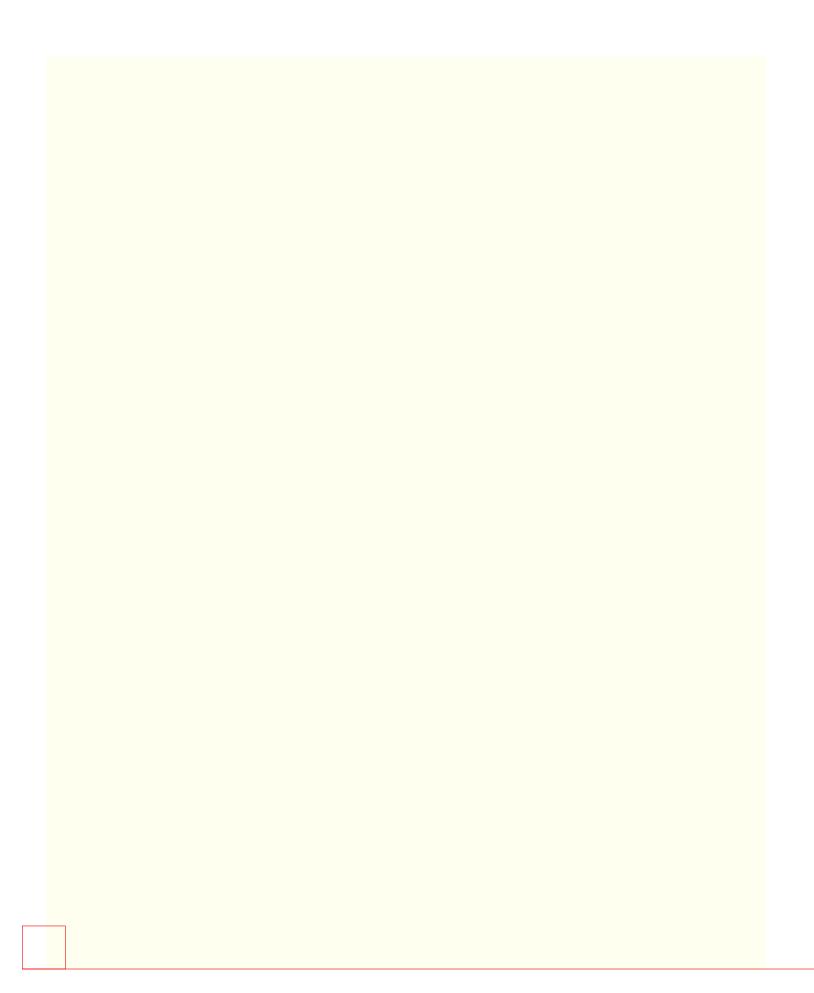


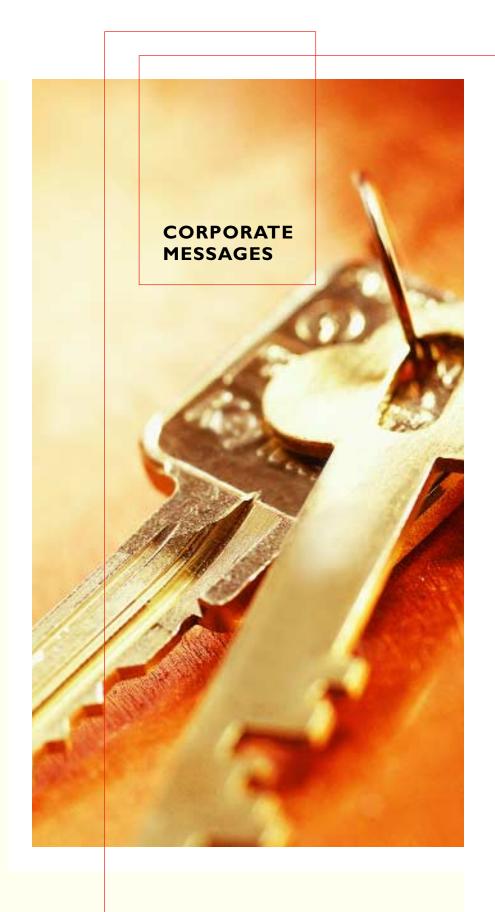


CORPORATE MESSAGES	
Message from the Chairman	
Message from the President	
PERFORMANCE HIGHLIGHTS AND OUTLOOK	7
CORPORATE PROFILE	
Business Areas	
Board of Directors	
Corporate Governance	
Board Committees	
Board of Directors Listing	
Principal Officers Listing	
MANAGEMENT'S DISCUSSION AND ANALYSIS	21
The Operating Environment	
Performance Against Objectives	
Financial Analysis of Operations	
Risk Management	
FINANCIAL STATEMENTS AND NOTES	61
Financial Statements	62
Notes to Financial Statements	
GLOSSARY OF TERMS	87

Forward-Looking Statements

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







In its 56th year of operation, CMHC continues to demonstrate that it has the strength and commitment to fulfill its traditional roles and responsibilities, as well as the vision and creativity to set new directions in response to changing needs. As it has always done in the past, the Corporation continues to open the door to homeownership for Canadians in every province and territory. We are key providers of housing assistance, expertise and advice to those who need it, and we continue to position ourselves as a gateway to the world for our industry partners looking to expand their business abroad.

In 2002, we registered record volumes in our insurance and securitization businesses, worked hard to sign agreements with the provinces and territories to increase the supply of affordable housing, more than doubled expectations on the number of units created through public-private partnerships, and made significant gains internationally.

The Corporation is acutely aware, however, that Canadians expect more from it than simply succeeding in business. As a major financial institution and the federal government's instrument of housing policy, CMHC has a responsibility to Canadians to implement governance practices that ensure accountability, transparency, and continuous learning and growth. Our goals and objectives must be achieved efficiently while quality products and superior service are maintained. Canadians have invested in CMHC, just as they have invested in other parts of the economy. In our singular position as Canada's national housing agency, we are therefore expected to manage the Corporation in an exemplary manner. It is for this reason that I am particularly proud of our achievements this year.

Building on the successes starting in 1996 with the establishment of CMHC's Corporate Governance Committee, and on subsequent innovations in the areas of strategic planning, Board evaluations,

accountability for results, and human resources management, in 2002, the Corporation focused on integrating Enterprise Risk Management (ERM) and performance measurement into its governance mechanisms. ERM has provided CMHC with a tool to help identify business opportunities and better manage risks. The Corporation's performance measurement framework provides a complete and balanced assessment of CMHC accomplishments. Both strengthen the quality of CMHC's decisionmaking, the alignment of its resources with new strategic directions, and the capacity to deliver results.

In December 2002, this initiative was recognized as a significant progression in a process of continuous improvement, and CMHC was honoured with the National Award in Governance in the Public Sector by the Conference Board of Canada/ Spencer Stuart. With this award, the Government of Canada and all Canadians can be confident that CMHC will not let up in its ongoing



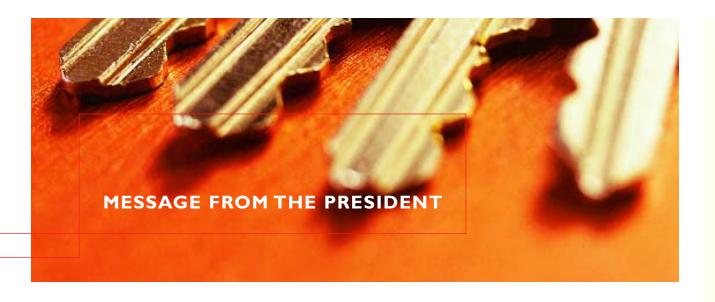
quest for increased accountability. We have a proven track record in this regard. We have been, and will remain, open to any and all innovations that provide value for Canadians. The process of Board renewal that regularly occurs at CMHC facilitates this, and ensures that we continue to move forward with new ideas and management practices that will keep CMHC on the leading edge of corporate social responsibility. In 2002, this renewal continued with Louis Ranger, Deputy Minister of Transport

Canada, replacing Janice Cochrane, Deputy Minister of Public Works and Government Services Canada, as our newest Board member. On behalf of CMHC, I would like to thank Janice Cochrane for her valued contributions over the past seven years, and more recently as a member of the Human Resources Committee of the Board.

Looking forward, I sense a renewed and growing enthusiasm within the Corporation for the challenges and opportunities that lie

ahead. With our experienced senior management team and dedicated staff, I am confident that CMHC will continue to be the key to quality, affordable housing in Canada, improving access, providing assistance, information and support, and generally helping to open the door to so many Canadian homes.

Peter R. Smith



Despite an uncertain economic climate in North America, the Canadian economy grew by approximately 3.3% in 2002, strengthened by continuing low interest rates and close to 560,000 new jobs, the largest absolute increase in employment since figures were first compiled. In December, the employment rate hit an all-time high of 62.4% while the participation rate hit 67.5%, a record achieved only once before in 1990. With more Canadians working, mortgage rates in the 5% to 7% range, and strong consumer confidence, there were more than 205,000 housing starts in 2002, up 26% over 2001. The resale market was also very strong, registering its best year ever with a record of over 420,600 homes changing hands.

These robust conditions, coupled with CMHC's tireless efforts in all of its business lines, resulted in another outstanding year for the Corporation. Buoyed by the continued strength of new products such as Refinance and emili Low Ratio, mortgage loan insurance volumes rose by over 13% in 2002, with the number of units

insured exceeding 500,000 for the first time ever. Over one-third of this business was in rural, remote and other areas where Canadians have historically found it more difficult to access home financing, as well as for specialized housing needs such as nursing and retirement homes. In secondary mortgage markets, CMHC guaranteed more than \$20.6 billion in Canada Mortgage Bonds (CMBs) and Mortgage-Backed Securities (MBSs), helping to ensure a steady supply of low-cost funds for residential mortgages.

The Corporation made great strides supporting housing quality and affordability in its other business lines as well. The Canadian Centre for Public-Private Partnerships in Housing facilitated 83 non-profit housing projects for a total of over 6,000 units and beds. With six more Affordable Housing Program Agreements signed in 2002, CMHC has completed a total of 10 bilateral agreements with the provinces and territories, committing more than 95% of the initial \$680 million in federal funding for this

program. An additional \$320 million over five years has been allocated in the 2003 federal budget, bringing the total federal investment in this affordable housing initiative to \$1 billion by the end of 2007-2008. The Corporation's Residential Rehabilitation Assistance Program was evaluated in 2002 and found to be a valuable program meeting all of its objectives and continuing to make important contributions to maintaining and improving the quality of housing in Canada. A national consultation further revealed widespread support for the program in all parts of the country. In the 2003 federal budget, the Government of Canada responded by extending CMHC's housing renovation programs, investing an additional \$384 million over three years.

In terms of research and information transfer, CMHC continues to be Canada's principal source of objective and reliable housing information. The Corporation's National Housing Outlook Conferences enjoyed continued success in 2002,



while its Housing Awards Program attracted more than 200 participants to exchange information on the theme of "Affordable Housing Innovations."

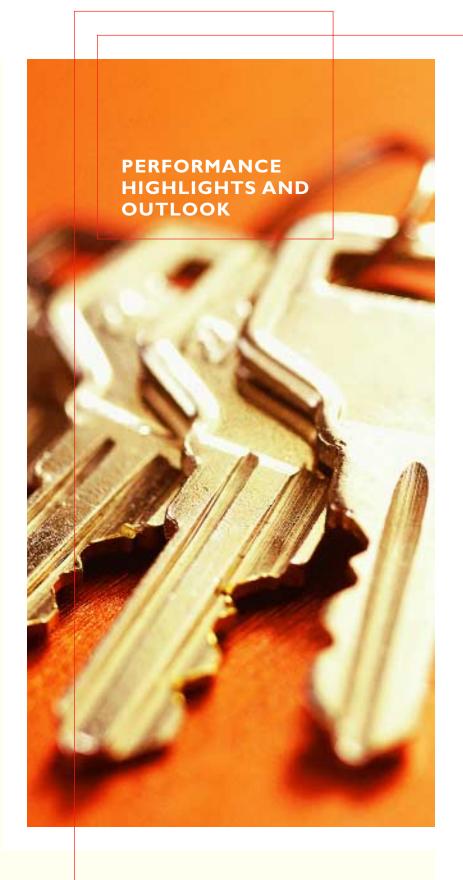
Internationally, the realignment of CMHC's resources and activities in recent years to focus on the transfer of the Corporation's expertise abroad and the provision of assistance to key clients in increasing their exports in target markets has had very positive results, and is viewed as a strong source of potential growth in the future. In 2002, CMHC helped key clients secure approximately \$55 million worth of business in foreign countries, up 45% over 2001. The Corporation is also increasingly involved with countries looking for guidance in the area of social housing and in developing their systems of housing finance.

CMHC is very proud of these and all of its accomplishments outlined in this year's Annual Report. Meeting our goals and objectives on behalf of Canadians, while furthering the Government of Canada's housing policies and other priorities including children and families, innovation and the environment is the Corporation's number one priority. Equally important, however, is our ability to continue to do this in the years ahead. While the Corporation has enjoyed financial success in recent years with a strong economy and a steady stream of innovative products responding to a diversity of needs, it also prudently sets aside funds from its activities each year in accordance with regulatory provisions and policy directives in order to withstand temporary and

extended downturns in the economy, as well as extraordinary events.

With the tools at its disposal, CMHC constantly looks for new opportunities to grow and expand its products and services for the benefit of all Canadians. At the same time, it is our duty as Canada's national housing agency to diligently monitor economic, financial, regulatory and other risks in our business environment to ensure that we will always be in a position of strength to address the many challenges ahead.

Jean-Claude Villiard



Performance Highlights	1998	1999	2000	2001	2002
Corporate Results					
Total Assets (\$M)	22,020	21,976	23,244	23,822	23,502
Total Liabilities (\$M)	21,792	21,432	22,324	22,557	21,693
Equity of Canada (\$M)	228	544	920	1,265	1,809
Total Revenue (\$M)	3,862	4,009	4,192	4,064	4,124
Total Operating Expenses (\$M)	198	175	208	201	224
Net Income After Income Taxes (\$M)	160	316	376	345	544
Staff-Years	2,046	1,943	1,815	1,736	1,772
Insurance and Securitization					
Annual Units Insured	476,669	376,200	461,241	461,972	524,190
Premiums and Fees Received (\$M)	865	898	850	1,049	1,330
Insurance in Force (\$M)	182,450	187,392	201,000	211,500	224,345
Net Claims Expense (\$M)	375	232	307	335	139
Annual Securities Guaranteed (\$M)	9,076	12,854	11,014	8,489	20,642
Guarantees in Force (\$M)	19,000	28,000	34,000	34,684	45,473
Investments in Securities (including cash) (\$M)	3,146	3,819	4,143	4,916	6,005
Housing Programs					
Annual New Commitments (units)	13,700	20,850	27,600	24,850	25,900
Estimated Households Assisted	643,750	639,200	639,300	640,800	638,850
Housing Program Expenses (excluding operating expenses) (\$M)	1,772	1,828	1,913	1,789	1,828
Lending					
Loans and Investments in Housing Programs (\$M)	15,979	16,084	15,841	15,239	14,601
Borrowings from Capital Markets (\$M)	10,540	10,856	11,054	11,081	10,242
Borrowings from the Government of Canada (\$M)	6,354	6,141	5,924	5,692	5,474
Net Interest Income (\$M)	24	17	42	58	52

CMHC presents corporate financial results to provide a concise and comprehensive picture of the Corporation's financial performance and resources, as well as segmented results to assist the reader in understanding the breadth of the Corporation's activities. Results for the last five years show a corporation in good financial shape, with a healthy and growing insurance and securitization business supported by innovative products and a strong Canadian economy and housing sector. CMHC's current legislated limit for both insurance in force and guarantees in force is \$250 billion each. For the first time ever, in 2000 the total value of outstanding mortgages insured by CMHC exceeded \$200 billion, and continues to trend upward in step with increases in annual units insured. Resulting revenues ensure that CMHC's Approved Lenders are protected from borrower default in the event of potential downturns in the economy, thereby contributing to lower mortgage costs for Canadians. In 2001, the Canada Mortgage Bonds (CMB) program was introduced as the next evolution of mortgage securitization and gained in popularity in 2002.

The total number of Canadian households assisted through CMHC's housing programs has been relatively stable over the years. The increase in units assisted through "annual new commitments" starting in 1999 is due to successive funding increases



for strategic housing initiatives. A \$50-million program enhancement was announced in late 1998, and an additional \$311 million over four years was announced in late 1999, as part of the federal government's broader housing strategy to respond to the issue of homelessness.

As planned, CMHC's loans and investments in housing programs have been declining in recent years, as most of the Corporation's loan programs in this area are currently in

the repayment stage. Borrowings from the Government of Canada — which funded those programs up until 1993, when the Corporation stopped borrowing from the government — have also been declining due to repayments. Borrowings from capital markets are now used to fund loans and investments in housing programs, and are matched to the level required to fund new and existing loans.

