REED STENHOUSE

Annual Report 1979

Introduction

Insurance and Reinsurance Brokers and Risk Managers
P.O. Box 250, Toronto-Dominion Centre
Toronto, Canada M5K 1J6
(416) 868-5500

The photographs in the 1979 annual report focus on the people of Reed Stenhouse. Highlighting the activities of some of our 5,100 employees in various countries reflects the worldwide scope of the company. The cooperation of clients who provided photos for use in this annual report is gratefully acknowledged.

Over the years, the combined experience and expertise of our staff have made Reed Stenhouse one of the world's leading insurance and reinsurance broking and risk management organizations. A vital component of the many skills of our staff is their facility to be in immediate contact with each other, as well as with insurance markets, anytime, anywhere, to service the needs of clients.

This unity of purpose and action by our personnel has greatly contributed to the company's growing presence internationally. To emphasize further the common ownership and unified approach of our operations around the world, the names of most of our subsidiaries have been changed to incorporate "Reed Stenhouse".

The new corporate name symbol

REED STENHOUSE

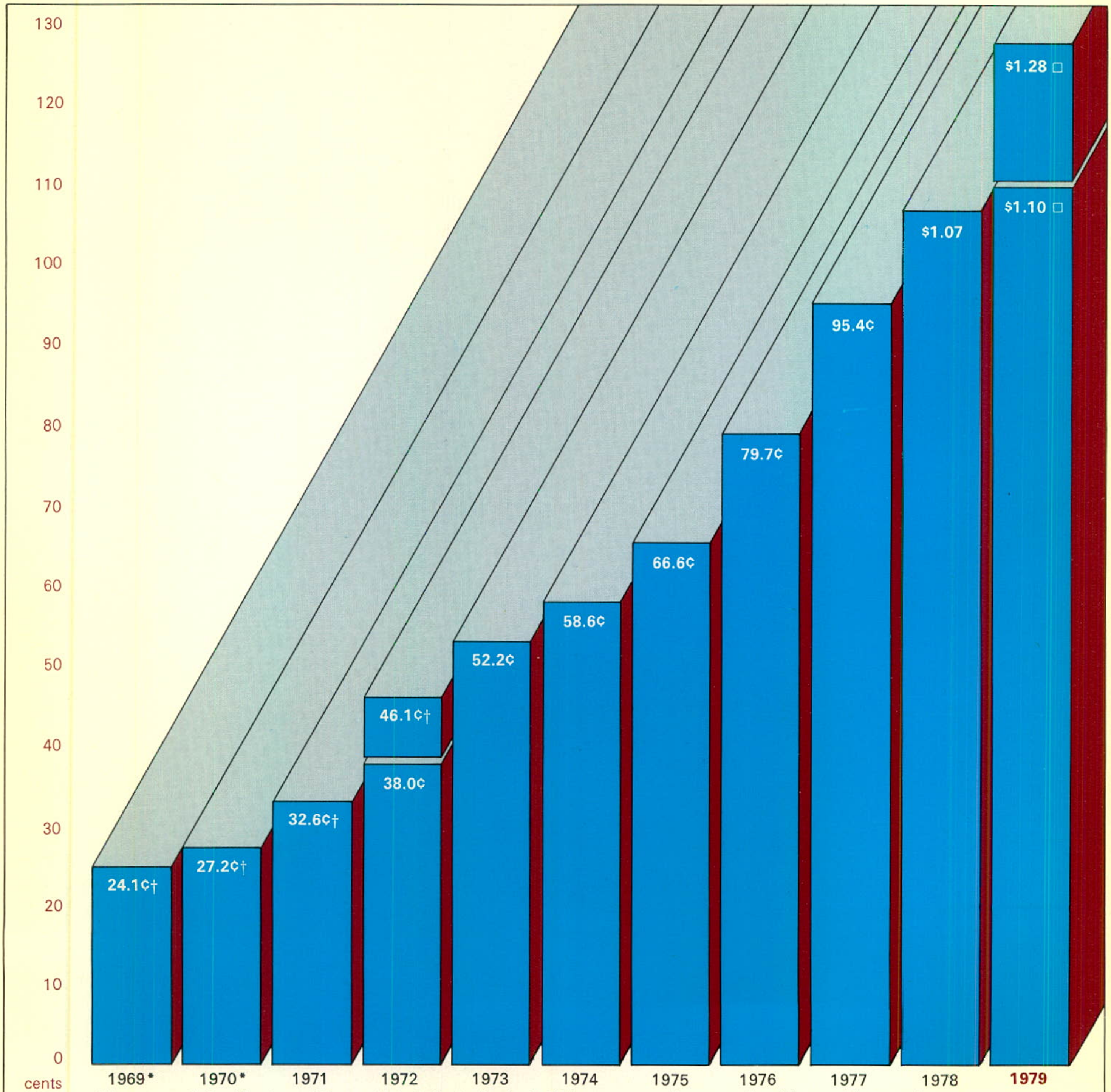
is portrayed on the cover, along with our familiar globe, and throughout this annual report.

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

Le Secrétaire
Les Compagnies Reed Stenhouse, Limitée
Boîte postale 250
Toronto Dominion Centre
Toronto Canada M5K 1J6

Financial Highlights

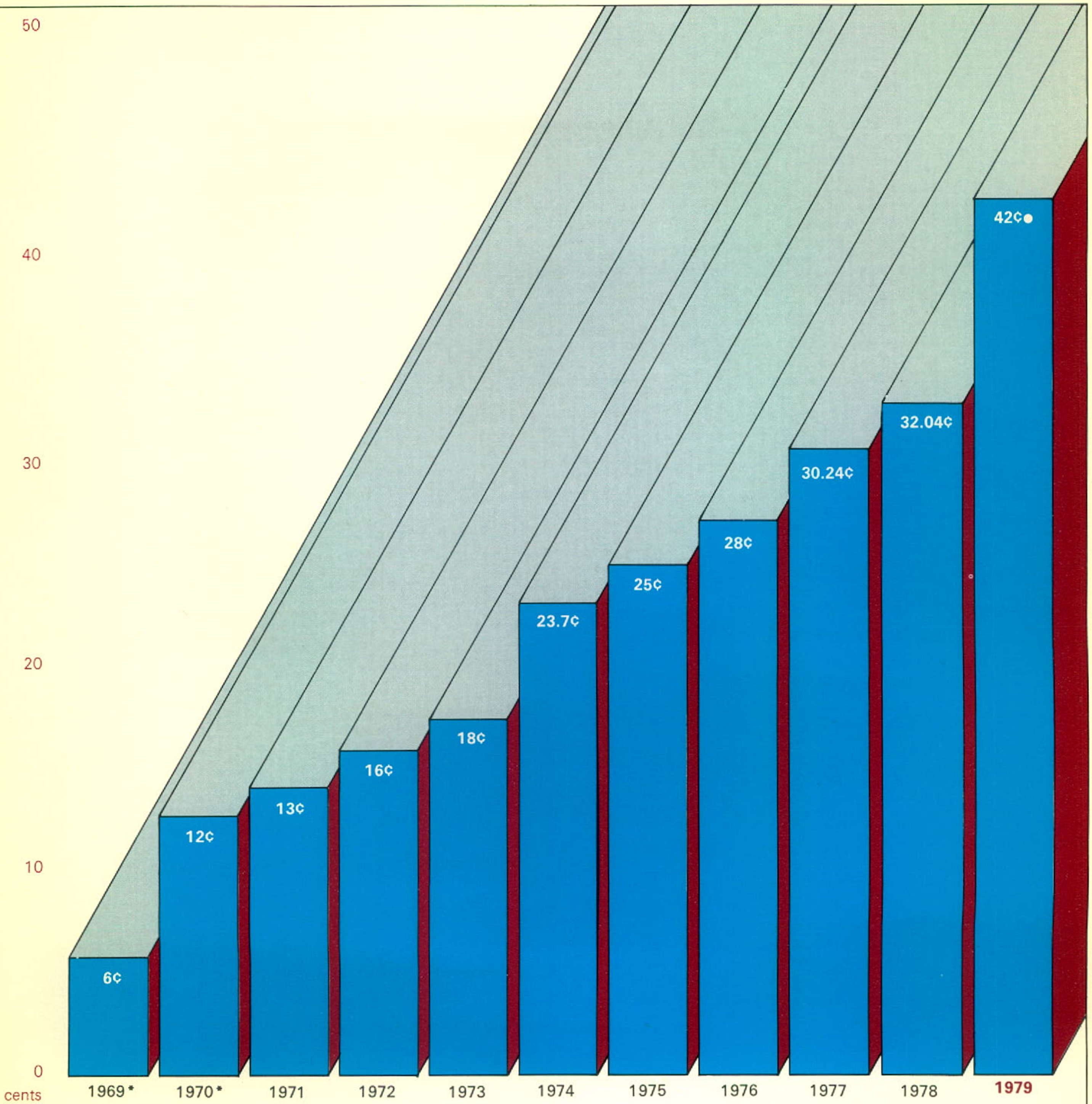
Net Earnings Per Share



†The merger with Reed Stenhouse & Partners Limited effective October 1, 1972 was accounted for as a pooling of interests. The restated net earnings per share for 1972 reflect this accounting concept. Net earnings per share for 1969-1971 are on an historical basis as it is not practicable to restate those amounts for the merger with Reed Stenhouse & Partners Limited.

