MICC INVESTMENTS LIMITED

1974 ANNUAL REPORT

MICC INVESTMENTS LIMITED

401 BAY STREET

TORONTO, ONTARIO

BOARD OF DIRECTORS OF
MICC INVESTMENTS LIMITED AND THE MORTGAGE INSURANCE COMPANY OF CANADA

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Toronto, Ontario

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Partner
Blake, Cassels & Graydon
Toronto, Ontario

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Domtar Construction Materials Ltd.
Montreal, Quebec

HAROLD CORRIGAN
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Alcan Canada Products Limited
Toronto, Ontario

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Marathon Realty Company Limited
Toronto, Ontario

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MICC Investments Limited
Toronto, Ontario

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Toronto, Ontario

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MGIC Investment Corporation
Milwaukee, Wisconsin, USA

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Greenshields Incorporated
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Chief Executive Officer
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Montreal, Quebec

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Executive Vice-President
MICC Investments Limited
Toronto, Ontario

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Nu-West Development Corporation
Calgary, Alberta

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Treasurer
Air Canada
Montreal, Quebec

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President
Canadian Enterprise Development Corporation Limited
Montreal, Quebec

J. L. TOOLE
Chairman, CN Investment Division
Canadian National Railways
Montreal, Quebec

C. L. TOWNEND
Assistant General Manager
The Toronto-Dominion Bank
Toronto, Ontario

G. J. van den BERG
Company Director
141 Hampshire Crescent
Beaconsfield, Quebec

B. G. WILLIS
Senior Vice President
Greenshields Incorporated
Toronto, Ontario

EXECUTIVE OFFICERS

MICC INVESTMENTS LIMITED

President
GARDNER ENGLISH

Executive Vice-President
REGINALD T. RYAN

Vice-President
C. W. JAMESON

Secretary-Treasurer
DAVID C. TOMS

THE MORTGAGE INSURANCE COMPANY OF CANADA

Chairman and Chief Executive Officer
GARDNER ENGLISH

President
REGINALD T. RYAN

Vice-President
C. W. JAMESON

Vice-President
JAMES McAVOY

Secretary-Treasurer
DAVID C. TOMS

Assistant Vice-President
GEORGES W. CARPENTIER

MICC INVESTMENTS LIMITED

PRESIDENT'S MESSAGE

The year 1974 was one of continued growth and progress for the company and its subsidiary, The Mortgage Insurance Company of Canada. Profits from operations, before investment loss, increased to $6,291,316 or $1.24 per share compared to 93¢ per share in 1973. The new corporate surtax reduced earnings by 3¢ per share. New business of The Mortgage Insurance Company of Canada, represented by gross commitments issued for new Canadian mortgage insurance, amounted to $1,960,000,000 compared to $2,197,000,000 the previous year. Net premiums written during the year totalled $19,515,633. At the year end, consolidated assets stood at $88,836,756. Details of operations of The Mortgage Insurance Company of Canada are set out in the report of its president, Mr. R. T. Ryan, in later pages of this report.

Growth in the insurance business of our subsidiary required the raising of additional capital during the year. A rights offering to shareholders was made in July, which was successfully subscribed. New capital funds were provided in the amount of $10,982,000 after expenses of the issue. At December 31, the capital account of the company stood at $43,175,428. The number of shares outstanding at year end was 5,711,080. Dividends were paid during the year on the capital stock of the company in the amount of 20¢ per share.

The year under review was marked by weakness in security prices attributable to inflation and heavy government deficits around the world. As a consequence, the investment portfolio at year end showed an unrealized loss on securities of approximately 8% of portfolio. Since the portfolio is composed of high grade securities, the deficit in book value is reasonable in the current market climate. Treasury bills and other short term securities and Canadian and U.S. federal government bonds represented 38% of total portfolio compared with 31% one year ago. These investments provide a more than adequate element of liquidity. The favourable tax treatment of dividend income resulted in a tax rate of 37.5% calculated on total taxable income before realized investment losses.

In mid-February 1975, the federal Superintendent of Insurance advised The Mortgage Insurance Company of Canada that he was making amendments to the capital and reserve requirements for private mortgage insurance companies under his jurisdiction. Mortgage insurance companies are required to maintain prescribed capital and reserve funds which are related to the amount of mortgage insurance in force from time to time. Under previously existing regulations, The Mortgage Insurance Company of Canada maintained capital and insurance reserves throughout the life of all policies issued by the company. This pre-existing formula provided that capital be maintained on a declining basis during the first 14 years of a policy term with premium and policy reserve providing the sole support for the balance of the policy term. From the commencement of operations in 1964 until late in 1973, virtually all of the company's policies were written with a 15-year term. Since the end of 1973, more than 90% of the company's business has been written on a 20-year policy term basis.

