CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

June 30, 2011
(Unaudited)

CMHC SCHL
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INTRODUCTION

For over 65 years, Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency. Established as a federal Crown corporation in 1946 to help address post-war housing shortages, our role has evolved as Canadians' needs have changed. Today, we work closely with provinces, territories and the private and not-for-profit sectors to help lower-income Canadians access affordable, better quality housing. We also support Aboriginal Canadians on-reserve to help improve their living conditions.

Through our housing research, information transfer and market analysis activities CMHC promotes sound decision making by consumers and the housing industry. Also, CMHC International facilitates the export sales of Canadian housing goods and services.

Our role in housing finance — providing mortgage loan insurance and securitization guarantee products — contributes to the health and stability of Canada's housing finance system and facilitates access to financing for housing across the country. This includes loans for housing in small and rural communities, for rental housing and for nursing and retirement homes.

CMHC's prudent underwriting standards and market presence have contributed to the resiliency and stability of the Canadian housing finance system during the recent economic downturn. The quality of CMHC's insured mortgage portfolio remains strong and the rate of arrears of insured loans remains historically low and in line with the industry trend.

CMHC is governed by a Board of Directors and is accountable to Parliament through the Minister of Human Resources and Skills Development. As a Crown corporation, CMHC is also required to meet a number of governance and accountability requirements under the *Financial Administration Act* and the *CMHC Act*.

Management is responsible for ensuring that all information in the quarterly financial report is consistent with the unaudited quarterly consolidated financial statements. The information is intended to provide readers with an overview of CMHC's performance for the three months and six months ended 30 June 2011 with comparatives against the same periods in 2010. The Management's Discussion and Analysis (MD&A) includes explanations of significant deviations in actual financial results from the targets outlined in the Corporate Plan Summary that may impact the current and future quarters of the fiscal year.

The 2011 and 2010 financial information contained herein, as well as the unaudited quarterly consolidated financial statements and related notes have been prepared in accordance with International Financial Reporting Standards (IFRS) with the exception of the adoption of new or changed accounting policies within the quarter (see Note 2 of the unaudited quarterly consolidated financial statements). The Corporation adopted IFRS commencing 1 January 2011, with comparatives for the year commencing 1 January 2010.

These are the Corporation's first public quarterly IFRS financial statements. The effect of transitioning from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS is further explained in Note 21 of the unaudited quarterly consolidated financial statements.

The MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements and related notes included in this report as well as with our 2010 Annual Report.

Forward-looking Statements

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

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2011

Financial Reporting

In adherence to amendments made to the *Financial Administration Act*, beginning April 2011 CMHC will issue quarterly financial reports including unaudited quarterly consolidated financial statements for the first three quarters of each fiscal year within 60 days of the quarter-end. CMHC's fiscal year mirrors the calendar year. As required by the Act, CMHC will issue unaudited quarterly consolidated financial statements for the quarters ending 30 June and 30 September 2011. Going forward, unaudited quarterly consolidated financial statements will be issued for the quarters ending 31 March, 30 June and 30 September. The Annual Report will continue to be tabled in Parliament as required.

CMHC's quarterly financial report includes:

- A MD&A outlining the financial results, risks and significant changes in relation to operations, personnel and programs;
- Reporting on the use of appropriations; and
- Unaudited quarterly consolidated financial statements and explanatory notes for the fiscal quarter and year-to-date and comparative information for the preceding fiscal year.

Federal-Provincial-Territorial Agreements

In the fall of 2009, the Government of Canada engaged provinces and territories as well as public and private sector stakeholders on how best to use federal housing and homelessness investments from 2011 to 2014. The Government approved continued program funding to CMHC at current levels of $253.1 million per year.

On 4 July 2011 federal, provincial and territorial ministers responsible for housing announced a $1.4 billion combined investment toward reducing the number of Canadians in housing need under an Investment in Affordable Housing 2011-2014 Framework Agreement. Under the new framework, provinces and territories have the flexibility to invest in a range of programs and initiatives designed to achieve the overall intended outcome by improving access to affordable housing that is sound, suitable and sustainable. Initiatives under the Framework can include new construction, renovation, homeownership assistance, rent supplements, shelter allowances and accommodations for victims of family violence. The signing of bilateral agreements with provinces and territories began in July 2011 and will continue over the subsequent quarters.

Government of Canada Deficit Reduction Action Plan

In Budget 2011, the Government announced that a comprehensive one-year deficit reduction action plan across all of government would take place in 2011–12. The review focuses on improving the efficiency and effectiveness of government operations and programs to ensure value for taxpayer money.

The review "will examine direct program spending, as appropriated by Parliament. The review will place particular emphasis on generating savings from operating expenses and improving productivity, while also examining the relevance and effectiveness of programs."[1]

CMHC is participating in this exercise. The results of the review will be announced in Budget 2012.

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[1] Budget 2011, chapter 5: Plan for Returning to Balanced Budgets (JUNE 6, 2011)

Mortgage Loan Insurance

In a continued effort to maintain a strong and stable Canadian housing market, the Government of Canada has introduced a series of adjustments to the government guarantee parameters backstopping Canadian mortgage insurers. During the first quarter of 2011, the following additional changes to mortgages eligible for mortgage insurance were announced:

- Reducing the maximum amortization period for new government-backed insured mortgages with loan-to-value ratios of more than 80% from 35 to 30 years (effective 18 March 2011);
- Reducing the maximum amount Canadians can borrow in refinancing their mortgages from 90% to 85% of the value of their homes (effective 18 March 2011); and
- Withdrawing Government insurance backing on non-amortizing home equity lines of credit (effective 18 April 2011).

These changes will significantly reduce the total interest payments on mortgages, allowing Canadian families to build equity in their homes more quickly. After implementation, the purchase of CMHC's Homeowner mortgage insurance initially fell by approximately 10% and by the end of June was at approximately 5% below pre-implementation levels. Refinance activity fell by nearly 40% and has continued to remain around this level.

As part of the implementation of the June 2011 federal budget, legislation was passed that formalizes mortgage insurance arrangements with private sector mortgage insurers, including the rules for government-backed mortgages. In addition, the amendments below were made to the National Housing Act (NHA):

- Regulations on the recommendation of the Minister of Finance to specify criteria for CMHC's approved lenders and for loans that CMHC is permitted to insure were added.
- Provision for the Minister of Finance to charge CMHC fees to compensate the Government for its exposure to risk represented by CMHC's loan insurance was added.
- Authority for the Minister of Finance to obligate CMHC to provide information directly to the Minister of Finance and to disclose that information to the Superintendent of Financial Institutions, the Governor of the Bank of Canada, the Chairperson of the Canada Deposit Insurance Corporation and the Commissioner of the Financial Consumer Agency of Canada was added.
- A requirement that CMHC maintain and make available to the public books, records and information on its business and information as determined by the Minister of Finance was added.

Details on these amendments will be included in regulations that are expected to be finalized in the next 12 months. There is no impact on mortgage insurance provided by CMHC as the Framework simply formalizes arrangements that are already in place. CMHC continues to:

- Operate within the parameters set by the Department of Finance.
- Provide the government with housing market advice and information, as well as details on its mortgage loan insurance operations.
- Report to Parliament and the public on its operations, including mortgage loan insurance, through its annual Corporate Plan Summary, its Annual Report and its Quarterly Financial Reports.

In general, the economic conditions experienced to date in 2011 have been favourable with respect to claims incurred by CMHC's mortgage insurance business. Unemployment and mortgage rates have declined and the average house price has increased. Overall arrears levels and arrears rates have been improving and claims volumes have been lower than expected. Given current economic forecasts, it is expected that the noted improving trends will be maintained and possibly improve moderately going forward.

Economic Outlook

The Canadian economy continues to recover from the global economic slowdown. In its July 2011 Monetary Policy Report (MPR), the Bank of Canada wrote that domestic economic expansion is proceeding largely as projected in its April MPR. Business investment in Canada is expected to remain strong, household spending to grow more in line with disposable income and net exports to become more supportive of growth. The July 2011 Consensus Economics report forecasts Canadian economic growth to be 2.8 % for 2011 and 2.5 % for 2012.

According to the 2011 Q2 CMHC Housing Market Outlook, employment is forecast to improve along with overall economic conditions and to increase by 1.6 % in 2011 and by 1.7 % in 2012. The unemployment rate is expected to decrease to 7.6 % in 2011 and to be about 7.2 % in 2012.

Inflationary pressures have emerged on a temporary basis. Statistics Canada recently reported that consumer prices rose 3.1% in the 12 months to 30 June 2011, this following a 3.7 % increase in May. The Bank of Canada expects the inflation rate to return to the 2 % target in the middle of 2012.

On 19 July 2011, the Bank of Canada announced that it would maintain the Target for the Overnight Rate at 1.0 %. The last increase in the Target for the Overnight Rate occurred on 8 September 2010 when the Bank raised the rate by 25 basis points.

The overnight rate directly impacts shorter-term fixed and variable mortgage rates and has an indirect impact on longer-term mortgage rates. With the overnight rate expected to remain relatively flat in 2011, mortgage rates, particularly short term rates and variable mortgage rates, are expected to remain near historically low levels.

According to the 2011 Q2 CMHC Housing Market Outlook, posted mortgage rates should remain relatively flat for most of 2011 before increasing slightly in 2012. For 2011, the one-year posted mortgage rate is forecast to be in the 3.1 to 3.5 % range, while three- and five-year posted mortgage rates are predicted to be in the 4.1 to 5.6 % range. With respect to 2012, the one-year posted mortgage rate is forecast be in the 3.4 to 4.3 % range, while three- and five-year posted mortgage rates are anticipated to be in the 4.2 to 6.3 % range.

New Housing Starts

Canada’s housing markets recovered from the recent economic downturn and reached 189,930 units in 2010, up from 149,081 in 2009. Moving forward, CMHC expects total starts to be in the 166,600 to 192,200 unit range for 2011 and in the 163,200 to 207,500 unit range in 2012, with both forecasts in line with the overall rate of demographic demand in Canada.

Resale Market

MLS® sales strengthened from August 2010 to January 2011. However, MLS® unit sales continuously slowed during the following four months (February to May 2011), before increasing again in June. The MLS® sales of 446,503 in 2010 were down from 464,545 sales in 2009. CMHC expects national sales of existing homes through the MLS® to be in the 429,500 to 480,000 unit range for 2011 and in the 410,000 to 511,900 unit range for 2012.

The average MLS® price was $339,058 for 2010 as a whole, up from $320,393 in 2009. After an increase in the first half of 2011, the average MLS® price is expected to moderate for the remainder of the year. It is nevertheless expected to grow modestly moving forward because market conditions are expected to remain mostly in the balanced market range. For 2011, CMHC forecasts that the average MLS® price will be in the range of $347,700 to $374,300 for 2011, while 2012 will see a range of $349,500 to $385,000.

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL RESULTS

CMHC reports on the following principal business activities and consolidates the accounts of Canada Housing Trust, a special purpose entity:

- **Housing Programs:** Expenditures and operating expenses are funded by Parliamentary appropriations.

- **Lending:** Revenues are earned from interest income on the loan portfolio which is funded through borrowings.

  Housing Programs and the Lending Activity provide support for Canadians in need and are operated on a planned breakeven basis.

- **Mortgage Insurance:** Revenues are earned from premiums, fees and investment income. Expenses consist of operating expenses and net claim expenses. The Corporation's net income is primarily derived from this activity.

- **Securitization:** Securitization revenues are earned from application fees, guarantee fees and investment income. Expenses consist primarily of interest expenses.

  Mortgage Insurance and Securitization Activities facilitate access to more affordable and better quality housing and ensure an adequate supply of mortgage funds to the housing market. These activities are operated on a commercial basis.

Canada Housing Trust (CHT): CHT revenue is earned primarily from investment income. Revenue derived from investment income is used to cover operating expenditures and Canada Mortgage Bonds (CMB) interest expense.

BALANCE SHEET HIGHLIGHTS

(in millions of dollars)	30 June 2011	31 December 2010[1]	Variance	1 January 2010
Total Assets	296,688	287,947	8,741	267,695
Total Liabilities	285,456	277,441	8,015	258,957
Contributed Capital	25	25	-	25
Accumulated Other Comprehensive Income (AOCI)	599	610	(11)	207
Retained Earnings (other)[2]	1,616	963	653	1,998
Retained Earnings Set Aside for Capitalization	8,992	8,908	84	6,508
Total Equity of Canada	**11,232**	**10,506**	**726**	**8,738**

[1]CMHC converted to IFRS effective 1 January 2011 (with comparatives for the year commencing 1 January 2010), refer to Note 21 of the unaudited quarterly consolidated financial statements for a detailed reconciliation of the transition

[2] Includes Unappropriated Retained Earnings, Reserve Fund and Inter-entity eliminations

Assets and Liabilities

Total Assets and Total Liabilities were $297 billion and $285 billion respectively as at 30 June 2011; an increase of 3% compared to 31 December 2010. The net growth is primarily the result of a net increase of $10 billion in Canada Mortgage Bonds, partially offset by $2 billion floating rate NHA MBS repayments in the Insured Mortgage Purchase Program (IMPP).

Equity of Canada

The Equity of Canada is made up of three components:

- **Contributed Capital**
  The capital of CMHC is $25 million unless otherwise determined by the Governor in Council.

- **Accumulated Other Comprehensive Income (AOCI)**
  AOCI is the accumulated unrealized gains or losses caused by the change in fair valuation of investments in Mortgage Insurance and Securitization Activities. It was $599 million at year-to-date 30 June 2011.

- **Retained Earnings**
  Total Retained Earnings were $10,608 million of which $8,992 million is set aside for the capitalization of the Mortgage Insurance and Securitization Activities.

Within the Public Accounts of Canada, CMHC's annual Consolidated Net Income reduces the Government's annual deficit, and the consolidated Retained Earnings and Accumulated Other Comprehensive Income reduces the Government's accumulated deficit. Over the last decade, CMHC has contributed over $14 billion to reducing the Government's annual deficit through both its income taxes and net income.

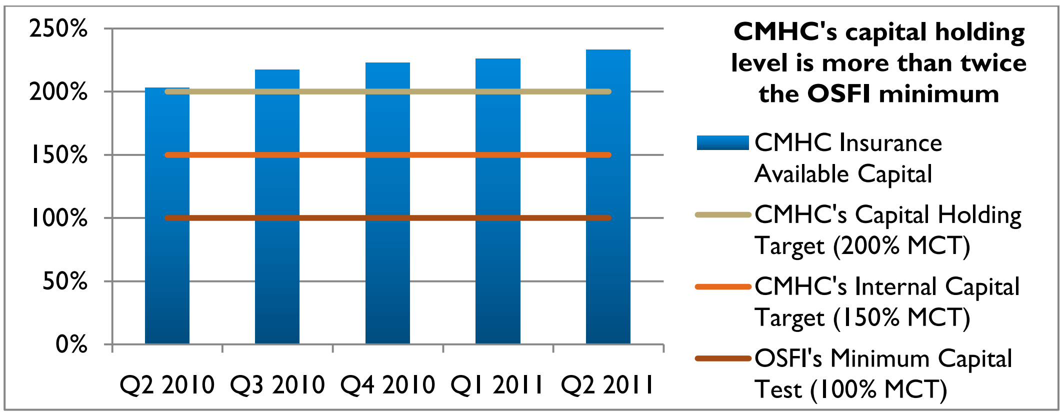
The *CMHC Act* and *National Housing Act* (NHA) govern the use of the Corporation's Retained Earnings.

Retained Earnings related to mortgage loan insurance activity are appropriated in accordance with the Capital Management Framework which is based on guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI).

Under its Capital Management Framework, CMHC follows prudent regulations as set out by OSFI to protect the Canadian taxpayer from potential future costs arising from mortgage defaults and to maintain a level playing field with private mortgage insurers. OSFI uses the Minimum Capital Test (MCT) to measure the capital adequacy of an insurer.

The percentage MCT is the ratio of capital available to capital required. Capital available is equal to Insurance retained earnings plus accumulated other comprehensive income. Capital required is calculated by applying OSFI risk factors to insurances assets and liabilities.

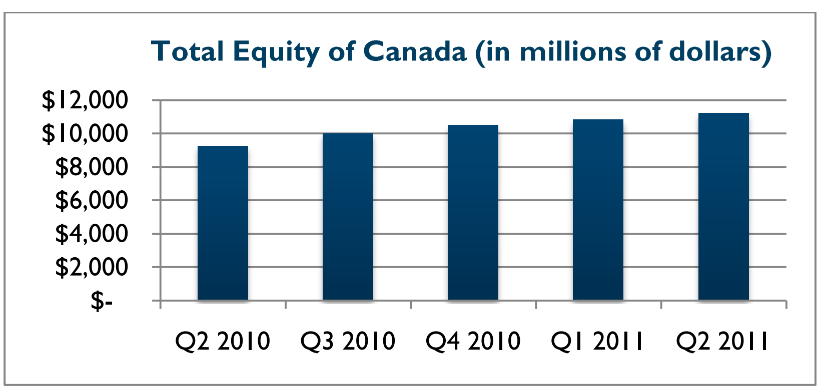
CMHC has determined that an internal capital target of 150% MCT is appropriate to provide adequate time for management to resolve financial problems that may arise. To reduce the likelihood of falling below this internal capital target, CMHC has also set a capital holding target of 200% MCT and Appropriated Retained Earnings for capitalization purposes based on this target. As such, CMHC maintains at least twice the minimum capital required by OSFI.



Retained Earnings related to the Securitization Activity are also appropriated based on regulatory and economic capital principles.

Retained Earnings related to the Lending Activity have been kept by the Corporation as part of its strategy to address interest rate risk exposure on pre-payable loans. They also include amounts representing unrealized fair market valuation changes of financial instruments and actuarial gains and losses. The Reserve Fund for Lending is subject to a statutory limit. Should the limit be exceeded, CMHC would be required to pay any excess to the Government of Canada.

As of 30 June 2011, Total Equity of Canada was $11,232 million, an increase of $726 million or 7% compared to 31 December 2010. This increase is primarily due to net income generated by the Insurance and Securitization Activities. Additional details can be found under Objective 2 in the Segmented Financial Results.



STATEMENT OF INCOME AND COMPREHENSIVE INCOME HIGHLIGHTS

(in millions of dollars)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2011	**2010**		**2011**	**2010**	
Total Revenues	**3,320**	3,415	(95)	**7,083**	7,093	(10)
Total Expenses	**2,799**	2,970	(171)	**6,048**	6,261	(213)
Income Taxes	**138**	123	15	**273**	224	49
Net Income	**383**	322	61	**762**	608	154
Other Comprehensive Income	**(3)**	(129)	126	**(36)**	(88)	52
Comprehensive Income	**380**	193	187	**726**	520	206
RESOURCE MANAGEMENT						
Total Operating Expenses (included in Total Expenses above)	**101**	106	(5)	**211**	199	12
Staff-Years	**499**	518	(19)	**992**	1,015	(23)

Revenues

For the three months and six months ended 30 June 2011, Total Revenues decreased by 3% and 0.1% respectively ($95 million and $10 million respectively), compared to the same prior year periods. These decreases are mainly a result of lower Housing Program Appropriations as the Canada's Economic Action Plan (CEAP) ended 31 March 2011. The drop in appropriation revenue was partially offset by increased gains on the sale of financial instruments and higher interest income from NHA MBS.

