LEADING THE WAY HOME

CANADA MORTGAGE
AND HOUSING CORPORATION
2004 ANNUAL REPORT

63974

Canada

CMHC SCHL
HOME TO CANADIANS

LEADING THE WAY HOME

Home is more than a physical location. It's the safe place we come back to and a source of comfort and stability during all of life's ups and downs. It's where we put down roots and build our dreams. Unfortunately, too many Canadians don't share that feeling of home because they are unable to afford appropriate, decent housing.

At CMHC, as Canada's national housing agency, we are working to make a safe, adequate, affordable home a reality for all Canadians. In 2004, we helped Canadians as they purchased new homes, undertook renovations or accessed more affordable housing. For each of these Canadians, we know that the first moment of stepping into their new or improved home was indeed a "red carpet" occasion, a moment of pride and confidence. CMHC is proud to have been there with them, helping to lead the way home.

OUR MISSION

Promote housing quality, affordability and choice for Canadians

OUR VALUES

INTEGRITY AT WORK

We lead by example; we honour our obligations, and are committed to:

SERVING THE PUBLIC INTEREST
ACHIEVING BUSINESS EXCELLENCE
BUILDING A WORKPLACE COMMUNITY

We willingly explain our actions so that we may hold ourselves, and each other, accountable for living these values in the workplace.

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Some Of Our Accomplishments in 2004

LEADING THE WAY HOME FOR CANADIANS IN NEED

HOUSING PROGRAMS

- Addressed the need for more affordable housing in Canada by committing some 6,000 homes under the Affordable Housing Initiative
- Preserved Canada's existing affordable housing stock by funding the repair or renovation of 25,539 homes
- Helped 632,650 low-income Canadian families through federal housing expenditures of $2.0 billion
- Improved the living conditions of Aboriginal people by committing funding for the construction of 978 new homes and the repair of 1,234 homes on reserves

LENDING

- Provided low-cost funding for social housing by supplying $1.3 billion in direct loans at below-market rates to housing providers

INSURANCE

- Created 4,082 affordable homes through public-private partnerships backed by CMHC mortgage insurance

LEADING THE WAY TO MORE AFFORDABLE, BETTER QUALITY HOUSING

HOUSING PROGRAMS

- Provided objective, reliable information through housing market conferences and seminars. In 2004, a record 28,500 participants attended
- Helped the Canadian housing sector remain internationally competitive by facilitating $68 million in Canadian exports – as a result, 200 Canadian companies increased or diversified their international market share

INSURANCE

- Eased access to affordable financing for 652,573 homes through mortgage insurance – 36% of which were in products or locations where typically CMHC is the only mortgage insurer
- Provided protection against borrower default on insurance in force covering $243.8 billion in mortgages

SECURITIZATION

- Helped keep mortgage insurance rates as low as possible by guaranteeing $29.6 billion in mortgage securities

LEADING THE WAY FORWARD

- Actively participating in broad-based consultations on the Canadian Housing Framework to set the future direction of housing in Canada
- Led the Housing Sectoral Session, as part of the Aboriginal Roundtable process, to identify practical avenues to accomplish transformational change in Aboriginal housing in Canada
- Disseminated a breadth of information on urban sustainability, brownfield redevelopment and the state of Canada's housing to inform housing policy and community planning
- Shared the successes of Canada's housing systems with other countries and used our housing expertise to help them adapt Canadian solutions to their realities
- Developed our human resources and technological capacity to ensure CMHC remains able to fulfill its mandate

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AU COEUR DE L'HABITATION

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HOME TO CANADIANS

To help the significant number of Canadians who cannot afford adequate or suitable housing, CMHC, Canada's national housing agency, is committed to:

- contributing to the construction and preservation of affordable housing with both direct and indirect assistance
- assisting Aboriginal people to improve their housing conditions through new construction, repair of existing homes and the development of housing markets and the Aboriginal housing sector

Most Canadians are well housed thanks to the well-functioning Canadian housing system. In order to maintain this, CMHC is committed to:

- providing Canadians greater access to mortgage financing and ensure an abundant supply of low-cost funds is available in the residential mortgage market
- ensuring that housing is durable, energy efficient and well-suited to the needs of Canadians
- helping the Canadian housing sector remain internationally competitive

Looking ahead, CMHC wants to ensure that the Canadian housing system remains one of the best in the world. In order to accomplish this, CMHC is committed to:

- enhancing the Canadian Housing Framework and nurturing the partnerships that help provide housing solutions for all Canadians
- sharing our expertise and the benefits of the Canadian housing system with other countries around the world
- building internal capacity and ensuring CMHC is a strong organization able to fulfil its mandate

BUSINESS HIGHLIGHTS...

The following table summarizes CMHC's results and projections for key business areas over the planning period.

	2000 ACTUAL	2001 ACTUAL	2002 ACTUAL	2003 ACTUAL	2004 ACTUAL
CORPORATE RESULTS					
Total Assets ($M)	23,244	23,822	23,487	24,935	26,672
Total Liabilities ($M)	22,324	22,557	21,678	22,459	23,246
Total Equity ($M)	920	1,265	1,809	2,476	3,426
Total Revenue ($M)	4,192	4,064	4,124	4,430	4,661
Total Operating Expenses ($M)	208	201	224	255	261
Net Income ($M)	376	345	544	667	950
Reserve Fund ($M)	20	42	56	91	134
Staff-Years	1,815	1,736	1,772	1,799	1,814
INSURANCE AND SECURITIZATION					
Annual Insurance Units Approved	498,659	507,237	583,225	517,795	652,573
Insurance in Force ($M)	201,000	211,500	224,345	230,000	243,800
Net Insurance Claims Expense ($M)	307	335	139	188	51
Annual Securities Guaranteed ($M)	11,014	8,489	20,642	27,017	29,592
Guarantees in Force ($M)	34,000	34,684	45,473	59,994	80,800
Premiums and Fees Received ($M)	850	1,049	1,330	1,263	1,512
Investments in Securities (including cash) ($M)*	4,143	4,916	6,005	6,910	7,597
Net Income ($M)	367	323	530	632	907
Unappropriated Retained Earnings ($M)	199	260	348	123	155
Retained Earnings Set Aside for Capitalization ($M)	676	938	1,380	2,237	3,112
HOUSING PROGRAMS					
Annual New Commitments (units)	27,600	24,850	25,900	19,435	26,517
Estimated Households Assisted	639,300	640,800	638,850	635,900	632,650
Housing Program Expenses ($M) (excluding operating expenses)	1,913	1,789	1,828	1,972	2,006
LENDING					
Loans and Investments in Housing Programs ($M)	15,841	15,239	14,586	14,075	13,669
Borrowings from Capital Markets ($M)	11,054	11,081	10,242	10,244	9,212
Borrowings from the Government of Canada ($M)	5,924	5,692	5,474	5,232	5,045
Net Income ($M)	9	22	14	35	43

* excluding investments related to repurchase activities

...AND OUTLOOK

	2004 PLAN	2005 PLAN	2006 PLAN	2007 PLAN	2008 PLAN	2009 PLAN
CORPORATE RESULTS						
Total Assets ($M)	23,357	25,816	26,717	27,750	28,899	30,088
Total Liabilities ($M)	20,266	21,658	21,667	21,720	21,782	21,795
Total Equity ($M)	3,091	4,158	5,050	6,030	7,117	8,293
Total Revenue ($M)	4,641	4,676	4,688	4,724	4,779	4,924
Total Operating Expenses ($M)	300	293	299	304	310	317
Net Income ($M)	663	817	892	981	1,087	1,175
Reserve Fund ($M)	83	133	136	137	137	137
Staff-Years	1,866	1,902	1,885	1,858	1,846	1,847
INSURANCE AND SECURITIZATION						
Annual Insurance Units Approved	488,038	564,589	521,793	503,313	494,496	491,502
Insurance in Force ($M)	233,000	254,900	257,800	256,800	254,400	251,500
Net Insurance Claims Expense ($M)	264	202	216	240	257	300
Annual Securities Guaranteed ($M)	15,000	18,000	18,000	18,000	18,000	18,000
Guarantees in Force ($M)	58,500	91,800	102,800	102,800	94,500	84,900
Premiums and Fees Received ($M)	1,182	1,503	1,441	1,411	1,402	1,413
Investments in Securities (including cash) ($M)*	7,607	10,367	11,546	12,779	14,008	15,289
Net Income ($M)	663	805	888	980	1,087	1,175
Unappropriated Retained Earnings ($M)	133	182	214	972	1,916	2,998
Retained Earnings Set Aside for Capitalization ($M)	2,850	3,819	4,675	4,897	5,039	5,132
HOUSING PROGRAMS						
Annual New Commitments (units)	22,749	23,567	8,217	1,642	1,642	1,642
Estimated Households Assisted	633,400	632,000	628,200	624,600	620,600	614,400
Housing Program Expenses ($M) (excluding operating expenses)	2,133	2,102	2,044	1,953	1,843	1,814
LENDING						
Loans and Investments in Housing Programs ($M)	13,999	13,348	13,049	12,760	12,580	12,380
Borrowings from Capital Markets ($M)	10,155	9,317	9,208	9,128	9,287	9,308
Borrowings from the Government of Canada ($M)	5,043	4,848	4,651	4,446	4,235	4,025
Net Income ($M)	-0.1	12.1	3.0	0.8	0.1	0.1

* excluding investments related to repurchase activities

MESSAGES

MESSAGE FROM THE CHAIRMAN

As Acting Chairman of Canada Mortgage and Housing Corporation, I am pleased to have this opportunity to report to you on CMHC's accomplishments for 2004.

During my career, I have been an employee, a partner, a client and now Acting Chairman of CMHC. I have watched first hand how this Corporation, Canada's national housing agency, has fulfilled its responsibilities to Canadians.

The nature of CMHC's work means that our team includes other federal government departments and agencies, provincial, territorial and municipal governments, community groups, housing providers, all components of the housing industry, Aboriginal organizations, the residential financing industry and many others. The need to work with and through so many makes for a very complex environment but also a rewarding one. In speaking about our accomplishments, we readily acknowledge that we did not do this important work alone. We extend our thanks and appreciation to all of our partners who made these results possible.

As you look through this report, you will see that CMHC accomplished many of the targets we set for ourselves. In fact, 2004 was indeed a successful year for the Corporation. But we are also acutely aware that as hard as we have worked, as much as we have achieved, there are still important and significant housing issues in Canada.

In a country that is widely regarded as having one of the best housing systems in the world, too many Canadians are still in need of safe, affordable housing. Particularly troubling is the incidence of housing need among specific groups within Canadian society. The housing situation on Canada's reserves is one such challenge. The October 2004 Speech from the Throne spoke about the unacceptable gaps that separate Aboriginal people from other Canadians. Nowhere is this more true than in housing.

We have seen some bright signs. Late in 2004, new flexibilities were announced which addressed some of the hurdles that had been encountered by provinces and territories with the Affordable

Housing Initiative. We are confident that in 2005 these flexibilities will enable more funds to flow, with the ultimate result of more affordable housing for Canadians.

More recently, the Government of Canada's budget for 2005 included new funds for First Nations housing. At CMHC, we know that this will make a real difference in the lives of Aboriginal Canadians living on reserves. We understand that more must be done and will be done to accomplish the transformational change that is so required. As an important step in that direction, this announcement was welcome news.

From a governance perspective, CMHC's Board of Directors continued to set the strategic direction for the organization, oversee its financial management and corporate systems, identify and manage potential risks and opportunities, and ensure transparent accountability to the government, Parliament, housing stakeholders and Canadians in support of its public policy objectives and government priorities.

In 2004, the Board of Directors introduced a number of key initiatives to strengthen its governance framework, and further enhance its strategic planning, risk management and corporate accountability. In keeping with its focus on values and ethics, the Board also reviewed, approved and signed the statement of values, which will help guide both CMHC employees and Board members alike in carrying out their roles and responsibilities with integrity, honour and in a manner worthy of the trust of Canadians in an increasingly complex operating environment.

CMHC has a well-earned reputation for excellence in governance having received in 2003 the National Award in Public Sector Governance from the Conference Board of Canada / Spencer Stuart. In May 2004, the Corporation received the results of the most recent special examination, carried out by the Corporation's external auditors and the Auditor General of Canada. The special examination, a requirement under the *Financial Administration Act*, thoroughly reviewed operations in all sectors of the Corporation related to governance, strategic planning, performance measurement, risk management and audit and evaluation, among others. For the fourth special examination in a row, spanning 15 years, the report gave CMHC a "clean" opinion, indicating that the examiners found no significant deficiencies in the systems and practices they examined. The review suggested some opportunities for improvement, many of which have in fact been implemented in this Annual Report.

As Directors, we understand that a key part of our mandate is to continually improve our governance practices. The recent reviews of Crown corporation governance conducted by the Office of the Auditor General and the Treasury Board Secretariat brought encouraging news. They demonstrated that we are headed in the right direction, while also pointing to welcome opportunities for us to continue to improve.

Governing a Crown corporation is a special responsibility because we must be accountable to all Canadians for what we have achieved with the resources entrusted to our care. We, the Board of Directors and the executive and employees of CMHC, are proud to offer this accounting for how we have fulfilled the responsibilities that you, the citizens of Canada, have placed with us.

Dino Chiesa

Leading the Way as Members of the Community

While in St. John's in August 2004, Board members put aside their tour agendas and rolled up their sleeves to take part in the Cabot Habitat for Humanity Blitz, one of the biggest-ever Blitz Build events aimed at building "Six Homes in Six Days" for deserving families in need.

From left to right, Hugh Heron, Roberta Hayes, Michel Bérubé, Todd Harris, Gerry Colbert, Karen Kinsley, Dino Chiesa, Sophie Joncas, Luc Fournier, Catherine Cronin, Carolyn Kavanagh, Todd Selby

MESSAGE FROM THE PRESIDENT

"Shelter is the foundation upon which healthy communities and individual dignity are built."
- October 2004 Speech from The Throne

Housing is at the heart of who we are as Canadians. It affects the success of our economy, the ability of our families to raise happy and healthy children, and our values as a nation. It provides an important source of personal security, offers a stable platform for business investment and growth, and directly influences our quality of life. It is as vital a part of our national fabric as education, health care and employment and has strong and important linkages to those priorities.

At CMHC, we are working to help Canadians in need access safe, affordable housing, with particular attention to closing the gaps that separate many Aboriginal people from other Canadians. We are helping housing and financial markets work better so that all Canadians have access to affordable, quality housing. We also strive to ensure that the Canadian housing system continues to evolve to remain one of the best in the world.

Leading the Way Home for Canadians in Need

As our Chairman noted earlier, we, at CMHC, recognize that much must be done to help the 1.7 million Canadian households that cannot afford adequate, suitable housing, for the as many as 150,000 homeless Canadians and for the 35,000 First Nations families that are in need of decent housing. Working to help Canadians in need was a key priority for CMHC in 2004.

One significant challenge we faced was the timely commitment of funds under the Affordable Housing Initiative. Working with our provincial and territorial partners, we were able to commit 6,000 new affordable housing units across Canada but this fell short of our target. As the year progressed, we worked hard to identify and respond to barriers in the delivery of this initiative. The result was agreement, near the end of the year, to a range of flexibilities that removes hurdles and permits provinces and territories to move more quickly on the initiative. This will mean more affordable housing for Canadians in 2005 and beyond.

In 2004, we exceeded our targets in nearly every aspect of delivering our suite of renovation programs and in our commitment of funding to the construction of housing on reserves. In part, we benefited from the favourable interest rate environment that enabled us to stretch funds further. The result was that we were able to assist even more Canadians in need than we had expected in 2004.

Another significant accomplishment was the role we played in the Aboriginal roundtable process, as the lead organizer for the Housing Sectoral Session. Housing is one of the key areas that has been identified for transformational change as Canada works toward closing the gaps that separate so many Aboriginal people from other Canadians. CMHC is honoured to have had the opportunity to participate in the pathbreaking session on housing in Ottawa in November 2004. We believe the result will be true and lasting difference for Canada's Aboriginal people. We also continue our ongoing efforts to provide funding for the construction and repair of housing on reserves and to support the development of skills, markets and institutions that will increasingly permit Aboriginal people to direct and control their own housing.

Leading the Way to More Affordable, Better Quality Housing

The ultimate test of our efforts to help housing and financial markets work better is the percentage of Canadians who are able to meet their housing needs without direct government assistance. With more than 80 per cent of Canadians well and affordably housed, it is no wonder that the Canadian housing system is the envy of many countries.

The past year was an exceptional one for housing markets. As a result, our commercial housing finance activities reached record levels, both in helping the more than 650,000 Canadian families who were able to access housing financed with CMHC mortgage insurance and in ensuring an abundant supply of low-cost funds for residential lending by guaranteeing mortgage-backed securities and the Canada Mortgage Bond, covering nearly $30 billion worth of mortgages. Largely on the basis of the unprecedented success of our housing finance activities in 2004, the Corporation's net income was $950 million.

CMHC now provides backing against default on a total of $244 billion in mortgages as well as guaranteeing securities worth over $80 billion. As a prudent financial institution that has been mandated to operate in a commercially viable manner at no cost to the Government of Canada, in recent years we have begun to accumulate a reserve against the potential claims that we could face in the future, which currently stands at about $3 billion, approximately 83% of what is considered adequate for a mortgage insurer.

CMHC also continues to be Canada's leading source of objective, reliable market and technical information about housing, which helps consumers and the housing sector make informed housing decisions. We also work actively to create and maintain jobs in the housing industry in Canada by opening doors for Canadian housing exports abroad.

Leading the Way Forward

Clearly, much has been accomplished. Equally clear, however, is that much more remains to be done if we are to ensure that all Canadians have access to a safe, affordable place to live. CMHC and its federal partners are working together with the provinces and territories, housing experts, stakeholders, and Canadians, to develop an innovative new partnership-based Canadian Housing Framework.

The goal of this new framework is as simple as it is profound: to build on our existing housing programs and introduce new initiatives, in order to create a comprehensive and truly national housing strategy. From emergency shelters and assistance, through transitional, assisted and affordable housing, and up to the availability of rental housing and access to homeownership, this framework will encompass the housing needs of Canadians across the entire housing continuum.

Once it is in place, the new framework will serve as a guide for the federal government in planning future investments, developing new programs and policies, and seeking new partnerships. It is my hope that it will also serve as a catalyst for significant and lasting change.

Karen Kinsley

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

CMHC is a Crown corporation and reports to Parliament through the Minister of Labour and Housing. The Board of Directors is responsible for managing the affairs of the Corporation and the conduct of its business. As steward of the Corporation, the Board sets the strategic direction of CMHC in support of government priorities, ensures the integrity of corporate policies and business processes, and identifies and manages the main corporate risks.

The Board is comprised of 10 Directors: the Chairman of the Board, the Vice-Chairman of the Board, the President and CEO, and seven other members, including one position that is currently vacant. The Governor in Council sets remuneration of Directors. The Chairman of the Board is paid an annual retainer of $14,300 and a per diem of $555, and the other private sector directors are paid an annual retainer of $7,200 and a per diem of $500. Public service Directors and the President and CEO are not paid for their services as Directors. Total aggregate remuneration paid in 2004 to the Board of Directors was $217,410 compared to $255,668 in 2003. There were six Board of Directors meetings and 15 Board Committee meetings held in 2004.

Standing from left to right:

Michel Bérubé, Catherine Cronin, Louis Ranger, Roberta Hayes, Sophie Joncas, Grace Kwok

Seated from left to right:

Dino Chiesa, Karen Kinsley, Hugh Heron

BOARD STEWARDSHIP

CMHC's Board of Directors is committed to strong corporate governance and to maintaining the momentum it has achieved in implementing leading edge governance practices.

Board Governance: During the year, the Board completed a committee mandate review that resulted in further enhancements to governance practices, including the transfer of responsibility for Risk Management to the Audit Committee and revised committee composition to ensure all members are now independent of management.

Relevance of Information: The Corporation continually strives to improve the quality and timeliness of the information provided to Board Directors. As such, the Board approved the introduction of simplified and more transparent reporting practices in the areas of Risk Management, Financial and Performance Reporting.

Values and Ethics: CMHC and the Board of Directors understand that values and ethics play a crucial role in modern business management. As part of an enhanced business ethics program, the Board reviewed, approved and was a signatory to *Our Values in Action*, which will help guide CMHC employees and Board members alike in continuing to carry out their functions with integrity in an increasingly complex operating environment.

2004 Special Examination: During the year, the Corporation's external auditors conducted a statutorily required special examination. The joint examiners produced a balanced report that included positive findings about CMHC's systems and practices and the areas for improvement. Based on all of the findings, there were no significant deficiencies reported and CMHC was issued a "clean" opinion for the fourth time in as many Special Examinations.

Crown corporations are not required to make the results of their special examination public, however, as indicated in recent reports by the Auditor General, Crowns are being encouraged to do so. CMHC's Board of Directors approved the public release of the 2004 Special Examination Report, which is now available on CMHC's website at www.cmhc.ca.

COMMITTEES OF THE BOARD OF DIRECTORS

To assist it in exercising its responsibilities, the Board has established four Committees: the Corporate Governance Committee, the Audit Committee, the Human Resources Committee and the Nominating Committee.