Under the new formula, capital would be required to be maintained only during the first nine years of the policy, but at a higher level than under the previous formula. Reserves will be maintained at current levels for the first nine years, but reduced substantially starting in the tenth year. As the effect of these changes is to require additional capital during the first nine years of a policy term over that required under the present formula, earnings per share will be reduced from those that would have been obtained had the existing formula been continued. This reduction is mitigated to a degree by investment earnings available from the additional capital. By reason of the new formula, earnings per share will tend to increase after the tenth policy year.

Since capital required is dependent on volume of new insurance written from year to year, it is difficult to judge the overall effect of the new capital requirements on earnings per share. An important fact in connection with the new regulations is that no changes are being made to the capital and reserve requirements on business written prior to the end of 1974. As the company does not anticipate having to raise additional capital prior to the end of the current year, there will be no effect on earnings for 1975.

The year 1974 was one of contradictory influences for business and governments around the world. Unabated inflation continued to plague all countries and was accompanied by concern for diminishing natural resources. Interest rates in most countries rose to record levels with serious consequences for governments, business and the private citizen. While the cost of borrowed money declined moderately in the last quarter of the year, there seems to be little convincing evidence that government spending in all of the western world will be decreased to the degree that would indicate that inflation has been brought under control. Canada has fared better than most countries in the face of these troubling conditions. While our governments at all levels have continued deficit financing, profits in a number of industries have held up well and unemployment, while increasing, is less acute in Canada than in many other parts of the world.

The mortgage and real estate industries have been adversely affected since mid-1974 by high interest rates and rapidly increasing building costs. Planning by builders has been hampered by difficulties in getting subdivision and zoning approvals from municipalities for both single family dwellings and apartments. Combined with lower consumer demand, these influences contributed to a drop in housing starts from 268,000 to 222,000. While production in 1975 will be at lower levels than the record set in 1973, it appears that the production this year should be of the order of 200,000 units. Real estate turnover, which influences mortgage loan demand, should likewise maintain current levels. Your management believes that 1975 should be a productive year for the company.

MICC holds a 50% interest in Charlotte Properties Limited, a land development company which owns, and is developing, a recreation land tract at Dickey Lake, Hastings County, Ontario. Land sales were satisfactory and further work was completed on roads and services. Profit of Charlotte amounted to $61,300 for fiscal 1974, and it is expected that satisfactory results will be achieved in 1975.

Gardner English

Gardner English
President

February 1975

MICC INVESTMENTS LIMITED

HIGHLIGHTS FOR THE YEAR

	1974	1973
	$	$
NET EARNINGS (before realized investment gain or loss)	6,291,316	3,626,972
NET EARNINGS	5,695,089	3,369,768
TOTAL ASSETS	88,836,756	65,827,358
SHAREHOLDERS' EQUITY	43,175,428	32,407,316
INVESTMENT INCOME	5,758,533	3,101,839
UNDERWRITING REVENUE	7,672,955	6,163,735
EARNINGS PER SHARE (before realized investment gain or loss)	$1.24	93¢
EARNINGS PER SHARE	$1.13	86¢
DIVIDENDS PAID	20¢	11.5¢

MICC INVESTMENTS LIMITED

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1974

ASSETS

	1974 $	1973 $
CASH AND ACCOUNTS RECEIVABLE		
Cash	532,357	411,083
Interest accrued and sundry receivables	404,775	508,770
Premiums receivable	400,000	1,020,000
	1,337,132	1,939,853
INVESTMENTS		
Treasury bills and other short-term securities — at cost	14,825,000	10,638,380
Bonds and debentures — at amortized value (market value $32,636,007; 1973 — $23,748,002) (notes 2 and 3)	34,353,738	25,082,281
Preferred stocks — at market value (cost $31,895,134; 1973 $20,914,240)	27,131,651	20,135,165
Common stocks — at market value (cost $10,232,034; 1973 $6,956,616)	9,211,266	6,819,248
Mortgages — at cost	790,158	455,345
Real estate	400,000	20,700
Corporate joint venture (note 4)	291,220	260,570
	87,003,033	63,411,689
OTHER ASSETS		
Loan to trustees under employee stock purchase plan	335,867	351,486
Other	160,724	124,330
	496,591	475,816
	88,836,756	65,827,358

