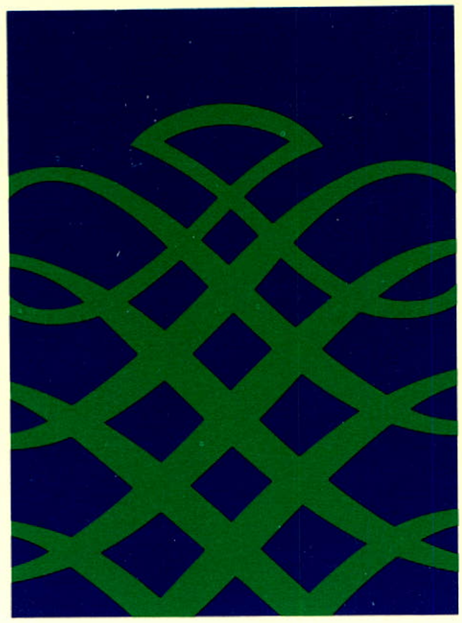
IAC Limited 51st Annual Report 1975



IAC Limited and Subsidiaries 51st Annual Report 1975

For the year ended December 31, 1975

IAC Limited

Incorporated under the laws of Canada February 7, 1925

Head Office, 45 St. Clair Avenue West, Toronto, Ontario M4V 2Y2

Si vous désirez recevoir un exemplaire en français du rapport annuel de IAC, veuillez vous adresser au secrétaire, IAC Limitée, 45 ouest, avenue St. Clair, Toronto, Ontario M4V 2Y2

Contents

Highlights for the Year

	1975	1974	Per Cent Increase (Decrease)
Gross Income	$ 243,150,000	$ 221,750,000	9.7
Proportion taken up by			
—Cost of borrowed money	47.0%	52.2%	
—General and administrative expenses	24.3%	23.1%	
Earnings applicable to common shares	$ 29,462,000	$ 22,340,000	31.9
Dividends paid on common shares	$ 14,737,000	$ 12,999,000	13.4
Proportion of earnings	50.0%	58.2%	
Earnings per share	$2.18	$1.69	
Dividends paid per share	$1.09	$ .98	11.2
Per cent return on average common equity	15.24%	12.63%	
Volume of Business			
Sales financing—wholesale	$1,470,730,000	$1,460,542,000	0.7
—retail	$ 576,297,000	$ 653,046,000	(11.7)
Consumer loans	$ 207,501,000	$ 216,356,000	(4.1)
Residential mortgages	$ 93,006,000	$ 88,666,000	4.9
Commercial loans and leasing	$ 209,699,000	$ 114,471,000	83.2

At the Year End

	1975	1974	Per Cent Increase (Decrease)
Total consolidated assets	$2,390,847,000	$2,139,457,000	11.8
Number of common shareholders	11,435	11,853	(3.5)
—domiciled in Canada	95.8%	95.9%	
Number of common shares outstanding	13,541,883	13,487,698	0.4
—owned in Canada	96.3%	96.3%	

Report of the Directors to the Shareholders

1975 marked the 39th consecutive year in which dividends were earned and paid and in each of the last 20 years the payment per share has exceeded that of the preceding year.

Earnings applicable to common shares increased 31.9%. Consequently, with a somewhat larger number of shares outstanding, earnings per share amounted to $2.18 as compared to $1.69 in 1974. Dividends paid per common share were $1.09 as compared to $0.98 in the previous year.

As well as a larger asset base, an important factor in the stronger earnings results was a decline in the overall cost of borrowed funds. The average rate was 8.3% as compared to 9.0% in the preceding year.

The Canadian economy, as the result of inflation, high unemployment and poor export markets, experienced stagnation in 1975 after a long period of growth. As a consequence, the level of your Company's sales financing and consumer loan outstandings declined slightly. However, activity continued buoyant in the leasing and mortgage areas, more than offsetting the weaker demand in consumer financing. Consequently, consolidated assets increased by $251 million, a gain of 11.8%.

The continued progress of your Company was made possible by the loyal and tireless efforts of the people comprising the IAC organization. Your Directors wish to express their warm thanks and appreciation.

Your Directors wish to record the following actions of the Board in 1975, subsequent to the last Annual General Meeting of the Shareholders:

Harold Corrigan, C.A. was elected to the Board, succeeding P.L. Paré who resigned because of other commitments
D.W. Maloney was elected to the Executive Committee
D.A. Rattee was appointed a Vice-President
S.S. Ilaqua was appointed a Vice-President
C.W. Regan was appointed an Assistant Vice-President

During the year the parent Company issued $30 million in 9¾% Debentures maturing March 25, 1995. Niagara Finance Company Limited placed $30 million Secured Notes Series 6, in the U.S. market, bearing interest at 10½% and maturing September 1, 1990.

At a Special General Meeting of Shareholders held on November 3, 1975, the proposed conversion of the Company to a chartered bank was approved. Relative to this objective, Bill S-30, an Act to incorporate Continental Bank of Canada was introduced in Parliament and has subsequently been passed by the Senate and approved, with minor amendments, by the Standing Committee on Finance, Trade and Economic Affairs of the House of Commons. At the date of this report it is awaiting third reading in the House of Commons.

The current outlook for the Canadian economy points to modest though steady economic growth during 1976. One area of considerable uncertainty is business capital spending, but improvement seems likely in housing, consumer spending and external trade. Firm control of the rate of growth of the money supply is likely to be maintained until inflation shows positive evidence of subsiding. In the circumstances, interest rates will probably remain high by historical standards, as will unemployment. However, your Directors feel that reasonable continued progress will be achieved by your Company.

On behalf of the Board

Chairman

President

February 25, 1976

K.H. MacDonald, Chairman of the Board and J.S. Land, President

General Commentary

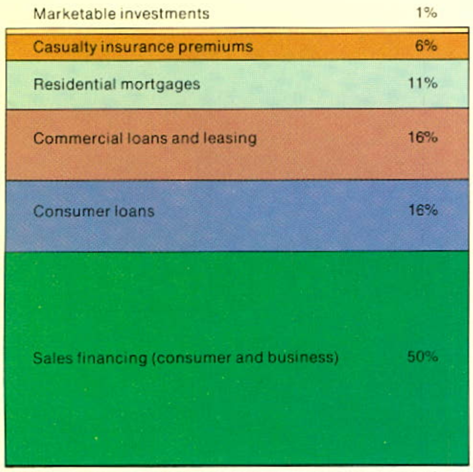
This commentary and the accompanying charts provide information supplementary to that presented elsewhere in this report. A better perspective on the results of the past year's operations, and the current financial position of your Company may be obtained from the analytical details and historical comparisons this section contains.

Gross Income

Net investments in working assets and marketable securities increased 7.3%, while gross income derived from these investments increased 9.7%. This increase in overall yield on investments was achieved despite an increase in the provision for doubtful receivables of $3.6 million, deducted prior to calculating gross income. The increased provision for doubtful receivables was considered prudent in recognizing the growth of the total portfolio, as well as some current weakness in the economy, notably the high unemployment levels. Losses, as a percentage of outstandings during 1975, at 0.36% were somewhat higher than in the preceding year, but below the average of 0.45% for the past ten years.

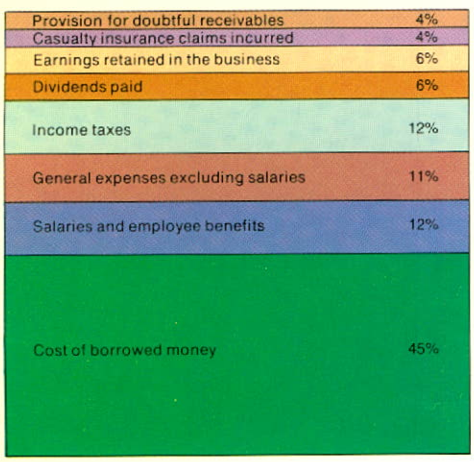
The average rate of gross return on investments Increased by 2% compared with that of the previous year, despite downward rate adjustments reflecting lower money cost. This again demonstrates the effect of the time lag between rate adjustments and their impact on income.

Chart 1 Sources of Gross Income (before provision for doubtful receivables)



All categories of gross income showed growth, but there were disparities in the growth rates of the various categories produced by changes in the overall mix. Consumer loans and sales financing have become proportionately less dominant as sources of income as diversification has progressed.

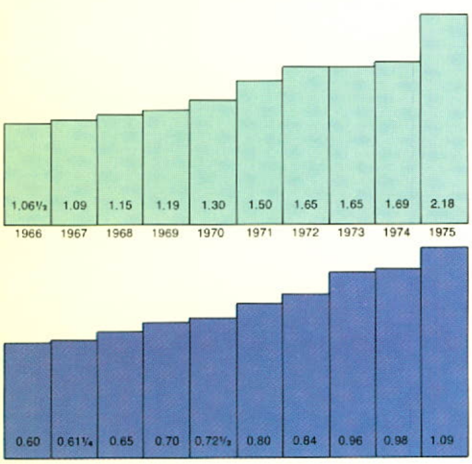
Chart 2 Composition of Gross Income Distribution



During 1975, an average of $45 out of every $100 of income was paid out as the cost of borrowed funds, a decline from an all-time high of $51 the previous year. Apart from this change, the distribution of income by categories remained relatively stable. Higher earnings made it possible to increase dividends paid by 13%, without taking a higher proportion from gross income.

The proportion of earnings retained in the business, provision for doubtful receivables and general and administrative expenses each showed modest increases over 1974.

Chart 3
Earnings per share $
Dividends per share $



The 49¢ increase in earnings per common share achieved in 1975 represents the largest one-year increase in the history of your Company. The improvement is all the more gratifying in light of the fact that, during the year, there was an increase of over 300,000 shares in the average number outstanding.

The dividend payment in 1975 exceeded that of the previous year, as it has for each of the past 20 years.

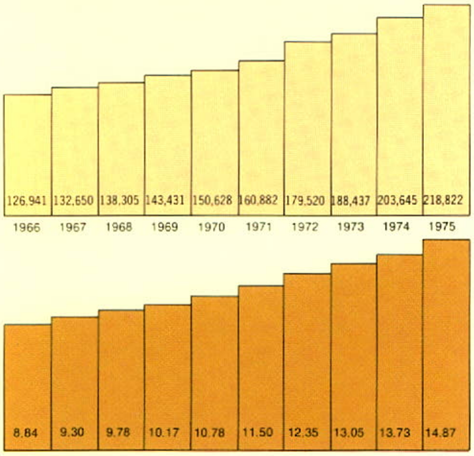


Chart 4
Shareholders' Equity $000's
Book Value per Common Share $

Retained earnings increased almost 11%, while capital stock increased only 0.5%, resulting in an overall increase in shareholders' equity of over 7% for the year. Return on average common equity climbed to 15.2%, which is the highest level achieved in any of the past 10 years.