Corporate Governance Committee

This committee is responsible for overseeing and advising the Board on all aspects of corporate stewardship. The Governance Committee supports the Board in a number of ways, including helping to set corporate strategic direction, ensuring the adequacy and integrity of CMHC's information systems and practices, periodically examining the continued relevance of the Corporation's public policy objectives and legislated mandate, and promoting effective communication with the Government of Canada, other stakeholders and the public. The Committee also periodically evaluates the President / CEO's performance and makes recommendations to the Board regarding the President's compensation.

During the year, the Committee participated in streamlining the Corporation's Performance reporting. The new quarterly Corporate Performance Report provides Committee members with more timely, transparent and simplified information on the achievement of CMHC's objectives. By integrating all corporate performance reporting, the report enables Board members to more readily identify areas where performance is lagging. The report also provides explanations for below target performance, identifies corrective actions and outlines the year-end expectations.

Audit Committee

The Audit Committee advises the Board of Directors on the soundness of the financial management of the Corporation, assisting the Board in overseeing internal control systems and financial reporting and audit processes. The Audit Committee provides an open avenue of communication between internal audit, the external auditors and the Board of Directors. The Committee reviews the annual external audit plan with the external auditors and regularly meets with them in camera without the presence of management.

The Audit Committee also ensures implementation and maintenance by management of appropriate systems of internal control, including management information systems security and controls.

In 2004, the Audit Committee reviewed and advised the Board on matters relating to the special examination and will continue to monitor the Corporation's corrective actions in response to the examination report. The special examination is a type of value-for-money or performance audit, where the examiner expresses an opinion on the systems and practices in place in the corporation and goes beyond issues that are strictly financial. It is a powerful tool for CMHC management and Board to better understand the risks and deficiencies in the control and monitoring mechanisms of the corporation.

Human Resources Committee

The Human Resources Committee oversees corporate policies and strategies related to human resources, and reviews and approves the principles governing recruitment, selection, training, compensation and evaluation. The Committee is responsible for reviewing succession planning for the leadership of the Corporation and makes recommendations to the Board regarding the organizational plan, the compensation plan, and the integration of human resources policies and strategies into the Corporate Plan.

The Committee participated in the update of the Corporation's succession management framework. The Corporation's review of succession management will result in a more comprehensive framework that will facilitate the alignment of employee training initiatives in support of talent development and leadership at CMHC. The updated framework will also facilitate the preparation for critical and vulnerable positions, and plans for senior level positions.

Nominating Committee

Created in 2004 pursuant to new governance guidelines issued by the Federal Government, this committee identifies, evaluates and recommends a shortlist of qualified candidates for appointment to the Chairperson position and the CEO position to the Board for approval and subsequent recommendation to the Minister. The Nominating Committee advises the Board on matters relating to the composition of the Board and its committees.

The Committee also advises the Board on criteria for Board membership including experience, attributes and skills. The Committee reviews the existing Board composition on a yearly basis, anticipates openings, reviews skills profiles and advises the Board on recommended changes or steps to be taken.

In 2004, the Committee updated the Board's competency profile as well as the selection criteria for the Chair and the CEO. The Committee participated actively in the selection process to fill the vacant Chair position and having followed the government's new selection process, was able to provide a list of suitable candidates to the Board for approval and subsequent recommendation to the Minister.

TABLE OF DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD, AND OF BOARD COMMITTEES IN 2004

	Board of Directors 6 meetings	Audit Committee 6 meetings	Governance Committee 3 meetings	Human Resources Committee 4 meetings	Nominating Committee 2 meetings
Chiesa, Dino[1]	6 / 6	6 / 6	1 / 1	N/A	N/A
Bérubé, Michel	4 / 6	N/A	N/A	2 / 4	2 / 2
Cronin, Catherine[2]	6 / 6	6 / 6	N/A	N/A	N/A
Hayes, Roberta	6 / 6	N/A	N/A	N/A	2 / 2
Heron, Hugh	6 / 6	N/A	3 / 3	4 / 4	2 / 2
Joncas, Sophie[3]	5 / 6	5 / 6	N/A	N/A	N/A
Kwok, Grace	4 / 6	N/A	2 / 3	N/A	N/A
Ranger, Louis	4 / 6	N/A	N/A	2 / 4	N/A
Kinsley, Karen	6 / 6	N/A	N/A	N/A	N/A

1 Joined Governance Committee in April 2004
2 Director is also a Pension Fund Trustee (meeting attendance: 3 / 3)
3 Director on leave without pay for May 2004 Board and Audit meetings

PERFORMANCE

CMHC's 2004 Annual Report represents the conclusion of the Corporation's 2004 corporate planning cycle. The report ensures that progress on planned activities is tracked and that managers are accountable for results. The Corporation's plans and priorities are guided annually by the priorities set by the Government of Canada, the strategic direction provided by the Board of Directors and the decisions of CMHC's Management Committee, and informed by an ongoing environmental scanning process that outlines the latest economic, industry, and socio-political issues and trends. Some of these issues and trends are discussed in the pages that follow to provide broader context for the Corporation's priorities in 2004 and its ensuing results.

FORWARD LOOKING STATEMENTS

CMHC's Annual Report contains forward-looking statements regarding objectives, strategies and expected financial results. There are risks and uncertainties beyond the control of CMHC that include, but are not limited to, economic and financial conditions globally, and regulatory conditions nationally and internationally. These factors, among others, may cause actual results to differ substantially from the expectations stated or implied by forward-looking statements.

THE CONTEXT

According to the 2001 Census, over 1.7 million or 15.9 per cent of all Canadian households are unable to afford adequate, suitable accommodation. In other words, they are experiencing core housing need. Housing affordability is the principal problem for three-quarters of these households, which often means they have little income for other necessities. Some groups within society, including new immigrants, Aboriginals, lone-parent families and seniors are at increased risk of core housing need. These groups are also growing at a faster rate than the general population.

INCIDENCE OF CORE HOUSING NEED IN 2001

	Total	Owners	Renters
All households	15.8%	8.6%	30.4%
Recent immigrants	33.3%	23.0%	38.2%
Aboriginals (off-reserve)	24.8%	11.8%	37.8%
Lone-parent families	29.1%	15.9%	43.3%
Seniors	21.1%	12.2%	43.0%

Housing condition remains a priority, particularly in the North where between 15 and 20 per cent of the housing stock is in need of major repair.

For the Aboriginal population, housing needs are urgent. In metropolitan areas, almost one-quarter of Aboriginal households were in core housing need in 2001. On reserve, the housing shortfall is estimated to be as many as 35,000 units. Despite the construction of 2,300 units annually, the shortfall is expected to increase by 2,200 units a year. Out of the stock of 93,000 homes on reserve, over 40 per cent are in need of major repair or renovation and a further 6 per cent are beyond repair and simply need to be replaced.

In addition, although it is difficult to estimate the number precisely, as many as 150,000 Canadians may be homeless. As well, many persons with disabilities are living in housing that is not well suited to maintaining their independence.

LEADING THE WAY HOME FOR CANADIANS IN NEED

At CMHC, we help Canadians in need to access safe, affordable housing. To accomplish this, we work in partnership with provincial, territorial and municipal governments, communities, non-profit groups and the private sector to create affordable housing, both with and without government assistance. We strive to preserve the existing stock of affordable housing so that it will be there to meet the needs of Canadians for years to come. In working to address housing need, we maximize the effectiveness of federal housing expenditures by providing loans directly to housing providers at below-market interest rates. To ensure a complete range of solutions is available to address housing need in Canada, we undertake research to better understand who is in need, the underlying causes and the best responses.

We strive to close the housing gap faced by Aboriginal Canadians. In part, we accomplish this through funding the construction of new housing and the repair of existing homes. As well, CMHC provides training and advice to help ensure that housing lasts. CMHC is also striving to develop well-functioning housing markets that work for Aboriginal people by improving access to financing and tenure options. Finally, we are working in partnership with Aboriginal Canadians to build individual and institutional capacity so that they can assume greater control of, and direction over, their own housing.

Key Performance Indicator	2004 Target	2004 Result
HELPING CANADIANS IN NEED TO ACCESS SAFE AFFORDABLE HOUSING		
Affordable housing units committed	10,800 units	6,000 units ✗
Estimated new commitments under strategic initiatives[1]	24,084 units	25,539 units ■
Program design enhancements	Expand the reach of the Residential Rehabilitation Assistance Program (RRAP)	Expanded the types of work eligible to be undertaken under RRAP to include energy efficiency, mold remediation and home modifications for persons with disabilities ■
Estimated number of households helped through housing program expenses (excluding operating expenses)	633,400 households Expenditures of $2,133M	632,650 households ■ Expenditures of $2,006M ▲
Total public-private partnership units facilitated	3,064 units	4,478 units ■
Mortgage insurance approvals of affordable housing through public-private partnerships	2,011 units	4,082 units ■
New direct lending	$287.2M	$158.2M ✗
Subsequent renewals of direct lending	$1,374.2M	$1,161.0M ✗
Publication of information about housing needs	Carry out research and information activities to address distinct housing needs	Publication of 6 research highlights on housing need, detailing findings from 2001 Census ■
IMPROVING ABORIGINAL LIVING CONDITIONS		
New commitments of on-reserve non-profit units	852 units	978 units ■
Percentage of on-reserve programs and services delivered through First Nations or Aboriginal organizations	80%	89.2% ■
Commitment to the Housing Internship Initiative for First Nations and Inuit Youth	$1M	$1M ■
Financing options on reserves	Promote financing options available on reserves, including homeownership	Provided mortgage insurance with Ministerial Loan Guarantee for 170 units on reserves, up from 156 units in 2003. Made significant progress with targeted First Nations toward piloting a new more flexible on-reserve mortgage insurance product that does not require Ministerial Loan Guarantee ■

■ Target met or exceeded
▲ Target substantially met
✗ Target not met

[1] Strategic Initiatives include the Residential Rehabilitation Program, Home Adaptations for Seniors Independence, the Emergency Repair Program and the Shelter Enhancement Program.

Helping Canadians in Need to Access Safe, Affordable Housing

CMHC contributes to the construction and preservation of affordable housing with both direct and indirect assistance, recognizing that this is one of the most effective ways to address housing need. To increase the supply of affordable housing, the Government of Canada is investing $1 billion by the end of 2007-2008, through the Affordable Housing Initiative with the provinces and territories. The initiative was announced in two phases, an initial allocation of $680 million, for which agreements are in place with all jurisdictions, and an additional $320 million announced in the 2003 federal budget. Agreements for the second phase of the initiative were in place with Quebec and British Columbia by the end of 2004.

The development of new housing under the initiative has lagged behind target, with 6,000 units committed in 2004, compared with our goal of 10,800. As a result, CMHC undertook a series of discussions with our provincial and territorial partners to identify challenges and find solutions that would enable more rapid progress. Additional flexibilities were announced in December and every indication is that this will lead to the signing of more agreements for the second phase of the initiative and more rapid take-up of available budget. Most importantly, it will lead to increased production of affordable housing to help Canadians in need during 2005 and beyond.

Leading the Way with Affordable Housing: *Armitage Gardens*

The first project built in York Region under the Canada-Ontario Affordable Housing Initiative. The project will provide 58 apartments of affordable housing for low-income residents. The project also features 26 apartments for seniors and adults with disabilities.

Leading the Way with Housing Partnerships: *How We Make Them Work*

Some of the tools we use:

- Seed funding assists housing proponents in early stages of housing development.
- Proposal development loans cover the costs of bringing affordable housing proposals to the point where groups can obtain the financing needed for their project.
- Capacity development assists potential housing providers to acquire information and skills needed to develop their housing project and manage it well for the long term.
- Mortgage loan insurance flexibilities promote affordable rental and ownership housing. Flexibilities include premium discounts, higher loan-to-value ratios, lower debt service coverage requirements, wider ranges of equity sources, and longer amortizations.

Examples of successful innovative techniques to support affordable housing include:

- municipalities waiving or reducing property taxes
- developers providing construction at lower profit margins
- federal-provincial / territorial capital grants
- land leased to the group for a nominal amount
- donations from charitable organizations

CMHC understands that there are many creative ways to support the construction of new affordable housing that require little or no government assistance. CMHC offers an innovative package of tools designed to facilitate the production of affordable housing through partnerships, a package that gives groups a choice of options that can be customized to meet their specific housing project needs. We also encourage innovative, community-based projects. In 2004, we facilitated partnerships that led to the creation or retention of almost 4,500 affordable housing units.

Preserving the existing affordable housing stock is also a cost-effective and practical way to help Canadians in need. In 2004, CMHC provided funding to assist in the improvement of over 25,500 homes through our renovation and repair programs, 6 per cent ahead of our target and 38 per cent more than the year before. We recognize that 2004 was an exceptionally strong year because of the timing of a program extension in the second quarter of 2003, which shifted a good deal of activity into the first quarter of 2004. As a result, in 2005, program volumes are expected to return to more typical annual levels, when we expect to be able to aid in the repair or renovation of 22,500 homes.

In 2004, we modified the program eligibility criteria of our Residential Rehabilitation Assistance Program to include a broader range of eligible work including energy efficiency, mold remediation and modifications for persons with disabilities. As a result, the Program now addresses a greater spectrum of needs.

Leading the Way with Innovative Solutions:

The Waterway, Victoria, B.C.

CMHC provided $882,000 in RRAP funding towards the Waterway apartment project to convert a former motel into 49 affordable rental units.

Programs at a Glance

Residential Rehabilitation Assistance Program – a mix of programs providing assistance to low income Canadians to repair or renovate their homes

Home Adaptations for Seniors' Independence Program – provides assistance for minor home adaptations that will enable low-income seniors to live independently in their homes

Emergency Repair Programs – provides emergency repair assistance to low-income homeowners in rural areas

Shelter Enhancement Program – rehabilitates and improves existing shelters for victims of family violence, and acquires or builds new shelters and second-stage housing

Canada's existing stock of federally supported social housing assists over 632,000 lower-income Canadian families each year. Through CMHC, the Government of Canada contributed approximately $2 billion to housing programs in 2004, about 90 per cent of which is for ongoing social housing commitments. Almost half of this is provided to the provinces and territories that have assumed administrative responsibility for housing programs under the social housing agreements.

Providing low-cost funding for social housing is another way that CMHC is helping Canadians in need. By providing loans to non-profit, cooperative and public housing projects at the best possible interest rates, CMHC is maximizing the effectiveness of federal housing subsidies. CMHC's loan portfolio is $13.7 billion. In 2004, both the number of new loans initiated and subsequent renewals were below target. A large part of the fall off in new loans was due to a large provincial debenture that was financed independently. In 2005, new loans are anticipated to be at about

Leading the Way to More Flexible Design

In 2004, CMHC worked with consumers, builders, health professionals and other stakeholders to increase awareness and understanding of the benefits of Universal Design and FlexHousing, to help address the needs of persons with disabilities.

the same level as in 2004 with subsequent renewals rebounding to more traditional levels, in the range of $1.7 billion.

Helping Canadians in need also requires a good understanding of who is in need, the underlying causes and the best solutions. CMHC undertakes research and disseminates information to help housing stakeholders and governments at all levels better understand and address the housing needs of Canadians. In 2004, CMHC produced several Research Highlights that reported on Canadian households and housing conditions, based on the newly available 2001 Census data on core housing need.

The Corporation also facilitated the adoption of practical housing design alternatives for two groups that face special housing challenges, disabled persons and Canada's growing elderly population.

Improving Aboriginal Living Conditions

As noted earlier, there is a growing shortfall of adequate, suitable housing on reserves. CMHC's approach to addressing this critical need is three-pronged. First, we are funding the construction of new and the repair of existing housing. At the same time, we understand that longer-term, transformational change is required. To this end, we are striving to develop well-functioning housing markets in Aboriginal communities by improving access to financing and homeownership, where this is a viable option. Finally, we are working in partnership with Aboriginal Canadians to increase their control over, and direction of, their own housing.

CMHC committed funding assistance to the construction of almost 1,000 new homes on reserves in 2004. Because of lower than anticipated interest rates, we were able to exceed our goal for the year by 15 per cent. We also contributed to the renovation of more than 1,200 homes on reserves through the Residential Rehabilitation Assistance Program discussed earlier.

We act in housing markets to help meet Aboriginal housing needs. First Nations are frequently unable to access the benefits of fluid, well-functioning housing markets. During 2004, CMHC provided mortgage insurance for 170 homes with Ministerial Loan Guarantees from Indian and Northern Affairs Canada to protect against borrower default. In these cases, the community assumes the entire cost of the guarantee in case of default.

Creating other more flexible avenues for housing finance will enable the development of better functioning housing markets and help alleviate some of the housing issues on reserves. During 2004, CMHC actively promoted a new on-reserve mortgage insurance product developed in 2003 that does not require a Ministerial Loan Guarantee. While this product is specialized in nature and not designed to work in every on-reserve situation, significant interest has been demonstrated from some First Nations in undertaking pilot initiatives.

CMHC also provides training, expertise and leadership to help Aboriginal communities increase management of their own housing. The Corporation's Native Inspection Services Initiative (NISI) has been instrumental in this respect, helping to develop the Aboriginal inspection sector. In 2004, NISI inspectors carried out approximately 90 per cent of on-reserve inspections on a fee-for-service basis, considerably higher than our target of 80 per cent.

CMHC has an ongoing leadership role in furthering the establishment of the First Nations National Building Officers Association, which is developing professional certification processes for its sector. Through the Housing Internship Initiative for First Nations and Inuit Youth, CMHC assists out-of-work youth to gain needed on-the-job training in the housing field through housing internships sponsored by local First Nations communities.

The Corporation also enhanced existing training and curriculum materials related to indoor air quality and better building practices, and developed new training materials related to maintenance and renovation. A compendium of courses is provided to Chiefs, Councils, housing managers, home occupants, builders, renovators and technical service providers. To address one significant problem, in 2004, CMHC released comprehensive information to help Aboriginal communities prevent and remediate mold problems.

Leading the Way to Enhanced Skills:

Aboriginal Building Inspectors

In cooperation with the regional Cree Authority and the Cégep de Val d'Or, CMHC helped fill the lack of specialized skilled labour in Cree communities of Northern Québec; 13 new Native inspectors from eight Cree communities successfully completed the 'Building Inspector' training developed by CMHC.

CMHC believes that our assistance in the construction of much needed housing on reserves, the repair of existing homes, the pursuit of more flexible financing options and the development of skills, expertise and institutions are all building blocks toward the significant changes that are required to close the gaps experienced by Canada's Aboriginal people. In 2004, an important first step was taken on that road to change, with the Aboriginal roundtable process initiated by the Prime Minister and, specifically for housing, with the CMHC-led Aboriginal Housing Sectoral Session. The roundtable process will conclude in 2005 and we believe it will set the stage for the enduring and important changes that are required.

THE CONTEXT

Most Canadians are able to meet their housing needs through the marketplace, without direct government assistance. Over the past few years, housing markets have been exceptionally strong as they benefited from historically low interest rates, strong labour market conditions, steady house price appreciation and recent income gains. For example, in 2004, housing starts reached a 17-year high at 233,431 units. The resale market followed a similar pattern with sales of existing homes in 2004 reaching 456,108 units, a record high for the third consecutive year. One result of low interest rates has been to draw many renters into homeownership, which has led to rising vacancy rates and moderate rent increases.

The housing finance industry is faced with a changing business and regulatory environment. New lenders are entering the Canadian marketplace, including subsidiaries of foreign institutions and non-regulated financial institutions. This, and other industry trends, such as emerging regulatory changes, continuing globalization and consolidation of financial services and ongoing technological changes, are creating an increasingly competitive environment where new strategies and priorities are emerging.

Another important dimension of the Canadian housing industry is its growing presence internationally. Exports provide the Canadian housing sector with the opportunity to test innovation, productivity and quality against the best the world offers, and in the process create Canadian jobs and a healthier, more competitive sector. Exports also provide the sector with a source of stability against market fluctuations here at home. Canadian housing exports have been strengthening their international foothold in recent years, although the recent surge in the Canadian dollar will pose challenges for the industry.

LEADING THE WAY TO MORE AFFORDABLE, BETTER QUALITY HOUSING

We help housing finance markets function effectively so that most Canadians are well-housed without direct government assistance. Through CMHC's efforts, more Canadians are able to access mortgage financing earlier and at a lower cost, making home-ownership a reality for them. More rental accommodation is also developed as a result of CMHC's role in easing access to affordable mortgage financing. We accomplish this by protecting the financial industry from borrower default, through mortgage insurance, and by ensuring an abundant supply of funds for the residential mortgage market, through the guarantee of mortgage securities.

We strive to ensure that housing is durable, energy efficient and well-suited to the needs of Canadians by delivering objective, reliable market and technical information to the housing industry and to housing consumers.

We help Canada's housing industry remain strong, competitive and innovative by opening doors for Canadian housing exporters.