Signed on behalf of the Board

GARDNER ENGLISH, Director

G. D. SUTTON, Director

LIABILITIES

	1974 $	1973 $
ACCOUNTS PAYABLE		
Due to other insurance companies	311,232	100,608
Provision for claims	198,399	95,167
Accounts payable and accrued liabilities	198,277	177,063
Premium taxes payable	367,801	359,808
Income taxes payable	99,060	1,760,860
Due on undelivered securities	71,251	56,902
	1,246,020	2,550,408
DEFERRED REVENUE (note 5)	42,661,225	29,721,051
DEFERRED INCOME TAXES	1,754,083	1,148,583
	45,661,328	33,420,042

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)		
Authorized— 10,000,000 common shares without par value		
Issued and fully paid— 5,711,080 common shares (1973—4,594,752)	37,430,189	26,266,909
RETAINED EARNINGS (note 7)	11,529,490	7,056,850
	48,959,679	33,323,759
UNREALIZED LOSS ON STOCKS	(5,784,251)	(916,443)
	43,175,428	32,407,316
	88,836,756	65,827,358

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MICC INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1974	1974 $	1973 $
REVENUE (note 2)		
Net premiums written	19,515,633	20,563,068
Application fees	1,331,462	1,521,980
Commission income	15,043	16,458
	20,862,138	22,101,506
Less: Increase in deferred revenue	13,189,183	15,937,771
	7,672,955	6,163,735
Investment income—		
Interest and amortization (note 3)	3,088,224	2,580,640
Dividends	2,639,659	505,805
Corporate joint venture (note 4)	30,650	15,394
	5,758,533	3,101,839
	13,431,488	9,265,574
EXPENSES (note 2)		
Insurance underwriting and policy issuance expenses	1,471,202	1,070,041
Premium taxes	393,219	369,001
	1,864,421	1,439,042
Less: Increase (decrease) in deferred expenses	249,008	(248,852)
	1,615,413	1,687,894
Losses on claims incurred	848,962	257,889
Other operating expenses	900,697	705,719
	3,365,072	2,651,502
EARNINGS BEFORE INCOME TAXES	10,066,416	6,614,072
PROVISION FOR INCOME TAXES		
Current	3,169,600	2,960,400
Deferred	605,500	26,700
	3,775,100	2,987,100
EARNINGS BEFORE REALIZED INVESTMENT LOSS	6,291,316	3,626,972
Realized loss on disposal of investments (net of income taxes applicable thereto of $60,000; 1973—$Nil) (note 3)	596,227	257,204
NET EARNINGS FOR THE YEAR	5,695,089	3,369,768
EARNINGS PER SHARE		
Net earnings before realized investment loss	$1.24	$0.93
Net earnings for the year	$1.13	$0.86
Weighted daily average number of shares outstanding	5,056,575	3,920,805

MICC INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF UNREALIZED LOSS ON STOCKS

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	1973
	$	$
UNREALIZED LOSS (GAIN) ON STOCKS — BEGINNING OF YEAR	916,443	(63,616)
Unrealized loss on stocks for the year	4,867,808	1,000,148
	5,784,251	936,532
Recovery of deferred income taxes	—	20,089
UNREALIZED LOSS ON STOCKS — END OF YEAR	5,784,251	916,443

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	1973
	$	$
RETAINED EARNINGS — BEGINNING OF YEAR	7,056,850	4,304,902
Net earnings for the year	5,695,089	3,369,768
	12,751,939	7,674,670
Expenses of rights issue	180,703	135,803
Cash dividends	1,041,746	482,017
	1,222,449	617,820
RETAINED EARNINGS — END OF YEAR (note 7)	11,529,490	7,056,850

MICC INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974 $	1973 $
SOURCE OF FUNDS		
Operations —		
Net earnings for the year	5,695,089	3,369,768
Income taxes deferred	605,500	26,700
Depreciation	38,922	31,082
Funds generated from operations	6,339,511	3,427,550
Increase in deferred revenue	12,940,174	16,186,623
Common shares issued (net of expenses)	10,982,577	12,341,254
Decrease in cash and accounts receivable	602,721	744,608
Increase in accounts payable	—	1,607,494
Decrease in loan to trustees under employee stock purchase plan	15,619	—
	30,880,602	34,307,529
USE OF FUNDS		
Decrease in accounts payable	1,304,388	—
Purchase of fixed assets	75,316	99,431
Dividends	1,041,746	482,017
Increase in loan to trustees under employee stock purchase plan	—	135,908
	2,421,450	717,356
FUNDS AVAILABLE FOR INVESTMENT	28,459,152	33,590,173
INVESTMENT FUNDS — BEGINNING OF YEAR	63,411,689	30,821,664
	91,870,841	64,411,837
Increase in unrealized loss on stocks	(4,867,808)	(1,000,148)
INVESTMENT FUNDS — END OF YEAR	87,003,033	63,411,689