□ In fiscal year 1979, an extraordinary item increased the net earnings per share to $1.28 from a net operating profit of $1.10 per share.

Dividends Per Share



*Adjusted to reflect share split in 1971.
•Current indicated annual dividend rate is 48¢ per share.

Ten Year Summary of Operating Results

(in thousands)

	1970†	1971†	1972†	1973‡
Commissions and fees earned – net	$15,432	$17,905	$22,029	$56,742
Interest, dividend and rental income	452	668	662	2,844
	15,884	18,573	22,691	59,586
Operating expenses	12,408	14,352	17,808	44,664
	3,476	4,221	4,883	14,922
Interest on long-term debt			83	136
	3,476	4,221	4,800	14,786
Income taxes	1,795	2,158	2,322	7,047
	1,681	2,063	2,478	7,739
Add (deduct)				
Earnings from affiliates less minority interests				(49)
	1,681	2,063	2,478	7,690
Reduction of intangible assets				
Net earnings	$ 1,681	$ 2,063	$ 2,478	$ 7,690
Net earnings per Class "A" share	27.2¢	32.6¢	38.0¢	52.2¢

†The figures for 1970 to 1972 inclusive are the actual historic earnings of the company prior to its merger with Reed Stenhouse & Partners Limited and these figures have not been restated to reflect the merger. Earnings per share for 1970 have been restated to reflect a share split in 1971.

‡From 1973 the figures include the consolidated earnings of Reed Stenhouse & Partners Limited which merged with the company effective October 1, 1972.

1974	1975	1976	1977	1978	**1979**
$75,166	$92,768	$105,313	$127,599	$152,955	**$179,615**
5,138	5,547	6,322	7,695	8,926	**12,100**
80,304	98,315	111,635	135,294	161,881	**191,715**
61,639	75,136	85,324	104,462	127,305	**155,577**
18,665	23,179	26,311	30,832	34,576	**36,138**
1,004	3,393	2,369	2,066	1,797	**1,828**
17,661	19,786	23,942	28,766	32,779	**34,310**
8,814	9,472	11,694	13,970	16,332	**17,402**
8,847	10,314	12,248	14,796	16,447	**16,908**
(102)	(107)	(39)	(200)	(31)	**84**
8,745	10,207	12,209	14,596	16,416	**16,992**
(37)	(303)	(369)	(396)	(387)	**(407)**
$ 8,708	$ 9,904	$ 11,840	$ 14,200	$ 16,029	**$ 16,585***
58.6¢	66.6¢	79.7¢	95.4¢	$1.07	**$ 1.10***

*Net earnings for 1979 are before an extraordinary item.

Report to Shareholders

In the year under review the company experienced in almost all the countries in which it operates a continuation of the reduction in insurance premium rates which started at different times in various areas of our operations over the past three years. This decrease in rates coincided with continued increases in the cost of doing business and as a result the company's net earnings did not keep pace with the growth in revenues. Continued success in new business development in almost every geographical area helped to offset the full impact of these conditions and has placed the company in a better position to benefit from the inevitable up-turn in premium rates.

In recent years, underwriters have been experiencing favourable results, which has attracted additional capital into the industry, mainly by way of new reinsurance facilities. This in itself would have produced more competition among underwriters for available premiums. However, the situation is now compounded by high interest rates which induce underwriters to concentrate on investment income at the risk of taking underwriting losses. These two factors are having a marked effect on the cost of insurance to the business community.

Revenues during this past year increased from $162 million to $192 million. Net earnings before an extraordinary item for the year to September 30, 1979 rose to $16.6 million or $1.10 per share, from $16 million or $1.07 per share for the previous year. Net earnings for the year after an extraordinary item became $19.2 million which represents $1.28 per share. For comparative operating performance purposes, however, shareholders should relate earnings before an extraordinary item of $1.10 per share with $1.07 last year. Dividends paid during the year totalled 42¢ per share compared with 32¢ for the previous year. The annual rate is now 48¢ per share.

During the year your Board decided it would be in the best interests of the company to retain ownership of the property in London which is the company's United Kingdom Head Office. The building houses our London market and international reinsurance broking operations with a staff of approximately 500. Accordingly we agreed to accept an amount which net of expenses totalled $4,757,000 as consideration for the cancellation of the option to return the property to Stenhouse Holdings Ltd. Of this amount, $2,109,000 was applied in reducing the book value of the property to the 1979 appraised value of $19,600,000 and the balance of $2,648,000, which also would have been recoverable under the option, has been treated as a recovery of costs incurred in prior years relating to the ownership of the building. This is reflected as an extraordinary item in the earnings statement.

At the end of the year the company's balance sheet was considerably stronger. Working capital increased by $6.8 million, net liquid assets by $13.8 million and long term bank loans and notes payable decreased by $5.1 million. This reflects the healthy cash flow your company experiences together with the payment received for the cancellation of the option on the London property.

In 1973 a policy was established for the translation of assets and liabilities of foreign subsidiary companies into Canadian funds. Prior to 1979 this practice resulted in the creation of a deferred credit which was treated as a balance sheet item rather than being added to earnings. During this year, this unrealized change in capital values resulted in a debit balance. The accounting practice for foreign currency translation is currently under review by the Canadian Institute of Chartered Accountants. Until such time as a definitive opinion is established, we intend to continue reflecting such unrealized changes in capital values in the company's balance sheet, which we believe to be the appropriate treatment.

Although the company did not carry out any major acquisitions during the year, the policy of extending our operations both nationally and internationally continued, increasing the number of offices to 161 and the number of countries in which we trade to 32.

Our operations have been expanded by a merger in the Middle East with local interests, an investment in a Swiss insurance broker, the formation of a company in Taiwan, the establishment

of a jointly owned reinsurance broking company in New York, the opening and acquisition of several new offices in Canada and, subject to approval by regulatory authorities, an agreement to purchase 49% of a Newfoundland insurance broker.

Of all the international insurance brokers, your company has the widest spread of wholly-owned offices and in some countries, is the largest national broker. While this process of development affects our operating margins, we believe in the longer term it is in our clients' interests and therefore will be beneficial to the company and its shareholders.

During the past five years we have experienced our most significant expansion in the United States. Our U.S. company is in a period of consolidation although we continue to seek acquisitions which fit our pattern of development. We are continuing to invest in personnel of quality which enables us to compete successfully with the major U.S. based brokers. Our growing presence in the United States with some 650 staff in 22 offices contributes materially to the development and retention of business worldwide. With increasing investment in the United States from Europe and the United Kingdom we are well placed to provide service for these investors, many of whom are our clients. Although the U.S. activities produce an operating profit, they have not yet contributed to earnings. This is a result of goodwill amortization and certain acquisition arrangements which are beneficial to cash flow at the expense of short term profits.

In August of this year The Continental Corporation, one of the largest U.S. based insurance and financial services companies, acquired with agreement 20% of the ordinary shares of Stenhouse Holdings Ltd. which represents an indirect interest of 10.7% in the equity of your company. Continental and Reed Stenhouse believe that independence and marketing freedom are paramount to both organizations. Aside from the primary functions, there are many areas of common interest where each can benefit from the association, particularly insurance related services in which we believe there are overlapping efforts by brokers and underwriters, and cost savings could be introduced for insureds in the longer term.

The formation of a jointly owned enterprise – Continental Reed Stenhouse Management Company – was announced in October. It will provide underwriting management services to New York Insurance Exchange syndicates including the Maiden Lane syndicate which was organized by Continental earlier in the year. This is a unique example of insurance underwriting and insurance broking interests combining their strengths to develop a superior facility.

Your company has now had the benefit of seven financial years since the merger with Stenhouse. During this period the company has become more cohesive and now is the most international and integrated of all the major insurance broking groups. In order to emphasize this close and common relationship, all of the operating subsidiaries worldwide are adopting, where practicable, the one name – Reed Stenhouse. We believe that this will improve our identity with clients, management and staff, and insurance markets throughout the world.