Key Performance Indicator	2004 Target	2004 Result
HELPING HOUSING FINANCE MARKETS FUNCTION EFFECTIVELY		
Total mortgage insurance approved	488,038 units	652,573 units ■
Mortgage insurance product innovation and enhancement	Develop new and enhance existing products to meet the needs of Canadians	New products and policy enhancements were introduced with respect to downpayment flexibilities, second homes, self-employed Canadians, energy efficiency and rental properties ■
Efficiency: Operating expense ratio for mortgage insurance	16.1%	12.5% ■
Annual securities guaranteed	$15B	$29.6B ■
Efficiency: Operating expense ratio for securitization	17.4%	12.5% ■
ENSURING THAT HOUSING IS DURABLE, ENERGY EFFICIENT AND WELL-SUITED TO THE NEEDS OF CANADIANS		
Development of solutions for the housing sector	Research issues affecting industry and housing costs, including builders' risk and liability issues	Completed research on builders' risk insurance covering issues related to obtaining adequate coverage, and alternative means of acquiring protection ■
Dissemination of housing market information	Collect, analyze and disseminate housing market information that facilitates informed housing-related decisions	Some 28,500 individuals attended CMHC market analysis events across the country. In addition, over 60,000 housing market information products were disseminated to consumers, professionals and other client groups ■
Dissemination of information for consumers	Increase the visibility of CMHC and its information products, primarily among home buyers and renovators	Over 20,000 bundles of information including various CMHC information products were distributed to consumers ■
HELPING CANADA'S HOUSING INDUSTRY REMAIN STRONG, COMPETITIVE AND INNOVATIVE		
Overall satisfaction rate of key export clients	70%	79% ■
Value of contracts signed by key export clients in priority countries	$55M	$67.8M ■

■ Target met or exceeded
▲ Target substantially met
✘ Target not met

Helping Housing Finance Markets Function Effectively

Well-functioning housing finance markets benefit Canadians in every walk of life. CMHC is helping markets work better by enabling more Canadians to access mortgages at lower interest rates earlier, by ensuring that affordable mortgage financing is available for rental housing, and by expanding the pool of funds available for mortgage financing.

One way that CMHC is helping markets work better is through its mortgage insurance products that protects against possible borrower default. This allows lenders to offer mortgages to Canadians everywhere with as little as a 5 per cent downpayment at interest rates that are similar to those for mortgages with a downpayment of 25 per cent or more. This means more Canadians can own homes, sooner.

CMHC's mortgage insurance had a record year in 2004, backing the financing of 652,573 homes for Canadians, 34 per cent more than our target. We attribute much of this success to the ongoing strength of the housing market, but we also believe that our commitment to innovation and superior client service played important roles.

CMHC creates access to housing finance for Canadians who might otherwise not be able to obtain mortgages. Approximately 36 per cent of the homes backed by CMHC mortgage insurance in 2004 were in products or locations where CMHC is typically the only mortgage insurer. These include loans for rental accommodation, nursing and retirement homes and chattel loans as well as business in many rural and northern areas, single industry towns and on reserves.

Our longstanding commitment to innovation continued in 2004 with the introduction of new products and product enhancements designed to meet a wider range of needs.

Leading the Way with New Product and Policy Enhancements in 2004

Flex Down Product

Significantly expands the sources of downpayment for borrowers with demonstrated financial abilities, thereby addressing an existing barrier to achieving homeownership.

Self-Employed

Improves access to all of CMHC's homeowner mortgage insurance products for self-employed Canadians, an increasingly important segment of the Canadian economy, with no increase to mortgage insurance premiums, surcharges or borrower qualifications.

Second Homes

Recognizing the evolving lifestyle needs of Canadians who wish to purchase a second home as a result of career or family decisions, qualified borrowers can now use any of CMHC's existing homeowner products when they purchase or refinance a second home.

Homebuilder Progress Advance

To continue to promote a competitive and viable housing construction industry, allows mortgages secured by pre-sold homeowner properties to be eligible for CMHC homeowner mortgage insurance which is particularly important for smaller builders where cash flow can be a challenge.

Energy Efficiency – Homeowner and Rental

To help meet Canada's climate change objectives and support healthy, sustainable communities, a 10 per cent refund on CMHC's mortgage insurance premium when a borrower buys or builds an energy-efficient home or makes energy-saving renovations.

Floating Rates for Rental Properties

Allowing the use of floating interest rates for insured loans on rental properties; borrowers now have access to a broader range of lower cost alternatives through fixed or variable rate funding.

CMHC improved speed, efficiency and cost effectiveness while maintaining high standards of underwriting quality, even with record high business volumes. The Corporation's housing finance systems and, in particular, **emili**, its automated mortgage approval system, continue to be fast and efficient. In 2004, 87 per cent of homeowner applications were turned around within 4 hours of receiving the application, up from 85.2 per cent in 2003.

Another client service improvement was the launch of a new Client Service Call Centre to more rapidly and conveniently answer general calls from lenders about CMHC's mortgage insurance for homeowners. Almost 94 per cent of calls to the new centre were answered within 20 seconds in 2004, exceeding industry standards in this area by about 4 percentage points.

With a gradual upward trend in interest rates anticipated in 2005, demand for homeownership and housing finance products is expected to moderate somewhat. CMHC will continue to explore and develop new insurance products to better serve borrowers, particularly borrower groups who may be currently underserved by the marketplace. New client satisfaction assessment tools will be introduced to help target service improvements. CMHC will also continue its industry leadership in fraud management by working with the housing finance industry to raise awareness of fraud and by conducting training on fraud prevention and detection mechanisms.

To help keep mortgage interest rates as low as possible, CMHC facilitates a steady flow of low-cost funds for mortgage lending, through the guarantee of mortgage securities, including Mortgage-Backed Securities (MBS) and the Canada Mortgage Bond (CMB). These securities also benefit investors by providing high quality, secure investments in Canadian residential mortgages.

CMHC securitization set records in 2004, far exceeding targets due to strong demand by issuers and investors. Total guaranteed securities in 2004 reached $29.6 billion, while guarantees in force reached an unprecedented $81 billion, a 58 per cent increase over 2003. Much of the increase in securitization in 2004 stemmed from the strong demand for housing as well as strong demand in the bond market. With an upward trend in interest rates expected to cool the residential sector, CMHC's 2005 target for securities guaranteed is $18 billion.

In 2004, the CMB program provided funds at rates that were competitive, with an average 12.5 basis point spread with equivalent 5-year Government of Canada securities. According to market participants, the cost of funds advantage of the CMB program is in the range of 15 basis points over alternative funding sources. The benefit of lower cost funds can be passed on to Canadians through more competitive mortgage rates. As the program matures, CMHC anticipates further tightening of these spreads.

The increased securitization activity in 2004 was facilitated by the introduction of Variable Rate Mortgage-Backed Securities (VRMBS), which expanded the eligible types of mortgages that can be sold into the CMB program. A total of $5.4 billion of VRMBS was sold into the CMB program in 2004. VRMBS also made possible an additional $800 million in CMB Floating Rate Notes, issued for the first time in December 2004. The floating rate notes significantly diversify and expand the funding capabilities of the CMB program.

Leading the Way in Mortgage Funding:
Securitization Enhancements in 2004

Variable Rate MBS

Recognizing the increased variety of mortgage products in the Canadian market, CMHC expanded the NHA-MBS program in 2004 to include variable rate mortgages following a successful 2003 pilot. Variable rate MBS are also eligible for inclusion in the CMB program. The enhancement adds to the availability of low-cost mortgage funds and improves Canadians' access to affordable housing.

Second Mortgages

NHA-MBS was expanded to include insured second mortgages for both homeowner and rental properties, increasing the amount of private capital available to purchase homes and rental accommodation, as well as providing property owners with access to more affordable financing for activities such as repair and renovation.

Floating Rate Notes Issuance

2004 marked the first time the Canada Housing Trust issued floating rate notes, which represented a significant diversification and expansion of the Trust's funding capabilities.

Leading the Way with Expertise

As part of an agreement between CMHC and the United Nations Human Settlements Programme, UN-HABITAT, CMHC is sharing its expertise and providing training related to the use of GIS (Geographical Information Systems) to assist in the development of urban observatories in cities around the world. CMHC conducted its first workshop under this important agreement in Curitiba, Brazil and has been invited to participate in another workshop in Kenya in February 2005.

The significant increase in CMHC's securitization activities in 2004 positions the Corporation as the leader in secondary mortgage markets in Canada. Going forward, the Corporation will continue to seek new opportunities to securitize a wider range of mortgages to continue to help lower the cost of homeownership for Canadians.

Ensuring that Housing Is Durable, Energy Efficient and Well-suited to the Needs of Canadians

CMHC believes that one of the most effective ways to keep Canadians well-housed is through the provision of objective, reliable information about housing. CMHC is Canada's housing expert, with a full range of information running from housing market analysis and forecasting, through technical information aimed at builders, renovators, developers and others, to how-to guides for consumers. By helping participants in Canada's housing system make more informed decisions, we believe that Canadians will be better and more affordably housed.

Reliable market information is critical to helping the housing industry make sound investments. CMHC is Canada's leading source of objective and reliable housing market information. The Corporation's market analysis function tracks housing markets and supports the industry by providing national, regional and local housing forecasts, analysis and data to consumers, industry and government. CMHC's Housing Outlook Conferences, Seminars and other presentations give industry representatives direct access to CMHC's experts, providing relevant and reliable housing information tailored to their needs. In 2004, a record 28,500 individuals attended the more than 350 events held across the country.

In 2005, CMHC will continue to explore new sources of housing market data and complete the review of its products and services to ensure that they remain responsive to clients' needs. The Corporation will also continue to enhance the use of its internationally recognized Geographical Information Systems in its analysis and products.

CMHC is committed to using research to find solutions to issues and concerns faced by Canada's housing industry. In 2004, our work focused on two key industry concerns that have the potential to affect housing affordability: labour shortages and builders' risk insurance. While construction labour costs have been increasing moderately in recent years, industry surveys indicate the existence of labour shortages for key trades, such as drywallers, carpenters and bricklayers in certain local markets. In 2004, in partnership with the Canadian Home Builders' Association, CMHC completed research on the demographics of skilled labour in the housing industry to better understand long-term succession planning requirements and the potential elements of a human resources development strategy.

In response to industry concerns about builders' risk insurance, CMHC completed a comprehensive study on the issues related to obtaining adequate coverage, and alternative means of acquiring protection. The report includes a section forming the basis of a how-to guide, to be produced in 2005, that will help builders manage their risk insurance requirements by helping them to make informed decisions.

Comprehensive, timely and relevant information helps Canadians make informed decisions about their housing choices. The Corporation conducts periodic consumer campaigns, consisting of advertising in newspapers, direct mail initiatives about renovation and extensive media relations efforts, all to make consumers aware of the wealth of expertise that is available to them. The 2004 consumer campaign helped increase traffic to CMHC's web site by 38 per cent, representing an estimated 2.24 million visitors; 27,000 calls were received and a record 21,000 bundles of information were distributed to consumers, the highest numbers recorded since the first campaign in 2001. These bundles included information products focusing on energy efficiency, indoor air quality, home inspection, and renovation planning, to name a few.

Helping Canada's Housing Industry Remain Strong, Competitive and Innovative

An innovative, productive and competitive housing sector means better quality, more affordable housing for Canadians. For this reason, CMHC promotes Canadian housing exports, recognizing that the jobs created in Canada and the lessons learned from matching our products against the world, all contribute to the strength and viability of the Canadian housing sector.

In 2004, the work carried out by CMHC to develop export opportunities for the Canadian housing industry is once again paying significant dividends – for the Corporation and for the country as a whole. A key statistic helps illustrate this: over the last three years, CMHC has contributed to approximately $200 million in export sales by the Canadian housing industry.

In recent years, CMHC has contributed to creating or maintaining 3,000 person-years of employment in the housing sector across Canada, and expects to contribute to creating or maintaining an additional 4,000 person-years in the next three to five years.

Based on an overall satisfaction level of 79 per cent in the latest annual independent client survey, there is significant perceived value to CMHC's export promotion activities. Those working in the housing industry report that a positive by-product of adapting their products to the specifications of other countries is that it strengthens their firm's production capacity, and enhances innovative ways to compete, including in sales of technologies such as the Super "E" House that supports environment-friendly policies.

Working in close collaboration with Natural Resources Canada and the Trade Commissioners Service at Foreign Affairs Canada, CMHC International's efforts have opened the doors to the sale of wood frame houses and products by Canadian companies in the United Kingdom. As evidenced by the level of activity of Canadian companies in this market, the combination of wood frame construction with energy efficiency has produced a Canadian success.

In 2005 and beyond, the outlook for Canadian housing exports remains positive as Canadian housing systems and practices continue to gain acceptance in international markets, although the recent surge in the Canadian dollar will pose challenges.

Leading the Way Internationally:

Canadian 'House of the Future' in the United Kingdom

A Canadian home in Kent, England was given the "House of the Future" award at the U.K. National Homebuilder Design Awards. Supplied by a Canadian company, the award-winning house is part of the Super E™ Program – Canada's export program of high-quality energy-efficient demonstration homes.

THE CONTEXT

CMHC is operating in a challenging business environment with complex social, economic and environmental issues requiring solutions that engage partners across Canadian society. Housing touches on economic performance, education, health, personal and community well-being and environmental sustainability. Below the surface of national trends are important differences among regions, communities, groups and individuals. Recognizing the importance of housing and the diversity of challenges, the Government of Canada is undertaking a major review of the Canadian Housing Framework, beginning with a series of broad-based public consultations that were announced in 2004 and began early in 2005. CMHC is participating in the consultations. The results will form an important basis for future strategic directions for the Corporation.

Work is also underway to initiate the transformational change for Canada's Aboriginal people that was spoken about earlier. The broad range of housing perspectives and concrete ideas resulting from the CMHC-led Aboriginal Housing Sectoral Session, held in November 2004, will inform the discussions at the Aboriginal Policy Retreat that will take place in spring 2005. This will be followed by a First Ministers' Meeting on Aboriginal issues in the fall of 2005 and will set the stage for Aboriginal housing initiatives going forward.

One linkage that is particularly important for CMHC is the connection between housing and environmental sustainability. This encompasses a range of factors from housing technology to the way we plan communities. Canada's low-density residential developments are relatively expensive to service, exert pressure on agricultural lands, wetlands, wildlife habitat and local water systems and promote automobile usage, thereby affecting air quality. A more sustainable future will require new approaches to how we build housing and communities.

As never before, organizations are realizing the importance of renewing themselves on a continual basis by managing their talent pool, sharpening their technological capabilities and improving their ability to communicate with clients and stakeholders.

LEADING THE WAY FORWARD

At CMHC, we are working to ensure that the Canadian system of housing remains one of the best in the world. We are enhancing the Canadian Housing Framework to ensure that governments, communities and the housing sector are working in partnership to provide solutions that meet the needs of Canadians along the entire housing continuum. We advocate best practices that create sustainable, energy efficient and healthy housing and communities.

We share the benefits of the Canadian housing system with other countries by using our expertise to help them adapt Canadian housing solutions to their realities.

We ensure CMHC is a strong organization so that we will be able to meet the challenges we face in the future.

Key Performance Indicator	2004 Target	2004 Result
ENSURING THAT THE CANADIAN SYSTEM OF HOUSING REMAINS ONE OF THE BEST IN THE WORLD		
Dissemination of information on housing and community sustainability	Research and policy options on urban infrastructure, residential intensification and brownfield redevelopment, as well as innovative approaches to sustainable and healthy communities, including greater energy efficiency in homes	Publication of a literature review and analysis on the barriers to brownfield redevelopment for housing. Release of six case studies on brownfield redevelopment. Management approval to proceed with active exploration of mortgage insurance risk-sharing pilots for brownfield redevelopment. Release of a research report, 35 case studies and two research highlights on best practices in sustainable development ■
SHARING THE BENEFITS OF THE CANADIAN HOUSING SYSTEM WITH OTHER COUNTRIES		
Revenue from selling CMHC's expertise abroad	$1.26M	$1.4M ■
ENSURING THAT CMHC IS A STRONG ORGANIZATION ABLE TO FULFILL ITS MANDATE		
Training investment per staff year	$2,816	$2,243 ✗
Retention rate of recent recruits – regular employees	96%	96% ■
Technology reliability index for key systems	99.7%	99.8% ■
Operating budget spent on information technology	16%	16.7% ■
Overall awareness of CMHC	78%	80% ■
Unaided awareness of CMHC	19%	21% ■

■ Target met or exceeded
▲ Target substantially met
✗ Target not met

Canada's Housing System

Canada's housing system involves a network of players, each with a vital role to play in ensuring that Canadians have access to a range of housing options to meet their evolving and diverse needs. Governments at all levels are involved in setting the policy, legal and regulatory framework that governs housing finance, production and quality. Financial institutions, the construction and renovation industry, urban planners, the real estate industry, property managers, non-profit and cooperative housing groups, universities and institutes engaged in housing research, all contribute to the effective functioning of the housing system. At the foundation of the housing system are the housing decisions of individual Canadians.

Ensuring that the Canadian System of Housing Remains One of the Best in the World

Canada's housing system is one of the most highly regarded in the world. In fact, most Canadians take the housing system for granted. They know that if they are buying or renovating a home, they will have access to a range of financing options. They know that the housing they are living in is built to last and to withstand the extremes of the Canadian climate, and that they will benefit from continually improving housing technologies. They are aware that they have access to a range of resources that can help them make informed housing decisions.

The federal, provincial, territorial and municipal governments of Canada have taken steps over the years – sometimes in collaboration and sometimes independently – to mould Canada's housing system. With the national consultations on the Canadian housing framework and with the focus of the Aboriginal Roundtable process on housing as a key area for transformational change, the Government of Canada has launched an important discussion on how Canadians want our housing system to evolve to meet the ever-changing needs of our population. CMHC is excited to be part of this discussion of the future and we are prepared to play our part in keeping Canada's housing system one of the best in the world.

CMHC has always been engaged in shaping the Canadian housing system. Since our inception in 1946, we have been cognizant of the need to advocate new approaches that help governments, the housing sector and consumers create sustainable, energy efficient and healthy housing and communities. In 2004, we continued this effort with research and information transfer activities focused on housing technology and community planning and design. Development patterns and residential densities are directly related to housing affordability and the cost-effectiveness of important urban infrastructure such as public transit, while improvements in housing technology can dramatically affect energy consumption.

In 2004, CMHC released results of research on brownfield redevelopment and residential intensification. Sustainable planning and development workshops were delivered to over 450 participants across the country, and the Corporation renewed its funding for the Affordability and Choice Today program, recognizing that municipal regulatory reform, particularly as it relates to codes and standards and the cost-effectiveness of housing and urban infrastructure, remains a priority at the local level.

CMHC is working closely with the city of Stratford, Ontario, which is exploring the application of the Corporation's "fused grid" planning model to newly annexed lands.

To support broader efforts at resource conservation and climate change initiatives, CMHC's ongoing technical research on energy and water efficiency strives to ensure that Canadian consumers and builders alike understand the costs and

Leading the Way with Sound Information and Analysis

In 2004, CMHC released its second annual comprehensive review of the state of Canada's housing, The *Canadian Housing Observer*. The Observer provides a comprehensive statistical portrait of how well Canadians are housed and charts the key developments of the sector.

benefits of alternative systems and technologies in the residential sector. In 2004, the Corporation continued its work on greenhouse gas reductions in the residential sector, with research that concluded that significant savings in electricity are possible if people are prepared to invest in renovations to their home and make lifestyle changes.

In 2005 and beyond, CMHC will continue to make the linkage between housing and key policy matters such as the environment and infrastructure, as well as promoting housing and urban sustainability with ongoing studies on building envelope performance and environment-friendly development patterns.

Sharing the Benefits of the Canadian Housing System with Other Countries

Because our housing system has created many advantages for Canadians, at CMHC, we are using our housing expertise to help other countries share in those same benefits, by helping them adapt Canadian housing solutions to their realities. We also know that in the process of working with others, we too will gain new ideas and find new solutions. In 2004, CMHC registered notable successes in Africa, Asia and the Middle East, primarily by offering housing finance solutions to help develop housing systems that can better meet the needs of citizens in developing countries.

In 2004, CMHC revenues from selling its expertise abroad reached $1.4 million, nearly 13 per cent ahead of plan. The outlook for CMHC's work in this area in the coming years is very positive with working relationships and contracts being developed and negotiated in Latin America, Europe, the Middle East, Africa and Asia.

Leading the Way to Better Neighbourhoods

The Fused Grid is an innovative approach to community planning and design that combines traditional and contemporary town planning. It creates a people-friendly environment that combines the quality of life associated with open spaces and safe, sociable streets with easy access to community facilities.

CMHC also has a vital interest and role to play in solidifying Canada's position in the world and promoting Canadian values abroad. CMHC International continued to play an influential role in imparting Canadian values and ideas among international organizations such as the International Union of Housing Finance, and the World Bank, as well as in international forums like the World Urban Forum held in Barcelona, Spain in September 2004.

Ensuring that CMHC Is a Strong Organization Able to Fulfill its Mandate

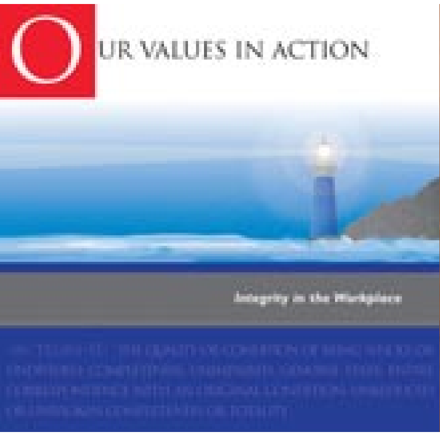
CMHC is and works to remain a progressive and responsive organization with the right resources in place to fulfill its public policy objectives. We strive to strengthen our corporate capacity to fulfill our mandate, through the development of human resources and the deployment of technology. We also strive to ensure that the federal contribution to housing is recognized by Canadians.

