



IT ALL BEGINS
WITH
AN ADDRESS

Canada Mortgage and Housing Corporation

2003 ANNUAL REPORT



HOME TO CANADIANS
Canada

MISSION

*Promote housing quality,
affordability and choice for Canadians*

CORPORATE OBJECTIVES

- ▶ Improve Housing Choice and Affordability for Canadians
- ▶ Improve Housing and Living Conditions for Canadians
- ▶ Support Market Competitiveness, Job Creation and Housing Sector Well-Being
- ▶ Be a Progressive and Responsive Organization

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 substantively from the expectations stated or implied by forward-looking statements.

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A house is more than the place where you live. It's home, for you, and for your family.

For most Canadians, having a safe, affordable place to call home provides a source of comfort, security and well-being throughout all of life's personal and financial challenges. But good housing is not only about individual pride and stability. It's also an essential foundation from which all other social and economic needs of a community can be addressed. And it attracts the people, businesses and investments that drive our economy, helping to create a higher quality of life for all Canadians.

Because whether it's building healthy families, vibrant businesses or strong, sustainable communities across the country — **it all begins with an address.**

Business Area

2003 Achievements

Insurance and Securitization

To facilitate access to affordable housing finance options, CMHC provides mortgage loan insurance to Approved Lenders, thus giving lenders the security of offering mortgages at the lowest possible rates. Borrowers benefit by being able to buy a home with as little as 5% down. CMHC also guarantees the timely payment of principal and interest on Canada Mortgage Bonds and Mortgage-Backed Securities, thus increasing the supply of low-cost mortgage funds through secondary mortgage markets.

- Homeowner mortgage loan insurance premiums reduced by 15% and homeowner price ceilings eliminated.
- New mortgage insurance products launched, including Secured Line of Credit, Rental Refinance and Homeownership On-Reserve.
- CMHC's refinance programs proved attractive to homeowners and rental property owners.
- Investor demand in Canada and around the world for Canada Mortgage Bonds was strong.
- Variable Rate Mortgage-Backed Securities for inclusion in the CMB program were introduced.

Assisted Housing

As Canada's national housing agency, CMHC ensures that federal housing subsidies address national housing objectives. CMHC also supports Aboriginal housing needs through on-reserve assistance and capacity development. Through long-standing partnerships, the Corporation provides funding to support Canada's existing social housing stock, and funds new commitments under the Affordable Housing Program Agreements. CMHC helps lower the cost of social housing by providing loans at attractive interest rates, and facilitates affordable housing creation through public-private partnerships.

- Remaining Federal, Provincial and Territorial Affordable Housing Program Agreements signed for the initial \$680 million. Additional \$320 million in federal funds announced in 2003.
- CMHC's renovation programs extended and continue to be oversubscribed.
- CMHC's ability to support public-private partnerships in housing enhanced.
- New seed funding program successfully launched.
- First Nations National Building Officers' Association established.
- On-Reserve housing programs delivered with continued strong demand.

Research and Information Transfer

CMHC is the key Canadian source of reliable and objective information on national and regional housing issues and international housing markets. The Corporation undertakes research in core theme areas and promotes the uptake of research results through product development and dissemination, education and the provision of advice and information. CMHC's Market Analysis Centre (MAC) supports the housing market by providing timely analysis and forecasts of economic, housing, and mortgage market trends and conditions.

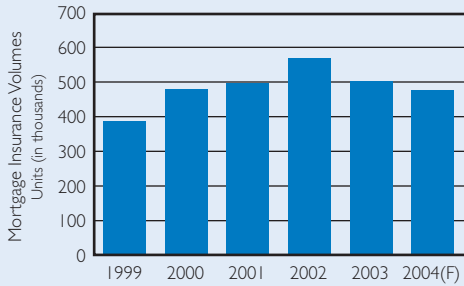
- Demand for CMHC research products continued to grow, with over one million CMHC research highlights, fact sheets, best practice guides and reports disseminated in 2003.
- CMHC's flagship publication, the *Canadian Housing Observer*, launched to provide a foundation for informed discussion on housing matters.
- Housing Outlook Conferences continued to grow in popularity, with record attendance in Halifax, Quebec City, Montreal, Edmonton and Vancouver.

International Activities

The Corporation promotes exports and international business for Canada's housing industry by working to increase the recognition and acceptance of Canada's housing products, services and expertise in priority markets around the world. CMHC acts in a consulting capacity to assist other countries in the establishment of housing finance and other systems required to improve their housing sectors. The Corporation also receives foreign delegations interested in housing and represents Canada internationally on housing and human settlements issues.

- Strong year for Canadian housing export clients despite unfavourable economic climate.
- Canadian friendly building codes adopted in China and UK, creating more opportunities for Canadian exporters.
- A "best year" for CMHC's international consulting business in terms of revenues.
- New consulting contracts for projects in Algeria and Romania signed.
- Participation and equity investment in India Mortgage Guarantee Company (IMGCC) deemed feasible.

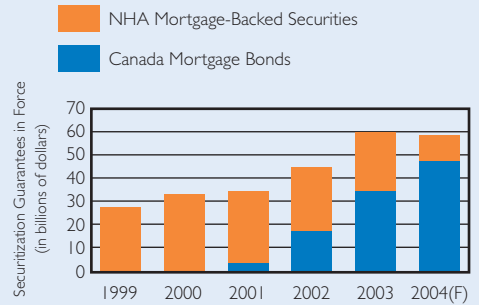
We are Canada's mortgage insurer of choice, offering a wide range of products to Canadians across the country



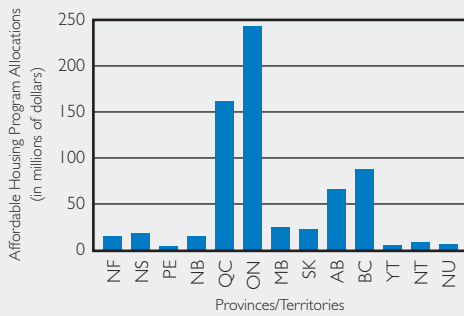
Helping families and individuals...

Whether it's realizing the dream of homeownership or accessing quality rental housing, CMHC helps Canadians meet their housing needs through its mortgage insurance and securitization programs.

Our securitization programs help ensure a low cost supply of mortgage funds for lending



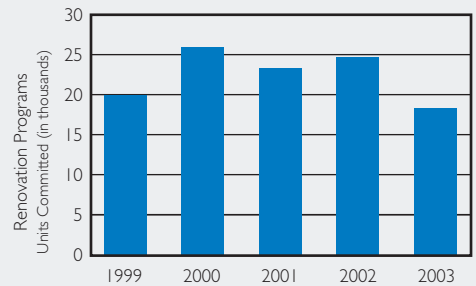
By working with the provinces, territories and other partners, we are helping to ensure that low-income Canadians have access to housing they can afford



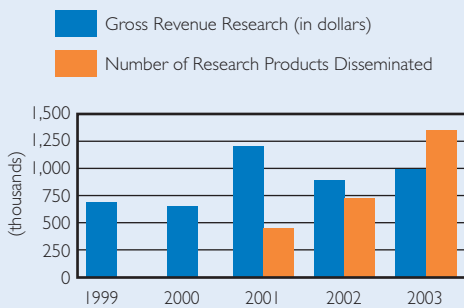
Contributing to a strong social foundation...

The Affordable Housing Program and Renovation Programs are key components of Canada's national housing strategy, helping ensure that Canadians have access to safe, adequate and affordable housing.

Our renovation programs have been redesigned to maximize program benefits for those who need it most



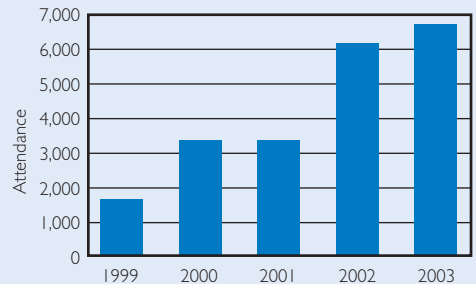
We are the leading provider of objective and reliable housing related research and market intelligence



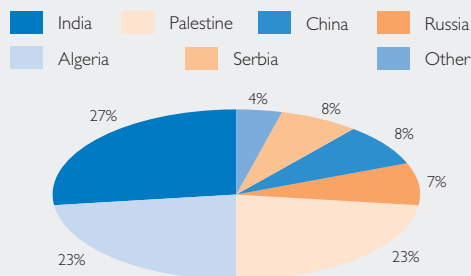
Strengthening the housing industry and the Canadian economy...

CMHC's market analysis, research and information transfer activities help the housing industry operate efficiently and effectively, and assist stakeholders and governments in making sound decisions and effective policies.

With attendance more than triple since 1999, Housing Outlook Conferences and Seminars are now recognized as premier events for housing industry participants



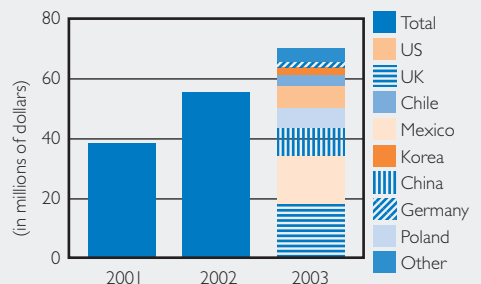
We are increasingly recognized as a global provider of housing finance solutions, with a growing list of clients around the world



Sharing Canada's expertise and way of life with the world...

Our International activities not only help boost Canada's export industry, they also help secure Canada's role as a world-leading innovator, and call attention to Canadian values and practices.

Our strategy of focusing on select markets is producing positive results for housing export clients



PERFORMANCE HIGHLIGHTS

Performance Highlights	1999	2000	2001	2002	2003
Corporate Results					
Total Assets (in millions of dollars)	21,976	23,244	23,822	23,502	24,968
Total Liabilities (in millions of dollars)	21,432	22,324	22,557	21,693	22,492
Equity of Canada (in millions of dollars)	544	920	1,265	1,809	2,476
Total Revenue (in millions of dollars)	4,009	4,192	4,064	4,124	4,430
Total Operating Expenses (in millions of dollars)	175	208	201	224	255
Net Income After Income Taxes (in millions of dollars)	316	376	345	544	667
Staff-Years	1,943	1,815	1,736	1,772	1,799
Insurance and Securitization					
Annual Units Approved	398,405	498,659	507,237	583,225	514,023
Premiums and Fees Received (in millions of dollars)	898	850	1,049	1,330	1,263
Insurance in Force (in millions of dollars)	187,392	201,000	211,500	224,345	230,000
Net Claims Expense (in millions of dollars)	232	307	335	139	188
Annual Securities Guaranteed (in millions of dollars)	12,854	11,014	8,489	20,642	27,017
Guarantees in Force (in millions of dollars)	28,000	34,000	34,684	45,473	59,994
Investments in Securities (including cash) (in millions of dollars)	3,819	4,143	4,916	6,005	6,910*
Housing Programs					
Annual New Commitments (units)	20,850	27,600	24,850	25,900	19,435
Estimated Households Assisted	639,200	639,300	640,800	638,850	635,900
Housing Program Expenses (excluding operating expenses) (in millions of dollars)	1,828	1,913	1,789	1,828	1,972
Lending					
Loans and Investments in Housing Programs (in millions of dollars)	16,084	15,841	15,239	14,601	14,094
Borrowings from Capital Markets (in millions of dollars)	10,856	11,054	11,081	10,242	10,244
Borrowings from the Government of Canada (in millions of dollars)	6,141	5,924	5,692	5,474	5,232
Net Interest Income (in millions of dollars)	17	42	58	52	65

* excluding investments related to repurchase activities

AND OUTLOOK

Outlook	2004	2005	2006	2007	2008
Corporate Results					
Total Assets (in millions of dollars)	23,357	23,705	24,214	24,769	25,554
Total Liabilities (in millions of dollars)	20,266	19,886	19,662	19,464	19,463
Equity of Canada (in millions of dollars)	3,091	3,819	4,552	5,305	6,091
Total Revenue (in millions of dollars)	4,641	4,679	4,598	4,520	4,483
Total Operating Expenses (in millions of dollars)	300	302	299	304	311
Net Income After Income Taxes (in millions of dollars)	663	728	732	753	786
Staff-Years	1,866	1,830	1,727	1,692	1,687
Insurance and Securitization					
Annual Units Approved	488,038	457,061	461,399	463,524	468,297
Premiums and Fees Received (in millions of dollars)	1,182	1,143	1,182	1,214	1,252
Insurance in Force (in millions of dollars)	233,000	232,200	231,400	229,900	228,800
Net Claims Expense (in millions of dollars)	264	262	290	317	365
Annual Securities Guaranteed (in millions of dollars)	15,000	15,000	15,000	15,000	15,000
Guarantees in Force (in millions of dollars)	58,500	63,800	68,700	75,000	75,000
Investments in Securities (including cash) (in millions of dollars)	7,607	8,326	9,147	10,010	10,965
Housing Programs					
Annual New Commitments (units)	22,749	19,780	6,038	1,773	1,773
Estimated Households Assisted	633,400	632,900	632,600	627,900	622,400
Housing Program Expenses (excluding operating expenses) (in millions of dollars)	2,133	2,135	2,092	1,990	1,863
Lending					
Loans and Investments in Housing Programs (in millions of dollars)	13,999	13,659	13,350	13,045	12,856
Borrowings from Capital Markets (in millions of dollars)	10,155	9,991	9,867	9,756	9,779
Borrowings from the Government of Canada (in millions of dollars)	5,043	4,846	4,650	4,444	4,234
Net Interest Income (in millions of dollars)	13	14	15	15	14

MESSAGE

FROM THE CHAIRMAN

I am pleased to report on behalf of the Board of Directors of Canada Mortgage and Housing Corporation. I joined CMHC at a time when the Corporation was facing — and continues to face — both great opportunities and challenges. CMHC is operating in a profoundly changing business environment and must adapt to an evolving regulatory framework. Affordable housing is firmly on the political radar at all levels of government. As the theme of this year's report implies, housing is a basic component of Canada's social foundation, providing personal security, contributing to the economy, and significantly influencing the quality of life enjoyed by Canadians.

Against this backdrop, the Board of Directors of the Corporation is working with management to develop effective corporate strategies. To increase the liveability of our communities and make them more desirable places to live, work and invest, CMHC must help increase the supply of affordable housing through public-private partnerships and innovative financing options. The Corporation's securitization program will continue to be expanded to increase the attractiveness of the products to investors and provide a steady supply of low-cost funds for residential mortgages. Efforts will be made to expand homeownership on-reserve to address critical housing shortages in these areas, and work on examining the relationship between housing and broad societal outcomes will continue to ensure that the importance of housing is fully understood in public policy circles.

To ensure the success of these endeavours, CMHC's Board of Directors is strongly committed to sound corporate governance by providing the appropriate oversight of business plans and activities that ensures prudent and efficient management of corporate resources, accountability of all employees to Canadians and transparent disclosure. In 2003, the position of Vice-Chairman was created to strengthen the leadership of the Board in establishing corporate direction.

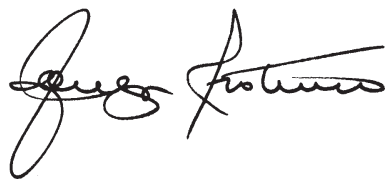


In an increasingly complex environment, the Corporation must make every effort to ensure that Board members and employees alike fulfill their respective responsibilities in a manner that is consistent with corporate values and based on strong ethical values. Special emphasis will be placed on this matter in 2004.

As Chairman, I am delighted to see that CMHC had an exceptional year in 2003 and is well equipped to meet the challenges and opportunities that lie ahead. On that note, I would like to acknowledge some of the people who were central to our past successes, and helped lay the foundation for the present and the future. In particular, several Board members completed their terms in 2003, notably my predecessor, Peter Smith, Chairman of the Board of Directors since 1995, and Jean-Claude Villiard, President and Chief Executive Officer from October 2000 to June 2003. Mr. Smith was instrumental in moving the Corporation forward on corporate governance issues, including risk management, while Mr. Villiard spearheaded the development of a corporate performance measurement framework and other modern accountability tools. I would also like to thank Rose Marie MacDonald, whose term on the Board of Directors ended in 2003, for the invaluable contributions that she made, and at the same time, welcome CMHC Board members, Catherine Cronin and Roberta Hayes, who joined in the fall of 2003.

In the time that I have been with CMHC, I have seen firsthand how the Corporation demonstrates innovation in its business practices and excellence in its governance practices. I have also noted the dedication that CMHC employees show to helping Canadians with all their various housing concerns. CMHC has recently achieved several important milestones: the signing of the Affordable Housing Agreements with every province and territory and the launch of the *Canadian Housing Observer*, which tracks the state of Canada's housing and provides a foundation for policy discussions. We have also introduced further innovations to CMHC's housing finance products, which are helping more Canadians realize the dream of homeownership.

In light of these recent developments, we will bring together the necessary elements to enable Canada Mortgage and Housing Corporation to continue harnessing its leadership potential in such a way to further contribute to the overall well-being of Canadians, especially in terms of housing.



Jocelyn Proteau

MESSAGE

FROM THE PRESIDENT

Canadians are among the best-housed people in the world. The vast majority of Canadian homes are safe, sound and affordable. Our quality of life is exemplary. And our housing systems, products and technologies are in demand across the globe. But as a result of this enduring good fortune, many of us tend to take our housing — an essential part of the health, happiness and well-being of every individual — for granted. That's why, as Canada's national housing agency, one of CMHC's most important challenges is to ensure that Canadians understand the importance of good housing, and that housing remains on the critical agenda whenever important decisions are made.

In 2003, the first year of my tenure as President and CEO of CMHC, I had the opportunity to travel across Canada, meeting with clients, stakeholders and employees. If there's one key message I took from these meetings, it's that housing truly is about more than bricks and mortar. Good housing is a fundamental source of both individual and community pride, health and well-being. Good housing makes it easier for parents to raise and support happy, healthy children. It provides a sense of security during life's ups and downs, and a stable foundation from which to address other social and economic issues. It drives business investment and growth, contributes to environmental sustainability and influences where people choose to live and work. And it plays a key role in making vibrant, healthy communities and cities a reality across the country by helping to attract the people, businesses and investments that, ultimately, help create a strong economy and a high quality of life for Canadians.

In short, housing matters. At CMHC, we're working to make a difference in the lives of our fellow Canadians, by working to advance those housing issues that matter most to them.



Building a 21st century economy

In his Speech From the Throne this past February, Prime Minister Paul Martin spelled out his vision for the future of Canada, as articulated in three central themes: building a true 21st century economy, strengthening Canada's social foundation and defining our place in the world. In 2003, CMHC continued to make a vital contribution in each of these areas through all of our programs, activities and business lines.