Expenses

Total Expenses decreased by 6% and 3% ($171 million and $213 million respectively) in the three months and six months ended 30 June 2011, respectively, compared to the prior year periods. The results are mainly driven by lower Housing Program Expenses as explained above as well as lower net mortgage insurance claim expenses due to improved economic conditions. The decreases in both Housing Program expenses and net mortgage insurance claims are partially offset by an increase in CMB Interest Expenses caused by an increase in CMB issuances.

Net Income

As a net result of the above, Net Income increased by $61 million (19%) and $154 million (25%) respectively, compared to the prior year periods for the three months and six months ended 30 June 2011.

Other Comprehensive Income

CMHC's Other Comprehensive Income (OCI) consists of unrealized gains or losses caused by changes in the fair valuation of investments in Mortgage Insurance and Securitization activities. These investments are classified as "Available for Sale" and their unrealized gains/losses on fair valuation are recorded in OCI. Also included in Other Comprehensive Income are net Actuarial Gains/Losses from CMHC's defined benefit pension and other post-employment plans. Under IFRS, Actuarial Gains and Losses are recognized in Other Comprehensive Income as incurred, and are accumulated in Retained Earnings.

For the three months and six months ended 30 June 2011, OCI increased by 98% ($126 million) and 59% ($52 million) respectively, compared to the prior year periods. OCI increase was attributable to lower net actuarial losses from the defined benefit plans mainly caused by the fluctuation in the discount rate assumption throughout the periods partially offset by an increase in realized gains from Available for Sale financial instrument being re-classed from OCI to net income.

DISCLOSURE OF CHANGES IN ACCOUNTING POLICIES AND CHANGEOVER TO IFRS

CMHC's significant accounting policies and changes in accounting policies are described in Note 2 of the consolidated quarterly financial statements.

The Corporation adopted International Financial Reporting Standards (IFRS) effective 1 January 2011 as a replacement of Canadian GAAP. The quarterly consolidated financial statements for the period ended 30 June 2011 reflect the Corporation's first public set of financial statements prepared under IFRS and include corresponding comparative financial information for 2010. For an overview of the impact of the adoption of IFRS, refer to Note 21 – Transition to International Financial Reporting Standards (IFRS) in the Consolidated Quarterly Financial Statements for the period ending 30 June 2011

FUTURE ACCOUNTING CHANGES

IFRS 9

On 12 November 2009, the IASB issued *IFRS 9 Financial instruments* ("IFRS 9") with further revisions on 28 October 2010 to replace IAS 39 Financial Instruments: Recognition and Measurement.

Effective 1 January 2013, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The Corporation has not yet determined the impact of IFRS 9 on its financial statements.

IFRS 10, 11, 12

On 13 May 2011, the IASB issued *IFRS 10 Consolidated Financial Statements* ("IFRS 10"), *IFRS 11 Joint Arrangements* ("IFRS10") and *IFRS 12 Disclosure of Interests in Other Entities* ("IFRS 12"). The new requirements are effective 1 January 2013.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and provides a single consolidation model that identifies control as the basis for consolidation.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-monetary Contributions by Venturers and establishes principles for the financial reporting of joint arrangement.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The Corporation has not yet determined the impacts of these new standards on its financial statements.

IFRS 13

On 13 May 2011, the IASB issued *IFRS 13 Fair Value Measurement* ("IFRS 13"). IFRS 13 defines fair value, sets out in a single framework for measuring fair value and requires disclosures about fair value measurements. While IFRS 13 does not introduce any new requirements, it determines the measurement and disclosure requirements when IFRS requires items to be measured at fair value.

The new requirements are effective 1 January 2013. The Corporation has not yet determined the impacts of this new standard on its financial statements.

IAS 1

On 16 June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. The amendments require the components of Other Comprehensive Income be presented in two categories. Items will be grouped together based on whether or not they will not be classified to profit or loss in the future.

The new requirements are effective 1 July 2012. The Corporation does not foresee a major impact from this new standard on its financial statements.

IAS 19

On 16 June 2011, the IASB issued amendments to IAS 19 *Employee Benefits*. The amendments eliminate the "corridor method" and improve the recognition and disclosure requirements for defined benefit plans.

The new requirements are effective 1 January 2013. The elimination of corridor method has no impact on the Corporation as it already recognizes actuarial gains and losses in other comprehensive income. The Corporation has not yet determined any other impacts from this new standard on its financial statements.

SEGMENTED FINANCIAL RESULTS

Financial analysis is provided for the following activities: Housing Programs and Lending Activity, Mortgage Insurance Activity and Securitization Activity and the Canada Housing Trust which form CMHC's Objectives 1 and 2. These objectives and other performance measures are discussed in greater detail in CMHC's 2010 Annual Report.

Objective 1 – Help Canadians in need

HOUSING PROGRAMS

Housing Program expenditures fund programs and activities to address the housing needs of Canadians living off-reserve and First Nations people living on reserve.

On an annual basis, the Corporation spends approximately $2 billion (excluding CEAP) to assist Canadians in need. Approximately $1.7 billion of the $2 billion is related to ongoing, long-term social housing commitments of which $1 billion is paid to provinces and territories that administer the housing portfolio pursuant to Social Housing Agreements with CMHC.

CEAP, a temporary two year initiative, which terminated 31 March 2011, increased housing program funding and expenses in 2009, 2010 and 2011. Under CEAP, CMHC delivered $1.925 of the $2.075 billion invested in social housing for the creation of new affordable housing and the renovation and retrofit of existing social housing. Of the $2.075 billion, $150 million was delivered by Aboriginal Affairs and Northern Development Canada for housing on-reserve. CEAP measures created employment through timely and targeted investments while building new and renovating existing social housing.

(in millions of dollars)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2011	2010		2011	2010	
Housing Program Expenses	**382**	617	(235)	**1,146**	1,581	(435)
Operating Expenses	**27**	29	(2)	**58**	56	2
Total Appropriations	**409**	646	(237)	**1,204**	1,637	(433)

For the three months and six months ended 30 June 2011, Total Appropriations decreased by 37% and 26% respectively ($237 million and $433 million respectively), compared to the same prior year periods. The decreases are primarily a result of lower spending under CEAP initiatives and the Affordable Housing Initiative (AHI). This is largely due to the accelerated take-up of available funding in 2010 for these initiatives and the termination of CEAP funding 31 March 2011.

For the six months ended 30 June 2011, spending under CEAP and AHI is lower by $315.3 million and $82.4 million respectively. This is largely due to the accelerated take-up of available funding in 2010 for these initiatives and the termination of CEAP funding 31 March 2011. CMHC achieved full take-up of this available funding over the two year period.

REPORTING ON USE OF APPROPRIATIONS

CMHC receives funds from the Government of Canada through parliamentary appropriations for Housing Program expenditures, including operating expenses. Total appropriations recognized as of 30 June 2011 amounted to $1,204 million (see Note 11 of the unaudited quarterly consolidated financial statements).

Housing Program parliamentary appropriations, and related expenses, are recorded in CMHC's Consolidated Statement of Income and Comprehensive Income on an accrual basis not exceeding the maximum authorized by Parliament. Those expenses incurred but not yet reimbursed are recorded on the Consolidated Balance Sheet as Due from the Government of Canada.

The following table reconciles the amount of appropriations authorized by Parliament as available to the Corporation during the Government of Canada fiscal year with the total amount recognized by the Corporation in CMHC's current fiscal year-to-date in support of housing programs.

(in millions of dollars)	2011	2010
Amounts provided for Housing Programs:		
Amounts authorized in 2010/11 (2009/10)		
Main Estimates	**3,131**	2,045
Supplementary estimates A[1]	**-**	1,025
Supplementary estimates B[1]	**-**	71
Supplementary estimates C[1]	**2**	-
	3,133	3,141
Less: Portion recognized in calendar 2010 (2009)	**(2,168)**	(2,037)
Less: *Appropriations lapsed for 2010/11 (2009/10)*	***(170)***	*(113)*
2010/11 (2009/10) portions recognized in 2011 (2010)	**795**	991
Amounts authorized in 2011/12 (2010/11)		
Main Estimates	**1,907**	3,131
Supplementary estimates A[1]	**256**	-
Supplementary estimates B[1]	**-**	-
Supplementary estimates C[1]	**-**	2
	2,163	3,133
Less: Portion to be recognized in subsequent quarters	**(1,754)**	(2,487)
2011/12 (2010/11) portions recognized in 2011 (2010)	**409**	646
Total Appropriations used - six month ended 30 June	**1,204**	1,637

[1]Supplementary Estimates are additional appropriations voted on by Parliament during the government's fiscal year.

In September 2008, a five-year investment, from 2009-2014, of more than $1.9 billion in housing and homelessness was made to address the needs of low-income Canadians, those at risk of homelessness and the homeless. Of this amount, $253.1 million per year was designated specifically for investments in affordable housing. The 2011/12 portion of this investment is included above.

LENDING ACTIVITY

CMHC makes loans under the National Housing Act (NHA) to federally-subsidized social housing sponsors, First Nations, provinces, territories and municipalities. CMHC's loan portfolio is comprised of a mix of renewable and non-renewable loans for the purposes of both market and social housing. Where a loan is social housing in nature, it may be on-reserve or off-reserve.

Through its lending activities, CMHC is able to lower the cost of government assistance required to be provided for social housing projects. These loans can be offered at lower interest rates because CMHC borrows funds through the Crown Borrowing program. The majority of Lending activity revenues are earned from interest income on the loan portfolio.

Generally loans are closed to prepayment. However, where borrowers have the right or legal ability to prepay loans according to the security documentation, CMHC seeks to minimize the financial impact of prepayments by enforcing the prepayment provision contained in the mortgage documentation, including the collection of CMHC's net interest loss.

CEAP provided $2 billion in direct low-cost loans to municipalities, over two years, through CMHC for housing-related infrastructure projects in towns and cities across the country. By the 31 March 2011 deadline, the full $2 billion in available lending authority had been utilized by municipalities from across Canada. Over the two years that this temporary CEAP initiative was available, CMHC approved 272 loans resulting in the full take-up of the available $2 billion in low cost loans.

(in millions of dollars)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2011	2010		2011	2010	
Interest income	**171**	163	8	**340**	326	14
Net Unrealized Gains (Losses) from Financial Instruments	**(9)**	(8)	(1)	**(9)**	(19)	10
Net Realized Gains (Losses) from Financial Instruments	**-**	-	-	**-**	-	-
Other Income (Expense)	**3**	3	-	**6**	2	4
Interest Expense	**165**	161	4	**327**	319	8
Operating Expenses	**4**	6	(2)	**9**	11	(2)
Income Taxes	**(1)**	-	(1)	**-**	(4)	4
Net Income (Loss)	**(3)**	(9)	6	**1**	(17)	18

For the three months ended 30 June 2011, Total Net Income was negative $3 million, an increase of $6 million compared with the second quarter last year. The reduction of net loss was mainly driven by a growth in net interest income due to higher Income from Investment Securities as investment balances and interest rates increased in 2011.

On a year to date basis, Total Net Income was $1 million, an increase of $18 million compared with the same period last year. Favourable results are mainly due to $10 million in unrealized gains on the Municipal Infrastructure Lending Program (MILP) borrowings as well as growth in net interest income as previously noted.

The borrowings under MILP are deemed not to be issued at market value as they are funded by the Government of Canada. As a result, a gain was recorded on the day of exchange in the Lending Activity to adjust these borrowings to market value.

MILP debt issuances for the first six months of 2011 were $508 million higher than in the equivalent 2010 period as lending activity for the two year initiative peaked, with a resulting 2011 year-to-date gain of $10 million higher than last year. These gains will be reversed through amortization in the quarters and years to come until all related borrowings have matured, resulting in a net gain of zero at the end of the program.

(in millions of dollars)	As at 30 June 2011	As at 31 December 2010	Variance
Lending Reserves	**59**	68	(9)

Lending Reserves have decreased over the last six months as a result of a net $10 million actuarial loss on the defined benefit plans mainly caused by the fluctuation in the discount rate assumption throughout the periods.

Objective 2 – Facilitate access to more affordable, better quality housing for all Canadians

MORTGAGE INSURANCE ACTIVITY

In Canada, federally-regulated lenders are required to insure residential mortgage loans when borrowers have less than a 20% down payment. The requirement for mortgage loan insurance on high ratio loans protects lenders in the event of borrower default, allowing qualified borrowers to obtain mortgage financing at rates comparable to those with higher down payments. This enables them to access housing at a price they can afford and contributes to a strong and stable housing finance system in Canada. CMHC also supports mortgage market liquidity in Canada by providing insurance to lenders on low ratio loans with down payments of 20% or more.

CMHC has a mandate to enhance housing quality, affordability and choice in Canada and to ensure equitable access to low cost housing finance to qualified Canadians in all parts of the country. CMHC has operated its mortgage loan insurance business on a commercial basis at no cost to the Canadian taxpayer since the mid-1990s and has contributed over $12 billion to Canadian taxpayers over the last decade. Prudent underwriting practices and excellent client service has enabled the Corporation to maintain its position of strength in the marketplace in good economic times and bad.

CMHC continues to support efforts to improve financial literacy of Canadians through its online tools and publications. As Canada's national housing agency, CMHC makes efforts to ensure that Canadians make informed decisions when it comes to housing options and works with its partners across the industry to help Canadians improve their financial literacy.

INSURANCE VOLUMES

Measures	Six months ended 30 June 2011	Six months ended 30 June 2010
Total Insured Volumes (units)	**274,080**	314,188
Total Insured Volumes ($M)	**43,469**	50,373
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets and/or to support specific government priorities	**44.9%**	41.3%

Housing market activity and CMHC's market share declined in 2011. In addition to these declines, the changes in mortgage lending rules announced during the first quarter of 2011 reduced the size of the high ratio homeowner mortgage insurance market. As a result, total insured volumes (units) at 30 June 2011 were 13% below prior year and 20% below plan and are anticipated to remain lower than planned for the remainder of 2011.

CMHC'S INSURANCE-IN-FORCE

Insurance-in-force	Six months ended 30 June	
	2011	2010
Total ($B)	**536**	490
Homeowner	**93%**	93%
Multi-unit > 4units	**7%**	7%

CMHC's total insurance-in-force increased to approximately $536 billion at the end of the second quarter 2011, approximately 9% higher than total insurance-in-force at the same time in 2010.

FINANCIAL ANALYSIS

Revenues from the mortgage loan insurance activity are comprised of insurance premiums, application fees for insuring multi-unit properties and income earned on its investment portfolio. Premiums and fees are received at the inception of the mortgage insurance policy and are recognized as revenue over the period covered by the insurance contract using actuarially determined factors that reflect the long-term pattern for default risk. These factors are reviewed annually by CMHC's appointed external actuary.

As CMHC is mandated to operate its mortgage insurance business on a commercial basis, the premiums and fees it collects and the interest it earns must cover the related claims and other expenses. They must also provide a reasonable rate of return to the Government of Canada. CMHC's mortgage loan insurance activity is operated at no cost to Canadian taxpayers.

(in millions of dollars) (unless otherwise indicated)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2011	**2010**		**2011**	**2010**	
Premiums, Fees and Other Income earned	**438**	435	3	**856**	844	12
Investment Income	**149**	147	2	**297**	291	6
Net Unrealized Gains (Losses) from Financial Instruments	**2**	4	(2)	**4**	5	(1)
Net Realized Gains (Losses) from Financial Instruments	**36**	22	14	**108**	31	77
Interest Expense	**-**	-	-	**1**	-	1
Operating Expenses	**49**	49	-	**97**	93	4
Net Claims are comprised of:						
Losses on Claims	**144**	168	(24)	**299**	323	(24)
Change in Provision for Claims	**(30)**	(7)	(23)	**(37)**	13	(50)
Income Taxes	**121**	106	15	**238**	196	42
Net Income	**341**	292	49	**667**	546	121
Average Claim Paid ($ thousands)	**56**	59	(3)	**59**	58	1
Premiums and Fees Received (total):	**435**	608	(173)	**775**	1,031	(256)
Homeowner	**88%**	91%	(3%)	**85%**	88%	(3%)
Multi-unit > 4	**12%**	9%	3%	**15%**	12%	3%
Operating Expense Ratio	**11.3%**	11.4%	(0.1%)	**11.4%**	11.1%	0.3%
Severity Ratio[1]	**n/a**	n/a	n/a	**32.1%**	32.0%	0.1%

[1] The severity ratio is the ratio of the loss on claim compared to the original insured loan amount.

(in millions of dollars) (unless otherwise indicated)	30 June 2011	31 December 2010	Variance
Insurance Appropriated Capital:			
Appropriated Retained Earnings	**8,267**	8,201	66
Accumulated Other Comprehensive Income (loss)	**581**	587	(6)
Insurance Appropriated Capital	**8,848**	8,788	60
Insurance Unappropriated Retained Earnings	**1,447**	860	587
Insurance Retained Earnings	**9,714**	9,061	653
Insurance Available Capital (% of Equity against MCT)	**233%**	220%	13%

Three months ended 30 June 2011

Net Income for the quarter was $341 million, $49 million (17%) higher than in the same period last year. The increase is largely due to higher Net Realized Gains on Financial Instruments and lower Net Claims.

In Q2 2011 Net Realized Gains on Financial Instruments were $36 million, $14 million (64%) higher than Q2 2010 primarily as a result of the generally stronger bond and equity markets in 2011 compared to the same period in 2010.

Second quarter Earned Premiums and Fees remained relatively stable when comparing year-over-year. Premiums and fees received were $435 million, $173 million (28%) lower than the same period in 2010 mainly as a result of the decline in housing market activity, a decline in market share and a decline in insured volumes since the changes in mortgage insurance parameters in March and April. Earned Premiums and Fees are earned over the life of the insurance policy and as such, the declines in Premiums and fees received will impact earnings in the years ahead.

Net Claims are comprised of Losses on Claims and the Change in the Provision for Claims. Net Claims were $47 million (29%) lower in Q2 2011 than they were in Q2 2010 due to lower claims levels, continued low 5 year mortgage rates and an improvement in the unemployment rate.

Six months ended 30 June 2011

Net Income for the first half of 2011 was $667 million, $121 million (22%) higher than in the same period last year largely due to higher Net Realized Gains on Financial Instruments and lower Net Claims. Net Income exceeded the year to date plan by $98 million (17%) and is anticipated to remain higher than plan for the remainder of 2011.

Net Realized Gains on Financial Instruments were $108 million, $77 million (248%) higher than in the same period in 2010 primarily as a result of the generally stronger bond and equity markets in 2011 compared to the same period in 2010. The strength of these markets exceeded expectations resulting in a variance to plan of $77 million. It is anticipated that the Net Realized Gains on Financial Instruments will continue to exceed plan for the remainder of 2011.

