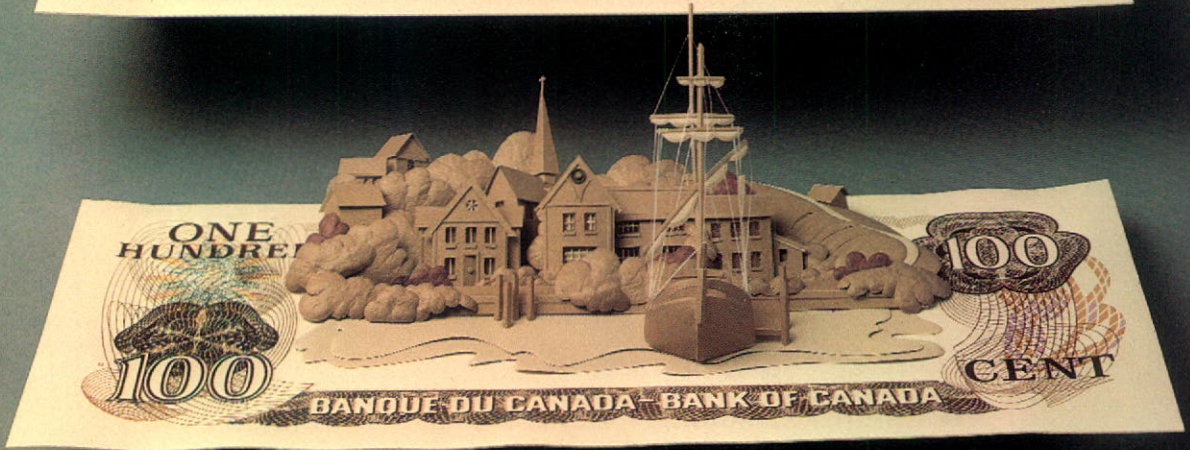
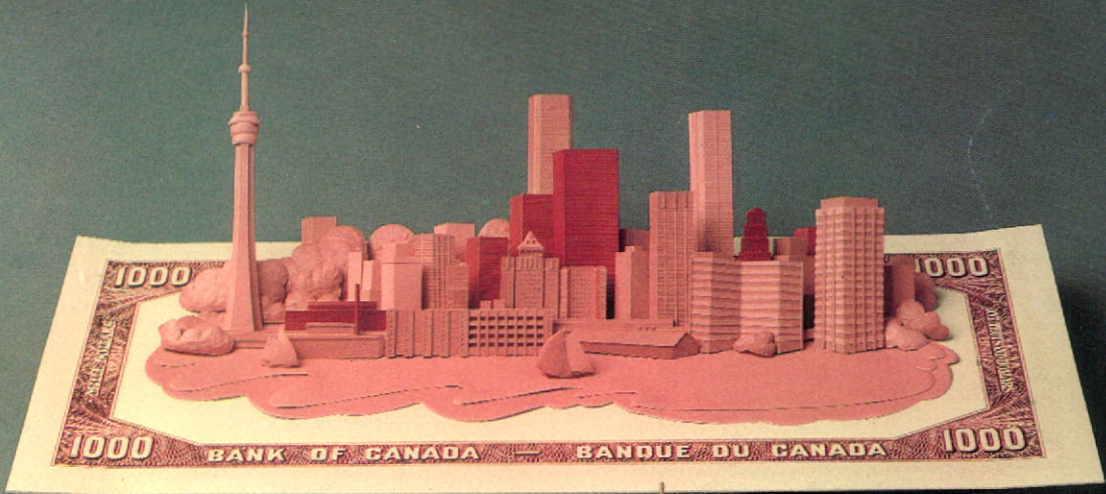

MICC INVESTMENTS LIMITED
Annual Report 1981



The Board of Directors

MICC INVESTMENTS LIMITED as at February 17, 1982

<p>*Michel F. Belanger <i>Chairman, President and Chief Executive Officer National Bank of Canada Montreal, Quebec</i></p>	<p>Stanley Davison <i>Vice-Chairman Bank of Montreal Calgary, Alberta</i></p>	<p>David Rattee <i>Executive Vice-President, Operations Continental Bank of Canada Toronto, Ontario</i></p>	<p>Marshall G. Smith <i>Vice-President Mortgage and Bond Investments The Great West Life Assurance Company Winnipeg, Manitoba</i></p>
<p>R. C. Brown <i>Partner Blake, Cassels & Graydon Toronto, Ontario</i></p>	<p>*S. E. Eagles <i>Chairman and President Marathon Realty Company Limited Toronto, Ontario</i></p>	<p>Henry B. Rhude, Q.C. <i>Chairman and Chief Executive Officer Central Trust Company Halifax, Nova Scotia</i></p>	<p>*G. D. Sutton <i>President Canadian Enterprise Development Corporation Limited Toronto, Ontario</i></p>
<p>*H. Reuben Cohen, Q.C. <i>Barrister and Solicitor Moncton, New Brunswick</i></p>	<p>Leonard Ellen <i>Chairman Leonard Ellen Canada Inc. Montreal, Quebec</i></p>	<p>*Reginald T. Ryan <i>President MICC Investments Limited Toronto, Ontario</i></p>	<p>G. J. van den Berg <i>Company Director Toronto, Ontario</i></p>
<p>*John H. Coleman <i>Chairman and Chief Executive Officer MICC Investments Limited Toronto, Ontario</i></p>	<p>*Jock K. Finlayson <i>President The Royal Bank of Canada Toronto, Ontario</i></p>	<p>Ralph T. Scurfield <i>Chairman Nu-West Group Limited Calgary, Alberta</i></p>	<p>*B. G. Willis <i>Executive Vice-President Greenshields Incorporated Toronto, Ontario Members of the Executive Committee</i></p>
<p>*Harold Corrigan <i>Vice-President, Corporate Relations Alcan Aluminium Limited Montreal, Quebec</i></p>	<p>George C. Hitchman <i>Company Director Toronto, Ontario</i></p>	<p>*Desmond R. Smith <i>Deputy Chairman MICC Investments Limited Toronto, Ontario</i></p>	

The Executive Officers

MICC INVESTMENTS LIMITED

John H. Coleman
*Chairman and
 Chief Executive Officer*

Desmond R. Smith
Deputy Chairman

Reginald T. Ryan
President

David C. Toms
*Vice-President,
 Finance*

James D. Hewitt
*Vice-President,
 Corporate Planning*

J. Donald Bergeron
Secretary

THE MORTGAGE INSURANCE COMPANY OF CANADA

John H. Coleman
*Chairman and
 Chief Executive Officer*

Desmond R. Smith
Deputy Chairman

Reginald T. Ryan
President

James McAvoy
Senior Vice-President

David C. Toms
*Vice-President,
 Finance*

Alan D. Munro
*Vice-President,
 Claims and Real Estate*

Georges W. Carpentier
*Vice-President,
 Eastern Canada*

Claude Renaud
*Vice-President,
 Western Canada*

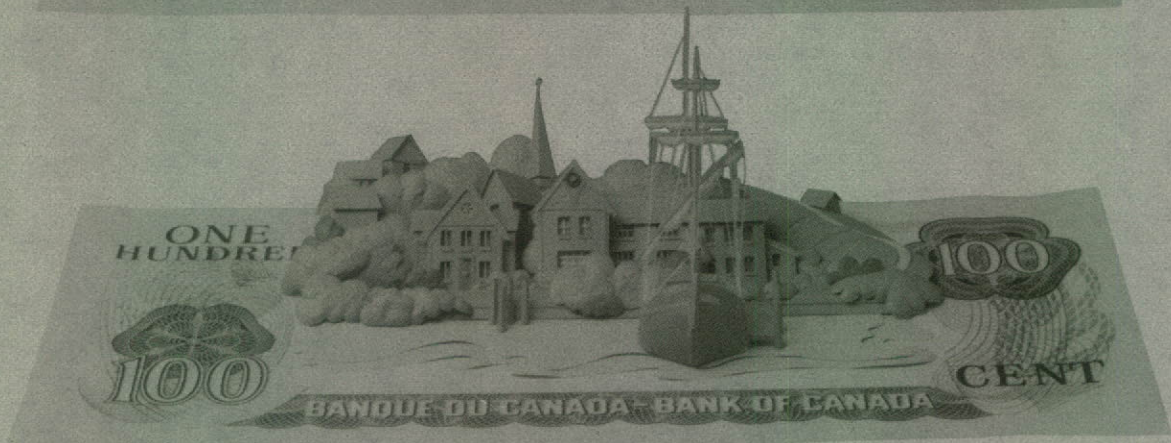
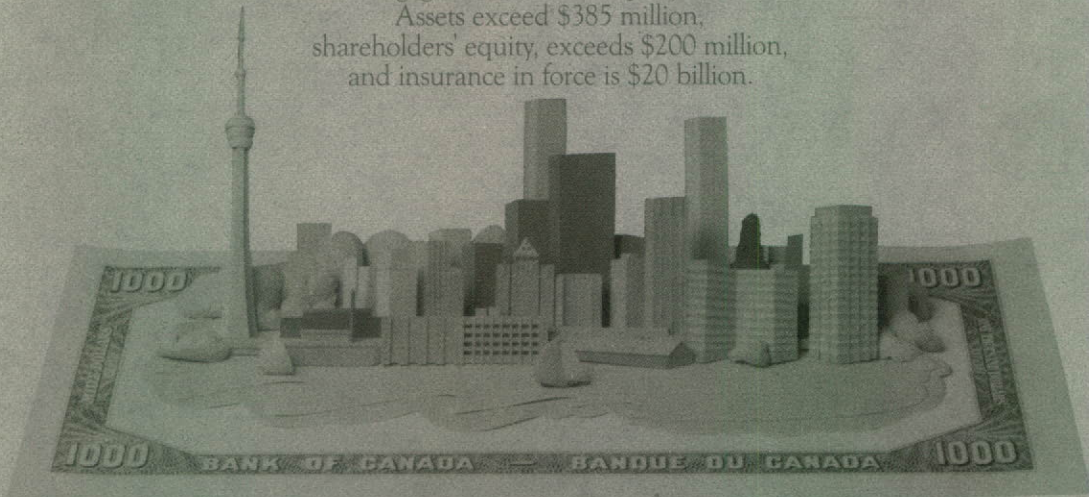
J. Donald Bergeron
Secretary

