CMHC
ANNUAL
REPORT
2001

making a difference together

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2001 ANNUAL REPORT

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CORPORATE MESSAGES

FROM THE CHAIRMAN

As Canada's National Housing Agency, CMHC has a mandate to deliver on public policy objectives while remaining commercially viable. The theme of this year's Annual Report—"Making A Difference Together"—highlights how the Corporation fulfills this mandate by leveraging its strengths across business lines and working closely with key clients and stakeholder groups. This approach has served us well in the past and is increasingly relevant today. Through the breadth of our activities, CMHC is uniquely positioned to deliver complementary products and services responding to the housing needs of Canadians and the business needs of the industry.

This year, the range of CMHC's contributions to the well-being of the housing sector and Canadians was particularly well illustrated with significant accomplishments that will increase the supply of low-cost funds for residential mortgages on the one hand, and the supply of affordable housing on the other. It is this balance between measures to improve overall access to housing for the benefit of all Canadians and providing direct and indirect housing assistance when and where it is needed that has defined CMHC over the years. The Corporation achieves this balance through its innovative financing tools and targeted assistance programs, through its research and information dissemination, and by combining these roles as appropriate in community-based partnerships with the public and private sectors.

This year, CMHC was actively encouraged to further explore potential partnerships and synergies internally and externally. We have been asked to create more value for the Corporation and better respond to client needs. There is a continuing commitment to fostering an environment conducive to innovation, and to following up on ideas that will help CMHC evolve as an organization.

As always, the Corporation needs good governance and sound management to facilitate this evolution and ensure our continued success. For the past several years, part of this annual message has been devoted to explaining the continuous improvements to CMHC's governance practices in terms of strategic planning, Board evaluations and increasing accountability for results. This year is no exception. In 2001 the Board of Directors established a Human Resources Committee, emphasizing the significance the Board of Directors places on human resource management as a key component of CMHC's business success. The committee will oversee corporate policies and strategies relating to human resources such as succession management, compensation and the integration of human resources planning to meet the Corporation's current and future business needs. These activities are a critical addition to our governance structure that will help CMHC better manage its most valuable assets—people.

On that note, I would like to take the opportunity to acknowledge some key people in this organization who were instrumental in past successes and helped to lay the foundation for future successes. In particular, 2001 saw the retirement of Mr. Claude Poirier-Defoy, whose contributions included providing leadership in various senior management positions over his more than 30 years with the Corporation, most recently as Vice-President, Legal Services and Corporate Secretary. Board members completing their terms in 2001 included Claude Hallé, Cuckoo Kochar, Marie Bourbonnière and Gerry Norbraten. I would like to thank them for the unique perspectives they brought to CMHC and at the same time, welcome the new CMHC Board members who have joined us over the course of 2001. Our leadership has been renewed, and with the commitment and dedication of CMHC's Board of Directors, senior management and employees, I am convinced that the Corporation will continue to make a difference in the lives of Canadians for many years to come.

Peter R. Smith

FROM THE PRESIDENT

The Canadian economy slowed considerably in 2001 with GDP increasing by only 1.5 per cent. Employment growth was down to 1.1 per cent, while unemployment rates edged up to 7.2 per cent by year end. The housing market however, was resilient. Total residential investment in Canada exceeded $57 billion in 2001, up $3.7 billion over 2000. Housing starts exceeded 162,700, a 7.3 per cent increase over last year and the best year for housing starts since 1992. Accounting for 41 per cent of this total, multiple housing starts topped 66,700, up 12.2 per cent over last year.

Despite the year's economic turbulence and uncertainty, 2001 was a very good year for CMHC. The Corporation's overall financial performance was sound. We exceeded our mortgage insurance initiation targets and the total value of outstanding mortgages insured by CMHC grew to over $211 billion. New mortgage loan insurance and securitization products introduced in 2001 contributed to our success. Our business was also helped by historically low interest rates, which have offset recent declines in consumer confidence keeping the housing industry in good shape.

Although the signs are generally positive, there remain ongoing and emerging issues in the housing sector requiring a range of responses to help ensure the viability of the industry and the well-being of Canadians. CMHC is well positioned for these strategic interventions. Our four primary business areas of housing finance, assisted housing, research and international activities, give us the tools to support our principal objectives of improving affordability and choice, housing and living conditions, and the well-being of the industry.

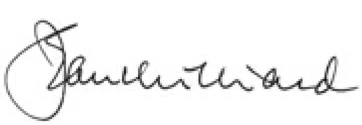
In 2001, the Corporation acted on a number of fronts to advance these objectives. To help lower mortgage financing costs for Canadians, we launched the Canada Mortgage Bond (CMB) program. Two CMB issuances of $2.2 and $2.5 billion respectively by the Canada Housing Trust, were the largest syndicated issuances in a single tranche in the history of the Canadian bond market, resulting in a total of $4.7 billion in issuances for the year.

The Corporation also continued to work with the provinces and territories on housing issues of mutual concern. After considerable effort by all parties, in November of this year all ministers responsible for housing agreed on a framework to increase the supply of affordable housing across the country and to work together to begin construction as soon as possible. The first of a series of new bilateral agreements outlining the program specifics for each jurisdiction have been reached with British Columbia, Quebec, Nunavut and the Northwest Territories.

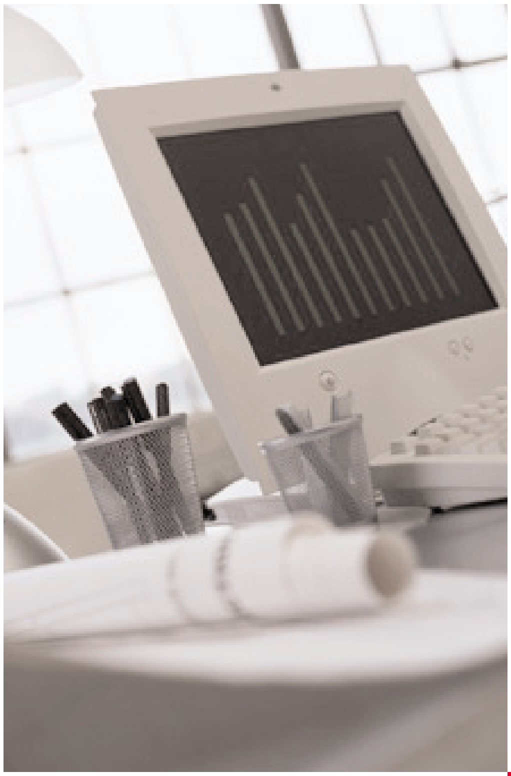
Internationally, CMHC expanded its consulting role, assisting in the development of foreign housing and finance markets and facilitating the development of business opportunities and relationships between Canadian companies and their counterparts abroad.

To provide a more comprehensive financial picture of our four primary areas of business and a clearer understanding of our overall financial performance and resources, this year, the Corporation is presenting integrated financial statements that combine the results of all our areas of business.

These initiatives and others are evidence of a progressive and responsive organization that is continually striving to innovate in anticipation of changing needs. To facilitate this ongoing innovation and evolution as a company, in 2001 we launched an enterprise-wide risk management project to better understand our opportunities and constraints, and to continue to develop our risk management tools. With our principal risks identified, we have enhanced our freedom to act responsibly within our boundaries and if need be, to expand our horizons in response to specific housing and market conditions. In other words, we have given ourselves more tools to continue to make a difference in the lives of Canadians, reflecting CMHC's long standing contribution in communities across Canada. This ideal is portrayed in the many achievements outlined in this year's Annual Report, and exemplified by our Chairman of the Board, Peter Smith, who was awarded the Order of Canada in 2001 for his tireless efforts in the community.



Jean-Claude Villiard



PERFORMANCE HIGHLIGHTS

YEAR	2002 Planned	2001 Actual	2001 Planned	2000	1999	1998	1997
Corporate Results							
Total Assets ($M)	23 002	23 822	21 898	23 244	21 976	22 020	20 526
Total Liabilities ($M)	21 380	22 557	20 789	22 324	21 432	21 792	20 458
Total Equity ($M)	1 622	1 265	1 109	920	544	228	68
Total Revenue ($M)	4 304	4 064	4 014	4 192	4 009	3 862	3 756
Total Operating Expenses ($M)	269*	201	239*	208	175	198	239
Net Income (Loss) after Tax ($M)	350	345	303	376	316	160	(4)
Staff Years	1 850	1 736	1 798	1 815	1 943	2 046	2 366
Insurance and Securitization							
Annual Units Insured	456 486	461 972	392 750	461 241	376 200	476 669	486 352
Insurance in Force ($M)	219 300	211 500	200 700	201 000	187 392	182 450	164 000
Annual Securities Guaranteed ($M)	15 118	8 906	17 000	11 014	12 854	9 076	6 949
Guarantees in Force ($M)	45 700	34 684	51 100	34 000	28 000	19 000	15 000
Investments in Securities (incl. cash) ($M)	5 389	4 916	4 768	4 143	3 819	3 146	2 638
Housing Programs							
Annual New Commitments (units)	24 521	24 850	26 756	27 600	20 850	13 700	10 850
Estimated Households Assisted	650 200	640 800	646 500	639 300	639 200	643 750	645 600
Housing Program Expenses ($M) (excluding operating expenses)	1 964	1 789	1 815	1 913	1 828	1 772	1 832
Lending							
Borrowings from Capital Markets ($M)	10 970	11 081	10 560	11 054	10 856	10 540	9 154
Loans Outstanding ($M)	15 581	15 239	15 643	15 841	16 084	15 979	15 048

**Approved gross spending authority*

CORPORATE PROFILE

CMHC'S BUSINESS AREAS

CMHC works to ensure access to quality, affordable housing for Canadians. The Corporation's mandate as described in the *National Housing Act* (NHA) is to promote: housing construction, repair and modernization; housing affordability and choice; improvements to overall living conditions; the availability of low-cost financing; and, the national well-being of the housing sector. This mandate is closely reflected in CMHC's four corporate objectives, each of which is supported by the Corporation's key business areas.

2001-2005 Corporate Objectives

1. Improve Housing Choice and Affordability for Canadians
2. Improve Housing and Living Conditions for Canadians
3. Support Market Competitiveness, Job Creation and Housing Sector Well-being
4. Be a Progressive and Responsive Organization

Housing Finance

To facilitate access to affordable housing finance options, CMHC provides mortgage loan insurance to Approved Lenders that protects against possible borrower default on residential mortgages, allowing lenders to offer mortgages at the lowest possible rates. The Corporation also guarantees the timely payment of principal and interest on Mortgage-Backed Securities and Canada Mortgage Bonds, increasing the supply of low-cost mortgage funds through secondary mortgage markets. CMHC leads the industry in Canada through its innovations in products and technology, serving customers with high quality products and services, delivered quickly and efficiently.

Assisted Housing

Through Assisted Housing programs and initiatives the Corporation ensures that federal housing subsidies address national housing objectives, helps develop affordable housing without ongoing government subsidies, provides on-reserve assistance and capacity development, and undertakes special housing initiatives. Through long-standing partnerships with the provinces, territories, First Nations and non-profit groups, funding is provided to support Canada's existing social housing stock and for new commitments. Direct Lending helps lower the cost of social housing by providing loans at attractive interest rates. The creation of affordable housing is facilitated through public-private partnerships involving creative financing arrangements. As well, a variety of strategic initiatives, including the Residential Rehabilitation Assistance Program, are in place to assist Canadians who require support in meeting their housing needs.

Research and Information Transfer

CMHC is the key Canadian source of reliable and objective information on national and regional housing issues and international housing markets. Our research, market analysis and information transfer activities promote innovation in the housing sector, increase industry competitiveness and consumer choice, and contribute to the achievement of federal policy priorities.

CMHC's International Activities

The Corporation promotes exports and international business for Canada's housing industry by working to increase the recognition and acceptance of Canada's housing products, services and expertise in priority markets around the world. Relationships are diversified and expanded through missions, market research, government-to-government liaison and promotional initiatives. Through cooperative agreements, CMHC assists other countries in the establishment of housing finance and other systems required to improve their housing sector. The Corporation also receives foreign delegations interested in housing and represents Canada internationally on housing and human settlements issues.

Corporate Governance

CMHC's Board of Directors is responsible for managing the affairs of the Corporation and the conduct of its business. As steward of the Corporation, the Board sets the strategic direction of CMHC, ensures the integrity of corporate systems and identifies and manages the main corporate risks.

In its continued commitment to corporate governance the Board of Directors has introduced many governance initiatives over the years. Key innovations that refocused the Board's stewardship of CMHC resulted in its enhanced role in strategic planning, a stronger focus on risk management, internal controls and accountability, improved succession planning and renewal, and the promotion of continuous learning, growth and innovation. While each initiative is viewed as significant, the Board considers its key strength to be its approach to corporate governance, moving from compliance to a culture of corporate governance in the boardroom and throughout the Corporation.

In 2001 the Board of Directors launched an enterprise-wide risk management initiative. Having earlier created an Asset Liability Management Committee to enhance its financial risk management, CMHC is now incorporating risk management into ongoing governance processes, including corporate planning, performance management and other control processes. This initiative will continue into 2002.

CMHC's Board of Directors is comprised of 10 Directors: the Chairman of the Board, the President and CEO, and eight other members. Drawn from different regions and sectors, members are a diverse group who bring a variety of expertise and perspective to the conduct of corporate business. Remuneration of Directors is set by the Governor in Council. The Chairman of the Board is paid an annual retainer of $14,300 and a per diem of $555, and the other private sector directors are paid an annual retainer of $7,200 and a per diem of $500. Public service Directors and the President and CEO are not paid for their services as Directors. Total aggregate remuneration paid in 2001 to the Board of Directors was $200,600, compared to $171,000 in 2000. There were six Board of Directors meetings and 10 Board Committee meetings held in 2001.

Board Committees

THE CORPORATE GOVERNANCE COMMITTEE

Peter Smith (Chair), Hugh Heron, Grace Kwok,
Jean-Claude Villiard

The Corporate Governance Committee advises the Board on the effective application of recognized governance practices and oversees the execution by the Board of its stewardship responsibilities. Activities in support of the Board include those related to setting corporate strategic direction, identifying and managing principal corporate risk, ensuring the adequacy and integrity of CMHC's information systems and practices, and promoting effective communication with the Government of Canada, other stakeholders and the public.

In 2001, in the execution of its responsibilities, the Corporate Governance Committee reviewed and recommended to the Board of Directors, CMHC's funding, investment and risk management policies, and confirmed the planned implementation of appropriate systems to enhance the management of the Corporation's main business risks. In addition, in consultation with the President, the Governance Committee recommended performance objectives for the President to the Board of Directors, serving to assist the Board in setting the strategic direction for the Corporation for 2001. The Committee held four meetings in 2001.

THE AUDIT COMMITTEE

Dino Chiesa (Chair), Sophie Joncas, Rose Marie MacDonald, Jean-Claude Villiard

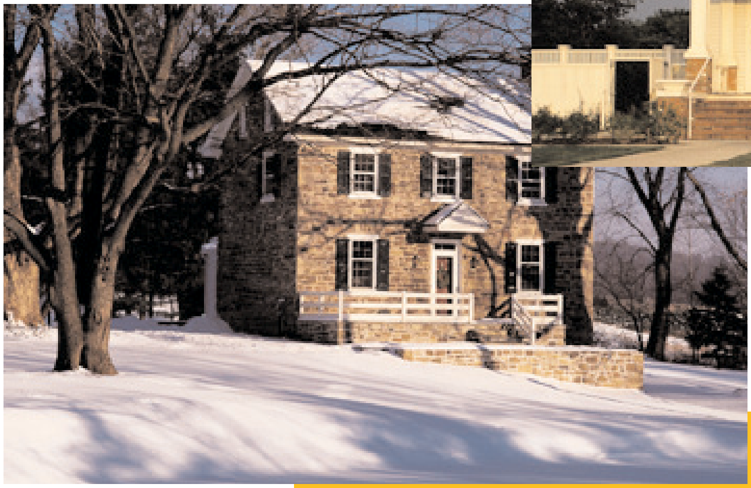
The Audit Committee advises the Board of Directors on the soundness of the financial management of the Corporation, assisting the Board in overseeing internal control systems and financial reporting and audit processes.

