

HOME TO CANADIANS

ANNUAL REPORT 1998
Canada Mortgage and Housing Corporation



Canada 

1998 AT A GLANCE



To help victims of the ice storm in Eastern Canada, our 1-800 information line provided approximately 3,000 homeowners with information about preventing and repairing damage to their homes.



Abbeyfield House Parkdale was opened in Ottawa on June 24, 1998, with help from CMHC's Canadian Centre for Public-Private Partnerships in Housing (CCPPPH). The House provides support for seniors in a homelike atmosphere.

JANUARY — MARCH

We extended the Residential Rehabilitation Assistance Program (RRAP), Home Adaptations for Seniors Independence (HASI) and Emergency Repair Program (ERP) at a cost of \$250 million over five years so we can continue to help low-income households, people with disabilities, and seniors to renovate or modify their homes.

We improved our **emili** automated mortgage insurance approval system to include applications for mortgage loan insurance on new homes as well as existing homes.

We awarded 12 grants under the Affordability and Choice Today (ACT) Program. ACT encourages more flexible and responsive planning and building regulations.

APRIL — JUNE

In partnership with the Children's and Women's Health Centre of B.C., we opened the Vancouver Healthy Home Centre. The Centre shows parents and homeowners how to make their homes healthier, safer and more accessible.

We made it easier for Canadians to buy homes. We extended our mortgage insurance to enable lenders to provide up to 95 per cent financing at the lowest interest rates possible, for all homebuyers, not just first-time buyers.

A formal agreement was signed between CMHC and the Canada Lands Company Ltd. for the transfer of CMHC's land development portfolio.

THROUGHOUT THE YEAR

In 1998, CMHC mortgage insurance helped 241,000 Canadians purchase a home.

We guaranteed a record volume of new NHA Mortgage-Backed Securities—more than \$9 billion worth.

Our programs helped Aboriginal people build or repair more than 900 homes on-reserve.

We helped victims of family violence by financing the renovation of 130 shelters across Canada. We made a commitment to finance another 4 new shelters.

To make our research more effective and useful to Canadian homebuilders, architects, designers, and planners, we conducted our most extensive consultations ever with more than 1,300 representatives of the housing industry, federal, provincial, territorial and municipal governments and consumers.



The Hon. Alfonso Gagliano led the largest-ever Canadian housing industry delegation to the EDIFICA trade show in Santiago, Chile. During the mission, Minister Gagliano and the Hon. Sergio Luis Henriquez Diaz, Chilean Minister of Housing and Urban Development, signed an agreement to formalize joint Canada-Chile housing efforts.

The Hon. Alfonso Gagliano, Minister responsible for CMHC, announced that a range of mortgage insurance options and special

financing arrangements would be made available to assist British Columbia homeowners affected by leaky condos.



Vancouver's Downtown Eastside Resident's Association (DERA), CanWest—a private developer and CMHC have joined forces to create 64 low-rental apartments in the former Metropole Hotel for persons at risk of homelessness.

JULY — SEPTEMBER

Yukon and Manitoba signed new social housing agreements transferring management of federal social housing resources to the territorial and provincial governments. This brings the total number of these new agreements to seven.

The United Nations Centre for Human Settlements selected the Affordability and Choice Today (ACT) program as one of the top 100 best practices for improving the living environment.

To reduce costs and improve services, CMHC signed a contract with Serco Facilities Management Inc. to establish a state-of-the-art print, copy and distribution facility to meet our needs and those of third-party clients.

OCTOBER — DECEMBER

CMHC seconded two of its employees to the West Bank and Gaza to help develop a mortgage financing system based on the Canadian model.

CMHC and Natural Resources Canada led a mission to the 1998 annual conference of the Energy Efficient Builders Association in Washington, where 20 Canadian representatives from the energy-efficient sector were among the 300 people attending.

The Hon. Alfonso Gagliano announced an additional \$50 million for housing renovation programs, with priority for the homeless and those at risk of homelessness.

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

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

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HOME TO CANADIANS
Canada

CHAIRMAN'S MESSAGE

CMHC is involved in many different types of activity—from ensuring access to mortgage financing to supporting assisted housing, to researching the housing technologies that will shape the living environments of tomorrow. In these and other areas, CMHC touches the lives of hundreds of thousands of Canadians every year.

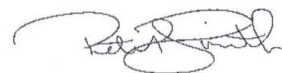
The ability of the Board of Directors to provide good corporate governance is critical to CMHC's ability to carry out its mission successfully. Effective stewardship of our Crown corporation inspires the trust of our partners in the housing industry and the confidence of Canadians who rely on us to help them realize their dreams of home ownership. Good governance is a responsibility we have not only to the Government of Canada, but also to the homebuyers, housing professionals and other clients we serve every day. It is a responsibility we take seriously.

To fulfill our responsibilities, CMHC must be a well-managed, effective corporation. In 1996, the Board embarked upon an ongoing initiative to make CMHC one of the best-run Crown corporations in the country. We established a governance framework that makes us more accountable for results, enables us to provide better leadership to the Corporation and helps us make the best use of the resources entrusted to us by Canadians.

During 1998, the Board continued to focus on improving governance. We refined our strategic planning process to involve the Board more closely in providing top-level direction. We also worked to develop a framework for evaluating, on a regular basis, the performance of the Board. This process will ensure that we continually review and improve our governance practices.

In addition, we moved ahead with developing succession planning for the senior management. A coherent succession plan, like a good, solid corporate plan, will make CMHC a better-run organization with good leadership, sound decision-making and effective management of risk.

This is the kind of public agency Canadians want—informed, dependable and accountable—a place of trust. Good governance is a way to guarantee that CMHC is that place for years to come. This document describes how CMHC's employees worked towards that goal in 1998 and how their efforts helped improve the lives of Canadians.



Peter R. Smith



HOME TO CANADIAN
Canada

REPORT OF THE PRESIDENT

As the national housing agency, CMHC has been “bringing Canadians home” for more than 50 years. We make a significant contribution to the lives of Canadians in communities across the country. We provide mortgage insurance that helps Canadians realize their dreams of owning a home. We provide housing assistance for low-income Canadians to help them access decent, affordable housing. We undertake leading-edge research to improve the quality and affordability of housing. We offer expertise to consumers and the housing industry to help them make informed business and purchasing decisions. In everything that we do, we are helping Canadians live in safe, secure homes.

Over the past two years, CMHC has been streamlining operations, commercializing mortgage financing products and improving client service in response to our renewed mandate. In 1998, we completed the bulk of the work needed to conclude our transition. As a result, the Corporation is well-positioned to direct its efforts to those areas where it can make a difference on behalf of Canadians.


Our year started with an ice storm in Eastern Canada that left thousands of people in the dark. CMHC responded immediately by establishing a 1-800 line to provide information to help people keep their homes and themselves safe and secure. Many of our own employees at National Office and in Quebec had to endure the effects of the storm and many others volunteered their time, and even opened up their homes to their colleagues and neighbours in need.

Late in January, we designated \$250 million in funds achieved through operational efficiencies to extend our renovation programs for another five years. This means we will continue to help low-income households, people with disabilities and seniors to renovate

or modify their homes to bring them up to minimum health and safety standards. In response to the serious homelessness issue, we were able to provide an additional \$50 million to these renovation programs in December, with more than \$11 million targetted to renovation of rental units and rooming houses intended for the homeless and people at risk of becoming homeless. We will continue to work with all levels of government and community partners to search for solutions to this growing problem.

We expanded our 95 per cent financing product, making it easier for all Canadians to buy homes. Our Year 2000 project proceeded according to plan, with all mission-critical systems tested and ready for the new millennium. We also completed our most extensive nationwide consultation ever to ensure we continue to pursue research about housing issues relevant to Canadians. Throughout the year, we worked side-by-side with suppliers of housing products and services to help increase exports and win jobs for Canadians.

1998 was a year in which we redefined our priorities, focused our activities on these priorities and consolidated our efforts to provide better service to our clients—the people of Canada. With this Annual Report, I am pleased to present a review of CMHC’s year, and to share with Canadians the achievements of an organization that is truly “Home to Canadians”.



Marc Rochon

CORPORATE PROFILE

Established in 1946 as the Central Mortgage and Housing Corporation, we are Canada's national housing agency. We changed our name in 1979 to Canada Mortgage and Housing Corporation (CMHC), and today we have more than 2,000 people on staff at our national office in Ottawa, in our regional business centres in Halifax, Montréal, Toronto, Calgary, and Vancouver, and in our field offices.

Parliament gives us our mandate and the rules we have to follow in three Acts: the *CMHC Act*, the *National Housing Act* (NHA) and the *Financial Administration Act* (FAA).

Our corporate objectives in 1998 were:

- to improve housing affordability and choice for Canadians
- to improve housing and living conditions for Canadians
- to support market competitiveness and housing sector well-being
- to maximize operational effectiveness and complete CMHC's transition to a more modern organization

We worked in four main areas to achieve these objectives:

Housing finance

Our mortgage insurance insures Approved Lenders against losses if borrowers cannot repay their mortgages. By insuring Approved Lenders against default risk, Canadians can access high-

ratio mortgages at the lowest-possible rates. CMHC Mortgage-Backed Securities provide another source of mortgage funds to help ensure the functioning of the broader mortgage capital markets.

To help create affordable housing, we form partnerships with public, private and non-profit organizations to develop innovative financing.

In 1998, CMHC was ranked as Canada's 12th-largest financial institution by *The Financial Post*, based on 1997 assets of more than \$20 billion.

Assisted housing

Through our partnerships with provinces, territories and non-profit organizations, we provide approximately \$1.9 billion a year in housing assistance and support for Canadians in need. We offer assistance for home improvements, renovations and repairs. Our On-Reserve Non-Profit Housing Program works with First Nations to improve their housing conditions. We help lower the cost of social housing by providing loans at attractive interest rates.

KEY 1998 STATISTICS

Assets	\$21.9 billion
Revenue	\$2.1 billion
Net Income	\$175 million
Mortgage insurance in force	\$182.5 billion
1998 loan insurance volumes	476,669 units
Estimated number of households assisted through social housing	643,750

Research and information transfer

We are a unique source of reliable, objective housing information. Our research, demonstration projects, market analysis and information transfer activities provide technical, economic and social information about housing through research reports, conferences, seminars, newspaper and magazine articles, videos and books.

Export trade promotion

Through our Canadian Housing Export Centre (CHEC), we work with our partners on “Trade Team Canada” to help the Canadian housing industry sell products, services and expertise throughout the world. We also provide CMHC experience and skill to help other countries establish the institutional infrastructure to meet their housing needs.

Financially, the Corporation manages its operations under four separate accounts:

- the Minister’s Account
- the Corporate Account
- the Mortgage Insurance Fund (MIF)
- the Mortgage-Backed Securities Guarantee Fund (MBSGF)

ECONOMIC OVERVIEW

Following 3.8 per cent growth in 1997, the Canadian economy continued to expand at a healthy 3 per cent pace in 1998. This growth translated into strong job creation, with employment rising by 386,000 persons overall, the best performance of the 1990's. The unemployment rate fell to 8.3 per cent in 1998 from 9.2 per cent in 1997.

The slowdown in growth in 1998 was due to the global financial crisis. Resource industries have been hardest hit, as commodity prices and export volumes dropped. This was partly offset by a lower Canadian dollar. Consumption spending slowed, as did non-residential investment plans, which hurt other industrial sectors.

Housing starts in Canada reached 137,400 in 1998, down 6.5 per cent from last year's total, which was a three-year high. Alberta had the largest gain

in housing starts, despite weak resource prices. British Columbia experienced a significant slowdown.

