HOME TO CANADIANS

Annual Report

2000

CMHC SCHL

Canada

Canada Mortgage and Housing Corporation is Canada's National Housing Agency

Our Mission

We are committed to housing quality, affordability and choice for Canadians.

Our Vision

We are a leader in housing. We meet or exceed client expectations through quality service and world-class products, supported by four key business pillars:

- Housing Finance
- Research and Information Transfer
- Assisted Housing
- Export Promotion

Our Values

In pursuing our vision, we are committed to the following values:

- *Value and Respect Employees*: All employees are treated fairly, diversity is respected and there is open and honest communication in the workplace.
- *Client Focused*: We know our clients, listen to their needs and expectations and strive to meet them in a timely fashion with excellent service.
- *Entrepreneurial*: We work in a businesslike manner with due regard for cost-effectiveness and continuous improvement. Responsible risk taking is essential and opportunities for partnership are sought.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1 800 668-2642.

CMHC offers a wide range of housing-related information. For details, call 1 800 668-2642 or visit our Web site at **www.cmhc-schl.gc.ca**

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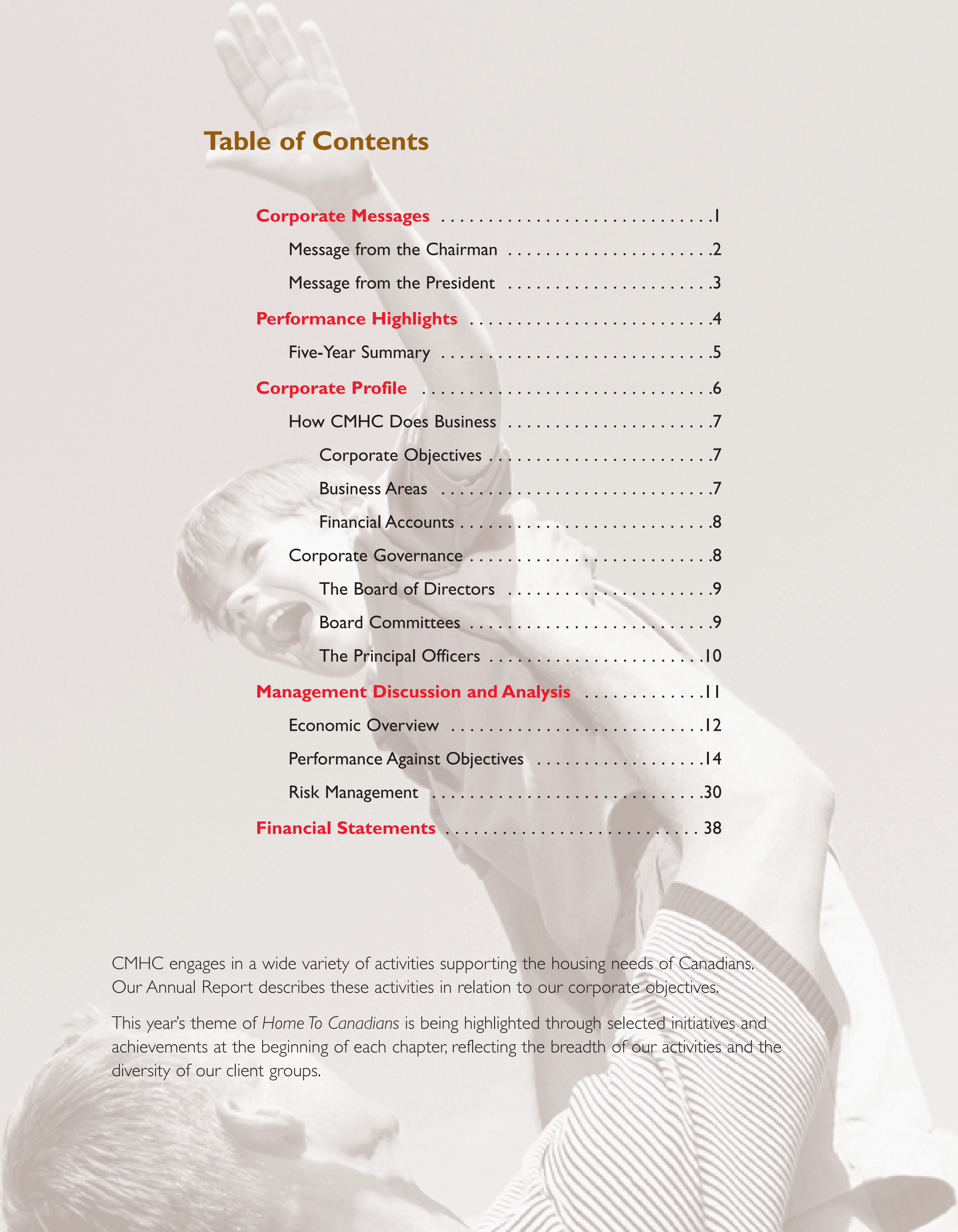

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CMHC engages in a wide variety of activities supporting the housing needs of Canadians. Our Annual Report describes these activities in relation to our corporate objectives.

This year's theme of *Home To Canadians* is being highlighted through selected initiatives and achievements at the beginning of each chapter, reflecting the breadth of our activities and the diversity of our client groups.

ACCESSING CMHC INFORMATION, PRODUCTS, PUBLICATIONS AND SERVICES

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(613) 748-2313

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mbs@cmhc-schl.gc.ca
(416) 250-2700

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1 800 668-2642

CORPORATE MESSAGES

HOME TO CANADIANS

From coast to coast…

Tumbler Ridge Initiative in British Columbia

In March 2000, in the District of Tumbler Ridge, located in northeastern British Columbia, it was announced that one of the two local coal mines would be closed. The announcement led to concerns that the closure would trigger an exodus of residents, resulting in extreme hardship for the remaining community and local businesses.

CMHC, with the District and TR Housing Corporation, negotiated an ambitious agreement to deal with the vacant or soon-to-be vacant 720 houses and five apartment blocks containing 252 units in the town. A targeted marketing initiative proved to be so successful that by year end, 450 homes were sold through TR Housing Corporation.

CMHC was pleased to be able to support the renewal of the community through our Mortgage Loan Insurance Program. This action has brought life and people back into the community, strengthening the outlook for the future of Tumbler Ridge as they face the challenges of economic diversification.

Atlantic Sustainability in Housing

EnviroHome 1998 in Kentville, Nova Scotia was the winner in the Concept and Design Category of CMHC's 2000 Housing Awards Program. The Housing Awards were created by CMHC in 1988 as a national forum to share innovations and best practices dedicated to improving housing in Canada.

The EnviroHome is an example of designing a house as a "system" that addresses occupant health and accessibility issues, sustainability concerns and energy efficiency innovations.

MESSAGE FROM THE CHAIRMAN

For many of us, our homes are both the centre of activity and the heart of our community life with friends and family. We spend time and energy maintaining our homes and rest and rejuvenate ourselves within them.

As Canada's National Housing Agency, CMHC is aware of the importance Canadians place on having safe and sound homes. Every year we touch the lives of hundreds of thousands of Canadians through our work in communities across Canada. We have been a leader in providing essential housing-related products and services in support of industry and individual Canadians for over 50 years. By ensuring access to mortgage financing, supporting assisted housing, researching housing and community issues, and promoting housing exports, it is our responsibility to be the organization that is *Home to Canadians*, and we take it seriously.

To fulfill this responsibility effectively, good governance is essential, and CMHC's efforts in this area have placed us in the forefront of innovative management practices. The Board of Directors continuously focus the Corporation on ensuring effective corporate governance, managing the variety of CMHC's activities with full transparency and accountability, while remaining responsive to specific housing needs and opportunities. Our governance practices have been further enhanced by the open and positive working relationship between the Corporation and our Minister's Office.

CMHC's Board of Directors has always encouraged innovation to enhance the growth and development of CMHC's products and services to meet the changing needs of Canadians. This past year, new services were introduced and new partnerships initiated to provide Canadians with increased flexibility in their housing choices.

I would like to take the opportunity to thank CMHC's Board members, both past and present, who have served with me to prepare the Corporation for the 21st century. On a personal note, I also want to acknowledge the leadership of Marc Rochon who, during his years as President of CMHC, brought vision and determination to the modernization of CMHC.

The achievements described in this Annual Report reflect this vision, the good work of all of CMHC's employees, and the Corporation's collective commitment and responsibility to support Canadians' housing needs now and in the future.

Peter R. Smith

MESSAGE FROM THE PRESIDENT

The year 2000 marks the beginning of my tenure as President of CMHC. As I begin my work, I am committed to building on the achievements of my predecessor, Marc Rochon, who led the Corporation through a period of transition, leaving us in excellent shape to meet the challenges and opportunities of the 21st century. I would also like to acknowledge CMHC's staff who have impressed me with their commitment to the success of the Corporation. CMHC's high standards are reflected in the considerable accomplishments outlined in this year's Annual Report, which demonstrates our ongoing dedication to helping Canadians live in healthy, safe, affordable homes.

Recording over $57 billion in residential investments, the Canadian housing industry experienced a year of strong growth in 2000, and CMHC was in the forefront of that growth. Our insurance and securitization business was strengthened in 2000 by the introduction of new insurance products that make financing a home easier for more Canadians. This year, the total value of outstanding insured mortgages by CMHC exceeded $200 billion for the first time ever. Enhancements to the secondary mortgage market through the development of a new Canada Mortgage Bond will also help increase the supply of low-cost funding for residential mortgages, in turn putting downward pressure on mortgage interest rates.

Access to affordable, high quality housing is a fundamental building block of our society. As a country, we currently spend about $3.5 billion each year on housing programs. The Government of Canada accounts for approximately $2 billion of the total. CMHC uses this funding in partnership with provinces and territories, First Nations and local communities to help low-income Canadians obtain access to adequate and affordable homes.

CMHC's research activities continued to support industry efforts to create healthy and sustainable housing options for Canadians. Internationally, our housing technology and expertise in housing finance are becoming increasingly recognized as CMHC works with its industry and other partners to market Canadian excellence in housing abroad.

CMHC has always provided a wide range of housing products, services and support, and it is this diversity that positions the Corporation as a leader in Canada's housing system and in communities throughout the country. As we recognize our achievements to date, we also look forward to the challenges of the future, working to be the organization that is *Home to Canadians*.

Jean-Claude Villiard

PERFORMANCE HIGHLIGHTS

...to coast

Circumpolar Conference

In order to share best practices and to provide opportunities for networking and exports, housing representatives, professionals and providers from across the world's northern climes, converged on Yellowknife for the second Circumpolar Housing Forum in September, 2000. CMHC and the Northwest Territories Housing Corporation were the major sponsors of this international event. Recognizing Canada's leadership in northern housing research, the Forum brought together participants from across Canada, Russia, Iceland, Poland, Norway and other countries who work with housing technology issues unique to northern climates.

FIVE-YEAR SUMMARY

CMHC has worked to provide for Canadians' housing needs for over 50 years. The following provides a summary of our most recent five years of activity, in some of the key areas of the Corporation's business.

Year	**2000**	**1999**	**1998**	**1997**	**1996**
CMHC's insurance and securitization activities are recorded in the **Mortgage Insurance Fund (MIF)** and **Mortgage-Backed Securities Guarantee Fund (MBSGF)**.					
MIF Units Insured	461 241	376 200	476 669	486 352	355 009
MIF Insurance in Force ($M)	201 000	187 392	182 450	164 000	131 000
MIF Net Income (Loss) ($M)	355	310	152	(21)	12
MIF Unappropriated Surplus ($M)	132	85	133	(9)	12
MIF Investment in Securities ($M)	4 024	3 722	3 150	2 635	2 140
MBSGF Securities Issued ($M)	11 014	12 854	9 076	6 949	1 723
MBSGF Unappropriated Surplus ($M)	66	55	44	36	30
MBSGF Guarantees in Force ($M)	34 000	28 000	19 000	15 000	14 000
MBSGF Investment in Securities ($M)	118	97	72	57	47
The **Minister's Account** funds CMHC's social and assisted housing programs.					
New Commitments (units)	27 600	20 850	13 700	10 850	13 967
Estimated Households Assisted	639 300	639 200	643 750	645 600	656 587
Grants, Contributions, Subsidies ($M)	1 997	1 886	1 841	1 900	1 945
CMHC provides loans and makes other investments, and records these transactions in the **Corporate Account**.					
Assets ($M)	17 824	17 908	17 818	16 566	15 098
Net Interest Income ($M)	13	17	24	36	24
Net Income (Loss) after Tax ($M)	9	(5)	1	11	(6)
Corporate Resources					
Operating Expenses ($M)	237	174	198	240	269
Staff Years	1 815	1 943	2 046	2 366	2 565

CORPORATE PROFILE

The Metropole Hotel

This unique project was a public-private partnership between Vancouver's Downtown Eastside Residents Association, CMHC and Canwest Developments, to create safe, healthy and affordable housing by renovating a downtown hotel in Vancouver, B.C. from single occupancy rooms to 60 self-contained units. To ensure the success of the initiative, CMHC provided mortgage loan insurance to help finance the project, and the necessary renovations were funded under the Corporation's RRAP program.

HOW CMHC DOES BUSINESS

CMHC's mandate, as stated in the *National Housing Act* (NHA), is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions." We operationalize this mandate through our Corporate Plan, which is the starting point for all of our business activities. All of our operations flow from the initiatives developed within the Corporate Plan, and related activities can be traced back to its objectives and strategies. The Board of Directors participates actively in the development of the Corporate Plan, providing strategic direction at the outset of the planning process, and identifying the key business and public policy issues to be followed up by CMHC's business lines.

Corporate Objectives

Our corporate objectives are:

Objective 1: **Improve Housing Choice and Affordability for Canadians**

Objective 2: **Improve Housing and Living Conditions for Canadians**

Objective 3: **Support Market Competitiveness, Job Creation and Housing Sector Well-being**

Objective 4: **Be a Progressive and Responsive Organization**

Business Areas

Progress on these objectives is achieved through the activities of our four business areas:

The role of Housing Finance is to promote housing affordability and choice; to facilitate access to, and efficiency in, the provision of housing finance; to protect an adequate supply of low-cost funds for housing; and to contribute to both increased competition and the general well-being of the housing sector in the national economy.

The Research and Information Transfer business area promotes innovation in the housing sector; increases industry competitiveness and consumer choice; and contributes to federal policy priorities.

CMHC's mandate in Assisted Housing is to ensure that federal housing subsidies address national housing objectives; to collaborate with interested parties in the housing community to develop affordable housing without government subsidies; to provide on-reserve housing assistance and Aboriginal capacity development programs; and to undertake special housing initiatives for the federal government.

The focus in Housing Export is to promote the housing industry's export business, with an emphasis on markets where the Canadian housing industry has the most interest and potential, while contributing to Canada's overall International Business Strategy.

Financial Accounts

CMHC's financial operations supporting corporate activities are managed under four separate accounts. The Minister's Account funds assisted housing programs and CMHC's research and export activities. The Corporate Account encompasses loans and other investments, the results of residual lending activities and housing-related services. Through the Mortgage Insurance Fund (MIF) CMHC provides insurance for Approved Lenders against borrower default on residential mortgage loans. The Mortgage-Backed Securities Guarantee Fund (MBSGF) assures the timely payment of principal and interest for investors in securities based on insured mortgages.