The housing sector is a key component of the Canadian economy, with residential investments and repairs accounting for approximately 6.5% of our gross domestic product in 2003. Through our mortgage loan insurance and securitization program, CMHC continued to fuel the success of Canada's housing sector by helping countless Canadians to realize their dreams of homeownership.

With \$60 billion in securities currently guaranteed by CMHC, and \$230 billion in mortgage insurance in force, CMHC helps ensure a steady supply of low-cost funds for residential mortgages in communities across the country. In 2003, we made homeownership more affordable by reducing homeowner insurance premiums by 15%, and launched several innovative new insurance products to give Canadians a greater range of options for financing their homes and provide rental property owners with more ways to finance renovations and new construction.

As a Crown Corporation with a mandate to help Canadians gain access to safe, quality and affordable housing, we also make it our business to provide insurance products that benefit Canadians in all parts of the country and in all types of housing, including rental accommodation and nursing and retirement homes. More than one third of our business in 2003 was in areas where Canadians have traditionally found it more difficult to access housing finance.

In addition, CMHC contributes to the well-being of the housing sector through insightful research, timely forecasts and detailed analysis of housing market trends. In the spring of 2003, CMHC launched its inaugural issue of the *Canadian Housing Observer*, an annual publication providing insight and information on the state of the country's housing.

Strengthening Canada's social foundation

CMHC's commitment to social and assisted housing is at the heart of who we are as a Corporation, and how we do business. In 2003, we continued to provide support for those individuals whose needs are not met through the marketplace, helping over 635,000 households to access safe, affordable homes.

With the remaining three federal-provincial Affordable Housing Program Agreements signed in 2003, CMHC now has agreements in place for all of the \$680 million in federal funding originally slated for affordable housing. In addition, a further \$320 million in federal funds was made available in 2003, underlining the importance of affordable housing to the strength of our communities.

The 2003 Federal budget also announced a three-year, \$384 million extension of CMHC's renovation programs. This announcement followed a national consultation and evaluation that demonstrated the success of these programs in helping to preserve the supply of low-cost housing and in benefiting low-income Canadians, including Aboriginal Canadians.

To help communities sponsor and develop their own affordable housing projects, we increased the consultation resources of the Canadian Centre for Public-Private Partnerships in Housing, and offered improved financial tools and increased flexibility for mortgage insurance for non-profit and private borrowers.

To help address the critical problem of the quality and availability of housing on-reserve, the Corporation introduced a new insurance product, *Financing for Homeownership On-Reserve*, which does not require the customary loan guarantee by the federal government. Now, more Aboriginal Canadians can take pride in owning their own homes, and make a vital contribution to the capacity development of their own communities.

There's no doubt that quality housing contributes to community well-being, and positive health and social outcomes for Canadians. That's why, through research projects on such topics as social cohesion, climate change and indoor air quality, for example, CMHC plays a leadership role in advancing healthier living environments in Canada. Plus, we remain committed to partnering with a variety of groups to pursue research and policy options in the areas of urban infrastructure, residential intensification and brownfield re-development — some of the important issues facing cities and communities that, ultimately, impact our quality of life.

Enhancing our place in the world

Finally, CMHC continued to work to enhance Canada's presence in the global marketplace, and share our housing experience and expertise with the world.

In 2003, CMHC International once more expanded on its track record of showcasing Canadian companies, products and services, as well as helping countries build housing systems that can better meet the needs of their citizens.

Building a vision for the future

Like all employees of CMHC, I am extremely proud of our achievements over the past year. But as all of us who work at the Corporation know, there is still much to do.

In 2004 and beyond, CMHC will continue to raise the visibility of housing, and create opportunities to recognize the importance of housing to Canada's prosperity. We will build on our accomplishments and leverage our strengths — our extensive networks, our outstanding relationships and our credibility in communities — to boost the momentum for innovative housing solutions. And we will continue to work hand-in-hand with our partners in the private and public sectors, to meet the housing needs of Canadians from coast to coast to coast.

Because when it comes to our quality of life, our national prosperity and the sustainability of our communities... *"it all begins with an address."*



Karen Kinsley





PERFORMANCE
AGAINST OBJECTIVES

PERFORMANCE AGAINST OBJECTIVES

OBJECTIVE ONE

Improve Housing Choice and Affordability for Canadians

CMHC helps Canadians gain access to safe, affordable homes by providing housing finance products and services, conducting research and facilitating public-private partnerships with a range of housing providers. For those whose needs cannot be met in the marketplace, the Corporation provides direct housing assistance.

Sampling of 2003 Planned Activities

- Continue to be the leader in mortgage insurance product innovation and services, including options on-reserve.
- Continue to provide Canadian homeowners and rental property developers coast-to-coast-to-coast with mortgage insurance products.
- Implement and administer new and existing social and affordable housing funding commitments.
- Negotiate bilateral Affordable Housing Program Agreements with remaining provinces.
- Facilitate the creation of affordable housing through partnerships and innovative financing.
- Research and disseminate information on market conditions, affordable housing and distinct housing needs.

Corporate Performance Measures

	2004 PLANNED	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
MORTGAGE LOAN INSURANCE					
Annual Units Approved	488,038	514,023	526,337	98%	583,225
ASSISTED HOUSING AND COMMUNITY PARTNERSHIPS					
Estimated Number of Households Assisted	633,400	635,900	639,300	99%	638,850
Annual Direct Lending					
– New Business (in millions of dollars)	287.2	94	151	62%	243
– Subsequent Renewals (in millions of dollars)	1,374.2	1,779	1,789	99%	1,780
Public-Private Partnership Units Facilitated	3,064	5,920	3,000	197%	6,278
Proposal Development and Seed Funding (in millions of dollars)	3.0/4.5	1.9/1.5	N/A	N/A	N/A

ANALYSIS OF RESULTS

Mortgage Insurance

Generations of Canadians have been able to purchase their first homes with the assistance of a CMHC insured mortgage. CMHC provides a variety of mortgage insurance products, including homeowner, rental, nursing and retirement home, and on-reserve mortgage insurance products that serve Canadians in all types of housing.

Total mortgage insurance units approved in 2003 were on Plan and above 500,000 for the second year in a row. The success of CMHC's Refinance products was a major factor in the outstanding overall performance.

Homeowner Refinance approvals continue to benefit from low mortgage rates and recent high equity appreciation — average Multiple Listing Service (MLS) resale prices rose almost 10% in 2003. Since mid-2000, 5-year mortgage rates have declined from approximately 8.5% to 6.0% and lower. At the same time, prepayment

rates for 5-year mortgages have risen significantly from about 10% a year to between 20% and 40% a year (based on available NHA MBS data), likely as a result of borrowers taking advantage of the lower refinancing rates.

The second half of 2003 also brought very strong rental volumes driven by the new Rental Refinance product launched on 1 June 2003. The new product made it more cost-effective for owners of rental properties to access the equity in their properties.

CMHC continued to be a product innovator, meeting the changing needs of Canadians and the housing market. CMHC consistently invests time and resources in product research, and works with the industry to ensure our products suit their needs and those of Canadians. These innovations demonstrate how CMHC is working with the mortgage industry, non-profit organizations and First Nations to improve the quality of life for Canadians.

In 1996, CMHC led the market with the introduction of **emili**, an automated insurance risking system that moved application approval times from days to seconds.

EXPERIENCE LEADING INNOVATION

CMHC Mortgage Insurance Innovations in 2003

- Homeowner Secured Lines of Credit:** Increasingly, homeowners are using lines of credit secured by the equity in their homes as an alternative to traditional mortgages. Completely new to the industry, CMHC's insured Line of Credit facilitates access to this type of financing for loans up to 90% of the value of the home.
- Homeownership On-Reserve without Ministerial Guarantee:** CMHC also developed and announced a new insurance pilot product that is intended to increase the availability of mortgages, without the need to have the loan guaranteed by the Minister of Indian and Northern Affairs Canada, for eligible borrowers on-reserve who are constructing, purchasing or renovating a home.
- Rental Refinance:** CMHC's new insured Rental Refinance product was a success, providing rental property owners with the opportunity to access low-cost funds so they can, among other things, invest in their properties or build and acquire more rental housing.
- New Rental Product Enhancements:** Enhancements were introduced to make rental refinancing more accessible and affordable. Rental borrowers can now take up to 40 years to pay back their mortgages allowing them to obtain larger loans. In addition, for new construction, they can access the full amount of their loan when all of the units are rented. For smaller projects, CMHC will waive or replace bonding requirements where there is an acceptable alternative.

This on-line system also made the risk assessment of the application more precise. Through past innovations such as **emili**, and the experience gained through its use, CMHC was able to pass on the benefits to Canadians in the form of lower premiums, making homeownership more affordable. In July of 2003, CMHC introduced premium reductions giving homebuyers, on average, a 15% reduction in homeowner mortgage loan insurance premiums.

In September of 2003, CMHC eliminated house price ceilings for all homeowner mortgage loans across Canada, enhancing accessibility to mortgage financing and streamlining the administration for homebuyers and lenders alike. With this important change, consumers now have the ability to purchase the home of their choice, with as little as 5% down. CMHC provides its mortgage insurance products in communities across Canada, including rural and northern areas, single industry towns and on-reserve, thus helping to create a higher quality of life for all Canadians. CMHC is also the only mortgage insurer of loans for chattels, rental accommodation and for nursing and retirement homes. In 2003, CMHC support for insured mortgage financing in these areas continued to represent about a third of its overall mortgage insurance activity.

Assisted Housing

Direct Lending Program

CMHC's Direct Lending Program, which marked its 10th Anniversary in 2003, continues to generate government subsidy savings for social housing, with interest

rates consistently below market rates. Since its inception in 1993, the program has funded 10,631 projects totalling approximately \$11.3 billion.

New Direct Lending business includes on-reserve new construction loans and other existing on-reserve and social housing loans. Total new loan financing was \$94 million in 2003, comprised of 167 new on-reserve construction accounts, totalling \$71 million, and 68 other existing on-reserve and social housing loans, totalling \$23 million. New Business activity was below Plan mainly due to lower than anticipated lending for on-reserve and federal/provincial funding.

Subsequent Renewal activity, at approximately \$1.78 billion in 2003, was equal to Plan and to 2002 levels.

Public Private Partnerships

Established in 1991, the Canadian Centre for Public Private Partnerships in Housing (CCPPPH) is a network of housing experts offering information, expertise and other tools to potential housing providers to facilitate the production of housing. The mandate of the Partnership Centre was revised in 2003, complemented by new and expanded tools for non-profit and private sector housing proponents who plan to develop housing.

While CMHC's public-private partnership activity in 2003 was slightly below 2002 levels, it almost doubled 2003 planned volumes. As in 2002, long-term care projects (nursing homes) in Ontario were a major contributor to the CCPPPH volumes, accounting for 2,011 units. The effect of Ontario nursing homes on CCPPPH volumes

Individuals, Communities and Governments Working Together to Make a Difference

The official opening of Riverside Meadows in July 2003 was an important step forward for the community of Red Deer. As the second project to be completed under the Canada-Alberta Affordable Housing Agreement, the initiative represents the efforts of many partners. The federal government, through CMHC, partnered with the provincial government, Riverside Meadows, P&S Investments, the Canadian Mental Health Association, and the David Thompson Health Authority to create 39 new rental units for single parent families, working couples, and individuals in Red Deer.



CMHC INNOVATIONS IN 2003

The package of new and enhanced partnership tools included more flexible underwriting criteria for affordable housing projects insured through CMHC mortgage loan insurance that took effect on 2 June 2003. The outcome has been positive. In the second half of 2003, almost 3,300 partnership units were financed with CMHC insured mortgage loans compared to only 1,500 in the first half of the year. Another component of the package of tools, the new Seed Funding program, is also generating significant interest from housing proponents. Of the 356 applications received during the 2003 proposal call, 240 were selected to receive up to \$20,000 each in a combined grant and loan to assist in the early stages of proposal development for an innovative, community-based or affordable housing project.

is expected to diminish over the next two years as the provincial initiative to add thousands of new nursing beds across the province winds down.

Federal-Provincial Affordable Housing Program Agreements

Affordable Housing Agreements have now been signed with all provinces and territories, covering the full \$680 million in federal funding over five years, with matched contributions from the provinces, territories and

others. Since the program's inception, provinces and territories have reported commitments of approximately \$220 million, representing some 10,000 units, and expenditures of federal funding totalling \$185 million or 27% of the initial federal commitment by the provinces and territories to date.

The 2003 Federal Budget announced an additional \$320 million over five years to enhance the existing Affordable Housing initiative with the provinces and territories, bringing the Government of Canada investment in the Affordable Housing Program to \$1 billion by the end of 2007–2008.

Research

CMHC helps strengthen Canada's social foundation through housing research related to specific populations with distinct housing needs, including Aboriginal people, homeless people, low-income people, people with disabilities, and seniors. In 2003, CMHC collaborated with Canada's Safety Council to develop the *Maintaining Seniors' Independence Through Home Adaptations* self-assessment guide. The guide has proven to be a high-demand item, particularly among occupational therapists. CMHC is also involved in research on the state of knowledge on housing discrimination in Canada and the role of housing as a contributor to social cohesion and inclusion. In total, 22 research projects were completed in 2003 with the overall objective of helping to improve housing choice and affordability for Canadians.

Community Building Through Affordable Housing

CMHC hosted the 2003 Affordable Housing Forum in Ottawa to create a venue for members of the community to come together under one roof to discuss affordable housing and partnerships. The event drew approximately 200 people from the private, nonprofit, and public sectors. CMHC presented its public-private partnership enhancement products and other Assisted Housing programs, in addition to promoting many research products related to affordability. The event was highly successful and helped to position CMHC as a strong community partner.



OBJECTIVE TWO

Improve Housing and Living Conditions for Canadians

Through research and direct housing assistance, CMHC works in conjunction with government partners, community housing organizations and First Nations to help provide affordable housing for low-income Canadians, improve building performance and preserve the existing housing stock.

Sampling of 2003 Planned Activities

- Provide funding for housing renovation and repair, and housing construction.
- Research and disseminate information on housing performance, maintenance practices and inspection standards.
- Work towards integrating Healthy Housing™ principles into public-private partnerships and Aboriginal housing projects.
- Develop and disseminate solutions to problems related to infrastructure and housing in First Nations.
- Investigate and disseminate information on indoor air quality.
- Encourage sustainable community development, particularly in relation to energy efficiency and climate change.
- Promote the technical competence of First Nations housing managers and industry professionals.

Corporate Performance Measures

	2004 PLANNED	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
ASSISTED HOUSING NEW COMMITMENT UNITS					
On-Reserve Non-Profit Units	852	968	877	110%	1,050
Residential Rehabilitation Assistance Program (RRAP)	16,570	12,224	11,406*	107%	14,700
Emergency Repair Program (ERP)	2,148	2,984	2,212*	135%	3,200
Home Adaptations for Seniors' Independence (HASI)	4,528	1,757	2,967*	59%	4,975
Shelter Enhancement Program (SEP)	838	1,502	1,184*	127%	1,975
ABORIGINAL CAPACITY DEVELOPMENT					
Native Inspection Services Initiative: percentage of inspections carried out by Native inspectors	80**	85	85	100%	88
Commitment to Housing Internship Initiative for First Nations and Inuit Youth (in millions of dollars)	1.00	0.94	1.00	94%	1.28

* Planned volumes for renovation programs (RRAP, ERP, HASI, SEP) were revised following the federal budget announcement extending CMHC's renovation programs.

** For the 2004 planned calculation, CMHC has included other capacity development services (RRAP delivery and service contracts paid to Aboriginal organizations and providers), resulting in an adjustment downward by 5%.

Building a Sustainable Future for Communities

The Seabird Island project, located in British Columbia on the Fraser River, is the first of its kind. In a partnership with CMHC, the Seabird Island First Nation along with many sponsoring suppliers and manufacturers is demonstrating unique options to build affordable and sustainable housing. Innovative features of the project include solar thermal metal roofs, geothermal “earth tubes,” wind-generated power and mold resistant recycled building materials which showcase Healthy Housing™, FlexHousing™ and sustainable community planning while honouring Aboriginal cultural traditions.



ANALYSIS OF RESULTS

Assisted Housing Programs

On-Reserve Non-Profit

CMHC creates opportunities for Aboriginal Canadians by assisting First Nations in the construction, purchase and rehabilitation, and administration of suitable, adequate and affordable rental housing on-reserve. The federal government continues to fund new on-reserve commitments under the On-Reserve Non-Profit housing subsidy program. Actual delivery in 2003 exceeded planned units due in part to the actual interest rates being lower than the interest rate forecasts used for planning purposes. This resulted in lower per unit subsidy costs, allowing more units to be committed under the same budget.

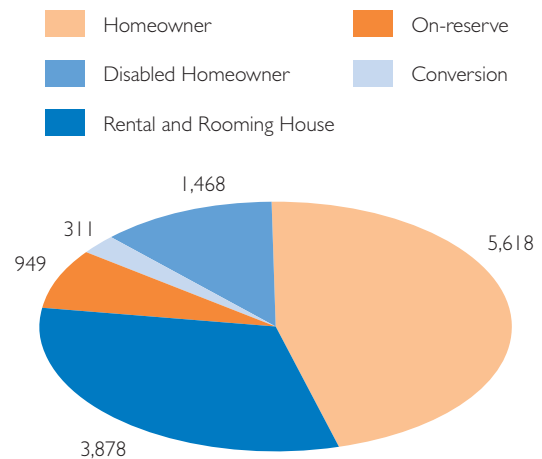
Renovation Programs

The 2003 federal budget announced a \$384 million extension of CMHC’s renovation programs over three years. This extension followed a national consultation and evaluation that demonstrated the programs’ success in preserving the supply of low-cost housing and benefiting low-income Canadians, including on-reserve Aboriginals. Building on the success of the renovation programs, various enhancements were introduced on 1 July 2003, including increases to the maximum program assistance levels, and elimination of the sliding scale used to determine assistance levels, resulting in access to maximum assistance by all qualifying households and the elimination of repayable loans for new commitments.

Delivery of total renovation program units in 2003 was slightly above Plan, with continued high volumes in the RRAP program. Home Adaptations for Seniors Independence volumes were below Plan due to reallocations to other programs.

Delivery of RRAP Programs

(Units)



Aboriginal Capacity Development

CMHC provides funding, expertise and leadership in the area of Aboriginal Capacity Development tied to the housing sector. For example, CMHC's Native Inspection Services Initiative (NISI) works closely with the Native inspection sector. In 2003, NISI inspectors carried out approximately 85% of CMHC On-Reserve Non-Profit program inspections.