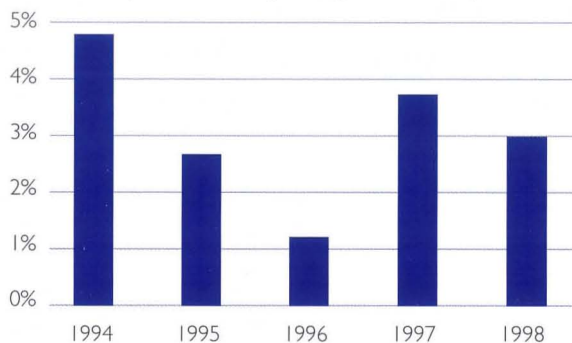
Multiple-unit construction fell 5.3 per cent over last year, while single-detached home construction dropped by 7.2 per cent. Mortgage rates spiked in the middle of the year, but have dropped since then.

Sales of existing homes remained strong, down 4.8 per cent from the record level set in 1997. Prices for both existing and new homes were fairly stable in most centres. Exceptions were weak prices in British Columbia and rising prices in Alberta and Saskatchewan.

National vacancy rates declined during the 1990's to 3.4 per cent in 1998, the lowest level since 1990. At the national level, this suggests that rental supply was in line with demand.

Growth Moderated but Still Healthy

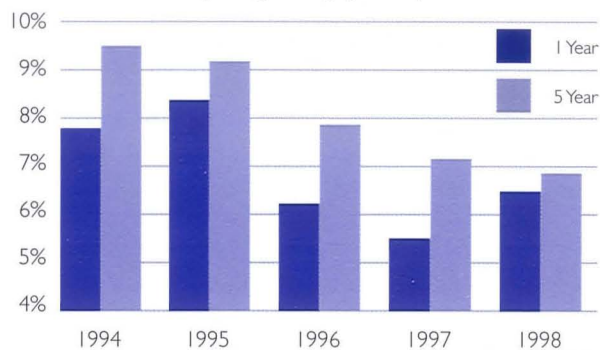
(Annual Percentage Change in Real GDP*)



* Gross Domestic Product
Source: Statistics Canada

Mortgage Rates Remained Attractive

(Average Mortgage Rates)



Source: Bank of Canada

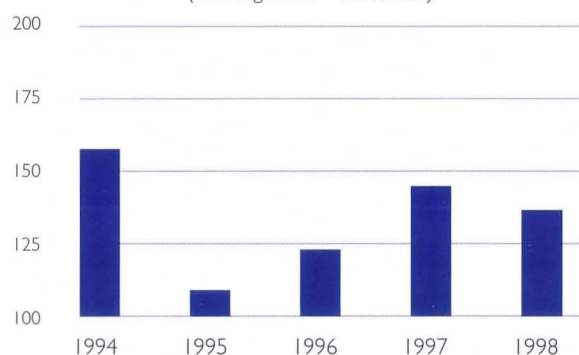
However, in some large urban areas such as Toronto and Calgary, there were few vacancies and little rental housing was being constructed, particularly at the lower end of the rental scale.

Renovation spending increased. In 1998, it is expected to have reached \$22.8 billion, up 4 per cent from 1997.

Over the long-term, renovation spending will continue to exceed new construction spending. The need for new homes is less due to slower population growth, while the average age and size of the housing stock, and its need for upkeep, is increasing.

Starts Down from Three-year High

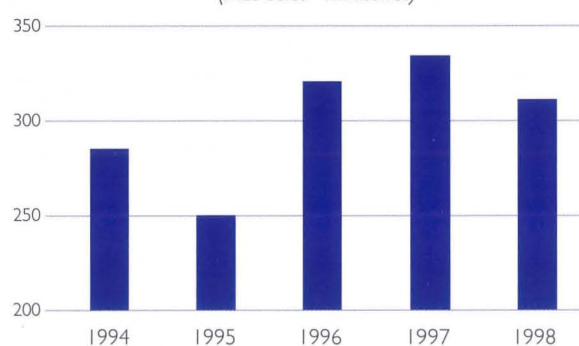
(Housing Starts – Thousands)



Source: Canada Mortgage and Housing Corporation

Existing Home Sales Remained Strong

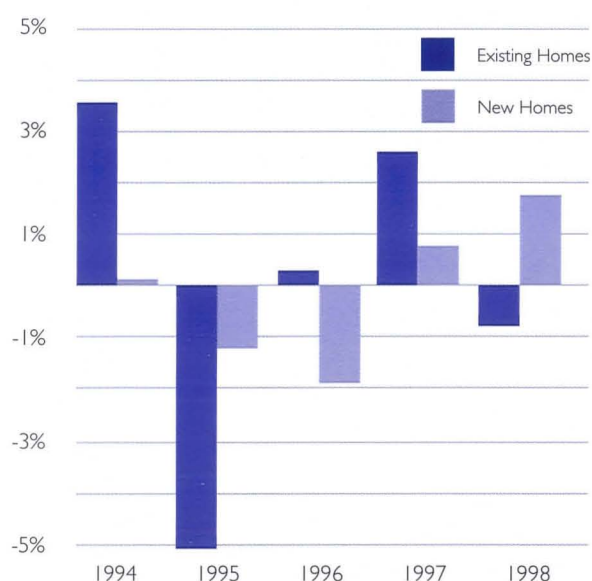
(MLS Sales – Thousands)



Source: Canadian Real Estate Association

House Prices Stable

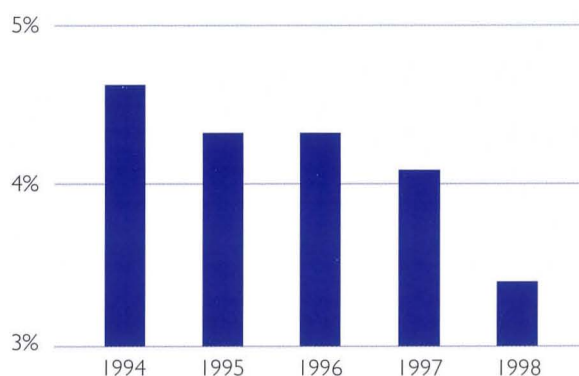
(Annual Percentage Change)



Source: Statistics Canada – New Homes
Canadian Real Estate Association – Existing Homes

Rental Vacancy Rate, Lowest since 1990

(Apartment Structures of Three Units and Over*)



Source: Canada Mortgage and Housing Corporation
*Surveys conducted in October of each year



HOME TO CANADIANS
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Increase housing choice for Canadians with distinct housing needs

MANAGEMENT DISCUSSION AND ANALYSIS

Objective: Improve housing affordability and choice for Canadians.

1998 TARGETS AND ACHIEVEMENTS

Introduce new mortgage insurance products

- Extended 5 per cent
downpayment mortgage insurance to
repeat buyers.

Projected mortgage insurance initiation volume of 390,196 units

- Achieved volume of 476,669 units.

On-reserve delivery of 1,200 housing units

- Approved more than 900 units in the
first 9 months of the 1998/99 delivery
year.

Offer housing internships to First Nations and Inuit youth

- Offered more than 85 housing
internships.

We want to help Canadians have a place to call home. That's why one of our key objectives is to improve housing affordability and ensure there is a choice of good-quality homes. In 1998, we improved access and choice for Canadians.

Ask homebuyers what they think of when they hear the name CMHC, and they are likely to say "mortgage insurance". That's not surprising. Our mortgage insurance has helped to obtain financing for one of every three Canadian homes over the last 40 years. Mortgage insurance also helps landlords and developers to access low-cost financing, which helps ensure a supply of rental units.

Our mortgage loan insurance works behind the scenes to improve housing affordability and choice. Our insurance guarantees that Approved Lenders will not lose the outstanding balance on a mortgage if there is a default. That reduces risk for Approved Lenders. Reduced risk means they can offer mortgages at lower rates. And that means more people can afford to buy a home. It also means Approved Lenders

MORTGAGE INSURANCE FUND (MIF)

(millions of dollars)	1998 Actual	1998 Planned	1997 Actual
Assets	4,143	3,037	3,922
Net Income (Loss)	166	6.5	(17)
Surplus	167	9.1	1
Insurance in Force	182,450	166,000	164,000
Units Insured	476,669	390,196	486,352

1998 Results:

The Mortgage Insurance Fund recorded a net income of \$166 million in 1998, compared to a planned net income of \$6.5 million. This increase, reflective of the positive economic environment, is primarily the result of lower than anticipated claims.

Increased business volumes led to higher-than-expected revenues of \$770 million against \$688.5 million planned. Operating expenses of \$103 million, were slightly less than the \$106.4 million planned.

In 1998, the Corporation achieved an annual total return of 9.74 percent on the MIF investment portfolio, compared to the 8.30 per cent by the benchmark market index. Since 1990, annual total returns have averaged 10.47 per cent, compared to the 9.79 per cent benchmark.

The insurance-in-force totalled \$182.5 billion as at the end of 1998. The aggregate outstanding amount of all loans for which an insurance policy is issued may not exceed \$250 billion.

The long-term solvency of the Mortgage Insurance Fund has been confirmed by an actuarial valuation as at September 30, 1998.

Improve housing affordability

can offer high-ratio mortgages to Canadians no matter where in Canada the borrower lives.

In 1998 we took a major step in making it easier for Canadians to buy homes. We extended our mortgage insurance so lenders can provide up to **95 per cent financing** at the lowest interest rate possible to all homebuyers—not just first-time homebuyers. This mortgage insurance option has become a permanent part of our mortgage insurance product line.

In 1998, we insured 399,716 mortgage loans, representing 476,669 units and a total insured loan amount of over \$43 billion.

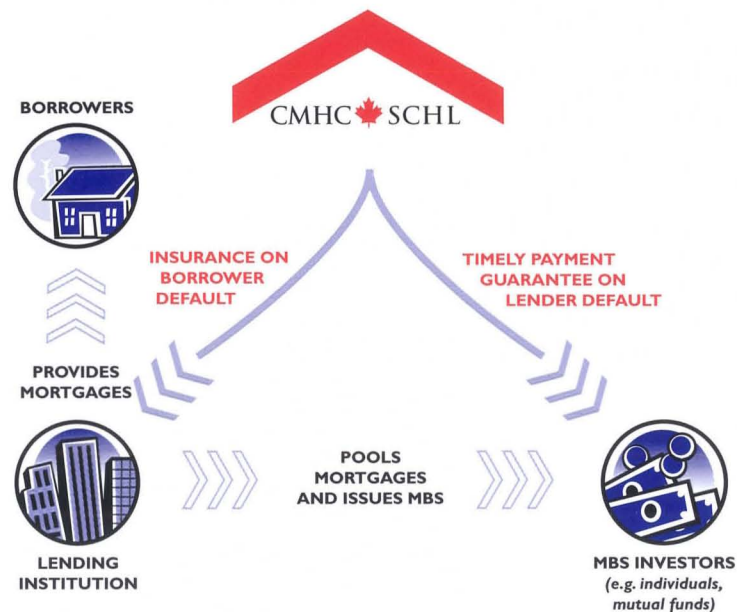
A pillar of Canada's housing finance system is NHA Mortgage-Backed Securities (MBS). These securities are an important source of funds for residential mortgages. They have become popular among Approved Lenders as a tool for managing liquidity, capital and risk. In 1998, we guaranteed a record \$9 billion in MBS.

Improving housing conditions for Aboriginal people is a key priority. **Housing and capacity building** are important goals of *Gathering Strength*, the Government of Canada's Aboriginal Action Plan. CMHC helps First Nations and other Aboriginal communities to develop the skills to manage their own housing.