Merger Announcement

On November 4, 1981, MICC Investments Limited acquired all of the outstanding shares of Insmor Holdings Limited, the parent company of Insmor Mortgage Insurance Company.

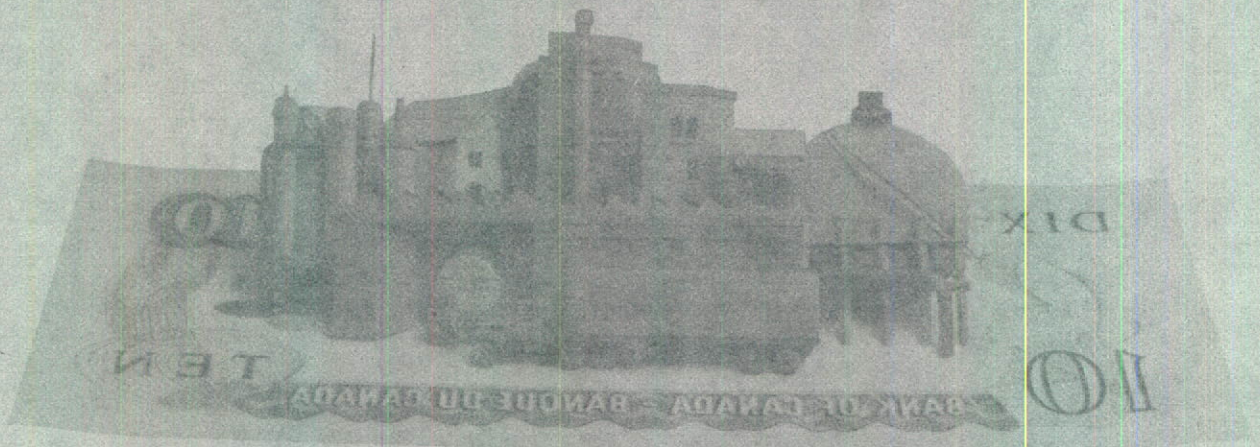
Subsequently on January 1st, the two insurance subsidiaries, The Mortgage Insurance Company of Canada and Insmor Mortgage Insurance Company were amalgamated and continue in business as The Mortgage Insurance Company of Canada.

Assets exceed \$385 million,
shareholders' equity, exceeds \$200 million,
and insurance in force is \$20 billion.



Merge Announcement

On November 4, 1981, MICO Investments Limited acquired all of the outstanding shares of Insumor Holdings Limited, the parent company of Insumor Mortgage Insurance Company. Subsequently on January 1st, the two insurance subsidiaries, The Mortgage Insurance Company of Canada and Insumor Mortgage Insurance Company, were amalgamated and continue in business as The Mortgage Insurance Company of Canada. Assets exceed \$385 million, shareholders' equity exceeds \$200 million and insurance in force is \$20 billion.



Financial Highlights

(000's omitted)	1981 (Note 1)	1980	1979	1978	1977
Premiums Written	\$ 22,711	\$ 27,649	\$ 40,846	\$ 44,385	\$ 33,203
Underwriting Revenue	38,394	36,144	25,346	20,940	15,183
Investment Income	30,370	28,970	29,661	22,331	16,715
Losses Incurred on Claims	46,954	42,553	28,200	20,579	8,810
Net Earnings	12,446	12,701	15,667	13,563	14,758
Net Earnings Available to Common Shareholders	6,473	7,089	9,762	9,513	12,538
Total Assets	385,706	331,929	339,758	307,834	221,756
Shareholders' Equity	200,025	173,669	176,023	161,775	106,659
Earnings Per Common Share	\$0.78	\$0.97	\$1.62	\$1.66	\$2.19
Earnings Per Common Share (Fully Diluted)	0.78	0.95	1.46	1.65	2.19
Common Dividends Paid	0.76	0.76	0.72	0.56	0.37¼

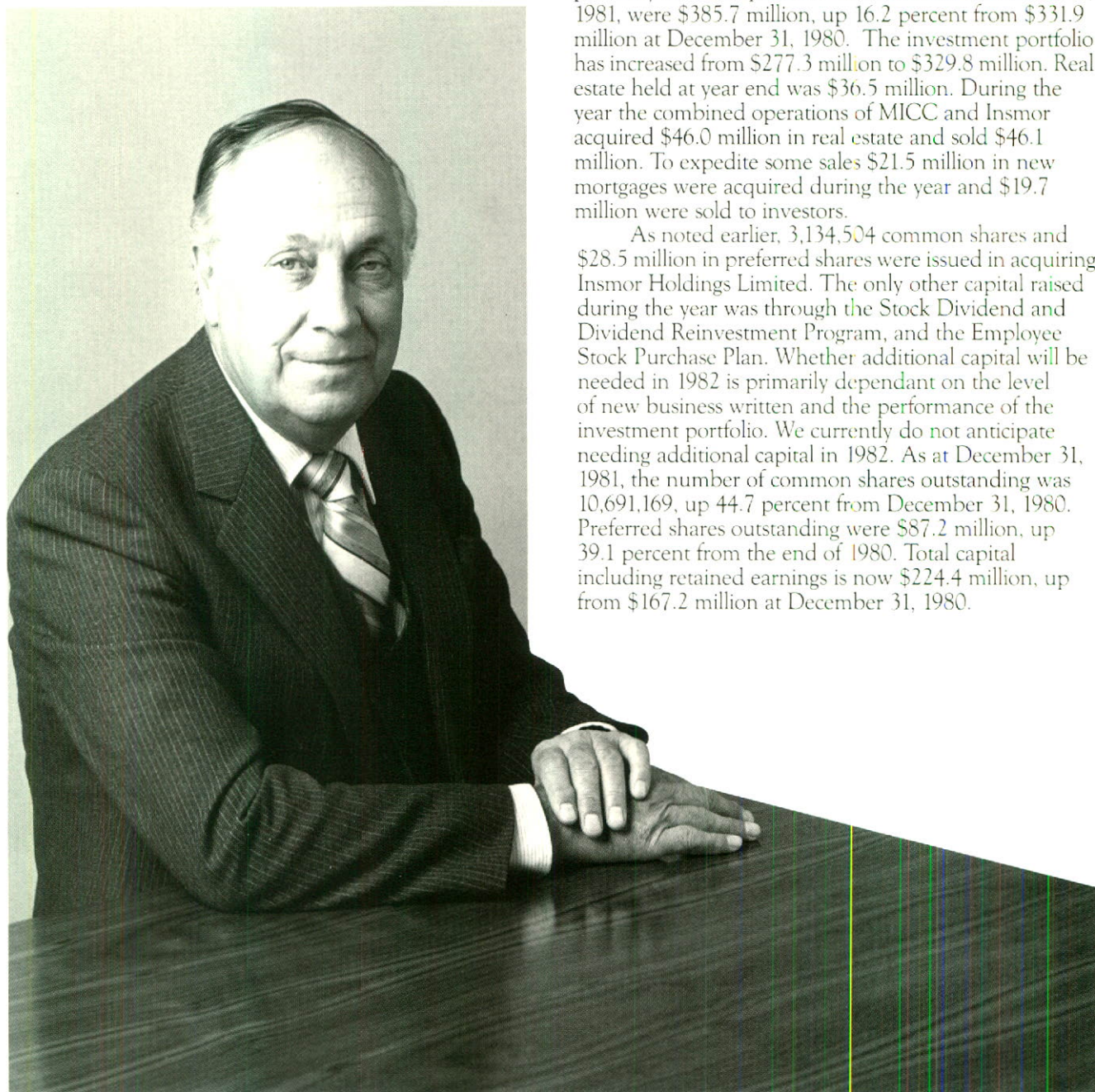
Note 1: Includes Insmor data for three months ended December 31, 1981.

