CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER

March 31, 2012

(Unaudited)

Canada

CMHC SCHL

HOME TO CANADIANS

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March 31, 2012

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.

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 housing in small and rural communities, rental housing and nursing and retirement homes.

CMHC's prudent underwriting standards and market presence contribute to the resilience and stability of the Canadian housing finance system and serves to minimize risk to Canadian taxpayers. 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 ended 31 March 2012, including comparatives against the same period in 2011. 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 CMHC's fiscal year.

The 2012 and 2011 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). CMHC's unaudited Quarterly Consolidated Financial Statements for period ended 31 March 2012 have not been reviewed nor audited by CMHC external auditors.

The MD&A should be read in conjunction with CMHC's unaudited Quarterly Consolidated Financial Statements and related Notes included in this report as well as with the CMHC 2011 Annual Report.

Forward-looking Statements

CMHC's Quarterly Financial 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 2012

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 for affordable housing at $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 the Investment in Affordable Housing 2011-2014 Framework Agreement. Funding for the Framework Agreement relates to the final three years of the federal government's commitment in 2008 to a five-year investment of more than $1.9 billion in housing and homelessness to address the needs of low-income Canadians, those at risk of homelessness, and the homeless.

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 of reducing the number of Canadians in housing need 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.

As of 31 March 2012, all provinces and territories (P/Ts) had signed bilateral agreements related to this investment. Full take-up of federal funding, under the Investment in Affordable Housing framework, for fiscal year 2011/12 ended 31 March 2012 was achieved by all provinces and territories.

Budget 2012 – Jobs, growth and long-term prosperity

On 29 March 2012, the Honourable Jim Flaherty, Minister of Finance tabled the federal budget. Economic Action Plan 2012 is the Government's plan for jobs, growth and long-term prosperity.

Final Report on Canada's Economic Action Plan

The budget highlights the investments made through Canada's Economic Action Plan (CEAP), including the construction and renovation of 16,500 social housing projects for low income families across the country. This includes 430 construction projects for low-income seniors and persons with disabilities, and the renovation of over 11,350 existing social housing projects administered by provinces and territories nationwide.

The Government of Canada also invested $150 million to renovate and retrofit federally-administered social housing. In total, almost 1,310 projects were completed.

Through CEAP, the Government also invested $400 million over two years to build and renovate housing in First Nations communities; $250 million of this funding was provided through CMHC and $150 million through Aboriginal Affairs and Northern Development Canada (AANDC). Close to 500 communities benefitted from more than 3,200 projects. A further $200 million was also invested in the North to address the territories' housing needs, which supported 210 projects.

In addition to direct funding for social housing, municipalities undertook housing-related infrastructure projects supported by 272 low-cost loans through CMHC totalling $2 billion.

Proposed Enhancements to the Governance and Oversight Framework for CMHC

On 26 April 2012, the Government tabled in Parliament Bill C-38, an Act to implement certain provisions of the budget tabled in Parliament on 29 March 2012 and other measures. The measures proposed in Bill C-38 include:

- Additional objectives for CMHC to ensure its commercial activities promote and contribute to the stability of the financial system, including the housing market;
- Legislative and regulatory authorities for the Minister of Finance in respect of CMHC's securitization programs and any new commercial programs;
- Authorities for the Office of the Superintendent of Financial Institutions (OSFI) to review and monitor the safety and soundness of CMHC's commercial activities and report the results to the CMHC Board of Directors and the Ministers of Finance and Human Resources and Skills Development; and
- The addition of the Deputy Minister of Human Resources and Skills Development and the Deputy Minister of Finance as ex-officio members of CMHC's Board of Directors.

Covered Bonds

The proposed legislative framework for covered bonds tabled on 26 April 2012 is intended to support financial stability by helping lenders find new sources of funding and helping attract more investors to the market for Canadian covered bonds. Under the proposed legislative framework, CMHC would be the administrator of the covered bond program, which would be available to regulated financial institutions in Canada. In this context, Bill C-38 provides for:

- The requirement for CMHC to establish and maintain a registry of registered issuers, registered programs, and registered issuers whose right to issue covered bonds has been suspended, and making such registry accessible to the public;
- Authorities for CMHC to establish conditions or restrictions applicable to registered issuers and the registered programs for covered bonds;
- The making of regulations relating to covered bonds.

In addition, the legislative framework proposes that insured mortgages will no longer be permitted to be held as covered bond collateral.

Results of Deficit Reduction in Budget 2012

Efforts to reduce the federal deficit were undertaken by all federal departments and agencies, including CMHC. The focus was on decreased spending, requiring a review of CMHC's operations and government appropriation-based programs.

The global results of the spending review exercise were announced in Budget 2012. As noted in the Budget, CMHC will contribute $102.4 million in ongoing annual savings by 2014-2015. These savings will have no impact on low-income Canadians receiving federal housing assistance delivered through federal or provincial/territorial agreements. They will be achieved through lower than anticipated interest and inflation rates, operating efficiencies, efficiencies in program administration, rationalizing research and information dissemination priorities, and discontinuing CMHC's housing export program.

Mortgage Loan Insurance

As a follow-up to the Financial Stability Board's Principles for Sound Residential Mortgage Underwriting Practices (released for comment in late 2011 and finalized in April 2012), OSFI released for comment a draft Guideline in March 2012 which outlines five principles for prudent underwriting. The Guideline is intended to apply to all federally regulated financial institutions, including lenders and insurers.

As part of the implementation of the June 2011 federal budget, legislation was passed that formalized mortgage insurance arrangements with private sector mortgage insurers, including the rules for government-backed mortgage insurance. These provisions have not yet come into force.

In general, the economic conditions experienced to date in 2012 have been favourable with respect to claims incurred by CMHC's mortgage loan insurance business. Mortgage rates have remained low, the housing market has been healthy and the unemployment rate has been trending downward. Overall arrears rates have been improving, and arrears and claims volumes have been lower than expected. Given current economic forecasts, it is expected that these trends will improve moderately going forward, although both downside and upside risks remain. Canadians need to be prudent in their home purchases. Interest rates are at historic lows and they are certain to rise in the future. In this context, it is important that they not get overextended.

Economic Outlook (as at April 28, 2012)

The consensus among economic forecasters is that Canada's economy, as measured by Gross Domestic Product (GDP), will grow in the mid-to-low 2 per cent range over 2012 and 2013, with 2013 being the stronger of the two years. This growth will help drive moderate employment gains and gradual reductions in Canada's unemployment rate.

Housing Starts

Consensus views among economic forecasters regarding future economic growth and interest rate trends help guide CMHC's views regarding housing market activity. The Canadian housing market is supported by economic and demographic fundamentals; however, CMHC continues to closely monitor housing markets.

Although there have been considerable swings in monthly estimates of housing starts activity, the trend rate of housing starts activity has been rising slowly to 208,700 units as of April 2012. Strong labour market conditions will continue to drive the construction of new homes, but some diminution of the current robust pace of housing starts is expected later this year and next year.

Resale Market

Total residential sales through the Multiple Listings Service® (MLS®) increased 0.4 per cent in the first quarter of 2012 and are expected to remain relatively stable the remainder of this year and next. This stability will help maintain balanced market conditions in most parts of Canada. Balanced market conditions suggest price growth over the next year and a half will be roughly in line with inflation. The average MLS® price grew 2.2 per cent during the first quarter of 2012 and future growth is expected to be somewhat more subdued.

SUMMARY OF UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL RESULTS

CMHC reports on the following principal business activities and consolidates the accounts of Canada Housing Trust, a separate 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 Loan 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 guarantee fees and interest income. Expenses consist primarily of interest expenses.

  Mortgage Loan 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)	31 March 2012	31 December 2011	Variance
Total Assets	303,056	291,890	11,166
Total Liabilities	290,532	279,799	10,733
Contributed Capital	25	25	-
Accumulated Other Comprehensive Income (AOCI)	896	902	(6)
Retained Earnings (other)[1]	964	1,437	(473)
Retained Earnings Set Aside for Capitalization	10,639	9,727	912
Total Equity of Canada	**12,524**	**12,091**	**433**

[1] Includes Unappropriated Retained Earnings, Reserve Fund and inter-segment and inter-entity eliminations.

Assets and Liabilities

Total Assets and Total Liabilities were $303 billion and $291 billion respectively as of 31 March 2012, both increasing by 4% ($11 billion) from 31 December 2011. This growth is primarily the result of a net increase of $10 billion in Canada Mortgage Bonds and $1 billion in related accrued interest. The increase in Canada Mortgage Bonds and related interest is mainly driven by increased issuances in the program.

Equity of Canada

The Equity of Canada is made up of three components:

- **Contributed Capital**
  The contributed capital of CMHC is determined by the Governor in Council. It is currently set at $25 million.

- **Accumulated Other Comprehensive Income (AOCI)**
  AOCI is the accumulated unrealized gains or losses caused by the change in fair valuation of Available for Sale (AFS) investments in the Mortgage Loan Insurance and Securitization Activities. As at 31 March 2012, it was at $896 million, a $6 million decrease from 31 December 2011. This decrease is mainly due to fair value fluctuations from Available for Sale financial instruments. Further explanation is provided later in this section.

- **Retained Earnings**
  Total Retained Earnings were $11,603 million of which $10,639 million is set aside for the capitalization of both the Mortgage Loan Insurance and Securitization Activities in accordance with CMHC's Capital Management Framework. The residual $964 million in Retained Earnings (other) is comprised of Unappropriated Retained Earnings from the Mortgage Loan Insurance and Securitization Activity as well as the Reserve Fund in Lending.

  Total Retained Earnings (other) decreased by $473 million from 31 December 2011, mainly as a result of the amount set aside for capitalization, which was partially offset by the quarter's Net Income. Further explanation is provided in the segmented financial results section.

Total Appropriated Retained Earnings increased by $912 million since 31 December 2011, mainly as a result of the increase in the amount set aside for capitalization from the Mortgage Loan Insurance Activity. This increase was mainly driven by the introduction of the margin for interest rate risk effective 1 January 2012. .

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 $16 billion to reducing the Government's accumulated deficit through both its Net Income and Income Taxes.

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

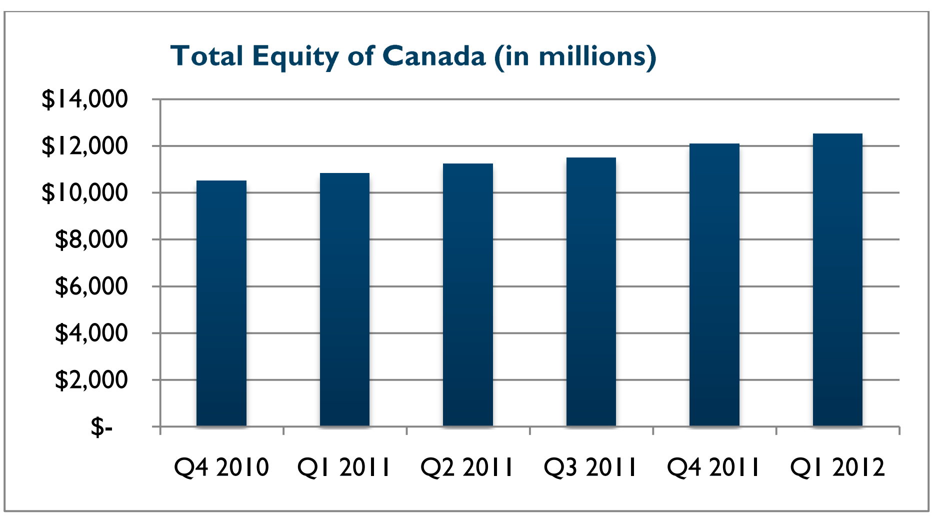
Retained Earnings related to the Mortgage Loan Insurance Activity are appropriated in accordance with the Capital Management Framework which is based on guidelines developed by OSFI. CMHC has Appropriated Retained Earnings as well as AOCI representing its capital holding target of 200% Minimum Capital Test (MCT). Mortgage Loan Insurance Capital Available resulted in a 215% MCT as at Q1 2012.