In 2001, the Audit Committee conducted a self-assessment against recognized best practices. Key stakeholders, including Board members, senior management and CMHC's external auditors were engaged in the process. The self-assessment led to a reaffirmation of the important role the Audit Committee plays in governance, a renewed mandate, the creation of a member profile, and the implementation of new procedures to capitalize on the full potential of the Committee and its members. The Committee held four meetings in 2001.

THE HUMAN RESOURCES COMMITTEE

Michel Bérubé (Chair), Janice Cochrane, Hugh Heron, Jean-Claude Villiard

CMHC's Board of Directors created a Human Resources Committee in 2001 to oversee corporate policies and strategies relating to human resources. As part of its mandate the Committee reviews and approves the principles governing recruitment, selection, training, compensation and evaluation. It recommends to the Board, for its consideration, matters relating to the organization plan, the compensation plan and program, and the integration of human resource policies and strategies with the Corporate Plan. The Committee is also responsible for reviewing succession planning for the leadership of the Corporation. The Committee held two meetings in 2001.



BOARD OF DIRECTORS

(as of December 31, 2001)

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

Jean-Claude Villiard
Ottawa, Ontario
President and Chief Executive Officer
Canada Mortgage and Housing Corporation

Michel Bérubé
Beauport, Quebec
Vice-President, Ciment Québec Inc.

Dino Chiesa
Toronto, Ontario
President and CEO
Residential Equities Real Estate Investment Trust

Janice Cochrane
Ottawa, Ontario
Deputy Minister
Public Works and Government Services Canada

Hugh Heron
Willowdale, Ontario
Principal and Partner, Heron Group of Companies
President, Heron Homes Corporation

Sophie Joncas, CA
St. Hubert, Quebec
Partner, Lapointe, Gagné, Pétrone CA

Grace Kwok
Vancouver, British Columbia
Owner and Vice-President, Anson Realty Ltd.

Rose Marie MacDonald
Little Pond, Prince Edward Island
Real Estate Agent (retired)

PRINCIPAL OFFICERS

(as of December 31, 2001)

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Jean-Claude Villiard

VICE-PRESIDENTS

Karen A. Kinsley
Insurance and Securitization

Jean-François Martin
Communications, Marketing and CMHC International

Jim Millar
Human Resources and Pension Fund

William G. Mulvihill
Corporate Services and Chief Financial Officer

Douglas A. Stewart
Policy and Programs

GENERAL MANAGERS

Charles Chenard
Quebec Region

Peter Friedmann
British Columbia and Yukon Region

Elizabeth Huculak
Prairie, Nunavut and Northwest Territories Region

Bill Smith
Atlantic Region

Berta Zaccardi
Ontario Region

CORPORATE SECRETARY

Sharon Rosentzveig

CMHC's Board of Directors

From left to right:

Seated: Grace Kwok (British Columbia), Jean-Claude Villiard (President and Chief Executive Officer), Peter R. Smith (Chairman), Sophie Joncas (Quebec), Dino Chiesa (Ontario).

Standing: Gerald Norbraten (Saskatchewan), Sharon Rosentzveig (Corporate Secretary), Hugh Heron (Ontario), Rose Marie MacDonald (Prince Edward Island), Janice Cochrane (Ontario), Michel Bérubé (Quebec).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Economy

After five years of low inflation, steady economic growth in the 4 per cent range, budget surpluses and the lowest unemployment rates since the late 1980s, Canada recorded its weakest annual growth in nine years in 2001. The economy slowed sharply in the second and third quarters, with GDP declining by 0.2 per cent in the third quarter, the first incidence of negative growth since 1991. The economy picked up in the fourth quarter bringing GDP growth to 1.5 per cent for the year. In equity markets, technology stocks have been hit hard as firms in the information and telecommunications sectors were forced to undergo major restructuring as a result of declining demand, and excess production and inventories.

Like all industrialized nations, the Canadian economy received a further economic setback following the events of September 11. The economic uncertainty around the globe prompted analysts to significantly revise their economic forecasts—downgrading the United States economy the most severely of all the G7 nations. As a result, the economic turnaround that was anticipated in Canada in late 2001, has been delayed until at least the second half of 2002 when the United States economy is expected to rebound. The revised *Consensus Forecast* for Canada shows GDP rising 1.4 per cent in 2002 and 3.8 per cent in 2003. The December federal budget forecasts 1.1 and 3.9 per cent real GDP growth for 2002 and 2003, respectively. Of the Canadian provinces, Newfoundland and Labrador, and Alberta are expected to perform best due to large-scale infrastructure projects and net in-migration.

	GDP GROWTH (annual % change)					EMPLOYMENT GROWTH (avg. annual % change)					UNEMPLOYMENT RATE (avg. annual % change)				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
Canada	4.3	3.9	5.1	4.4	1.5	2.3	2.7	2.8	2.6	1.1	9.1	8.3	7.6	6.8	7.2
Provinces															
NFLD	1.1	7.8	6.7	5.6	1.8	1.2	2.6	5.5	-0.2	3.3	18.6	18.0	16.9	16.7	15.5
PEI	-0.3	5.6	3.8	3.0	1.9	0.5	1.9	1.5	5.3	2.0	15.4	13.9	14.4	12.0	11.9
NS	3.3	3.4	5.7	2.3	1.2	1.6	3.8	2.4	2.7	0.9	12.1	10.5	9.6	9.1	9.7
NB	0.9	3.5	4.6	1.8	1.2	1.5	2.3	3.3	1.8	0.0	12.7	12.2	10.2	10.0	11.2
QUE	3.5	3.4	5.2	4.3	0.7	1.6	2.7	2.3	2.4	1.1	11.4	10.3	9.3	8.4	8.7
ONT	4.9	4.8	7.4	5.3	1.7	2.6	3.3	3.6	3.2	1.5	8.4	7.2	6.3	5.7	6.4
MAN	4.2	4.3	2.7	2.8	1.6	1.3	1.9	1.3	2.2	0.6	6.5	5.5	5.6	4.9	5.0
SASK	5.5	2.9	1.2	3.2	0.8	2.7	1.3	0.8	1.0	-2.6	5.9	5.8	6.1	5.2	5.8
ALTA	7.5	4.5	1.9	5.6	3.9	3.5	3.9	2.5	2.3	2.8	5.8	5.6	5.7	5.0	4.6
BC	3.4	1.7	2.8	3.9	0.8	2.6	0.1	1.9	2.2	-0.3	8.4	8.8	8.3	7.2	7.6

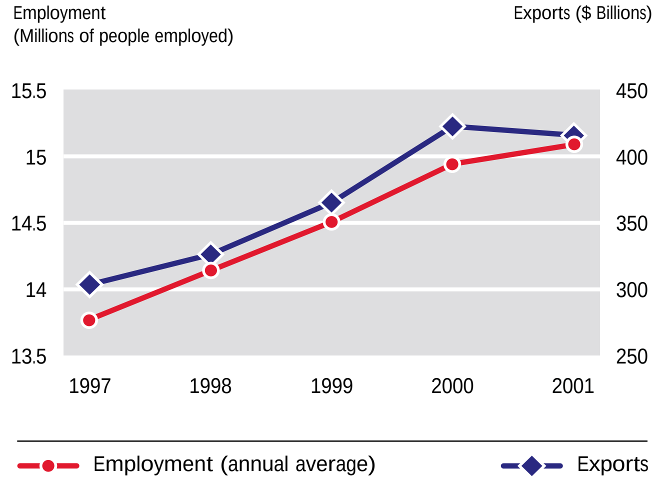
Source: *CMHC Housing Outlook, National Edition,* First Quarter 2002

Dependent on free and global trade for its economic livelihood and much of its employment, Canada's trade balance has been quite healthy in recent years, thanks to exports in the $300-400 billion range. In 2001, however, exports declined 2.2 per cent to $413 billion, the first annual decline since 1991. Quebec and Ontario, which rely heavily on exports to the United States, each saw their GDP growth rates decline in 2001 by 3.6 percentage points. The economies of British Columbia and most of the Atlantic provinces also suffered in 2001 due to lower exports to the United States. Alberta was the only province to record growth levels above 3 per cent, due primarily to a strong energy sector and net in-migration from other provinces.

Between 1997 and 2000, employment levels in Canada grew between 2.3 and 2.8 per cent, with some provinces posting very strong gains in the 3 to 5 per cent range. This year, however, employment only grew at an average annual rate of 1.1 per cent, with all of the gains made in part time jobs. In December 2001, nearly 70,000 people entered a shrinking job market propelling the unemployment rate to a near three-year high of 8 per cent. The average annual unemployment rate for 2001 was 7.2 per cent. Provincially, Newfoundland and Labrador, and Alberta posted the highest annual average employment gains, while Saskatchewan and British Columbia saw their employment levels decline. There was little change in the other provinces.

At 116.4, the annual average Consumer Price Index in 2001 was 2.6 per cent higher than last year, comparable to the 2.7 per cent rise between 1999 and 2000. Monthly price increases have been slowing steadily since peaking at 3.9 per cent in May 2001. To help increase consumer confidence and domestic demand, the Bank of Canada lowered its target for the overnight rate to 2.25 per cent in a series of cuts throughout the year, a reduction of 3.5 percentage points since the beginning of 2001.

EMPLOYMENT AND EXPORTS IN RELATIONSHIP



Housing Markets

With consistently low interest rates over the course of 2001, the Canadian housing industry enjoyed its strongest year in almost a decade. Total residential investment contributed $57.8 billion to the Canadian economy in 2001, representing a 6.8 per cent jump over 2000 and a 17.5 per cent jump since 1997. After inching upwards between 1997 and 2000, average 1-year and 5-year mortgage rates fell sharply again in 2001, reaching average fourth quarter lows of 4.7 and 6.9 per cent respectively, in response to the Bank of Canada's successive cuts to the overnight lending rate. Average 1-year and 5-year mortgage rates for all of 2001 were somewhat higher at 6.1 and 7.4 per cent respectively.

With favourable borrowing conditions, both housing starts and resales were strong again this year, continuing a five-year trend of solid activity in the sector, in some cases setting new records. For the year as a whole, housing starts totalled 162,733, a 7.3 per cent gain over 2000 and the highest level since 1992. In Newfoundland and Labrador, housing starts increased over 22 per cent. Starts in B.C. also increased by about 20 per cent this year, despite job losses in forestry, logging and wood products industries. Alberta, Manitoba, Quebec and New Brunswick all posted increases of more than 10 per cent. The resale market in Newfoundland and Labrador has enjoyed unprecedented

	1997	1998	1999	2000	2001
Mortgage Market					
Mortgages Outstanding ($ billion)*	n/a	390.5	408.1	427.1	447.8**
Mortgage Approvals ($ billion)	75.3	72.0	78.3	74.0	89.5**
Annual Average 1-year Mortgage Rates	5.46	6.50	6.80	7.85	6.14
Average Annual 5-year Mortgage Rates	7.07	6.93	7.56	8.35	7.40
Residential Investment and Repairs***					
New Housing Investment****	21.5	21.1	23.2	24.4	26.5
Alterations and Improvements	15.0	14.9	15.7	16.4	16.6
Transfer Costs	7.3	6.7	7.3	7.6	8.8
Repairs	5.4	5.4	5.5	5.7	5.9
Total Residential Investment and Repairs	49.2	48.1	51.7	54.1	57.8

* *Includes insured and uninsured mortgages*

** *Estimate*

*** *Billions of nominal dollars*

**** *Includes new residential construction, new mobile homes, acquisition costs, conversions, cottages*

Sources: CMHC Mortgage Market Trends, *Fourth Quarter 2001;* CMHC's Breakdown of New Residential Investment

success in the past several years, posting record level sales and price increases due to higher incomes and positive job prospects.

Strong housing markets in 2001 translated into equally strong mortgage markets with an estimated $89.5 billion in mortgages approved. Residential mortgage debt rose to over $447 billion in 2001. Secondary mortgage markets continued to play a significant role in funding mortgages in 2001, accounting for 11.7 per cent of residential mortgage credit outstanding in the third quarter of the year, compared to 12.8 per cent in the third quarter of 2000.

In rental markets, insufficient growth in rental construction and increased demand for rental units pushed vacancy rates to new lows, particularly in large urban centres. The average rental vacancy rate in Canada's metropolitan centres fell from 1.6 per cent in October 2000 to 1.1 per cent in October 2001. Several cities, including Montréal, Toronto, Ottawa, Edmonton and Victoria registered vacancy rates below 1 per cent. Cities in Atlantic Canada had much higher rates in the 2.5 to 5.6 per cent range.

Generally low vacancy rates coupled with higher resale prices and rising new housing prices makes it difficult for younger and lower-income people to find affordable housing. The housing needs of people living in rural and remote areas are also impacted by the lack of housing alternatives at their disposal, difficult climatic conditions and minimal economic development. Federal, provincial and territorial housing ministers have resumed annual meetings to address these issues and working groups have been set up to develop short- and long-term strategies.

HOUSING MARKET ACTIVITY

		1997	1998	1999	2000	2001		1997	1998	1999	2000	2001
Housing Starts	NFLD	1 696	1 450	1 371	1 459	1 788	ONT	54 072	53 830	67 235	71 521	73 282
MLS Sales		2 170	2 288	2 437	2 593	2 808		140 608	138 463	148 659	147 158	162 320
MLS Average Residential Price ($)		92 226	91 514	94 359	99 525	104 376		164 382	167 115	174 049	183 841	193 356
Rental Vacancy Rates		15.4	14.9	10.8	5.7	3.2		2.8	2.6	2.1	1.6	1.7
Housing Starts	PEI	470	524	616	710	675	MAN	2 612	2 895	3 133	2 560	2 963
MLS Sales		806	1 125	1 184	1 206	1 234		11 180	10 762	1 111	10 612	11 440
MLS Average Residential Price ($)		86 403	79 577	82 139	82 883	87 696		85 404	86 419	84 525	87 884	93 192
Rental Vacancy Rates		4.9	7.0	5.4	3.3	2.7		5.5	3.9	3.2	2.2	1.4
Housing Starts	NB	2 702	2 447	2 776	3 079	3 462	SASK	2 757	2 965	3 089	2 513	2 381
MLS Sales		3 941	3 908	4 080	4 524	4 779		8 346	8 068	8 053	7 552	7 971
MLS Average Residential Price ($)		87 204	86 648	88 072	91 624	95 947		83 978	87 577	91 396	94 047	98 310
Rental Vacancy Rates		6.6	6.1	4.3	3.1	4.1		1.6	1.6	1.7	2.2	3.5
Housing Starts	NS	3 813	3 137	4 250	4 432	4 092	ALTA	23 671	27 122	25 447	26 266	29 174
MLS Sales		7 567	8 052	8 827	8 429	9 268		43 693	43 383	42 684	43 311	48 989
MLS Average Residential Price ($)		96 693	97 015	102 628	110 269	116 052		124 865	132 905	139 621	146 258	153 737
Rental Vacancy Rates		8.3	5.9	4.2	4.2	3.3		2.7	1.4	2.4	1.3	1.1
Housing Starts	QUE	25 896	23 138	25 742	24 695	27 682	BC	29 351	19 931	16 309	14 418	17 234
MLS Sales		43 463	45 192	49 792	53 755	61 620		68 182	52 910	58 084	54 179	69 430
MLS Average Residential Price ($)		101 715	103 947	107 501	111 260	115 865		220 512	212 046	215 283	221 371	222 984
Rental Vacancy Rates		6.3	5.3	3.8	2.2	1.3		3.4	5.0	5.0	5.0	2.6
Housing Starts	CANADA	147 040	137 439	149 968	151 653	162 733						
MLS Sales		329 956	314 151	334 911	333 319	379 859						
MLS Average Residential Price ($)		154 644	152 402	158 126	164 129	171 968						
Rental Vacancy Rates		4.1	3.4	2.6	1.6	1.1						

Sources:

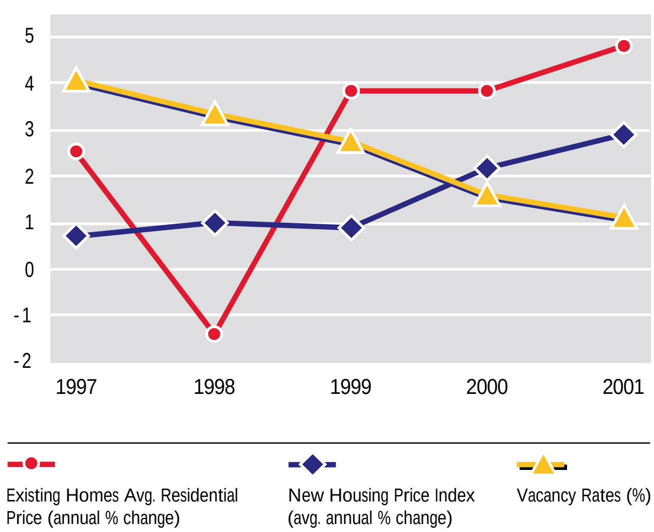
CMHC Housing Outlook, National Edition, First Quarter 2002