On reserves, we improved housing affordability and choice by providing funds to build more than 500 new homes and repair some 400 homes. We also provided training and contracts for technical inspections, property management and access to low-cost loan financing through CMHC's direct lending initiative.

For **Aboriginal youth living on-reserve and in Inuit communities**, we invested \$1 million in training subsidies with organizations that hire and train young people for housing-related projects for three months to a year.

NHA MORTGAGE-BACKED SECURITIES AND MORTGAGE INSURANCE



MORTGAGE-BACKED SECURITIES GUARANTEE FUND (MBSGF)

(millions of dollars)	1998	1998	1997
	Actual	Planned	Actual
Assets	75	61.1	57
Net Income	8	6.2	6
Surplus	44	42.7	36
Securities Issued	9,076	4,000	7,000
Securities Outstanding	19,000	15,000	15,000

1998 Results:

In 1998, the Mortgage-Backed Securities Guarantee Fund recorded a net income of \$8 million, exceeding the planned level of \$6.2 million.

MBS issuance volumes rose to \$9 billion against the \$4 billion planned and reported guarantee fee earnings of \$8 million against the \$6.4 million planned, and application fees of \$2 million against the \$800,000 planned.

In 1998, the Corporation achieved an annual total return of 9.05 per cent on the MBSGF assets, compared to the 8.30 per cent by the benchmark market index. Historical returns since 1993 have averaged 9.40 per cent, compared to the 9.08 per cent by the benchmark.

A 1993 actuarial valuation concluded that the MBSGF is in a strong financial position. Given the ongoing financial health of the fund, another valuation has not been conducted since.

Last year, many Canadians with low-incomes or disabilities had a place to call home because of our **social housing programs**. Working with other government partners, community housing organizations and First Nations, we contributed approximately \$1.9 billion in federal financial support to assist some 644,000 social housing homes.

We work with federal, provincial and municipal departments and agencies, and non-profit and community organizations to help identify workable solutions to homelessness.

Government agencies and non-governmental organizations working with the homeless have identified the

need to document and share information about **'best practices' in addressing homelessness**. Responding to this need, we documented 10 best practice initiatives in 1998, which will be the focal point for regional and national roundtables on homelessness to be held in 1999.

MINISTER'S ACCOUNT

	1998 Actual	1998 Planned	1997 Actual
Households Assisted —			
New Commitments	13,700	8,700	10,850
Households Assisted —			
Existing Agreements	643,750	661,750	645,600
Grants and Contributions (\$M)	1,841	1,916	1,900

We continually look for new and innovative ways to support affordable housing for Canadians, particularly those with distinct needs.

We are particularly proud of our **Canadian Centre for Public-Private Partnerships in Housing (CCPPPH)**. The Centre encourages and helps establish community-based partnerships to create affordable housing through innovative financing arrangements. The Centre mobilizes people with the resources and skills needed to launch a housing project. In 1998, CCPPPH helped secure financing for more than 2,100 affordable homes. CCPPPH also provided funds to help put together proposals for development of another 3,000 homes. In addition, CCPPPH publishes information about innovative techniques so other communities can benefit.

We help provide **lower-cost social housing** by using our government status to raise money at attractive rates. CMHC is one of the largest issuers of bonds in Canada, raising \$2 billion in 1998.

Even though we have made it easier for Canadians to own homes, not everyone can afford to buy or rent a home. **Homelessness** continues to be a challenge. There is no easy solution.

1998 Results:

Expenditures on grants and contributions, including related administration and delivery costs, were \$1,841 million. In 1997 these expenditures were \$1,900 million.

The 1998 federal Budget included funding for a five year extension of \$50 million per year for 1998 to 2002, for the continuation of the Residential Rehabilitation Assistance Program, Emergency Repair Program and Home Adaptations for Seniors' Independence.

FOCUS ON INNOVATION IN AFFORDABILITY

Affordability and Choice Today (ACT)

We provided grants to 12 teams of builders, housing groups and municipalities to assist them in undertaking regulatory innovation and developing alternative housing forms.

Our partners were the Federation of Canadian Municipalities (FCM), the Canadian Home Builders' Association (CHBA) and the Canadian Housing and Renewal Association (CHRA).

Homegrown Solutions

Through Homegrown Solutions, the 2 year initiative implemented in 1996, we continued to fund 31 demonstration projects stemming from a total of 146 proposals to help house youth, Aboriginal people, the homeless, people with disabilities and low-income households. Our partners were the Cooperative Housing Federation of Canada (CHF), FCM, CHBA and CHRA.

Assisted Housing

ESTIMATED HOUSEHOLDS ASSISTED THROUGH EXISTING AGREEMENTS IN 1998

Category	CMHC Administered Agreements	Provincially- Territorially- Administered Agreements	Total
Social Housing			
Public	1,100	204,200	205,300
Rent Supplement	950	46,000	46,950
Non-Profit	48,750	118,350	167,100
Low Rental	59,450	25,450	84,900
Cooperative	41,600	9,700	51,300
On-Reserve	19,900	—	19,900
Urban Native	6,800	3,900	10,700
Rural and Native	4,500	18,200	22,700
Rental Residential Rehabilitation Assistance	12,700	7,700	20,400
Market Housing			
Federal Co-operative	12,500	2,000	14,500
Total	208,250	435,500	643,750

ESTIMATED HOUSEHOLDS SERVED THROUGH NEW COMMITMENTS IN 1998

Subsidy Programs	1998 Actual ⁽¹⁾	1998 Plan ⁽³⁾	1997 Actual
On-Reserve Non-Profit	550	650	1,450
Repair Programs ⁽²⁾			
Residential Rehabilitation Assistance Programs			
Homeowner	3,650	2,650	2,850
Disabled Homeowner	800	1,100	650
Rental and Rooming House	4,500	1,100	800
On-Reserve	400	600	750
Emergency Repair Program	1,600	600	650
Home Adaptations for Seniors Independence	1,300	1,800	2,050
Shelter Enhancement Initiative	900	200	1,650
Total	13,700	8,700	10,850

⁽¹⁾ Due to changes in delivery, figures reported for the "On-Reserve" line items reflect only nine months of activity for calendar year 1998.

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

⁽³⁾ 1998 actuals are higher than plan numbers as the plan was finalized prior to an additional \$50 million program extension for RRAP, ERP and HASI programs.

Improve the condition and the technical performance of housing

Objective: Improve housing and living conditions for Canadians.

1998 TARGETS AND ACHIEVEMENTS

Promote Healthy Housing technologies and sustainable communities

- Delivered a series of *Let's Clear the Air* seminars.

Pursue ongoing funding for renovation programs

- Extended the Residential Rehabilitation Assistance Program (RRAP), Emergency Repair Program (ERP) and Home Adaptations for Seniors' Independence (HASI) initiative for five years at a cost of \$300 million.

One of the three programs—the **Residential Rehabilitation Assistance Program (RRAP)**—provides forgivable loans to improve the health and safety of the homes belonging or rented to people with low-incomes. RRAP funds may also be used to make homes more accessible and safe for people with disabilities. To help **Canadians with disabilities**, the portion of funds targeted to making home modifications for persons with special needs was increased to \$8 million in 1998. In total, the RRAP program and associated provincially cost-shared programs helped over 9,300 households in 1998.

The **Emergency Repair Program (ERP)** helps homeowners in rural and remote areas with grants for emergency repairs to make their homes safe. **Home Adaptations for Seniors' Independence (HASI)** helps low-income, elderly Canadians adapt their homes for greater comfort and ease of use.

The performance of our homes in sheltering us and standing up to the elements is a critical concern, especially in extreme climates where temperatures can range from +40C to -40C. In the rainy Lower Mainland of B.C., homeowners have had problems with **leaky condominiums**. During 1998, CMHC worked with others such as the Building Envelope Research Consortium to help find practical solutions through housing research. We funded the development and publication of a *Best Practice Guide: Wood-Frame Envelopes in the Coastal Climate of British Columbia*. We also developed *Quality by Design: A Quality Assurance Protocol for Wood-Frame Building Envelopes in British Columbia*, which is currently being tested.

For more than 10 years, we have been researching and designing homes that protect the health of the people who live in them and preserve the natural environment. **Healthy Housing**

CMHC creates knowledge about housing technology and performance, and gets that knowledge out to the housing industry and consumers to help them make more informed business and purchasing decisions. This information transfer is a very important part of what we do.

Quality housing is a key to healthy communities. CMHC helps keep communities healthy. For low-income households, the homeless and people at risk of becoming homeless, CMHC works with other levels of government to provide safe, secure homes. In January we extended for five years three programs to provide \$250 million to **improve the housing stock** across the country. In December, we topped that up with \$50 million for housing renovations with a priority for **homeless people and those at risk of becoming homeless**.

FOCUS ON TECHNOLOGY

Showcasing our best

A new housing research centre at the National Research Council in Ottawa will speed up development and use of leading-edge housing technology. The Canadian Centre for Housing Technology is a joint initiative by CMHC, the National Research Council and Natural Resources Canada. The Centre will evaluate and demonstrate new housing technologies and be a show case of the Canadian housing system.

CMHC looks NoRTH

To give Canadians in the North expanded access to information to address their unique housing needs, CMHC launched NoRTH—the Northern Research and Technology in Housing Web site. This international effort involves CMHC and the Yukon and Alaska governments.

Increase awareness and acceptance of Healthy Housing and sustainable communities

makes efficient use of resources, including energy, and is affordable and adaptable to changing needs.

In 1998, we continued to tell Canadians about the link between housing and health. We produced publications, videos and seminars on a range of practical, Healthy Housing solutions suitable for both new and older homes.

We hit the road with our *Let's Clear the Air* seminars, taking our Healthy Housing message to communities. We also took part in forums such as the Green Building Challenge '98 Conference and the Southeast False Creek design workshop in Vancouver.

We published *Tap the Sun*, a book and CD-ROM package that explains how to capture the sun's energy to heat and light a home.



FOCUS ON HEALTHY HOMES

Healthy, Safe and Sound

In partnership with Safe Start, the injury prevention program of the Children's & Women's Health Centre of B.C., we opened the Healthy Home Centre in Vancouver. The Centre and related Web site demonstrate how to make your home safer, improve indoor air quality, prepare for earthquakes, and provide accessibility for persons with disabilities. More than 34 manufacturers and builders— many based in Vancouver— supported the Centre with donations of products worth more than \$60,000. CMHC contributed planning, design and marketing expertise, and more than \$40,000 to the Centre.

Level the playing field for private-public competition

Objective: Support market competitiveness and housing sector well-being.

1998 TARGETS AND ACHIEVEMENTS

Ensure viability of mortgage insurance products

- Increased premiums on existing rental and 95 per cent financing insurance.

Make modifications to MIF-MBSGF investment portfolio to increase long-term returns

- Increased investment terms and diversified MIF-MBSGF securities.

Expand and improve housing market surveys

- Launched *Housing Now*, a statistical analysis of local housing trends.
- Developed a fax version of *Housing Facts*.
- Revamped the *Starts and Completions* survey.

Establish international bilateral agreements

- Signed memoranda of understanding with Chile and Russia (Ministry of Construction and municipal government of Tver).

insurance system, to include both new homes and resale properties, and we offered service seven days a week.

emili reduces the time needed to approve a mortgage insurance application from days to seconds. In 1998, we doubled the proportion of applications approved through **emili**.

We have started restructuring our Mortgage Insurance Fund (MIF) and Mortgage-Backed Securities Guarantee Fund (MBSGF) investment portfolios. By making investment terms longer and diversifying the fund securities, we increased the expected long-term return on assets.