Retained Earnings related to the Securitization Activity are also appropriated based on regulatory and economic capital principles. CMHC has Appropriated Retained Earnings as well as AOCI representing 100% of its target capital.

Earnings in relation to CMHC's Lending Activity are retained to address interest rate risk exposures on pre-payable loans as well as credit risk exposure on the Municipal Infrastructure Lending Program loans. These Retained Earnings, referred to as the Reserve Fund, also include amounts representing unrealized fair market valuation changes of the Lending Activity investments as well as its portion of actuarial gains and losses from CMHC's defined post employment benefits.

The Reserve Fund for Lending is subject to a statutory limit of $240 million. Should the limit be exceeded, CMHC would be required to pay any excess to the Government of Canada.

As of 31 March 2012, Total Equity of Canada was $12,524 million, an increase of $433 million or 4% compared to 31 December 2011. This increase is primarily due to the Q1 2012 Net Income. Additional details can be found under Objective 2 of the Segmented Financial Results section.



STATEMENT OF INCOME AND COMPREHENSIVE INCOME HIGHLIGHTS

(in millions)	Three months ended 31 March		Variance
	2012	2011	
Revenues	**3,568**	3,763	(195)
Expenses	**2,973**	3,249	(276)
Income Taxes	**148**	135	13
Net Income	**447**	379	68
Other Comprehensive Income (Loss)	**(14)**	(33)	19
Comprehensive Income	**433**	346	87
RESOURCE MANAGEMENT			
Total Operating Expenses (included in Total Expenses above)	**122**	110	12
Staff-Years (Full Time Equivalent)	**467**	493	(26)

Revenues

Revenues for the three months ended 31 March 2012 were $3,568 million, a decrease of 5% ($195 million) compared to the same prior year period. This decrease is mainly a result of lower Housing Program Appropriations as Canada's Economic Action Plan (CEAP) ended 31 March 2011 and lower interest income from NHA MBS resulting from lower interest rates in the NHA MBS and CMB programs. These decreases were partially offset by an increase in unrealized gains on financial instruments caused by the consolidation of a foreign equity mutual fund investment in late 2011. Further information is provided under Objective 2.

Both the decrease in Housing Programs appropriations and Interest Income led to a corresponding decrease in Expenses and therefore had no impact on Net Income.

Expenses

Expenses for the three months ended 31 March 2012 were $2,973 million, a decrease of 9% ($276 million) compared to the same prior year period. These results are mainly driven by lower Housing Program Expenses and lower CMB Interest Expenses as explained above, as well as lower Net Claims. The decrease in Net Claims is due to a decrease in the number of mortgage loans in arrears in the last 3 months.

Revenue and Expense variations are further explained in the Segmented Financial Results section of the MD&A.

Net Income

As a result of the above, reported Net Income (after taxes) for the quarter increased by $68 million (18%) when compared to the first quarter last year.

Other Comprehensive Income (Loss)

CMHC's Other Comprehensive Income (OCI) consists of unrealized gains or losses caused by changes in the fair valuation of AFS investments in the Mortgage Loan Insurance and Securitization Activities. As these investments are classified as "Available for Sale", 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 post-employment benefits.

Total Other Comprehensive Income for the three months ended 31 March 2012 was negative $14 million, an improvement of 58% from the negative $33 million it was for the same prior year period. The OCI improvement is mainly attributable to higher net unrealized gains from available for sale financial instruments due to more favourable returns on equity investments. These higher returns were partially offset by higher net actuarial losses from post-employment benefits caused by the decline in the discount rate assumption for these benefits, partially offset by an increase in the pension fund return on assets.

Resource Management

Operating Expenses for the three months ended 31 March 2012 were $122 million, an increase of $12 million when compared to the same prior year period. This increase was mainly a result of both a decline in the discount rate applied to pension expense and an increase in net actuarial losses. The Housing Program recovery of actuarial gains and losses on post-employment benefits flows through operating expenses and is recovered through appropriations on an amortized basis.

The 2012 pension expense is expected to be higher than plan for the remainder of the year.

Staff-years consumed decreased by 5% (26 staff-years) in the three months ended 31 March 2012 compared to the prior year period. The decrease is primarily a result of lower Mortgage Loan Insurance activities and the scheduled termination of the Canada's Economic Action Plan on 31 March 2011.

DISCLOSURE OF CHANGES IN ACCOUNTING POLICIES

CMHC's significant accounting policies and changes in accounting policies are described in Note 2 of the unaudited Quarterly Consolidated Financial Statements.

The Corporation's significant accounting policies conform to International Financial Reporting Standards (IFRS) effective as at 31 December 2011, 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 Corporations allows Management the option to only adopt new or changed policies for the first time at year end.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Judgments in Applying Accounting Policies

In the process of applying CMHC's accounting policies, Management is required to make various judgments that can significantly affect the amounts recognized in the financial statements. The judgments having the most significant effects on the financial statements are disclosed in Note 4 of the unaudited Quarterly Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of the unaudited 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 disclosure. These estimates and underlying assumptions are reviewed on an on-going basis. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods. For a description of CMHC's critical assumptions and estimates, see Note 4 of the unaudited Quarterly Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

The following new standards and amendments have been issued by the International Accounting Standards Board ("the IASB"), which have been assessed as having a possible impact on CMHC in the future:

IAS 19, *Employee Benefits*

On 16 June 2011, the IASB issued amendments to IAS 19 *Employee Benefits*.

Amendments to IAS 19 eliminate the "corridor method" and improve the recognition, presentation and disclosure requirements for the defined benefit plans. As the Corporation has adopted the change from the corridor method upon implementation of IFRS, this component of the amendment will not affect the Corporation's unaudited Quarterly Consolidated Financial Statements. The Corporation's analysis of the other changes indicates that the amendments will result in an overall change in pension expenses reflected in Net Income with a corresponding offset in actuarial gains and losses recognized in Other Comprehensive Income. This change is due to the discount rate being applied to the plan assets to calculate the estimated return by the plan rather than the expected rate of return that was previously allowed. These amendments also include enhanced disclosure requirements.

The new requirements are effective 1 January 2013.

IFRS 13, *Fair Value Measurement*

On 13 May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (IFRS 13).

IFRS 13 defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. While IFRS 13 does not introduce any new requirements, it reduces complexity and improves consistency by clarifying the definition of fair value and requiring its application to all fair value measurements.

Based on our assessment of this new standard, the Corporation anticipates that certain CMHC real estate property will result in an increase in fair value with an increase in CMHC's Net Income.

These amendments will also include enhanced disclosure requirements relating to fair value measurement.

The new requirements are effective 1 January 2013.

IAS 1, *Presentation of Financial Statements*

On 16 June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. The amendments require the components of Other Comprehensive Income to be presented in two categories: items being reclassified to Net Income in subsequent periods and items that will not be reclassified to Net Income.

These amendments are effective for annual periods beginning on or after 1 July 2012, which will be 1 January 2013 for CMHC, and are to be applied retrospectively. These amendments are not expected to have a material impact on CMHC's Consolidated Financial Statements.

In addition, the following pronouncements, listed by applicable annual accounting period effective date, are being assessed to determine their impact on CMHC's results and Consolidated Financial Statements:

Standard or Amendment		Description	Effective for annual periods beginning on or after
IFRS 7	*Financial Instruments Disclosure*	IFRS 7 has been amended to provide common disclosure requirements that enable users of financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP.	1 January 2013
IFRS 10	*Consolidated Financial Statements*	IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statement* and SIC 12 *Consolidation – Special Purpose Entities* and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, including special purpose entities.	1 January 2013
IFRS 11	*Joint Arrangements*	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 arrangements.	1 January 2013
IFRS 12	*Disclosure of Interest in Other Entities*	IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.	1 January 2013
Amendments to IAS 32	*Financial Instruments: Presentation*	IAS 32 has been amended to clarify the application of the offsetting requirements.	1 January 2014
IFRS 9	*Financial Instruments*	IFRS 9 reflects the first phase of the replacement of the current IAS 39 *Financial Instruments: Recognition and Measurement*. It uses a single approach to determine whether a financial instrument 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 instruments.	1 January 2015

SEGMENTED FINANCIAL RESULTS

Financial analysis is provided for the following activities: Housing Programs and Lending Activity, Mortgage Loan 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 2011 Annual Report.

Objective 1 – Help Canadians in need

CMHC's authority to spend public funds under the Housing Programs is provided by the Government of Canada through annual Parliamentary appropriations. The majority of this funding supports programs to address the housing needs of Canadians living off-reserve and First Nations people living on-reserve. In addition, other housing-related activities supported by this funding include market analysis, and research and information transfer. Analysis of CMHC's Housing Programs expenses and Lending Activities are provided below.

HOUSING PROGRAMS

On an annual basis, the Corporation spends approximately $2 billion (excluding Canada's Economic Action Plan (CEAP)) to assist Canadians in need. Approximately $1.7 billion of the $2 billion is related to on-going, 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 Programs expenses from 2009 to 2011. Under CEAP, CMHC fully delivered $1.925 billion in social housing for the creation of new affordable housing and the renovation and retrofit of existing social housing.

(in millions)	Three months ended 31 March		
	2012	2011	Variance
Housing Program Expenses	**646**	764	(118)
Operating Expenses	**37**	31	6
Total Appropriations	**683**	795	(112)

Appropriation spending for the three months ended 31 March 2012 was $683 million, consisting of $646 million in Housing Programs Expenses and $37 million in Operating Expenses. For the three months ended 31 March 2012, Housing Programs Expenses decreased by 15% ($118 million) compared to the same prior year period. The decrease is primarily due to the termination of CEAP funding as at 31 March 2011 and lower spending under the two-year extension of the Affordable Housing Initiative (AHI) and renovation programs. This was partially offset by new spending under the Investment in Affordable Housing (2011-2014) Framework.

Related Operating Expenses increased by 19% ($6 million) in the three months ended 31 March 2012 compared to the same prior year period. This increase is mainly driven by higher pension expenses caused by the decline in the discount rate assumption.

REPORTING ON USE OF APPROPRIATIONS

CMHC receives funds from the Government of Canada through parliamentary appropriations for Housing Programs expenditures, including operating expenses. Total appropriations recognized as of 31 March 2012 amounted to $683 million (see Note 7 of the unaudited Quarterly Consolidated Financial Statements).

Housing Programs 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 (31 March) with the total amount recognized year-to-date by the Corporation in its calendar year.