Housing Information Monthly, November 1999 and November 2001

2001 VACANCY RATES IN SELECTED CMAs

Atlantic Region	St. John's	2.5	Quebec	Montréal	0.6
	Halifax	2.8		Québec	0.8
				Trois-Rivières	4.7
Ontario	Kitchener	0.9	Prairie Region	Calgary	1.2
	Ottawa	0.8		Edmonton	0.9
	Sudbury	5.7		Winnipeg	1.4
	Toronto	0.9			
British Columbia	Vancouver	1.0	Northwest Territories	Yellowknife	1.0
	Victoria	0.5			

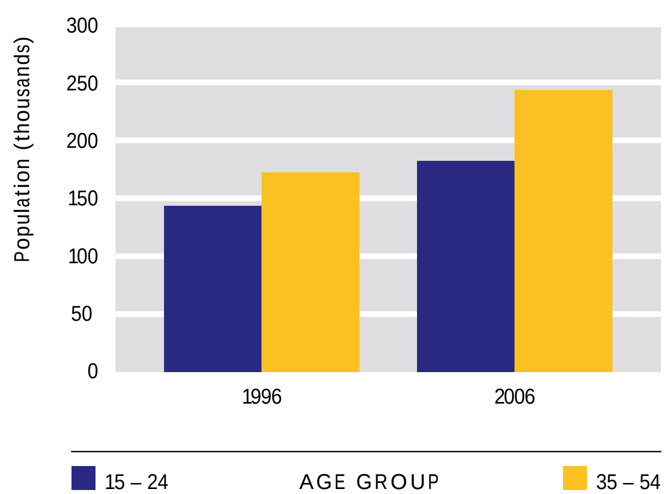
HOUSE PRICES CONTINUE TO RISE WHILE VACANCIES FALL



The housing situation on-reserve has also become more urgent in recent years. Substandard and overcrowded housing on-reserve remains at serious levels. There are currently less than 89,000 houses to accommodate close to 97,500 households, thus posing significant health and safety hazards.

The situation may worsen if new Aboriginal household formation on- and off-reserve continues to grow at a rapid pace. In addition to CMHC's ongoing work to address the needs of First Nations through its financing tools, housing programs, partnerships and capacity development, the Corporation continues to work with Indian and Northern Affairs Canada to enhance housing support for Aboriginal Peoples.

ABORIGINAL POPULATION GROWTH



OBJECTIVE ONE:

Improve Housing Choice and Affordability for Canadians

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

2001-2005 CORPORATE PLAN PERFORMANCE TARGETS	2001 Actual	2001 Planned	2000	1999	1998	1997
Mortgage Insurance and Securitization						
Annual Units Insured	461 972	392 750	461 241	376 200	476 669	486 352
Insurance in Force ($M)	211 500	200 700	201 000	187 392	182 450	164 000
Annual Securities Guaranteed (MBS and CMB) ($M)	8 906	17 000	11 014	12 854	9 076	6 949
Social Housing and Community Partnerships						
Annual New Housing Units Committed	24 850	26 756	27 600	20 850	13 700	10 850
Estimated Households Assisted in Existing Portfolio	640 800	646 500	639 300	639 200	643 750	645 600
Direct Lending Projects - New Loans / Loan Renewals ($M)	198 / 1 037	471 / 1 237	198 / 1 710	351 / 1 426	1 376 / 783	1 812 / 61
CCPPPH Projects / Units	50 / 3 594	n/a / 3 000	42 / 2 507	92 / 4 121	44 / 2 138	31 / 1 704
Projects Funded under ACT and Homegrown Solutions	14	n/a	32	31	12	33
Research and Information Transfer						
Research Expenditures ($)	613 000	620 000	867 000	1 247 000	1 261 000	1 164 000

2001 Performance

MORTGAGE LOAN INSURANCE

Despite the downturn in the economy in 2001, the housing market remained relatively strong with interest rates at historic lows. CMHC's commitment to supporting housing finance was also strong with the Corporation's mortgage loan insurance volumes exceeding 461,000 units, some 69,000 units more than planned and comparable to last year's business volumes. With the two new Homeowner products that came on-stream this year—Refinance and Low-Ratio—new product volumes represented over 27 per cent of this year's mortgage insurance application fees. Overall, total mortgage insurance in force by CMHC grew to over $211 billion this year, up nearly $11 billion over last year's total.

In 2001 CMHC introduced major enhancements to its Homeowner insurance. Of particular note was the new Refinance product which was specifically designed to allow homeowners to optimize the use of home equity. Prior to the introduction of this new innovative product, homeowners requiring mortgage insurance could only access their home equity for housing-related purposes such as renovations. The new product no longer restricts the use of funds although they still cannot be used in any way as a default management tool. The product was so well received by lenders and homeowners that CMHC experienced a significant increase in refinance activity year over year.

In early December, CMHC announced a number of important enhancements to the Rental Insurance product, including more flexible and market-oriented underwriting criteria. This will create greater access to lower-cost financing for rental development, which should improve the business climate for rental investment. The Rental Insurance premium structure was also revised to better reflect a project's specific risk and it now has a system of surcharges applied to a base premium schedule. For new construction there was also a beneficial reduction in premiums of half of one per cent at the highest loan-to-value ratio.

SECURITIZATION

CMHC pioneered the development of Canada's secondary mortgage market with NHA Mortgage-Backed Securities (MBS) in 1987. The next evolution of mortgage securitization was introduced in 2001 with the Canada Mortgage Bond (CMB) program. The monthly principal and interest payments from NHA MBS pools are converted into a series of regularly scheduled interest payments on a bond with principal paid in full at maturity. This provides investors with another vehicle to make secure investments in Canadian residential mortgages and provides the mortgage market with another competitive source of funds working to lower mortgage interest rates for Canadian homebuyers. CMHC, on behalf of the Government of Canada, provides a timely payment guarantee on NHA MBS and CMB.

In 2001, total NHA MBS guaranteed exceeded $8.9 billion, including $4.7 billion of MBS for CMB. This compares to a total planned volume of $17 billion, with the difference due primarily to the timing of the initiation of the CMB program, which was later than originally planned, due to program complexities. At $2.2 billion, the first CMB issuance in June 2001, was the largest syndicated bond ever issued in a single tranche in Canada. That record was broken in October 2001 with a second CMB issuance of $2.5 billion.

ASSISTED HOUSING

CMHC currently spends approximately $1.9 billion annually on social housing programs, including operating expenses, accounting for over half of the $3.5 billion spent collectively on housing programs by both levels of government in Canada. Over 80 per cent of CMHC's funding is provided for ongoing commitments assisting some 640,800 households annually. The remaining commitments are for the On-Reserve Non-Profit Program, Aboriginal Capacity Development, the Residential Rehabilitation Assistance Program and other special housing initiatives. CMHC's Direct Lending Program further supports social housing by providing mortgage loan funding on a break-even basis, thereby reducing subsidy costs. In order to expand the flexibility of the Direct Lending Program, in 2001 terms up to and including 10 years began to be offered for select mortgage loans. In 2001, financing and refinancing through the Direct Lending Program was provided for 1,415 projects totalling $1.24 billion with 151 first-time renewals at $131.4 million; 1,099 subsequent renewals at $1.04 billion; and 165 new on-reserve construction accounts at $67 million.

In addition to this ongoing funding, in 2001, federal, provincial and territorial ministers responsible for housing agreed on a framework to increase the supply of affordable housing across Canada. As part of a broader national housing strategy, the federal government has committed $680 million over five years. With matching contributions from the provinces and territories, the total investment in housing will be over $1.36 billion. Federal capital contributions will average $25,000 per unit over the duration of the program.

PARTNERSHIPS AND RESEARCH

In 2001, CMHC's Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) facilitated 50 housing projects, representing 3,594 units, over 43 per cent more units than in 2000. These projects received CMHC Mortgage Loan Insurance and approximately 50 per cent helped meet seniors housing needs. CMHC's Homegrown Solutions and Affordability and Choice Today (ACT) are two other partnership initiatives which encourage innovative housing ideas through regulatory reform and other means. These two initiatives have funded a steady stream of research projects over the years. The number of projects funded in 2001 and 1998, reflect ACT initiatives only, as there were no proposal calls for Homegrown Solutions in those years.

CMHC's Directed Research Program consists of nine priority areas, three of which deal directly with affordability and choice. In 2001, over $600,000 was spent on research activities in support of making housing more affordable, addressing aboriginal needs and addressing distinct housing needs. Almost half of these expenditures were allocated to addressing distinct housing needs for seniors and disabled persons. In total, research results in relation to this corporate objective were presented at approximately 34 events in 2001, including conferences, symposiums, seminars and workshops of professional associations and industry groups.

Other Accomplishments

SECURITIZATION

- *Euroweek*, an international publication on capital market issues, awarded the first CMB transaction with "Best Dollar Bloc Bond Issue - 2001." The awards are independent and represent the results of comprehensive polls conducted by *Euroweek* during December 2001 to banks, borrowers, investors and intermediaries of the international capital markets.

MORTGAGE LOAN INSURANCE

- In 2000, CMHC reported on the housing situation in the District of Tumbler Ridge, a community in northeastern BC that was hit by the closing of two local coal mines. CMHC, through its Mortgage Loan Insurance Program, has been successful in helping stabilize the housing situation by working with the District and their marketing partner. In addition to the 450 vacant homes marketed in 2000, a further 266 homes were sold in 2001. Two of the existing apartment projects were converted to condominiums with 86 of the available 102 units being sold by year end. In addition, the town, as a result of negotiations with the Province, is now debt-free, thus placing the community as a whole in a very strong financial position.

KNOWLEDGE TRANSFER

- In collaboration with Health Canada, a pilot seminar series on seniors housing was developed in conjunction with industry experts, builders, developers, home care organizations and non-profit housing groups. Twenty-one seminars were delivered at 16 different events to approximately 1,000 people.

OBJECTIVE TWO: Improve Housing and Living Conditions for Canadians

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

2001-2005 CORPORATE PLAN PERFORMANCE TARGETS	2001 Actual	2001 Planned	2000	1999	1998	1997
New Commitments – Estimated Households Assisted						
Subsidy Programs						
On-Reserve Non-profit (units)	1 050	940	1 250	1 050	550	1 450
Strategic Initiatives						
Residential Rehabilitation Assistance Program (RRAP) (units)						
Homeowner	8 225	7 397	9 400	5 900	3 650	2 850
Disabled Homeowner	1 625	1 424	1 350	1 000	800	650
Rental and Rooming House	3 200	4 518	5 200	6 150	4 500	800
RRAP Conversion	650	793	500	n/a	n/a	n/a
On-Reserve	1 650	1 254	1 700	700	400	750
Subtotal RRAP	15 350	15 386	18 150	13 750	9 350	5 050
Emergency Repair Program (ERP) (units)	2 450	2 716	3 500	2 700	1 600	650
Home Adaptations for Seniors' Independence (HASI) (units)	4 425	4 580	2 600	1 350	1 300	2 050
Shelter Enhancement Program (SEP) (units)	1 575	3 134	2 100	2 000	900	1 650
Subtotal Strategic Initiatives	23 800	25 816	26 350	19 800	13 150	9 400
Total	24 850	26 756	27 600	20 850	13 700	10 850
Research and Information Transfer						
Research Expenditures ($)	1 783 000	1 705 000	1 954 000	2 139 000	2 214 000	1 846 000

2001 Performance

RENOVATION AND REPAIR PROGRAMS

In 2001, CMHC's strategic housing initiatives including RRAP, ERP, SEP and HASI, continued to help preserve Canada's existing housing stock and create new units. RRAP provides forgivable loans to improve the health and safety of homes owned or rented by low-income Canadians, as well as funding to make homes more accessible and safe for people with disabilities. In 2001, RRAP and associated provincially cost-shared programs helped over 15,000 households.

The Shelter Enhancement Program (SEP) provides forgivable loans to allow non-profit organizations to repair existing shelters or create new shelters for victims of family violence and to repair or create second-stage housing for people making the transition to independent living. In 2001, SEP assistance was provided for some 1,500 units.

ERP, which provides emergency repair grants to homeowners in rural or remote areas, and HASI, which helps low-income elderly Canadians adapt their homes as their needs change, helped some 2,450 and 4,425 households respectively. Overall, loans approved in 2001 included $108 million in RRAP funding, $18 million in SEP funding, $8 million in HASI funding and $7 million in ERP grants.

The significant increase in units assisted in 1999 and again in 2000, is due to successive funding increases for strategic housing initiatives. In late 1998 a $50 million program enhancement was announced, all of which was committed in 1999. In December 1999, renovation programs targeted to low-income Canadians and victims of family violence were further enhanced by an additional $311 million over four years as part of the federal government's broader housing strategy to help respond to the issue of homelessness.

HEALTHY HOUSING™ AND BUILDING PERFORMANCE

Three of CMHC's research priority areas deal directly with the objective of improving housing and living conditions. In 2001, nearly $1.8 million was spent on research activities in support of advancing Healthy Housing™, helping Canadians protect their investment in housing, and improving building performance. Over $700,000 was expended in the area of Healthy Housing™, which promotes affordable, healthy and environmentally responsible housing solutions. Additional projects on housing quality and building performance were initiated through CMHC, often in partnership with various community housing agencies, universities and non-profit groups to explore building technology innovations, reduce the impacts of natural disasters, and address technical issues related to rural and remote housing. The results of CMHC's research in the above areas were presented at over 300 events in 2001, including 23 "Let's Clear the Air" seminars on indoor air quality delivered to some 800 health professionals, 13 three-day Indoor Air Quality Investigator Training Courses delivered to 200 technical inspectors and private consultants and various "Partnering for Energy Efficiency" workshops.

In addition, 11 "Advanced Construction Details" workshops were delivered to over 600 architects with follow-up market research showing that 68 per cent of workshop attendees adopted best practices to avoid building envelope problems. CMHC also co-sponsored with BERC, the Building Envelope Research Consortium, the "Managing Moisture in Housing" conference in Vancouver, BC, attended by 440 delegates; CMHC research was presented at this event, including two new guides on building envelope rehabilitation.

ABORIGINAL CAPACITY DEVELOPMENT

CMHC's work in support of First Nations in the area of capacity building provides the tools and information necessary for Aboriginal People to participate directly in the development and management of their own housing. To increase First Nations' involvement in building inspections for housing developed and maintained under CMHC programs, the Corporation implemented the Native Inspection Services Initiative in 1995. With funding from CMHC in 2001, First Nations technical service providers produced the *Native Inspection Services Guide*. This year, over 85 per cent of all on-reserve housing inspections were contracted out to native inspection service providers.

The Corporation sponsored the British Columbia First Nations Housing Symposium in 2001, which brought together approximately 300 delegates to share information on new ideas and practical solutions for building and maintaining quality housing in communities on-reserve, and to learn new construction techniques.

The Housing Internship Initiative for First Nations and Inuit Youth also completed another successful year. In 2001, $1.5 million was committed to assist over 200 Aboriginal youth who received on-the-job training in housing-related positions.