Contents

Financial Highlights	1
Chairmans Report	2
Consolidated Financial Statements	4
Notes to Financial Statements	9
Combined Financial Statements	13
Review of Operations	16
Field Office Organization	24

Chairman's Report to the Shareholders

In November 1981 your company issued 3,134,504 common shares and \$28.5 million of preferred shares to acquire all the outstanding common and preferred shares of Insmor Holdings Limited, the holding company for Insmor Mortgage Insurance Company, the only other private sector mortgage insurer in Canada. Effective January 1, 1982, the two insurance companies amalgamated and continue as The Mortgage Insurance Company of Canada.



Following this acquisition, five new directors; J.H. Coleman, J.K. Finlayson, D.A. Rattee, D.R. Smith, and M.G. Smith, were elected to the Board of Directors. The following executive appointments were made: Chairman and Chief Executive Officer, J.H. Coleman, Deputy Chairman, D.R. Smith, President, R.T. Ryan

I am pleased to present my first report as Chairman and Chief Executive Officer. Our financial position, has changed considerably since December 31, 1980 due primarily to the acquisition. Total assets at December 31, 1981, were \$385.7 million, up 16.2 percent from \$331.9 million at December 31, 1980. The investment portfolio has increased from \$277.3 million to \$329.8 million. Real estate held at year end was \$36.5 million. During the year the combined operations of MICC and Insmor acquired \$46.0 million in real estate and sold \$46.1 million. To expedite some sales \$21.5 million in new mortgages were acquired during the year and \$19.7 million were sold to investors.

As noted earlier, 3,134,504 common shares and \$28.5 million in preferred shares were issued in acquiring Insmor Holdings Limited. The only other capital raised during the year was through the Stock Dividend and Dividend Reinvestment Program, and the Employee Stock Purchase Plan. Whether additional capital will be needed in 1982 is primarily dependant on the level of new business written and the performance of the investment portfolio. We currently do not anticipate needing additional capital in 1982. As at December 31, 1981, the number of common shares outstanding was 10,691,169, up 44.7 percent from December 31, 1980. Preferred shares outstanding were \$87.2 million, up 39.1 percent from the end of 1980. Total capital including retained earnings is now \$224.4 million, up from \$167.2 million at December 31, 1980.

The statement of earnings for 1981 includes the results of Insmor Mortgage Insurance Company for the fourth quarter only. The Report on Operations provides combined results of the two companies over the full year and for comparative purposes on a combined basis over the last two years.

Premiums written in 1981, including \$1.0 million from Insmor in the fourth quarter, were \$22.7 million compared to \$27.6 million in 1980. Total revenue was up 5.6 percent to \$68.8 million, with 55.8 percent derived from underwriting revenue and 44.2 percent from investment income. Net earnings for the year were \$12.4 million compared to \$12.7 million in 1980. After payment of dividends on preferred shares, net earnings available for common shareholders were 78¢ per share, compared to 97¢ per share in 1980, and on a fully diluted basis, 78¢ per common per share compared to 95¢ last year.

During 1981, \$6.3 million was paid as dividends to common shareholders, equal to 76¢ per share.

Although the company provides various financial services, over 80 percent of revenues and profits come from mortgage insurance.

Mortgage insurance continued to suffer in 1981 from a weak housing and mortgage market. Housing starts in Canada were 177,973, up from 158,601 in 1980 but otherwise the lowest figure since 1967. Mortgage interest rates hit unprecedented high levels. In this environment, new commitments for the combined operations of MICC and Insmor for the year were down 41 percent, premiums written were down 23 percent, and losses on claims incurred were up 4 percent.

While results overall were disappointing, there are grounds for optimism. Despite the record high interest rates and rising unemployment, claims losses from our residential business were down. This reflects the tighter underwriting implemented in recent years by ourselves and lenders. It also indicates the importance to Canadians of holding on to their homes. When mortgages are renewed at higher interest rates, family budgets are squeezed by the higher mortgage payments. Borrowers, however, have made cuts in discretionary areas of spending in order to protect their growing home equity. Properly underwritten residential mortgage loans will remain a good investment for lenders and an insurable risk for MICC.

Claims losses from our rental and commercial business increased significantly in 1981. The cash flow to income property investors is hurt significantly by renewal of mortgages at higher rates, especially where corresponding increases to revenue are limited by long term leases or rent controls. Our underwriting criteria have been tightened significantly on these programs over the past few years.

While we are hopeful of a turnaround in the economy, positive steps are being taken to effect an

immediate improvement in results. The acquisition of Insmor Holdings Limited and subsequent amalgamation of The Mortgage Insurance Company of Canada and Insmor Mortgage Insurance Company is a positive step. The companies operated in the same locations, following similar operating procedures, so substantial reduction to combined expense ratios will be gained on the merger. Insmor's claims losses were at a satisfactory level in 1981 reflecting a strong portfolio of insurance in force and we would expect continuing good performance from that portfolio in 1982.

Premium rates were increased in 1981. During the year the company continued to monitor performance of lenders carefully. In dealing with claims, greater use was made of the percentage settlement option. Under this method, the lender retains title to the real estate and MICC's potential loss is limited. This results in lower claims losses and a reduction in real estate acquired.

Housing starts in 1980 and 1981 were well below demographically proven needs and a backlog of housing demand awaits construction and financing. Those involved in the housing and mortgage markets are seeking innovative approaches to meet this demand, including such ideas as smaller, less expensive houses, variable rate mortgages, and graduated payment plans. MICC is in the forefront in these discussions.

Operations in the surety bonding field, which commenced in 1980, grew substantially in 1981. Gross premiums written were \$2.3 million compared to \$0.9 million in 1980. Surety personnel are now located in Montreal, Toronto, and Calgary.

Real estate appraisals and inspections are performed for MICC in the claims adjusting process, for our approved lenders in the underwriting process, and for other clients. Fees generated in 1981 from approved lenders and other clients were \$1.5 million.

Mr. J. Cochrane, Mr. R.A. Bandeen, and Mr. G.S. May have retired from the Board of Directors. Their contribution to the company's affairs has been invaluable and we shall miss their wise counsel.

During the year, our employees worked hard to provide a high level of service to our clients. The amalgamation of the two insurance companies created additional burdens on the personnel of both companies and I would like to thank them for their efforts.

A handwritten signature in cursive script, reading "John H. Coleman".

John H. Coleman
Chairman and Chief Executive Officer

Consolidated Balance Sheet

as at December 31, 1981

Assets

	1981	1980
	\$000's	\$000's
CASH AND ACCOUNTS RECEIVABLE		
Cash	1,885	1,644
Interest accrued and sundry receivables	13,285	12,595
Premiums receivable	1,556	2,274
Income taxes recoverable	—	359
Due from reinsurers	111	400
	16,837	17,272
REAL ESTATE	36,530	34,873
INVESTMENTS		
Treasury bills and other short-term securities — at cost	69,776	2,187
Bonds and debentures — at amortized value (market value \$47,990,000; 1980 — \$62,082,000)	53,683	67,652
Preferred stocks — at market value (cost \$114,589,000; 1980 — \$97,682,000)	93,613	89,890
Common stocks — at market value (cost \$76,273,000; 1980 — \$67,623,000)	72,891	83,746
Mortgages — at amortized value	39,807	33,807
	329,770	277,282
OTHER ASSETS		
Capital expense — at amortized cost (notes 3 and 4)	1,608	1,747
Other	961	755
	2,569	2,502
	385,706	331,929



Liabilities

	1981	1980
	\$000's	\$000's
ACCOUNTS PAYABLE		
Bank loan	3,500	2,500
Due to reinsurers	112	84
Provision for claims	32,285	21,997
Accounts payable and accrued liabilities	1,227	2,126
Interest payable on income debentures	—	77
Premium taxes payable	124	574
Income taxes payable	948	—
	38,196	27,358
OTHER LIABILITIES		
Deferred revenue (note 2)	137,465	114,933
Income debentures (note 3)	5,000	8,333
	142,465	123,266
DEFERRED INCOME TAXES	5,020	7,636
	185,681	158,260
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)	173,347	117,036
RETAINED EARNINGS (note 6)	51,036	50,204
	224,383	167,240
UNREALIZED GAIN (LOSS) ON STOCKS	(24,358)	6,429
	200,025	173,669
	385,706	331,929

Signed on behalf of the board

J.H. Coleman — Director

S.E. Eagles — Director

Consolidated Statement of Earnings

for the year ended December 31, 1981 *(Including the earnings of Insmor Mortgage Insurance Company for the three months ended December 31, 1981 – Note 8).*

