CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER

March 31, 2013

(Unaudited)

Canada

CMHC SCHL

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March 31, 2013

INTRODUCTION

For over 65 years, Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency.

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 products and administering the covered bond legal framework — contributes to the health and stability of Canada's housing finance system and housing markets 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 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 governance and accountability requirements under the *Financial Administration Act* and the *CMHC Act*.

Under amendments to the National Housing Act passed in June 2012, the Office of the Superintendent of Financial Institutions is required, at least once in each calendar year, to "make or cause to be made any examination or inquiry that the Superintendent considers to be necessary or expedient to determine if the Corporation is carrying on any or all of its commercial activities in a safe and sound manner with due regard to its exposure to loss."

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 2013, including comparatives against the same period in 2012. 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 2013 and 2012 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 the period ended 31 March 2013 have not been reviewed or audited by CMHC's 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 2012 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 2013

Ongoing Investments in Housing

The Government of Canada, through CMHC, provides approximately $2 billion in federal funding each year to help reduce the number of Canadians in housing need. These investments are provided under various housing programs and initiatives on and off reserve.

Of the $2 billion, approximately $1.7 billion is provided annually in the form of ongoing subsidies in support of close to 594,000 households living in existing social housing, including Aboriginal peoples both on and off reserve. Of these households, some 29,300 are on reserve. These subsidies help ensure that lower-income families and individuals living in these units do not pay a disproportionate amount of their income on housing.

In addition to the ongoing subsidies provided for the 29,300 households on reserve mentioned above, CMHC continues to make new commitments on reserve in support of First Nations housing needs. These commitments included the construction of new social housing units, the renovation of existing homes and an investment in capacity building for First Nations people living on reserve.

Moreover, the Government of Canada, through CMHC, continues to provide annual funding under the Investment in Affordable Housing (IAH) 2011-2014 Framework Agreement, which also forms part of the overall $2 billion annual federal investment. Nationally, the federal contribution is more than $716 million over three years to March 31, 2014, which relates to the last three years of the five-year $1.9 billion in housing and homelessness funding announced in 2008.

Provinces and territories can use IAH funding for various activities, including new construction, renovation, homeownership assistance, rent supplements, shelter allowances and accommodations for victims of family violence.

Eleven of the 13 jurisdictions have entered into agreements for the combined affordable and renovation housing funding envelope. Yukon extended its existing arrangement for the Affordable Housing Initiative (AHI) and CMHC-delivered renovation programs. Prince Edward Island extended the existing arrangement for the AHI and CMHC-delivered renovation programs for the first two years of the Framework. In April 2013, PEI signed a new agreement for the combined affordable and renovation funding envelope for the last year of the 3-year period.

Economic Action Plan 2013

Building on the Investment in Affordable Housing (IAH) 2011-2014 Framework, Economic Action Plan 2013 announced the Government of Canada's continued commitment to working with provinces and territories to develop and implement solutions to housing by announcing $253 million per year over five years to renew the IAH to 31 March 2019. This federal investment of $1.25 billion will be provided through CMHC, beginning in April 2014. The Government of Canada will ensure that funds provided to provinces and territories through the IAH will support the use of apprentices, which will support training of skilled labour.

In addition, in recognition of the distinctive needs of Nunavut, the federal budget also announced $100 million over two years (2013-14 and 2014-15) to support the construction of about 250 housing units in Nunavut. This funding will be provided to the territory through CMHC.

Mortgage Loan Insurance

Economic Action Plan 2013

The budget noted that mortgage insurance is a significant component of Canada's financial stability framework and also serves to facilitate Canadian homebuyers' access to mortgage credit. Consistent with actions taken relative to high-ratio mortgages since 2008, the government will implement new measures related to insurance of portfolios of low-ratio mortgages, including gradually limiting the use of portfolio insurance. In addition, the government intends to prohibit the use of any government-backed insured mortgage, both high and low ratio, as collateral in securitization vehicles not sponsored by CMHC. These changes will not have a direct impact on individual Canadians applying for mortgages. The Department of Finance will be holding consultations with industry stakeholders on the implementation details and timing of these measures.

Legislative impacts

In Budget 2011, the Government of Canada committed to introducing a legislative framework that would formalize existing mortgage loan insurance arrangements with private mortgage insurers and CMHC. The new legislative framework for mortgage loan insurance included the *Protection of Residential Mortgage or Hypothecary Insurance Act* (PRMHIA), which applies to private mortgage insurers, as well as consequential amendments to the *National Housing Act* (NHA). The PRMHIA and consequential amendments to the NHA have now come into force.

In addition, the regulations necessary to fully implement the new legislative framework came into force on 1 January 2013. These include regulations outlining minimum criteria for the designation of approved/qualified lenders for CMHC and private sector insurers, and regulations specifying the types of loans eligible for insurance underwritten by CMHC and private sector insurers.

The regulations applicable to mortgage insurers incorporate the government guarantee parameters first implemented in October 2008, and subsequently adjusted in 2010, 2011 and 2012. Ongoing adjustments to the government guarantee have reduced the size of the high ratio homeowner mortgage loan insurance market. The latest adjustments, which came into effect on 9 July 2012, effectively eliminated insured high ratio refinancing.