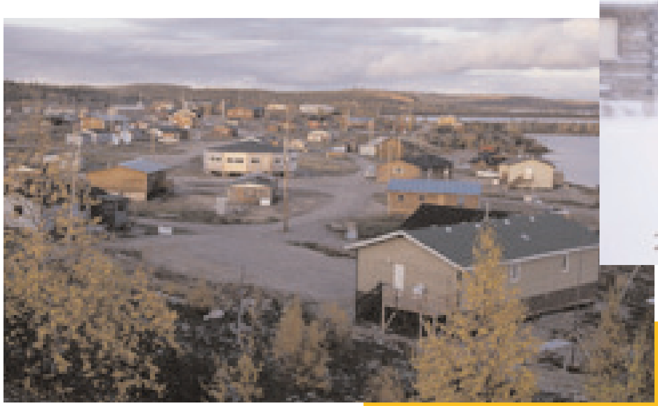
Other Accomplishments

RESEARCH INITIATIVES

- With the support of CMHC, Canadian Home Inspectors and Building Code Officials successfully completed the development of occupational standards for each of their sectors.
- CMHC released several sustainability publications in 2001 including: *Your Next Move: Choosing a Neighbourhood with Sustainable Features*, which gives consumer advice about neighbourhood features that benefit people and the environment; *Practices for Sustainable Communities*, which presents case studies and Canadian best practices; *Implementing Sustainable Community Development: Charting a Federal Role for the 21st Century*, which presents research undertaken to accelerate the adoption of sustainable community practices in Canada; and *Multiple Housing for Community Sustainability*, a reference for developers or planners aiming to intensify land use in cities.

SUPPORT FOR FIRST NATIONS

- A First Nations Healthy Housing and Sustainable Community Development Symposium was held at Tyendinaga - Mohawks of the Bay of Quinte in Ontario. This is a continuation of a series of symposia being held for the purpose of bringing together First Nations representatives who have built Healthy Housing™ with those who are interested in sharing knowledge and best practices. A "best practices" publication has been produced to ensure Healthy Housing™ information is passed on to other First Nations.
- The official opening of the Kanata 2000 Healthy House took place in September 2001 in the Kahnawake community, near Montréal. The Healthy Housing™ and FlexHousing™ concepts which have been included in the design of this house, will also be incorporated into an additional 27 to 35 planned houses.
- Hosted by CMHC, the Yukon Housing Corporation, and Indian and Northern Affairs Canada, over 200 participants attended a conference providing information on the latest products, research and training for building quality housing in Northern First Nations communities.



OBJECTIVE THREE: Support Market Competitiveness, Job Creation and Housing Sector Well-being

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

2001-2005 CORPORATE PLAN PERFORMANCE TARGETS	2001 Actual	2001 Planned	2000	1999	1998	1997
Mortgage Insurance						
Operating Expense Ratio (%)	14.3	16.9	14.9	15.5	19.0	30.8
Real Estate Inventory ($M)	117.3	109	157	186	223	264
Proceeds from Real Estate Sales ($M)	179.8	223.3	190	246	300	352
Net Claims Expense ($M)	335	396	307	232	375	522
Homeowner applications processed through emili (%)	96.6	n/a	87.5	55.4	32.2	16.0
CMHC International						
Sales Impact ($M)	38	n/a	n/a	27.4	9.1	n/a
Revenue from International Activities ($M)	1.1	1.8	1.1	1.4	.639	n/a
Industry Clients (Export and Export-ready)	379	375	375	300	n/a	n/a
Client Satisfaction (%)	86	85	85	80	65	n/a
Research and Information Transfer						
Number of Bulk License Agreements / Number of Redistributed Products Sold	23 / 31 920	n/a	8 / 3 930	1 / 12	n/a	n/a
Housing Outlook - Number of Conferences / Attendance	17 / 2 900	n/a	18 / 2 700	12 / 1 700	13 / 1 750	12 / 1 500
Research Expenditures ($)	1 320 000	1 275 000	1 894 000	2 164 000	1 071 000	1 093 000

2001 Performance

MORTGAGE LOAN INSURANCE

In an increasingly competitive business environment, CMHC has continued to improve the speed, efficiency and cost-effectiveness of its mortgage insurance operations, while maintaining high standards of risk management and quality control. In 2001, the Corporation marked the 5th anniversary of the introduction of **emili**, CMHC's on-line mortgage approval system. Over 96 per cent of all homeowner mortgage loan insurance applications are now being processed through **emili**. This allows CMHC to provide lenders with an extremely fast response on homeowner mortgage applications that has been maintained in recent years, despite growing volume, due to new product introductions.

Our Lender Quality Assurance Framework was implemented in 2001 to help in identifying, attributing and managing variations in business quality. The quality of insured loans and related administration is verified against quality targets. These Quality Measures enable joint management of business quality with CMHC's lender clients and help identify trends and operational issues.

In recent years, CMHC has been streamlining its operations and implementing efficiencies at the same time that revenues have been increasing. As a result, the operating expense ratio for the Insurance activity, excluding commitments for special programs such as British Columbia's Homeowner's Reconstruction Loan Program, has been steadily declining over the last five years, reaching 14.3 per cent in 2001.

The Corporation's quality control processes along with prevailing economic conditions, have resulted in fewer claims paid out this year compared to 2000, continuing a downward trend since 1997. CMHC has also simplified the claims payment process and consults with lender clients on ways to reduce the administration of loans that go into default. CMHC's sales of properties acquired through loan default continued to be strong in 2001, contributing to a decline of 25 per cent in the value of real estate held in inventory.

In 2001, CMHC continued to work with the mortgage industry to encourage improvements in the identification and management of mortgage fraud. CMHC took a lead role in organizing and managing an Industry Fraud Committee of the Canadian Institute of Mortgage Brokers and Lenders (CIMBL). Initiatives of the Committee included the production of an Industry White Paper on Fraud, describing the nature and extent of the problem in Canada, and the development of best practices for all mortgage loan originators and other industry partners.

RESEARCH AND INFORMATION TRANSFER

Through housing surveys, research on socio-economic issues and trends, and analyses of domestic and international housing markets, CMHC serves as a key "information broker" supporting informed decision making by industry professionals, policy makers and individual consumers. In 2001, over $1.3 million was spent on research activities in support of the promotion of housing exports, the exploration of housing trends and the improvement of housing finance and market effectiveness. The bulk of this funding, over $780,000 was in the area of housing exports, and focused on business opportunities in CMHC's target markets, as well as promoting Canada's housing system abroad.

In terms of information transfer, the shift in recent years towards bulk licensing agreements for market analysis products has resulted in an increase in bulk sales. In 2001, 23 bulk licensing agreements were in place permitting large customers to acquire electronic subscription products in bulk and pay a fee to redistribute them to staff internally. These agreements represent close to a tripling over 2000, and a nearly ten-fold increase in the number of reports sold and redistributed. There are no figures for 1997 or 1998 as bulk sales were not yet available in those years.

Providing both regional and national housing market information, CMHC's Housing Outlook Conferences (HOC) are another key means of information dissemination, targeted to both industry and consumers. There were 17 conferences throughout Canada and overall attendance was up nearly 7.5 per cent over 2000 attendance.

CMHC INTERNATIONAL

In 2001, CMHC's international activities were consolidated to focus on partnerships with international organizations, support for housing exports and the transfer of CMHC expertise abroad. Through contracts to provide solutions and advice in housing finance, revenues in 2001 exceeded $1 million. Cooperative agreements were signed in 2001 with the National Housing Bank of India and the Ministry of Construction in China. Studies are currently underway exploring the feasibility of transferring CMHC-style mortgage insurance to both of these countries, representing more than one third of the world's population.

CMHC participated in 15 international events in 2001, including trade shows, fairs, expos, seminars and missions. In 2000, the Corporation participated in 17 such events. In terms of industry support, the companies CMHC works with at these international events reported over $38 million in exports in 2001, based on actual sales and signed contracts. While the actual number of companies, or clients CMHC works with has remained relatively constant over the last two years, this 2001 sales figure represents a steady increase in CMHC's impact on international business activity since 1997. There is no sales impact data available for 2000 due to a change in collection methodology that occurred that year.

Other Accomplishments

INTERNATIONAL COMMITMENTS

- In 2001, a trade mission initiated by CMHC led to an $8 million deal for a Canadian company based in Quebec to build 200 homes over a period of eight years in Temuco, Chile. In addition to helping meet housing needs internationally, the contract is contributing to the creation of approximately 25 jobs in Canada.
- As a result of a trade mission CMHC led to China in 2001, two joint-venture agreements worth $11 million were signed, for the construction of 276 homes over a four- to six-year period.

OBJECTIVE FOUR:

Be a Progressive and Responsive Organization

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

2001-2005 CORPORATE PLAN PERFORMANCE TARGETS	2001 Actual	2001 Planned	2000	1999	1998	1997
Federal/Provincial Social Housing Agreements						
Program Transfer Amounts ($M)	963	1 163.8	964	570	388.7	250.8
Marketing CMHC						
Revenues Generated Through Information Products ($M)	2.2	1.8	1.54	1.86	1.56	1.65
Human Resources						
Total Employee Population	1 775	1 798	1 815	1 837	1 983	2 201
Learning Investment Per Employee (excluding official languages)	2 032	2 135	1 796	1 472	1 353	1 106
Research and Information Transfer Expenditures						
Responsive Programs and Other Activities ($)	3 249 000	3 498 000	2 580 000	2 478 000	2 028 000	2 569 000

2001 Performance

HOUSING POLICY

Building on the momentum and commitment that came out of the 2000 meeting of federal, provincial and territorial (F/P/T) housing ministers, CMHC continued to work with its provincial and territorial partners in 2001 on emerging and ongoing housing priorities. Ministers agreed to work together on short- and long-term strategies to address the supply of affordable housing, and housing problems in rural and remote areas. In August 2001, a second F/P/T meeting was held to discuss the proposed program to stimulate the production of affordable housing that was promised in the federal Speech from the Throne in January. In late November, at a third meeting in Québec City, ministers achieved consensus on a framework agreement, which set the stage for bilateral agreements with provinces and territories on the new affordable housing program. Ministers agreed to begin negotiating these agreements as soon as possible, while continuing to work on a strategy for the longer term. In 2001, bilateral agreements were reached with British Columbia, the Northwest Territories, Nunavut and Quebec.

CMHC continued to negotiate the Government of Canada's offer to transfer responsibility for the administration of the existing portfolio of long-term off-reserve social housing with the four provinces that have not yet signed transfer agreements. To date, nine jurisdictions have signed new agreements and are enjoying the benefits of streamlined administrative arrangements.

Work related to the Government of Canada's $753 million strategy to address homelessness also continued with the National Secretariat on Homelessness, Human Resources Development Canada, and other federal departments and agencies. In addition, the Corporation contributed to federal horizontal policy files such as the Voluntary Sector Initiative (VSI), which resulted in proposals to CMHC by voluntary groups to increase the capacity of the voluntary sector to contribute to departmental policy development. Three of the proposals received by CMHC were subsequently approved for funding by the Voluntary Sector Task Force. Two of the proposals will be managed by CMHC, the third by Health Canada in partnership with CMHC.

Finally, after setting aside sufficient funds for insurance claims, losses, business costs and additional policy reserves, some of CMHC's retained earnings are used for public policy purposes related to housing. In 2000, the Corporation agreed to provide up to $27.7 million through British Columbia's Homeowner's Reconstruction Loan Program to assist homeowners in British Columbia who could not afford to repair their moisture-damaged homes. In 2001, up to $17.5 million was also offered to Quebec homeowners through Quebec's Assistance Program for Owners of Pyrite-Damaged Residential Buildings.

INVESTING IN PEOPLE

CMHC's human resources strategies have served to create a robust and competitive organization through investing in learning, recruiting and retaining qualified employees, fostering corporate values, encouraging innovation, improving service delivery and the understanding of human resources management practices.

Recognizing the importance of continuous learning, CMHC has developed a comprehensive learning and development framework which includes management, supervisory and leadership development. In addition, the Corporation has consistently augmented learning investments with the average investment per employee increasing by 84 per cent since 1997. Building on the Corporation's innovative approaches to developing its senior management, a framework was developed to cascade succession planning principles to other employees across CMHC. The framework is designed to ensure the Corporation is proactively identifying and responding to potential gaps in succession and specific technical skills.

An analytical framework was approved in 2001 to improve CMHC's capacity to forecast human resources needs by assessing internal and external labour market influences. The Corporation also undertook several initiatives to assess and improve workplace culture, and in early 2001, implemented a process to evaluate the organizational pulse and take action based on the results. Processes were also put in place to actively solicit innovative ideas and suggestions from staff. Over 500 ideas, comments and suggestions were submitted through mechanisms such as the President's national tour of CMHC business centres. The ideas were subjected to a comprehensive assessment and several have been approved for further exploration and development.

Continuous improvements to CMHC's "HR On-Line", an information and services database for employees, have resulted in service delivery enhancements, improved information sharing, and increased awareness and understanding of human resources policies and management practices. The tool continues to have a major organizational impact with usage rates increasing by 27 per cent in 2001. The implementation of a state-of-the-art electronic recruitment tool has resulted in over 85,000 visits to CMHC's career site in 2001. Enhancements were also made to the incentive compensation program to ensure that CMHC's compensation strategy continues to foster organizational performance and support the recruitment and motivation of a qualified work force.

CONNECTING WITH CANADIANS

CMHC launched a corporate advertising campaign targeted at homebuyers in the spring 2001 and renovators in the fall 2001 to raise awareness of CMHC as a provider of information on homebuying and renovation. This resulted in stabilizing aided awareness of CMHC at 65 per cent, and the ordering of about 9,000 CMHC information products related to homebuying and 50,000 products related to renovation during the campaigns. CMHC's new Web site was launched in April with an improved look and easy navigation. Since the launch, Web traffic to the CMHC site has increased 93 per cent from 29,000 unique visitors in April 2001 to 56,000 in November 2001.

The targeted marketing and advertising approach to reach both consumer and industry audiences in 2001, contributed to a 46 per cent increase in gross sales of priced products. Sales increased from $1.5 million in 2000 to $2.2 million in 2001.

PROMOTING INNOVATION

Twenty-two External Research Program grants were awarded in 2001, and the 2002 Housing Awards were launched with the theme "Affordable Housing Innovations." To determine the overall benefit and value for money of its directed research and related information transfer activities, in 2001 CMHC completed an evaluation of its Directed Research Program. Using a partial benefit/cost approach, the evaluation compared the net economic benefits of four selected research areas with the total program costs since 1988. Additional benefits in terms of health and environmental impacts were identified in these four case studies. The results clearly demonstrated that the benefits to Canadians of CMHC's Directed Research and related information transfer activities significantly exceed the government's investment. CMHC is taking steps to share this leading edge evaluation of research activities with the program evaluation community.

Other Accomplishments

FEDERAL SPOKESPERSON

- The United Nations General Assembly—Special Session on the Habitat Agenda—met in New York in June 2001. CMHC led the Canadian delegation and prepared Canada's National Report on behalf of a federal interdepartmental committee, with input from provincial and territorial governments and stakeholder groups across Canada.

In prior years, the Corporation's Annual Report contained three separate financial statements; one for each main business activity. Taken together, these statements comprised all of the financial results and transactions of the Corporation. Commencing with 2001, CMHC integrated the financial statements to present the combined results of all of the Corporation's activities. This provides a clear, overall picture of the Corporation's financial performance and resources, and reflects the continuing progression of CMHC's reporting practices. This enhancement also demonstrates the renewed focus on unifying all of CMHC's resources to support its corporate-wide objectives.

Segmented financial results for the Corporation's main activities, Lending (previously the "Corporate Account"), Insurance and Securitization (previously the "Insurance and Guarantee Funds"), and Housing Programs (previously the "Minister's Account"), continue to be provided. Such information remains pertinent to an understanding of the breadth of programs offered under CMHC's mandate.

CORPORATE FINANCIAL RESULTS *(in millions of dollars, except staff years)*	2001 Actual	2001 Planned	2000 Actual	1999 Actual	1998 Actual	1997 Actual
Total Assets	23 822	21 898	23 244	21 976	22 020	20 526
Total Liabilities	22 557	20 789	22 324	21 432	21 792	20 458
Total Equity	1 265	1 109	920	544	228	68
Revenues	4 064	4 014	4 192	4 009	3 862	3 756
Expenses	3 500	3 519	3 680	3 491	3 599	3 759
Net Income (Loss) before Income Taxes	564	495	512	518	263	(3)
Net Income (Loss) after Income Taxes	345	303	376	316	160	(4)
Operating Expenses	201	239	208	175	198	239
Staff Years	1 736	1 798	1 815	1 943	2 046	2 366

Overview

2001 was another strong year in terms of CMHC's financial performance. **Net income after income taxes** reached $345 million, 14 per cent above plan, reflecting the continued success of the mortgage insurance and securitization business, and the steady performance of lending activities.