With effect from the beginning of the new financial year, the management structure of the company has been reorganized with three main operating companies in Canada, the United States, and the United Kingdom with its overseas subsidiaries, plus an international marketing, development and services division. In addition, the Board of the U.S. company has been reconstituted to include senior executives in that country in order that they can more directly contribute to the future development and success of this operation.

We believe that the next decade will require a further concentration on professionalism and it will demand higher standards of skill and service. We intend to capitalize more fully on the international talents and resources of our company in all areas of our business, and plans are being made to extend the range of services being provided for our clients. We also expect to invest further in systems development which will bring an improvement to our operating margins.

Mr. Jack M. Moon, who has been a member of the Executive Committee since the formation of the company and has been responsible for our North American operations, has decided to relinquish his executive duties. He will remain active as a Director of this company and is being appointed Vice-Chairman of the Canadian operating company concentrating on business development in Western Canada.

Mr. Arthur G. Bacon, who has been a Director of the company since its formation in 1968 and involved with predecessor companies for a total of 30 years, has decided not to offer himself for re-election. We take this opportunity of expressing our appreciation to him for his contribution to the company.

The Directors are pleased to present for election to the Board: Mr. David C. French, Director of Reed Stenhouse & Partners Ltd. responsible for the Pacific Region; Mr. Cedric G. E. Gyles, President and Chief Executive Officer of Reed Stenhouse Limited, our Canadian operating company; and Mr. Harry J. Harvey, responsible for our International Marketing, Development and Services Division. All of these gentlemen have had many years of experience in the operations of this company and its predecessors. Your Directors propose to nominate them for membership of the Executive Committee.

Shareholders will note that they will be asked at the Annual and Special General Meeting to authorize the Board of Directors to file an Application for a Certificate of Continuance under the Canada Business Corporations Act. Particulars appear in the Information Circular provided to all shareholders.

In reporting to you for the first time as the President and Chief Executive Officer, I feel confident that your company has a strong asset base from which to develop further. In an insurance broking organization such as ours the assets are personified by the quality, integrity, and loyalty of our management and staff which now exceeds 5,100. During this period of soft insurance market conditions they have had to work hard and employ their talents to the utmost. As a result of their efforts, existing business has been retained and new business obtained, improving the foundation for the future. I hope that you will join your Directors in expressing thanks to all of them for their special endeavours in this difficult year.

William M. Wilson
President and
Chief Executive Officer

December 21, 1979

Report on Operations

Canada

Insurance rates in Canada continued at surprisingly low levels during 1979. In spite of this and the uncertain economy throughout much of the country, our income improved partially due to inflation but more importantly to a successful new business program. This, combined with an expense control discipline which included a substantial reduction in the number of our personnel, has produced satisfactory results.

During this past year, we completed an important reorganization which will be of benefit to our future operations. We have established a regionally-based organization which provides an improved management structure coincident with the appointments of a number of new branch managers. In Quebec, we are now organized to benefit from the specialized services and capabilities of our diverse companies.

Several changes have been completed within our employee benefits consulting activities. We have also added to our actuarial and consulting staff and are now well placed to improve our results from this operation in the years ahead. We have commenced the consolidation of our personal lines and merged the operations and management of that business in the two major centres of Toronto and Montreal. We are examining all aspects of this area with a view to providing improved service to our clients and enhancing our profitability, and plan to develop further the merchandising of this form of insurance on a group basis. We are also examining the expansion of the computerization of our operations, which involves a material commitment for the development of systems and computer programming. All of these

Providing effective coverage and advice on marine insurance has long been a key part of the company's expertise. Peter Shelton (left), Vice-President at our Halifax office and Bruce Malcolm, Senior Vice-President at our Montreal office, arrange the insurances for both the ship repair facility and the ocean vessel undergoing refit.

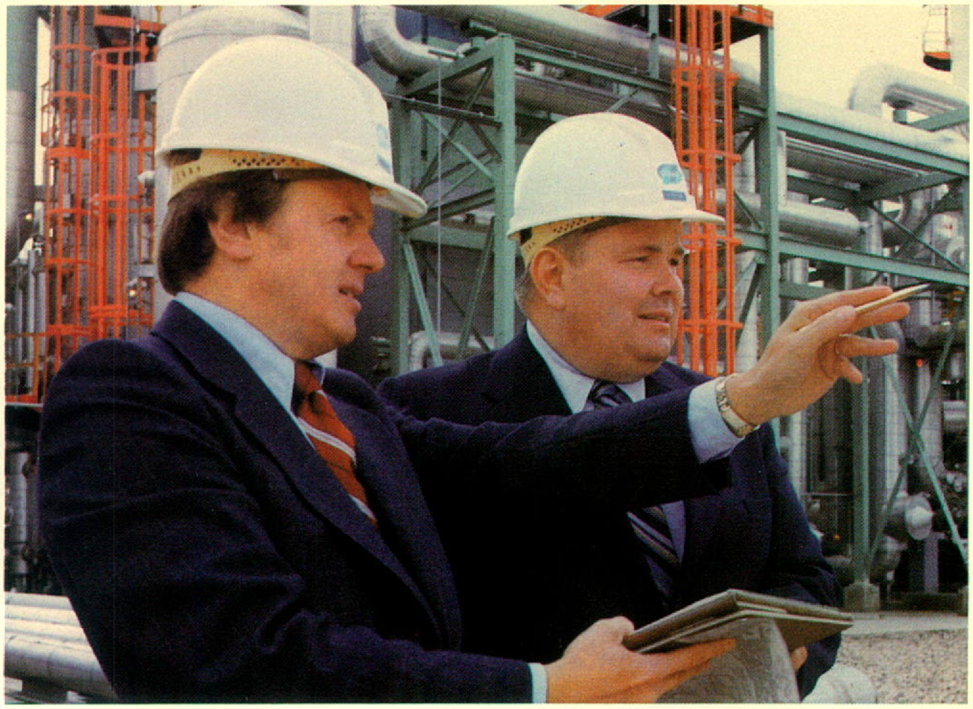
improvements, which have been commenced or completed during the last financial year, have proven costly; the benefits from these changes will be reflected in the future.

We have established an operation in the Lloydminster area on the Saskatchewan/Alberta provincial border and have added to our operations in Thunder Bay, Ontario.

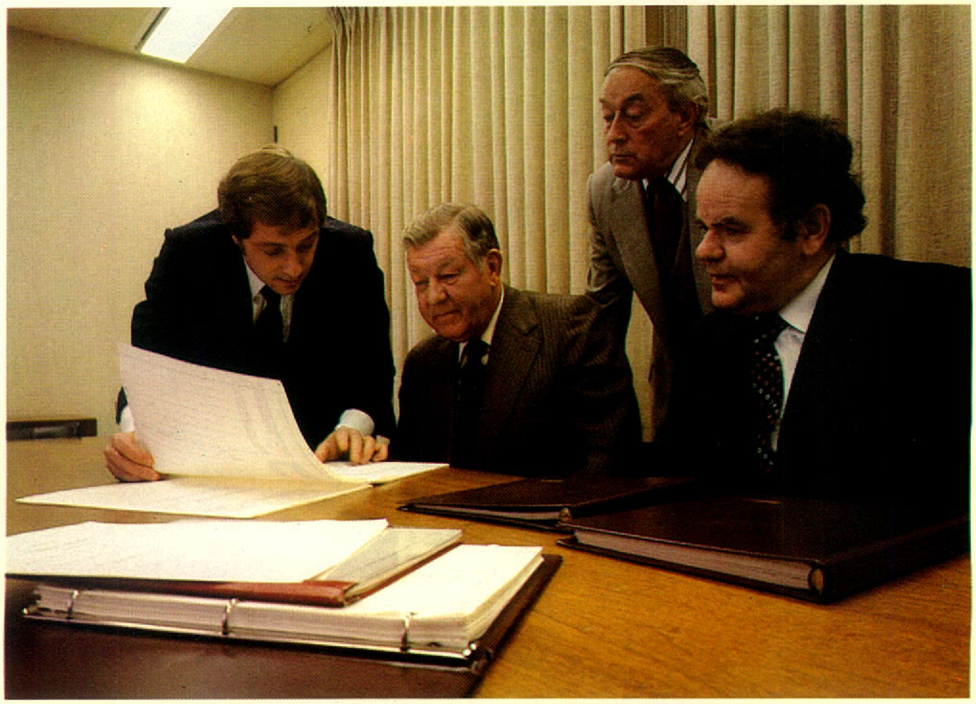
Currently, we are experiencing a shift of economic activity to the west of our country. We recognize the need for the expansion of our operations in that area and we propose to ensure that our development keeps pace with the strong demands for services and expertise required in that region.