	1981	1980
REVENUE	(\$000's)	(\$000's)
Net premiums written	22,711	27,649
Application fees	1,810	2,178
Inspection service and appraisal fees	1,506	1,399
	26,027	31,226
Decrease in deferred revenue	12,367	4,918
Underwriting revenue	38,394	36,144
Investment income –		
Interest and amortization	12,965	10,483
Dividends	14,353	12,889
Realized gain on disposal of investments	2,862	5,505
Foreign exchange gain	190	93
	30,370	28,970
	68,764	65,114
EXPENSES		
Insurance underwriting and policy issuance expenses	6,870	6,425
Premium taxes	683	650
	7,553	7,075
Less: Increase in deferred expenses	2,291	2,777
	5,262	4,298
Losses on claims provided for and incurred	46,954	42,553
Other operating expenses	8,234	7,074
Income debenture interest and amortization expense (note 3)	627	932
	61,077	54,857
EARNINGS BEFORE INCOME TAXES	7,687	10,257
PROVISION FOR INCOME TAXES		
Current	24	1,024
Deferred	(4,783)	(3,468)
	(4,759)	(2,444)
NET EARNINGS FOR THE YEAR	12,446	12,701
EARNINGS PER COMMON SHARE		
Basic earnings per share	\$0.78	\$0.97
Fully diluted earnings per share	\$0.78	\$0.95
(Conversion of second preferred shares series A would not dilute 1981 earnings per share)		
Weighted daily average number of common shares outstanding	shares 8,270,046	shares 7,334,987

Consolidated Statement of Unrealized Gain (Loss) on Stocks

for the year ended December 31, 1981

	1981	1980
	(\$000's)	(\$000's)
UNREALIZED GAIN ON STOCKS – BEGINNING OF YEAR	6,429	8,605
Unrealized loss on stocks for the year	(32,689)	(2,901)
	(26,260)	5,704
Deferred income taxes	1,902	725
UNREALIZED GAIN (LOSS) ON STOCKS – END OF YEAR	(24,358)	6,429

Consolidated Statement of Retained Earnings

for the year ended December 31, 1981

	1981	1980
	(\$000's)	(\$000's)
RETAINED EARNINGS – BEGINNING OF YEAR	50,204	48,700
Net earnings for the year	12,446	12,701
Gain on purchase of preferred shares	708	92
	63,358	61,493
Amortization of capital expenses, less related income taxes (note 4)	64	108
Cash dividends –		
Preferred	5,973	5,612
Common	6,285	5,569
	12,322	11,289
RETAINED EARNINGS – END OF YEAR	51,036	50,204

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1981 *(Including the accounts of Insmor Mortgage Insurance Company for the three months ended December 31, 1981 – Note 8)*

	1981	1980
SOURCE OF FUNDS	(\$000's)	(\$000's)
Operations		
Net earnings for the year	12,446	12,701
Increase (decrease) in net deferred revenue (note 2)	(14,658)	(7,695)
Income taxes deferred	(4,783)	(3,468)
Depreciation and amortization	252	477
Funds generated from operations	(6,743)	2,015
Common shares issued	30,382	175
Preferred shares issued	28,500	—
Increase in accounts payable	11,607	9,796
Deferred revenue and deferred taxes acquired from share issue	42,651	—
Other	—	155
	106,397	12,141
USE OF FUNDS		
Increase (decrease) in real estate	1,657	(9,078)
Increase in cash and accounts receivable	334	1,985
Purchase of fixed assets	442	144
Repayment of income debentures	3,333	3,333
Dividends—		
Preferred shares	5,973	5,612
Common shares	6,285	5,569
Purchase of preferred shares	1,864	1,861
Other	1,332	—
	21,220	9,426
FUNDS AVAILABLE FOR INVESTMENT	85,177	2,715
INVESTMENT FUNDS—BEGINNING OF YEAR	277,282	277,468
	362,459	280,183
Unrealized gain (loss) on stocks for the year	(32,689)	(2,901)
INVESTMENT FUNDS—END OF YEAR	329,770	277,282

Notes to Consolidated Financial Statements

for the year ended December 31, 1981

1. ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:

Principles of consolidation

The consolidated financial statements of MICC Investments Limited include the accounts of all subsidiaries.

Premiums

Net premiums written are deferred and then taken into underwriting revenue as earned over the life of the related policies. Prior to 1974, the majority of policies were written for a term of fifteen years; since then the majority of policies have been written for twenty years. The rates or formulae under which premiums are earned relate to the amount of risk in each year of coverage projected by management, based primarily on the past incidence of losses. The formulae under which premiums are earned are adjusted periodically in accordance with such estimates.

Application fees

Application fees received on insurance policies written are taken into income as received.

Underwriting and policy issuance expenses and premium taxes

Underwriting and policy issuance expenses and premium taxes in excess of application fees and commission income are deferred and then amortized against premiums as the premiums are earned.

Losses on claims provided for and incurred

Losses on claims represent the difference between the amounts claimed or estimated to be claimed and amounts recovered or estimated to be recoverable from the sale of real estate. Provisions for losses are made when it is considered probable that defaults by borrowers will result in claims. Provisions for losses on claims are updated regularly as information concerning claim amounts and real estate values become available.

Foreign exchange

Accounts in United States dollars have been translated in the following manner. Assets, being bonds, and liabilities, being primarily deferred revenue, have been translated at year-end rates. Earnings have been translated into Canadian dollars at the average rate prevailing through the year.

Investment income

- (a) Treasury bills and other short-term securities—Interest is recorded as income as it accrues. Gains and losses are taken into income when realized.
- (b) Bonds, debentures and mortgages—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, debenture or mortgage 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. Gains and losses on disposal of stocks are taken into income when realized. Unrealized gains and losses on stocks are accounted for in the "Consolidated Statement of Unrealized Gain (Loss) on Stocks", the balance of which is included in shareholders' equity.

Real estate

Real estate is carried in the accounts at its estimated realizable value after deduction of estimated real estate commissions and other sales related expenses.

2. DEFERRED REVENUE

Deferred revenue consists of deferred premiums, after deduction of deferred underwriting and policy issuance expenses and premium taxes.

3. INCOME DEBENTURES

Income debentures mature on March 31, 1985 with mandatory prepayment as to 33.34% on March 31, 1983 and March 31, 1984. Interest, payable at the rate of 7½%, is not deductible in computing taxable income.

Costs incurred in connection with this issue have been capitalized and are being amortized against earnings on a straight-line basis over the term of the debentures. As at December 31, 1981, unamortized capital expenses relating to income debentures amounted to \$16,000.

Notes to Consolidated Financial Statements

4. CAPITAL STOCK

The authorized, issued and fully paid capital stock of the company consists of:

	1981 \$	1980 \$
Authorized		
4,236,600 (1980—3,951,600) first preferred shares issuable in series		
Unlimited (1980— unlimited) second preferred shares issuable in series		
Unlimited (1980— unlimited) common shares without par value)		
Issued and fully paid		
623,099 (1980—683,960) 10% first preferred shares Series A	15,577,475	17,099,000
200,000 (1980—200,000) 7¾% first preferred shares Series B	5,000,000	5,000,000
874,850 (1980—916,850) 8⅝% first preferred shares Series C	21,871,250	22,921,250
80,000 (1980—nil) 8% first preferred shares Series D	8,000,000	—
100,000 (1980—nil) 8½% first preferred shares Series E	10,000,000	—
105,000 (1980—nil) variable % first preferred shares Series F	10,500,000	—
648,836 (1980—705,375) 8% second preferred shares Series A	16,220,900	17,634,375
10,691,169 (1980— 7,390,411) common shares	86,177,900	54,381,923
	173,347,525	117,036,548

(a) Preferred shares

i) First preferred shares Series A

800,000 first preferred shares were originally issued at \$25 per share as 10% cumulative redeemable first preferred shares Series A, of which 623,099 were outstanding at December 31, 1981.

The first preferred shares Series A are subject to mandatory sinking fund redemption at the issue price as to:

- i) 56,000 shares on March 15 in each of the years 1982 to 1986 inclusive; and

- ii) 72,000 shares on March 15, 1987 and each year thereafter.

Commencing March 15, 1982 the company may increase any annual sinking fund by 24,000 shares. The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. Subsequent to March 15, 1981 the company may redeem shares not required for sinking fund purposes at a premium of 5%, declining annually thereafter to the issue price on March 15, 1986.

During 1981 the company acquired 60,861 preferred shares Series A to meet the 1981 sinking fund requirement and, in part, to meet sinking fund requirements to March 15, 1982.

ii) First preferred shares Series B

200,000 first preferred shares were originally issued at \$25 per share as 7¾% cumulative redeemable first preferred shares Series B, all of which were outstanding at December 31, 1981.

The first preferred shares Series B are subject to mandatory sinking fund redemption at the issue price as to 66,800 shares on March 31, 1983 and 66,600 shares on March 31, 1984 and March 31, 1985.

The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. Subsequent to March 31, 1982 the company may redeem shares not required for sinking fund purposes at a premium of 3%, declining annually thereafter to the issue price on March 31, 1985.

iii) First preferred shares Series C

1,000,000 first preferred shares were originally issued at \$25 per share as 8⅝% cumulative first preferred shares Series C, of which 874,850 were outstanding at December 31, 1981.