CMHC was instrumental in the incorporation of the First Nations National Building Officers' Association (FNNBOA), signalling the First Nations technical services industry's movement toward a professional association. In support of Aboriginal capacity development, CMHC also held a number of conferences and symposia on topics such as Healthy Housing, Indoor Air Quality/Mold, Flex Housing, and staged related demonstration initiatives, such as the Seabird Island project in British Columbia, highlighted on page 19. Training workshops were offered in a number of housing management areas, including arrears management and physical condition reviews. Work continued on the national First Nations Housing Management Curriculum, scheduled for testing in 2004.

CMHC continued to be visible in its support for Aboriginal youth. The Housing Internship Initiative for First Nations and Inuit Youth (HIIFNIY) was successfully extended as part of the federal Youth Employment Strategy, with CMHC committing \$940,000 under HIIFNIY in 2003. A one-time additional funding amount of \$280,000 committed in 2002 accounts for the lower levels of funding in 2003 over 2002.

Research

Under the Kyoto Protocol, Canada is committed to reducing greenhouse gas emissions by 6% below 1990 levels by 2012. Given that approximately 30% of our total energy consumption is for residential end uses in the home and in the community, the housing sector has a role to play in this national effort. In 2003, CMHC completed 17 research projects that addressed climate change, covering topics such as heating/ventilation systems, green building guidelines, sustainable housing design and energy retrofits. A further 26 projects are planned for 2004. CMHC also takes a leadership role in advancing healthier living environments in Canada. With CMHC support, the non-governmental organization, *Healthy Indoor Partnership* (HIP), was launched in 2003 to engage private, public and not-for-profit sectors on the indoor environment issue and ultimately improve indoor environments in Canada.

Several Corporate publications, providing information to consumers and housing industry professionals, were particularly well received in 2003, including *Canadian Wood-Frame House Construction*, the ongoing number one best-seller for CMHC, and the *Condominium Buyers' Guide* introduced in March. In total, 35 research projects were completed in 2003 and 1,125,000 information products were disseminated across the country in support of the Corporate objective to improve housing and living conditions for Canadians.

Sharing Best Practices: Helping Communities Help Themselves

CMHC improves housing and living conditions by sharing knowledge on best practices for sustainability and community well-being. In 2003, Sustainable Planning and Development Workshops for Small Communities were delivered to participants representing over 60 municipalities. Tailored to the needs of municipal decision-makers, the workshops are based on the CMHC advisory document, *Practices for Sustainable Communities*, and the results of CMHC's sustainable community planning research. Elected officials, planners and administrators learn about issues, proven approaches, and case study examples from other small communities across Canada.



OBJECTIVE THREE

Support Market Competitiveness, Job Creation and Housing Sector Well-Being

CMHC is a leader in innovation, using the best in technology and the latest information to respond to industry and consumer housing needs. Internationally, CMHC uses its products, services and expertise to help increase housing exports and other business opportunities, and acts in a consulting capacity in support of foreign housing markets.

Sampling of 2003 Planned Activities

- Improve access to secondary mortgage markets.
- Ensure an adequate supply of low-cost funds for mortgage lending.
- Enhance service quality and efficiency.
- Assist clients in expanding their international business abroad.
- Increase international awareness of the Canadian housing system and sell CMHC's expertise abroad.
- Research, develop data and transfer information to improve market effectiveness.
- Collect, analyze and disseminate housing market information to facilitate informed housing decisions.

Corporate Performance Measures

	2004 PLANNED	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
MORTGAGE INSURANCE					
Operating Expense Ratio (percentage)	16.1	13.9	17.1	-3.2 p.p.	14.8
SECURITIZATION					
Annual Securities Guaranteed (in millions of dollars)	15,000	27,017	15,000	180%	20,642
Operating Expense Ratio (percentage)	17.4	15.2	19.0	-3.8 p.p.	20.0
CMHC INTERNATIONAL					
Value of contracts signed by clients in priority countries (in millions of dollars)	55.00	70.55	42.00	168%	55.00
Revenues from selling CMHC's expertise abroad (in millions of dollars)	1.26 to 1.95	1.676	1.859	90%	1.024

ANALYSIS OF RESULTS

Mortgage Insurance

Not only does housing help create a strong social foundation, it also serves as an important economic driver. In 2003, CMHC demonstrated its support for market competitiveness and economic growth by providing outstanding service to its clients, and creating new business opportunities for the mortgage industry.

Focusing on operational efficiency and technological innovation, CMHC continued to improve the speed, efficiency, and cost effectiveness of its mortgage insurance business while maintaining high standards of risk management and quality control. CMHC's technology provides fast, efficient solutions in meeting the housing finance needs of Canadians.

CMHC's automated mortgage approval system, **emili**, processes virtually all homeowner mortgage loan insurance applications submitted to the Corporation. Combining the latest technology with a highly trained and responsive workforce in all regions of Canada, CMHC has continued to provide high levels of service and quick turnaround on mortgage insurance applications. CMHC continued its rollout of two cost-effective solutions for lenders in 2003 — **emili** Low Ratio and **emili**CLAIMS. **emili** Low Ratio provides lenders with an immediate assessment of insurability along with the benefits of **emili** application risk assessment for loans where the loan-to-value ratio is less than 75%. **emili**CLAIMS provides lenders with an electronic platform for the transmittal of homeowner mortgage insurance claims to CMHC.

Securitization

CMHC ensures that there is a steady source of readily available funds for Canadian homebuyers by providing a timely payment guarantee on Canada Mortgage Bonds (CMB) and NHA Mortgage-Backed Securities (MBS). In 2003, both MBS and CMB were significantly higher than Plan (by 255.6% and 43.8%, respectively) despite the CMB Program still being in its infancy, having only been launched in June of 2001. The strong performance of both the CMB and MBS products has increased total Guarantees in force to approximately \$60 billion, which represents an increase of 32% over the amount outstanding at the end of last year. The strong increase in Securitization activities continues to position CMHC as the leader in mortgage securitization in Canada, where four of five securitized mortgages are facilitated under CMHC programs.

In 2003, the CMB program benefited from strength in both the bond market and housing market — sources of supply and demand were robust. The product provided funds at rates that were competitive (average 13 basis point spread with 5-year GOCs) with other sources of funds during the year. As the program matures,

EXPERIENCE LEADING INNOVATION

CMHC Securitization Innovations in 2003

Variable Rate Mortgage-Backed Securities (VRMBS):

CMHC announced an important enhancement to the NHA MBS Program, with the introduction, on a pilot basis, of a new pool type to facilitate the securitization of standard variable rate mortgages within the CMB Program. Eligible CMB pool types had been confined to fixed rate mortgages. As a result, the options for using NHA MBS and CMB as financing vehicles have been expanded, thereby enhancing the attractiveness of CMB as a funding vehicle and further establishing it as a key program in making low-cost mortgage funds available through secondary mortgage markets.

CMHC anticipates further tightening of these spreads. The latest CMB issue amounted to \$10.3 billion (issued in September and reopened in December 2003). Each of these issues became the largest ever single tranche syndicated Canadian dollar bond issued. Total CMB outstanding at the end of 2003 stood at \$35.2 billion.

MBS products benefited from tighter spreads in 2003 — investors found the higher yield (average spreads of 23 to 33 points over 5-year GOCs) attractive despite the uncertain cash flows inherent in MBS. Financial institutions also use the 5-year MBS product as collateral for the Large Value Transfer System (LVTS).

CMHC International

Building on Canada's history as a trading nation, CMHC actively supports Canadian businesses in their search for new housing export opportunities in selected, high-potential markets such as the United States, the United Kingdom, France, Mexico, and China. The Corporation provides promotional support, offers matchmaking and training, helps to secure approvals from warranty and regulatory agencies, and provides technical assistance.

The client approach adopted by CMHC in 2002 has enabled CMHC trade advisors to develop strategies tailored to clients' needs, resulting in significant increases in housing export volumes for CMHC clients. In 2003, the value of international contracts signed by CMHC clients was 68% above Plan and 28% above 2002 despite adverse conditions for Canadian exporters and the rapid appreciation of the Canadian dollar.

The United Kingdom is Canada's fastest-growing export market after the United States. In 2003, Canada secured further acceptance of Canadian housing and building systems in the United Kingdom, such as Super E® technology that promotes energy efficiency standards, system approval of export packages, and a streamlined certification process for certain building products. Acceptance of Canadian systems and standards means more opportunities for housing exporters, and greater opportunities for Canada to build closer economic ties with the rest of the world. Several successes were also realized in the Chinese market in 2003, most notably the revision of its timber design code to be more compatible with Canadian wood-frame construction.

CMHC is also gaining recognition as a global provider of housing finance solutions. Through its consulting services, CMHC conducts market research and analysis, policy development and program evaluation, operational training and capacity building. Revenues from consulting services in 2003 were slightly below Plan due to a delay in a project with the National Housing Bank (NHB) of India to create and participate as an equity partner in the India Mortgage Guarantee Company (IMGC). The high-end of the International revenue target for 2004 in the preceding table represents CMHC's expectation if India-related revenues come on stream, while the low end represents further delays to the project. New contracts in 2003 for projects in Algeria and Romania helped boost revenues by more than 60% above 2002 levels — a best ever performance for this business line, despite the setback on the India project.

Canadian Design in Japan

With assistance from CMHC, Demtec International Inc., a well-known Quebec developer of panelized housing, is currently making its mark in Japan and bringing the best of Canadian housing technology to that country. November 2003 saw the opening of the Demtec International Inc. model home and the official inauguration of its new residential project in Kokura City, Kyushu Island, Japan.



Research

In support of competitiveness and housing sector well-being, CMHC research is helping the industry understand the factors that affect housing affordability. Eight research projects were completed in 2003, including CMHC's recent research on the affordability impact of levies, fees and taxes on new housing. Additional industry concerns include issues surrounding builders' risk and liability insurance, particularly related to the high cost of obtaining adequate coverage and carryover effects on housing affordability, and the growing problem of mortgage fraud in some parts of Canada. In response, CMHC commissioned a national study on pre- and post-construction insurance and a study on land title conveyance practices and existing recourse mechanisms available to victims of mortgage fraud.

Market Analysis Centre

Information and effective communication are key components of sound business decisions, which in turn lead to a more efficient economy. In 2003, the Market Analysis Centre continued to collect, analyze, and disseminate information to facilitate informed decisions by housing market participants, thereby contributing to the efficiency of the housing sector. With the housing sector's share of the overall Canadian economy growing, demand for housing market information is also increasing. Almost 40,000 market analysis information products were distributed in 2003, with policy makers, builders, lenders, realtors and consumers among those benefiting from CMHC information, analysis and forecasts. The Housing Outlook Conferences and seminars, offering key players in the housing market the opportunity to meet CMHC's experts, are also growing in popularity. Record numbers attended in Halifax, Quebec City, Montreal, Edmonton and Vancouver, helping overall attendance at the Housing Outlook Conferences and seminars reach 6,700 in 2003, up 9% from 2002.

10th Anniversary of Housing Outlook Conferences Draws Record Attendance

CMHC's annual Housing Outlook Conferences have become a "must" for industry stakeholders. By providing accurate analysis of trends and reliable forecasts, CMHC continues to position itself as a key housing reference for industry professionals. Since these conferences provide excellent opportunities for networking and, in most cases, count towards professional accreditation, CMHC is also contributing to the participants' business and professional development. Not only are the conferences well attended, they are also well covered by all types of media, further demonstrating that CMHC is the most reliable source of information on housing markets.



OBJECTIVE FOUR

Be a Progressive and Responsive Organization

CMHC actively encourages a corporate culture of innovation, which constantly strives to improve its business operations and management practices to better serve the needs of clients and all Canadians. As Canada's National Housing Agency, CMHC also works on the Government of Canada's policy priorities related to housing.

Sampling of 2003 Planned Activities

- Continue to evolve Enterprise Risk Management (ERM) and enhance CMHC's treasury/risk management systems.
- Leverage technology for operational efficiencies.
- Launch *Canadian Housing Observer*.
- Increase the visibility, understanding and awareness of CMHC.
- Work together with other housing-related organizations and government departments to promote improved housing.
- Ensure organizational capacity through recruitment, retention and succession management.
- Ensure a bilingual, representative workforce and promote a learning culture.
- Foster a supportive organizational culture founded on CMHC's core values.

Corporate Performance Measures

	2004 PLANNED	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
TECHNOLOGY					
Technology Reliability Index for Key Systems (percentage)	99.7	99.7	99.7	100%	99.7
Operating budget spent on information technology (percentage)	16	16.4	15	+1.4 p.p.	19
MARKETING CMHC					
Overall awareness of CMHC (percentage)	78	77	N/A	N/A	77
Unaided awareness of CMHC (percentage)	19	19	N/A	N/A	17
HUMAN RESOURCES					
Training investment per staff (in dollars)	2,816	2,637	2,621	101%	3,215
Staff fulfilling language requirements (percentage)	100	99.7	100	-0.3 p.p.	93

ANALYSIS OF RESULTS

Enterprise Risk Management

In 2003, the Corporation continued to build on recent successes in Enterprise Risk Management. An update to the Corporate Risk Landscape, completed in fall 2003, clearly demonstrated improvements in nine of thirteen risk categories, including all high-risk areas identified in the original landscape exercise in fall 2001. Fifteen formal risk assessment workshops were also completed throughout the Corporation, resulting in the identification and prioritization of action themes that are reflected in corporate and business planning activities.

Marketing CMHC

Increasing the visibility, recognition and awareness of CMHC programs and services to housing sector participants and Canadians, in general, remains a priority for the Corporation. In 2003, CMHC's marketing campaign yielded the best results since its launch, with more calls to CMHC for information on its products and services, more Web site visits and strong media pickup of CMHC news items. Overall unaided awareness of CMHC, also known as "top-of-mind" recall by survey participants, increased to 19% in the spring of 2003 from 17% in the spring of 2002.

Research

This year marked the launch of a new CMHC annual publication, the *Canadian Housing Observer*. This flagship publication provides a comprehensive overview of Canadian housing conditions, trends, and the key factors behind them, thereby creating a foundation for informed discussion of housing matters in Canada. An on-line version contains electronic links to more detailed housing data for provinces, territories and Canada's major metropolitan areas.

In 2003, CMHC continued to participate in the federal government's Voluntary Sector Initiative, providing two-year funding of \$420,000 to Frontiers Foundation Inc. and Habitat for Humanity Canada to build sector capacity, and provide opportunities for sector input to CMHC to improve housing choice and affordability. In 2003, Habitat for Humanity Canada hosted Canada's first National Summit on Affordable Homeownership to share ideas and solutions to make homeownership more affordable, and hold preliminary discussions on creating an Affordable Homeownership Policy Network.

"On behalf of the Province of Nova Scotia, I would like to take this opportunity to applaud CMHC for making this new publication [the *Canadian Housing Observer*] available. Information such as that contained in the Observer is particularly valuable to those Provinces unable to undertake such research projects. Staff will find the Observer to be an important resource when planning for the housing needs of the future."

Marian F. Tyson
Deputy Minister of Community Services
Nova Scotia



CMHC's Housing Observer and other CMHC housing-related research products can be found on our Web site: www.cmhc.ca

CMHC Achieves Strong Results in Official Languages

CMHC can take pride in its accomplishments in Official Languages. By year-end, 99.7% of CMHC employees with a 2003 deadline were successful in meeting the official languages profile of their position. The Corporation was also cited as a “success story” by the Commissioner of Official Languages because of its innovative human resources practice of integrating official languages into the skills profile of positions.



Human Resources

Realizing that the strength of CMHC rests in its employees, the Corporation ensured organizational continuity by addressing succession management and employee development. While each region and sector undertook succession management activities at all levels, CMHC also remained a significant investor in employee development. A significant proportion of all learning investments (29%) helped the Corporation meet its official languages target, while an additional 29% of total learning investments supported individual continuous learning and 42% supported corporate learning priorities. Learning investments in 2003 were lower than in 2002 due to a reduction in the level of resources required to support official languages training. In 2003, decisions

were taken by senior management to more closely align learning investments to CMHC’s key business priorities. These decisions will ensure that CMHC’s learning investments are channeled to the leadership development and business needs of the Corporation. CMHC’s commitment to a diverse and representative workplace supportive of our core values was also renewed at our 8th Annual Diversity Forum, which took place in November. The Forum created an opportunity for managers and employees to engage in a dialogue on ways in which CMHC can leverage its values to succeed in business on all fronts — from fostering a diverse workforce, to meeting the varying and evolving needs of Canadians.





MANAGEMENT'S
DISCUSSION AND ANALYSIS

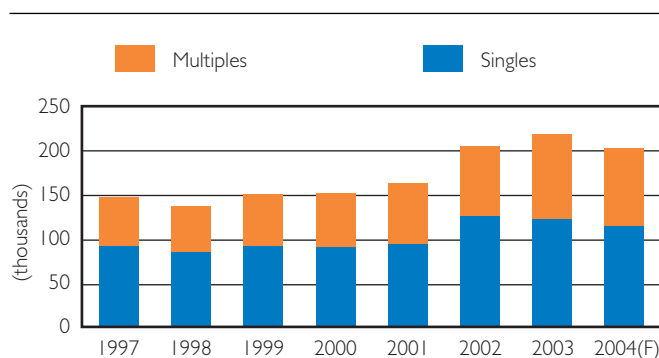
MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF THE OPERATING ENVIRONMENT

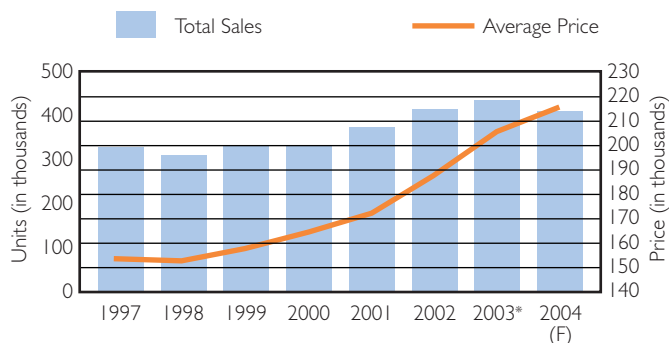
The Economy

Economic uncertainty has dominated global forecasts since the events of 11 September 2001, but an economic revival in the United States, which began in the second half of 2003, is expected to spur on a global recovery. For Canada, 2003 was marked by successive crises, which weakened gross domestic product (GDP) growth and lowered productivity. Real GDP grew 1.7% in 2003, in sharp contrast to the 3.3% GDP growth achieved in 2002. A stronger than anticipated Canadian dollar in 2003 contributed to slower economic growth and weak export volumes that declined 2.1% over the year. The outlook, however, is more upbeat as the economy rebounded strongly in the fourth quarter, advancing 3.8% (annualized), largely on renewed strength in exports. As the interest rate gap between Canada and the US continues to narrow in 2004, lessening the attractiveness of the Canadian dollar over the medium-term, exports should continue to advance. Overall, GDP growth is expected to strengthen in 2004, rising to 3.0%. Uncertainty about the future value of the Canadian dollar, and its impact on trade and economic growth, however, will remain a business environment risk.