In the east, there is a need for an enhanced presence on the Atlantic coast. We have developed our Halifax office with additional experienced staff to service a larger portfolio of business. In addition, we recently announced our plans for a joint venture with Crosbie & Co. Ltd. in Newfoundland and Labrador. With this proposed expansion, we will fill a void in the geographic spread of our operations and will offer our complete service and business development activities from coast to coast.

During 1980, we anticipate a continuation of the low insurance premium rate levels which have prevailed in Canada for the past two years. We are, however, confident that our general reorganization during this past year will allow us to maintain our control on expenses, continue our emphasis on new business production, provide new product development programs, and be well established to handle the changing business patterns in Canada.



Natural gas is received at a Reed Stenhouse client's plant in Edmonton, Alberta. Ethane, butane and propane are extracted and distributed into area homes, businesses and rural communities. Officers of our Canadian company, Clif Tait, Senior Vice-President – International (left) and James R. Wilkins, Executive Vice-President and Regional Director examine the operation.



Employee benefits planning and related services perform an increasingly important role in modern business and Reed Stenhouse is a prominent participant in developing comprehensive programs. Senior Vice-President Pierre J. Desmarais (standing left) and Les W. Lorraine, Vice-President (standing right), of our Canadian consulting and actuarial subsidiary, review plans with senior executives of a client company.

The company handles all property insurance at a U.S. international airport. Here, on the site of an expansion project, is a group of Reed Stenhouse employees from our St. Louis, Missouri office.

Left to right are Robert H. Warren, Manager – Loss Control and Claims; William Leber, Vice-President – Unit Manager; and P. Brendan O'Halloran, Vice-President – Senior Account Manager.

United States of America

As your U.S. company completes its first five years, we look ahead with enthusiasm to the '80s. We are pleased to report a number of significant events that mark our growing presence in this most important market. Among them:

– a strengthening of the internal organization, improving service capabilities of the branches with emphasis on our international reputation and capacities;

– consolidation of operations, strengthening the financial structure and information systems;

– achieving regionalization of the U.S. branches providing greater measures of control and leadership to branch office operations;

– reinforcing branch office management with new managers and new personnel in key areas such as New York, Los Angeles, Pittsburgh and Florida.

We have experienced another year of satisfactory increase in revenues. As a result of our rapid growth and the substantial extra costs involved, our margins were affected.

As a control factor, we adopted a highly selective policy towards outside growth, resulting in only one acquisition for the year. This was in the Los Angeles area, improving our penetration and presence in the California market.

In emphasizing quality of internal expansion we have enhanced our services in employee benefits, actuarial consulting and claims administration. These activities are now in place in Houston, Chicago, St. Louis and San Francisco. We anticipate this area of our operations will make a significant profit contribution.

Insurance companies continue aggressively to seek increased shares of the

Reed Stenhouse is one of the world's most experienced brokers in every phase of aviation insurance. Texas-based J. D. (Bo) Baker (second from left), Senior Vice-President and Regional Manager, Garry Beck (third from left), Accounts Manager and Jim Guild (right), Vice-President, all of our Houston office, discuss helicopter insurance requirements with clients.

market as a result of good underwriting results and prevailing high interest rates. We do not anticipate any changes in these conditions until the latter part of next year and thus expect that premium rates will remain at low levels. In addition, economic indicators in the U.S. point to a recessional period. We do not, however, expect these factors to have material impact on our anticipated increase in revenues during the coming year. The softness of the U.S. dollar combined with high interest rates foster increased foreign investment. The international scope of the company's operations puts us in an excellent position to benefit from such investment.

The inherent strength of the global organization has enabled us to increase our share of the multi-national client business through the facilities of Reed Stenhouse International and Reed Risk Management. We have enjoyed a high degree of success in this area and are continuing to develop a greater share of this sophisticated business.

The U.S. market is a key growth area. With consolidation of the elements of international organization and increased attention to the quality aspects of service to clients the company has its position for the future – enhancing its opportunities to make a significant contribution to growth and improved margins in the years to come.

Ireland boasts the largest zinc/lead orebody in Europe. Account executive Billy Dawson (left) and Norman Hannagen, Managing Director, of our Irish company, visit a client mine in County Meath.

The United Kingdom and Republic of Ireland

Every company in the United Kingdom as well as Ireland produced record profits in an intensely competitive environment as the rates for many classes of business reduced. This progress reflects the quality of our service, and our technical and

Reed Stenhouse is involved in oil exploration and refining operations in many areas of the world. Ron Fraser (right), our Development Director for the North of Scotland, learns about the operation of a client's remote control vessel used in the North Sea development.

marketing ability to which we are constantly introducing improvements.

Our success in new business development and the growing demand for our services by multi-national groups was particularly satisfying. With our group having world-wide representation, we are in the unique position of being able to provide in-house service to our clients wherever they operate and this capability is now producing exceptional results.

The London market company produced good results and made encouraging progress during a time of extremely difficult insurance market conditions outside the U.K. and in marine rates.

The life and pensions company produced another major contribution to profits and is now benefiting greatly from the innovation and creativity of a highly qualified team. This expertise is now being introduced elsewhere and it is expected that the contribution to profits from this development will become substantial.

Lloyd's Underwriting Agencies

The Lloyd's underwriting agency management company had another very successful year. Four of the directly managed syndicates, namely Marine, Motor, Employers' Liability and Public Liability, continued to be profitable. Their success was due to selective underwriting and a good investment return. Our new Non-Marine Syndicate, which is in the second year of account, is making satisfactory progress ; the Livestock Syndicate, however, suffered a small loss.

Requests continue to be received from individuals expressing a wish to proceed with applications for Underwriting Membership next year. We expect the ultimate number will be severely limited because of the market premium income capacity problem.

Sten-Re Ltd.

Sten-Re Ltd., the group's reinsurance broking and underwriting management company, experienced difficult trading conditions during the year under review. The strength of sterling was one of the major factors affecting the company's income as a substantial proportion of its business is received from outside the United Kingdom. In addition, severe competition in many of the countries in which the company operates caused a reduction in premium rates and conditions in the marine market remain depressed.

The profit contribution from Canadian-based Universal Reinsurance Intermediaries Limited was very satisfactory.

In August 1979, a new U.S.-based reinsurance broking subsidiary, Sten-Re Cole & Associates Inc., in which we hold a 51% equity interest, was created in New York. Recently, a branch of that company opened in Atlanta, Georgia.

In the more favourable climate which must emerge and with the prospects of growing involvement in the expansive U.S. market, the future growth of Sten-Re Ltd. appears assured.

Reed Stenhouse is the only North America-based broker with wholly-owned insurance broking and underwriting management companies at Lloyd's. Derek Biggs (left), Managing Director of our London marketing subsidiary, is broking one of our major accounts with an Underwriter in the Room at Lloyd's.

France

Société Générale de Courtage d'Assurances, the only publicly quoted insurance broker in France, has benefited from the reorganization of the past few years and has achieved a substantial increase in profitability.

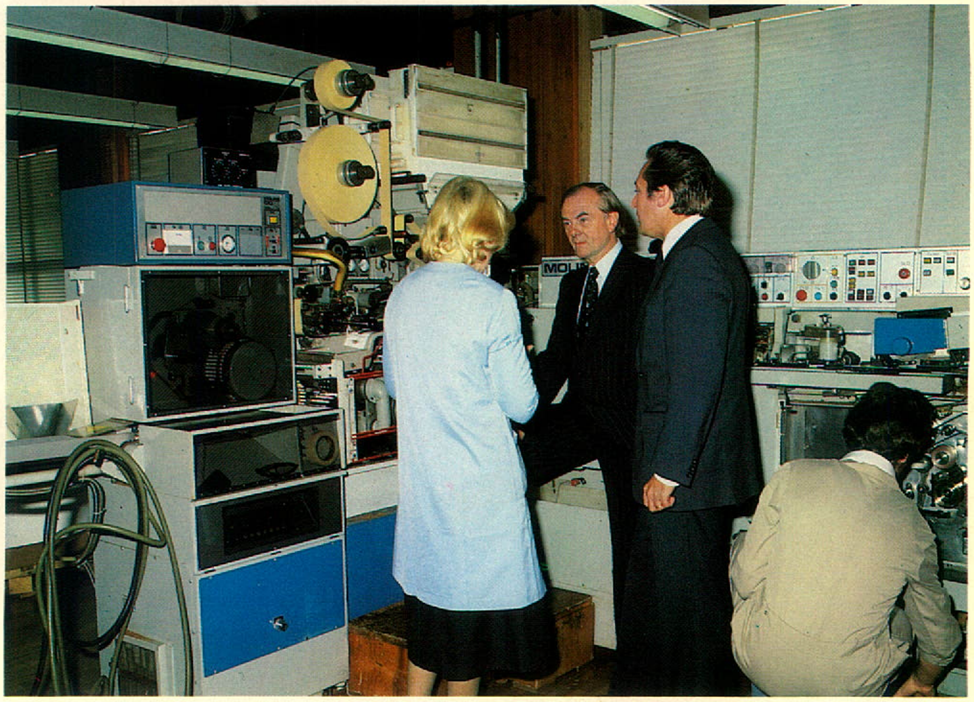
Reduced insurance premium rates and strong competition have prevailed but revenues have shown a satisfactory increase. Expenses have been kept under control, well below the rate of inflation.