CORPORATE GOVERNANCE

Corporate governance at CMHC is the responsibility of the Board of Directors. Accountable to the Government of Canada through the Minister of Public Works and Government Services Canada, CMHC's Board of Directors is comprised of ten members, including the Chairman of the Board, the President and Chief Executive Officer of the Corporation, and eight other Board members appointed by the federal government from both the public and private sectors. The Principal Officers of the Corporation include the President and Chief Executive Officer, six Vice-Presidents responsible for CMHC's business lines and support functions, and five General Managers, heading up CMHC's five Regional Business Centres.

Stewardship and accountability are the two primary principles the Board of Directors has strived to recognize and achieve in its corporate governance mandate. Through the innovations it has introduced, the Board of Directors has strengthened its role as stewards of CMHC. These innovations include the establishment of a Corporate Governance Committee in 1996, revisions to the Corporate Planning process to actively implicate Board members in strategic and succession planning at an early stage, and the strengthening of the structure that the Board of Directors has in place to protect CMHC's financial integrity. The Board's Corporate Governance Committee is responsible for all aspects of corporate stewardship, and for addressing governance issues that are unique to CMHC. To demonstrate its commitment to corporate governance, in a recent review of the by-law governing the affairs of the Corporation, the Board of Directors codified the role of the Board and the Corporate Governance Committee, incorporating the roles and responsibilities of the Committee directly into its by-law.

The Audit Committee advises the Board of Directors on the soundness of the financial management of the Corporation. Its responsibilities include reviewing and advising the Board of Directors with respect to the Corporation's financial statements and the annual auditor's report.

The Board of Directors

From left to right, front row:
Cuckoo Kochar, Claude Poirier-Defoy, Jean-Claude Villiard, Janice Cochrane; *back row:* Rose Marie MacDonald, Gerald Norbraten, Peter R. Smith, Claude Hallé, Marie Bourbonnière.

Peter R. Smith
Brampton, Ontario
Chairman of the Board of Directors
President, Andrin Ltd.

Jean-Claude Villiard
Ottawa, Ontario
President and Chief Executive Officer
(as of October 23, 2000)

Claude Poirier-Defoy
Aylmer, Quebec
Acting President and Chief Executive Officer
(March 31 - October 23, 2000)

Marc Rochon
Ottawa, Ontario
President and Chief Executive Officer
(until March 31, 2000)

Marie Bourbonnière
Montréal, Quebec
Communications and Management Consultant

Renate Bublick
Vancouver, British Columbia, President, Cypress Consultants
(Board member until November 30, 2000)

Janice Cochrane
Ottawa, Ontario
Deputy Minister, Citizenship and Immigration Canada

Claude Hallé
Québec, Quebec
President and CEO, Groupe TS Inc.

Cuckoo Kochar
Ottawa, Ontario
President and CEO, DCR/Phoenix Group of Companies

Rose Marie MacDonald
Little Pond, Prince Edward Island, Real Estate Agent
(Board member as of June 8, 2000)

Gerald Norbraten
Regina, Saskatchewan
President, Norbraten Architects

Patricia Toner
Grand Falls, New Brunswick, Supervisor, Grand Falls Public Library
(Board member until June 8, 2000)

Board Committees

Corporate Governance Committee

Peter R. Smith
Chairman, Corporate Governance Committee, Chairman of the Board of Directors

Jean-Claude Villiard
President and Chief Executive Officer
(as of October 23, 2000)

Claude Poirier-Defoy
Acting President and Chief Executive Officer
(March 31 - October 23, 2000)
Vice-President, Legal Services and Corporate Secretary
(January 1 - March 31, 2000; October 23 - December 31, 2000)

Marc Rochon
President and Chief Executive Officer
(until March 31, 2000)

Marie Bourbonnière
Member of the Board of Directors
(Committee member as of October 5, 2000)

Renate Bublick
Member of the Board of Directors
(Committee member until November 30, 2000)

Claude Hallé
Member of the Board of Directors

Cuckoo Kochar
Member of the Board of Directors

Douglas Stewart
Vice-President, Policy and Programs
(Committee member as of October 5, 2000)

Pension Fund Trustees

Jean-Claude Villiard
Chairman, Pension Fund Trustees, President and Chief Executive Officer (as of October 23, 2000)

Claude Poirier-Defoy
Chairman, Pension Fund Trustees, Acting President and Chief Executive Officer (March 31 - October 23, 2000)
Pension Fund Trustee, Vice-President, Legal Services and Corporate Secretary (January 1 - March 31, 2000; October 23 - December 31, 2000)

Marc Rochon
Chairman, Pension Fund Trustees, President and Chief Executive Officer (until March 31, 2000)

Colin Crumb
Prairie, Nunavut and NWT Business Centre (Trustee as of July 11, 2000)

Louis Laflamme
Pensioner Trustee (Trustee as of March 15, 2000)

Jean-François Martin
Vice-President, Communications, Marketing and Export Development (Trustee as of October 20, 2000)

David Metzak
Research Division CMHC National Office

Jim Millar
Vice-President, Human Resources and Pension Fund

Gerald Norbraten
Member of the Board of Directors

Audit Committee

Claude Hallé
Chairman, Audit Committee, Member of the Board of Directors

Jean-Claude Villiard
President and Chief Executive Officer (as of October 23, 2000)

Claude Poirier-Defoy
Acting President and Chief Executive Officer (March 31- October 23, 2000)

Marc Rochon
President and Chief Executive Officer (until March 31, 2000)

Cuckoo Kochar
Member of the Board of Directors

Rose Marie MacDonald
Member of the Board of Directors (Committee member as of August 20, 2000)

Patricia Toner
Member of the Board of Directors (Committee member until June 8, 2000)

The Principal Officers
(as of December 31, 2000)

Jean-Claude Villiard
President and Chief Executive Officer

Karen A. Kinsley
Vice-President, Insurance and Securitization

Jean-François Martin
Vice-President, Communications, Marketing and Export Development

Jim Millar
Vice-President, Human Resources and Pension Fund

William G. Mulvihill
Vice-President, Corporate Services and Chief Financial Officer

Claude Poirier-Defoy
Vice-President, Legal Services and Corporate Secretary

Douglas A. Stewart
Vice-President, Policy and Programs

Peter Friedmann
General Manager, British Columbia and Yukon Business Centre

Elizabeth Huculak
General Manager, Prairie, Nunavut and NWT Business Centre

Robert Labelle
General Manager, Quebec Business Centre

Bill Smith
General Manager, Atlantic Business Centre

Berta Zaccardi
General Manager, Ontario Business Centre

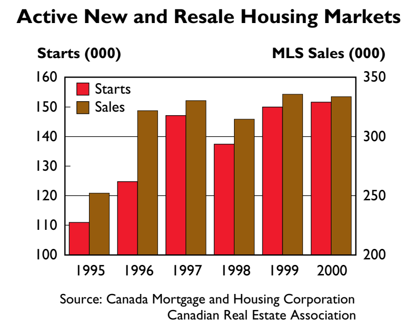
MANAGEMENT DISCUSSION AND ANALYSIS

CMHC's Housing Outlook Conferences

CMHC holds up to 18 local conferences in various regions of Canada every year, providing a forum for the housing industry to discuss the economic and demographic forces influencing housing markets in Canada, and to explore the impact of these forces on the housing industry, both regionally and nationally.

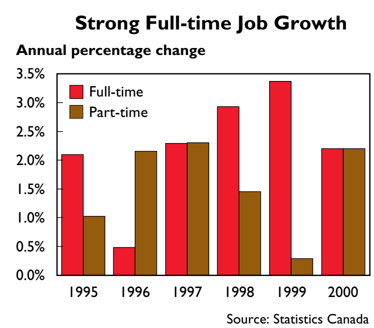
Discussions on issues such as urban development as well as information on emerging trends in housing finance, provide key information for the local housing industry and local consumers. The conferences have a wide appeal for builders, developers, realtors, lenders and suppliers, providing a one-stop source for critical local housing information.

ECONOMIC OVERVIEW



The overall strength of the economy in 2000 helped the housing industry record one of its best years since the mid-1990s. Continued economic growth, high employment levels and relatively low interest rates combined to produce desirable conditions for the residential sector. High consumer confidence translated into increased housing demand and renovation spending. A buoyant economy also spurred the construction of rental units, although the supply of rental accommodation remains a concern in many areas of the country. As described in the next section on *Performance Against Objectives*, CMHC's commercial activities contributed to the overall health of the residential sector, while our programs, partnerships and other initiatives supported those whose housing needs are not being addressed in the marketplace.

Growth and Employment



Canada witnessed the tenth consecutive year of economic growth in 2000 with the economy expanding by 4.7 per cent. Employment grew by 2.2 per cent as a result of 319,000 new jobs created. Full-time employment, which is pivotal to housing markets, also grew by 2.2 per cent. The 6.8 per cent overall unemployment rate was among the lowest in two decades.

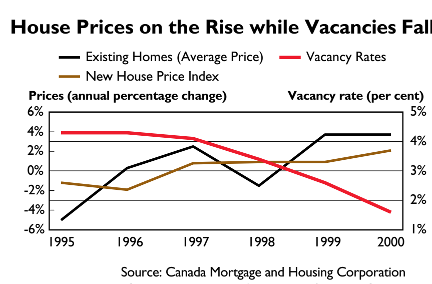
Housing Activity

The economic prosperity of 2000 resulted in significant activity in the housing industry. Spending in residential investment and repairs totalled $57.3 billion in 2000, up 4 per cent from $55.1 billion in 1999.

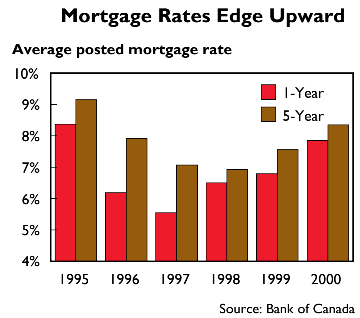
- Housing starts reached 151,653 units, up 1.1 per cent from the previous year. Single family homes were still the preferred choice, accounting for 61 per cent of all new homes.

- Strong disposable income growth, increased housing starts and high resale volumes have driven renovation activity, which includes alterations, improvements and repairs, to a new high. At $24.1 billion, total spending was up 5.7 per cent in 2000.

- While rental construction increased by 9.5 per cent in 2000, the 10,155 units built accounted for less than 7 per cent of total housing starts—a growth rate insufficient to reverse the general downward trend in vacancy rates, particularly in large urban centres. Overall, vacancy rates fell to 1.6 per cent, from 2.6 in 1999.

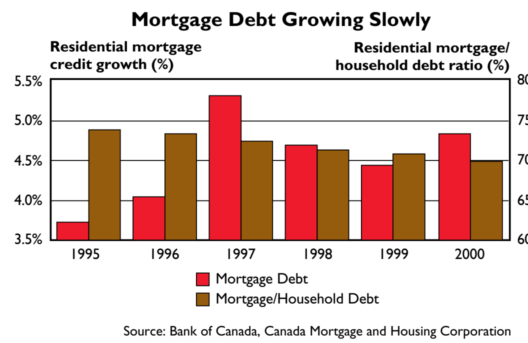


- Sales of existing homes dropped slightly to 333,698 units, from 335,734 units in 1999.
- Strong markets nevertheless drove existing home prices up 3.8 per cent in 2000 (the same percentage increase as in 1999), and the New House Price Index up 2.2 per cent. Rents also increased moderately in most centres.
- Rates in 2000 for closed 1- to 5-year mortgages rose on average by 0.75 to 1 percentage point over the year depending on the term. In the closing quarter however, rates began to ease once again.
- In 2000, housing starts in the United States totalled 1.6 million units, providing an opportunity to export Canadian housing materials to the U.S.



Mortgage Financing

Strong housing markets helped propel mortgage markets with nearly $80 billion in mortgages approved. Residential mortgage debt rose to nearly $435.6 billion as of November 2000, accounting for 70 per cent of household debt in 2000, compared to 75 per cent observed in 1994. Household debt in total was higher in 2000, rising to $623.4 billion from $449.3 billion in 1994. Secondary mortgage markets played a greater role in funding mortgages in 2000, accounting for almost 12.7 per cent of the residential mortgages outstanding as of November 2000. The mortgage market continued to embrace innovation with further application of Internet-based technologies, allowing consumers to shop on-line for mortgages, and industry to fund, service and insure mortgages. Financial and technological innovations coupled with domestic and foreign competition in the Canadian mortgage market will continue to maintain the mortgage industry as a vibrant sector within the Canadian economy.



PERFORMANCE AGAINST OBJECTIVES

CMHC is engaged in numerous activities in support of its four corporate objectives. These activities are described below with the Corporation's key accomplishments for 2000, presented in relation to the objectives set out in the 2000-2004 Corporate Plan.

Objective One: Improve Housing Choice and Affordability for Canadians

CMHC's Mortgage Loan Insurance Program and Mortgage-Backed Securities work to improve housing choices for Canadians by helping to ensure that most Canadians' housing needs are met through the marketplace. In order to assist Canadians whose housing needs are not met in the marketplace, CMHC provides housing for low- and moderate-income Canadians through funding for existing, long-term social housing commitments. In addition, CMHC engages in partnerships to support the creation of affordable housing and undertakes research to identify potential solutions to housing issues for specific groups such as Aboriginal peoples, seniors, homeless people, and persons with disabilities.

Mortgage Loan Insurance

By insuring Approved Lenders against the risk of borrower default, CMHC's Mortgage Loan Insurance allows lenders to offer mortgage funding at lower rates. This makes it easier for more Canadians to buy the home of their choice under terms they can afford. Available all across Canada, our Mortgage Loan Insurance has helped approximately one in three Canadian households obtain financing for their homes since the program was introduced in 1954. Mortgage Loan Insurance also helps landlords and developers access low-cost financing, which helps ensure the supply of affordable rental housing. In 2000, CMHC insured 461,241 units for a total of over $42.8 billion in loans insured.

MORTGAGE INSURANCE FUND (MIF)

	2000 Actual	2000 Planned	1999 Actual
Investment in Securities ($M)	4 024	4 083	3 722
Net Income after Tax ($M)	355	188	310
Unappropriated Surplus ($M)	132	103	85
Insurance in Force ($M)	201 000	197 800	187 392
Units Insured	461 241	412 921	376 200

2000 Results:

1) Net Income was higher than planned primarily because claims expenses ($307 million) were substantially lower than anticipated ($450 million) due to continued favourable economic conditions.

2) In 2000, the Corporation achieved an annual total return of 10.27 per cent on the MIF investment portfolio, compared to the 10.24 per cent by the benchmark market index. Since the introduction of the new benchmark in July 1998, the Corporation has achieved an annual total return of 5.40 per cent on the MIF investment portfolio, compared to 5.35 per cent by the benchmark market index.

A number of new insurance products and enhancements were introduced in 2000 to provide further flexibility and a greater range of financing options for Canadian housing needs. A new Pre-Qualification product streamlines the loan approval process by providing mortgage loan insurance approval in advance of a home purchase. Other new products include Enhanced Portability, allowing borrowers to take advantage of a lender's portability plan to save on costs associated with a new mortgage loan insurance premium, and a new Refinance product that no longer requires insured funds to be used solely for renovations and property improvements when adding to an existing mortgage or taking out a second mortgage loan.

Securitization

CMHC's NHA Mortgage-Backed Securities continue to be an alternative source of low-cost funding for residential mortgages. Under this program, lending institutions pool their mortgages and issue securities to investors at competitive rates. For a fee, CMHC provides a "timely payment guarantee," which ensures that investors will be paid on time and in full in the event of issuer default. For investors, the MBS program is an investment that is liquid, fully government-guaranteed and provides a monthly cash flow. For Approved Lenders, MBS products provide another sound investment product for both individual and institutional clients. In 2000, CMHC guaranteed over $11 billion in Mortgage-Backed Securities, and NHA MBS market share was 60 per cent of outstanding residential securitization volume.