As part of our business mandate we must ensure that our mortgage insurance products are competitively priced and viable in the long term. To ensure that NHA mortgage loan insurance will continue to be available to facilitate the financing of existing rental units, we announced new fees and premiums for our **Existing Rental Mortgage Insurance** in October, effective January, 1999. The premiums for our 95 per cent financing product were also increased to ensure that we can continue to offer this insurance, and to

enable us to make this very popular program available to a broader range of Canadians.

CMHC's **Market Analysis Centre** is recognized as the leading supplier of housing market information in Canada. The Centre works with its clients to continuously refine and improve products to better meet their needs.

In 1998, we published research on several Canadian housing market issues. These publications included:

- *The Impact of Inheritances on Housing and Mortgage Markets*
- *The Changing Nature of Work and Future Housing Aspirations of Canadians*
- *Changing Working Conditions and Renter Core Housing Needs*

Our **Housing Outlook Conferences** are recognized as the leading source of information for housing industry decision makers. In 1998, we held conferences in 13 cities, providing more than 1,750 clients with information about local housing trends and outlooks that could affect their business planning.

Our library, the **Canadian Housing Information Centre (CHIC)** is the largest housing library in Canada and

A vibrant housing industry is an important part of a strong national economy. Through our programs, we help build a strong Canadian housing industry—and we help keep it strong.

Helping to ensure a competitive mortgage market is an important part of CMHC's business. We are working to ensure a level playing field among mortgage insurers. This will help improve housing affordability and choice. It will also ensure that affordable home financing remains available to Canadians across the country.

We helped make housing finance more cost-efficient for Approved Lenders and consumers in 1998. We extended **emili**, our automated mortgage loan

FOCUS ON AUTOMATION

"**emili** gave us the possibility of virtual real-time mortgage insurance approval. For us, this meant much improved customer service, as well as the opportunity to greatly increase the efficiency of our mortgage operation."

Rick Gummer, Vice-President, Origination Operations, CIBC Mortgages

"The impact on the industry is that you'll see a whole generation of Canadian homeowners who've never had to worry about waiting for their mortgage approval. That's a giant leap forward for the industry."

Christian Findlay, Vice-President, Residential Mortgages, Royal Bank

Expand the market for housing finance and market analysis products

Support the export of Canadian housing products, services and expertise

FOCUS ON NEW PRODUCTS AND IMPROVEMENTS

CMHC launched several new statistical publications in 1998. *Housing Now* offers clients across Canada statistics and analysis of local housing trends on a monthly basis, providing timely data to allow clients to respond to the dynamics of the market.

Our *National Housing Facts* was improved to include more insights for the housing industry on key construction statistics and emerging housing trends. Every month, our valued subscribers receive this report fresh off the press by fax or e-mail.

Consumer Intentions to Buy or to Renovate a Home reports were the result of in-depth interviews with thousands of consumers in Halifax, Montréal, Toronto, Calgary and Vancouver. Builders and developers are using this data to identify business opportunities in the new home market and in the growing renovation business.

Our *Starts and Completions Survey* was totally revamped through the use of sophisticated computer techniques. It now provides clients with critical housing data on a more accurate, timely and cost-effective basis.

one of the largest in the world. In 1998, CHIC answered more than 30,000 information requests from the public, and distributed more than 86,000 books, brochures, research reports, and videos. CHIC's Call Centre handled an average of 2,400 calls a month—12 per cent more than last year, and 78 per cent more than in 1996.

In 1998, CMHC's **Canadian Housing Export Centre** worked shoulder-to-shoulder with the housing industry and other Team Canada partners to increase Canadian housing exports. We supported industry at international trade shows, delivered exporter training workshops and conducted market analysis studies. Our work helps to bring down trade barriers and open markets in the United States, Germany and Japan for Canadian home builders, product manufacturers and service providers. We were also active in emerging markets such as South Korea, Russia, and Chile.

In September, the Minister responsible for CMHC, the Hon. Alfonso Gagliano, led some 30 Canadian com-

panies and organizations on a **trade mission to Santiago, Chile**, where they had an opportunity to meet and to do business with South American companies. The mission included highly valued matchmaking to link Canadian and Chilean companies. CMHC participated with the Canadian companies at EDIFICA, Latin America's largest builders' trade show. A highlight of the mission was the signing of an Agreement of Cooperation between CMHC and the Chilean Ministry of Housing and Urban Development to further joint efforts with respect to housing. Results from the trade mission are promising—a post-mission survey indicated that \$2.3 million in sales is anticipated within six months of the mission and a total of \$35 million is anticipated for all of 1999.

CMHC's own expertise is also in demand around the world. Work is proceeding in Mali and in the West Bank and Gaza where CMHC officials have been seconded to assist with improving

housing finance systems. In the West Bank and Gaza, CMHC officials on secondment are helping the **Palestinian Authority** to set up a mortgage financing system based on the Canadian model.

"The Palestinian Authority project is an opportunity to demonstrate Canada's successful approach to mortgage financing while the world is watching."

Project Manager, William Patry

As a result of this work, more residents of the West Bank and Gaza will be able to obtain home financing. There will also be economic benefits for Canadian companies, including consulting and sales, resulting from the development of this new housing market.

Through a Canadian International Development Agency funded project, CMHC is leading Canadian and Russian partners in a number of activities aimed at supporting **Russian housing sector reforms** and helping Russia's transition to a market-based economy. Consequently, the Canadian housing industry is being given the opportunity to demonstrate and promote its housing technologies in the large and emerging Russian market. In order to carry out this project, CMHC has proceeded to sign co-operative agreements with the **Russian Ministry of Construction** (Gosstroy) on the harmonization of codes and standards and with the municipal government of Tver where a **Centre of Excellence** for light frame technologies will be established.

Support the federal policy agenda

Objective: Maximize operational effectiveness and complete CMHC's transition to a more modern organization.

1998 TARGETS AND ACHIEVEMENTS

Establish human resource management practices in line with Public Service renewal

- Implemented a competency-based human resource management approach.
- Introduced a more competitive compensation policy.

Continue to implement the transfer of the management of social housing resources in all jurisdictions

- Signed transfer agreements with Manitoba and Yukon.

Complete the review of support services

- Conducted review.
- Set up outsourcing agreements for document production and lease management.
- Established partnership agreement for mainframe computer services.

As an agent of the Government of Canada, CMHC is committed to contributing to the federal government's policy agenda and is involved in interdepartmental work addressing some of Canada's most urgent social problems. We have also made strides towards becoming a more modern organization.

CMHC touches the lives of Canadians in many ways. **Youth and Aboriginal training** are two of the federal priorities that CMHC focused on in 1998. Aboriginal and Inuit youth gained valuable housing skills through our internship program. In addition, CMHC was one of 65 federal organizations offering youth internships under the Federal Public Sector Youth Internship Program.

We also helped victims of family violence. Through our **Shelter Enhancement Program**, we worked with other government departments and non-profit groups to improve safety, security and other facilities at 130 shelters across Canada, and to build 4 new shelters.

We joined a combined national effort to **reduce greenhouse gas emissions** in 1998. As a member of two multi-stakeholder committees—the Municipalities Table and the Buildings Table—we worked towards developing solutions to meet Canada's commitment made at the international conference on climate change in Kyoto, Japan in 1997.

The federal government's goal is to provide services to Canadians in the most professional, effective and cost-effi-

cient way. We are doing our part by streamlining operations and providing responsive, client-focused services.

Information systems are a key part of this effort. In 1998, we made most of our systems **Year 2000 compliant**.

We made our information products more widely available by adding more than 400 retail distribution outlets—including Home Depot, Beaver Lumber and Réno-Dépôt.

To help us become more **client-focused**, we asked clients how satisfied they are with our information products and service. Seventy-one per cent of the people who responded said they are generally satisfied with us. We have formed a client-service team to find ways to improve.

To ensure that we are meeting the needs of the financial community, we have established two **Lender Working**

CORPORATE RESOURCES

	1998 Actual	1998 Planned	1997 Actual
Staff Years	2,046	2,149	2,366
Operating Budget (\$M)	198	197	240

CORPORATE ACCOUNT

(millions of dollars)	1998 Actual	1998 Planned	1997 Actual
Assets	17,694	18,023	16,566
Net Income	1	6.3	11
Real Estate Sales	62	30.2	25
Gain (Loss) on Real Estate	(2)	3.1	5
Net Interest Income	24	30	36
Net Increase in Direct Lending Assets	1,098	1,814	1,816

1998 Results :

In 1998, the Corporate Account recorded a net income of \$1 million, compared to a planned net income of \$6.3 million.

The net income figure was lower than the planned level largely due to an increase of over 150 basis points in short-term borrowing rates relating to commercial paper funding. A portion of the direct lending was funded by short term commercial paper.

CMHC's direct lending in 1998 added approximately \$1.1 billion to the \$16.3 billion loans and investments portfolio.

Complete CMHC's transition to a more modern organization while improving service to Canadians

Committees for homeowner loans—one for initiations and one for servicing existing loans. Semi-annual meetings act as a forum where clients can raise issues and help us plan changes that will better meet their needs.

As Canadians turn to us every day for help with their housing problems, CMHC's client-service thrust begins with employees on the front lines. In addition to reorganizing to deliver products and services more efficiently, CMHC is dedicated to working together as **"One CMHC: Moving Forward Together"** to meet all our clients' needs.

"One CMHC" is more than 2,000 employees contributing their diverse talents to operating effectively in a global marketplace. Human resource policies and systems are fundamental to CMHC's evolution towards a more modern organization, where each individual participates meaningfully in our mission, business and success.

In 1998, we solidified our commitment to transform the organizational culture to support the values of respect and fairness, client-focus, and entrepreneurship by:

- continuing our commitment to valuing **diversity**;
- improving the **leadership capabilities** of our senior managers;
- developing a **competency-based human resource management approach**;
- introducing a more **competitive compensation policy**; and
- launching co-op and summer **student recruitment programs**.

To minimize the negative effects of downsizing, CMHC also continued to offer transition support through work force adjustment measures.

Better service delivery and more efficient use of taxpayers' dollars is driving our new role in **social housing**. Having

only one level of government involved in the management and administration of social housing resources will streamline and improve services. In 1998, we continued to negotiate the transfer of responsibility for the management of federal social housing resources to the provinces and territories. During the year, Yukon and Manitoba signed agreements, joining the five provinces and territories that signed in 1997. Provinces that have signed the new agreements have been able to use efficiency savings to support new social housing activity under provincially-designed programs.

As a federal crown corporation, CMHC aims to create greater awareness and recognition for its contribution to improving affordability, quality and choice of housing for Canadians. In 1998, a **Corporate Communications**

and Marketing Framework was developed to raise our profile and market our business to key audiences, including home owners and home buyers, builders, lenders and the real estate industry. The Framework is a first step in ensuring communications and marketing efforts are targeted at these audiences, as well as at others, to increase the visibility and relevance of CMHC and the federal government.

Corporate Services signed contracts with **new partners** for document production services, mainframe computer operations and lease-management services. This will reduce administrative costs and improve service delivery.

In 1998, we also completed the sale of our land development portfolio to the **Canada Lands Company Ltd.**, which will result in a more efficient overall delivery of government services.



FOCUS ON INNOVATIVE PARTNERSHIPS

In 1998, we signed a shared-service agreement with Government Telecommunications and Informatics Services (GTIS) of Public Works and Government Services Canada. The agreement will see GTIS take over CMHC's mainframe computer operation and equipment. CMHC will purchase the services it requires back from GTIS, ultimately at a lower cost than before.