Changes in the management structure coupled with a program of development of new accounts supported by strong technical personnel enable us to view the future with optimism.

Reed Stenhouse is active in the growing recreation industry throughout the world. Luc Bellezanne (left) and Patrice Merlier, Accounts Executives of the Paris-based company are emerging from a technical inspection of the hotel in the background which is part of an important international chain.

Belgium

The past year has been one of consolidation in Belgium, with a reorganization and moves to new offices in Brussels, Antwerp and Lokeren, coupled with a strengthening of senior management. We have, as a result, experienced a temporary decrease in profitability, but the benefits of improved services together with development prospects should produce a significant improvement in the coming year.



Creating and implementing a wide variety of insurance programs for manufacturing industries are important Reed Stenhouse activities around the world. James Morgan (centre) and G. (Tony) Van Hoek (right), President and Executive Officer respectively of the group's Belgian company, are discussing insurance requirements at a client's cigarette manufacturing plant in Brussels.

South Africa

There continued to be severe downward pressure on insurance premium rates in South Africa. This, combined with a rationalization which took place following the merger with Hogg Robinson in March, 1978, resulted in a shortfall by the company from its budgeted profit. However, the merger has put the company in a favourable position to improve service to clients and take maximum advantage of new business opportunities.

The Reed Stenhouse group provides insurance coverages for all types of heavy equipment. William M. Singleton, a Director of our company in New South Wales, Australia inspects an electrical utility's turbine undergoing repairs.

Australia and Papua New Guinea

Our Australian and Papua New Guinea operations experienced a reduction in profit which reflects a continuation of the severe downward pressure on premium rates which had been experienced during the previous years.

Serious concern for the stability of the insurance underwriting industry has been expressed both by industry leaders and authorities. There is still no indication of any imminent change leading to stabilization of the overall rate structure and, to counter the inevitable erosion of our brokerage income, greater emphasis has been given to new business development and cost control, with successful results. Income gained from new accounts was again a record, while staff numbers, despite expansion of the risk management and marketing divisions, have been reduced. Therefore, while results recorded in the past two years have been disappointing, the Australian company is in an excellent position to benefit when insurance premium rates improve.

Wool carpet production for export is a major manufacturing activity of a client in New Zealand. Servicing Broker Jamie Salmon (right) examines a unique coarse fleeced New Zealand-bred flock of Drysdale sheep at the client's farm.

New Zealand and Fiji

The softness in the insurance market became more pronounced during the year in New Zealand, resulting in further rate cutting and intense competition. There continued to be a lack of business confidence but, as a result of our vigorous development activity, premium volume grew by 10%. Inflation, however, caused costs to rise faster than income with the result that for the first time in a number of years there was a decline in profitability of our operations in New Zealand.

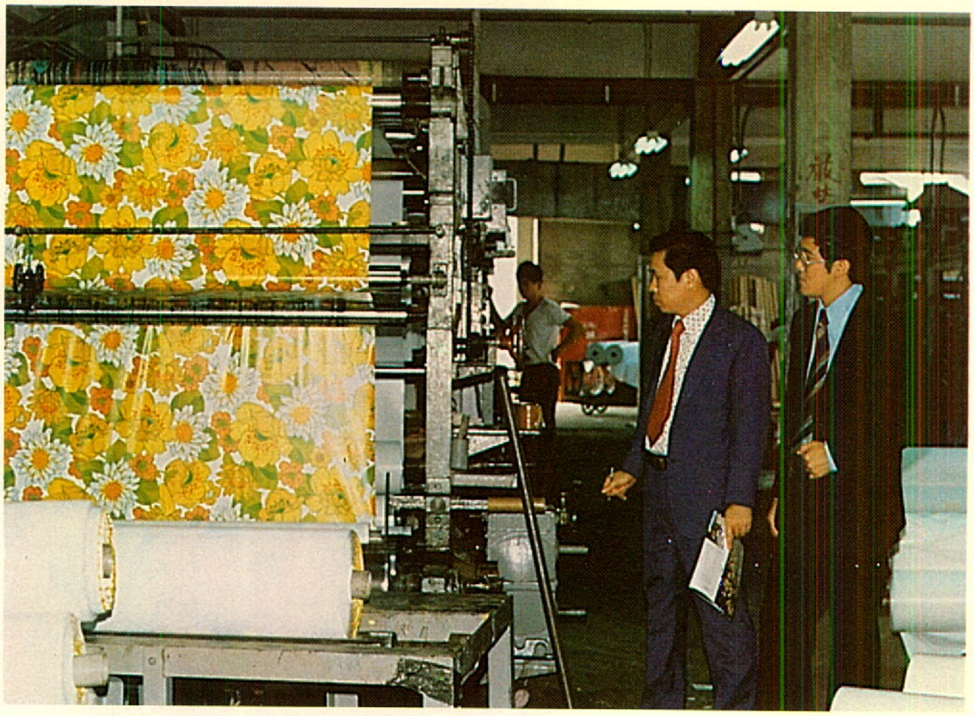
In this, our second year of operations in Fiji, the company continued to develop and premiums showed substantial growth even in a market of reduced insurance premium rates.

Reed Stenhouse has developed an internationally recognized expertise in insurances for forestry industries and is increasingly involved in placing coverages for related facilities and equipment. David Chubb (centre), a Servicing Broker, is on the job at New Zealand's largest forestry firm, alongside a giant log stacker insured through Reed Stenhouse.

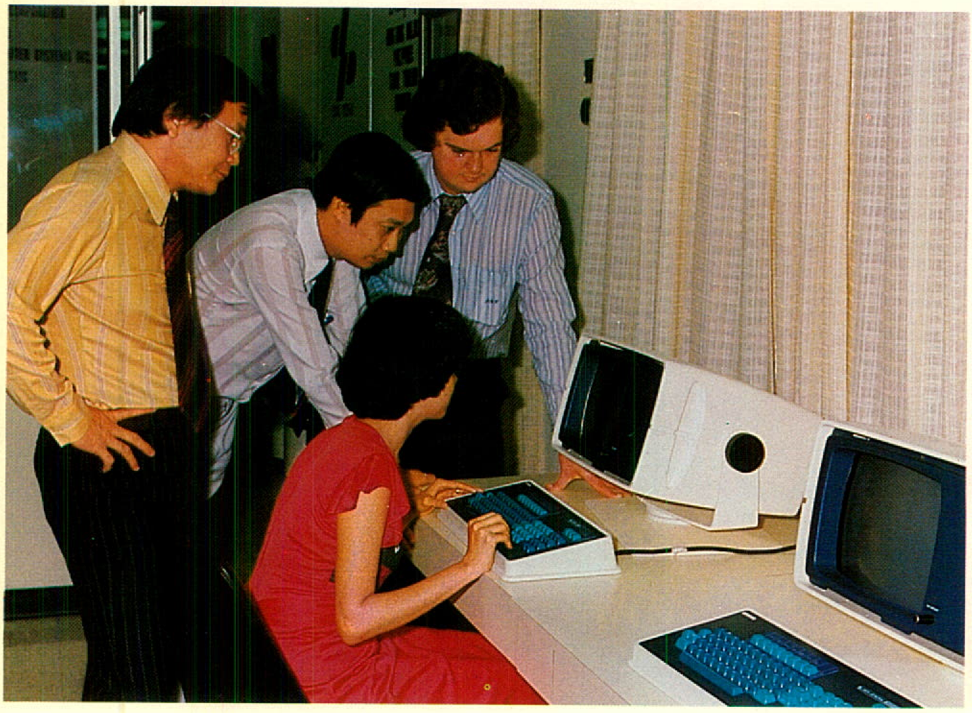
South East Asia

The group's operations in South East Asia have been expanded by the formation of Reed Stenhouse Taiwan Ltd. which commenced operations from its base in Taipei towards the end of the financial year. The results show significant growth in income and profits.