MICC INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1974

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of MICC Investments Limited (the "company") include the accounts of its subsidiary, The Mortgage Insurance Company of Canada (MICC).

2. ACCOUNTING POLICIES

The accounts of MICC are included herein in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:

Premiums

Premiums are taken into income as earned over the terms of the related policies. Prior to 1974, the majority of policies were written for a term of fifteen years; in the year 1974, the majority of policies were written for twenty years. The rate or formula under which premiums are earned relates to the amount of risk in each year of coverage.

Application Fees and Commission Income

Application fees received on insurance policies written and commission income received on reinsurance premiums ceded to a reinsurer are taken into income over the same period and under the same formula as the related premiums are earned.

Underwriting and Policy Issuance Expense and Premium Taxes

Underwriting and policy issuance expenses and premium taxes are deferred and then amortized against premiums as the premiums are earned.

Losses on Claims Incurred

Loss provision is set up for each mortgage loan when the lender reports to MICC that it will be making a claim on a mortgage. A further provision is made for anticipated losses on mortgage loans which are in default for three or more months. This provision is based on past experience of MICC. On settlement of a claim, the real estate acquired is carried in the accounts at 90% of the estimated realizable value.

Investment Income

(a) Treasury Bills and other Short-Term Securities — Interest is recorded as income as it accrues. Realized and unrealized gains and losses are taken into income.

(b) Bonds and Debentures — Interest is recorded as income as it accrues. The premium or discount between cost and maturity value is amortized into income over the period to maturity. A gain or loss on the sale of a bond or debenture is deferred and then amortized over the term to maturity of the security sold.

(c) Stocks — Dividends are recorded as income on the ex-dividend date. Realized gains and losses on disposal of stocks are taken into income as a special item. Unrealized gains and losses on stocks are accounted for in a special statement (Consolidated Statement of Unrealized Loss on Stocks), the balance of which is transferred to shareholders' equity.

Certain items in the 1973 statement of earnings have been reclassified for comparative purposes.

3. CHANGE IN ACCOUNTING POLICY

As referred to in note 2, gains and/or losses on the sale of bonds and/or debentures have been deferred and then amortized over the term to maturity of the securities sold. In 1973 and prior financial statements, realized gains or losses on the sale of such securities have been taken into income as a special item in the year realized. The effect of this change has been to reduce 1974 earnings before realized investment loss by $17,843 and to reduce 1974 net earnings for the year by $94,881.

4. CORPORATE JOINT VENTURE

The investment in the corporate joint venture is accounted for on the equity basis and consists of the following:

		$
Demand loan (unsecured)		100,000
12,000 redeemable preference shares		120,000
20,000 common shares	20,000	
Share of earnings to November 30, 1974	51,220	71,220
		291,220

5. DEFERRED REVENUE

Deferred Revenue consists of the difference between deferred premiums, application fees and commission income and the amount of the deferral of underwriting and policy issuance expense and premium taxes. In prior years this was referred to as unearned net premiums.

6. CAPITAL STOCK

10,200 common shares are reserved for allotment and issue to the trustees of the employee stock purchase plan.

1,116,328 common shares were issued pursuant to a rights issue to shareholders as at July 12, 1974. The total cash consideration was $11,163,280. Expenses of $180,703 relating to this issue have been charged to retained earnings.

A non-assignable stock option for the purchase of 10,000 common shares is held by a director of the company, and is exercisable over a period of five years from June 6, 1973 at a price of $16.75 per share.

7. RETAINED EARNINGS

Dividends payable by MICC are limited in 1975, under the provisions of Section 105 of the Canadian and British Insurance Companies Act, to 75% of the average statutory results of MICC for the preceding three years. In effect, these provisions reduce the amount of retained earnings of the company available for distribution in 1975 by approximately $10,000,000.

8. CONTINGENT LIABILITY

The company has guaranteed bank advances to the corporate joint venture to a maximum of $250,000. As at December 31, 1974, the bank advances to the corporate joint venture were $492,000.