Canada: Total Housing Starts



Total MLS Sales and Average Resale Prices



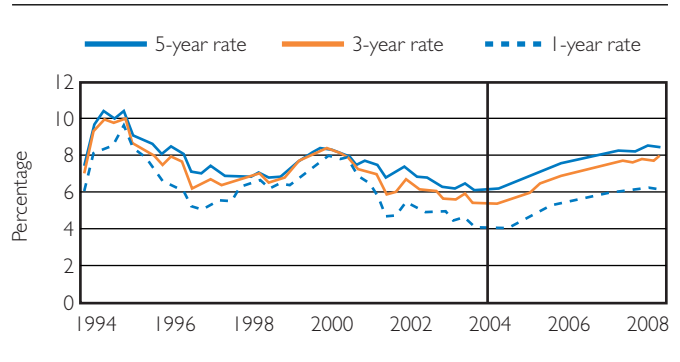
Source: CMHC

* Canadian Real Estate Association

Housing Markets

Despite the slow economy, housing markets exceeded expectations in 2003, building on the strength of the past few years. Whereas it took nearly a decade, from 1990 to 1999, to realize a \$5 billion increase in absolute spending, residential investments and repairs grew by a total of \$30.3 billion between 1999 and 2003. Housing starts have also been climbing quickly, and, this year, reached their highest level in 14 years. Single starts were down slightly from last year, but multiple starts (mostly condominium apartments) were up 19.5% from 2002. The resale market was also much stronger than expected, reaching an all-time high of 438,968 units in 2003.

Posted Canadian Mortgage Rates

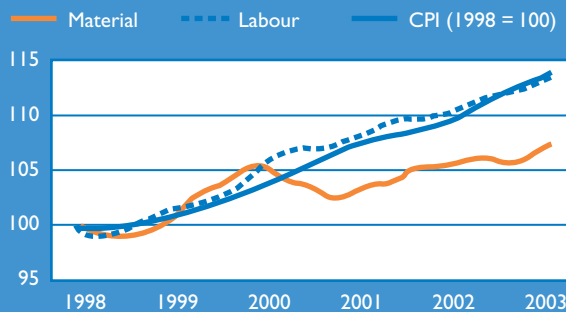


Supply and Demand Driving Up Prices

Labour and material costs do not appear to be large contributors to rising house prices. Despite the strength of new construction and price increases that exceed the rate of inflation, overall labour and material costs have increased at modest rates in recent years. In 2003, material costs were up by 1.8%, while wages for skilled labour were up by 2.5% — a relatively modest increase given the emphasis on labour shortages in recent years.

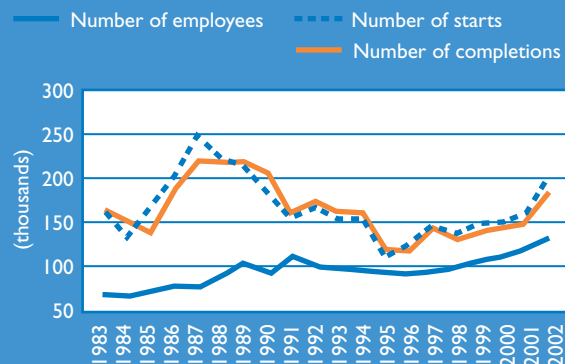
On a national basis, there is no obvious statistical indication that the number of employees in the residential building industry is not generally keeping pace with the number of annual housing starts and completions. However, in certain local markets there is evidence of labour shortages for key trades, such as drywallers, carpenters and bricklayers.

Construction Cost Indices
January 1998 – September 2003



Source: Statistics Canada

Employees, Starts and Completions



Strong housing markets have benefited CMHC's insurance business in recent years. Total residential mortgage credit outstanding grew 8% (year-over-year) in the third quarter of 2003 to reach \$525 billion. Of this amount, CMHC's Insurance in Force has been climbing steadily, reaching an estimated \$230 billion in 2003. The economic environment is also currently very favourable in terms of mortgage arrears, with the percentage of mortgages in arrears declining steadily for the past decade. CMHC has taken advantage of this continued health in housing markets by focusing considerable effort and resources into areas such as product development, client services, and the development of new programs as part of our public policy mandate.

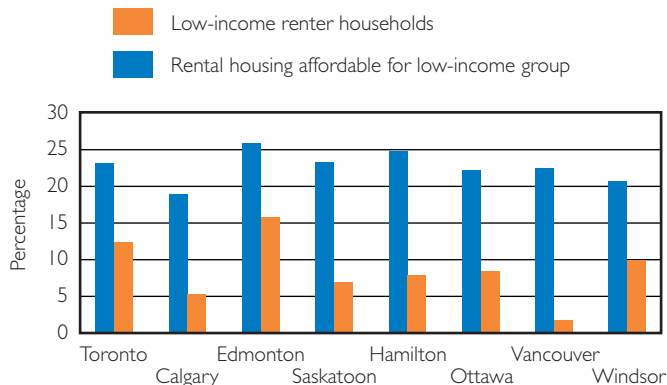
Going forward, the outlook for housing markets is still upbeat. While the industry is expected to slow down in 2004 — with CMHC forecasting total housing starts to decline 6.6% to 204,000 units, and resales to fall by 4.2% — historically low mortgage rates (forecast to rise by only 0.25% to 0.75% in 2004), stable labour markets, and expected income growth will continue to support the demand for housing.

In addition, housing resale prices, which increased more than three times the rate of inflation in 2003 (9.6%), will moderate slightly as supply catches up to demand. However, the projected gradual increases in interest rates and continuing high housing prices in some markets could make housing less affordable. This factor, coupled with slower household growth and a diminished pool of renters moving into homeownership, will continue to moderate homeowner insurance volumes in 2004 and beyond.

Affordable Housing

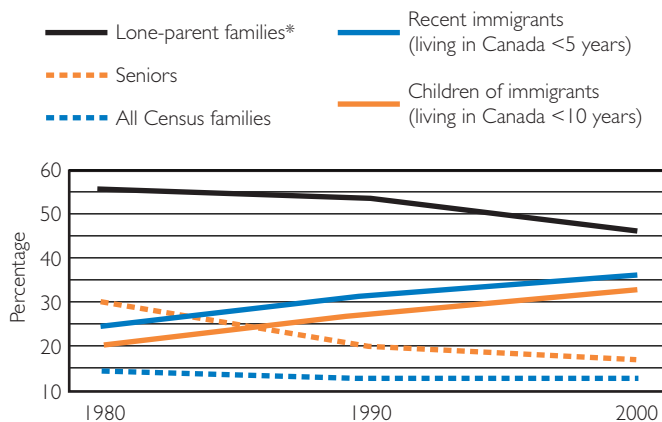
A strong housing market and increasing rental vacancy rates in the past two years have not benefited all Canadians equally. Average vacancy rates in Canada's largest urban centres rose from 1.7% to 2.2% in 2003, but renters in the lowest rent quintile faced an average rent increase of 2.7%. Those in the highest rent quintile saw their rents decrease by 0.5%. A housing affordability gap is apparent in many urban centers, where a high proportion of low-income renter households lack affordable rental housing.

Housing Affordability Gap in CMAs



Taking into account variations between regions and within local markets, on the whole, housing has become more affordable for the majority of Canadians. The proportion of Canadian households experiencing core housing need — which measures the adequacy, suitability and affordability of housing — declined from 17.9% in 1996 to 15.8% in 2001. Among specific households, the number of renter households (native and non-native) living in core need declined 12.4% and the number of lone-parent families in core need (renters and

Percentage of families/individuals in low income



* with at least one child under 18 years
Source: Statistics Canada 2001 Census Analysis Series

Contributing to Aboriginal Capacity Development

Helping to improve the quality of life on-reserve is a high priority for CMHC. In 2003, we helped make history with the certification of the first Aboriginal Indoor Air Quality Investigator. The certificate program, sponsored jointly by CMHC and Indian and Northern Affairs Canada, aims to train qualified individuals to investigate indoor air quality problems in residences, ultimately contributing to improved living conditions in First Nations communities.



owners) dropped 18.7%. Despite this significant improvement, some 1.7 million Canadian households remain in core housing need, including a significant portion of senior renters living alone (53.3%).

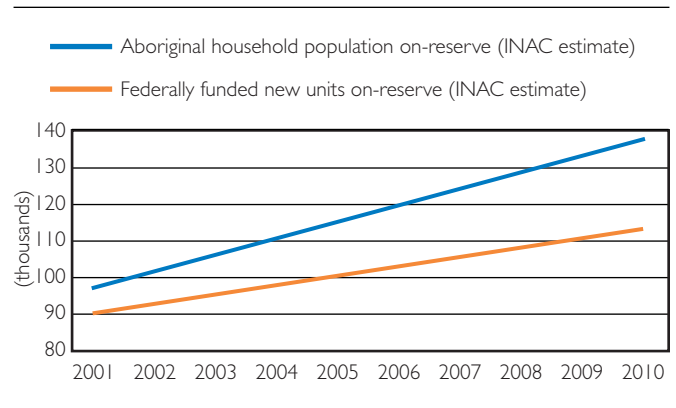
The overall improvement in core housing need is attributable mainly to the income gains that Canadians made between 1996 and 2000. Despite the gains, there is some evidence of a growing income gap. Certain population groups, namely new immigrants and their children, continue to be at risk of falling further into low income. The fact that these households are increasing in number at a much higher rate than the general population will put additional pressure on CMHC to ensure an adequate supply of affordable housing, including delivering on its Affordable Housing Program commitments.

Aboriginal Housing

Aboriginals living on-reserve face an impending housing shortage unless substantial new on-reserve housing is built to accommodate the 4,500 new Aboriginal households expected to form every year for the next 10 years.¹ While the proportion of on-reserve housing considered to be adequate (adequate is defined as the number of housing units not requiring any minor or major renovations or replacement) has increased by approximately 12 percentage points over the last decade, 44% of the stock was still in varying states of disrepair in 2001–2002, as estimated by Indian and Northern Affairs Canada.²

¹ Indian Affairs and Northern Development, Basic Departmental Data — 2001, March 2002.
² *Ibid.*

On-reserve Housing Shortfall



The housing conditions of native households living off-reserve improved notably between 1996 and 2001 — 24.8% were living in core housing need in 2001 compared to 31.6% in 1996. Nonetheless, native households were still 1.6 times more likely to be in core housing need than non-native households.

FINANCIAL ANALYSIS OF OPERATIONS

Critical Accounting Policies

The Corporation's accounting policies are integral to understanding and interpreting the financial results. The significant accounting policies used by CMHC are summarized in Note 2 to the financial statements. It is recommended that these policies be consulted in conjunction with the financial analysis that follows.

HIGHLIGHTS OF CORPORATE FINANCIAL RESULTS

- Net income reaches \$667 million.
- Lending Activity surpasses its targets.
- Insurance Activity posts another strong year.
- Securitization sees increased volumes and net income.

Corporate Financial Results

Corporate Financial Results (in millions of dollars, except staff years)

	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
Net Income	667	557	120%	544
RESOURCE MANAGEMENT				
Operating Expenses	255	286	89%	224
Staff-Years	1,799	1,850	97%	1,772

Performance

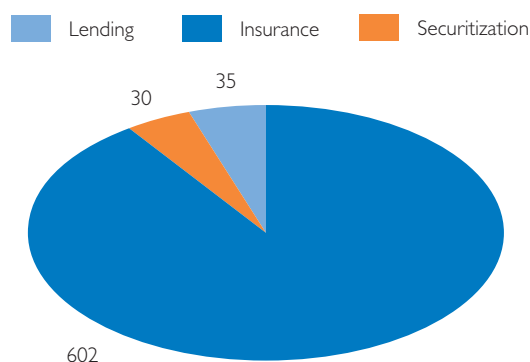
In 2003, CMHC continued to deliver solid financial results. Net income surpassed 2002's figure by 23%. This was led by strong business volumes in Insurance and Securitization, and supported by effective resource management.

Outlook

The Corporation's latest forecast for 2004–2008 predicts continued strength in financial results. Net income after income taxes, which reached \$667 million in 2003, is expected to stabilize in 2004 before rising gradually to \$786 million by 2008. Driving this growth is the expectation that revenues from insurance premiums and related investment income will continue to climb at a faster rate than insurance expenses.

2003 Net Income by Segment*

(in millions of dollars)



* Excludes Housing Program Activity which is managed on a break-even basis.

Lending Activity

The Lending activity provides loans and investments in housing programs. These assets have been financed by borrowings from the capital markets and from the Government of Canada.

The new accounting guidance issued by the CICA (Accounting Guideline 13: Hedging Relationships, also known as AcG 13), comes into effect for CMHC's fiscal year beginning 1 January 2004. AcG 13 establishes criteria that must be used to determine if a set of financial instruments constitutes an eligible hedge. If the hedge is eligible,

Lending Activity Financial Results (in millions of dollars)

	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
Net Interest Income	65	22	295%	52
Income before Income Taxes	53	3	1,766%	30
Net Income after Income Taxes	35	2	1,750%	14

Performance

The Lending activity's financial success is largely measured by its ability to earn interest sufficient to cover associated expenses. The strong results in Net Interest Income arise mainly from unplanned recoveries from the Government of Canada in both 2002 (\$27 million) and 2003 (\$33 million). The recoveries compensate the Corporation for some of the losses incurred as a result of prepayment and repricing activity in the loan portfolio. Without these recoveries, the Lending activity would have fared only slightly better than planned for 2003.

the Corporation will continue its current accounting for these transactions. If the criteria are not met, the derivative must be marked-to-market on the balance sheet, with gains and losses resulting from the changes in fair value recognized immediately in income. Compliance with the new standard may result in increased volatility of reported earnings and certain balance sheet amounts. Uncertainty in forecasting the economic factors used to calculate the future fair market values of the derivative financial instruments precludes reasonable estimation of future volatility.

Outlook

What we expect in the next five years

- New loans outweighed by repayments on existing accounts

What it means for financial results

- Decline in loan portfolio
- Narrow interest margin, which may not compensate for related expenses. This could result in an annual net loss

In the future, the Lending activity's financial results will also be impacted by new accounting guidance for derivative financial instruments. CMHC uses derivatives to manage exposure to market risks, specifically interest rate risk and foreign exchange risk, related to loans and the associated borrowings.

In preparation for the impact this volatility may have on earnings, CMHC sought and received approval to increase the legislative limit on its Reserve Fund. The Reserve Fund, which is the accumulated retained earnings of the Lending activity, is needed to guard against the risk of future losses. At 31 December 2003, the Reserve Fund stood at \$91 million compared to the limit of \$100 million. The limit has been raised to \$175 million for 2004, of which up to \$50 million is available for fluctuations in earnings resulting from AcG 13.

Sampling of 2004 Strategic Initiatives

- Explore opportunities to expand lending activities in support of the government's agenda.

Insurance Activity

In exchange for an insurance premium and application fee, the Corporation provides approved lenders with protection against borrower default on residential mortgages.

The premiums and fees collected are invested to ensure that sufficient funds are maintained to pay out future claims. An actuarial valuation is carried out annually to quantify the value of the future claims liabilities.

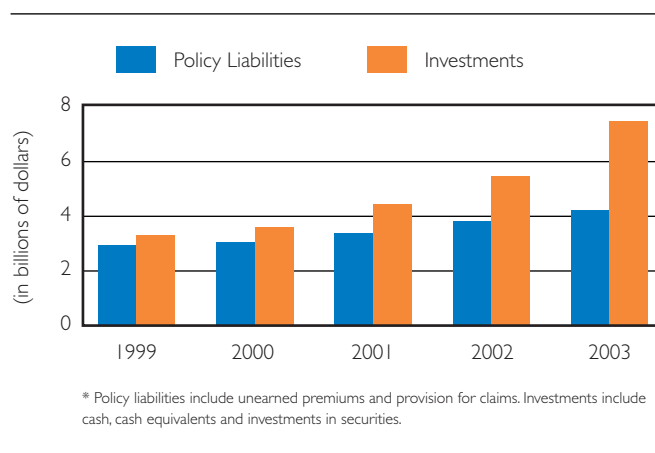
Performance

While the policy liabilities continue to grow due mainly to increased business volumes, they have been surpassed by the escalating value of the investment portfolio.

Net Income for 2003 was \$89 million higher than 2002. This growth was attributable to continuing favourable interest rates, house prices and employment levels. As well, the innovations CMHC continues to make in products, technology and insurance risk management have further contributed to strong business volumes in recent years, resulting in annual growth in revenues from premiums and fees, and to reduced losses from claims.

Innovations in new products have consistently produced approximately a quarter of overall fee revenue for Insurance over the last three years. These innovations support mortgage products that give Canadians more choice and greater flexibility of financing options for their housing needs. Technological innovations have enabled us to keep operating expenses low relative to the increases generated in business volumes. Innovations in risk

Policy Liabilities to Investments*



management, such as **emili**, and the experience gained through its use, enabled CMHC to pass on the benefits to Canadians in the form of a 15% reduction in homeowner mortgage loan insurance premiums in 2003. At the same time, CMHC maintains its commitment to provide mortgage insurance products in all parts of Canada, with a third of its approvals supporting mortgage financing in rural and northern areas, single industry towns, on-reserve, and for financing of chattel loans, rental accommodation and for nursing and retirement homes.

The Corporation continues to set aside net income to meet its targeted capital, which is based on the capital adequacy standards for federally regulated mortgage insurance

Insurance Activity Financial Results (in millions of dollars)

	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
Revenues from Premiums and Fees	915	936	98%	797
Expenses	342	495	69%	293
Income before Income Taxes	914	827	111%	796
Net Income after Income Taxes	602	536	112%	513
Retained Earnings				
– Unappropriated	0	312	0	255
– Appropriated	2,237	1,856	121%	1,380

companies set by the Office of the Superintendent of Financial Institutions (OSFI). As at 31 December 2003, CMHC met 71% of the target capital level. The increase in the capitalization ratio is due in part to the Corporation's decision in 2003 to appropriate all of the Insurance retained earnings until 100% of the target is reached.

CMHC uses Dynamic Financial Analysis (DFA) techniques to test the sensitivity of expected financial performance to changes in economic and business conditions. DFA is a sophisticated modeling tool that simulates the financial impact on the Insurance activity of alternative economic outcomes. The results of some 5,000 simulations of a range of possible outcomes for economic conditions show that, as CMHC nears 100% of its capital target, it is well positioned to manage the volatility in markets and changing economic conditions.

