PENSION PLAN ANNUAL REPORT

2014

Canada

CMHC SCHL
HOME TO CANADIANS

OUR MISSION

Defined Benefit Component (DB Plan)

The mission of the defined benefit component of the CMHC Pension Plan is to provide its members and beneficiaries with pension benefits in accordance with the provisions of the CMHC Pension Plan Rules. This is accomplished through efficient administration of the Plan and prudent investment of the Pension Fund to maximize returns while safeguarding assets.

Defined Contribution Component (DC Plan)

The mission of the defined contribution component of the CMHC Pension Plan is to provide Plan members with the opportunity to save for retirement with regard to their individual circumstances, through the provision of investment options and plan services in a reasonably cost-efficient manner.

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REPORT TO EMPLOYEES AND PENSIONERS

On behalf of CMHC and the Pension Fund Trustees, it is my pleasure to present to you the key highlights from the 2014 Pension Plan Annual Report.

Defined Benefit Plan

I am pleased to report that the CMHC pension plan continues to be sound and viable. Despite continued economic uncertainty during 2014, further progress was made in strengthening the financial position of your pension fund. The assets within the plan provided a total investment return of 11.1 per cent in 2014, outperforming the benchmark by 0.9 per cent.

CMHC's employee DB pension contribution rates increased as planned on July 1, 2014. This is consistent with the Government of Canada's intention to achieve a 50-50 cost-sharing of pension plan contributions (for DB pension plans) between the employer and employees over the course of the next few years.

Defined Contribution Plan

The DC component of the pension plan applies to all employees hired after April 4, 2013, as well as eligible contract employees. Membership in the DC component of the plan more than tripled in 2014 and this component of the plan continues to grow. As members of the DC component of the plan select how their contributions are invested, performance measures for these members will vary based on their chosen investment portfolios.

The Board of Directors, DB Pension Trustees and DC Pension Committee, with the support of the Pension Investment Committee and the Investments and Pension Fund Division, remain steadfast in our commitment to providing CMHC employees and retirees with competitive and viable retirement options.

Evan Siddall
Chair, Pension Fund Trustees
President and Chief Executive Officer

TRUSTEES OF THE DEFINED BENEFIT PLAN AND OBSERVER

(as at 31 December 2014)

Evan Siddall
Chair,
Pension Fund Trustees President
and Chief Executive Officer

André Plourde
Member of the
Board of Directors

Steven Mennill
Senior Vice-President,
Insurance

Christina Haddad
Regional Vice-President

Julie Murphy
Corporate Representative
Pension Council Member

Debra Darke
Senior Vice-President, Corporate
Development, Policy and Research

Ian Moore
Corporate Representative
Pension Council Member

Guy Riopel
Retiree
Pension Council Member

Louise Poirier-Landry
Board Member (Observer)

Financial Highlights

Defined Benefit (DB)

$1,716.5 MILLION
Net Assets Available for Benefits as of December 31, 2014

103.5%
Fully funded on a going-concern basis, 2014 (vs. 98.3% in 2013)

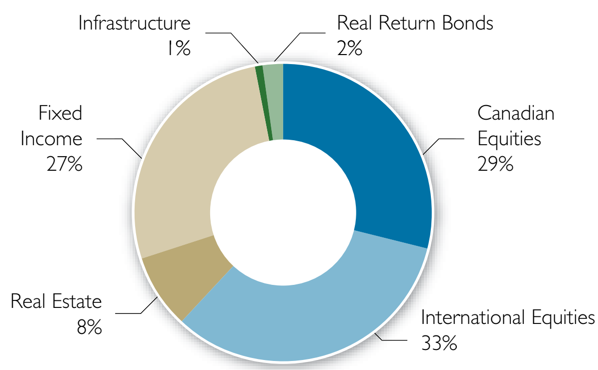
81.6%
Solvency ratio, 2014, improved (vs. 80.7% in 2013)

11.1%
2014 Rate of Return (gross, nominal)

9.8%
Four-Year Annualized Rate of Return (gross, nominal)

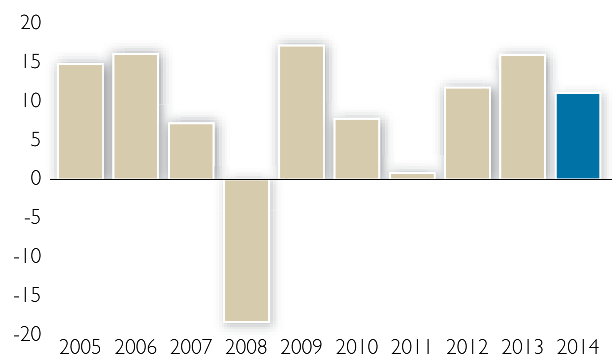
7.9%
Ten-Year Annualized Rate of Return (gross, nominal)

Asset Mix (DB)



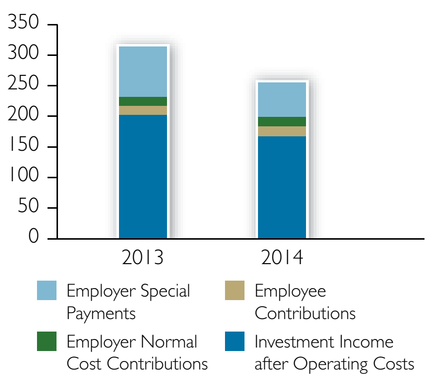
Rate of Return (DB)

For the year ended December 31, 2014 *(%)*



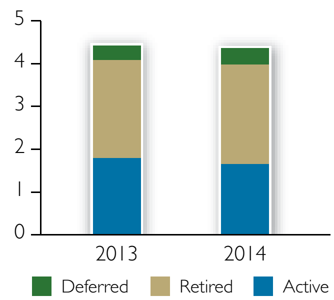
Funding Mix (DB)

($ Millions)

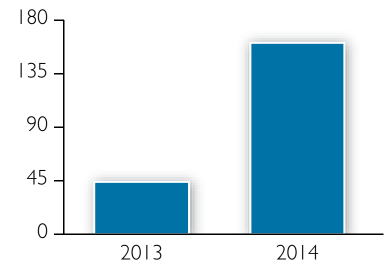


Membership (DB)

(# of Persons Thousands)



Defined Contribution (DC) Membership *(# of Persons)*



About the pension plan Benefits Promise

CMHC PENSION PLAN

Part 1: Defined Benefit Component of the CMHC Pension Plan (the "DB Plan")

The DB Plan provides a defined benefit pension, which means that at retirement, members receive a retirement income based on a formula that is known in advance. Subject to the applicable plan rules, generally the formula is based on 2 per cent of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service up to a maximum of 35 years.

The DB Plan includes provisions for indexation and survivor benefits for a member's eligible spouse or common-law partner and eligible dependent children. Pension benefits are adjusted for inflation annually, based on the Canadian Consumer Price Index (CPI), in accordance with the indexing provisions of the Plan. For 2014, that adjustment was made on January 1, 2015, when pension benefits were increased by 1.7 per cent. This adjustment is based on the average change in the Consumer Price Index over the 12-month period ending 30 September 2014.

The DB Plan applies to employees hired prior to April 4, 2013, or otherwise eligible to participate in the DB Plan, as specifically provided in the DB Plan.

Contribution

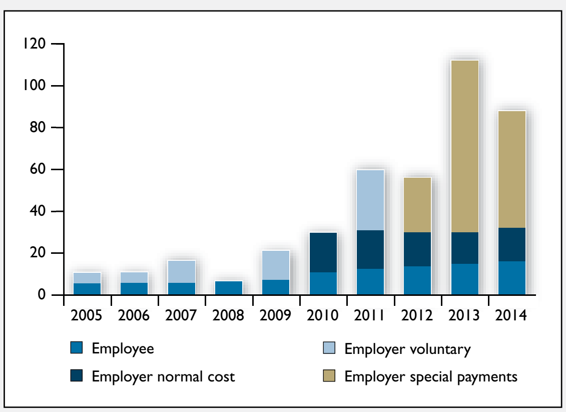
The employee contribution rate, since July 1, 2014, is 7.5% of earnings subject to CPP/QPP, which for 2014 were earnings up to $52,500, and at 9.8% for earnings above this level. In 2014, employees contributed a total of $15.6 million to the Pension Fund.

CMHC's total contributions to the Pension Fund in 2014 with respect to the DB Plan were $71.9 million. This included full normal contributions as well as special payments of $55.8 million related to the going concern and solvency deficits reported by the actuarial valuation as at 31 December 2013.

On an annual basis, CMHC reviews the level of employer and employee contributions to the DB Plan: firstly, with regard to the financial status of the Pension Fund; and then secondly, in comparison to other plans, in order to benchmark the competitiveness of the CMHC DB Plan. The goal is also to gradually move towards the 50:50 cost-sharing ratio between employer and employee outlined by the Federal government, to align Crown corporation pension plans with those available to federal employees.

In March 2015, the Board reviewed the results of the actuarial valuation as at 31 December 2014 and recommendations for contributions in 2015. The actuarial valuation reports that the DB Plan is back to being fully funded on a going concern basis with a surplus, but continues to have a deficit on a solvency basis. Based on these actuarial valuations, CMHC will make special solvency payments, in addition to the full normal contributions in 2015. In regard to the solvency deficit, CMHC is seeking approval to reduce the amount of the solvency special payment in 2015 to $44 million as is permitted by provisions in the *Pension Benefits Standards Act,* 1985 and its regulations. These provisions exist to make funding requirements less sensitive to financial market volatility.