The *Jobs, Growth and Long-term Prosperity Act* included in Budget 2012 enhanced the governance and oversight framework for CMHC's commercial activities. It also enhanced CMHC's mandate to ensure that its mortgage loan insurance and securitization activities promote and contribute to the stability of the financial system, including the housing market. The Superintendent of Financial Institutions will review, at least annually, whether CMHC is carrying out its commercial activities in a safe and sound manner with due regard to its exposure to loss.

Financial Stability

In April 2012, the Financial Stability Board (FSB) of the G-20 nations finalized its Principles for Sound Residential Mortgage Underwriting Practices in the interest of international financial stability. In Canada, the Office of the Superintendant of Financial Institutions (OSFI) implemented the FSB's principles by issuing its own Guideline for Mortgage Underwriting in Canada (B-20). All federally-regulated financial institutions (FRFIs) that are engaged in residential mortgage lending and/or the acquisition of residential mortgage loan assets in Canada were expected to have implemented the B-20 Guideline by the end of their 2012 fiscal year. OSFI intends to publish a separate Guideline for mortgage loan insurers in 2013.

Covered Bonds Registry

As part of CMHC's enhanced mandate, CMHC implemented the legal framework for covered bonds in December 2012. CMHC has established the parameters of the framework in the Canadian Registered Covered Bonds Program Guide and will maintain the registry of Canadian covered bond issuers and programs. The framework supports financial stability by helping lenders further diversify their sources of funding and by attracting more international investors, thus making the market for covered bonds more robust.

Socio-Economic Factors

Housing demand is subject to a range of demographic, social and economic influences. The growth in the housing stock is largely driven by household formation which in turn is closely linked to changes in population size, composition and employment rates. These factors influence housing markets and CMHC's operating environment.

Economic Outlook (as at 31 March 2013)

The consensus among economic forecasters is that Canada's economy, as measured by Gross Domestic Product (GDP), will grow between 1 and 2 per cent in 2013 and then growth will be in the high 2 per cent range in 2014. This moderate growth is expected to help drive moderate employment gains and keep Canada's unemployment rate relatively stable.

Housing Indicators

Housing Starts

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

Although there have been considerable swings in monthly estimates of housing starts, the six-month moving average has trended downward to 182,754 units as of April 2013.The forecast for housing starts in 2013 and 2014 is 190,300 units and 194,100 units respectively.

Resale Market

Total residential sales through the Multiple Listing Service®[1] (MLS®) have slowed in recent months but are expected to remain relatively stable for the first half of this year and slowly increase in the second half of 2013 and 2014. This will help maintain balanced market conditions in most local housing markets in Canada. The average MLS® price was up by 1.3 per cent in April 2013 compared to last year and future growth is expected to be somewhat subdued.

[1] Multiple Listing Service® is a registered trademark owned by the Canadian Real Estate Association.

SUMMARY OF UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL RESULTS

CMHC reports on the following principal business activities and consolidates the accounts of the Canada Housing Trust, a separate legal 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. Operating expenses and issuer fees under the new legal framework for covered bonds administered by CMHC are accounted for under this Activity.

  Mortgage Loan Insurance and Securitization Activities are operated on a commercial basis and are expected to generate reasonable returns. In the case of covered bonds, CMHC is expected to recover the costs of administering the legal framework for covered bonds from participating issuers.

- **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 expenses.

Financial Highlights

(in millions) (unless otherwise indicated)	Three months ended 31 March 2013	Year ended 31 December 2012	Three months ended 31 March 2012
BALANCE SHEET			
Total Assets	**302,005**	292,040	303,056
Total Liabilities	**287,592**	278,195	290,532
Total Equity of Canada	**14,413**	13,845	12,524
Accumulated Other Comprehensive Income	**1,162**	1,038	896
Retained Earnings Set Aside for Capitalization	**11,124**	10,764	10,639
INCOME			
Revenues	**3,112**	13,455	3,568
Interest Income	**1,996**	8,889	2,263
Premiums and Fees	**475**	2,049	483
Parliamentary Appropriations	**573**	2,197	683
Interest Expenses	**1,839**	8,178	2,086
Net Claims	**113**	487	119
Net Income	**378**	1,716	447
Net Adjusted Income[1]	**364**	1,658	425
MORTGAGE LOAN INSURANCE			
Total Insurance-in-Force ($B)	**562.6**	566.1	569.6
Total Insured Volumes	**8,195**	66,029	18,954
Premium and Fees Received	**210**	1,475	304
Net Income	**322**	1,414	382
Operating Expense Ratio (per cent)	**14%**	11%	13%
Severity Ratio (per cent)[2]	**30%**	31%	31%
Arrears Rate (per cent)	**0.35%**	0.35%	0.38%
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets	**48.5%**	47.2%	42.9%
Capital Available to Minimum Capital Required (per cent)	**231%**	231%	215%
SECURITIZATION			
Total Guarantee-in-Force ($B)	**392.7**	381.6	372.8
Securities Guaranteed	**27,268**	119,531	28,784
Guarantee Fees Received	**54**	230	57
Net Income	**51**	273	78
Operating Expense Ratio (per cent)	**5.7%**	4.5%	4.5%
Per Cent of Residential Mortgage Securitized	**29.1%**	28.5%	28.3%
% of Equity against Target Capital	**153%**	156%	130%
LENDING			
Investments (including cash)	**1,979**	1,778	1,765
Loans and Investments in Housing Programs	**11,540**	11,779	12,345
Borrowings	**13,459**	13,668	14,096
Net Income	**(1)**	19	1
HOUSING PROGRAMS			
Housing Programs (excluding operating expenses)	**544**	2,074	646
Funding Under Long-Term Commitments for Existing Social Housing	**445**	1,675	448
Funding for New Commitments of Affordable Housing	**97**	390	196