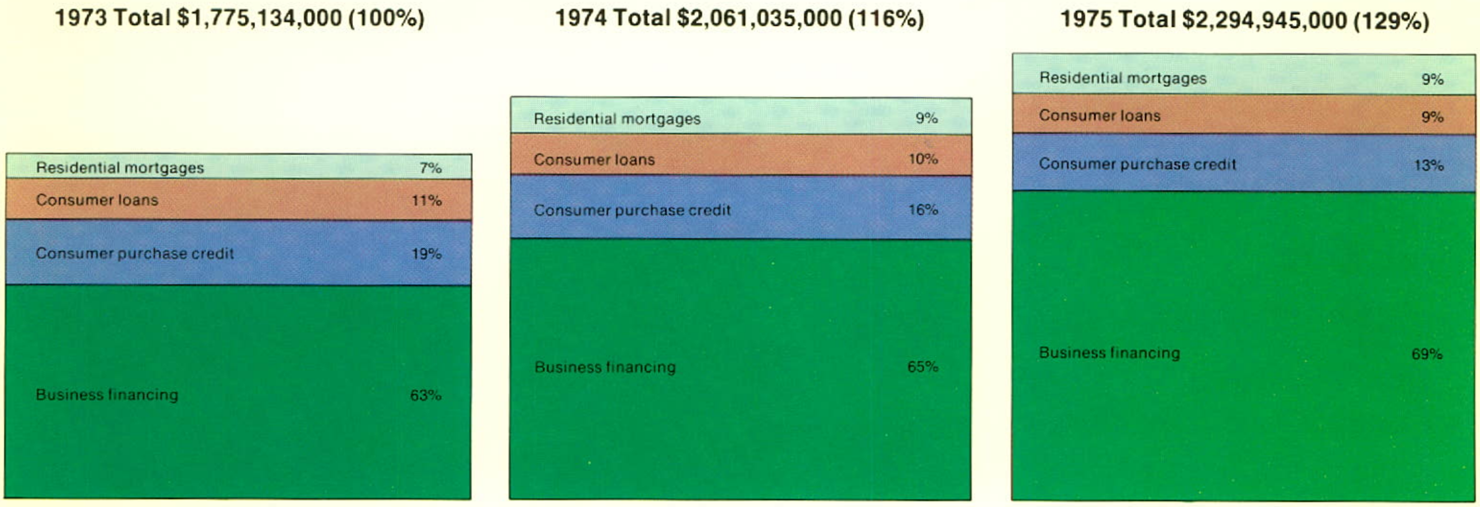


Chart 5 Receivables and their Composition

As anticipated at this time last year, the Canadian economy developed weakening trends in some areas during 1975, with the result that growth in receivables at 11.3% for the year did not match the rapid pace of the early 70's. Nevertheless, growth during the past three years amounted to 29%, or a dollar increase of over $500 million.

The composition of receivables reflects the shifting pattern of the Company's activity over the past years: slower growth in the consumer sector was offset by more rapid expansion in business financing, while residential mortgages advanced at a rate consistent with the overall growth of the total portfolio. The net result was a further increase in the proportion of the total represented by business financing.

Summary

Your Company's performance continues to be sound and secure by any measure. The diversification which commenced a decade ago and which is still proceeding has resulted in a corporate business base sufficiently broad to provide reasonable insulation against cyclical trends in any given sector of the economy. During the past year, when consumer spending was sluggish and some markets showed little or no growth, your Company not only retained its traditional market share, but also achieved offsetting growth in newer markets.

Consolidated Statement of Earnings

for the year ended December 31, 1975

	1975 $000's		1974 $000's	
Gross Income (note 2)		**243,150**		221,750
Expenditure				
Cost of borrowed money—				
Short-term debt	**50,400**		63,967	
Long-term debt	**63,865**		51,880	
	114,265		115,847	
Casualty insurance claims incurred	**11,125**		9,016	
General and administrative	**59,134**	**184,524**	51,359	176,222
		58,626		45,528
Provision for Income Taxes				
Current	**6,175**		2,396	
Deferred	**23,143**	**29,318**	20,848	23,244
		29,308		22,284
Parent company's portion of increase in unassigned surplus of life assurance subsidiary (note 1 (a))		**798**		771
Share of earnings of mortgage insurance company (note 1 (a))		**344**		281
Earnings		**30,450**		23,336

Consolidated Statement of Retained Earnings
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Earnings for the year	**30,450**	23,336
Dividends on preferred shares	**988**	996
Earnings Applicable to Common Shares	**29,462**	22,340
Dividends on common shares at $1.09 per share (1974—$0.98)	**14,737**	12,999
Earnings retained in the business	**14,725**	9,341
Gain on preferred shares purchased for cancellation	**114**	78
Increase in retained earnings for the year	**14,839**	9,419
Retained earnings at beginning of year	**135,068**	125,649
Retained earnings at end of year (note 5)	**149,907**	135,068

	1975 ($)	1974 ($)
Common Stock Earnings per Share—		
Calculated on daily average of common shares outstanding—13,513,111; 1974—13,204,861 (note 6)	**2.18**	1.69

Consolidated Balance Sheet
as at December 31, 1975

Assets	1975 $000's	1974 $000's
Cash	**64,957**	46,416
Receivables		
Sales financing—wholesale	**286,167**	287,228
—retail	**771,584**	798,840
Dealer loans	**17,021**	20,762
Inventory financing	**9,683**	8,936
Consumer loans	**216,450**	216,617
Residential mortgages	**202,247**	175,619
Commercial loans and mortgages	**63,573**	50,479
Leasing	**724,840**	498,701
Other	**2,296**	2,342
Property, vehicles and equipment held for sale	**1,084**	1,511
	2,294,945	2,061,035
Allowance for doubtful receivables	**23,640**	20,656
	2,271,305	2,040,379
Marketable Securities—at cost or amortized values plus accrued interest (quoted value 1975—$15,983,000; 1974—$16,520,000) (note 8)	**17,951**	18,769
Commercial Paper Receivable	**2,914**	1,027
Investments in Non-Consolidated Subsidiary and other Companies		
Life assurance subsidiary (note 1(a))	**7,764**	6,966
Mortgage insurance company (note 1(a))	**4,490**	3,946
Other companies—at cost	**1,608**	1,675
	13,862	12,587
Other Assets and Deferred Charges		
Cash committed for preferred stock retirement	**438**	399
Income taxes recoverable	**190**	1,105
Leasehold improvements and prepaid expenses	**3,055**	2,904
Unamortized debt discount and expense	**11,715**	11,565
Premises and equipment—at cost, less accumulated depreciation of $5,859,000 (1974—$5,346,000)	**4,460**	4,306
	19,858	20,279
	2,390,847	2,139,457

Signed on behalf of the Board K.H. MacDonald, Director J.S. Land, Director

Consolidated Balance Sheet
as at December 31, 1975

Liabilities

	1975 $000's	1974 $000's
Secured Demand Bank Loans	**28,122**	24,225
Secured Short-Term Notes	**677,742**	606,321
Secured Term Notes (Schedule A and notes 9 and 10)	**670,183**	637,880
Debentures (Schedule B and note 10)	**126,897**	103,415
Subordinated Debentures (Schedule C and notes 10 and 14)	**35,355**	35,731
	1,538,299	1,407,572
Payables		
Accounts payable and accrued liabilities (note 11)	**80,908**	86,862
Income taxes	**3,337**	391
Dealer credit balances	**16,613**	17,564
	100,858	104,817
Unearned Income (note 12)	**406,005**	314,767
Unrealized Foreign Exchange Gain (note 9)	**1,728**	6,664
Deferred Income Taxes (note 13)	**125,135**	101,992
	2,172,025	1,935,812

Shareholders' Equity

	1975 $000's	1974 $000's
Capital Stock (Schedule D)		
Preferred shares	**17,918**	18,395
Common shares (note 14)	**50,997**	50,182
	68,915	68,577
Retained Earnings (note 5)	**149,907**	135,068
	218,822	203,645
	2,390,847	2,139,457

Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Sources of Funds		
Operations—		
Earnings	30,450	23,336
Amortization of debt discount and expense	1,322	913
Amortization and depreciation of fixed assets	1,708	1,582
Provision for deferred income taxes	23,143	20,848
Contribution to earnings of unconsolidated subsidiary and mortgage insurance company	(1,142)	(1,052)
	55,481	45,627
Borrowings—		
Short-term debt—net proceeds	79,377	70,082
Long-term debt		
Proceeds from new borrowings	117,293	208,090
Redemptions	68,063	82,575
	49,230	125,515
	128,607	195,597
Capital stock—		
Common shares—proceeds of issues	815	6,068
Preferred shares—cost of redemptions	(363)	(201)
	452	5,867
	184,540	247,091
Uses of Funds		
Increase (decrease) in operating assets—		
Receivables—		
Sales financing, dealer loans and inventory financing	(31,311)	130,350
Consumer loans	(167)	19,138
Residential mortgages	26,628	48,030
Commercial loans	13,094	16,810
Leasing	226,139	71,202
	234,383	285,530
Less: Increase in allowance for doubtful receivables	2,984	2,346
Increase in unearned income	91,238	43,008
	140,161	240,176
Investment in marketable securities and commercial paper	1,069	(6,374)
	141,230	233,802
Investment in mortgage insurance and other companies	134	1,200
Dividends paid on preferred and common shares	15,725	13,995
Other—		
Net decrease (increase) in payables	8,259	(9,070)
Net increase (decrease) in other assets including other receivables and property held for sale	651	(3,876)
	165,999	236,051
Increase in cash	18,541	11,040
	184,540	247,091

Notes to Consolidated Financial Statements
for the year ended December 31, 1975

1. Significant Accounting Policies

(a) Principles of consolidation

The statements consolidate the accounts of the company and its subsidiaries with the exception of those of The Sovereign Life Assurance Company of Canada. The accounting practices of this subsidiary are in accordance with the requirements of the insurance laws of Canada and therefore consolidation of its accounts is considered to be inappropriate. The investment in its shares is stated at cost plus the parent company's portion of increase in unassigned surplus of the subsidiary since acquisition.

The company's 40% investment in shares of The Sovereign Mortgage Insurance Company has been accounted for on the equity method.

(b) Recognition of revenue

Precomputed charges on sales financing retail receivables for terms for less than forty-eight months and on consumer loan receivables are taken into income using the sum-of-the-digits method on an account by account basis. Because this method does not maintain the original yield over longer terms, on sales financing retail contracts written for terms in excess of forty-eight months, unearned income is taken into earnings on the actuarial yield basis.

Discount on residential mortgages purchased is brought into income over the remaining term of the mortgage using the actuarial yield method.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Gains arising from residual values of leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

Unearned casualty insurance premiums are taken into income on a straight-line basis. On policies sold directly to the public, 20% of the premium is recorded as income in the first month, to offset acquisition expenses. The remaining 80% and the total unearned insurance premium on policies sold to customers using the parent company's financing facilities is taken into income over the life of the policy.

(c) Allowance for doubtful receivables

For IAC sales financing, dealer loans, commercial loans and leasing, such allowance is established by evaluating individual accounts. For consumer loans, sales financing by Niagara Finance Company Limited and residential mortgage receivables such allowance is set up as a percentage of total receivables. In all companies, after collection possibilities have been exhausted, any balance remaining on an account is written off.

(d) Translation of foreign currencies

Unhedged assets and liabilities are translated to Canadian funds at current exchange rates. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts. Realized exchange gains and losses are reflected in the current year's statement of earnings.