The Corporation has always been guided by the strong values that are fundamental to our organization. In 2004, the Corporation took steps to entrench its commitment to ethical behaviour through the development of our statement of values, which was reinforced at all levels of the Corporation through interactive discussions of relevant and instructive

Leading the Way on Global Urban Issues

The World Urban Forum in Barcelona, Spain attracted over 4,000 delegates from 155 countries. The Canadian delegation was led by the Honourable Joe Fontana, Minister of Labour and Housing, with the Honourable Stephen Owen, Minister of Western Economic Diversification and Minister of State (Sport). CMHC is playing a lead role in Canada's hosting of the Third World Urban Forum in Vancouver in 2006. This will mark the 30-year anniversary of the first ever UN-HABITAT Conference that was also held in Vancouver in 1976.

From left to right: CMHC Special Advisor John Black, Minister Stephen Owen, UN-Habitat representative Anna Tibaijuka, Minister Joe Fontana, CMHC President Karen Kinsley



Leading the Way with Our Values

With the development, dissemination and discussion of the *Our Values in Action* document, a forum was provided for all employees to identify and to understand their responsibility for living and fostering integrity in the workplace. With 44% of all employees attending Ethics awareness sessions in 2004, CMHC exceeded its target of 20%. The remainder of employees are expected to attend sessions in the early part of 2005.

case studies. These sessions also served as an excellent opportunity to inform employees about the Corporation's policy on internal disclosure of wrongdoing that was approved in 2003.

CMHC has long benefited from strong employee retention. Nonetheless, in order to continue to build business capacity and to ensure organizational continuity, CMHC underlined its commitment to succession management and employee development in 2004. A corporate succession management strategy was approved for action and an implementation plan is in place and on track. The Corporation also continued to make significant investments in employee development, although investments were below target in 2004 largely because of improved rigour in ensuring learning investments are more closely aligned with business priorities.

CMHC applies technology to gain strategic advantage and operational efficiency. Our technological investments help Canadians get their mortgages approved faster, provide fast, flexible online access to the wealth of expertise the Corporation has to offer and support efficient administration of the federal government's contributions to those in need. We strive to ensure that our services are dependable and easily accessible to all Canadians.

To achieve these goals, CMHC invests in proven technologies to ensure that its technology environment is flexible, stable and secure, as well as in new technologies so that CMHC's services can be delivered in innovative ways. An overall indication of CMHC's technical standards is its technology reliability index which improved to 99.8 per cent in 2004, the highest level ever recorded. In other words, the Corporation's information technology systems were available for business virtually all of the time in 2004.

As Canada's national housing agency, we also believe that it is important for Canadians to understand the value of quality housing in their lives as well as the federal government's contribution to housing. Increasing the visibility, recognition and awareness of CMHC programs and services remains a priority for the Corporation. Unaided awareness of CMHC as Canada's housing agency increased to 21 per cent in the fall of 2004, from 19 per cent in the spring, while overall awareness increased to 80 per cent in the fall from 76 per cent in the spring. Both measures were ahead of target.

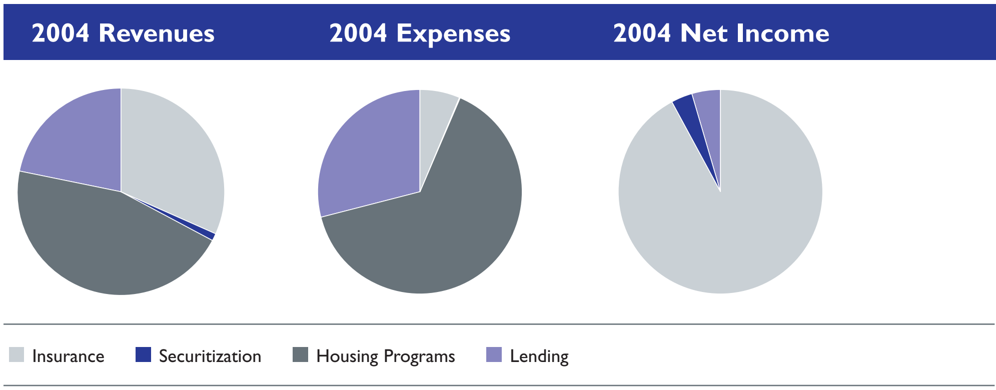
In 2005, CMHC will focus on increasing the awareness of Canadians about, as well as their ease of access to, the full range of products and services the Corporation has to offer.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF OPERATIONS

Corporate Financial Results (in millions of dollars)	2005 Target	2004 Actual	2004 Plan	Results Against Plan	2003 Actual
Revenues	4,676	4,661	4,641	100%	4,430
Expenses	3,466	3,262	3,658	89%	3,423
Income Taxes	393	449	320	140%	340
Net Income	817	950	663	143%	667
RESOURCE MANAGEMENT					
Operating Expenses	293	261	300	87%	255
Staff-Years	1,902	1,814	1,866	97%	1,799

CMHC's financial results comprise all of its varied activities, ranging from Housing Programs for those in need to Insurance and Securitization activities that ensure that the Canadian housing finance system remains one of the best in the world. While CMHC's activities that help Canadians in need are operated on a break-even basis, other activities aimed at the efficiency of the housing finance markets are operated, as required by CMHC's mandate, on a more commercial basis. Accordingly, net income is predominantly a function of the Insurance and Securitization activities while Revenues and Expenses reflect the entire breadth of CMHC activities.



Overall, the positive financial performance in 2004 resulted from several years of favourable economic conditions. In 2005, an anticipated upward trend in interest rates is expected to lead to a slowing in demand for mortgage funding and, as a result, net income is expected to moderate.

As a federal Crown corporation, CMHC's financial results are an integral part of the Government of Canada's financial results and budgetary projections. Accordingly, CMHC's annual net income contributes to the government's annual surplus and CMHC's retained earnings have helped reduce the government's accumulated deficit.

Leading the Way Home for Canadians in Need

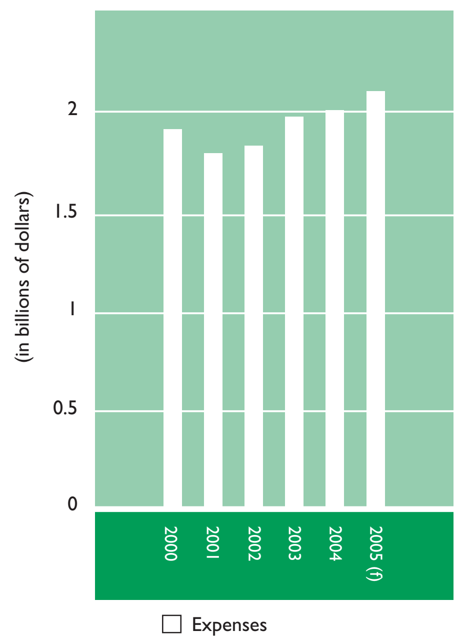
For Canadians in need, CMHC provides direct assistance through housing program grants and contributions, and loans at below market rates. CMHC devotes approximately one-third of its resources to preserving the existing stock of affordable housing, developing and delivering solutions for Canadians who are not otherwise in a position to access Canada's market housing finance system.

Housing Programs

Despite the recent strength of the economy and housing markets, many challenges remain for Canadians in core housing need, including Aboriginals and seniors. CMHC targets these needs through various housing programs, such as the Affordable Housing Initiative, on-reserve non-profit housing and renovation programs, with spending amounting to approximately $2 billion annually.

CMHC receives parliamentary appropriations to cover Housing Program Expenses, including the associated administrative costs. The level of parliamentary appropriations is determined annually by the Government of Canada and is expected to increase slightly in 2005 due to the continued focus on core housing needs. The appropriations are shown as revenues in CMHC's financial statements and are offset by the expenditures made under the programs.

Housing Program Expenses



Lending

The Lending Activity supports housing choice and affordability through various loan programs. CMHC's Direct Lending initiative, its only active lending program, is operated on a break-even basis. Debt issued in the capital markets funds loans to social housing groups, providing lowest cost financing to over 9,000 loans. CMHC's inactive lending programs were funded by loans from the Government of Canada. They were designed to cover funding and administrative costs, with the exception of prepayment and repricing risk, which exists in certain loan programs. CMHC is able to recover from the Government of Canada some of the losses incurred as a result of prepayment and repricing activity in the loan portfolio.

Compared to the Corporation's early years, lending plays a reduced role in housing assistance provided by CMHC in favour of newer, more flexible assistance mechanisms. Thus there is a downward trend in both the loan portfolio and the debt issued to fund the loans, which currently stand at some $14 billion.

The net income contributed by the Lending Activity is small relative to the Corporation's overall performance, and can be significantly affected by the recoveries from the Government of Canada for prepayment and repricing losses, and beginning in 2004, by the impact of *Accounting Guideline 13*.

Lending Activity Sources of Net Income (in millions of dollars)	2005 Target	2004 Actual	2003 Actual
Recovery from the Government of Canada	0	24	22
Impact of New Accounting Standard (AcG-13)	1	16	0
Other	11	3	13
Net Income	12	43	35

The new accounting standard for derivative financial instruments, *Accounting Guideline 13: Hedging Relationships (AcG-13)*, came into effect on 1 January 2004. CMHC's derivative financial instruments mitigate market risks related to loans and borrowings, but many of them do not meet the criteria for hedge accounting specified in AcG-13. As a result, many derivatives are now adjusted to current fair value on the Balance Sheet, with gains and losses resulting from the changes in fair value recognized in income, causing income volatility from year to year.

CMHC is authorized to retain the annual net income from its Lending Activity in a Reserve Fund to protect the Corporation from possible future losses. Effective for 2004, the Government increased the Reserve Fund limit to $175 million, up from $100 million previously. Included in this new limit is an amount of $50 million designated specifically for fluctuations in net income resulting from AcG-13. The current Reserve Fund stands at $134 million, of which $16 million results from the new accounting standard.

Leading the Way to More Affordable, Better Quality Housing

CMHC helps Canadians access affordable mortgages through its commercial activities in the housing finance sector. Approximately 60 per cent of CMHC's resources are dedicated to the execution of its market housing activities, primarily in Insurance.

Insurance

The economy has a significant influence on the performance of CMHC's insurance business. Recent economic conditions have been exceptionally supportive of a strong mortgage insurance business.

- Since 2000, mortgage rates have gradually declined, while housing starts and completions have steadily risen.
- In 2003, resale activity reached an all-time high, and resale prices increased more than three times the rate of inflation.
- Following a slow start in early 2004, employment picked up momentum and grew by 1.4 per cent by the end of the year.
- In 2004, the Canadian economy added 226,300 full time jobs, while workers' earnings, on average, outpaced inflation.
- 2004's average posted 5-year mortgage interest rates, at 6.23 per cent, remained at historical lows.

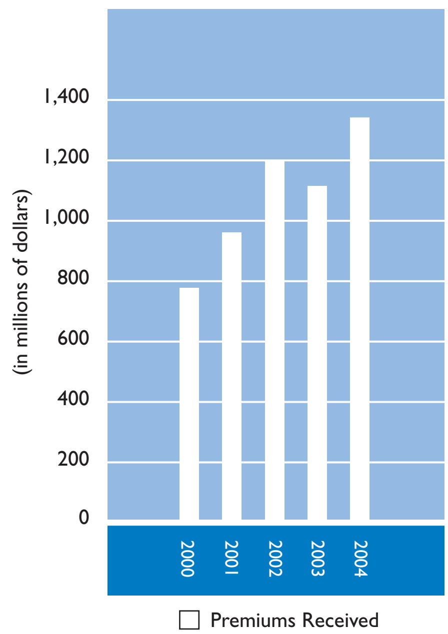
Key Accounting Policies for Premiums and Fees

Insurance: Premiums are received at the inception of the mortgage insurance policy. They are not, however, taken into income immediately, since they relate to potential claims in future years. Instead, they are recognized as revenue over the period covered by the insurance contract using actuarially determined factors that reflect the long-term pattern for default risk. Premiums received but not yet recognized as revenue ("Unearned Premiums") represent a reserve for claims that may occur from now to the termination of the insurance policies.

Securitization: Guarantee fees are received at the inception of the related security issue. They are recognized as revenue over the term of the NHA-MBS / CMB on a straight-line basis.

For Canadians, this meant more opportunities for homeownership and an upward pressure on housing prices. For CMHC, these economic factors, coupled with the introduction of innovative products and CMHC's commitment to service excellence, have resulted in successive years of escalating business volumes and corresponding premium revenues.

Insurance Premiums Received



In 2004, mortgage insurance approvals reached a record high of 652,573 units, 26 per cent higher than 2003, and 12 per cent higher than the previous record set in 2002. In fact, since 1999, volumes have grown by 64 per cent while insurance premium revenues have climbed by 77 per cent.

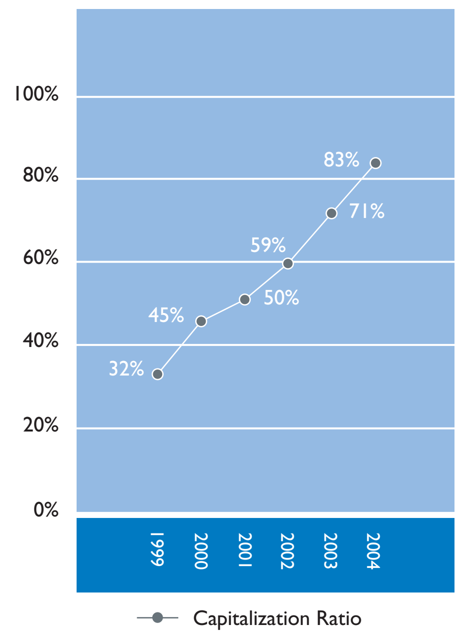
These volumes translate into climbing premium receipts. Only 2003 broke the trend, as premium receipts declined following the announcement of a 15 per cent reduction in mortgage loan insurance premiums in that year. Because premiums are recognized over the life of the insurance policies, almost all of the 2004 income from premiums is attributable to the successes achieved in previous years. Similarly, premiums received this year will positively impact revenues in the years to come.

In 2004, CMHC implemented new premium earning patterns as recommended by its external actuary. The new patterns increased earned premiums by $88 million and net income by $60 million.

Net claims expense is also affected by the economic conditions. It has two components. The first component is the actual loss on claims paid during the year. The other component is the change in the provision or estimate of claims that have already occurred but for which no claim has yet been filed with CMHC by lenders. This estimate is based upon historical experience, prevailing legal, economic, social and regulatory trends, and expectations as to future developments (primarily in the next 12 to 18 months). It is evaluated annually by an external actuary who reviews historical experience to determine if changes are required to assumptions regarding expected claim outcomes. In 2004, both of these components contributed to lower than planned net claims expense. This expense follows a cyclical trend. As recently as 2001, net claims expense was $335 million representing 45 per cent of premium and fees revenue. This year, the expense was $51 million representing 5 per cent of premium and fees revenue. While net claims expense declines in good economic times, it will undoubtedly rise again when a market down-turn occurs. Had 2004 turned out more like 2001, net claims expense could have been in the range of $500 million.

CMHC retains its Insurance net income for purposes of capitalization, in accordance with its Corporate Plan. In 2004, CMHC continued to make progress against its objective of meeting the Office of the Superintendent of Financial Institutions' (OSFI) capital adequacy guidelines for mortgage insurance companies. This will ensure there is sufficient capital available to meet future risks. CMHC has now reached 83 per cent of its targeted capital level. This means that CMHC would need to have Insurance capital of approximately $3.8 billion in order to be fully capitalized in accordance with OSFI guidelines. The capital requirement must be viewed in the context of an insurance business with $244 billion of policies in force.

Progress Towards 100% Capitalization



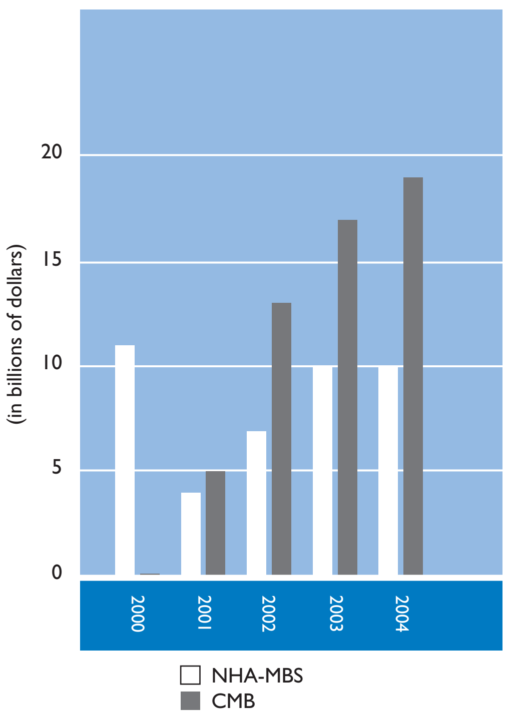
While the current economic and housing conditions are very favourable to the mortgage insurance business, economic conditions are cyclical, and insurance providers need to recognize this in managing their business over the long term.

Securitization

Securitization volumes have grown in recent years, particularly since the introduction of the CMB program in June 2001. The 2004 revenues were positively impacted by growth in recent years, including the introduction of a new product, the Variable Rate MBS, which was piloted in 2003 and launched in 2004.

Securitization's 2004 net income was $32 million, 45 per cent higher than plan. It was only 7 per cent higher than 2003 because CMHC received a favourable tax ruling which decreased that year's tax expense, causing an anomaly in the year-over-year comparison. The 2005 results are planned to benefit from lenders continuing to embrace the CMB program as an efficient funding mechanism for mortgages, though perhaps not to 2004's record levels.

Annual Securities Guaranteed



Investment Management

In Insurance and Securitization, fees and premiums are collected upfront to cover risks over the life of the underlying insurance or guarantee contract. As such, the investment of premiums and fees is an integral component of financial performance over time. The investment portfolios are measured by their total return, which takes into account market value movements, which are not necessarily reflected in the income statement since most investment assets are carried at book value. In 2004, the total return of the investment portfolios slightly underperformed the performance of the benchmark index against which CMHC's investment portfolios are measured, but were also structured to take less risk than the benchmark, particularly in the fixed income component, as reflected by the lower volatility figures.

Leading the Way Forward

CMHC continues to plan for the future by providing and disseminating research to support the continued evolution of Canada's housing markets and housing finance system, and to share its expertise with countries who wish to enhance their own housing systems. Approximately 5 per cent of its resources are directed to this area of activity, with the vast majority of this directed to the domestic front. CMHC also prepares the way forward by ensuring a strong and solid corporation.

2004 Investment Portfolio Returns and Volatilities (%)

	Insurance	*Securitization*	*Index*
Returns	7.58	7.54	7.65
Volatilities	3.36	3.36	3.57

Note: The Index is based on the underlying indices – Scotia Capital Universe Bond Index (SCUBI), Scotia Capital 91-day Treasury Bill Index, S&P TSX Composite Index, S&P 500 Index, and MSCI EAFE Index.

Supporting and Promoting the Canadian Housing Finance System

CMHC continued its commitment to research through the expenditure of $45 million on research and information dissemination in 2004. CMHC also continued to sell its expertise abroad, resulting in revenues of $1.4 million.

Resource Management

Efficiency and cost effectiveness are a long standing focus at CMHC. With personnel costs comprising 69 per cent of operating expenses, staff-year consumption largely drives costs. In 2004, staff-years increased by less than 1 per cent despite record business volumes and the introduction of new products. Operating costs also grew modestly.

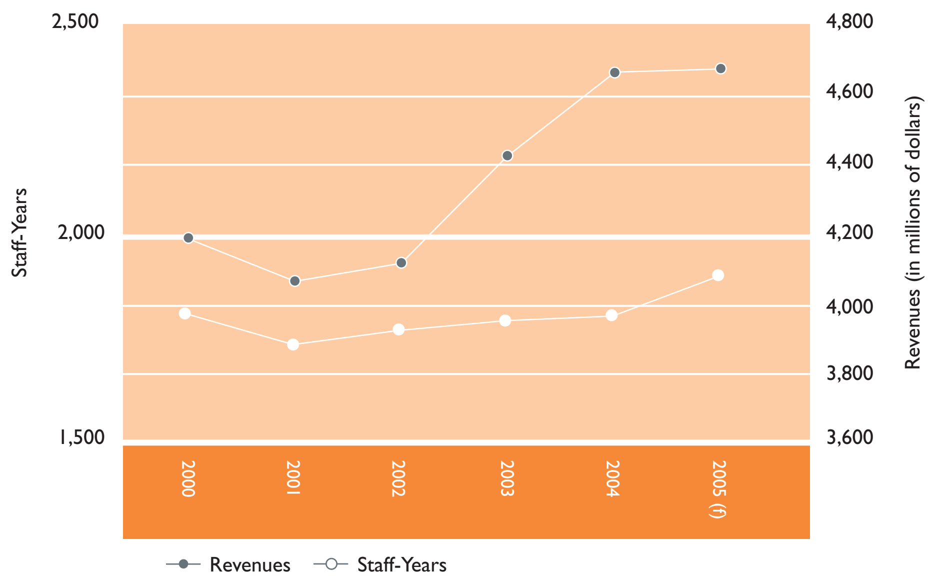
The relative level of operating expenses as a percentage of revenues across CMHC's activities reflects the operational realities of the activities rather than the relative efficiency of the activities' operations. Through prudent resource management, CMHC was able to keep operating expenses and staff-years below planned levels in all of its activities.