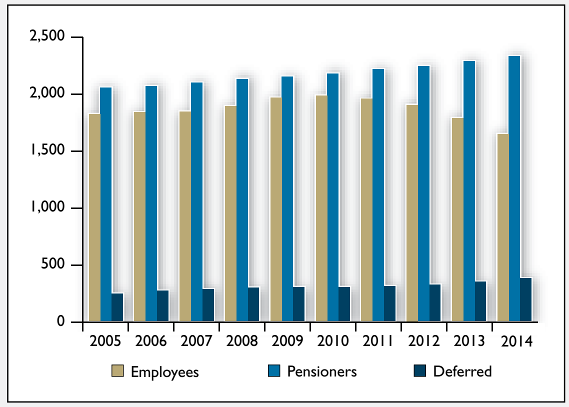
Employee and Employer Contributions
($ Millions)



Membership

During 2014, 62 employees retired from CMHC. At year-end, the DB Plan had 4,361 members including 1,649 employees, 2,336 pensioners and beneficiaries, and 376 members with deferred vested benefits. In addition, there were 261 members with Transfer Restriction Annuities.

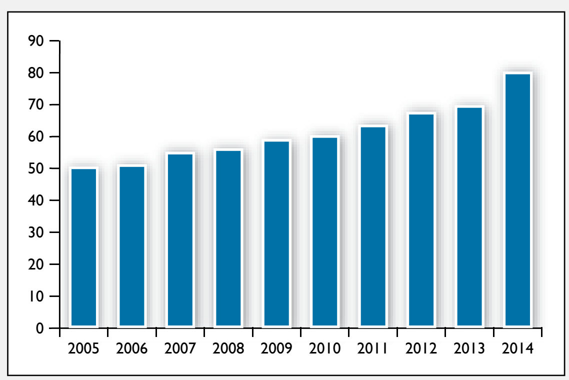
Plan Membership
(Number of Persons)



Total Benefits Paid in 2014

A total of $76.7 million in pension benefits was paid to DB Plan members in 2014.

Benefits and Net Contributions Transferred or Refunded
($ Millions)



Part 2: Defined Contribution Component of the CMHC Pension Plan (the "DC Plan")

The DC Plan is a contributory plan. The Plan defines the contributions to be made by CMHC and by the employee, but does not define the amount of retirement income the member will receive. DC Plan retirement income of each member is not predetermined based on a formula, as is the case with the DB Plan, but is based on the investment earnings of each member's retirement account, net of fees and expenses related to the administration of the DC Plan.

The money is invested by the DC Plan members among a range of investment options available through Standard Life Financial—the Plan administrator. The DC Plan applies to new employees hired on or after April 4, 2013, who are not eligible to join the DB Plan.

Membership

As at 31 December 2014, the DC Plan had 161 members.

General information on the CMHC Pension Plan

Regulatory Authorities

As a federally registered pension plan, CMHC's Pension Plan is subject to the federal *Pension Benefits Standards Act, 1985* (PBSA) and its regulations, and to the *Income Tax Act* (ITA). The Plan is registered with the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency (CRA). The Plan Rules, as well as the Plan's funding and operations, must comply with the standards prescribed by the PBSA and ITA.

Communications

One of CMHC's key objectives is to promote increased awareness and understanding of its Pension Plan and the benefits it provides, while providing opportunities for member feedback.

In 2014, CMHC continued to offer a Retirement Planning Seminars Program to employees. The program consists of two-day seminars for employees within 10 years of retirement and one-day seminars for those further away from retirement. CMHC's other ongoing communication activities included the Annual Statement of Pension Benefits to each DB Plan member, the annual summary of the highlights of the DB Pension Council meetings and quarterly financial statements for DC Plan member.

Plan documents

For more information about the plan, visit the CMHC Retirement Savings Program in HR-Online at https://intranet/hronline.nsf/WebAWD/CAB104-E. Information related to the Pension Plan is also available on CMHC's website, including a description of the governance of the Pension Plan and Fund, key roles and responsibilities, and the Pension Plan Annual Reports of recent years.

Effective Governance

PLAN GOVERNANCE

The concept of pension plan governance is commonly defined by pension authorities as the structures and processes for overseeing, managing and administering a pension plan to ensure all obligations of the plan are met.

Good corporate governance is at the heart of all of CMHC's activities and successes and is echoed in the governance framework for the Pension Plan and its Fund. A sound framework ensures that the ongoing obligations of the Pension Plan to its stakeholders can be met, with effective decision-making processes, prudent and efficient management of resources, and regular communication. The governance structure of the DB and DC Plans are outlined below, but more information regarding the roles and responsibilities of the key governance components of the CMHC Pension Plan can be found in the Pension Governance at CMHC section on CMHC's website.

Part 1: Defined Benefit Component of the CMHC Pension Plan Governance

CMHC's DB Plan governance structure is comprised of the Board of Directors, the Pension Fund Trustees, the Pension Fund Investment Committee, the Investments and Pension Fund Division, CMHC's President and Chief Executive Officer, the Management Committee, and the Human Resources Sector (Total Reward Strategy).

Two other bodies, the Pension Plan Coordination Committee and the Pension Council, play supportive roles for CMHC's pension governance structure.

The Pension Council consists of elected employee and retired members of the Pension Plan. Its functions are to promote awareness and understanding of the Plan among members, and to review financial, actuarial and administrative aspects of the Plan annually.

Part 2: Defined Contribution Component of the CMHC Pension Plan Governance

CMHC's pension governance structure with respect to the DC Pension Plan is comprised of eight bodies: the Board of Directors, CMHC's President and Chief Executive Officer, the Management Committee, the DC Pension Committee, the Investments and Pension Fund Division, Human Resources Sector (Total Reward Strategy), the DC Pension Council and the Record Keeper.

The Record Keeper is responsible for the day to day operations of the Plan, including but not limited to managing the offerings and selection of member investments, developing Plan communication material and decision-making tools, producing member investment statements and reporting on various performance criteria.

The DC Pension Council, once established in 2015, will consist of elected members of the DC Plan. It will be responsible for promoting awareness and understanding of the DC Plan among members and for reviewing financial and administrative aspects of the DC Plan annually.

Trustees
10 December 2014

Standing (L to R): Guy Riopel, Louise Poirier-Landry, Ian Moore, Steven Mennill, André Plourde, Debra Darke
Sitting (L to R): Evan Siddall, Julie Murphy

DB Pension Council
11 December 2014

Standing (L to R): Trevor Gloyn, Claude Gautreau, Fleuri Perron, Stephen Hall
Sitting (L to R): Kamal Gupta, Guy Riopel, Julie Philippe, Julie Murphy, Ian Moore

An Investment Strategy Based on Sound Principles

PENSION FUND PERFORMANCE AND OPERATIONS RELATED TO THE ASSETS OF THE DB PLAN

Investment Framework

The overall long-term investment objective for the Pension Fund is to achieve a total rate of return that will provide for the pension benefit obligations of the CMHC DB Pension Plan with an acceptable level of volatility of expected contribution requirements. In pursuing this long-term objective, the Pension Fund strives to maximize returns on investments within approved policies, which specify the limits and parameters within which risk may be taken.

The investment framework of the CMHC DB Pension Plan is defined by the Enterprise Risk Management (ERM) Policies and the Statement of Investment Policies and Goals.

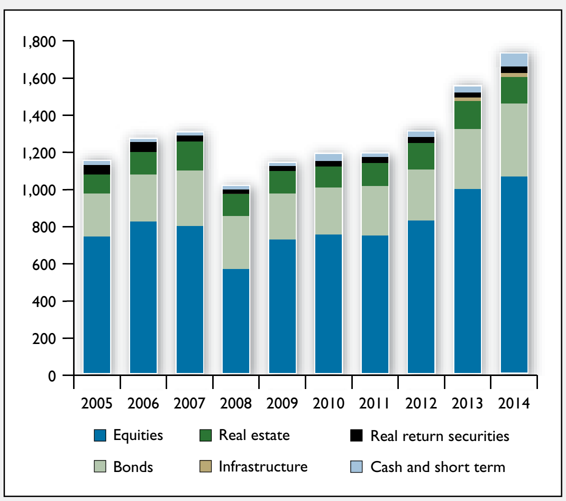
The ERM Policies include a high level risk appetite statement that describes the level at which risks should be avoided and where strategies must be implemented to manage risk. The ERM Policies also contain a formal statement of the investment principles and beliefs underpinning the Fund's policies and practices. They include the Pension Fund's approach to investment decision-making, which has a long-term orientation, values the quality of assets, and takes risk into account. This philosophy recognizes the long-term nature of the pension liabilities and the desire for investments to be diversified, fully understandable, transparent, and appropriate for the Pension Fund. In practice, the Fund seeks to acquire a diversified portfolio of fundamentally sound assets in order to generate sufficient long-term investment returns as well as immediate cash flows to pay pension benefits.

The Statement of Investment Policies and Goals established by the Trustees for the Pension Fund sets out additional policies necessary for the management and administration of the Fund. It includes further definition of permitted investments as well as the requirements for diversifying investments and managing financial risks. It also includes policies for measuring, monitoring, and reporting on the performance of the Pension Fund. The Statement of Investment

Policies and Goals conforms to the requirements of the PBSA. In accordance with the requirements of the PBSA, it was updated and approved by Trustees in 2014.

The Fund's asset allocation policy recommended by Trustees and approved by the Board, is a key driver of the Fund's returns and of contribution requirements. The Pension Fund's asset allocation policy is based upon the principle of diversification of investments among various asset classes relative to the liabilities of the DB Pension Plan. It is reviewed at least every five years. The asset allocation policy has been established at 57 per cent public equity investments, 28 per cent fixed income securities and 15 per cent inflation sensitive investments. The policy includes a permissible range around these percentage weights. Equity investments include Canadian and foreign equities. Fixed income is comprised of Canadian bonds and money market investments. The inflation sensitive category encompasses real return securities, real estate and infrastructure investments. Until the Fund has invested a target amount of 5 per cent in infrastructure investments, the asset allocation policy is being adjusted to have a corresponding higher amount, for example, 61 per cent, in public equity investments and a lower amount, for example, 11 per cent, in inflation sensitive investments.