[1] Net Adjusted Income is defined as Net Income less net Unrealized Gains (Losses) from Financial Instruments.
[2] Severity Ratio is the ratio of the loss on claim compared to the original insured loan amount for claims paid in the period.

BALANCE SHEET HIGHLIGHTS

(in millions)	As at 31 March 2013	As at 31 December 2012	Variance
Total Assets	**302,005**	292,040	9,965
Total Liabilities	**287,592**	278,195	9,397
Contributed Capital	**25**	25	-
Accumulated Other Comprehensive Income (AOCI)	**1,162**	1,038	124
Retained Earnings Set Aside for Capitalization	**11,124**	10,764	360
Retained Earnings (other)[1]	**2,102**	2,018	84
Total Equity of Canada	**14,413**	13,845	568

[1] Includes Unappropriated Retained Earnings and Reserve Fund

Total Assets and Total Liabilities

Total Assets were $302 billion as of 31 March 2013, an increase of 3% ($10 billion) from 31 December 2012. Total growth in Assets was mainly the result of the year-to-date net issuances of $10 billion in NHA MBS resulting from the CMB program and an increase of $1 billion in accrued interest receivable on new issuances and outstanding NHA MBS. These increases were slightly offset by $1 billion in IMPP NHA MBS maturities.

Total Liabilities were approximately $288 billion as of 31 March 2013, an increase of 3% ($9 billion) from 31 December 2012. This increase was mainly a result of the fluctuations in the CMB and IMPP programs mentioned above. This was partially offset by a decrease in unearned premiums and fees from the Mortgage Loan Insurance activity due to lower insurance volumes. Further explanation is provided under Objective 2 in the segmented financial results section.

CHT's Canada Mortgage Bonds (CMB) and IMPP programs accounted for over $265 billion of the Corporation's Assets and Liabilities.

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 2013, total AOCI was $1,162 million, a $124 million increase from 31 December 2012. This increase was mainly caused by an increase in equity prices in the first quarter of 2013 that generated unrealized gains on certain AFS equity investments, and the recognition of $16 million in impairment losses recognized during the quarter on other AFS equity investments, which resulted in a reclassification of their fair-value from OCI (AOCI) to Net Income (Retained Earnings).
- **Retained Earnings**
  Total Retained Earnings were $13,226 million of which $11,124 million was set aside for the capitalization of both the Mortgage Loan Insurance and Securitization Activities in accordance with CMHC's Capital Management Framework.

The residual $2,106 million in Retained Earnings (other) is comprised of Unappropriated Retained Earnings from the Mortgage Loan Insurance and Securitization Activities as well as the Reserve Fund in the Lending Activity.

Total Retained Earnings variances are mainly driven by fluctuations in Net Income whereas component variances mainly arise as a result of the amounts that have been set aside for capitalization purposes.

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 $17 billion towards improving the Government's fiscal position through both its income taxes and net income.

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

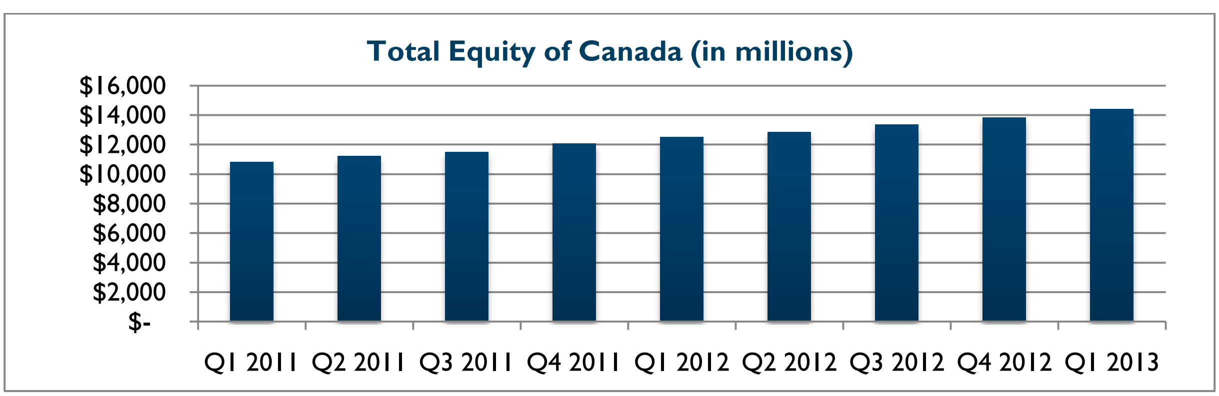
Retained Earnings related to the Mortgage Loan Insurance Activity are appropriated in accordance with the Capital Management Framework which is based on guidelines developed by OSFI. For its Mortgage Loan Insurance Activity, CMHC has Appropriated Retained Earnings as well as AOCI representing its capital holding target of 200% Minimum Capital Test (MCT). Mortgage Loan Insurance Capital Available resulted in a 231% MCT as at 31 March 2013.