Product design is also progressing on the Canada Mortgage Bonds (CMB) guarantee program, the latest enhancement to the Canadian secondary mortgage market. CMBs are non pre-payable, non amortizing funding vehicles which provide an attractive investment featuring semi-annual interest payments, repayment of principal at maturity and a CMHC guarantee of timely payment of interest and principal. The launch of the new CMB program is expected to be announced in early 2001.

MORTGAGE-BACKED SECURITIES GUARANTEE FUND (MBSGF)

	2000 Actual	2000 Planned	1999 Actual
Investment in Securities ($M)	118	107	97
Net Income after Tax ($M)	11	11	11
Unappropriated Surplus ($M)	66	64	55
Securities Issued ($M)	11 014	7 400	12 854
Securities Outstanding ($M)	34 000	31 700	27 691

2000 Results:

1) In 2000, the Mortgage-Backed Securities Guarantee Fund recorded a net income after tax of $11 million, in line with the planned level of $11 million.

2) In 2000, the Corporation achieved an annual total return of 10.27 per cent on the MBSGF investment portfolio, compared to the 10.24 per cent by the benchmark market index. Since the introduction of the new benchmark in July 1998, the Corporation has achieved an annual total return of 5.40 per cent on the MBSGF investment portfolio, compared to 5.35 per cent by the benchmark market index.

3) MBS issuance volumes rose to $11 billion against the $7.4 billion planned. Planned MBS volumes are highly dependent on lenders' liquidity requirements, and are therefore difficult to predict and can vary widely from year to year.

Programs, Partnerships and Research

Working with our provincial government partners, community housing organizations and First Nations, CMHC provided approximately $2 billion in 2000 in support of social housing programs, assisting 639,300 low- and moderate-income households across the country.

MINISTER'S ACCOUNT

	2000 Actual	2000 Planned	1999 Actual
New Commitments (units)	27 600	12 111	20 850
Estimated Households Assisted	639 300	651 250	639 200
Grants, Contributions, Subsidies ($M)	1 997	1 900	1 886

2000 Results:

1) The "2000 Actual" number for "New Commitments" is higher than the "2000 Planned" number as CMHC's Corporate Plan was finalized prior to approval by the federal government of $268 million over four years for the RRAP, ERP and HASI programs and $43 million over four years for the Shelter Enhancement Program.

2) The "2000 Actual" number for Grants, Contributions, Subsidies is higher than the planned number because it includes payments made in 2000 against prior year accruals; the planned number includes only planned payments to be made under current year authority.

Support for low-income Canadians was also provided through CMHC's Direct Lending Initiatives for social housing projects. In 2000, 1,909 projects were provided loans for social housing through the Corporate Account. CMHC funds approximately $9.7 billion in Direct Lending Initiatives and approximately $6 billion on other CMHC social housing programs and initiatives. These funds enable CMHC to provide mortgage financing as a break-even lender to non-profit and cooperative projects subsidized under Section 95 of the NHA, and to provincially and privately financed social housing projects subsidized under Section 80.

CORPORATE ACCOUNT

	2000 Actual	2000 Planned	1999 Actual
Assets ($M)	17 824	17 556	17 908
Net Interest Income ($M)	13	18	17
Net Income (Loss) after Tax ($M)	9	(1)	(5)

2000 Results:

In 2000, the Corporate Account recorded net income after tax of $9 million, compared to a planned loss of $1 million. This better-than-planned result was due to the recovery of Rural and Native Housing interest, partly offset by higher-than-planned income tax.

For those with distinct housing needs, CMHC undertakes research to find solutions for the housing challenges facing seniors, Aboriginal peoples, persons with disabilities, homeless people and other groups. Capital funding for 149 shelters was provided to renovate, repair and build new shelters, through the Shelter Enhancement Program (SEP) in 2000. In an interdepartmental initiative to help address family violence, SEP recently received an additional $43 million in funding over four years to expand the program to include shelters and second stage housing for youth.

The Native Inspection Service Initiative

The Native Inspection Service Initiative is designed to transfer the on-reserve housing inspection function from CMHC to First Nation inspectors. Technical training is initially provided by community colleges, while CMHC continues to play a role in the mentoring of new inspectors as well as performing monitoring inspections. Agreements were signed with numerous Tribal Councils within the Prairie Region in 2000, resulting in 86 per cent of on-reserve inspections being performed by native inspectors. This initiative has contributed to the larger goal of capacity development for First Nations communities.

The Aboriginal Youth Housing Internships Program provided over 150 sponsorships for on-the-job training for youth, and capacity development support was provided through technical training and initiatives, such as Aboriginal capital corporations and the Native Inspection Services Initiative.

Our Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) bringing together the public and private sectors, non-profit organizations and private citizens to develop affordable housing projects without the need for government subsidies, facilitated 42 projects in 2000, totalling 2,507 housing units.

Homegrown Solutions

In 2000, 18 groups across Canada shared $350,000 in grants to develop their ideas for affordable housing including:

Coast Housing Society, B.C.

This group is working to acquire existing modest properties and lease motel units to provide accommodation for low-income single women.

Réseau des Petites Avenues, Que.

This proposal is working to develop community housing for young people by establishing multiple person households in existing rental housing.

Future Horizons, N.B.

Community churches have acquired old school property and plan to rehabilitate it to provide housing for at risk families.

Nuc-Tuc Non-Profit Homes, Ont.

This partnership of the United Church and Taiwanese community is developing a plan to create a 60-unit apartment on church land.

Homegrown Solutions provides funding for innovative community-based projects that help increase housing affordability and choice. The Affordability and Choice Today (ACT) program has similar objectives, encouraging innovation in building and community planning practices through regulatory reform at the municipal level. Homegrown Solutions and ACT provided funding for 18 and 14 projects respectively in 2000.

CMHC also undertakes research to investigate ways to reduce the cost of housing construction, renovation, and operation, through such means as alternative financing approaches and regulatory reform. Publications in 2000, include reports examining international experience with rental policies and programs, home ownership education and counselling in the United States and municipal measures that can be used to encourage the creation of affordable housing.

Other Accomplishments

Objective One: Improve Housing Choice and Affordability for Canadians

Housing Finance

- After consultation with the Mortgage-Backed Securities Issuers Association (MBSIA), CMHC has introduced two enhancements to the NHA MBS program designed to increase the amount of insured mortgages that can be securitized and thus help increase the supply of low cost mortgage funding for Canadians. One is a new MBS pool type that accommodates the securitization of insured mortgages with conventional prepayment clauses. The second is a revision to the eligibility criteria for securitized mortgages to allow inclusion of homeowner mortgages insured by a CMHC-approved private insurer.

Programs, Partnerships and Research

- Published *Documentation on Best Practices Addressing Homelessness*, and launched the "Homeless Individuals and Families Information System" (HIFIS) in nine cities across Canada. HIFIS is a software tool to help local shelters collect information on homeless shelter clients which can then be used by governments and shelter service providers to better plan, monitor and evaluate programs and services.
- A Flex-Housing™ demonstration project, which shows how housing can be designed to accommodate changing housing needs, opened in Saint-Nicolas, Quebec.
- Produced *The Newcomer's Guide to Canadian Housing* for new immigrants, and *Supportive Housing for Seniors* for health, social service and housing professionals working with seniors.
- Presentations and workshops to encourage the development of affordable housing through partnerships were delivered.
- *Municipal Planning for Affordable Housing* was published to assist municipalities regarding affordable housing and land use planning.
- CMHC, in conjunction with the Department of Indian and Northern Affairs, participated in the federal-provincial negotiations leading to a five-year funding agreement to improve housing in Nunavik, for the Inuit of Northern Quebec.

Objective Two: Improve Housing and Living Conditions for Canadians

To improve the general condition and performance of the existing housing stock, CMHC continues to fund housing repair and renovation programs, and investigates solutions to address specific building performance issues. In addition, as part of our contribution to encouraging environmental responsibility, CMHC is committed to Healthy Housing™ and to sustainable community planning. We undertake research on the linkages between health and housing, in addition to offering a housing perspective on issues related to climate change.

Housing Programs

CMHC's programs providing home renovation and emergency funding are the Residential Rehabilitation Assistance Program (RRAP), the Emergency Repair Program (ERP), and the Home Adaptation for Seniors' Independence (HASI) program. On the basis of the five-year funding extension in 1998, and as part of the federal government strategy to address homelessness announced in 1999, funding for RRAP and related programs for the period 1999-2003 has more than doubled. RRAP provides forgivable loans to low-income individuals, people with disabilities, First Nations, and seniors requiring renovations to their homes to ensure their safety and security. Loans provided in 2000 included $136.8 million in RRAP funding, $7.2 million in ERP funding and $5.5 million in HASI funding. As well, RRAP Conversion was introduced as a new area of funding under the existing RRAP program, providing financial assistance to convert non-residential properties into affordable self-contained rental housing units.

ESTIMATED HOUSEHOLDS ASSISTED THROUGH NEW COMMITMENTS

	Number of Units		
	2000 Actual	**2000 Planned**	**1999 Actual**
Subsidy Programs			
On-Reserve Non-profit	1 250	895	1 050
Strategic Initiatives			
Residential Rehabilitation Assistance Program			
Homeowner	9 400	3 765	5 900
Disabled Homeowner	1 350	989	1 000
Rental and Rooming House	5 200	1 593	6 150
RRAP Conversion	500	0	0
On-Reserve	1 700	753	700
Subtotal RRAP	**18 150**	**7 100**	**13 750**
Emergency Repair Program	3 500	1 148	2 700
Home Adaptations for Seniors' Independence	2 600	2 142	2 000
Shelter Enhancement Program	2 100	826	1 350
Subtotal Strategic Initiatives	**26 350**	**11 216**	**19 800**
Total	**27 600**	**12 111**	**20 850**

2000 Results:

1) The "2000 Actual" numbers are higher than the "2000 Planned" numbers as CMHC's Corporate Plan was finalized prior to approval by the federal government of an additional $268 million over four years for the RRAP, ERP and HASI programs and $43 million over four years for the Shelter Enhancement Program.

2) Households served through provincial renovation programs cost-shared by CMHC are included above.

Healthy, Sustainable Housing and Communities

CMHC research on housing performance and durability helps improve overall housing quality and sustainability. Home 2000, which demonstrates Healthy Housing™, Flex-Housing™, earthquake resistance, and rain screen systems, opened in Vancouver, to be used for display and educational purposes for five years on the campus of the British Columbia Institute of Technology.

CMHC also worked on longer term measures to improve the competence of the industry in matters of housing design, construction, renovation and operation to help industry enhance its practices and professionalism. Solutions for specific building performance issues, such as the publishing of two guides to assist in the rehabilitation of moisture-damaged condominiums, were also developed.

CMHC at Montréal's *i*Sci Centre

CMHC was one of the principal founders of the *i*Sci Centre in Montréal. Inaugurated in May 2000, *i*Sci is a first in Canada. Devoted to scientific, technological and industrial culture, the mission of this centre is to help everyone, especially the young, acquire an understanding of science and technology. CMHC contributed to the contents of the Centre's SHELTER zone, which looks at housing from the viewpoint of individual health and respect for the environment. The *i*Sci Centre, located in the Old Port of Montréal, has welcomed over 600,000 visitors since it opened.

CMHC's Healthy Housing™ principles encourage housing practices and choices which support better occupant health, energy efficiency, resource efficiency, environmental responsibility and affordability in our homes and communities.

A First Nations demonstration project at Eagle Lake in Ontario, showcases many solutions that benefit remote and northern locations. CMHC also supports research to remove barriers to the adoption of Healthy Housing™ by identifying and promoting more affordable, environmentally sustainable housing options and community planning. In 2000, CMHC studied the linkages between housing practices, the indoor environment and occupant health. In support of First Nations, CMHC provided funding and research for specific Aboriginal housing issues and training opportunities for First Nations communities to develop the skills needed to manage their own housing needs.

Eagle Lake Healthy House: The First House of its Kind

The Eagle Lake Healthy House is an innovative solution to issues related to housing durability, costs, water quality and safety for northern and remote locations. The house achieves energy efficiency through airtight wall and roof construction, thermally efficient windows and doors, high levels of insulation and weather resistance in the building envelope and energy efficient appliances. Materials used to complete the interior of the house emit few chemicals and vapours, improving indoor air quality.

Other Accomplishments

Objective Two: Improve Housing and Living Conditions for Canadians

Healthy, Sustainable Housing and Communities

- Working with water management organizations, *The Household Guide to Water Efficiency* was published and is being distributed by municipalities across Canada.
- The *Sustainable Community Indicators Program* was launched in partnership with Environment Canada and with the participation of the Federation of Canadian Municipalities, providing municipalities with software and a Web site interface to measure and monitor environmental health, and *Practices for Sustainable Communities* was published, documenting Canadian case studies and community solutions to address sustainability issues.
- The *Healthy Housing Renovation Planner*, for consumers was published, providing guidance on indoor occupant health concerns while reducing the environmental impacts of constructing and maintaining a home.

Advancements in Housing Technology

- CMHC also contributed to the development of the Home 2000 demonstration house, providing educational opportunities in conjunction with the British Columbia Institute of Technology.
- In consultation with the Building Envelope Research Consortium (BERC) in British Columbia, two comprehensive guides were produced for the rehabilitation of moisture-damaged condominiums, one for consultants and one for owners/property managers.

Aboriginal Capacity Development

- Aboriginal capacity development focused on improved management of housing systems through the provision of training in areas such as property management, arrears management and Indoor Air Quality investigation.

Objective Three: Support Market Competitiveness, Job Creation and Housing Sector Well-being

CMHC competes with the private sector for mortgage insurance business. In order to ensure a competitive position, CMHC works to strengthen relationships with key clients to solidify our position as the mortgage insurer and securitizer of choice. Technology is used to reduce mortgage insurance operating costs and expand our competitive advantage. In support of the housing sector, research and housing market information on issues and trends is provided for the benefit of both industry and consumers. As well, in order to facilitate the export of Canadian products and expertise, in partnership with industry and other Trade Team Canada members, CMHC provides housing expertise as part of Canada's International Business Strategy.

More Efficient Service and Higher Standards of Quality

CMHC continues to upgrade and improve its business practices and procedures. The aim is to continuously improve the speed and efficiency of obtaining mortgage funding while maintaining high standards of risk management and quality control.

Initially introduced in 1996, CMHC's automated mortgage insurance approval process (**emili**) reduces the time needed to approve a mortgage insurance application to minutes or even seconds. Ninety-one per cent of homeowner mortgage loan insurance applications are now being processed through **emili**. With more recent technology upgrades, 53 per cent of applications are now being fully processed within five minutes and 85 per cent within four hours. Increased usage of electronic delivery systems continues to increase efficiency and reduce operating costs. Initiation expenses as a percentage of fees and premiums have decreased by 20 per cent in the last three years and application fees have been reduced from $235 to $165 over the same period.

Streamlined procedures for processing claims have also been implemented. On average, CMHC now pays claims on homeowner loans in less than two days, considerably faster than the five-day turnaround time agreement the Corporation has with its clients.

The CIMBL "Partners in Excellence" Award

The Canadian Institute of Mortgage Brokers and Lenders (CIMBL) presented CMHC with the first "Partners in Excellence" award for Corporate Contribution at their national conference in 2000, in recognition of CMHC's "outstanding contribution in presenting the *Fraud Awareness Forums*."