Net Assets of the Fund
($ Millions)



Risk Management

In addition to the risk appetite statement and asset allocation policy for the Pension Fund, the ERM Policies for the Pension Fund identify the strategic, operational, and financial risks faced by the Fund.

The Board of Director's specific requirements for managing these risks are addressed by a range of established policies and practices.

The financial risks relating to the Pension Fund are managed primarily through the diversification of assets, limits and parameters for credit risk, market risk, and liquidity risk, annual audits of financial statements, and annual actuarial valuations. An actuarial valuation was conducted as of year-end 2014 (refer to the Actuarial Valuation section of this Annual Report). More information relating to financial risks is provided in the notes to the financial statements.

Regular measurement and reporting of Pension Fund performance is also vital. An extensive set of risk and return indicators is used to measure the Fund's ongoing performance. These indicators and the Fund's performance, including compliance with investment and risk management policies, are reviewed by the Investment Committee and Trustees.

Economic Environment

Despite some significant concerns and setbacks, the global economy continued to grow in 2014, led by a resurgent US economy, which was supported by improving labour conditions and consumer sentiment. The strength of the US economy has been in stark contrast to the fragile and weak recoveries in Europe and Japan.

Emerging markets collectively were also a contributor to global growth in 2014, despite some significant challenges, including an investment-led moderation in growth in China, and the impact of declining commodity prices on a number of emerging market producers, like Russia and Brazil.

The steep and sustained decline in the price of oil and other commodities also continues to be a major concern for advanced economy producers such as Canada. Nevertheless, the Canadian economy maintained its growth pace in 2014, buoyed by solid gains in household spending and exports, as well as improving business investment, which benefited from a strong US recovery and a weaker Canadian dollar.

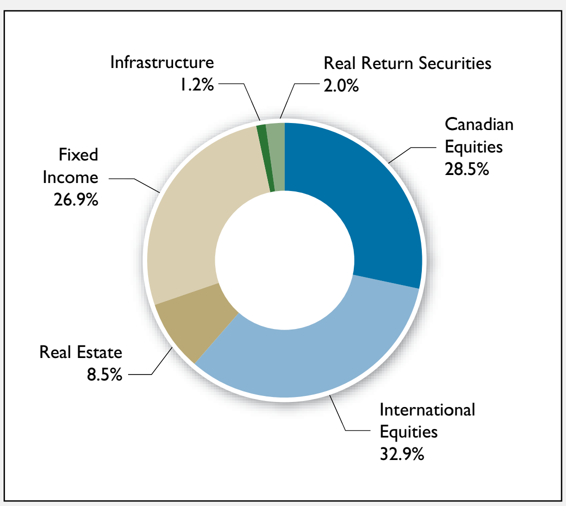
The Pension Fund's performance is impacted by the economic environment and capital market conditions. Accordingly, the strategic asset allocation policy is established factoring in an extensive range of scenarios for economic conditions and the relative rates of return of various investments.

Pension Fund Performance

The majority of the Fund's investments are actively managed by internal investment managers. External investment managers are also appointed by Trustees with a range of active and passive investment mandates. Portfolio managers are responsible for individual security selections within their mandates.

The Fund's net assets available for benefits at 31 December 2014 were $1,716.5 million, compared to $1,541.2 million at the end of 2013.

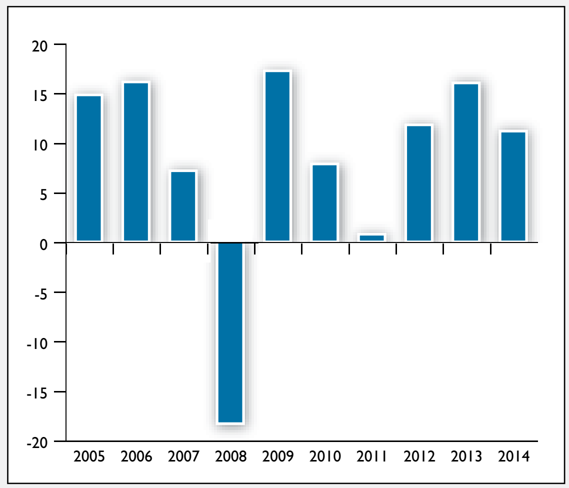
Total Fund



The Fund's performance is measured against a passive benchmark portfolio that is based on the strategic asset allocation policy. The total investment return for the Fund in 2014 was 11.13 per cent, which was 0.86 per cent more than the benchmark, which returned 10.27 per cent.

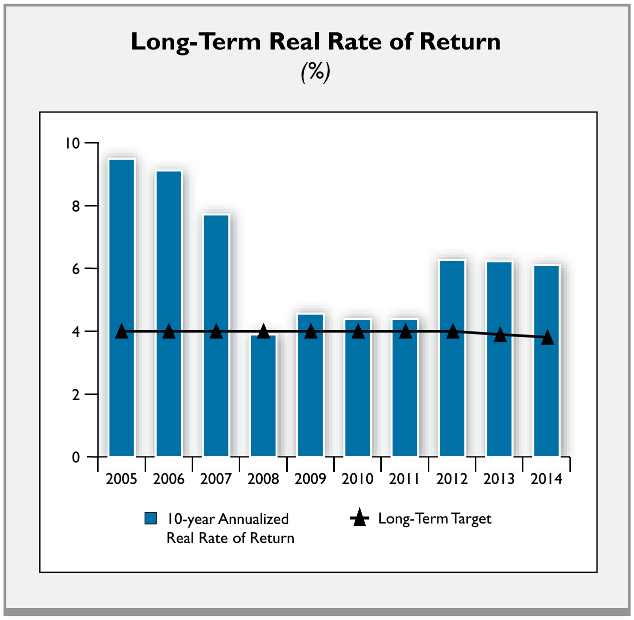
The Fund's total return in 2014 was driven by favourable returns in equity markets. Over the past 10 years, the Fund's performance has on average exceeded its benchmark by about 0.6 per cent on an annualized basis. This is net of all operating expenses.

Annual Nominal Rate of Return
(%)



It is important to focus on the real rate of return achieved over the long-term, given that pension benefits are fully indexed to inflation, based on the Consumer Price Index (CPI), and will be paid on average for many years. The real rate of return is the nominal rate of return less inflation. The Fund's 10-year annualized real rate of return was 6.11 per cent, which is significantly higher than the long-term real rate of return objective and actuarial assumption of 3.8 per cent.

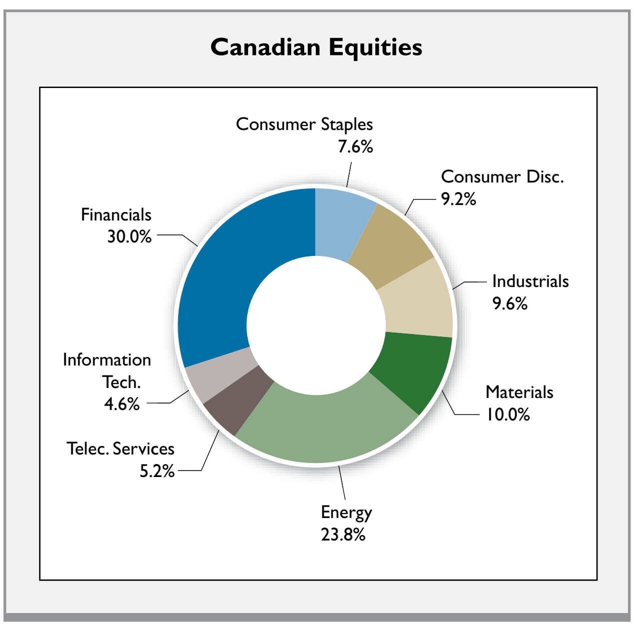
This actuarial assumption is reviewed when an actuarial valuation is performed. For the year-end 2014 actuarial valuation, it was determined that the long-term real return expectation be reduced to 3.8 per cent from 3.9 per cent in the preceding year.



Performance by Asset Class

Canadian Equities

Global equity markets generated positive returns in 2014 despite political uncertainty in Ukraine and Iraq, and disappointing economic data in Europe and in China. Continued accommodative monetary policies by central banks as well as renewed confidence in the U.S. economy provided support to equity markets.



The Canadian equity market climbed steadily during the first eight months of the year, producing a stellar double digit return until a more than 40 per cent decline in oil prices during the last quarter cut momentum and adversely impacted the market. The situation further deteriorated with a selloff in the base metals sector. As a result, the commodity sectors of the S&P/TSX Composite Index reversed course and posted negative returns for the year. The more stable sectors such as Consumer Staples, Information Technology and Consumer Discretionary remained very strong as they attracted some of the fund flows out of the Energy and Materials sectors.

In an environment of low interest rates, dividend-paying corporations remained in favor, provided that their dividends were sustainable. Those corporations whose dividends were considered unsustainable were heavily penalized by the market in 2014, as was the case with most dividend-paying energy producers, who were facing a steep and sustained decline in the price of oil, were amongst the worst performers for the year.

The Pension Fund's Canadian equity portfolio achieved a total return of 14.21 per cent in 2014, outperforming the 10.55 per cent return for the S&P/TSX Composite Index. Similar to last year, the Fund's tilt toward quality stocks, including dividend paying corporations, and overweighting the more stable consumer segments contributed to the outperformance of the Canadian equity portfolio relative to its benchmark. Underweighting securities in the more volatile gold sector, also continued to benefit the portfolio's performance.