The first preferred shares Series C are non-redeemable prior to March 31, 1983 and are subject to a purchase fund under which the company shall make all reasonable efforts to purchase 10,000 shares in each calendar quarter at a price not exceeding the issue price plus cost of purchase. This obligation is cumulative from quarter to quarter but to the extent not satisfied on December 31st of each calendar year, is extinguished. Subsequent to March 30, 1983, the company may redeem shares not required for purchase fund purposes at a premium of 5%, declining annually thereafter to the issue price on April 1, 1988.

During 1981, the company acquired 42,000 first preferred shares Series C to meet 1981 purchase fund requirements.

iv) First preferred shares Series D

80,000 first preferred shares were issued during the year at \$100 per share as 8% cumulative, redeemable and retractable first preferred shares Series D, all of which were outstanding at December 31, 1981.

The first preferred shares Series D are non-redeemable prior to June 30, 1983; and are subject to mandatory pro-rata sinking fund redemption at the issue price as to 4,000 shares on June 30, 1989 and on June 30 in each year thereafter up to and including June 30, 2008.

The first preferred shares Series D are retractable at the issue price at the holders' option on June 30, 1983 or June 30, 1988.

v) First preferred shares Series E

100,000 first preferred shares were issued during the year at \$100 per share as 8½% cumulative, redeemable and retractable first preferred shares Series E, all of which were outstanding at December 31, 1981.

The first preferred shares Series E are non-redeemable prior to December 31, 1983, and are subject to mandatory pro-rata sinking fund redemption at the issue price as to 5,000 shares on December 31, 1989 and on December 31 in each year thereafter up to and including December 31, 2008.

The first preferred shares Series E are retractable at the issue price at the holders' option on December 31, 1983 and December 31, 1988.

vi) First preferred shares Series F

105,000 first preferred shares were issued during the year at \$100 per share as variable cumulative, redeemable and retractable first preferred shares Series F, all of which were outstanding at December 31, 1981. The annual rate of dividends payable on the first preferred shares Series F is one-half of the prime rate plus one and three-quarters percent.

The first preferred shares Series F are non-redeemable prior to December 31, 1983, and are subject to mandatory pro-rata sinking fund redemption at the issue price as to 5,250 shares on September 30, 1983 and September 30 in each year thereafter up to and including September 30, 1990. All shares outstanding on September 30, 1991 will be redeemed on that date.

The first preferred shares Series F are retractable at the issue price at the holders' option on September 30, 1986.

vii) Second preferred shares Series A

800,000 second preferred shares were originally issued at \$25 per share as 8% cumulative redeemable convertible second preferred shares Series A, of which 648,836 were outstanding at December 31, 1981.

The second preferred shares Series A are non-redeemable prior to December 31, 1983 and are subject to

a purchase fund under which the company shall make all reasonable efforts to purchase in each calendar quarter, commencing with the calendar quarter ending March 31, 1984, 0.75% of the difference between the number of second preferred shares Series A originally issued and the number of shares converted into common shares prior to such calendar quarter at a price not exceeding the issue price plus costs of purchase. This obligation is cumulative from quarter to quarter, but to the extent not satisfied on December 31 of each calendar year, is extinguished. Subsequent to December 30, 1983 the company may redeem shares not required for purchase fund purposes at a premium of 5%, declining annually thereafter to the issue price on December 31, 1988.

The second preferred shares Series A are convertible on or before December 31, 1988 into fully paid common shares, at the holder's option, at a conversion price of \$10.886 per common share on the basis of approximately 2.296 common shares for each second preferred share held.

During 1981, 56,539 second preferred shares Series A were converted into 129,812 common shares.

viii) Issuance costs

Costs incurred in connection with the issuance of preferred shares have been capitalized and are being amortized against retained earnings over the estimated term of the shares on a weighted average basis. As at December 31, 1981, unamortized capital expenses relating to preferred shares amounted to \$1,592,000.

(b) Common shares

Common shares issued during 1981 were as follows:

- i) 129,812 common shares were issued for a consideration of \$1,413,458 on conversion of second preferred shares Series A.
- ii) 6,385 common shares were issued for a cash consideration of \$71,831 under the employee stock purchase plan.
- iii) 30,057 common shares were issued under the stock dividend and dividend reinvestment program for a cash consideration of \$219,450.
- iv) 3,134,504 common shares were issued for consideration of \$30,091,238 on acquisition of all of the outstanding common shares of Insmor Holdings Limited.

During the year, options were granted and are outstanding to two officers and directors of the company, to acquire a maximum of 40,000 of the corporation's common shares at a price of \$10.00 per share. The options expire November 3, 1986.

Auditors' Report to the Shareholders

5. EMPLOYEE STOCK PURCHASE PLAN

Under the employee stock purchase plan, certain employees may purchase up to 300 common shares in January of each year at 90% of market price. Funds are loaned to the employee who repays this amount, together with interest thereon at 3% per annum, over a 12 month period.

6. RETAINED EARNINGS

Of the \$51,036,000 in retained earnings, an amount of \$44,170,000 is represented by an appropriation of retained earnings in The Mortgage Insurance Company of Canada and Insmor Mortgage Insurance Company as required by the Department of Insurance of Canada. This amount is not available for distribution to shareholders.

7. RELATED PARTY TRANSACTIONS

Central Trust Company is a related party as a result of its ownership of shares of the company and three of the company's directors are directors and/or senior officers of Central Trust Company. Central Trust Company and its affiliates, from time to time, insure mortgage loans with The Mortgage Insurance Company of Canada. The policies of insurance are issued under MICC's standard terms and conditions and the premiums written in 1981 from such policies represented less than 5% of the total premiums written for the year. Losses on claims incurred on this business and on business written in prior years are not considered material.

8. ACQUISITION

Effective October 1, 1981, the company acquired all of the outstanding shares of Insmor Holdings Limited, whose main asset was all of the outstanding shares of Insmor Mortgage Insurance Company. This transaction was accounted for by the purchase method. Details of this transaction are as follows:

Net assets acquired at values assigned thereto:	\$000's	
Investments	108,143	
Real estate	5,958	
Other assets	2,902	117,003
Deferred revenue	37,235	
Deferred income taxes	5,416	
	42,651	
Provision for claims	7,752	
Other liabilities	7,884	58,287
		58,716
Consideration given		
Common shares (note 4(b)(iv))	30,091	
Preferred shares (note 4(a)(iv), (v), (vi))	28,500	
Expenses of acquisition	125	
		58,716

We have examined the consolidated balance sheet of MICC Investments Limited as at December 31, 1981 and the consolidated statements of earnings, retained earnings, unrealized gain (loss) on stocks and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 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.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

February 5, 1982

Management Report to Shareholders

Company management is charged with the responsibility for preparing the preceding financial statements and ensuring that all information in this annual report is consistent with those statements and is a true and fair presentation of the facts. This responsibility includes selecting appropriate accounting principles and making judgments and estimates in accordance with generally accepted accounting principles in Canada.

Ultimate responsibility for the financial statements rests with the Board of Directors. An Audit Committee of non-management directors is appointed by the Board to review the financial statements in detail with management and to report to the directors prior to their approval of the financial statements. The Directors have approved a code of ethics for all directors and employees to prevent conflicts of interest and unauthorized disclosures of financial information.

Shareholders' auditors examine the financial statements in detail and meet separately with both the Audit Committee and management to review their findings. The auditors' report directly to the shareholders and their report appears above.

John H. Coleman
Chairman and Chief Executive Officer
February 5, 1982.

D.C. Toms
Vice-President, Finance

Combined Financial Statements

MICC INVESTMENTS LIMITED,
INSMOR HOLDINGS LIMITED
for the year ended December 31, 1981
The following pro forma financial statements have been
prepared to show the combined results of MICC Invest-

ments Ltd. and Insmor Holdings Ltd. and their subsidiaries
for the two years ended December 31, 1981. The earnings
per share calculations have been made on the basis that
the common shares issued to the shareholders of
Insmor Holdings Ltd. were issued on January 1, 1980.