Retained Earnings related to the Securitization Activity are also appropriated based on regulatory and economic capital principles. For its Securitization Activity, CMHC has Appropriated Retained Earnings as well as AOCI representing 100% of its target capital. Securitization Capital Available represented 153% of its target capital as at 31 March 2013.

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 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 at 31 March 2013, $103 million has been set aside to address interest rate risk and credit risk exposure. Additional details can be found under Objective 1 of the segmented financial results section.

As of 31 March 2013, the Corporation's Total Equity of Canada was $14,413 million, an increase of $568 million compared to 31 December 2012. This increase was primarily the result of the year-to-date Net Income of $378 million. Additional details can be found under the Statement of Income and Comprehensive Income Highlights section.



STATEMENT OF INCOME AND COMPREHENSIVE INCOME HIGHLIGHTS

(in millions)	Three months ended 31 March		Variance
	2013	**2012**	
Revenues	**3,112**	3,568	(456)
Expenses	**2,613**	2,973	(360)
Income Taxes	**121**	148	(27)
Net Income	**378**	447	(69)
Other Comprehensive Income (Loss)	**190**	(14)	204
Comprehensive Income	**568**	433	135

Total Revenues and Total Expenses were $3,112 million and $2,613 million respectively for the quarter ended 31 March 2013. Approximately 55% of the Corporation's Revenues and 65% of Expenses was related to interest income and interest expenses from CHTs CMB and IMPP programs.

Revenues

Revenues for the three months ended 31 March 2013 were $3,112 million, which was 13% ($456 million) lower than the revenues recognized during the same prior year period. This decrease was mainly a result of $267 million in lower interest income, $110 million in lower Parliamentary Appropriations and over $71 million in lower net realized and unrealized gains from investments securities.

The decrease in interest income is mainly the result of $243 million in lower interest income from the CHT CMB program as the NHA MBS that matured over the last couple of years had higher interest rates then the NHA MBS that was purchased. Further contributing to the decrease in interest income was $15 million in lower interest on the Lending Loans and Investments in Housing Programs due to the maturity of the portfolio and $9 million in lower interest income from investment securities as a result of lower average bond yields in 2013.

Parliamentary Appropriations decreased by $110 million primarily due to timing of spending under the Investment in Affordable Housing framework.

Net Realized gains from investment securities decreased by $36 million when compared to the same period in 2012 due to lower gains on financial instruments. Yields dropped significantly during 2011 which resulted in a significant appreciation in the price on bonds bought during that period and sold during the first quarter of 2012. However in 2012, yields were relatively stable and bonds sold in the first quarter of 2013 did not generate as much realized gains as bonds sold in the first quarter of 2012. Further contributing to the decrease is a $16 million impairment loss recognized during the quarter on some Mortgage Loan Insurance investment equities. As a result of more favourable prices on equities for Q1 2013, these impairment losses were offset by net realized gains on sales of other equities.

Net Unrealized gains from financial instruments decreased by $35 million as a result of fluctuations in market prices on held for trading investments.

Expenses

Expenses for the three months ended 31 March 2013 were $2,613 million, which was 12% ($360 million) lower than the expenses recognized during the same prior year period. This decrease was primarily due to lower Interest Expenses from the CMB program and lower Housing Program Expenses as explained above.

Net Income

Reported Net Income for the quarter ended 31 March 2013 was $378 million, a decrease of 15% ($69 million) when compared to the same period in 2012. This decrease was mainly attributable to lower realized and unrealized gains on investment securities.

The variances in interest income from NHA MBS and Parliamentary Appropriation discussed in the Revenues section above led to corresponding variances in Interest Expenses and Housing Program expenditures and therefore had no impact on Net Income.

Other Comprehensive Income (Loss)

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

(in millions)	Three months ended 31 March		Variance
	2013	**2012**	
Net Unrealized Gains from Available for Sale Financial Instruments (net of tax)	**154**	53	101
Reclassifation of Prior Years' Net Unrealized (Gains) Realized in the Period in Net Income (net of tax)	**(30)**	(59)	29
Net Actuarial Gains (Losses) on Post-employment Benefits (net of tax)	**66**	(8)	74
Other Comprehensive Income (Loss)	**190**	(14)	204

Other Comprehensive Income for the three months ended 31 March 2013 was $190 million, $204 million higher when compared to the same prior year period. This OCI improvement was mainly the result of higher unrealized gains from AFS financial instruments due to an increase in equity prices in Q1 2013 as well as higher Net Actuarial Gains from Post-employment Benefits resulting from a higher than expected return on plan assets and an increase in the discount rate in 2013 versus a decrease in the discount rate in Q1 2012.

Resource Management

(in millions)	Three months ended 31 March		Variance
	2013	**2012**	
Total Operating Expenses	**117**	122	(5)
Staff-Years (Full Time Equivalent)	**446**	467	(21)

Total Operating Expenses for the three months ended 31 March 2013 was $117 million, which is $5 million lower than Q1 2012. The decrease of 4% is the result of actions taken by CMHC to manage administrative and overhead costs.