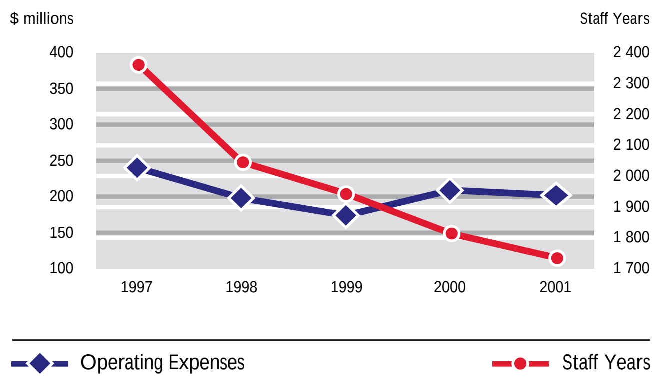
Highlights

Assets of $23,822 million exceeded plan by 9 per cent due to the receipt and reinvestment of higher than expected mortgage insurance premiums. Repurchase and reverse repurchase activity also contributed to an equal increase in both total assets and total liabilities.

Equity increased to $1,265 million, allowing the Corporation to prudently set aside earnings for future purposes, including support of federal public policy initiatives.

Operating expenses of $201 million were 16 per cent below plan, reflecting ongoing savings from operational efficiencies and reduced staff years. Since 1997, operating expenses have declined by $38 million. They reached a low of $175 million in 1999 and have increased since then due to general cost increases and other adjustments. Other adjustments include $7 million in 2001 for employee incentive awards, and $28 million and $9 million in 2000 for restructuring costs and employee future benefits, respectively.

OPERATING EXPENSES AND STAFFING TRENDS



Staff years declined over the last five years due to operational efficiencies and the transfer of social housing administration to the nine provinces and territories that have executed Social Housing Agreements to date.

Lending Activity

The Corporation makes loans and investments in housing programs. These assets are funded by borrowings from the Government of Canada and from capital markets.

Lending activity includes the Direct Lending initiative, which provides funding on a planned break-even basis.

FINANCIAL RESULTS *(in millions of dollars)*	2001 Actual	2001 Planned	2000 Actual
Direct Lending Loans	9 303	9 547	9 679
Other Loans and Investments in Housing Programs	5 936	6 096	6 162
Borrowings from Capital Markets	11 081	10 560	11 054
Borrowings from the Government of Canada	5 692	5 815	5 924
Reserve Fund	42	15	20
Net Interest Income	58	24	42
Net Income before Income Taxes	38	11	20
Net Income after Income Taxes	22	7	9

DISCUSSION OF FINANCIAL RESULTS

As planned, overall loans and investments declined during 2001. While Direct Lending continues to fund first time renewals and new on-reserve construction, these advances are exceeded by repayments on existing accounts. Most of the Corporation's other loan programs were active some years ago, and are currently in the repayment stage.

Borrowings from capital markets, which fund direct lending advances, increased by $27 million over the prior year as a result of pre-funding some 2002 direct lending advances. The amounts raised through pre-funding are held in cash, cash equivalents and investments in securities until direct lending advances are made. Borrowings from the Government of Canada, which fund other loan programs, also continued their decline due to repayments of $232 million. The Corporation has not borrowed from the Government of Canada since 1993.

Net interest income for 2001 exceeded plan by $34 million due to the recovery from the Government of Canada of increased interest costs on the loan portfolio. Net interest income also benefited from the Corporation's strategy of funding loans through shorter term borrowings as interest rates declined during 2001.

The increase in net interest income, and a $5 million tax refund recorded as other income, contributed to 2001 net income after income taxes for lending activity of $22 million. This surpassed planned net income after income taxes of $7 million and 2000 net income after income taxes of $9 million.

The Reserve Fund of $42 million comprises the retained earnings of the Corporation's lending activity. During 2001, the Corporation received authority to increase the limit on its reserve fund from $25 million to $100 million. This increase was approved to guard against future risks, including losses which may occur as a result of the Corporation's assumption of interest rate risk on the government funded loan portfolio.

Insurance and Securitization

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

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

Insurance

FINANCIAL RESULTS *(in millions of dollars)*	2001 Actual	2001 Planned	2000 Actual
Cash, Cash Equivalents and Investments in Securities	4 797	4 615	4 024
Unearned Premiums and Fees	3 087	3 077	2 782
Unappropriated Retained Earnings	184	138	132
Appropriated Retained Earnings	938	848	676
Revenues from Premiums and Fees	726	728	681
Income from Investments	276	278	253
Expenses (excluding Income Taxes)	495	552	461
Net Income before Income Taxes	507	454	473
Net Income after Income Taxes	314	278	355

DISCUSSION OF FINANCIAL RESULTS

Revenues from premiums and fees increased in 2001 due to the continuing success of insurance products. Premiums received in 2001, the majority of which are included in unearned premiums in the current year, were $120 million above the planned amount due to the strong performance of all insurance products, in particular the new Refinance product.

In addition, net losses on mortgage loan insurance claims during 2001 were 15 per cent below plan. This was due to continued improvements in the quality of the insured portfolio and to Approved Lenders making greater use of deficiency claims settlements, a claims process which allows Approved Lenders to sell foreclosed properties without the time and cost of transferring title to CMHC.

Revenues were also bolstered by the return on the investment of premiums received. The return on the overall investment portfolio was 7.97 per cent. This compares favorably to the 5.70 per cent realized by the benchmark market index. The equity portfolio, consisting of Canadian equities, which was established during 2001, exceeded $500 million.

These factors contributed to 2001 net income before income taxes of $507 million, 12 per cent above the planned amount and 7 per cent above the 2000 amount. Net income before income taxes exceeded planned and 2000 amounts, while net income after income taxes was $314 million in 2001, 12 per cent below the 2000 amount. This decrease in net income after income taxes is attributable to tax credits of $80 million which were recognized in 2000, decreasing the effective tax rate for that year to 25 per cent. The effective tax rate for 2001 was 38 per cent.

The income earned from the Insurance activity is maintained as both unappropriated and appropriated retained earnings. During 2001, appropriated retained earnings grew by $262 million as the Corporation continues to set aside amounts to meet additional reserve and capital standards set by the Office of the Superintendent of Financial Institutions. Retained earnings are also used to support other federal public policy initiatives. Over the last two years, other such policy initiatives have included a contribution of up to $27.7 million towards British Columbia's Homeowner's Reconstruction Loan Program and up to $17.5 million towards the province of Quebec's Assistance Program for Owners of Pyrite-Damaged Residential Buildings.

Securitization

FINANCIAL RESULTS *(in millions of dollars)*	2001 Actual	2001 Planned	2000 Actual
Cash, Cash Equivalents and Investments in Securities	119	153	119
Unearned Fees	54	73	54
Retained Earnings	76	83	67
Revenues from Fees	19	22	16
Income from Investments	8	9	7
Expenses (excluding Income Taxes)	8	1	4
Net Income before Income Taxes	19	30	19
Net Income after Income Taxes	9	18	12

DISCUSSION OF FINANCIAL RESULTS

In June 2001, the Canada Housing Trust launched a $2.2 billion inaugural issue of the Canada Mortgage Bonds (CMB), reaching issuance of $4.7 billion by the end of the year. These bonds are guaranteed through CMHC's securitization activity. The CMB program was introduced later than initially planned due to program complexities, resulting in overall issuance volumes 48 per cent below expectations.

The shortfall in overall issuance volumes resulted in the receipt of lower than planned guarantee fees. As most of the fees received are recorded as unearned fees, and the funds are invested, balance sheet items such as cash, cash equivalents and investments in securities, as well as unearned fees, fell below expectations. The investment portfolio reached $119 million, versus a planned portfolio of $153 million. The portfolio achieved an annual total return of 7.75 per cent, compared with the benchmark index return of 5.66 per cent. The investment portfolio includes $13 million of domestic equities acquired during 2001.

Net income after income taxes from Securitization of $9 million was less than plan due to the lower than planned issuance volumes noted previously.

Housing Programs

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

FINANCIAL RESULTS *(in millions of dollars)*	2001 Actual	2001 Planned	2000 Actual
Expenses[1]	1 789	1 815	1 913

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

DISCUSSION OF FINANCIAL RESULTS

Of the $1,789 million incurred in 2001, $963 million was comprised of payments to the provinces and territories that have assumed responsibility for housing programs under the Social Housing Agreements. A further $602 million was disbursed by the Corporation under other social housing programs. The Corporation also directed $123 million to renovation and repair programs such as RRAP, ERP, HASI and SEP, and $92 million to on-reserve housing programs. Approximately $9 million was used to support research and international activities, excluding operating costs.

Effective risk management is central to CMHC's business activity. Under Board of Directors' oversight, senior management develops and executes risk management policies which limit the Corporation's exposure to adverse events. Risk identification is intrinsic to CMHC's planning process, oriented towards improving the Corporation's overall performance. Specific risk management policies provide a framework for CMHC's financial transacting, including measures for managing and limiting associated credit and market risks. Financial positions, exposures and risk management strategies are provided to senior management and the Board of Directors on a regular basis.

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 asset/liability management, reviewing and approving CMHC's financial positions, risk exposures, performance and financial strategies of the Corporation. Acting as an advisory body to ALCO, the Investment Committee provides technical and external expertise supporting CMHC's investment activities related to the management of the Insurance and Securitization investment funds.

The following is a summary of how CMHC's market, credit, liquidity and operational risks are managed.

Market Risk

Market risk refers to the risk of incurring a financial loss as a result of adverse movements in interest rates (interest rate risk), foreign exchange rates (currency risk) and equity prices. The level of market risk that CMHC is exposed to fluctuates according to market dynamics as well as changes of asset and liability mixes in CMHC's portfolios. The Corporation establishes policies and limits such that it can monitor and limit exposure to market risks arising from its business transacting, asset and liability management activities.

CMHC limits its risk of loss from adverse movements in interest rates and foreign exchange rates through asset and liability matching, hedging and capital market strategies. The Corporation fully mitigates its currency risk, hedging currency exposure to Canadian dollars through the use of cross currency swaps.

Interest rate risk associated with the Corporation's financial transacting is managed through various strategies and policies.

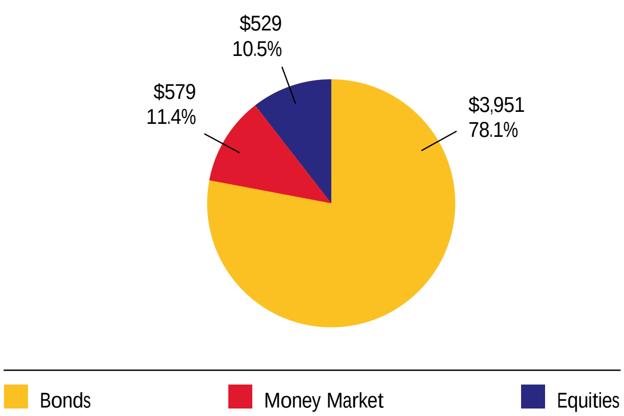
In 2001 CMHC launched a major initiative to establish an Enterprise-Wide Risk Management (ERM) process. The vision is to develop a broad and deep capability to more effectively understand and manage CMHC's risks, and to enhance the Corporation's ability to act and leverage opportunities in delivering its mandate. With Board oversight, senior management completed a comprehensive risk identification and best practices benchmarking exercise, and initiated important projects to improve the Corporation's strategic planning, risk assessment and performance management functions.

LENDING

In relation to CMHC's financing of its lending activity, interest rate risk is mitigated through the matching of assets and liabilities. The Corporation's exposure to prepayment and repricing risk is managed using funding and business strategies. The Corporation regularly evaluates possible impacts on value and interest margin of the lending portfolio due to interest rate changes.

INVESTMENT PORTFOLIOS ASSET ALLOCATION

as at December 31, 2001 (in $ millions)



Rate scenarios utilized in these analyses include 1 per cent parallel shocks to the yield curve. At December 31, 2001 the annual change in interest margin associated with a positive 1 per cent parallel shock was $6 million.

INSURANCE AND SECURITIZATION

CMHC's Insurance and Securitization investment portfolios are managed within established policy limits, ensuring that price sensitivity relative to benchmark indices is controlled, and that appropriate asset diversification requirements and investment characteristics are in place to offset the respective liabilities.

In 2001 CMHC implemented a new diversification strategy regarding asset allocation targets for the Insurance and Securitization investment portfolios. An analytical review resulted in a target allocation of 80 per cent in a fixed income portfolio, 10 per cent in a money market portfolio and 10 per cent in a Canadian equity portfolio. Policy allows for a 2 per cent range around these targets. The accompanying figure illustrates the asset allocation position as at December 31, 2001.

The Insurance and Securitization investment portfolios provided returns as summarized below.

2001 INVESTMENT PORTFOLIO RETURNS (%)

INSURANCE								SECURITIZATION							
Fixed Income		Money Market		Equity		Total		Fixed Income		Money Market		Equity		Total	
Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index
8.26	8.08	4.49	4.13	-7.67	-13.28	7.97	5.7	8.11	8.08	4.02	3.74	-8.21	-13.28	7.75	5.66

Note:

- *Fixed income benchmark index is the Scotia Capital Universe Bond Index.*
- *Money market benchmark index is the Scotia Capital 91 Day Treasury Bill Index; Insurance money market portfolio commenced February 1, 2001; Securitization money market portfolio commenced February 26, 2001.*
- *Equity benchmark index is the TSE 300 Total Return Index; Insurance and Securitization equity portfolios commenced February 13, 2001.*
- *The phased introduction of equity and money market portfolios to achieve the 80:10:10 asset allocation strategy accounted for approximately 3/4 of the positive spread against the benchmark for both the Insurance and Securitization investment portfolios.*

Portfolio risk levels associated with these returns are as follows.

2001 INVESTMENT PORTFOLIO RETURN VOLATILITIES (%)

INSURANCE								SECURITIZATION							
Fixed Income		Money Market		Equity		Total		Fixed Income		Money Market		Equity		Total	
Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index	Act.	Index
4.65	4.63	0.32	0.23	14.38	17.49	3.93	3.74	4.68	4.63	0.33	0.22	14.65	17.5	3.98	3.74

The majority of CMHC's Insurance and Securitization investment assets are held within the fixed income portfolios. The durations of CMHC's Insurance and Securitization fixed income investment funds are managed within ranges relative to the duration of the Scotia Capital Universe Bond Index (SCUBI) benchmark. The Corporation's insurance liabilities are estimated to have a similar duration to that of the index. At 31 December 2001, the Insurance and Securitization fixed income portfolios, which account for most of CMHC's investments, had durations that were similar to that of the benchmark.

FIXED INCOME INVESTMENT PORTFOLIOS	Duration (Years)	Portfolio Duration Versus Index (Years)
SCUBI Benchmark Index	5.64	–
Insurance	5.64	0
Securitization	5.62	-0.02

CMHC has managed the risk of its Insurance and Securitization fixed income investment portfolios to track closely to that of the benchmark index. The following table provides measurement of risk in relation to the benchmark. Volatility increased in the fourth quarter of 2001 in part due to the events surrounding September 11, 2001 and the ensuing uncertainty in the financial markets.

VOLATILITY OF PORTFOLIO RETURNS ON ROLLING 12 MONTH PERIODS	Insurance %	Securitization %	Index %
For 12 months ended December 2000*	3.58	3.53	3.63
For 12 months ended March 2001*	3.58	3.55	3.61
For 12 months ended June 2001*	3.52	3.56	3.48
For 12 months ended September 2001**	3.73	3.74	3.71
For 12 months ended December 2001**	4.65	4.68	4.63

** Standard Deviation of Returns, Annualized, calculated from weekly returns (** from daily returns)*

Risks associated with the Insurance and Securitization liabilities are monitored and managed on an ongoing basis. CMHC uses dynamic financial analysis techniques to measure the MIF's ability to withstand more broad-based economic shocks, from severe economic scenarios to the more normal adverse economic events such as a two quarter recession. These analyses show that the mortgage insurance business is well prepared to weather an economic downturn. These techniques and ongoing performance and risk measurement, together with an annual actuarial valuation provide management with necessary risk management information.