(e) Amortization of debt discount and expense

Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable or exchangeable at the holder's option the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(f) Methods of depreciation

Buildings are depreciated on a straight-line basis at the rate of 2.5% per annum. All other physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

Leasehold improvements are amortized in accordance with the regulations of the same Act over the term of the respective leases.

2. Gross Income

	1975	1974	Increase (decrease)	
	$000's	$000's	$000's	%
Sales financing and dealer loans	127,612	121,523	6,089	5.0
Consumer loans	41,358	38,952	2,406	6.2
Residential mortgages	27,312	20,977	6,335	30.2
Commercial loans and leasing	40,980	33,692	7,288	21.6
	237,262	215,144	22,118	10.3
Provision for doubtful receivables	10,628	7,011	3,617	51.6
	226,634	208,133	18,501	8.9
Casualty insurance premiums	14,977	12,050	2,927	24.3
Marketable securities and commercial paper	1,539	1,567	(28)	(1.7)
	243,150	221,750	21,400	9.7

3. Remuneration of Directors and Officers

	1975	1974
Aggregate remuneration of the IAC Limited directors as directors of:	$	$
IAC Limited	78,285	71,704
Niagara Finance Company Limited	15,400	16,036
The Sovereign General Insurance Company	8,400	8,550
The Sovereign Life Assurance Company of Canada	9,950	10,650
	112,035	106,940
Number of directors of IAC Limited	18	16
Aggregate remuneration of the IAC Limited officers as officers of IAC Limited	$ 1,542,500	$ 1,264,004
Aggregate remuneration of the IAC Limited officers as directors of:		
Niagara Finance Company Limited	10,050	7,748
The Sovereign General Insurance Company	4,500	3,725
The Sovereign Life Assurance Company of Canada	5,200	4,800
	19,750	16,273
Number of IAC Limited officers	24	22
Number of IAC Limited officers who were also directors	3	4

4. Tax Relief Available for Future Years
A subsidiary has an excess of undepreciated capital cost for tax purposes over the net book value of fixed assets of $190,000. This amount may be applied to reduce taxable income in future years. In addition, there is a capital loss of approximately $19,600 which is available for application against future taxable capital gains.

5. Retained Earnings—Statutory Appropriation
As at December 31, 1975 an amount of $7,082,000, equal to the par value of preferred shares purchased for cancellation, had been set aside in the accounts out of retained earnings (1974—$6,605,000).

6. Fully Diluted Common Stock Earnings per Share
Assuming that all conversion rights outstanding at December 31, 1975 had actually been exercised at the beginning of the year, fully diluted earnings for the year ended December 31, 1975 would have been $2.07 (1974—$1.65) per share. The calculation assumes that earnings applicable to common shares were increased:

(a) by $22,000 representing the elimination of interest, net of income taxes, attributable to the 7% convertible subordinated debentures, and

(b) by $1,135,000 representing the elimination of interest, net of income taxes, attributable to the 9½% convertible subordinated debentures.

7. Maturities of Gross Receivables and Payables

(in millions of dollars)

	1 year	2 years	3 years	4 years	5 years	6-10 years	Over 10 years	Total
Receivables								
Sales financing—Wholesale	286.2	—	—	—	—	—	—	286.2
—Retail	388.5	230.3	96.5	24.5	12.1	19.4	0.3	771.6
Dealer loans	4.2	3.8	3.8	2.9	0.9	1.2	0.2	17.0
Inventory financing	9.7	—	—	—	—	—	—	9.7
Consumer loans	97.7	71.5	35.5	9.8	1.9	—	—	216.4
Residential mortgages	5.1	8.1	8.7	9.6	12.2	49.0	109.5	202.2
Commercial loans and mortgages	12.6	13.0	8.9	8.0	16.8	2.7	1.6	63.6
Leasing	97.5	90.0	81.9	68.6	56.6	198.1	132.1	724.8
Other receivables and property, vehicles and equipment held for sale	3.4	—	—	—	—	—	—	3.4
	904.9	416.7	235.3	123.4	100.5	270.4	243.7	2,294.9
Payables								
Debt*	786.8	96.5	62.3	35.4	80.5	236.4	240.4	1,538.3
Other (note 11)	91.6	5.6	2.3	0.6	0.3	0.5	—	100.9
	878.4	102.1	64.6	36.0	80.8	236.9	240.4	1,639.2
Excess of receivables	26.5	314.6	170.7	87.4	19.7	33.5	3.3	655.7

*Allocation not adjusted for sinking fund and purchase fund requirements. (See note 10).

8. Marketable Securities
Marketable securities include those held by the casualty insurance subsidiary, at cost plus accrued income, amounting to $14,196,000 (1974—$14,736,000) (quoted value 1975—$12,228,000; 1974—$12,487,000).

9. Unrealized Foreign Exchange Gain
Such gains or losses derive from the accounting policies described in note 1(d).

The net unrealized exchange gain results from the difference between the current exchange rate and the exchange rate at date the proceeds of unhedged borrowings payable in U.S. funds were received.

10. Sinking Fund and Purchase Fund Requirements
The sinking fund requirements for the five years ending December 31, 1976 to 1980 are as follows:

		$000's		
1976	1977	1978	1979	1980
1,973	2,899	3,124	3,124	3,124

Certain issues have purchase fund requirements which are non-cumulative and under which the IAC companies are required to redeem only debt instruments offered to them subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31 are as follows:

Years ending December 31 (In millions of dollars)	
1976	$13.2
1977	$13.8
1978	$13.1
1979	$12.0
1980	$ 9.4
1981 to 1985	$32.2
after 1985	$33.8

11. Accounts Payable and Accrued Liabilities
Accounts payable include 6% unsecured term note of U.S. $1,874,000 (at the Canadian equivalent of $1,904,000) of a subsidiary repayable in equal semi-annual instalments until 1981.

12. Unearned Income

	1975 $000's	1974 $000's
Unearned income comprises:		
Unearned service charges relating to sales financing-retail receivables	**116,371**	122,639
Unearned service charges relating to consumer loans	**37,435**	37,134
Deferred income relating to residential mortgages	**4,153**	3,407
Unearned income relating to leasing receivables	**242,382**	146,077
Unearned casualty insurance premiums	**5,664**	5,510
	406,005	314,767

13. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1975 $000's	1974 $000's
Residential mortgages	**765**	667
Unamortized debt discount and expense	**1,130**	2,714
Premises and equipment	**195**	206
Unearned casualty insurance premiums	**676**	654
Leasing receivables	**122,369**	97,751
	125,135	101,992

14. Common Shares

Common shares are reserved for issue as follows:

	Shares reserved 1975	1974
(a) Personnel stock purchase plan — This was a continuing plan available after three years of service to all employees, certain of whom were directors, at $15.30 per share during 1975 allocated on a formula based on annual remuneration. This plan was terminated in anticipation of the passage by Parliament of the private members bill which provides for the conversion of the company into a chartered bank (note 17). This bill includes a provision making the section of the Bank Act prohibiting such plans applicable to the company.	—	130,554
(b) Stock option plan, expiring November 30, 1976 — This was a plan available to officers and certain senior personnel as determined by the Board of Directors at a price not less than 90% of the last board lot sale on The Toronto Stock Exchange on the business day next preceding the date upon which the option was granted. For the reasons described in (a) above, this plan was also terminated following an agreement with all individuals holding outstanding options	—	117,150
(c) Conversion right exercisable until October 31, 1977 at 70 shares (equivalent to $14.285 per share) for each $1,000 of principal of the 1967 7% convertible subordinated debentures	**44,100**	57,890
(d) Conversion right exercisable until July 14, 1979 at 50 shares (equivalent to $20 per share) and thereafter, until July 14, 1984 at 46 shares (equivalent to $21.74 per share) for each $1,000 of principal of the 1974 9½% convertible subordinated debentures	**1,195,000**	1,195,000
	1,239,100	1,500,594

15. Commitments under Leases

The companies have leases on office premises used for their business, requiring rental payments as follows:

Years	Approximate annual rental $
1976	2,589,000
1977	2,025,000
1978	1,721,000
1979	1,258,000
1980	657,000

The aggregate rentals for 1981 and thereafter amount to $2,185,000.

16. Contingent Liabilities

IAC and some of its subsidiaries are parties to certain litigation incidental to the kind of business conducted. In the opinion of management, the utimate liability, if any, will not materially affect the companies' consolidated financial position or results of operations.

17. Conversion to a Chartered Bank

The directors and shareholders of the company have approved the conversion of the company into a chartered bank. A private members bill currently before Parliament must be passed before conversion can commence.

18. Anti-Inflation Act

The company and its subsidiaries are subject to the provisions of the Federal Anti-Inflation legislation which became effective October 14, 1975. The impact thereof on the companies' profit margins, prices and compensation arrangements cannot be accurately determined at the present time because of uncertainties in the interpretation and application of certain provisions and definitions contained in the Act and Regulations and the fact that specific Regulations respecting financial institutions have not yet been issued. However, based on preliminary computations, it appears that the legislation has no adverse effect on the consolidated financial position or results of operations for the 1975 year.

Under the legislation it appears that the amount of dividends which the company can declare or pay on its common shares for the quarters ending March 31, 1976, June 30, 1976 and September 30, 1976, will be limited to 28.5¢ per share per quarter.

Details of Secured Term Notes

as at December 31, 1975

Schedule A

Issued Individually (at rates of interest varying from 6.875% to 11.25%)	Year of maturity	Par value U.S. $000's	**1975 $000's**	1974 $000's
Payable in Canadian funds—				
Parent company	1975		—	27,501
	1976		**62,738**	62,654
	1977		**53,008**	22,473
	1978		**12,505**	12,505
	1979		**290**	290
	1980		**2,515**	10
			131,056	125,433
Niagara Finance Company Limited	1975		—	6,090
	1976		**11,314**	11,269
	1977		**880**	880
	1978		**172**	172
	1979		**15**	15
	1980		**20**	20
			12,401	18,446
Payable in U.S. funds (note 9)—				
Parent company	1975	—	—	11,881
	1976	7,000	**6,839**	31,599
	1977	3,800	**3,834**	2,005
	1978	26,800	**27,224**	—
	1979	1,800	**1,828**	—
	1980	1,800	**1,828**	—
	1981	1,800	**1,828**	—
	1982	20,000	**20,316**	19,808
	1983	10,000	**10,158**	9,904
		73,000	**73,855**	75,197
Niagara Finance Company Limited	1982	1,000	**1,016**	—
	1983	1,000	**1,016**	—
	1984	1,000	**1,016**	—
	1985	1,000	**1,015**	—
		4,000	**4,063**	—
			221,375	219,076

Issued in Series	Year of issue	Series	Rate %	Maturity date	1975	1974
Payable in Canadian funds—						
Parent company	1959	"T"	5¾	April 1, 1979	**6,000**	6,000
	1959	"V"	6½	December 1, 1979	**5,000**	5,000
	1960	"W"	6	August 15, 1980	**7,500**	7,500
	1961	"X"	5¾	November 15, 1981	**8,500**	8,500
	1962	"Y"	5.40	July 2, 1982	**10,000**	10,000
	1964	"28"	5¾	September 15, 1984	**15,000**	15,000
	1965	"31"	5¾	March 1, 1985	**12,500**	12,500
	1965	"33"	6	December 1, 1985	**5,000**	5,000
	1966	"34"	6½	February 1, 1986	**6,000**	6,000
	1969	"37"*	8¼	May 1, 1979	**200**	200
	1969	"37"*	8¾	May 1, 1989	**1,200**	1,200
	1972	"39"*	8¾	September 1, 1991	**30,368**	32,118
					107,268	109,018