Combined Statement of Earnings

	1981	1980
	(\$000's)	(\$000's)
REVENUE		
Net premiums written	29,120	37,980
Application fees	2,148	2,780
Inspection service and appraisal fees	1,506	1,399
	32,774	42,159
Decrease (increase) in deferred revenue	14,347	5,497
Underwriting revenue	47,121	47,656
INVESTMENT INCOME		
Interest and amortization	20,939	18,868
Dividends	16,664	15,628
Realized gain on disposal of investments	3,365	8,675
Foreign exchange gain	190	93
	41,158	43,264
	88,279	90,920
EXPENSES		
Insurance underwriting and policy issuance expense	8,781	9,036
Premium taxes	830	896
	9,611	9,932
Less: increase in deferred expenses	(3,140)	(3,986)
	6,471	5,946
Losses on claims provided for and incurred	52,005	49,965
Other operating expenses	9,096	7,544
Income debenture interest and amortization expense	627	932
	68,199	64,387
EARNINGS BEFORE INCOME TAXES	20,080	26,533
PROVISION FOR INCOME TAXES		
Current	5,832	5,230
Deferred	(5,059)	(1,575)
	773	3,655
NET EARNINGS FOR THE YEAR	19,307	22,878
EARNINGS PER COMMON SHARE	\$1.08	\$1.41

Combined Financial Statement

MICC INVESTMENTS LIMITED consolidated as at December 31, 1981

MICC INVESTMENTS LIMITED, INSMOR HOLDINGS LIMITED combined as at December 31, 1980

Balance Sheet

Assets

	1981	1980
CASH AND ACCOUNTS RECEIVABLE	(\$000)	(\$000)
Cash	1,885	2,842
Interest accrued and sundry receivables	13,285	14,073
Premiums receivable	1,556	2,274
Due from reinsurers	111	400
	16,837	19,589
REAL ESTATE	36,530	39,653
INVESTMENTS		
Treasury bills and other short-term securities – at cost	69,776	35,330
Bonds and debentures – at amortized value	53,683	109,294
Preferred stocks – at market value	93,613	111,133
Common stocks – at market value	72,891	98,459
Mortgages – at amortized value	39,807	42,152
	329,770	396,368
OTHER ASSETS		
Capital expense – at amortized value	1,608	1,747
Other	961	1,005
	2,569	2,752
	385,706	458,362

Liabilities

	1981	1980
ACCOUNTS PAYABLE	(\$000)	(\$000)
Bank loan	3,500	2,500
Due to reinsurers	112	84
Provision for claims	32,285	29,678
Accounts payable and accrued liabilities	1,227	3,167
Interest payable on income debentures	—	77
Premium taxes payable	124	557
Income taxes payable	948	2,187
	38,196	38,250
OTHER LIABILITIES		
Deferred revenue	137,465	155,427
Deferred income taxes	5,020	13,017
Income debentures	5,000	8,333
	147,485	176,777
	185,681	215,027
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	173,347	174,386
RETAINED EARNINGS	51,036	63,693
	224,383	238,079
UNREALIZED (LOSS) GAIN ON STOCKS	(24,358)	5,256
	200,025	243,335
	385,706	458,362

Review of Operations

Historical Financial Statistics					
THE MORTGAGE INSURANCE COMPANY OF CANADA					
Issued commitments to Insure (Includes Insmor data)					
MORTGAGE INSURANCE (Canadian business, data are gross \$000's)					
	1981	1980	1979	1978	1977
First mortgage insurance programs— Total	2,101,422	3,590,080	5,567,720	6,375,430	4,844,129
Homeownership loans	1,725,739	3,163,332	4,919,555	5,139,512	3,886,857
Rental loans	254,603	148,700	299,534	622,739	516,001
Commercial/industrial loans	108,623	239,336	331,378	591,489	433,998
Vacation home loans	22,457	38,712	16,353	21,690	7,273
Second mortgage insurance programs— Total	33,408	17,655	7,385	7,474	3,337
Homeownership loans	32,552	17,371	6,974	5,539	3,137
Income properties (rental and commercial /industrial)	856	284	411	1,935	200
Lease guarantee	12,000	9,000	32,650	49,440	33,799
INSURANCE IN FORCE (Canadian mortgage insurance)					
At year end (\$ billions)	20.0	19.8	19.2	15.4	12.0
AVERAGE VALUES					
Homeownership loans (high ratio)	\$ 61,807	\$ 52,905	\$ 44,327	\$ 41,533	\$ 38,251
New construction (per unit)	75,493	64,920	54,230	49,602	45,635
Existing homes (per unit)	46,261	43,887	38,117	36,396	34,399
Rental projects (per loan)	845,858	268,411	171,359	191,553	170,375
Commercial/industrial (per loan)	459,936	386,870	246,319	305,039	359,590
Vacation homes (per unit)	70,079	52,813	31,089	33,472	21,412
GDS AND TDS RATIOS					
Gross debt service ratio (Note 1)	24.9%	24.4%	24.1%	23.9%	23.9%
Total debt service ratio (Note 2)	31.1%	30.4%	30.5%	30.1%	29.7%
CAPITAL AND RESERVES (\$000's)					
Policyholders reserves	186,798	195,742	195,106	162,172	125,340
Capital	208,058	218,343	217,223	217,178	139,670
Total	394,856	414,085	412,329	379,350	265,010
ACTIVE LENDER CLIENTS					
	255	331	350	356	270

Note 1: GDS—(Gross debt service ratio) the percentage of gross income used for mortgage payments and property taxes.

Note 2: TDS—(Total debt service ratio) the percentage of gross income used for mortgage payments, property taxes, and all other instalment debts.

Operations during 1981 were adversely effected by high interest rates, high unemployment, high inflation, and a general lack of confidence in the Canadian economy which persisted for most of the year. Mortgage interest rates reached a high of 21-22 percent in August and September before declining to the 17-18¾ percent range at year-end.

While housing starts increased 12 percent to 177,973, nearly all the increase took place in the early part of the year when interest rates were at their lowest and during December when developers were attempting to qualify for MURB certification. Sales of existing houses, on the other hand, were down considerably during 1981. The total dollar volume of all mortgage loan approvals by lending institutions declined 25 percent to \$10.5 billion in 1981 from \$14.3 billion in 1980. This lower level of loan approvals also carried over into the insured portion of the mortgage market. Combined MICC and Insmor commitments to insure were \$2.1 billion, 41 percent below the 1980 level of \$3.6 billion.

All figures on the following pages include the combined operations of MICC and Insmor.

Mortgage Insurance

FIRST MORTGAGE PROGRAMS

During 1981, volume of new business, as measured by potential premiums totalled \$29.8 million, a decrease of 36 percent from the comparable 1980 total of \$46.2 million. Potential premiums are the premiums which could be forthcoming on all business on which a commitment to insure has been issued. On average, 20 to 25 percent of potential premiums do not result in premiums written, as the com-

mitment will be cancelled or will lapse.

Premiums written for first mortgage programs amounted to \$24.2 million during the year compared with \$35.2 million in 1980.

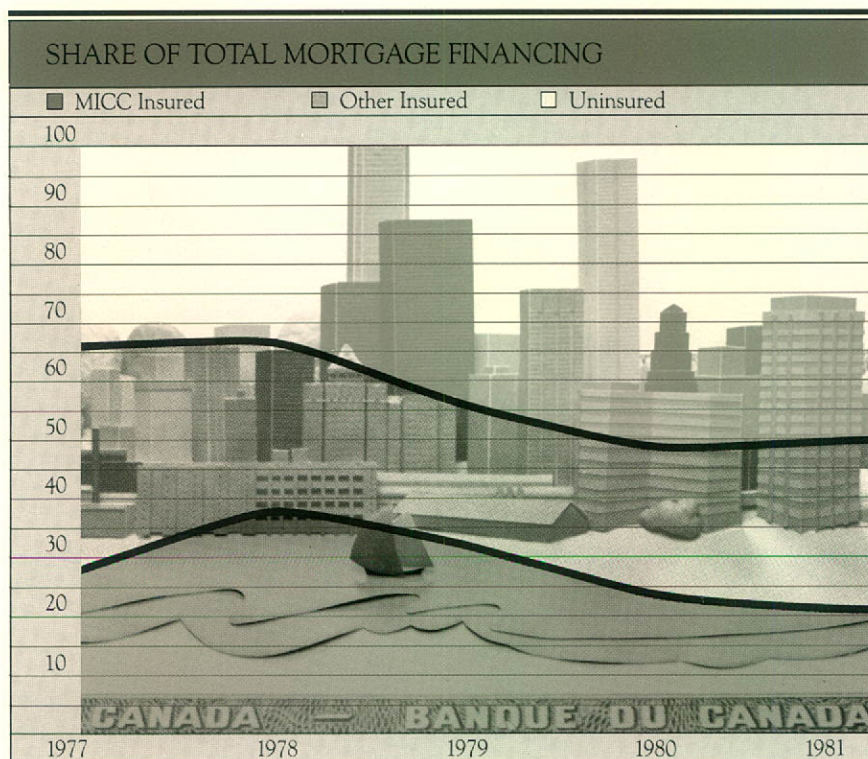
At the end of 1981, nearly 533,000 loans were on repayment. Of this number, 4,334 were reported by lenders as being in default, or about .81%. The comparable default ratio at the end of 1980 was .98%. Analysing defaults is an important part of the claims operation and it is encouraging to see a decline in the default ratio in light of the poor economic conditions which persisted throughout Canada during 1981.

In 1981, losses on claims rose to \$49.0 million compared to \$47.2 million in 1980. A reserve to cover potential losses is set up for each case as soon as it is determined that a claim will be submitted. To assist in determining the loss, it is necessary to

obtain one or more current appraisals, a report from the lender on the amount owing on the mortgage and to make an estimate of the disposal costs of the real estate. In addition, the date of claim settlement is estimated to ensure that interest costs can be properly reflected, as well as taxes, legal, and maintenance costs.