Earned Premiums and Fees remained relatively stable when comparing year over year and were 6% below plan. Year-to-date premiums and fees received were $775 million, $256 million (25%) lower than Q2 2010 mainly as a result of the drop in housing market activity during the second half of 2010, a decline in market share and a decline in 2011 insured volumes. Unearned Premiums and Fees are directly impacted by these declines, however Earned Premiums and Fees are less impacted as they are earned over the life of the insurance policy. The lower-than-plan premium and fees received in 2010 and 2011 will result in lower than planned Earned Premium and Fees through the rest of 2011.

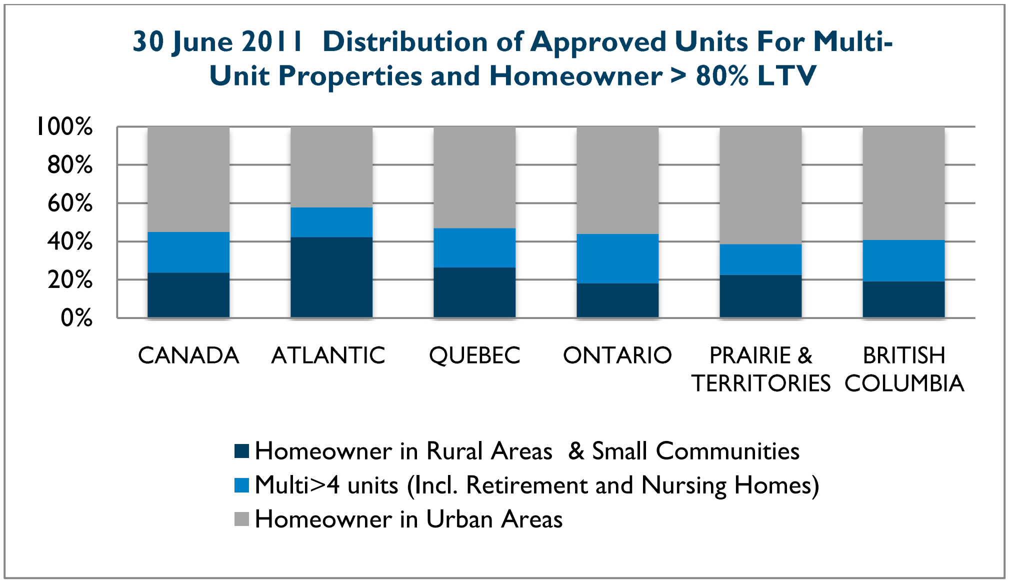
Net Claims are comprised of Losses on Claims and the Change in the Provision for Claims. Year-to-date Net Claims were $74 million (22%) lower in 2011 than they were for the same period in 2010 due to lower claims levels, continued low 5 year mortgage rates and an improvement in the unemployment rate. The improved claims levels and market conditions were better than planned resulting in Net Claims being $108 million (29%) lower than planned. As economic conditions are expected to continue to improve during 2011 and insurance volumes are projected to be lower than planned, it is anticipated that 2011 Losses on Claims will continue to remain lower than planned.

SERVING CANADIANS EVERYWHERE

CMHC contributes to Canada’s strong housing finance system, in part by ensuring that the gaps in the marketplace left by the private sector insurers are addressed. CMHC’s public mandate, which is to provide qualified Canadians with access to all forms of housing, sets it apart from its private sector competitors.

CMHC continues to be the only mortgage loan insurer for large multi-unit properties (including large rental, nursing and retirement homes). Our exclusive support for these forms of housing is critically important to the supply and maintenance of a range of housing options in Canada.

CMHC is also the primary insurer for housing in rural areas and smaller Canadian markets. Close to 45% of CMHC's total rental and high ratio homeowner business in the first half of 2011was in markets or for housing options that are less well served or not served at all by the private sector. This is up from 41% in the same period last year, and exceeded our target of 33%, largely due to strong multi-unit volumes.



Private sector mortgage insurers have the ability to select the markets they operate in and not serve those areas of the country or housing forms they deem less profitable. The 10% difference in the government guarantee between CMHC and private insurers compensates CMHC for this difference. So, while the level of guarantee is not equal, it is only one element of ensuring a level playing field between public and private insurers.

MANAGING RISK PRUDENTLY

The profile of CMHC's insurance-in-force in the first six months of 2011 demonstrates the nature and level of risk associated with CMHC's mortgage loan insurance business. CMHC manages its insurance business in a financially prudent manner, including following OSFI guidelines in setting capital levels. In particular CMHC targets holding twice the minimum capital required by OSFI.

All applications for mortgage loan insurance are carefully reviewed and assessed for risk by lenders prior to submission and again independently by CMHC prior to approval. CMHC's due diligence includes an assessment of a combination of various property, market and borrower risk factors including the level and source of down-payment and stringent credit requirements demonstrating the borrower's ability to manage their financial obligations.

As shown in the following table, the vast majority of CMHC-insured mortgages currently have loan-to-value ratios of 80% or less based on updated property values. The average equity in CMHC's insured portfolio was 45% in the first half of 2011compared to 44% in the same period in 2010.

Distribution of Homeowner Insurance-in-Force by Loan-To-Value (LTV) Ratio Based on Updated Property Value[1] (%)	Six months ended 30 June	
	2011	2010
<=80%	**72**	69
>80.01% <=90%	**19**	21
>90.01% <=95%	**7**	8
>95.01%	**2**	2
Average LTV of Insurance-in-Force	**55**	56

[1] LTV based on the updated value of the property when using changes in local resale prices.

While borrowers can choose an amortization period of up to 30 years, the average amortization period at time of mortgage approval for all CMHC-insured homeowner and multi-unit loans is below 25 years. The average outstanding loan amount per household for all homeowner loans was $158,894 at the end of the second quarter of 2011. The figure reflects the regular amortization of loan balances as well as accelerated payments by borrowers.

CMHC analysis shows that a substantial percentage of CMHC-insured high ratio borrowers are ahead of their scheduled amortization. Accelerated payments shorten the overall amortization period, reduce interest costs, increase equity in the home at a faster rate and lower risk over time.

Distribution of Insurance-in-Force by amortization (years)	Six months ended 30 June			
	2011			2010
	Homeowner	Multi-unit > 4 units	Overall	Overall
Average amortization period	24.6	24.1	**24.6**	23.9

Distribution of Insurance-in-force by loan amount ($)	Six months ended 30 June			
	2011			2010
	Homeowner	Multi-unit > 4 units	Overall	Overall
Average loan amount per household	158,894	49,581	**138,322**	133,302

MANAGING PORTFOLIO RISK THROUGH DIVERSIFICATION

Consistent with its mandate, CMHC provides mortgage insurance in all Canadian markets helping to spread its risk nationwide across all provinces and territories each with their own economic outlook.

Distribution of Insurance-in-force by Province (%)	Six months ended 30 June			
	2011			2010
	Homeowner	Multi-unit > 4 units	Overall	Overall
Ontario	42.3	37.6	**42.0**	42.5
British Columbia	16.3	13.7	**16.2**	16.5
Alberta	15.9	11.9	**15.6**	15.4
Quebec	15.5	27.5	**16.3**	16.3
Nova Scotia	2.2	3.1	**2.3**	2.2
Saskatchewan	2.2	1.4	**2.1**	2.0
Manitoba	2.4	2.8	**2.4**	2.1
New Brunswick	1.6	0.9	**1.5**	1.5
Newfoundland	1.1	0.3	**1.1**	1.0
Prince Edward Island	0.2	0.2	**0.2**	0.2
Territories	0.3	0.6	**0.3**	0.3

MANAGING PORTFOLIO QUALITY THROUGH PRUDENT UNDERWRITING

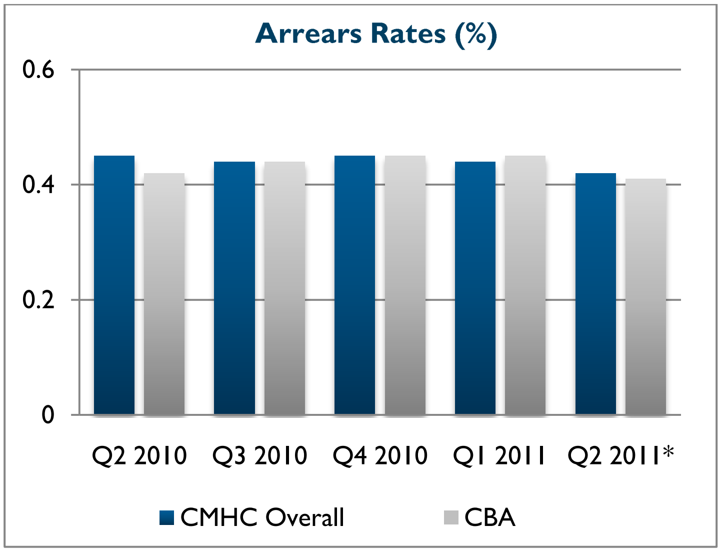
Canadian credit scores generally range between 300 and 900. The higher the score, the more favourably lenders look upon the borrower as a credit risk.

CMHC has been able to maintain its strong market position and manage its risk through prudent underwriting practices. This is demonstrated by an average credit score of 723 for CMHC's high-ratio homeowner insurance-in-force in the first six months of 2011. The high average credit score also demonstrates a strong ability among CMHC-insured homebuyers to manage their debts.

Credit scores	Six months ended 30 June			
	Distribution of High Ratio Homeowner Insurance-in-force by credit score (%)		Distribution of credit scores for High Ratio Homeowner loans approved in 2011 and 2010	
	2011	2010	2011	2010
No score	**1**	2	**-**	-
= 0 < 600	**1**	2	**-**	1
>=600 < 660	**10**	10	**8**	9
>=660 < 700	**16**	16	**16**	16
>=700	**72**	70	**76**	74
Average Credit Score	**723**	720	**735**	731

The strength of CMHC's mortgage loan insurance portfolio is further demonstrated in its mortgage arrears rate. At 0.42%, CMHC's mortgage arrears rate is in line with the industry trend as reported by the Canadian Bankers' Association (CBA). The arrears rate has remained steady since May 2010.

CMHC calculates the arrears rate as the ratio of all loans that are more than 90 days past due to the number of outstanding insured loans. The ratio includes all arrears whether or not legal action has been initiated by the lender, and whether or not work-outs have been approved by CMHC. The base represents outstanding insured loans. The CMHC ratio is the same as that used by the Canadian Bankers Association (CBA) for reporting arrears rates at an industry level. Some other published industry measures remove some arrears or use all insured loans, whether currently outstanding or not, as a base. The CMHC arrears rate, while more conservative than these other measures, provides a more meaningful representation of the performance of the business.



* Latest available CBA arrears rate is for May 2011

SECURITIZATION ACTIVITY AND CHT

CMHC's securitization programs contribute to a strong and stable Canadian housing finance system by ensuring lenders and, in turn, borrowers have access to low-cost funds for residential mortgages.

CMHC's securitization programs guarantee the timely payment of interest and principal of National Housing Act Mortgage-Backed Securities (NHA MBS) issued by financial institutions and of Canada Mortgage Bonds (CMB) issued by the Canada Housing Trust (CHT). These activities are commercial in nature and do not receive Parliamentary appropriations.

Under the NHA MBS program, Approved Issuers pool insured residential mortgages into marketable NHA MBS which provides investors with opportunities to hold high-quality, secure investments in Canadian residential mortgages. This enhances the efficiency and increases competition in the mortgage market which contributes to lower funding costs for mortgages. Through the CMB program, Canada Housing Trust (CHT) sells CMB to global investors with the proceeds used to purchase NHA MBS. This further enhances the supply of low cost mortgage funds for Canadians.

The NHA MBS and CMB programs are highly successful and important pillars of Canadian financial institutions' diversified funding platforms. The programs' reliable low-cost funding framework is especially beneficial to smaller mortgage lenders who lack the scale of their larger counterparts, but who, through CMHC's securitization programs, can access residential mortgage funding. In the end, Canadians seeking mortgage financing benefit from these programs through enhanced competition in the mortgage market.

ANNUAL SECURITIES GUARANTEED

Measures	Six months ended 30 June 2011	2010
Annual Securities Guaranteed ($M)	**43,145**	43,695
Market NHA MBS	**21,145**	20,569
CMB	**22,000**	19,430
IMPP	**-**	3,696
Operating expense ratio (ex IMPP)	**4.6%**	4.4%
Per cent of residential mortgages securitized (ex IMPP) (note 1)	**26.7%**	26.2%

Note 1: April 2011

For the six months ended 30 June 2011, a total of $43.1 billion of low-cost mortgage funds was provided to mortgage lenders through securities guaranteed by CMHC. This is in line with the 30 June 2010 securities guaranteed of $43.7 billion. Under the NHA MBS program, financial institutions issued and CMHC guaranteed almost $21 billion in market NHA MBS at 30 June 2011. Under the CMB program, CMHC guaranteed approximately $22 billion in Canada Mortgage Bonds at 30 June 2011.

With the $43 billion guaranteed, CMHC's guarantee-in-force is $333 billion as at 30 June 2011 compared with $308.6 billion for the same period last year.

(in millions of dollars) (unless otherwise indicated)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2011	2010		2011	2010	
SECURITIZATION						
Interest Income from NHA MBS/Loans Receivable	**435**	433	2	**879**	853	26
Fees and Other Income	**52**	50	2	**105**	96	9
Income from Investment Securities	**11**	9	2	**21**	18	3
Net Unrealized Gains (Losses) from Financial Instruments	**-**	-	-	**-**	-	-
Net Realized Gains (Losses) from Financial Instruments	**6**	1	5	**11**	2	9
Interest Expenses	**435**	432	3	**879**	852	27
Operating Expenses	**2**	2	-	**5**	4	1
Income Taxes	**18**	17	1	**35**	32	3
Net Income	**49**	42	7	**97**	81	16
CHT						
Interest Income from NHA MBS/Loans Receivable	**1,620**	1,511	109	**3,259**	3,010	249
Premiums, Fees and Other Income	**45**	46	(1)	**93**	79	14
Interest Expenses	**1,618**	1,509	109	**3,254**	3,006	248
Operating Expenses	**47**	48	(1)	**98**	83	15
Net Income	**-**	-	-	**-**	-	-

For the three months and six months ended 30 June 2011, Securitization Net Income increased by 17% and 20% respectively ($7 million and $16 million respectively), compared to the same prior year periods.

These increases are due to Earned Guarantee fee premiums being higher supplemented by superior gains and income from investments. The increase in Guarantee fee premiums are due to a greater volume of guarantees in force compared to the prior period.

For the three months and six months ended 30 June 2011, Interest Income and Interest Expense from CHT's National Housing Act Mortgage-Backed Securities (NHA MBS) and CMB programs increased by 7% and 8% respectively, compared to the same prior year periods. These increases were a result of increased issuances in the program.

The following table summarizes the CMB and IMPP Issuances and Maturities at 30 June 2011.

	CMB Six months ended 30 June		IMPP[1] Six months ended 30 June	
(in billions of dollars)	2011	2010	2011	2010
Opening Balance	**195.5**	175.5	**59.2**	61.3
Issuances/ Purchases	**22.0**	19.4	**-**	3.4
Maturities	**12.4**	9.5	**2.0**	3.2
Closing Balance	**205.1**	185.4	**57.2**	61.5

[1]IMPP initiative period: from September 2008 to 31 March 2010

RISK ANALYSIS

CMHC's Approach to Managing Risk

CMHC is exposed to a variety of risks in its operating environment that could have an impact on the achievement of its objectives. The ability to anticipate and respond to changing circumstances is critical to the organization's success. In this regard, the Corporation has implemented a structured approach to Enterprise Risk Management.

Enterprise Risk Management Framework

CMHC's risk management framework and activities are described in the Annual Report. Effective 1 January 2011, some changes to risk categories and definitions were approved by the Board.

Previously, CMHC's risk management framework grouped thirteen risks under three broad categories: Strategic, Infrastructure and Specific Risks. These categories were changed to Strategic, Operational and Financial Risks and the following changes were made to the detailed risk categories and are shown in the diagram below:

- Security and Catastrophic Risks were combined under the Operational Risks category
- Legal and Regulatory Risk was moved to the Operational Risks category
- Liquidity Risk, which considers the Corporation's ability to have sufficient funds to meet financial obligations, was added to the Financial Risks category
- Capital Adequacy Risk, which considers the Corporation's ability to maintain appropriate levels of capital, was added to the Financial Risks category
- Pricing Risk, which considers the Corporation's ability to correctly price products, assets and liabilities, was added to the Financial Risks category

The notes to the unaudited quarterly consolidated financial statements include details on Credit, Market and Liquidity Risks. There have been no significant new risks or changes to risks from those reported in the 2010 Annual Report. The following provides an overview by business activity.

Lending Activity

Lending Activity has not experienced any significant changes to credit, prepayment and interest rate risk. As of 31 March 2011 the MILP program successfully ended with the full $2 billion in available low-cost loans having been approved.

Mortgage Loan Insurance

CMHC's risk management and capital management policies for mortgage loan insurance have not changed since year end. The annual independent external actuarial valuation concluded that "the amount of policy liabilities at 31 December 2010 makes appropriate provision for all policyholders obligations related to business in force at the date of the valuation".

Securitization Activity

There were no program changes or changes to available capital that significantly impacted the risk exposures to the Securitization Activities since 31 December 2010.

CHANGES IN KEY PERSONNEL

Since CMHC's most recent public reporting, the following changes occurred within CMHC's Board of Directors and Management Committee:

- On 3 February 2011, Harold Calla resigned from the CMHC Board of Directors in order to assume other responsibilities.
- On 17 March 2011, the Honourable Diane Finley, Minister of Human Resources and Skills Development and Minister Responsible for Canada Mortgage and Housing Corporation, announced the reappointment of Karen Kinsley as President and Chief Executive Officer of CMHC for a two-year term. Ms. Kinsley was first appointed to this position in June 2003.
- On 29 July 2011, Sharon Matthews, Vice-President, Assisted Housing retired from the Corporation. Douglas Stewart, Vice-President, Policy and Planning has assumed responsibility for Assisted Housing in addition to his current role.

QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 2011

Management is responsible for the preparation and fair presentation of these quarterly consolidated financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly consolidated financial statements.

Based on our knowledge, these unaudited quarterly consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly consolidated financial statements.