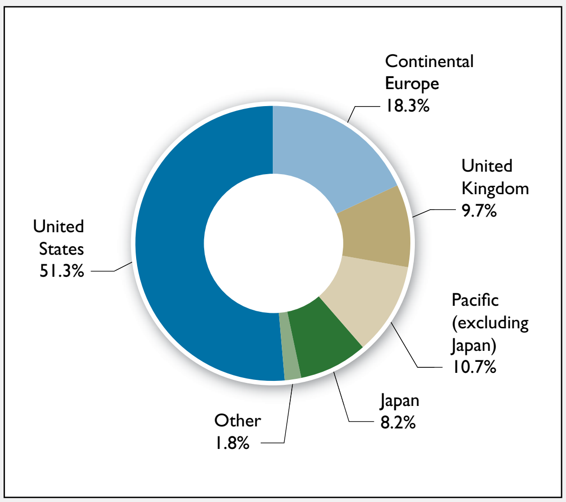
International Equities

Investments in international equities provide exposure to the stock markets of the U.S., Europe, Australasia and the Far East (EAFE). Investments in U.S. equities are held in the form of units of a U.S. equity pooled fund, indexed to the Standard & Poor's 500 Index, and managed by BlackRock Asset Management Canada Limited. The Fund invested in EAFE equities through funds actively managed by JP Morgan Asset Management (Canada) Inc. and Sprucegrove Investment Management Ltd.

A major benefit of foreign equity investments is portfolio diversification. Global equity markets tend to be more diversified among different industry sectors than the Canadian equity market, which is heavily concentrated in the materials, energy, and financial sectors. By investing abroad, the portfolio gains exposure to sectors not widely available in Canada, such as the consumer discretionary, consumer staples, and healthcare sectors, and to faster growing geographic regions such as the Far East.

In accordance with the Pension Fund's investment policies, a portion of the foreign currency risk arising from the foreign equity holdings was hedged during the year. This is aimed at reducing the volatility of returns over time when measured in Canadian dollars.

International Equities



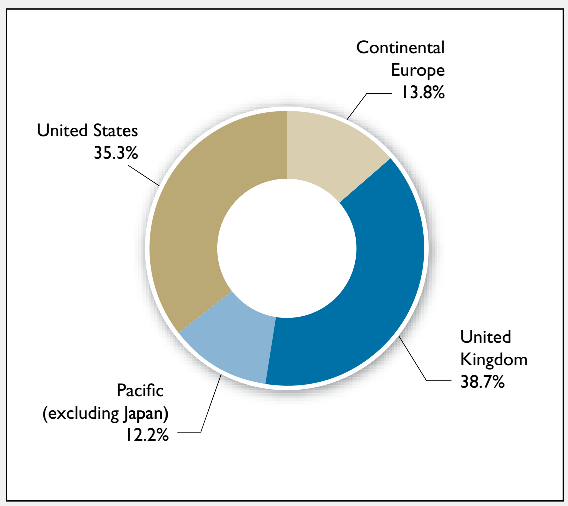
The 2014 return for the Pension Fund's U.S. investments was 19.09 per cent as measured in Canadian dollars, including a negative currency hedging impact of 4.84 per cent against the U.S. dollar. The return on U.S. investments was in line with the benchmark for this asset class, which returned 19.10 per cent.

The EAFE equity investments returned 5.78 per cent as measured in Canadian dollars, including a positive currency hedging impact of 1.30 per cent. The return on EAFE investments outperformed the benchmark for this asset class, which returned 5.09 per cent. Both EAFE managers outperformed the benchmark; however, the outperformance was primarily driven by the EAFE value manager (Sprucegrove), whose holdings in India, Japan and Switzerland contributed strongly relative to the benchmark.

Infrastructure

In 2014, the Pension Fund made an investment commitment of $13 million to a Canadian infrastructure investment fund. This investment commitment, when it is deployed, will enhance the geographic diversification of the total infrastructure portfolio that currently includes investments, or investment commitments, in three pooled funds. The 2014 return for the Infrastructure investments was 7.26 per cent as measured in Canadian dollars, including a negative currency hedging impact of 6.67 per cent. The return was above the benchmark for this asset class, which returned 6.09 per cent.

Infrastructure



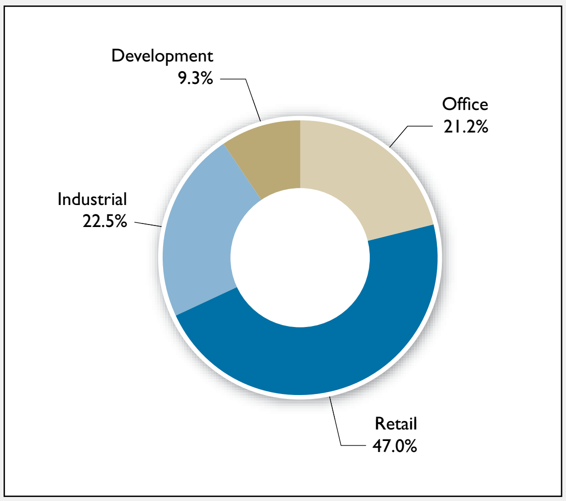
Real Estate

The Fund's real estate holdings provide exposure to an important Canadian asset class. The holdings are diversified by commercial property type and by region.

Real estate investment opportunities are decided on only after thorough analysis of markets, property locations, legal and financial implications, environmental conditions affecting properties, and potential returns. Investments are financed in part through mortgages on properties. The Fund participates directly in the management of most of its real estate investments.

This portfolio experienced a leveling off of capital appreciation in the market values of various properties combined with more normal levels of income. The real estate portfolio returned 6.55 per cent in 2014, which was below the benchmark for this asset class of 8.74 per cent.

Real Estate



Real Return Securities

Investments in real return securities provide a hedge against inflation. Holdings consist primarily of real return bonds issued by the Government of Canada and the provinces. In 2014, the portfolio returned 13.16 per cent, which was comparable to the benchmark performance of 13.18 per cent. The extraordinarily strong performance for this asset class was due to the general decrease in interest rates.

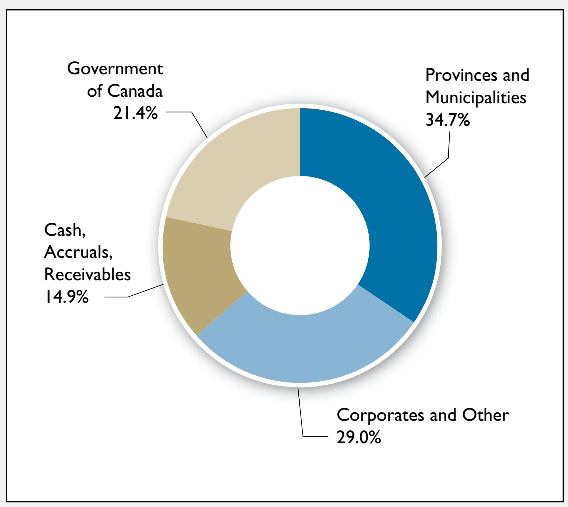
Fixed Income

These investments include high-quality government and corporate bonds, money market investments, and cash or cash equivalent holdings that ensure short-term liquidity and generally act as portfolio stabilizers. Bonds are evaluated against stringent criteria to ensure that only investment-grade instruments with a "BBB" category credit rating or better are included in the portfolio.

With moderate expectations for growth and low inflation, the Bank of Canada held its overnight target interest rate at 1.00 per cent in 2014. During the year, a sequence of adverse economic events, coupled with a period of heightened global risk aversion, sparked a protracted decline in long-dated bond yields. Canadian bond yields were affected considerably—using the Canada 10-year bond as a proxy, yields decreased 0.95% over the course of the year.

The bond portfolio returned 8.73 per cent in 2014, 0.06% lower than the benchmark. The portfolio was positioned for the potential of higher rates. However, yields went down during the year, leading to the underperformance of the bond portfolio relative to the benchmark. The return of the money market portfolio was 0.91 per cent in 2014, 0.02 per cent higher than the benchmark.

Fixed Income



Operations Management

The net assets of the Pension Fund increased by $175.3 million in 2014.

Interest, dividends and net revenues from real estate and infrastructure were $10.7 million higher than in 2013 due to an overall increase in investment income from these asset classes.

Total contributions in 2014 were lower than in 2013 by $24.1 million mainly due to the decrease in special payments. As a result of a lower deficit reported in the December 31, 2013 actuarial valuation, CMHC made special payments in the amount of $55.8 million, which is below the special payments made in 2013 by $26.4 million.

Benefits payments increased $10.7 million when comparing 2014 to 2013, due to the continued growth in the number of retirees and higher payments for Transfer Restriction Annuities.

Operating expenses were $8.1 million in 2014, which was $0.2 million higher than in 2013. The increase is mainly due to personnel and related costs, partly offset by a decrease in investment management fees. The decrease in investment management fees is due to strategy changes in external investment management, as the US Equity portfolio was transitioned from active to passive investment management. This decrease was partially offset by the increased value of the investment portfolios.

The Fund annually assesses its overall operating expenses against average costs for funds of its size and asset mix in Canada. The Fund's operating costs are slightly lower than its peers.

Commitment to Financial Health

ACTUARIAL VALUATION

All federally registered pension plans are required to undertake an actuarial valuation annually for regulatory purposes unless the solvency ratio is greater than 120 per cent. The principal purposes of an actuarial valuation include determining the financial position of a plan and providing the basis for contributions from the employer.

The actuarial valuation, which is carried out by an independent external actuary, must meet stringent legislative standards. It addresses long-term demographic trends, retirement experience and a wide variety of other factors that are analyzed in depth to determine whether changes in the Pension Plan's basic assumptions are needed. The valuation report is reviewed by CMHC's Management Committee and then approved by the Board of Directors for filing with OSFI and CRA.

Any differences between actuarial assumptions and future experience will emerge as gains and losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it at that time. The actuarial valuation focuses on two fundamental aspects of the funded status of CMHC's registered defined benefit plan: going concern and solvency. These measure the sufficiency of the Pension Fund's assets to meet the Pension Plan's liabilities from two different perspectives.