	Three months ended 31 March	
(in millions)	**2012**	**2011**
Amounts provided for Housing Programs:		
Amounts authorized in 2011/12 (2010/11)		
Main estimates	**1,907**	3,131
Supplementary estimates A[1,2]	**256**	-
Supplementary estimates B[1]	**-**	-
Supplementary estimates C[1]	**-**	2
Unused Statutory Authorities	**(1)**	(1)
	2,162	3,132
Less: Portion recognized in calendar 2011 (2010)	**(1,365)**	(2,165)
Less: *Appropriations lapsed for 2011/12 (2010/11)*	***(114)***	*(169)*
2011/12 (2010/11) portions recognized in 2012 (2011)	**683**	798
Amounts authorized in 2012/13 (2011/12)		
Main estimates	**2,140**	1,907
Supplementary estimates A[1, 2]		256
Supplementary estimates B[1]	**-**	-
Supplementary estimates C[1]	**-**	-
	2,140	2,163
Less: Portion to be recognized in subsequent quarters	**(2,140)**	(2,163)
2012/13 (2011/12) portions recognized in 2012 (2011)	**-**	-
Total appropriations recognized - three months ended 31 March	**683**	798

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

[2] 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.

Total appropriations for fiscal year 2011-2012 were $2,162 million. The total spending against this reference level as at 31 March 2012 was $2,048 million (95%). CMHC's recognized lapse for fiscal year 2011-2012 is $114 million. The under-spending of appropriations for fiscal year ended 2011-2012 is primarily due to lower interest and inflation rates and revised spending patterns for various programs and initiatives funded under the Housing Programs.

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 for social housing, it may be on-reserve or off-reserve. The majority of Lending Activity revenue is earned from interest income on the loan portfolio.

Through its lending activities, CMHC is able to lower the cost of government assistance required for social housing projects. These loans can be offered at lower interest rates because CMHC borrows funds through the Crown Borrowing Program and operates its social housing lending program at break-even levels.

In order to operate this program on a break-even basis, loans are generally closed to prepayment. Where prepayment is contractually available, CMHC applies the terms and conditions of its loan security documents including the application of early payout charges as applicable.

CEAP provided $2 billion in direct low-cost loans to municipalities 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.

	Three months ended 31 March		
(in millions)	**2012**	**2011**	**Variance**
Interest income	**158**	169	(11)
Net Unrealized Gains (Losses) from Financial Instruments	**(6)**	-	(6)
Other Income (Expense)	**6**	3	3
Interest Expense	**153**	162	(9)
Operating Expenses	**5**	5	-
Income Taxes	**(1)**	1	(2)
Net Income (Loss)	**1**	4	(3)

For the three months ended 31 March 2012, total Net Income from the Lending Activity was $1 million, a decrease of $3 million compared with the first quarter last year. This decrease was mainly driven by higher unrealized losses of $6 million resulting from the fair valuation of investments, mainly fixed income, caused by an increase in interest rates in Q1 2012.

The above decreases in Net Income were partially offset by an increase in Other Income due to higher recoveries of post-employment benefits. The reimbursement of these expenses are included in Other Income in the Lending activity and recovered from the Government of Canada through Housing Programs appropriations.

Earnings in relation to CMHC's Lending Activity are retained in a Reserve Fund. The Reserve Fund is subject to a statutory limit (refer to CMHC's 2011 Annual Report). The components of this Reserve Fund are shown in the table below.

(in millions)	As at		Variance
	31 March 2012	31 December 2011	
Reserve for Unrealized Gains and (Losses)	**(104)**	(101)	(3)
Reserve for All Other Lending-Related Items	**106**	105	1
Reserve Fund for Lending	**2**	4	(2)

The objective of the Reserve for Unrealized Gains and Losses is to absorb unrealized fair market valuation changes of financial instruments as well as other unrealized gains and losses incurred from the Lending Activity. This reserve has decreased over the last three months largely as a result of net unrealized losses on financial instruments.

The Reserve for All Other Lending-Related Items is kept by the Corporation as part of its strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on the MILP loans. This Reserve has remained relatively stable when compared to 31 December 2011.

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

MORTGAGE LOAN INSURANCE ACTIVITY

In Canada, federally-regulated lenders are required to insure residential mortgage loans when borrowers have less than a 20% down payment. These mortgages are often referred to as high ratio loans. Mortgage loan insurance is available from CMHC and from private mortgage loan insurers. 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 a range of housing options and contributes to a strong and stable housing system.

CMHC's portfolio insurance on low ratio mortgage loans with down payments of 20% or more is not mandatory but supports lenders' risk and capital management strategies, as well as mortgage market liquidity in Canada by providing lenders with securitization-ready assets.

CMHC operates its mortgage loan insurance business on a commercial basis. The premiums and fees collected and interest earned must cover related claims and other expenses, as well as provide a reasonable rate of return to the Government of Canada. Over the past decade, CMHC's insurance business has contributed more than $13 billion to improving the Government's fiscal position.

Prudent underwriting practices and excellent client service have enabled the Corporation to maintain its position of strength in the marketplace in good economic times and bad. Economic and housing market stability are further reinforced by CMHC's work with industry partners to improve financial literacy through online tools and publications, helping to ensure that Canadians make informed and responsible decisions regarding their housing options.

INSURANCE VOLUMES

Measures	Three months ended 31 March 2012	2011	Variance
Total Insured Volumes (units)	**114,045**	127,429	(13,384)
Total Insured Volumes ($M)	**18,954**	21,032	(2,078)
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	**42.9%**	43.6%	(0.7) pt

CMHC's insured loan volumes are influenced by the economy, housing markets, competitive pressures and the regulatory environment. CMHC's market share increased somewhat in the final quarter of 2011, ending the year slightly higher than a year ago. Changes announced by the Government of Canada in early 2011 regarding the types of mortgages that can be insured and hence backstopped by the government, including lowering the maximum amortization period for high ratio mortgages and the maximum loan permitted when refinancing a home, reduced the size of the high ratio homeowner mortgage loan insurance market.

Largely due to these changes, CMHC's refinance volumes in Q1 2012 were approximately 20% lower than in Q1 2011, contributing in large part to the 10.5% decline in overall insured volumes over the same period. Multi-unit volumes are approximately 15% lower year-over-year which also contributed to the overall decline.

Both homeowner and multi-unit residential insurance volumes are expected to remain stable or decline marginally for the remainder of 2012.

CMHC'S INSURANCE-IN-FORCE

	As at 31 March 2012	2011	Variance
Total ($B)	**569.6**	517.7	51.9
High Ratio Homeowner	**283.2**	264.0	19.2
Low Ratio Portfolio	**247.6**	222.6	25.0
Multi-unit Residential	**38.8**	31.1	7.7

CMHC's total insurance-in-force increased to approximately $570 billion at the end of the first quarter of 2012, approximately 10% higher than total insurance-in-force at the same time in 2011. Approximately 43% of CMHC's current insurance-in-force results from low ratio portfolio activity consisting of loans with an original loan-to-value of 80% or less. Portfolio insurance provides lenders with the ability to purchase insurance on pools of previously uninsured low ratio mortgages. These insured mortgages can be securitized, providing lenders with liquidity. In order not to affect the availability of CMHC's mortgage loan insurance for qualified homebuyers or for borrowers wishing to finance multi-unit properties, CMHC has reduced access to its portfolio insurance product.

Going forward, as CMHC continues to provide mortgage loan insurance to qualified homebuyers, multi-unit borrowers and through allocated amounts of portfolio insurance, increases in the Corporation's insurance-in-force will continue to be off-set by insured mortgages being paid off. CMHC expects mortgage repayments to continue at a rate of approximately $60 billion per year.

FINANCIAL ANALYSIS

Revenues from the Mortgage Loan Insurance Activity are comprised of insurance premiums, application fees for insuring loans for 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 loan 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) (unless otherwise indicated)	Three months ended 31 March 2012	 2011	Variance
Premiums, Fees and Other Income earned	**426**	418	8
Investment Income	**146**	148	(2)
Net Unrealized Gains (Losses) from Financial Instruments	**51**	2	49
Net Realized Gains (Losses) from Financial Instruments	**61**	72	(11)
Interest Expense	**1**	1	-
Operating Expenses	**56**	48	8
Net Claims are comprised of:			
Losses on Claims	**154**	155	(1)
Change in Provision for Claims	**(35)**	(7)	(28)
Income Taxes	**126**	117	9
Net Income	**382**	326	56
Average Claim Paid ($ thousands)	**66**	62	4
Premiums and Fees Received (total):	**304**	340	(36)
Homeowner	**84%**	82%	2 pts
Multi-unit Residential	**16%**	18%	(2) pts
Operating Expense Ratio (per cent)	**13%**	12%	1 pt
Severity Ratio[1] (per cent)	**31%**	32%	(1) pt

[1] The Severity Ratio is the ratio of the loss on claim compared to the original insured loan amount for claims paid in the period.

Mortgage Loan Insurance Net Income for the quarter was $382 million, $56 million (17%) higher than in the same period last year generating the increase in Retained Earnings in the first quarter of 2012. The increase is largely due to higher Net Gains from Financial Instruments, and a decrease in Net Claims expense.

Earned Premiums and Fees in Q1 2012 remained relatively stable compared to the same period in 2011. In keeping with the decline in overall insured volumes, Premiums and Fees received in Q1 2012 were approximately $304 million; $36 million (11%) lower than the same period in 2011. This was due to the changes announced by the Government of Canada in early 2011 regarding the types of mortgages that can be insured and hence backstopped by the government, which reduced refinance volumes. Reduced multi-unit and portfolio insurance volumes also contributed to the overall decline.

Net Unrealized Gains from Financial Instruments of $51 million increased by $49 million in Q1 2012 compared to the same period last year due to the consolidation of a foreign equity mutual fund investment in late 2011. The consolidation resulted in a reclassification of the investment from Available for Sale to Held for Trading in order to be consistent with the accounting policy of the underlying consolidated securities.

Net Realized Gains from Financial Instruments were $11 million (15%) lower in Q1 2012 compared to Q1 2011 due to a decrease in sales of investments. The result of lower sales is primarily due to the impact of lower equity markets which was slightly offset by higher bond markets on a year over year basis.

Net Claims, comprised of the Change in Provision for Claims and Losses on Claims were $119 million in Q1 2012; $29 million (20%) lower than in the same period last year. Losses on Claims were stable. The Provision for Claims is an estimate of losses on mortgages that are already in arrears but have not been reported as a claim by the lender. It is an estimate because many of these mortgages will benefit from CMHC work-outs allowing borrowers to remain in their homes. The larger decline in the Provision for Claims in Q1 2012 (negative $35M) compared to Q1 2011(negative $7M) is due to a decrease in the number of loans in arrears in the first quarter of 2012.

The severity ratio is the ratio of the loss on claims compared to the original insured loan. This ratio declined as claims paid and sale proceeds improved relative to loan amounts going to claim.

(in millions) (unless otherwise indicated)	As at 31 March 2012	As at 31 December 2011	Variance
Mortgage Loan Insurance Retained Earnings	**10,676**	10,299	377
Mortgage Loan Insurance Appropriated Capital:			
Appropriated Retained Earnings	**9,856**	9,028	828
Accumulated Other Comprehensive Income (loss)	**878**	884	(6)
Total Appropriated Capital	**10,734**	9,912	822
Unappropriated Retained Earnings	**820**	1,271	(451)
Total Equity	**11,554**	11,183	371
Capital Available to Minimum Capital Required (100% MCT)	**215%**	226%	(11) pts
CMHC's Internal Capital Target (% MCT)	**175%**	150%	25 pts
CMHC's Capital Holding Target (% MCT)	**200%**	200%	-

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 insurance.