As part of the renewed Canadian Housing Framework, CMHC will be strengthening its role in policy development, community network and capacity development, and the provision of new and flexible tools to promote housing affordability. It is in these areas that staff-years and operating expenses are expected to rise in 2005.

New Accounting Standard for 2005

Accounting standards continue to evolve, and CMHC ensures that its accounting policies remain current with the directions and trends in Generally Accepted Accounting Principles. CMHC is currently completing an evaluation of the CICA's *Accounting Guideline 15: Consolidation of Variable Interest Entities (AcG-15)*, particularly in light of its role as guarantor of the CMBs issued by the Canada Housing Trust. AcG-15, which comes into effect for CMHC's fiscal year starting 1 January 2005, sets out criteria for the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. These entities are referred to as "variable interest entities", or "VIEs". The primary beneficiary of a VIE will be required to include the assets, liabilities and results of activities of a VIE in its financial statements.

Staff-Years / Revenues



Operating Expenses as a Percentage of Revenues

%	2005 Target	2004 Actual	2004 Plan	2003 Actual
Insurance	10.4	9.1	11.7	10.2
Securitization	11.2	9.4	14.0	12.2
Housing Programs	4.8	4.8	4.9	4.7
Lending Activity	2.5	1.9	2.3	2.3
Total	6.3	5.6	6.5	5.8

RISK MANAGEMENT

Risk management is a core activity within CMHC with responsibility shared amongst the Board of Directors, senior management, and operational units. The Board of Directors oversees CMHC's risks at the highest level, approving risk policies and ensuring that required processes and systems are in place to effectively manage risk. The Audit Committee of the Board advises the Board on financial management issues, including financial risks. Management Committee (MC) monitors risks and reports to the Board on the Corporation's overall risk profile, while the Asset / Liability Committee (ALCO) recommends financial risk policy and oversees CMHC's financial positions, risk exposure, financial strategies and performance. Specialized risk functions exist within the organization to address legal, security and other specific financial and non-financial risks.

RISK MANAGEMENT DISCUSSION

In 2001, CMHC adopted Enterprise Risk Management (ERM) as a governance tool, allowing the Board and senior management to comprehensively assess and act on corporate risks and opportunities within CMHC's strategic planning efforts.

The ERM framework is composed of 13 enterprise risks, which are organized under three broad categories: strategic, infrastructure and specific risks.

Governing

Board of Directors
- Risk oversight and policy approval

Audit Committee
- Monitors financial activities and provides advice to the Board
- Approves corporate risk landscape

Managing

MC – Monitors risks and updates risk policies

ALCO – Recommends financial risk policies and oversees asset / liability management

Investment Committee – Provides technical expertise and supports CMHC's investment strategies

Operating

Specific activities are carried out by the **Enterprise Risk Management Office**, **Risk Management Division**, **Insurance Risk Analysis Division**, **Actuarial and Quantitative Analysis (Finance)**, **Legal Division**, **Audit and Evaluation Services** and **Security Office**

Strategic Risks

Mandate	*Relational*	*Business Environment*	*Organizational*
Delivering the mandate and influencing changes to the mandate	Managing key relationships, improving client service	Understanding and managing business environment impacts	Aligning corporate efforts to achieve objectives responsibly

Infrastructure Risks

People	*Process*	*Technology*
Ability to have the right people in the right place at the right time	Managing current processes and adapting processes to support business needs	Providing reliable technology and information systems to support business needs

Specific Risks

Credit	*Market*	*Financial*	*Legal & Regulatory*	*Security*	*Catastrophic*
Risk associated with a deterioration of creditworthiness	Risk associated with fluctuations in market conditions including interest and currency rates	Risk associated with operations, liquidity and achieving returns	Risk associated with contracts, regulatory and legal environments	Risk associated with security of corporate assets and exposure to fraud	Risk associated with significant events that would have a major adverse impact on CMHC

CMHC's approach to risk management involves assessing the current likelihood and impact of risk events, understanding any gaps in managing the risks, establishing an appropriate balance between taking risks and capitalizing on opportunities, and measuring progress. On the whole, the 2004 risk picture improved over 2003, with 11 of 13 risk categories moving closer to the desired position on the corporate risk landscape.

Of the13 enterprise risks, the key risks for 2004 were:

- Mandate – focusing on the effective delivery of the Corporation's mandate and influencing changes;
- Relational – focusing on key client and housing stakeholder relationships; and
- Business Environment – focusing on understanding and managing CMHC response to changes in the operating environment.

Mandate and relational risks were the only two high risk categories in 2004, while relational and business environment were the two risk categories that did not move closer to the desired risk profile in terms of impact and likelihood. These key enterprise risks are explained in greater detail below.

The financial nature of CMHC's business operations also requires that particular attention and resources be devoted to the management of the following key risks that are explained in greater detail below:

- Credit – focusing on risks associated with creditworthiness;
- Market – focusing on risks associated with market fluctuations; and
- Financial – focusing on risks associated with operations, liquidity and achieving returns.

KEY ENTERPRISE RISKS

Mandate Risk

The 2004 risk review confirmed that the mandate risk category continues to be a major focus for CMHC. Housing gained a more prominent role in federal social policy in 2004 as evidenced by references in the Speech from the Throne. The federal government considers housing to be a major priority, particularly with respect to Aboriginal and affordable housing issues. CMHC strives to ensure that its mandate and the programs offered under its mandate are consistent with the challenges and priorities of the government. The launch of the Canadian Housing Framework consultations was a key initiative related to mandate risk, providing a forum for possible policy and program interventions to be discussed by all housing stakeholders. Other initiatives include the implementation of new and enhanced mortgage insurance products and policies and continued progress on Aboriginal and affordable housing as outlined in detail in the Performance section of this Annual Report.

Relational Risk

Management and the Board of Directors concluded that relational risk exposure has increased because of heightened expectations and increasingly complex relationships with stakeholders and clients. Increased focus on housing issues by the public and media, as well as by government, evidenced by recent investments in affordable housing, has raised the profile and visibility of housing as a top of mind issue. This has increased expectations about addressing housing need in Canada. The Canadian Housing Framework consultations, involving public, private, non-profit and other housing stakeholders across the country, has put additional pressure on the federal government and on CMHC to deliver on these rising expectations.

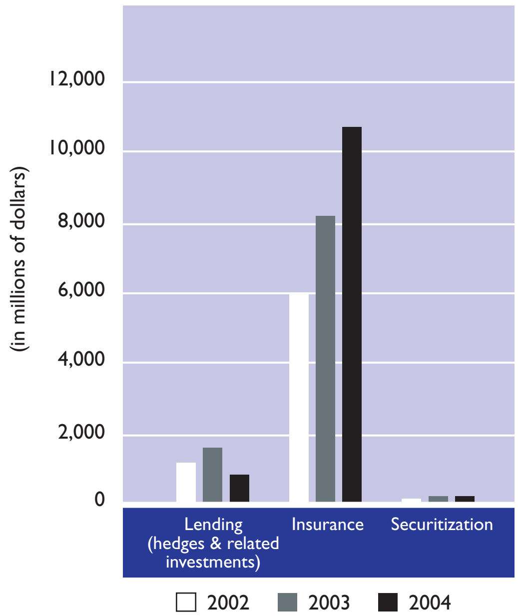
As Canada's national housing agency, CMHC's role in facilitating and supporting a large cross-section of client groups and managing the various relationships is critical to our success. The Corporation recognizes that progress on housing challenges and responding to the full continuum of housing needs requires the expertise, cooperation and resources of all housing stakeholders and interested parties. As such, CMHC will be looking to enhance the range and effectiveness of stakeholder partnerships in order to help address Canada's housing challenges.

Business Environment Risk

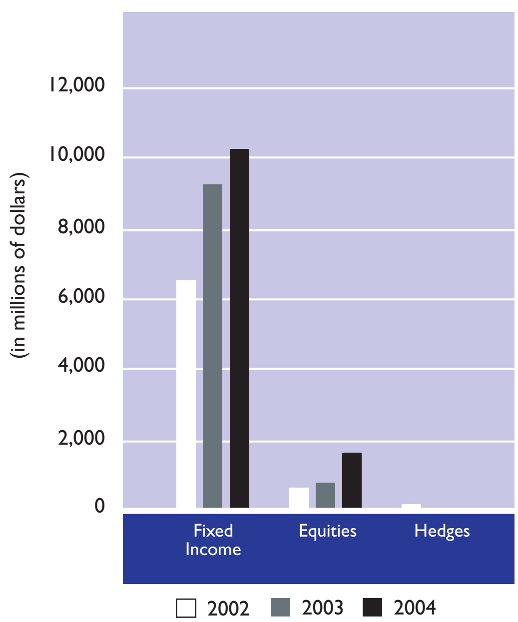
CMHC operates in a competitive and complex mortgage insurance market. As the market continues to evolve, it may become even more complex and challenging with developments in the regulatory framework and with the implementation of the international Basel II Capital Accord relating to risk management practices for financial markets. The competitive environment in which CMHC's clients operate results in constant pressure for CMHC to be innovative and to respond to changing client needs.

Against a backdrop of competitive and complex financial markets, CMHC's business environment requires the Corporation to adapt its tools and approaches to ensure that its housing finance activities improve overall access to housing for the benefit of all Canadians.

Exposure by Activity



Exposure by Type



KEY FINANCIAL RISKS

Credit Risk

CMHC is exposed to credit risk from various sources, including directly from its investment, lending and hedging activities, and indirectly from potential claims arising from the Corporation's Insurance and Securitization activities. Credit risk is identified, evaluated and managed to optimize returns, subject to risk tolerances approved by Management and the Board. Senior Management receives counterparty positions on a consolidated corporate-wide basis for its largest exposures.

Insurance Activities

The major risk of financial loss to the Insurance activities is the amount of future claims associated with insured mortgages relative to insurance premiums received. The overall performance of the economy is the main determinant of future claims patterns. Changes in house price levels and mortgage interest and unemployment rates, nationally and regionally, are key economic variables affecting the incidence of claims, as they are highly correlated to borrowers' ability to continue servicing their mortgage loans.

CMHC is experienced in managing insured mortgage default risk in good and bad economic times through its provision of NHA mortgage insurance, which is referred to as insurance risk. CMHC's portfolio of mortgage insurance has grown steadily over time and now amounts to $244 billion. CMHC sets aside reserves to cover expected future losses. CMHC continually tests its assumptions about the amount of its insurance risk through an annual actuarial valuation and other analytical tools such as Dynamic Financial Analysis.

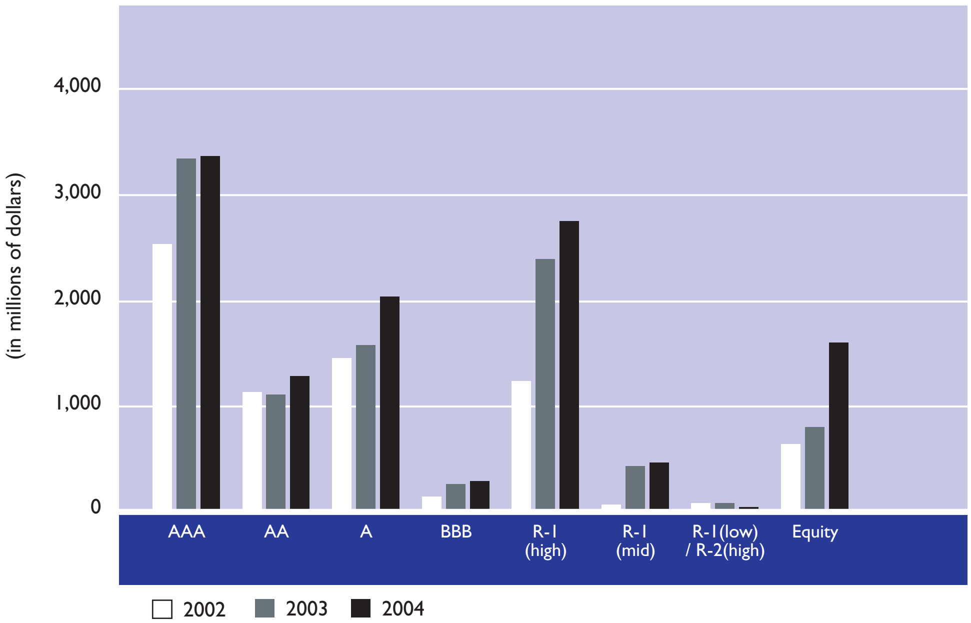
CMHC actively manages homeowner related insurance risk with its state of the art automated underwriting system, **emili**. Incorporated within **emili** are borrower, market, and property risk assessment models. Together, these automated models provide CMHC's underwriters with the tools with which to effectively identify higher risk mortgage loan applications. The underwriters can then take further steps to determine if risk-mitigating actions would effectively reduce the overall risk to a level that is acceptable to the Corporation. The most effective risk mitigating actions are continually researched and updated for underwriters. CMHC monitors and adjusts its risk assessment models based on actual claims experience.

CMHC also manages its insurance risk through diversification. Because CMHC is active across Canada, the insured portfolio is geographically distributed as is the portfolio's mortgage default risk. As well, CMHC manages its insurance risk through lender-based assessments within its Quality Assurance Framework.

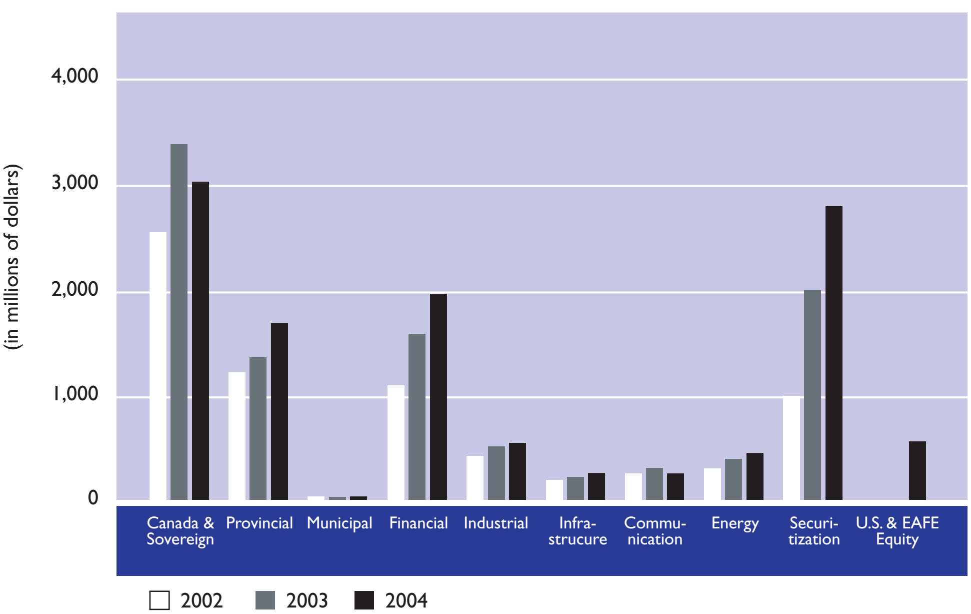
Securitization Activities

Through its securitization activities, NHA Mortgage-Backed Securities (MBS) and Canada Mortgage Bond (CMB), CMHC guarantees timely payment of principal and interest to investors. Total principal obligations to investors guaranteed as of December 31, 2004 were $80.8 billion, which includes $54.5 billion, guaranteed under the CMB program. Issuances of

Exposure by Credit Rating



Exposure by Sector



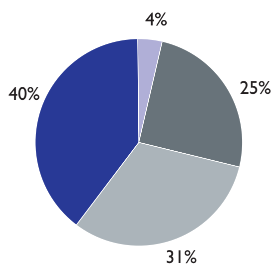
MBS are done by individual financial entities, while CMBs are issued by the Canada Housing Trust (CHT).

The major risk of financial loss associated with this activity is the cost of funding guaranteed payments in an event of default, relative to the guarantee fees received. All securitized mortgages have full mortgage default insurance coverage. For MBS, the risk associated with issuer default is mitigated by both quality assessment and monitoring of the issuers and by a minimum spread requirement between the security coupon and the lowest mortgage rate in the pool. In the event of issuer default, the minimum spread is made available to a third-party issuer for the continued servicing of both underlying mortgages and the MBS payments. For CMB, in addition to the MBS mitigations above, the risk associated with swap counterparty default is mitigated through program requirements for collateralization in the event of counterparty credit ratings below AA- and the requirement that all investments are rated R-1 (High) or AAA within CHT.

Investment and Hedging Activities

Credit exposure associated with the Corporation's financial transacting and financial instruments are consolidated, measured and controlled on an aggregate basis by counterparty for all investing and hedging activities relating to both its Lending Activity programs and the portfolios associated with its Insurance and Securitization activities. Credit limits and term restrictions for fixed income securities and derivative transacting are established for each counterparty based on internal evaluations and ratings subject to a number of externally validated creditworthiness criteria. Exposures and limits are

Lending Activity: Default Recovery Mitigation



regularly reviewed. In addition to counterparty limits, CMHC has a set of policy requirements to ensure appropriate credit risk diversification, which were further enhanced in 2004 for its Lending Activity programs.

As of December 31, 2004, the estimated market value of investment and hedging exposures, including amounts associated with repurchase and reverse repurchase activity, totalled $11.9 billion, an increase of $1.8 billion from the year earlier ($10.1 billion in 2003). The accompanying charts are provided to demonstrate the distribution and trends of these exposures, which increased largely as a result of growth in the level of investment assets underlying the Corporation's Insurance activities.

In 2004, the Corporation pursued expansion of its assets into higher yielding investments, including single-A rated fixed income assets and foreign equity holdings. Nonetheless, investment and hedging exposures remained well diversified by credit quality, sectors, and terms. Supportive of this, approximately 35 per cent of CMHC's investment and hedging exposures had remaining terms-to-maturity of less than one year, as of December 31, 2004. In addition, CMHC has updated the legal documentation associated with its agreement-based repurchase and derivative transacting to enable the reduction of credit exposures through collateral mitigation.

Lending Activity

Credit exposure, as reflected by the estimated fair value of loans arising from CMHC's lending activities, totals $16 billion on an outstanding loan portfolio (book value including accrued interest) of $13.9 billion. As CMHC's mandate requires that it lends to a large number of non-profit entities, it is often not possible to attribute specific credit ratings established by independent credit agencies. This risk is offset by the fact that losses relating to defaults on these loans are largely recoverable from various levels of government. Approximately 25 per cent of CMHC's loan portfolio is covered through the recovery of losses from the federal government to the extent that such recoveries are within CMHC's parliamentary appropriations. Approximately 31 per cent of the portfolio is covered by CMHC's mortgage insurance. Reserves have been provided for claims that may result from these loans. Approximately 40 per cent relates to loans covered under various social housing agreements negotiated with the provinces / territories. Under these agreements, the provinces / territories have taken on the default risk associated with all loans covered in the agreements. Finally, approximately 4 per cent of the portfolio is covered by Indian and Northern Affairs Canada through Ministerial Loan Guarantees.

Market Risk

The level of market risk to which CMHC is exposed fluctuates according to market dynamics as well as changes to asset and liability mixes in its portfolios. The Corporation has policies and limits in place to monitor and limit exposure to market risks arising from its business transacting, and asset and liability management activities. These are reviewed and revised as appropriate on an annual basis.

CMHC limits its risk of loss from adverse movements in interest rates and foreign exchange rates through hedging, asset and liability matching, and capital market strategies.

Insurance and Securitization

CMHC's Insurance and Securitization investment portfolios are managed by limiting price sensitivity to interest rate changes relative to benchmark indices and by appropriate asset diversification. CMHC has modified its asset allocation policies to include diversification into foreign equity instruments. In 2004, the Corporation introduced three externally-managed foreign-currency equity asset portfolios, consisting of U.S. passive equities, Europe, Australasia and

Fixed Income Investment Portfolios	Duration (Years)	Portfolio Duration Versus Index (Years)
Benchmark Index (SCUBI)	6.14	–
Insurance	5.91	-0.23
Securitization	5.92	-0.22

Far-East (EAFE) growth equities and EAFE value equities. As part of CMHC's diversification strategy, these portfolios are not hedged.

The majority of CMHC's Insurance and Securitization investment assets are held within the fixed income portfolios. The durations of the fixed income investment portfolios are managed within ranges relative to the duration of the Scotia Capital Universe Bond Index (SCUBI) benchmark. As of December 31 2004, the Insurance and Securitization fixed income portfolios had durations that were close to that of the benchmark.

Lending Activity

In relation to CMHC's financing of its lending activity, interest rate risk is mitigated through the matching of assets and liabilities. The Corporation's exposure to prepayment and repricing risk is managed using various funding and business strategies, including the retaining of a Reserve Fund to cover potential losses arising from such risks. In 2004, the market risk policy was amended to improve the interest rate risk methodology employed for the Lending Activity Portfolio by incorporating effects of less severe but more probable interest rate changes, in addition to the existing 200 basis point shock limit. Additional reporting was developed to provide a better understanding of the Corporation's sensitivity to interest rate changes.

Rating Agency	DBRS	Moody's	Standard & Poor's
Short-term	R-1(High)	P-1	A-1(High)
Long-term (C$)	AAA	Aaa	AAA
Long-term (foreign currency)	AAA	Aaa	AAA

In addition, the Corporation's external auditors and the Office of the Auditor General of Canada concluded in the 2004 Special Examination that there was reasonable assurance that there were no significant deficiencies in the systems and practices they examined which included management practices related to prepayment risks. In the Lending Activity portfolio, the Corporation fully mitigates currency risk by hedging exposure through the use of cross-currency swaps.