Credit Risk

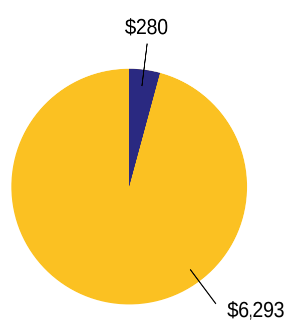
Credit risk is the risk of loss resulting from the inability or refusal of a counterparty to fully honor its contractual or financial obligations, typically as a consequence of its insolvency, or the risk of loss resulting from a credit downgrade. CMHC incurs credit risk from the Corporation's investing, lending and associated hedging transactions, as well as from Insurance and Securitization activities. Credit risk is identified, evaluated and managed to minimize expected losses, and optimize returns, subject to appropriate levels of risk.

INVESTMENT AND HEDGING ACTIVITIES

Credit exposure associated with the Corporation's financial transacting and financial instruments is measured and controlled on an aggregate basis by counterparty for all investing and hedging activities relating to both its Lending programs and the investment funds generated from its Insurance and Securitization activities. Limits are established by counterparty, subject to a number of creditworthiness criteria, including credit ratings and financial strength. Exposures and limits are continually reviewed. In addition to counterparty limits, CMHC has in place a stringent set of policy requirements to ensure appropriate credit risk diversification. As at December 2001 the marked-to-market exposure totaled $6,573 million. The charts describe the distribution of these exposures.

EXPOSURE BY TYPE

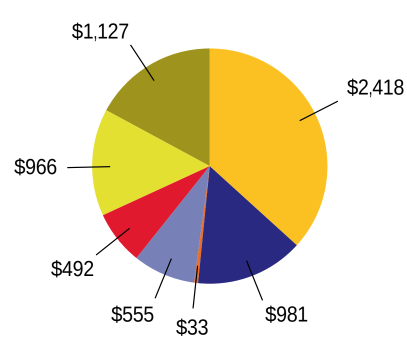
as at December 31, 2001 (in $ millions)



Swaps — Investments

EXPOSURE BY SECTOR

as at December 31, 2001 (in $ millions)



Canada — Provincial — Financial — Asset Backed Securities — A-Bank — Municipal — Corporate

LENDING ACTIVITY

Credit exposure as reflected by the estimated fair value of loans arising from CMHC's lending activities totals $17.1 billion on an outstanding book value of $15.2 billion. Losses relating to defaults on these loans are recognized to the extent that such losses are not recoverable from third parties as outlined below.

Approximately 26.2 per cent of CMHC's exposure is mitigated through the recovery of losses (current and prior years) from the Minister to the limitation that such recoveries are within CMHC's Parliamentary appropriations.

Approximately 33.2 per cent of the exposure is covered by CMHC's Mortgage Loan Insurance Program. Reserves have been provided for claims that may result from this exposure.

Approximately 38.2 per cent of exposure relates to loans covered under various Social Housing Agreements negotiated with the provinces/territories. Under these agreements the provinces/territories have taken on the default risk associated with all loans with respect to property or programs covered in the agreements.

Approximately 2.1 per cent of exposure relates to loans covered by Indian and Northern Affairs Canada through Ministerial loan guarantees.

The remaining risk, which represents 0.3 per cent of CMHC's exposure results from notes receivable from a federal Crown Corporation.

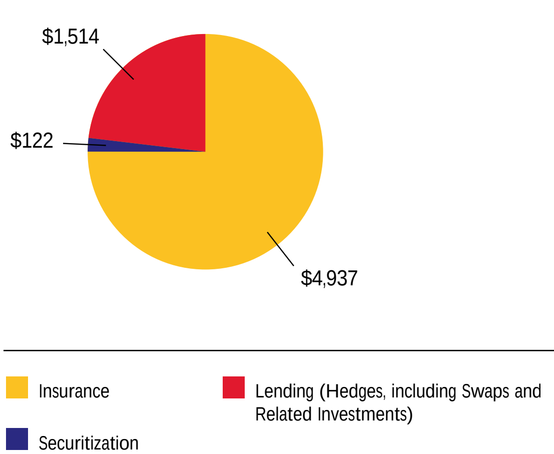
INSURANCE ACTIVITIES

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

CMHC has a long history of managing mortgage default credit risk in "good" and "bad" economic times through its provision of NHA mortgage insurance. CMHC's portfolio of mortgage insurance has grown steadily over time and now amounts to $211 billion. CMHC sets aside reserves to cover expected future losses. They provide the means to settle future claims thereby ensuring that lenders can continue to provide high ratio mortgages to Canadians at competitive interest rates.

EXPOSURE BY ACTIVITY

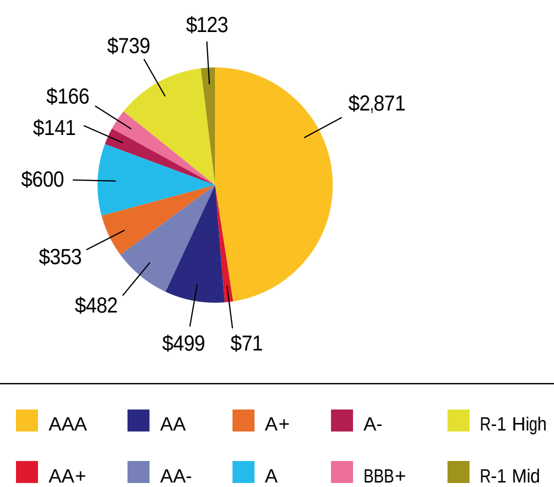
as at December 31, 2001 (in $ millions)



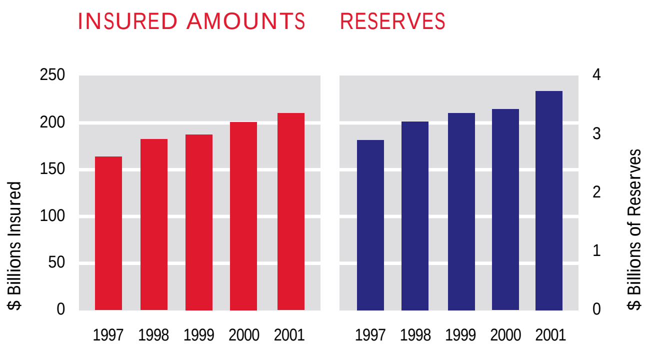
EXPOSURE BY CREDIT RATING

(excludes equity)

as at December 31, 2001 (in $ millions)



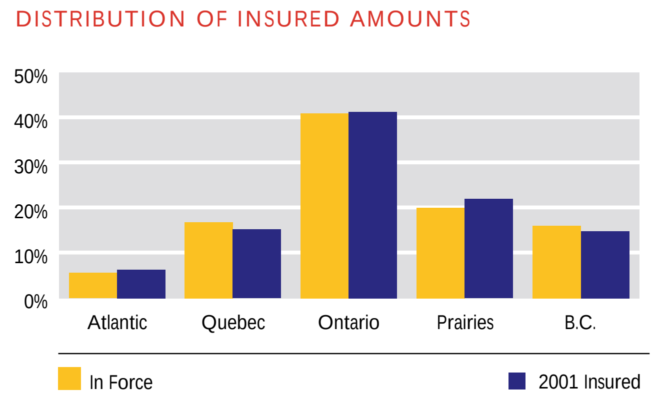
The following chart shows the relationship between the actuarial provisions and the insured portfolio.



CMHC follows the Office of the Superintendent of Financial Institutions (OSFI) solvency standards for mortgage insurance companies in the determination of policy 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 related to the insurance business with its state-of-the-art automated underwriting system, **emili**, introduced in late 1996. Incorporated within **emili** are 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 Corporation. 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.

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. As well, CMHC manages its insurance risk through lender based assessments of quality trends.



SECURITIZATION ACTIVITIES

Through its securitization activities, CMHC guarantees timely payment of principal and interest of Mortgage-Backed Securities (MBS) and Canada Mortgage Bonds (CMB). Total principal obligations to investors guaranteed at December 31, 2001 was $34.7 billion which includes $4.7 billion guaranteed under the CMB program. The major risk of loss associated with this activity is the cost of funding timely payments of principal and interest to investors in the event of MBS or CMB Issuer default relative to securitization guarantee fees received. Under the NHA MBS program, the risk associated with Issuer default is mitigated by the quality of the issuers, and by a minimum spread which is required between the coupon on the NHA MBS and the lowest mortgage rate in the underlying pool. In the event of Issuer default, this minimum spread is available for a replacement issuer to step-in and service the mortgages and continue the payments to NHA MBS investors. Under the Canada Mortgage Bonds Program, a default by the issuer could result from a default on a payment due from one of Canada Housing Trust's (CHT) counterparties. The risk associated with Issuer default is mitigated by CHT being limited to transacting with swap counterparties rated A and above and holding investment instruments rated R-1 (high) or AAA. There is also risk mitigation through collateralization in the event of counterparty credit rating downgrades for A+ or below.

Liquidity Risk

Liquidity risk is the risk that the Corporation may not have sufficient liquid resources to meet its payment obligations. The Corporation has a liquidity risk policy that establishes appropriate limits and ensures that CMHC has sufficient cash to meet current and projected cash requirements. In the normal course of CMHC's business activities, the Corporation's commercial paper program provides liquidity to meet cash requirements on a daily basis. As of 31 December 2001, $996.5 million was outstanding. Throughout the year, the daily average utilization was $1.0 billion. The Corporation also has overdraft facilities in place, lines of credit with several institutions and holds cash and investments in marketable securities which further provide sources of liquidity.

CMHC is a Crown Corporation. All obligations under debt instruments issued by the Corporation are obligations of Canada. Securities issued by the Corporation are assigned a zero risk weighting under the Bank for International Settlements guidelines. CMHC has the following credit ratings.

CREDIT RATING	Short-term	Domestic Long-term	Foreign Long-term
Standard and Poor's	A-1+	AAA	AA+
Moody's	P-1	Aa1	Aa1
DBRS	R-1 high	AAA	AA high

Operational Risk

Operational risk refers to the risk of loss resulting from deficiencies in information systems and/or internal business processes and controls. The Corporation protects its financial viability against operational risk by establishing and adhering to policies and procedures which ensure appropriate personnel, systems, and controls are in place. Managers regularly adjust their business processes to adapt to changing circumstances and to secure productivity and quality gains. As well, periodic audits of processes, systems and controls are conducted by the Corporation's Audit and Evaluation Services Division.

HUMAN RESOURCES

Human Resources risk concerns the possibility of not achieving business objectives due to not having appropriately skilled people, or not having a culture that supports productivity, motivation and core values. These risks are managed through CMHC's strategies around learning, staffing, compensation, and organizational culture.

Human Resources strategies and policies are managed by the Human Resources Council, a forum of Vice-Presidents and General Managers, chaired by the President which meets four times annually to focus on policy and management issues. In addition, a Human Resources Committee of the Board of Directors was established in 2001 to oversee corporate policies and strategies such as succession management and compensation, and ensure the integration of human resources planning with corporate planning.

A number of corporate initiatives are in place to ensure CMHC attracts and retains appropriately skilled people. Demographic and labour market analysis helps CMHC to assess personnel needs and plan strategies around recruitment, succession planning and employee development. A corporate learning and development framework and supporting programs help managers ensure that employees develop competencies for their function, transfer knowledge, and nurture skills for future job requirements.

Since 1997, CMHC has adopted structured approaches to developing its senior managers, and in 2001 a framework was approved for cascading succession planning beyond the senior management level. These initiatives will ensure that the Corporation identifies critical positions and develops the employees with the potential to fill those positions. Also, CMHC regularly compares its compensation programs against the best practices of external employers to ensure that they support the recruitment, retention, and motivation of staff.

CMHC's organizational culture strategy focuses on creating a healthy organization founded on the Corporation's core values. The organizational culture is influenced through a variety of initiatives. The performance management process evaluates employees on their business results and behaviours, and incorporates coaching, development and performance planning. A number of tools are also available to assess and improve teamwork and behavioural competencies. Recently, senior management has also put in place a process of making periodic assessments of the organizational environment, and of implementing improvements based on such assessments.

BUSINESS SYSTEMS

Systems operations risk concerns the loss or disruption of business information systems and is addressed through the implementation of processes and procedures. This includes the contracting of an alternate processing site for critical applications including the **emili** system. Data for these applications are duplicated in real time which allows CMHC to switch to the alternate site within 30 minutes of a major system failure. In addition, CMHC contracts specific services with a supplier for daily back-up of key information to an off site location. In the event of a disaster or other disruption in the processing facilities, critical business systems can be restored and processing continued within 72 hours at CMHC's disaster recovery facilities. Emergency plans, processes and procedures are continuously reviewed to ensure currency and when required, updates are tested in a "mock disaster" situation at the facility to ensure recoverability is maintained. CMHC continues to evolve its business systems, including those related to risk management, treasury and insurance.

LEGAL

Legal risk refers to the risk of loss that may result from entering into legally unenforceable contracts and is mitigated through CMHC's Legal Division which provides legal and legislative advice and services to the Corporation to ensure CMHC's compliance with legislation and general laws and to ensure that the Corporation's interests are protected. CMHC ensures that all real estate, insurance and financial instrument contracts and agreements related to operating activities are adequately documented and legally enforceable, and establishes and continually monitors the legal review framework (policies, governing and regulatory requirements, standards and procedures) for the Corporation to engage in business transactions.

INSURANCE POLICIES

CMHC maintains a comprehensive set of insurance policies which mitigate operational risks covering a number of diverse sources, including property and casualty, fraud and certain other areas. These are reviewed annually and revised to support CMHC's evolving insurance requirements.

2002 Economic Indicators

The Canadian economy will continue to be affected by the global economic outlook. With a slower U.S. economy heading into 2002, Canadian exports to the U.S. are expected to recover only slightly in 2002, after contracting by an estimated 4 per cent in 2001.

The *Consensus Forecast* for 2002 shows Canada's GDP growth rate remaining relatively flat at 1.3 per cent, compared to 1.4 per cent in 2001. Most provincial economies are expected to perform in line with or slightly below their 2001 performance. The outlook is expected to improve in 2003 with the GDP growth rate forecasted at just slightly below 4 per cent. CMHC forecasts that national employment will grow by only 0.4 per cent in 2002 before inching up to 1.7 per cent in 2003. The unemployment rate is forecast to climb higher in 2002 to 7.8 per cent before declining slightly in 2003 to 7.6 per cent.

In housing markets, total housing starts in 2002 are expected to decline by 4.1 per cent over 2001 volumes. Singles are expected to remain the largest unit type constructed at 58 per cent of total starts. Multiple units are expected to continue to account for about 42 per cent of the total, in line with 2001 volumes. Average house prices have increased steadily at the national level since 1997 and are expected to continue to increase by approximately 2.5 per cent in 2002 and 2003. Vacancy rates in most rental markets are expected to remain relatively low in 2002, particularly in the country's tightest rental markets such as Victoria, Toronto, Ottawa and Montréal. By 2010, forecasters are predicting that 15 million additional housing units will be required in the U.S., providing opportunities for Canadian housing exports.

CMHC's Response

CMHC continues to work on long-term strategies in support of affordable housing and is committed to further discussions with the provinces and territories regarding the Government of Canada's offer to transfer responsibility for the administration of social housing. CMHC will also continue to work with the provinces and territories in 2002 to implement the framework to stimulate the creation of affordable housing, agreed upon by federal, provincial and territorial housing ministers in 2001. When completed, the bilateral agreements with the provinces and territories based on this framework will result in an investment in housing in excess of $1.36 billion over the next five years. Agreements are already in place with British Columbia, Nunavut, the Northwest Territories and Quebec and are expected to be signed with the remaining jurisdictions over the course of 2002. An examination of existing initiatives in support of affordable housing, such as public-private partnerships, will also be undertaken in 2002.

In terms of lending, CMHC expects a decline in other loans and investments caused by repayments of sunsetting loan programs, even though new loans will continue to be made under the Direct Lending Program in 2002. Net income from lending activity is expected to return to the 2000 level in 2002, and remain relatively flat in the foreseeable future.

Overall CMHC's mortgage loan insurance volumes are expected to remain relatively stable in the near term. Together with a continued favourable claims environment, this is expected to result in sustained financial performance of the insurance business. A continuous growth in CMHC's securitization activity over the course of 2002 is anticipated with the introduction of the Canada Mortgage Bonds Program in mid-2001. An examination of the revised Basel Accord will also be undertaken in 2002, with the final draft of the Accord anticipated to be circulated early in 2002. Implications for housing finance, particularly for CMHC's mortgage loan insurance and securitization activities, will be assessed.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Year ended 31 December 2001

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 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 2001 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 control 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 Mallette, General Partnership and Sheila Fraser, FCA, Auditor General of Canada. Their report provides an independent opinion on the financial statements to the Deputy Prime Minister and Minister of Infrastructure and Crown Corporations.