CIMBL is a national organization formed in 1994, with the goal of enhancing ethics, education, public profile and professionalism in Canada's mortgage industry.

In 2000, a comprehensive framework was developed to ensure that CMHC-insured loans continue to be well managed. This included providing Approved Lenders with insured mortgage loan portfolio benchmarks. As well, CMHC continues to play a leadership role in ensuring quality and helping to protect the mortgage market from fraud. Together with Approved Lenders, new tools were introduced in 2000 to ensure quality underwriting and promote fraud awareness and detection.

Export Promotion

CMHC's strategy to support the export of Canadian housing products, services and expertise focused on eight target markets in 2000: the United States, Japan, Germany, the United Kingdom, Chile, Poland, South Korea, and China. In response to industry needs, CMHC researched ways to help reduce non-tariff barriers to trade, such as incompatible codes and standards, and provided market intelligence to identify business opportunities, and to promote Canadian housing expertise abroad. To date, CMHC is working with upwards of 400 key housing exporters.

CMHC also continues to provide expertise in international cooperation projects in Russia, China, the West Bank and Gaza, Mali and Trinidad and Tobago. The Canadian International Development Agency (CIDA) is our partner in some of these projects. In 2000, the Palestinian Mortgage and Housing Corporation was launched with technical expertise provided by CMHC. As part of our ongoing commitments abroad, CMHC continues to develop linkages with other international financial institutions.

Opening the Doors to the Housing Market in China

CMHC's Pavilion at the China International Exhibition on Housing Industry in July 2000, was visited by an unprecedented number of senior level decision makers from the Chinese housing industry in both the public and private sectors. Twelve Canadian companies and institutions participated in the CMHC Pavilion, presenting a broad range of products and services to a market where it is estimated that the investment in housing will experience an annual growth rate of 7 per cent for the next 20 years.

Market Research and Analysis

In 2000 the Market Analysis Centre concentrated on updating technical systems, in addition to engaging in consultations and information campaigns with clients. To address technical systems, an e-store and a Geographical Information Systems pilot project were launched with additional efficiencies created by improving databases and statistical information.

Consultations and information campaigns for clients were conducted through the establishment of Industry Advisory Groups, comprised of representatives from all major associations with an interest in housing markets. Opportunities to partner with some key industry associations were facilitated through a series of Housing Outlook Conferences/Breakfast seminars held throughout the country. In most regions, the number of conferences was expanded and attendance exceeded that of 1999.

As part of product improvements, *The Consumer Intentions To Buy or Renovate a Home*, which is a sophisticated survey instrument developed by CMHC for assessing the planned housing market expenditures of consumers, was completed in 2000. Other new reports such as seniors housing reports, a highlight of market trends for realtors and a secondary rental market study, were also introduced in some regions in 2000.

Other Accomplishments

Objective Three: Support Market Competitiveness, Job Creation and Housing Sector Well-being

Business Enhancements

- CMHC delivered Fraud Awareness seminars in every region of the country, some sponsored by the Canadian Institute of Mortgage Brokers and Lenders (CIMBL). Over 1,700 people attended 12 Fraud Awareness seminars across Canada in 2000. In addition, several **emili** enhancements will assist Approved Lenders in identifying possible fraud and misrepresentation before mortgage loans are funded.
- **emili** is now available to Approved Lenders to assist them to underwrite their low ratio loans with loan-to-value of less than 75 per cent.

Market Analysis

- Housing Outlook Conferences grew in popularity with attendance up 160 per cent.

Export

- In 2000, CMHC signed a variety of agreements with other countries to facilitate the exchange of information and expertise in housing, to look at issues related to codes and standards, housing finance, and so on. Through these agreements, better trade relationships are being advanced with India, Poland, Ukraine, Romania, South Korea and Russia.

Research

- A CMHC feasibility study was completed that identified a way to track the number of new households created annually in Canada's major centres. This new data series will enable a better identification of the demand for housing in local market areas.
- Case studies examining alternate home ownership options and studies on reconditioned housing units in Montréal and Québec City were conducted.
- Three related reports on municipal infrastructure were released focusing on alternative financing methods, demand management and public-private partnerships.
- A new CD-ROM database, *Housing in Canada* was released, enhancing government and industry decision making on housing-related issues by providing desktop access to CMHC's custom household and housing conditions data.

Objective Four: Be a Progressive and Responsive Organization

CMHC has always worked closely with other federal departments and agencies on horizontal policies and priorities of the Government of Canada. As well, CMHC engages in a variety of communications and marketing activities in order to generate more recognition of the federal contribution to housing and to increase the awareness of CMHC's position as the most comprehensive source of housing information. CMHC's communication and marketing strategies also work to improve customer satisfaction, and thereby increase the sale of CMHC products and services.

Capitalizing on leading edge technologies and business practices, CMHC works to ensure that human resource management policies, programs and practices are in place so that the Corporation remains an employer of choice, accommodating a flexible, effective and resilient workforce.

Support of the Federal Policy Agenda

CMHC's contribution to federal policies involves support for specific housing-related issues as they arise, and providing long-term support on other initiatives. In September, Canada and New Brunswick co-chaired a meeting of all provincial and territorial housing ministers. This was the first time the housing ministers had met in over five years and there was notable action on several key issues. Ministers agreed to establish a working group to look at a broad range of ways to increase the supply of affordable rental housing, and a second group to look at housing needs in rural and remote areas.

Support for British Columbia Housing

Announced by the federal government in 2000, CMHC is providing up to $27.7 million from its Mortgage Insurance Fund to assist homeowners facing financial hardship who cannot afford to repair their moisture damaged homes, including condominiums, housing co-operatives and other types of homes. The assistance is being administered by British Columbia's Homeowner Protection Office.

Throughout 2000, the Provinces of Quebec, Alberta and British Columbia continued to discuss with CMHC the Government of Canada's offer to transfer social housing administration. To date, nine jurisdictions have signed new agreements and are enjoying the benefits of streamlined administrative arrangements.

CMHC has also been active on issues such as homelessness and family violence, bringing a housing perspective and housing resources to these key social issues. Recognizing CMHC's role in helping to improve housing and living conditions, the Corporation's housing renovation programs were expanded by $311 million as part of the Government of Canada's overall strategy to invest $753 million to address homelessness. CMHC has also participated in the Urban Aboriginal Strategy since its initiation, bringing together federal initiatives and resources in key areas such as: health, employment, education and training, economic development, justice and housing. In 2000, expertise and an estimated $700,000 were provided through CMHC's Aboriginal capacity building efforts to assist in the expansion of knowledge, development of skills and to enhance the experience of Aboriginal peoples.

Operational Efficiency

Internal operations continued to be streamlined in 2000, to encourage increased efficiency. Business operations in the Montréal metropolitan area were consolidated into a single location, generating operating efficiencies through the sharing of central services by all staff in a single office. As well, housing loan administration was restructured from six to three business centres across the country in order to accommodate changes to loan administration nationally. The organizational structure of the insurance and securitization business within CMHC was realigned in 2000 to ensure that we remain abreast of the trends in the mortgage industry and of the needs of our customers. The communications and marketing functions were also reorganized with an increased focus on consumer marketing. The primary focus of our strategic corporate marketing initiatives was a strengthening of CMHC's brand through increased awareness, maximizing the tremendous potential of the Web and other leading edge technologies.

In the Insurance business, the Corporation's upgraded **emili** software, which can now be accessed over the Internet, promotes operational efficiencies and facilitates the implementation of new products and risk mitigation practices. In 2000, CMHC also began redesigning the Corporate Web site, incorporating additional e-commerce capabilities and interactivity for business and consumer clients, including direct access to new insurance marketing collateral, activity reports and guidelines to Approved Lenders, and the introduction of resale property listings for large foreclosed rental properties. Enhancements to the Market Analysis and Affordable Housing components of the Web site were also introduced.

emili "Up-Time"

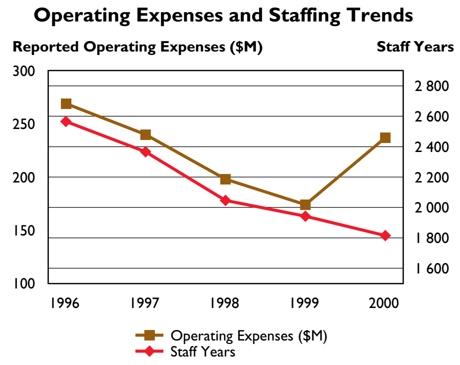
To respond to client needs, CMHC's automated underwriting system (**emili**) is available to process applications for mortgage loan insurance 7 days a week. During normal working hours in 2000, **emili** was available for processing insurance transactions 99.1 per cent of the time, an increase from 98.7 per cent in 1999. A high system "up-time" ensures that CMHC is always ready to provide mortgage insurance to Canadians.

In terms of human resources, a modernized performance management program was implemented to facilitate improved performance and employee development, to link individual success to business results, and to reinforce corporate values. To ensure that employee capabilities match business needs, a full range of competency tools, employee success profiles and a new staffing manual went on-line to all employees.

To support the strategic management of information and resources, improvements were made to elements of CMHC's human resources information systems. As well, a new electronic database known as HR On-Line was released. Accessible to all employees across the Corporation, HR On-Line contains a multitude of policies, information and tools to reinforce effective human resources management practices.

Finally, in 2000, a review of all CMHC's records held in Federal Records Centres across the country was conducted, providing CMHC with more complete and accessible data on information holdings, in addition to reducing the overall cost of records storage.

Adjusted Operating Expenses



With the ongoing implementation of the kinds of efficiencies described previously, CMHC's staff years and operating expenses have been steadily declining over the last five years, with the exception of an increase in reported operating expenses in 2000. Operating expenses in 2000 were reported at $237 million, representing an increase of $63 million over 1999 expenses. This increase is due to adjustments related to restructuring costs, the assistance provided to homeowners in British Columbia with moisture damaged homes and the new accounting policy for employee future benefits. Staff years, on the other hand, have continued to follow a more steady downward trend to the year 2000. In recent years, staffing levels have declined on an annual basis, falling by approximately 29 per cent from 2,565 in 1996, to just over 1,800 in 2000.

CMHC in the Community

Maintaining its tradition as a good corporate citizen, CMHC actively participates in events and projects supporting communities across the country. All of the Corporation's offices participate in Canada's national United Way/Healthpartners Campaign, and for more than 13 years, CMHC employees have volunteered their time and energy to host the increasingly popular annual event known as "Community Day."

Community Day in Ottawa

Held on the grounds of CMHC's National Office Complex, in 2000, Community Day attracted over 50,000 people, and raised over $25,000 in support of the Government of Canada Workplace Charitable Campaign (GCWCC). At this year's GCWCC closing ceremonies, CMHC received awards in recognition of our community and fundraising efforts and for having the highest percentage increase in donor participation in our 2000 campaign.

In March 2000, CMHC also announced that it had become a major financial partner of the Games of La Francophonie of 2001, contributing funds to ensure that some 2,600 international participants are well housed in the Athletes' and Artists' Village, known as the FrancoSphère.

In British Columbia, Granville Island is an urban oasis in the heart of metropolitan Vancouver, managed and developed by the Corporation as stewards on behalf of the Government of Canada. The remnants of an industrial harbour facility, Granville Island was redeveloped in the mid-1970s and has become an eclectic, urban waterfront neighbourhood, considered one of the best examples of such redevelopment in the world. The island attracts some nine million visitors annually, many to the renowned Granville Island Public Market, the most successful public market operation of its kind in North America.

Granville Island

Each summer on Canada Day, CMHC's Granville Island administration produces and sponsors the second largest Canada Day celebration within the Greater Vancouver metropolitan area.

Other Accomplishments

Objective Four: Be a Progressive and Responsive Organization

Human Resources

- Approval and implementation of the Official Languages policy review will help to ensure that CMHC has appropriate measures in place to serve Canadians and respect federal policy.
- A new incentive compensation policy was implemented and policy decisions were reached on compensation measures that will facilitate employee and leadership development, and ensure that CMHC remains an attractive employer.
- Diversity initiatives were extended with the addition of the Diversity Champion award, which allows employees to recognize peers who stand as examples in their practice of diversity principles.

In Support of Federal Policy

- The National Housing Research Committee (NHRC), sponsored and co-chaired by CMHC with representatives from provinces/territories, national organizations and federal departments met to discuss research activities and priorities.

Support for specific initiatives

- CMHC participates, in conjunction with Human Resources Development Canada (HRDC) and Public Works and Government Services Canada (PWGSC), in the provision of funding to projects addressing homelessness under the Supporting Communities Partnership Initiative (SCPI).
- In concert with other federal government departments, program development is continuing to facilitate the use of surplus federal properties for housing needs.
- Partnered with the Social Sciences and Humanities Research Council (SSHRC), CMHC will provide nearly $2 million in research grants over the next three years, in the area of Housing in Sustainable Communities and Aboriginal Housing in Canada through the SSHRC, Community-University Research Alliance (CURA) Initiative.
- Twenty-one research grants were awarded to Canadian researchers under the External Research Program in the private and not-for-profit sectors supporting innovative research efforts.
- With the theme "Tomorrow's Housing Today: Meeting the Housing Challenges of the New Millennium," CMHC's Housing Award Program showcased 13 finalists in five categories at a national forum in 2000.

Communications and Marketing Strategies

- CMHC's brand was promoted on a more consistent basis through the use of the harmonized look and corporate messaging that reflects the federal government's role in housing.
- A Housing Assistance Visibility communications strategy was designed and implemented, providing an overall communications direction demonstrating CMHC's contribution to affordable housing.
- CMHC's Order Processing Information Management System (OPIMS) project, an enterprise system deployed corporate-wide at CMHC, was launched in the fall of 2000. OPIMS is a centralized integrated software system that incorporates a Call Centre, a marketing database, and in 2001, will accept orders via the Internet with real-time electronic commerce.

RISK MANAGEMENT

In the normal course of CMHC's business affairs, the Corporation faces credit, market, liquidity and operational risks. CMHC actively manages these risks to safeguard the Corporation's capital and to support the achievement of the Corporation's mandate and objectives.

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, ALCO is a decision-making body responsible for evaluating and overseeing operational management of treasury-related activities, financial positions, risk exposures and financial strategies of the Corporation. Acting as an advisory body to ALCO, the Investment Committee provides technical and external support for CMHC's investment activities related to the management of the Mortgage Insurance and Mortgage-Backed Securities Guarantee Funds. These committees support the Board in its responsibility for establishing the financial risk tolerance of CMHC and for annually reviewing and approving necessary changes to the financial risk management policies of the Corporation.

CREDIT RISK

Credit risk is the risk of loss resulting from default by a counterparty, typically as a consequence of its insolvency or the risk of loss resulting from a credit downgrade. CMHC incurs credit risk from the Corporation's investing, lending and associated hedging activities, as well as from insurance-related activities. Credit risk is identified, evaluated and managed in order to minimize expected losses and optimize returns, subject to appropriate levels of risk.

Investment and Loans Activities

Credit exposure associated with the Corporation's financial transacting and financial instruments is consolidated, measured and controlled on an aggregate basis by counterparty for all investing and hedging activities (excluding the consolidation of pension investment activities). Total exposure is calculated using estimated fair values plus add-ons for potential exposures, as appropriate. Limits are established by counterparty, subject to a number of credit worthiness criteria, including credit ratings and financial strength. Exposures and limits are continually reviewed.