Financial Risk

The Corporation regularly reviews changes to financial regulation, including current efforts to assess the impact of ongoing tax and hedge accounting developments, as well as capital adequacy guidelines potentially impacting financial market participants. The Corporation continues to make efforts to enhance its risk framework in line with capital adequacy and value management principles, consistent with practices employed with leading financial institutions and guidelines established by regulatory agencies. This has resulted in significant improvements in the area of performance measurement and management.

CMHC's ability to meet its financial requirements is enhanced by its status as a Crown corporation. As such, its debt instruments are obligations of Canada and carry a 0 per cent risk weight under guidelines prescribed by the Bank for International Settlements. The Corporation has a liquidity risk policy which includes appropriate limits and ensures that CMHC has sufficient resources to meet current and projected cash requirements. In the normal course of CMHC's business activities, the Corporation's commercial paper program provides liquidity to meet cash requirements on a daily basis. Further sources of liquidity associated with this policy include overdraft facilities, lines of credit with several institutions and cash and short-term investments in marketable securities. CMHC's credit ratings are outlined in the accompanying table.

OUTLOOK

CMHC continues to make progress in managing the remainder of its 13 risk categories, including: organizational, people, process, technology, legal & regulatory, security and catastrophic risks. These types of risks focus on internal structures and processes, or are driven by external events. Risk exposures in all cases have been reduced through specific business initiatives and risk mitigating actions.

Going forward, CMHC will continue to focus on risk management from an enterprise perspective, engaging the Corporation's risk leaders to continue to strengthen the Corporation's risk management practices in a rapidly evolving business environment. In addition to addressing key enterprise and financial risk challenges, CMHC will work towards improving general risk knowledge and awareness among staff, and on improving risk measurement and reporting.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Year ended 31 December 2004

CMHC management is responsible for the integrity and objectivity of the financial statements and related financial information presented in this annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and, where necessary, include amounts which are based on the best estimates and judgement of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

In carrying out its responsibilities, management maintains appropriate financial systems and related internal controls to provide reasonable assurance that financial information is reliable, assets are safeguarded, transactions are properly authorized and are in accordance with the relevant legislation and by-laws of the Corporation, resources are managed efficiently and economically, and operations are carried out effectively. The system of internal controls is supported by internal audit, which conducts periodic audits of different aspects of CMHC's operations.

The Board of Directors, acting through the Audit Committee whose members are not officers of the Corporation, oversees management's responsibilities for financial reporting and internal control systems. The Board of Directors, upon the recommendation of the Audit Committee, has approved the financial statements.

Raymond Chabot Grant Thornton, LLP, and Sheila Fraser, FCA, Auditor General of Canada, have audited the financial statements. The independent auditors have full access to, and meet periodically with, the Audit Committee to discuss their audit and related matters.

Karen Kinsley
President and Chief Executive Officer

Pierre Serré
Vice-President, Finance and Chief Financial Officer

8 March 2005

Auditor General of Canada
Vérificatrice générale du Canada

Raymond Chabot Grant Thornton

AUDITORS' REPORT

To the Minister of Labour and Housing

We have audited the balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2004 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in the method of accounting for derivative financial instruments, investments in securities related to the management of interest risk associated with funding activities, and securities sold but not yet purchased as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* and the by-laws of the Corporation.

The financial statements for the year ended December 31, 2003, shown for comparative purposes, were audited by the Auditor General of Canada and other auditors.

Sheila Fraser

Raymond Chabot Grant Thornton LLP

Sheila Fraser, FCA
Auditor General of Canada

Raymond Chabot Grant Thornton, LLP

Ottawa, Canada
8 March 2005

Montreal, Canada

BALANCE SHEET

As at 31 December

(in millions of dollars)	NOTES	2004	2003
ASSETS			
Loans and Investments in Housing Programs	4	**13,669**	14,075
Investments in Securities	5	**8,594**	7,191
Cash and Cash Equivalents		**2,841**	2,485
Securities Purchased Under Resale Agreements		**576**	314
Accrued Interest Receivable		**332**	387
Due from the Government of Canada		**203**	147
Accounts Receivable and Other Assets		**179**	146
Future Income Tax Assets	6	**111**	100
Inventory of Real Estate		**87**	90
Derivative-Related Amounts	3	**80**	–
		26,672	24,935
LIABILITIES			
Borrowings from the Capital Markets	7	**9,207**	10,193
Borrowings from the Government of Canada	7	**5,045**	5,232
Unearned Premiums and Fees	8	**4,355**	3,965
Securities Sold Under Repurchase Agreements		**2,976**	1,554
Accounts Payable and Other Liabilities	9	**869**	709
Provision for Claims	8	**507**	622
Accrued Interest Payable		**128**	182
Securities Sold But Not Yet Purchased		**121**	2
Derivative-Related Amounts	3	**38**	–
		23,246	22,459
EQUITY OF CANADA			
Capital Authorized and Fully Paid		**25**	25
Retained Earnings	12	**3,401**	2,451
		3,426	2,476
		26,672	24,935

See accompanying notes to the financial statements.

Approved by the Board of Directors:

Dino Chiesa
Acting Chair, Board of Directors

Sophie Joncas
Chair, Audit Committee

INCOME STATEMENT

Year ended 31 December

(in millions of dollars)	NOTES	2004	2003	2002
REVENUES				
Interest Earned on Loans and Investments in Housing Programs	13	**1,011**	1,069	1,100
Premiums and Fees	8	**1,135**	947	822
Investment Income		**408**	345	293
		2,554	2,361	2,215
Parliamentary Appropriations for:	13			
Housing Programs		**2,006**	1,972	1,828
Operating Expenses		**101**	97	81
		2,107	2,069	1,909
		4,661	4,430	4,124
EXPENSES				
Housing Programs	13	**2,006**	1,972	1,828
Interest Expense		**937**	999	1,042
Operating Expenses		**261**	255	224
Net Claims		**51**	188	139
Other Expenses	14	**7**	9	37
		3,262	3,423	3,270
INCOME BEFORE INCOME TAXES		**1,399**	1,007	854
INCOME TAXES	6			
Current		**460**	383	284
Future		**(11)**	(43)	26
		449	340	310
NET INCOME		**950**	667	544

See accompanying notes to the financial statements.

STATEMENT OF RETAINED EARNINGS

(NOTE 12)

(in millions of dollars)	UNAPPROPRIATED RETAINED EARNINGS	EARNINGS SET ASIDE FOR CAPITALIZATION	RESERVE FOR LENDING ACTIVITY	TOTAL
Balance 31 December 2001	260	938	42	1,240
Net Income	530	–	14	544
Set Aside for Capitalization	(442)	442	–	–
Balance 31 December 2002	348	1,380	56	1,784
Net Income	632	–	35	667
Set Aside for Capitalization	(857)	857	–	–
Balance 31 December 2003	123	2,237	91	2,451
Net Income	907	–	43	950
Set Aside for Capitalization	(875)	875	–	–
Balance 31 December 2004	**155**	**3,112**	**134**	**3,401**

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December

(in millions of dollars)	2004	2003	2002
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net Income	**950**	667	544
Items Not Affecting Cash or Cash Equivalents			
Amortization of Premiums and Discounts	**12**	23	27
Future Income Taxes	**(11)**	(43)	26
Market Value Adjustment for Equities	**(32)**	(5)	3
Gain on Sale of Securities	**(79)**	(58)	(24)
Net Change in Non-cash Operating Assets and Liabilities	**155**	394	458
	995	978	1,034
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Loans and Investments in Housing Programs			
Repayments	**673**	715	1,100
Disbursements	**(267)**	(204)	(447)
Investments in Securities			
Sales and Maturities	**8,106**	8,252	5,126
Purchases	**(9,355)**	(9,778)	(6,256)
Change in Securities Purchased Under Resale Agreements	**(262)**	891	261
	(1,105)	(124)	(216)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Medium-term Borrowings from the Capital Markets			
Issuances	**850**	2,290	1,561
Repayments	**(2,350)**	(1,890)	(2,123)
Change in Short-term Borrowings from the Capital Markets	**612**	(166)	(147)
Repayment of Borrowings from the Government of Canada	**(187)**	(242)	(218)
Change in Securities Sold Under Repurchase Agreements	**1,422**	438	(124)
Change in Securities Sold But Not Yet Purchased	**119**	(71)	(155)
	466	359	(1,206)
Increase (Decrease) in Cash and Cash Equivalents	**356**	1,213	(388)
Cash and Cash Equivalents			
Beginning of year	**2,485**	1,272	1,660
End of year	**2,841**	2,485	1,272
Represented by:			
Cash	**4**	6	(13)
Temporary Investments	**2,837**	2,479	1,285
	2,841	2,485	1,272
Supplementary Disclosure of Cash Flow Information			
Amount of Interest Paid During the Year	**960**	989	1,103
Amount of Income Taxes Paid During the Year	**476**	390	188

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2004

1. CORPORATE MANDATE AND ACTIVITIES

Canada Mortgage and Housing Corporation (CMHC) was established as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also governed by the *Financial Administration Act* (the "FAA"), and is wholly-owned by the Government of Canada.

Within the Public Accounts of Canada, CMHC's annual Net Income increases the Government's annual surplus; its Capital and Retained Earnings reduce the Government's accumulated deficit.

CMHC's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing and the national well-being of the housing sector. The mandate is carried out through three broad activities: Insurance and Securitization, Housing Programs and Lending.

Insurance and Securitization:
The Corporation provides insurance against borrower default on residential mortgages and guarantees the timely payment of principal and interest for investors in securities based on insured mortgages.

Housing Programs:
The Corporation receives Parliamentary appropriations which are used to fund housing programs.

Lending Activity:
The Corporation makes loans and investments in housing programs which are funded by borrowings. A significant number of these loans and investments are supported with housing program subsidies.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Loans and Investments in Housing Programs

The Corporation, independently or jointly with the Provinces, Territories, and Municipalities, funds Loans and Investments in Housing Programs.

Loans are carried at cost. Where loans contain forgiveness clauses, they are recorded net of the forgiveness which is reimbursed through Parliamentary appropriations when the loans are advanced.

Loans made under certain programs contain interest rate clauses that are lower than the interest cost on the related borrowings. Such interest losses are reimbursed through Parliamentary appropriations.

Investments in Housing Programs represent the Corporation's ownership interest in various housing projects. They are carried at cost, less accumulated amortization. Amortization is calculated on a straight-line basis over the life of the investment. The Corporation's portion of net operating losses and disposal losses is reimbursed through Parliamentary appropriations.

Interest Earned on Loans and Investments in Housing Programs is recorded on an accrual basis.

The Corporation is assured full collection of principal and accrued interest on the majority of the Loans and Investments in Housing Programs as described in Note 4. The remainder of the portfolio is underwritten through the Corporation's Insurance activity. Provision for losses on these loans is included in the determination of Provision for Claims and Unearned Premiums.

Cash Equivalents and Investments in Securities

The Corporation holds Cash Equivalents and Investments in Securities for its Insurance and Securitization, and Lending Activities. Accounting policies are described in the table below.

	CARRYING VALUE	RECOGNITION OF REALIZED GAINS AND LOSSES	RECOGNITION OF IMPAIRMENT
Insurance, Securitization and Lending Activities – Cash Equivalents represent short-term, highly liquid investments with terms to maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	Lower of cost and market value.	Gains and losses are included in income at the time of sale.	Not applicable.
Lending Activity – Investments in Securities held for cash management purposes.	Amortized cost. Premiums and discounts are deferred and amortized on a constant yield basis over the term of the related investments.	Gains and losses are included in Interest Earned on Loans and Investments in Housing Programs at the time of sale.	Specific securities are written down to their market value when the decline in the value of the security is other than temporary. The resulting loss is recorded in the year in which the impairment occurs.
Lending Activity – Investments in Securities related to managing interest rate risk associated with funding activities.	Amortized cost. Premiums and discounts are deferred and amortized on a constant yield basis over the term of the related investments.	Gains and losses are included in income at the time of sale.	Specific securities are written down to their market value when the decline in the value of the security is other than temporary. The resulting loss is recorded in the year in which the impairment occurs.
Insurance and Securitization – Fixed Income Securities generally purchased with the intention to hold them to maturity to meet long-term obligations.	Amortized cost. Premiums and discounts are deferred and amortized on a constant yield basis over the term of the related investments.	Gains and losses are deferred and amortized to Investment Income, on a straight-line basis, over the remaining life of the original investment.	Specific securities are written down to their market value when the decline in the value of the security is other than temporary. The resulting loss is recorded in the year in which the impairment occurs.
Insurance and Securitization – Equities	Cost, plus a moving average market value adjustment of 5% per quarter.	Net gains and losses are deferred and amortized to Investment Income at 5% per quarter on a declining balance basis.	Written down to their market value when the decline in the value of the portfolio is other than temporary. The resulting loss is recorded in the year in which the impairment occurs.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements (Reverse Repurchase Agreements) consist of the purchase of securities, typically government treasury bills or bonds, with the commitment by the Corporation to resell the securities to the original seller at a specified price and date. Securities Sold Under Repurchase Agreements (Repurchase Agreements) consist of the sale of securities with the commitment by the Corporation to repurchase the securities from the original buyer at a specified price and date. These items are carried at cost, plus accrued interest. Proceeds from securities sold under repurchase agreements are invested for the purpose of generating additional income for the Corporation. Such transactions are entered into simultaneously with matching terms to maturity. As a result, the associated interest earned and interest expense are netted and included in income on an accrual basis.

Securities Sold But Not Yet Purchased

Securities Sold But Not Yet Purchased represent the Corporation's obligation to deliver securities which it did not own at the time of sale. These obligations are recorded at fair value. Realized and unrealized gains and losses are included in income.

Inventory of Real Estate

Inventory of Real Estate is carried at the lower of cost or fair value. Cost is determined as the acquisition cost, plus modernization and improvement costs where applicable. Fair value is calculated as the current market value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs.

For certain properties, net operating losses and disposal losses are reimbursed through Parliamentary appropriations while net operating profits and disposal gains are returned to the Government of Canada.

Borrowings from the Capital Markets

Issuance costs on borrowings from the capital markets are deferred and amortized on a straight-line basis over the term of the debt issue.

Premiums and discounts on borrowings from the capital markets are deferred and amortized on a constant yield basis over the term of the debt issue.

Premiums and Fees

Mortgage insurance premiums from CMHC's Insurance business are due at the inception of the mortgage being insured at which time they are deferred and then recognized as income over the period covered by the insurance contract using actuarially determined factors. These factors reflect the long-term pattern for default risk by age of a mortgage insurance policy.

Unearned premiums represent the portion of the premiums written that relates to the unexpired portion of the policy at the Balance Sheet date and therefore relate to claims that may occur from the Balance Sheet date to the termination of the insurance policies. Annually, the unearned premiums are compared to the Corporation's estimate of total future claims on a discounted basis to ensure the amount is sufficient.

Guarantee fees from the Securitization business are received at the inception of the related security issue at which time they are deferred and then recognized as income over the term of the security issue (typically five years) on a straight-line basis.

Application fees are recorded on an accrual basis.

Costs associated with issuing mortgage insurance policies and timely payment guarantees are recorded on an accrual basis.

Provision for Claims

The Provision for Claims represents an estimate for expected claims and the related settlement expenses, net of the related expected mortgage foreclosure proceeds, for defaults from the Insurance business that have occurred on or before the Balance Sheet date. The provision takes into consideration the estimate of losses on defaults that have been incurred but not reported, the time value of money and in accordance with accepted actuarial practice, includes an explicit provision for adverse deviation.

The establishment of the Provision for Claims involves estimates, which are based upon historical trends, prevailing legal, economic, social and regulatory trends, and expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps significantly, from the estimates made.

The loss on actual mortgage defaults and the change in estimate for the Provision for Claims are recorded in Net Claims in the year in which they occur.

Housing Programs

Parliamentary appropriations for Housing Programs, and the related expenses, are recorded on an accrual basis. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Employee Future Benefits

The Corporation provides a defined benefit pension plan, a supplemental pension plan, and other post-employment benefits consisting of severance pay, life insurance and medical insurance.

Pension benefits are based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The pension benefits are adjusted annually by a percentage equivalent to the increase in the average Consumer Price Index during the previous year. The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected long-term pension plan investment performance, salary increases, retirement ages of employees, mortality of members and expected health care costs. These assumptions are of a long-term nature, which is consistent with the nature of employee future benefits. Actual results could differ from these estimates.

Costs are determined as the cost of employee benefits for the current year's service, interest cost on the accrued benefit obligation, expected investment return on the fair value of plan assets and the amortization of the transitional asset / obligation, the deferred actuarial gains / losses and the deferred past service costs.

The transitional asset / obligation, and past service costs are amortized over the average remaining service period of active employees under the plans. The excess of the net actuarial gain / loss over 10% of the greater of the benefit obligation or the fair value of the plan assets is amortized over the average remaining service period of active employees under the plans.

Derivative Financial Instruments

The Corporation enters into derivative financial instruments such as interest rate swaps and foreign currency swaps in order to manage its exposures to market risks. The derivative financial instruments mitigate market risks, both at inception and over the term of the instrument. The Corporation does not use freestanding derivative financial instruments for trading or speculative purposes.

In order for a derivative financial instrument to qualify as an eligible hedge for accounting purposes, the hedge relationship must be designated and formally documented at its inception. The Corporation formally documents the particular risk management objective and strategy for the hedge, the specific asset, liability or cash flow being hedged, and how effectiveness is measured. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative is highly effective in offsetting either changes in fair value or future cash flows of hedged items.

For derivative financial instruments that qualify as eligible hedges, income / expenses are recorded as adjustments to Interest Expense on an accrual basis. The related amount payable to, or receivable from, counterparties is included in accrued interest. Translation gains / losses arising on foreign currency swaps that qualify as eligible hedges are offset by translation gains / losses on the related debt.

Hedge accounting is discontinued prospectively if the hedge relationship is no longer effective, the derivative financial instrument is no longer designated as an eligible hedge, or if the designated hedged item matures, is sold or is terminated. The derivative financial instrument is then carried at fair value on the Balance Sheet as of the date that hedge accounting is discontinued and subsequent changes in fair value are recognized in Other Expenses.

Derivative financial instruments that do not qualify, or have not been designated, as eligible hedges for accounting purposes are carried at fair value on the Balance Sheet as Derivative-Related Amounts. Subsequent changes in fair value are recorded in Other Expenses.

Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Exchange gains and losses resulting from the translation of foreign denominated balances are included in Interest Expense.

2005 Accounting Change

Accounting Guideline 15: Consolidation of Variable Interest Entities (AcG-15), issued by the Canadian Institute of Chartered Accountants, comes into effect for CMHC's fiscal year beginning 1 January 2005. This guideline sets out criteria for the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. These entities are referred to as variable interest entities (VIE's). Under AcG-15, an enterprise must consolidate a VIE when that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of a VIE's expected residual returns, or both. CMHC is currently analysing AcG-15, particularly in the context of its relationship with the Canada Housing Trust (CHT).

3. CHANGE IN ACCOUNTING POLICIES

Effective 1 January 2004, the Corporation adopted *Accounting Guideline 13: Hedging Relationships* (AcG-13), issued by the Canadian Institute of Chartered Accountants. This change in accounting policy has been applied prospectively.

The Corporation determined that many of its hedging relationships do not meet the new criteria for the use of hedge accounting. Consequently, these derivative financial instruments were recorded at fair value on the Balance Sheet resulting in an increase in assets and liabilities of $74 million and $42 million respectively as at 1 January 2004. This transitional gain of $32 million has been deferred in Accounts Payable and Other Liabilities and is being recognized in income over the remaining term of the underlying instruments. During 2004, $12 million of this transitional gain has been recorded in income.

The Corporation also changed its accounting policies for investments in securities related to the management of interest rate risk associated with funding activities, and Securities Sold But Not Yet Purchased. Gains and losses resulting from these items are now included in income in the year in which they occur. Prior to the implementation of AcG-13, these gains and losses were deferred and amortized to income on a straight-line basis over the remaining term of the related debt issue.

In total, including the recognition of the transitional gain, the implementation of AcG-13 resulted in $24 million of Income before Taxes ($16 million of Net Income after Income Taxes).

4. LOANS AND INVESTMENTS IN HOUSING PROGRAMS

The Corporation makes loans and investments in housing programs either independently or jointly with provincial, territorial, and municipal authorities. These loans and investments were issued for terms up to 50 years. Of the total portfolio, $13,450 million, or 98% (2003 – $13,866 million or 99%) are due and payable beyond five years.

Approximately $12,916 million, representing 95% (2003 – $13,261 million, or 94%) of the loans and investments in housing programs, are supported with housing program subsidies.

At 31 December 2004, the Corporation is assured full collection of principal and accrued interest on the majority of the portfolio from the Provinces and Territories through provisions in social housing agreements (40%), the Government of Canada through provisions in the NHA (25%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (4%).

Default losses on the remainder of the portfolio (31%) are accounted for in the Corporation's Insurance activity.

5. INVESTMENTS IN SECURITIES

The following table shows the maturity structure and average yield of Investments in Securities.