Political uncertainty prevails in some areas; however, South East Asia appears to be poised for further economic growth and, with our representation there, the group is well established.



The company serves expanding requirements in many industries by arranging and administering innovative coverages and loss prevention programs. David C. Y. Wong (left), Manager of our Taiwan office, and Peter T. H. Koh (right), Director of our Singapore company, inspect a plastics laminating machine at a client's operation in Taiwan.



The company plays a prominent role in the growing field of international reinsurance. Reed Stenhouse provides access to world markets through professional staff who are available to every major centre. In the Republic of Singapore a group of employees with our specialist international reinsurance subsidiary in Asia, are reviewing computerized data for a client. Standing, left to right, are Lim Ho Inn – Managing Director, William Tan – Executive Assistant, and Julian Hodge – Manager. Seated is Alice Lim – Accounts Assistant.

Reed Risk Management Inc.

This company plays an important role in the design of sophisticated and tailored programs for our existing and prospective clients.

During the past year, Reed Risk Management completed 17 major projects involving insurance premiums approaching $100,000,000 and a number of these studies culminated in the formation of client affiliated insurance companies. Important progress was made in the application of computerized analytical methods, and development of computerized risk information systems was initiated. An intensive program of in-house education and client seminars was also introduced.

There is a growing awareness that the use of risk management techniques is essential in the ongoing refinement of major insurance programs. To co-ordinate more effectively the activities of our risk management company with the development of international sales, it has been brought under direct control of the newly-formed international division.

Insurance Managers Limited

The group's operations in Bermuda continue to expand satisfactorily with substantial increases in the number of clients and in our scope of operations.

Insurance Managers Limited provides management services to insurance affiliates of major corporate clients. The ability to offer this sophisticated risk management alternative is of increasing importance to our worldwide broking operations and has been instrumental in both retaining and acquiring important insurance accounts. Canada, the United States and the United Kingdom continue to be the major sources of business, with the U.S. being the most important development area. Both the quality and number of staff are increasing to keep pace with this growth.

During the year, a new company, Reed Stenhouse International Insurance Services Limited, was formed to focus our expansion in the areas of primary insurance and reinsurance broking and underwriting management. The Bermuda market is playing an ever-increasing role in the world insurance scene, and we are maintaining our leading position as this trend continues.

Planning of optimum corporate insurance programs requires complete and sophisticated analysis of risk exposures and development of systems to provide the most effective coverage. Consultant Susan Adkins (left), of our risk management subsidiary in San Francisco, California, and Cathy Machado, Account Manager in our San Francisco branch, are part of a team of Reed Stenhouse specialists offering expertise on a worldwide basis.

Principal Subsidiaries and Affiliates

(as of January, 1980)

Australia

Reed Stenhouse Ltd.

Belgium

N.V. Reed Stenhouse S.A.

Bermuda

Insurance Managers Limited

Canada

Reed Stenhouse Limited
Ducketts Limited
Roy, Arsenault & Associés Inc.
Société de Courtage Meloche Limitée
J. Meloche Inc.
Monnex Insurance Agencies Limited
Reed Stenhouse Personal Insurance Limited
Sonef Insurance Management Limited
Reed Risk Management International Limited
Reed Stenhouse Associates Limited
Universal Reinsurance Intermediaries Limited

Fiji

Reed Stenhouse Sullivan (Pacific Islands) Ltd.

France

Société Générale de Courtage d'Assurances S.A.

Hong Kong

Reed Stenhouse South China Ltd.

Lebanon, Saudi Arabia and United Arab Emirates

Reed Stenhouse Middle East S.A.R.L.

Malaysia

Reed Stenhouse Leow Pte. Ltd.

New Zealand

Reed Stenhouse Ltd.

Papua New Guinea

Reed Stenhouse (P.N.G.) Pty. Ltd.

Philippines

Reed Stenhouse Inc.

Republic of Ireland

Reed Stenhouse Ireland Ltd.

Rhodesia

Stenhouse Hogg Robinson Rhodesia (Pvt) Ltd.

Singapore

Reed Stenhouse Leow Pte. Ltd.

South Africa

Stenhouse Hogg Robinson (Pty) Ltd.

Sweden

J. Akerman A.B.

Switzerland

Reed Stenhouse International S.A.
Caviezel AG

Taiwan

Reed Stenhouse Taiwan Ltd.

Thailand

Reed Stenhouse Jenkid Ltd.

United Kingdom

Reed Stenhouse & Partners Ltd.*
Reed Stenhouse Ltd.
Reed Stenhouse Marketing Ltd.
Sten-Re Ltd.
Sir William Garthwaite (Re-Insurance) Ltd.
Stenhouse Reed Shaw (Underwriting Agencies) Ltd.
Reed Stenhouse Benefit Consultants Ltd.
Reed Stenhouse Pension Services Ltd.
Reed Stenhouse Management Services Ltd.

United States of America

Reed Stenhouse Inc.
Great Eastern Associates Inc.
Reed Risk Management Inc.
Reed Stenhouse International Inc.
Sten-Re Cole & Associates Inc.

*Elsewhere in this report reference may be made to this company by its former name, A.R. Stenhouse Reed Shaw & Partners Ltd.

Directors

The Honourable John B. Aird, O.C., Q.C., LL.D.
Chairman of the Board

Arthur G. Bacon

Eric G. Bale, C.A.
Secretary-Treasurer

John S. Davidson

John B. Devine
Managing Director and
Chief Executive Officer
Reed Stenhouse & Partners Ltd.

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

Herbert Houghton
Chairman
Reed Stenhouse & Partners Ltd.

Arthur W. John, C.B.E., F.C.A.

Jack M. Moon
Executive Vice-President

The Honourable John P. Robarts, P.C., C.C., Q.C., LL.D.
Chairman of the Board
Reed Stenhouse Limited, Canada

Raymond C. Strange, A.C.I.I.
Chairman
Stenhouse Reed Shaw
(Underwriting Agencies) Ltd.

James W. Whittall
Chairman of the Executive Committee

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

Executive Committee

James W. Whittall
Chairman

Eric G. Bale

John B. Devine

Herbert Houghton

Jack M. Moon

William M. Wilson

Audit Committee

The Honourable John P. Robarts
Chairman

The Honourable John B. Aird

John S. Davidson

Angus Grossart

Arthur W. John

Transfer Agents and Registrars

The Canada Trust Company in Toronto

Canada Permanent Trust Company in other major Canadian cities

Stock Listings

The Company's Class A common shares trade under the ticker symbol RSS "A" on the following Canadian Stock Exchanges:

The Toronto Stock Exchange
The Montreal Stock Exchange
The Vancouver Stock Exchange

Consolidated Balance Sheet

(Incorporated under the Canada Corporations Act)

September 30, 1979
(with comparative figures as at September 30, 1978)

Assets

	1979	1978
	(in thousands)	
Current:		
Cash and bank deposit receipts	**$111,553**	$102,453
Short-term deposits and loans	**17,811**	6,574
Accounts receivable	**270,835**	254,445
Prepaid expenses and other current assets	**8,583**	6,519
	408,782	369,991
Investments:		
Affiliated companies	**8,203**	6,980
Securities on deposit and other quoted investments	**673**	655
Mortgages, loans and other investments (note 5)	**3,930**	3,644
	12,806	11,279
Fixed Assets:		
Land, buildings and building improvements (note 3)	**20,094**	23,496
Office furniture, equipment and vehicles	**23,342**	18,844
Leasehold improvements	**5,391**	4,715
Total, at cost	**48,827**	47,055
Less accumulated depreciation and amortization	**12,756**	10,447
	36,071	36,608
Intangible Assets:		
Goodwill	**56,402**	55,052
Non-compete covenants	**488**	656
	56,890	55,708
Deferred debit (credit), foreign currency translation	**1,190**	(7)
	$515,739	$473,579

On behalf of the Board:

Director

Eric G. Bale.
Director

(See accompanying notes to consolidated financial statements)

Liabilities

	1979	1978
	(in thousands)	
Current:		
Due to banks	$ 32,131	$ 13,680
Accounts payable	324,025	305,971
Sundry payables and accrued charges	19,209	21,683
Income taxes payable	8,275	8,826
Term bank loans and notes payable, current portion	1,210	3,156
Deferred income taxes, current portion	11,627	10,996
Deferred commissions, current portion	587	786
	397,064	365,098
Long-term:		
Term bank loans and notes payable (note 4)	12,549	17,640
Income taxes due beyond one year	4,559	3,149
Deferred income taxes	2,001	1,537
Deferred commissions	135	82
Other liabilities	829	799
	20,073	23,207
Minority interest	2,456	2,546
Shareholders' Equity (note 5):		
Share capital	15,059	14,983
Preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited	35	35
Capital in excess of par value	14,491	14,062
Retained earnings	66,561	53,648
	96,146	82,728
	$515,739	$473,579