Outlook

What we expect in the next five years

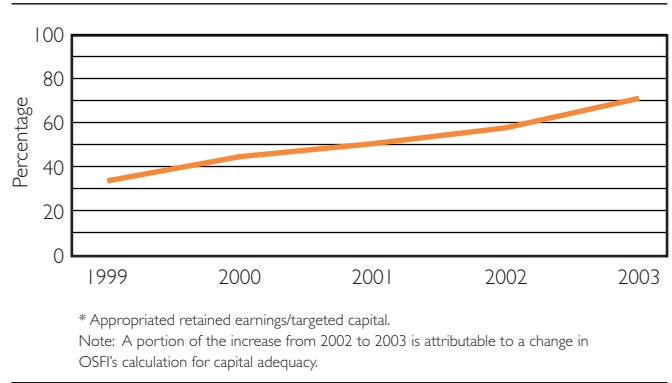
- New products and enhancements to current products
- Favourable economic and housing market conditions — stable unemployment rates, mortgage rates and house price inflation

What it means for financial results

- Increase in premium revenue because of an expansion in the range and scope of mortgage products eligible for insurance
- Continued favourable level of claims expenses
- Higher investment income as asset base increases with continued growth in net income
- Capitalization targets achieved within the next 5 years

CMHC operates in an increasingly complex and challenging environment, and continues to strive for greater product innovations and to strengthen relationships with lenders and other players in the mortgage industry. The housing finance environment is changing. Smaller financial institutions are merging to benefit from economies of scale and new competitors are entering the Canadian marketplace, including subsidiaries of foreign institutions and non-regulated financial institutions. Future technological changes and the continuation of globalization and

Capitalization Ratio*



consolidation of financial services, for example, could further impact the financial services sector. Other regulatory changes may also impact the way we do business, including the Basel II Capital Accord, which is expected to be implemented by OSFI by the end of 2006. In this environment, CMHC will remain responsive to the needs of the housing finance industry and ensure the supply of low-cost housing finance by introducing innovative new products and product enhancements, and by simplifying policies and procedures.

Our focus on developing innovations that support our mandate to help Canadians access safe, quality and affordable housing will continue in 2004 and beyond. While ensuring commercial viability, CMHC will use its mortgage insurance and securitization activities to support broader government and corporate directions.

Sampling of 2004 Strategic Activities

- Develop new energy and location efficient mortgage insurance policies in support of government directions.
- Develop and implement a product to provide more flexible downpayment options for consumers.
- Determine feasibility of a risk-sharing pilot to develop urban brownfields.

Securitization Activity

The Corporation guarantees investors the timely payment of principal and interest on securitized investments based on insured mortgages.

Performance

Net Income for 2003 surpassed expectations and 2002 levels primarily because of the high volume of NHA MBS and CMB securities guaranteed by CMHC in recent years. The CMB program, introduced in 2001, provided mortgage investors with a predictable cash flow while providing issuers rates that are competitive with other sources of funding. Most recently, piloting of a Variable Rate Mortgage-Backed Securities product has increased the attractiveness of CMB by extending the types of mortgage financing eligible for the program. In addition, the Securitization activity benefited from the resolution of an outstanding tax issue that resulted in a \$10 million tax refund. The refund decreased the current year's expenses and the effective tax rate.

Outlook

What we expect in the next five years

- Continued lender and investor interest in current programs
- Product innovations and enhancements

What it means for financial results

- Growing market share for securitized mortgages and continued growth in net income

Mortgage lenders will continue to actively target CMHC programs for securitized funding of insured mortgages.

CMHC continues to work with the Canadian financial community on developing new guarantee products and initiatives. Total annual securities guaranteed are expected to stabilize at \$15 billion. Key factors affecting the outlook will be bond market conditions and the available supply of mortgage product at lending institutions. The MBS product is expected to continue to do well in the future with continued demand for collateral product for the Large Value Transfer System (LVTS).

In 2004, CMHC will continue to evaluate the CICA's new 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. The guideline, which is effective for years beginning on or after 1 November 2004, 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.

Sampling of 2004 Strategic Activities

- Continue to develop securitization product innovations and enhancements to better serve clients and retain market share.
- Implement a standalone MBS product for standard Variable Rate Mortgage-Backed Securities.
- Implement structural innovations to gain greater CMB product flexibility and account for the changing legal and accounting environment.

Securitization Activity Financial Results (in millions of dollars)

	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
Revenue from Fees	32	26	123%	25
Expenses	1	6	17%	4
Income before Income Taxes	40	28	143%	28
Net Income after Income Taxes	30	18	167%	17

Housing Programs

The Government of Canada reimburses CMHC for payments made under the federal government's assisted housing programs and expenses for international activities, research and information transfer. The Government also reimburses CMHC for operating expenses related to housing programs.

Performance

CMHC spent \$2 billion on housing programs in 2003, 8% more than in 2002. There was increased spending in the affordable housing program, with a total of \$166 million provided to nine provinces and territories. The program, which was launched pursuant to the Affordable Housing Framework agreed on in 2001, has now provided \$185 million towards its goal of \$1 billion by March 2008.

Almost half of the \$2 billion in total expenses is provided to provinces and territories that have assumed responsibility for programs under the social housing agreements. Under these agreements, CMHC flows federal funding to the provinces and territories, which in turn assume responsibility for the programs and associated risks. Under the renovation programs, including RRAP, ERP, HASI and SEP, \$88 million was provided to benefit low-income Canadians and help preserve the existing stock of low-cost housing.

CMHC also continued its commitment to housing for Aboriginals on-reserve, providing a total of \$92 million in 2003, 3% more than in 2002. In addition, \$1 million was provided for the Housing Internship Initiative for First Nations and Inuit Youth.

Spending also supported CMHC International, which assists Canadian housing exporters, and CMHC's Research and Information Transfer activities, which provide an array of housing surveys, data, analysis and forecasts for the industry.

Outlook

What we expect in the next five years

- Continued support of current programs
- Pressure for continued spending on affordable housing and rehabilitation of existing supply of low-cost housing
- Signing of remaining Federal/Provincial/Territorial agreements to transfer administration of existing social housing portfolio

What it means for financial results

- Continued spending of approximately \$2 billion annually for the existing portfolio
- Possible additional funding to increase affordable housing and rehabilitate existing housing stock

Housing Programs Financial Results (in millions of dollars)

	2003 ACTUAL	2003 PLANNED	Results Against Planned	2002 ACTUAL
Expenses*	1,972	1,946	101%	1,828

* Planned amounts consist only of payments made under the current year appropriation; actual amounts include payments made in the current year against prior year accruals. Both planned and actual amounts exclude related operating expenses.

Assisted Housing

CMHC is well positioned to play a greater role in building strong communities by increasing the supply of affordable housing, and improving Aboriginal housing conditions on- and off-reserve to reduce the total number of households in core housing need. In the short-term, CMHC will work to further enhance existing housing programs, including the renovation programs and public-private partnership tools, expand the skills and knowledge of potential housing providers and continue to build capacity in Aboriginal housing institutions. CMHC will also work on improving the level of cooperation between federal partners through better co-ordination of CMHC and INAC housing activities on-reserve, and better co-ordinating CMHC's programs that target low-income Canadians with the Supporting Communities Partnership Initiative (SCPI) that provides funds and services to help the homeless. Longer-term solutions to improving housing conditions on-reserve may include initiatives such as the creation of a self-sustaining housing system on-reserve and a new housing program that would expand on the Urban Aboriginal Strategy (UAS).

Sampling of 2004 Strategic Activities

- Work with INAC and First Nations to improve the capacity of residential construction and renovation technical service providers.
- Assist First Nation communities to better meet their housing needs by exploring ways to increase homeownership on-reserve.

CMHC International

In terms of offering support to housing exporters, CMHC has adopted a focused approach to the United States, the United Kingdom and China, enabling CMHC to develop a more intimate knowledge and understanding of these specific export markets. The growing number of CMHC successes in securing the acceptance of Canadian systems in various markets will continue to provide housing exporters definite advantages in those countries. By working closely with our clients and developing strategies tailored to each select market, CMHC trade advisors will be able to both significantly increase housing export volumes and better track the results of these initiatives.

Through its expanding international network, CMHC will continue to secure new contracts and increase its Consulting Services revenues, as it has been doing consistently since 1998. The Corporation is diversifying its consulting activities, and expanding its ability to deliver substantive and specialized services. CMHC's participation in the establishment of the India Mortgage Guarantee Corporation (IMGC), and the business decision to invest in the new organization (subject to federal government approval), underscore this proactive approach. CMHC is positioning itself to better understand the international trends and directions of the housing finance market, the sectoral and geographic distribution of activities, as well as the other players with whom we must cooperate and compete. This knowledge will better prepare us to make informed business decisions and to develop effective business strategies for the long-term.

Sampling of 2004 Strategic Initiatives

- Increase Canadian housing exports and help clients to expand their business in promising markets.
- Promote awareness of Canadian housing systems and assist emerging economies to improve their housing environment.

Research and Information Transfer

In 2004, research will concentrate on areas that support the Government's broader agenda. Steps will be taken to align the research agenda with other members of the Environment portfolio (Environment Canada, Infrastructure Canada and Canada Lands Company Limited) and other government departments. In conjunction with Marketing and Communications divisions, efforts will continue to ensure that CMHC's research findings and publications reach consumers, relevant industry and professional groups, and policy makers (at all levels of government) whose advice may impact decisions on housing. One important component of this activity is the release, during 2004, of a series of information products related to housing derived from the 2001 Census.

In terms of housing market intelligence, existing information on housing in Canada is often incomplete and not always well understood. Data, therefore, is needed to improve the understanding of the housing sector. In response, CMHC's Market Analysis Centre will undertake a review of its survey and data activities to ensure data gaps are identified and survey operations are efficient and reflect best practices. To remain responsive to client needs for housing market information, Market Analysis will also undertake a review of its product offering to ensure the content, timeliness and delivery methods keep pace with evolving client needs.

Sampling of 2004 Strategic Activities

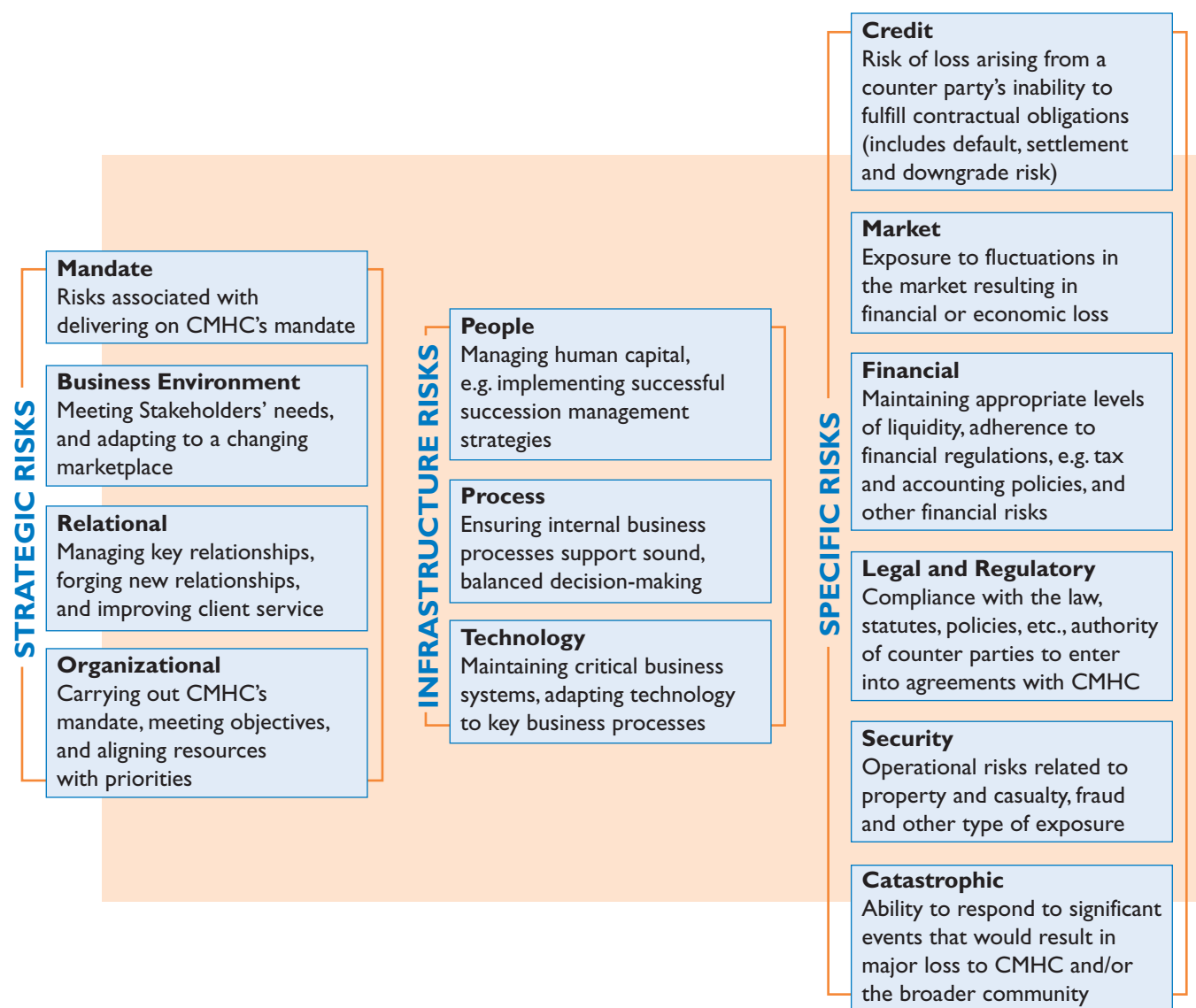
- Strengthen Canada's social foundations by examining the housing circumstances and needs of "at risk" groups (e.g. the disabled, immigrants, Aboriginals).
- Assess the applicability of community planning tools and approaches to rural and remote communities.
- Examine issues such as residential intensification, barriers to potential redevelopment of brownfield sites and urban infrastructure.
- Explore ways to reduce residential energy consumption and examine alternative methods to supply and treat residential water.
- Examine issues related to innovation and productivity, housing finance, and housing system failure and research the various factors affecting housing cost.
- Explore data sources that could contribute to a better understanding of the state of Canadian housing.

RISK MANAGEMENT

As part of its corporate governance, CMHC has adopted an Enterprise-wide Risk Management (ERM) framework. ERM is a tool that helps senior management and the Board of Directors to systematically and comprehensively assess the challenges and opportunities facing CMHC, and to provide relevant strategic direction. Incorporating ERM into regular business practices continued as a major

focus during 2003. The Corporation has made significant progress by building on previous initiatives to integrate risk identification and assessment into its corporate planning, reporting, performance measurement and resource allocation processes.

The ERM framework is organized into three broad categories: strategic, infrastructure, and specific. These categories are further broken down into a landscape of thirteen corporate risks, as illustrated in the following chart.



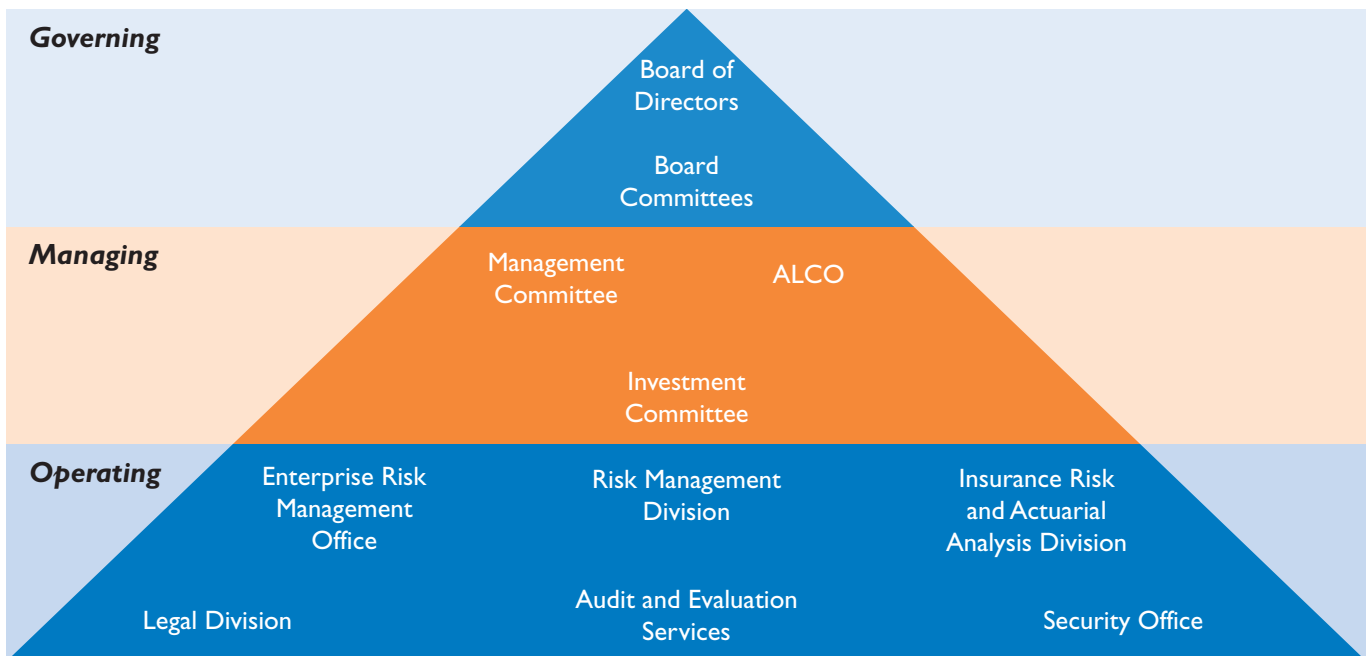
CMHC's approach to risk management involves assessing the current likelihood and impact of risk events, understanding any gaps in managing the risks, determining an appropriate balance between risk-taking and capitalizing on opportunities, establishing priorities to achieve this balance, and measuring progress towards achievement of the desired balance. In 2003, the Board confirmed that the Corporation is making steady progress in reaching the desired risk profile.

RISK MANAGEMENT STRUCTURE

A senior level Asset/Liability Management Committee (ALCO) and an Investment Committee provide a specialized focus on financial risk management. Reporting directly to the Corporate Governance Committee of the Board of Directors, ALCO is a decision-making body responsible for evaluating and overseeing asset/liability management, reviewing and approving CMHC's financial positions and policy, risk exposures, performance and the financial strategies of the Corporation. Acting as

an advisory body to ALCO, the Investment Committee provides technical and external expertise supporting CMHC's investment strategies and activities related to the management of the Insurance and Securitization investment portfolios. As part of its ongoing efforts to integrate leading risk management practices and principles, the Corporation routinely monitors financial market participants and regulatory trends.