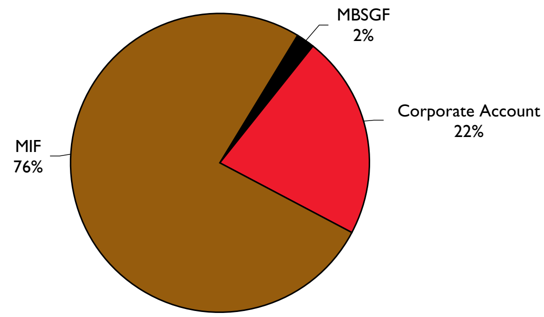
CMHC's loan assets outstanding have the credit risk either covered by the MIF or supported by federal and/or provincial agreements.

Credit exposure positions are calculated and reported on a daily basis, and the creditworthiness of each counterparty is monitored and reported to ensure that exposures remain within approved limits. The Treasurer and the Chief Financial Officer are notified of all credit limit violations upon occurrence, and ALCO and the Board are updated in a quarterly risk management report, or more frequently as necessary.

The following chart outlines the distribution of consolidated treasury-related credit exposure by business account.

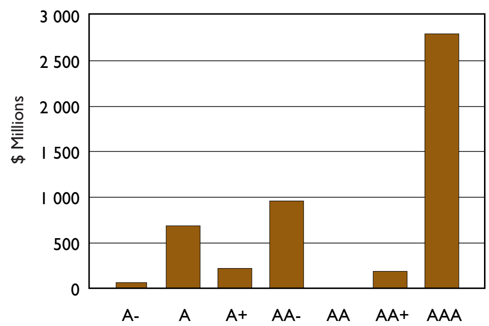
As at 31 December 2000, the total consolidated market value of derivative and investment exposure in the Corporate Account Portfolio (CAP), the Mortgage Insurance Fund (MIF) and the Mortgage-Backed Securities Guarantee Fund (MBSGF) was $5,495 million. As at December 31 2000, the CAP accounted for 22 per cent of the market value of the total portfolio, compared to 26 per cent last year. The bulk of the consolidated exposure, $4,276 million, represents investments in the Insurance and Guarantee Funds (IGF).

Consolidated Exposure by Account



Credit exposure is generally divided into short-term (less than one year) and long-term (greater than one year). Eighty-seven per cent of short-term investments were rated "R-1 (high)", "AAA" or "AA." Of the long-term exposure ($4,767 million), the majority, $3,843 million or 81 per cent, was to "AAA" and "AA" rated counterparties. Included in the "AAA" category is exposure of $2,307 million to the Government of Canada (42 per cent of the consolidated portfolio). The remaining 19 per cent or $924 million was invested in "A" rated counterparties. Given the high credit quality of the portfolio, the risk of loss is negligible based on historical default rates.

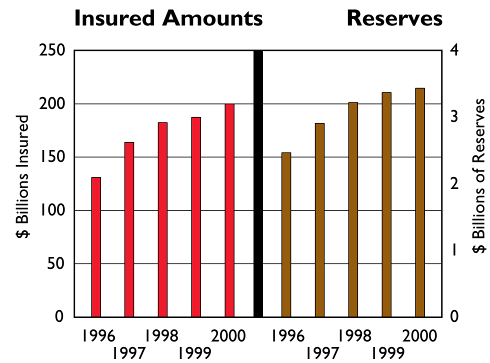
Long-Term Exposure by Credit Rating



Insurance and Securitization Activities

Mortgage Insurance Fund

The major risk of financial loss to the Mortgage Insurance Fund (MIF) is the amount of future claims associated with insured mortgages relative to 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. They are highly correlated to borrowers' ability to continue servicing their mortgage loans.

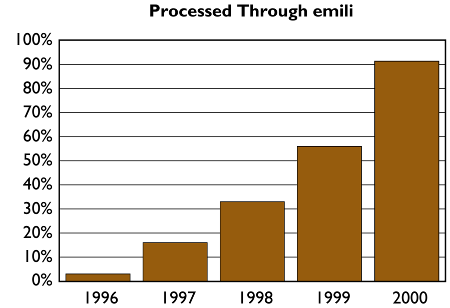


CMHC has a long history of management of mortgage default credit risk in 'good' and 'bad' economic times through its provision of NHA mortgage loan insurance. CMHC's portfolio of insured mortgages has grown steadily over time and now amounts to just over $200 billion. CMHC sets aside reserves in the MIF to cover expected future losses. Currently, these reserves total close to $3.5 billion. They provide the means to settle possible future claims thereby ensuring that lenders can continue to provide high ratio mortgages to Canadians at competitive interest rates.

CMHC follows the Office of the Superintendent of Financial Institutions (OSFI) solvency standards for mortgage insurance companies in the determination of policy and claims provisions and the recognition of premium revenue over time. In addition, CMHC also establishes additional policy reserves in accordance with OSFI standards.

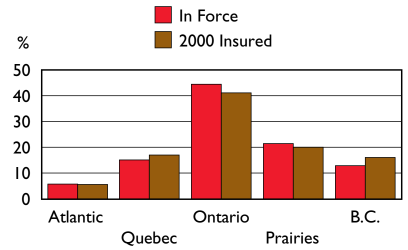
CMHC actively manages credit risk with its state-of-the-art automated underwriting system, **emili**, introduced in late 1996. Usage of **emili** has steadily increased since then and in December 2000, more than 90 per cent of homeowner applications were risked through **emili**. Incorporated within **emili** is a loan quality assessment model, a market risk assessment model and a property value risk assessment model. Together, these automated models provide our underwriters the tools with which to effectively identify higher risk mortgage loan applications. Our underwriters can then take further steps to determine if risk mitigating actions would effectively reduce the overall risk to a level which is acceptable to the MIF. CMHC monitors and adjusts its risk assessment models based on actual claims experience. In addition, CMHC's extensive network of market analysts regularly update the market risk models based on changes in local market conditions across Canada. Every new insured mortgage is used to update the information going into the property risk assessment model. CMHC Approved Lenders can also benefit from **emili** to assist in their risk analysis of their mortgage lending business.

Percentage of Homeowner Applications
Processed Through emili



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 factor to higher credit losses have historically demonstrated that they are also geographically distributed and changing over time. By providing insurance across Canada —urban and rural, east and west, north and south—CMHC has effectively diversified its insured loan portfolio credit risk.

Distribution of Insured Amounts



Finally, at the level of the MIF itself, CMHC uses financial analysis techniques to measure the Fund's ability to withstand more broad-based economic shocks, from severe economic scenarios to the more normal adverse economic events. These techniques together with an annual actuarial valuation provide management with the necessary information to effectively manage the MIF insurance risks.

Mortgage-Backed Securities Guarantee Fund

In addition to providing mortgage loan insurance, CMHC is also active in the secondary mortgage market in making mortgage funds more liquid in Canada. This is currently achieved through the issuance of Mortgage-Backed Securities, the timely payment of which is guaranteed by the Mortgage-Backed Securities Guarantee Fund of CMHC. Mortgage-Backed Securities may be issued by financial institutions that are CMHC Approved Issuers. All mortgages in Mortgage-Backed Securities must have mortgage insurance and, consequently, the mortgage default risk is covered by mortgage insurance providers. Therefore, the major risk of loss to the Fund is its ability to fund its timely payment guarantee in the event of Issuer default. As at 31 December 2000, 100 per cent of the mortgage insurance on MBS securities was underwritten by the Mortgage Insurance Fund of CMHC. Total guarantees in force at the end of 2000 amounted to $34 billion. Of this amount, 91 per cent was issued by financial institutions with a credit rating of "A" or better.

MARKET RISK

Market risk refers to the risk of the Corporation incurring a financial loss as a result of adverse fluctuations in interest rates (interest rate risk) and/or foreign exchange rates (currency risk). The Corporation's risk policy limits the risk of loss from adverse movements in interest rates and foreign exchange rates by ensuring that activities are hedged.

Market risk associated with the Corporation's financial transacting is managed through treasury strategies including:

- matching duration of assets and liabilities;
- utilizing derivatives to hedge exposures;
- negotiations to reduce prepayment risk.

The Corporation evaluates and manages market risk on an economic fair value basis, and controls its exposures using risk limits based on interest margin and duration.

Interest Rate Risk - Prepayment/Repricing Risk

The Corporation is exposed to significant prepayment and repricing risk resulting from loans made under various sections of the *National Housing Act*. This risk is managed using various funding and business strategies. Although unlikely, given historical experience, there could be an impact on earnings up to $520 million over a 25-year horizon.

Interest Rate Risk - Sensitivity

The table below provides a view of the risk to the overall CAP portfolio described in terms of the impact on estimated fair value associated with immediate and sustained interest rate changes. The rate scenarios utilized in this analysis were based on current policy, which set limits based on 200 basis points (bp) parallel and rotational interest rate shocks on interest margin.

	Change in Value ($ millions)	**Estimated per Annum Impact*** ($ millions)	**Volatility of Annual Impact**** (Std. Dev. $ millions)
Parallel Shocks			
200 bp+	(65)	(5)	8.6
200 bp-	137	29	19.7
Rotational Shocks			
200 bp clockwise	142	34	22.4
200 bp counter-clockwise	(66)	(11)	5.8

* Calculated as the total economic impact divided by the duration of the portfolio

** Based on a 12-month period ended 31 December 2000

The table illustrates the CAP portfolio is exposed to increasing interest rates and counter-clockwise rotations of the yield curve which is primarily due to asset/liability duration mismatches.

Interest Rate Risk - Duration

The modified duration of CMHC's Insurance and Guarantee Funds investment funds is managed within a range relative to the modified duration of the benchmark index (i.e. 5.69 years using Scotia Capital Universe Index). As at 31 December 2000, the modified duration of the Insurance and Guarantee Funds, at 5.67 and 5.68 years, respectively, were well within predefined limits, which ensures that the Funds' price sensitivity to interest rate changes relative to the index is limited. Over the year, volatility of the funds has closely mirrored that of the benchmark index.

Currency Risk

The Corporation is not exposed to currency risk, as required by policy. Currency exposure is fully hedged to Canadian dollars through the use of cross currency swaps.

LIQUIDITY RISK

Liquidity risk policy ensures that the Corporation has sufficient cash to meet projected cash requirements. The Corporation manages liquidity risk by establishing appropriate limits and by ensuring that there are sufficient sources of cash through:

- unutilized commercial paper borrowing authority;
- back-up lines of credit;
- other cash and liquid investments.

As of 31 December 2000, $1.7 billion was utilized of the $3 billion commercial paper limit. Throughout the year, the daily average utilization was $1.1 billion. The back-up lines of credit were not utilized.

OPERATIONAL RISK

General Operational Risk

Operational risk refers to the risk of unexpected loss resulting from deficiencies in business processes, information systems and/or internal controls. CMHC protects its assets and financial viability against the risk of damages and accidental losses by ensuring that appropriate measures are in place to minimize and control the frequency and severity of losses. CMHC has policies and practices in place for these purposes. Measures are also in place to protect the Corporation from general operational risks related to property damage, third party liability, crime and fraud and loss of income caused by damage to income producing assets.

Information Technology Business Systems

General Operations

General information technology operations risk concerns the possibility that losses could be incurred should information systems fail for any reason. CMHC has implemented processes and procedures to limit the risk of exposure, including contracting of specific services with suppliers for daily back-up of key information to an off-site location, and the recovery of critical business systems within 72 hours to a disaster recovery facility. Emergency plans are tested annually to ensure currency and recoverability.

Treasury Systems

An effort is underway to improve the Corporation's capability to analyze and report on its financial positions, performance and risk exposures. This systems upgrade is focused on the three key themes of deal capture, risk management and asset/liability management, which will result in enhanced analytics, data integration, data integrity and automation of manual processes. Recovery scenarios are documented and in place for CMHC's Treasury and Risk Management Systems.

emili System

CMHC's core **emili** system is processed on the mainframe computer infrastructure that the Corporation utilizes with data backed-up daily to an off-site location to minimize risk associated with data loss or corruption. In addition to the disaster recovery site, redundancy for the **emili** system has been established by automatically mirroring the data to a duplicate processing environment to which processing can be transferred within 30 minutes of a failure to the main system.

Human Resources Risk

Human resources risk concerns the possibility of not attaining corporate objectives due to a lack of appropriately skilled personnel as well as the risk that there is insufficient alignment of individual effort to desired corporate results. CMHC manages these risks by ensuring that there is corporate continuity of resources through succession planning in the leadership cadre and by ensuring that employee performance is aligned with business objectives and corporate values through the new performance management process introduced in 2000. This process covers planning objectives, periodic progress reports and annual performance evaluation, including behaviour competency identification, assessment, and development.

Legal Risk

Legal risk refers to the risk of loss that may result from entering into legally unenforceable contracts. Legal and legislative advice and services are provided to the Corporation to ensure that CMHC conducts its business and affairs in compliance with applicable federal, provincial and international legislation and general laws. Systems and practices are in place to ensure that all financial instrument contracts and agreements are adequately documented and legally enforceable, and to ensure that CMHC's legal interests are protected. These systems and practices ensure that CMHC is in compliance with the laws that govern the Corporation, in particular with the NHA, the *CMHC Act* and the *Financial Administration Act*.

FINANCIAL STATEMENTS

Affordability and Choice Today (ACT)

Fourteen grants were awarded in 2000 under the ACT Program to help develop affordable housing that is responsive to the needs of all Canadians, benefitting small and large communities across the country.

ACT grants help municipalities and the housing sector work together to change planning and building regulations to decrease costs and provide improvements in housing affordability, while preserving and enhancing quality and living environments.

Projects receiving grants in 2000 include the development of a planning tool to estimate affordable housing potential on vacant land and a project to simplify the fee structure to increase efficiencies and reduce construction costs, encouraging the development of affordable housing in communities.

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended 31 December 2000 were prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

The financial statements have been audited by the joint external auditors, Jean-Guy Poulin, CA, of the firm Arthur Andersen & Cie and L. Denis Desautels, FCA, Auditor General of Canada. Their report offers an independent opinion of the financial statements to the Minister of Public Works and Government Services.

Jean-Claude Villiard
President and Chief Executive Officer

Bill Mulvihill
Vice-President, Corporate Services
and Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and the Insurance and Guarantee Funds as at 31 December 2000, and the related statements of operations and retained earnings, operations, surplus, and cash flows, and the Minister's Account statement of expenses recoverable 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 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for employee future benefits as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

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

L. Denis Desautels, FCA
Auditor General of Canada

Jean-Guy Poulin, CA
Arthur Andersen & Cie
General Partnership

Ottawa, Canada
23 February 2001

CORPORATE ACCOUNT

BALANCE SHEET
AS AT 31 DECEMBER

(in millions of dollars)	Notes	2000	1999
ASSETS			
Loans and Investments	4	**15 850**	16 107
Cash and Investment in Securities	5	**749**	606
Accrued Interest Receivable		**437**	385
Due from the Minister	6	**315**	238
Securities Purchased Under Resale Agreements		**285**	373
Accounts Receivable		**106**	62
Business Premises and Equipment	7	**57**	57
Other Assets		**16**	27
Future Income Taxes to Recover	13	**9**	13
Deferred Recoveries from the Minister		**-**	40
		17 824	17 908
LIABILITIES			
Borrowings from the Capital Markets	8	**11 054**	10 856
Borrowings from the Government of Canada	8	**5 924**	6 141
Securities Sold But Not Yet Purchased		**286**	374
Accrued Interest Payable		**247**	216
Accounts Payable and Accrued Liabilities		**235**	255
Obligation Under Capital Lease	9	**26**	28
Due to Insurance and Guarantee Funds		**7**	-
Due to the Receiver General for Canada		**-**	2
		17 779	17 872
EQUITY			
Capital Authorized and Fully Paid by the Government of Canada		**25**	25
Retained Earnings	10	**20**	11
		45	36
		17 824	17 908

The accompanying notes are an integral part of the financial statements.