Karen Kinsley, FCA
President and Chief Executive Officer

P. Marc Joyal, CA
Vice-President, Corporate Services
and Chief Financial Officer

23 August 2011

Consolidated Balance Sheet (Unaudited)

(in millions of dollars)	Notes	30 June 2011	31 December 2010	1 January 2010
ASSETS				
Cash and Cash Equivalents		**1,480**	985	835
Investment Securities:	5			
Designated at Fair Value through Profit or Loss		**838**	711	878
Available for Sale		**16,698**	16,359	14,347
Securities Purchased Under Resale Agreements		**94**	-	127
Investment in NHA Mortgage-Backed Securities:				
Loans and Receivables	6	**262,540**	254,993	237,282
Loans:				
Designated at Fair Value through Profit or Loss		**7,076**	7,294	7,533
Other		**4,859**	4,214	3,255
Investments in Housing Programs		**840**	873	939
Due from the Government of Canada	11	**333**	531	476
Accrued Interest Receivable		**1,101**	1,280	1,284
Accounts Receivable and Other Assets		**732**	591	628
Derivatives		**97**	116	111
		296,688	287,947	267,695
LIABILITIES				
Securities Sold Under Repurchase Agreements		**285**	60	51
Accounts Payable and Other Liabilities		**959**	1,178	841
Accrued Interest Payable		**925**	1,056	1,068
Provision for Claims	8	**1,059**	1,096	1,276
Derivatives		**151**	107	263
Unearned Premiums and Fees	8	**7,289**	7,357	7,123
Borrowings:	10			
Canada Mortgage Bonds		**203,082**	193,547	173,995
Capital Market Borrowings		**2,893**	3,040	4,438
Borrowings from the Government of Canada:				
Designated at Fair Value through Profit or Loss		**5,960**	5,717	4,477
Other		**62,821**	64,239	65,374
Deferred Income Tax Liabilities		**32**	44	51
		285,456	277,441	258,957
Commitments and Contingent Liabilities	20			
EQUITY OF CANADA				
Contributed Capital		**25**	25	25
Accumulated Other Comprehensive Income (Loss)		**599**	610	207
Retained Earnings		**10,608**	9,871	8,506
		11,232	10,506	8,738
		296,688	287,947	267,695

Consolidated Statement of Income and Comprehensive Income (Unaudited)

(in millions of dollars)	Notes	Three Months Ended 30 June		Six Months Ended 30 June	
		2011	2010	2011	2010
REVENUES					
Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables		**2,055**	1,944	**4,138**	3,863
Premiums and Fees		**485**	479	**953**	930
Interest Earned on Loans and Investments in Housing Programs		**162**	158	**323**	316
Income from Investment Securities		**153**	145	**303**	287
Net Realized Gains (Losses) from Financial Instruments	12	**42**	23	**119**	33
Net Unrealized Gains (Losses) from Financial Instruments	12	**(11)**	(7)	**(8)**	(16)
Other Income		**25**	27	**51**	43
		2,911	2,769	**5,879**	5,456
Parliamentary Appropriations for:	11				
Housing Programs		**382**	617	**1,146**	1,581
Operating Expenses		**27**	29	**58**	56
		409	646	**1,204**	1,637
		3,320	3,415	**7,083**	7,093
EXPENSES					
Interest Expense	10	**2,202**	2,086	**4,429**	4,145
Housing Programs	11	**382**	617	**1,146**	1,581
Net Claims		**114**	161	**262**	336
Operating Expenses		**101**	106	**211**	199
		2,799	2,970	**6,048**	6,261
INCOME BEFORE INCOME TAXES		**521**	445	**1,035**	832
INCOME TAXES	7				
Current		**154**	139	**276**	233
Deferred		**(16)**	(16)	**(3)**	(9)
		138	123	**273**	224
NET INCOME		**383**	322	**762**	608
OTHER COMPREHENSIVE INCOME (LOSS)					
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments (net of tax)		**102**	43	**93**	81
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income (net of tax)		**(50)**	(70)	**(104)**	(32)
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)		**(55)**	(102)	**(25)**	(137)
		(3)	(129)	**(36)**	(88)
COMPREHENSIVE INCOME		**380**	193	**726**	520

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Consolidated Statement of Equity of Canada (Unaudited)

Three months ended 30 June (in millions of dollars)	Contributed Capital	Unappropriated	Appropriated: Mortgage Insurance	Appropriated: Securitization	Lending's Reserves	Total Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Retained Earnings and Accumulated Other Comprehensive Income	Total Equity of Canada
Balance, 1 April 2011	**25**	1,236	8,251	707	86	**10,280**	**547**	**10,827**	**10,852**
Net Income	**-**	386	-	-	(3)	383	-	383	383
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)	**-**	(31)	-	-	(24)	(55)	-	(55)	(55)
Other Comprehensive Income (Loss)	**-**	-	-	-	-	-	52	52	52
Set Aside for Capitalization	**-**	(34)	16	18	-	-	-	-	-
Balance at End of period June 2011	**25**	1,557	8,267	725	59	**10,608**	**599**	**11,207**	**11,232**
Balance, 1 April 2010	**25**	2,059	6,013	610	75	8,757	283	9,040	9,065
Income Tax Benefit on Earnings Set Aside for Capitalization	**-**	1	-	-	-	1	-	1	1
Net Income	**-**	331	-	-	(9)	322	-	322	322
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)	**-**	(55)	-	-	(47)	(102)	-	(102)	(102)
Other Comprehensive Income	**-**	-	-	-	-	-	(27)	(27)	(27)
Set Aside for Capitalization	**-**	(234)	195	39	-	-	-	-	-
Balance at End of period June 2010	**25**	2,102	6,208	649	19	8,978	256	9,234	9,259

Consolidated Statement of Equity of Canada (Unaudited)

Six months ended 30 June (in millions of dollars)	Contributed Capital	Unappropriated	Appropriated: Mortgage Insurance	Appropriated: Securitization	Lending's Reserves	Total Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Retained Earnings and Accumulated Other Comprehensive Income	Total Equity of Canada
Balance, 1 January 2011	**25**	895	8,201	707	68	**9,871**	**610**	**10,481**	**10,506**
Net Income	-	761	-	-	1	762	-	762	762
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)	-	(15)	-	-	(10)	(25)	-	(25)	(25)
Other Comprehensive Income (Loss)	-	-	-	-	-	-	(11)	(11)	(11)
Set Aside for Capitalization	-	(84)	66	18	-	-	-	-	-
Balance at End of period June 2011	**25**	1,557	8,267	725	59	**10,608**	**599**	**11,207**	**11,232**
Balance, 1 January 2010	**25**	1,899	5,937	571	99	8,506	207	8,713	8,738
Income Tax Benefit on Earnings Set Aside for Capitalization	-	1	-	-	-	1	-	1	1
Net Income	-	625	-	-	(17)	608	-	608	608
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)	-	(74)	-	-	(63)	(137)	-	(137)	(137)
Other Comprehensive Income	-	-	-	-	-	-	49	49	49
Set Aside for Capitalization	-	(349)	271	78	-	-	-	-	-
Balance at End of period June 2010	**25**	2,102	6,208	649	19	8,978	256	9,234	9,259

Consolidated Statement of Cash Flows (Unaudited)

(in millions of dollars)	Three Months Ended 30 June		Six Months Ended 30 June	
	2011	**2010**	**2011**	**2010**
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net Income	**383**	322	**762**	608
Items Not Affecting Cash or Cash Equivalents:				
Amortization of Premiums and Discounts on Financial Instruments	**15**	8	**29**	9
Deferred Income Taxes	**(17)**	(23)	**(12)**	(24)
Change in Fair Value of Financial Instruments Carried at Fair Value	**6**	4	**5**	14
Gain (Loss) on Sale of Securities	**(42)**	(23)	**(119)**	(33)
Net Change in Non-cash Operating Assets and Liabilities	**58**	357	**(232)**	344
	403	645	**433**	918
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES				
NHA Mortgage-Backed Securities - Loans and Receivables:				
Repayments	**1,064**	1,900	**14,490**	12,696
Disbursements	**(10,819)**	(10,524)	**(22,065)**	(22,739)
AFS and Designated at Fair Value through Profit or Loss Investment Securities:				
Sales and Maturities	**3,335**	3,755	**7,631**	6,120
Purchases	**(3,945)**	(4,845)	**(8,059)**	(7,293)
Loans and Investments in Housing Programs:				
Repayments	**195**	194	**455**	439
Disbursements	**(45)**	(181)	**(854)**	(380)
Change in Securities Purchased Under Resale Agreements	**(94)**	(20)	**(94)**	107
	(10,309)	(9,721)	**(8,496)**	(11,050)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES				
Canada Mortgage Bonds:				
Issuances	**10,819**	10,524	**22,065**	19,346
Repayments	**-**	-	**(12,450)**	(9,580)
Repayments of Capital Market Borrowings	**(94)**	(619)	**(100)**	(619)
Borrowings from the Government of Canada Designated at Fair Value through Profit or Loss and Other:				
Issuances	**265**	452	**1,418**	4,390
Repayments	**(1,129)**	(1,955)	**(2,152)**	(3,220)
Change in Short-term Borrowings	**33**	(179)	**(448)**	(427)
Change in Securities Sold Under Repurchase Agreements	**7**	42	**225**	111
	9,901	8,265	**8,558**	10,001
Increase (Decrease) in Cash and Cash Equivalents	**(5)**	(811)	**495**	(131)
Cash and Cash Equivalents				
Beginning of Period	**1,485**	1,515	**985**	835
End of Period	**1,480**	704	**1,480**	704
Represented by:				
Cash	**13**	4	**13**	4
Cash Equivalents	**1,467**	700	**1,467**	700
	1,480	704	**1,480**	704
Supplementary Disclosure of Cash Flow from Operating Activities				
Amount of Interest Received During the Period	**2,981**	2,500	**4,643**	4,203
Amount of Interest Paid During the Period	**2,933**	2,461	**4,651**	4,228
Amount of Dividends Received During the Period	**10**	12	**22**	24
Amount of Income Taxes Paid During the Period	**174**	150	**508**	305

The accompanying notes to these consolidated financial statements are an integral part of these statements.

NOTES TO QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Three and six months ended 30 June 2011

1. CORPORATE MANDATE

These quarterly consolidated financial statements include the accounts of Canada Mortgage and Housing Corporation (CMHC, or the Corporation) and Canada Housing Trust (CHT), a special purpose entity. Within the Public Accounts of Canada, the quarterly consolidated Net Income reduces the government's quarterly deficit; the consolidated Retained Earnings and Accumulated Other Comprehensive Income reduce the government's accumulated deficit.

CMHC was established in Canada as a Crown Corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also subject to Part X of the *Financial Administration Act* (the "FAA") by virtue of being listed in Part 1 of Schedule III, is wholly owned by the Government of Canada and is an agent Crown Corporation.

The Corporation's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing, and the national well-being of the housing sector. The mandate is carried out through the following four activities:

Mortgage Insurance: CMHC provides mortgage insurance against borrower default on residential mortgages.

Securitization: CMHC guarantees the timely payment of principal and interest for investors in securities based on insured mortgages. The CMHC guarantee is a direct and unconditional obligation of CMHC as an agent of Canada. It carries the full faith and credit of Canada, and constitutes a direct and unconditional obligation of and by the Government of Canada.

Housing Programs: CMHC receives Parliamentary appropriations to fund housing programs.

Lending: CMHC makes loans and investments in housing programs that are funded by borrowings from the Government of Canada and from Capital Markets. A significant number of these loans and investments are supported with housing program payments.

Canada Housing Trust was established in 2001 as a special-purpose trust, separate from CMHC. CHT's functions are limited to the acquisition of interests in eligible housing loans such as NHA Mortgage-Backed Securities (NHA MBS), the purchase of highly rated investments, certain related financial hedging activities and the issuance of Canada Mortgage Bonds (CMB). The CMB are guaranteed by CMHC under its Securitization Activity. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations.

2. SIGNIFICANT ACCOUNTING POLICIES

These statements have been prepared in accordance with the Treasury Board of Canada's Standard on Quarterly Financial Reports for Crown Corporations. They are stated in millions of Canadian dollars, which is the Corporation's functional currency. These quarterly consolidated financial statements should be read in conjunction with CMHC's audited consolidated financial statements for the year ended 31 December 2010.

The significant accounting policies used in the preparation of these consolidated quarterly financial statements are summarized on the following pages and conform in all material respects to International Financial Reporting Standards (IFRS) effective as at 31 December 2010 as issued by the International Accounting Standards Board, with the exception of the adoption of new or changed accounting standards within the quarter. Treasury Board of Canada's Standard on Quarterly Reports for Crown Corporation allows management the option to only adopt new or changed policies for the first time at year end. As a result, the Corporation chose to follow the Treasury Board Standard on quarterly reports which allow for such a departure from IFRS – IAS 34 *Interim Financial Reporting* with respect to the preparation of the quarterly financial statements. Instances whereby policy adoptions have been delayed are described in the respective significant accounting policy.

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) affirmed its intention to replace Canadian GAAP with IFRS. The Corporation adopted IFRS commencing 1 January 2011, with comparative figures for the year commencing 1 January 2010. These are the Corporation's first public quarterly IFRS financial statements. CMHC followed the provisions of IFRS 1, "First Time Adoption of IFRS", in preparing its opening IFRS balance sheet. Certain of the IFRS accounting policies used for this opening balance sheet differed from its Canadian GAAP policies applied as at 31 December 2010. The effect of transitioning from Canadian GAAP to IFRS is explained in Note 21.

The following are the significant accounting policies used in the preparation of these quarterly consolidated financial statements:

Basis of Presentation

These quarterly consolidated financial statements include the accounts of CMHC and, as required by *Standing Interpretation Committee Interpretation 12: Consolidation - Special Purpose Entities* (SIC-12), the accounts of CHT, a special purpose entity as CMHC has exposure to its risks and rewards.

Inter-entity balances and transactions have been eliminated in the consolidated quarterly financial statements.

These quarterly statements have been prepared on a going concern basis using an historical cost basis except for the following material items in the condensed consolidated statement of financial position:

- Fair Value through Profit or Loss ("FVTPL") financial assets and liabilities are measured at fair value as are Available for Sale ("AFS") financial assets; and
- Accrued benefit liabilities for post-employment benefit plans are recognized at the present value of the defined benefit obligations.

Financial Instruments

The Corporation classifies its financial assets in the following categories: Financial Assets at Fair Value through Profit or Loss, Loans and Receivables, Held to Maturity and Available for Sale. Two classifications are used for financial liabilities: Financial Liabilities at Fair Value through Profit or Loss and Other Financial Liabilities.

CMHC further categorizes financial instruments at Fair Value through Profit of Loss as either Held for Trading or Designated at Fair Value through Profit or Loss (refer to Note 12 for further information).

The classification is determined by Management at initial recognition based on intent.

The following table presents CMHC's classification and its related accounting treatment for its financial instruments.

Classification	Accounting Treatment
Designated at Fair Value through Profit or Loss	IAS 39 provides an entity the option of classifying a financial instrument as Designated at Fair Value through Profit or Loss when doing so results in more relevant information because either: a) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on different bases; or b) the financial instrument belongs to a group managed and evaluated on a fair value basis in accordance with documented risk management or investment strategies and information about the group is provided internally to key management personnel. This designation is irrevocable. Financial instruments Designated at Fair Value through Profit or Loss are initially recognized at fair value. They are subsequently measured at fair value. Unrealized gains and losses arising from changes in the fair value are recorded in Net Unrealized Gains (Losses) from Financial Instruments. Gains and losses realized on disposition are recorded in Net Realized Gains (Losses) from Financial Instruments. Interest income is recorded in Income from Investment Securities as earned. Transaction costs are expensed as incurred.
Available for Sale (AFS)	AFS financial assets are non-derivative financial assets which are designated as such, or which have not been designated in any other classification. AFS financial assets are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value. Unrealized gains and losses arising from changes in the fair value are recorded in Other Comprehensive Income (OCI) until the financial asset is sold, derecognized, or determined to be impaired at which time they are transferred to the income statement and reported in Net Realized Gains (Losses) from Financial Instruments. Interest income is recorded in Income from Investment Securities using the effective interest method. Accumulated Other Comprehensive Income (AOCI) consists only of unrealized gains and losses for AFS financial instruments.
Loans and Receivables	Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except for those that Management has the intent to sell in the near term, which must be Designated at Fair Value through Profit or Loss or those which there may not be a recovery of substantially all of its initial investment other than because of credit deterioration, which are classified as AFS. Loans and Receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method with interest income recorded in Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables or Interest Earned on Loans and Investments in Housing Programs. Gains and losses arising from changes in fair value on Loans and Receivables that are determined to be impaired are recorded in Net Realized Gains (Losses) from Financial Instruments.
Held to Maturity (HTM)	HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than Loans and Receivables that Management has the positive intention and ability to hold to maturity. HTM financial assets are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method with interest income recorded in Income from Investment Securities. Gains and losses arising from changes in fair value on HTM financial assets that are determined to be impaired are recorded in Net Realized Gains (Losses) from Financial Instruments with interest income recorded in Income from Investment Securities until they are determined to be impaired. Impairment charges and reversals of impairment charges are recorded in Other Income.
Held for Trading (HFT)	Derivatives are classified as Held for Trading. HFT financial instruments are initially recognized at fair value. They are subsequently measured at fair value. Unrealized gains and losses arising from changes in the fair value are recorded in Net Unrealized Gains (Losses) from Financial Instruments. Gains and losses realized on disposition are recorded in Net Realized Gains (Losses) from Financial Instruments. The net of Interest Income and Interest Expense is recorded in Interest Expense (Lending) as earned and incurred. Transaction costs are expensed as incurred.
Other Financial Liabilities	Other Financial Liabilities are non-derivative financial liabilities which have not been Designated at Fair Value. Other Financial Liabilities are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method with interest expense recorded in Interest Expense.

Settlement date accounting is used for purchases and sales of financial assets and financial liabilities. Realized gains and losses on sales are recognized on a weighted average cost basis.

The Corporation assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. Impairment occurs if it is determined that significant and prolonged losses have been experienced and is not expected to recover to its cost. For financial assets classified as HTM or Loans and Receivables that are identified as impaired, their carrying amounts are reduced to their estimated realizable amounts and the credit impairment is recorded in Net Realized Gains (Losses) from Financial Instruments. If an AFS financial asset is determined to be impaired, the cumulative unrealized loss previously recorded in Accumulated Other Comprehensive Income (AOCI) is removed from equity and recognized in income for the period through Net Realized Gains (Losses) from Financial Instruments. If the fair value of an impaired debt instrument classified as AFS subsequently increases, the impairment loss reversal is limited to the impairment previously recognized in net income. Subsequent increases in the fair value of an impaired equity instrument classified as AFS are recorded in OCI.

For the majority of Loans, losses are mitigated by CMHC's assurance of full collection of principal and accrued interest through provisions in the Social Housing Agreements, provisions in the National Housing Act, Ministerial Loan Guarantees or the loans are underwritten though CMHC's Mortgage Insurance Activity in which case provisions for claims are established. Loans that have not been underwritten or covered by a third party guarantee are assessed on a regular basis to determine if a provision for loss is necessary.

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of cash and short-term highly liquid investments with an original term to maturity of 98 days or less that are readily convertible to known amounts of cash. Cash Equivalents funded by Securities Sold Under Repurchase Agreements are classified as HTM. Cash Equivalents in the Lending and Mortgage Insurance Activities are Designated at Fair Value or classified as AFS, respectively. Cash Equivalents in the Securitization Activity are classified as AFS. Cash Equivalents must have a minimum credit rating of R-1 (Low) or equivalent as determined by S&P, Moody's or DBRS at the time they are purchased. Interest income on these investments is recorded in Income from Investment Securities.