Jean-Claude Villiard
President and Chief Executive Officer

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

AUDITORS' REPORT

To the Deputy Prime Minister and Minister of Infrastructure and Crown Corporations

We have audited the balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2001 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
22 February 2002

Jean-Guy Poulin, CA
Mallette
General Partnership

Quebec City, Canada

BALANCE SHEET
As at 31 December

(in millions of dollars)	Notes	2001	2000
Assets			
Loans and Investments in Housing Programs	3	15 239	15 841
Investments in Securities	4	4 482	4 191
Cash and Cash Equivalents		1 660	631
Securities Purchased Under Resale Agreements		1 466	1 273
Accrued Interest Receivable		427	473
Accounts Receivable and Other Assets		287	218
Inventory of Real Estate		140	192
Future Income Tax Assets	5	103	110
Due from the Government of Canada		18	315
		23 822	23 244
Liabilities			
Borrowings from the Capital Markets	6	10 986	10 984
Borrowings from the Government of Canada	6	5 692	5 924
Unearned Premiums and Fees	14	3 141	2 836
Securities Sold Under Repurchase Agreements		1 240	991
Provision for Claims	14	695	694
Accounts Payable and Other Liabilities		342	362
Accrued Interest Payable		233	247
Securities Sold But Not Yet Purchased		228	286
		22 557	22 324
Equity of Canada			
Capital Authorized and Fully Paid		25	25
Retained Earnings	7	1 240	895
		1 265	920
		23 822	23 244

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

INCOME STATEMENT
Year ended 31 December

(in millions of dollars)	Notes	2001	2000	1999
Revenues				
Interest Earned on Loans and Investments in Housing Programs	18	1 184	1 242	1 252
Premiums and Fees		745	697	631
Investment Income		278	257	240
		2 207	2 196	2 123
Parliamentary Appropriations for:				
Housing Programs	8	1 789	1 913	1 828
Operating Expenses		68	83	58
		1 857	1 996	1 886
		4 064	4 192	4 009
Expenses				
Housing Programs	8	1 789	1 913	1 828
Interest Expense		1 120	1 197	1 234
Net Claims		335	307	232
Operating Expenses		201	208	175
Other Expenses	9, 18	55	55	22
		3 500	3 680	3 491
Income before Income Taxes		564	512	518
Income Taxes	5			
Current		185	159	193
Future		34	(23)	9
		219	136	202
Net Income		345	376	316

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

STATEMENT OF RETAINED EARNINGS (NOTE 7)

(in millions of dollars)	Unappropriated	Appropriated	Reserve Fund	Total
Balance 31 December 1998	177	10	16	203
Net Income	321	-	(5)	316
Transferred to Appropriated	(358)	358		-
Balance 31 December 1999	140	368	11	519
Net Income	367	-	9	376
Transferred to Appropriated	(308)	308		-
Balance 31 December 2000	199	676	20	895
Net Income	323	-	22	345
Transferred to Appropriated	(262)	262		-
Balance 31 December 2001	260	938	42	1 240

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

STATEMENT OF CASH FLOWS

Year ended 31 December

(in millions of dollars)	2001	2000	1999
Cash Flows Provided by (Used in) Operating Activities			
Net Income	345	376	316
Items Not Affecting Cash or Cash Equivalents			
Amortization of Premiums and Discounts	18	24	24
Future Income Taxes	7	(42)	9
Changes in			
Accrued Interest Receivable	46	(53)	45
Accounts Receivable and Other Assets	23	(6)	126
Inventory of Real Estate	52	43	50
Due from the Government of Canada	297	(77)	14
Unearned Premiums and Fees	305	152	267
Provision for Claims	1	(39)	(103)
Accounts Payable and Other Liabilities	(20)	(116)	(32)
Accrued Interest Payable	(14)	31	(15)
	1 060	293	701
Cash Flows Provided by (Used in) Investing Activities			
Loans and Investments in Housing Programs			
Repayments	867	497	536
Additions	(265)	(254)	(642)
Investments in Securities			
Sales and Maturities	4 955	3 473	2 141
Purchases	(5 297)	(3 926)	(2 641)
Change in Securities Purchased Under Resale Agreements	(193)	(900)	525
	67	(1 110)	(81)
Cash Flows Provided by (Used in) Financing Activities			
Medium-term Borrowings from the Capital Markets			
Issuance	1 868	2 114	1 288
Repayments	(1 265)	(1 910)	(1 500)
Change in Short-term Borrowings from the Capital Markets	(660)	(48)	589
Repayment of Borrowings from the Government of Canada	(232)	(217)	(213)
Change in Securities Sold Under Repurchase Agreements	249	991	(898)
Change in Securities Sold But Not Yet Purchased	(58)	(88)	374
	(98)	842	(360)
Increase in Cash and Cash Equivalents	1 029	25	260
Cash and Cash Equivalents			
Beginning of Year	631	606	346
End of Year	1 660	631	606

Represented by:			
Cash	70	(6)	1
Commercial Paper and Treasury Bills	1 590	637	605
	1 660	631	606

Supplementary Disclosure of Cash Flow Information			
Amount of Interest Paid During the Year	1 134	1 166	1 249
Amount of Income Taxes Paid During the Year	174	301	177

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

1. CORPORATE MANDATE AND ACTIVITIES

Canada Mortgage and Housing Corporation (CMHC) was established as a Crown Corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also governed by the *Financial Administration Act* (the "FAA"). CMHC's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing, and the national well-being of the housing sector.

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

Lending: The Corporation makes loans and investments in housing programs. These loans and investments are funded by borrowings.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Loans and Investments in Housing Programs

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

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

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

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

Investments in Securities

The Corporation holds Investments in Securities for both its Lending and Insurance and Securitization activities.

Lending: The Corporation generally matches the term of its assets and liabilities with reference to 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 to Interest Expense on a straight-line basis over the term of the most recent debt issue.

Insurance and Securitization: Fixed income securities are generally purchased with the intention to hold them to maturity to meet long-term obligations, and are carried at amortized cost. The securities are written down to their fair value when declines in value are other than temporary. The resulting loss is recorded in the year in which the impairment occurs. Gains and losses from disposals are deferred and amortized over the remaining life of the original investment. Premiums and discounts are deferred and amortized on a constant yield basis over the maturity period of the related investments.

Equities are carried at cost plus a moving average market value adjustment. The carrying value is adjusted towards market value at a rate of 15% per annum. Specific equities are written down to their fair value when declines in the value of the entire portfolio are other than temporary. Net realized gains and losses are deferred and amortized at 15% per annum on a declining-balance basis.

Securities Purchased Under Resale Agreements 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 and date. 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 and date. Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements are carried at cost plus accrued interest. The difference between the sale price and the agreed repurchase price on a repurchase agreement and the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement are recorded as Investment Income on an accrual basis.

Securities Sold But Not Yet Purchased

Where the Corporation has an obligation to deliver securities which it did not own at the time of sale, they are recorded as Securities Sold But Not Yet Purchased at an amount equal to the cost of the sale.

Inventory of Real Estate

Inventory of Real Estate is carried at the lower of cost or net realizable value. Cost is determined as the acquisition cost, plus modernization and improvement costs where applicable. 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.

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

Capital Market Borrowing Costs

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

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

Premiums and Fees

Premiums are deferred and taken into income over the period covered by insurance contracts based on factors developed by the Office of the Superintendent of Financial Institutions for mortgage insurance businesses. The 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. The liability 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 are deferred and are taken into income over the term of the related security issue on a straight-line basis.

Application fees are recognized as income when received.

Issuance costs are expensed as incurred.

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.

Housing Programs

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

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

Pension and Other Post-Employment Benefits

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 and provides other post-employment benefits consisting of termination pay, life insurance and medical insurance.

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

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

Derivative Financial Instruments

The Corporation enters into 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 amortized on a straight-line basis over the term of the underlying exposure.

3. LOANS AND INVESTMENTS IN HOUSING PROGRAMS

The Corporation makes loans and investments in housing programs either independently or jointly with provincial/territorial/municipal authorities. These loans and investments were issued for terms up to 50 years. Of the total portfolio, $15 080 million, or 99% (2000 - $15 612 million, or 99%) are due and payable beyond five years.

Approximately $14 223 million, representing 93% (2000 - $14 727 million, or 93%) of the loans and investments in housing programs are supported with housing program subsidies.

The Corporation is assured full collection of principal and interest on the majority of the portfolio from the Provinces and Territories through provisions in social housing agreements (38.2%), the Government of Canada through provisions in the NHA (26.2%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (2.1%). The Corporation has determined that a provision is not required on notes receivable from a federal Crown Corporation (0.3%). Default losses on the remainder of the portfolio (33.2%) are accounted for in the Corporation's insurance activity, and accordingly have been included in the determination of Provision for Claims and Unearned Premiums and Fees.

4. INVESTMENTS IN SECURITIES

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

	Term to Maturity					
(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2001	2000
Fixed Income						
Securities Issued or Guaranteed by:						
Government of Canada	–	411	361	874	1 646	2 104
Provinces/Municipalities	–	254	56	673	983	894
Corporate Entities	176	407	210	545	1 338	1 193
Total Fixed Income	176	1 072	627	2 092	3 967	4 191
Yield	5.26%	5.50%	5.39%	6.00%	5.74%	6.06%
Equities (no specific maturity)					515	–
Total	176	1 072	627	2 092	4 482	4 191

Sales of investments during 2001 resulted in a net gain of $51 million (2000 - nil, 1999 - $28 million) that has been deferred. Cumulative deferred gains now totaling $64 million (2000 - $36 million) are included in Accounts Payable and Other Liabilities and will be brought into income in accordance with accounting policies described in Note 2.

5. INCOME TAXES

The Corporation is a prescribed Crown Corporation for tax purposes and, as such, is subject to federal income tax. It is not subject to provincial income tax.

The Corporation's statutory tax rate consists of basic tax, surtax and large corporations tax.

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

(in millions of dollars)	2001	2000	1999
Statutory Tax Rate	39%	38%	38%
Income Taxes Based on Statutory Tax Rate	219	196	199
Future Income Taxes not Previously Recorded	-	(80)	-
Impact on Future Income Tax Assets Resulting from Reduction in Tax Rates	(5)	20	-
Other	5	-	3
Income Tax Expense	219	136	202
Effective Tax Rate	39%	26%	39%

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

(in millions of dollars)	2001	2000
Various Provisions	47	86
Deferred Revenue	25	-
Expenses Incurred But Not Disbursed	23	22
Appreciation in Value of Equities	4	-
Other	4	2
Future Income Tax Assets	103	110

6. BORROWINGS

The Corporation borrows from the capital markets and from the Government of Canada under provisions of the CMHC Act to finance Loans and Investments in Housing Programs.

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

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

(in millions of dollars)	Capital Markets Short-term Borrowings		Capital Markets Medium-term Borrowings		Government of Canada		Total
2002	992	2.94%	2 208	6.03%	218	8.24%	3 418
2003			1 886	5.20%	244	8.71%	2 130
2004			2 284	5.63%	187	8.73%	2 471
2005			2 262	6.28%	195	8.74%	2 457
2006			1 254	5.17%	195	8.81%	1 449
2007 - 2011			100	5.96%	1 081	8.77%	1 181
Thereafter					3 572	9.18%	3 572
	992	2.94%	9 994	5.73%	5 692	9.02%	16 678

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)	2001	2000
US Dollar Obligations	1 000	1 000
US Dollar Obligations Translated to Canadian Dollars		
Based on Year End Rate	1 593	1 500
Based on Rate Established Under Swap Contract	1 419	1 419

7. RETAINED EARNINGS

Retained Earnings generated by the Insurance and Securitization activities which have not been set aside for specific purposes are reflected as unappropriated.

Retained Earnings generated by the Insurance and Securitization activities which have been set aside to satisfy additional policy reserves based on actuarial factors developed by the Office of the Superintendent of Financial Institutions, and other purposes authorized by the Government of Canada are reflected as appropriated.

Retained Earnings generated by the Lending activity are reflected as the Reserve Fund. The Reserve Fund is established by legislation and is currently limited to $100 million.

8. HOUSING PROGRAMS

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

The following table shows the housing program expenses.

(in millions of dollars)	2001	2000	1999
Programs Transferred to Provinces/Territories	963	964	570
Non-Transferred Programs			
Non-Profit	248	263	403
Public Housing	121	113	290
On-Reserve	92	96	79
Co-operatives	83	98	116
Rent Assistance	62	63	80
Urban Native	52	53	70
Rural and Native Housing	23	72	64
Limited Dividend	13	14	14
Sub-total	694	772	1 116
Renovation Programs	123	106	92
Research and Information Transfer	9	9	8
Other	-	62	42
Total	1 789	1 913	1 828

9. OTHER EXPENSES

Other Expenses include the Corporation's support of federal public policy initiatives related to housing. For 2001, they include $18 million to be provided towards the province of Quebec's Assistance Program for Owners of Pyrite-Damaged Residential Buildings. For 2000, they included $28 million for assistance to homeowners in British Columbia with moisture damaged homes.

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

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 versus 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	2001	2000
Interest Rate Swaps	3 038	6 924	6 256	383	16 601	13 955
Cross Currency Swaps	693	-	726	-	1 419	1 419
	3 731	6 924	6 982	383	18 020	15 374

11. MARKET RISK

Market risk is the potential adverse impact on the Corporation's earnings and economic value due to adverse changes in underlying market factors, including interest rates, foreign exchange rates and equity prices.

Interest Rate Risk

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	No Specific Maturity	Non Interest Sensitive	2001	2000
Assets							
Loans and Investments in Housing Programs	2 599	7 588	5 027	-	25	15 239	15 841
Effective Interest Rate	6.03%	8.66%	9.49%				
Investments in Securities	176	1 699	2 092	515	-	4 482	4 191
Effective Interest Rate	2.53%	3.91%	5.74%				
Securities Purchased Under Resale Agreements	1 466	-	-	-	-	1 466	1 273
Effective Interest Rate	3.90%						
Liabilities							
Borrowings from the Capital Markets	3 200	7 686	100	-	-	10 986	10 984
Effective Interest Rate	5.07%	5.64%	5.96%				
Borrowings from the Government of Canada	218	821	4 653	-	-	5 692	5 924
Effective Interest Rate	8.24%	8.74%	9.08%				
Securities Sold Under Repurchase Agreements	1 240	-	-	-	-	1 240	991
Effective Interest Rate	4.74%						
Securities Sold But Not Yet Purchased	228	-	-	-	-	228	286
Effective Interest Rate	5.29%						
Off-Balance Sheet Financial Instruments							
Derivative Financial Instruments							
Receivable Position	3 130	7 633	88	-	7 169	18 020	15 374
Effective Interest Rate	5.16%	5.54%	6.00%				
Payable Position	3 086	7 633	88	-	7 213	18 020	15 374
Effective Interest Rate	4.86%	5.43%	5.82%				

Some of the Corporation's Loans and Investments in Housing Programs contain prepayment and/or repricing options. As the Corporation does not have the right to prepay its borrowings from the Government of Canada without penalty, the Corporation is exposed to interest rate risk. This risk has been estimated for 97% of the total loan portfolio. Although unlikely, given historical levels, a worse case scenario on future prepayment/repricing activities suggests that the Corporation could face a further impact on earnings of as much as $505 million over a 21 year time horizon, or an average of $24 million per year.

Foreign Exchange Risk

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

12. 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 lending, investing and hedging transactions. Credit exposure refers to fair value owed to the Corporation, plus an estimate for potential exposure where applicable.

Cash Equivalents and Investments in Securities

The Corporation mitigates its credit risk through the use of policies which include the diversification of its investments 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, 84%, is rated 'R-1 high' or equivalent, and 70% of long-term exposure is to 'AAA' and 'AA' rated counterparties.