2003	2004	2005	2006	2007
23,906	24,363	25,109	25,952	26,817
21,545	21,339	21,338	21,354	21,422
2,361	3,024	3,771	4,598	5,395
4,446	4,624	4,724	4,844	4,814
286	293	293	292	299
557	664	747	827	798
1,850	1,805	1,767	1,674	1,680
461,520	457,268	425,535	390,437	392,675
1,427	1,434	1,424	1,402	1,418
238,100	247,900	252,600	251,600	251,300
304	327	345	368	506
15,000	15,000	15,000	15,000	15,000
46,900	50,000	59,100	69,100	70,800
6,811	7,828	8, 824	9,808	10,833
7,452	1,854	1,854	1,854	1,854
639,300	638,400	634,500	632,000	629,200
1,946	1,973	1,970	1,984	1,872
14,764	14,561	14,303	14,091	13,896
11,185	10,816	10,743	10,772	10,777
5,230	5,043	4,848	4,653	4,455
	23,906 21,545 2,361 4,446 286 557 1,850 461,520 1,427 238,100 304 15,000 46,900 6,811 7,452 639,300 1,946	23,906 24,363 21,545 21,339 2,361 3,024 4,446 4,624 286 293 557 664 1,850 1,805 461,520 457,268 1,427 1,434 238,100 247,900 304 327 15,000 15,000 46,900 50,000 6,811 7,828 7,452 1,854 639,300 638,400 1,946 1,973	23,906 24,363 25,109 21,545 21,339 21,338 2,361 3,024 3,771 4,446 4,624 4,724 286 293 293 557 664 747 1,850 1,805 1,767 461,520 457,268 425,535 1,427 1,434 1,424 238,100 247,900 252,600 304 327 345 15,000 15,000 15,000 46,900 50,000 59,100 6,811 7,828 8,824 7,452 1,854 1,854 639,300 638,400 634,500 1,946 1,973 1,970	23,906 24,363 25,109 25,952 21,545 21,339 21,338 21,354 2,361 3,024 3,771 4,598 4,446 4,624 4,724 4,844 286 293 293 292 557 664 747 827 1,850 1,805 1,767 1,674 461,520 457,268 425,535 390,437 1,427 1,434 1,424 1,402 238,100 247,900 252,600 251,600 304 327 345 368 15,000 15,000 15,000 15,000 46,900 50,000 59,100 69,100 6,811 7,828 8,824 9,808 7,452 1,854 1,854 1,854 639,300 638,400 634,500 632,000 1,946 1,973 1,970 1,984 14,764 14,561 14,303 14,091 11,185 10,816 10,743 10,772

Most of the broad assumptions underpinning the Corporation's planning are based on regularly released economic forecasts. As much of this information is inherently uncertain, it must be constantly monitored, particularly in relation to the Corporation's insurance and securitization businesses and lending activities, the results of which are very sensitive to fluctuations in the economy. As part of CMHC's ongoing monitoring, its business environment is regularly reassessed for potential impacts on corporate activities and expected results, and underlying assumptions and business projections are revised as required. Going forward, planned results must also assess the long-term impact of contractual obligations made in prior years. As a result, forecasts for 2003 and beyond reflect the resources required and the potential financial impact of program commitments over the course of the planning period.

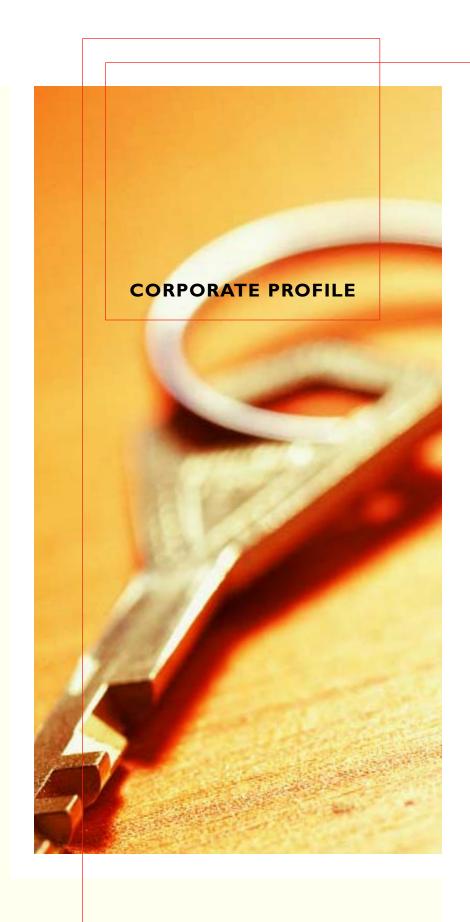
Under the current set of assumptions, CMHC is projecting continued strength in its insurance activities in the short term, characterized by a gradual decline in activity in coming years from the record highs experienced in 2002. Annual securities guaranteed are expected to continue to remain steady at approximately \$15 billion annually. While households assisted through housing programs were forecast to decline due to the scheduled termination of funding for renovation programs off-reserve in March 2003, the 2003 federal budget extended CMHC's housing renovation programs for an additional three years.



The Corporation's funding for housing programs will increase in coming years in line with the initial \$680 million in federal funding for the Affordable Housing Program Agreements, in addition to the usual \$1.9 billion for existing social housing commitments. Total funding for housing programs will be revised upwards again in subsequent program planning to reflect the additional \$320 million over five years for the Affordable Housing Program Agreements announced in the 2003 federal budget.

Loans and investments in Housing Programs will continue to decline as

a result of ongoing repayments in sunsetting loan programs, with CMHC's Direct Lending program continuing to finance and refinance eligible social housing projects, providing over \$100 million in annual funding at the lowest average financing rate available. Total staff-year consumption is expected to decline through to 2007, due primarily to the anticipated transfer of responsibility for the administration of social housing programs to the remaining provinces and territories, which have yet to sign agreements to streamline the management of the social housing stock.



CMHC's Mandate

The promotion of:

- 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.

CMHC's Corporate Objectives

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

Business Areas

CMHC's mandate, as described in the *National Housing Act* (NHA), is closely linked to its four corporate objectives, each of which is supported by the Corporation's key business areas.

Insurance and Securitization

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 and borrowers to access homeownership with as little as 5% down. The Corporation also guarantees the timely payment of principal and interest on Canada Mortgage Bonds and Mortgage-Backed Securities, 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 federal 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 and cooperative groups, funding is provided to support Canada's existing social housing stock and for new commitments, including the Affordable Housing Program Agreements. 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, and a variety of strategic initiatives 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. The Corporation undertakes directed research in nine priority research areas, and supports responsive programs such as the CMHC Housing Awards Program, the Affordability and Choice Today (ACT) program and the External Research Program. CMHC's Market Analysis Centre (MAC) supports the housing market by conducting surveys and providing timely, extensive analysis and forecasts of economic, housing and mortgage market trends and conditions at national, regional and local levels. CMHC's 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.

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 sectors. The Corporation also receives foreign delegations interested in housing and represents Canada internationally on housing and human settlements issues.

Granville Island

CMHC is also responsible for the management and administration of Granville Island on behalf of the Government of Canada, for which CMHC receives a management fee. Owned by the federal government, the island is a cultural, recreational and commercial development in the heart of Vancouver. It is expected to be commercially viable, with the majority of revenue being rental income. Capital additions are funded through operations or grants and contributions. Results of operations in relation to Granville Island do not form part of CMHC's financial statements.

Board of Directors

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

The Board consists of 10 Directors: the Chairman of the Board, the President and CEO, and eight other members. 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 2002 to the Board of Directors was \$227,300, compared with \$200,600 in 2001. Six Board of Directors meetings and 10 Board Committee meetings were held in 2002.

Corporate Governance

Good corporate governance is at the heart of all of CMHC's activities and success. Stewardship and accountability are the primary principles that underpin the Corporation's governance practices. Over the years, CMHC has been actively implementing innovations in corporate governance

under the leadership of Peter Smith, CMHC's Chairman of the Board since 1995. These innovations commenced with the establishment of a Corporate Governance Committee in 1996 (responsible for overseeing and advising the Board on all aspects of corporate stewardship), followed closely by revisions to the corporate planning process to more actively involve Board members throughout the process, particularly in setting the Corporation's strategic directions and priorities in the early stages of plan development.

In 1999, CMHC completed a review of its governance practices in relation to financial risk and established a senior-level Asset/Liability Management Committee and an Investment Committee to provide a specialized focus on financial risk management to protect the Corporation's financial integrity, while remaining flexible enough to evolve with financial practices.

In 2001, a Human Resources Board Committee was established to oversee human resources management and succession planning, and a formal Enterprise Risk Management (ERM) initiative was launched to incorporate risk identification and assessment into ongoing governance processes, such as corporate planning, performance management, decision-making and corporate business activities.

The Corporation's work on ERM and performance measurement continued in 2002. ERM provides the Board of Directors and senior executives with a systematic and comprehensive view of the challenges

ERM and Performance Measurement – Helping CMHC Meet the Principles of Good Governance

Leadership and Stewardship ERM provides a comprehensive assessment of opportunities and a strategic context for priority setting and the development of performance measurement targets. Empowerment and Accountability
Leadership for enterprise
risks is assigned to individual
senior managers, who are
then responsible for developing action plans to address
risks with the support of
a central ERM coordinating
body.

Communication and Transparency
Building a performance
measurement framework
results in a common
understanding of what the
Corporation must achieve,
how these goals will be
reached, and who will be
responsible.

Service and Fairness
ERM raises the profile of succession planning initiatives, stimulates a renewed focus on ethics, and highlights the importance of good corporate citizenship as a means to enact CMHC's mandate.

Accomplishment
and Measurement
ERM assists CMHC in the
development of performance
measures with a view to
emphasizing key elements
to be measured within
each business area.

Continuous Learning and Growth
The Corporate-wide
implementation of ERM
deepens and expands
organizational capacity in
the areas of effective risk
mitigation, strategic assessment of opportunities and
innovation.

and opportunities facing CMHC. It also facilitates and improves the Board's ability to provide strategic direction and make critical decisions. The performance measurement framework flows directly from ERM, providing a complete and balanced view of the Corporation's financial and non-financial results. Overall, integrated ERM and performance measurement is helping CMHC to better identify opportunities for growth and manage its risks. The development has resulted in a closer connection between the Board

priority-setting exercise and the activities proposed in the Corporate Plan, as well as a greater alignment of employees with the strategic directions of the Corporation.

In recognition of the continuous improvements CMHC has demonstrated in corporate governance over the years, as well as the Corporation's most recent successes in the areas of ERM and performance measurement, CMHC was honoured with the National Award in Governance in the Public Sector by the Conference Board of Canada/Spencer Stuart in

late 2002. The award is a testament to CMHC's leadership in this area, and to its ongoing commitment to stewardship and accountability.

Board Committees

Corporate Governance Committee

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



Conference Board of Canada National Awards in Governance

CMHC received the prestigious National Award in Governance in the Public Sector from the Conference Board of Canada/Spencer Stuart in 2002. The award is presented to companies that have implemented innovative and bold solutions to governance challenges. CMHC has been recognized as a best-practice organization because of its progressive efforts in this area.

support of the Board include those related to setting corporate strategic direction, identifying and managing principal corporate risks, 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. Key policies and processes reviewed and approved by the Committee in 2002 included CMHC's Funding, Investment and Risk Management policies and the Board of Directors' self-assessment

process, as well as the identification, review and evaluation of overall corporate risks. In its commitment to build a strong foundation of values and ethics, the Committee requested that the Corporation develop and implement internal guidelines for disclosure of workplace wrongdoing, and oversaw the annual review of the standards of conduct expected of Board members in the execution of their duties. The Corporate Governance Committee held four meetings in 2002.

Audit Committee

The Audit Committee advises the Board of Directors on the soundness of the financial management of the Corporation, assisting the Board in overseeing internal control systems and financial reporting and audit processes. Further to the self-assessment against recognized best practices conducted in 2001, the Audit Committee confirmed by way of review that all its responsibilities were carried out in 2002. The Audit Committee held four meetings in 2002.

Human Resources Committee

The Human Resources Committee oversees corporate policies and strategies relating to human resources, and reviews and approves the principles governing recruitment, selection, training, compensation and evaluation. The Committee is responsible for reviewing succession planning for the leadership of the Corporation and makes recommendations to the Board regarding the organization plan, the compensation plan and program, and the integration of human resources policies and strategies with the Corporate Plan. In 2002, the Committee reviewed CMHC's employee benefits and compensation package and approved enhancements in several areas in order for CMHC to remain competitive within industry standards. The Human Resources Committee held two meetings in 2002.



Peter R. Smith, C.M.

Brampton, Ontario
Chairman of the Board of Directors

Peter Smith is President of Andrin Ltd., has served as Chairman of the Board since September 1995, and currently serves as Chairman of the Corporate Governance Committee of the Board of Directors.

Jean-Claude Villiard

Ottawa, Ontario

President and Chief Executive Officer Canada Mortgage and Housing Corporation

Jean-Claude Villiard has served as President and Chief Executive Officer since October 2000, and currently serves on the Audit Committee, Corporate Governance Committee and Human Resources Committee of the Board of Directors.

Michel Bérubé

Beauport, Quebec

Michel Bérubé is Vice-President of Ciment Québec Inc., has served on the Board of Directors since June 2001, and currently serves as Chair of the Human Resources Committee of the Board of Directors.

Dino Chiesa

Toronto, Ontario

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

Hugh Heron

Willowdale, Ontario

Hugh Heron is Principal and Partner of the Heron Group of Companies, has served on the Board of Directors since June 2001, and currently serves on the Corporate Governance Committee and the Human Resources Committee of the Board of Directors.

Sophie Joncas, CA

Saint-Hubert, Quebec

Sophie Joncas is a Partner with Lapointe, Gagné, Pétrone CA, has served on the Board of Directors since August 2001, and currently serves on the Audit Committee of the Board of Directors.

Grace Kwok

Vancouver, British Columbia

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

Rose Marie MacDonald

Little Pond, Prince Edward Island

Rose Marie MacDonald is a Real Estate Agent (retired), has served on the Board of Directors since June 2000, and currently serves on the Audit Committee of the Board of Directors.

Louis Ranger

Ottawa, Ontario

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



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

Jean-Claude Villiard

President and Chief Executive Officer

National Office – Vice-Presidents

Karen A. Kinsley

Insurance and Securitization

Jim Millar

Strategic Planning, Risk Management and Communications

William G. Mulvihill

Information Technology and Chief Financial Officer

Douglas A. Stewart

Policy and Programs

Berta Zaccardi

Human Resources, Legal and Corporate Services

Regional Business Centres – General Managers

Charles D. Chenard

Quebec Region

Peter Friedmann

British Columbia and Yukon Region

Elizabeth Huculak

Prairie, Nunavut and Northwest Territories Region

Nelson Merizzi

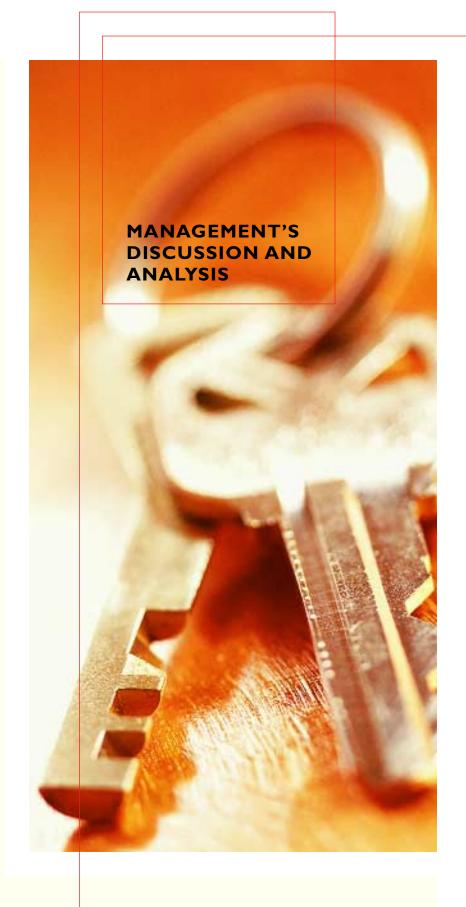
Ontario Region (Acting)

Bill Smith

Atlantic Region

Corporate Secretary

Sharon Rosentzveig





The Economy

Undermined by an uneven recovery in the United States, global growth was slower than expected in 2002 at only 1.7%, marking the second consecutive year of sluggish growth for industrialized nations. A delayed rebound in investments, lower equity prices, concerns about corporate malfeasance, the situation in certain South American countries, and the possibility of war with Iraq all contributed to the slower recovery.

The Canadian economy, in contrast, successfully managed the slowdown of 2001 and showed signs of a strong and broad-based recovery early in 2002. The economy expanded at an annualized rate of 5.7% and 4.4% in the first and second quarters, respectively. While economic growth slowed in the second half of the year, Canada finished 2002 with an estimated annual growth rate of 3.3%, the highest rate among the Group of Seven (G7) nations. The consensus forecast shows the

Canadian economy expanding by 3.1% in 2003 and 3.3% in 2004. Business investments and exports are expected to drive growth in the medium term. All provinces are expected to experience real GDP advances of 2.5% or more in the 2003–2004 period.