Investment Securities

Investment Securities in the Lending Activity are comprised of fixed income securities and are Designated at Fair Value through Profit or Loss. Investment Securities in the Mortgage Insurance and Securitization Activities are comprised of fixed income and equity securities and are classified as AFS or Designated at Fair Value through Profit or Loss. Interest income on fixed income investments is recorded in Income from Investment Securities using the effective interest method. Dividend income on equity investments is recorded in Income from Investment Securities when the right to the dividend is established.

Investment in NHA Mortgage-Backed Securities – Loans and Receivables

Investment in NHA Mortgage-Backed Securities - Loans and Receivables represent the transfer of NHA MBS securities issued by Canadian financial institutions (Issuers) to CMHC or CHT where substantially all of the risks and rewards of the transferred NHA MBS are retained by the issuers through swap agreements with CMHC or CHT. Although these securities legally represent an undivided interest in a pool of residential mortgages insured under the NHA and are backed by a timely payment guarantee by CMHC, the transfer is accounted for as a financing transaction by the Corporation. As such, the NHA MBS and reinvestment assets are recognized on the Balance Sheet and with an adjustment that recognizes the effect of the cash flows due to or from the swap counterparties on an accrual basis.

Interest earned incorporates the accrual of the swap interest adjustment and is included in Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements (Reverse Repurchase Agreements) consist of the purchase of securities, typically government treasury bills or bonds, with the commitment to resell the securities to the original seller at a specified price and future date in the near term. Securities Sold Under Repurchase Agreements (Repurchase Agreements) consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term.

Securities Purchased Under Resale Agreements held by CMHC are classified as HTM and Securities Sold Under Repurchase Agreements are classified as Other Financial Liabilities. Proceeds from Securities Sold Under Repurchase Agreements are generally invested in Securities Purchased Under Resale Agreements or Cash Equivalents for the purpose of generating additional income. Such transactions are entered into simultaneously with matching terms to maturity. The associated interest earned and interest expenses are recorded in Income from Investment Securities and Interest Expense respectively.

Loans

Designated at Fair Value through Profit or Loss: Loans that are part of portfolios which are economically hedged are Designated at Fair Value through Profit or Loss.

Other: Loans are classified as Loans and Receivables. Where loans contain forgiveness clauses, they are recorded net of the forgiveness that is reimbursed through Parliamentary appropriations when the loans are advanced.

Interest income is recognized using the effective interest method in Interest Earned on Loans and Investments in Housing Programs.

CMHC is reimbursed through Parliamentary appropriations for interest rate losses resulting from certain loans for housing programs containing interest rate clauses that are lower than the associated interest cost on the related borrowings. These loans were issued from 1946 to 1984 through provisions of the *National Housing Act*. Parliamentary appropriations are voted on an annual basis by Parliament and CMHC has over a 30 year history of collection of interest losses associated with these interest reduction contributions provided for under certain housing programs through appropriations. CMHC measures these loans at amortized cost which assumes the continued receipt of appropriations going forward. If the appropriations are not received in a future year the valuation of these loans would change.

Investments in Housing Programs:

Loans: CMHC makes loans for housing programs to provincial, territorial and municipal authorities. The majority of these loans made under various housing programs are being transferred to the Provinces/Territories under the Social Housing Agreements (SHAs). For some housing programs, the Province/Territories are gradually acquiring CMHC's interest in the housing portfolio by making payments to CMHC. Loans under Investments in Housing Programs are classified as Loans and Receivables. Interest income on these loans is recorded in Interest Earned on Loans and Investments in Housing Programs on an accrual basis using the effective interest method.

Investments: Investments under Investments in Housing Programs represent CMHC's ownership interest in various housing projects, mostly made under Federal-Provincial Agreements, which are treated as Property, Plant and Equipment and carried at net book value. Amortization is calculated on a declining balance method over the life of the investment and represents the payment to CMHC of its initial ownership interest in the housing projects. The Corporation's portion of amortization, net operating losses and disposal losses are reimbursed through Parliamentary appropriations.

Derivatives

The Corporation enters into derivatives such as interest rate swaps, cross currency interest rate swaps, interest rate futures and equity index futures in order to manage its exposures to market risks. Swaps are only contracted with creditworthy counterparties that maintain a minimum rating of A- or equivalent as determined by S&P, Moody's or DBRS and are not used for speculative purposes.

Derivatives are classified as HFT as they have not been designated as eligible hedges for accounting purposes and are carried at fair value on the Consolidated Balance Sheet. Derivatives with a positive fair value are reported as assets, while derivatives with a negative fair value are reported as liabilities.

Derivatives may be embedded in other financial instruments and are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not HFT or Designated at Fair Value. Refer to Note 12 for how their fair value is determined.

Mortgage Insurance

Product Classification: CMHC classifies its mortgage loan insurance as an insurance contract where the lender faces uncertainty with regard to potential borrower default on a mortgage and therefore pays a premium to transfer the risk to CMHC. If the borrower defaults, the claim is significantly larger than the actual premium. Such contracts remain insurance contracts until the underlying insured mortgages are fully repaid and are measured in accordance with IFRS 4 Insurance Contracts.

Premium Revenue: Mortgage Insurance premiums are due at the inception of the mortgage being insured at which time they are deferred and recognized as income over the period covered by the insurance contract using factors determined by the Appointed Actuary. These factors reflect the long-term pattern for default risk of the underlying mortgages.

Unearned Premiums: Unearned Premiums represent the unexpired portion of the policy premiums at the Balance Sheet date and therefore relate to claims that may occur from the Balance Sheet date to the termination of the insurance policies. Annually, the Appointed Actuary compares the unearned premiums to an estimate of total future claims on a discounted basis to ensure the amount is sufficient. Should such amount not be sufficient, a provision for premium deficiency is recorded.

Provision for Claims: The Provision for Claims represents an estimate for expected claims and the related settlement expenses, net of the related expected property sale proceeds, for defaults from the mortgage insurance business that have occurred on or before the Balance Sheet date. The provision takes into consideration the estimate of the expected ultimate cost of claims reported but not paid and Claims Incurred But Not Reported (IBNR) at the Balance Sheet date, the time value of money and in accordance with accepted actuarial practice includes an explicit provision for adverse deviation. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims.

Insurance Policy Liability Adequacy: Liability adequacy tests are performed annually as part of the Actuarial Valuation to ensure the adequacy of insurance policy liabilities net of Deferred Acquisition Costs (DAC) assets with respect to the Provision for Claims and Unearned Premiums. Current best estimates of future contractual cash flows, claims handling and administration costs, and investment returns from the assets backing the liabilities are taken into account in the tests. Where a deficiency is highlighted by the test, DAC assets are written off first, and insurance liabilities increased when these are written off in full. Any premium deficiency is immediately recognized in Net Income.

The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps significantly, from the estimates made.

The loss on actual mortgage defaults and the change in the estimated Provision for Claims are recorded in Net Claims in the year in which they occur.

The provision for Social Housing and Index Linked Mortgages (ILM) is based on the assumptions that the cumulative premiums received and related investment income will be sufficient to meet future claim payouts. Due to the uniqueness of these programs, their provision is established as the fund balance plus a margin for adverse deviation.

Fees: Application fees that are designed to recover part or all of acquisition costs associated with issuing mortgage insurance policies are deferred and amortized on the same basis as the related premiums.

Deferred Acquisition Costs (DAC): A portion of acquisition costs relating to the unearned premiums is deferred and amortized over the estimated lives of the relevant contracts.

Non-Current Assets Held for Sale

Real estate acquired by the Mortgage Insurance Activity through loan default is classified as Non-Current Assets Held for Sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The criteria for Held for Sale classification includes Management's commitment to a plan to sell the selected assets and the expectation that such a sale will be completed within a 12 month period. Events or circumstances beyond the entity's control may extend the period to complete the sale beyond one year. Such assets continue to be classified as Held for Sale as Management remains committed to its plan to sell the asset. Non-Current Assets Held for Sale are measured at the lower of their carrying amount and their fair value less cost to sell. Impairment losses and any subsequent reversals are recognized in Net Income in the period in which they occur. Non-Current Assets Held for Sale are not depreciated.

Timely Payment Guarantees

Classification: Financial guarantee contracts are defined as those that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. CMHC classifies its timely payment guarantee for NHA MBS and CMB as a financial guarantee contract . Such contracts remain financial guarantee contracts until all rights and obligations are extinguished or expire and are measured in accordance with IAS 39 Financial Instruments.

Timely Payment Guarantee fees are initially recognized in Unearned Premiums and Fees at fair value (the premium received) plus transaction costs. Subsequently, they are measured at the amount initially recognized less the amortization of guarantee fee revenue. Should the estimated amount required to settle the Timely Payment Guarantee obligations exceed this amount, a provision is recognized.

Fees: Guarantee fees from the Securitization Activity are received at the inception of the related security issue at which time they are deferred and recognized as income over the expected term of the related security. Application and Compensatory fees are recognized as revenues in the period where the related services are rendered. Direct costs associated with issuing timely payment guarantees are recognized in Net Income as incurred.

Income Taxes

CMHC is a prescribed federal Crown corporation under Reg. 7100 of the *Income Tax Act* (ITA) and is subject to federal income tax as a prescribed corporation for purposes of subsection 27(2) of the ITA. It is not subject to provincial income tax. CHT is subject to federal and provincial income taxes on the amount of taxable income for the period and is permitted a deduction for all amounts paid or payable to CHT's beneficiaries in determining income for tax purposes. As all taxable income was distributed to the beneficiaries, no provision for income taxes has been reflected for CHT in these quarterly consolidated financial statements.

The Corporation uses the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized based on the estimated tax effect of temporary differences between the carrying value of assets and liabilities on the financial statements and their respective tax bases. The Corporation uses substantively enacted income tax rates at the Balance Sheet date that are expected to be in effect when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce the deferred income tax asset to an amount that is probable to be realized.

Canada Mortgage Bonds

Canada Mortgage Bonds (CMB), which are issued by CHT and guaranteed by CMHC, are interest-bearing bullet bonds. Coupon interest payments are made semi-annually for fixed-rate CMB and quarterly for floating-rate CMB. Principal repayments on the bonds are made at the end of the term. CMB are classified as Other Financial Liabilities. The Approved MBS Sellers reimburse CHT for the cost of arranging financing, including the fees paid to CMHC as Guarantor and Financial Services Advisor, underwriters and others for the distribution of CMB. These reimbursements are recorded in Other Income.

Capital Market Borrowings

Borrowings from the Capital Markets represent borrowings incurred between 1993 and April 2008. These borrowings are Designated at Fair Value through Profit or Loss.

Borrowings from the Government of Canada

Borrowings Designated at Fair Value through Profit or Loss: Since April 2008, the Lending Activity has been borrowing under terms of the Crown Borrowing Agreement. These borrowings, excluding those relating to the MILP, are Designated at Fair Value through Profit or Loss. Expenses related to these borrowings are recognized in Interest Expense in the year incurred.

Other Government of Canada Borrowings: Other Government of Canada Borrowings represent borrowings incurred prior to 1993 in the Lending Activity as well as those under the terms of the Crown Borrowing Agreement relating to the MILP and the IMPP which are included in the Lending Activity and Securitization Activity, respectively. They are classified as Other Financial Liabilities and transaction costs are recognized in Interest Expense.

Housing Programs

Parliamentary appropriations for Housing Programs, and the related expenses, are recorded on an accrual basis. They are recognized in the year in which the related expenses are incurred. Appropriations and related expenses are presented in the Statement of Income and Comprehensive Income as Housing Program Revenues and Expenses, respectively. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Post-employment Benefits

CMHC provides a defined benefit pension plan that is registered under federal legislation, supplemental pension plans, and other post-employment benefits consisting mainly of severance pay, life insurance and medical insurance.

Pension benefits are based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The pension benefits are adjusted annually by a percentage equivalent to the total average change in the Consumer Price Index during the previous year.

The defined benefit plan asset or liability recognized is the present value of the obligations under the plans, less unamortized past service costs, and plan assets. Defined benefit plan assets are limited to the total of unamortized past service costs and the present value of any economic benefits available in the form of reductions in future contributions to the plan.

Pension plans costs are the current service cost, interest cost on the defined benefit obligation, actuarial gains and losses, the amortization of deferred past service costs, and the expected investment return on plan assets. Actuarial gains and losses are recognized in Other Comprehensive Income as incurred, and flow into Retained Earnings on the Balance Sheet. All other costs of post-employment defined benefit plans are recognized in Net Income.

Past service costs are deferred and amortized on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the past service costs are recognized immediately.

Investment Property

Investment Properties, which are included in Accounts Receivable and Other Assets are properties held to earn rental income or for capital appreciation, or both. Investment Property is initially recognized at cost plus transactions costs. Subsequent to initial recognition, it is measured at fair value. Fair value is determined based on valuations performed by independent and internal property appraisers who hold recognized and relevant professional qualifications. Gains or losses arising from changes in fair value are recognized in Net Income in the period in which they arise. Investment property rental income and expenses are recorded in Other Income. For certain investment properties, expenses are recoverable from the Minister and these are recorded in Housing Programs Expenses.

Related Party Transactions

Related party transactions are recorded according to the relevant IFRS standard applicable to the transaction.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Exchange gains and losses resulting from the translation of foreign denominated balances are included in Net Unrealized Gains (Losses) from Financial Instruments.

Contingent Liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognized but are disclosed in Note 20.

Lease Transactions

Lessor: Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Leases whereby a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized in Net Income on a straight-line basis over the lease term.

Leases whereby substantially all the risks and rewards of ownership are transferred to CMHC are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability.

Lessee: Leases which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are included within Property, Plant and Equipment or Investment Property (included in Accounts Receivable and Other Assets on the balance sheet) and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognized on a straight-line basis over the period of the lease unless another systematic basis is more appropriate.

3. FUTURE ACCOUNTING CHANGES

IFRS 9

On 12 November 2009, the IASB issued *IFRS 9 Financial instruments* ("IFRS 9") with further revisions on 28 October 2010 to replace IAS 39 Financial Instruments: Recognition and Measurement.

Effective 1 January 2013, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The corporation has not yet determined the impact of IFRS 9 on its financial statements.

IFRS 10, 11, 12

On 13 May 2011, the IASB issued *IFRS 10 Consolidated Financial Statements* ("IFRS 10"), *IFRS 11 Joint Arrangements* ("IFRS11") and *IFRS 12 Disclosure of Interests in Other Entities* ("IFRS 12"). The new requirements are effective 1 January 2013.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and provides a single consolidation model that identifies control as the basis for consolidation.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-Monetary Contributions by Venturers and establishes principles for the financial reporting of joint arrangement.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The corporation has not yet determined the impacts these new standards on its financial statements.

IFRS 13

On 13 May 2011, the IASB issued *IFRS 13 Fair Value Measurement* ("IFRS 13"). IFRS 13 defines fair value, sets out in a single framework for measuring fair value and requires disclosures about fair value measurements. While IFRS 13 does not introduce any new requirements, it determines the measurement and disclosure requirements when IFRS requires items to be measured at fair value.

The new requirements are effective 1 January 2013. The corporation has not yet determined the impacts of this new standard on its financial statements.

IAS 1

On 16 June 2011, the IASB issued amendments to *IAS 1 Presentation of Financial Statements*. The amendments require the components of Other Comprehensive Income be presented in two categories, Items will be grouped together based on whether or not they will not be classified to profit or loss in the future.

The new requirements are effective 1 July 2012. The Corporation does not foresee a major impact from this new standard on its financial statements.

IAS 19

On 16 June 2011, the IASB issued amendments to IAS 19 *Employee Benefits*. The amendments eliminate the "corridor method" and improve the recognition and disclosure requirements for defined benefit plans.

The new requirements are effective 1 January 2013. The elimination of corridor method has no impact as actuarial gains and losses are already recognized in Other Comprehensive Income. The corporation has not yet determined any other impacts from this new standard on its financial statements.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND MAKING ESTIMATES

Seasonality

CMHC's mortgage loan insurance business is exposed to some seasonal variation. While premiums earned and income from investment securities vary from quarter to quarter as underlying balances change, premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Losses on claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance in-force portfolio, such as size and age. All revenues and expenses are recognized in accordance with the accounting policies set out in Note 2.

Judgments in Applying Accounting Policies

In the process of applying CMHC's accounting policies, Management is required to make various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the quarterly consolidated financial statements. The judgments having the most significant effect on the amounts recognized in the quarterly consolidated financial statements are:

- Consolidation – significant judgments are applied in the assessment of whether the substance of the relationship between CMHC and Canada Housing Trust (a Special Purpose Entity) indicates that CMHC controls that Special Purpose Entity. CMHC guarantees the timely payment of principal and interest on the Canada Mortgage bonds, which exposes it to the majority of risks of Canada Housing Trust and as a result, CMHC consolidates the Canada Housing Trust;
- Derecognition – in assessing whether transfers of NHA MBS from Issuers to CMHC under the CMB program and IMPP qualify for derecognition, significant judgment is applied in determining whether substantially all the risks and rewards of ownership of the NHA MBS have been transferred; and
- Impairment of Available for Sale Financial Instruments – significant judgments are applied in assessing if losses that have been experienced are significant and prolonged and the asset is not expected to recover to its cost.

Use of Estimates and Assumptions

The preparation of these quarterly consolidated financial statements requires Management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, comprehensive income and related disclosures. Key areas where Management has made estimates and assumptions include those related to Provision for Claims (Note 8), fair value of financial instruments (Note 12), and post-employment benefits (Note 16). Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods.

Provision for Claims

The Provision for Claims represents an estimate for expected claims and the related settlement expenses, net of the related expected property sale proceeds, for defaults from the mortgage insurance business that have occurred on or before the Balance Sheet date. In calculating the estimated liability, an estimate of losses on defaults that have been incurred but not reported is made using historical experience and the time value of money, which considers prevailing legal, economic, social and regulatory trends. See Note 9 of the 2010 Annual Report for further details.

Financial Instruments

Financial instruments carried at fair value are measured based on quoted market prices observable in the market or amounts derived from cash flow models or other valuation methodologies. The fair value measurement hierarchy described in Note 12 reflects the significance of the inputs used in making these measurements.

Post-employment Benefits

The annual cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected long-term pension plan investment performance, compensation increases, retirement ages of employees, mortality of members and expected health care costs. These assumptions are of a long-term nature, which is consistent with the nature of post-employment employee future benefits. Actual results could differ from these estimates. See Note 18 of the 2010 Annual Report for further details.

5. SECURITIES

The following table shows the unrealized gains (losses) on Investment Securities recorded at fair value.

	30 June 2011				31 December 2010	
(in millions of dollars)	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost[1]	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value	811	27	-	838	697	711
Available for Sale	12,692	547	(9)	13,230	12,325	12,848
Equities	3,138	414	(84)	3,468	3,153	3,511

[1]Amortized cost for Equities is cost.

The cumulative loss from available for sale and equity investments of $93 million included in Accumulated Other Comprehensive Income (31 December 2010 – $108 million) has not been recognized as an impairment loss in Net Income.