Details of Secured Term Notes
as at December 31, 1975

Schedule A (Continued)

Issued in Series	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	**1975 $000's**	1974 $000's
Niagara Finance Company Limited	1964	"1"	5¾	April 15, 1984		**10,000**	10,000
	1964	"2"	5¾	May 1, 1985		**10,000**	10,000
	1965	"3"	5¾	May 1, 1985		**10,000**	10,000
	1966	"4"	7½	December 1, 1986		**5,000**	5,000
	1968	"5"	8¼	May 1, 1988		**7,500**	7,500
						42,500	42,500
Niagara Realty of Canada Limited	1970	"A"*	9¾	December 15, 1990		**4,710**	10,000
	1971	"B"*	7⅞	December 15, 1986		**19,156**	19,522
	1972	"C"*	8¼	August 15, 1982		**13,541**	13,807
	1973	"D"*	7⅞	May 15, 1988		**19,331**	19,803
	1974	"E"*	9	March 1, 1994		**23,994**	24,673
	1974	"F"*	10¼	June 18, 1981		**9,834**	10,000
	1974	"F"**	10⅜	December 18, 1984		**13,649**	15,000
						104,215	112,805
Payable in U.S. funds (note 9)— Parent company	1957	"S"	5½	February 15, 1977	15,870	**16,121**	15,718
	1962	"Z"	5¼	October 1, 1982	10,000	**10,158**	9,904
	1963	"27"	5¼	April 1, 1988	10,000	**10,158**	9,904
	1964	"29"	5	October 1, 1984	10,000	**10,158**	9,904
	1965	"30"	5	February 15, 1985	15,000	**15,237**	14,856
	1965	"32"	5½	October 1, 1987	20,000	**20,316**	19,808
	1966	"35"	5¾	February 1, 1986	12,825	**13,027**	12,702
	1968	"36"*	7¾	October 15, 1986	12,050	**12,240**	12,677
	1969	"38"*	9½	June 1, 1975	—	**—**	3,945
	1969	"38"*	9½	June 1, 1990	13,050	**13,256**	13,370
	1974	"40"*	9¼	May 15, 1994	43,000	**43,680**	31,693
					161,795	**164,351**	154,481
Niagara Finance Company Limited	1975	"6"**	10½	September 1, 1990	30,000	**30,474**	—
						448,808	418,804
						670,183	637,880

Series "37" 8¼% 1979 notes may be exchanged at maturity for either 8½% 1984 notes or 8¾% 1989 notes.

Holders of Series "38" notes have the right to prepayment on June 1, 1980 or 1985.

Notes issued individually and payable in U.S. funds for U.S. $7 million par value maturing in 1976 and $2 million par value maturing in 1977 have been converted to Canadian funds at exchange rates established under forward exchange contracts. All other notes issued individually and in series payable in U.S. funds have been converted at current exchange rates (note 10).

The interest rate on Series "A" notes increased to 9¾% on December 15, 1975. Holders have the right to prepayment on December 15, 1980 or 1985.
Holders of Series "B" notes have the right to prepayment on December 15, 1978.
Holders of Series "D" notes have the right to prepayment on May 15, 1980.
Holders of Series "E" notes have the right to prepayment on March 1, 1980.
The parent company has guaranteed Series "A", "B", "C", "D", "E" and "F" notes as to principal, interest and redemption premiums, if any.

*These notes have purchase fund provisions (note 10).
**These notes have a sinking fund provision (note 10).

Details of Debentures

as at December 31, 1975

Schedule B

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1975 $000's**	Outstanding 1974 $000's
Payable in Canadian funds—						
Parent company	1956	5¼*	June 1, 1975	—	—	2,213
	1957	5¾**	January 15, 1977 ...	12,000	**5,700**	5,918
	1957	6 **	September 1, 1977 ..	5,000	**3,123**	3,440
	1958	5½**	February 1, 1978 ...	6,000	**3,251**	3,383
	1959	6 **	June 15, 1979	10,000	**7,101**	7,484
	1960	6¾**	February 1, 1980 ...	10,000	**7,344**	7,486
	1961	5¾**	July 2, 1981	10,000	**7,805**	8,050
	1962	5¾**	February 15, 1982 ..	10,000	**7,272**	7,576
	1965	6½*	December 15, 1983 ..	10,000	**6,925**	7,248
	1966	7½*	December 15, 1986 ..	10,000	**6,775**	7,462
	1970	9½#	October 15, 1992 ..	15,000	**12,999**	13,903
	1975	9¾##	March 25, 1995	30,000	**29,785**	—
					98,080	74,163
Niagara Finance Company Limited	1972	8 ###	April 17, 1992	15,000	**13,817**	14,252
	1974	11½####	October 15, 1994 ...	15,000	**15,000**	15,000
					28,817	29,252
					126,897	103,415

*Sinking fund debentures (note 10).

**These debentures have purchase fund provisions (note 10).

#These debentures have purchase fund provisions until October 15, 1982 and sinking fund provisions thereafter. Holders have the right to prepayment on October 15, 1982 (note 10).

##These debentures have purchase fund provisions until March 25, 1983 and sinking fund provisions thereafter. Holders have the right to prepayment on March 25, 1983 (note 10).

###These debentures have purchase fund provisions and the holders have the right to prepayment on April 17, 1977 (note 10).

####These debentures have purchase fund provisions and the holders have the right to prepayment on October 15, 1979, 1984 and 1989 (note 10).

Details of Subordinated Debentures

as at December 31, 1975

Schedule C

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1975 $000's**	Outstanding 1974 $000's
Payable in Canadian funds—						
Parent company	1966	6¾*	August 15, 1984	15,000	**10,825**	11,004
	1967	7 **#	November 1, 1985 ..	10,000	**630**	827
	1974	9½**##	July 15, 1994	24,000	**23,900**	23,900
					35,355	35,731

*Sinking fund debentures (note 10).

**Convertible debentures (note 14).

#These debentures have purchase fund provisions until October 31, 1977 and sinking fund provisions thereafter (note 10).

##These debentures have purchase fund provisions (note 10).

Details of Capital Stock
as at December 31, 1975

Schedule D

	1975 Shares	1975 Amount $000's	1974 Shares	1974 Amount $000's
Preferred Shares				
Authorized and issued—4½% cumulative shares of $100 each redeemable at $101	100,000	10,000	100,000	10,000
Purchased for cancellation	52,736	5,274	49,468	4,947
	47,264	4,726	50,532	5,053
5¾% cumulative shares of $25 each redeemable at $26.50 to May 15, 1977; $26.25 to May 15, 1981 and $25.25 thereafter	600,000	15,000	600,000	15,000
Purchased for cancellation	72,333	1,808	66,311	1,658
	527,667	13,192	533,689	13,342
		17,918		18,395
Common Shares				
Authorized without nominal or par value (note 14)	20,000,000		20,000,000	
Issued and fully paid				
Beginning of year	13,487,698	50,182	13,006,293	44,114
Issued during the year—				
On conversion of 7% convertible subordinated debentures	13,790	197	5,530	79
For cash—				
Exercise of options granted under the personnel stock purchase plan and the stock option plan	40,395	618	13,515	210
Exercise of purchase warrants attached to the 6¾% subordinated debentures expiring August 14, 1974	—	—	462,360	5,779
	54,185	815	481,405	6,068
End of year	13,541,883	50,997	13,487,698	50,182

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of IAC Limited and subsidiaries as at December 31, 1975 and the consolidated statements of earnings, retained earnings 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, 1975 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 applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Toronto, February 11, 1976

Coopers & Lybrand
Chartered Accountants

Policies and Other Data

Accounting Policies
Accounting policies relating to principles of consolidation, recognition of revenue, allowance for doubtful receivables, translation of foreign currencies, amortization of debt discount and expenses and methods of depreciation are presented in note 1 of the notes to the consolidated financial statements, page 11. The accounting practices of the non-consolidated wholly owned life insurance subsidiary are in accordance with the requirements of the insurance laws of Canada.

Anti-Inflation Guidelines
The company and its subsidiaries are subject to the provisions of the Federal Anti-Inflation legislation which became effective October 14, 1975. Note 18 of the notes to the consolidated financial statements, page 14, comments on this subject.

Branch Start-Up Expenses
Start-up expenses of new branches are charged to current earnings as and when incurred.

Delinquencies
Delinquent accounts are those on which the lesser of $25 or half of an instalment is past due one month or more. Renewed accounts are analysed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. "Renewal" is a new contract entered into before the expiry of the old for the purpose of reducing the amount of the instalments originally agreed to by the customer. An "extension" means the postponement of all or a part of a current instalment. The prerequisites for granting renewals or extensions are strictly determined and renewed or extended accounts are carefully controlled. Partial payments, no matter how recent, will not remove an account from delinquent status. The Supplement to this Annual Report contains detailed information.

Intercompany Borrowing
IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

Offices
The total number of offices at year-end was 751 (1974: 758). These numbers reflect the total of offices where the various financial and insurance services of IAC and its subsidiaries were available. In several instances, more than one office is located in the same premises. In such situations the service of certain employees may be shared and other operational benefits are also derived. The branch network is spread in Canada from coast-to-coast and there are 24 (1974: 18) branches of Niagara Finance Company Limited in the United Kingdom.

Pension Funds
IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees with over one year of service, except those of the life assurance company. The pension plan is based on the highest average remuneration received over a period of five consecutive years prior to retirement to equal a 'final earnings' plan. This is the result of a change in the pension plan, effective December 31, 1971 which eliminates the need for any updating. The company's contribution for 1975 amounted to $1,217,000 (1974: $1,103,000). In addition the company contributed $315,000 (1974: $282,000) to various government pension plans.

The Sovereign Life Assurance Company of Canada has its own pension plan based on retirement at age 65 for employees in service at December 31, 1970 and at age 62 for staff engaged thereafter.

Personnel
The total staff employed at year-end was 3,049 (1974: 3,016).