The percentage MCT is the ratio of capital available to capital required. Capital required is calculated by applying OSFI risk factors to the Mortgage Loan Insurance Activity's assets and liabilities.

Effective 1 January 2012, new elements have been introduced by OSFI to the capital management guidelines related to mortgage loan insurance companies. These elements include refining the asset risk factors applied to balance sheet assets and adding a new capital factor for interest rate risk related to interest rate-sensitive assets and liabilities. These new elements are estimated to have the effect of reducing the 31 December 2011 MCT level of 226% MCT to 211 % MCT as at 1 January 2012.

These new elements are also responsible for the increase in Appropriated Capital from $9,912 million at 31 December 2011 to $10,734 million at 31 March 2012. This led to a corresponding decrease in Unappropriated Retained Earnings offset by Net Income in the first quarter.

Total Mortgage Loan Insurance Available Capital, consisting of Total Insurance Equity adjusted for Deferred Acquisition Costs and Unearned Premiums, resulted in a 215% MCT as at Q1 2012. This is more than twice the minimum capital required by OSFI, confirming that CMHC is well positioned to weather severe economic scenarios.

In the first quarter of 2012, CMHC's Board of Directors reviewed CMHC's capital targets and determined that while the capital holding target of 200% MCT remained a prudent and appropriate level for the Insurance business, the internal capital target should be increased from 150% MCT to 175% MCT.

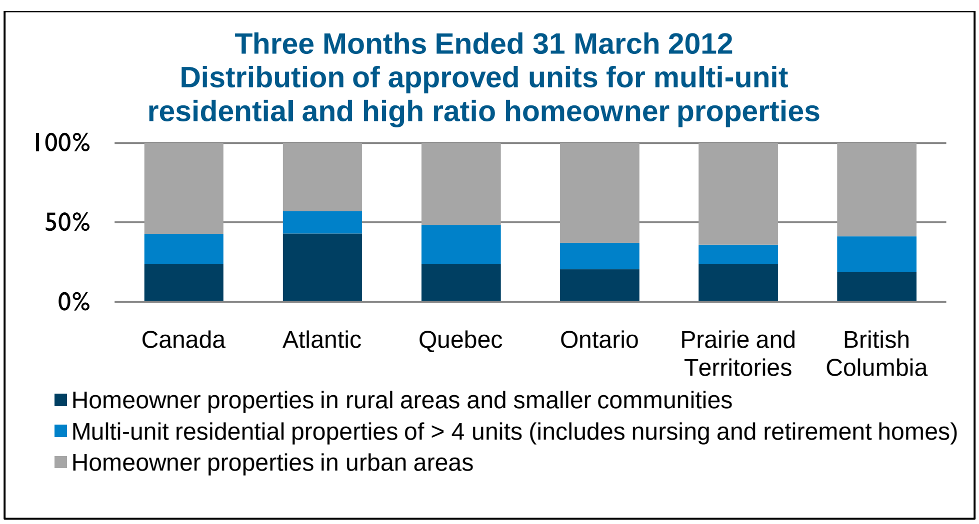
CMHC's Mortgage Loan Insurance Activity is fully capitalized with Appropriated Retained Earnings in Q1 2012 of $9,856 million and AOCI of $878 million. The new elements introduced by OSFI in January 2012, mainly the new capital factor for interest rate risk, gave rise to an increase of $822 million in total Appropriated Capital since 31 December 2011.

SERVING GAPS IN THE MARKETPLACE

CMHC contributes to Canada's strong housing finance system by providing qualified Canadians in all parts of the country with access to a range of housing options. This sets CMHC apart from private sector competitors which have the ability to select the markets they operate in and not serve those areas of the country or housing forms they deem to be less profitable.

The 10% difference in the government guarantee between CMHC and private insurers compensates CMHC for this difference.

CMHC continues to be the only mortgage loan insurer for large multi-unit residential properties including 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. Nearly 43% of CMHC's total rental and high ratio homeowner business in the first three months of 2012 was in markets or for housing options that are less well served or not served at all by the private sector. This is down marginally from 44% in the same period last year.



MANAGING RISK PRUDENTLY

The profile of CMHC's insurance-in-force at 31 March 2012 demonstrates the nature and level of risk associated with CMHC's mortgage loan insurance business. CMHC manages its mortgage loan 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 borrower, property and market risk factors including the level and source of down-payment and stringent credit requirements demonstrating the borrower's ability to manage their financial obligations.

The total outstanding insured amounts of all CMHC-insured loans may not exceed $600 billion. CMHC continues to manage its mortgage loan insurance business in accordance with this $600 billion limit.

As shown in the following table, based on updated property values, the vast majority of CMHC-insured mortgages currently have loan-to-value ratios of 80% or less. The average equity in CMHC's insured portfolio was 45% at 31 March 2012, the same as it was at the same time last year.

Distribution of homeowner Insurance-in-force by loan-to-value (LTV) ratio based on updated property value[1] (%)	As at 31 March			
	2012			2011
	High Ratio Homeowner	Low Ratio Portfolio	Overall	Overall
<=50%	9%	36%	23%	23%
>50.01% <=60%	5%	18%	12%	12%
>60.01% <=70%	12%	22%	17%	16%
>70.01% <=80%	28%	23%	25%	21%
>80.01% <=90%	31%	1%	16%	20%
>90.01% <=95%	13%	0%	6%	6%
>95.01%	2%	0%	1%	2%
Average updated loan-to-value	67%	44%	55%	55%
Average updated equity	33%	56%	45%	45%

[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 the time of mortgage approval for all CMHC-insured homeowner and multi-unit residential loans is below 25 years.

Distribution of Insurance-in-force by amortization (years)	As at 31 March			
	2012			2011
	High and Low Ratio Homeowner	Multi-unit Residential	Overall	Overall
Average amortization period at origination	25	22	24	24

As at 31 March 2012, the average outstanding loan amount for homeowners who took out high ratio loans above 80% loan-to-value at origination was $172,879, about 11% higher than the average outstanding loan amount remaining on portfolio insured low ratio loans. The figures reflect the regular amortization of loan balances as well as accelerated payments by borrowers.

Distribution of Insurance-in-force by loan amount ($)	As at 31 March				
	2012				2011
	High Ratio Homeowner	Low Ratio Portfolio	Multi-unit Residential (per unit)	Overall	Overall
Over $550,000	4%	6%	0%	5%	4%
Over $400,000 to $550,000	8%	8%	0%	8%	7%
Over $250,000 to $400,000	31%	26%	1%	26%	26%
Over $100,000 to $250,000	47%	46%	19%	45%	46%
Over $60,000 to $100,000	7%	9%	34%	9%	10%
Under $60,000	3%	5%	46%	7%	7%
Average outstanding loan amount	172,879	155,292	50,897	141,999	136,164

CMHC analysis shows that some 33% of CMHC-insured high ratio borrowers are consistently ahead of their scheduled amortization by at least one mortgage payment per year. The figure rises to 64% for those who are ahead of their payment schedule by any amount. Accelerated payments shorten the overall amortization period, reduce interest costs, increase equity in the home at a faster rate and lower risk over time.

MANAGING PORTFOLIO RISK THROUGH DIVERSIFICATION

Consistent with its mandate, CMHC provides mortgage loan insurance in all Canadian markets, spreading its insurance-in-force risk nationwide across all provinces and territories each with a distinct economic outlook.

Distribution of Insurance-in-force by Province (%)	As at 31 March				
	2012				2011
	High Ratio Homeowner	Low Ratio Portfolio	Multi-unit Residential	Overall	Overall
Ontario	37.9	46.5	38.7	41.8	42.7
British Columbia	12.5	20.3	13.2	16.0	16.4
Alberta	16.7	14.7	11.5	15.5	15.3
Quebec	20.0	11.3	27.1	16.7	15.9
Nova Scotia	2.7	1.7	3.1	2.3	2.3
Saskatchewan	2.6	1.9	1.5	2.2	2.1
Manitoba	3.1	1.7	2.8	2.4	2.2
New Brunswick	2.2	0.8	1.0	1.5	1.5
Newfoundland	1.5	0.8	0.3	1.1	1.1
Prince Edward Island	0.3	0.2	0.2	0.2	0.2
Territories	0.5	0.1	0.6	0.3	0.3

MANAGING PORTFOLIO QUALITY THROUGH PRUDENT UNDERWRITING

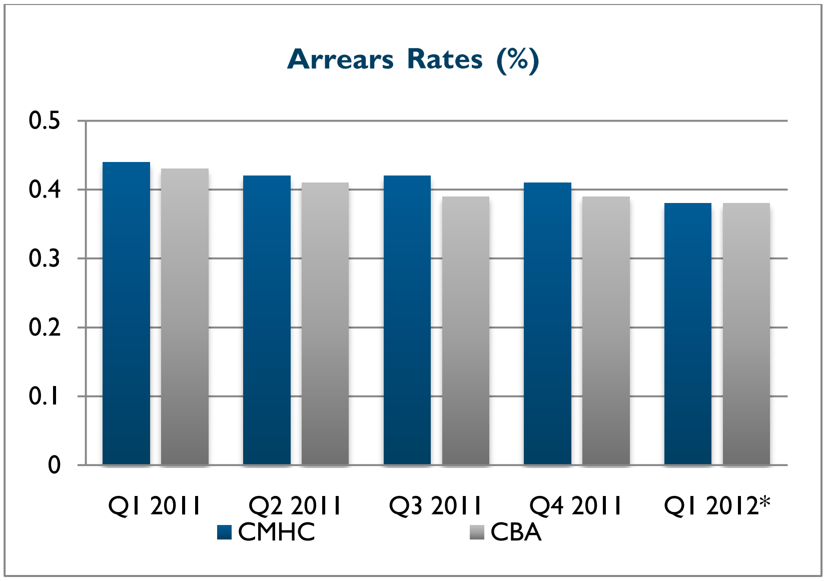
Canadian credit scores generally range between 300 and 900. The higher the score, the lower the credit risk presented by a mortgage loan application.

Distribution of Insurance-in-force by Credit Score at Origination (%)	As at 31 March			
	2012		2011	
	High-Ratio Homeowner	Low-Ratio Portfolio	High-Ratio Homeowner	Low-Ratio Portfolio
No score	1%	1%	2%	2%
= 0 < 600	1%	1%	1%	1%
>=600 < 660	9%	5%	10%	6%
>=660 < 700	16%	10%	16%	11%
>=700	73%	83%	71%	80%
Average Credit Score at Origination	724	753	722	750

Distribution of Approved Loans by Credit Score at Origination (%)	As at 31 March			
	2012		2011	
	High-Ratio Homeowner	Low-Ratio Portfolio	High-Ratio Homeowner	Low-Ratio Portfolio
No score	0%	0%	0%	0%
= 0 < 600	0%	1%	0%	1%
>=600 < 660	8%	3%	8%	5%
>=660 < 700	15%	8%	16%	10%
>=700	77%	88%	76%	84%
Average Credit Score at Origination	736	759	733	754

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 724 for CMHC's high-ratio homeowner insurance-in-force at 31 March 2012. The high average credit score also demonstrates a strong ability among homebuyers with CMHC-insured mortgages to manage their debts.