TEN-YEAR FINANCIAL HIGHLIGHTS (in millions of dollars)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Corporate Account										
Total Assets	17,694	16,566	15,098	13,849	11,769	10,014	8,943	8,855	9,057	9,213
Portfolio of Loans and Investments:										
Direct Lending Program	9,436	8,338	6,522	4,507	2,415	730	—	—	—	—
Other	6,822	7,012	7,506	7,768	7,951	8,218	8,408	8,630	8,894	9,015
Real Estate	48	105	127	126	111	90	75	59	52	43
Total Loans and Investments	16,306	15,455	14,155	12,401	10,477	9,038	8,483	8,690	8,947	9,058
Borrowings from Government of Canada	6,418	6,834	7,094	7,505	7,958	8,295	8,486	8,619	8,703	8,819
Capital Market Borrowings	10,549	9,273	7,573	5,966	3,410	1,309	—	—	—	—
Net Interest Income	24	36	24	20	15	33	45	54	68	50
Gain (Loss) on Real Estate	(2)	5	(5)	2	14	8	(3)	3	4	21
Net Income (Loss)	1	11	(6)	(9)	(6)	6	12	17	11	31

Minister's Account

Assisted Housing Expenditures

(Administered Housing Programs on behalf of the Government of Canada)

Grants and Contributions	1,767	1,822	1,815	1,896	1,751	1,804	1,807	1,822	1,752	1,559
Fees Paid to Delivery Agents	4	9	12	14	19	26	29	30	26	21
Operating Expenses	70	69	118	92	98	105	114	110	108	107

Insurance and Guarantee Funds

Mortgage Insurance Fund:

Total Assets	4,143	3,922	2,503	2,258	2,038	1,795	1,551	1,339	1,106	906
Surplus (Deficit)	167	1	18	8	(78)	15	78	149	164	47
Premiums and Application Fees Received	845	828	611	480	579	487	459	275	208	223
Investment Income Received	212	171	146	151	93	176	139	106	73	57
Net Income (Loss)	166	(17)	10	86	(93)	(63)	(16)	(15)	117	163
Net Claims Paid	289	374	351	317	325	305	316	83	30	(6)
Insurance in Force	182,450	164,000	131,000	118,000	102,200	86,500	72,000	58,300	52,800	48,600
Legislative Ceiling	250,000	200,000	150,000	150,000	100,000	100,000	100,000	100,000	100,000	100,000

Mortgage-backed Securities Guarantee Fund:

Total Assets	75	57	45	47	42	36	29	19	11	6
Surplus	44	36	30	23	17	10	10	6	3	1
Guarantee and Application Fees Received	20	15	5	3	8	15	14	7	5	5
Investment Income Received	4	3	2	3	5	3	2	1	1	—
Net Income	8	6	7	7	6	6	4	2	2	1
Securities Issued	9,076	6,949	1,723	1,557	3,720	6,580	5,959	3,187	2,103	1,940
Guarantees in Force	19,000	15,000	14,000	17,100	17,500	16,300	12,000	7,700	4,900	3,000



HOME TO CANADIANS
Canada

CORPORATE GOVERNANCE

"Effective governance is more than just a set of procedures. It is the covenant the Board of Directors has with the Government of Canada to safeguard its interests and govern this organization with integrity and honesty for the benefit of all Canadians."

Peter Smith, Chairman of the Board, at the 1998 National Leaders' Conference, February 25, 1998.

The Board of Directors

Canada Mortgage and Housing Corporation is governed by a Board of Directors, made up of the Chairman of the Board, the President and Chief Executive Officer, five members from the public and two senior public servants. The federal government appoints the Board. The nine members of the Board bring a variety of expertise and perspective to guide and govern CMHC.

In 1998, the Board strengthened its role in setting the Corporation's overall direction by becoming more involved in the development of CMHC's strategic and corporate plan. Based on information about CMHC's operating environment provided by senior management, planning staff and outside experts, the Board set broad strategies for the Corporation in the spring of 1998. It later approved a preliminary plan for implementing these strategies, and in October 1998, approved CMHC's 1999–2003 Corporate Plan.

Board committees addressed a number of subjects dealing with the effective stewardship of CMHC in 1998. The **Audit Committee** advised the Board on the annual audit plan, the appointment of the external auditors, the audited

statements of the Corporation, internal audit and CMHC's special examination.

The Board formed a **Governance Committee** to oversee the development of performance measures for the Corporation. CMHC undertook a performance measurement pilot test during 1998 which will aid in improving corporate governance and decentralizing accountability. The performance measurement framework will provide a vehicle to communicate corporate vision, link activities at all levels with corporate objectives and report on accomplishments. Internal consultations are occurring with all business areas.

This committee also monitored the implementation of the Government's portfolio management concept, which gives coherence to policy-making across the government department and various agencies and Crown corporations for which the Minister is responsible. In addition, a framework was developed for evaluating the performance of the Board. This process will ensure that the governance practices of the Board are continually reviewed and improved. The first performance evaluation will be completed in early 1999.



From left to right: Claude Poirier-Defoy, Gerald I. Norbraten, Claude Hallé, Cuckoo Kochar, Peter R. Smith, Janice Cochrane, Ranald A. Quail, Renate Bublick, Marc Rochon. Absent: Patricia Toner

LOOKING AHEAD

As we prepare for the future, CMHC's guiding principles will be **commitment to clients, respect for employees and responsibility to the Government and public**. We will implement measures to further improve client service and our position in the market with strategies, products and services attuned to clients' needs.

In 1999, proposed amendments to the *National Housing Act* and *Canada Mortgage and Housing Corporation Act* will be introduced in Parliament. If approved, CMHC will be able to respond more quickly to the needs of Canadians and to opportunities in the market. Canadians will also benefit from the availability of low-cost funds and access to mortgage financing no matter where they live in Canada. CMHC will be able to better promote Canadian housing products and services abroad. This will result in job opportunities for Canadians, here and abroad.

ACCESSING CMHC INFORMATION, PRODUCTS, PUBLICATIONS AND SERVICES

You will find CMHC on the Web at:
www.cmhc-schl.gc.ca

CMHC BUSINESS CENTRES

Atlantic Business Centre
902 426-3530

Quebec Business Centre
514 283-4464

Ontario Business Centre
416 221-2642

Prairie and Northwest
Territories Business Centre
403 515-3000

British Columbia and Yukon
Business Centre
604 731-5733

OTHER KEY TELEPHONE NUMBERS:

Canadian Housing Information
Centre (CHIC)

1 800 668-2642

613 748-2367

TTY 1 800 309-3388

E-mail: chic@cmhc-schl.gc.ca

Market Analysis Electronic Marketplace

www.cmhc-schl.gc.ca/mktinfo/store

1 800 668-2642

FOR ALL OTHER INFORMATION:

613 748-2000

BOARD OF DIRECTORS AND PRINCIPAL OFFICERS

BOARD OF DIRECTORS

(as at December 31, 1998)

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

Marc Rochon
Ottawa, Ontario
President and Chief Executive Officer

Renate Bublick
Vancouver, British Columbia
President, Cypress Consultants

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

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

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

Gerald I. Norbraten
Regina, Saskatchewan
President, Norbraten Architects

Ranald A. Quail
Hull, Quebec
Deputy Minister, Public Works and
Government Services Canada

Patricia Toner
Grand Falls, New Brunswick
Supervisor, Grand Falls Public Library

CORPORATE OFFICERS

(as at December 31, 1998)

Marc Rochon
President and Chief Executive Officer

Karen A. Kinsley
Vice-President, Corporate Services and
Chief Financial Officer

William G. Mulvihill
Vice-President, Insurance

Claude Poirier-Defoy
Vice-President, National and
International Housing Support

Douglas A. Stewart
Vice-President, Strategy

Roger Collet
Vice-President, Communications and
Marketing

Jim Millar
General Manager, Human Resources and
Organizational Development

Joan Dalrymple
General Manager, Atlantic Business
Centre

Peter Friedmann
General Manager, Ontario Business
Centre

James T. Lynch
General Manager, British Columbia and
Yukon Business Centre

Jean-François Martin
General Manager, Quebec Business
Centre

Berta Zaccardi
General Manager, Prairie and Northwest
Territories Business Centre



**Canada Mortgage and
Housing Corporation**

**FINANCIAL
STATEMENTS**

For The Year Ended 31 December 1998

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended 31 December 1998 were prepared in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in this report is consistent with that in the financial statements.

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

The financial statements have been audited by the joint external auditors, Jacques Champagne, CA, of the firm Mallette Maheu, and L. Denis Desautels, FCA, Auditor General of Canada. Their report offers an independent opinion of the financial statements to the Minister of Public Works and Government Services.



Marc Rochon
President and Chief Executive Officer



Bill Mulvihill
Vice-President
Corporate Services and Chief Financial Officer

AUDITORS' REPORT

To the Minister of Public Works
and Government Services

We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and the Insurance and Guarantee Funds as at 31 December 1998, and the related statements of operations and reserve fund, operations and surplus, and cash flows, and the Minister's Account statement of expenses and recoveries 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 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 the 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 1998 and the results of its operations and its cash flows for the year then ended in accordance with 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.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
5 March 1999

Jacques Champagne, CA
Mallette Maheu
General Partnership
Associated with Arthur Andersen

CORPORATE ACCOUNT

BALANCE SHEET — As at 31 December

in millions of dollars

Assets	notes	1998	1997
Loans and Investments	3	16 306	15 455
Cash and Investment in Securities	15	539	529
Due from the Minister	4	252	187
Securities Purchased Under Resale Agreements		214	—
Deferred Recoveries from the Minister		151	176
Accounts Receivable		131	118
Business Premises and Equipment	5	55	60
Other Assets		26	14
Future Income Taxes to Recover		20	27
		17 694	16 566
Liabilities			
Capital Market Borrowings	6	10 549	9 273
Borrowings from the Government of Canada	6	6 418	6 834
Accounts Payable and Accrued Liabilities	4	341	363
Securities Sold Under Repurchase Agreements		214	—
Due to the Receiver General for Canada		85	14
Obligation Under Capital Lease	7	29	31
Due to Insurance and Guarantee Funds		17	11
		17 653	16 526
Equity			
Capital			
Authorized and fully paid by the Government of Canada		25	25
Reserve Fund	8	16	15
		17 694	16 566

The accompanying notes are an integral part of these financial statements

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND — Year Ended 31 December

in millions of dollars

	notes	1998	1997	1996
Interest Earned	22	1 271	1 211	1 128
Interest Expense	22	(1 247)	(1 175)	(1 104)
Net Interest Income		24	36	24
Real Estate Sales	22	62	25	17
Cost of Real Estate Sold		(61)	(11)	(2)
Holding Costs		(3)	(9)	(20)
Gain (Loss) on Real Estate		(2)	5	(5)
Other Income		5	2	1
Income before Operating Expenses		27	43	20
Operating Expenses	9	(23)	(24)	(29)
Income (Loss) before Taxes		4	19	(9)
Taxes	10	(3)	(8)	3
Net Income (Loss)		1	11	(6)
Reserve Fund, Beginning of Year		15	4	10
Reserve Fund, End of Year		16	15	4