(in millions of dollars)	TERM TO MATURITY WITHIN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	2004	2003
Fixed Income Securities						
Issued or Guaranteed by:						
Government of Canada	878	476	688	1,014	**3,056**	2,974
Provinces / Municipalities	26	151	282	1,203	**1,662**	1,364
Corporate / Other Entities	328	612	410	1,109	**2,459**	2,147
Total Fixed Income	1,232	1,239	1,380	3,326	**7,177**	6,485
Yield	3.00%	4.04%	4.49%	5.53%	**4.64%**	4.90%
Equities (no specific maturity)						
Canadian Equities					**827**	706
U.S. Equities					**296**	–
Foreign Equities					**294**	–
Total	1,232	1,239	1,380	3,326	**8,594**	7,191

Sales of investments during 2004 resulted in a net gain of $80 million (2003 – $54 million, 2002 – $33 million) of which $58 million (2003 – $44 million) has been deferred. Cumulative deferred gains now totaling $109 million (2003 – $83 million) are included in Accounts Payable and Other Liabilities and will be brought into income in accordance with accounting policies described in Note 2.

6. INCOME TAXES

The Corporation is subject to federal income tax. It is not subject to provincial income tax. The Corporation's statutory tax rate consists of basic tax, surtax, and large corporations tax.

Taxes at the statutory tax rate and at the effective tax rate are:

(in millions of dollars)	2004	2003	2002
Statutory Tax Rate	**33%**	35%	37%
Income Taxes Based on Statutory Tax Rate	**454**	349	311
Impact on Future Income Tax Assets Resulting from Reduction in Tax Rates	**(2)**	(8)	3
Other	**(3)**	(1)	(4)
Income Tax Expense	**449**	340	310
Effective Tax Rate	**32%**	34%	36%

Future Income Tax Assets consist of the following temporary differences between the tax basis of assets and liabilities and their carrying amount on the Balance Sheet.

(in millions of dollars)	2004	2003
Provisions	**(10)**	16
Deferred Revenue	**35**	32
Deferred Expenses	**12**	10
Expenses Incurred But Not Yet Disbursed	**8**	10
Appreciation in Value of Equities	**65**	31
Other	**1**	1
Future Income Tax Assets	**111**	100

7. BORROWINGS

Prior to 1993, Loans and Investments in Housing Programs were funded by Borrowings from the Government of Canada. Since that time, the Corporation has borrowed solely from capital markets as an agent of the Crown.

Borrowings from the Government of Canada

The table below summarizes the principal repayments and the average interest rate on Borrowings from the Government of Canada.

(in millions of dollars)		
2005	**197**	8.79%
2006	**196**	8.79%
2007	**206**	8.86%
2008	**211**	8.90%
2009	**210**	8.88%
2010-2014	**1,063**	8.58%
Thereafter	**2,962**	9.33%
	5,045	9.07%

The interest expense related to Borrowings from the Government of Canada is $469 million (2003 – $488 million, 2002 – $506 million).

Borrowings from the Capital Markets

The following table summarizes the carrying value and the average interest rate for the Borrowings from the Capital Markets based on term to maturity.

(in millions of dollars)	Short-Term Borrowings		Medium-Term Borrowings		Total
2005	1,287	2.51%	2,214	5.95%	**3,501**
2006			1,453	4.78%	**1,453**
2007			1,257	4.95%	**1,257**
2008			1,201	4.48%	**1,201**
2009			1,049	3.80%	**1,049**
2010-2014			746	5.31%	**746**
	1,287	2.51%	7,920	5.01%	**9,207**

The Corporation has authority to borrow a maximum of $20 billion from capital markets.

Short-term borrowings are comprised of commercial paper and have a term to maturity less than 365 days. Medium-term borrowings include bonds, floating rate and fixed rate medium-term notes, with a term to maturity ranging from two to ten years. Floating rate notes represent $550 million (2003 – $150 million) of the medium-term borrowings.

Capital market borrowings include U.S. denominated debt. This debt is translated to Canadian dollars at the exchange rate prevailing on the Balance Sheet date. Foreign currency principal and interest payments are fully swapped to Canadian dollar obligations.

The foreign denominated borrowings are:

(in millions of dollars)	2004	2003
Foreign Denominated Obligations in U.S. Dollars	**1,500**	1,530
Foreign Denominated Obligations Translated to Canadian Dollars		
Based on Rate in Effect on 31 December	**1,802**	1,986
Based on Rate Established Under Currency Swap Agreements	**2,119**	2,160

Lines of Credit

At 31 December 2004, the Corporation has $450 million (2003 – $450 million) in unused, uncommitted lines of credit. The Corporation also has $100 million (2003 – $100 million) of overnight overdraft facility with its major banker that has not been drawn.

8. INSURANCE

Role of the Appointed Actuary

The actuary is appointed by the Corporation's management. With respect to preparation of these statements, the actuary is required to carry out a valuation of the policy liabilities of the mortgage insurance activity and to provide an opinion to the Corporation's management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation, and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a Provision for Claims on the expired portion of policies and of future obligations on the unexpired portion of policies (Unearned Premiums). In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The valuation is based on projections of future losses on claims and related expenses. The actual future claims may not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories not sufficiently recognized in the claims database.

Projection of September Valuation

The actuarial valuation is produced as of 30 September each year. The Corporation determines Provisions for Claims and Unearned Premiums at 31 December using valuation factors taking into account premiums received and claims paid in the intervening period.

Nature of Provision for Claims

The establishment of the Provision for Claims for mortgage insurance is based on known facts and interpretation of circumstances, and is therefore a complex and dynamic process, influenced by a large variety of factors. These factors affect the key actuarial assumptions as follows:

Claim emergence: Claim emergence encompasses claim frequency and claim occurrence patterns. It is based on historical trends in claims reporting and payment delays.

Claim severity: Claim severity, or average loss on claims, is dependent on the dollar value of claims, losses on sales of real estate properties, administrative expenses, and sales delays. These factors are based on historical experience.

Economic conditions: Recent past and projected economic factors, such as unemployment rates, mortgage rates, and changes in housing prices, affect the forecast of future claim levels.

The factors affecting these assumptions are continually evolving and changing as they are affected by underwriting and claim settlement procedures, actuarial studies, professional experience, the quality of data utilized for projection purposes, economic conditions, and general credit behaviour. Consequently, the establishment of the Provision for Claims necessarily involves risks that the actual results will deviate, perhaps significantly, from the best estimates made.

All provisions are periodically reviewed and evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the Provision for Claims are recorded in Net Claims in the year in which they are determined.

Premiums

Mortgage insurance premiums are recognized as revenue over the period covered by the insurance contracts using actuarially determined factors that are reviewed annually. Effective 1 January 2004, these factors were changed to better reflect the emerging nature of the claim occurrence experience. Revenue from premiums and fees in 2004 is $88 million higher than it would have been had this change not been implemented.

Insurance in Force

Under Section 11 of the NHA, the aggregate outstanding amount of mortgage insurance policies may not exceed $300 billion. At 31 December 2004, insurance policies in force totaled $244 billion (2003 – $230 billion).

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

The following table presents the composition of Accounts Payable and Other Liabilities.

(in millions of dollars)	2004	2003
Foreign Exchange Adjustment on Foreign Currency Swaps	**317**	174
Accrued Housing Program Expenses	**166**	178
Deferred Gains on Disposals of Investments in Securities	**109**	83
Accrued Benefit Liability for Supplemental Pension Plan and Other Post-employment Benefits	**67**	57
Income Taxes Payable	**62**	81
Government of Canada Fees Payable	**25**	31
Unamortized Transitional Gain Arising from the Implementation of AcG-13	**20**	–
Other Miscellaneous Liabilities	**103**	105
Total	**869**	709

10. SECURITIZATION

The Corporation guarantees the timely payment of principal and interest for investors in securities based on insured mortgages through the NHA Mortgage-Backed Securities (NHA MBS) program and the Canada Mortgage Bonds (CMB) program.

Securities under the NHA MBS program are issued by Approved Issuers (primarily lending institutions). CMBs are issued by the Canada Housing Trust (CHT) as described in Note 11.

The Corporation has determined that a provision for claims on these programs is not required. This is based on historical results and program design whereby only insured mortgages are eligible for securitization. In addition, CMHC requires that CHT only transact with swap counterparties of high creditworthiness, that collateralization occurs in the event that counterparty credit ratings fall, and that all investments are rated R-1 (High) or AAA.

Securitization in Force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $300 billion. At 31 December 2004, guarantees in force totaled $81 billion (2003 – $60 billion) which includes $26 billion of NHA MBS (2003 – $25 billion) and $55 billion of CMBs (2003 – $35 billion).

11. CANADA HOUSING TRUST

Canada Housing Trust (CHT) purchases, from Approved Sellers, ownership interests in eligible housing loans, primarily NHA MBS, and issues Canada Mortgage Bonds (CMBs).

The Trustee of CHT has entered into agreements with a number of parties to provide various services to CHT, including CMHC. Under one such agreement, CMHC has guaranteed the timely payment of the interest payments and the principal at maturity on all CMBs issued by CHT to date. Once provided, the CMHC guarantee becomes an obligation of the Government of Canada and is irrevocable until full repayment of the CMBs at maturity (typically within five years of issuance).

In addition, under a Financial Services Advisor (FSA) Agreement, CMHC performs a number of other services for CHT, including gauging market demand for bond issuance and assessing the potential supply of housing loans available to be packaged for sale to CHT.

12. RETAINED EARNINGS

Retained Earnings include Earnings Set Aside for Capitalization, Unappropriated Retained Earnings and Reserve for Lending Activity.

Earnings Set Aside for Capitalization represent the portion of cumulative net income generated by the Insurance and Securitization Activity that has been set aside for the purposes of being consistent with capitalization guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI). Earnings Set Aside for Capitalization currently represent approximately 83% of the levels recommended by OSFI. The amount of earnings to be set aside for capitalization is determined annually through the approval of CMHC's Corporate Plan. Since 2003, 100% of the Insurance retained earnings have been set aside for this purpose. Unappropriated Retained Earnings represent Net Income generated by the Insurance and Securitization Activity that has not been set aside for capitalization purposes.

The Corporation places all lending-related retained earnings in its Reserve for Lending Activity. The components of this Reserve are outlined in the following table.

(in millions of dollars)	2004 AUTHORIZED LIMIT	2004 BALANCE 31 DECEMBER	2003 AUTHORIZED LIMIT	2003 BALANCE 31 DECEMBER
Reserve for Fluctuations in Net Income Arising from *AcG-13: Hedging Relationships*	50	**16**	–	–
Reserve for All Other Lending-Related Items	125	**118**	100	91
Reserve for Lending Activity	175	**134**	100	91

13. HOUSING PROGRAMS

The Corporation provides payments to support housing programs which are funded by Parliamentary appropriations.

The following table shows the distribution of expenses by major housing program.

(in millions of dollars)	2004	2003	2002
Programs Transferred to Provinces / Territories under Social Housing Agreements	**957**	961	964
Non-Transferred Programs			
Non-Profit	**250**	242	252
Public Housing	**141**	130	129
On Reserve	**92**	92	89
Co-operatives	**80**	83	86
Rent Assistance	**74**	78	71
Urban Native	**55**	54	49
Rural and Native Housing	**24**	27	24
Limited Dividend	**12**	12	13
Sub-total	**728**	718	713
Affordable Housing	**173**	166	19
Renovation Programs	**114**	88	105
Research and Information Transfer	**8**	9	9
Other	**26**	30	18
Total	**2,006**	1,972	1,828

This table includes program expenses incurred wholly by the Corporation and the federal share of program expenses incurred under cost-sharing agreements with the Provinces / Territories. Delivery and administration of these programs vary based on arrangements made between the Corporation and the Provinces / Territories.

Included in Housing Program Expenses are reimbursements to the Corporation of:

- interest rate losses resulting from certain loans containing interest rate clauses lower than the interest cost on the related borrowings;
- net operating losses on certain investments in housing programs and real estate properties; and
- net default losses on certain loans and net disposal losses on certain investments in housing programs and real estate properties.

The following table summarizes these expenses.

(in millions of dollars)	2004	2003	2002
Interest Losses:			
incurred in the current year	**97**	99	77
incurred in prior years	**–**	–	21
Sub-total	**97**	99	98
Net Operating Losses	**4**	11	18
Net Default and Disposal Losses	**1**	2	4
Total	**102**	112	120

The total reimbursements for interest losses includes $35 million (2003 – $33 million, 2002 – $27 million) towards the losses incurred by the Corporation as a result of the prepayment and repricing activity described in Note 16.

The total reimbursement for interest losses is also included in Interest Earned on Loans and Investments in Housing Programs. Net operating, default and disposal losses are recorded as Due from the Government of Canada and Housing Program Expenses on an accrual basis.

In addition, the Corporation is reimbursed for operating costs associated with the delivery of housing programs. The reimbursement of operating expenses for 2004 of $101 million (2003 – $97 million, 2002 – $81 million) is shown in the Income Statement as Parliamentary Appropriations for Operating Expenses.

14. OTHER EXPENSES

The following table presents the composition of Other Expenses.

(in millions of dollars)	2004	2003	2002
Government of Canada Fees	**21**	29	38
Change in Fair Value of Derivative-Related Amounts	**(10)**	–	–
Other	**(4)**	(20)	(1)
Total	**7**	9	37

The Government of Canada Fees are incurred in recognition of the Government's financial backing of CMHC's Insurance and Securitization Activity and are recorded at the exchange amount, which is the amount agreed to by the related parties.

The change in fair value of derivative-related amounts pertains solely to those derivatives that are not treated as hedges for accounting purposes, as described in Note 2.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives in connection with its risk management activities.

These financial contracts are used to manage exposures to market risks as follows:

- Interest rate swaps to manage reinvestment risk, refinancing risk, or mismatches in the timing of receipts on assets versus payments on liabilities. Interest rate swaps are transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged.

- Foreign currency swaps to manage foreign exchange risk arising from foreign denominated debt. Foreign currency swaps are transactions in which two parties exchange currencies and interest cash flows on a specified notional amount for a predetermined period. The notional amount is exchanged at inception and at maturity.

The table below provides the notional amounts of the Corporation's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments.

(in millions of dollars)	2004	2003
Derivative Financial Instruments (ineligible for hedge accounting)		
Interest Rate Swaps	**15,562**	–
Foreign Currency Swaps	**–**	–
Notional	**15,562**	–
Derivative Financial Instruments (eligible for hedge accounting)		
Interest Rate Swaps	**300**	17,316
Foreign Currency Swaps	**2,119**	2,160
Notional	**2,419**	19,476

16. MARKET RISK

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Interest Rate Risk

The Corporation manages interest rate risk through the implementation of policies which include risk limits for the Insurance and Securitization investment activities and for the Lending Activity.

CMHC's Insurance and Securitization investment portfolios are managed taking into consideration the liability profile and by limiting price sensitivity to interest rate changes relative to benchmark indices and by appropriate asset diversification.

Interest rate risk associated with the Lending Activity is managed through asset and liability matching, hedging and capital market strategies.

The following table provides details regarding the Corporation's exposure to interest rate risk. On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing dates or maturity dates. Effective interest rates are disclosed where applicable. The effective rates shown represent historical rates for fixed rate instruments and rates to reset for floating rate instruments.

(in millions of dollars)	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	NON INTEREST SENSITVE	2004	2003
Assets							
Loans and Investments in Housing Programs	2,581	6,399	4,632	–	57	**13,669**	14,075
Effective Interest Rate	6.40%	5.40%	8.30%	–	–	**–**	–
Investments in Securities	1,232	2,619	3,326	1,417	–	**8,594**	7,191
Effective Interest Rate	3.02%	4.26%	5.55%	–	–	**–**	–
Cash and Cash Equivalents	2,841	–	–	–	–	**2,841**	2,485
Effective Interest Rate	2.59%	–	–	–	–	**–**	–
Securities Purchased Under Resale Agreements	576	–	–	–	–	**576**	314
Effective Interest Rate	2.55%	–	–	–	–	**–**	–
Liabilities							
Borrowings from the Capital Markets	3,501	4,960	746	–	–	**9,207**	10,193
Effective Interest Rate	4.69%	4.54%	5.31%	–	–	**–**	–
Borrowings from the Government of Canada	197	823	4,025	–	–	**5,045**	5,232
Effective Interest Rate	8.79%	8.86%	9.13%	–	–	**–**	–
Securities Sold Under Repurchase Agreements	2,976	–	–	–	–	**2,976**	1,554
Effective Interest Rate	2.53%	–	–	–	–	**–**	–
Securities Sold But Not Yet Purchased	–	–	121	–	–	**121**	2
Effective Interest Rate	–	–	4.56%	–	–	**–**	–
Derivative Financial Instruments (notional)							
Ineligible for Hedge Accounting							
Current							
Receivable Position	3,690	5,455	969	–	–	**10,114**	–
Effective Interest Rate	4.12%	4.84%	5.41%	–	–	**–**	–
Payable Position	4,112	5,244	758	–	–	**10,114**	–
Effective Interest Rate	4.60%	4.73%	5.15%	–	–	**–**	–
Future-Dated							
Receivable Position – Fixed	571	2,450	241	–	–	**3,262**	–
Effective Interest Rate	6.15%	5.87%	6.65%	–	–	**–**	–
Payable Position – Floating	571	2,450	241	–	–	**3,262**	–
Effective Interest Rate	N/A	N/A	N/A	–	–	**–**	–
Receivable Position – Floating	369	1,569	248	–	–	**2,186**	–
Effective Interest Rate	N/A	N/A	N/A	–	–	**–**	–
Payable Position – Fixed	369	1,569	248	–	–	**2,186**	–
Effective Interest Rate	6.68%	5.96%	6.64%	–	–	**–**	–
Eligible for Hedge Accounting							
Current							
Receivable Position	1,026	1,393	–	–	–	**2,419**	19,476
Effective Interest Rate	5.85%	3.15%	–	–	–	**–**	–
Payable Position	726	1,693	–	–	–	**2,419**	19,476
Effective Interest Rate	6.70%	4.41%	–	–	–	**–**	–

Some of the Corporation's Loans and Investments in Housing Programs contain prepayment and / or repricing options. As the Corporation does not have the right to prepay its borrowings from the Government of Canada without penalty, the Corporation is exposed to interest rate risk. While it is difficult to predict prepayment activity, CMHC has estimated the potential impact of prepayment activity on earnings using a range of scenarios. Although unlikely given historical levels, the worst case scenario on future prepayment / repricing activities suggests that the Corporation could be subject to a decrease in earnings of as much as $718 million over a 25-year time horizon, or an average decline of $29 million per year.

Foreign Exchange Risk

All currency exposure arising from foreign denominated debt issuance is hedged in accordance with the Corporation's policy.

In 2004, the Corporation began investing in externally managed U.S. and foreign equities. The fair value of the foreign currency exposure relating to these equity investments (in Canadian dollars) amounts to $609 million (2003 – nil).

17. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes default risk, settlement risk, and downgrade risk and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over appropriate time horizons. CMHC is exposed to credit risk from various sources directly and indirectly, including directly from its investment, lending and hedging transactions and indirectly from potential claims arising from the Corporation's Insurance and Securitization Activity.

The Corporation manages credit risk associated with investments and derivatives through the implementation of policies which include counterparty credit limits and diversification of credit risk.

Cash Equivalents and Investments in Securities

The following table presents the distribution of credit exposure. The exposure is divided into short-term (less than one year) and long-term (greater than one year). The majority of the short-term exposure, 87%, is rated "R-1 high" or equivalent, and 66% of long-term exposure is to "AAA" and "AA" rated counterparties.

The credit risk arising from cash equivalents and investments in securities is considered to be the fair value of these positions, including accrued interest. Where legally enforceable through contractual repurchase / reverse repurchase agreements, transaction exposures to counterparties are netted against collateral to derive the overall net credit exposure to counterparties for repurchase / reverse repurchase transacting.

(in millions of dollars)	CASH EQUIVALENTS	INVESTMENTS IN SECURITIES	2004	2003
Fixed Income Securities				
Short-term	2,842	1,244	**4,086**	2,935
Long-term	–	6,150	**6,150**	6,316
Total Fixed Income	2,842	7,394	**10,236**	9,251
Equities	–	1,619	**1,619**	809
Total	2,842	9,013	**11,855**	10,060

The Corporation's credit risk related to concentration of investments is diversified across sectors as follows:

(in millions of dollars)	CASH EQUIVALENTS	INVESTMENTS IN SECURITIES	2004	2003
Fixed Income Securities				
Issued or Guaranteed by:				
Government of Canada	28	2,996	**3,024**	3,392
Provinces / Municipalities	2	1,778	**1,780**	1,468
Corporate / Other Entities	2,812	2,620	**5,432**	4,391
Total Fixed Income	2,842	7,394	**10,236**	9,251
Equities				
Canadian Equities	–	1,010	**1,010**	809
U.S. Equities	–	293	**293**	–
Foreign Equities	–	316	**316**	–
Total	2,842	9,013	**11,855**	10,060

Derivative Financial Instruments

The following table presents the credit exposure of the Corporation's derivatives by term to maturity.

	REPLACEMENT VALUE (1)				POTENTIAL FUTURE CREDIT EXPOSURE (2)	TOTAL CREDIT EXPOSURE	
(in millions of dollars)	WITHIN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS		2004	2003
Interest Rate Swaps	8	35	12	25	208	**288**	310
Foreign Currency Swaps	–	–	–	–	–	**–**	9
Total	8	35	12	25	208	**288**	319

(1) Represents the total current replacement value of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreements.
(2) Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity.