Going concern valuation: The going concern valuation assumes that the Plan continues indefinitely. This valuation uses the expected long-term investment return associated with the Fund's diversified mix of assets at the valuation date to value the Plan.

Solvency valuation: The solvency valuation assumes a hypothetical immediate termination of the Plan and that no further contributions are made. This valuation uses the interest rates prevailing at the valuation date to value the Plan based on an assumption that all assets are invested only in high quality fixed income-related investments.

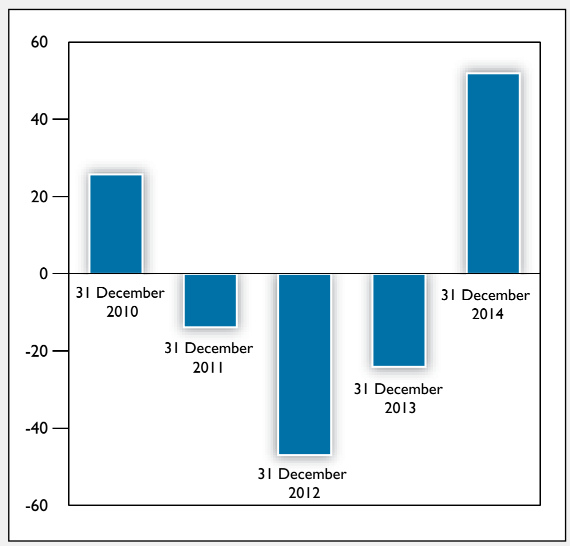
The 31 December 2014 valuation reported that the Plan has a surplus on a going concern basis with an actuarial surplus of $51.9 million and a going concern funded ratio of 103.5 per cent. As at 31 December 2014, the actuarial value of net assets was $1,555.3 million and the actuarial value of liabilities was $1,503.4 million. As permitted by the PBSA, the actuarial value of assets used for the determination of the going concern funded position is determined through a method that smoothes fluctuations in actual investment returns relative to expected investment returns over five years. The going concern funded ratio improved 5.2 percentage points since last year's valuation.

The funded position on a going concern basis, as determined by the actuarial valuations filed with regulators, is shown in the chart.

The 31 December 2014 valuation also reported that the Plan continues to have a deficit on a solvency basis with an actuarial deficit of $386.2 million and a solvency funded ratio of 81.6 per cent. The solvency funded ratio improved because of strong investment returns and solvency special payments by CMHC. This improvement occurred despite a significant decrease in long term interest rates, which factor into the solvency discount rate and increase the Plan's liabilities. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at 31 December 2014 and was $1,714.5 million. The actuarial value of liabilities on a solvency basis was $2,100.7 million.

In regard to the solvency deficit, CMHC is seeking approval to reduce the solvency special payments, as permitted by the *Pension Benefits Standards Act*. As a result, the anticipated solvency special payment in 2015 would be $44 million. These provisions exist in legislation to make solvency funding requirements less sensitive to financial market volatility and do not alter CMHC's responsibility for its obligations to Pension Plan members.

Net Actuarial Position
($ Millions)



ACTUARIAL OPINION

Mercer (Canada) Limited was retained by Canada Mortgage and Housing Corporation to perform an actuarial valuation of the defined benefit component of the CMHC Pension Plan for purposes of determining the pension obligations of the Plan, and changes therein, for the year ended 31 December 2014, for inclusion in the Plan's financial statements prepared in accordance with Section 4600 of the *Chartered Professional Accountant Handbook.* The objective of the Plan's financial statements is to fairly present the financial position of the Plan as at 31 December 2014 as a going concern. The results of our valuation might not be appropriate for and should not be relied upon or used for any other purposes.

We have reviewed the net assets available for benefits as of 31 December 2014 for internal consistency and we have no reason to doubt its substantial accuracy. We have also tested the membership data received from CMHC for the year ended 31 December 2014 and found the results of these tests to be satisfactory.

To our knowledge, the actuarial valuation as at 31 December 2014 reflects all changes to the Plan's provisions in 2014. The actuarial method prescribed by the *Chartered Professional Accountant Handbook* was used. The actuarial assumptions were selected by CMHC as their best long-term estimates of future events, in consultation with Mercer. Nonetheless, the future experience of the Plan will inevitably differ, perhaps significantly, from the actuarial assumptions and will result in gains or losses which will be revealed in future valuations.

In our opinion, the data on which the valuation is based is sufficient and reliable for the purposes of the valuation and the actuarial assumptions are in accordance with accepted actuarial practice in Canada.

Our valuation and related report were prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Actuaries Of The CMHC Pension Plan
Ottawa, Ontario
April 24, 2015

Pascal Berger, FCIA, FSA
Principal

Annie Valin, FCIA, FSA
Senior Associate

INDEPENDENT AUDITORS' REPORT

To the Trustees of Canada Mortgage and Housing Corporation Pension Fund

We have audited the accompanying financial statements of the **Canada Mortgage and Housing Corporation Pension Plan,** which comprise the statement of financial position as at 31 December 2014, and the statements of changes in net assets available for benefits and of changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Mortgage and Housing Corporation Pension Plan as at December 31, 2014, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Ottawa, Canada
Chartered Professional Accountants
March 24, 2015
Licensed Public Accountants

FINANCIAL STATEMENTS

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF FINANCIAL POSITION

As at 31 December *(in thousands of dollars)*	**2014**	**2013**
ASSETS		
Defined benefit		
Investments *(note 3)*	**1,846,956**	1,663,586
Contributions receivable from the employer	**170**	-
Contributions receivable from the employees	**140**	-
Accounts receivable	**1,206**	2,522
Accrued interest and dividends receivable	**3,709**	3,382
Cash	**1,677**	1,521
Total defined benefit	**1,853,858**	1,671,011
Defined contribution *(note 3)*	**1,075**	108
Total assets	**1,854,933**	1,671,119
LIABILITIES		
Accounts payable and accrued liabilities	**4,696**	7,395
Mortgages payable *(note 4)*	**132,650**	122,412
Total liabilities	**137,346**	129,807
NET ASSETS AVAILABLE FOR BENEFITS		
Available for defined benefit obligations	**1,716,512**	1,541,204
Available for defined contribution obligations	**1,075**	108
Net assets	**1,717,587**	1,541,312
PENSION OBLIGATIONS *(note 12)*		
Actuarial present value of accrued pension benefits	**1,503,397**	1,445,871
Defined contribution	**1,075**	108
Net obligations	**1,504,472**	1,445,979
SURPLUS (DEFICIT)	**213,115**	95,333

See accompanying notes to the financial statements.

Evan Siddall

Chair, Pension Fund Trustees
President and Chief Executive Officer of CMHC

Steven C Mennill

Trustee of the Pension Fund
Senior Vice-President, Insurance

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December *(in thousands of dollars)*	**2014**	**2013**
INCREASE IN NET ASSETS		
Defined benefit		
Investment income		
Interest		
Short-term investments	**709**	271
Bonds and debentures	**11,593**	10,009
Real return securities	**485**	498
Infrastructure	**0**	16
	12,787	10,794
Dividends		
Canadian	**13,904**	13,630
American	**6,849**	6,690
Other foreign	**9,399**	6,319
	30,152	26,639
Net revenue from infrastructure *(note 5)*	**1,360**	-
Net revenue from real estate *(note 6)*	**8,411**	4,559
Total investment income - defined benefit	**52,710**	41,992
Increase (decrease) in fair value of investments *(note 7)*	**122,736**	168,057
Contributions *(note 8)*		
Employer	**72,353**	97,132
Employees	**16,058**	14,561
	88,411	111,693
	263,857	321,742
DECREASE IN NET ASSETS		
Benefits *(note 9)*	**76,657**	65,928
Net contributions transferred or refunded *(note10)*	**2,868**	3,084
Operating expenses *(notes 11)*	**8,057**	7,875
	87,582	76,887
Total increase in net assets	**176,275**	244,855
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**1,541,312**	1,296,457
End of year	**1,717,587**	1,541,312

See accompanying notes to the financial statements.

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended 31 December *(in thousands of dollars)*	**2014**	**2013**
Pension obligations of the defined benefit component, beginning of year	**1,445,871**	1,305,735
Changes in actuarial assumptions	**9,388**	109,690
Interest accrued on benefits	**84,404**	63,011
Experience gains and losses	**1,900**	7,029
Benefits accrued	**32,271**	29,418
Benefits paid	**(79,513)**	(69,012)
Impact of reorganization	**6,690**	-
Other	**2,386**	-
Net change in pension obligations of the defined benefit component	**57,526**	140,136
Pension obligations of the defined benefit component, end of year	**1,503,397**	1,445,871
Pension obligations of the defined contribution component, beginning of year	**108**	-
Increase in the pension obligations of the defined contribution component	**967**	108
Pension obligations of the defined contribution component, end of year	**1,075**	108
Total pension obligations, end of year *(note 12)*	**1,504,472**	1,445,979

See accompanying notes to the financial statements.

Canada Mortgage and Housing Corporation Pension Plan

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. DESCRIPTION OF PLAN

a) General

The Canada Mortgage and Housing Corporation Pension Plan (the "CMHC Plan") is a compulsory contributory pension plan for all employees who satisfy certain eligibility conditions. Under the CMHC Plan, contributions are made by the CMHC Plan members and Canada Mortgage and Housing Corporation ("CMHC"). The CMHC Plan is registered under the *Pension Benefits Standards Act, 1985* ("PBSA") registration #55086.

The CMHC Plan has a defined benefit ("DB") and a defined contribution ("DC") component. The DB component applies to employees hired prior to April 4, 2013, or otherwise eligible to participate in the DB component as specifically provided therein. The DC component applies to new employees hired on and after April 4, 2013 who are not eligible to join the DB component of the CMHC Plan.