Ten Year Operating and Statistical Summary*

	1975		1974		1973	
Volume of Business ($000's)						
Sales financing—wholesale	**1,470,730**		1,460,542		1,347,917	
—retail	**576,297**		653,046		629,425	
Consumer loans	**207,501**		216,356		216,769	
Residential mortgages	**93,006**		88,666		66,559	
Commercial loans and leasing	**209,699**		114,471		124,103	
Net casualty insurance premiums written	**15,379**		13,075		11,619	
New ordinary life assurance—business written	**98,700**		84,400		67,200	
Assets and Liabilities ($000's)						
Total assets	**2,390,847**		2,139,457		1,852,885	
Receivables	**2,294,945**		2,061,035		1,775,134	
Total debt	**1,538,299**		1,407,572		1,203,673	
Total equity	**218,822**		203,645		188,437	
Debt to equity ratio: times	**7.03**		6.91		6.39	
Operating Highlights ($000's) (% of gross income)						
Gross income	**243,150**		221,750		171,547	
Cost of borrowed money	**114,265**	**47.0**	115,847	52.2	73,280	42.7
General expenses	**59,134**	**24.3**	51,359	23.1	46,083	26.9
Earnings	**30,450**	**12.5**	23,336	10.5	22,494	13.1
Preferred dividends	**988**	**.4**	996	.4	1,019	.6
Earnings applicable to common shares	**29,462**	**12.1**	22,340	10.1	21,475	12.5
Average cost of borrowed money %	**8.3**		9.0		7.2	
Common Stock Facts						
Earnings per share outstanding—daily average	**$2.18**		$1.69		$1.65	
Per cent return on average equity	**15.2**		12.6		13.0	
Dividends paid per share	**$1.09**		$ .98		$ .96	
Income and other taxes per share	**$2.31**		$1.86		$1.82	
Number of shareholders	**11,435**		11,853		12,510	
Number of shares outstanding						
—year end	**13,541,883**		13,487,698		13,006,293	
—daily average	**13,513,111**		13,204,861		12,995,747	
—owned in Canada—year end %	**96.3**		96.3		95.7	
Book value per share	**$14.87**		$13.73		$13.05	

*The above summary excludes data for The Sovereign Life Assurance Company of Canada, except for volume. Figures prior to 1969 reflect the two-for-one subdivision of common shares in May 1969.

1972		1971		1970		1969		1968		1967		1966	
1,112,517		955,291		738,933		764,918		768,619		626,863		602,313	
547,076		431,658		428,543		505,063		478,533		380,321		397,036	
192,739		175,419		168,422		174,752		178,473		164,450		157,019	
41,508		30,084		20,181		18,113		12,335		13,157		6,111	
99,127		46,909		47,776		42,986		25,376		18,405		14,443	
10,257		9,598		10,149		10,882		10,303		10,186		9,592	
60,200		51,500		47,400		46,900		44,000		36,900		34,500	
1,523,353		1,298,134		1,232,688		1,188,228		1,090,326		972,744		943,536	
1,451,213		1,202,435		1,138,981		1,111,494		1,014,893		893,876		887,427	
974,080		850,844		841,506		843,284		795,448		720,252		697,472	
179,520		160,882		150,628		143,431		138,305		132,650		126,941	
5.43		5.29		5.59		5.88		5.75		5.43		5.49	
147,635		138,502		143,244		136,327		122,510		109,131		107,409	
55,919	37.9	52,838	38.1	60,693	42.4	56,030	41.1	48,958	40.0	41,577	38.1	43,386	40.4
43,214	29.3	40,740	29.4	40,938	28.6	40,161	29.5	36,761	30.0	34,715	31.8	32,628	30.4
21,994	14.9	19,415	14.0	16,862	11.8	15,484	11.4	14,936	12.2	14,205	13.0	13,509	12.6
1,034	.7	1,064	.8	1,079	.8	1,118	.8	1,146	.9	1,167	1.1	856	.8
20,960	14.2	18,351	13.2	15,783	11.0	14,366	10.5	13,790	11.3	13,038	11.9	12,653	11.8
6.6		6.7		7.4		7.1		6.7		6.2		6.0	
$1.65		$1.50		$1.30		$1.19		$1.15		$1.09		$1.06½	
13.8		13.5		12.5		12.1		12.1		12.1		12.4	
$ .84		$ .80		$ .72½		$ .70		$ .65		$ .61¼		$ .60	
$1.69		$1.66		$1.53		$1.45		$1.33		$1.11½		$1.09	
12,672		12,802		13,502		13,904		14,081		13,675		13,776	
12,988,399		12,306,118		12,131,720		12,060,587		11,977,828		11,948,622		11,868,096	
12,694,400		12,207,770		12,085,813		11,922,218		11,954,178		11,917,132		11,861,052	
96.2		95.2		94.7		94.1		94.1		93.1		92.4	
$12.35		$11.50		$10.78		$10.17		$9.78		$9.30		$8.84	

Niagara Finance Company Limited

Your Company's largest subsidiary, Niagara Finance Company Limited, is also the largest all-Canadian consumer loan company. It provides personal cash loans and finances the purchase and leasing of household durables. The Company is also engaged in the leasing of commercial and industrial equipment to major business corporations. Through 256 offices in Canada and 24 in the United Kingdom, it serves over 215,000 customers.

Recessionary conditions in the Canadian economy were reflected in a slight decline in consumer type outstandings. However, overall receivables increased by $7.1 million to a new high of $317 million.

Higher average assets, with no increases in the cost of service to customers, produced modestly higher gross income. This, with a decline in the average cost of borrowed funds from 9.8% in the previous year to 8.9%, resulted in a 6.4% increase in earnings to a record of $5.9 million.

The Company's receivables are in sound condition. Net losses at 1.75% were higher than in the preceding year, but below the average in the industry. In recognition of the current incidence of unemployment and work stoppages in many sectors of the economy, the provision for doubtful receivables was increased by $1.4 million.

The generally anticipated improvement in consumer demand in 1976 should ensure continued progress in the Company's results.

Selected Niagara Finance Statistics:	**1975**	1974	1973	1972	1971
Earnings ($ thousands)	**5,858**	5,508	5,333	5,499	4,524
Receivables ($ millions)	**317.8**	310.3	273.9	198.1	178.3

Statement of Earnings
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Gross Income (note 2)	**44,579**	43,275
Expenditures (note 3)		
Cost of borrowed money—Short-term debt	**5,687**	11,398
—Long-term debt	**10,760**	6,126
	16,447	17,524
General and administrative	**16,579**	14,766
	33,026	32,290
	11,553	10,985
Provision for Income Taxes		
Current	**1,378**	170
Deferred	**4,317**	5,307
	5,695	5,477
Earnings	**5,858**	5,508

Statement of Retained Earnings
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Earnings for the Year	**5,858**	5,508
Dividends		
Class A shares	**1,750**	1,750
Common shares	**1,750**	1,750
	3,500	3,500
Increase in Retained Earnings for the Year	**2,358**	2,008
Retained Earnings—Beginning of Year	**13,903**	11,895
Retained Earnings—End of Year	**16,261**	13,903

Balance Sheet
as at December 31, 1975

Assets

	1975 $000's	1974 $000's
Cash	**3,312**	4,344
Receivables		
Small loans (note 4)	**41,484**	48,073
Other loans	**174,966**	168,543
Sales financing—retail	**25,375**	27,935
Leasing	**75,129**	65,299
Sundry	**848**	408
	317,802	310,258
Allowance for doubtful receivables	**5,512**	5,089
	312,290	305,169
Other Assets and Deferred Charges		
Income taxes recoverable	**—**	1,010
Leasehold improvements and prepaid expenses	**762**	633
Unamortized debt discount and expense	**1,217**	1,411
Office equipment and automobiles—at cost, less accumulated depreciation of $1,275,000 (1974—$1,089,000)	**1,182**	1,028
	3,161	4,082
	318,763	313,595

Liabilities

	1975 $000's	1974 $000's
Secured Demand Bank Loans	**15,622**	13,925
Secured Short-Term Notes	**25,926**	56,078
Secured Term Notes (note 6)	**89,438**	60,946
Debentures (note 7)	**28,817**	29,252
Unsecured Notes (note 8)	**29,904**	32,022
	189,707	192,223
Payables		
Accounts payable and accrued liabilities	**4,612**	6,996
Income taxes payable	**305**	—
	4,917	6,996
Unearned Income (note 9)	**66,973**	64,455
Unrealized Foreign Exchange Gain (note 10)	**570**	—
Deferred Income Taxes (note 11)	**15,335**	11,018
	277,502	274,692

Shareholders' Equity

	1975 $000's	1974 $000's
Capital Stock		
Authorized—150,000 5¼% non-cumulative, participating Class A shares with a par value of $100 each, redeemable at par; 150,000 common shares without nominal or par value		
Issued and fully paid—125,000 Class A shares	**12,500**	12,500
125,000 common shares	**12,500**	12,500
	25,000	25,000
Retained Earnings	**16,261**	13,903
	41,261	38,903
	318,763	313,595

Signed on behalf of the Board B.F. London, Director L.R. Woodall, Director

Statement of Changes in Financial Position
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Sources of Funds		
Operations —		
Earnings	5,858	5,508
Amortization of debt discount and expense	217	164
Amortization and depreciation of fixed assets	514	442
Provision for deferred income taxes	4,317	5,307
	10,906	11,421
Borrowings —		
Short-term debt	(29,314)	(30,274)
Long-term debt —		
Proceeds	34,925	53,047
Redemptions	(6,893)	(3,849)
	(1,282)	18,924
	9,624	30,345
Uses of Funds		
Increase in operating assets —		
Receivables —		
Small loans	(6,589)	(6,757)
Other loans	6,423	25,893
Sales financing — retail	(2,560)	(500)
Leasing	9,830	17,548
	7,104	36,184
Less: Increase in allowance for doubtful receivables	423	315
Increase in unearned income	2,518	13,063
	4,163	22,806
Dividends	3,500	3,500
Net decrease in payables	2,783	7,208
Net (increase) decrease in other assets including sundry receivables	210	(2,947)
	10,656	30,567
Decrease in cash	1,032	222
	9,624	30,345

Notes to Financial Statements
for the year ended December 31, 1975

1. Significant Accounting Policies

(a) Recognition of revenue
Precomputed charges on 'other' loans and on sales financing retail receivables are taken into income using the sum-of-the-digits method on an account by account basis.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Gains arising from residual values of the leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

(b) Allowance for doubtful receivables
For loans and sales finance receivables such allowance is set up as a percentage of the total of these receivables. After collection possibilities have been exhausted, any balance remaining on an account is written off.

(c) Translation of foreign currencies
Unhedged assets or liabilities are translated to Canadian funds at current exchange rates. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts. Realized exchange gains and losses are reflected in the current year's statement of earnings.

(d) Amortization of debt discount and expense
Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable at the holder's option the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(e) Methods of depreciation
Physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

Leasehold improvements are amortized in accordance with the same Act over the term of the respective leases.

2. Gross Income

	1975 $000's	1974 $000's
Income from receivables	**49,321**	46,649
Less: Provision for doubtful receivables	**4,742**	3,374
	44,579	43,275

3. Expenditure
General and administrative expenses are shown net of $3,966,000 (1974 — $2,983,000) recovery of expenses from affiliated companies, the affairs of which are largely administered by the company.

The aggregate direct remuneration paid or payable to the directors and senior officers as defined in The Business Corporations Act of Ontario amounted to $241,000 (1974 — $182,000).