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
YEAR ENDED 31 DECEMBER

(in millions of dollars)	**Notes**	**2000**	**1999**	**1998**
Interest Earned		**1 214**	1 252	1 261
Interest Expense		**(1 201)**	(1 235)	(1 237)
Net Interest Income		**13**	17	24
Real Estate Sales		**15**	18	62
Cost of Real Estate Sold		**(15)**	(16)	(61)
Holding Costs		**(3)**	(6)	(3)
Loss on Real Estate		**(3)**	(4)	(2)
Recovery of Rural and Native Housing Interest	11	**28**	-	-
Other Income		**2**	3	5
		30	3	5
Income before Operating Expenses		**40**	16	27
Operating Expenses	12	**(20)**	(19)	(23)
Income (Loss) before Income Taxes		**20**	(3)	4
Income Taxes	13			
Current		**(7)**	5	4
Future		**(4)**	(7)	(7)
		(11)	(2)	(3)
Net Income (Loss)		**9**	(5)	1
Retained Earnings, Beginning of Year		**11**	16	15
Retained Earnings, End of Year		**20**	11	16

The accompanying notes are an integral part of the financial statements.

CORPORATE ACCOUNT

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

(in millions of dollars)	Note	2000	1999	1998
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net Income (Loss)		**9**	(5)	1
Items not Affecting Cash or Cash Equivalents				
Amortization of Business Premises and Equipment		**4**	3	5
Amortization of Discounts/Premiums on Borrowings		**13**	12	11
Future Income Taxes to Recover		**4**	7	7
		30	17	24
Changes in				
Due to/from				
the Minister		**(77)**	14	(65)
Insurance and Guarantee Funds		**7**	(16)	5
the Receiver General for Canada		**(2)**	(79)	70
Accrued Interest Receivable		**(52)**	30	(2)
Accounts Receivable		**(15)**	6	(6)
Other Assets		**11**	(14)	(3)
Deferred Recoveries from the Minister		**40**	111	25
Accrued Interest Payable		**31**	(15)	6
Accounts Payable and Accrued Liabilities		**(20)**	(43)	(26)
		(47)	11	28
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES				
Loans and Investments				
Repayments		**511**	548	464
Additions		**(254)**	(642)	(1 320)
Investment in Securities				
Sales and Maturities		**27**	675	923
Purchases		**(173)**	(462)	(1 031)
Change in Securities Purchased Under Resale Agreements		**88**	(159)	(214)
Net Additions to Business Premises and Equipment		**(4)**	(5)	1
		195	(45)	(1 177)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES				
Issuance of Medium-term Borrowings from the Capital Markets		**2 114**	1 288	2 024
Repayment of Medium-term Borrowings from the Capital Markets		**(1 910)**	(1 500)	(1 000)
Change in Short-term Borrowings from the Capital Markets		**(48)**	589	227
Repayment of Borrowings from the Government of Canada		**(217)**	(213)	(413)
Change in Securities Sold But Not Yet Purchased		**(88)**	374	-
Change in Securities Sold Under Repurchase Agreements		**-**	(214)	214
Repayment of Obligation Under Capital Lease		**(2)**	(2)	(2)
		(151)	322	1 050
Increase (Decrease) in Cash and Cash Equivalents		**(3)**	288	(99)
CASH AND CASH EQUIVALENTS				
Beginning of Year		**606**	318	417
End of Year	5	**603**	606	318
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Amount of Interest Paid in the Year		**1 170**	1 250	1 231
Amount of Income Taxes Paid in the Year		**-**	-	-

The accompanying notes are an integral part of the financial statements.

MINISTER'S ACCOUNT

STATEMENT OF EXPENSES RECOVERABLE
YEAR ENDED 31 DECEMBER

(in millions of dollars)	**Notes**	**2000**	**1999**	**1998**
Grants and Contributions		**1 906**	1 822	1 767
Operating Expenses	12	**83**	58	70
Fees Paid to Delivery Agents		**8**	6	4
Expenses Recoverable	6	**1 997**	1 886	1 841

The accompanying notes are an integral part of the financial statements.

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET
AS AT 31 DECEMBER

(in millions of dollars)	**Notes** 14	**2000**	**1999**
ASSETS			
Investment in Securities	5	**4 142**	3 819
Securities Purchased Under Resale Agreements		**988**	-
Real Estate Inventory		**157**	186
Future Income Taxes to Recover	13	**101**	55
Accrued Interest Receivable		**62**	60
Due from Corporate Account		**7**	-
Other Assets		**40**	5
		5 497	4 125
LIABILITIES			
Unearned Premiums and Guarantee Fees	16	**2 837**	2 684
Securities Sold Under Repurchase Agreements		**991**	-
Provision for Claims	16	**694**	732
Accounts Payable and Accrued Liabilities		**55**	53
Deferred Gains on Disposal of Securities	5	**46**	62
Income Taxes Payable		**-**	86
		4 623	3 617
SURPLUS			
Unappropriated		**198**	140
Appropriated	17	**676**	368
		874	508
		5 497	4 125

The accompanying notes are an integral part of the financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS
YEAR ENDED 31 DECEMBER

(in millions of dollars)	**Notes** 14	**2000**	**1999**	**1998**
REVENUES				
Earned Premiums and Guarantee Fees	16	**651**	582	498
Application Fees		**46**	49	53
Income from Investments		**260**	241	207
Other		**2**	2	4
		959	874	762
EXPENSES				
Loss on Claims		**346**	329	358
Operating Expenses	12	**134**	97	105
Government of Canada Fee		**27**	24	23
Adjustment to Provision for Claims		**(39)**	(97)	16
		468	353	502
Income before Income Taxes		**491**	521	260
Income Taxes	13			
Current		**152**	198	111
Future		**(27)**	2	(11)
		125	200	100
NET INCOME		**366**	321	160

The accompanying notes are an integral part of the financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF SURPLUS
YEAR ENDED 31 DECEMBER

(in millions of dollars)	**Note** 14	**2000**	**1999**	**1998**
UNAPPROPRIATED				
Balance, Beginning of Year		**140**	177	27
Add: Net Income		**366**	321	160
		506	498	187
Transferred to Appropriated		**(308)**	(358)	(10)
Balance, End of Year		**198**	140	177
APPROPRIATED				
Balance, Beginning of Year		**368**	10	-
Transferred from Unappropriated		**308**	358	10
Balance, End of Year		**676**	368	10
		874	508	187

The accompanying notes are an integral part of the financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

(in millions of dollars)	**Note** 14	**2000**	**1999**	**1998**
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Premiums and Guarantee Fees Received		**804**	849	812
Application Fees Received		**46**	49	53
Investment Income Received		**255**	292	216
Real Estate Operations		**174**	239	273
Claims Paid		**(492)**	(519)	(589)
Operating Expenses Paid		**(125)**	(111)	(116)
Government of Canada Fee Paid		**(24)**	(35)	-
Income Taxes Paid		**(290)**	(97)	(121)
Other		**(10)**	1	(6)
		338	668	522
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES				
Investment in Securities				
Sales and Maturities		**5 026**	1 565	4 577
Purchases		**(5 360)**	(2 249)	(5 092)
Change in Securities Purchased Under Resale Agreements		**(988)**	684	266
Change in Securities Sold Under Repurchase Agreements		**991**	(684)	(268)
		(331)	(684)	(517)
Increase (Decrease) in Due from (to) Corporate Account		**7**	(16)	5
DUE FROM (TO) CORPORATE ACCOUNT				
Beginning of Year		**-**	16	11
End of Year		**7**	-	16

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

1. BASIS OF PRESENTATION

Canada Mortgage and Housing Corporation (the Corporation) was incorporated as a Crown corporation 1 January 1946. The Corporation is governed by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act"), the *National Housing Act* (the "NHA") and the *Financial Administration Act*. The Corporation's general mandate, as set out in the preamble to the NHA, is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions". Its finance mandate, as set out in Section 3 of the NHA, is "to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of housing finance, to protect the availability of adequate funding for housing at low cost, and generally to contribute to the well-being of the housing sector in the national economy".

Under its mandate, the Corporation has the following accounts:

Corporate Account

The Corporation makes loans and other investments under various provisions of the NHA and provides services in housing-related areas. Funding is provided by borrowings from the capital markets and the Government of Canada.

Under a recent federal initiative, the Corporation is negotiating the transfer of responsibility for the social housing programs to the Provinces and Territories. Social Housing Agreements have been signed with nine Provinces/Territories to date.

Minister's Account

The Corporation administers housing programs under provisions of the NHA with funding provided by the Government of Canada through annual Parliamentary appropriations for subsidies, losses and operating expenses relating to these programs.

Insurance and Guarantee Funds

The Corporation administers insurance and guarantee funds under provisions of the NHA. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-Backed Securities Guarantee Fund guarantees the timely payment of principal and interest for investors of securities based on insured mortgages.

The Corporation maintains separate accounting records and prepares separate financial statements for each account. Revenues and expenses for the Corporate Account, Minister's Account and the Funds all flow through the same bank accounts. The net cash position for the Minister's Account and the Funds is therefore shown as a due to/from the Corporate Account.

Together, the statements for the three accounts constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended 31 December 2000.

In total, the Corporation manages:

(in millions of dollars)	**2000**	**1999**
Assets	**23 314**	22 033
Liabilities	**22 395**	21 489
Portion Due to Borrowings from the Government of Canada	**5 924**	6 141
Minister's Account Expenses Recoverable from Parliamentary Appropriations	**1 997**	1 886
Operating Expenses	**237**	174

The Corporation is an agent of the Crown for all purposes except in its relationship with its employees. It is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income tax under the *Income Tax Act*. The Corporation is not subject to provincial income tax.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. General Accounting Policies

The following accounting policies apply to the financial statements of the Corporate Account and the Insurance and Guarantee Funds.

Securities Purchased under Resale and Sold Under Repurchase Agreements

Securities purchased under resale agreements consist of the purchase of a security, normally a government bond, with the commitment by the Corporation to resell the security to the original seller at a specified price. Securities sold under repurchase agreements consist of the sale of a security with the commitment by the Corporation to repurchase the security at a specified price. Securities purchased under resale and sold under repurchase agreements are carried at cost on the balance sheet. 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 recorded as interest income on an accrual basis.

Income Taxes

Income taxes are accounted for using the future income taxes method. Accordingly, future income taxes are recognized on assets and liabilities with taxable temporary differences. The income tax rates used to measure future tax assets and liabilities are those rates that, at the balance sheet date, are expected to apply when the assets are realized or the liabilities are settled.

B. Corporate Account

The following accounting policies apply to the financial statements of the Corporate Account.

Loans and Investments

The Corporation, independently or jointly with the Provinces/Territories/Municipalities, funds loans and invests in housing projects and real estate under various provisions of the NHA. Where joint projects are undertaken, agreements are entered into which specify the responsibilities for the management, administration, program delivery, and/or the cost-sharing arrangements of the parties.

i) Loans

Loans are carried at cost. As they are intended to be held until maturity, no adjustment is made to the carrying value to reflect temporary fluctuations. As shown in note 4, no provision for loss is made.

Loans containing forgiveness clauses are recorded net of the forgiveness and the forgiveness is recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans made under certain programs contain interest rate clauses that are lower than the cost to the Corporation of the related borrowings. Such interest losses are generally recoverable from the Government of Canada through the Minister's Account.

ii) Real Estate

Real estate is mainly comprised of vacant land and properties acquired through default on uninsured loans.

Vacant land is recorded at acquisition cost plus development costs, holding costs and interest. These costs are capitalized up to market value after which they are expensed to the Corporate Account. Gains or losses on sales of vacant land are recognized in the Corporate Account.

Properties acquired as a result of default are recorded at acquisition cost plus modernization and improvements. Amortization on the buildings is calculated on a straight-line basis over the remaining term of the corresponding debt. Net operating profit or loss and disposal gains or losses are paid to or recovered from the Government of Canada through the Minister's Account.

iii) Investments in Housing Projects

These investments are governed by various cost-sharing agreements, including the more recent Social Housing Agreements with most of the Provinces and Territories. The Corporation's portion of operating losses is recoverable from the Government of Canada through the Minister's Account. As shown in Note 4, no provision for losses on investments is made.

iv) Land Assembly

Land Assembly projects are financed jointly by the Corporation and a provincial and/or municipal partner. They consist of the acquisition and servicing of land for the purpose of resale. All costs are capitalized.

Investment in Securities

The Corporation generally matches the term of its assets and liabilities within tolerances set out by interest rate risk limits. Gains and losses that result from the sale of investments related to hedging interest rate risk associated with funding activities are deferred and amortized on a straight-line basis to Interest Expense over the term of the most recent debt issue. Deferred gains and losses are included in Other Assets.

Business Premises and Equipment

Business premises and equipment are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the asset using the following rates and methods:

	Rate	Method
Buildings	4% or 5%	Diminishing balance
Building Under Capital Lease	4%	Diminishing balance
Equipment	8%, 20% or 30%	Diminishing balance
Leasehold Improvements	20%	Straight-line

Deferred Recoveries from the Minister

Expenditures to modernize and improve Public Housing and Rural and Native Housing rental properties are recovered from the Government of Canada through the Minister's Account.

Pension

The Corporation provides pensions 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.

The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected long-term plan investment performance, salary increases, retirement ages of employees and mortality of members.

Pension cost is determined as the cost of employee pension benefits for the current year's service, interest expense on the accrued benefit obligation, expected investment return on the market 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 and the fair value of the plan assets is amortized over the remaining service period for active employees under the plans.

Other Post-Employment Benefits

The Corporation provides other post-employment benefits consisting of termination pay, life insurance and medical insurance. The cost of these benefits is actuarially determined using the projected benefit method pro rated on service and management's best estimate of salary increases, retirement ages of employees, mortality of members and expected health care costs.

Interest Earned

Interest earned from Loans and Investments, Cash and Investment in Securities, and Deferred Recoveries from the Minister is recognized on an accrual basis up to the date that the asset is retired.

Capital Market Borrowing Costs

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

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

Derivative Financial Instruments

The Corporation enters into interest rate and foreign exchange transactions in order to manage its exposure to both interest rate and currency fluctuations. The Corporation uses accrual accounting for derivative transactions used for its own on-balance sheet asset and liability management purposes. Gains and losses resulting from early termination of these contracts are deferred and included in Other Assets and amortized on a straight-line basis to Interest Earned or Interest Expense over the term of the underlying exposure.

Securities Sold But Not Yet Purchased

Where the Corporation has an obligation to deliver securities which it did not own at the time of the sale, they are recorded as securities sold but not yet purchased at an amount equal to the cost of the sale.

C. Insurance and Guarantee Funds

The following accounting policies apply to the financial statements of the Insurance and Guarantee Funds.

Investment in Securities

Investments are purchased with the intention to hold them to maturity to meet the long-term obligations of the Funds, and are carried at amortized cost. Investments are written down to their fair value when declines in value are other than temporary. Premiums and discounts on investments are amortized to income on a constant yield basis over the maturity period of the related investments. Losses realized on write downs to reflect other than temporary impairment in value are included in Interest Earned from the investments in the year in which they occur.

Gains and losses from disposals of fixed income investments are deferred and amortized over the remaining life of the original investment.