The strength of CMHC's mortgage loan insurance portfolio is further demonstrated in its mortgage arrears rate. At 0.38%, CMHC's mortgage arrears rate is in line with the industry trend as reported by the Canadian Bankers' Association (CBA).



* Latest available CBA arrears rate is for January 2012.

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.

SECURITIZATION ACTIVITY AND CHT

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

CMHC's securitization programs guarantee the timely payment of interest and principal of NHA 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 provide investors with the opportunity to hold high-quality, secure investments in Canadian residential mortgages. This enhances efficiency and increases competition in the mortgage market which contributes to lower funding costs for mortgages.

Through the CMB program, the Canada Housing Trust (CHT) sells CMB to domestic and international investors and uses the proceeds to purchase NHA MBS. This further enhances the supply of low-cost mortgage funds for Canadians.

The NHA MBS and CMB programs are important pillars of Canadian financial institutions' diversified mortgage 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. The end result of these programs is that Canadians seeking mortgage financing benefit from enhanced competition in the mortgage market.

SECURITIES GUARANTEED

Measures	31 March 2012	31 March 2011
Securities Guaranteed ($M)	**28,784**	20,937
Market NHA MBS	**18,284**	9,687
CMB	**10,500**	11,250
Operating expense ratio (ex IMPP)	**5.0%**	5.1%
Per cent of residential mortgages securitized (ex IMPP)[1]	**28.3%**	26.8%

[1] Information as at January 2012

For the three months ended 31 March 2012, a total of $29 billion of low-cost mortgage funds were provided to mortgage lenders through securities guaranteed by CMHC. This is higher than the $21 billion guaranteed in the three months ended 31 March 2011.

Under the NHA MBS program, financial institutions issued and CMHC guaranteed more than $18 billion in market NHA MBS in the three months ended 31 March 2012. Under the CMB program, CMHC guaranteed approximately $11 billion in Canada Mortgage Bonds in the three months ended 31 March 2012.

The following table summarizes the CMB and Insured Mortgage Purchase Program issuances and maturities at 31 March 2012.

(in billions)	CMB 31 March 2012	CMB 31 March 2011	IMPP[1] 31 March 2012	IMPP[1] 31 March 2011
Opening Balance	**201**	196	**55**	59
Issuances/ Purchases	**11**	11	**0**	0
Maturities	**0**	12	**0**	1
Closing Balance	**212**	195	**55**	58

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

CMHC's guarantees-in-force totalled $373 billion as at 31 March 2012 compared with $326 billion for the same period last year. CMHC's authorized guarantees-in-force limit is $600 billion.

(in millions) (unless otherwise indicated)	Three months ended 31 March 2012	Three months ended 31 March 2011	Variance
SECURITIZATION			
Interest Income from NHA MBS-Loans and Receivables	**426**	444	(18)
Fees and Other Income	**61**	53	8
Income from Investment Securities	**9**	10	(1)
Net Unrealized Gains (Losses) from Financial Instruments	**3**	-	3
Net Realized Gains (Losses) from Financial Instruments	**35**	5	30
Interest Expenses	**426**	444	(18)
Operating Expenses	**3**	3	-
Income Taxes	**27**	17	10
Net Income	**78**	48	30

For the three months ended 31 March 2012, Securitization Net Income increased by 63% ($30 million) compared to the same prior year period. This increase is mainly attributable to higher realized gains on sales of investments as well as higher Earned Guarantee Fees due to a greater volume of guarantees-in-force.

(in millions) (unless otherwise indicated)	31 March 2012	31 December 2011	Variance
Securitization Appropriated Capital:			
Appropriated Retained Earnings	**783**	699	84
Accumulated Other Comprehensive Income	**27**	57	(30)
Total Appropriated Capital	**810**	756	54
Unappropriated Retained Earnings	**246**	252	(6)
Securitization Retained Earnings	**1,029**	951	78
% of Equity against Target Capital	**130%**	133%	(3) pts

CMHC's Securitization capitalization methodology is based on regulatory and economic capital principles. Total Securitization Retained Earnings at 31 March 2012 were $1,029 million of which $783 million was appropriated for capitalization. Target Capital increased from $756 million as of 31 December 2011 to $810 million as of 31 March 2012, due to the new capital factor for interest rate risk introduced by OSFI effective 1 January 2012, mainly the margin for interest rate risk. As at 31 March 2012, the Securitization Activity had Appropriated Retained Earnings and AOCI representing 100% of its Target Capital.

(in millions) (unless otherwise indicated)	Three months ended 31 March		
	2012	2011	Variance
CHT			
Interest Income from NHA MBS/Loans Receivable	**1,536**	1,639	(103)
Fees and Other Income	**45**	48	(3)
Interest Expenses	**1,533**	1,636	(103)
Operating Expenses	**48**	51	(3)
Net Income	**-**	-	-

Interest Income and Interest Expense from CHT's NHA MBS and CMB, for the three months ended 31 March 2012, decreased by 6% compared to the same period in 2011. This decrease was a result of lower interest rates in the NHA MBS and CMB programs.

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 maintains a structured approach to Enterprise Risk Management (ERM).

Enterprise Risk Management Framework

In March 2012, the Board approved a consolidated ERM policy. This ERM Framework ensures a coordinated structured approach to managing the Corporation's risk management governance and operating principles across all business activities at CMHC.

Significant New Risks and Opportunities

As outlined in the operating environment section of this report, the March 2012 Federal Budget contained a number of proposals relating to the governance and oversight framework of CMHC, and covered bonds. The impact of these proposals will be assessed once the legislation is passed.

The notes to the quarterly financial statements include details on market, credit and liquidity risks. Following are details of significant changes to risks reported in the 2011 Annual Report as well as significant new risks which may have emerged in the last quarter. These risks and related risk mitigation strategies associated with CMHC Lending, Mortgage Loan Insurance and Securitization Activities are described in further detail below.

Lending Activity

Lending Activity has not experienced any significant changes to credit, prepayment and interest rate risk during the quarter.

Mortgage Loan Insurance Activity

In the fall of 2011, OSFI announced revised MCT guidelines to be effective 1 January 2012. In the first quarter of 2012, CMHC's Board of Directors reviewed CMHC's capital targets and determined that while the capital holding target of 200% MCT remained a prudent and appropriate level for the mortgage loan insurance business, the internal capital target should be increased from 150% MCT to 175% MCT. Actual capital is currently in excess of the 200% capital holding target.

In March 2012, OSFI released Draft Guidance on Residential Mortgage Underwriting Practices. Once these guidelines are finalized and issued they will likely result in some more standardized mortgage underwriting practices in the industry.

Securitization Activity

There were no program changes or changes in liquidity and available capital that significantly impacted the risk exposures to the Securitization Activities during the quarter.

CHANGES IN KEY PERSONNEL

The following changes occurred within CMHC's Board of Directors and senior management in the first quarter:

On 17 January 2012, a new management organization was established for CMHC in order to recognize changes in CMHC's operating environment and continue CMHC's strong focus on governance and risk management. Changes to the organization structure resulted in the following appointments:

- Sylvie Crispo – Vice-President, Insurance Product and Business Development
- Steven Mennill – Vice-President, Policy, Research and Planning
- Pierre Serré – Vice-President and Chief Risk Officer
- Douglas Stewart – Vice-President, Regional Operations and Assisted Housing
- Gail Tolley – Vice-President, Human Resources, Communications and Marketing
- Wojo Zielonka – Vice-President, Capital Markets

On 28 March 2012, Dino Chiesa's term as Chairperson of CMHC's Board of Directors came to an end. The Government of Canada has initiated the process of recruiting the next Chairperson of CMHC's Board of Directors, and will announce the successful candidate once this process is concluded. In the meantime, Sophie Joncas, currently Vice-Chairperson, is serving as Interim Chairperson of the Board.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2012

Management is responsible for the preparation and fair presentation of these unaudited 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 are necessary to enable the preparation of unaudited 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 unaudited 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 unaudited 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 May 2012

Consolidated Balance Sheet

(in millions of Canadian dollars)	Notes	31 March 2012	31 December 2011
ASSETS			
Cash and Cash Equivalents		**1,993**	1,401
Securities Purchased Under Resale Agreements		**46**	-
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		**899**	903
Held for Trading		**414**	397
Available for Sale		**17,391**	17,549
Investment in NHA Mortgage-Backed Securities:			
Loans and Receivables	6	**266,574**	256,655
Loans:			
Designated at Fair Value through Profit or Loss		**6,954**	7,132
Other		**4,598**	4,726
Investments in Housing Programs		**793**	808
Accrued Interest Receivable		**1,912**	983
Deferred Income Tax Assets		**62**	78
Derivatives		**132**	169
Due from the Government of Canada	7	**528**	403
Accounts Receivable and Other Assets		**760**	686
		303,056	291,890
LIABILITIES			
Securities Sold Under Repurchase Agreements		**497**	272
Borrowings:	9		
Canada Mortgage Bonds		**209,812**	199,373
Capital Market Borrowings		**2,173**	2,203
Borrowings from the Government of Canada:			
Designated at Fair Value through Profit or Loss		**6,506**	6,584
Other		**60,209**	60,963
Accrued Interest Payable		**1,778**	860
Derivatives		**60**	72
Accounts Payable and Other Liabilities		**1,342**	1,172
Provision for Claims	10	**1,006**	1,041
Unearned Premiums and Fees		**7,149**	7,259
		290,532	279,799
Commitments and Contingent Liabilities	19		
EQUITY OF CANADA			
Contributed Capital		**25**	25
Accumulated Other Comprehensive Income (Loss)		**896**	902
Retained Earnings		**11,603**	11,164
		12,524	12,091
		303,056	291,890

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

Consolidated Statement of Income and Comprehensive Income

(in millions of Canadian dollars)	Notes	Three Months Ended 31 March 2012	2011
REVENUES			
Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables		**1,962**	2,083
Premiums and Fees		**483**	468
Interest Earned on Loans and Investments in Housing Programs		**149**	161
Income from Investment Securities		**152**	150
Net Realized Gains (Losses) from Financial Instruments	12	**65**	77
Net Unrealized Gains (Losses) from Financial Instruments	12	**46**	3
Other Income		**28**	26
		2,885	2,968
Parliamentary Appropriations for:	7		
Housing Programs		**646**	764
Operating Expenses		**37**	31
		683	795
		3,568	3,763
EXPENSES			
Interest Expense	9	**2,086**	2,227
Housing Programs	7	**646**	764
Net Claims		**119**	148
Operating Expenses		**122**	110
		2,973	3,249
INCOME BEFORE INCOME TAXES		**595**	514
INCOME TAXES	11		
Current		**133**	122
Deferred		**15**	13
		148	135
NET INCOME		**447**	379
OTHER COMPREHENSIVE INCOME (LOSS)			
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments (net of tax)		**53**	(9)
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income (net of tax)		**(59)**	(54)
Net Actuarial Gains (Losses) on Post-Employment Benefits (net of tax)		**(8)**	30
		(14)	(33)
COMPREHENSIVE INCOME		**433**	346