4. Small Loans
Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is accrued but not precomputed.

5. Foreign Currency
Included in the balance sheet are the following unhedged amounts receivable or payable in foreign currencies which have been converted to Canadian currency in accordance with the accounting policy described in note 1 (c):

	$000's	
Other loans — receivable in U.K. sterling	18,075	
Less: Secured demand bank loans — bank loan payable in U.K. sterling	7,622	10,453
Secured term notes payable in U.S. funds (note 6) —		
Issued in series		30,474
Issued individually		4,063
Unsecured term note payable in U.S. funds (note 8)		1,904

6. Secured Term Notes

Issued Individually (at rates of interest varying from 7⅛% to 11¼%)

	Year of maturity	1975 $000's	1974 $000's
Payable in Canadian funds —	1975	**—**	6,090
	1976	**11,314**	11,269
	1977	**880**	880
	1978	**172**	172
	1979	**15**	15
	1980	**20**	20
		12,401	18,446
Payable in U.S. funds (note 10) —	1982	**1,016**	—
	1983	**1,016**	—
	1984	**1,016**	—
	1985	**1,015**	—
		4,063	—
		16,464	18,446

Issued in Series

	Year of issue	Series	Rate %	Maturity date	1975 $000's	1974 $000's
Payable in Canadian funds —	1964	1	5¾	April 15, 1984	**10,000**	10,000
	1964	2	5¾	May 1, 1985	**10,000**	10,000
	1965	3	5¾	May 1, 1985	**10,000**	10,000
	1966	4	7½	December 1, 1986	**5,000**	5,000
	1968	5	8¼	May 1, 1988	**7,500**	7,500
					42,500	42,500
Payable in U.S. funds (note 10) —	1975	6	10½	September 1, 1990	**30,474**	—
					72,974	42,500
					89,438	60,946

Series 6 notes have sinking fund provisions.

7. Debentures
The holders of Series "B" debentures have the right to prepayment of principal on April 17, 1977.

The holders of Series "C" debentures have the right to prepayment of principal on October 15, 1979, 1984 and 1989.

Series "B" and "C" debentures have purchase fund provisions.

Year of issue	Series	Rate %	Maturity date	1975 $000's	1974 $000's
1972	"B"	8	April 17, 1992	**13,817**	14,252
1974	"C"	11½	October 15, 1994	**15,000**	15,000
				28,817	29,252

8. Unsecured Notes — Unsecured notes comprise:

	1975 $000's	1974 $000's
Parent company —		
Demand note	**3,000**	4,800
Term note bearing interest at the monthly average cost of borrowed money to the parent company and maturing April 1, 1977	**25,000**	25,000
6% term note for U.S. $1,874,000 (1974 — $2,385,000) repayable in equal semi-annual instalments until 1981 (note 10)	**1,904**	2,222
	29,904	32,022

9. Unearned Income — Unearned income comprises:

	1975 $000's	1974 $000's
Unearned service charges relating to 'other' loans	**37,435**	37,134
Unearned service charges relating to sales financing — retail receivables	**3,948**	3,860
Unearned income relating to leasing receivables	**25,590**	23,461
	66,973	64,455

10. Unrealized Foreign Exchange Gain
Such gains or losses derive from the accounting policies described in note 1 (c).

The net unrealized exchange gain results from the difference between the current exchange rate and the exchange rate at the date the proceeds of unhedged borrowings payable in U.S. funds were received.

11. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1975 $000's	1974 $000's
Unamortized debt discount and expense	**133**	414
Leasing receivables	**15,202**	10,604
	15,335	11,018

12. Sinking Fund and Purchase Fund Requirements
The sinking fund requirements for the five years ending December 31, 1976 to 1980 are as follows: $000's

1976	1977	1978	1979	1980
1,524	1,524	1,524	1,524	1,524

Series "B" and "C" debentures have purchase fund requirements which are non-cumulative and under which the company is required to redeem only debt instruments offered to it subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, 1976 and thereafter are as follows:

$000's

1976	1977	1978	1979
990	709	600	475

13. Anti-Inflation Act
The company is subject to the provisions of the Federal Anti-Inflation legislation which became effective October 14, 1975. The impact thereof on the company's profit margins, prices and compensation arrangements cannot be accurately determined at the present time because of uncertainties in the interpretation and application of certain provisions and definitions contained in the Act and Regulations and the fact that specific regulations respecting financial institutions have not yet been issued. However, based on preliminary computations, it appears that the legislation has no adverse effect on the financial position or results of operations for the 1975 year.

14. U.K. Operations
On December 17, 1975, the shareholders of the company authorized the sale, at their book value at the date of sale, of all the company's assets in the United Kingdom to a newly incorporated wholly-owned subsidiary company in the United Kingdom in consideration of 2,500,000 ordinary shares of £1 each and a promissory note of that company. It is expected that the sale will take place during 1976.

Auditors' Report to the Shareholders

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1975 and the statements of earnings, retained earnings 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 financial statements present fairly the financial position of the company as at December 31, 1975 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.

January 30, 1976

Coopers & Lybrand
Chartered Accountants

Board of Directors

Robert E. Campbell
Toronto, Ont.
Senior Vice-President & Deputy Senior General Manager, IAC

Roland Chagnon, C.A.
Montreal, Que.
Chairman of the Board, Lallemand Inc.

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
President, IAC

Byron F. London
Toronto, Ont.
President & Chief Executive Officer

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Lawrence M. Machum, Q.C.
Saint John, N.B.
Partner, McKelvey, Macauley, Machum and Fairweather

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President & Senior General Manager, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President—Finance, IAC

William Moodie
Montreal, Que.
President, Canadian Pacific Investments Ltd.

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, Director & former Chairman of the Board, IAC

L. Ronald Woodall
Toronto, Ont.
Executive Vice-President & General Manager

Niagara Realty of Canada Limited and Subsidiary

Niagara Finance Company Limited administers the affairs of these companies which provide first and second mortgage loans, primarily on residential property. In addition, existing mortgages are purchased on both an individual and portfolio basis. These services are available through 264 Niagara branches across Canada, including 8 specialized mortgage branches.

Buoyant demand resulted in continued progress in 1975, with receivables increasing by 15.1% to $202 million.

Principally as a result of the higher asset base, earnings increased by 53.9% to $3.4 million.

The condition of the portfolio is sound. Losses represented only 0.07% of average receivables.

The outlook for the year 1976, considering the likely upturn in residential construction, appears to be favourable.

Selected Niagara Realty Statistics:	1975	1974	1973	1972	1971
Earnings ($ thousands)	**3,388**	2,202	1,679	1,671	1,483
Mortgage receivables ($ millions)	**202.2**	175.6	127.6	94.1	76.0
Average mortgage balance at year end (dollars)	**8,962**	7,963	6,339	5,269	4,580

Consolidated Statement of Earnings
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Gross Income (note 2)	**26,984**	20,567
Expenditure		
Cost of borrowed money—Short-term debt	**4,621**	4,216
—Long-term debt	**10,205**	7,420
	14,826	11,636
General and administrative (note 3)	**5,362**	4,372
	20,188	16,008
	6,796	4,559
Provision for Income Taxes		
Current	**4,258**	1,802
Deferred	**(850)**	555
	3,408	2,357
Earnings	**3,388**	2,202

Consolidated Statement of Retained Earnings
for the year ended December 31, 1975

	1975 $000's	1974 $000's
Earnings for the Year	**3,388**	2,202
Dividends	**2,000**	1,300
Increase in Retained Earnings for the Year	**1,388**	902
Retained Earnings—Beginning of Year	**4,329**	3,427
Retained Earnings—End of Year	**5,717**	4,329

Consolidated Balance Sheet
as at December 31, 1975

Assets

	1975 $000's	1974 $000's
Cash	**7,158**	4,407
Cash Committed for Unclosed Loans	**3,885**	3,253
Receivables		
Residential mortgages	**202,247**	175,619
Real estate held for sale—at estimated realizable value	**15**	73
Sundry	**96**	437
	202,358	176,129
Allowance for doubtful receivables	**1,517**	1,318
	200,841	174,811
Other Assets		
Prepaid expenses	**14**	6
Unamortized debt discount and expense	**1,738**	2,150
Office equipment and automobiles—at cost, less accumulated depreciation of $41,000 (1974—$41,000)	**26**	32
	1,778	2,188
	213,662	184,659

Liabilities

Demand Note Payable—parent company	**83,030**	48,913
Secured Term Notes (note 4)	**104,215**	112,805
Payables		
Accounts payable and accrued liabilities	**3,133**	3,290
Income taxes	**2,728**	391
	5,861	3,681
Deferred Income	**4,136**	3,378
Deferred Income Taxes (note 5)	**703**	1,553
	197,945	170,330

Shareholders' Equity

Capital Stock		
Authorized (note 6)—		
2,000,000 8% non-cumulative, redeemable preferred shares of $5 par value		
2,000,000 common shares of $5 par value		
Issued and fully paid—		
2,000,000 common shares	**10,000**	10,000
Retained Earnings	**5,717**	4,329
	15,717	14,329
	213,662	184,659

Signed on behalf of the Board B.F. London, Director L.R. Woodall, Director

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1975

	1975 $000's	1974 $000's
Sources of Funds		
Operations—		
Earnings	**3,388**	2,202
Amortization of debt discount and expense	**412**	328
Depreciation	**10**	12
Provision for deferred income taxes	**(850)**	555
	2,960	3,097
Borrowings—		
Demand note payable—parent company	**34,117**	(7,051)
Secured term notes	**(8,590)**	47,232
	25,527	40,181
Issue of capital stock	**—**	2,500
Other—		
Net increase in payables	**2,180**	1,708
Net decrease (increase) in other assets including sundry receivables and real estate held for sale	**387**	(344)
	2,567	1,364
	31,054	47,142
Uses of Funds		
Increases in operating assets		
Residential mortgages	**26,628**	48,030
Less: Increase in allowance for doubtful receivables	**199**	361
Increase in deferred income	**758**	1,030
	25,671	46,639
Dividends	**2,000**	1,300
	27,671	47,939
Increase (decrease) in cash	**2,751**	(258)
Increase (decrease) in cash committed for unclosed loans	**632**	(539)
	31,054	47,142

Notes to Consolidated Financial Statements
for the year ended December 31, 1975

1. Significant Accounting Policies

(a) Principles of consolidation
The financial statements include the accounts of the company and its subsidiary, Niagara Realty Limited.

(b) Allowance for doubtful receivables
For residential mortgages such allowance is set up as a percentage of total residential mortgage receivables.

(c) Amortization of debt discount and expense
Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(d) Depreciation and amortization
Physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

(e) Deferred income
Deferred income arises from mortgages purchased at a discount and is taken into income over the remaining term of the mortgage on the actuarial yield method.

2. Gross Income

	1975 $000's	1974 $000's
Earned income on mortgages	**27,312**	20,977
Less: Provision for doubtful receivables	**328**	410
	26,984	20,567

3. General and Administrative Expenses

General and administrative expenses include:	**1975**	1974
Depreciation of office equipment and automobiles	**$10,000**	$12,000
Remuneration of directors and officers —		
Aggregate remuneration of directors as directors	**NIL**	NIL
Number of directors	**7**	5
Aggregate remuneration of officers as officers	**$27,000**	$23,000
Number of officers	**9**	9
Number of officers who are also directors	**4**	3

The affairs of the companies are largely administered by Niagara Finance Company Limited.