Real Estate Inventory

Real Estate acquired upon the payment of a claim resulting from a loan default is carried at the lower of cost or net realizable value. Net realizable 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. Amortization is not recorded on the real estate.

Provision for Claims

The provision for claims represents an estimate for expected claims and related expenses, net of expected sale receipts, for defaults that have occurred on or before the balance sheet date. The provision takes into consideration the time value of money and, in accordance with accepted actuarial practice, includes an explicit provision for adverse deviation.

Premium Revenue and Unearned Premiums

The Corporation earns premium revenue over the period covered by each individual contract based on factors developed by the Office of the Superintendent of Financial Institutions for mortgage insurance businesses. These factors reflect the long-term pattern for default risk by age of a mortgage insurance policy.

Unearned premiums represent the portion of premiums written related to the unexpired portion of the policy at year end. This provision is for claims that have not yet occurred and therefore, covers the period from the balance sheet date to the date of default.

Guarantee Fees

Guarantee fees are deferred and are taken into income over the term of the related Mortgage-Backed Security issue on a straight-line basis.

Application Fees

Application fees are recognized as income when received.

Insurance Issuance Costs

Issuance costs are expensed as incurred and are included in Operating Expenses.

3. CHANGE IN ACCOUNTING POLICY

Effective 1 January 2000, the Corporation has adopted the new Canadian Institute of Chartered Accountants standard for employee future benefits. This change in accounting policy has been applied prospectively. The most significant changes to accounting for pensions are:

- recognition of a transitional pension asset/obligation which is the difference between the accrued benefit obligation and the fair value of plan assets at 1 January 2000; and
- calculation of the accrued benefit obligation using the current market rate rather than management's best estimate of the long-term discount rate.

In addition, post-employment benefits other than pensions are now recorded by an actuarially determined liability and expense.

The effect of this change on the current year is an increase in Accounts Payable and Accrued Liabilities in the Corporate Account and an increase in total Operating Expenses of $9 million.

4. LOANS AND INVESTMENTS

(in millions of dollars)	**2000**	**1999**
Loans/Investments made Independently by the Corporation		
Loans	**4 924**	5 022
Real Estate	**19**	34
	4 943	5 056
Loans/Investments made Jointly with Provincial/Territorial/Municipal Authorities		
Loans	**9 393**	9 496
Investments in Housing Projects	**1 498**	1 540
Land Assembly	**16**	15
	10 907	11 051
	15 850	16 107

The Corporation makes loans and invests in housing projects and real estate under various provisions of the NHA, either independently or jointly with provincial/territorial/municipal authorities. Of the total loans and investments portfolio, 93% or $14 703 million (1999 - 92% or $14 861 million) relates to social housing programs, the majority of which are supported with subsidies from the Minister's Account.

The Corporation has made no provision for losses on loans and investments as it is assured collectibility on 99.6% of the portfolio from either the Provinces and Territories (40.9%) through provisions in the Social Housing Agreements, the Mortgage Insurance Fund (31.3%) for insured loans, the Minister's Account (25.8%) through provisions in the NHA, or Indian and Northern Affairs Canada (1.6%) through Ministerial loan guarantees. The Corporation has determined that a provision is not required for the remaining 0.4%.

5. CASH AND INVESTMENT IN SECURITIES

Cash and Investment in Securities for the Corporate Account is comprised of the following:

(in millions of dollars)	**2000**	**1999**	**1998**
Cash	**(6)**	1	(1)
Commercial Paper and Treasury Bills	**609**	605	319
Cash and Cash Equivalents	**603**	606	318
Investment in Securities	**146**	-	213
	749	606	531

The following table shows the term to maturity of Investment in Securities for both the Corporate Account and the Insurance and Guarantee Funds.

	Term to Maturity					
(in millions of dollars)	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**2000**	**1999**
Corporate Account						
Securities Issued or Guaranteed by:						
Canada	-	-	-	-	**-**	-
Other	40	106	-	-	**146**	-
	40	106	-	-	**146**	-
Insurance and Guarantee Funds						
Securities Issued or Guaranteed by:						
Canada	-	672	41	1 391	**2 104**	2 244
Provinces	-	217	88	589	**894**	873
Other	28	371	414	331	**1 144**	702
	28	1 260	543	2 311	**4 142**	3 819

Net cumulative unamortized losses of $10 million (1999 - $7 million) resulting from the sale of Corporate Account investments have been deferred and are included in Other Assets. The gains/losses result from those occasions where the Corporation may purchase or sell investments, for the purpose of hedging rate movements, when funding and lending activities do not coincide.

Investment sales in the Insurance and Guarantee Funds during 2000 resulted in a gain of $0.3 million (1999 - $37 million, 1998 - $26 million) that has been deferred. Cumulative deferred gains now totaling $46 million (1999 - $62 million) will be brought into income as follows:

(in millions of dollars)	**2001**	**2002**	**2003**	**2004**	**2005**	**Thereafter**	**Total**
Amortization of Net Gains	15	13	13	10	7	(12)	46

6. DUE FROM THE MINISTER

(in millions of dollars)	**2000**	**1999**	**1998**
Due from the Minister, Beginning of Year	**238**	252	187
Expenses Recoverable	**1 997**	1 886	1 841
Recovered from the Minister	**(1 920)**	(1 900)	(1 776)
Due from the Minister, End of Year	**315**	238	252

Expenses incurred but not yet recovered from the Government of Canada are recorded as Due from the Minister in the Corporate Account. This receivable is short-term and is non interest bearing.

The Corporation reports the cost of programs administered under the Minister's Account against an annual appropriation from the Government of Canada for the Government's fiscal year (1 April to 31 March). For the Government's 2000/2001 fiscal year, the annual appropriation for the Minister's Account is $1 894 million (1999/2000 - $1 928 million).

Due from the Minister includes costs of $168 million (1999 - $184 million) which are included in Accounts Payable and Accrued Liabilities in the Corporate Account.

7. BUSINESS PREMISES AND EQUIPMENT

(in millions of dollars)	**Cost**	**Accumulated Amortization**	**2000 Net Book Value**	**1999 Net Book Value**
Buildings	47	16	**31**	30
Building Under Capital Lease	30	10	**20**	21
Equipment	42	37	**5**	4
Leasehold Improvements	7	6	**1**	2
	126	69	**57**	57

Amortization in 2000 was $4 million (1999 - $3 million, 1998 - $5 million).

8. BORROWINGS

The Corporation borrows from the capital markets and from the Government of Canada under provisions of the CMHC Act and the NHA to finance loans and investments.

The Corporation has authority to borrow a maximum of $20 billion from sources other than the Government of Canada.

(in millions of dollars)	**Interest Rate**	**Term**	**2000**	**1999**
Capital Market				
Short-term Borrowings	5.7%	108 days	**1 653**	1 700
Medium-term Borrowings	5.9%	2.6 years	**9 401**	9 156
Government of Canada	9.0%	20.9 years	**5 924**	6 141
			16 978	16 997

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

Medium-term borrowings from the capital markets include US denominated debt. This debt is translated to Canadian dollars at the year end exchange rate. Foreign exchange exposure is fully hedged through the use of cross currency swaps, for both interest and principal payments. Swap contracts in place transform US denominated debt into expected net obligations in Canadian dollars at an agreed upon rate established by the associated swap contracts.

The foreign denominated medium-term borrowings are:

(in millions of dollars)	**2000**	**1999**
US Dollar Obligations	**1 000**	800
US Dollar Obligations Translated to Canadian Dollars		
Based on Rate Established Under Swap Contract	**1 419**	1 103
Based on Year End Rate	**1 500**	1 155

The following table provides the maturity structure of Corporate borrowings:

	Capital Markets			
(in millions of dollars)	**Short-term Borrowings**	**Medium-term Borrowings**	**Government of Canada**	**Total**
2001	1 653	1 264	229	3 146
2002	-	2 176	218	2 394
2003	-	1 884	245	2 129
2004	-	2 329	187	2 516
2005	-	1 748	195	1 943
Thereafter	-	-	4 850	4 850
	1 653	9 401	5 924	16 978

9. OBLIGATION UNDER CAPITAL LEASE

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease. As the Corporation will own the building at the termination of the lease in 2015, the lease has been accounted for as a capital lease.

The future minimum lease payments are as follows:

(in millions of dollars)	**2000**
2001 to 2005	**19**
2006 to 2015	**35**
Total future minimum lease payments	**54**
Less interest (11.77%)	**28**
Obligation Under Capital Lease	**26**

Interest expense on the capital lease in 2000 was $3 million (1999 - $3 million, 1998 - $3 million).

10. RETAINED EARNINGS OF THE CORPORATE ACCOUNT

Order-in-Council under Section 29 of the CMHC Act limits Corporate Account retained earnings to a reserve fund not exceeding $25 million, plus specific provisions directed by the Board of Directors.

11. RECOVERY OF RURAL AND NATIVE HOUSING INTEREST

The Corporation has determined that it can charge the Minister for additional interest rate losses incurred on the Rural and Native Housing (RNH) Program. The additional recovery has resulted in an increase in the Corporate Account income of $38 million of which $10 million is included in Interest Earned. The cumulative effect of the change on prior years, recovered from the Minister's Account in the current year, is disclosed separately as Recovery of RNH Interest.

12. OPERATING EXPENSES

The operating expenses of the Corporation are primarily allocated on the basis of staff utilization as follows:

(in millions of dollars)	**2000**		1999		1998	
		%		%		%
Corporate Account	**20**	**8**	19	11	23	12
Minister's Account	**83**	**35**	58	33	70	35
Insurance and Guarantee Funds	**134**	**57**	97	56	105	53
	237	**100**	174	100	198	100

Operating expenses in 2000 include:

- $9 million of costs as a result of the new accounting standard for employee future benefits, of which $1 million is recorded in the Corporate Account, $3 million is recorded in the Minister's Account and $5 million is recorded in the Funds;

- $28 million of restructuring costs, of which $20 million is recorded in the Minister's Account and $8 million is recorded in the Funds; and
- $28 million of costs recorded in the Funds, representing the maximum amount to be provided to, and administered by, British Columbia's Homeowner Protection Office.

13. INCOME TAXES

The Corporation's income tax expense includes federal income tax (Tax) levied at 38% and large corporations tax (LCT) on certain capital amounts levied at 0.225%.

Income taxes are:

(in millions of dollars)	**2000**			1999			1998		
	Tax	**LCT**	**Total**	Tax	LCT	Total	Tax	LCT	Total
Corporate Account	**11**	**-**	**11**	2	-	2	3	-	3
Insurance and Guarantee Funds	**123**	**2**	**125**	198	2	200	99	1	100
	134	**2**	**136**	200	2	202	102	1	103

The effective tax rate for the current year has dropped to 26% due to the following:

(in millions of dollars)	**2000**	**1999**	**1998**
Tax at the Applicable Tax Rate	**194**	200	102
Future Income Taxes not Previously Recorded	**(80)**	-	-
Reduction in Future Income Taxes Resulting from Reduction in Tax Rate	**20**	-	-
Tax Expense	**134**	200	102

Future Income Taxes to Recover consists of the following temporary differences between the tax basis of assets and liabilities and their carrying amount on the balance sheet.

(in millions of dollars)	**2000**	**1999**
Corporate Account		
Real Estate Provision	**-**	13
Expenses Incurred But Not Disbursed	**7**	(2)
Other	**2**	2
	9	13
Insurance and Guarantee Funds		
Various Provisions	**86**	40
Expenses Incurred But Not Disbursed	**-**	9
Other	**15**	6
	101	55
Future Income Taxes to Recover	**110**	68

14. INSURANCE AND GUARANTEE FUNDS

The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages.

The Mortgage-Backed Securities Guarantee Fund guarantees the timely payment of principal and interest for investors of securities based on insured mortgages. Development costs attributable to the Canada Mortgage Bonds product line are included in Operating Expenses of the guarantee fund.

The following are the segregated statements of each fund.

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET
AS AT 31 DECEMBER

	Mortgage Insurance Fund		Mortgage-Backed Securities Guarantee Fund	
(in millions of dollars)	**2000**	**1999**	**2000**	**1999**
ASSETS				
Investment in Securities	**4 024**	3 722	**118**	97
Securities Purchased Under Resale Agreements	**988**	-	**-**	-
Real Estate Inventory	**157**	186	**-**	-
Future Income Taxes to Recover	**101**	55	**-**	-
Accrued Interest Receivable	**58**	54	**4**	6
Due from (to) Corporate Account	**8**	1	**(1)**	(1)
Other Assets	**40**	5	**-**	-
	5 376	4 023	**121**	102
LIABILITIES				
Unearned Premiums and Guarantee Fees	**2 783**	2 637	**54**	47
Securities Sold Under Repurchase Agreements	**991**	-	**-**	-
Provision for Claims	**694**	732	**-**	-
Accounts Payable and Accrued Liabilities	**55**	53	**-**	-
Deferred Gains on Disposal of Securities	**45**	62	**1**	-
Income Taxes Payable	**-**	86	**-**	-
	4 568	3 570	**55**	47
SURPLUS				
Unappropriated	**132**	85	**66**	55
Appropriated	**676**	368	**-**	-
	808	453	**66**	55
	5 376	4 023	**121**	102

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS
YEAR ENDED 31 DECEMBER

	Mortgage Insurance Fund			Mortgage-Backed Securities Guarantee Fund		
(in millions of dollars)	**2000**	**1999**	**1998**	**2000**	**1999**	**1998**
REVENUES						
Earned Premiums and Guarantee Fees	**637**	571	490	**14**	11	8
Application Fees	**44**	47	51	**2**	2	2
Income from Investments	**253**	235	202	**7**	6	5
Other	**2**	2	4	**-**	-	-
	936	855	747	**23**	19	15
EXPENSES						
Loss on Claims	**346**	329	358	**-**	-	-
Operating Expenses	**129**	96	103	**5**	1	2
Government of Canada Fee	**27**	24	23	**-**	-	-
Adjustment to Provision for Claims	**(39)**	(97)	16	**-**	-	-
	463	352	500	**5**	1	2
Income before Income Taxes	**473**	503	247	**18**	18	13
Income Taxes						
Current	**145**	191	106	**7**	7	5
Future	**(27)**	2	(11)	**-**	-	-
	118	193	95	**7**	7	5
NET INCOME	**355**	310	152	**11**	11	8

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF SURPLUS
YEAR ENDED 31 DECEMBER

	Mortgage Insurance Fund			Mortgage-Backed Securities Guarantee Fund		
(in millions of dollars)	**2000**	**1999**	**1998**	**2000**	**1999**	**1998**
UNAPPROPRIATED						
Balance, Beginning of Year	**85**	133	(9)	**55**	44	36
Add: Net Income	**355**	310	152	**11**	11	8
	440	443	143	**66**	55	44
Transferred to Appropriated	**(308)**	(358)	(10)	**-**	-	-
Balance, End of Year	**132**	85	133	**66**	55	44
APPROPRIATED						
Balance, Beginning of Year	**368**	10	-	**-**	-	-
Transferred from Unappropriated	**308**	358	10	**-**	-	-
Balance, End of Year	**676**	368	10	**-**	-	-
	808	453	143	**66**	55	44

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

	Mortgage Insurance Fund			Mortgage-Backed Securities Guarantee Fund		
(in millions of dollars)	**2000**	**1999**	**1998**	**2000**	**1999**	**1998**
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES						
Premiums and Guarantee Fees Received	**783**	822	794	**21**	27	18
Application Fees Received	**44**	47	51	**2**	2	2
Investment Income Received	**244**	287	212	**11**	5	4
Real Estate Operations	**174**	239	273	**-**	-	-
Claims Paid	**(492)**	(519)	(589)	**-**	-	-
Operating Expenses Paid	**(122)**	(110)	(114)	**(3)**	(1)	(2)
Government of Canada Fee Paid	**(24)**	(35)	-	**-**	-	-
Income Taxes Paid	**(283)**	(90)	(116)	**(7)**	(7)	(5)
Other	**(8)**	1	(6)	**(2)**	-	-
	316	642	505	**22**	26	17
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES						
Investment in Securities						
Sales and Maturities	**4 931**	1 537	4 473	**95**	28	104
Purchases	**(5 243)**	(2 191)	(4 974)	**(117)**	(58)	(118)
Change in Securities Purchased Under Resale Agreements	**(988)**	684	266	**-**	-	-
Change in Securities Sold Under Repurchase Agreements	**991**	(684)	(268)	**-**	-	-
	(309)	(654)	(503)	**(22)**	(30)	(14)
Increase (Decrease) in Due from (to) Corporate Account	**7**	(12)	2	**-**	(4)	3
DUE FROM (TO) CORPORATE ACCOUNT						
Beginning of Year	**1**	13	11	**(1)**	3	-
End of Year	**8**	1	13	**(1)**	(1)	3

15. INSURANCE AND GUARANTEES IN FORCE

Mortgage Insurance Fund

Under Section 11 of the NHA, the aggregate outstanding amount of loan insurance policies may not exceed $250 billion. At 31 December 2000, insurance policies in force totaled approximately $201 billion (1999 - $187 billion).