The accompanying notes are an integral part of these financial statements

CORPORATE ACCOUNT

STATEMENT OF CASH FLOWS — Year Ended 31 December

in millions of dollars

	1998	1997	1996
Cash Flows Provided by (Used in) Operating Activities			
Net Income (Loss)	1	11	(6)
Add (Deduct)			
Amortization	5	5	5
Future Income Taxes to Recover	7	(7)	(6)
	13	9	(7)
Changes in			
Due to/from			
the Receiver General for Canada	71	(10)	17
Insurance and Guarantee Funds	6	(11)	26
the Minister	(65)	91	23
Accounts Receivable	(13)	(30)	(16)
Accounts Payable and Accrued Liabilities	(22)	40	21
Accrued Interest Payable	1	20	6
Accrued Interest Receivable	3	3	(5)
Other Assets	(12)	1	4
	(18)	113	69
Cash Flows Provided by (Used in) Investments Activities			
Loans and Investments			
Repayments	464	564	398
Additions	(1 320)	(1 867)	(2 146)
Change in Deferred Recoveries from the Minister	25	77	2
Additions to Business Premises and Equipment	1	(4)	(5)
	(830)	(1 230)	(1 751)
Cash Flows Provided by (Used in) Financing Activities			
Repayments of Borrowings from the Government of Canada	(413)	(257)	(410)
Capital Market Borrowings			
Issues	12 555	22 537	10 353
Repayments	(11 282)	(20 860)	(8 754)
Repayment of Obligation Under Capital Lease	(2)	(2)	(1)
	858	1 418	1 188
Increase (Decrease) in Cash Position	10	301	(494)
Cash and Investment in Securities			
Beginning of Year	529	228	722
End of Year	539	529	228

The accompanying notes are an integral part of these financial statements

MINISTER'S ACCOUNT

STATEMENT OF EXPENSES AND RECOVERIES — Year Ended 31 December

in millions of dollars

Expenses	notes	1998	1997	1996
Grants and Contributions		1 767	1 822	1 815
Operating Expenses	9	70	69	118
Fees Paid to Delivery Agents		4	9	12
Recoveries	4	1 841	1 900	1 945

The accompanying notes are an integral part of these financial statements

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET — As at 31 December

in millions of dollars

	notes	1998	1997
Assets	11		
Investment in Securities	15	3 222	2 692
Securities Purchased Under Resale Agreements		684	950
Real Estate Inventory		223	265
Future Income Taxes to Recover		57	46
Due from Corporate Account		17	11
Mortgages		15	15
		4 218	3 979
Liabilities			
Unearned Premiums and Guarantee Fees		2 417	2 104
Provision for Claims	14	836	825
Securities Sold Under Repurchase Agreements		684	952
Accounts Payable and Accrued Liabilities		70	59
Taxes Payable		—	2
		4 007	3 942
Surplus	12	211	37
		4 218	3 979

The accompanying notes are an integral part of these financial statements

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS AND SURPLUS — Year Ended 31 December

in millions of dollars

	notes	1998	1997	1996
Revenues	11			
Earned Premiums and Guarantee Fees		498	425	359
Application Fees		53	55	42
Income from Investments		230	184	155
Other		4	1	2
		785	665	558
Expenses				
Loss on Claims		358	424	386
Operating Expenses	9	105	147	122
Government of Canada Fee		23	12	—
Adjustment to Provision for Claims		16	97	21
		502	680	529
Income (Loss) before Taxes		283	(15)	29
Taxes	10	(109)	4	(12)
Net Income (Loss)		174	(11)	17
Surplus, Beginning of Year		37	48	44
Assets Returned to the Government of Canada		—	—	(13)
Surplus, End of Year		211	37	48

The accompanying notes are an integral part of these financial statements

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CASH FLOWS — Year Ended 31 December

in millions of dollars

	notes	1998	1997	1996
	11			
Cash Flows Provided by (Used in) Operating Activities				
Premiums and Guarantee Fees Received		812	788	574
Application Fees Received		53	55	42
Investment Income Received		216	174	148
Net Claims	14	(289)	(374)	(351)
Operating Expenses Paid		(116)	(116)	(112)
Taxes Paid		(121)	(16)	(36)
Other		(34)	(29)	(23)
		521	482	242
Cash Flows Provided by (Used in) Investment Activities				
Investment in Securities		(515)	(493)	(203)
Assets Returned to the Government of Canada		—	—	(13)
Increase (Decrease) in Due from (to) Corporate Account		6	(11)	26
Due from (to) Corporate Account				
Beginning of Year		11	22	(4)
End of Year		17	11	22

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1998

I. BASIS OF PRESENTATION

Canada Mortgage and Housing Corporation was incorporated as a Crown corporation 1 January 1946. The Corporation is regulated by the *Canada Mortgage and Housing Corporation Act* (CMHC Act). The Corporation's mandate, as stated in the *National Housing Act* (NHA), is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions." The Corporation is for all purposes an agent of Her Majesty in the right of Canada.

On February 11, 1999 the Minister responsible for CMHC tabled legislation to amend the NHA and the CMHC Act to further redefine roles and responsibilities of the Corporation.

Bill C-66 (1999) serves to simplify the current NHA by removing unnecessary restrictions, and enables CMHC to respond quickly to the needs of Canadians and to opportunities in the loan insurance workplace. In addition, the Corporation will be better able to expand export opportunities for Canada's housing industry.

The Corporation has three separate responsibilities under its mandate and maintains separate accounting records for each. Separate financial statements are presented in order to preserve the separate identities of the assets, liabilities, capital, reserve fund, surpluses or deficits.

Together, these statements constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended 31 December 1998.

In total, the Corporation manages:

in millions of dollars

	1998	1997
Assets	21 895	20 534
Liabilities	21 643	20 457
Portion Payable to the Government of Canada	6 418	6 834
Minister's Account Expenses Recoverable from Parliamentary Appropriations	1 841	1 900
Operating Expenses	198	240

CORPORATE ACCOUNT

The Corporation makes loans and other investments under various provisions of the *National Housing Act*, develops and sells land holdings, and provides services in housing related areas. Funding is provided by borrowings from the Government of Canada and capital markets.

MINISTER'S ACCOUNT

The Corporation administers housing programs under provisions of the *National Housing Act* with funding provided by the Government of Canada through annual Parliamentary appropriations. The Corporation is reimbursed for subsidies and losses relating to these programs in addition to the related operating expenses.

INSURANCE AND GUARANTEE FUNDS

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

A. LOANS AND INVESTMENTS

I. LOANS

Loans are carried at cost plus accrued interest. As they are intended to be held until maturity, their carrying value is not adjusted to reflect any temporary decline in fair value.

Losses on insured loans are recoverable through the Mortgage Insurance Fund, losses on uninsured loans are recoverable from the Government of Canada through the Minister's Account and, for loans where the transfer of administration to provinces or territories has occurred, losses are recoverable from these jurisdictions.

The Corporate Account is assured full collection of principal and interest and will not incur any losses on these loans due to uncollectibility. No loss provisions for loan impairment are made.

If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans under certain programs contain interest rate clauses that are lower than the related Borrowings from the Government of Canada. Accordingly, related interest earnings losses are recoverable through the Minister's Account.

II. FEDERAL-PROVINCIAL AGREEMENTS

Loans and investments in housing projects were made under various cost-sharing agreements with the provinces and territories to encourage the development of rental housing, land assembly, co-operative housing, rural and native housing and housing rehabilitation.

The Corporation's share of costs plus capitalized interest are reflected in these statements. The Corporation's share of subsidies and losses related to these agreements is recovered from the Government of Canada through the Minister's Account.

Gains on the sale of land assembly projects are recognized in the Corporate Account.

III. REAL ESTATE

Real estate is comprised of direct acquisitions and other related costs.

All real estate is recorded at acquisition cost plus any modernization and improvement costs incurred.

Holding costs, including interest, are capitalized up to market value (except for Social Housing projects, where capitalization is not limited to the market value) after which the costs are expensed in the Corporate Account. Gains or losses on disposal are recognized in the Corporate Account.

Holding costs, including interest, on properties acquired as the result of default on uninsured loans, and for directly acquired Social Housing projects, are capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Government of Canada through the Minister's Account. All net operating losses, including amortization on buildings calculated on a straight-line basis over the remaining term of the corresponding debt, are recovered from the Government of Canada through the Minister's Account.

B. DERIVATIVE FINANCIAL INSTRUMENTS

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

C. SECURITIES PURCHASED UNDER RESALE AND SOLD UNDER REPURCHASE AGREEMENTS

Securities purchased under resale agreements consist of the purchase of a security, normally a government bond, with the commitment by the Corporation to resell the security to the original seller at a specified price. Securities sold under repurchase agreements consist of the sale of a security with the commitment by the Corporation to repurchase the security at a specified price. Securities purchased under resale and sold under repurchase agreements are carried at cost on the balance sheet. The difference between the sale price and the agreed repurchase price on a repurchase agreement and the difference between the cost of the purchase and the pre-determined proceeds to be received on a resale agreement are recorded, over the term of the agreement, in Income from Investments.

D. INVESTMENT IN SECURITIES

CORPORATE ACCOUNT

The Corporation has a policy of matching the maturity structure of its Corporate Account assets with that of its liabilities. In those cases where the funds are raised in advance of the investment in loans and where the Corporation holds investments as hedges, gains and losses on such investments are deferred and amortized on a straight-line basis to interest expense over the term of the debt issue that generated the monies for investment. Deferred gains and losses are included in Other Assets.

INSURANCE AND GUARANTEE FUNDS

Investments are purchased with the original intention to hold them to maturity. Such investments are carried at amortized cost plus accrued interest. Investments are written down to their fair value when declines in value are other than temporary. Premiums and discounts on investments are amortized on a constant yield basis to income over the period to maturity of the related investments. Gains and losses realized on disposal of investments and write downs to reflect other than temporary impairment in value are included in interest earned from the investments in the year in which they occur. Gains and losses on disposal are based on the average cost of the securities sold.

E. DEFERRED RECOVERIES FROM THE GOVERNMENT OF CANADA THROUGH THE MINISTER'S ACCOUNT

Expenditures to modernize and improve certain properties are recovered from the Government of Canada through the Minister's Account over a period not exceeding ten years.

F. INTEREST EARNED

Interest Earned arising from Loans and Investments, Cash and Investment in Securities and Deferred Recoveries from the Minister is recognized on an accrual basis up to the date that the asset is retired. Certain interest revenue is obtained through the Minister's Account.

G. CAPITAL MARKET BORROWING COSTS

Issuance Costs on Capital Market Borrowings are deferred and amortized as Interest Expense on a straight-line basis over the term of the debt.

Premiums and Discounts on Capital Market Borrowings are deferred and amortized on a constant yield basis over the term of the debt.

H. POST-RETIREMENT BENEFITS

Post-retirement benefits, other than pension benefits, are expensed as incurred and are included in Operating Expenses.

I. PENSION COST AND OBLIGATION

The Corporation provides pensions based on length of service and the average earnings of the best five-year period as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, pro-rated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund, the deferred pension liability, is reflected in the balance sheet under Accounts Payable and Accrued Liabilities.

J. AMORTIZATION

Business Premises and Equipment are amortized on a diminishing balance basis over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis.

K. INCOME TAXES

Income taxes are accounted for using the future income taxes method. Under this method, future income taxes are recognized whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow or reduction.

The Corporation's income tax liabilities and assets are measured using the tax rates that are expected to apply when the liabilities are settled and the assets realized.

L. REAL ESTATE INVENTORY

Real estate acquired upon the payment of a claim resulting from a loan default is carried at the lower of cost or net realizable value. Net realizable value is calculated as the current market value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Amortization is not recorded on the real estate.

M. MORTGAGES

Mortgages are carried at cost less a provision for estimated loss based on market property values.

N. PREMIUMS

Premiums are deferred and are taken into income over the life of the related policies according to the risk of default which is actuarially reviewed.

O. PROVISION FOR CLAIMS

This provision, which is actuarially reviewed, represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which claims have not yet been received by the Corporation.

P. GUARANTEE FEES

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

Q. APPLICATION FEES

Application fees are recognized as income when received.