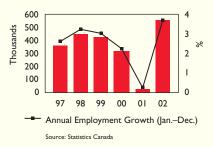
Strong consumer spending, supported by historically low interest rates and a stellar job market that created close to 560,000 new jobs, drove economic expansion in 2002. Total employment between January

	GDP Growth (annual % change) 1998 1999 2000 2001 2002* 2003*			Employment Growth (avg. annual % change) 1998 1999 2000 2001 2002* 2003*					Unemployment Rate (annual average) * 1998 1999 2000 2001 2002* 2003*									
Canada	4 . I	5.4	4.5	1.5	3.3	3.2	2.7	2.8	2.6	1.1	2.2	2.3	8.3	7.6	6.8	7.2	7.7	7.5
NFLD	6.9	6.4	5.0	1.2	7.5	3.5	2.6	5.5	-0.2	3.3	1.2	1.5	18.0	16.9	16.7	16.1	16.9	16.5
PEI	4.0	4.1	3.5	0.3	3.0	2.5	1.9	1.5	5.3	2.0	1.8	1.5	14.0	14.4	12.0	11.9	12.1	11.9
NS	3.8	5.5	2.4	2.4	3.0	3.4	3.8	2.4	2.7	0.9	1.2	1.5	10.5	9.6	9.1	9.7	9.6	9.5
NB	3.9	6. I	2.1	0.6	3.3	2.8	2.3	3.3	1.8	0.0	3.3	1.8	12.2	10.2	10.0	11.2	10.4	10.3
QUE	3.2	5.6	5.0	1.2	3.8	3.3	2.7	2.3	2.4	-1.1	3.4	2.5	10.3	9.3	8.4	8.7	8.6	8.4
ONT	4.9	7.6	4.8	1.2	3.4	3.3	3.3	3.6	3.2	1.5	1.8	2.5	7.2	6.3	5.7	6.3	7. I	6.9
MAN	4.8	2.2	2.8	1.4	3.3	3.5	1.9	1.3	2.2	0.6	1.6	1.3	5.5	5.6	4.9	5.0	5.2	5.0
SASK	4.2	0.8	3.3	-2.0	2.2	2.5	1.3	0.8	1.0	-2.6	2.0	1.3	5.8	6.1	5.2	5.8	5.7	5.3
ALTA	4.6	1.6	5.9	2.9	3.0	4.5	3.9	2.5	2.3	2.8	2.6	2.5	5.6	5.7	5.0	4.6	5.3	5.0
ВС	1.5	2.5	4.3	0.9	2.0	2.7	0.1	1.9	2.2	-0.3	1.6	1.9	8.8	8.3	7.2	7.7	8.5	8.4

^{*}CMHC estimates

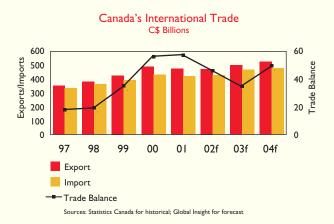
Source: CMHC Housing Outlook, National Edition, First Quarter 2003

Job Creation and Employment Growth



and December jumped by 3.7%, with full-time employment up 2.7% and part-time employment surging 8.1%. Canada ended 2002 having achieved a record-high employment rate of 62.4%. Job growth was heavily concentrated in manufacturing, health care and social assistance, and educational services. Bolstered by a booming housing industry, the construction industry also recorded strong employment growth for the year. While the average annual unemployment rate remained relatively high at 7.7%, Canada hit a record labour force participation rate of 67.5% in December, equalled only once before in January 1990, as strong employment opportunities encouraged people to return to the job market.

Canada's trade balance has been quite healthy in recent years, due to annual exports in the \$300 billion to \$400 billion range. Given the slower-than-expected pace of economic growth abroad, however, Canadian export growth was flat over 2002, despite strong performances for motor vehicle parts, steel and consumer goods. While the trade balance will dip back down around



the \$30-billion mark in 2003 from over \$56 billion in 2001, it is expected to recover in 2004 and grow from there.

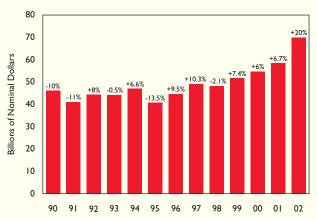
The faltering recovery in the United States and a softening of the Canadian economy in the second half of the year helped keep interest rates low in 2002. While the Bank of Canada raised the target for the overnight lending rate in the spring and summer of 2002 by 75 basis points to reduce the substantial amount of stimulus provided to the

economy in 2001, it held its overnight target steady at 2.75% for the remainder of the year. As these low rates are still very stimulative to the economy, the Bank of Canada is expected to raise its overnight target rate in spring-summer 2003 to counter inflationary pressures.

Housing Markets

Employment growth, rising disposable income and consistently low interest rates translated into a banner year for

Spending on Residential Investment and Repairs



Value of Building Permits (billions of nominal dollars)	1997	1998	1999	2000	2001	2002
Residential Sector	18.3	17.9	19.9	20.3	22.0	29.0
Non-residential Sector	12.9	15.2	15.8	16.6	17.6	16.8
Total*	31.3	33.2	35.8	36.9	39.5	45.9

^{*}Totals may not add up due to rounding.

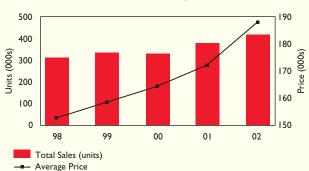
the Canadian housing industry. Total residential investment contributed approximately \$70 billion to the Canadian economy, representing an unprecedented 20% increase over 2001's record total of \$58.5 billion. Construction intentions, as measured by the value of building permits issued, were also on a record-setting pace throughout 2002 and, by December, had reached \$45.9 billion, surpassing the \$40-billion all-time high set in 1989. In the residential sector, the value of permits issued between January and December 2002 totalled \$29 billion, \$7 billion more than 2001's record high of \$22 billion.

As stock markets declined over the summer of 2002, bond markets advanced, helping to bring down mortgage rates. The average annual one-year mortgage rate of 5.17% was more than a full percentage point lower than the 2001 average, while the average annual five-year rate was down slightly from 2001 at 7.02%. Mortgage rates are expected to remain low before rising in 2003, with one-year and five-year rates expected to approach 7 % and 8%, respectively, by the end of the year.

Annual Housing Starts and % Change in New Housing Price Index (NHPI)



Total MLS Sales and Average Resale Prices



Housing Starts and MLS Residential Sales: Outlook 2002–2004	20	002	2	003	2004		
	Housing Starts	MLS Resales	Housing Starts	MLS Resales	Housing Starts	MLS Resales	
Canada	205,034	420,676	205,500	401,900	195,100	385,500	
NFLD	2,419	3,014	2,250	2,900	2,000	3,000	
PEI	775	1,221	675	1,225	610	1,225	
NS	4,970	10,243	4,575	9,600	4,300	9,300	
NB	3,862	5,089	3,750	5,350	3,400	5,000	
QUE	42,452	71,001	44,000	61,500	41,000	60,000	
ONT	83,597	177,406	86,000	176,000	82,500	165,000	
MAN	3,617	10,990	3,200	10,800	3,200	10,500	
SASK	2,963	7,933	2,925	7,500	2,900	7,500	
ALTA	38,754	51,042	35,100	49,000	31,200	47,000	
BC	21,625	82,737	23,000	78,000	24,000	77,000	

Source: CMHC Housing Outlook, National Edition, First Quarter 2003

Favourable borrowing conditions, combined with economic growth, contributed to strong housing starts and a record-setting year for resales. Total housing starts reached a 13-year high of 205,034 in 2002, representing a 26% increase over the previous year, with single detached housing starts recording another stellar year, surging more than 30% over 2001 levels.

Total housing starts for the year were up considerably in all provinces, with an increase of more than 53% in Quebec and more than 30% in both Alberta and Newfoundland. Throughout 2002, year-over-year increases in the New Housing Price Index, which tracks changes over time in the selling prices of new houses, were on a steady upward trend. In

December, the New Housing Price Index increased by 5.1% over the same period in 2001, marking the largest annual increase since March 1990 and the fifth consecutive year-over-year increase of 4.0% or greater in 2002. Increases in the cost of skilled labour and building materials contributed to mounting prices.

In resale markets, Canada registered its best year on record, with 420,676 homes sold in 2002, up approximately 10.7% over 2001. Average resale prices also reached new highs, with tight resale markets and low mortgage rates supporting the increases.

Vacancy Rates Slacken as Rental Housing Starts Increase



Total housing starts are projected to remain above 205,000 in 2003, before beginning a downward trend to approximately 195,000 in 2004. In resale activity, volumes are projected to decline somewhat in 2003 to 401,900 units, and decline again in 2004. Despite this moderation in activity, the overall outlook is strong, based on continued economic growth in North America and a high level of net international migration to Canada.

In rental markets, average rental apartment vacancy rates in Canada's Census Metropolitan Areas increased to 1.7% in 2002, up slightly from 1.1% in 2001. Vacancy rates increased in 17 of Canada's 28 metropolitan

centres in 2002. While increases in rental construction contributed to the improved rental outlook in key markets, low mortgage rates reduced the carrying cost of homeownership and encouraged many people to make the switch from renting to owning. Rental prices increased in all Canadian metropolitan centres except Thunder Bay, further increasing the lure of homeownership.

Mortgage Markets

Strong housing starts and an active resale market in 2002 helped propel mortgage credit growth. Over \$63 billion in mortgage loans were

approved in the first six months of the year. Residential mortgage credit grew by approximately 7% year over year, reaching \$484 billion by the third quarter.

While mortgage rates are expected to rise somewhat in 2003, they will remain low by historical standards. The combination of continuing economic growth and low mortgage rates will sustain the demand for homeownership in both new and resale housing markets and support house prices in 2003. Mortgage credit outstanding is forecast to grow by 6% to 8% over 2003.

Mortgage Market	1998	1999	2000	2001	2002
Mortgage Credit Outstanding (\$B)*	392.5	410.3	429.9	448.1	484.0**
NHA and Conventional Mortgage Loans Approved (\$B)	72.0	78.3	74.0	94.3	63.8***
Annual Average I-Year Mortgage Rates	6.50	6.80	7.85	6.14	5.17****
Average Annual 5-Year Mortgage Rates	6.93	7.56	8.35	7.40	7.02****

^{*}Includes insured and uninsured mortgages

Source: CMHC Mortgage Market Trends, Fourth Quarter 2002, and MAC Mortgage and Interest Rate Forecast, November 20, 2002

^{**}Q3 2002 estimate

^{***}Total for Q1 and Q2 2002. Mortgage approval data are gross and may not fully capture lending activities of credit unions, caisses populaires, other smaller institutions and privately insured loans.

^{****}Estimate

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.

2002 Corporate Performance Measures	2003 Planned	2002 Actual	2002 Planned	2001	2000	1999	1998
MORTGAGE LOAN INSURANCE							
Annual Units Insured	461,520	524,190	456,486	461,972	461,241	376,200	476,669
Insurance in Force (\$M)	238,100	224,345	219,300	211,500	201,000	187,392	182,450
ASSISTED HOUSING AND COMMUNITY PARTNERSHIPS							
Annual New Assisted Housing Units Committed	7,452	25,900	24,521	24,850	27,600	20,850	13,700
Estimated Households Assisted in Existing Portfolio	639,300	638,850	650,200	640,800	639,300	639,200	643,750
Direct Lending (DL) Projects							
Average Lending Interest Rate Spread (DL rates/gov't bond yields)* (basis points)	n/a	25.2	n/a	30.5	35.1	33.4	n/a
Annual New Business (\$M)	151	243	349	198	198	35.1	1,376
Annual Subsequent Renewals (\$M)	1,789	1,780	2,087	1,037	1,710	1,426	783
CCPPPH Units Facilitated	3.000	6,041	3,000	3,594	2,507	4,121	2,138
Affordable Housing Framework Agreements: Signed Bilateral Agreements (cumulative)	13	10	n/a	4	n/a	n/a	n/a
Social Housing Agreements: Program Transfer Amounts (\$M)	961.0	964.0	961.0	963.0	964.0	570.0	388.7
RESEARCH AND INFORMATION TRANSFER							
Research Expenditures (\$)	1,300,000	691,000	1,176,000	613,000	867,000	1,247,000	1,261,000

^{*}Average spread differential between Direct Lending posted rates for five-year terms and Government of Canada yields, weighted by monthly dollar volumes.

Analysis of Results

Mortgage Loan Insurance

CMHC promotes housing choice and affordability for Canadians by ensuring that most people's housing needs are met through the marketplace without government assistance. With higher housing starts and a hot resale market, borrowers increasingly made use of CMHC's insured mortgage products to facilitate residential mortgage financing. This represents a strong achievement for the Corporation.

The stronger-than-expected housing market in 2002, together with continued gains in CMHC's new Refinance product, helped push insured volumes over 500,000 units for the first time ever. Total unit volumes for 2002 were 14.8% ahead of planned volumes and 13.5% higher than 2001 volumes. Insured volumes of the Refinance product, which got off to an excellent start in 2001, increased by 19% in 2002. CMHC's Refinance product allows homeowners to optimize the use of home equity for housing-related or other purposes. In the coming years, CMHC will continue to focus on product innovations, such as the enhancements made to Rental products in 2001, and the introduction of new products such as Refinance and emili Low Ratio. With the anticipated cooling-off of housing markets in the near term, however, volumes of

CMHC Launches New Homeownership Training Program

The Homeownership Education Training Program (HETP), launched as a CMHC pilot project across Canada in 2002, is targeted to people exploring the financial feasibility of homeownership. It includes information on what is involved in purchasing and owning a home, and key home maintenance and repair requirements.

HETP sessions were held in Winnipeg, Barrie, St. John's and Halifax in 2002, and planning is under way for sessions in other locations across Canada in 2003.

Insurance activity in 2003 are expected to return to pre-2002 levels.

In keeping with its goal to be "Home to Canadians," CMHC provides its regular mortgage insurance products in all parts of Canada, including in rural and northern areas, in single-industry towns and on-reserve. The Corporation is also the only mortgage insurer of loans for rental accommodation and for nursing and retirement homes. In 2002, CMHC's support for mortgage-insured financing in these areas represented more than one-third of the Corporation's total insurance

activity. The Corporation helped alleviate tight rental markets in 2002 by providing insurance on rental loans, the value of which exceeded last year's total by 27%. In addition, CMHC approved mortgage loan insurance for 10% more renters in 2002 than in 2001, enabling these people to move to homeownership.

As part of CMHC's commitment to seek improved access to financing for housing on-reserve, in August 2002, CMHC's Board of Directors approved a new On-Reserve Homeownership Loan Insurance product, to be introduced as a pilot in 2003. First

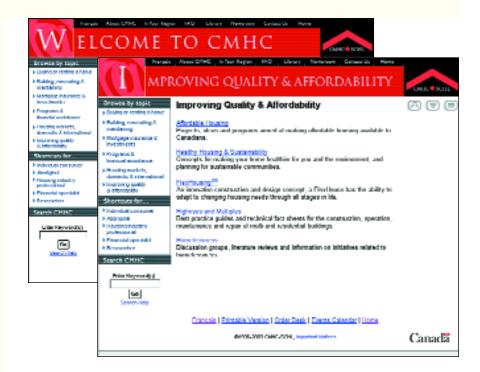
Nations members living on-reserve have very limited access to private capital to assist in meeting their housing needs. This new pilot product is designed to facilitate access to those who are able to afford homeownership without subsidies.

Assisted Housing

Approximately \$1.9 billion is expended annually by CMHC on assisted housing programs, accounting for over half of the \$3.6 billion spent collectively on housing programs by the federal and provincial governments in Canada. Approximately 90% of CMHC's annual expenditure is provided for ongoing social housing commitments, assisting over 638,000 households. The remaining expenditures relate to new commitments under the Residential Rehabilitation Assistance Program (RRAP), Aboriginal Capacity Development, Research activities and other special housing initiatives.

CMHC's Direct Lending initiative in support of social housing projects reduces government subsidies for social housing. Since the program began in 1993, Direct Lending interest rates have been consistently below market rates, set at no more than 50 basis points above the Government of Canada benchmark bond rate for a five-year term, with varying rates available for other loan terms.

New Direct Lending business includes on-reserve new construction



Affordable Housing Strategies Online

To assist communities in creating affordable housing options, CMHC launched the Affordable Housing Ideas online database in 2002. Located on CMHC's national Web site, the database describes strategies that have helped produce affordable housing in different countries. The database serves as a collection of ideas that can be drawn upon freely for consideration and use in formulating plans of action suitable to specific local conditions.

loans and other existing on-reserve and social housing loans. Results for 2002 include new loan financing in the amount of \$243 million, which includes 177 new on-reserve construction accounts totalling \$80 million and 187 other existing on-reserve and social housing loans totalling \$163 million. At over \$1.7 billion, subsequent loan renewals exceeded 2001 renewal amounts by over 71%. Overall, the results for 2002 are down from planned amounts due to delays in the receipt of new debenture amounts that were expected to come into the Direct Lending Program in 2002, as well as a decrease in the volume of anticipated loan renewals resulting from the availability of comparable interest rates in the marketplace.

Federal-Provincial Agreements

Federal, provincial and territorial ministers met in 2001 to discuss a proposed program to stimulate the production of affordable housing that was promised in the federal Speech from the Throne in January 2001. In November of the same year, the ministers agreed on a framework for implementing a program to increase the construction of affordable housing by subsidizing construction costs, and began negotiating bilateral agreements so that construction could begin throughout the country as soon as possible. Four agreements were signed in 2001. While continuing to work on a longer-term strategy with its provincial and territorial

CMHC Participation in Federal Government Initiatives

Under the Voluntary Sector Initiative, Frontiers Foundation Inc. received funding from CMHC to hold a national conference in Ottawa in 2002. Participants from across Canada unanimously supported establishing a National Council on Self-help Housing.

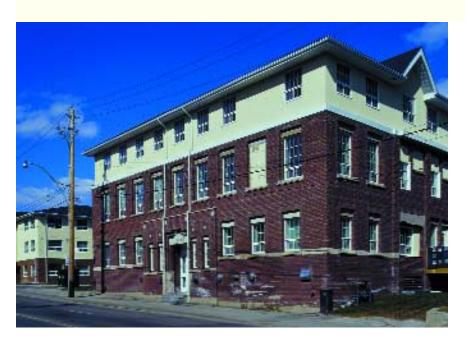
partners, CMHC negotiated and signed six more Affordable Housing Program Agreements in 2002 with Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia and the Yukon. In all, 10 bilateral agreements are now in place with the various jurisdictions, representing over 95% of the initial \$680 million in federal funds allocated to this initiative. Discussions were substantially complete with the remaining three provinces as of the end of 2002, with agreements expected to be completed and signed over the course of 2003. In the 2003 federal budget, the Government of Canada indicated that it is prepared to invest an additional \$320 million over five years, to bring the total federal investment in the affordable housing initiative to \$1 billion by the end of 2007-2008.

To date, nine jurisdictions have also chosen to benefit from the Government of Canada's 1996 offer to transfer administration of long-standing federal social housing programs. While discussions continued with the provinces on behalf of

the Government of Canada, no further Social Housing Agreements related to these programs were signed in 2002.