9. STATUTORY INFORMATION

Depreciation charged in the year amounted to $38,922.

As required under the Canada Corporations Act, fees and other remuneration paid to directors and officers were as follows:

Number of directors of the company	18
Aggregate remuneration as directors of the company	Nil
Aggregate remuneration as directors of MICC	$43,400
Number of officers of the company	4
Aggregate remuneration as officers of MICC	$151,075
Number of officers of the company who are also directors of the company	3

One officer, who is also a director, receives no remuneration as an officer.

The aggregate remuneration paid to directors and senior officers, as defined by The Securities Act of Ontario totalled $246,440.

In addition, loans made to a director who is also an officer and to another officer, under the employee stock purchase plan totalled $103,523 as of December 31, 1974.

10. PENSION COSTS

Included in expenses are pension costs of $70,000 for the employer's contribution to staff pension plans. Actuarial valuations of the plans show an unfunded amount of $14,000 which is being amortized at the rate of $10,000 per annum.

11. FOREIGN EXCHANGE

Assets and liabilities in United States dollars have been translated at the rate prevailing on December 31, 1974. Earnings have been translated into Canadian dollars at the average rate prevailing through the year.

MICC INVESTMENTS LIMITED

AUDITORS' REPORT TO SHAREHOLDERS

We have examined the consolidated balance sheet of MICC Investments Limited and subsidiary company as at December 31, 1974 and the consolidated statements of earnings, retained earnings, unrealized loss on stocks and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting for gains and losses on the sale of bonds and debentures as referred to in note 3 to the financial statements, have been applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

February 14, 1975

TRANSFER AGENT:	The Canada Trust Company
REGISTRAR:	Canada Permanent Trust Company
AUDITORS:	Coopers & Lybrand

THE MORTGAGE INSURANCE COMPANY OF CANADA

PRESIDENT'S REPORT

The year 1974 was a very successful one for The Mortgage Insurance Company of Canada. While new business committed declined approximately 10% to $1,960,000,000 from the record amount of $2,197,000,000 in 1973, the level achieved was satisfactory considering market conditions in the last quarter of the year. Mortgage insurance in force in Canada increased from approximately $2.2 billion at the end of 1973 to $3.6 billion at year end.

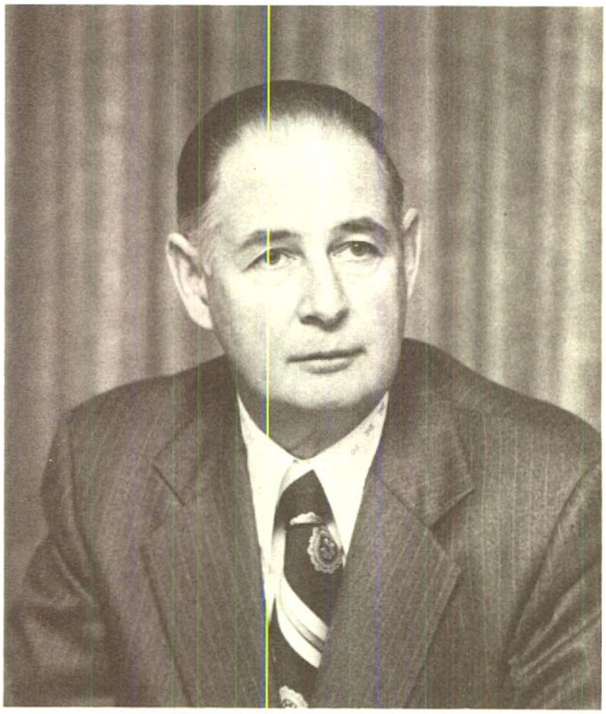
Net new premiums written totaled $19,515,633 compared to $20,563,068 in 1973, a decrease of 5%. The 1973 premium figure included $2,181,635, in premiums from the reinsurance of 95% house loans insured in the U.S.A. by the Mortgage Guaranty Insurance Corporation. This contract was terminated as to new business late in 1973. Premiums written from Canadian business in 1974 actually increased by 6% over 1973. Assets increased to $89,409,544 from $64,543,121 at the end of 1973 primarily as a result of the high level of new business written. During the year, 20,600 shares of capital stock were issued to our parent company MICC Investments Limited for a total cash consideration of $10,899,000.

Insurance Operations

MICC offers 7 basic mortgage insurance programs covering residential, commercial and industrial and vacation home properties. The following table compares total commitments to insure issued under each of these classes in the years 1974 and 1973.