R. INSURANCE ISSUANCE COSTS

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

3. LOANS AND INVESTMENTS

in millions of dollars

	1998	1997
Loans	7 241	7 034
Federal-Provincial Agreements		
Loans	7 413	6 653
Investments in Housing Projects	1 591	1 632
Land Assembly Projects	13	31
	9 017	8 316
Real Estate		
Direct Acquisitions	25	35
Other	23	70
	48	105
Total Loans and Investments	16 306	15 455

As a result of the federal initiative to transfer administrative responsibility for Social Housing programs to the provinces and territories, seven agreements are in effect. Included in the balance of \$9 017 million, \$1 679 million (1997 – \$1 147 million) is due directly to the Corporation from provincial and territorial governments.

Any default or disposal losses incurred relating to the Loans and Investment portfolio are recoverable either from the Minister's Account, 36% (1997 – 42%), the Mortgage Insurance Fund, 54% (1997 – 51%), or from the provinces or territories, 10% (1997 – 7%).

Of the total Loans and Investments portfolio, 92% (1997 – 90%) relates to Social Housing programs which are supported with subsidies from the Government of Canada through the Minister's Account.

The amount of interest capitalized on real estate was \$8 million (1997 – \$2 million). Holding costs of \$3 million (1997 – \$9 million) on land acquired directly by the Corporation have been charged to the Corporate Account.

The following table provides the contractual repricing or maturity structure of the loans:

in millions of dollars

	1999	2000	2001	2002	2003	Thereafter	Total
	2 005	2 073	1 410	2 392	2 006	4 768	14 654

4. DUE FROM THE MINISTER

in millions of dollars

	1998	1997	1996
Receivable, Beginning of Year	187	278	301
Expenses Recoverable	1 841	1 900	1 945
Recovered from the Minister	(1 776)	(1 991)	(1 968)
Receivable, End of Year	252	187	278

Accounts Payable and Accrued Liabilities in the Corporate Account include \$243 million (1997 – \$264 million) which are also included in the receivable, Due from the Minister. When paid, recovery will be made from the Government of Canada through the Minister's Account.

5. BUSINESS PREMISES AND EQUIPMENT

in millions of dollars

				1998	1997
	Amortization Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	4% or 5%	39	14	25	27
Building Under Capital Lease	4%	30	8	22	24
Leasehold improvements	10% or 20%	12	9	3	3
Equipment	8%, 20% or 30%	36	31	5	6
Total		117	62	55	60

Amortization in 1998 was \$5 million (1997 – \$5 million, 1996 – \$5 million).

6. BORROWINGS

The Corporation borrows from the Government of Canada (Consolidated Revenue Fund) and from capital markets under provisions of the *Canada Mortgage and Housing Corporation Act* and the *National Housing Act* to finance loans and investments.

The Corporation has authority to borrow a maximum of \$15 billion from sources other than the government.

in millions of dollars

	Interest Rate	Term	1998	1997
Government of Canada	9.0%	22.4 years	6 418	6 834
Capital Market				
Commercial Paper	4.8%	94 days	1 125	887
Medium-term Borrowings	6.6%	2.8 years	9 424	8 386
Total			16 967	16 107

Included in these values is \$184 million (1997 – \$183 million) of accrued interest. Capital market borrowings include US \$800 million carried at \$1 103 million. All foreign exchange exposure risk is fully hedged through the use of cross currency swaps, for the interest and principal repayments.

The following table provides the maturity structure of Corporate borrowings:

in millions of dollars

	Government of Canada	Capital Market		Total
		Commercial Paper	Medium-term Borrowings	
Accrued Interest	64	—	120	184
1999	212	1 125	1 499	2 836
2000	216	—	1 907	2 123
2001	228	—	1 262	1 490
2002	218	—	2 112	2 330
2003	245	—	1 880	2 125
Thereafter	5 235	—	644	5 879
Total	6 418	1 125	9 424	16 967

7. OBLIGATION UNDER CAPITAL LEASE

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease that is accounted for as a capital lease. The Corporation assumes ownership of the building for a cost of one dollar at the termination of the lease in 2015.

The annual lease payments are \$5 million for the first 10 years and \$4 million for the remaining 15 years.

The minimum lease payments are:

in millions of dollars

	Leasehold Improvements (10 Year Lease)	Building (25 Year Lease)	Total
Interest Rate	11.57%	11.77%	
1999 to 2003	3	18	21
2004 to 2015	—	43	43
Total future minimum lease payments	3	61	64
Less interest	1	34	35
Present value of minimum lease payments	2	27	29

Interest expense in 1998 was \$3 million (1997 — \$4 million, 1996 — \$4 million).

8. RESERVE FUND

The Reserve Fund is limited by Order-in-Council to \$25 million.

9. OPERATING EXPENSES

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

in millions of dollars

	1998		1997		1996	
		%		%		%
Corporate Account	23	11.8	24	10.0	29	11.0
Minister's Account	70	35.3	69	28.8	118	43.8
Insurance and Guarantee Funds	105	52.9	147	61.2	122	45.2
Total	198	100.0	240	100.0	269	100.0

Included in Operating Expenses are estimated restructuring costs of \$6 million for 1998 (1997 — \$37 million, 1996 — \$56 million).

10. TAXES

Taxes include income tax and Large Corporations Tax (LCT).

The tax rate on income is 38%. The Large Corporations Tax rate levied on certain capital amounts is 0.225%.

The Corporate Account Income Tax Expense includes Revenue Canada adjustments.

The Corporation reports income tax expense in the statement of operations based upon transactions recorded in the financial statements regardless of when they are recognized for income tax purposes.

Taxes are:

in millions of dollars

	1998			1997			1996		
	Income Tax	LCT	Total	Income Tax	LCT	Total	Income Tax	LCT	Total
Corporate Account	3	—	3	8	—	8	(3)	—	(3)
Insurance and Guarantee Funds	108	1	109	(5)	1	(4)	11	1	12
Total	111	1	112	3	1	4	8	1	9

Future Income Taxes to Recover consists of the following temporary differences in:

in millions of dollars

	1998	1997	1996
Policy Liabilities	48	46	24
Expenses incurred but not disbursed	19	12	9
Other	10	15	12
Future Income Taxes to Recover	77	73	45

II. INSURANCE AND GUARANTEE FUNDS

Balance Sheet — As at 31 December

in millions of dollars

	Mortgage Insurance Fund		Mortgage-Backed Securities Guarantee Fund	
Assets	1998	1997	1998	1997
Investment in Securities	3 150	2 635	72	57
Securities Purchased Under Resale Agreements	684	950	—	—
Real Estate Inventory	223	265	—	—
Future Income Taxes to Recover	57	46	—	—
Mortgages	15	15	—	—
Due from Corporate Account	14	11	3	—
	4 143	3 922	75	57
Liabilities				
Unearned Premiums and Guarantee Fees	2 386	2 083	31	21
Provision for Claims	836	825	—	—
Securities Sold Under Repurchase Agreements	684	952	—	—
Accounts Payable and Accrued Liabilities	70	59	—	—
Taxes Payable	—	2	—	—
	3 976	3 921	31	21
Surplus	167	1	44	36
	4 143	3 922	75	57

II. INSURANCE AND GUARANTEE FUNDS

Statement of Operations and Surplus — Year Ended 31 December

in millions of dollars

	Mortgage Insurance Fund			Mortgage-Backed Securities Guarantee Fund		
Revenues	1998	1997	1996	1998	1997	1996
Earned Premiums and Guarantee Fees	490	417	351	8	8	8
Application Fees	51	54	41	2	1	1
Income from Investments	225	180	151	5	4	4
Other	4	1	2	—	—	—
	770	652	545	15	13	13
Expenses						
Loss on Claims	358	424	386	—	—	—
Operating Expenses	103	145	120	2	2	2
Government of Canada Fees	23	12	—	—	—	—
Adjustments to Provision for Claims	16	97	21	—	—	—
	500	678	527	2	2	2
Income (Loss) before Taxes	270	(26)	18	13	11	11
Taxes	(104)	9	(8)	(5)	(5)	(4)
Net Income (Loss)	166	(17)	10	8	6	7
Surplus, Beginning of Year	1	18	8	36	30	23
Surplus, End of Year	167	1	18	44	36	30

11. INSURANCE AND GUARANTEE FUNDS

Statement of Cash Flows — Year Ended 31 December

in millions of dollars

	Mortgage Insurance Fund			Mortgage-Backed Securities Guarantee Fund		
	1998	1997	1996	1998	1997	1996
Cash Flows Provided by (Used in) Operating Activities						
Premiums and Guarantee Fees Received	794	774	570	18	14	4
Application Fees Received	51	54	41	2	1	1
Investment Income Received	212	171	146	4	3	2
Net Claims	(289)	(374)	(351)	—	—	—
Operating Expenses Paid	(114)	(114)	(111)	(2)	(2)	(1)
Taxes Paid	(116)	(11)	(32)	(5)	(5)	(4)
Other	(34)	(29)	(23)	—	—	—
	504	471	240	17	11	2
Cash Flows Provided by (Used in) Investment Activities						
Investment in Securities	(501)	(484)	(216)	(14)	(9)	—
Increase (Decrease) in Due from (to) Corporate Account	3	(13)	24	3	2	2

The Rental Guarantee Fund was closed and the residual cash assets of \$13 million were returned to the Consolidated Revenue Fund in 1996.

12. ACTUARIAL VALUATION OF THE MORTGAGE INSURANCE FUND

An actuarial study of the Fund as at 30 September 1998 disclosed that the Fund had an actuarial surplus of \$147 million (30 September 1997 – \$6 million actuarial deficit).

The financial position of the Mortgage Insurance Fund is determined annually by an independent actuary. Valuation of policy liabilities with respect to the ultimate losses resulting from past and future defaults is based on assumptions on future economic conditions, interest rates and average loss levels with a margin for an adverse deviation.

Material changes to recognized excess of assets over actuarial liabilities can occur when predicted future conditions and assumptions change.

13. INSURANCE AND GUARANTEES IN FORCE

A. MORTGAGE INSURANCE FUND

Section 21 of the *National Housing Act* establishes the maximum limit which the aggregate outstanding amount of loan insurance policies may not exceed. To accommodate anticipated insurance requirements into the future, the legislative ceiling was increased to \$250 billion. As at 31 December 1998, insurance policies in force totalled approximately \$183 billion (1997 – \$164 billion).

B. MORTGAGE-BACKED SECURITIES GUARANTEE FUND

At 31 December 1998, guarantees in force totalled approximately \$19 billion (1997 – \$15 billion).

14. PROVISION FOR CLAIMS

In accordance with the terms of the agreements for the transfer of administrative responsibility for Social Housing programs to the provinces and territories, \$6 million was paid from the MIF Social Housing Reserves to the provinces and territories in 1998 (1997 – \$15 million). The actuarially established reserve as at 30 September 1998 stands at \$203 million (30 September 1997 – \$223 million) for Social Housing.

15. INVESTMENT IN SECURITIES

in millions of dollars

	Remaining Term to Maturity					
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	1998 Total	1997 Total
Corporate Account						
Securities issued or guaranteed by:						
Canada	6	208	5	—	219	112
Other	321	—	—	—	321	406
Total	327	208	5	—	540	518
Insurance and Guarantee Funds						
Securities issued or guaranteed by:						
Canada	120	169	341	1 627	2 257	1 980
Provinces	6	—	161	442	609	392
Other	36	38	96	186	356	320
Total	162	207	598	2 255	3 222	2 692

Included in these values is \$84 million (1997 – \$55 million) of accrued interest. Net cumulative unamortized gains of \$2 million (1997 – \$9 million) on sale of Corporate Account investments used as hedges have been deferred and are included in Other Assets. They are being amortized over the term of the assets funded.