Partnerships and Research

The Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) facilitates partnerships between the public and private sectors to develop affordable housing without relying on ongoing federal government subsidies. The Centre provides interest-free loans to develop project proposals, opens broader access to financing through CMHC mortgage loan insurance, and provides expert advice and guidance during the development and implementation phases of affordable housing projects in communities across Canada. In 2002, the Centre facilitated 83 projects for a total of 6.041 units and beds, more than double the number of units planned. This unusually high level of activity was largely due to over 3,000 longterm care facility beds that were funded under a single provincial



Addressing Aboriginal Housing Needs

Project Amik provides affordable housing for Aboriginal households in Toronto. Through its Canadian Centre for Public-Private Partnerships in Housing, CMHC provided expert advice, an interest-free proposal development loan, RRAP funding and mortgage loan insurance to facilitate the project financing.

initiative. CMHC also approved a new mandate for the Centre – to be implemented over the course of 2003 – that will include new tools for facilitating affordable housing.

CMHC's Directed Research Program consists of nine priority areas responding to specific research needs, three of which deal directly with affordability and choice: Making Housing More Affordable, Addressing Aboriginal Housing Needs, and Addressing Distinct Housing Needs. In 2002, over \$691,000 in research funds was spent on these priority areas. In support of longer-term strategies to improve housing affordability, housing taxation measures were analysed in terms of their effectiveness, efficiency, equity and affordability. The Corporation also conducted research on rural housing options in

partnership with the federal government's Rural Secretariat, and studies were conducted on the effects of Aboriginal urban mobility on service provision. Research results on these and other projects were presented at approximately 32 events throughout the year, including conferences, symposia, seminars and workshops for professional associations and industry groups.

Five seniors' seminars were held and three exhibits organized, completing a pilot project in which 27 seniors' seminars were held at 20 events attended by an estimated 1,350 builders, developers, realtors, architects, non-profit housing agencies, and health and home care professionals. Seminar evaluations were extremely positive, with an overall average rating score of 80%.

CMHC is participating in the federal government's Voluntary Sector Initiative (VSI), launched in 2000 with a \$90-million five-year commitment. As part of the initiative, CMHC is providing \$420,000 in funding over a two-year period to two leading volunteer organizations, Frontiers Foundation Inc. and Habitat for Humanity Canada, to improve sector capacity and provide opportunities for sector input to CMHC to improve housing choice and affordability.

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.

2002 Corporate Performance Measures	2003 Planned	2002 Actual	2002 Planned	2001	2000	1999	1998
NEW COMMITMENTS – ESTIMATED HOUSEHOLDS ASSISTED							
Subsidy Programs (units)							
On-Reserve Non-Profit	877	1,050	1,059	1,050	1,250	1,050	550
Strategic Initiatives (units)* Residential Rehabilitation Assistance Program (RRAP)							
Homeowner	722	6,250	7,776	8,225	9,400	5,900	3,650
Disabled Homeowner	501	1,525	1,574	1,625	1,350	1,000	800
Rental and Rooming House	1,616	4,875	4,083	3,200	5,200	6,150	4, 500
RRAP Conversion	282	675	1,088	650	500	n/a	n/a
On-Reserve	907	1,375	1,322	1,650	1,700	700	400
Subtotal RRAP	4,028	14,700	15,843	15,350	18,150	13,750	9,350
Emergency Repair Program (ERP)	242	3,200	2,098	2,450	3,500	2,700	1,600
Home Adaptations for Seniors' Independence (HASI)	1,214	4 975	2,705	4,425	2,600	1,350	1,300
Shelter Enhancement Program (SEP)	1,091	1,975	2,816	1,575	2,100	2,000	900
Total Strategic Initiatives	6,575	24,850	23,462	23,800	26,350	19,800	13,150
Total New Commitments (units)	7,452	25,900	24,521	24,850	27,600	20,850	13,700
RESEARCH AND INFORMATION TRANSFER							
Research Expenditures (\$)	1,904,000	1,904,000	1,614,000	1,783,000	1,954,000	2,139,000	2,214,000

^{*}Forecasted numbers of units assisted for 2003 are significantly below historical volumes as CMHC's renovation programs off-reserve were scheduled to terminate in March 2003.

Analysis of Results

Strategic Initiatives in Assisted Housing

In cooperation with the provinces and territories, CMHC conducted public consultations in the fall of 2002 on the future of the federal government's housing renovation programs, including CMHC's Residential Rehabilitation Assistance Program (RRAP). The consultations involved discussions with Canadians regarding the effectiveness of CMHC's renovation and repair programs, and also solicited views on how the programs could be improved. In addition, CMHC conducted an evaluation of RRAP to determine if the program had been effective in achieving its stated objectives, including whether there was a continuing rationale for government renovation assistance. The consultations and evaluation demonstrated that there is strong support for the federal government's housing renovation programs, reflecting the value and impact these programs have had in addressing the housing needs of low-income individuals and households across Canada.

CMHC's evaluation found RRAP to be well targeted to households in core need and to persons with disabilities. RRAP significantly improved housing conditions for the majority of homeowners, tenants and rooming house residents, and eliminated repair needs in over two-thirds of the units evaluated. In over 90% of units, RRAP for persons with disabilities improved the occupants' ability to carry out their daily activities. A quarter of Rooming House RRAP units were



found to be serving people who have experienced homelessness. Overall, the evaluation found RRAP to be preserving affordable housing, influencing owners' decisions to renovate, and having a positive impact on health and safety.

CMHC exceeded planned units committed for its Strategic Initiatives by over 1,000 units, led by CMHC's Emergency Repair Program (ERP) and Home Adaptations for Seniors' Independence (HASI), which exceeded planned volumes by 52.5% and 83.9%, respectively. While volumes for the various components of RRAP are expected to fluctuate due to changing provincial priorities in program delivery, overall results for 2002 for the RRAP programs are close to the volumes achieved in 2001, and in line

with the consultation and evaluation results, which confirmed the benefits and ongoing demand for these programs. Rental and Rooming House RRAP exceeded planned volumes by approximately 20%.

CMHC also completed an evaluation of its Shelter Enhancement Program (SEP) in 2002. Assisting victims of family violence, SEP provides funding for repairs and improvements in existing shelters and for the development of additional shelters and second-stage housing. The evaluation results were included in Canada's reporting to the United Nations pursuant to the international Convention on the Elimination of all Forms of Discrimination against Women, and were also provided to Health Canada for inclusion in the

five-year report on the federal Family Violence Initiative, a federal horizontal policy initiative in which CMHC actively participates.

CMHC's evaluation found SEP to be a valuable program, improving conditions in 70% of shelters and funding 36 new family violence shelters since 1995. Shelter improvements contributed to reduced operating costs in over 50% of shelters, while security and children's facilities have been improved in 80% and 66% of shelters, respectively. Since 1994, shelters have doubled their wheelchair accessibility rate, which now stands at 68%.

The 2003 federal budget indicated that the Government of Canada's housing renovation programs will be extended for three years at a cost of \$128 million per year for a total investment of \$384 million, to help preserve the existing stock of affordable housing.

On-Reserve Non-Profit Housing

In addition to funding the previously mentioned strategic housing initiatives, the federal government continues to fund new on-reserve commitments under the On-Reserve Non-Profit housing subsidy program. In 2002, over 1,000 units were committed, which is in line with volumes over the past few years.

Aboriginal Capacity Development

CMHC also provides funding, expertise and leadership in the area of Aboriginal Capacity Development tied to the housing sector. For

example, CMHC's Native Inspection Services Initiative (NISI) works closely with the Native Inspection sector. In 2002, CMHC provided funding to help form a Steering Committee that is working towards the formation of a Native Inspection professional association. The Corporation supported the association's efforts to secure funding from Indian and Northern Affairs Canada (INAC) for this strategic partnership. The Canadian Home Inspectors Building Officials (CHIBO) has invited the Steering Committee to participate in the development of accreditation and certification processes.

The percentage of on-reserve inspections contracted out to Native Inspection services increased to 88% in 2002, up three percentage points over 2001. Results for CMHC's Native Inspection Training program for 2002 were also positive, with approximately 25 individuals completing inspector training. Over 400 participants also benefited from technical events such as Indoor Air Quality (IAQ) training and Healthy Housing™ and FlexHousing workshops.

CMHC also receives \$1 million each year under the federal government Youth Employment Strategy for CMHC's Housing Internship Initiative for First Nations and Inuit Youth to promote Aboriginal youth participation in the labour market. Since its inception, the program has been helping youth overcome barriers to full labour market participation. In 2002, CMHC committed \$1.28 million, assisting approximately 180 First

Nations and Inuit youth to receive onthe-job training in housing-related positions. Amounts in excess of the \$1-million annual allocation are a result of one-time additional funding provided by the federal government as part of midyear budget reallocations.

Research

Under this corporate objective of improving housing and living conditions, over \$1.9 million was expended on research in the priority areas of Advancing Healthy Housing, Helping Canadians Protect Their Investment in Housing, and Improving Building Performance. Projects included the development of sustainable community planning tools and practices related to Healthy Housing principles, and research on water and sewage handling systems in the North. Approximately 64 research projects were completed, 77 information products were produced, and research results were presented at some 204 events.

IAQ seminars were provided across Canada in 2002, with 48 seminars or training sessions being provided to over 1,000 housing professionals, including 150 Aboriginal professionals attending a two-day Mold Remediation seminar.

CMHC staff presented results on the Energy Related Environmental Impact of Buildings (EREIB) at the 51st Executive Committee Meeting of the Energy Conservation in Buildings and Community Systems Programme of the International Energy Agency (IEA). Through collaborative research efforts, IEA projects play a leading role in the international effort to combat climate change by stimulating the development and deployment of new energy technologies. EREIB is a CMHC-led partnership project involving 14 IEA member countries that examines how tools and assessment methods can be developed and used to improve the energy-related impact of buildings on interior, local and global environments.

This and other similar CMHC research initiatives focusing on energy and the environment are helping conserve non-renewable resources, reduce greenhouse gas emissions, and increase economic opportunities in relation to new, environmentally responsible systems and technologies. Canadians are among the highest percapita energy consumers in the world. Approximately 30% of our total energy consumption is for "residential end uses" in the home and the community. With local transportation and home heating accounting for over half of all of our "housing-related" energy needs, CMHC devotes considerable resources to possible improvements to new housing, housing retrofits, and alternative approaches to community planning and design.

To facilitate information-sharing between Canadian design professors and CMHC researchers, and to better integrate CMHC research into academic curricula, in May 2002, the inaugural Design Faculty Summit was held and attracted 40 participants representing 21 educational institutions from across Canada.



CMHC Wins 2002 Excellence in Technical Support Award

In recognition of CMHC's leadership and long-standing contributions to advancing energy-efficient and environmentally friendly housing, the Corporation received the 2002 Excellence in Technical Support Award from the Energy & Environmental Building Association.

CMHC was cited as one of the first organizations to develop information for both consumers and industry professionals on improved building performance.

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

CMHC is a leader in innovation, using the best 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.

2002 Corporate Performance Measures	2003 Planned	2002 Actual	2002 Planned	2001	2000	1999	1998
MORTGAGE LOAN INSURANCE							
Total Value of Units Insured (\$B)	50.4	55.0	42.4	46.4	42.7	34.5	43.2
Operating Expense Ratio* (%)	17.1	14.8	17.3	14.3	14.9	15.5	19.0
Net Claims Expense (\$M)	303.6	139.4	388.6	335.0	307.0	232.0	375.0
Percent of Homeowner Applications Processed Through emili (%)	n/a	98.0	n/a	96.6	87.5	55.4	32.2
SECURITIZATION							
Annual Securities Guaranteed (Market MBS/CMB) (\$M)	15,000	20,642	14,218	8,489	11,014	12,854	9,076
Operating Expense Ratio** (%)	19.0	20.0	20.7	32.9	31.3	12.0	20.3
CMHC INTERNATIONAL							
Fees Earned (\$M)	2.00	1.25	1.50	1.10	1.10	1.40	0.64
Sales Impact/Value of Key Contracts Signed in Priority Countries (\$M)	40.0	55.0	38.0	38.0	n/a	27.4	9.1
Rate of Client Satisfaction After International Activities (%)	80	89	80	86	85	80	65
Number of Key Clients Supported by CMHC	200	185	200	379	375	300	n/a
RESEARCH AND INFORMATION TRANSFER							
Total Number of MAC Products Distributed	39,708	39,708	39,938	44,569	21,190	10,216	n/a
Percentage of MAC Products Distributed Electronically	83	83	83	80	42	1	n/a
Housing Outlook: Number of Conferences / Attendance	15 / 2,945	16 / 3,395	16 / 3,055	17 / 2,900	18 / 2,700	12 / 1,700	13 / 1,750
Housing Outlook: Number of Seminars / Attendance	31 / 2,825	29 / 2,738	9 / 711	7 / 511	11 / 669	n/a	n/a
Research Expenditures (\$)	1,456,000	1,272,000	1,470,000	1,320,000	1,894,000	2,164,000	1,071,000

 $^{{}^*\}mathrm{Operating}$ expenses divided by revenue from earned premiums and fees

^{**}Operating expenses divided by revenue from earned fees

Analysis of Results

Insurance

In 2002, CMHC continued to improve the speed, efficiency and costeffectiveness of its mortgage insurance business, while maintaining high standards of risk management and quality control. CMHC's automated mortgage approval system, emili, is now processing virtually all homeowner mortgage loan insurance applications. The roll-out of emili Low Ratio, an automated risk assessment tool for loans where the loanto-value ratio is less than 75%, also continued in 2002. In addition, emiliCLAIMS was introduced, an electronic platform for the transmittal of homeowner claims to CMHC. Use of emili Low Ratio quadrupled in 2002, and while emiliCLAIMS was introduced late in the year, it is being adopted quickly by CMHC's Approved Lenders. CMHC's technological and product innovations continue to

provide fast, efficient solutions for lenders in meeting the housing needs of Canadians.

Automation also allows CMHC to deliver its products and services more efficiently. This year, CMHC responded to large increases in demand without adversely affecting cost-effectiveness or turnaround time on application decisioning. Despite record levels of insurance initiations, the operating expense ratio remained relatively stable and was well below plan in 2002, a direct result of CMHC's focus on operational efficiency and technological innovation.

CMHC's Lender Quality Assurance Framework, implemented in 2001, continues to help the Corporation identify, attribute and manage variations in business quality. The quality of insured loans and related administration is verified against lender-specific quality targets. These Key Quality Measures enable joint management of business quality

with CMHC's Approved Lenders and help identify trends and operational issues.

CMHC's quality control processes, along with prevailing economic conditions, have resulted in fewer claims paid out in 2002 than in 2001, continuing a downward trend since 1997. Net claims expense fell to \$139.4 million in 2002.

In 2002, CMHC continued to support the mortgage industry in the management of mortgage fraud. Best practices for the management of mortgage fraud initiators, developed under the auspices of the Industry Fraud Committee of the Canadian Institute of Mortgage Brokers and Lenders (CIMBL), were adopted by the CIMBL membership. CMHC's leadership role in mortgage fraud management and contributions of individual staff members to the wellbeing of the industry were recognized at the 2002 CIMBL annual conference.



Securitization

On behalf of the Government of Canada, CMHC ensures that there is a steady source of readily available funds for Canadian homebuyers by providing a timely payment guarantee on Canada Mortgage Bonds (CMBs) and NHA Mortgage-Backed Securities (MBSs). In 2002, total securities guaranteed reached \$20.6 billion and exceeded the total planned volumes by 45% and the previous best year by more than 60%. This difference was due to the growing interest in the CMB program within the mortgage and investment industries, as well as favourable market conditions throughout 2002. The June 2002 CMB issue of \$3.8 billion won the "Best Canadian Dollar Issue" for 2002 from EuroWeek, the second award for CMB issuances in as many years. These awards are independent and represent the results of comprehensive polls

conducted by EuroWeek, an international publication dedicated to capital market issues and a division of Euromoney, a leading provider of financial publications, seminars and conferences.

Since its inception in June 2001, the CMB program has guaranteed \$17.9 billion in bonds. These bonds provide investors with another vehicle to make secure investments in Canadian residential mortgages and provide the mortgage market with a competitive source of funds, helping to lower mortgage interest rates for Canadian homebuyers.

The operating expense ratio for Securitization increased in 2000 and 2001 due to the program development costs and the subsequent implementation of the CMB program in 2001. The expense ratio has returned to long-term levels in 2002 and is expected to remain so going forward.

International Activities

CMHC actively supports Canadian businesses in their search for new housing export opportunities in selected high-potential markets such as the United States, the United Kingdom, China, Japan and Chile. The Corporation provides promotional support and training, helps secure approvals from warranty and regulatory agencies, and provides technical assistance. The client satisfaction rate after international activities related to the assistance and support of CMHC reached 89% in 2002, an increase of three percentage points over the 2001 rating.

To have a stronger impact on Canada's export activity, CMHC International refocused in 2002, moving towards supporting a more limited number of high-potential key clients. The Corporation anticipates that when its "key client" approach is



fully implemented, the number of clients served will stabilize at approximately 200 annually. In 2002, CMHC helped key clients secure international contracts worth \$55 million, up approximately 45% over the Corporation's impact on sales in 2001. One of the contracts CMHC facilitated was a \$15-million joint venture involving a Canadian company investing in a factory in China related to steel-frame housing construction.

In partnership with Natural Resources Canada and the Canadian High Commission, CMHC is also helping deliver high-quality, energy-efficient homes in the United Kingdom as part of the federal government's Super E Program. In 2002, the Corporation worked closely with MIC-Alouette, one of four companies selected in 2001 to build Super E demonstration houses, to provide 274 constructed units at two locations in the United Kingdom.