Commitments to Insure	1974	1973
High-ratio house loans	$1,484,783,000	$1,792,815,000
75% house loans . .	112,115,000	27,908,000
High-ratio apartment loans	163,008,000	256,483,000
75% apartment loans .	7,461,000	4,576,000
High-ratio commercial and industrial loans.	107,010,000	57,540,000
75% commercial and industrial loans. .	81,449,000	51,923,000
Vacation home loans .	3,869,000	5,820,000
TOTAL	$1,959,695,000	$2,197,065,000

It is interesting to note that the insurance of high-ratio house loans still constitutes the major part of our business—approximately 76% of commitments to insure issued last year. The average loan amount per unit for commitments on new house loans was $32,900, while for existing houses the average was $24,100. These figures demonstrate that private mortgage insurance is being used to finance a broad range of Canadian housing and is not reserved for high priced housing alone. Less than 4% of commitments to insure issued last year were for house loans in excess of $50,000.



Volume of insurance of apartment loans decreased in line with the reduction in multi-family housing starts which occurred in Canada during 1974. Our commercial and industrial program was one of the highlights of the year. In large measure, the substantial increase in volume results from the activity of our regional offices as we are now able to provide much better service to both lenders and developers across the country. Our average high-ratio loan for all income properties was approximately $176,000 and under the 75% program, was approximately $282,000.

Lease guarantee commitments issued in 1974 totaled $17,902,000 of aggregate insured rent compared to $13,524,000 in 1973, an increase of 32%. Volume of this insurance is building slowly and, with more active promotion through our regional offices, we hope to show continued growth in 1975.

Two changes affecting our insurance operations were made during the year. The maximum insurable loan for rental projects and commercial and industrial properties was increased from $4,000,000 to $6,000,000. During the summer, at the request of the Federal Government, MICC voluntarily introduced loan limits for high-ratio house loans that it would insure. Because of the restrictive lending policies which had been introduced by our Approved Lender clients prior to the government's request, MICC did not feel that these loan limits were necessary, but agreed to observe them. They were removed on November 19th following the Federal Government's decision announced in the Budget Speech.

A number of additions were made to our roster of Approved Lenders and Approved Correspondents. As at this date, there are 185 MICC Approved Lenders (10 chartered banks, 39 life insurance companies, 41 trust companies, 27 loan companies, 59 credit unions and caisses populaires and 9 other type institutions). In addition, there are 36 Approved Correspondents.

As announced in last year's report, two additional regional offices were opened in the spring of 1974 — one in Winnipeg to service Manitoba and Saskatchewan, and one in Ottawa to service the Ottawa/Hull and eastern Ontario region. We now have seven regional offices and the field organization is giving effective service to our builder and lender clients. The initial staffing of our Construction Inspection Department, which was established in late 1973, was completed and experienced staff is now working in each of our regional offices. During the year, 10,069 inspections were carried out on properties under construction.

Investments

The past year was a period in which financial markets worldwide were subjected to a number of negative events and anticipations that resulted in concerted downward pressure on the market value of securities. From an investment point of view, however, such trying times represent unusual opportunity in that, as market values decline, yields on securities rise.

Net after-tax investment income, expressed as a percentage of the average portfolio, increased to 5.63% in 1974 up from 4.50% in 1973. This improvement was offset, to some degree, by the fact that the market value of the securities declined to 92.0% of book value at December 31, 1974 compared to 96.7% as at December 31, 1973. Further progress in increasing the net return from the portfolio is anticipated in 1975.

During the year, MICC realized net losses of $656,227 on securities which were sold at less than cost. In each case, funds realized from these transactions were reinvested in other securities of equal or higher quality with a higher after-tax yield. Such realized losses can be carried forward and applied to offset future realized capital gains on sale of securities.

Under guidelines established by the Investment Committee of the Board of Directors, the general composition of the portfolio changed little from 1973. Cash and debt securities totalled 54% of book value compared to 56% at the end of 1973, and common and preferred shares represented 46% of book value compared to 44% as at the end of 1973. Cash and liquid assets, however, were increased from 20.2% to 31.7% of the portfolio.

There were two significant developments during the year in the preferred share market which influenced our decisions as to amount and composition of our preferred share holdings. In 1974, more than $450 million in new preferred share financing was completed in Canada, indicating greater acceptability and liquidity for this type of investment in the market place. The second development was the creation of a new type of term preferred stock. Early in 1974 investors were offered a preferred stock which entitled the holder to call upon the issuer for repurchase in five years and thereafter at par value. Conventional preferreds were reduced from 30.6% to 23.3% while term preferreds were increased from 0.1% to 9.3% of the portfolio.