For the purposes of the notes to the financial statements, "Plan" refers to the DB component only, unless the DC component is specified.

b) Benefits

The following is a summary of the DB and DC components of the CMHC Plan. For more complete information, reference should be made to the Pension Plan Rules.

i) Defined benefit component
Under the Pension Plan Rules, pension benefits for the DB component are determined by a formula based on 2% of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service up to a maximum of 35 years. The pension is payable at age 60 or upon retirement allowing for certain early retirement provisions in accordance with the Pension Plan Rules. The DB component provides survivor benefits for a member's eligible spouse or common-law partner and eligible dependent children. The benefits are indexed to the Consumer Price Index ("CPI") and integrated with the Québec/Canada Pension Plan from age 65.

ii) Defined contribution component
DC Plan members are required to contribute a minimum of 3% of their earnings and may contribute up to 6% of their earnings. CMHC provides a matching contribution of 100% to 180% based on a three-tier point schedule according to a member's age and years of service with CMHC for which contributions to the DC Plan were made. Contributions are deposited into a personal DC Plan account. Benefits for the DC component are the amounts accumulated in the member's account.

c) Funding policy

i) Defined benefit component
The PBSA requires that CMHC, being the Plan Sponsor, fund the DB benefits determined under the Plan. The determination of the value of these benefits is made on the basis of actuarial valuations. The PBSA and its regulations require that valuations be performed annually, unless the solvency ratio is greater than 120%. These valuations are prepared in line with the Standards of Practice - Pension Plans as prescribed by the Canadian Institute of Actuaries (see Note 12).

ii) Defined contribution component
The benefits of the DC component are funded by member and CMHC's contributions, investment income, transfers from other plans and any other acceptable distribution or contributions made on an ad hoc basis.

d) Disclosures for the DC component

Investments are defined as the capital of the DC component. The individual members of the DC component bear the risks associated with the investments and manage these risks by managing the asset allocation of their account balances.

Administrative and investment fees (the "fees") related to the DC component are paid by the employees. CMHC may decide to pay some or all of these fees at its discretion.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements have been prepared in accordance with the Canadian accounting standards for pension plans as set out in Section 4600, Pension Plans, in Part IV of the *CPA Canada Handbook.* These financial statements present the information of the CMHC Plan as a separate reporting entity independent of the Plan Sponsor and participants of the CMHC Plan.

In accordance with Section 4600, the CMHC Plan adopted accounting policies that comply on a consistent basis with International Financial Reporting Standards (IFRS) in Part 1 of the *CPA Canada Handbook,* to the extent that those standards do not conflict with the requirements of Section 4600.

In 2013, the CMHC Plan adopted IFRS 13 *Fair Value Measurement.* The application of IFRS 13 has not impacted the fair value measurements of the CMHC Plan investment assets and liabilities.

The objective of these financial statements is to assist Plan members and other users in reviewing the activities of the Plan or the benefit security of an individual Plan member's benefits. The financial statements do not purport to reflect the financial status of the Plan if terminated on the statement date, the funding requirements of the Plan or the pension expense that should be included in the financial statements of the Plan Sponsor. Because the financial statements pertain to the Plan as a whole, they provide no information about the portion of assets attributable to any individual member or group of members.

b) Accounting estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported amounts of changes in net assets available for benefits during the year and the reported amount of the actuarial present value of accrued pension benefits and net assets available for benefits at the date of the financial statements. These estimates are based on management's best knowledge of current events and actions that the Plan may undertake in the future. Actual results may differ from these estimates.

c) Investments

The CMHC Pension Fund ("Fund") relates to the DB component of the CMHC Plan. Investment transactions are comprised of fixed income and equity securities as well as investment properties. They are recorded at fair value as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Transaction costs are expensed as incurred. Investments are stated at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The increase (decrease) in the fair value of investments includes realized gains and losses from the sale of investments and unrealized gains and losses from the change in the difference between the cost or fair value at the end of the previous period and fair value at the end of the current period including appraisal adjustments on real estate valuations.

The following describes how the fair value of investments is determined:

i) Short-term money market securities consist of Government of Canada Treasury bills and are valued at quoted market bid prices.

ii) Bonds, debentures and real return securities are valued at quoted market bid prices where available. For those instruments where quoted market prices are not available, estimated values are calculated based on trade prices for similar securities as appropriate.

iii) Canadian and American equities fair value is based on quoted market prices. For other foreign equities, the fair value is the net asset value per unit provided by the issuers. The net asset value is calculated based on the quoted market prices of the funds asset less the funds liability divided by the total number of outstanding units.

iv) Real estate is comprised of direct investments in real estate (rental income and capital appreciation properties) and investments in real estate companies established under Section 149 of the *Income Tax Act*. Real estate is valued at estimated fair values based on independent appraisals at least once every three years plus net working capital.

v) Infrastructure is comprised of investments in infrastructure funds. The fair value is the net asset value per unit provided by the issuers. The net asset value is based on independent appraisals of the valuation of the underlying infrastructure and infrastructure-related assets held by these funds, which are completed on an annual basis.

Interest income and revenue from real estate and infrastructure funds are recorded on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not charged to income.

Dividend income is recognized on the ex-dividend date.

d) Short-term assets and liabilities

Due to their short-term nature, cash, contributions receivable, accounts receivable, accrued interest and dividend receivable, and accounts payable and accrued liabilities are carried at cost, which approximates fair value. Payment of pensions, refunds and transfers, which are due as at year-end, are recorded as accounts payable.

e) Mortgages payable

Mortgages are valued at amortized cost, which approximates fair value. Mortgages associated with real estate are made at commercial mortgage rates.

f) Foreign currency translation and forward currency contracts

Foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing at the dates of the transactions. The fair value of the investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

The Fund enters into forward currency contracts to manage its exposure to foreign currencies. Forward currency contracts are reported at fair value as at the reporting date. The realized and unrealized gains and losses arising from these transactions are included in the increase (decrease) in the fair value of investments.

g) Current and Future changes in accounting policies

The amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of offsetting requirements for financial assets and financial liabilities, which came effective 1 January 2014, had no material impact on the Pension Plan Financial Statements.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

IFRS 9 introduces a principal-based approach to classification and measurement of financial assets based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of those assets. Financial liability classification and measurement requirements of IAS 39 are carried forward to IFRS 9 with the exception of changes in fair value of financial liabilities designated at fair value through profit or loss. Changes in fair value of such liabilities due to an entity's own credit risk are recognized in other comprehensive income unless doing so would create an accounting mismatch, in which case, the entire fair value change is presented in profit or loss.

IFRS 9 introduces a new impairment model to replace the existing IAS 39 impairment requirements in order to provide more useful information about an entity's expected credit losses on financial instruments.

IFRS 9 incorporates new hedge accounting requirements which better aligns an entities accounting treatment with risk management activities and improves disclosure requirements. Accounting for macro hedging activities is not included in the new model and will be addressed at a later date.

The final version of IFRS 9 is effective 1 January 2018. Earlier application is permitted. We have not yet determined the impact of this new standard on the Pension Plan Financial Statements.

3. INVESTMENTS

DEFINED BENEFIT

a) General

The following table outlines the Plan's investments in financial instruments as at 31 December. Other foreign equity includes the fair value of forward currency contracts of $2.5 million (2013 - $-0.15 million) and Infrastructure includes the fair value of forward currency contracts of $0.17 million (2013 - $-0.05 million):

	2014		2013	
(in thousands of dollars)	**Amortized Cost (1)**	**Fair Value**	Amortized Cost (1)	Fair Value
Fixed income				
Short-term investments	**66,262**	**66,356**	31,799	31,820
Bonds and debentures				
Government of Canada	**96,969**	**98,575**	96,838	96,022
Provinces/municipalities	**146,308**	**160,056**	115,610	117,361
Corporate/other	**126,519**	**133,969**	104,598	108,279
Total bonds and debentures	**369,796**	**392,600**	317,046	321,662
Total fixed income	**436,058**	**458,956**	348,845	353,482
Equity				
Canadian	**257,740**	**489,867**	270,470	474,886
American	**213,604**	**290,206**	214,421	261,394
Other foreign	**237,626**	**275,020**	214,050	252,765
Total equity	**708,970**	**1,055,093**	698,941	989,045
Inflation sensitive				
Real return securities	**27,131**	**34,770**	24,647	28,966
Infrastructure	**20,609**	**20,544**	19,141	19,089
Total inflation sensitive	**47,740**	**55,314**	43,788	48,055
Total investment in financial instruments	**1,192,768**	**1,569,363**	1,091,574	1,390,582

[1] Cost for equity

As at 31 December 2014, the Plan's investments in financial instruments include $196.3 million (2013 – $153.6 million) of fixed income securities at fair value issued by the Plan sponsor or its related parties, which include Government of Canada bonds.

The following table provides a reconciliation of the fair value of investments in real estate for the year ending December 31:

(in thousands of dollars)	**2014**	2013
Fair value at beginning of year	**273,004**	260,933
Additions	**5,413**	4,188
Capital expenditures	**-**	-
Disposals	**(2,675)**	-
Unrealized fair value gains (losses)	**1,851**	7,883
Fair value at end of year	**277,593**	273,004

The Fund asset mix is maintained within the following ranges:

	%
Equity	
Canadian	20% to 35%
American	10% to 22%
Other foreign	10% to 22%
Total equity	45% to 65%
Fixed income	
Bonds and debentures	20% to 40%
Cash equivalents (short-term investments and cash)	0% to 5%
Total fixed income	20% to 40%
Inflation-sensitive	
Real estate	4% to 12%
Infrastructure	0% to 8%
Real return securities	0% to 5%
Total inflation-sensitive	6% to 20%

The Fund's long-term asset allocation policy is as follows:

Equity	57%
Fixed income	28%
Inflation-sensitive	15%

b) Fair-value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**
  Financial assets are measured based on quoted prices in active markets for an identical asset.
- **Level 2**
  Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow or other valuation methodologies making maximum use of directly or indirectly observable market data.
- **Level 3**
  Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow analysis techniques or other valuations methodologies where significant inputs are not based on observable market data.