Mortgage-Backed Securities Guarantee Fund

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $250 billion. At 31 December 2000, guarantees in force totaled approximately $34 billion (1999 - $28 billion).

16. ACTUARIAL VALUATION OF THE MORTGAGE INSURANCE FUND

Role of the Appointed Actuary

The actuary is appointed by the management of the Corporation. With respect to preparation of these statements, the actuary is required to carry out a valuation of the policy liabilities of the Mortgage Insurance Fund 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. 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 the Mortgage Insurance Fund 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 include the Corporation's past experience, historical trends in reporting patterns, level of outstanding claims in process, average claim rates (claim frequency), average loss on claims (claim severity) and recent past and projected economic conditions influencing immediate future claim levels.

Other factors include the continually evolving and changing underwriting and claim settlement procedures, actuarial studies, professional experience, the quality of data utilized for projection purposes, economic conditions and public attitudes. Consequently, the process of establishing the provision for claims necessarily involves risks that the actual results will deviate, perhaps substantially, 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 ultimate liability are recorded as adjustments to provisions in the accounting period in which they are determined.

17. SURPLUS OF THE INSURANCE AND GUARANTEE FUNDS

Surplus generated by the Mortgage Insurance Fund and the Mortgage-Backed Securities Guarantee Fund are appropriated to establish additional policy reserves based on actuarial factors developed by the Office of the Superintendent of Financial Institutions. Pursuant to Section 21 of the NHA, any remaining surplus may be appropriated or retained as may be authorized by the Government of Canada.

18. 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.

Derivative contracts are used to hedge exposure to interest rate and foreign exchange risk by modifying the repricing or maturity characteristics of existing or anticipated assets and liabilities. These contracts can include:

- Interest rate swaps to hedge reinvestment risk, refinancing risk, or mismatches in the timing of receipts on assets vs. payments on liabilities.
- Cross currency swaps to hedge foreign currency exposure arising from foreign denominated debt.

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.

(in millions of dollars)	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**2000**	**1999**
Interest Rate Swaps	2 569	5 034	5 845	507	**13 955**	13 092
Cross Currency Swaps	-	693	726	-	**1 419**	1 103
	2 569	5 727	6 571	507	**15 374**	14 195

19. MARKET RISK

Market risk refers to the risk of the Corporation incurring a financial loss as a result of adverse fluctuations in interest rates (interest rate risk) and/or foreign exchange rates (foreign exchange risk).

Interest Rate Risk - Corporate Account

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.

(in millions of dollars)	Within 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	2000	1999
Corporate Account						
Assets						
Loans and Investments	1 862	8 127	5 793	68	**15 850**	16 107
Effective Interest Rate	6.21%	6.32%	9.14%			
Cash and Investment in Securities	643	106	-	-	**749**	606
Effective Interest Rate	5.82%	5.74%	-			
Securities Purchased Under Resale Agreements	285	-	-	-	**285**	373
Effective Interest Rate	5.44%	-	-			
Liabilities						
Borrowings from the Capital Markets	2 917	8 137	-	-	**11 054**	10 856
Effective Interest Rate	6.28%	5.82%	-			
Borrowings from the Government of Canada	229	845	4 850	-	**5 924**	6 141
Effective Interest Rate	8.97%	8.99%	9.06%			
Securities Sold But Not Yet Purchased	286	-	-	-	**286**	374
Effective Interest Rate	5.43%	-	-			
Obligation Under Capital Lease	-	-	26	-	**26**	28
Effective Interest Rate	-	-	11.77%			
Off-Balance Sheet						
Derivative Financial Instruments						
Receivable Position	2 426	8 391	-	4 557	**15 374**	14 195
Effective Interest Rate	6.46%	5.81%	-			
Payable Position	2 424	8 378	-	4 572	**15 374**	14 195
Effective Interest Rate	6.41%	5.66%	-			

In 1991, the Corporation's right to prepayment without penalty on its borrowings from the Government of Canada was discontinued. These borrowings fund loans made by the Corporation under various sections of the NHA, some of which have prepayment without penalty privileges and some of which have contractual repricing options. This transfer of interest rate risk exposed the Corporation to losses and continues to expose the Corporation to potential losses in future years which could be material in relation to the Corporate Account Retained Earnings.

Prepayment/Repricing Risk

Prepayment/Repricing risk has been estimated for programs representing approximately 96% of the total loan portfolio. Interest loss due to actual prepayment activity is estimated at $5 million annually over a 33 year time horizon, and due to actual repricing is estimated at $26 million annually over a 37 year time horizon. Although unlikely, given historical levels, a worse case scenario on future prepayment/repricing activities suggests that the Corporation could face an estimated impact on earnings of as much as $520 million over a 25 year time horizon, or an average of $21 million per year.

Interest Rate Risk - Insurance and Guarantee Funds

The interest rate risk exposure of the investment portfolios of the Insurance and Guarantee Funds is managed in relation to the existing liability profile associated with each fund as well as by structuring the investment maturities of the portfolios similar to a diversified fixed income index.

The table below provides details regarding the Insurance and Guarantee Funds 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.

(in millions of dollars)	**Within 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Non Interest Sensitive**	**2000**	**1999**
Insurance and Guarantee Funds						
Assets						
Investment in Securities	28	1 803	2 311	-	**4 142**	3 819
Effective Interest Rate	5.75%	5.60%	5.74%			
Securities Purchased Under Resale Agreements	988	-	-	-	**988**	-
Effective Interest Rate	5.60%	-	-			
Liabilities						
Securities Sold Under Repurchase Agreements	991	-	-	-	**991**	-
Effective Interest Rate	5.64%	-	-			

Foreign Exchange Risk

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

20. CREDIT RISK

Credit risk is the risk of loss resulting from default by a counterparty, typically as a consequence of its insolvency. The Corporation incurs credit risk from its lending, investing and hedging activities. Credit exposure refers to fair value owed to the Corporation, plus an estimate for potential exposure where applicable.

Investment in Securities

The Corporation mitigates its credit risk through the use of policies which include the diversification of its investment in securities and the establishment of counterparty credit limits against which positions are monitored on an ongoing basis. An independent credit risk management function exists and evaluates counterparties as to creditworthiness and compliance with exposure limits.

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, 86%, is rated 'R-1 high' or equivalent, and the majority of long-term exposure, 79%, is to 'AAA' and 'AA' rated counterparties.

(in millions of dollars)	**2000**	**1999**
Short-term	**682**	645
Long-term	**4 357**	3 772
	5 039	4 417

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

(in millions of dollars)	**2000**	**1999**
Canada and Guaranteed	**2 307**	2 455
Provinces	**1 015**	855
Securitized Vehicles/Derivative Product Companies	**713**	603
Commercial Institutions	**634**	297
Schedule A Banks	**241**	134
Other Banks and Financial Institutions	**129**	73
	5 039	4 417

Derivative Financial Instruments

The credit risk associated with derivatives is normally a fraction of the notional amount of the derivative instrument. For internal risk management purposes, the credit risk arising from a derivative transaction is considered to be the estimated fair value plus an estimate for potential exposure. The Corporation subjects its derivative related credit risks to the same policies that it uses for managing other transactions that create credit exposure including a diversification of its exposure across various counterparties.

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

(in millions of dollars)	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**2000**	**1999**
Interest Rate Swaps	46	102	93	8	**249**	510
Cross Currency Swaps	-	128	79	-	**207**	276
	46	230	172	8	**456**	786

Where legally enforceable through contractual arrangements such as International Swaps and Derivatives Association master swap agreements, various transaction exposures to counterparties may be netted to derive the Corporation's overall net credit exposures to counterparties. The table below shows the Corporation's fair value of derivatives by counterparty credit rating. All counterparties have netting agreements in place.

(in millions of dollars)	**AAA**	**AA**	**A**	**2000**	**1999**
Fair Value	245	197	14	**456**	786

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on and off-balance sheet financial instruments of the Corporation using the valuation methods and assumptions as 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.

	2000		**1999**	
(in millions of dollars)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Corporate Account				
Assets				
Loans and Investments	**15 850**	**17 474**	16 107	17 066
Cash and Investment in Securities	**749**	**750**	606	603
Accrued Interest Receivable	**437**	**437**	385	385
Securities Purchased Under Resale Agreements	**285**	**285**	373	373
Accounts Receivable	**106**	**106**	62	62
Deferred Recoveries from the Minister	**-**	**-**	40	40
Liabilities				
Borrowings from the Capital Markets	**11 054**	**11 021**	10 856	10 667
Borrowings from the Government of Canada	**5 924**	**7 765**	6 141	7 577
Securities Sold But Not Yet Purchased	**286**	**286**	374	374
Accrued Interest Payable	**247**	**247**	216	216
Accounts Payable and Accrued Liabilities	**235**	**235**	255	255
Obligation Under Capital Lease	**26**	**26**	28	28
Off-Balance Sheet				
Derivative Financial Instruments				
In a Net Receivable Position		**186**		48
In a Net Payable Position		**38**		139
Insurance and Guarantee Funds				
Assets				
Investment in Securities	**4 142**	**4 215**	3 819	3 745
Securities Purchased Under Resale Agreements	**988**	**988**	-	-
Accrued Interest Receivable	**62**	**62**	60	60
Liabilities				
Securities Sold Under Repurchase Agreements	**991**	**991**	-	-
Accounts Payable and Accrued Liabilities	**55**	**55**	53	53

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

Corporate Account
Investment in Securities
Borrowings from the Capital Markets (Medium-term)

Insurance and Guarantee Funds
Investment in Securities

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

Corporate Account
Loans and Investments
Borrowings from the Government of Canada
Obligation Under Capital Lease
Off-Balance Sheet Derivative Financial Instruments

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

22. COMMITMENTS

Loans and Investments

Commitments outstanding for Loans and Investments, net of forgiveness, amounted to $45 million at 31 December 2000 (1999 - $40 million).

The majority (93%) of these outstanding commitments pertain to social housing loans which are normally advanced within a two-year period. These particular loans are disbursed at prevailing market interest rates and are subject to a five-year term.

Operating Leases

Rental payments scheduled over the next five years on business premises and equipment under long-term non-cancellable leases are:

(in millions of dollars)	**2001**	**2002**	**2003**	**2004**	**2005**
Business Premises	10	11	10	12	11
Equipment	8	1	-	-	-
	18	12	10	12	11

Total operating lease commitments at the end of 2000 were $63 million (1999 - $37 million).

Future Contractual Obligations

Total contractual financial obligations for social housing programs under the Minister's Account extend for periods up to 37 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

(in millions of dollars)	**2001**	**2002**	**2003**	**2004**	**2005**
	1 722	1 724	1 720	1 716	1 702

23. CONTINGENT LIABILITIES

There are no legal claims (1999 - $1 million) against the Corporate Account. There are no other legal claims (1999 - $1 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account. Legal claims of $25 million (1999 - $27 million) are pending against the Mortgage Insurance Fund. The Corporation continues discussions with Canada Customs and Revenue Agency regarding unresolved tax items. Due to the uncertainty of the outcome of these events, no provision for loss has been made.

24. 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:

(in millions of dollars)	**Pension Plans**	**Other Post-Employment Benefits**
Accrued Benefit Obligation		
Balance, Beginning of Year	738	63
Current Service Cost	13	2
Interest Cost	51	4
Benefits Paid	(95)	(3)
Actuarial Losses	24	10
Plan Amendments	91	-
Balance, End of Year	822	76
Plan Assets		
Fair Value, Beginning of Year	1 030	-
Actual Return on Plan Assets	96	-
Employer Contributions	-	3
Employees' Contributions	4	-
Benefits Paid	(95)	(3)
Fair Value, End of Year	1 035	-
Funded Status - Plan Surplus (Deficit)	213	(76)
Unamortized Net Actuarial Loss (Gain)	(2)	10
Unamortized Past Service Costs	91	-
Unamortized Transitional Obligation (Asset)	(301)	45
Accrued Benefit Asset (Obligation)	1	(21)

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

(in millions of dollars)	**Supplemental Pension Plan**
Accrued Benefit Obligation	17
Fair Value of Plan Assets	-
Funded Status - Plan Surplus (Deficit)	(17)

In performing the actuarial valuations of employee future benefits, certain assumptions are adopted. These assumptions include a 7% discount rate and long-term rate of return on plan assets, and a 4% rate of compensation increase. A 20% increase in health care costs was assumed for 2000, with 5% decreases per year thereafter to an ultimate trend rate of 5%. The average remaining service period is 11 years for pension plans and 14 years for other post-employment benefits.

The excess funded status of the defined benefit pension plan places legal restrictions on the amount of contributions the Corporation can make. The Corporation made no contributions during 2000.

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

(in millions of dollars)	**Pension Plans**	**Other Post-Employment Benefits**
Current Service Cost, Net of Employees' Contributions	10	2
Interest Cost	51	4
Expected Return on Plan Assets	(71)	-
Amortization of Transitional Obligation (Asset)	(30)	3
Net Benefit Plan Expense (Credit)	(40)	9

25. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created 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.

Losses on loans and real estate, interest losses, and the amortization of modernization and improvement expenditures, relating to certain Corporate Account assets, are recovered from the Government of Canada through the Minister's Account. The total of such recoveries, which are not considered subsidies to others, amounted to $119 million (1999 - $235 million, 1998 - $183 million) of which $46 million (1999 - $51 million, 1998 - $67 million) is included in Interest Earned in the Corporate Account.

In recognition of the Government of Canada's financial backing to support the mortgage insurance business, the Mortgage Insurance Fund pays the Government an annual fee. The fee for 2000 is $27 million (1999 - $24 million, 1998 - $23 million).

In exchange for real estate transferred to Canada Lands Company Limited in 1998 and 1999, the Corporation holds promissory notes at 7.35%, the majority of which are due December 2006. The amount due to the Corporation is $60 million including accrued interest (1999 - $58 million).

The interest expense related to Borrowings from the Government of Canada is $546 million (1999 - $563 million).

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2000 statement presentation.