For the three months ended 31 March 2013, staff-years consumed decreased by 21 staff-years (4%) compared to the same prior year period. The decrease was primarily a result of lower Mortgage Loan Insurance activities and actions taken by CMHC to manage administrative and overhead costs.

Budget 2012 Implementation

Budget 2012 announced a number of cost-saving measures to reduce the federal deficit. As part of the federal government's review of spending, CMHC reviewed its own operations and government appropriation-based programs. CMHC announced that it would 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. This is being achieved through lower program administration costs, operating efficiencies, rationalizing research and information dissemination priorities, and discontinuing CMHC's housing export program. CMHC is on track to implement and realize all of its savings measures for 2013-2014.

Lower program administration costs:

CMHC administers and funds social housing projects in P.E.I., Quebec and Alberta, on-reserve housing across Canada as well as other social housing projects funded by previous programs, mostly co-operative housing projects in Ontario and British Columbia.

Lower than anticipated program administration costs will result in savings in administering CMHC's social housing portfolio. These savings will have no impact on low-income Canadians receiving housing assistance through the federal or provincial/territorial government.

Program administration efficiencies:

CMHC is responsible for the existing social housing portfolio off reserve where this portfolio has not been transferred to provinces and territories under Social Housing Agreements and for the existing CMHC-delivered social housing portfolio on reserve. CMHC undertakes portfolio management activities such as client visits and physical project inspections to ensure that this portfolio is well-managed. With a significant number of projects to manage, CMHC is introducing a new approach for administering its programs and managing risk to be more effective and efficient.

CMHC has identified ways to streamline its processes and activities by reducing or eliminating certain portfolio management activities for some existing social housing projects.

These savings will have no impact on low-income Canadians receiving housing assistance.

Corporate Operating Efficiencies:

CMHC has identified a number of operating efficiencies that will achieve savings while still maintaining services and providing tools and resources necessary for efficient operations. For example, travel, training and recruiting costs will be reduced. Equipment such as printers/photocopiers and devices have also been rationalized.

Rationalizing Research and Information Dissemination priorities:

CMHC has adjusted its approach to research and survey expenditures to focus on fewer and higher priority research areas.

CMHC will continue to conduct and disseminate housing research aimed at improving market effectiveness, strengthening community well-being, addressing distinct housing needs, analyzing and reporting on core housing need and improving housing performance.

Discontinuing CMHC's housing export program:

CMHC's housing export program was created fifteen years ago to open doors and provide technical assistance to help Canadian companies export their housing products and services abroad. As evidenced by the number of Canadian housing companies now operating in foreign markets, the program, which complements existing government export programs, has been successful in demonstrating how housing exporters can access foreign markets.

With this experience, supported by existing government export programs, housing exporters will continue to benefit from the opportunities that have been created over the last decade.

Savings Measures - Canada Mortgage and Housing Corporation

List By Program Alignment Architecture (in thousands)	2013/14	2014/15	Ongoing
Assisted Housing Programs *Resulting from Corporate operating efficiencies, lower program administration costs in administering CMHC's social housing portfolio and program administration efficiencies*	**3,045**	79,457	79,457
On-Reserve Housing Programs *Resulting from Corporate operating efficiencies and program administration efficiencies*	**990**	1,038	1,038
Affordable Housing Initiative *Resulting from Corporate operating efficiencies*	**134**	134	134
Housing Repair and Improvement Programs *Resulting from Corporate operating efficiencies*	**132**	132	132
Research and Information Transfer *Resulting from Corporate operating efficiencies and rationalization of research and information dissemination priorities*	**9,168**	10,475	10,475
International Activities *Resulting from the discontinuation of CMHC's housing export program*	**10,120**	10,494	10,494
Emergency Planning *Resulting from Corporate operating efficiencies*	**8**	8	8
Canadian Housing Market Research and Analysis *Resulting from Corporate operating efficiencies*	**632**	632	632
Total for Canada Mortgage and Housing Corporation	**24,229**	102,370	102,370

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 IFRS effective as at 31 December 2012, 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 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.

CURRENT AND FUTURE ACCOUNTING CHANGES

Current Accounting Changes

Effective 1 January 2013, CMHC has adopted the following accounting changes.

IFRS 7 – Financial Instruments: Disclosures

On 16 December 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures* that provide new disclosure requirements in netting arrangements to enable users of the financial statements to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The Corporation has adjusted its Notes to the unaudited Quarterly Consolidated Financial Statements in order to meet the new disclosure requirements under IFRS 7 for netting arrangements.

IFRS 10 – Consolidated Financial Statements

On 13 May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation. On 28 June 2012, the IASB issued amendments to IFRS 10 that clarify the transition guidance and also provide additional transition relief. As the Corporation's accounting and consolidation practices are compliant with IFRS 10, the issuance of this standard had no impact on these unaudited Quarterly Consolidated Financial Statements.