At the operational level, the Enterprise Risk Management Office (ERMO) helps guide business areas and organizational units through the risk identification, assessment, measurement and action plan development processes. The goal is to integrate prioritized action plans, which emerge from the ERM process, into strategic thinking and planning throughout the Corporation. In particular, specific risk management activities are carried out by Insurance Risk and Actuarial Analysis Division (insurance and securitization risk), Risk Management Division (credit, market and financial risks), Security Office (security and catastrophic risk), and Legal Division (legal and regulatory risk).



RISK MANAGEMENT DISCUSSION

Strategic Risks

Strategic risks are those that Senior Management and the Board of Directors consider when evaluating and establishing overall corporate direction and strategy.

Mandate Risk

CMHC must ensure that it is able to deliver on and/or influence changes to its mandate in order to ensure its ongoing relevance. Increased attention on affordable housing during 2003 was a positive development reinforcing the Corporation's mandate. In addition, recent evaluations of renovation programs and the co-operative housing program have confirmed the value of these programs in contributing to adequate, affordable housing for Canadian households.

The mandate of mortgage insurance is to facilitate access to affordable housing finance options. The Corporation needs to continuously assess and refine its suite of mortgage insurance products and services to maximize public policy benefits. The introduction of a number of new mortgage insurance products in support of affordable housing objectives such as increased underwriting flexibility for public-private partnership initiatives and the development of an on-reserve homeownership product are examples of successes in 2003.

A key challenge will be to sustain the momentum of federal investments in affordable housing. In addition, CMHC will continue to examine the impacts of potential changes to the international and domestic regulatory environment to ensure that its mortgage insurance and securitization operations are positioned to respond effectively.

Business Environment Risk

Throughout the year, the Corporation conducts formal and informal scanning of the operating environment, consults with key clients and stakeholders, and participates in inter-governmental working groups and task forces.

A major challenge to the Corporation is the increasing complexity of the mortgage insurance environment. To help mitigate this higher inherent risk, CMHC utilizes its extensive knowledge of the industry and business environment and its ability to develop new, relevant and innovative products. In 2003, the Corporation continued its leadership in product innovation, launching a number of new products to strengthen CMHC's medium- to long-term market position and to support its public policy objectives.

Relational Risk

Relationships with clients and stakeholders are critical to the achievement of corporate objectives and strong financial results. In 2003, significant effort was undertaken to expand the capacity of the Canadian Housing and Renewal Association, leading to improved CMHC-third sector relations. The relationship with the Federation of Canadian Municipalities has also been strengthened through exchanges on affordable housing. Relations with lenders remain strong. A centralized, national client reporting process has been put in place to ensure timely follow-up on lenders' business needs. As part of a multi-year plan, CMHC's key account strategy is being strengthened to ensure that information exchanged between these organizations and CMHC is better utilized.

Additional efforts in this area will be devoted to determining the optimal level of investment into promoting the visibility and public awareness of CMHC.

Organizational Risk

CMHC continues to align its planning, resource allocation and measurement processes to ensure that the right objectives are achieved with the appropriate level of resources. The planning process integrates Board priorities, planned business activities, ERM action plans, and resource allocation. In 2003, CMHC enhanced its Executive Information System. This system allows managers across the company to review progress on priority corporate objectives and adjust resources when necessary to help ensure their success. An underlying value of the Corporation is to ensure that all employees understand where they fit in within the broader corporate objectives. This is done through such vehicles as the President's Tour, which celebrates successes and shares corporate directions with all staff, and through regular business line updates to employees.

Infrastructure Risks

*Infrastructure risks relate primarily to the **people**, **processes** and **technology** that support internal operating activities and the resources necessary to keep the organization functioning.*

People Risk

The Corporation has undertaken a number of initiatives to ensure that its workforce is positioned optimally to meet future challenges. In 2003, development plans were implemented for all supervisors and managers as part of a 360-degree feedback exercise — an exercise to help identify management development needs. The expanded use of electronic recruiting has increased responsiveness and efficiency while improving penetration in desired labour markets. CMHC's 2003 total compensation review confirmed that the Corporation's overall compensation remains competitive in the market.

CMHC's workforce is stable, however, the Corporation may be vulnerable to key people risk in critical positions. The impacts of retirement may also be significant in some business areas. The Corporation is focusing its next efforts on positioning employees to fill critical and vulnerable positions if they become vacant, improving the diversity of the work force, and strengthening longer-term human resource planning.

Process Risk

In 2003, CMHC undertook a review to determine if any business processes exposed the Corporation to significant operational risk. Opportunities exist to improve systems for documentation and maintenance of policies and procedures and for retaining corporate memory as employees retire or seek other opportunities outside CMHC. These are being addressed in 2004.

Technology Risk

CMHC's **emili** system, which provides state-of-the-art electronic processing of mortgage loan insurance applications, must evolve constantly to keep pace with new product development. In 2003, CMHC made significant investments in systems such as **emili** and Treasury/Risk Management systems, as well as other applications architecture. The Corporation also implemented additional controls, including backup communications links, firewalls and servers. Through our continuous efforts to enhance our systems, CMHC enjoys highly reliable systems that continue to meet current business needs.

Specific Risks

Risks in this category are those that constitute enough of a risk impact to warrant individual or "specific" description, measurement, and monitoring.

As a major financial institution, CMHC places particular emphasis on credit, market and other financial risks in the normal course of its business. The Corporation manages such risks within tolerance levels established by its Management Committee and approved by the Board of Directors. Financial risk management policies provide a framework for CMHC's financial transacting, including measures for managing and limiting associated credit and market risks. Financial reporting that covers positions, risk exposures, performance and risk management strategies is provided to senior management and the Board of Directors on a regular basis.

Because of the complex legal and regulatory environment that CMHC operates within, there is a need to keep current on activities that could impact the business of the company. Similarly, global issues surrounding security and catastrophic risks are deserving of additional focus.

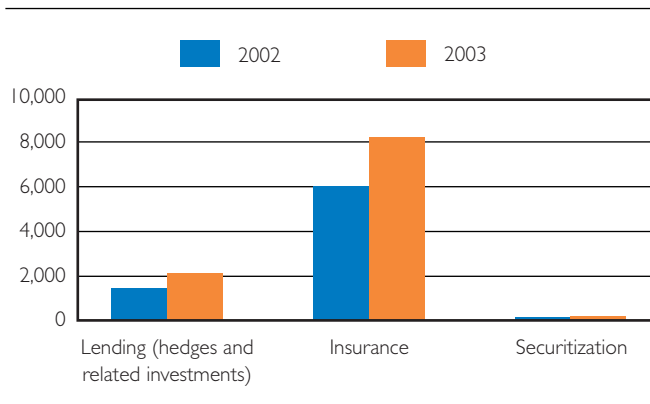
Credit Risk

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 minimize expected losses, and optimize returns, subject to appropriate levels of risk.

In conjunction with CMHC's ERM efforts, the Corporation moved toward more comprehensive understanding and reporting of counterparty credit exposures on a consolidated corporate-wide basis. An internal ratings methodology is used for measuring and managing credit risk exposures in the investment and hedging portfolios. In 2003, the Corporation upgraded its limit framework related to investments in structured finance products. A more detailed breakdown of the corporation's credit exposures and related risk mitigation follows.

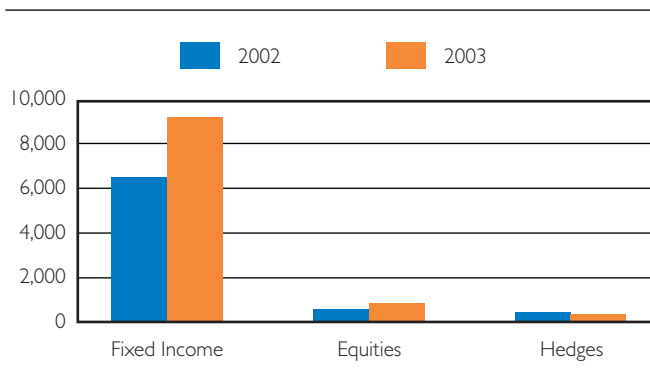
Exposure by Activity

(in millions of dollars)



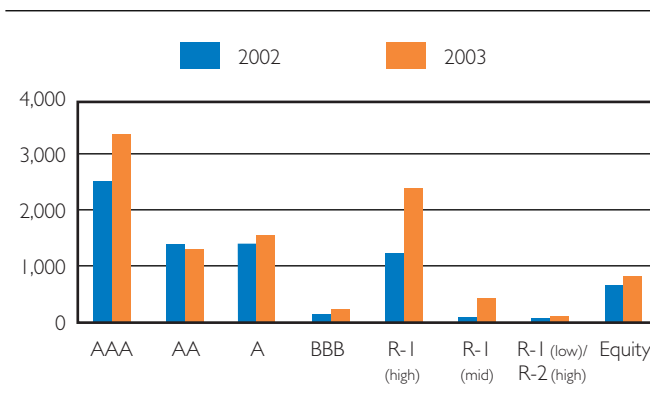
Exposure by Type

(in millions of dollars)



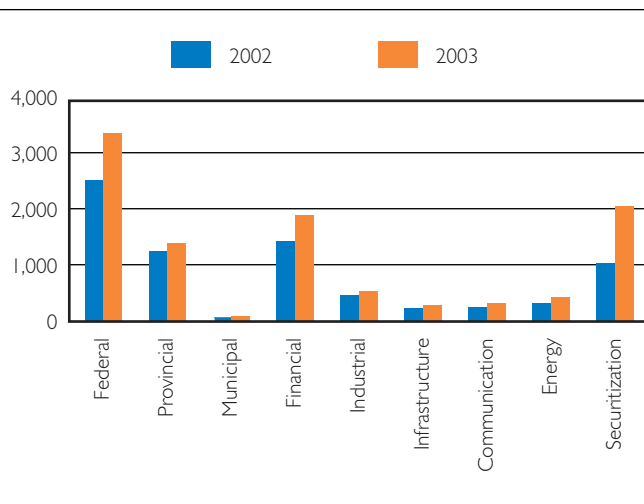
Exposure by Credit Rating

(in millions of dollars)



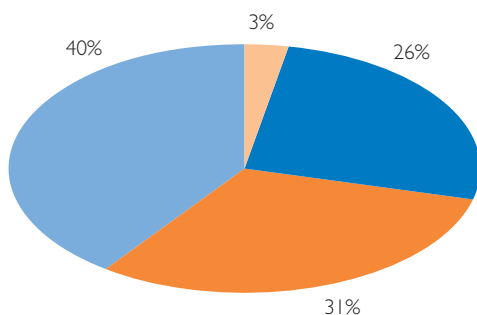
Exposure by Sector

(in millions of dollars)



**Lending Activity:
Default Recovery Mitigation**

- Indian and Northern Affairs Canada
- Government of Canada (through NHA)
- Insurance Activities (CMHC)
- Social Housing Agreements



Investment and Hedging Transactions

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 investment portfolios generated from its Insurance and Securitization activities. Credit limits and term restrictions for fixed income securities and derivative transacting are established by counterparty based on internal evaluations, subject to a number of creditworthiness criteria, including credit ratings and financial strength. Exposures and limits are regularly reviewed. In addition to counterparty limits, CMHC has a set of policy requirements to ensure appropriate credit risk diversification. As at 31 December 2003, the estimated market value of investment and hedging exposures totaled \$10,387 million, an increase of \$2,749 million from the year earlier (\$7,638 million in 2002). The accompanying charts are provided to demonstrate the distribution and trends of these exposures. As illustrated, much of the \$2.7 billion increase was attributable to growth in the fixed income investment assets underlying the Corporation's Insurance activities. Of the \$2.7 billion of additional exposures, 73% was rated AAA/R-1 (high) and 85% was allocated to the highly rated Federal, Financial, or Securitization sectors.

Lending Activity

Credit exposure, as reflected by the estimated fair value of loans arising from CMHC's lending activities, totals \$16.4 billion on an outstanding book value (including accrued interest) of \$14.3 billion. As CMHC's mandate requires that it lend to a large number of non-profit entities, it is often not possible to attribute credit ratings of independent credit agencies. This risk is offset by the fact that losses relating to defaults on these loans are largely recoverable from third parties as demonstrated in the accompanying chart.

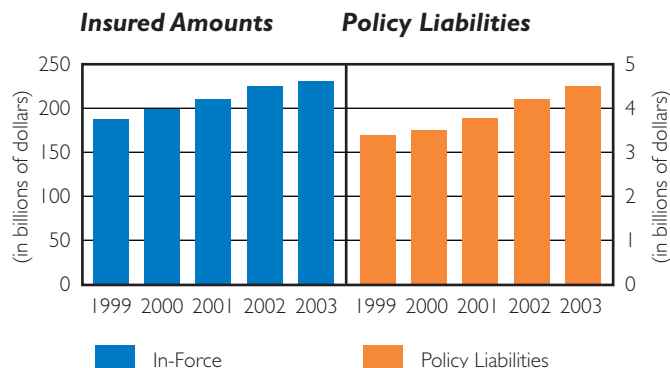
Insurance Activities

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 mortgage 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 has a long history of managing insured mortgage default risk in good and bad economic times through its provision of NHA mortgage insurance, hereafter referred to as Insurance risk. CMHC's portfolio of mortgage insurance has grown steadily over time and now amounts to \$230 billion. CMHC sets aside reserves to cover expected future losses. These policy liabilities provide the means to settle future claims thereby ensuring that lenders can continue to provide high-ratio mortgages to Canadians at competitive interest rates. Provisions for adverse deviations are also included in the reserves to mitigate the risk of potential deviation from calculated estimates of claims and expenses. The accompanying chart shows the relationship between policy liabilities and the insured portfolio.

CMHC follows the Office of the Superintendent of Financial Institutions (OSFI) solvency standards for mortgage insurance companies in the determination of policy liabilities. Premiums are deferred and taken into income over the period covered by insurance contracts based on historical factors that reflect the long-term pattern for default risk by age of a mortgage insurance policy.

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 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 and so too is the portfolio's mortgage default risk. Difficult economic times, which are the major contributor to higher credit losses, have historically demonstrated that they are also geographically distributed and changing over time.

By providing insurance across Canada — including urban and rural areas — CMHC has effectively diversified its insured loan portfolio default risk. As well, CMHC manages its insurance risk through lender-based assessments of quality.

CMHC continually tests its assumptions about the amount of its insurance risk through an annual actuarial valuation and its ability to meet its insurance obligations under extreme circumstances using Dynamic Financial Analysis (DFA). The annual actuarial valuation ensures that reserves are sufficient to cover expected future losses. The appointed actuary reviews historical experience to determine if changes are required to assumptions regarding expected claim outcomes. DFA tests the sensitivity of expected financial performance to changes in economic and business conditions. DFA uses 5,000 independent economic scenarios to simulate the financial

impact on the Insurance activity of alternative economic outcomes. Correlations of economic scenarios with insurance initiations and claims are based on historical experience and actuarial assumptions.

Securitization Activities

Through its Securitization activities, the NHA Mortgage-Backed Securities (MBS) and the Canada Mortgage Bond (CMB) programs, CMHC guarantees timely payment of principal and interest to investors. Total principal obligations to investors guaranteed at 31 December 2003 was \$60.0 billion, which includes \$35.2 billion, guaranteed under the CMB program.

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. 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 collateralization in the event of counterparty credit ratings below AA- and the requirement that all investments are rated R-1 (high) or AAA.

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 CMHC's 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.

Lending Activity

The Corporation's Lending activity portfolio supports lending in accordance with the authorized mandates of the Corporation while minimizing funding costs and maintaining liquidity sufficient to meet projected business requirements. 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 2003, the Corporation undertook a process review related to prepayment, which included significant improvements in the amount and quality of data that will be used in ongoing analysis. In the Lending activity portfolio, the Corporation fully mitigates currency risk by hedging exposure through the use of cross-currency swaps.

2003 Investment Portfolio Returns and Volatilities (Percentage)

	Insurance	Securitization	Index
Returns	7.76	7.76	8.23
Volatilities	3.12	3.15	3.20

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

Fixed Income Investment Portfolios	Portfolio Duration (Years)	Versus Index (Years)
Benchmark Index (SCUBI)	6.03	—
Insurance	6.03	0.00
Securitization	6.03	0.00

Insurance and Securitization

CMHC's Insurance and Securitization investment portfolios are managed within established policy limits, ensuring that price sensitivity relative to benchmark indices is controlled, and that appropriate asset diversification requirements and investment characteristics are in place to offset the respective liabilities. Investment limits for equity transacting are established on a counterparty basis. In 2003, there were no foreign-currency denominated assets held in the Insurance and Securitization portfolios. Going forward, CMHC has modified its asset allocation policies to include diversification into foreign equity instruments. It is anticipated such diversification will take place in 2004.

The Insurance and Securitization investment portfolios provided annual returns with associated risk levels as summarized above. Underperformance in relation to the Index was largely attributable to the performance of equity portfolios.

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. At 31 December 2003, the Insurance and Securitization fixed income portfolios had durations that were equal to that of the benchmark.

Financial Risk

In order to meet CMHC financial requirements and generate an appropriate return on investment, the Corporation actively identifies and assesses other financial risks. The Corporation continues to make efforts to enhance its risk framework in line with capital adequacy and value management principles, consistent with practices employed by leading financial institutions and guidelines established by regulatory authorities. This has resulted in significant improvements in the area of performance measurement and management. In relation to financial regulation, the Corporation is conducting efforts to assess and review tax and hedge accounting developments. In relation to liquidity, the Corporation has a liquidity risk policy that establishes appropriate limits and ensures that CMHC has sufficient liquidity 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. The Corporation also has overdraft facilities in place, lines of credit with several institutions and holds cash and investments in marketable securities, which further provide sources of liquidity.

With respect to operational risk related to treasury, the Corporation undertook a major effort to upgrade its information systems related to its funding, investment and hedging activities.

Forest Fires in B.C. ... Hurricane Juan in the Atlantic

CMHC recognized the specific hardships many Canadians faced with the devastating forest fires in British Columbia and Hurricane Juan on the Atlantic Coast. In B.C., a suite of homeowner financial assistance tools was made available to the public via approved lenders, the application fee was waived for homeowner mortgage loan insurance applications submitted by lenders on behalf of victims who lost or experienced damage to their residence, and CMHC properties in the region were offered to victims who needed immediate housing. When Hurricane Juan hit the East Coast, CMHC was quick to ensure that victims had easy access to information that could help them recover quickly and safely. *About Your House* fact sheets were provided via Canada NewsWire, and television segments, *Precautions of Inspecting and Repairing Your Roof* and *Back-up Power for Your Home*, were prepared.