Consolidated Statement of Earnings

For the year ended September 30, 1979
(with comparative figures for 1978)

	1979	1978
	(in thousands)	
Commissions and fees earned, net	**$179,615**	$152,955
Interest, dividend and rental income (note 1)	**12,100**	8,926
	191,715	161,881
Operating expenses:		
General	**151,945**	124,585
Depreciation and amortization of fixed assets	**3,632**	2,720
	155,577	127,305
	36,138	34,576
Interest on long-term debt	**1,828**	1,797
Earnings before income taxes and other items	**34,310**	32,779
Income taxes:		
Current	**16,524**	14,237
Deferred	**878**	2,095
	17,402	16,332
Earnings before other items	**16,908**	16,447
Add (deduct) other items:		
Equity in earnings of affiliated companies	**338**	251
Minority interests	**(254)**	(282)
	84	(31)
Earnings before reduction of intangible assets	**16,992**	16,416
Reduction of intangible assets	**(407)**	(387)
Net earnings for the year before extraordinary item	**16,585**	16,029
Extraordinary item:		
Recovery of costs related to Two South Place (note 3)	**2,648**	
Net earnings for the year	**$ 19,233**	$ 16,029

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Retained Earnings and Capital in Excess of Par Value

For the year ended September 30, 1979 (with comparative figures for 1978)

	1979	1978
	(in thousands)	
Retained Earnings:		
Balance, beginning of year	**$ 53,648**	$ 42,438
Add net earnings for the year	**19,233**	16,029
	72,881	58,467
Deduct dividends paid (note 6)	**6,320**	4,819
Balance, end of year	**$ 66,561**	$ 53,648
Capital in Excess of Par Value:		
Balance, beginning of year	**$ 14,062**	$ 13,760
Add capital in excess of par value on shares issued during the year (note 5)	**429**	302
Balance, end of year	**$ 14,491**	$ 14,062

(See accompanying notes to consolidated financial statements)

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, 1979 and the consolidated statements of earnings, retained earnings, capital in excess of par value 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, 1979 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.

Clarkson, Gordon & Co.
Chartered Accountants

McLintock Main Lafrentz & Co.
Chartered Accountants

Toronto, Canada
December 3, 1979

Consolidated Statement of Changes in Financial Position

For the year ended September 30, 1979
(with comparative figures for 1978)

	1979	1978
	(in thousands)	
Source of funds:		
Operations –		
Net earnings for the year before extraordinary item	$ 16,585	$ 16,029
Add items not involving working capital:		
Depreciation and amortization of fixed assets	3,632	2,720
Increase in income taxes due beyond one year and other long-term liabilities	1,440	707
Other	840	1,504
Working capital provided from operations	22,497	20,960
Proceeds on disposal of fixed assets	1,014	
Increase (decrease) in minority interest in businesses acquired previously	(344)	369
Issue of Class "A" shares for cash (note 5)	452	360
Proceeds arising from cancellation of option held on Two South Place (note 3) – applied as follows:		
Reduction of purchase price of Two South Place	2,109	
Recovery of costs in prior years related to Two South Place	2,648	
	28,376	21,689
Application of funds:		
Non-current assets and liabilities relating to insurance businesses acquired		
Goodwill	1,661	2,371
Fixed and other assets	38	724
	1,699	3,095
Less:		
Minority interests in businesses acquired		502
Notes payable and other liabilities, long-term portion	811	736
	811	1,238
Net non-current assets acquired	888	1,857
Increase in affiliated companies	885	2,143
Increase in fixed and other assets	6,484	8,484
Price adjustments for goodwill in connection with businesses acquired previously	(72)	1,003
Decrease in term bank loans and notes payable	5,902	467
Decrease in deferred credit on foreign currency translation	1,197	1,474
Dividends paid in cash (note 6)	6,267	4,819
	21,551	20,247
Net increase in working capital for year	6,825	1,442
Working capital, beginning of year	4,893	3,451
Working capital, end of year	$ 11,718	$ 4,893
Represented by:		
Current assets	$408,782	$369,991
Less current liabilities	397,064	365,098
Working capital, end of year	$ 11,718	$ 4,893

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

September 30, 1979

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 A. R. Stenhouse Reed Shaw & Partners Limited, effective October 1, 1972, 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 customers, which costs are expensed as incurred.)

Interest, dividend and rental income is included after deducting other interest expense (1979 – $850,000; 1978 – $314,000).

(c) Foreign currency translation:

Non-current assets and liabilities of the company which are stated in a foreign currency and financial statements of subsidiary companies outside of Canada are translated into Canadian dollars as follows:

(i) At rates of exchange prevailing at the balance sheet date

– assets, other than Two South Place (note 3) and related accumulated depreciation, goodwill and non-compete covenants

– liabilities

(ii) At rates of exchange prevailing at dates of acquisition

– Two South Place (note 3) and related accumulated depreciation

– goodwill and non-compete covenants and related charges against earnings

– preferred shares of A. R. Stenhouse Reed Shaw & 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 6 (b))

Because of circumstances which prevail and affect currencies internationally, the net accumulated unrealized debits and credits arising from exchange translation of balance sheet items are deferred and appear on the balance sheet at September 30, 1979. An unrealized exchange translation debit of $1,197,000 arising on consolidation in 1979 is included in such deferral.

(d) Investments and marketable securities:

(i) Affiliated companies

Investments in affiliated companies in which the company exercises significant influence are accounted for on 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 and 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, at cost less amounts written off (this value approximates quoted market value)

– mortgages, loans and other investments, 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 the adjusted cost of Two South Place (note 3) and at rates varying from 10% to 33⅓% for the remainder.

(f) Other assets:

(i) 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 (1979 – $239,000; 1978 – $189,000) and goodwill arising before and after that date is reduced when it is considered that there may be a permanent decline in its value (1979 – nil; 1978 – $30,000).

(ii) Non-compete covenants

The non-compete covenants are recorded at cost, less amortization. Amortization (1979 – $168,000; 1978 – $168,000) is provided on a straight line basis over the terms of the covenants.

(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 the liabilities as "deferred income taxes". Since the company considers the undistributed earnings of foreign subsidiaries and affiliated companies to be permanently invested outside of Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

(h) Pension plan:

The company and certain of its subsidiaries have contingent obligations for unfunded past service pension benefits estimated at $11,305,000. It is intended that these contingent past service pension obligations will be funded and charged against future earnings by payments of various amounts not exceeding $1,196,000 annually over a period of fourteen years with minimal amounts thereafter.

(i) Comparative figures:

Certain 1978 figures have been reclassified to conform with classifications adopted in 1979.

2. Geographic Distribution

The geographic distributions of premiums, on which the company earns its commissions, and earnings before income taxes and other items are as follows (in thousands):

	Premiums	
	1979	1978
Canada and United States	$ 654,790	$ 593,734
United Kingdom and Ireland	555,437	428,251
Australia and New Zealand	158,920	176,548
Other	113,644	84,058
	$1,482,791	$1,282,591

	Earnings	
	1979	1978
Canada and United States	$ 14,087	$ 14,832
United Kingdom and Ireland	13,189	10,720
Australia and New Zealand	4,702	5,613
Other	2,332	1,614
	$ 34,310	$ 32,779

3. Land, Buildings and Building Improvements

In 1974 A. R. Stenhouse Reed Shaw & Partners Limited, a United Kingdom subsidiary of the company, acquired from Stenhouse Holdings Limited, the company's principal shareholder, the issued shares of Dominion Buildings Limited, whose only asset was an office building known as Two South Place (formerly Dominion Buildings) and the land on which it is situated in London, England. While the building was leased to a subsidiary of Stenhouse Holdings Limited for a period of 35 years, the major portion of the building has been occupied under sub-lease, by A. R. Stenhouse Reed Shaw & Partners Limited and certain of its subsidiaries. Under the terms of the purchase arrangements, the company through its subsidiary A. R. Stenhouse Reed Shaw & Partners Limited had an option under which it could, between October 1, 1979 and September 30, 1980, require Stenhouse Holdings Limited to repurchase the shares of Dominion Buildings Limited at a value based on the original sterling cost to A. R. Stenhouse Reed Shaw & Partners Limited of acquiring such shares plus accumulated defined costs.

