of the opinion that these losses will be utilized prior to their expiry and, accordingly, the company has recorded the associated income tax benefit.

10. Interest and other income

Interest and other income consists of:

	1984	1983
	(in thousands)	
Interest	$22,086	$20,727
Other	331	70
Other unusual items:		
Gain on disposition of investment in Continental Life	3,560	
Gain on purchase of Scientific Research Tax Credit	1,403	
	$27,380	$20,797

11. Restatement of comparative figures

(a) Certain 1983 figures have been restated to reflect the consolidation of a related company that was previously accounted for on an equity basis. There is no effect on net earnings.

(b) As a result of an adjustment to taxes, capital losses previously claimed have been disallowed. There is no effect on the 1983 net earnings.

12. Subsequent event

Subsequent to the year end, the Directors of the company announced that agreement has been reached on the terms of a merger of the company with Alexander & Alexander Services Inc. ("Alexander") and the combination of the worldwide operations of the two companies. Alexander is a New York based insurance broker.

The merger agreement is subject to obtaining certain regulatory consents and the satisfaction of a number of other conditions including approval by the shareholders of both companies.

As a result of the merger, Alexander will own, directly or indirectly, 100% of the voting securities of the company, and the class A and class C shareholders of the company will receive, in effect, the economic equivalent of ownership of two-thirds of an Alexander common share for each class A share or class C share of Reed Stenhouse Companies Limited owned by them. On the basis of these terms, and assuming completion of the transaction, in effect, the economic equivalent of approximately 28.8% of the common shares of Alexander would be owned by the class A and class C shareholders of the company as currently constituted.

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