CMHC also acts in a consulting capacity, providing advice and expertise, particularly in relation to housing finance, to countries around the world. In 2002, the Corporation was shortlisted in eight international contract offerings and was successful in four of these to do work in Lithuania, Serbia, Latvia and Finland. In Finland, CMHC was selected to join an expert committee - including the London School of Economics, the University of Glasgow and the Delft Technical Institute - to evaluate Finland's housing strategy and examine how present housing finance systems contribute to meeting national housing objectives. CMHC also continued to work



CMHC Helps Quebec Company Secure Foothold in U.K.

To date, the value of the Canadian package being supplied by MIC-Alouette in the United Kingdom is approximately \$7.5 million. So far, the project has allowed the company to create 12 new positions and expand its plant capacity. This success "would never have been possible without the support of CMHC," according to Christian Samman of MIC-Alouette.

From left to right: Peter Gossington, Development Manager, Sunley Capital, London; Andy D'Anna-Burgis, Director, BSF Timber Engineering, Canterbury; Bradley Berneche, President, Alouette Homes, Saint-Alphonse-de-Granby, Quebec; Martin Stebenne, Project Manager, Alouette Homes; Terry Robinson, Senior Consultant, Research and Market Access, CMHC National Office; Chantal Giard, Vice-President, MIC, Longueuil, Quebec; Oliver Drerup, Senior Consultant, Housing Systems, CMHC National Office.

Online Improvements to CMHC's Market Analysis Information Available in Depository Libraries Across Canada

Ensuring improved and more timely access to housing market information and analysis, in 2002, CMHC reached an agreement with Canada's Depository Service Program to offer the Corporation's Market Analysis products in all depository libraries across Canada in an electronic format. There are approximately 850 depository libraries in Canada that now have instant access to almost 700 Market Analysis products that are issued annually.

extensively with the National Housing Bank of India to create a new mortgage insurance company in India. With CIDA's support, the Corporation analysed the feasibility of creating the Indian Mortgage Guarantee Company.

Revenues from CMHC International's consulting activities reached \$1.25 million in 2002, slightly less than planned but \$150,000 more than in 2001. The trend since 1998 has been an increase in revenues related to international activities, and CMHC anticipates that this trend will continue as the Corporation continues to enhance its international presence.

Market Analysis

In 2002, almost 40,000 CMHC Market Analysis products were distributed. A recent client survey clearly demonstrated an overall preference for faster and more timely access to housing market information through electronic distribution of products accessible directly from users' desktops. Since 1999, when CMHC first began offering its market analysis products electronically, the percentage of products delivered in electronic format has more than quadrupled from 18% to 83% in 2002.

Providing both regional and national housing market information, CMHC's Housing Outlook Conferences (HOCs) are another key means of information dissemination

targeted to both industry and consumers. There were 16 HOCs throughout Canada in 2002 with overall attendance of 3,395, slightly ahead of attendance in 2001. Seminars are increasingly supplementing conferences for a growing number of clients. Attendance at these seminars exceeded 2,700 in 2002, far more than planned. The increased seminar attendance is due to the popularity of the local market information provided and the frequency of seminars offered throughout the year in a greater number of locations.

Research

Under this corporate objective related to competitiveness and housing sector well-being, over \$1.2 million was expended on the following priority research areas: Promoting Housing Exports, Exploring Housing Trends, and Improving Housing Finance and Market Effectiveness. Approximately 59 research projects were completed in 2002, including an examination of equity investment in lower-to-moderate-income affordable rental housing in Canada, within the framework of a public-private partnership model using ethical or socially responsible investment and pension funds. An examination was also conducted on the effects of levies. fees and taxes on the cost of new housing.

OBJECTIVE FOUR -Be a Progressive and **Responsive Organization**

CMHC actively encourages a corporate culture of innovation and 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.

2002 Corporate Performance Measures	2003 Planned	2002 Actual	2002 Planned	2001	2000	1999	1998
TECHNOLOGY							
Operational Budget Spent on Information Technology (%)	15	19	16	18	18	21	21
MARKETING CMHC							
Average Web Site Visits per Month	120,000	117,000	100,000	50,000	n/a	n/a	n/a
Telephone Calls to CMHC for Information or Products*	12,000	11,500	10,000	8,700	n/a	n/a	n/a
Telephone Orders for Information Products*	6,000	5,500	6,000	6,900	n/a	n/a	n/a
Revenues Generated Through Information Products (\$M)	2.00	2.00	2.00	2.20	1.54	1.86	1.56
HUMAN RESOURCES							
Staff-Years	1,850	1,772	1,850	1,736	1,815	1,943	2,046
Learning Investment per Employee (excluding official languages) (\$)	2,028	2,120	2,266	2,032	1,796	1,472	1,353
Percentage of Staff Fulfilling Language Requirements**	100	93	n/a	71	n/a	n/a	n/a
RESEARCH AND INFORMATION TRANSFER							
Responsive Programs and Other Activities (\$)	3,938,000	3,721,000	3,664,000	3,249,000	2,580,000	2,478,000	2,028,000

^{*}Numbers reported reflect the call and order volumes achieved as a result of the 2002 consumer marketing campaign.
**Based on the 720 employees who are required to met the official languages profile of their position by March 31, 2003.



David Collenette, Minister responsible for CMHC (first row, far right), and Jean-Claude Villiard, President of CMHC (first row, far left), with representatives of the six 2002 CMHC Housing Awards Forum winners.

Analysis of Results

Marketing CMHC

In 2002, CMHC implemented a targeted consumer campaign and promoted a stronger use of CMHC's Web site homebuying and renovation products and services. The marketing campaign focused on six major metropolitan centres and targeted consumers aged 30 to 54 who had either bought or renovated a home in the previous 12 months, or planned to do so in the next 12 months. With the campaign and a series of Web site innovations, the monthly average number of visitors to CMHC's Web

site soared, surpassing average monthly visitors in 2001 by 134%. The increased online traffic produced a corresponding decrease in the number of information products ordered by phone.

CMHC typically generates between \$1.5 million and \$2 million annually from its information products, depending on a combination of marketing campaigns and information transfer activities. Marketing revenue generation is in line with planned amounts for 2002, demonstrating CMHC's ongoing visibility in the market as a key source of objective and reliable housing information.

Partnerships and Research

As part of the \$2.7 million expended in 2002 under this corporate objective, CMHC's Housing Awards Forum serves as a national forum to share innovations and best practices dedicated to improving housing quality, affordability and choice in Canada. The awards recognize individuals, companies and organizations that have made significant contributions to the advancement of Canadian housing. Architects, designers, builders, planners, financial and educational institutions, and charitable organizations, as well as public and non-profit housing providers, were encouraged

to apply. The theme for the seventh Forum, attracting over 200 participants, was "Affordable Housing Innovations."

CMHC's External Research Program published 13 reports in 2002 and received 157 applications for the 2002 competition, the highest number of applications received since 1983. The program offers funding assistance to help Canadian researchers carry out research investigations on housing-related topics to encourage the development of innovative solutions to housing issues. Funding assistance in 2002 totalled over \$460,000.

Acknowledging the ongoing working relationship between CMHC and the Canadian Housing Renewal Association (CHRA) with respect to the development and promotion of improved housing for Canadians, CMHC has entered into a three-year agreement with CHRA, contributing approximately \$1.3 million to fund activities that assist in the generation and dissemination of information on housing issues in Canada. The agreement will fund five types of activities over the next three years, including symposia and regional meetings, the CHRA Annual Congress, the Tri-Country Conference, information dissemination via the CHRA Web site, and capacity-building initiatives.

Human Resources

While staffing processes were made more flexible and responsive to employees' and managers' needs with the introduction of a more streamlined staffing regime in 2002, staff-year

Innovation at CMHC

In 2002, CMHC launched the Innovation Secretariat to promote a culture of innovation at CMHC. The Secretariat works with the Corporation's business lines to identify, develop and implement ideas, and is a source of tools and techniques on innovation and creative thinking.

consumption for the year is slightly under plan due to deferrals in staffing for special projects, and to delays in hiring new personnel in response to growing business volumes in key areas.

The Corporation's per-employee investment in formal training has been benchmarked against industry averages and compares well with Canadian norms. In 2002, the Corporation invested heavily in official languages training and made solid progress towards achieving a bilingual workforce as a result of this concentrated effort; 93% of employees required to meet the official languages profiles of their positions by March 31, 2003, were successful by the end of 2002. Official languages training was a significant proportion of CMHC's overall learning investment, comprising 34% of the total budget for 2002. In addition, CMHC has continued to invest in other learning priorities, placing increased focus on leadership development, and introducing a corporate succession management framework in 2002, resulting in the implementation of succession planning initiatives across the Corporation.

CMHC also conducted a 360-degree feedback process for some 350 employees with supervisory or managerial responsibilities in 2002. This process included professional coaching for all participants to help in the identification of strengths and areas for development. The goals of this initiative are to assist the Corporation in identifying learning priorities, help employees develop leadership competencies, and improve the overall practice of CMHC's core values.

Federal Priorities

CMHC supports the federal government in its priorities of promoting a strong Canadian economy, competitive and innovative industries, healthy and safe communities supportive of children and families, environmental protection and improved quality of life. As illustrated on the next page and described throughout this Annual Report, the Corporation is directly linked to the government's agenda, with its activities closely aligned with the priorities outlined in the February 2003 federal budget.

Key Federal Priorities Outlined in Budget 2003

Investing in Families and Their Communities

CMHC's mortgage loan insurance and securitization activities benefit all Canadians by improving housing access and affordability. Canadian communities are strengthened socially and economically through the many direct and indirect benefits of homeownership. Loan insurance products and housing assistance programs targeted to those most in need improve the overall health and safety of our communities, while the Corporation's capacity building for First Nations is helping to provide the tools and information necessary for Aboriginal peoples to develop and manage their own housing.

Investing in a More Productive, Sustainable Economy

The residential sector is a key component of the Canadian economy, and housing is the single largest investment of most Canadians. CMHC helps ensure the well-being of the housing sector through its securitization activities, which increase the supply of low-cost mortgage funds through secondary mortgage markets; through research on new systems and technologies; and through analysis of housing market trends at home and abroad. The Corporation's renovation and repair programs help preserve the existing housing stock, and its Aboriginal youth employment initiatives support the development of skilled labour in the housing industry.

Canada in the World

CMHC works to enhance Canada's presence in the global marketplace by supporting Canadian housing exports, transferring its housing expertise to countries around the world, and representing Canada internationally on housing-related issues.

Improving Expenditure Management and Accountability

CMHC is committed to ensuring that its assets and resources are managed prudently and efficiently. The Board of Directors and senior management focus on financial risk management to protect the Corporation's financial integrity, and risk management policies and practices are in place to incorporate non-financial risks into its business planning.

The year 2002 was notable in terms of CMHC's financial performance. **Net income after income taxes** reached \$544 million, surpassing expectations by 56%. This result was mainly due to the favourable housing market enjoyed by the Insurance activity. This allowed the Corporation to set aside reserves that reinforce its long-term solvency.

The Corporation has achieved steady progression in all aspects of its financial performance over the past five years. As the table below demonstrates, while staff-years and total expenses have decreased significantly from 1998 levels, the Corporation's financial position and results of operations have continuously improved.



Highlights of Corporate Financial Results

Overall, **assets** and **liabilities** exceeded 2002 planned amounts, with several factors at play. In part, this was due to repurchase and reverse repurchase activity, which is a component of the Corporation's investment

strategy. Repurchase and reverse repurchase transactions are excluded from annually planned assets and liabilities due to the uncertainty surrounding their timing. Conversely, overall assets and liabilities were lowered by the greater-than-anticipated decline in the Corporation's loan portfolio and related borrowings.

Corporate Financial Results							
	2003	2002	2002	2001	2000	1999	1998
(in millions of dollars, except staff-years)	Planned	Actual	Planned	Actual	Actual	Actual	Actual
Financial Position							
Total Assets	23,906	23,502	23,002	23,822	23,244	21,976	22,020
Total Liabilities	21,545	21,693	21,380	22,557	22,324	21,432	21,792
Total Equity	2,361	1,809	1,622	1,265	920	544	228
Results of Operations							
Revenues	4,446	4,124	4,301	4,064	4,192	4,009	3,862
Expenses	3,587	3,270	3,741	3,500	3,680	3,491	3,599
Income Before Income Taxes	859	854	560	564	512	518	263
Net Income After Income Taxes	557	544	349	345	376	316	160
Operating Expenses	286	224	269	201	208	175	198
Staff-Years	1,850	1,772	1,850	1,736	1,815	1,943	2,046

Equity reached \$1,809 million, 76% of which has been set aside by the Board of Directors to support the capital adequacy of the Insurance activity, consistent with the standards set out by the Office of the Superintendent of Financial Institutions (OSFI). This ensures that the Corporation will remain viable in the long term. Equity is also used by the Corporation to finance federal public policy initiatives related to housing and approved by the Government of Canada.

Revenues were marginally below the 2002 target due to the downturn in the investment markets, which reduced the current year's planned investment income. Revenues surpassed the 2001 level due to increased insurance premium earnings resulting from record initiation volumes in recent years.

Expenses were 13% below the 2002 planned amount and hit their

lowest level in the last five years, due to cost savings in several areas. In particular, net claims on mortgage insurance were 64% below plan and 59% below the 2001 figure. The reduced cost of claims can be attributed largely to the continued strength of the Canadian housing market.

Operating expenses \$224 million were \$45 million, or 17%, below plan. Savings in salary and employee benefit costs - partly due to lower-than-planned staff-years, combined with operational efficiencies and cost savings in other areas - contributed to the majority of this result. Over the last five years, operating expenses have fluctuated from a low in 1999 of \$175 million to the current level of \$224 million. Variances have been largely attributable to adjustments for pension and other postemployment benefits, some of which originated from the implementation of recently adopted accounting standards for employee future benefit costs. Operating costs are expected to rise in 2003 due to higher staff levels and general cost increases.

Segmented Financial Results

Lending Activity

Under the Lending activity, the Corporation provides loans and investments in housing programs. These assets have been financed by borrowings from the capital markets and from the Government of Canada. The majority of the loans pertain to the Direct Lending initiative, which is funded on a break-even basis. Accordingly, the Lending activity's financial success is largely measured by its ability to earn an interest margin sufficient to cover operating and other expenses.

Financial Results – Lending Act	ivity						
(in millions of dollars)	2003 Planned	2002 Actual	2002 Planned	200 I Actual	2000 Actual	1999 Actual	1998 Actual
Financial Position							
Direct Lending Loans	9,204	8,938	9,779	9,303	9,679	9,698	9,376
Other Loans and Investments in Housing Programs	5,560	5,663	5,802	5,936	6,162	6,386	6,603
Borrowings from the Capital Markets	11,185	10,242	10,970	11,081	11,054	10,856	10,540
Borrowings from the Government of Canada	5,230	5,474	5,477	5,692	5,924	6,141	6,354
Reserve Fund	58	56	50	42	20	11	16
Results of Operations							
Net Interest Income	22	52	25	58	42	17	24
Income (Loss) Before Income Taxes	3	30	14	38	20	(3)	4
Net Income (Loss) After Income Taxes	2	14	10	22	9	(5)	1

Discussion of Financial Results

Loans and investments in housing programs decreased by almost \$600 million, or 4%, from 2001 levels. The decrease is due to lower-than-planned advances/renewals on Direct Lending loans, combined with higher-than-expected repayments of other loans.

Borrowings from the capital markets declined by over \$800 million during the year due to reduced funding requirements for loans and investments in housing programs. Borrowings from the Government of Canada also declined due to repayments of \$218 million. The Corporation has not borrowed from the Government of Canada since 1993.

The excess of the interest earned on loans and investments over the interest expense related to borrowings is the Lending activity's net interest income. This margin has fluctuated due to unplanned reimbursements. For instance, in 2002, the interest margin included the recovery from the Government of Canada of \$27 million towards losses incurred as a result of prepayment and repricing activity. In 2001, the Corporation recovered \$33 million for these purposes. In 2000, the margin included the recovery from the Government of Canada of \$28 million for prior-year interest

rate losses on the Rural and Native Housing Program. After the effect of these reimbursements is removed, net interest income is in line with the 2002 planned amount and has been relatively stable in recent years.

This result was slightly countered by a higher-than-planned loss on real estate. Overall, 2002 income before income taxes was \$30 million, \$16 million above the planned amount. Net income after income taxes of \$14 million exceeded the target by only \$4 million due to a higher-than-planned effective tax rate.

The Reserve Fund, which comprises the retained earnings of the Lending activity, reached \$56 million. This fund is retained to guard against future risks, including losses that may be incurred as a result of the Corporation's exposure to prepayment/repricing risk on some programs within the loan portfolio.

Outlook

In the coming years, new loans will primarily be advanced under the Direct Lending initiative. These new loans are expected to be outweighed by the repayments of other loans, causing an overall decrease in total loans and investments in housing programs.

Despite the decline in the overall loan portfolio, net interest income is predicted to remain at levels

sufficient to provide a minimal net return after covering operating and other expenses.

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

Discussion of Financial Results

Revenues from premiums and fees increased by \$71 million in 2002, reaching their highest level in the last five years. As premiums are recognized over the life of the related insurance policies, much of the current year's revenue is attributable to strong insurance volumes in prior years. The current year's volumes were the highest ever recorded, resulting in an increase in both unearned premiums and the investment portfolio.

Net expenses resulting from claims during 2002 were 64% below plan. This was due in part to Approved Lenders making greater use of deficiency claims settlements, a claims

Financial Results - Insurance							
(in millions of dollars)	2003 Planned	2002 Actual	2002 Planned	2001 Actual	2000 Actual	1999 Actual	1998 Actual
Financial Position							
Cash, Cash Equivalents and Investments in Securities	6,650	5,853	5,235	4,797	4,024	3,722	3,150
Unearned Premiums	4,123	3,575	3,323	3,087	2,782	2,637	2,386
Unappropriated Retained Earnings	312	255	241	184	132	85	133
Appropriated Retained Earnings	1,856	1,380	1,210	938	676	368	10
Results of Operations							
Revenues from Premiums and Fees	936	797	794	726	681	618	541
Income from Investments	386	292	305	276	253	235	202
Expenses	495	293	579	495	461	350	496
Income Before Income Taxes	827	796	520	507	473	503	247
Net Income After Income Taxes	536	513	323	314	355	310	152

process that allows Approved Lenders to sell foreclosed properties without the time and cost of transferring the property to CMHC. Net claims expenses also benefited from the continued strength of the Canadian housing market - in particular, housing starts, housing sales and housing prices. These factors reduced the 2002 net claims expense in two ways. First, the cost of total claims paid during the year was lower than planned. Second, the Corporation's forecast of defaults that have occurred but for which the claim has not yet been submitted by the Approved Lender was reduced.