The following tables represent the fair value hierarchy of financial assets:

As at 31 December, 2014

(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed Income				
Short-term investments	66,356			66,356
Bonds and debentures				
Government of Canada	98,575			98,575
Provinces/municipalities	160,056			160,056
Corporate/other	133,565	404		133,969
Total bonds and debentures	392,196	404		392,600
Total fixed income	458,552	404		458,956
Equity				
Canadian	489,867			489,867
American	290,206			290,206
Other foreign	272,560	2,460		275,020
Total equity	1,052,633	2,460		1,055,093
Inflation sensitive				
Real return securities	34,770			34,770
Infrastructure		165	20,379	20,544
Total inflation sensitive	34,770	165	20,379	55,314
	1,545,955	3,029	20,379	1,569,363

The valuation for Level 3 investments in infrastructure includes unobservable inputs which may significantly affect the measurement of fair value. The valuation was based on its assessment of the prevailing conditions at 31 December 2014, which may change materially in subsequent periods.

The following table provides a reconciliation of the fair value of Level 3 investments in infrastructure for the year ending December 31:

(in thousands of dollars)	**2014**	**2013**
Fair value at beginning of year	**19,141**	-
Purchases	**-**	18,601
Sales	**(229)**	-
Unrealized fair value gains (losses)	**1,467**	540
Fair value at end of year	**20,379**	19,141

Significant increases (decreases) in estimated revenues, inflation rates and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiples would result in a significantly higher (lower) fair value of the infrastructure investments. Significant increases (decreases) in operational costs and discount rates would result in a significantly lower (higher) fair value.

As at 31 December 2013

(in thousands of dollars)	Level 1	Level 2	Level 3	Total
Fixed income				
Short-term investments	31,820			31,820
Bonds and debentures				
Government of Canada	96,022			96,022
Provinces/municipalities	117,361			117,361
Corporate/other	107,875	404		108,279
Total bonds and debentures	321,258	404		321,662
Total fixed income	353,078	404		353,482
Equity				
Canadian	474,886			474,886
American	261,394			261,394
Other foreign	252,919	(154)		252,765
Total equity	989,199	(154)		989,045
Inflation sensitive				
Real return securities	28,966			28,966
Infrastructure		(52)	19,141	19,089
Total inflation sensitive	28,966	(52)	19,141	48,055
	1,371,243	198	19,141	1,390,582

There were no significant transfers between Level 1, 2 and 3 in 2014 and 2013.

c) Risk management

The key financial risks related to the assets of the Plan are market risk, credit risk and liquidity risk. These are mitigated by policies that define the Fund's overall objective and circumscribe investments in terms of what is permitted, how investments may be made, and minimum standards for diversification, quality, and liquidity. Policies also describe the management structure and monitoring procedures adopted for the ongoing operation of the Fund.

i) Market risk

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign currency rates and equity prices. The Fund is able to mitigate this risk by incorporating diversification requirements in its investment policies and guidelines. Diversification reduces the risk of market value decreases and helps protect the Fund from potential negative impacts within one asset class or sector.

Interest rate risk

Interest rate risk relates to the impact of interest rate changes on the Plan's cash flows. The risk arises from differences in the timing and amount of cash flows related to Plan assets and liabilities.

The Plan's interest rate risk is managed through the implementation of policies that limit risk for the Plan's investment activities. The asset allocation policy takes into account the liability profile of the Plan and diversifies the assets of the Fund. Other policies limit the price sensitivity of fixed income assets to interest rate changes relative to established benchmark indices.

The impact of a 1% increase/decrease in interest rate on the fair value of fixed income securities would be:

	2014		2013	
(in thousands of dollars)	**Increase**	**Decrease**	Increase	Decrease
Short-term investments	**(166)**	**166**	(80)	80
Bonds and debentures	**(27,977)**	**27,977**	(21,609)	21,609
Real return securities	**(6,735)**	**6,735**	(4,495)	4,495
	(34,878)	**34,878**	(26,184)	26,184

Foreign currency risk

Foreign currency risk is the risk that the value of an investment will fluctuate as a result of changes in foreign exchange rates and is associated with the Plan's investments in American and other foreign equities. Exposure to U.S. currency arising from investments in American equities is hedged through investments in pooled funds that transact in U.S. currency hedging instruments. Other currency exposure arising from investments in foreign equities and infrastructure investments are hedged through forward currency contracts.

The current policy is to hedge 50% of the currency exposure arising from American and other foreign equity holdings and 100% of the currency exposure arising from infrastructure investments, with a tolerance band of ±10 percentage points of the approved total percentage of assets to be hedged.

Fluctuation in foreign exchange rates will have a negative or positive impact on the value of the unhedged portion of investments in foreign denominations. The following table demonstrates the impact a 1% increase/decrease in foreign currency will have on the fair value of the investments net of foreign currency contracts:

	2014		2013	
(in thousands of dollars)	**Increase**	**Decrease**	Increase	Decrease
U.S.	**1,481**	**(1,481)**	1,315	(1,315)
Other foreign	**1,477**	**(1,477)**	1,227	(1,227)
	2,958	**(2,958)**	2,542	(2,542)

Equity price risk

Equity price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Plan's exposure to equity price risk arises primarily from investments in equities and to a lesser extent investments in real estate and infrastructure. Policies set minimum standards for diversification of assets at the total Fund level and within individual portfolios.

When a significant portion of an equity portfolio is invested in similar sectors a concentration of equity price risk exists. The following table outlines the sectors the equity portfolios are invested in:

	2014		2013	
(in thousands of dollars)	**$**	**%**	$	%
Financials	**248,035**	**23.5**	233,788	23.6
Energy	**162,371**	**15.4**	169,359	17.1
Consumer discretionary	**117,632**	**11.1**	108,023	10.9
Industrials	**116,997**	**11.1**	116,530	11.8
Information technology	**104,311**	**9.9**	84,180	8.5
Materials	**88,220**	**8.3**	95,439	9.7
Consumer staples	**86,125**	**8.2**	70,283	7.1
Health care	**67,332**	**6.4**	57,757	5.8
Telecommunication services	**38,963**	**3.7**	38,602	3.9
Utilities	**14,659**	**1.4**	12,488	1.3
Other	**10,448**	**1.0**	2,596	0.3
	1,055,093	**100.0**	989,045	100.0

ii) **Credit risk**

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes the risk of default, and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over time.

The Plan's credit risk associated with investments is managed through the implementation of policies, which include minimum credit rating requirements and limits by sector, counterparty, and credit rating. In the event that a credit change renders an approved investment holding ineligible, the Fund will take the necessary actions to restructure holdings while minimizing losses. The credit quality of issuers of debt securities is assessed by reference to published credit ratings and investment management analysis.

Concentration risk is the amount of the credit risk the Fund is exposed to in relation to sectors. This concentration is shown in section a) of Note 3.

Credit risk exposure on fixed income and real return investments is divided into short-term (less than one year) and long-term (greater than one year). All short-term exposure is rated "R-1 high" or equivalent. The maximum exposure to credit risk for fixed income and real return investments is the carrying amount of these investments.

The following table represents the credit risk exposure on long-term investment securities:

(in thousands of dollars)	**2014**	**2013**
AAA	**163,474**	146,692
A- to AA+	**228,444**	173,948
BBB	**35,452**	29,988
	427,370	350,628

Credit risk arising from forward currency contracts is managed by entering into contracts with creditworthy counterparties subject to minimum credit-rating requirements and by setting limits on the allowable amount of exposure to each of these counterparties.

iii) **Liquidity risk**

Liquidity risk is the risk that the Plan would have insufficient cash flows to meet its pension obligations, investment-related obligations, and operating expenses as they come due. Liquidity risk is managed through holdings of highly liquid short-term investments, forecasting of cash flow requirements, and daily monitoring. Cash sources include investment income, proceeds from the sale of investments, and employee and employer contributions. The largest single source of cash in the year was from the sale and maturity of investments which provided $573.4 million (2013 - $579.9 million) to the Fund.

The Plan's financial liabilities consist of accounts payable, accrued liabilities and mortgages. The term to maturity of accounts payable and accrued liabilities is within one year and the net amount payable is $4.7 million (2013 - $7.4 million). The maturity analysis for mortgages payable is provided under Note 4.

DEFINED CONTRIBUTION

a) General

The individual members of the DC component bear the risks associated with the investments and manage these risks by managing the asset allocation of their account balances. The employee and employer contributions are invested by the DC Plan members among a range of investment options available through the Plan administrator.

4. MORTGAGES PAYABLE

Mortgages mature at various dates between June 2015 and July 2024. Mortgages are secured by land and specific rental properties which bear interest at rates ranging from 2.23% to 5.7%. The mortgages have both fixed and variable interest rates. The estimated payments of principal and interest are as follows:

	2014		2013	
(in thousands of dollars)	**Principal**	**Interest**	Principal	Interest
2014			28,394	5,015
2015	**34,128**	**5,546**	22,584	4,129
2016	**13,084**	**4,287**	12,778	3,162
2017	**27,359**	**2,927**	27,040	1,815
2018	**12,557**	**2,475**	12,223	1,377
2019-2024	**45,522**	**8,366**	19,393	2,651
	132,650	**23,601**	122,412	18,149

During 2014, interest paid on these mortgages amounted to $5.7 million (2013 - $5.7 million).