IFRS 11 – Joint Arrangements

On 13 May 2011, the IASB issued IFRS 11 *Joint Arrangements* to replace IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers.* IFRS 11 establishes principles for the financial reporting of joint arrangements. On 28 June 2012, the IASB issued amendments to IFRS 11 that clarify the transition guidance and also provide additional transition relief. As the Corporation's accounting and consolidation practices are compliant with IFRS 11, the issuance of this standard had no impact on these unaudited Quarterly Consolidated Financial Statements.

IFRS 12 – Disclosure of Interests in Other Entities

On 13 May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* which combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. On 28 June 2012, the IASB issued amendments to IFRS 12 that clarify the transition guidance and also provide additional transition relief. The Corporation has adjusted its note disclosure in the unaudited Quarterly Consolidated Financial Statements in order to meet the new disclosure requirements under IFRS 12.

Future Accounting Changes

The International Accounting Standards Board (IASB) continues to develop and publish accounting standards in order to achieve high quality financial reporting. CMHC actively monitors the new standards and amendments to existing standards that have been issued by the IASB. The following pronouncements, listed by applicable annual accounting period effective date, have been identified as potentially having an impact on the Corporation's results and Consolidated Financial Statements in the future.

For IFRS 13 and IAS19, which are effective date of 1 January 2013, the Corporation will be adopting these changes by 31 December 2013. Treasury Board of Canada's Standard on Quarterly Financial Reports for Crown Corporations allows Management the option to only adopt new or changed policies for the first time at year end.

New Standards		**Impact to CMHC's Consolidated Financial Statements on adoption**	**Effective for annual periods beginning on or after**
IFRS 13	*Fair Value Measurement*	Potential increase in the fair value of real estate properties as well as an increase to Net Income	1 January 2013
IFRS 9	*Financial Instruments*	Not yet determined	1 January 2015
Amended Standards			
IAS 19	*Employee Benefits*	Overall change in pension expenses reflected in Net Income with a corresponding offset in actuarial gains and losses recognized in Other Comprehensive Income	1 January 2013
IAS 32	*Financial Instruments: Presentation*	Not yet determined	1 January 2014

For a more detailed description of future accounting changes and assessments made to date, see the annual Management's Discussion and Analysis, which is contained in CMHC's 2012 Annual Report, as well as Note 3 of the attached unaudited Quarterly Consolidated Financial Statements.

SEGMENTED FINANCIAL RESULTS

Financial analysis is provided for the following activities: Housing Programs and Lending Activity, Mortgage Loan Insurance Activity, 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 2012 Annual Report.

Objective 1 – Support Access to Affordable Housing for 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 and initiatives to address the housing needs of lower income Canadians including First Nations people living both off and on reserve. Other housing-related activities also 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 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.

Effective April 2011, expenditures relating to the Investment in Affordable Housing (2011-2014) Framework began to flow under the Housing Programs appropriations. The objective of this Framework is to improve the living conditions of Canadians in need by improving access to affordable, sound, suitable and sustainable housing. Expenditures relating to the two-year funding announced through Economic Action Plan 2013 for Nunavut Territory will flow under the Housing Programs 2013/14 appropriations. This funding recognizes the distinct housing needs of the Territory and will support the construction of new affordable housing.

(in millions)	Three months ended 31 March		Variance
	2013	2012	
Housing Programs Expenses	**544**	646	(102)
Operating Expenses	**29**	37	(8)
Total Appropriations	**573**	683	(110)

Appropriation spending for the three months ended 31 March 2013 was $573 million, consisting of $544 million in Housing Programs Expenses and $29 million in Operating Expenses. Housing Programs expenditures decreased by 16% ($102 million) compared to the same prior year period primarily due to the revised timing of spending under the Investment in Affordable Housing.

Related Operating Expenses of $29 million decreased by 22% ($8 million) in the three months ended 31 March 2013 compared to Q1 2012 as a result of the actions taken by CMHC in response to the federal government's review of spending.

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 2013 amounted to $573 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 and cannot exceed 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. CMHC manages the Housing Programs financial authority on a fiscal year basis (31 March year end).

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)	**2013**	**2012**
Amounts provided for Housing Programs:		
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]	**-**	-
Unused Statutory Authorities	**-**	(1)
	2,140	2,162
Less: Portion recognized in calendar 2012 (2011)	**1,514**	(1,365)
Less: *Appropriations lapsed for 2012/13 (2011/12)*[3]	***(53)***	*(114)*
2012/13 (2011/12) portions recognized in 2013 (2012)	**573**	683
Amounts authorized in 2013/14 (2012/13)		
Main estimates	**2,101**	2,140
Supplementary estimates A[1, 2]	**-**	
Supplementary estimates B[1, 3]	**-**	-
Supplementary estimates C[1]	**-**	-
	2,101	2,140
Less: Portion to be recognized in subsequent quarters	**(2,101)**	(2,140)
2013/14 (2012/13) portions recognized in 2013 (2012)	**-**	-
Total appropriations recognized - three months ended 31 March	**573**	683

[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.

[3] On November 8, 2012, Parliament voted on the 2012/13 Supplementary Estimates B. which included CMHC's reprofiling request of $3.1 million. Total authorities were available within the Vote due to savings identified as part of the Budget 2012 Spending Review (see "2012 Budget Implementation" section). The reprofiling was netted against these savings. As a result, there was no impact on CMHC's reference levels.