The operating results were marginally offset by the income from investments earned during 2002.

While overall investment portfolio returns exceeded the benchmark index and investment portfolio levels exceeded planned amounts, investment income was below expectations due to the performance of investment markets.

These factors combined to result in 2002 income before income taxes of \$796 million and net income after income taxes of \$513 million. The latter is 59% above the planned amount and 63% above the 2001 net income figure.

The Insurance activity's equity comprises both appropriated and unappropriated retained earnings. During 2002, appropriated retained earnings grew by \$442 million as the

Corporation continued to set aside funds consistent with the capital adequacy standards set by OSFI. CMHC's capital adequacy for commercial business initiated since 1996 has now exceeded 50% of the OSFI standard. Unappropriated retained earnings are available to support federal public policy initiatives approved by the government. Over the last few years, such policy initiatives have included contributions 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.

Financial Results – Securitiza	tion						
(in millions of dollars)	2003 Planned	2002 Actual	2002 Planned	2001 Actual	2000 Actual	1999 Actual	1998 Actual
Financial Position							
Cash, Cash Equivalents and Investments in Securities	161	152	154	119	119	97	72
Unearned Fees	74	74	60	54	54	47	31
Retained Earnings	110	93	96	76	67	55	44
Results of Operations							
Revenue from Fees	26	25	22	19	16	13	10
Income from Investments	8	7	9	8	7	6	5
Expenses	6	4	4	8	4	I	2
Income Before Income Taxes	28	28	27	19	19	18	13
Net Income After Income Taxes	18	17	16	9	12	11	8

Outlook

Insurance initiation volumes are expected to decrease slightly in 2003 and remain relatively stable in the following years. Together with a continued beneficial housing and economic environment, this is expected to result in favourable financial results. The Corporation will use future net income to continue to support capital adequacy requirements, and to fund further public policy programs as approved by the government.

Securitization

Discussion of Financial Results

The introduction of the Canada Mortgage Bonds (CMB) program in

2001 has buoyed the financial results of the Securitization activity. A total of \$20.6 billion of securities were guaranteed in 2002, 45% above expectations. This led to higher-than-planned guarantee fees, most of which are recorded as unearned fees and recognized as income over the term of the related securities guaranteed.

This was marginally offset by the income from investments earned during 2002. While overall investment portfolio returns exceeded the benchmark index, investment income was below expectations due to the performance of investment markets.

Expenses were consistent with plans, decreasing from the 2001 level, which was elevated by CMB program

development and implementation costs.

During 2002, the Corporation concluded an annual payment arrangement with the Government of Canada for its financial backing of the Securitization activity. A fee of \$0.6 million is included in the current year's expenses.

Overall, these factors resulted in net income after income taxes of \$17 million, an all-time record for the Securitization activity.

Outlook

Strong growth in issuance volumes and financial performance is expected over the planning horizon. While the popularity of the CMB program has surpassed expectations to date, future results will depend on conditions in the mortgage and bond markets.

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.

Discussion of Financial Results

Of the \$1,828 million incurred in 2002, \$964 million comprised payments to the provinces and territories that have assumed responsibility for housing programs under the Social Housing Agreements. A further \$105 million was expended on renovation and repair programs such

as RRAP, ERP, HASI and SEP, and \$19 million was directed to affordable housing initiatives.

Outlook

The Corporation anticipates progress on the Government of Canada's offer to transfer social housing administration to the provinces and territories. Further, the Corporation expects to announce the completion of the remaining bilateral agreements that pave the way for federal, provincial and territorial cooperation in support of affordable housing programs.

Impact of Future Accounting Changes

During 2002, the Canadian Institute of Chartered Accountants (CICA) issued several accounting standards, many of which are specifically

designed to improve the transparency of financial statements and enhance the disclosure of associated risks. CMHC embraces the evolution of financial reporting practices and strives to better its own performance in this area.

The Corporation uses cross-functional teams to review emerging accounting standards. During 2002, these groups focused predominantly on CICA guidance related to hedging strategies. The Corporation continues to examine its hedging practices with a view to applying the CICA's Accounting Guideline 13: Hedging Relationships for its fiscal year beginning January 2004. Several other developing accounting standards are under continuous evaluation and will be implemented upon the final approval of the CICA.

Financial Results – Housi	ng Programs						
(in millions of dollars)	2003 Planned	2002 Actual	2002 Planned	200 I Actual	2000 Actual	1999 Actual	1998 Actual
Expenses*	1,946	1,828	1,964	1,789	1,913	1,828	1,772

^{*}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.



In 2002, CMHC focused on integrating risk assessment and performance measurement into a comprehensive Enterprise Risk Management (ERM) process, key to the Corporation's governance practices. The innovation has enabled CMHC to holistically examine its mandate, relational, organizational and business environment risks, as well as more traditional operational and financial risks. Under the Board of Directors' oversight, senior management develops and executes risk management strategies and policies that help identify opportunities and limit the Corporation's exposure to adverse events.

Three major ERM projects completed in 2002 have helped integrate risk assessment and performance measurement into CMHC's strategic planning and reporting processes. The Corporation also created a new sector dedicated to risk management, strategic planning and performance measurement that exploits the natural synergies between these functions. Analysis and reporting to senior management and the Board of Directors has been improved as a

result, as has the quality of overall decision-making and the organization's capacity to achieve its strategic goals.

CMHC has categorized its principal risks into three major themes: Strategic Risks, Infrastructure Risks and Specific Risks.

Strategic Risks

The Board of Directors and CMHC's senior management have focused a significant amount of time and attention on four strategic risks identified for the Corporation: Mandate Risk, Business Environment Risk, Relational Risk and Organizational Risk.

Mandate Risk

Mandate risk refers to the ability of the Corporation to deliver and to influence changes to its mandate in a timely manner. This requires CMHC to capitalize on its achievements, opportunities and relationships and evolve its mandate to ensure ongoing relevance to Canadians. An examination of this risk has contributed to enhancements to CMHC's strategic planning and to the creation of

Corporate Performance Measures to account for CMHC's achievements. In addition, CMHC is continuing to proactively examine policy opportunities and program innovations within existing resources.

Business Environment Risk

Meeting the changing needs of the marketplace or stakeholders is fundamental to the survival of any organization. Business environment risk means that the Corporation must be able to understand and manage the impact of the business environment. The development of knowledge management is an example of how CMHC is looking to improve intelligence gathering and promote information-sharing among business areas and employees.

Relational Risk

Relational risk refers to the ability to manage key relationships necessary to the achievement of corporate objectives. CMHC maintains a complex set of relationships with a variety of private, non-profit and governmental organizations, as well as with

individuals who have a stake in CMHC's performance and directions. CMHC must continuously nurture and manage its relationships with key stakeholders to understand and capitalize on opportunities, enhance business performance and meet corporate objectives. Ensuring continued improvements in client service is an integral part of building and sustaining relationships with clients.

Organizational Risk

Organizational risk refers to the ability to align corporate efforts to achieve the mandate and corporate objectives in a responsible manner. Revisions to the corporate planning process and associated changes to CMHC's resource allocation will enable better alignment between corporate priorities and resources. Initiatives in support of innovation and knowledge management will also promote alignment between the culture of the Corporation, the behaviour of employees, and Corporate objectives.

Infrastructure Risks

Infrastructure risk refers to the risk of loss resulting from deficiencies in information systems or internal business processes and controls. The Corporation protects its financial viability against infrastructure risk by establishing and adhering to policies and procedures that ensure that appropriate personnel, systems and controls are in place. Management regularly adjusts 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.

People Risk

People risk refers to the ability to have the right people in the right place at the right time – or, in other words, effective management of human capital. People risk is managed through CMHC initiatives such as employee succession management, learning and development, staffing and compensation, and also by fostering ethical behaviours in a healthy organizational culture and improving internal communications.

In 2002, a corporate learning and development framework, with supporting budgets and programs, was developed to foster the development of employee competencies for current functions, knowledge transfer and future job requirements. For years, CMHC has maintained a structured approach to developing its senior managers, and it has now started the cascading-down of its succession management initiatives to ensure that in all business lines, the Corporation identifies critical functions and develops employees accordingly.

At the direction of the Board of Directors' Corporate Governance Committee, CMHC also initiated the development of internal guidelines



for disclosure on workplace wrongdoing in 2002 to support the management of risks related to ethics in the workplace.

In 2002, CMHC completed a comparative assessment of its total compensation program against programs of external employers. This resulted in the approval of changes by the Board of Directors and updates to the total compensation program to ensure that it continues to support the recruitment, retention and motivation of staff.

Technology Risk

CMHC continues to evolve its technology to support key business processes, including those related to risk management, treasury, lending, and insurance and securitization activities. During 2002, this included the implementation of significant new treasury/risk management systems technology, as well as enhancements to existing business systems.

Systems operations risk relates to the loss or disruption of business information systems and is addressed through the implementation of processes and procedures. This includes the contracting of an alternative processing site for critical applications, including CMHC's automated underwriting system, emili. Data for these applications are duplicated in real time, which allows CMHC to switch to the alternative site within 30 minutes of a major system failure. In addition, CMHC contracts specific services for daily backup of key information to an offsite 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 simulated disaster situation at the facility to ensure that recoverability is maintained.

Process Risk

Process risk refers to the need to have effective internal processes that support sound and timely decision-making while balancing control and flexibility. CMHC has an ongoing commitment to constantly review and improve internal processes. Business Process Efficiency Reviews and Best Practice Reviews conducted by the Audit and Evaluation Services Division, and a Knowledge Management initiative established in 2002, are examples of continuous efforts to manage this risk. The Corporation is subject to a Special Examination at least once every five years, as required by the Financial Administration Act.

Specific Risks

Credit, Market and Financial Risk

Risk management policies provide a framework for CMHC's financial transacting, including measures for managing and limiting associated credit and market risks. Financial reporting, including positions, exposures and risk management strategies, is 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 of Directors, ALCO is a decision-making body responsible for evaluating and overseeing asset/liability management, as well as reviewing and approving policy, CMHC's financial positions, risk exposures, performance and the financial strategies of the Corporation. Acting as an advisory body to ALCO, the Investment Committee provides technical and external expertise supporting CMHC's investment strategies and activities related to the management of the Insurance and Securitization investment funds.

Credit Risk

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes default risk, settlement risk and downgrade risk, and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral appropriate time horizons. CMHC is exposed to credit risk from various sources directly and indirectly, including directly from its investment, lending and hedging activities, and indirectly from potential claims arising from the Corporation's insurance and securitization activities. Credit risk is identified, evaluated and managed to minimize expected losses and optimize

returns, subject to appropriate levels of risk.

In conjunction with CMHC's ERM effort, in 2002 the Corporation initiated a project to more comprehensively understand and report counterparty credit exposures on a consolidated Corporation-wide basis. The following is a more detailed breakdown of the Corporation's credit exposures and related risk mitigation.

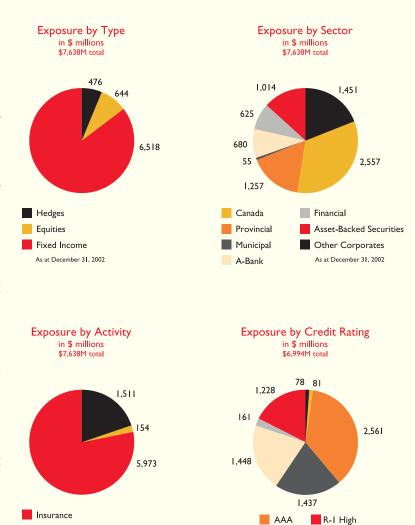
Investment and Hedging Transactions

Credit exposure associated with the Corporation's financial transacting and financial instruments are consolidated, measured and controlled on an aggregate basis by counterparty for all investing and hedging activities relating to both its Lending Activity programs and the investment funds generated from its Insurance and Securitization activities. Credit limits and term restrictions for fixed income securities and derivative transacting are established by counterparty based on an internal evaluation, subject to a number of creditworthiness criteria, including credit ratings and financial strength. Exposures and limits are regularly reviewed. In addition to counterparty limits, CMHC has a set of policy requirements in place to ensure appropriate credit risk diversification. As at December 31, 2002, the estimated market value of investment and hedging positions totalled \$7,638 million. The charts at the right describe the distribution of these exposures.

Securitization

As at December 31, 2002

Lending (hedges and related investments)



■ AA

Α

BBB

R-I Mid

R-I Low

(excludes equity)
As at December 31, 2002

Lending Activity

Credit exposure as reflected by the estimated fair value of loans arising from CMHC's lending activities totals \$16.6 billion on an outstanding book value of \$14.6 billion. Losses relating to defaults on these loans are recoverable from third parties as outlined below.

Approximately 26% of CMHC's exposure is mitigated through the recovery of losses (current and prior years) from the Minister to the limitation that such recoveries can be made within CMHC's Parliamentary appropriations.

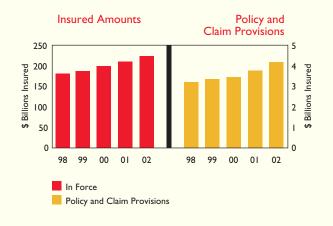
Approximately 37% of exposure relates to loans covered under various Social Housing Agreements negotiated with the provinces and territories. Under these agreements, the provinces and territories have assumed the risk associated with all loans with respect to property or programs covered in the agreements.

Approximately 3% of exposure relates to loans covered by Indian and Northern Affairs Canada through Ministerial loan guarantees.

The remaining 34% of exposure is covered by CMHC's Mortgage Insurance Program. Reserves have been provided for claims that may result from this exposure.

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 *National Housing Act* (NHA) mortgage insurance. CMHC's portfolio of mortgage insurance has grown steadily over time and now amounts to \$224.3 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. The chart above 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. Premiums are deferred and taken into income over the period covered by insurance contracts based on historical factors that reflect the long-term pattern for default risk by age of a mortgage insurance policy.

CMHC actively manages 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 loan quality, market risk and property risk assessment models. Together, these automated models give CMHC's underwriters the tools with which to effectively identify higher-risk mortgage loan applications. The underwriters can then take further steps to determine if riskmitigating actions would effectively reduce the overall risk to a level that 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 updates 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 in higher credit losses, have historically demonstrated that they are also geographically distributed and change 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 (MBSs) and Canada Mortgage Bonds (CMBs). Total principal obligations to investors guaranteed at December 31, 2002, were \$45.5 billion, which includes \$17.9 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 that 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. The risk associated with CMB Issuer default is mitigated by having the Issuer being limited to transacting with swap counterparties rated A and above and holding investment instruments rated R-I (high) or AAA. There is also risk mitigation through collateralization in the event of counterparty credit



2002 Investment Portfolio Returns and Volatilities (%)							
	Insurance	Securitization	Index				
Returns	6.50	6.23	5.95				
Volatilities	2.90	2.91	2.91				

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

rating downgrades for A+ or below, in addition to the MBS mitigations noted previously.

Market Risk

Market risk refers to the risk of incurring a financial or economic loss as a result of adverse movements in underlying market factors, including interest rates, foreign exchange rates and equity prices. The level of market risk that CMHC is exposed to fluctuates according to market dynamics, as well as changes to asset and liability mixes in CMHC's portfolios. The Corporation establishes policies and limits so it can monitor and limit exposure to market risks arising from its business transacting and 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 cur-

rency risk, hedging currency exposure to Canadian dollars through the use of cross-currency swaps.

Lending Activity

In relation to CMHC's financing of its lending activity, interest rate risk is mitigated through the matching of assets and liabilities. The Corporation's exposure to prepayment and repricing risk is managed using various funding and business strategies. The Corporation regularly evaluates possible impacts on value and interest margin of the lending portfolio due to interest rate changes. At December 31, 2002, the annual change in interest margin associated with a positive 2% parallel shock was \$8 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 2002, CMHC received Department of Finance approval to modify its asset allocation policies to include diversification into foreign equity instruments. It is expected that such diversification will take place by midyear 2003.

The Insurance and Securitization investment portfolios provided annual returns with associated risk levels as summarized above.

The majority of CMHC's Insurance and Securitization investment assets are held within the fixed income portfolios. The durations of the fixed income investment funds are managed within ranges relative to the duration of the Scotia Capital Universe Bond Index benchmark. At December 31, 2002, the Insurance and Securitization fixed income portfolios had durations that were similar to that of the benchmark.

Fixed Income Investment Portfolios	Duration (years)	Portfolio Duration Versus Index (years)
Benchmark Index (SCUBI)	5.89	-
Insurance	5.89	0.00
Securitization	5.90	0.01

Risks associated with the Insurance and Securitization liabilities are monitored and managed on an ongoing basis. CMHC uses dynamic financial analysis (DFA) techniques to measure the Insurance activities' ability to withstand more broad-based economic shocks, from severe economic scenarios to more normal adverse economic events such as a two-quarter recession. These techniques and ongoing performance and risk measurement, together with an annual actuarial valuation, provide management with necessary risk management information. Risk assessment deriving from DFA results indicate that the Corporation is well positioned to cover possible adverse economic events. CMHC also manages its risks through diversification as described under credit risk for insurance activities.