HOMEOWNERSHIP

Homeownership loans are the major segment of first mortgage activity, accounting for about 80 percent of premiums written and commitment volume in 1981. Potential premiums totalled \$23.3 million during 1981, 40 percent below the 1980 total of \$38.5 million. Premiums written totalled \$19.6 million during the year, 34 percent below the previous year's total of \$29.8 million. The commitment volume totalled \$1.7



Review of Operations



billion in 1981, compared with \$3.2 billion a year ago, a decrease of 45 percent. About 90 percent of Homeownership volume relates to the insuring of high ratio loans.

At the end of 1981, there were about 507,000 insured homeownership loans on repayment. Nearly 4,000 were reported to be in arrears, or .78%. The comparable 1980 default ratio was .89%.

Claims losses in 1981 totalled \$27.4 million, compared with \$32.6 million in 1980.

RENTAL

Mortgage insurance on rental properties increased substantially during 1981. Much of the increase took place in the first half of the year when interest rates were at lower levels. Potential premiums totalled \$3.9 million during the year, 83 percent above the 1980 total of \$2.1 million. Premiums written totalled \$1.7 million in 1981, about 23 percent above the previous year's total of \$1.4 million. Commitment volumes totalled \$255 million in 1981 compared with \$149 million, a year earlier an increase of 71 percent.

There were 14,500 insured rental loans on repayment at the end of 1981. About 210 loans were reported in arrears, or 1.44%. The comparable 1980 default ratio was 2.01%.

Claims losses in 1981 totalled \$12.3 million, compared with \$10.3 million in 1980.

COMMERCIAL/INDUSTRIAL

Commercial/industrial mortgage insurance activity during 1981 was about one-half of the previous year's level. This was due primarily to the

Reginald T. Ryan *President*
Desmond R. Smith *Deputy Chairman*

poor economic outlook and high interest rates which delayed the start of many development projects.

Potential premiums totalled \$2.1 million during 1981, 56 percent below the 1980 total of \$4.9 million.

Premiums written during 1981 totalled \$2.8 million, about 24 percent below the previous years total of \$3.6 million. Commitment volume totalled \$109 million in 1981 compared with \$239 million a year earlier.

Of 5,700 insured loans on repayment at the end of 1981, about 150 loans were reported in arrears, or 2.60%. The comparable 1980 default ratio was 2.50%.

Claims losses totalled \$7.1 million in 1981, compared with \$3.6 million in 1980.

VACATION HOMES

Vacation home loans are a very small portion of MICC's total activity, accounting for about 2% of premiums written. Losses in 1981 were \$14,000 compared with \$125,000 in 1980.

SECOND MORTGAGE PROGRAMS

The volume of business under the second mortgage program reached a record level during 1981, with eighty lenders active under the program. While rental and commercial loans are included in this program, the majority of the business consisted of existing housing.

The potential premium generated through this program totalled \$1.2 million during 1981, an increase of 52 percent over the previous years total of \$769,000.

A total of 1,474 loans were committed during 1981 compared with 936 during 1980. The commitment volume increased 89 percent during 1981, totalling \$33.4 million compared with \$17.7 million in 1980.

At the end of 1981, there were 3,300 loans on repayment. Of this number, 10 were reported by lenders as being in default.

Claims losses totalled \$208,000 in 1981 compared with \$105,000 in 1980.

Surety Bonding Program

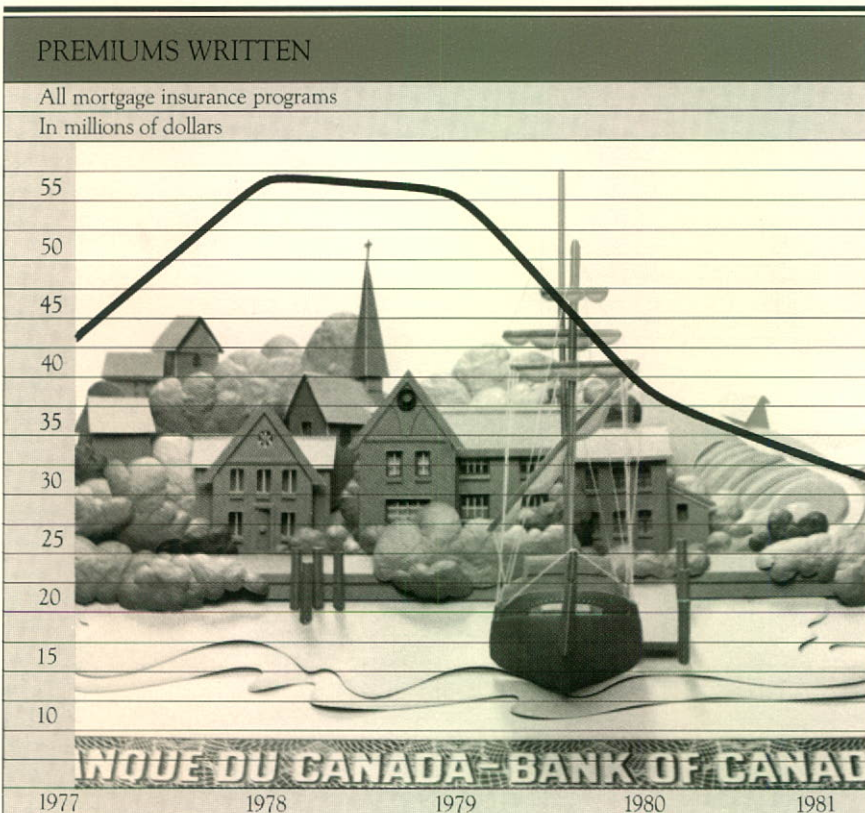
The surety bonding program surpassed all forecasts during its second year of operation. Sixty-nine new accounts with approved programs of bonding totalling \$693 million were established. Gross premiums written in 1981 totalled \$2.3 million compared with \$0.9 million in 1980. During the year, all provinces except P.E.I. and

Saskatchewan contributed to our level of business. Claims for the year amounted to \$150,000.

While all accounts are approved at Head Office, surety underwriting staff are located in branch offices in Calgary and Montreal to assist in marketing and underwriting.

Condominium Deposit Insurance Program

MICC offers a program in Ontario which insures the deposits of condominium buyers before a condominium project is registered when such deposits exceed the \$20,000 limit insured by the HUDAC New Home Warranty program.



Review of Operations



James D. Hewitt
Clair E. Shoemaker
James McAvoy

Alan D. Munro
J. Donald Bergeron
David C. Toms

During 1981, MICC insured nearly \$28 million in deposits for a premium of \$209,259 compared with \$15 million in deposits for a premium of \$108,304 in 1980. Losses during the last two years have only been \$5,000.

Lease Guarantee Insurance Program

MICC maintained restrictive underwriting guidelines for this program

Programs	
FIRST MORTGAGES	
Homeownership	
Rental	
Commercial/Industrial	
Vacation	
Unallocated Reserves	
Total:	
SECOND MORTGAGES	
Homeownership	
Rental	
Commercial/Industrial	
Total:	
OTHER PROGRAMS	
Surety	
Lease Guarantee	
New Home Warranty	
Condominium Deposit	
U.S.A. Reinsurance	
Total:	
Total:	

throughout 1981 with 15 lease guarantee commitments being issued for an aggregate insured rent of \$12 million. This compares with 23 commitments and an aggregate insured rent of \$9 million in 1980. Premiums written totalled \$181,000 in 1981, 69 percent below the previous year's total of \$588,000. The year ended with commitments outstanding representing \$260,000 in potential premiums.

Lease guarantee losses totalled \$1.8 million during 1981, 18 percent below the previous year's total of \$2.2 million.

New Home Warranty Program

Premiums earned under the Ontario and Quebec New Home Warranty Programs amounted to \$1.1 million in 1981, compared with \$0.7 million during 1980, an increase of 49 percent.

Losses incurred under this program totalled \$892,000 this year, compared with \$558,000 during 1980. Amounts paid to the Ontario Program exceeded the loss figure, but the excess is recoverable from the

provincial program under the terms of the insurance agreement.