Factors reviewed to determine whether impairment exists include significant or prolonged declines in fair value, financial reorganization, corporate restructuring, bankruptcies and other indications of liquidity problems, or the disappearance of an active market for the asset because of financial difficulties. During the three and six months ended 30 June 2011, no losses (three and six months ended 30 June 2010 – nil) were recognized in Net Realized Gains (Losses) from Financial Instruments and no reversals of previously realized fixed income investment security impairments occurred during the year.

6. INVESTMENT IN NHA MORTGAGE-BACKED SECURITIES - LOANS AND RECEIVABLES

For the three months and six months period ending 30 June 2011, there were disbursements of Investment in NHA Mortgage-Backed Securities – Loans and Receivables in the amount of $10,819 million and $22,065 million and repayments of $1,064 million and $14,490 million respectively (three and six months ended 30 June 2010 – disbursements of $10,524 million and $22,739 million, and repayments of $1,900 million and $12,696 million respectively).

7. INCOME TAXES

The following table presents the total income taxes.

	Three Months Ended 30 June		Six Months Ended 30 June	
(in millions of dollars)	2011	2010	2011	2010
Other Comprehensive Income (Loss):				
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**23**	(3)	**14**	10
Reclassification of Prior Years' Net Unrealized Gains (Losses) Realized in the Period in Net Income	**7**	(10)	**(16)**	4
Net Actuarial Gains (Losses) on Post-Employment Benefits	**(11)**	(20)	**(5)**	(27)
Income Tax Expense (Benefit) on Other Comprehensive Income (Loss)	**19**	(33)	**(7)**	(13)
Income Tax Expense on Consolidated Statement of Equity of Canada	**-**	(1)	**-**	(1)
Income Tax Expense on Consolidated Net Income	**138**	123	**273**	224
Total	**157**	89	**266**	210

8. MORTGAGE INSURANCE

Unearned Premiums and Fees

(in millions of dollars)	30 June 2011	31 December 2010
Balance at Beginning of Period	**6,874**	6,675
Premium Deferred on Contracts Written in the Period	**771**	1,910
Premiums Earned	**(843)**	(1,714)
Application Fees Deferred on Contracts Written in the Period	**7**	16
Application Fees Earned	**(6)**	(13)
Balance at End of Period	**6,803**	6,874

Provision for Claims

The Provision for claims include claims Incurred But Not Reported (IBNR), provision for claims reported but not paid and provision for Social Housing and Index-Linked Mortgage claim losses.

(in millions of dollars)	30 June 2011	31 December 2010
Balance at Beginning of period	**1,096**	1,276
Losses on claims during the period	**(299)**	(678)
Change in Provision for Claims	**262**	498
Balance at End of period	**1,059**	1,096

Insurance Risk Management

CMHC assumes the risk of loss from borrower default through mortgage insurance contracts entered into with lenders, exposing the Corporation to the uncertainty surrounding the timing, frequency and severity of claims. CMHC manages its exposure to this risk of loss through prudent product design, underwriting and default management practices, and the establishment of adequate capital reserves.

A concentration of risk may arise from insurance contracts issued in a particular geographical area where local economic conditions are significantly different from average. The relative impact of the outcome is mitigated as a result of CMHC's distribution of business across different geographic areas.

Insurance-in-force

Under Section 11 of the NHA, the total of all outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2010 – $600 billion). At 30 June 2011, insurance-in-force totalled $536 billion (31 December 2010 – $514 billion).

9. SECURITIZATION

Guarantees-in-force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2010 – $600 billion). At 30 June 2011, guarantees-in-force totalled $333 billion (31 December 2010 – $326 billion). This includes $128 billion of CMHC guaranteed NHA MBS (31 December 2010 – $130 billion) and $205 billion (Par Value) of CMHC guaranteed CMB issued by CHT (31 December 2010 – $196 billion).

10. BORROWINGS

Canada Mortgage Bonds

The interest expense related to Canada Mortgage Bonds for the three and six months ended 30 June 2011 is $1,602 million and $3,222 million, respectively (three and six months ended 30 June 2010 – $1,493 million and $2,974 million, respectively).

For the three and six months ended 30 June 2011, CHT issued Canada Mortgage Bonds in the amount of $10,819 million and $22,065 million respectively. There were no maturities for three months ended 30 June 2011. Year to date total maturities amount to $12,450 million.

Capital Market Borrowings

The interest expense related to Capital Market Borrowings for the three and six months ended 30 June 2011 is $33 million and $67 million, respectively (three and six months ended 30 June 2010 – $44 million and $92 million, respectively).

For the three and six months ended 30 June 2011, CMHC made $100 million in repayments relating to its Capital Market Borrowings.

Borrowings from the Government of Canada

The interest expense related to Borrowings from the Government of Canada - Designated at Fair Value through Profit or Loss and Other for the three and six months ended 30 June 2011 is $579 million and $1,159 million, respectively (three and six months ended 30 June 2010 – $557 million and $1,099 million, respectively).

For the three and six months ended 30 June 2011, CMHC had new borrowings in the amount of $581 million and $2,399 million respectively and repayments in the amount of $1,406 million and $3,581 million respectively, relating to its Borrowings from the Government of Canada.

11. HOUSING PROGRAMS

CMHC receives Parliamentary appropriations to fund the following program expenditures, including operating costs, in support of housing programs.

	Three months ended 30 June		Six months ended 30 June	
(in millions of dollars)	**2011**	**2010**	**2011**	**2010**
Assisted Housing Programs	**339**	360	**768**	790
Housing Repair and Improvement Programs[1]	**12**	135	**176**	379
On-Reserve Housing Programs[1]	**30**	36	**104**	118
Affordable Housing Initiative[1]	**-**	85	**95**	290
Research and Information Dissemination that addresses distinct housing needs, including those of Aboriginal Canadians	**1**	-	**1**	1
Research and Information Dissemination to promote desirable housing market outcomes and improve building performance	**-**	1	**1**	2
Research and Information Dissemination to promote sustainable housing and communities, as well as lead the development and implementation of federal housing policy	**-**	-	**1**	1
Total Housing Program Expenses	**382**	617	**1,146**	1,581
Operating Costs	**27**	29	**58**	56
Total Appropriations	**409**	646	**1,204**	1,637

[1] Includes expenditures under Canada's Economic Action Plan (CEAP).

The following table shows the changes in the Due from (to) the Government of Canada account with respect to appropriations.

(in millions of dollars)	Six months ended 30 June 2011	Year ended 31 December 2010
Due from (to) the Government of Canada		
Balance at Beginning of Period	**531**	476
Total Appropriations	**1,204**	3,155
Total Appropriations Received	**(1,400)**	(3,093)
Reimbursements	**(2)**	(7)
Balance at End of Period	**333**	531

A reconciliation relating to the amount of appropriations authorized by Parliament as available for use to the amount recognized during the period is presented in the Management Discussion and Analysis - Housing Programs Financial Analysis section.

12. FINANCIAL INSTRUMENTS

Determination of Fair Value

All financial instruments are recognized initially at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Accrued interest is separately disclosed for all financial instruments.

Fair values are estimated using the following fair value methods. The fair value measurement hierarchy reflects the observability of the most significant inputs used in making these measurements.

Fair Value Hierarchy:

Level 1: Financial assets quoted in active markets are measured based on the bid price of an identical asset. Financial liabilities quoted in active markets are measured based on the ask price of an identical liability.

Level 2: Financial assets and liabilities not quoted in active markets that 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 that are measured based on discounted cash flow analysis techniques or other valuation methodologies where significant inputs are not based on observable market data. Examples of these inputs are discount rates which include assumptions related to credit and liquidity risk premiums which are not observable in the market.

Short term financial instruments are classified as level 2 as the carrying value is assumed to approximate fair value due to the short-term nature.

The following table represents the fair value hierarchy in which fair value measurements are categorized for assets and liabilities recorded on the Balance Sheet. During the three and six months ended 30 June 2011, there were no significant transfers between Level 1 and Level 2.

	30 June 2011			
(in millions of dollars)	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and Cash Equivalents	269	926	-	**1,195**
Investment Securities:				
Designated at Fair Value through Profit or Loss	465	253	120	**838**
Available for Sale	16,595	98	5	**16,698**
Loans:				
Designated at Fair Value through Profit or Loss	-	7,076	-	**7,076**
Derivatives	-	97	-	**97**
Assets not recorded at Fair Value				**270,784**
Total Assets	17,329	8,450	125	**296,688**
LIABILITIES				
Derivatives	-	151	-	**151**
Borrowings:				
Capital Market Borrowings	2,893	-	-	**2,893**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	5,960	-	**5,960**
Liabilities and Equity not recorded at Fair Value				**287,684**
Total Liabilities and Equity	2,893	6,111	-	**296,688**

Financial Instruments Carried at Amortized Cost

Using the valuation methods described in Note 14 of the 2010 Annual Report, the following table presents the fair values of financial instruments carried at amortized cost, except where amortized cost is a reasonable approximation of fair value.

	30 June 2011		31 December 2010	
(in millions of dollars)	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Investment in NHA Mortgage-Backed Securities - Loans and Receivables[2]	**268,852**	**262,540**	261,316	254,993
Securities Purchased Under Resale Agreements[2]	**94**	**94**	-	-
Loans – Other[2]	**5,809**	**4,859**	5,167	4,214
Loans – Investments in Housing Programs[2]	**1,426**	**840**	1,478	873
Canada Mortgage Bonds[1]	**207,644**	**203,082**	198,146	193,547
Borrowings from the Government of Canada – Other[2]	**66,341**	**62,821**	67,790	64,239

[1] Fair value determined based on Level 1 Criteria
[2] Fair value determined based on Level 2 Criteria

Gains and Losses from Financial Instruments

The unrealized gains and losses arising from changes in fair value related to financial instruments classified as HFT and those Designated at Fair Value through Profit or Loss are presented in the following table. All Derivatives are classified as HFT and have not been designated in hedge relationships for accounting purposes. All other financial assets and liabilities in the following table have been Designated at Fair Value through Profit or Loss.

(in millions of dollars)	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
Held for Trading				
Derivatives	-	89	(48)	18
Total Held for Trading	-	89	(48)	18
Designated at Fair Value through Profit or Loss[1]				
Cash Equivalents	-	-	-	-
Investment Securities – Designated at Fair Value	11	10	12	10
Securities Purchased Under Resale Agreements	-	-	-	-
Loans – Designated at Fair Value through Profit or Loss	46	51	(9)	5
Capital Market Borrowings	(7)	(95)	46	(1)
Borrowings from the Government of Canada – Designated at Fair Value through Profit or Loss	(60)	(66)	(23)	(53)
Total Designated at Fair Value through Profit or Loss	(10)	(100)	26	(39)
Gains (Losses) from Related Party Transactions	(1)	4	14	5
Total Net Unrealized Gains (Losses) from Financial Instruments	(11)	(7)	(8)	(16)

[1] All items Designated at Fair Value, with the exception of certain Investment Securities held within the Mortgage Insurance and Securitization Activities, relate to the Lending Activity. For certain portfolios of Loans and associated Borrowings, the Lending Activity uses Derivatives to manage refinancing, reinvestment and currency risks, as well as mismatches between the timing of receipts from assets and payments of liabilities. Classifying the Loans, and associated Capital Market Borrowings and Borrowings from the Government of Canada, as Designated at Fair Value through Profit or Loss significantly reduces the measurement inconsistency that would otherwise arise from measuring them at amortized cost and measuring the Derivatives at fair value.

Certain Investment Securities within the Mortgage Insurance and Securitization Activities are also classified as Designated at Fair Value as they are managed and reported to Management on a fair value basis.

The realized gains and losses related to financial instruments are presented in the table below.

(in millions of dollars)	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
Held for Trading	(1)	3	(1)	3
Designated at Fair Value through Profit or Loss	-	-	-	-
Held to Maturity	-	-	-	-
Available for Sale	43	20	120	30
Total Net Realized Gains (Losses) from Financial Instruments	42	23	119	33

13. MARKET RISK

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Sensitivity Analysis

Value at Risk: Market risk for AFS financial assets is evaluated through the use of a Value at Risk (VaR) model. VaR is a statistical estimation that measures the maximum potential market loss of a portfolio over a specified holding period with a given level of confidence. The calculation of VaR is based on the Delta-normal method which may underestimate the occurrence of large losses because of its reliance on a normal distribution. The following table shows the VaR for the Mortgage Insurance and Securitization investment portfolios with a 95% confidence level over a two-week holding period. The analysis was based on one-year historical data of prices, volatilities and correlations of the various bond and equity markets.

Interest Rate Sensitivity: The financial instruments Designated at Fair Value through Profit or Loss and classified as HFT in the Lending Activity portfolio are exposed to interest rate movements. For Loans – Designated at Fair Value through Profit or Loss, the impacts of interest rate shifts on the portfolio are not symmetrical. A -200 bps interest rate shift would result in an increase in value of $377 million (31 December 2010 – $394 million) whereas a +200 bps interest rate shift would result in a decrease in value of $373 million (31 December 2010 – $378 million). For all remaining loans, a -200 bps interest rate shift would result in an increase in value of $1,107 million (31 December 2010 – $1,017 million) whereas a +200 bps interest rate shift would result in a decrease in value of $837 million (31 December 2010 - $774 million).

The following table shows the maximum exposure of the Lending Activity portfolio's net interest margin to interest rate movements with a 95% confidence over the period. The maximum exposure is limited by CMHC policy to $1.5 million.

The following table shows the VaR and Maximum Exposure estimates and their related financial statement impact.

	30 June 2011		31 December 2010	
(in millions of dollars)	Net Income	Other Comprehensive Income	Net Income	Other Comprehensive Income
Value at Risk	**n/a**	**171**	n/a	158
Maximum Exposure	**1**	**n/a**	0.9	n/a

14. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. CMHC is exposed to credit risk from various sources, including from its investment, lending, derivative, advances to mortgage insured social housing projects in difficulty and mortgage receivable transactions.

Credit risk associated with the Corporation's investments and derivatives is managed through the implementation of policies which include minimum counterparty credit ratings and investment portfolio diversification limits by issuer, credit rating and by industry sector, and through the use of appropriate legal agreements.

CMHC is exposed to credit-related risk in the event of default of swap counterparties. The fair value of swap collateral held by CMHC as at 30 June 2011 was $445 million (31 December 2010 – $428 million).

CHT is also exposed to credit-related risk in the event of default or credit rating downgrade of swap counterparties and through its investments. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. The fair value of swap collateral held by CHT as at 30 June 2011 was $196 million (31 December 2010 - $191 million).

15. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation has a liquidity risk policy which includes appropriate limits to ensure sufficient resources to meet current and projected cash requirements.

16. POST-EMPLOYMENT BENEFITS

CMHC's net benefit plan costs recognized in Operating Expenses are as follows:

For the three months ended 30 June:

	Pension Plans		Other Post-Employment Benefits	
(in millions of dollars)	**2011**	**2010**	**2011**	**2010**
Current Service Cost, Net of Employees' Contributions	**7**	6	**1**	1
Interest Cost	**18**	18	**2**	2
Expected Return on Plan Assets (Gain) Loss	**(19)**	(18)	**-**	-
Amortization of Plan Amendments	**-**	-	**-**	-
Defined Benefit Plan Expense	**6**	6	**3**	3

For the six months ended 30 June:

	Pension Plans		Other Post-Employment Benefits	
(in millions of dollars)	**2011**	**2010**	**2011**	**2010**
Current Service Cost, Net of Employees' Contributions	**12**	11	**2**	2
Interest Cost	**36**	36	**5**	4
Expected Return on Plan Assets (Gain) Loss	**(38)**	(35)	**-**	-
Amortization of Plan Amendments	**-**	-	**-**	-
Defined Benefit Plan Expense	**10**	12	**7**	6

The Corporation has decided to perform a valuation on its Employee Pension Plan as at 31 December 2010. It is anticipated that the results of such a valuation will increase the Corporation's contributions to the Pension plan. At this time, the amount of such anticipated increase is not known.

17. INVESTMENT PROPERTY

The following table presents the changes in the fair value of Investment Property included in Accounts Receivable and Other Assets:

	Three months ended 30 June		Six months ended 30 June	
(in millions of dollars)	**2011**	**2010**	**2011**	**2010**
Balance at Beginning of Period	**147**	119	**146**	119
Capitalized Expenditures on Existing Investment Property	**-**	-	**-**	-
Additions	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
Unrealized Fair Value Gains (Losses)	**-**	-	**1**	-
Balance at End of Period	**147**	119	**147**	119

Of the balance of Investment Property at 30 June 2011, $112 million is held by the Lending Activity, $34 million is held by the Mortgage Insurance Activity and $1 million is held by the Securitization Activity.

18. SEGMENTED INFORMATION

The consolidated financial statements include the accounts of CMHC's four activities (Mortgage Insurance, Securitization, Housing Programs and Lending Activity), each of which provides different programs in support of CMHC's objectives, and the Canada Housing Trust. The Corporation's assets are located in, and revenues attributed to Canada. The financial results of each activity are determined using the accounting policies described in Note 2. The Lending Activity includes certain corporate items that are not allocated to each activity. The Housing Program Activity includes reimbursements to the Lending Activity as described in Note 11.

	Mortgage Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
Three months ended 30 June (in millions of dollars)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
REVENUES														
Interest Income from NHA Mortgage-Backed Securities - Loans and Receivables	-	-	435	433	-	-	-	-	1,620	1,511	-	-	**2,055**	1,944
Premiums and Fees	437	433	48	46	-	-	-	-	-	-	-	-	**485**	479
Interest Earned on Loans and Investments in Housing Programs	-	-	-	-	-	-	162	158	-	-	-	-	**162**	158
Income from Investment Securities	149	147	11	9	-	-	9	5	-	-	(16)	(16)	**153**	145
Net Realized Gains (Losses) from Financial Instruments	36	22	6	1	-	-	-	-	-	-	-	-	**42**	23
Net Unrealized Gains (Losses) from Financial Instruments	2	4	-	-	-	-	(9)	(8)	-	-	(4)	(3)	**(11)**	(7)
Parliamentary Appropriations and Other Income	1	2	4	4	409	646	3	3	45	46	(28)	(28)	**434**	673
	625	608	504	493	409	646	165	158	1,665	1,557	(48)	(47)	**3,320**	3,415
EXPENSES														
Interest Expense	-	-	435	432	-	-	165	161	1,618	1,509	(16)	(16)	**2,202**	2,086
Operating Expenses	49	49	2	2	27	29	4	6	47	48	(28)	(28)	**101**	106
Housing Programs and Net Claims	114	161	-	-	382	617	-	-	-	-	-	-	**496**	778
	163	210	437	434	409	646	169	167	1,665	1,557	(44)	(44)	**2,799**	2,970
Income Taxes	(121)	(106)	(18)	(17)	-	-	1	-	-	-	-	-	**(138)**	(123)
NET INCOME	341	292	49	42	-	-	(3)	(9)	-	-	(4)	(3)	**383**	322
Total Revenues	625	608	504	493	409	646	165	158	1,665	1,557	(48)	(47)	**3,320**	3,415
Intersegment Revenues[1]	(17)	(17)	(28)	(28)	-	-	(3)	(2)	-	-	-	-	**(48)**	(47)
External Revenues	608	591	476	465	409	646	162	156	1,665	1,557	(48)	(47)	**3,272**	3,368

[1] Intersegment and Intercompany Revenues relate to the following:

- the Mortgage Insurance Activity earns Income from Investment Securities on its holdings of CMB; and
- the Securitization Activity receives CMB guarantee fees and advisory fees from CHT, and earns Income from Investment Securities on its holdings of CMB and Capital Market Borrowings.