On April 23, 1979, A. R. Stenhouse Reed Shaw & Partners Limited accepted a non-taxable payment of £2,073,000 ($4,837,000), as consideration for the cancellation of its option to return Two South Place to Stenhouse Holdings Limited. Expenses of £34,000 ($80,000) were incurred, leaving £2,039,000 ($4,757,000) as the net sum received from this transaction. An appraisal obtained in 1979 by A. R. Stenhouse Reed Shaw & Partners Limited indicated a valuation for the property of £8,400,000; accordingly, £917,000 ($2,109,000) of the payment has been applied to reduce the original purchase price to the appraised value. The balance of the payment, namely £1,122,000 ($2,648,000) has been treated as a recovery of costs incurred in prior years relating to the ownership of Two South Place and is reflected as an extraordinary item in the Consolidated Statement of Earnings.

4. Term Bank Loans and Notes Payable

(a) Details (with current interest rates at September 30, 1979 indicated) are as follows:

	(in thousands)
Term bank loans	
Due by instalments to October, 1987, payable in U.S. dollars (see (c) below) – interest at London Interbank Market rate on Eurodollars, for various periods, plus 1%, (currently at various rates of approximately 11½%)	$ 6,960
Due by September, 1984, payable in U.S. dollars – interest at London Interbank Market rate on Eurodollars for various periods, plus ¾%, (currently at 13¼%)	2,320
Due July, 1983, payable in U.S. dollars – interest at ninety day London Interbank Market rate on Eurodollars, plus 1% (currently 11⅜%)	1,303
Due by various dates to January, 1984, payable in U.S. dollars – interest at London Interbank Market rate on Eurodollars for various periods, plus 1½% (currently at various rates of approximately 12%)	950
	11,533
Less portion due within one year	579
	10,954
Notes payable	
Notes due by instalments to February, 1990, payable in U.S. dollars, interest at various rates not exceeding 8%	2,185
Other	41
	2,226
Less portion due within one year	631
	1,595
	$12,549

(b) Principal due within the next five years is as follows: (in thousands)

1980 – $1,210; 1981 – $1,563; 1982 – $1,214; 1983 – $2,384; 1984 – $3,718.

(c) Term bank loans:

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

5. Shareholders' Equity

(a) Authorized share capital (no changes during 1979):

Class "A" shares of $1 par value each	20,000,000
Convertible Class "B" shares of $1 par value each	8,095,159
Convertible Class "C" shares of $2 par value each (including 197,246 shares that were issued and subsequently converted into 394,492 Class "B" shares)	1,328,547

(b) Issued share capital:

	1979	
	Number	Amount
		(in thousands)
Class "A"	**6,963,858**	**$ 6,964**
Class "B"	**5,832,557**	**5,832**
Class "C"	**1,131,301**	**2,263**
		$15,059

	1978	
	Number	Amount
		(in thousands)
Class "A"	6,887,986	$ 6,888
Class "B"	5,680,813	5,681
Class "C"	1,207,173	2,414
		$14,983

(c) Changes during the year:

(i) Class "A" shares issued

Price per share	Number	Par value	Capital in excess of par value	Total consideration
			(in thousands)	
For cash under Incentive Stock Option Plan (note 5 (h)):				
$6.20	64,000	$64	$333	$397
$8.33	6,600	7	48	55
Issued for cash	70,600	71	381	452
Stock dividend (note 5(f)):				
$9.95	5,272	5	48	53
Total issued	75,872	$76	$429	$505

(ii) Class "B" and Class "C" shares issued

151,744 Class "B" shares were issued on the conversion of 75,872 Class "C" shares.

(d) Rights:

Each Class "A", Class "B" and Class "C" share is entitled to one vote. Each Class "B" share may be converted at any time into one Class "A" share. Each Class "C" share may be converted into two Class "B" shares upon the issuance from treasury of one Class "A" share or if the company should dispose of all or a substantial part of its assets or undertaking or if a takeover bid is made to the holders of the Class "A" shares. Class "A" and Class "B" shares are entitled to the same per share dividends and the Class "C" shares are entitled to twice such per share dividend. However, dividends paid on the special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited (see (e) below) reduce the dividends paid on the Class "B" and Class "C" shares.

(e) Preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited:

Reflected in the consolidated financial statements as part of shareholders' equity are 15,000 special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited (note 1(a)), which are held by the company's Class "B" and Class "C" shareholder, with a stated capital value of £15,000 ($35,250), which shares are non-voting and non-participating in winding up or liquidation beyond their paid-up value.

Earnings generated by the A. R. Stenhouse Reed Shaw & Partners Limited group will be available to satisfy the dividend entitlements of the United Kingdom shareholder (the Class "B" and Class "C" shareholder), the intention being to have the Class "B" and Class "C" shareholder receive all or most of the dividends to which it is entitled by way of direct dividends on the special preferred shares.

(f) Stock dividends:

On February 8, 1979, the shareholders confirmed By-law No. 23, which permits the company's directors to issue stock dividends and the directors subsequently adopted the policy of paying stock dividends on Class "A" shares at the option of the Class "A" shareholders. This policy was applied to the quarterly dividends payable by the company in September, 1979 and 5,272 Class "A" shares were issued as stock dividends.

(g) Senior Executive Stock Purchase Plan:

Under the terms of the plan, eligible participants are entitled to purchase Class "A" common shares 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, 1979, loans made in a prior year amounting to $466,800 are included in "mortgages, loans and other investments" and 40,000 Class "A" common shares remain reserved for possible issue under this plan..

(h) Incentive Stock Option Plan:

At September 30, 1979 a share option on 20,000 Class "A" shares, at a price of $6.20 per share and exercisable to April 3, 1980, was outstanding to a director of the company and share options on 138,552 Class "A" shares, at a price of $8.33 per share and exercisable to December 8, 1982, were outstanding to certain employees. A further 186,174 Class "A" shares remain reserved for possible issue under this plan at prices to be fixed by the directors.

6. Net Earnings Per Share and Dividends

(a) Net earnings per share:

(i) Net earnings for the year before extraordinary item

	1979	1978
	(dollars)	
Class "A"	1.10	1.07
Class "B"	1.10	1.07
Class "C"	2.20	2.14

(ii) Net earnings for the year

	1979	1978
	(dollars)	
Class "A"	1.28	1.07
Class "B"	1.28	1.07
Class "C"	2.56	2.14

The earnings per share have been calculated using the weighted monthly average number of shares outstanding during the year (1979 – 15,019,654; 1978 – 14,956,808) which is the sum of the weighted monthly average number of Class "A" and Class "B" shares and twice the weighted monthly average number of Class "C" shares outstanding during the year. The calculations are based on the net earnings as shown by the consolidated statement of earnings. No deduction is made for dividends paid on the special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited since, as explained in note 5 (d), such dividends apply to reduce the dividend entitlements of the Class "B" and Class "C" shares.

(b) Dividends:

Dividends paid during the year can be summarized as follows:

(i) Dividends paid in cash

	1979	1978
	(in thousands)	
Class "A" shareholders:		
Dividends on Class "A" shares paid by Reed Stenhouse Companies Limited at 42¢ (32.04¢ in 1978) per share	$2,858	$2,200
Class "B" and "C" shareholders:		
Dividends on special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited equivalent to 42¢ (32.04¢ in 1978) per Class "B" share and 84¢ (64.08¢ in 1978) per Class "C" share	3,409	2,619
Dividends paid in cash	6,267	4,819
(ii) Stock dividends (note 5(f))	53	
Total dividends paid	$6,320	$4,819

7. Commitments

(a) Lease:

Commitments under various leases for office premises call for minimum annual rentals within the next five years as follows (in thousands): 1980 – $7,875; 1981 – $7,325; 1982 – $6,498; 1983 – $5,724; 1984 – $5,011.

(b) Other:

Certain subsidiaries of the company have entered into commitments of $1,360,000 for the purchase of fixed assets and the company and certain of its subsidiaries have entered into agreements to acquire insurance businesses and interests in insurance brokerage companies for consideration of approximately $1,900,000.

8. Directors' and Officers' Remuneration

The aggregate remuneration of the thirteen directors and five officers, four of whom are also directors, of the company as defined in Section 122.2 of the Canada Corporations Act is as follows:

	Paid by		
	The company	A Canadian subsidiary	A United Kingdom subsidiary
	(in thousands)		
Directors			
As directors	$34	nil	nil
As officers or employees of subsidiary companies	nil	$793	$263
Officers			
As officers	nil	$70	nil

Printed in Canada