Legal and Regulatory Risk

CMHC considers the risks associated to exposures and liabilities relating to legal and regulatory environments to be low. However, CMHC is implementing a formal system for monitoring legislative and regulatory changes and is enhancing the coordination between Legal and the Policy and Program Sector required to ensure that there is a comprehensive understanding of the potential impacts of the changes in these environments.

Security Risk and Catastrophic Risk

The potential for Security and Catastrophic risks is seen as low. However, if such an event were to occur, CMHC is well positioned to respond effectively and responsibly. Events such as the widespread power outage that affected much of Eastern Canada in August 2003 were live tests that raised the importance of having Business Resumption Plans in place. During the power shortage, CMHC's systems continued to operate with only minimal problems; however, minor gaps in communications with employees were identified. Events such as these provided an opportunity to learn about potential weaknesses in CMHC's disaster recovery plans and/or our policies and procedures. A thorough analysis of lessons learned was undertaken, which then led to the updating and testing of Business Resumption Plans across the company.





CORPORATE
GOVERNANCE

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

CMHC is a Crown corporation and reports to Parliament through its Minister. 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, 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. 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 2003 to the Board of Directors was \$255,668 compared to \$227,300 in 2002. There were six Board of Directors meetings and ten Board Committee meetings held in 2003.

CORPORATE GOVERNANCE PRACTICES

CMHC has introduced many initiatives related to strategic planning, risk management and other aspects of corporate accountability that demonstrate its ongoing commitment to ensuring its governance framework remains strong and relevant. In 2003, the Board of Directors introduced a corporate innovation that links a portion of employee incentive compensation to clear corporate priorities that are set by Management and approved by the Board of Directors. This new practice helps to ensure that the Corporation achieves a common alignment and clarity of efforts that is required to succeed. Furthermore, by tying individual incentive compensation to priority corporate objectives, accountability is enhanced and employees have a better understanding of their individual contribution to the achievement of corporate goals.

In 2003, the Board also completed a self-assessment that resulted in further enhancements to governance practices, including more comprehensive orientation at the Board and Committee levels, and formalized reporting on best practices in corporate governance and Enterprise Risk



Standing (left to right): Michel Bérubé, Sophie Joncas, Karen Kinsley (President and CEO), Louis Ranger, Hugh Heron, Roberta Hayes, Catherine Cronin, Grace Kwok.
Seated (left to right): Jocelyn Proteau (Chairman), Dino Chiesa (Vice-Chairman).

Management. In December 2003, the Board launched a review of the mandate of each Board Committee to ensure the continued effectiveness and value of each committee in advising the Board. Further, pursuant to the requirements of the *Financial Administration Act*, the Board directed that its external auditors carry out a Special Examination, with the results to be reported in 2004.

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 and provided input on a draft Statement of Ethical Values, which will help guide CMHC employees and Board members alike in carrying out their functions with integrity. The Statement will be finalized and approved by the Board in 2004.

CMHC's Board of Directors is committed to strong corporate governance and to maintaining its momentum to achieve valued and efficient governance practices. In recognition of this commitment, CMHC received the National Award in Governance from the Conference Board of Canada and Spencer Stuart in 2003.

BOARD COMMITTEES

Corporate Governance Committee

Created in 1996, the Corporate Governance 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, identifying and managing principal corporate risks, advising the Board on issues related to CMHC's funding, investment and risk management policies, 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.

In 2003, the Corporate Governance Committee oversaw the evaluation of the Board of Directors and the development of guidelines created for succession planning purposes. The Committee also had the opportunity to review and provide input to the Board on a draft Statement of Ethical Values, and oversaw the annual review of the Standards of Conduct with all Board members.

FULFILLING COMMUNITY RESPONSIBILITY

As Canada's national housing agency, our operations are dedicated to meeting socially based objectives, including: our research investments in healthy housing and distinct housing needs, our investments in First Nations capacity development, and our economic investments in housing through Insurance and Securitization activities, underlying the statement that *it all begins with an address*.

While we are proud of these efforts, at CMHC, we know that it's not just delivering on our mandate that counts. Being a responsible organization means giving back to the community in other ways. That's why, CMHC and its employees support the Government of Canada Workplace Charitable Campaign, helping to raise over \$148,000 in 2003. Employees also participated in Habitat for Humanity builds across the country and held various other charitable events, such as a gingerbread house building competition in Toronto that helped to raise funds for local shelters and another in Ottawa in support of Habitat for Humanity. Employees across Ontario

participated in the *Toque Tuesday* campaign in support of the *Raising the Roof* charitable campaign to combat homelessness, and CMHC's Atlantic Business Centre co-hosted a charity event that raised funds for Phoenix House Youth Charity to provide housing and other services for at-risk youth. As part of the VanCity Social Responsibility campaign, our Vancouver office developed a pilot project to help keep the city green by providing a CMHC recycling container and homeowner-oriented CMHC publications to 200 new homeowners. And, when unexpected events affected our communities in 2003, we did what we could to help. This year, we instituted various measures — from waving or deferring fees to providing emergency housing to distributing homeowner repair and safety information — to help Canadians affected by SARS in Ontario, forest fires in British Columbia and Hurricane Juan in Atlantic Canada.

Through these and other efforts across the country, CMHC remains committed to serving the communities in which we live and work.

Community Involvement: Habitat for Humanity

CMHC adopted one of the 40 homes being built by Habitat for Humanity Toronto in the *Breakthrough Build*, the largest ever Habitat for Humanity build in Canada. CMHC employees also volunteered at the build and the Corporation will be offering the 40 Habitat partner families a customized homeowners' training program along with copies of CMHC's *Homeowners' Manual*. During a two-week "building blitz" at Habitat for Humanity Toronto's Home Building Factory, close to 100 CMHC employees and CMHC clients helped construct hundreds of floor and wall sections and other house components.



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. In 2003, the Audit Committee's activities in support of its oversight role included reviewing and advising the Board of Directors on the Corporation's quarterly financial statements, the internal auditor's projects and reports, and the external auditors' report and annual audit plans. In addition, the Audit Committee reviewed and advised the Board on matters relating to the Special Examination initiated by the Board of Directors pursuant to the *Financial Administration Act*.

Human Resources Committee

The Human Resources Committee oversees corporate policies and strategies related to human resources, and reviews and approves the principles governing employee 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.

In 2003, the Committee conducted a review of the Corporation's compensation policies and introduced a methodology, approved by the Board of Directors, which linked a portion of employee incentive compensation to the successful achievement of corporate objectives.





FINANCIAL
STATEMENTS
AND NOTES

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

YEAR ENDED 31 DECEMBER 2003

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 which includes a majority of members who 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.

Jean-Guy Poulin, CA, of Mallette, 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



Coleen Volk
Acting Vice-President,
Finance

25 February 2004

AUDITORS' REPORT

TO THE MINISTER OF THE ENVIRONMENT

We have audited the balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2003, 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 2003 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 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.



Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
25 February 2004



Jean-Guy Poulin, CA
Mallette, LLP

Quebec City, Canada

BALANCE SHEET

As at 31 December

<i>(in millions of dollars)</i>	Notes	2003	2002
ASSETS			
Loans and Investments in Housing Programs	3	14,094	14,601
Investments in Securities	4	7,191	5,585
Cash and Cash Equivalents		2,485	1,272
Accrued Interest Receivable		387	372
Securities Purchased Under Resale Agreements		314	1,205
Due from the Government of Canada		147	106
Accounts Receivable and Other Assets		146	178
Future Income Tax Assets	5	114	77
Inventory of Real Estate		90	106
		24,968	23,502
LIABILITIES			
Borrowings from the Capital Markets	6	10,193	10,147
Borrowings from the Government of Canada	6	5,232	5,474
Unearned Premiums and Fees	14	3,965	3,649
Securities Sold Under Repurchase Agreements		1,554	1,116
Accounts Payable and Other Liabilities		742	442
Provision for Claims	14	622	620
Accrued Interest Payable		182	172
Securities Sold But Not Yet Purchased		2	73
		22,492	21,693
EQUITY OF CANADA			
Capital Authorized and Fully Paid		25	25
Retained Earnings	7	2,451	1,784
		2,476	1,809
		24,968	23,502

See accompanying notes to the financial statements.

Approved by the Board of Directors:



Jocelyn Proteau
Chair of the Board of Directors



Dino Chiesa
Chair of the Audit Committee
of the Board of Directors

INCOME STATEMENT

Year ended 31 December

<i>(in millions of dollars)</i>	Notes	2003	2002	2001
REVENUES				
Interest Earned on Loans and Investments in Housing Programs	8	1,069	1,100	1,184
Premiums and Fees		947	822	745
Investment Income		345	293	278
		2,361	2,215	2,207
Parliamentary Appropriations for:	8			
Housing Programs		1,972	1,828	1,789
Operating Expenses		97	81	68
		2,069	1,909	1,857
		4,430	4,124	4,064
EXPENSES				
Housing Programs	8	1,972	1,828	1,789
Interest Expense		999	1,042	1,120
Operating Expenses		255	224	201
Net Claims		188	139	335
Other Expenses	9	9	37	55
		3,423	3,270	3,500
INCOME BEFORE INCOME TAXES		1,007	854	564
INCOME TAXES				
Current	5	383	284	185
Future		(43)	26	34
		340	310	219
NET INCOME		667	544	345

See accompanying notes to the financial statements.

STATEMENT OF RETAINED EARNINGS (NOTE 7)

<i>(in millions of dollars)</i>	Unappropriated Retained Earnings	Earnings Set Aside for Capitalization	Reserve for Lending Activity	Total
Balance 31 December 2000	199	676	20	895
Net Income	323	—	22	345
Set Aside for Capitalization	(262)	262	—	
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

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December

<i>(in millions of dollars)</i>	2003	2002	2001
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net Income	667	544	345
Items Not Affecting Cash or Cash Equivalents			
Amortization of Premiums and Discounts	23	27	18
Future Income Taxes	(37)	26	7
Net Change in Non-cash Operating Assets and Liabilities	392	477	690
	1,045	1,074	1,060
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Loans and Investments in Housing Programs			
Repayments	711	1,085	867
Disbursements	(204)	(447)	(265)
Investments in Securities			
Sales and Maturities	8,192	5,103	4,955
Purchases	(9,781)	(6,258)	(5,297)
Change in Securities Purchased Under Resale Agreements	891	261	(193)
	(191)	(256)	67
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Medium-term Borrowings from the Capital Markets			
Issuances	2,290	1,561	1,868
Repayments	(1,890)	(2,123)	(1,265)
Change in Short-term Borrowings from the Capital Markets	(166)	(147)	(660)
Repayment of Borrowings from the Government of Canada	(242)	(218)	(232)
Change in Securities Sold Under Repurchase Agreements	438	(124)	249
Change in Securities Sold But Not Yet Purchased	(71)	(155)	(58)
	359	(1,206)	(98)
Increase (Decrease) in Cash and Cash Equivalents	1,213	(388)	1,029
Cash and Cash Equivalents			
Beginning of Year	1,272	1,660	631
End of Year	2,485	1,272	1,660
Represented by:			
Cash	6	(13)	70
Temporary Investments	2,479	1,285	1,590
	2,485	1,272	1,660
Supplementary Disclosure of Cash Flow Information			
Amount of Interest Paid During the Year	989	1,103	1,134
Amount of Income Taxes Paid During the Year	390	188	174

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

I. 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*. 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.

CMHC carries out its mandate through three broad activities: Lending, Insurance and Securitization, and Housing Programs. The financial statements reflect the combined results of these activities.

Lending: 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.

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.

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 of Canada, 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 loss 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 from the Provinces and Territories through provisions in social housing agreements, the Government of Canada through provisions in the NHA, and Indian and Northern Affairs Canada through Ministerial loan guarantees. Consequently, the Corporation has not recorded an allowance for default losses on these loans and

investments. 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. Losses are included in Net Claims when paid.

Cash, Cash Equivalents and Investments in Securities

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

	Carrying Value	Recognition of Realized Gains and Losses	Recognition of Impairment
Cash and Cash Equivalents — Cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value	Cost.	Gains and losses are included in income at the time of sale.	Not applicable.
Lending Activity — Investments in Securities for cash management purposes	Amortized cost.	Gains and losses are included in income at the time of sale.	Written down to their market value when declines in value are 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 maturity period of the related investments.	Gains and losses are deferred and amortized to Interest Expense on a straight-line basis over the term of the related debt issue.	Written down to their market value when declines in value are 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. Carried at amortized cost. Premiums and discounts are deferred and amortized on a constant yield basis over the maturity period of the related investments.	Gains and losses are deferred and amortized on a straight-line basis over the remaining life of the original investment.	Specific securities are written down to their market value when declines in value are 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 at 5% per quarter on a declining balance basis.	Specific equities are written down to their market value when declines in the value of the entire equity portfolio are other than temporary.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements consist of the purchase of securities, normally 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 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. Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements are carried at cost, plus accrued interest. The difference between the sale price and the agreed repurchase price on a repurchase agreement, and the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement are netted and recorded 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. Gains and losses that result from the purchase of the securities are deferred and amortized to income on a straight-line basis over the term of the related debt issue.

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. 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 received 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. On an annual basis the unearned premiums balance is compared to the Corporation's estimate of total future claims on a discounted basis to ensure the liability is sufficient and that an appropriate amount has been taken into income.

Guarantee fees from CMHC's 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 recognized in income when received.

Costs associated with issuing mortgage insurance policies and timely payment guarantees are expensed as incurred.

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 CMHC's Insurance business that have occurred on or before the balance sheet date. The provision takes into consideration CMHC's 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 from year to year are recorded in Net Claims.

The Corporation's provision for claims on its guarantee of the timely payment of principal and interest on mortgage-backed securities is nil. This evaluation is based on historical results and program design whereby only insured mortgages are eligible for securitization.

Housing Programs

Housing Programs involve expenses under the Social Housing Agreements with the Provinces and Territories of Canada, expenses related to housing programs administered by the Provinces and Territories under other agreements, and expenses related to housing programs administered by the Corporation. They also include reimbursement to the Corporation of interest and default losses on certain loans and investments in housing programs, losses on certain real estate properties, and modernization and improvement costs on certain rental properties.

Housing program expenses are funded by Parliamentary appropriations. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Employee Future Benefits

The Corporation provides pension benefits based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The Corporation also maintains an unfunded supplemental pension plan and provides other post-employment benefits consisting of severance pay, life insurance and medical insurance.

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro rated 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.

Costs are determined as the cost of employee benefits for the current year's service, interest expense 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. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The transitional asset/obligation, and past service costs are amortized over the remaining service period for 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 remaining service period for active employees under the plans.

Derivative Financial Instruments

The Corporation enters into derivative financial instruments (interest rate swaps and foreign currency swaps) in order to manage its exposures to market risks such as interest rate risk and foreign exchange risk. At a macro level, the derivative financial instruments are effective at mitigating market risks, both at inception and over the term of the instrument and therefore are accounted for on an accrual basis. The Corporation does not use freestanding derivative financial instruments for trading or speculative purposes.

For derivative financial instruments used to manage interest rate risk, realized gains and losses 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. For derivative financial instruments used to manage foreign exchange risk, translation gains and losses on the instrument are offset by translation gains and losses on the related debt.

Gains and losses resulting from early termination of these contracts are deferred and amortized to Interest Expense on a straight-line basis over the remaining term of the underlying exposure.

2004 Accounting Changes

Accounting Guideline 13: Hedging Relationships, issued by the Canadian Institute of Chartered Accountants, comes into effect for CMHC's fiscal year beginning 1 January 2004. The new standard sets out specific criteria that hedging relationships must meet in order for the Corporation to continue its current accounting for derivative financial instruments as described earlier in Note 2. If these criteria are not met, the derivative financial instrument must be measured at fair value on the Balance Sheet with all changes in fair value recorded in income.

The Corporation has determined that many of its derivative financial instruments will not meet the new criteria. Therefore, on 1 January 2004, these derivatives will be recorded at fair value on the Balance Sheet, resulting in an increase in assets and liabilities of \$74 million and \$42 million respectively. Unrealized gains and losses resulting from this transition will be deferred and amortized to income over the remaining term of the underlying exposure.

3. 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, \$13,886 million, or 99% (2002 — \$14,404 million, or 99%) are due and payable beyond five years.

Approximately \$13,261 million, representing 94% (2002 — \$13,679 million, or 94%) of the loans and investments in housing programs, are supported with housing program subsidies.

At 31 December 2003, 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 (26%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (3%).

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

4. INVESTMENTS IN SECURITIES

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

<i>(in millions of dollars)</i>	Term to Maturity				2003	2002
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		
Fixed Income						
Securities Issued or Guaranteed by:						
Government of Canada	148	646	1,078	1,102	2,974	1,930
Provinces/Municipalities	5	146	196	1,017	1,364	1,233
Corporate/Other Entities	294	512	372	969	2,147	1,756
Total Fixed Income	447	1,304	1,646	3,088	6,485	4,919
Yield	3.01%	4.39%	4.45%	5.63%	4.90%	5.50%
Equities (no specific maturity)					706	666
Total	447	1,304	1,646	3,088	7,191	5,585

Sales of investments during 2003 resulted in a net gain of \$54 million (2002 — \$33 million, 2001 — \$51 million) that has been deferred. Cumulative deferred gains now totaling \$83 million (2002 — \$67 million) are included in Accounts Payable and Other Liabilities and will be brought into income in accordance with accounting policies described in Note 2.

5. 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:

<i>(in millions of dollars)</i>	2003	2002	2001
Statutory Tax Rate	35%	37%	39%
Income Taxes Based on Statutory Tax Rate	349	311	219
Impact on Future Income Tax Assets Resulting from Reduction in Tax Rates	(8)	3	(5)
Other	(1)	(4)	5
Income Tax Expense	340	310	219
Effective Tax Rate	34%	36%	39%

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.

<i>(in millions of dollars)</i>	2003	2002
Provisions	30	31
Deferred Revenue	32	33
Deferred Expenses	10	9
Expenses Incurred But Not Yet Disbursed	10	9
Appreciation in Value of Equities	31	(6)
Other	1	1
Future Income Tax Assets	114	77

6. BORROWINGS

Since 1993, Loans and Investments in Housing Programs have been funded by borrowings from the capital markets. Prior to this, the Corporation borrowed from the Government of Canada.

The following table provides the maturity structure and average yield of borrowings.

<i>(in millions of dollars)</i>	Capital Markets				Government of Canada		Total
	Short-term Borrowings		Medium-term Borrowings				
2004	673	2.68%	2,346	5.39%	187	8.72%	3,206
2005			2,264	5.96%	197	8.79%	2,461
2006			1,254	4.95%	196	8.79%	1,450
2007			1,214	4.70%	206	8.86%	1,420
2008			1,298	4.48%	211	8.90%	1,509
2009–2013			1,144	4.90%	1,073	8.67%	2,217
Thereafter					3,162	9.27%	3,162
	673	2.68%	9,520	5.20%	5,232	9.06%	15,425

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

Short-term borrowings are comprised of commercial paper. Medium-term borrowings include bonds and medium-term notes.