Financial Risk

The Corporation actively identifies and assesses other financial risks. In relation to financial regulation, the Corporation is conducting

efforts to assess and review tax and hedge accounting developments. In relation to liquidity, the Corporation has a liquidity risk policy that establishes appropriate limits and ensures that CMHC has sufficient 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. The Corporation also has overdraft facilities in place and lines of credit with several institutions; it also holds cash and investments in marketable securities, which provide further sources of liquidity.

CMHC is a Crown corporation, and as a result, 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's credit ratings are provided below.

Other Specific Risks

Legal and Regulatory Risk

The most important legal risks in Enterprise Risk Management are legal capacity or ultra vires risk (the risk that a counterparty is not legally capable of making a binding agreement) and regulatory risk (the risk that a statute or a policy of a regulatory body conflicts with intended activities and transactions). These are managed and mitigated through legal and legislative advice and services to the Corporation, provided by CMHC's Legal Division, to determine compliance with legislation and general laws, to determine the authority of counterparties to enter into transactions with the Corporation, to determine that the terms of associated agreements are legally sound, and to ensure that the Corporation's interests are protected.

Corporate Security Risk

CMHC maintains a comprehensive set of insurance policies that mitigate operational risks covering a number of

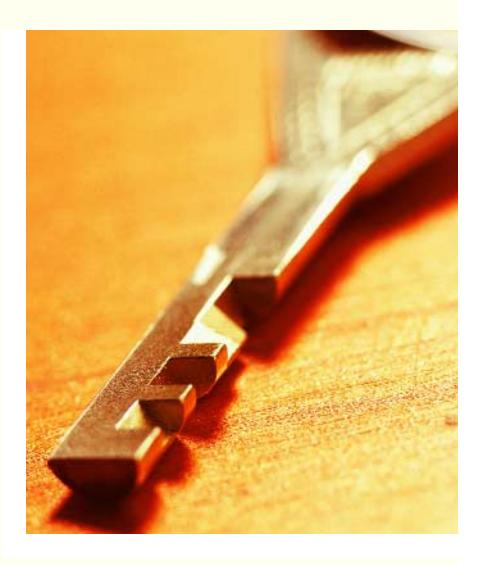
	Short-term	Domestic Long-term	Foreign Long-term
Standard and Poor's	A-I+	AAA	AAA
Moody's	P-I	Aaa	Aaa
DBRS	R-1 high	AAA	AAA

diverse sources, including property and casualty, fraud and certain other exposures. These are reviewed annually and revised to support CMHC's evolving risk requirements. Renewal of the insurance program in 2002 was extremely challenging as a result of the changes in the commercial insurance industry arising largely from the events of September 11, 2001. Considerable effort was required to ensure that insurers were familiar with risk management practices that CMHC has in place, including significant loss control measures, and with the risks that they were being asked to underwrite, all with the goal of maintaining a satisfactory level of coverage while keeping premium increases to a reasonable level. In most cases, the result was a premium increase that was significantly below observed industry trends.

Catastrophic Security Risk

This refers to the Corporation's ability to respond to external, man-made or natural events that would result in significant loss to CMHC or the broader community. Not only must the Corporation understand its exposure to such risks, but it also needs an effective emergency response framework that could be activated on an urgent basis as required.

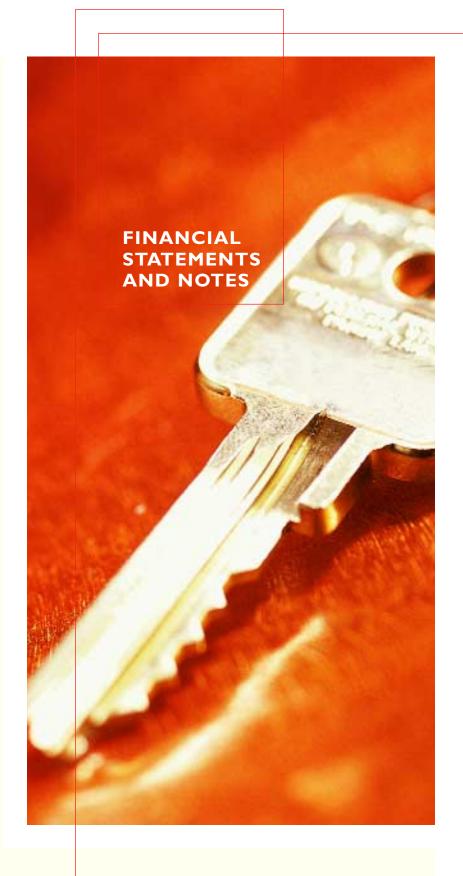
Business Resumption Plans are in place for all divisions at National Office



and all regions in the field; active testing of these plans began in 2002 and will be completed during 2003.

Planning is under way for a project in 2003 that will consider

CMHC's potential role with respect to providing support to those outside CMHC, including participation in Emergency Measures and Orders Regulations.





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 2002 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 Mallette, General Partnership and Sheila Fraser, FCA, Auditor General of Canada. Their report provides an independent opinion on the financial statements to the Minister of Transport.

Jean-Claude Villiard

President and Chief Executive Officer

Bill Mulvihill

Vice-President, Information Technology and Chief Financial Officer



To the Minister of Transport

We have audited the balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2002, 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 2002 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 Frasen

Sheila Fraser, FCA Auditor General of Canada

Ottawa, Canada 21 February 2003 Jean-Guy Poulin, CA Mallette General Partnership

Quebec City, Canada

Balance Sheet As at 31 December			
(in millions of dollars)	Notes	2002	2001
ASSETS			
Loans and Investments in Housing Programs	3	14,601	15,239
Investments in Securities	4	5,418	4,482
Cash and Cash Equivalents		1,439	1,660
Securities Purchased Under Resale Agreements		1,205	1,466
Accrued Interest Receivable		372	427
Accounts Receivable and Other Assets		178	287
Inventory of Real Estate		106	140
Due from the Government of Canada		106	18
Future Income Tax Assets	5	77	103
		23,502	23,822
LIABILITIES			
Borrowings from the Capital Markets	6	10,147	10,986
Borrowings from the Government of Canada	6	5,474	5,692
Unearned Premiums and Fees	14	3,649	3,141
Securities Sold Under Repurchase Agreements		1,116	1,240
Provision for Claims	14	620	695
Accounts Payable and Other Liabilities		442	342
Accrued Interest Payable		172	233
Securities Sold But Not Yet Purchased		73	228
		21,693	22,557
EQUITY OF CANADA			
Capital Authorized and Fully Paid		25	25
Retained Earnings	7	1,784	1,240
		1,809	1,265
		23,502	23,822

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

Approved by the Board of Directors:

Peter R. Smith, C.M. Chairman of the Board of Directors Dino Chiesa Chair of the Audit Committee of the Board of Directors

Income Statement Year ended 31 December			
(in millions of dollars) Notes	2002	2001	2000
REVENUES			
Interest Earned on Loans and Investments			
in Housing Programs 8, 18	1,100	1,184	1,242
Premiums and Fees	822	745	697
Investment Income	293	278	257
	2,215	2,207	2,196
Parliamentary Appropriations for: 8			
Housing Programs	1,828	1,789	1,913
Operating Expenses	81	68	83
	1,909	1,857	1,996
	4,124	4,064	4,192
EXPENSES			
Housing Programs 8	1,828	1,789	1,913
Interest Expense	1,042	1,120	1,197
Operating Expenses	224	201	208
Net Claims	139	335	307
Other Expenses 9, 18	37	55	55
	3,270	3,500	3,680
INCOME BEFORE INCOME TAXES	854	564	512
INCOMETAXES 5			
Current	284	185	159
Future	26	34	(23)
	310	219	136
NET INCOME	544	345	376

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 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
Net Income	530	_	14	544
Transferred to Appropriated	(442)	442	_	
Balance 31 December 2002	348	1,380	56	1,784

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

Statement of Cash Flows Year ended 31 December			
(in millions of dollars)	2002	2001	2000
Cash Flows Provided by (Used in) Operating Activities			
Net Income	544	345	376
Items Not Affecting Cash or Cash Equivalents			
Amortization of Premiums and Discounts	27	18	24
Future Income Taxes	26	7	(42)
Changes in		47	(F2)
Accrued Interest Receivable Accounts Receivable and Other Assets	55 4	46 23	(53)
Inventory of Real Estate	34	52	(6) 43
Due from the Government of Canada	(88)	297	(77)
Unearned Premiums and Fees	508	305	152
Provision for Claims	(75)	1	(39)
Accounts Payable and Other Liabilities	100	(20)	(116)
Accrued Interest Payable	(61)	(14)	31
	1,074	1,060	293
Cash Flows Provided by (Used in) Investing Activities			
Loans and Investments in Housing Programs	1,085	867	497
Repayments Disbursements	(447)	(265)	(254)
Investments in Securities	(++/)	(203)	(237)
Sales and Maturities	2,155	4,955	3,473
Purchases	(3,143)	(5,297)	(3,926)
Change in Securities Purchased Under Resale Agreements	` 261 [′]	` (193)	` (900 <u>)</u>
	(89)	67	(1,110)
Cash Flows Provided by (Used in) Financing Activities			
Medium-term Borrowings from the Capital Markets	1.541	1.040	2 1 1 4
Issuance Popuments	1,561 (2,123)	1,868 (1,265)	2,114 (1,910)
Repayments Change in Short-term Borrowings from the Capital Markets	(147)	(660)	(48)
Repayment of Borrowings from the Government of Canada	(218)	(232)	(217)
Change in Securities Sold Under Repurchase Agreements	(124)	249	991
Change in Securities Sold But Not Yet Purchased	(155)	(58)	(88)
	(1,206)	(98)	842
Increase (Decrease) in Cash and Cash Equivalents	(221)	1,029	25
Cash and Cash Equivalents			
Beginning of Year	1,660	631	606
End of Year	1,439	1,660	631
Represented by:			
Cash	(13)	70	(6)
Temporary Investments	1,452 [´]	1,590	637 [′]
	1,439	1,660	631
Supplementary Disclosure of Cash Flow Information			
Amount of Interest Paid During the Year	1,103	1,134	1,166
Amount of Income Taxes Paid During the Year	188	174	301

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2002

I. CORPORATE MANDATE AND ACTIVITIES

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

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

- Lending: The Corporation makes loans and investments in housing programs which are funded by borrowings. A significant number of these loans and investments are supported with housing program subsidies.
- Insurance and Securitization: The Corporation provides insurance against borrower default on residential
 mortgages and guarantees the timely payment of principal and interest for investors in securities based on insured
 mortgages.
- Housing Programs: The Corporation receives Parliamentary appropriations which are used to fund housing programs.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Loans and Investments in Housing Programs

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

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

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

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

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

Investments in Securities

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

- Lending: Investments are carried at amortized cost. 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 related debt issue. Gains and losses that result from the sale of investments related to cash management activities are included in income at the time of sale.
- 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 market 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 on a straight-line basis
 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% of the annual change. Specific equities are written down to their market value when declines in the value of the entire equity portfolio are other than temporary. Net gains and losses resulting from sales of equities 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 securities, normally government treasury bills or bonds, with the commitment by the Corporation to resell the securities to the original seller at a specified price and date. Securities Sold Under Repurchase Agreements consist of the sale of securities with the commitment by the Corporation to repurchase the securities from the original buyer at a specified price and date. Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements are carried at cost, plus accrued interest. The difference between the sale price and the agreed repurchase price on a repurchase agreement, and the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement are netted and recorded in income on an accrual basis.

Securities Sold But Not Yet Purchased

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 fair value. Gains and losses that result from the purchase of the securities are deferred and amortized to income on a straight-line basis over the term of the related debt issue.

Inventory of Real Estate

Inventory of Real Estate is carried at the lower of cost or 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.

Borrowings from the Capital Markets

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

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

Premiums and Fees

Premiums are deferred and taken into income over the period covered by insurance contracts based on historical factors that reflect the long-term pattern for default risk by age of a mortgage insurance policy.

Unearned premiums represent the amount of premiums that have been deferred. Unearned premiums correspond to the estimated portion of future insurance coverage and are related to claims that have not occurred at the balance sheet date.

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

Application fees are recognized in income when received.

Costs associated with issuing mortgage insurance policies are expensed as incurred.

Provision for Claims

The Provision for Claims represents an estimate of net mortgage insurance claims expenses 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 and Territories of Canada, expenses related to housing programs administered by the Provinces and Territories under other agreements, and expenses related to housing programs administered by the Corporation. They also include reimbursement to the Corporation of interest and default losses on certain loans and investments in housing programs, losses on certain real estate properties, and modernization and improvement costs on certain rental properties.

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

Pension and Other Post-Employment Benefits

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

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

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

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

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

Derivative Financial Instruments

The Corporation enters into derivative financial instruments (interest rate swaps and cross currency swaps) in order to hedge its exposures to market risks such as interest rate risk and foreign exchange risk. The Corporation does not use derivative financial instruments for trading or speculative purposes.

For derivative financial instruments used to hedge interest rate risk, realized gains and losses are recorded as adjustments to Interest Expense on an accrual basis. The related amount payable to or receivable from counterparties is included in accrued interest. For derivative financial instruments used to hedge foreign exchange risk, translation gains and losses on the instrument are offset by translation gains and losses on the related debt.

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

3. LOANS AND INVESTMENTS IN HOUSING PROGRAMS

The Corporation makes loans and investments in housing programs either independently or jointly with provincial, territorial, and municipal authorities. These loans and investments were issued for terms up to 50 years. Of the total portfolio, \$14,404 million, or 99% (2001 – \$15,080 million or 99%) are due and payable beyond five years.

Approximately \$13,679 million, representing 94% (2001 – \$14,223 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 (37%), the Government of Canada through provisions in the NHA (26%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (3%). Default losses on the remainder of the portfolio (34%) are accounted for in the Corporation's Insurance activity, and accordingly have been included in the determination of Provision for Claims and Unearned Premiums.

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 I Year	I to 3 Years	3 to 5 Years	Over 5 Years	2002	2001	
Fixed Income							
Securities Issued or Guaranteed by:							
Government of Canada	28	272	535	1,095	1,930	1,646	
Provinces/Municipalities	104	199	69	861	1,233	983	
Corporate Entities	145	480	308	656	1,589	1,338	
Total Fixed Income	277	951	912	2,612	4,752	3,967	
Yield	5.40%	5.38%	5.05%	5.87%	5.59%	5.74%	
Equities (no specific maturity)					666	515	
Total	277	951	912	2,612	5,418	4,482	

Sales of investments during 2002 resulted in a net gain of \$33 million (2001 - \$51 million, 2000 - nil) that has been deferred. Cumulative deferred gains now totaling \$67 million (2001 - \$64 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)	2002	2001	2000
Statutory Tax Rate	37%	39%	38%
Income Taxes Based on Statutory Tax Rate	311	219	196
Future Income Taxes not Previously Recorded	-	_	(80)
Impact on Future Income Tax Assets Resulting from			
Reduction in Tax Rates	3	(5)	20
Other	(4)	5	-
Income Tax Expense	310	219	136
Effective Tax Rate	36%	39%	26%

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)	2002	2001
Provisions	31	47
Deferred Revenue	33	25
Expenses Incurred But Not Yet Disbursed	18	23
Appreciation in Value of Equities	(6)	4
Other	1	4
Future Income Tax Assets	77	103

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)		Capita ort-term rrowings		ım-term rowings	Government of Canada		Total
2003	845	2.82%	1,889	5.20%	244	8.70%	2,978
2004			2,290	5.64%	187	8.72%	2,477
2005			2,208	6.29%	195	8.75%	2,403
2006			1,253	5.17%	195	8.79%	1,448
2007			1,265	5.01%	202	8.93%	1,467
2008–2012			397	5.75%	1,073	8.68%	1,470
Thereafter					3,378	9.21%	3,378
	845	2.82%	9,302	5.56%	5,474	9.04%	15,621

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

The foreign denominated medium-term borrowings are:

(in millions of dollars)	2002	2001
U.S. Dollar Obligations	500	1,000
U.S. Dollar Obligations Translated to Canadian Dollars		
Based on Year End Rate	789	1,593
Based on Rate Established Under Swap Contract	726	1,419

7. RETAINED EARNINGS

Retained earnings generated by the Insurance and Securitization activity that have not been set aside for specific purposes are reflected as unappropriated.

Retained earnings generated by the Insurance and Securitization activity that have been set aside for (I) the purposes of capitalization and additional policy reserves consistent with actuarial factors developed by the Office of the Superintendent of Financial Institutions, and (2) 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 distribution of expenses by major housing program.

(in millions of dollars)	2002	2001	2000
Programs Transferred to Provinces/Territories	964	963	964
Non-Transferred Programs			
Non-Profit	252	248	263
Public Housing	129	125	113
On Reserve	89	92	96
Co-operatives	84	83	98
Rent Assistance	71	63	63
Urban Native	49	52	53
Rural and Native Housing	24	23	72
Affordable Housing	19	_	_
Limited Dividend	13	13	14
Sub-total Sub-total	730	699	772
Renovation Programs	105	123	106
Research and Information Transfer	9	9	9
Other	20	(5)	62
Total	1,828	1,789	1,913

As described in Note 2, Housing Program Expenses include reimbursement to the Corporation of:

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

The following table summarizes these expenses.

(in millions of dollars)	2002	2001	2000
Interest Losses:			
incurred in the current year	77	83	78
incurred in prior years	21	26	28
Sub-total	98	109	106
Net Operating Losses	18	17	4
Net Default and Disposal Losses	4	4	12
Total	120	130	122

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

In addition, the Corporation is reimbursed for operating costs associated with the delivery of housing programs. The reimbursement of operating expenses for 2002 of \$81 million (2001 - \$68 million, 2000 - \$83 million) is shown in the Income Statement as Parliamentary Appropriations for Operating Expenses.

9. OTHER EXPENSES

Other Expenses include the Corporation's support of federal public policy initiatives related to housing. For 2001, they included \$18 million 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.