Total appropriations approved by Parliament for fiscal year 2012-2013 are $2,139.8 million. The total spending against this reference level as at 31 March 2013 was $2,086.4 million (98%). CMHC's lapse for fiscal year 2012/13 is $53.4 million. The under-spending of appropriations is mainly due to lower interest rates related to the existing social housing portfolio.

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.

Historically, CMHC loans generally did not permit prepayments in order to minimize interest rate risk and provide the lowest interest rate possible to clients. Where prepayment was permitted through the loan contract or by policy, certain terms and conditions, including prepayment charges, applied.

On 29 January 2013, a change to CMHC's prepayment policy was announced. For eligible existing social housing projects that require capital repairs and renovations, the Government of Canada indicated that it would accept prepayment of closed CMHC mortgages with a yield maintenance prepayment penalty consistent with private lending institutions.

Net Income

(in millions)	Three months ended 31 March		Variance
	2013	2012	
Interest income	**144**	158	(14)
Net Unrealized Gains (Losses) from Financial Instruments	**(8)**	(6)	(2)
Other Income (Expense)	**7**	6	1
Total Revenues	**143**	158	(15)
Interest Expense	**141**	153	(12)
Operating Expenses	**6**	5	1
Total Expenses	**147**	158	(11)
Income before Income Taxes	**(4)**	-	(4)
Income Taxes	**(3)**	(1)	(2)
Net Income	**(1)**	1	(2)

The Lending Activity operates on a breakeven basis as the Interest Income on the loans and investments is offset by the Interest Expense on the borrowings used to fund the loans as well as the Operating Expenses incurred to administer the program.

Total Net Income from the Lending Activity was negative $1 million for the three months ended 31 March 2013, which was fairly consistent compared with the first quarter in 2012. The decrease of $2 million was mainly driven by the variance in Net Unrealized Losses from Financial Instruments.

Capital Management

The Lending Activity's earnings are retained by the Corporation in a Reserve Fund which is subject to a statutory limit of $240 million. The components of this Reserve Fund are shown in the table below.

(in millions)	As at 31 March 2013	As at 31 December 2012	Variance
Reserve for All Other Lending-Related Items	**103**	102	1
Reserve for Unrealized Gains (Losses)	**(96)**	(118)	22
Reserve Fund for Lending	**7**	(16)	23

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 2012.

The Reserve for Unrealized Gains (Losses) was instituted to absorb unrealized fair market fluctuations as well actuarial gains and losses on Post-employment Benefits. A negative amount within the reserve has no implications on the statutory limit. This reserve has increased over the last three months largely as a result of net actuarial gains on post-employment benefits.

Objective 2 – Facilitate access to a range of Housing Options for Canadians, and Promote and Contribute to the Stability of the Financial System and the Efficient Functioning and Competitiveness of the Housing Finance Market, With Due Regard to the Corporation's Exposure to Loss

MORTGAGE LOAN INSURANCE ACTIVITY

In Canada, federally-regulated lenders and most provincially-regulated financial institutions are required by law to insure residential mortgage loans when borrowers have less than a 20 per cent down payment. These mortgages are referred to as high ratio loans. Mortgage loan insurance is available from CMHC and from private mortgage loan insurers and is backed by the Government of Canada.

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 other borrowers with higher down payments. This enables qualified borrowers 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 per cent or more is not mandatory, but supports mortgage funding 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 cover related claims and other expenses, as well as provide a reasonable return to the Government of Canada. Over the past decade, CMHC's insurance business has contributed more than $15 billion of the $17 billion contributed in total by CMHC to improving the Government's fiscal position.

INSURANCE VOLUMES

Measures	Three months ended 31 March 2013	2012	Variance
Total Insured Volumes (units)	**52,078**	114,045	(61,967)
Total Insured Volumes ($M)	**8,195**	18,954	(10,759)
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets	**48.5%**	42.9%	5.6 pts

CMHC's insured loan volumes are influenced by the economy, housing markets, competitive pressures and the regulatory environment. Total insured volumes (units) for the three months ended 31 March 2013 were approximately 54% lower than the same period in 2012. The decline can mainly be attributed to lower portfolio insurance volumes and to the reduced size of the high ratio homeowner mortgage loan insurance market as a result of the new mortgage insurance parameters that took effect in July 2012. These changes also effectively eliminated high ratio refinancing.

The Government of Canada mortgage loan insurance parameters, first implemented in October 2008 and subsequently adjusted in 2010, 2011 and 2012, specifying the types of mortgages eligible for Government-backed insurance, have reduced the size of the high-ratio homeowner mortgage loan insurance market. The size of the overall mortgage market and hence the insured component of the total market has also been impacted by the downward trend noted in housing starts and resale activity leading up to the end of the quarter.