Investment sales for the Mortgage Insurance Fund during 1998 resulted in a gain of \$26 million (1997 – \$10 million). These totals are included in Income from Investments in the current year.

16. INTEREST RATE SENSITIVITY

The following table illustrates interest rate sensitivity. Effective yield represents the fixed weighted average effective yield based on the earlier of contractual repricing or maturity date.

in millions of dollars

	Remaining Term to Repricing or Maturity Date							
	Within 1 Year		1 to 5 Years		Over 5 Years		1998	1997
	Effective Amount	Yield %	Effective Amount	Yield %	Effective Amount	Yield %	Total	Total
Corporate Account								
Assets								
Loans	2 005	7.1%	7 881	8.3%	4 768	7.4%	14 654	13 687
Cash and Investment in Securities	326	5.2%	213	4.8%	—	—	539	529
Deferred Recoveries from the Minister	15	6.1%	60	6.1%	76	6.1%	151	176
Liabilities								
Borrowings from the Government of Canada	276	8.8%	907	8.5%	5 235	9.0%	6 418	6 834
Capital Market Borrowings	2 744	6.9%	7 161	7.7%	644	5.2%	10 549	9 273
Insurance and Guarantee Funds								
Assets								
Investment in Securities	162	7.1%	805	6.3%	2 255	5.6%	3 222	2 692
Mortgages	12	6.6%	3	7.7%	—	—	15	15

In 1991, the Government of Canada discontinued the Corporation's right to prepayment without penalty on its borrowings from the Consolidated Revenue Fund. Of these borrowings, \$3 billion funded loans made by the Corporation prior to 1986 under various sections of the *National Housing Act* which have prepayment without penalty privileges.

As a result of the revised borrowing arrangements, the Corporation assumed the interest rate risk from the Government of Canada. This transfer of risk has resulted in negative interest margins to the Corporate Account. It also exposes the Corporation to potential losses in future years which could be material and significant in relation to the Corporate Account Reserve Fund.

During 1993 and 1994, some borrowers renegotiated loans at lower interest rates. Some renegotiations and prepayments have occurred since that time. Negative interest margin resulting from these renegotiations amounted to approximately \$6 million in 1998 (\$6 million in 1997). Upon repricing, given forecasted interest rates, there would be a further negative interest margin on these loans of approximately \$2 million per annum.

For those loans that have not been renegotiated, based on management's best estimate and prevailing interest rates, the negative interest margin that could result from the prepayment risk exposure amounts to approximately \$16 million per annum.

The Corporation has engaged in a strategy to eliminate a significant portion of the prepayment risk associated with these loans and is actively pursuing strategies to reduce the interest rate risk associated with these loans on repricing.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets, or interest or exchange rates. Asset/liability management derivatives are entered into by the Corporation for risk management purposes within guidelines set by the Department of Finance, to manage the Corporate Account interest rate and foreign currency exposures arising from on-balance sheet positions in order to ensure a consistent stream of earnings.

The following table shows the notional amounts of derivative instruments outstanding by type and maturity. The notional amounts are used to calculate payments and do not represent the potential gain or loss associated with the credit or market risk of such instruments.

in millions of dollars

	Within 1 Year	1 to 3 Years	1998 3 to 5 Years	Over 5 Years	Total	1997 Total
Interest Rate Swaps	2 429	4 022	4 725	512	11 688	9 867
Cross Currency Swaps	—	410	693	—	1 103	1 103
Total	2 429	4 432	5 418	512	12 791	10 970

As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Corporation. The credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. The Corporation strives to limit credit risk by dealing with creditworthy counterparties and manages its credit risk for derivatives through the same credit risk process applied to on-balance sheet assets. The Corporation's credit risk related to concentration of derivatives is well diversified among financial institutions.

The Corporation employs derivative contracts to manage its interest rate and currency risks. These contracts can include:

The exchange of monthly interest receipts on a notional amount of loans for the receipt of an equivalent amount of interest determined on a semi-annual basis. These swaps convert the Corporation's interest income on loans to the same basis as the interest expense on the debt that finances the loans.

The exchange of a fixed monthly payment on a notional amount in exchange for a floating interest rate on the same notional amount. These swaps convert the floating rate portion of debt that finances fixed rate assets to the same fixed interest rate basis as the assets.

The exchange of a series of cash flows for another series of cash flows denominated in a different currency. These swaps hedge cash flows related to foreign denominated borrowings.

The following table summarizes the credit risk exposure of the Corporation's derivatives. The amounts take into consideration legal contracts which permit the offsetting of positions and collateral positions which may be held.

in millions of dollars

	1998		1997	
	Notional Amount	Credit Exposure	Notional Amount	Credit Exposure
Interest Rate Swaps	11 688	109	9 867	83
Cross Currency Swaps	1 103	159	1 103	56
Total	12 791	268	10 970	139

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As many of the Corporation's financial instruments lack an available trading market, fair values are based on estimates using present value and other techniques which are significantly affected by the assumptions used. Because of the estimation process and the need to use judgment, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

in millions of dollars

	1998		1997	
	Book Value	Fair Value	Book Value	Fair Value
Corporate Account				
Assets				
Loans	14 654	18 386	13 687	16 480
Cash and Investment in Securities	539	539	529	527
Securities Purchased Under Resale Agreements	214	214	—	—
Accounts Receivable	131	131	118	118
Liabilities				
Capital Market Borrowings	10 549	10 820	9 273	9 441
Borrowings from the Government of Canada	6 418	8 554	6 834	7 736
Accounts Payable and Accrued Liabilities	341	341	363	363
Securities Sold Under Repurchase Agreements	214	214	—	—
Obligation Under Capital Lease	29	44	31	46
Off-Balance Sheet				
Derivative Financial Instruments				
In a net receivable position		298		178
In a net payable position		26		51
Insurance and Guarantee Funds				
Assets				
Investment in Securities	3 222	3 471	2 692	2 889
Securities Purchased Under Resale Agreements	684	684	950	950
Mortgages	15	14	15	15
Liabilities				
Securities Sold Under Repurchase Agreements	684	684	952	952
Accounts Payable and Accrued Liabilities	70	70	59	59

Fair values are based on a range of valuation methods and assumptions.

The estimated fair value of the following assets and liabilities is equal to book value as the items are short-term in nature:

Corporate Account

- Cash
- Securities Purchased Under Resale Agreements
- Accounts Receivable
- Capital Market Borrowings (Short-term)
- Securities Sold Under Repurchase Agreements
- Accounts Payable and Accrued Liabilities

Insurance and Guarantee Funds

- Securities Purchased Under Resale Agreements
- Securities Sold Under Repurchase Agreements
- Accounts Payable and Accrued Liabilities

Fair value of the following assets and liabilities is determined by reference to quoted market prices:

Corporate Account

- Investment in Securities
- Capital Market Borrowings (Medium-term)

Insurance and Guarantee Funds

- Investment in Securities

Fair value of the following assets and liabilities is estimated using discounted cash flow analysis:

Corporate Account

- Loans
- Borrowings from the Government of Canada
- Obligation under Capital Lease
- Off-balance Sheet Derivative Financial Instruments

Insurance and Guarantee Funds

- Mortgages

19. COMMITMENTS

A. LOANS AND INVESTMENTS

Commitments outstanding for Loans and Investments amounted to \$26 million, net of forgiveness, at 31 December 1998 (1997 – \$63 million including forgiveness).

The majority (\$19 million) of these outstanding commitments pertain to Social Housing loans which are normally advanced within a two-year period. The loans are disbursed at prevailing market interest rates and are subject to a five-year term.

B. OPERATING LEASES

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

in millions of dollars

	1999	2000	2001	2002	2003
Business Premises	10	6	4	4	3
Equipment	10	3	–	–	–
Total	20	9	4	4	3

Total Operating Lease commitments at the end of 1998 were \$40 million (1997 – \$64 million).

C. FUTURE CONTRACTUAL OBLIGATIONS

Total financial obligations under contracts for the Minister's Account, Social Housing programs, extend for periods up to 40 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

	1999	2000	2001	2002	2003
	1 795	1 786	1 790	1 771	1 741

20. CONTINGENT LIABILITIES

There were legal claims against the Corporate Account of \$1 million (1997 – less than \$1 million).

There were other legal claims of \$1 million (1997 – \$3 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account.

Legal claims of \$14 million (1997 – \$17 million) are pending against the Mortgage Insurance Fund.

Discussions continue with Revenue Canada regarding an unresolved tax liability of \$3 million.

Due to the uncertainty of the outcome of these events, no provision for loss has been made.

21. PENSION PLAN

The Corporation maintains an indexed, defined benefit pension plan. Retirement benefits are based on the average salary in any best five-year period and the number of years of service. The accrued pension benefits are determined using the projected benefits method pro-rated on service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and to pay the unfunded pension plan liabilities over periods permitted by regulatory authorities.

Based on an actuarial valuation at 1 January 1999, the status of the plan is:

in millions of dollars

	1998	1997
Net assets available for benefits	855	807
Actuarial value of accrued pension benefits	702	683
Excess of net assets over actuarial value of accrued pension benefits	153	124

ANNUAL PENSION COST TO THE CORPORATION

in millions of dollars

	1998	1997	1996
Current service costs	8	8	13
Restructuring costs	9	25	17
Amortization of experience gains and losses	(12)	(9)	(6)
Government pension plans	2	2	2
Total	7	26	26

Although the Pension Fund financial position is determined by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts.

Under the *Income Tax Act* Regulations, once the excess net assets reaches a certain level, employers must suspend making payments to the Pension Fund (funding holiday). During this period, the asset is reduced by applying the employer current service contribution.

The Corporation has committed to provide the additional funding to the Pension Fund that is required as a result of the Early Retirement Reduction Waiver allowed as a part of the Corporation's restructuring initiatives. Because of the mandatory funding holiday referred to above, the Corporation cannot make payment of the Early Retirement Reduction Waiver to the Pension Fund.

The deferred pension liability as at 31 December 1998 amounted to \$59 million (1997 – \$50 million).

22. RELATED PARTY TRANSACTIONS

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

Losses on Loans and Real Estate, interest earnings, and the amortization of modernization and improvement expenditures, relating to certain Corporate Account Assets, are recovered from the Government of Canada through the Minister's Account. The total of such recoveries, which are not considered subsidies to others, amounted to \$183 million (1997 – \$243 million, 1996 – \$183 million) of which \$67 million (1997 – \$70 million, 1996 – \$77 million) is included in Interest Earned in the Corporate Account.

The Corporation is required to make an annual fee payment from the Mortgage Insurance Fund to the Government of Canada. In 1998, \$23 million in fees was expensed (1997 – \$12 million, 1996 – nil). The outstanding payment of \$35 million is included in Accounts Payable and Accrued Liabilities.

In accordance with a Memorandum of Understanding between the Corporation and Canada Lands Company Limited (CLC) signed in 1998, the Corporation transferred \$61 million worth of properties during the year. In exchange, the Corporation has received interest bearing promissory notes at 7.35%, due December 2006. An additional \$15 million will be transferred in 1999. The carrying cost of the properties transferred in 1998 were already adjusted to market value in 1997 and so no gain or loss was recognized on the transaction this year.

The interest expense related to Borrowings from the Government of Canada was \$592 million (1997 – \$612 million).

23. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of clients, suppliers, or other third parties, will be fully resolved.

24. COMPARATIVE FIGURES

Certain 1997 comparative figures have been reclassified to the 1998 statement presentation.