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

Consolidated Statement of Equity of Canada

Three months ended 31 March (in millions of Canadian dollars)	Contributed Capital	Unappropriated	Appropriated: Mortgage Loan Insurance	Appropriated: Securitization	Reserve Fund for Lending	Total Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Retained Earnings and Accumulated Other Comprehensive Income	Total Equity of Canada
Balance, 1 January 2012	**25**	1,446	9,028	699	(9)	**11,164**	**902**	**12,066**	**12,091**
Income Tax Benefit on Earnings Set Aside for Capitalization	-	-	-	-	-	-	-	-	-
Net Income (Loss)	-	448	-	-	(1)	447	-	447	447
Other Comprehensive Income (Loss)	-	(5)	-	-	(3)	(8)	(6)	(14)	(14)
Set Aside for Capitalization	-	(912)	828	84	-	-	-	-	-
Balance at End of period 31 March 2012	**25**	977	9,856	783	(13)	**11,603**	**896**	**12,499**	**12,524**
Balance, 1 January 2011	**25**	839	8,201	707	68	9,815	601	10,416	10,441
Income Tax Benefit on Earnings Set Aside for Capitalization	-	-	-	-	-	-	-	-	-
Net Income (Loss)	-	375	-	-	4	379	-	379	379
Other Comprehensive Income (Loss)	-	16	-	-	14	30	(63)	(33)	(33)
Set Aside for Capitalization	-	(50)	50	-	-	-	-	-	-
Balance at End of period 31 March 2011	**25**	1,180	8,251	707	86	**10,224**	**538**	**10,762**	**10,787**

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

Consolidated Statement of Cash Flows

(in millions of Canadian dollars)	Notes	Three Months Ended 31 March 2012	2011
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net Income		**447**	379
Items Not Affecting Cash or Cash Equivalents:			
Amortization of Premiums and Discounts on Financial Instruments		**28**	15
Deferred Income Taxes		**16**	13
Change in Fair Value of Financial Instruments Carried at Fair Value		**(46)**	(3)
(Gain) Loss on Sale of Securities	12	**(65)**	(77)
Net Change in Non-cash Operating Assets and Liabilities			
Accounts Receivable and Other Assets		**(65)**	(254)
Accrued Interest Receivable		**(929)**	(537)
Due from the Government of Canada		**(125)**	(68)
Unearned Premiums and Fees		**(110)**	(72)
Provision for Claims		**(35)**	(7)
Accounts Payable and Other Liabilities		**170**	34
Accrued Interest Payable		**918**	546
Derivatives		**(2)**	4
Other		**(33)**	59
Net Change from Loans and Investments in Housing Programs		**249**	(550)
Net Change in NHA MBS Loans and Receivables		**(9,909)**	2,179
Repayments of Capital Market Borrowings	9	**-**	-
Borrowings from the Government of Canada Designated at Fair Value through Profit of Loss and Other:	9		
Issuances		**442**	1,818
Repayments		**(1,205)**	(2,175)
Canada Mortgage Bonds:	9		
Issuances		**10,504**	11,247
Repayments		**-**	(12,450)
		250	101
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Investment Securities:			
Sales and Maturities		**3,329**	4,295
Purchases		**(3,166)**	(4,114)
Change in Securities Purchased Under Resale Agreements		**(46)**	-
		117	181
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Change in Securities Sold Under Repurchase Agreements		**225**	218
		225	218
Increase (Decrease) in Cash and Cash Equivalents		**592**	500
Cash and Cash Equivalents			
Beginning of Period		**1,401**	985
End of Period		**1,993**	1,485
Represented by:			
Cash		**(58)**	(17)
Cash Equivalents		**2,051**	1,502
		1,993	1,485
Supplementary Disclosure of Cash Flow from Operating Activities			
Amount of Interest Received During the Period		**1,173**	1,662
Amount of Interest Paid During the Period		**1,246**	1,718
Amount of Dividends Received During the Period		**15**	12
Amount of Income Taxes Paid During the Period		**175**	174

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Three months ended 31 March 2012

1. CORPORATE MANDATE

These unaudited Quarterly Consolidated Financial Statements include the accounts of Canada Mortgage and Housing Corporation (CMHC) 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.

In September 2008, CMHC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the FAA requiring due consideration by CMHC to the personal integrity of those to whom it lends to or provides benefits to. During 2009, the Corporation completed the implementation of the requirements of Section 89(6) of the FAA and notified the Minister of Human Resources and Skills Development that the directive has been met.

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

Mortgage Loan 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 issuance of Canada Mortgage Bonds (CMB), as well as the purchase of highly rated investments, and certain related financial hedging activities. 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. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited Quarterly Consolidated Financial 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, except where otherwise indicated, which is the consolidated entity's (Corporation's) functional currency. These unaudited Quarterly Consolidated Financial Statements should be read in conjunction with CMHC's audited Consolidated Financial Statements for the year ended 31 December 2011. These unaudited Quarterly Consolidated Financial Statements were approved and authorized for issue by CMHC's Audit Committee on 23 May 2012.

The significant accounting policies used in the preparation of these Quarterly Consolidated Financial Statements are summarized below and conform to IFRS effective as at 31 December 2011 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 Financial 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 Financial Reports which allow for such a departure from IFRS – IAS 34 *Interim Financial Reporting* with respect to the preparation of the unaudited Quarterly Consolidated Financial Statements.

Basis of Presentation

These unaudited 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 to which CMHC has exposure to its risks and rewards. The Nordea International Equity Fund (Nordea) is consolidated as required by IAS 27: *Consolidated and separate financial statements* on the basis that CMHC controls the fund and is included in the investment portfolio within the Mortgage Loan Insurance and Securitization Activities.

Inter-entity balances and transactions have been eliminated in the unaudited Quarterly Consolidated Financial Statements.

These unaudited Quarterly Consolidated Financial Statements have been prepared on a going concern basis using a historical cost basis except for the following material items in the Quarterly Consolidated Balance Sheet:

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

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 below.

The following are the significant accounting policies used in the preparation of these unaudited Quarterly Consolidated Financial Statements:

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.

The Corporation further categorizes financial instruments at Fair Value through Profit or 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.

Classification	Accounting Treatment
Designated at Fair Value through Profit or Loss	International Accounting Standards (IAS) 39 Financial Instruments: Recognition and Measurement 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. Transaction costs are expensed as incurred.
Held for Trading (HFT)	HFT financial instruments are either derivatives or financial instruments acquired or incurred principally for the purpose of selling or repurchasing in the near term. 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. 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 Statement of Income and reported in Net Realized Gains (Losses) from Financial Instruments. 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 where 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. When Loans and Receivables are determined to be impaired, the changes in their estimated realizable value are recorded in Net Income.
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. 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 until they are determined to be impaired. Impairment charges and reversals of impairment charges are recorded in Other Income.
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 Consolidated Balance Sheet date whether there is objective evidence that a financial asset is impaired. Impairment occurs if it is determined that significant or prolonged losses have been experienced and the Corporation is not expected to recover its cost. 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. 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 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 Loan 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 Activity are Designated at Fair Value. Cash Equivalents in the Mortgage Loan Insurance and Securitization Activities 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 Loan Insurance and Securitization Activities are comprised of fixed income and equity securities and are classified as AFS, HFT 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.

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. They are treated as collateralized lending transactions and are classified as HTM.

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 Sold Under Repurchase Agreements are classified as Other Financial Liabilities. Proceeds received 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.

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, under the Insured Mortgage Purchase Program (IMPP), or CHT, under the CMB program, 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 a result, the Corporation 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 the Corporation’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.

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 past collection of interest losses 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:

The following categories are included in Investments in Housing Programs.

Loans: Loans under Investments in Housing Programs represent loans made under various pre-1996 housing programs that were transferred to the Provinces/Territories under the Social Housing Agreements (SHAs). For some housing programs, the Provinces/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 which best represents the agreed term over which these projects will be used to render the program services. CMHC'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 Quarterly 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 through Profit and Loss.

The net of interest income and expenses is recorded in Interest Expense as earned and incurred.

Mortgage Loan 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 loan 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 Quarterly Consolidated Balance Sheet date and therefore relate to claims that may occur from the Quarterly Consolidated 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 Quarterly Consolidated 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 Quarterly Consolidated 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 liability adequacy test for the Corporation has identified that no provision for premium deficiency is required.

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 Mortgages 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 acquisition costs associated with issuing mortgage loan insurance policies are deferred and amortized on the same basis as the related premiums.

Deferred Acquisition Costs: 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 Loan 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: Recognition and Measurement.*

Recognition and Measurement: 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.

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 Operating Expenses 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 unaudited Quarterly Consolidated Financial Statements. Nordea is a mutual fund trust pursuant to subsection 132(6) of the ITA. Nordea is subject to income tax on Net Income and net realized capital gains that are not paid or payable to unitholders at the end of the taxation year. Nordea is required to distribute all net taxable income and sufficient realized capital gains to unitholders so that it is not subject to income tax. Accordingly, no provision for income taxes is included in the unaudited Quarterly Consolidated Financial Statements in respect of Nordea.

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 Quarterly Consolidated 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

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.

CMHC may purchase and resell CMB in the market for investment purposes. These purchases are treated as retirements of debt, with the difference between the purchase price and the carrying value of the CMB being recognized as a gain or loss in income. Gains and losses on subsequent sales are treated as a re-issuance of the debt and amortized over the remaining life of the CMB sold.

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 Municipal Infrastructure Lending Program (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.

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 Quarterly Consolidated Statement of Income and Comprehensive Income as Housing Programs revenues and expenses, respectively. Those expenses incurred but not yet reimbursed are recorded in the Quarterly Consolidated Balance Sheet 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.

Net benefit plan costs are the current service cost, interest cost on the defined benefit obligation, the amortization of deferred past service costs, and the expected investment return on plan assets. These costs are recognized in Operating Expenses. Actuarial gains and losses are recognized in Other Comprehensive Income as incurred, and flow into Retained Earnings on the Quarterly Consolidated Balance Sheet.

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 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 appropriations.

Related Party Transactions

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

Foreign Currency Translations

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Quarterly Consolidated Balance Sheet date. Exchange gains and losses resulting from the translation of foreign denominated balances are included in Net Unrealized Gains (Losses). Purchases and sales of foreign securities and the related income are translated into Canadian dollars at the exchange rates prevailing on the respective dates of the transactions.

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 19.

Lease Transactions

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.

CMHC as Lessor: Leases whereby a significant portion of the risks and rewards of ownership are retained by CMHC 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 Quarterly Consolidated 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.

CMHC as Lessee: 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.

Leases which do not transfer substantially all the risks and rewards of ownership to CMHC are classified as operating leases. Payments under an operating lease are recognized in Net Income on a straight-line basis over the lease term.

3. FUTURE ACCOUNTING CHANGES

CMHC has reviewed new and revised accounting pronouncements that have been issued by IAS but are not yet effective on the date of issuance of these unaudited Quarterly Consolidated Financial Statements. The following standards have been determined to potentially have an impact on the Corporation's consolidated 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 being reclassified to Net Income in subsequent periods and items that will not be reclassified to Net Income.

The new requirements are effective for annual periods beginning on or after 1 July 2012, which will be 1 January 2013 for CMHC, and are to be applied retrospectively. Per CMHC's assessment of these amendments, it is not expected that the new requirements will have a material impact on the Corporation's Consolidated Financial Statements.

IAS 19

On 16 June 2011, the IASB issued amendments to IAS 19 *Employee Benefits*.