Efforts were made during the year to continue to improve our preferred share holdings and at year end more than 94% of the preferred shares were either term and sinking fund preferreds, conventional preferreds with a purchase fund or convertible preferreds.

Common stock holdings were increased by $3.3 million with emphasis being placed on high quality dividend paying issues.

The following table shows the classification of the portfolio, at book value, as at December 31, 1974 and December 31, 1973:

Classification	Book Value December 31, 1974	% of Total 1974	% of Total 1973
Cash	$ 400,918	0.4%	0.7%
Federal Government (under 3 years)	23,891,935	26.2	4.2
Provincial Government (under 1 year)	3,000,000	3.3	–
Money Market (under 1 year)	1,649,725	1.8	15.3
Cash and Liquid Assets	28,942,578	31.7	20.2
Federal Government (over 3 years)	6,158,866	6.7	11.4
Cash and Readily Marketable Securities	35,101,444	38.4	31.6
Provincial Government (over 1 year)	7,170,408	7.9	9.8
Guaranteed Investment Certificates and Certificates of Deposit (over 1 year)	4,850,000	5.3	5.9
Other Corporate Debt (over 1 year)	1,995,813	2.2	8.7
Total Cash and Debt	49,117,665	53.8	56.0
Term Preferred	8,466,460	9.3	0.1
Conventional Preferred			
Purchase Fund	19,497,389	21.4	27.3
Perpetual	1,761,069	1.9	3.3
Convertible Preferred	2,170,216	2.4	2.3
Total Preferred	31,895,134	35.0	33.0
Common Stock	10,232,034	11.2	11.0
Total Equity	42,127,168	46.2	44.0
Total Assets	$91,244,833	100.0%	100.0%

Assets amounting to $8,554,504, in support of U.S. re-insurance liabilities, are lodged with a U.S. trustee. These assets are included in the portfolio described above and consist entirely of debt securities, mainly U.S. government obligations.

Defaults and Claims

At year end, there were 486 insured high-ratio house mortgages three months or more in default, out of 122,300 insured mortgages under administration by our lenders, a default ratio of 0.39% compared to 0.29% at December 31st, 1973. In addition, 37 mortgages on income properties (apartments and commercial and industrial properties) were reported in default out of approximately 4,500 mortgages insured, a default ratio of 0.83%.

Claims losses during the year totaled $848,962 compared to $257,889 in 1973. The 1974 loss is made up as follows, with comparable figures for 1973:

	1974	1973
U.S. Reinsurance	$590,152	$237,346
Canadian Mortgage Insurance	$239,217	$ 16,666
Lease Guarantee Insurance	$ 19,593	$ 3,877

While losses on the reinsurance of U.S. mortgages increased substantially during the year, losses now seem to have stabilized. It should be noted that MICC ceased writing new reinsurance business in 1973 and future losses will relate to policies written prior to that date.

Although losses on Canadian business increased over 1973, our experience is considered to be exceptionally good in light of the increase in insurance in force and the downturn in the economy. The real estate shown on our balance sheet at year end represents two small apartment buildings acquired at the end of the year, and it is our intention to offer them for sale as soon as appropriate. There were two lease guarantee cases under claim at year end with MICC share of losses being approximately $300 per month.

1975 Outlook

Canada's new housing starts dropped by 17% in 1974 to 222,123 from the record level of 268,523 in 1973. Residential building was maintained at a high level during the first few months of the year but fell off badly during the second half.

The outlook for 1975 is for another difficult year in housing. Canada's economy is in low gear and higher unemployment levels are predicted. On the positive side it appears as if there will be an adequate supply of institutional mortgage funds and we have already experienced a rather dramatic downturn in mortgage rates over the past few weeks to levels below 11%. Most predictions for new housing starts in 1975 are in the 200,000-220,000 range and this figure can be achieved, but only with a substantial increase in government initiated starts. Unfortunately, in today's circumstances, the private sector is not able to satisfy the housing needs of many of our low and middle income families. The Federal and a number of the Provincial Governments are actively working on programs to increase new starts for this group of our citizens in 1975.