4. Secured Term Notes

Year of issue	Series	Rate %	Maturity date	**1975 $000's**	1974 $000's
1970	"A"	9¾ *	December 15, 1990	**4,710**	10,000
1971	"B"	7⅞ **	December 15, 1986	**19,156**	19,522
1972	"C"	8¼	August 15, 1982	**13,541**	13,807
1973	"D"	7⅞ ***	May 15, 1988	**19,331**	19,803
1974	"E"	9 ****	March 1, 1994	**23,994**	24,673
1974	"F"	10¼	June 18, 1981	**9,834**	10,000
1974	"F"	10⅜	December 18, 1984	**13,649**	15,000
				104,215	112,805

*Holders have the right to prepayment on December 15, 1980 and 1985.

**Holders have the right to prepayment on December 15, 1978.

***Holders have the right to prepayment on May 15, 1980.

****Holders have the right to prepayment on March 1, 1980.
Series "A", "B", "C", "D", and "E" notes and series "F" notes maturing in 1981, have purchase fund provisions.

Series "F" notes maturing in 1984 have a sinking fund provision.

IAC Limited has guaranteed all Series notes as to principal, interest and redemption premiums, if any.

5. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income or expenses associated with the following balance sheet items:

	1975 $000's	1974 $000's
Residential mortgages	**765**	666
Unamortized debt discount and expense	**(62)**	887
	703	1,553

6. Capital Stock
During the year the company obtained Supplementary Letters Patent increasing its authorized share capital by the creation of 2,000,000 8% non-cumulative redeemable preferred shares of $5 par value.

7. Sinking Fund and Purchase Fund Requirements
The sinking fund requirements for the five years ending December 31, 1976 to 1980 are as follows:

$000's

1976	1977	1978	1979	1980
149	750	750	750	750

Certain issues have purchase fund requirements which are non-cumulative and under which the company is required to redeem only debt instruments offered to it subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, 1976 and thereafter are as follows:

Years ending December 31	$000's
1976	2,561
1977	2,891
1978	2,866
1979	2,291
1980	1,272
1981	312

8. Anti-Inflation Act
The company is subject to the provisions of the Federal Anti-Inflation legislation which became effective October 14, 1975. The impact thereof on the company's profit margins, prices and compensation arrangements cannot be accurately determined at the present time because of uncertainties in the interpretation and application of certain provisions and definitions contained in the Act and Regulations and the fact that specific Regulations respecting financial institutions have not yet been issued. However, based on preliminary computations, it appears that the legislation has no adverse effect on the financial position or results of operations for the 1975 year.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Niagara Realty of Canada Limited and subsidiary as at December 31, 1975 and the consolidated statements of earnings, retained earnings, 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 statements present fairly the financial position of the companies as at December 31, 1975 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 applied on a basis consistent with that of the preceding year.

January 30, 1976

Coopers & Lybrand
Chartered Accountants

Board of Directors

Jean C. Biron
Montreal, Que.
Assistant Vice-President, IAC

Raymond Girardin
Montreal, Que.
Vice-President

Joseph S. Land
Toronto, Ont.
President, IAC

Byron F. London
Toronto, Ont.
President

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President—Finance, IAC

Lionel A. Normandeau
Toronto, Ont.
Vice-President

L. Ronald Woodall
Toronto, Ont.
Vice-President & General Manager

The Sovereign General Insurance Company

In 1975 results showed improvement over those of the preceding year. Premium writings increased to $15.4 million (1974—$13.1 million).

Claim loss ratios improved slightly at 74.3% (1974—74.8%). The results of your Company, in common with the industry, have been seriously affected by the impact of inflation on claim settlements, despite some increase in premium rates during the year. All fire insurance policies are now being written on a one year basis which will maintain a more current relationship between premium rate levels and claim costs.

General expenses at $4.3 million were up 10%. Strict budgetary controls are being maintained.

After providing for income taxes, earnings increased to $460,000 from $57,000 in 1974. As constructive steps which have been taken become more fully reflected in results and, hopefully, inflationary conditions ease, further improvement may reasonably be anticipated.

Selected Sovereign General Insurance Company Statistics: (Thousands of Canadian Dollars)	**1975**	1974	1973	1972	1971
Premiums earned	**14,978**	12,050	10,949	9,750	9,524
Claims incurred	**11,125**	9,016	8,278	6,739	6,510
Expenses	**4,358**	3,944	3,244	3,288	3,560
Underwriting gain (loss)	**(505)**	(910)	(573)	(277)	(545)
Investment and other income	**1,080**	1,053	933	725	735
Income taxes	**115**	86	62	28	11
Earnings	**460**	57	298	421	179

Statement of Earnings
for the year ended December 31, 1975

		1975 ($)		1974 ($)	**1975 (%)**	1974 (%)
Premiums						
Net premiums written		**15,378,542**		13,074,505		
Less: Reinsurance premiums		**246,268**		370,274		
Net premiums retained		**15,132,274**		12,704,231		
Change in unearned premium reserve		**(154,285)**		(653,846)		
Premiums Earned		**14,977,989**		12,050,385	**100.00**	100.00
Expenses						
Claims incurred	**10,475,984**		8,486,213			
Staff adjusting expenses	**649,461**	**11,125,445**	530,162	9,016,375	**74.28**	74.82
		3,852,544		3,034,010	**25.72**	25.18
Commissions	**1,476,163**		1,344,122			
General and administrative	**2,474,102**		2,271,209			
Taxes and licences	**407,684**	**4,357,949**	328,724	3,944,055	**29.10**	32.73
Underwriting Loss		**(505,405)**		(910,045)	**(3.38)**	(7.55)
Other Income						
Income from investments	**1,125,682**		963,394			
Gain (loss) on sale of investments	**(46,120)**	**1,079,562**	89,215	1,052,609		
		574,157		142,564		
Income Taxes (note 2)						
Current	**214,085**		—			
Deferred	**53,526**	**267,611**	85,658	85,658		
Earnings Before Extraordinary Item		**306,546**		56,906		
Extraordinary Item						
Reduction of income taxes on application of prior year's loss		**153,000**		—		
Earnings		**459,546**		56,906		

Statement of Retained Earnings
for the year ended December 31, 1975

	1975 ($)	1974 ($)
Earnings for the Year	**459,546**	56,906
Retained Earnings at Beginning of Year	**5,067,999**	5,011,093
Retained Earnings at End of Year	**5,527,545**	5,067,999

Balance Sheet
as at December 31, 1975

Assets

	1975 ($)	1974 ($)
Cash	**335,587**	374,647
Reinsurer's deposit in respect of outstanding claims (contra)	**12,281**	68,420
Accounts receivable	**2,062,572**	2,547,672
Prepaid expenses	**7,246**	18,868
Investments—at cost plus accrued income (quoted value 1975—$12,227,679; 1974—$12,486,743)	**14,196,182**	14,736,022
Commercial paper receivable	**2,913,537**	—
Office equipment and automobiles—at cost, less accumulated depreciation of $327,925 (1974—$301,696)	**153,253**	138,097
Leasehold improvements—at cost, less amounts written off	**139,556**	168,301
	19,820,214	18,052,027

Liabilities

	1975 ($)	1974 ($)
Accounts payable and accrued liabilities	**310,619**	246,968
Accrued premium taxes	**159,718**	131,635
Provision for outstanding claims and adjusting expenses	**5,716,700**	4,712,493
Reinsurer's advance (contra)	**12,281**	68,420
Income taxes payable	**93,085**	—
	6,292,403	5,159,516
Unearned premium reserve	**5,664,260**	5,509,975
Deferred income taxes	**675,706**	654,237
	12,632,369	11,323,728

Shareholders' Equity

	1975 ($)	1974 ($)
Capital stock		
Authorized—10,000 shares of $100 each		
Issued and fully paid—5,830 shares	**583,000**	583,000
Premium on shares issued	**327,300**	327,300
Contributed surplus	**750,000**	750,000
Retained earnings	**5,527,545**	5,067,999
	7,187,845	6,728,299
	19,820,214	18,052,027

Signed on behalf of the Board W.R. Livingston, Director D.J. Wilson, Director

Notes to Financial Statements
for the year ended December 31, 1975

1. Anti-Inflation Act
The company is subject to the provisions of the Federal Anti-Inflation legislation which became effective October 14, 1975. The impact thereof on the company's profit margins, prices and compensation arrangements cannot be accurately determined at the present time because of uncertainties in the interpretation and application of certain provisions and definitions contained in the Act and Regulations.

2. Income Taxes
Depreciation and amortization of approximately $190,000 in excess of amounts claimed for income tax purposes has been recorded in the accounts in 1975 and prior years. This excess is available to reduce taxable income in future years.

In addition, there is a capital loss of approximately $19,600 which is available for application against future taxable capital gains.

Auditors' Report to the Shareholders

We have examined the balance sheet of The Sovereign General Insurance Company as at December 31, 1975 and the statements of earnings and retained earnings 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 statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 26, 1976

Coopers & Lybrand
Chartered Accountants

Board of Directors

Robert E. Campbell
Toronto, Ont.
Senior Vice-President & Deputy Senior General Manager, IAC

Roland Chagnon, C.A.
Montreal, Que.
President, Lallemand Inc.

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
President, IAC

William R. Livingston
Toronto, Ont.
President

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President & Senior General Manager, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President—Finance, IAC

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, Director & former Chairman of the Board, IAC

François P. Paradis
Toronto, Ont.
Senior Vice-President & General Manager—Operations, IAC

Renault S. St-Laurent, Q.C.
Quebec, Que.
Partner, St-Laurent, Monast, Walters & Vallières

Donald J. Wilson
Toronto, Ont.
Vice-President & Managing Director

The Sovereign Life Assurance Company of Canada

New ordinary insurance and annuities issued in 1975 totalled $98.7 million, up 16.9% over the previous year, and this represented the highest level of sales in the Company's history. The annual premium value of new insurance and annuity sales was $1,255,000.

Revenue, consisting of premium and investment earnings including interest, dividends and rents, amounted to $17,002,000 (1974–$18,449,000). Premium income resumed normal levels, as contrasted with 1974 when a large one-time group premium payment inflated revenue in that year.

Investment earnings increased significantly. A net yield of 7.49% (1974–7.28%) on a larger investment portfolio accounted for this improvement.

In 1975 total payments to policyholders and beneficiaries, including the amount set aside to increase actuarial reserves, were $11,732,000 (1974–$13,546,000). Dividends to policyholders amounted to $904,000, based on the current dividend scale.

Operating revenue, after provision for all policyholder payments and other expenditures, increased to $664,000 (1974–$197,000). The combined total of capital, surplus, and reserve accounts was $11,572,000, equal to 13.8% of assets, which provides a substantial margin of protection for all policyholders.

Copies of the Annual Report of The Sovereign Life Assurance Company of Canada are available from the Secretary of Sovereign or of IAC.