These financial contracts are used to hedge exposures to market risks such as interest rate risk and foreign exchange risk. These contracts 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 exchange risk 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 I Year	l to 3 Years	3 to 5 Years	Over 5 Years	2002	2001
Interest Rate Swaps	4,204	7,083	5,305	777	17,369	16,601
Cross Currency Swaps		726			726	1,419
	4,204	7,809	5,305	777	18,095	18,020

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

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

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

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

(in millions of dollars)	Within I Year	I to 5 Years	Over 5 Years	No Specific Maturity	Non Interest Sensitive	2002	2001
Assets							
Loans and Investments in							
Housing Programs	2,462	7,197	4,913		29	14,601	15,239
Effective Interest Rate	6.03%	6.13%	8.50%				
Investments in Securities	277	1,863	2,612	666		5,418	4,482
Effective Interest Rate	3.09%	3.85%	5.23%				
Cash and Cash Equivalents	1,235	204				1,439	1,660
Effective Interest Rate	2.77%	3.92%					
Securities Purchased Under							
Resale Agreements	1,205					1,205	1,466
Effective Interest Rate	3.78%						
Liabilities							
Borrowings from the Capital Markets	2,734	7,016	397			10,147	10,986
Effective Interest Rate	4.46%	5.65%	5.75%				
Borrowings from the Government							
of Canada	244	779	4,451			5,474	5,692
Effective Interest Rate	8.70%	8.80%	9.08%				
Securities Sold Under Repurchase							
Agreements	1,116					1,116	1,240
Effective Interest Rate	4.27%						
Securities Sold But Not Yet Purchased	73					73	228
Effective Interest Rate	5.00%						
Off-Balance Sheet Financial Instruments							
Derivative Financial Instruments (notional)							
Receivable Position	3,536	7,215	430		6,914	18,095	18,020
Effective Interest Rate	4.56%	5.62%	5.50%				
Payable Position	3,536	7,215	430		6,914	18,095	18,020
Effective Interest Rate	4.29%	5.53%	5.37%				

Some of the Corporation's Loans and Investments in Housing Programs contain prepayment and/or repricing options. As the Corporation does not have the right to prepay its borrowings from the Government of Canada without penalty, the Corporation is exposed to interest rate risk. While it is difficult to predict prepayment activity, CMHC has estimated the potential impact of prepayment activity on earnings using a range of scenarios. Although unlikely given historical levels, the worst case scenario on future prepayment/repricing activities suggests that the Corporation could be subject to a decrease in earnings of as much as \$514 million over a 19-year time horizon, or an average decline of \$27 million per year.

Foreign Exchange Risk

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

12. CREDIT RISK

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

The Corporation manages credit risk associated with investments and derivatives through the implementation of policies which include counterparty credit limits and diversification of credit risk. A credit risk management function, which is independent of the business activities, monitors and evaluates credit risk exposures and the credit-worthiness of counterparties on a regular basis.

Cash Equivalents and Investments in Securities

The table below shows the distribution of credit exposure. The exposure is divided into short-term (less than one year) and long-term (greater than one year). The majority of the short-term exposure, 84%, is rated "R-I high" or equivalent, and 68% of long-term exposure is to "AAA" and "AA" rated counterparties.

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

C 1			
Equivalents	Investments in Securities	2002	2001
1,523	285	1,808	1,736
	4,710	4,710	3,909
1,523	4,995	6,518	5,645
	644	644	529
1,523	5,639	7,162	6,174
	1,523	I,523 285 4,710 I,523 4,995 644	Equivalents in Securities 1,523 285 1,808 4,710 4,710 1,523 4,995 6,518 644 644

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	2002	2001
Fixed Income				
Securities Issued or Guaranteed by:				
Government of Canada	535	2,022	2,557	2,299
Provinces/Municipalities		1,312	1,312	1,014
Corporate Entities	988	1,661	2,649	2,332
Total Fixed Income	1,523	4,995	6,518	5,645
Equities		644	644	529
Total	1,523	5,639	7,162	6,174

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.

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

(in millions of dollars)	Within I Year	l to 3 Years	3 to 5 Years	Over 5 Years	2002	2001
Interest Rate Swaps	68	136	95	25	324	260
Cross Currency Swaps		152			152	286
	68	288	95	25	476	546

Where legally enforceable through International Swaps and Derivatives Association master swap agreements various derivative transaction exposures to counterparties are 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. The Corporation has netting agreements in place with all counterparties.

(in millions of dollars)	AAA	AA	2002	2001
Fair Value	33	443	476	546

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.

		2002	2001		
	Carrying	Fair	Carrying	Fair	
(in millions of dollars)	Value	Value	Value	Value	
Assets					
Loans and Investments in Housing Programs	14,601	16,660	15,239	17,105	
Investments in Securities	5,418	5,585	4,482	4,584	
Cash and Cash Equivalents	1,439	1,440	1,660	1,660	
Securities Purchased Under Resale Agreements	1,205	1,205	1,466	1,466	
Accrued Interest Receivable	372	372	427	427	
Accounts Receivable and Other Assets	178	178	287	287	
Due from the Government of Canada	106	106	18	18	
Liabilities					
Borrowings from the Capital Markets	10,147	10,579	10,986	11,229	
Borrowings from the Government of Canada	5,474	7,447	5,692	7,494	
Securities Sold Under Repurchase Agreements	1,116	1,116	1,240	1,240	
Accounts Payable and Other Liabilities	442	442	342	342	
Accrued Interest Payable	172	172	233	233	
Securities Sold But Not Yet Purchased	73	73	228	228	
Off-Balance Sheet Financial Instruments					
Derivative Financial Instruments					
In a Net Receivable Position		194		306	
In a Net Payable Position		41		28	

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

Investments in Securities

Cash and Cash Equivalents

Borrowings from the Capital Markets (Medium-term)

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

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

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

14. ACTUARIAL VALUATION OF INSURANCE ACTIVITIES

Role of the Appointed Actuary

The actuary is appointed by the Corporation's management. With respect to preparation of these statements, the actuary is required to carry out a valuation of the policy liabilities of the mortgage insurance activity and to provide an opinion to the Corporation's management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation, and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a Provision for Claims on the expired portion of policies and of future obligations on the unexpired portion of policies. 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.

These factors are continually evolving and changing as they are affected by underwriting and claim settlement procedures, actuarial studies, professional experience, the quality of data utilized for projection purposes, economic conditions, and general credit behaviour. Consequently, the establishment of the Provision for Claims necessarily involves risks that the actual results will deviate, perhaps 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 Section 11 of the NHA, the aggregate outstanding amount of mortgage insurance policies may not exceed \$250 billion. At 31 December 2002, insurance policies in force totaled \$224 billion (2001 – \$211 billion).

Securitization

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed \$250 billion. At 31 December 2002, guarantees in force totaled \$45 billion (2001 – \$35 billion) which includes amounts guaranteed under the Canada Mortgage Bonds program as described in Note 20.

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:

	Pensi	on Plans	Other Post-employment Benefits		
(in millions of dollars)	2002	2001	2002	2001	
Accrued Benefit Obligation					
Balance, Beginning of Year	857	822	82	76	
Current Service Cost	15	14	- 1	- 1	
Employees' Contributions	2	2	-	_	
Interest Cost	57	55	5	5	
Benefits Paid	(47)	(47)	(3)	(2)	
Actuarial Loss (Gain)	(10)	11	(3)	2	
Balance, End of Year	874	857	82	82	
Plan Assets					
Fair Value, Beginning of Year	964	1,035	_	_	
Actual Return on Plan Assets	(48)	(27)	_	_	
Employer's Contributions	1	1	3	3	
Employees' Contributions	2	2	_	_	
Benefits Paid	(47)	(47)	(3)	(3)	
Fair Value, End of Year	872	964	-	_	
Funded Status – Plan Surplus (Deficit)	(2)	107	(82)	(82)	
Unamortized Net Actuarial Loss	205	104	9	12	
Unamortized Past Service Costs	74	82	_	_	
Unamortized Transitional Obligation (Asset)	(241)	(271)	38	42	
Accrued Benefit Asset (Liability)	36	22	(35)	(28)	

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

(in millions of dollars)		Supplemental Pension Plan 2002 2001	
Fair Value of Plan Assets	_	_	
Accrued Benefit Obligation	22	21	
Funded Status – Plan Surplus (Deficit)	(22)	(21)	

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% (2001 - 7%) discount rate and long-term rate of return on plan assets, and a 4% (2001 - 4%) rate of compensation increase. A 10% (2001 - 15%) increase in health care costs was assumed for 2002, with 1.3% (2001 - 2.5%) decreases per year thereafter to an ultimate trend rate of 5%. The average remaining service period is 11 years (2001 - 11 years) for pension plans and 12 years (2001 - 13 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	Pension Plans		her ployment efits
(in millions of dollars)	2002	2001	2002	2001
Current Service Cost,				
Net of Employees' Contributions	15	14	- 1	1
Interest Cost	57	55	6	5
Expected Return on Plan Assets	(63)	(68)	_	_
Amortization of Transitional				
Obligation (Asset)	(30)	(30)	3	4
Amortization of Past Service Cost	8	8	-	_
Net Benefit Plan Expense (Credit)	(13)	(21)	10	10

17. SEGMENTED INFORMATION

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

The Lending activity includes certain Corporate items which are not allocated to each activity. The Housing Program activity includes reimbursements to the Lending activity as described in Notes 8 and 18. These reimbursements are not eliminated in the table below.

	Le	nding	Insu	rance	Securit	ization		using grams	Inter-S	ation of egment ems	То	otal
(in millions of dollars)	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Interest Earned	1,100	1,184							_	-	1,100	1,184
Investment Income	_	-	292	276	7	8			(6)	(6)	293	278
Premiums, Fees and												
Parliamentary Appropriations	-	-	797	726	25	19	1,909	1,857	-	-	2,731	2, 602
Total Revenues	1,100	1,184	1,089	1,002	32	27	1,909	1,857	(6)	(6)	4,124	4,064
Interest Expense	1,048	1,126							(6)	(6)	1,042	1,120
Operating Expenses	20	23	118	104	5	6	81	68	_	-	224	201
Housing Programs, Net												
Claims and Other Expenses	2	(3)	175	391	(1)	2	1,828	1,789		_	2,004	2,179
Total Expenses	1,070	1,146	293	495	4	8	1,909	1,857	(6)	(6)	3,270	3,500
Income Taxes	16	16	283	193	П	10					310	219
Net Income	14	22	513	314	17	9					544	345
Direct Lending Loans	8,938	9,303							_	_	8,938	9,303
Other Loans and Investments												
in Housing Programs	5,663	5,936							_	-	5,663	5,936
Investments in Securities	226	239	5,152	4,231	135	107			(95)	(95)	5,418	4,482
Other Assets	1,427	2,024	2,016	2,064	48	28			(8)	(15)	3,483	4,101
Total Assets	16,254	17,502	7,168	6,295	183	135			(103)	(110)	23,502	23,822
Capital Market Borrowings	10,242	11,081							(95)	(95)	10,147	10,986
Government of Canada												
Borrowings	5,474	5,692									5,474	5,692
Unearned Premiums			2 575	2.007	7.4	F.4					2 (10	2 141
and Fees	457		3,575	3,087	7 4	5 4			(0)	(15)	3,649	3,141
Other Liabilities	457	662	1,958	2,086	16	5			(8)	(15)		2,738
Total Liabilities	16,173	17,435	5,533	5,173	90	59			(103)	(110)	21,693	22,557
Equity	81	67	1,635	1,122	93	76					1,809	1,265

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 and losses on certain real estate properties are reimbursed through Parliamentary appropriations. The total of such reimbursements, which are not considered subsidies to others, amounted to \$120 million (2001 – \$130 million, 2000 – \$122 million) of which \$98 million (2001 – \$109 million, 2000 – \$106 million) is included in Interest Earned on Loans and Investments in Housing Programs. The reimbursement for 2002 includes \$27 million (2001 – \$33 million) towards the losses incurred by the Corporation as a result of the prepayment and repricing activity described in Note 11, of which \$21 million (2001 – \$26 million) relates to losses incurred in 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 CMHC's Insurance and Securitization activity, the Corporation pays the Government annual fees. The fees for 2002 are \$38 million (2001 – \$33 million, 2000 – \$27 million) and are included in Other Expenses.

The interest expense related to Borrowings from the Government of Canada is \$506 million (2001 – \$525 million).

In exchange for real estate transferred to Canada Lands Company CLC Limited in 1998 and 1999, the Corporation holds notes receivable at 7.35% due by 2014. The amount due to the Corporation is \$36 million (2001 – \$42 million) including accrued interest.

19. COMMITMENTS

Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to \$45 million at 31 December 2002 (2001 – \$53 million). The majority (93%) of these outstanding commitments pertain to social housing loans which are normally advanced within a two-year period.

Total remaining contractual obligations for Housing Programs extend for periods up to 35 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)	2003	2004	2005	2006	2007
	1,802	1,773	1,743	1,723	1,722

20. CANADA HOUSING TRUST

Canada Housing Trust (CHT) is a special purpose trust which purchases, from various financial institutions, ownership interests in eligible housing loans, such as National Housing Act mortgage-backed securities (NHA MBS), and issues Canada Mortgage Bonds (CMB).

The Trustee of CHT has entered into agreements with a number of parties to provide various services to CHT, including CMHC. Under one such agreement, CMHC has guaranteed the timely payment of the interest payments and the principal at maturity on all CMB issued by CHT to date.

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

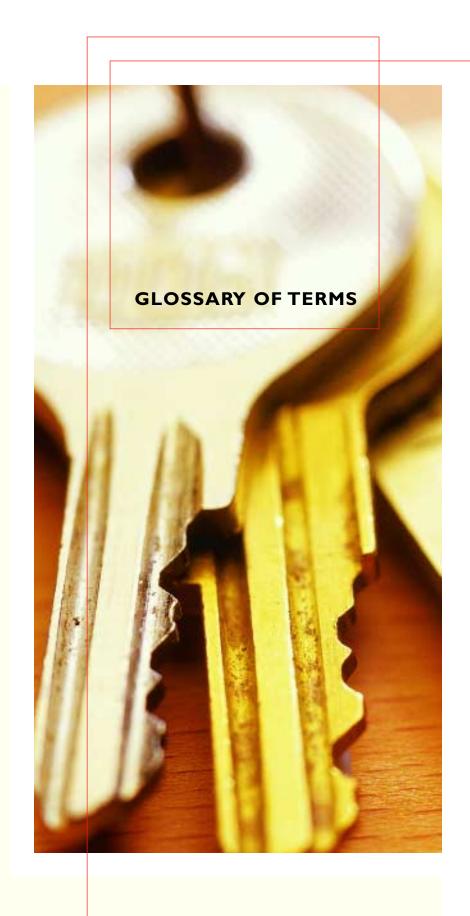
At 31 December 2002, CMHC had guarantees in force totaling \$17.9 billion (2001 – \$4.7 billion) of CMB issued by CHT. Once provided, the CMHC guarantee on CMB becomes an obligation of the Government of Canada and irrevocable until full repayment of the CMB at maturity (typically within five years of issuance).

21. CONTINGENT LIABILITIES

There are legal claims of \$23 million (2001 - \$27 million) against the Corporation. Due to the uncertainty of the outcome of these claims, no provision for loss has been made.

22. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the 2002 statement presentation.



FINANCIAL TERMS

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

(CMBs) Canada Mortgage Bonds

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

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

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

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.

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

Duration – A measure of the average time interval required for an expected stream of cash flows to repay the original investment (shorter duration means faster recovery of the original investment).

(DFA) Dynamic Financial Analysis

-A systematic and holistic approach to financial modelling and sensitivity analysis that projects financial results under a variety of possible scenarios, showing how outcomes might be affected by changing business and economic conditions.

Market-to-Market – Refers to the valuing of financial instruments in a portfolio at market trading prices.

(NHA MBSs) National Housing Act 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), and sells securities with a commitment to repurchase them (securities sold under repurchase agreements).

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

Value – The concept of value and how it can change under 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 measure of the spread or dispersion of observations around the average. Statistically, volatility is defined as the standard deviation of a set of observations.

GENERAL TERMS

Aboriginal Capacity Development

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

(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 houses.

(HASI) Home 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.

CMHC OFFICES

NATIONAL OFFICE

700 Montreal Road Ottawa, Ontario, Canada KIA 0P7 (613) 748-2000

REGIONAL BUSINESS CENTRES

Atlantic

7001 Mumford Road Tower I, Suite 300 Halifax, Nova Scotia B3L 4N9 (902) 426-3530

Quebec

I I 100 René-Lévesque Boulevard West, 1st Floor Montreal, Quebec H3B 5J7 (514) 283-4464

Ontario

100 Sheppard Avenue East, Suite 300 Toronto, Ontario M2N 6Z1 (416) 221-2642

Prairie, Nunavut and Northwest Territories

708 11th Avenue S.W., Suite 500 Calgary, Alberta T2R 0E4 (403) 515-3000

British Columbia and Yukon

IIII West Georgia, Suite 200 Vancouver, British Columbia V6E 4S4 (604) 731-5733

OTHER KEY CONTACT NUMBERS

Market Analysis Electronic Marketplace

www.cmhc-schl.gc.ca/mktinfo/store (613) 748-2313

CMHC International

(613) 748-2461

NHA Mortgage-Backed Securities Centre

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

TO ORDER ADDITIONAL COPIES OF THE ANNUAL REPORT

1 800 668-2642

CMHC ON THE INTERNET

www.cmhc-schl.gc.ca

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call I 800 668-2642. CMHC offers a wide range of housing-related information. For details, call I 800 668-2642 or visit our Web site at www.cmhc-schl.gc.ca.

© 2003 Canada Mortgage and Housing Corporation

OPIMS: 63118 ISSN: 0226-0336 ISBN: 0-662-67194-5 Printed in Canada