Borrowings from the capital markets include U.S. denominated debt. This debt is translated to Canadian dollars at the exchange rate prevailing on the balance sheet date. Foreign exchange exposure is fully hedged through the use of foreign currency swaps, for both interest and principal payments. Swap contracts in place transform U.S. denominated debt into expected net obligations in Canadian dollars at an agreed upon rate established by the associated swap contracts.

The foreign denominated borrowings are:

<i>(in millions of dollars)</i>	2003	2002
U.S. Dollar Obligations	1,530	500
U.S. Dollar Obligations Translated to Canadian Dollars		
Based on Year End Rate	1,986	789
Based on Rate Established Under Swap Contract	2,160	726

7. RETAINED EARNINGS

Earnings Set Aside for Capitalization represent the 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 70% of the levels recommended by OSFI. Unappropriated Retained Earnings represent net income generated by the Insurance and Securitization activity that has not been set aside for capitalization purposes.

On an annual basis, the Board of Directors determines the amount of earnings to be set aside for capitalization. During 2003, the Board of Directors resolved that, as at 31 December 2003, 100% of the Insurance retained earnings be set aside (2002 and 2001 — 80%). Consequently, all insurance-related amounts in retained earnings at 31 December 2002 were set aside for capitalization in 2003.

The Corporation places all lending-related retained earnings in its Reserve for Lending Activity. The Reserve is established by legislation and is currently limited to \$100 million.

8. HOUSING PROGRAMS

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

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

<i>(in millions of dollars)</i>	2003	2002	2001
Programs Transferred to Provinces/Territories under Social Housing Agreements	961	964	963
Non-Transferred Programs			
Non-Profit	242	252	248
Public Housing	130	129	125
On-Reserve	92	89	92
Co-operatives	83	86	85
Rent Assistance	78	71	63
Urban Native	54	49	52
Rural and Native Housing	27	24	23
Limited Dividend	12	13	13
Sub-total	718	713	701
Affordable Housing	166	19	—
Renovation Programs	88	105	123
Research and Information Transfer	9	9	9
Other	30	18	(7)
Total	1,972	1,828	1,789

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.

As described in Note 2, Housing Program Expenses include reimbursement 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.

<i>(in millions of dollars)</i>	2003	2002	2001
Interest Losses:			
incurred in the current year	99	77	83
incurred in prior years	—	21	26
Sub-total	99	98	109
Net Operating Losses	11	18	17
Net Default and Disposal Losses	2	4	4
Total	112	120	130

The total reimbursement for interest losses includes \$33 million (2002 — \$27 million, 2001 — \$33 million) towards the losses incurred by the Corporation as a result of the prepayment and repricing activity described in Note 11.

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 2003 of \$97 million (2002 — \$81 million, 2001 — \$68 million) is shown in the Income Statement as Parliamentary Appropriations for Operating Expenses.

9. OTHER EXPENSES

The following table shows the composition of Other Expenses.

<i>(in millions of dollars)</i>	2003	2002	2001
Government of Canada Fees	29	38	33
Contribution to Province of Quebec's Assistance Program for owners of pyrite-damaged residential buildings	—	—	18
Other	(20)	(1)	4
Total	9	37	55

The Government of Canada Fees are paid annually to recognize the Government's financial backing of CMHC's Insurance and Securitization activity.

10. 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 such as interest rate risk and foreign exchange risk. These contracts include:

- 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 rates on a specified notional amount for a predetermined period. The notional amount is generally exchanged at inception and at maturity.

The table below provides the notional amounts of the Corporation's derivative transactions by term to maturity. 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.

<i>(in millions of dollars)</i>	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2003	2002
Interest Rate Swaps	4,989	6,666	4,445	1,216	17,316	17,369
Foreign Currency Swaps	41	726	1,393	—	2,160	726
Notional	5,030	7,392	5,838	1,216	19,476	18,095

11. 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 Lending activity and for Insurance and Securitization investment activities.

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

CMHC's Insurance and Securitization investment portfolios are managed to ensure that price sensitivity relative to benchmark indices is controlled, and that appropriate asset diversification requirements are in place to respect the liability profile.

The table below 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 carried at amortized cost and rates to reset for floating rate instruments.

<i>(in millions of dollars)</i>	Within 1 Year	1 to 5 Years	Over 5 Years	No Specific Maturity	Non Interest Sensitive	2003	2002
Assets							
Loans and Investments in Housing Programs	1,920	7,380	4,769		25	14,094	14,601
Effective Interest Rate	5.93%	5.65%	8.42%				
Investments in Securities	447	2,950	3,088	706		7,191	5,585
Effective Interest Rate	2.88%	3.53%	5.00%				
Cash and Cash Equivalents	2,485					2,485	1,272
Effective Interest Rate	2.73%						
Securities Purchased Under Resale Agreements	314					314	1,205
Effective Interest Rate	2.74%						
Liabilities							
Borrowings from the Capital Markets	3,019	6,030	1,144			10,193	10,147
Effective Interest Rate	4.78%	5.18%	4.90%				
Borrowings from the Government of Canada	187	810	4,235			5,232	5,474
Effective Interest Rate	8.72%	8.83%	9.12%				
Securities Sold Under Repurchase Agreements	1,554					1,554	1,116
Effective Interest Rate	2.72%						
Securities Sold But Not Yet Purchased	2					2	73
Effective Interest Rate	4.66%						
Off-Balance Sheet Financial Instruments							
Derivative Financial Instruments (notional)							
Receivable Position	3,786	8,398	750		6,542	19,476	18,095
Effective Interest Rate	4.51%	5.05%	5.26%				
Payable Position	3,786	8,398	750		6,542	19,476	18,095
Effective Interest Rate	3.85%	5.18%	4.97%				

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 \$491 million over an 18-year time horizon, or an average decline of \$27 million per year.

Foreign Exchange Risk

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

12. 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. A credit risk management function, which is independent of the business activities, monitors and evaluates credit risk exposures and the credit-worthiness of counterparties on a regular basis.

Cash Equivalents and Investments in Securities

The table below shows 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, 92%, is rated "R-1 high" or equivalent, and 70% 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 Corporation's overall net credit exposure to counterparties for repurchase/reverse repurchase transacting.

<i>(in millions of dollars)</i>	Cash Equivalents	Investments in Securities	2003	2002
Fixed Income				
Short-term	2,484	451	2,935	1,808
Long-term	—	6,316	6,316	4,710
Total Fixed Income	2,484	6,767	9,251	6,518
Equities	—	809	809	644
Total	2,484	7,576	10,060	7,162

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

<i>(in millions of dollars)</i>	Cash Equivalents	Investments in Securities	2003	2002
Fixed Income				
Securities Issued or Guaranteed by:				
Government of Canada	334	3,058	3,392	2,557
Provinces/Municipalities	—	1,468	1,468	1,312
Corporate/Other Entities	2,150	2,241	4,391	2,649
Total Fixed Income	2,484	6,767	9,251	6,518
Equities	—	809	809	644
Total	2,484	7,576	10,060	7,162

Derivative Financial Instruments

The table below shows the credit exposure of the Corporation's derivatives by term to maturity.

<i>(in millions of dollars)</i>	Replacement Value (1)				Potential Future Credit Exposure (2)	Total Credit Exposure	
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		2003	2002
Interest Rate Swaps	16	30	14	14	236	310	324
Foreign Currency Swaps	—	—	—	—	9	9	152
Total	16	30	14	14	245	319	476

(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 table below shows the credit exposure of the Corporation's derivatives by counterparty credit rating.

<i>(in millions of dollars)</i>	AAA	AA	2003	2002
Total Credit Exposure	26	293	319	476

13. 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.

<i>(in millions of dollars)</i>	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Loans and Investments in Housing Programs	14,094	16,159	14,601	16,660
Investments in Securities	7,191	7,507	5,585	5,752
Cash and Cash Equivalents	2,485	2,485	1,272	1,273
Accrued Interest Receivable	387	387	372	372
Securities Purchased Under Resale Agreements	314	314	1,205	1,205
Due from the Government of Canada	147	147	106	106
Accounts Receivable and Other Assets	146	146	178	178
Liabilities				
Borrowings from the Capital Markets	10,193	10,491	10,147	10,579
Borrowings from the Government of Canada	5,232	7,182	5,474	7,447
Securities Sold Under Repurchase Agreements	1,554	1,554	1,116	1,116
Accounts Payable and Other Liabilities	742	742	442	442
Accrued Interest Payable	182	182	172	172
Securities Sold But Not Yet Purchased	2	2	73	73
Off-Balance Sheet Financial Instruments				
Derivative Financial Instruments				
In a Net Receivable Position		74		194
In a Net Payable Position		242		41

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 Financial Instruments

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

14. 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. It is certain that the actual future claims will 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 new business, claims, and interest for the last quarter.

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: Claims 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 accounting period in which they are determined.

Insurance in Force

Under Section 11 of the NHA, the aggregate outstanding amount of mortgage insurance policies may not exceed \$250 billion. At 31 December 2003, insurance policies in force totaled \$230 billion (2002 — \$224 billion).

15. 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). CMB's are issued by the Canada Housing Trust (CHT) as described in Note 16.

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 \$250 billion. At 31 December 2003, guarantees in force totaled \$60 billion (2002 — \$45 billion) which includes \$25 billion of NHA MBS (2002 — \$27 billion) and \$35 billion of CMB's (2002 — \$18 billion).

16. CANADA HOUSING TRUST

Canada Housing Trust (CHT) is a special purpose trust which purchases, from various financial institutions, ownership interests in eligible housing loans, primarily NHA MBS, and issues Canada Mortgage Bonds (CMB's).

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 CMB's issued by CHT to date. Once provided, the CMHC guarantee on CMB's becomes an obligation of the Government of Canada and irrevocable until full repayment of the CMB's 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.

17. EMPLOYEE FUTURE BENEFITS

The Corporation has a defined benefit pension plan and a supplemental pension plan. The Corporation also provides other post-employment benefits. Information about the employee future benefits is as follows:

<i>(in millions of dollars)</i>	Pension Plans		Other Post-employment Benefits	
	2003	2002	2003	2002
Accrued Benefit Obligation				
Balance, Beginning of Year	874	857	82	82
Current Service Cost	15	15	1	1
Employees' Contributions	2	2	—	—
Interest Cost	59	57	6	5
Benefits Paid	(47)	(47)	(2)	(3)
Actuarial Loss (Gain)	44	(10)	9	(3)
Balance, End of Year	947	874	96	82
Plan Assets				
Fair Value, Beginning of Year	872	964	—	—
Actual Return on Plan Assets	132	(48)	—	—
Employer's Contributions	1	1	2	3
Employees' Contributions	2	2	—	—
Benefits Paid	(47)	(47)	(2)	(3)
Fair Value, End of Year	960	872	—	—
Funded Status — Plan Surplus (Deficit)	13	(2)	(96)	(82)
Unamortized Net Actuarial Loss	158	205	18	9
Unamortized Past Service Costs	70	74	—	—
Unamortized Transitional Obligation (Asset)	(210)	(241)	35	38
Accrued Benefit Asset (Liability)	31	36	(43)	(35)

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

<i>(in millions of dollars)</i>	Supplemental Pension Plan	
	2003	2002
Fair Value of Plan Assets	—	—
Accrued Benefit Obligation	23	22
Funded Status — Plan Deficit	23	22

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.

In performing the actuarial valuations of employee future benefits, certain assumptions are adopted. These assumptions are identical to those used in 2002 and include a 7% discount rate and long-term rate of return on plan assets, and a 4% rate of compensation increase. A 10% increase in health care costs was assumed for 2003 and 2002, with 1.3% decreases per year thereafter to an ultimate trend rate of 5%. The average remaining service period is 11 years for pension plans and 12 years for other post-employment benefits.

As a result of the excess funded status of the defined benefit pension plan, the Corporation has been required to take a legally mandated contribution holiday since 1997.

The Corporation's net benefit plan expense is as follows:

<i>(in millions of dollars)</i>	Pension Plans		Other Post-employment Benefits	
	2003	2002	2003	2002
Current Service Cost, Net of Employees' Contributions	15	15	1	1
Interest Cost	59	57	6	6
Expected Return on Plan Assets	(57)	(63)	—	—
Amortization of Transitional Obligation (Asset)	(30)	(30)	3	3
Amortization of Past Service Cost	9	8	—	—
Amortization of Net Actuarial Loss	10	—	—	—
Net Benefit Plan Expense (Credit)	6	(13)	10	10

18. SEGMENTED INFORMATION

As described in Note 1, the Corporation carries out its mandate through three activities: Lending, Insurance and Securitization, and Housing Programs. For segmented information purposes, the Insurance and Securitization activity is segregated 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, which are not allocated to each activity. The Housing Program activity includes reimbursements to the Lending activity as described in Note 8. These reimbursements are not eliminated in the table below.

<i>(in millions of dollars)</i>	Lending		Insurance		Securitization		Housing Programs		Elimination of Inter-Segment Items		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Interest Earned	1,069	1,100							—	—	1,069	1,100
Investment Income	—	—	341	292	9	7			(5)	(6)	345	293
Premiums, Fees and Parliamentary Appropriations	—	—	915	797	32	25	2,069	1,909	—	—	3,016	2,731
Total Revenues	1,069	1,100	1,256	1,089	41	32	2,069	1,909	(5)	(6)	4,430	4,124
Interest Expense	1,004	1,048							(5)	(6)	999	1,042
Operating Expenses	25	20	128	118	5	5	97	81	—	—	255	224
Housing Programs, Net Claims and Other Expenses	(13)	2	214	175	(4)	(1)	1,972	1,828	—	—	2,169	2,004
Total Expenses	1,016	1,070	342	293	1	4	2,069	1,909	(5)	(6)	3,423	3,270
Income Taxes	18	16	312	283	10	11					340	310
Net Income	35	14	602	513	30	17					667	544
Direct Lending Loans	8,724	8,938							—	—	8,724	8,938
Other Loans and Investments in Housing Programs	5,370	5,663							—	—	5,370	5,663
Investments in Securities	812	352	6,245	5,192	185	136			(51)	(95)	7,191	5,585
Other Assets	1,725	1,301	1,935	1,976	45	47			(22)	(8)	3,683	3,316
Total Assets	16,631	16,254	8,180	7,168	230	183			(73)	(103)	24,968	23,502
Capital Market Borrowings	10,244	10,242							(51)	(95)	10,193	10,147
Government of Canada Borrowings	5,232	5,474							—	—	5,232	5,474
Unearned Premiums and Fees			3,863	3,575	102	74			—	—	3,965	3,649
Other Liabilities	1,039	457	2,080	1,958	5	16			(22)	(8)	3,102	2,423
Total Liabilities	16,515	16,173	5,943	5,533	107	90			(73)	(103)	22,492	21,693
Equity	116	81	2,237	1,635	123	93					2,476	1,809

19. 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.

The interest expense related to Borrowings from the Government of Canada is \$488 million (2002 — \$506 million).

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 \$38 million (2002 — \$36 million) including accrued interest.

20. COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to \$53 million at 31 December 2003 (2002 — \$45 million). These outstanding commitments pertain to social housing loans which are normally advanced within a two-year period.

b) Total remaining contractual financial obligations for Housing Programs extend for periods up to 35 years.

Estimated obligations are as follows:

<i>(in millions of dollars)</i>	2004	2005	2006	2007	2008	2009 and Thereafter
	1,789	1,736	1,717	1,705	1,696	23,687

c) There are legal claims of \$22 million (2002 — \$23 million) against the Corporation. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded.

21. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the 2003 financial statement presentation.





LISTINGS

LISTINGS

BOARD OF DIRECTORS LISTING

(as at 31 December 2003)

Jocelyn Proteau

Chairman of the Board

Prior to his appointment as Chairman of the Board of Directors in September 2003, Jocelyn Proteau was Chairman of the Board and President and Chief Executive Officer of the Fédération des caisses populaires Desjardins de Montréal et de l'Ouest du Québec. He currently serves in various capacities on the boards of a number of organizations and associations.

Karen Kinsley

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.

Dino Chiesa

Vice-Chairman of the Board

Dino Chiesa is President and CEO of the Residential Equities Real Estate Investment Trust, and has served on the Board of Directors since June 2001.

Michel Bérubé

Charlesbourg, Quebec

Michel Bérubé is Vice-President of Ciment Québec Inc. 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, Quebec

Sophie Joncas is 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), Karen Kinsley, Sophie Joncas, Catherine Cronin

Corporate Governance Committee: Jocelyn Proteau (Chair), Karen Kinsley, Hugh Heron, Grace Kwok

Human Resources Committee: Michel Bérubé (Chair), Karen Kinsley, Hugh Heron, Louis Ranger

PRINCIPAL OFFICERS LISTING

(as at 31 December 2003)

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 five 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.

President and Chief Executive Officer

Karen Kinsley

National Office — Vice-Presidents

Sharon Matthews

Insurance and Securitization (Acting)

Jim Millar

Strategic Planning, Risk Management and Communications

William G. Mulvihill

Information Technology and Chief Financial Officer

Douglas A. Stewart

Policy and Programs

Berta Zaccardi

Human Resources, Legal and Corporate Services

Regional Business Centres — General Managers

Charles D. Chenard

Quebec Region

Nelson Merizzi

British Columbia and Yukon Region

Elizabeth Huculak

Prairie, Nunavut and Northwest Territories Region

Peter Friedmann

Ontario Region

Bill Smith

Atlantic Region

Corporate Secretary

Sharon Rosentzveig





GLOSSARY

OF TERMS

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).

Canada Mortgage Bonds (CMB) — 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.

Convexity — A measure of the curvature of the value of a security or portfolio as a function of interest rates indicating how the duration changes as interest rates change.

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 (e.g. 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.

Dynamic Financial Analysis (DFA) — 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.

Large Value Transfer System (LVTS) — The LVTS is a real-time, electronic wire transfer system operated by the Canadian Payments Association (CPA) to process large-value or time-critical payments quickly and continuously throughout the day. The transactions are settled on the books of the Bank of Canada on the same day regardless of what happens to any of the participants subsequently.

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

National Housing Act Mortgage-Backed Securities (MBS) — 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.

Canadian Centre for Public Private Partnerships in Housing (CCPPPH) — 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.

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

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

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

Residential Rehabilitation Assistance Program (RRAP) — 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.

Shelter Enhancement Program (SEP) — A CMHC program providing 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.

CMHC

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