Six months ended 30 June (in millions of dollars)	Mortgage Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
REVENUES														
Interest Income from NHA Mortgage-Backed Securities - Loans and Receivables	-	-	879	853	-	-	-	-	3,259	3,010	-	-	**4,138**	3,863
Premiums and Fees	855	842	98	88	-	-	-	-	-	-	-	-	**953**	930
Interest Earned on Loans and Investments in Housing Programs	-	-	-	-	-	-	323	316	-	-	-	-	**323**	316
Income from Investment Securities	297	291	21	18	-	-	17	10	-	-	(32)	(32)	**303**	287
Net Realized Gains (Losses) from Financial Instruments	108	31	11	2	-	-	-	-	-	-	-	-	**119**	33
Net Unrealized Gains (Losses) from Financial Instruments	4	5	-	-	-	-	(9)	(19)	-	-	(3)	(2)	**(8)**	(16)
Parliamentary Appropriations and Other Income	1	2	7	8	1,204	1,637	6	2	93	79	(56)	(48)	**1,255**	1,680
	1,265	1,171	1,016	969	1,204	1,637	337	309	3,352	3,089	(91)	(82)	**7,083**	7,093
EXPENSES														
Interest Expense	1	-	879	852	-	-	327	319	3,254	3,006	(32)	(32)	**4,429**	4,145
Operating Expenses	97	93	5	4	58	56	9	11	98	83	(56)	(48)	**211**	199
Housing Programs and Net Claims	262	336	-	-	1,146	1,581	-	-	-	-	-	-	**1,408**	1,917
	360	429	884	856	1,204	1,637	336	330	3,352	3,089	(88)	(80)	**6,048**	6,261
Income Taxes	(238)	(196)	(35)	(32)	-	-	-	4	-	-	-	-	**(273)**	(224)
NET INCOME	667	546	97	81	-	-	1	(17)	-	-	(3)	(2)	**762**	608
Total Revenues	1,265	1,171	1,016	969	1,204	1,637	337	309	3,352	3,089	(91)	(82)	**7,083**	7,093
Intersegment Revenues[1]	(30)	(31)	(56)	(48)	-	-	(5)	(3)	-	-	-	-	**(91)**	(82)
External Revenues	1,235	1,140	960	921	1,204	1,637	332	306	3,352	3,089	(91)	(82)	**6,992**	7,011

[1] Intersegment and Intercompany Revenues relate to the following:

- the Mortgage Insurance Activity earns Income from Investment Securities on its holdings of CMB; and
- the Securitization Activity receives CMB guarantee fees and advisory fees from CHT, and earns Income from Investment Securities on its holdings of CMB and Capital Market Borrowings.

As at 30 June 2011 and 31 December 2010 (in millions of dollars)	Mortgage Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations[1]		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
ASSETS														
Investment Securities:														
Designated at Fair Value through Profit or Loss	67	62	1	1	-	-	1,252	1,028	-	-	(482)	(380)	**838**	711
Available for Sale	17,283	17,066	1,280	1,201	-	-	-	-	-	-	(1,865)	(1,908)	**16,698**	16,359
Investment in NHA Mortgage-Backed Securities:														
Loans and Receivables	-	-	57,161	59,200	-	-	-	-	205,379	195,793	-	-	**262,540**	254,993
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	7,076	7,294	-	-	-	-	**7,076**	7,294
Other	-	-	-	-	-	-	4,859	4,214	-	-	-	-	**4,859**	4,214
Investments in Housing Programs	-	-	-	-	-	-	840	873	-	-	-	-	**840**	873
Other Assets	1,168	766	175	232	-	-	1,792	1,660	702	845	-	-	**3,837**	3,503
	18,518	17,894	58,617	60,634	-	-	15,819	15,069	206,081	196,638	(2,347)	(2,288)	**296,688**	287,947
LIABILITIES														
Unearned Premiums and Fees	6,803	6,874	486	483	-	-	-	-	-	-	-	-	**7,289**	7,357
Borrowings:														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	205,379	195,793	(2,297)	(2,246)	**203,082**	193,547
Capital Market Borrowings	-	-	-	-	-	-	2,909	3,054	-	-	(16)	(14)	**2,893**	3,040
Borrowings from the Government of Canada	-	-	57,161	59,200	-	-	11,620	10,756	-	-	-	-	**68,781**	69,956
Other Liabilities	1,420	1,372	91	166	-	-	1,206	1,166	702	845	(8)	(8)	**3,411**	3,541
	8,223	8,246	57,738	59,849	-	-	15,735	14,976	206,081	196,638	(2,321)	(2,268)	**285,456**	277,441
EQUITY OF CANADA														
Contributed Capital	-	-	-	-	-	-	25	25	-	-	-	-	**25**	25
Accumulated Other Comprehensive Income (Loss)	581	587	38	40	-	-	-	-	-	-	(20)	(17)	**599**	610
Retained Earnings	9,714	9,061	841	745	-	-	59	68	-	-	(6)	(3)	**10,608**	9,871
	10,295	9,648	879	785	-	-	84	93	-	-	(26)	(20)	**11,232**	10,506
	18,518	17,894	58,617	60,634	-	-	15,819	15,069	206,081	196,638	(2,347)	(2,288)	**296,688**	287,947

[1] The Balance Sheet Eliminations remove intersegment and intercompany holdings of CMB and Capital Market Borrowings as well as intersegment accounts arising from the allocation of operating cost, without mark-up.

19. RELATED PARTY TRANSACTIONS

CMHC pays the Government of Canada fees in recognition of the government's financial backing of the Mortgage Insurance and Securitization Activities. The fees, which are recorded as a reduction of Other Income, for the three and six months ended 30 June 2011 amount to $2 million and $5 million, respectively (three and six months ended 30 June 2010 – $2 million and $5 million, respectively), for Securitization and nil (2010 – nil) for the Mortgage Insurance Activity.

All other material related party transactions and outstanding balances are disclosed in relevant notes.

20. COMMITMENTS AND CONTINGENT LIABILITIES

There are legal claims of $25 million (31 December 2010 – $27 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded. CMHC does not expect the ultimate resolution of any of the proceedings to which CMHC is party to have a significant adverse effect on its financial position.

21. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

First-time Adoption of IFRS

CMHC adopted IFRS, as issued by the IASB, effective 1 January 2010 in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Prior to adopting IFRS, CMHC prepared its financial statements in accordance with Canadian GAAP. IFRS 1 requires an explicit and unreserved statement of compliance with IFRS to be made in the first annual financial statements prepared using IFRS. The financial statements for the year ending 31 December 2011 will be CMHC's first annual IFRS financial statements. Accordingly, an unreserved statement of compliance with IFRS will be made in those statements.

The quarterly consolidated financial statements, including the 2010 comparative information, have been prepared in accordance with the Treasury Board of Canada's Standard on Quarterly Financial Reports for Crown Corporations, using the accounting policies described in Note 2.

IFRS Mandatory Exception

In preparing the comparative information in accordance with IFRS, CMHC did not use hindsight to create or revise estimates previously made under Canadian GAAP.

IFRS Elective Exemptions

IFRS 1 allows certain optional exemptions in preparing the first IFRS financial statements. CMHC elected to use the following IFRS 1 exemptions:

- **Employee Benefits** – all cumulative net Actuarial Losses at 1 January 2010 were recognized in Retained Earnings. Disclosure of the present value of the defined benefit obligation, fair value of plan assets, surplus or deficit, and experience adjustments for CMHC's defined benefit plans for the previous four annual periods will be made as the amounts are determined for each period prospectively from 1 January 2010;
- **Insurance Contracts** – five years of claims development information is disclosed in the year of adoption. This will be increased in each succeeding additional year until the full ten years of claims development information is included; and
- **Leases** – IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, was applied to arrangements existing at 1 January 2010 using facts and circumstances existing at that date.

Effects of the Transition to IFRS

Certain of the 2010 comparative information presented in the quarterly consolidated financial statements was previously prepared and reported in accordance with Canadian GAAP. Reconciliations of the 2010 financial statements previously presented in accordance with Canadian GAAP to the 2010 comparative information in these consolidated financial statements are presented in the following tables. The reconciling items represent the significant differences between CMHC's previous accounting policies under Canadian GAAP and its current accounting policies under IFRS, and are described in detail following the tables. The Statement of Cash Flows was not materially affected by the transition to IFRS.

Reconciliation of Cash Flow Statement Reported Under Canadian GAAP to IFRS

(in millions of dollars)	Notes	
Cash and Cash Equivalents under Canadian GAAP – December 31, 2009		4,242
Financial Instruments		
Derecognition	(a) (i)	(3.407)
Cash and Cash Equivalents under IFRS – January 1, 2010		835

(in millions of dollars)	Notes	
Increase in Cash and Cash Equivalents under Canadian GAAP		2,279
Financial Instruments		
Derecognition	(a) (i)	(2,129)
Increase in Cash and Cash Equivalents during 2010 as reported under IFRS		150
Cash and Cash Equivalents under IFRS – January 1, 2010		835
Increase in Cash and Cash Equivalents		150
Cash and Cash Equivalents under IFRS – December 31, 2010		985

Reconciliation of Equity Reported Under Canadian GAAP to IFRS

(in millions of dollars)	Notes	31 December 2010	1 January 2010
Equity of Canada Under Canadian GAAP		11,435	9,263
Financial Instruments			
Derecognition	(a) (i)	(988)	(531)
Related Party Transactions	(a) (ii)	30	2
Employee Benefits			
Actuarial Gains and Losses	(b) (i)	(350)	(246)
Past Service Costs	(b) (ii)	(20)	(29)
Transitional Asset	(b) (iii)	(12)	15
Other	(b) (iv)	-	(4)
Investment Property	(c)	81	69
Revenue Recognition	(d)	51	49
Income taxes	(e)	279	150
		(929)	(525)
Equity of Canada Under IFRS		10,506	8,738

Reconciliation of Net Income Reported Under Canadian GAAP to IFRS

(in millions of dollars)	Notes	Year ended 31 December 2010
Net Income Under Canadian GAAP		1,768
Differences Increasing (Decreasing) Previously Reported Net Income:		
Financial Instruments		
Derecognition	(a) (i)	(455)
Related Party Transactions	(a) (ii)	28
Employee Benefits		
Actuarial Gains and Losses	(b) (i)	14
Past Service Costs	(b) (ii)	9
Transitional Asset	(b) (iii)	(27)
Other		4
Investment Property	(c)	12
Revenue Recognition	(d)	2
Income taxes	(e)	106
		(307)
Net Income under IFRS		1,461

Reconciliation of Comprehensive Income Reported Under Canadian GAAP to IFRS

(in millions of dollars)	Notes	Year ended 31 December 2010
Comprehensive Income Under Canadian GAAP		2,171
Differences Increasing (Decreasing) Previously Reported Net Income		(307)
Differences Increasing (Decreasing) Previously Reported Other Comprehensive Income:		
Employee Benefits - Actuarial Gains and Losses	(b) (i)	(96)
		(403)
Comprehensive Income under IFRS		1,768

Reconciliation of Consolidated Balance Sheet Reported Under Canadian GAAP to IFRS

As at 1 January 2010

		IFRS Adjustments					
		Financial Instruments					
(in millions of dollars)	**Canadian GAAP Balance**	**Derecognition[a]**	**Related Party Transactions[a]**	**Employee Benefits[b]**	**Investment Properties[c]**	**Revenue Recognition[d]**	**IFRS Balance**
ASSETS							
Cash and Cash Equivalents	4,242	(3,407)	-	-	-	-	835
Investment in NHA Mortgage-Backed Securities:							
Loans and Receivables	-	237,282	-	-	-	-	237,282
Designated at Fair Value through Profit or Loss	143,791	(143,791)	-	-	-	-	-
Held to Maturity	59,000	(59,000)	-	-	-	-	-
Investment Securities:							
Designated at Fair Value through Profit or Loss	1,273	(395)	-	-	-	-	878
Available for Sale	14,347	-	-	-	-	-	14,347
Held to Maturity	54	(54)	-	-	-	-	-
Securities Purchased Under Resale Agreements	32,370	(32,243)	-	-	-	-	127
Loans:			-				
Designated at Fair Value through Profit or Loss	7,533	-	-	-	-	-	7,533
Other	3,255	-	-	-	-	-	3,255
Investments in Housing Programs	939	-	-	-	-	-	939
Due from the Government of Canada	476	-	-	-	-	-	476
Accrued Interest Receivable	812	472	-	-	-	-	1,284
Accounts Receivable and Other Assets	682	-	-	(118)	69	(5)	628
Derivatives	4,047	(3,936)	-	-	-	-	111
	272,821	(5,072)	-	(118)	69	(5)	267,695
LIABILITIES							
Securities Sold Under Repurchase Agreements	51	-	-	-	-	-	51
Unearned Premiums and Fees	7,177	-	-	-	-	(54)	7,123
Accounts Payable and Other Liabilities	694	-	-	147	-	-	841
Accrued Interest Payable	1,108	(40)	-	-	-	-	1,068
Derivatives	996	(733)	-	-	-	-	263
Borrowings:							
Canada Mortgage Bonds	177,763	(3,768)	-	-	-	-	173,995
Capital Market Borrowings	4,438	-	-	-	-	-	4,438
Borrowings from the Government of Canada:							
Designated at Fair Value through Profit or Loss	4,477	-	-	-	-	-	4,477
Other	65,376	-	(2)	-	-	-	65,374
Provision for Claims	1,276	-	-	-	-	-	1,276
Deferred Income Tax Liabilities	202	(136)	1	(46)	17	13	51
	263,558	(4,677)	(1)	101	17	(41)	258,957
EQUITY OF CANADA							
Contributed Capital	25	-	-	-	-	-	25
Accumulated Other Comprehensive Income	207	-	-	-	-	-	207
Retained Earnings	9,031	(395)	1	(219)	52	36	8,506
	9,263	(395)	1	(219)	52	36	8,738
	272,821	(5,072)	-	(118)	69	(5)	267,695

Reconciliation of Consolidated Balance Sheet Reported Under Canadian GAAP to IFRS

As at 31 December 2010

		IFRS Adjustments					
		Financial Instruments					
(in millions of dollars)	Canadian GAAP Balance	Derecognition[a]	Related Party Transactions[a]	Employee Benefits[b]	Investment Properties[c]	Revenue Recognition[d]	IFRS Balance
ASSETS							
Cash and Cash Equivalents	6,521	(5,536)	-	-	-	-	985
Investment in NHA Mortgage-Backed Securities:							
Loans and Receivables	-	254,993	-	-	-	-	254,993
Designated at Fair Value through Profit or Loss	159,895	(159,895)	-	-	-	-	-
Held to Maturity	55,742	(55,742)	-	-	-	-	-
Investment Securities:							
Designated at Fair Value through Profit or Loss	1,651	(940)	-	-	-	-	711
Available for Sale	16,359	-	-	-	-	-	16,359
Held to Maturity	124	(124)	-	-	-	-	-
Securities Purchased Under Resale Agreements	34,208	(34,208)	-	-	-	-	-
Loans:							
Designated at Fair Value through Profit or Loss	7,294	-	-	-	-	-	7,294
Other	4,214	-	-	-	-	-	4,214
Investments in Housing Programs	873	-	-	-	-	-	873
Due from the Government of Canada	531	-	-	-	-	-	531
Accrued Interest Receivable	851	429	-	-	-	-	1,280
Accounts Receivable and Other Assets	644	-	-	(128)	81	(6)	591
Derivatives	4,311	(4,195)	-	-	-	-	116
	293,218	(5,218)	-	(128)	81	(6)	287,947
LIABILITIES							
Securities Sold Under Repurchase Agreements	60	-	-	-	-	-	60
Unearned Premiums and Fees	7,414	-	-	-	-	(57)	7,357
Accounts Payable and Other Liabilities	925	-	-	253	-	-	1,178
Accrued Interest Payable	1,092	(36)	-	-	-	-	1,056
Derivatives	360	(253)	-	-	-	-	107
Borrowings:							
Canada Mortgage Bonds	197,488	(3,941)	-	-	-	-	193,547
Capital Market Borrowings	3,040	-	-	-	-	-	3,040
Borrowings from the Government of Canada:							
Designated at Fair Value through Profit or Loss	5,717	-	-	-	-	-	5,717
Other	64,269	-	(30)	-	-	-	64,239
Provision for Claims	1,096	-	-	-	-	-	1,096
Deferred Income Tax Liabilities	322	(252)	7	(66)	20	13	44
	281,783	(4,482)	(23)	187	20	(44)	277,441
EQUITY OF CANADA							
Contributed Capital	25	-	-	-	-	-	25
Accumulated Other Comprehensive Income	610	-	-	-	-	-	610
Retained Earnings	10,800	(736)	23	(315)	61	38	9,871
	11,435	(736)	23	(315)	61	38	10,506
	293,218	(5,218)	-	(128)	81	(6)	287,947

Reconciliation of Consolidated Statement of Income and Comprehensive Income Reported Under Canadian GAAP to IFRS

Year ended 31 December 2010

		IFRS Adjustments					
		Financial Instruments					
(in millions of dollars)	Canadian GAAP Balance	Derecognition[a]	Related Party Transactions[a]	Employee Benefits[b]	Investment Properties[c]	Revenue Recognition[d]	IFRS Balance
REVENUES							
Interest Income from NHA Mortgage-Backed Securities	7,729	260	-	-	-	-	7,989
Premiums and Fees	1,922	-	-	-	-	3	1,925
Interest Earned on Loans and Investments in Housing Programs	641	-	-	-	-	-	641
Income from Investment Securities	842	(253)	-	-	-	-	589
Net Realized Gains (Losses) from Financial Instruments	101	-	-	-	-	-	101
Net Unrealized Gains (Losses) from Financial Instruments	434	(455)	28	-	-	-	7
Other Income	92	-	-	-	12	-	104
	11,761	(448)	28	-	12	3	11,356
Parliamentary Appropriations for:							
Housing Programs	3,040	-	-	-	-	-	3,040
Operating Expenses	115	-	-	-	-	-	115
	3,155	-	-	-	-	-	3,155
	14,916	(448)	28	-	12	3	14,511
EXPENSES							
Interest Expense	8,552	7	-	-	-	-	8,559
Housing Programs	3,040	-	-	-	-	-	3,040
Net Claims	497	-	-	-	-	-	497
Operating Expenses	405	-	-	-	-	1	406
	12,494	7	-	-	-	1	12,502
INCOME BEFORE INCOME TAXES	2,422	(455)	28	-	12	2	2,009
INCOME TAXES							
Current	542	-	-	1	-	-	543
Deferred	112	(116)	7	(1)	3	-	5
	654	(116)	7	-	3	-	548
NET INCOME	1,768	(339)	21	-	9	2	1,461
OTHER COMPREHENSIVE INCOME (LOSS)							
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments (net of tax)	421	-	-	-	-	-	421
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income (net of tax)	(18)	-	-	-	-	-	(18)
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)	-	-	-	(96)	-	-	(96)
	403	-	-	(96)	-	-	307
COMPREHENSIVE INCOME	2,171	(339)	21	(96)	9	2	1,768

Differences between Canadian GAAP and IFRS Accounting Policies

The reconciling items in the preceding tables represent the significant differences between CMHC's previous accounting policies under Canadian GAAP and its current accounting policies under IFRS. The policy differences are explained in the following narratives. The explanations are not a complete summary of all the differences between Canadian GAAP and IFRS.