The Corporation limits its credit risk associated with derivative transacting by dealing with counterparties whose credit ratings are in accordance with Department of Finance guidelines, and through the use of master netting agreements which have been entered into with all counterparties. The credit exposure associated with derivative contracts is measured as the total of positive replacement values plus an estimate of potential future credit exposure which is calculated in relation to the notional principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of Financial Institutions. The following table presents the credit exposure of the Corporation's derivatives by counterparty credit rating.

(in millions of dollars)	AAA	AA	2004	2003
Total Credit Exposure	268	20	**288**	319

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments using the valuation methods and assumptions referred to below. Fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties.

As many of the Corporation's financial instruments lack an available trading market, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Due to the use of subjective judgment and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

	2004		2003	
(in millions of dollars)	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Loans and Investments in Housing Programs	**13,669**	**15,959**	14,075	16,140
Investments in Securities	**8,594**	**9,062**	7,191	7,507
Cash and Cash Equivalents	**2,841**	**2,841**	2,485	2,485
Securities Purchased Under Resale Agreements	**576**	**576**	314	314
Accrued Interest Receivable	**332**	**332**	387	387
Due from the Government of Canada	**203**	**203**	147	147
Accounts Receivable and Other Assets	**179**	**179**	146	146
Derivative-Related Amounts	**80**	**80**	–	–
Liabilities				
Borrowings from the Capital Markets	**9,207**	**9,769**	10,193	10,491
Borrowings from the Government of Canada	**5,045**	**7,056**	5,232	7,182
Securities Sold Under Repurchase Agreements	**2,976**	**2,976**	1,554	1,554
Accounts Payable and Other Liabilities	**869**	**869**	709	709
Accrued Interest Payable	**128**	**128**	182	182
Securities Sold But Not Yet Purchased	**121**	**121**	2	2
Derivative-Related Amounts	**38**	**38**	–	–
Derivative Financial Instruments				
Eligible for Hedge Accounting				
In a Net Receivable Position	**–**	**–**	–	74
In a Net Payable Position	**–**	**378**	–	242

Fair values of the following financial instruments are determined by reference to quoted market prices:

- Investments in Securities
- Cash and Cash Equivalents
- Borrowings from the Capital Markets (Medium-term)

Fair values of the following financial instruments are estimated using net present value analysis:

- Loans and Investments in Housing Programs
- Borrowings from the Government of Canada
- Derivative-Related Amounts
- Derivative Financial Instruments (eligible for hedge accounting)

The fair values of all other financial instruments are equal to carrying values due to their short-term nature.

19. EMPLOYEE FUTURE BENEFITS

The Corporation has a defined benefit pension plan and a supplemental pension plan. The Corporation also provides other post-employment benefits.

The accrued benefit asset for the defined benefit pension plan is included in Accounts Receivable and Other Assets. The total accrued benefit liability for the supplemental pension plan and for the other post-employment benefits is included in Accounts Payable and Other Liabilities. The net benefit plan cost recognized is included in Operating Expenses.

Total cash payments for employee future benefits were $14 million (2003 – $3 million). They include contributions by the Corporation to its funded pension plan and payments for the unfunded supplemental pension plan. Also therein are disbursements for other post-employment benefits, which consist of payments to a third-party service provider on behalf of the Corporation's retired employees and payments made directly to employees, their beneficiaries or estates.

Information about the employee future benefits is as follows:

	PENSION PLANS		OTHER POST-EMPLOYMENT BENEFITS	
(in millions of dollars)	2004	2003	2004	2003
Accrued Benefit Obligation				
Balance, Beginning of Year	**947**	874	**96**	82
Current Service Cost	**17**	15	**2**	1
Employees' Contributions	**4**	2	**–**	–
Interest Cost	**57**	59	**6**	6
Benefits Paid	**(49)**	(47)	**(3)**	(2)
Actuarial Loss (Gain)	**8**	44	**(3)**	9
Balance, End of Year	**984**	947	**98**	96
Fair Value of Plan Assets				
Balance, Beginning of Year	**960**	872	**–**	–
Actual Return on Plan Assets	**116**	132	**–**	–
Employer's Contributions	**11**	1	**3**	2
Employees' Contributions	**4**	2	**–**	–
Benefits Paid	**(49)**	(47)	**(3)**	(2)
Balance, End of Year	**1,042**	960	**–**	–
Funded Status – Plan Surplus (Deficit)	**58**	13	**(98)**	(96)
Unamortized Net Actuarial Loss	**102**	158	**15**	18
Unamortized Past Service Costs	**61**	70	**–**	–
Unamortized Transitional Obligation (Asset)	**(180)**	(210)	**31**	35
Accrued Benefit Asset (Liability)	**41**	31	**(52)**	(43)

Included in pension plans are amounts in respect of an unfunded supplemental pension plan as follows:

(in millions of dollars)	SUPPLEMENTAL PENSION PLAN 2004	2003
Fair Value of Plan Assets	**–**	–
Accrued Benefit Obligation	**27**	23
Funded Status – Plan Deficit	**27**	23

The plan assets and the accrued benefit obligation were measured for accounting purposes as at 31 December 2004. The most recent actuarial valuation for funding purposes was done 30 June 2003, and the next valuation will be as of 31 December 2005. In performing the actuarial valuations of the pension plans and the other post-employment benefits, the following assumptions were adopted:

	2004	2003
Accrued Benefit Obligation:		
Discount rate	**6%**	7%
Rate of compensation increase	**3%**	4%
Benefit Costs:		
Discount rate	**6%**	7%
Rate of compensation increase	**3%**	4%
Long term rate of return on plan assets	**6%**	7%
Average remaining service period for Pension Plans	**11 years**	11 years
Average remaining service period for Other Post-employment Benefits	**13 years**	12 years

An 8.8% (2003 – 10%) increase in health care costs was assumed for 2004, with 0.4% (2003 – 1.3%) average decreases per year thereafter to an ultimate trend rate of 5.1% which is expected to be achieved by 2014. A one-percentage-point fluctuation in the assumed health care cost trend rates would have the following effects on the items listed below:

(in millions of dollars)	INCREASE	DECREASE
Total of Service and Interest Cost	1	(1)
Accrued Benefit Obligation, End of Year	11	(9)

The Corporation's defined benefit costs recognized in the year are as follows:

(in millions of dollars)	PENSION PLANS 2004	PENSION PLANS 2003	OTHER POST-EMPLOYMENT BENEFITS 2004	OTHER POST-EMPLOYMENT BENEFITS 2003
Costs Incurred during the Year				
Current Service Cost, Net of Employees' Contributions	**17**	15	**2**	1
Interest Cost	**57**	59	**6**	6
Actual Return on Plan Assets	**(116)**	(132)	**–**	–
Actuarial (Gain) Loss on Accrued Benefit Obligation	**8**	44	**(3)**	9
Total Costs before Adjustments	**(34)**	(14)	**5**	16
Adjustments to Recognize the Long-term Nature of Employee Future Benefits Costs				
Difference between Expected and Actual Return on Plan Assets	**59**	75	**–**	–
Difference between Actuarial (Gain) Loss Recognized and Actual Actuarial (Gain) Loss on Accrued Benefit Obligation	**(3)**	(34)	**4**	(9)
Amortization of Past Service Costs	**9**	9	**–**	–
Amortization of the Transitional Obligation	**(30)**	(30)	**3**	3
Total Adjustments	**35**	20	**7**	(6)
Net Benefit Plan Cost Recognized	**1**	6	**12**	10

Information on the defined benefit pension plan assets is as follows:

CATEGORY OF PLAN ASSETS	PERCENTAGE OF FAIR VALUE OF TOTAL PLAN ASSETS 2004	PERCENTAGE OF FAIR VALUE OF TOTAL PLAN ASSETS 2003
Short-term Investments	**1.6%**	0.9%
Bonds and Debentures	**19.1%**	21.2%
Equities	**65.1%**	64.1%
Real Return Securities	**4.9%**	4.7%
Real Estate	**9.3%**	9.1%
Total	**100%**	100%

At 31 December 2004, plan assets include $76 million of investments in CMHC related parties (2003 – $89 million).

20. SEGMENTED INFORMATION

As described in Note 1, the Corporation carries out its mandate through three activities: Insurance and Securitization, Housing Programs, and the Lending Activity. For segmented information purposes, the Insurance and Securitization Activity is separated into its two components. The financial results of each activity are determined using the accounting policies described in Note 2.

The Lending Activity includes certain Corporate items that are not allocated to each activity. The Housing Program activity includes reimbursements to the Lending Activity as described in Note 13. These reimbursements are not eliminated in the table below.

	INSURANCE		SECURITIZATION		HOUSING PROGRAMS		LENDING ACTIVITY		ELIMINATION OF INTER-SEGMENT ITEMS		TOTAL	
(in millions of dollars)	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
REVENUES												
Interest Earned	**–**	–	**–**	–	**–**	–	**1,011**	1,069	**–**	–	**1,011**	1,069
Investment Income	**397**	341	**13**	9	**–**	–	**–**	–	**(2)**	(5)	**408**	345
Premiums, Fees and Parliamentary Appropriations	**1,095**	915	**40**	32	**2,107**	2,069	**–**	–	**–**	–	**3,242**	3,016
	1,492	1,256	**53**	41	**2,107**	2,069	**1,011**	1,069	**(2)**	(5)	**4,661**	4,430
EXPENSES												
Interest Expense	**–**	–	**–**	–	**–**	–	**939**	1,004	**(2)**	(5)	**937**	999
Operating Expenses	**136**	128	**5**	5	**101**	97	**19**	25	**–**	–	**261**	255
Housing Programs, Net Claims and Other Expenses	**70**	214	**(1)**	(4)	**2,006**	1,972	**(11)**	(13)	**–**	–	**2,064**	2,169
	206	342	**4**	1	**2,107**	2,069	**947**	1,016	**(2)**	(5)	**3,262**	3,423
Income Taxes	**411**	312	**17**	10	**–**	–	**21**	18	**–**	–	**449**	340
NET INCOME	**875**	602	**32**	30	**–**	–	**43**	35	**–**	–	**950**	667
ASSETS												
Direct Lending Loans	**–**	–	**–**	–	**–**	–	**8,556**	8,724	**–**	–	**8,556**	8,724
Other Loans and Investments in Housing Programs	**–**	–	**–**	–	**–**	–	**5,113**	5,351	**–**	–	**5,113**	5,351
Investments in Securities	**7,707**	6,245	**262**	185	**–**	–	**630**	812	**(5)**	(51)	**8,594**	7,191
Other Assets	**3,171**	1,935	**18**	31	**–**	–	**1,244**	1,725	**(24)**	(22)	**4,409**	3,669
	10,878	8,180	**280**	216	**–**	–	**15,543**	16,612	**(29)**	(73)	**26,672**	24,935
LIABILITIES												
Borrowings from the Capital Markets	**–**	–	**–**	–	**–**	–	**9,212**	10,244	**(5)**	(51)	**9,207**	10,193
Borrowings from the Government of Canada	**–**	–	**–**	–	**–**	–	**5,045**	5,232	**–**	–	**5,045**	5,232
Unearned Premiums and Fees	**4,227**	3,863	**128**	102	**–**	–	**–**	–	**–**	–	**4,355**	3,965
Other Liabilities	**3,539**	2,080	**(3)**	(9)	**–**	–	**1,127**	1,020	**(24)**	(22)	**4,639**	3,069
	7,766	5,943	**125**	93	**–**	–	**15,384**	16,496	**(29)**	(73)	**23,246**	22,459
EQUITY	**3,112**	2,237	**155**	123	**–**	–	**159**	116	**–**	–	**3,426**	2,476

21. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

In exchange for real estate transferred to Canada Lands Company CLC Limited in 1998 and 1999, the Corporation holds notes receivable at 7.35% due by 2014. The amount due to the Corporation is $41 million (2003 – $38 million) including accrued interest.

22. COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to $48 million at 31 December 2004 (2003 – $53 million) and are normally advanced within a two-year period. Commitments outstanding for advances to insured assisted housing projects in financial difficulty amounted to $56 million at 31 December 2004 (2003 – $35 million) and are normally advanced within a ten-year period.

b) Total remaining contractual financial obligations for Housing Programs extend for periods up to 34 years.

Estimated obligations are as follows:

(in millions of dollars)	2005	2006	2007	2008	2009	2010 AND THEREAFTER
	1,761	1,744	1,701	1,711	1,716	22,449

c) The Corporation has $50 million (2003 – $50 million) of credit facility available for letters of credit. At 31 December 2004, $40 million (2003 – $38 million) in letters of credit were outstanding against this facility.

d) There are legal claims of $14 million (2003 – $22 million) against the Corporation. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded.

23. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the 2004 financial statement presentation.

LISTINGS

BOARD OF DIRECTORS LISTING

(as at December 31, 2004)

Dino Chiesa

Acting Chairman of the Board

Mr. Chiesa is Vice-Chair of the Board of Trustees of CAP REIT, one of Canada's largest owners of multi-family rental communities. Prior to this, he was the President and CEO of RESREIT, Assistant Deputy Minister of Ontario's Ministry of Municipal Affairs and Housing, CEO of the Ontario Housing Corporation and Ontario Mortgage Corporation and with CMHC from 1975 to 1987. ***(Note: On March 22,*** *2005, Dino Chiesa was appointed to the position of Chairman of CMHC's Board of Directors.)*

Karen Kinsley, CA

President and Chief
Executive Officer

Karen Kinsley joined Canada Mortgage and Housing Corporation in 1987, has held a variety of positions in Senior Management, and was appointed President and Chief Executive Officer in June 2003.

Michel Bérubé

Charlesbourg, Québec

Michel Bérubé is an engineer and has served on the Board of Directors since June 2001.

Catherine C. Cronin, CA

Winnipeg, Manitoba

Catherine Cronin is a chartered accountant who is currently active in several community organizations in the Winnipeg area. She was appointed to the Board of Directors in September 2003.

Roberta Hayes

Moncton, New Brunswick

Roberta Hayes is co-owner and manager of HomeLife Hayes Realty. She was appointed to the Board of Directors in October 2003.

Hugh Heron

Schomberg, Ontario

Hugh Heron is Principal and Partner of the Heron Group of Companies, and has served on the Board of Directors since June 2001.

Sophie Joncas, CA

Saint-Hubert, Québec

Sophie Joncas is a chartered accountant and a partner with Lapointe, Gagné, Pétrone CA. She has served on the Board of Directors since August 2001.

Grace Kwok

Vancouver, British Columbia

Grace Kwok is Owner and Vice-President of Anson Realty Ltd, and has served on the Board of Directors since January 2001.

Louis Ranger

Ottawa, Ontario

Louis Ranger is Deputy Minister at Transport Canada, and has served on the Board of Directors since September 2002.

BOARD COMMITTEES

Audit Committee: Dino Chiesa (Chair), Sophie Joncas, Catherine Cronin ***(Note: On 5 March 2005, Sophie Joncas replaced Dino Chiesa as Chair of the Audit Committee and Hugh Heron became a member.)***

Corporate Governance Committee: Dino Chiesa (Chair), Sophie Joncas, Grace Kwok

Human Resources Committee: Michel Bérubé (Chair), Hugh Heron, Louis Ranger ***(Note: On 5 March 2005, Roberta Hayes became a member of the Human Resources Committee.)***

Nominating Committee: Hugh Heron (Chair), Roberta Hayes, Michel Bérubé ***(Note: On 5 March 2005, Dino Chiesa became Chair of the Nominating Committee.)***

PRINCIPAL OFFICERS LISTING

(as at December 31, 2004)

CMHC's National Office is located in Ottawa, Ontario. The Corporation also has five regional Business Centres across Canada representing: the Atlantic Region; Quebec; Ontario; the Prairies, Nunavut and Northwest Territories; and British Columbia and the Yukon. Under the leadership of seven vice-presidents, staff at National Office provide a variety of services in policy, programs, insurance, securitization, strategy, research, market analysis, risk management, marketing, communications, finance, administration, human resources, organizational development, legal services, treasury, and information technology. National Office and the regional Business Centres provide Canadians with front-line access to CMHC programs, products and services. Each Business Centre is headed by a General Manager who has responsibility for operations in the region while working in close cooperation with National Office.

CMHC is also responsible for the management and administration of Granville Island on behalf of the Government of Canada, for which CMHC receives a management fee. Owned by the federal government, the island is a cultural, recreational and commercial development in the heart of Vancouver. It is expected to be commercially viable with the majority of revenue being rental income. Capital additions are funded through operations and / or grants and contributions.

Karen Kinsley, CA
President and Chief Executive Officer

NATIONAL OFFICE – VICE-PRESIDENTS

Sharon Matthews
Insurance and Securitization

Gilles Proulx (Acting)
Risk Management and Pension Fund

Pierre Serré, CA
Finance and Chief Financial Officer

Mel Skinner
Human Resources

Bill Smith
Assisted Housing

Douglas A. Stewart
Policy and Planning

Berta Zaccardi
Corporate Services

REGIONAL BUSINESS CENTRES – GENERAL MANAGERS

Charles D. Chenard
Quebec Region

Nelson Merizzi
British Columbia and Yukon Region

Trevor Gloyn
Prairie, Nunavut and Northwest Territories Region

Peter Friedmann
Ontario Region

Carolyn Kavanagh
Atlantic Region

CORPORATE SECRETARY

Luc Fournier

GLOSSARY OF TERMS

FINANCIAL TERMS

Benchmark Index – A benchmark provides an objective point of reference for performance measurement. CMHC's benchmarks for the Insurance and Securitization investment portfolios are the Scotia Capital Universe Bond Index (fixed income portfolios), the Scotia Capital 91-day Treasury-Bill Index (money market portfolios), and the total return of the S&P / TSX Composite Index (equity portfolios), S&P 500 and MSCI EAFE Indexes.

(CMB) Canada Mortgage Bonds – A guaranteed semi-annual coupon, bullet-maturity (repayment of principal upon maturity) bond product issued by a special purpose trust, known as Canada Housing Trust (CHT).

Commercial Paper – A type of corporate short-term borrowing with a term to maturity of up to one year.

Compliance – A term used in reference to conformity to established policies, which define the risk tolerance of the Corporation.

Credit Rating – Credit ratings are current opinions of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated.

Derivatives – A financial derivative is an instrument whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives.

Direct Lending – Loans provided to social housing sponsors at break-even levels. These loans are funded through borrowings from capital markets.

Duration – A measure of the average time interval required for an expected stream of cashflows to repay the original investment (i.e. shorter duration means faster recovery of the original investment). It is also a measure of the sensitivity of fixed income securities prices in relation to changes in interest rates.

(DFA) Dynamic Financial Analysis – A systematic and holistic approach to financial modeling and sensitivity analysis for assets and liabilities that projects financial results under a variety of possible scenarios, showing how outcomes might be affected by changing business and economic conditions.

Mark-to-Market – The valuing of financial instruments at market trading prices.

***National Housing Act* (MBS) Mortgage – Backed Securities** – An undivided interest in a pool (group) of residential mortgages insured by CMHC or an approved private insurer. These financial instruments are secured by the value of underlying real estate.

Repurchase and Reverse Repurchase Activity – Transactions in which the Corporation buys securities with a commitment to resell them (securities purchased under resale agreements), or sells securities with a commitment to repurchase them (securities sold under repurchase agreements).

Swap – A form of derivative, an interest rate swap is a contractual agreement between two parties to exchange a series of cashflows, generally exchanging fixed and floating rate interest payments based on a notional principal value in a single currency. In the case of a currency swap, principal amounts and fixed and floating rate interest payments are exchanged in different currencies. Swaps are generally used to reduce or eliminate interest rate risk or foreign exchange risk.

Value – The concept of value and how it can change under various scenarios is central to the discussion of risk management. While there are different methods for obtaining estimates of the value of a portfolio, the meaning typically refers to the sum of the projected future cash flows of a portfolio adjusted to today's value by discounting at appropriate rates.

Volatility – A measure of the spread or dispersion of observations around the average. Statistically, volatility is defined as the standard deviation of a set of observations.

GENERAL TERMS

Aboriginal Capacity Development – To facilitate, by sharing CMHC knowledge and experience with Aboriginal groups, the development of appropriate infrastructure and governance capability for Aboriginal Peoples to run their own housing systems and ensure sustainability of the final product.

(CCPPPH) Canadian Centre for Public Private Partnerships in Housing – A community focused team operating within CMHC, CCPPPH facilitates innovative financing and tenure arrangements to help community groups develop affordable housing without long-term subsidies.

(ERP) Emergency Repair Program – This CMHC program offers financial assistance to low-income homeowners or occupants in rural areas to undertake emergency repairs required for the continued safe occupancy of their house.

(HASI) Housing Adaptations for Seniors' Independence – This CMHC initiative assists low-income seniors who have difficulties with daily living activities in the home by providing financial assistance to carry out minor home adaptations.

(NHA) *National Housing Act* – An Act to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions.

(RRAP) Residential Rehabilitation Assistance Program – A CMHC program offering financial assistance to low-income households on- and off- reserve to enable them to repair their dwellings. Types of assistance include Homeowner RRAP, Disabled Homeowner RRAP, Rental and Rooming House RRAP, RRAP Conversion and On- Reserve RRAP.

(SEP) Shelter Enhancement Program – This CMHC program provides financial assistance to repair, rehabilitate and improve existing shelters for women, children and youth who are victims of family violence. The program also assists in the acquisition or construction of new shelters and second stage housing.

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CMHC International Centre

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