Amendments to IAS 19 eliminate the "corridor method" and improve the recognition, presentation and disclosure requirements for the defined benefit plans. As the Corporation has adopted the change from the corridor method upon implementation of IFRS, this component of the amendment will not affect the Corporation's unaudited Quarterly Consolidated Financial Statements. The Corporation's analysis of the other changes indicates that the amendments will result in an overall change in pension expenses reflected in Net Income with a corresponding offset in actuarial gains and losses recognized in Other Comprehensive Income. This change is due to the discount rate being applied to the plan assets to calculate the estimated return by the plan rather than the expected rate of return that was previously allowed. These amendments also include enhanced disclosure requirements.

The new requirements are effective 1 January 2013.

IFRS 13

On 13 May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (IFRS 13), which is effective 1 January 2013.

IFRS 13 defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. While IFRS 13 does not introduce any new requirements, it reduces complexity and improves consistency by clarifying the definition of fair value and requiring its application to all fair value measurements.

CMHC currently follows the IFRS 13 principles for determining fair value on most of its financial instruments, except for certain rent-producing real estate properties under the Lending Activity. These properties are fair valued based on the present value of expected future cash flows using a discount rate reflective of the characteristics of the property. Upon adoption of this new standard, all of CMHC's real estate properties will be required to be valued at their highest and best use values resulting in a potential increase in fair value of the properties as well as an increase to CMHC's Net Income. CMHC also anticipates enhanced disclosure requirements relating to fair value measurement information.

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 arrangements.

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 unaudited Quarterly Consolidated Financial Statements.

IAS 32 and IFRS 7

On 16 December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. On 16 December 2011 the IASB published new disclosures requirements jointly with the FASB that enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. The new requirements are effective for annual periods beginning on or after 1 January 2013.

The Corporation has not yet determined the impacts these new standards on its unaudited Quarterly Consolidated Financial Statements.

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.*

IFRS 9 uses a single approach to determine whether a financial instrument 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 instrument.

In December 2011, the IASB decided to delay the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015. The Corporation has not yet determined the impact of IFRS 9 on its Consolidated Financial Statements.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND MAKING ESTIMATES

Judgments in Applying Accounting Policies

In the process of applying the Corporation'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 unaudited Quarterly Consolidated Financial Statements. The judgments having the most significant effect on the amounts recognized in the unaudited 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, as per SIC-12, 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. Significant judgments are also applied in the assessment of whether the substance of the relationship between CMHC and Nordea indicates that CMHC controls it. As CMHC is the principal investor in the fund, Nordea is reliant on CMHC's continued investment. As a result, CMHC consolidates Nordea International Equity fund;

- Derecognition – in assessing whether transfers of NHA MBS from Issuers to the Corporation under the CMB program (CHT) and IMPP (CMHC) 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 unaudited 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, Unearned Premiums, Fair Value of Financial Instruments, and Post-employment Benefits. 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 Quarterly Consolidated 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 14 of the 2011 Consolidated Financial Statements for further details.

Unearned Premiums

Mortgage loan insurance premiums are deferred and recognized as revenue over the period covered by the insurance contracts using actuarially determined factors that are reviewed annually as part of the Actuarial Valuation. The premium earning factors are derived from claim occurrence patterns based on the principle that premiums will be earned at the same rate as claims are incurred. See Note 14 of the 2011 Consolidated Financial Statements 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 benefits. Actual results could differ from these estimates. See Note 21 of the 2011 Consolidated Financial Statements for further details.

5. SECURITIES

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

(in millions)	31 March 2012				31 December 2011	
	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost[1]	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value trough Profit or Loss	858	41	-	899	861	903
Available for Sale	13,247	923	(16)	14,154	13,061	14,165
Equities						
Held for Trading	453	-	(39)	414	486	397
Available for Sale	2,912	386	(61)	3,237	3,232	3,384

[1]Amortized cost for Equities is cost.

The cumulative loss from Available for Sale fixed income and equity investments of $77 million (31 December 2011 – $156 million) included in Accumulated Other Comprehensive Income, has not been recognized as an impairment loss in Net Income.

During the three months ended 31 March 2012, no impairment losses (three months ended 31 March 2011 – 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 month period ending 31 March 2012, there were disbursements of Investment in NHA Mortgage-Backed Securities – Loans and Receivables in the amount of $10,504 million and repayments of $595 million (three months ended 31 March 2011 – disbursements of $11,247 million, and repayments of $13,426 million).

7. HOUSING PROGRAMS

CMHC receives Parliamentary appropriations to fund the following program expenditures, including operating expenses, in support of Housing Programs.

(in millions)	Three months ended 31 March	
	2012	2011
Assisted Housing Programs	**422**	429
Housing Repair and Improvement Programs	**14**	164
On-Reserve Housing Programs	**33**	74
Affordable Housing Initiative	**176**	95
Research and Information Dissemination that Addresses Distinct Housing Needs, Including those of Aboriginal Canadians	**-**	-
Research and Information Dissemination to Promote Desirable Housing Market Outcomes and Improve Building Performance	**1**	1
Research and Information Dissemination to Promote Sustainable Housing and Communities, as well as Lead the Development and Implementation of Federal Housing Policy	**-**	1
Total Housing Programs Expenses	**646**	764
Operating Expenses	**37**	31
Total Appropriations	**683**	795

The following table presents the changes in the Due from (to) the Government of Canada account. The outstanding balance as of 31 March 2012 is mainly composed of housing programs expenses incurred but not yet reimbursed.

(in millions)	Three months ended 31 March 2012	Year ended 31 December 2011
Due from (to) the Government of Canada		
Balance at Beginning of Period	**403**	531
Total Appropriations	**683**	2,163
Total Appropriations Received	**(555)**	(2,300)
Reimbursements	**(3)**	9
Balance at End of Period	**528**	403

8. SECURITIZATION

Guarantees-in-force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2011 – $600 billion).

The following table presents the total guarantees-in-force by program.

(in billions)	31 March 2012	31 December 2011
NHA MBS[1]	**162**	161
CMB[2]	**211**	201
Total Guarantees-in-Force	**373**	362

[1]Includes $48 billion (31 December 2011- $49 billion) in NHA MBS of which CMHC is entitled to payments for the timely payment guarantee
[2]Includes $2 billion (31 December 2011 - $2 billion) in investments held by CMHC in CMB issued by CHT

9. BORROWINGS

Canada Mortgage Bonds

The interest expense related to Canada Mortgage Bonds for the three months ended 31 March 2012 is $1,506 million (three months ended 31 March 2011 – $1,620 million).

For the three months ended 31 March 2012, CHT issued Canada Mortgage Bonds in the amount of $10,504 million (three months ended 31 March 2011 – $11,247 million). There were no maturities for the three months ended 31 March 2012 (three months ended 31 March 2011 – $12,450 million).

Capital Market Borrowings

The interest expense related to Capital Market Borrowings for the three months ended 31 March 2012 is $23 million (three months ended 31 March 2011 – $33 million).

For the three months ended 31 March 2012, there were no maturities of Capital Market Borrowings (three months ended 31 March 2011 – no maturities).

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 months ended 31 March 2012 is $565 million (three months ended 31 March 2011 – $581 million).

For the three months ended 31 March 2012, CMHC had new borrowings, to fund Direct Lending Loans, in the amount of $442 million (three months ended 31 March 2011 – $1,818 million), and repayments in the amount of $1,205 million (three months ended 31 March 2011 – $2,175 million) relating to its Borrowings from the Government of Canada.

10. MORTGAGE LOAN INSURANCE

Unearned Premiums and Fees

The following table presents the changes in the Unearned Premiums and Fees balance:

(in millions)	31 March 2012	31 December 2011
Balance at Beginning of Period	**6,731**	6,874
Premium Deferred on Contracts Written in the Period	**301**	1,622
Premiums Earned	**(418)**	(1,766)
Application Fees Deferred on Contracts Written in the Period	**4**	14
Application Fees Earned	**(3)**	(13)
Balance at End of Period	**6,615**	6,731

Provision for Claims

The Provision for Claims includes amounts set aside for Incurred But Not Reported (IBNR) claims, claims reported but not paid and for Social Housing Mortgage and Index Linked Mortgage claims. The following table presents the changes in the Provision for Claims balance:

(in millions)	31 March 2012	31 December 2011
Balance at Beginning of Period	**1,041**	1,096
Losses on Claims during the Period	**(154)**	(617)
Provision for Claims incurred during the Period	**119**	562
Balance at End of Period	**1,006**	1,041

Mortgage Loan Insurance Risk Management

CMHC assumes the risk of loss from borrower default through mortgage insurance contracts entered into with lenders, exposing CMHC 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 outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2011 – $600 billion).

At 31 March 2012, insurance-in-force, which represents the risk exposure of the CMHC Mortgage Loan Insurance Activity, totalled $570 billion (31 December 2011 – $567 billion).

11. INCOME TAXES

The following table presents the total income taxes.

(in millions)	Three Months Ended 31 March 2012	Three Months Ended 31 March 2011
Other Comprehensive Income:		
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**16**	(8)
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	**(23)**	(23)
Net Actuarial Gains (Losses) on Employee Benefit Plans	**(3)**	6
Income Tax Expense (Benefit) on Other Comprehensive Income	**(10)**	(25)
Income Tax Expense on Quarterly Consolidated Statement of Equity of Canada	**-**	-
Income Tax Expense on Quarterly Consolidated Net Income	**148**	135
Total	**138**	110

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 unobservable in the market.

The following table represents the fair value hierarchy in which fair value measurements are categorized for assets and liabilities recorded on the Quarterly Consolidated Balance Sheet. During the three months ended 31 March 2012, there were no significant transfers between Level 1 and Level 2.

	31 March 2012			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and Cash Equivalents	898	599	-	**1,497**
Investment Securities:				
Designated at Fair Value through Profit or Loss	575	199	125	**899**
Held for Trading	414	-	-	**414**
Available for Sale	17,151	231	9	**17,391**
Loans:				
Designated at Fair Value through Profit or Loss	-	6,954	-	**6,954**
Derivatives	-	132	-	**132**
Assets not recorded at Fair Value				**275,769**
Total Assets	19,038	8,115	134	**303,056**
LIABILITIES				
Borrowings:				
Capital Market Borrowings	2,173	-	-	**2,173**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	6,506	-	**6,506**
Derivatives	-	60	-	**60**
Liabilities and Equity not recorded at Fair Value				**294,317**
Total Liabilities and Equity	2,173	6,566	-	**303,056**

	31 December 2011			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and Cash Equivalents	617	512	-	**1,129**
Investment Securities:				
Designated at Fair Value through Profit or Loss	584	200	119	**903**
Held for Trading	397	-	-	**397**
Available for Sale	17,353	188	8	**17,549**
Loans:				
Designated at Fair Value through Profit or Loss	-	7,132	-	**7,132**
Derivatives	-	169	-	**169**
Assets not recorded at Fair Value				**264,611**
Total Assets	18,951	8,201	127	**291,890**
LIABILITIES				
Borrowings:				
Capital Market Borrowings	2,203	-	-	**2,203**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	6,584	-	**6,584**
Derivatives	-	72	-	**72**
Liabilities and Equity not recorded at Fair Value				**283,031**
Total Liabilities and Equity	2,203	6,656	-	**291,890**

Financial Instruments Carried at Amortized Cost

Using the valuation methods described in Note 17 of the 2011 Consolidated Financial Statements, 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.