(a) Financial Instruments

(i) Derecognition

Canadian GAAP – Investments in NHA Mortgage-Backed Securities in the Securitization Activity were classified as HTM financial instruments and initially recognized at fair value plus transaction costs. Subsequent to initial recognition they were measured at amortized cost using the effective interest method. Investments in NHA Mortgage-Backed Securities held by CHT were Designated at Fair Value and initially recognized at fair value. Subsequent to initial recognition they were measured at fair value.

Swaps entered into in connection with the Investments in NHA Mortgage-Backed Securities in the Securitization Activity were classified as Held for Trading. Gains and losses arising from changes in the fair value of the swaps were recorded in Net Unrealized Gains (Losses) from Financial Instruments, and gains and losses realized on disposition were recorded in Net Realized Gains (Losses) from Financial Instruments. Transactions costs for the swaps were expensed as incurred.

IFRS – Purchases of NHA MBS under IMPP and by CHT not qualifying for derecognition by the NHA MBS Issuer are considered by CMHC to be secured financing provided to the Issuers, collateralized by the NHA MBS and associated reinvestment securities. These transactions are classified as Investment in NHA Mortgage-Backed Securities - Loans and Receivables and initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method. The NHA MBS, reinvestment assets and swaps entered into in connection with purchases of NHA Mortgage-Backed Securities not qualifying for derecognition by the Issuer are not recognized on CMHC's Balance Sheet. As a result, compared to the previously reported Canadian GAAP amounts:

- Investments in NHA Mortgage-Backed Securities – Held to Maturity and Designated at Fair Value Through Profit or Loss and related reinvestment assets (Cash and Cash Equivalents, Investment Securities, Securities Purchased Under Resale Agreements) were replaced at 1 January 2010 and 31 December 2010 by Investment in NHA Mortgage-Backed Securities - Loans and Receivables;
- Accrued Interest Receivable increased at 1 January 2010 by $472 million (31 December 2010 - $429 million), the net effect of recognizing interest on Investment in NHA Mortgage-Backed Securities - Loans and Receivables and derecognizing interest on Investments in NHA Mortgage-Backed Securities and related reinvestment assets and swaps;
- Derivatives assets decreased at 1 January 2010 by $3,936 million (31 December 2010 - $4,195 million), Derivatives liabilities decreased at 1 January 2010 by $733 (31 December 2010 - $253 million), and Accrued Interest Payable decreased at 1 January 2010 by $40 million; 31 December 2010 - $36 million), due to derecognizing the swaps;
- Net Income for the period ending 31 December 2010 decreased by $339 million; and
- Retained Earnings at 1 January 2010 decreased by $395 million (31 December 2010 - $736 million), the net of tax impact of the differences for Financial Instruments – Derecognition.

(ii) Related Party Transactions

Canadian GAAP – Borrowings from the Government of Canada classified as Other Financial Liabilities were initially recognized, as related party transactions, at the exchange amount, which is the amount of consideration received as established and agreed to with the government. These transactions were subsequently measured at amortized cost.

IFRS – Borrowings from the Government of Canada classified as Other Financial Liabilities are initially recognized at fair value and subsequently measured at amortized cost. Differences between the exchange amount and the fair value of the borrowings are recorded as gains/losses in Net Unrealized Gains (Losses) from Financial Instruments on initial recognition. The adjustments are amortized over the life of the borrowings. As a result, compared to the previously reported Canadian GAAP amounts:

- Borrowings from the Government of Canada – Other decreased at 1 January 2010 by $2 million (31 December 2010 - $30 million);
- Net Income for the period ending 31 December 2010 increased by $21 million; and
- Retained Earnings at 1 January 2010 decreased by $1 million (31 December 2010 - $23 million), the net of tax impact of the differences for Financial Instruments – Related Party Transactions.

(b) Employee Benefits

(i) Actuarial Gains and Losses

Canadian GAAP – For defined benefit plans, the excess of Net Actuarial Gains and Losses over 10% of the greater of the benefit obligation and the fair value of the plan assets was amortized to Net Income on a straight-line basis over the expected average remaining service period of active employees under the plans. The unamortized balance of Net Actuarial Gains and Losses was not recognized.

IFRS – For defined benefit plans, Actuarial Gains and Losses are recognized in Other Comprehensive Income as incurred, and are accumulated in Retained Earnings. As a result, compared to the previously reported Canadian GAAP amounts:

- Accounts Receivable and Other Assets decreased at 1 January 2010 by $220 million (31 December 2010 - $310 million), and Accounts Payable and Other Liabilities increased at 1 January 2010 by $26 million (31 December 2010 - $40 million). These adjustments record the Net Actuarial Losses for defined benefit plans at 1 January 2010, which were $246 million (31 December 2010 - $350 million);
- Net Income for the period ending 31 December 2010 increased by $10 million; and Other Comprehensive Income decreased by $96 million
- Retained Earnings decreased at 1 January 2010 by $206 million (31 December 2010 - $293 million), the net of tax impact of the differences for Employee Benefits - Actuarial Gains and Losses.

(ii) Past Service Costs

Canadian GAAP – For defined benefit plans, Past Service Costs were amortized to Net Income on a straight-line basis over the expected average remaining service period of active employees under the plans. The unamortized balance of Past Service Costs was not recognized.

IFRS – For defined benefit plans, Past Service Costs are recognized in Net Income on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested upon introduction of, or changes to, a defined benefit plan, Past Service Costs are recognized in Net Income immediately. As a result, compared to the previously reported Canadian GAAP amounts:

- Accounts Receivable and Other Assets decreased at 1 January 2010 by $18 million (31 December 2010 - $9 million) and Accounts Payable and Other Liabilities increased at 1 January 2010 by $11 million (31 December 2010 - $11 million). These adjustments record the vested Past Service Costs which at 1 January 2010 were $29 million (31 December 2010 - $20 million);

- Net Income for the period ending 31 December 2010 increased by $7 million; and
- Retained Earnings decreased at 1 January 2010 by $22 million (31 December 2010 - $15 million), the net of tax impact of the differences for Employee Benefits – Past Service Costs.

(iii) Transitional Asset and Obligation

Canadian GAAP – For defined benefit plans, the Transitional Asset (Obligation) was determined as at 1 January 2000, the date at which CMHC first applied CICA Section 3461, Employee Future Benefits. The Transitional Asset (Obligation) was amortized to Net Income on a straight-line basis over the expected average remaining service period of active employees under the plans. The unamortized balance of Transitional Asset (Obligation) was not recognized.

IFRS – There is no Transitional Asset (Obligation) for defined benefit plans under IFRS. As a result, compared to the previously reported Canadian GAAP amounts:

- Accounts Receivable and Other Assets increased at 1 January 2010 by $31 million (31 December 2010 - $0 million) and Accounts Payable and Other Liabilities increased at 1 January 2010 by $16 million (31 December 2010 - $12 million). These adjustments record the net Transitional Asset for defined benefit plans, which at 1 January 2010 was $15 million (31 December 2010 - $12 million);
- Net Income for the period ending 31 December 2010 decreased by $21 million; and
- Retained Earnings increased at 1 January 2010 by $11 million (decreased 31 December 2010 - $9 million), the net of tax impact of the differences for Employee Benefits – Transitional Asset and Obligation.

Presentation Reclassification of Defined Benefit Plan Liability

Under Canadian GAAP, an Accrued Benefit Asset was recognized for the defined benefit pension plan. The different recognition and measurement policies under IFRS for post-employment benefits results in a Defined Benefit Liability position being recognized for the defined benefit pension plan. Accordingly, the amount by which the present value of the defined benefit pension plan obligation exceeded the fair value of plan assets at 1 January 2010, $89 million (31 December 2010 - $192 million), was reclassified from Accounts Receivable and Other Assets to Accounts Payable and Other Liabilities.

(iv) Other

An additional liability for certain short-term employee benefits was recognized under IFRS, resulting in an increase in Accounts Payable and Other Liabilities at 1 January 2010 of $5 million (31 December 2010 - $0 million). Retained Earnings decreased at 1 January 2010 by $4 million (31 December 2010 - $0 million), the net of tax impact of this difference. Net Income for the period ending 31 December 2010 increased by $4 million.

(c) Investment Property

Canadian GAAP – Investment Property was measured at cost less accumulated amortization and any impairment losses.

IFRS – Investment Property is measured at fair value. As a result, compared to the previously reported Canadian GAAP amounts:

- Accounts Receivable and Other Assets increased at 1 January 2010 by $69 million (31 December 2010 - $81 million), the amount by which the fair value of Investment Property exceeded cost, less accumulated amortization and any impairment losses;
- Net Income for the period ending 31 December 2010 increased by $9 million; and
- Retained Earnings increased at 1 January 2010 by $52 million (31 December 2010 - $61 million), the net of tax impact of the differences for Investment Property.

(d) Revenue Recognition

Canadian GAAP – Application fees and compensatory fees for CMHC's Timely Payment Guarantees on NHA MBS were deferred and recognized as Revenues over the term of the security issue on a straight-line basis. Costs directly related to the issuance and ongoing administration of Timely Payment Guarantees were deferred and recognized as Operating Expenses over the term of the security issue.

IFRS – Application fees are recognized as Revenues upon processing of the associated application. Monthly privately-insured mortgage fees are recognized as Revenues in the month to which the fees relate. Costs directly related to the issuance and ongoing administration of Timely Payment Guarantees are recognized in Operating Expenses as incurred. As a result, compared to the previously reported Canadian GAAP amounts:

- Accounts Receivable and Other Assets decreased at 1 January 2010 by $5 million (31 December 2010 - $6 million) and Unearned Premiums and Fees decreased at 1 January 2010 by $54 million (31 December 2010 - $57 million);
- Net Income for the period ending 31 December 2010 increased by $2 million; and
- Retained Earnings increased at 1 January 2010 by $36 million (31 December 2010 - $38 million), the net of tax impact of the differences for Revenue Recognition.

(e) Income Taxes

Differences for income taxes include the effect of recording the deferred tax effect of differences between Canadian GAAP and IFRS.

(f) Recognition and measurement of Insurance Contracts

The objective of IFRS 4 - Insurance Contracts ("IFRS 4") is to specify the financial reporting for insurance contracts by an entity that issues such contracts until the IASB completes its continuing project for the implementation of a revised standard for insurance contracts. Except for limited requirements specified in the standard, it focuses on disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements to understand the amount, timing and uncertainty of future cash flows from insurance contracts. Consequently, until the revised standard is issued, the Corporation will continue its current practice for measuring and recording insurance contracts.

SELECTED ANNUAL DISCLOSURES

As a result of the adjustments discussed above, the following IFRS disclosures that are significantly impacted and required to be included in annual financial statements prepared in accordance with IFRS have been included in these financial statements. They are presented below for the previous annual period.

A) INVESTMENT IN NHA MORTGAGE-BACKED SECURITIES - LOANS AND RECEIVABLES

Under the Insured Mortgage Purchase Program (IMPP), CMHC has purchased insured NHA MBS, through reverse auction, from Canadian financial institutions (Issuers) using funds borrowed from the Government of Canada. With each auction, swap agreements were entered into where CMHC is to pay all interest received on NHA MBS and reinvestment securities, net of its expenses, to swap counterparties and CMHC is to receive payments equal to the interest due on its IMPP-related borrowings.

Canada Housing Trust (CHT) purchases insured NHA MBS from approved MBS sellers using funds supplied from the issuance of Canada Mortgage Bonds (CMB). Interest rate swap agreements are entered into where CHT is to pay all interest received on NHA MBS and reinvestment securities, net of its expenses, to swap counterparties and CHT is to receive payments equal to the interest due on its Canada Mortgage Bond borrowings.

In order to meet the principal obligations of the Government of Canada and CMB borrowings, the principal payments and prepayments from the underlying NHA MBS are held in an account in the name of CMHC or CHT, managed and reinvested into eligible assets, by the swap counterparties pursuant to contractual agreements. Eligible assets include Investment Securities, Cash Equivalents and Securities Purchased Under Resale Agreements. Under the terms of certain auctions under IMPP, CMHC remits directly to the Government of Canada the monthly principal payments and prepayments on the underlying NHA MBS rather than to the swap counterparties for reinvestment.

Under both the IMPP and the CMB Program, the transferred NHA MBS fail derecognition rules. As a result, CMHC accounts for the transfers as secured financing, Investment in NHA Mortgage-Backed Securities - Loans and Receivables, collateralized by the NHA MBS and associated high quality reinvestment securities. The NHA MBS, reinvestment assets and swaps are not recognized on CMHC's Balance Sheet. The collateral is, however, held in the name of CMHC or CHT and represents the sole source of principal repayments for the Investments in NHA Mortgage-Backed Securities – Loans and Receivables. The amounts due from the swap counterparties represent the interest earned on Investment in NHA Mortgage-Backed Securities - Loans and Receivables.

The following table summarizes the maturity structure, based on undiscounted contractual maturities of principal and average yield for Investment in NHA MBS - Loans and Receivables.

(in millions of dollars)	Remaining Term to Maturity: Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	31 December 2010
IMPP[1]					
Investment in NHA Mortgage-Backed Securities – Loans and Receivables	1,450	55,755	1,995	-	59,200
Yield	2.10%	3.04%	3.20%	-	3.02%
CHT					
Investment in NHA Mortgage-Backed Securities – Loans and Receivables	36,025	73,200	67,300	19,005	195,530
Yield	4.07%	3.86%	2.53%	3.40%	3.40%
Total	**37,475**	**128,955**	**69,295**	**19,005**	**254,730**

(1) For certain auctions under the IMPP, CMHC collects Investment in NHA MBS – Loans and Receivables as principal payments, both scheduled and unscheduled, are received on the underlying NHA MBS. The maturities for these loans are estimated based on assumptions regarding mortgage prepayments (1% annually) and liquidations (4% annually) of the underlying MBS. Prepayments and liquidations are mortgage principal repayments that are received sooner than the stated amortization period of the mortgage. Both are percentage rate assumptions on principal amounts outstanding, determined by CMHC, and based on historical performance/trends.

CMHC and CHT hold collateral which serves as the sole source of repayment for the Investment in NHA Mortgage-Backed Securities – Loans and Receivables. The fair value of this collateral is as follows:

(in millions of dollars)	31 December 2010
NHA Mortgage-Backed Securities (2) - IMPP	56,474
Reinvestment Securities (1) - IMPP	3,456
NHA Mortgage-Backed Securities (2) - CHT	159,895
Reinvestment Securities (1) - CHT	38,014
Total	257,839

[1] Fair value determined based on Level 1 Criteria
[2] Fair value determined based on Level 2 Criteria

The credit risk associated with NHA Mortgage-Backed Securities is mitigated by the guarantee of timely payment of principal and interest, as described in Note 10 of the CMHC's 2010 Annual Report.

IMPP Reinvestment Securities are limited to high quality assets, as follows: cash, Government of Canada obligations, Canada Mortgage Bonds, NHA MBS and eligible repurchase agreements of Government of Canada securities. CHT Reinvestment Securities are rated R-1 high or AAA by at least two rating agencies.

B) POST-EMPLOYMENT BENEFITS

CMHC provides a defined benefit pension plan, supplemental pension plans and other post-employment benefits.

Information about the post-employment benefits is as follows:

(in millions of dollars)	Pension Plans 2010	Post-Employment 2010
Defined Benefit Obligation		
Balance, Beginning of Year	1,256	153
Current Service Cost	22	4
Employees' Contributions	11	0
Interest Cost	72	9
Benefits Paid	(61)	(4)
Actuarial Loss (Gains)	114	9
Plan Amendments	-	(1)
Balance, End of Year	1,414	170
Fair Value of Plan Assets		
Balance, Beginning of Year	1,129	-
Actual Return on Plan Assets	79	-
Employer's Contributions	20	4
Employees' Contributions	11	-
Benefits Paid	(61)	(4)
Balance, End of Year	1,178	-
Funded Status – Plan Surplus (Deficit)	(236)	(170)
Unamortized Past Service Costs	-	2
Defined Benefit Asset (Liability)	(236)	(168)

C) CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table presents an analysis of each asset and liability line item by amounts expected to be recovered or settled within one year or after one year as at 31 December 2010 and 1 January 2010.

(in millions of dollars)	31 December 2010			1 January 2010		
	Within 1 year	After 1 year	Total	Within 1 year	After 1 year	Total
ASSETS						
Cash and Cash Equivalents	985	-	**985**	835	-	**835**
Investment Securities:						
Designated at Fair Value through Profit or Loss	180	531	**711**	457	421	**878**
Available for Sale	774	15,585	**16,359**	96	14,251	**14,347**
Securities Purchased Under Resale Agreements	-	-	**-**	127	-	**127**
Investment in NHA Mortgage-Backed Securities:						
Loans and Receivables	37,475	217,518	**254,993**	21,787	215,495	**237,282**
Loans (DFV, Other and Investments in Housing Programs)	86	12,295	**12,381**	111	11,616	**11,727**
Due from the Government of Canada	321	210	**531**	329	147	**476**
Accrued Interest Receivable	1,280	-	**1,280**	1,284	-	**1,284**
Accounts Receivable and Other Assets	49	542	**591**	122	506	**628**
Derivatives	10	106	**116**	6	105	**111**
	41,160	246,787	**287,947**	25,154	242,541	**267,695**
LIABILITIES						
Securities Sold Under Repurchase Agreements	60	-	**60**	51	-	**51**
Accounts Payable and Other Liabilities	504	674	**1,178**	362	479	**841**
Accrued Interest Payable	1,056	-	**1,056**	1,068	-	**1,068**
Provision for Claims	-	1,096	**1,096**	-	1,276	**1,276**
Derivatives	83	24	**107**	200	63	**263**
Unearned Premiums and Fees	-	7,357	**7,357**	-	7,123	**7,123**
Borrowings:						
Canada Mortgage Bonds	36,025	157,522	**193,547**	19,332	154,663	**173,995**
Capital Market Borrowings	871	2,169	**3,040**	1,342	3,096	**4,438**
Borrowings from the Government of Canada:						
Designated at Fair Value through Profit or Loss	885	4,832	**5,717**	651	3,826	**4,477**
Other	1,661	62,578	**64,239**	2,591	62,783	**65,374**
Deferred Income Tax Liabilities	-	44	**44**	-	51	**51**
	41,145	236,296	**277,441**	25,597	233,360	**258,957**
NET	15	10,491	**10,506**	(443)	9,181	**8,738**