5. NET REVENUE FROM INFRASTRUCTURE

Net revenue from infrastructure represents cash distributions from the funds.

6. NET REVENUE FROM REAL ESTATE

Net revenue from real estate represents rental revenues less expenses including tenant improvements.

7. INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS

The increase (decrease) in fair value of investments is composed of both realized and unrealized gains and losses from investments of the DB and DC components.

(in thousands of dollars)	2014	2013
Defined benefit	**122,689**	168,054
Defined contribution	**47**	3
Total	**122,736**	168,057

8. CONTRIBUTIONS

The contributions are composed of the following:

(in thousands of dollars)	2014	2013
Defined benefit		
Employer		
Current service contributions	**16,066**	14,905
Special payments	**55,796**	82,171
Total employer	**71,862**	97,076
Employees		
Current service contributions	**13,099**	12,424
Past service contributions	**2,520**	2,088
Total employees	**15,619**	14,512
Total defined benefit	**87,481**	111,588
Defined contribution		
Employer	**491**	56
Employee	**439**	49
Total defined contribution	**930**	105
Total	**88,411**	111,693

As a result of the deficits reported in the December 31, 2013 actuarial valuation report, special payments were required in 2014. The going concern and solvency special payments amounted to $2.5 million (2013 - $4.8 million) and $51.1 million (2013 - $76.1 million) respectively in 2014.

Special payments also included $2.1 million (2013 - $1.3 million) to fund transfer deficiencies for members electing to transfer out of the plan in 2014.

9. BENEFITS

(in thousands of dollars)	2014	2013
Retirement	**68,415**	64,095
Disability	**154**	143
Transfer restriction annuity	**8,088**	1,690
Death	**-**	-
Total	**76,657**	65,928

10. NET CONTRIBUTIONS TRANSFERRED OR REFUNDED

(in thousands of dollars)	**2014**	**2013**
Defined benefit	**2,857**	3,084
Defined contribution	**11**	-
Total	**2,868**	3,084

11. OPERATING EXPENSES

Operating expenses include the administrative costs related to the management of the Plan. The following table outlines the operating expenses for the year ended 31 December:

(in thousands of dollars)	**2014**	**2013**
Operating expenses		
Pension benefits administration	**2,385**	2,110
Investment personnel and related costs	**2,126**	1,842
Investment management fees	**1,676**	1,922
Support services	**680**	657
Quote and data services	**237**	248
Actuarial fees	**221**	277
Computers and software	**206**	197
Other	**196**	180
Occupancy costs	**168**	161
Audit fees	**89**	87
Custodial fees	**41**	50
Trustees and investment committee	**32**	55
Consulting fees	**0**	89
Total	**8,057**	7,875

12. PENSION OBLIGATIONS

At 31 December 2014, an actuarial valuation of the Plan was conducted by Mercer. A copy of this valuation will be filed with the Office of the Superintendent of Financial Institutions and Canada Revenue Agency.

The valuation was prepared using the projected unit credit method with the following significant assumptions:

	2014	**2013**
Real discount rate	**3.80%**	3.90%
Inflation/indexation	**2.00%**	2.00%
Rate of compensation increase	**3.00%**	3.00%

Variances between such estimates and actual experience, which may be material, will emerge as gains and losses in future valuations. Based on the 31 December 2014 valuation, the actuarial present value of accrued pension benefits is $1,503.4 million (2013 - $1,445.9 million).

As is standard for actuarial valuations, it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. It is not possible to determine the magnitude of any such changes as they relate to general economic conditions.

CMHC bears the risk of experience loss against the long-term assumptions and credit risk associated with the Plan asset portfolio and is responsible for the liability associated with the ongoing operations of the Plan.

The Defined Contribution pension obligations of $1.1 million (2013 - $0.1 million) equals the net assets available for benefits; that is, the aggregate of the amounts accumulated in the members' account.

In accordance with the PBSA, the next required actuarial valuation will be 31 December, 2015.

13. RELATED PARTY TRANSACTIONS

The Fund enters into transactions with CMHC, the Plan Sponsor, and its related parties. CMHC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The following table summarizes the amount invested in instruments issued by CMHC or its related parties as at 31 December.

(in thousands of dollars)	**2014**	**2013**
Short-term investments [(1)]	**66,356**	31,820
Bonds and debentures [(2)]	**98,575**	95,752
Real return securities [(3)]	**31,343**	26,019
Total	**196,274**	153,591

[(1)] in its related parties
[(2)] $48.4 million (2013 - $33.0 million) in CMHC and $50.2 million (2013 - $62.7 million) in its related parties
[(3)] in its related parties

Transactions with CMHC, the Plan sponsor, were concluded in the normal course of activities and measured at the amount of consideration established and agreed to by both parties. Included in operating expenses is $5.1 million (2013 - $4.7 million) for administrative services provided by the Sponsor to the Plan. Accounts payable and accrued liabilities as at 31 December 2014 is $1.3 million (2013 - $0.4 million) due to CMHC for administrative services provided to the Plan.

14. COMMITMENTS AND CONTINGENT LIABILITIES

i) Various claims have been instituted against the Trustees of the Fund and/or CMHC pertaining to the Plan. In view of the inherent difficulty of predicting the outcome of such claims, the Plan cannot state what the eventual outcome of such matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the financial position of the Plan.

ii) In 2014, the Plan committed to fund infrastructure investments. The funding is expected to occur over the next several years in accordance with the agreed upon terms and conditions. As at December 31, 2014, the commitments amounted to $31 million (2013 - $18 million).

iii) As at December 31, 2014, the Plan has a $0.9 million (2013 - $0.9 million) letter of credit outstanding related to the potential development of one of its real estate properties.

15. CAPITAL MANAGEMENT

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are considered the capital of the Plan. The Plan's primary objective with respect to capital management is to ensure that it is adequate to provide for the pension benefits in accordance with the provisions of the CMHC Pension Plan Rules.

The Plan Rules, as well as the Plan's funding and operations are subject to the PBSA and its regulations, and to the *Income Tax Act* (ITA).

CMHC has managed the Plan's capital in accordance with the legal and regulatory requirements. There have been no changes in what is considered to be capital or the objectives of managing capital during the year.

16. COMPARATIVE FIGURES

Certain comparative figures presented in the notes to the financial statements have been reclassified to conform to the 2014 financial statement presentation.

COMMITTEE MEMBERSHIP AND PLAN ADMINISTRATION
(as at 31 December 2014)

DB Pension Fund Investment Committee

Members	
Wojo Zielonka	Chair Senior Vice-President, Capital Markets
Brian Naish	Chief Financial Officer
Peter Friedmann (until June 2014)	General Manager, Ontario Region and National Director, Leadership Development
Benoit Sanscartier	National Director, Insurance Servicing
Claude Gautreau	Pension Council Member, Knowledge Transfer Consultant, Atlantic Region
Bruce Curwood	Russell Investments Canada Limited Toronto, Ontario
René Delsanne	Expertise Financière J.C. Dorval 1999 Inc. Montréal, Quebec
Advisors	
Pierre Serré	Chief Risk Officer
Sharon Rosentzveig	Assistant General Counsel

DB Pension Council

Chair	
Julie Philippe	Director, Total Reward Strategy, Human Resources
Employee Representatives	
Claude Gautreau	Atlantic Region
François Lévesque	Quebec Region
Peter Hood	Ontario Region
Ian Moore	Prairie and Territories Region
Fleuri Perron	B.C. Region
Julie Murphy	National Office and Ottawa Point of Service
Kamal Gupta	National Office and Ottawa Point of Service
Pensioner Representatives	
Guy Riopel	Atlantic and Quebec regions
Stephen Hall	Ontario, Prairie and Territories, and B.C. regions
Trevor Gloyn	National Capital Region

DB Pension Council (continued)

Alternate Employee	
Vacant	Atlantic Region
Vacant	Quebec Region
Robert Genier	Ontario Region
Jimmy Bechthold	Prairie and Territories Region
Carol Frketich	B.C. Region
Syed Z. Rizvi	National Office and Ottawa Point of Service
Nicolas Malboeuf	National Office and Ottawa Point of Service
Alternate Pensioner	
Curt Wilson	Atlantic and Quebec regions
Bill Beatty	Ontario, Prairie and Territories, and B.C. regions
Vacant	National Capital Region

Plan and Fund Administration

Human Resources	
Julie Philippe	Director, Total Reward Strategy, Human Resources
Stéphane Poulin	Manager, Pension Policy and Administration
Investments and Pension	
Mark Chamie	Vice President, Investments and Pension Fund
Legal Advisors	
Sharon Rosentzveig	Assistant General Counsel
Louise Michel	Director, Legal Services
Pension Consultant	
Mercer (Canada) Limited Ottawa, Ontario	
Actuary	
Mercer (Canada) Limited Ottawa, Ontario	
Auditors	
Ernst & Young LLP Chartered Accountants Licensed Public Accountants Ottawa, Ontario	

For Answers to your Pension Questions

If you are a participant of the DB Plan, any questions having to do with the DB Plan in general or with your individual CMHC pension-related circumstances should be directed to:

Pension and Benefits Human Resources
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7
E-mail: pension-ben@cmhc-schl.gc.ca
Tel: 613-748-2954 or 1-800-465-9932
Fax: 613-748-2320

If you are a participant of the DC Plan, any questions having to do with the DC Plan in general or with your individual CMHC pension-related circumstances should be directed to:

Standard Life
E-mail: retirement.solutions@standardlife.ca
Tel: 1-800-242-1704
Monday to Friday, 8:00 a.m. to 8:00 p.m. EST

To Provide Feedback on this Report

The CMHC Pension Plan Annual Report provides all members with financial and operational information on the Plan and Fund. Your feedback on this Report would be welcomed. Please address your comments or suggestions to:

Senior Manager
Investments & Pension Fund
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7