The market has improved in most areas since the beginning of the year and many builders and realtors are reporting a good improvement in sales. We have seen some easing of price levels reached last spring, when there was a strong speculative element in sales activity in some of our larger cities, but we do not anticipate any further substantial reduction. We are already noticing that the high volume of commercial and industrial business we experienced last year is continuing in the early part of 1975. We are hopeful also, that if reduced interest rates stay with us, we should see an improvement in apartment housing starts with a corresponding increase in our volume of business under this program.

The current economic climate suggests that continuous careful underwriting will be required in 1975 to assure an acceptable level of quality of business. At the same time, we feel that there will be a greater incentive for lenders to have mortgages insured. The additional underwriting process provided by MICC, plus insurance protection, will be an important factor in decisions by more lenders to make greater use of our services.

In the light of current conditions and the low estimate of new starts for 1975, it will be difficult to match new business written in 1974. However, we expect to obtain our fair share of new mortgage loans committed by our lender clients. It is probable that we will experience some increase in claims losses but because premiums are taken into income over the life of each policy issued, 1975 should be another year of satisfactory increase in profits for MICC.

Staff

In closing, I would like to thank members of our staff for their loyalty and diligence over the past year. The success achieved during 1974 is in large measure the result of their efforts.

R. T. RYAN
President

February, 1975

THE MORTGAGE INSURANCE COMPANY OF CANADA

BALANCE SHEET AS AT DECEMBER 31, 1974

ASSETS	1974 $	1973 $
CASH AND ACCOUNTS RECEIVABLE		
Cash	400,918	358,543
Premiums receivable	400,000	1,020,000
Interest accrued and sundry receivables	403,775	506,275
	1,204,693	1,884,818
INVESTMENTS		
Bonds, debentures and stock, at authorized values	87,341,777	62,182,258
Mortgages	463,074	455,345
Real estate	400,000	20,700
	88,204,851	62,658,303
	89,409,544	64,543,121

Signed on behalf of the Board

GARDNER ENGLISH, Director

G. D. SUTTON, Director

LIABILITIES

	1974 $	1973 $
ACCOUNTS PAYABLE		
Due to other insurance companies	311,232	100,608
Provision for claims	198,399	95,167
Accounts payable and accrued liabilities	212,703	174,896
Premium taxes payable	367,801	359,808
Income taxes payable	96,360	1,717,760
Due on undelivered securities	71,250	56,902
	1,257,745	2,505,141
RESERVES		
Reserve for unearned premiums	44,027,503	30,918,320
Additional policy reserve	2,060,220	1,155,869
Reserve for unregistered reinsurance	334,213	257,905
	46,421,936	32,332,094
	47,679,681	34,837,235

SHAREHOLDERS' EQUITY

	1974 $	1973 $
CAPITAL STOCK		
Authorized — 150,000 shares of the par value of $100 each		
Issued and fully paid — 108,145 shares (1973 — 87,545)	10,814,500	8,754,500
SURPLUS	30,915,363	20,951,386
	41,729,863	29,705,886
	89,409,544	64,543,121

MICC

HEAD OFFICE

Suite 1212, 401 Bay Street — Toronto 1, Ontario

Georges Carpentier — Assistant Vice-President, Chief Underwriter
K. Antaya — Supervisor, Mortgage Insurance
J. G. Kingston — Chief Inspector
Clifford E. Madden — Supervisor, Lease Guarantee
Barry A. Morrison — Investment Officer
W. C. Thomson — Supervisor, Administration

REGIONAL OFFICES

HALIFAX

Suite 1700, 5151 George Street — Halifax, Nova Scotia

Sylvio Philippe — Manager

MONTREAL

Suite 504, 4 Place Ville Marie — Montreal 113, Quebec

J. D. Boudreau — Manager
Yvon Houlé — Assistant Manager
A. I. MacIntyre — Business Development Officer

OTTAWA

Suite 606, 170 Laurier Avenue West — Ottawa, Ontario

Gordon McLean — Manager

TORONTO

Suite 507, 401 Bay Street — Toronto 1, Ontario

George Pennie — Manager
David Stewart — Assistant Manager

WINNIPEG

Suite 1010, 330 Portage Avenue — Winnipeg, Manitoba

E. P. Wasslen — Manager

EDMONTON

Suite 1317, 10025 Jasper Avenue — Edmonton, Alberta

C. W. Whelan — Manager

VANCOUVER

Suite 1401, 1177 West Hastings Street — Vancouver 1, B.C.

G. K. Bright — Manager
R. S. Kunciak — Assistant Manager
W. C. Lee — Business Development Officer