(in millions of dollars)	Cash Equivalents	Investments in Securities	2001	2000
Fixed Income				
Short-term	1 499	237	1 736	683
Long-term		3 909	3 909	4 285
Total Fixed Income	1 499	4 146	5 645	4 968
Equities		529	529	-
Total	1 499	4 675	6 174	4 968

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

(in millions of dollars)	Cash Equivalents	Investments in Securities	2001	2000
Fixed Income				
Securities Issued or Guaranteed by:				
Government of Canada	562	1 737	2 299	2 235
Provinces/Municipalities	-	1 014	1 014	1 015
Corporate Entities	937	1 395	2 332	1 718
Total Fixed Income	1 499	4 146	5 645	4 968
Equities		529	529	-
Total	1 499	4 675	6 174	4 968

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	2001	2000
Interest Rate Swaps	44	133	78	5	260	249
Cross Currency Swaps	151	135	-	-	286	207
	195	268	78	5	546	456

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	2001	2000
Fair Value	171	375	546	456

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	2001		2000	
(in millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Loans and Investments in Housing Programs	15 239	17 105	15 841	17 465
Investments in Securities	4 482	4 584	4 191	4 266
Cash and Cash Equivalents	1 660	1 660	631	631
Securities Purchased Under Resale Agreements	1 466	1 466	1 273	1 273
Accrued Interest Receivable	427	427	473	473
Accounts Receivable and Other Assets	287	287	218	218
Due from the Government of Canada	18	18	315	315
Liabilities				
Borrowings from the Capital Markets	10 986	11 229	10 984	10 950
Borrowings from the Government of Canada	5 692	7 494	5 924	7 765
Securities Sold Under Repurchase Agreements	1 240	1 240	991	991
Accounts Payable and Other Liabilities	342	342	362	362
Accrued Interest Payable	233	233	247	247
Securities Sold But Not Yet Purchased	228	228	286	286
Off-Balance Sheet Financial Instruments				
Derivative Financial Instruments				
In a Net Receivable Position		306		186
In a Net Payable Position		28		38

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

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

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

- Loans and Investments in Housing Programs
- Borrowings from the Government of Canada
- Derivative Financial Instruments

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

14. ACTUARIAL VALUATION OF INSURANCE ACTIVITIES

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

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

Projection of September Valuation

The actuarial valuation is produced as of 30 September each year. The Corporation determines provisions for claims and unearned premiums at 31 December using valuation factors taking into account new business, claims and interest for the last quarter.

Nature of Provision for Claims

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

15. INSURANCE AND SECURITIZATION IN FORCE

Mortgage Insurance

Under the NHA, the aggregate outstanding amount of loan insurance policies may not exceed $250 billion. At 31 December 2001, insurance policies in force totaled $211 billion (2000 - $201 billion).

Securitization

Under the NHA, the aggregate outstanding amount of principal guarantees may not exceed $250 billion. At 31 December 2001, guarantees in force totaled $35 billion (2000 - $34 billion) which includes $4.7 billion guaranteed under the Canada Mortgage Bonds Program.

16. 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:

	Pension Plans		Other Post-employment Benefits	
(in millions of dollars)	2001	2000	2001	2000
Accrued Benefit Obligation				
Balance, Beginning of Year	822	738	76	63
Current Service Cost	14	13	1	2
Employees' Contributions	2	-	-	-
Interest Cost	55	51	5	4
Benefits Paid	(47)	(95)	(2)	(3)
Actuarial Losses	11	24	2	10
Plan Amendments	-	91	-	-
Balance, End of Year	857	822	82	76
Plan Assets				
Fair Value, Beginning of Year	1 035	1 030	-	-
Actual Return on Plan Assets	(27)	96	-	-
Employer's Contributions	1	-	3	3
Employees' Contributions	2	4	-	-
Benefits Paid	(47)	(95)	(3)	(3)
Fair Value, End of Year	964	1 035	-	-
Funded Status - Plan Surplus (Deficit)	107	213	(82)	(76)
Unamortized Net Actuarial Loss (Gain)	104	(2)	12	10
Unamortized Past Service Costs	82	91	-	-
Unamortized Transitional Obligation (Asset)	(271)	(301)	42	45
Accrued Benefit Asset (Liability)	22	1	(28)	(21)

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

	Supplemental Pension Plan	
(in millions of dollars)	2001	2000
Fair Value of Plan Assets	-	-
Accrued Benefit Obligation	21	17
Funded Status - Plan Surplus (Deficit)	(21)	(17)

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

In performing the actuarial valuations of employee future benefits, certain assumptions are adopted. These assumptions include a 7% (2000 - 7%) discount rate and long-term rate of return on plan assets, and a 4% (2000 - 4%) rate of compensation increase. A 15% (2000 - 20%) increase in health care costs was assumed for 2001, with 2.5% (2000 - 5%) decreases per year thereafter to an ultimate trend rate of 5%. The average remaining service period is 11 years (2000 - 11 years) for pension plans and 13 years (2000 - 14 years) for other post-employment benefits.

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

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

	Pension Plans		Other Post-employment Benefits	
(in millions of dollars)	2001	2000	2001	2000
Current Service Cost, Net of Employees' Contributions	14	10	1	2
Interest Cost	55	51	5	4
Expected Return on Plan Assets	(68)	(71)	-	-
Amortization of Transitional Obligation (Asset)	(30)	(30)	4	3
Amortization of Past Service Cost	8	-	-	-
Net Benefit Plan Expense (Credit)	(21)	(40)	10	9

17. SEGMENTED INFORMATION

As described in Note 1, the Corporation carries out its mandate through three activities: Lending, Insurance and Securitization, and Housing Programs. Their results are determined using the accounting policies described in Note 2 and are presented in the following table. Lending activity includes certain corporate items which are not allocated to each activity.

	LENDING		INSURANCE		SECURITIZATION	
(in millions of dollars)	2001	2000	2001	2000	2001	2000
Interest Earned	1 184	1 242				
Investment Income	-	-	276	253	8	7
Other Income	-	-	726	681	19	16
Total Revenues	1 184	1 242	1 002	934	27	23
Interest Expense	1 126	1 200				
Operating Expenses	23	20	104	101	6	4
Other Expenses	(3)	2	391	360	2	-
Total Expense	1 146	1 222	495	461	8	4
Income Taxes	16	11	193	118	10	7
Net Income	22	9	314	355	9	12
Direct Lending Loans	9 303	9 679				
Other Loans	5 936	6 162				
Investments in Securities	239	146	4 231	3 996	107	119
Other Assets	2 024	1 836	2 064	1 380	28	3
Total Assets	17 502	17 823	6 295	5 376	135	122
Capital Market Borrowings	11 081	11 054				
Government of Canada Borrowings	5 692	5 924				
Unearned Premiums and Fees			3 087	2 782	54	54
Other Liabilities	662	800	2 086	1 786	5	1
Total Liabilities	17 435	17 778	5 173	4 568	59	55
Equity	67	45	1 122	808	76	67

	HOUSING PROGRAMS		ELIMINATION OF INTER-SEGMENT ITEMS		TOTAL	
(in millions of dollars)	2001	2000	2001	2000	2001	2000
Interest Earned			-	-	1 184	1 242
Investment Income			(6)	(3)	278	257
Other Income	1 857	1 996	-	-	2 602	2 693
Total Revenues	1 857	1 996	(6)	(3)	4 064	4 192
Interest Expense			(6)	(3)	1 120	1 197
Operating Expenses	68	83	-	-	201	208
Other Expenses	1 789	1 913	-	-	2 179	2 275
Total Expense	1 857	1 996	(6)	(3)	3 500	3 680
Income Taxes					219	136
Net Income					345	376
Direct Lending Loans			-	-	9 303	9 679
Other Loans			-	-	5 936	6 162
Investments in Securities			(95)	(70)	4 482	4 191
Other Assets			(15)	(7)	4 101	3 212
Total Assets			(110)	(77)	23 822	23 244
Capital Market Borrowings			(95)	(70)	10 986	10 984
Government of Canada Borrowings					5 692	5 924
Unearned Premiums and Fees					3 141	2 836
Other Liabilities			(15)	(7)	2 738	2 580
Total Liabilities			(110)	(77)	22 557	22 324
Equity					1 265	920

18. RELATED PARTY TRANSACTIONS

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

Interest and default losses on certain loans and investments in housing programs, losses on certain real estate properties, and the amortization of modernization and improvement costs on certain rental properties are reimbursed through Parliamentary appropriations. The total of such reimbursements, which are not considered subsidies to others, amounted to $150 million (2000 - $179 million, 1999 - $255 million) of which $102 million (2000 - $106 million, 1999 - $71 million) is included in Interest Earned on Loans and Investments in Housing Programs. The reimbursement for 2001 includes $33 million towards the losses incurred by the Corporation as a result of the prepayment and repricing activity of which $26 million relates to prior years. The 2000 figure included $28 million for prior year interest rate losses on the Rural and Native Housing Program.

In recognition of the Government of Canada's financial backing to support the mortgage insurance business, the Corporation pays the Government an annual fee. The fee for 2001 is $33 million (2000 - $27 million, 1999 - $24 million) and is included in Other Expenses.

In exchange for real estate transferred to Canada Lands Company CLC Limited in 1998 and 1999, the Corporation holds notes receivable at 7.35% due by 2014. The amount due to the Corporation is $42 million (2000 - $60 million) including accrued interest.

The interest expense related to Borrowings from the Government of Canada is $525 million (2000 - $546 million).

19. COMMITMENTS

Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to $53 million at 31 December 2001 (2000 - $45 million). The majority (95%) of these outstanding commitments pertain to social housing loans which are normally advanced within a two-year period.

Total contractual financial obligations for Housing Programs extend for periods up to 36 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)	2002	2003	2004	2005	2006
	1 750	1 729	1 704	1 700	1 698

20. CONTINGENT LIABILITIES

There are legal claims of $27 million (2000 - $32 million) against the Corporation. Due to the uncertainty of the outcome of these claims, no provision for loss has been made.

21. COMPARATIVE FIGURES

Commencing with 2001, the Corporation presents a set of integrated financial statements. Previously, the Corporation presented a separate set of financial statements for each activity. Comparative figures have been reclassified to conform to the 2001 statement presentation.

The following financial review provides a historical summary of the financial results for 1997 through 2001. Commencing with 2001, the Corporation's financial statements are presented on an integrated basis. Accordingly, prior year figures have been reclassified to conform to this presentation.

BALANCE SHEET

As at 31 December

(in millions of dollars)	2001	2000	1999	1998	1997
Assets					
Loans and Investments in Housing Programs	15 239	15 841	16 084	15 979	15 048
Investments in Securities	4 482	4 191	3 769	3 330	2 627
Cash and Cash Equivalents	1 660	631	606	347	540
Securities Purchased Under Resale Agreements	1 466	1 273	373	898	950
Accrued Interest Receivable	427	473	419	465	434
Accounts Receivable and Other Assets	287	218	184	387	263
Inventory of Real Estate	140	192	235	284	400
Future Income Tax Assets	103	110	68	78	77
Due from the Government of Canada	18	315	238	252	187
	23 822	23 244	21 976	22 020	20 526
Liabilities					
Borrowings from the Capital Markets	10 986	10 984	10 806	10 540	9 154
Borrowings from the Government of Canada	5 692	5 924	6 141	6 354	6 767
Unearned Premiums and Fees	3 141	2 836	2 684	2 417	2 104
Securities Sold Under Repurchase Agreements	1 240	991	–	898	952
Provision for Claims	695	694	732	836	825
Accounts Payable and Other Liabilities	342	362	479	516	431
Accrued Interest Payable	233	247	216	231	225
Securities Sold But Not Yet Purchased	228	286	374	-	-
	22 557	22 324	21 432	21 792	20 458
Equity of Canada					
Capital Authorized and Fully Paid	25	25	25	25	25
Retained Earnings	1 240	895	519	203	43
	1 265	920	544	228	68
	23 822	23 244	21 976	22 020	20 526

INCOME STATEMENT

Year ended 31 December

(in millions of dollars)	2001	2000	1999	1998	1997
Revenues					
Interest Earned on Loans and Investments in Housing Programs	1 184	1 242	1 252	1 262	1 199
Premiums and Fees	745	697	631	552	480
Investment Income	278	257	240	207	177
	2 207	2 196	2 123	2 021	1 856
Parliamentary Appropriations for:					
Housing Programs	1 789	1 913	1 828	1 772	1 832
Operating Expenses	68	83	58	69	68
	1 857	1 996	1 886	1 841	1 900
	4 064	4 192	4 009	3 862	3 756
Expenses					
Housing Programs	1 789	1 913	1 828	1 772	1 832
Interest Expense	1 120	1 197	1 234	1 237	1 163
Net Claims	335	307	232	375	522
Operating Expenses	201	208	175	198	239
Other Expenses	55	55	22	17	3
	3 500	3 680	3 491	3 599	3 759
Income before Income Taxes	564	512	518	263	(3)
Income Taxes					
Current	185	159	193	108	29
Future	34	(23)	9	(5)	(28)
	219	136	202	103	1
Net Income	345	376	316	160	(4)

STATEMENT OF RETAINED EARNINGS

(in millions of dollars)	Unappropriated	Appropriated	Reserve Fund	Total
Balance 31 December 1996	43	-	4	47
Net Income	(15)	-	11	(4)
Transferred to Appropriated	-	-		-
Balance 31 December 1997	28	-	15	43
Net Income	159	-	1	160
Transferred to Appropriated	(10)	10		-
Balance 31 December 1998	177	10	16	203
Net Income	321	-	(5)	316
Transferred to Appropriated	(358)	358		-
Balance 31 December 1999	140	368	11	519
Net Income	367	-	9	376
Transferred to Appropriated	(308)	308		-
Balance 31 December 2000	199	676	20	895
Net Income	323	-	22	345
Transferred to Appropriated	(262)	262		-
Balance 31 December 2001	260	938	42	1 240

GLOSSARY OF TERMS

Financial Terms

BENCHMARK INDEX - A benchmark provides an objective point of reference for performance measurement. CMHC's benchmarks for the Insurance and Securitization investment portfolios are the Scotia Capital Universe Bond Index (fixed income portfolios), the Scotia Capital 91 Day Treasury Bill Index (money market portfolios), and the total return of the TSE 300 (equity portfolios).

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

COMMERCIAL PAPER - Commercial paper is a type of short-term borrowing by corporations with terms up to one year.

DERIVATIVES - A derivative instrument is a contract whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives.

(DFA) DYNAMIC FINANCIAL ANALYSIS - A systematic and holistic approach to financial modeling and sensitivity analysis which projects financial results under a variety of possible scenarios, showing how outcomes might be affected by changing business and economic conditions.

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

DURATION - Duration is a measure of the average time interval required for an expected stream of cashflows to repay the original investment (i.e. shorter duration means faster recovery of the original investment).

MARKED-TO-MARKET - Refers to the valuing of financial instruments in a portfolio at market trading prices.

(NHA MBS) MORTGAGE-BACKED SECURITIES - Represent an undivided interest in a pool (group) of residential mortgages insured by CMHC or an approved private insurer. These financial instruments are secured by the value of underlying real estate.

REPURCHASE AND REVERSE REPURCHASE ACTIVITY - Transactions in which the Corporation buys securities with a commitment to resell them (securities purchased under resale agreements), sells securities with a commitment to repurchase them (securities sold under repurchase agreements) and sells securities it did not own (securities sold but not yet purchased).

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

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

VOLATILITY - A widely used indicator of risk in financial markets. Volatility measures the spread or dispersion of returns about the mean. The volatility of a historical time series of returns is equal to their standard deviation.

General Terms

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

(ACT) AFFORDABILITY AND CHOICE TODAY PROGRAM - This program provides funding for innovative projects aimed at increasing housing affordability and choice, to demonstrate and encourage dissemination of local level regulatory reform across Canada.

(CCPPPH) CANADIAN CENTRE FOR PUBLIC - PRIVATE PARTNERSHIPS IN HOUSING - A community focused team operating within CMHC, CCPPPH facilitates innovative financing and tenure arrangements to help community groups develop affordable housing without long-term subsidies.

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

HOMEGROWN SOLUTIONS - A CMHC partnership initiative with the Canadian Housing Renewal Association, the Canadian Home Builders' Association, the Federation of Canadian Municipalities and the Co-operative Housing Federation of Canada, Homegrown Solutions provides project development funds to assist organizations and communities who are seeking affordable and practical solutions to their local housing needs.

(HASI) HOUSING ADAPTATIONS FOR SENIORS' INDEPENDENCE - This CMHC initiative assists low-income seniors who have difficulties with daily living activities in the home by providing financial assistance to carry out minor home adaptations.

(NHA) NATIONAL HOUSING ACT - An Act to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions.

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

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