Selected Sovereign Life Statistics: (Millions of Canadian Dollars)	**1975**	1974	1973	1972	1971	1962*
Insurance in force:						
Ordinary	**520.0**	462.6	411.2	375.8	343.7	216.2
Group	**448.7**	482.1	483.8	471.7	401.4	2.6
Total	**968.7**	944.7	895.0	847.5	745.1	218.8
New business written:						
Ordinary	**98.7**	84.4	67.2	60.2	51.5	13.8
Group (Net change)	**(33.4)**	(1.7)	12.1	70.4	(18.7)	0.7
Policy reserves	**58.1**	55.2	50.5	48.3	46.7	37.2
Total assets	**84.0**	78.4	72.6	68.4	65.4	46.1
Net interest earned: Per cent	**7.49**	7.28	6.86	6.58	6.37	5.21

*Year of acquisition by IAC

Statement of Revenue
for the year ended December 31, 1975

	1975 ($)	1974 ($)
Revenue		
Premiums and annuity considerations	**11,167,490**	13,157,767
Interest, dividends and rents, less related expenses of $328,654 (1974—$356,537)	**5,834,800**	5,291,141
	17,002,290	18,448,908
Policyholder Distribution and Expenditures		
Amounts paid to or set aside for policyholders and beneficiaries—		
Death and ordinary disability claims	**2,653,095**	2,652,402
Group disability claims	**1,535,662**	1,518,902
Matured endowments	**769,332**	594,057
Annuity benefits	**261,653**	267,297
Surrender values	**1,550,128**	1,790,036
Increase in reserves for insurance and annuity contracts	**2,906,945**	4,694,108
Interest credited to funds on deposit and pension fund	**540,752**	412,589
	10,217,567	11,929,391
Dividends to participating policyholders (including change in provision)	**903,815**	941,626
Policyholders' investment taxes	**116,000**	57,000
Group experience rating refunds (including change in provision)	**494,767**	618,419
	11,732,149	13,546,436
Operating Expenses	**3,883,658**	4,049,249
	15,615,807	17,595,685
Operating Revenue Before Income Taxes	**1,386,483**	853,223
Provision for Income Taxes (note 2)	**737,000**	686,000
Operating Revenue	**649,483**	167,223
Gain on disposal of securities, less income taxes	**14,693**	29,593
Excess of Revenue for the Year	**664,176**	196,816

Statement of Unassigned Surplus
for the year ended December 31, 1975

	1975 ($)	1974 ($)
Unassigned Surplus—Beginning of Year	**8,750,642**	8,553,826
Excess of revenue for year	**664,176**	196,816
	9,414,818	8,750,642
Allocation to contingency reserve	**650,000**	—
Unassigned Surplus—End of Year (note 3)	**8,764,818**	8,750,642

Balance Sheet
as at December 31, 1975

Assets

	1975 ($)	1974 ($)
Bonds and debentures, at amortized cost or less (note 1)	**25,753,258**	23,937,985
Common and preferred stocks, at cost or less (note 1)	**4,408,889**	3,979,801
First mortgages on real estate	**45,462,720**	41,048,733
Loans on policies, secured by cash values	**4,868,482**	4,568,644
Real estate—Purchased for income, at cost, less amounts written off—$174,129 (1974—$152,226)	**950,325**	972,227
Cash and short-term investments	**1,210,748**	2,695,283
Premiums in course of collection	**304,132**	235,319
Investment income due and accrued	**905,833**	785,308
Other assets	**158,253**	143,556
	84,022,640	78,366,856

Liabilities

	1975 ($)	1974 ($)
Reserves for insurance and annuity contracts	**58,106,748**	55,199,803
Policyholders' funds on deposit	**6,191,046**	4,897,804
Policy claims in course of settlement and provision for unreported claims of $366,000 (1974—$366,000)	**730,278**	717,571
Mortgagors' tax prepayments	**893,462**	759,605
Premium and income taxes accrued	**1,155,411**	589,323
Other liabilities and accruals	**350,805**	266,825
Provision for dividends to policyholders	**2,087,900**	2,106,100
Provision for experience rating refunds	**493,000**	772,000
Staff and agents' pension and insurance funds	**2,441,997**	2,150,008
	72,450,647	67,459,039

Capital and Surplus

	1975 ($)	1974 ($)
Capital stock Authorized—10,000 shares of $100 each Issued—8,406 shares of $100 each of which 27 shares are fully paid and 8,379 shares are $25 paid	**212,175**	212,175
Investment reserve	**1,000,000**	1,000,000
Contingency reserve (note 2)	**1,500,000**	850,000
Shareholders' surplus	**95,000**	95,000
Unassigned surplus (note 3)	**8,764,818**	8,750,642
	11,571,993	10,907,817
	84,022,640	78,366,856

Signed on behalf of the Board W.R. Livingston, Director J.H. Sutherland, Director

Notes to Financial Statements
for the year ended December 31, 1975

	1975	1974
1. Valuation of Bonds, Debentures and Preferred and Common Stocks	**$**	$
Value stated in the balance sheet	**30,162,147**	27,917,786
Estimated market value	**25,412,855**	22,452,196
Maximum value at which these securities may be carried as prescribed by the insurance laws of Canada	**27,670,703**	26,317,398

2. Provision for Income Taxes
This provision includes $135,000 in respect of prior years.

3. Unassigned Surplus
The shareholders' portion of the unassigned surplus amounts to $5,202,131 (1974—$4,403,824) of which $798,307 (1974—$771,409) represents the shareholders' share of the net increase in unassigned surplus for the year.

Auditors' Report to the Policyholders and Shareholders

We have examined the balance sheet of The Sovereign Life Assurance Company of Canada as at December 31, 1975 and the statements of revenue and unassigned surplus for the year then ended. Our examination included verification of the cash and investments in bonds and stocks by certificates from the depositories, a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. The reserves and other liabilities under the various assurance and annuity contracts are stated at amounts certified by the company's actuary.

In our opinion, based upon our examination and upon the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

January 28, 1976

Coopers & Lybrand
Chartered Accountants

Board of Directors

William J. Anderson, Q.C.
Toronto, Ont.
Partner, Gardiner, Roberts

Roger H. Charbonneau, C.A., M.B.A.
Montreal, Que.
Dean, Ecole des Hautes Etudes Commerciales de Montréal

Cameron C. Gray, M.D.
Toronto, Ont.

Roger Lachapelle
Montreal, Que.
President & Managing Director
Meagher's Distillery

Joseph S. Land
Toronto, Ont.
President, IAC

William R. Livingston, C.L.U.
Toronto, Ont.
President & Managing Director

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President & Senior General Manager, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President—Finance, IAC

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Winnipeg, Man.
Partner, Moody, Moore, Duncan, Rattray, Peters, Searle & Christie

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, Director & former Chairman of the Board, IAC

François P. Paradis
Toronto, Ont.
Senior Vice-President & General Manager—Operations, IAC

James H. Sutherland, C.L.U.
Toronto, Ont.
Vice-President

Arthur J. Vincent
Winnipeg, Man.
President, Smith, Vincent & Co. Limited

Officers and Directors

Top Row: R.E. Campbell, Senior Vice-President; D.W. Maloney, Executive Vice-President; B.F. London, Niagara President; S.F. Melloy, Executive Vice-President; A.P. Bolin, Senior Vice-President.

Front Row: F.P. Paradis, Senior Vice-President; J.S. Land, President; K.H. MacDonald, Chairman; W.R. Livingston, Sovereign President.

Officers

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K.H. MacDonald

President
J.S. Land

Executive Vice-President and Senior General Manager
D.W. Maloney

Executive Vice-President – Finance
S.F. Melloy

Senior Vice-President and Deputy Senior General Manager
R.E. Campbell

Senior Vice-President and General Manager – Operations
F.P. Paradis

Senior Vice-President and General Manager – Business Development
A.P. Bolin

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W.P. Davidson
L.G. Gravel
R. Hémond
W.E. Hoddinott
S.S. Ilaqua – *Treasurer*
R.K. Jackson
N.V. Keyes
B.F. London
E.W. McCracken
D.A. Rattee
W.J. VanWyck

Assistant Vice-President and Secretary
C.R. Stewart

Assistant Vice-President and Comptroller
J.J. Tors

Assistant Vice-Presidents

T.R. Bailey	A.S. Mackay
J.C. Biron	R.V. MacNeill
G.J. Chevrier	V. Mousseau
G.C. Clerk	B.S. Mowatt
W.V. Daly	J.R.A. Noël
P.A. Dick	C.W. Regan
J.H. Dionne	R.S. Tunnoch
K.G. Inch	J.L. Warren
D.H. Lyons	K.E. Woodall

Directors

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Montreal, Que.
President, Edper Investments

Ronald L. Cliff, C.A.
Vancouver, B.C.
Chairman, Inland Natural Gas Co. Ltd.

Harold Corrigan, C.A.
Toronto, Ont.
President, Alcan Canada Products Ltd.

E. Jacques Courtois, Q.C.
Montreal, Que.
Partner, Laing, Weldon, Courtois, Clarkson, Parsons & Tétrault

Frank M. Covert, Q.C.
Halifax, N.S.
Partner, Stewart, MacKeen & Covert

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Toronto, Ont.
President, Union Carbide Canada Limited

Conrad F. Harrington
Montreal, Que.
Chairman of the Board, The Royal Trust Company

Peter Kilburn*
Montreal, Que.
Chairman, Greenshields Incorporated

David Kinnear*
Toronto, Ont.
Director, Eaton's of Canada Limited

Joseph S. Land*
Toronto, Ont.
President

Louis A. Lapointe, Q.C.
Montreal, Que.
Chairman, Miron Company Limited

Keith H. MacDonald*
Toronto, Ont.
Chairman of the Board

Douglas W. Maloney*
Toronto, Ont.
Executive Vice-President

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, former Chairman of the Board

Charles I. Rathgeb*
Toronto, Ont.
Chairman, Comstock International Ltd.

Renault S. St-Laurent, Q.C.
Quebec, Que.
Partner, St-Laurent, Monast, Walters & Vallières

James C. Thackray
Montreal, Que.
Executive Vice-President, Bell Canada

Dennis K. Yorath
Edmonton, Alta.
Vice-Chairman, IU International Corp.

*Member of the Executive Committee of the Board as at December 31, 1975

Banks with which lines of credit are established

Canada

The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto Dominion Bank
The Bank of Nova Scotia
Bank Canadian National
The Provincial Bank of Canada
The Mercantile Bank of Canada
Bank of British Columbia

U.S.A.

Morgan Guaranty Trust Company of New York
Bank of America
Bankers Trust Company
Chemical Bank
Continental Illinois National Bank and Trust Company of Chicago
Crocker National Bank
First National City Bank
French American Banking Corporation
Harris Trust and Savings Bank
Irving Trust Company
Manufacturers Hanover Trust Company
Marine Midland Bank—Western
Mellon Bank NA
National Bank of Detroit
National Bank of North America
Schroder Trust Company
Seattle-First National Bank
Security Pacific National Bank
The Bank of New York
The Chase Manhattan Bank NA
The First National Bank of Boston
The First National Bank of Chicago
The Northern Trust Company
United California Bank
Wells Fargo Bank NA

Transfer Agents

Common Stock

Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

The Bank of New York
New York

Preferred Stock

The Royal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Auditors

Coopers & Lybrand
Toronto, Chartered Accountants

Registrars

Common Stock

Canada Permanent Trust Company
Montreal and Toronto

The Royal Trust Company
Winnipeg, Regina, Calgary and Vancouver

The Bank of New York
New York

Preferred Stock $100 Par Value

Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Preferred Stock $25 Par Value

Guaranty Trust Company of Canada
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange—*Common Stock only*

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