	31 March 2012		31 December 2011	
(in millions)	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Investment in NHA Mortgage-Backed Securities – Loans and Receivables[2]	**274,186**	**266,574**	266,477	256,655
Securities Purchased Under Resale Agreements[2]	**46**	**46**	-	-
Loans – Other[2]	**5,768**	**4,598**	6,005	4,726
Loans – Investments in Housing Programs[2]	**1,429**	**793**	1,477	808
Canada Mortgage Bonds[1]	**215,645**	**209,812**	206,974	199,373
Borrowings from the Government of Canada – Other[2]	**63,962**	**60,209**	65,317	60,963

[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.

	Three months ended 31 March	
(in millions)	2012	2011
Held for Trading		
Equities	**50**	-
Derivatives	**(27)**	(48)
Total Held for Trading	**23**	(48)
Designated at Fair Value through Profit or Loss		
Investment Securities – Designated at Fair Value	**(5)**	1
Loans – Designated at Fair Value through Profit or Loss	**(73)**	(55)
Capital Market Borrowings	**31**	53
Borrowings from the Government of Canada – Designated at Fair Value through Profit or Loss	**70**	37
Total Designated at Fair Value through Profit or Loss	**23**	36
Gains (Losses) from Related Party Transactions	**-**	15
Total Net Unrealized Gains (Losses) from Financial Instruments	**46**	3

All items Designated at Fair Value through Profit and Loss, with the exception of certain Investment Securities held within the Mortgage Loan 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 Loan 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)	Three months ended 31 March 2012	2011
Held for Trading	(4)	-
Available for Sale	82	77
Retirement of Debt	(13)	-
Total Net Realized Gains (Losses) from Financial Instruments	65	77

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 investment securities in the Mortgage Loan Insurance and Securitization portfolios are 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 Loan Insurance and Securitization investment portfolios with a 95% confidence level over a two-week holding period. The analysis is 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 $382 million (31 December 2011 – $403 million) whereas a +200 bps interest rate shift would result in a decrease in value of $357 million (31 December 2011 – $380 million). For all remaining loans, a -200 bps interest rate shift would result in an increase in value of $1,144 million (31 December 2011 – $1,203 million) whereas a +200 bps interest rate shift would result in a decrease in value of $820 million (31 December 2011 - $858 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.

(in millions)	31 March 2012 Comprehensive Income	31 December 2011 Comprehensive Income
Value at Risk	196	174
Maximum Exposure	0.5	1

Investment in NHA Mortgage-Backed Securities – Loans and Receivables

IMPP and CHT are exposed to both interest rate risk and prepayment/reinvestment risk. Prepayment/reinvestment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term and these prepayments must be reinvested immediately.

To mitigate these risks, CMHC and CHT enter into swap agreements with approved financial institutions. Under these agreements, both interest rate and prepayment/reinvestment risks are transferred to swap counterparties. These swap counterparties manage reinvestment assets in accordance with pre-established investment guidelines. CMHC and CHT pay all interest received from the underlying assets to the swap counterparties and the swap counterparties pay CMHC and CHT an amount equal to the coupon payments on the Borrowings from the Government of Canada and Canada Mortgage Bonds, respectively. As a result of these swap agreements, changes in interest rates or prepayments/reinvestments have no impact on the Statement of Income and Comprehensive Income.

14. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. The Corporation 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 fixed income 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. This risk is mitigated by dealing with swap counterparties whose credit ratings are in accordance with its Funding, Investment and Risk Management Policies; through the use of International Swaps Derivatives Associated (ISDA) master netting agreements for derivatives which have been entered into with all counterparties; and where appropriated, through the use of ratings-based collateral thresholds in the Credit Support Annexes. The fair value of the collateral related to derivatives held by CMHC (including those related to NHA MBS Loans Receivable – IMPP) as at 31 March 2012 is $526 million (31 December 2011 – $739 million).

CHT is also exposed to credit-related risk in the event of default of swap counterparties. 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 31 March 2012 is $292 million (31 December 2011 - $363 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:

	Three months ended 31 March			
	Pension Plans		Other Post-employment Benefits	
(in millions)	2012	2011	2012	2011
Current Service Cost, Net of Employees' Contributions	**7**	5	**2**	1
Interest Cost	**19**	18	**2**	3
Expected Return on Plan Assets (Gain) Loss	**(18)**	(19)	**-**	-
Defined Benefit Plan Expense	**8**	4	**4**	4

The following assumptions were used to calculate these costs.

	Three months ended 31 March	
	2012	2011
Defined Benefit Obligation:		
Discount Rate	**4.30%**	5.20%
Rate of Compensation Increase	**3.00%**	3.00%
Benefit Costs:		
Discount Rate	**4.50%**	5.10%
Rate of Compensation Increase	**3.00%**	3.00%
Expected Rate of Return on Plan Assets	**6.10%**	6.25%

The actuarial valuation of CMHC's registered Pension Plan as at 31 December 2010, completed in the fourth quarter of 2011, reported that the Plan was fully funded on a going concern basis, but was in a solvency deficit. The 31 December 2011 valuation reports a deficit position on both a going concern basis and a solvency basis. As is permitted under the *Pension Benefits Standards Act, 1985* (PBSA) and its related Regulations, the Corporation is currently seeking Ministerial approval to reduce the solvency special payments determined by the valuations. The reductions would be from $72.0 million to nil with respect to the solvency special payment as a result of the 2010 valuation and from $126.7 million to $22.1 million in 2012 with respect to the annual solvency special payments in 2012 through 2016 as a result of the 2011 valuation. The Corporation will be setting aside the full amount pending Ministerial approval of the reduction.

17. SEGMENTED INFORMATION

As described in Note 1, the unaudited Quarterly Consolidated Financial Statements include the accounts of CMHC's four activities (Mortgage Loan 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 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 Programs Activity includes reimbursements to the Lending Activity as described in Note 2. These reimbursements are not eliminated in the following table. Revenues are attributed to and assets are located in, Canada.

	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations[1]		Total	
Three months ended 31 March (in millions)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
REVENUES														
Interest Income from NHA MBS - Loans and Receivables	-	-	426	444	-	-	-	-	1,536	1,639	-	-	**1,962**	2,083
Premiums and Fees	425	418	58	50	-	-	-	-	-	-	-	-	**483**	468
Interest Earned on Loans and Investments in Housing Programs	-	-	-	-	-	-	149	161	-	-	-	-	**149**	161
Income from Investment Securities	146	148	9	10	-	-	9	8	-	-	(12)	(16)	**152**	150
Net Realized Gains (Losses) from Financial Instruments	61	72	35	5	-	-	-	-	-	-	(31)	-	**65**	77
Net Unrealized Gains (Losses) from Financial Instruments	51	2	3	-	-	-	(6)	-	-	-	(2)	1	**46**	3
Parliamentary Appropriations and Other Income	1	-	3	3	683	795	6	3	45	48	(27)	(28)	**711**	821
	684	640	534	512	683	795	158	172	1,581	1,687	(72)	(43)	**3,568**	3,763
EXPENSES														
Interest Expense	1	1	426	444	-	-	153	162	1,533	1,636	(27)	(16)	**2,086**	2,227
Operating Expenses	56	48	3	3	37	31	5	5	48	51	(27)	(28)	**122**	110
Housing Programs and Net Claims	119	148	-	-	646	764	-	-	-	-	-	-	**765**	912
	176	197	429	447	683	795	158	167	1,581	1,687	(54)	(44)	**2,973**	3,249
Income Taxes	126	117	27	17	-	-	(1)	1	-	-	(4)	-	**148**	135
NET INCOME (LOSS)	382	326	78	48	-	-	1	4	-	-	(14)	1	**447**	379
Total Revenues	684	640	534	512	683	795	158	172	1,581	1,687	(72)	(43)	**3,568**	3763
Inter-segment/entity Revenues[1]	(40)	(13)	-	-	-	-	(5)	(2)	(27)	(28)	72	43	**-**	-
External Revenues	644	627	534	512	683	795	153	170	1,554	1,659	-	-	**3,568**	3763

[1] Inter-segment/entity Revenues relate to the following:

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

As at 31 March 2012 and 31 December 2011 (in millions)	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations[1]		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
ASSETS														
Investment Securities:														
Designated at Fair Value through Profit or Loss	69	66	1	1	-	-	1,314	1,325	-	-	(485)	(489)	**899**	903
Held for Trading	389	375	25	22	-	-	-	-	-	-	-	-	**414**	397
Available for Sale	17,537	17,629	1,492	1,502	-	-	-	-	-	-	(1,638)	(1,582)	**17,391**	17,549
Investment in NHA Mortgage-Backed Securities:														
Loans and Receivables	-	-	54,806	55,401	-	-	-	-	211,768	201,254	-	-	**266,574**	256,655
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	6,954	7,132	-	-	-	-	**6,954**	7,132
Other	-	-	-	-	-	-	4,598	4,726	-	-	-	-	**4,598**	4,726
Investments in Housing Programs	-	-	-	-	-	-	793	808	-	-	-	-	**793**	808
Other Assets	2,101	1,557	171	122	-	-	1,648	1,459	1,485	541	28	41	**5,433**	3,720
	20,096	19,627	56,495	57,048	-	-	15,307	15,450	213,253	201,795	(2,095)	(2,030)	**303,056**	291,890
LIABILITIES														
Borrowings:														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	211,768	201,254	(1,956)	(1,881)	**209,812**	199,373
Capital Market Borrowings	-	-	-	-	-	-	2,187	2,218	-	-	(14)	(15)	**2,173**	2,203
Borrowings from the Government of Canada	-	-	54,806	55,401	-	-	11,909	12,146	-	-	-	-	**66,715**	67,547
Unearned Premiums and Fees	6,615	6,731	534	528	-	-	-	-	-	-	-	-	**7,149**	7,259
Other Liabilities	1,927	1,713	99	111	-	-	1,184	1,057	1,485	541	(12)	(5)	**4,683**	3,417
	8,542	8,444	55,439	56,040	-	-	15,280	15,421	213,253	201,795	(1,982)	(1,901)	**290,532**	279,799
EQUITY OF CANADA														
Contributed Capital	-	-	-	-	-	-	25	25	-	-	-	-	**25**	25
Accumulated Other Comprehensive Income (Loss)	878	884	27	57	-	-	-	-	-	-	(9)	(39)	**896**	902
Retained Earnings	10,676	10,299	1,029	951	-	-	2	4	-	-	(104)	(90)	**11,603**	11,164
	11,554	11,183	1,056	1,008	-	-	27	29	-	-	(113)	(129)	**12,524**	12,091
	20,096	19,627	56,495	57,048	-	-	15,307	15,450	213,253	201,795	(2,095)	(2,030)	**303,056**	291,890

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

18. RELATED PARTY TRANSACTIONS

CMHC pays the Government of Canada fees in recognition of the Government's financial backing of the Mortgage Loan Insurance and Securitization Activities. The fees, which are recorded as a reduction of Other Income, for the three months ended 31 March 2012 amount to $3 million (three months ended 31 March 2011 – $3 million), for the Securitization Activity and nil (three months ended 31 March 2011 – nil) for the Mortgage Loan Insurance Activity. The fee for the Mortgage Loan Insurance Activity is nil as CMHC's Earnings Set Aside for Capitalization equals 100% of its target capital level calculated in accordance with guidelines set out by OSFI.

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

19. COMMITMENTS AND CONTINGENT LIABILITIES

There are legal claims of $19 million (31 December 2011 – $20 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.

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