Appraisals and Inspections

The primary objective is to provide national real estate appraisal and inspection services to approved lenders and correspondents of MICC as well as internal technical support to MICC for their mortgage insurance,

POTENTIAL PREMIUMS		PREMIUMS WRITTEN		DEFAULT RATIOS		CLAIMS LOSSES	
1981	1980	1981	1980	1981	1980	1981	1980
(\$000's)	(\$000's)	(\$000's)	(\$000's)	%	%	(\$000's)	(\$000's)
\$23,258	\$38,483	\$19,605	\$29,842	0.78	0.89	\$27,403	\$32,580
3,903	2,130	1,741	1,412	1.44	2.01	12,305	10,293
2,135	4,862	2,753	3,627	2.60	2.50	7,108	3,574
468	724	136	285	0.81	1.77	14	127
—	—	—	—	—	—	2,150	600
29,764	46,199	24,235	35,166	0.81	0.98	48,980	47,174
1,150	756	850	668	0.33	0.29	208	105
6	13	—	7	—	—	—	—
15	—	—	—	—	—	—	—
1,171	769	850	675	0.33	0.29	208	105
2,300	925	1,433	474	n.a.	n.a.	150	—
600	450	181	588	n.a.	n.a.	1,773	2,168
2,111	1,077	2,111	1,077	n.a.	n.a.	892	558
209	108	209	108	n.a.	n.a.	2	3
—	—	101	(108)	n.a.	n.a.	—	(43)
5,220	2,560	4,035	2,139	n.a.	n.a.	2,817	2,686
\$36,155	\$49,528	\$29,120	\$37,980	n.a.	n.a.	\$52,005	\$49,965

Review of Operations

claims, and real estate functions. Services are also available to other clients on a fee basis. From time to time the company utilizes the services of contract appraisers and inspectors when the volume of assignments exceeds the capacity of the regular staff.

For the year ending December 31, 1981, 7,484 appraisal assignments were completed, of which approximately 32% were performed for approved lenders.

Real Estate

Approximately 40% of all mortgage insurance claim settlements involved the acquisition of real estate. The

balance were either cases where the lender sold the property and MICC paid the difference between the net sale proceeds and the claim amount, or where MICC elected to settle the claim through payment under Option "B". Under this form of settlement MICC pays twenty-five percent of the approved claim amount on homeownership cases and twenty percent on rental, commercial, and industrial properties. The lender retains ownership of the real estate. This Option was used for 400 settlements in 1981.

During the year, 1,124 properties were acquired having a net realizable value of \$46 million compared with 1,518 properties valued at \$57 million during 1980. A total of 1,195 properties were sold for a considera-

tion of \$46.1 million in 1981. This compares with sales of \$67.9 million during 1980.

At the end of 1981, real estate holdings totalled \$36.5 million compared with \$39.7 million at the end of 1980. At December 31, 1981, an additional 128 parcels had been sold but the sales had not closed for a total consideration of \$5.7 million.

Real estate is held on the books at estimated net realizable value which is estimated market value less estimated disposal costs (real estate commission, legal fees, appraisals, etc.). On acquisition, each property is reviewed to determine if it should be held in the short term or sold. Company policy is to sell acquired real estate as soon as possible.

Due to the high mortgage interest

Real Estate Activity								
Includes condominium (strata title) units. (000's omitted)	Single family		Rental		Commercial/industrial		Total	
	#	Book value	#	Book value	#	Book value	#	Book value
Held at December 31, 1980	832	\$22,105	31	\$ 4,914	15	\$9,513	878	\$36,532
Acquired during 1981	1,057	34,413	56	10,947	11	640	1,124	46,000
Sales and adjustments during 1981	1,121	32,265	60	9,962	14	3,866	1,195	46,093
Held December 31, 1981	768	24,253	27	5,899	12	6,287	807	36,439
Real Estate Holdings								
as at December 31, 1981								
Newfoundland	10	354	—	—	—	—	10	354
Prince Edward Island	5	154	—	—	—	—	5	154
Nova Scotia	18	551	1	31	—	—	19	582
New Brunswick	41	1,143	1	375	—	—	42	1,518
Quebec	133	4,385	13	3,738	1	32	147	8,155
Ontario	415	12,345	9	1,588	9	5,857	433	19,790
Manitoba	71	1,926	2	122	1	375	74	2,423
Saskatchewan	36	1,330	1	45	1	23	38	1,398
Alberta	35	1,935	—	—	—	—	35	1,935
British Columbia	4	130	—	—	—	—	4	130
Total	768	24,253	27	5,899	12	6,287	807	36,439

In addition as at December 31, 1981, mortgages under foreclosure were held on 4 pieces of real estate for a total realizable value of \$82,000. The comparable figures at the end of 1980 were 84 mortgages for a total realizable value of \$3.1 million.

rates which prevailed during most of the year, the company offered mortgage financing to assist in the sale of its properties. These mortgages are subsequently made available for purchase by institutional investors. During 1981, 552 mortgages totalling \$21.5 million were acquired and 460 mortgages totalling \$19.7 million were sold. The mortgage portfolio stood at \$28.8 million at the end of 1981 compared with \$30.1 million at the end of 1980.

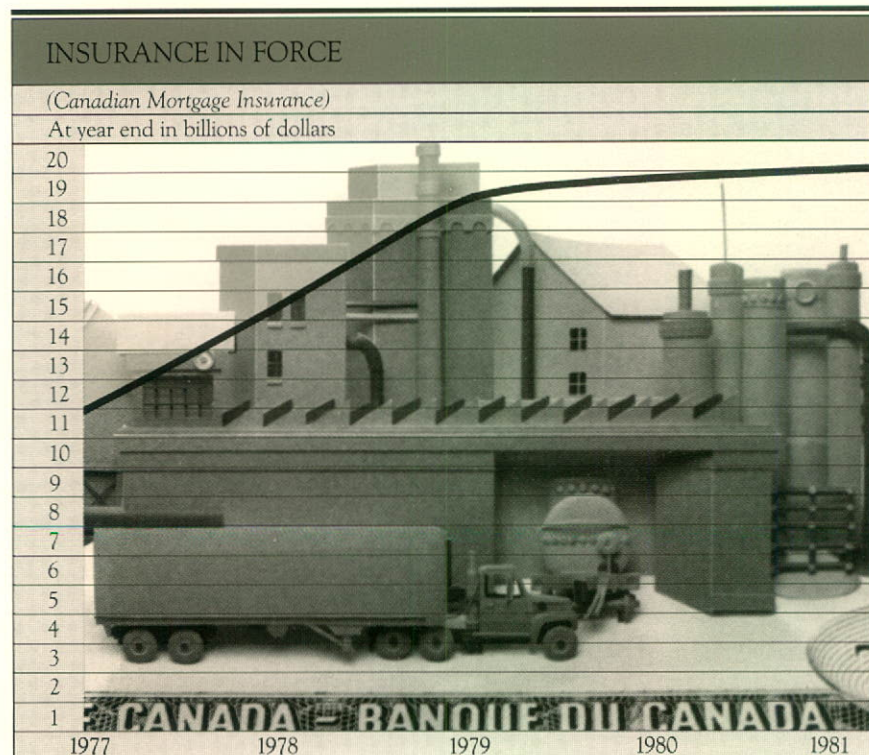
Investments

The combined results of the security investment portfolios of The Mortgage Insurance Company and Insmor Mortgage Insurance Company for the year 1981, showed modest increases due to the relatively high component of cash, earning record rates of return in the short term money market, and the significant build-up of the higher coupon retractable preferred share holdings. Total pretax income, excluding mortgages, was \$33.8 million versus \$30.6 million in 1980. In addition, there was \$3.5 million in mortgage interest earned in 1981.

The asset allocation of the combined portfolios did not alter significantly over the year. The bond portfolio has an average term of less than three years and consists primarily of Government of Canada bonds. Total Preferred stock holdings were marginally increased in order to maximize after tax returns with an emphasis towards retractable shares and total investments in equities rose as a result to 62% of the combined portfolios from 60% in 1980.

The market value of the investment portfolio was 89.9% of the book value compared to 102.1% in 1980. Capital gains realized through the sale of equity investments in 1981 were \$3.0 million compared to \$8.9 million in 1980.

Asset Classification			
of Combined Portfolio at Book value	December 31	% of Total	
(000's omitted)	1981	1981	1980
Cash	\$ 4,805	1.5	1.3
Federal Government Bonds (Under 3 yrs.)	68,340	21.2	19.0
Money Market	28,990	9.0	10.3
CASH AND LIQUID ASSETS	102,135	31.7	30.6
BONDS (Other)	21,355	6.6	9.6
Retractable Preferred	32,617	10.2	5.5
Sinking Fund Preferred	30,456	9.5	10.9
Conventional Preferred	43,036	13.4	15.8
PREFERRED	106,109	33.1	32.2
Convertible Preferred	14,448	4.5	3.5
Common Stock	77,699	24.1	24.1
COMMON & CONVERTIBLE PREFERRED	92,147	28.6	27.6
Total Equity	198,256	61.6	59.8
Total Portfolio	321,746	100.0	100.0



Field Office Organization

Eastern Canada

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F. Leger, Manager

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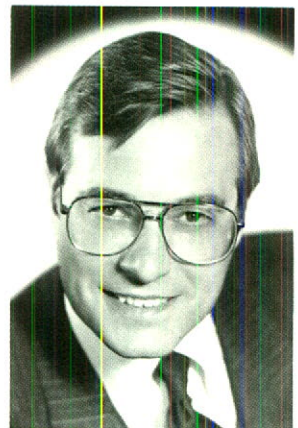
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*J.C.W. Thompson,
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Limited

Second preferred shares
The Canada Trust
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Common shares
The Canada Trust
Company

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Limited

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The Canada Trust
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Common shares
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