In the three months ended 31 March 2013:

- Homeowner Purchase volumes declined approximately 23% while Homeowner Refinance volumes were 69% lower compared to the same period in 2012. The new mortgage insurance parameters that took effect in July 2012 effectively eliminated high ratio refinancing;
- Portfolio volumes were approximately 98% lower compared to the same period last year. Early in 2012, CMHC reduced access to its portfolio insurance product through an allocation process which helped return volumes to levels experienced prior to the liquidity crisis. Lenders responded with relatively high volumes of portfolio insurance early in 2012. The large decline in portfolio activity year-over-year is due to lenders changing the timing of their take-up of the portfolio insurance product to date in 2013, compared to 2012, when they insured a significant proportion of their portfolio pools in the first quarter of the year; and
- Multi-unit volumes were approximately 5% higher compared to the same period in 2012 and are on par with expectations. Combined with the volume declines in other segments described above, this has resulted in multi-unit volumes comprising a greater proportion of total insured volumes, which accounted for the 5.6 percentage point year-over-year increase in the per cent of units approved to address less-served markets. Multi-unit volumes are highly variable on a standalone quarterly basis.

CMHC'S INSURANCE-IN-FORCE

(in billions)	As at 31 March 2013	As at 31 December 2012	Variance
Total Insurance-in-Force	**562.6**	566.1	(3.5)
High Ratio Homeowner	**287.0**	290.3	(3.3)
Low Ratio Portfolio	**227.9**	229.5	(1.6)
Multi-unit Residential	**47.7**	46.3	1.4

At the end of the first quarter of 2013, CMHC's insurance-in-force was $562.6 billion, $3.5 billion lower than the insurance-in-force at year end 2012.

Consistent with year-end 2012, approximately 41% of CMHC's current insurance-in-force is comprised of low ratio loans (loans with original loan-to-value ratios of 80% or less.)

Portfolio insurance provides lenders with the ability to purchase insurance on pools of previously uninsured low loan-to-value ratio mortgages. Once insured, these mortgages can be securitized providing lenders with access to funding for mortgage assets which supports competition in the mortgage market for lenders of all sizes.

CMHC expects mortgage repayments to continue in the range of approximately $60 to $65 billion per year. These repayments off-set future increases to CMHC's insurance-in-force, resulting from new business being written.

Under Section 11 of the NHA, CMHC's total outstanding insured loan amounts may not exceed $600 billion.

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 cover related claims and other expenses and also provide a reasonable return to the Government of Canada. CMHC's Mortgage Loan Insurance Activity is operated at no cost to Canadian taxpayers.

(in millions)	Three months ended 31 March		Variance
	2013	2012	
Premiums and Fees Earned	**415**	425	(10)
Investment Income	**137**	146	(9)
Net Unrealized Gains (Losses) from Financial Instruments	**18**	51	(33)
Net Realized Gains (Losses) from Financial Instruments	**28**	61	(33)
Other Income	**1**	1	-
Total Revenues	**599**	684	(85)
Interest Expense	**1**	1	-
Operating Expenses	**59**	56	3
Net Claims Expense is comprised of:			
Losses on Claims	**133**	154	(21)
Change in Provision for Claims	**(20)**	(35)	15
Total Expenses	**173**	176	(3)
Income before IncomeTaxes	**426**	508	(82)
Income Taxes	**104**	126	(22)
Net Income	**322**	382	(60)

Revenues

Total Revenues for the three months ended 31 March 2013 were $599 million, $85 million lower than during the same period in 2012.

This decrease was largely due to the following results:

For the three months ended 31 March 2013, Premiums and Fees Earned declined by $10 million in comparison to the same period in 2012. This decrease is attributed to lower unearned premiums at year-end 2012, due to lower overall insured volumes.

Investment Income declined by $9 million compared to same period in 2012 due to lower average bond yields in 2013.

Net Realized Gains from Financial Instruments for the quarter were $33 million lower than those recognized in the first quarter of last year due to lower gains on financial instruments. Yields dropped significantly during 2011 which resulted in significant appreciation in price on bonds bought during that period and sold during the first quarter of 2012. However in 2012, yields were relatively stable and bonds sold in the first quarter of 2013 did not generate as much realized gains as bonds sold in the first quarter of 2012. Further contributing to the decrease is a $16 million impairment loss recognized during the quarter on some Mortgage Loan Insurance investment equities. As a result of more favourable prices on equities for Q1 2013, these impairment losses were offset by net realized gains on sales of other equities.

Net Unrealized Gains from Financial Instruments decreased by $33 million for the three months ended 31 March 2013 compared to the same period in 2012 as a result of fluctuations in market prices on held for trading investments.

Expenses

Total Expenses for the three months ended 31 March 2013 were $173 million, $3 million lower than expenses in the same period in 2012.

This decrease was largely due to the following results:

Net Claims Expense was $113 million in Q1 2013, $6 million lower than in the same period last year.

Net Claims Expense consists of two components:

- Losses on Claims; and
- Change in Provision for Claims.

Losses on Claims cover losses on actual claims that have been reported by lenders and paid by CMHC. Losses on Claims were $21 million lower in Q1 2013 compared to the same quarter in 2012. The lower losses are the result of declining claim volumes (14% lower than those received in Q1 2012). Following the 2012 trend, the level of recoveries also continued to improve in Q1 2013, exceeding those obtained during the same period in 2012. Increasing recoveries in any given period reduces losses on claims in that period.

The Provision for Claims is an estimate of possible future losses on mortgages that are in arrears but have not yet been reported as a claim by the lender. The estimate is the result of actuarial forecasts based on a number of economic assumptions. It is an estimate because many of these mortgages will benefit from CMHC-supported default management activities that enable borrowers to work through their financial difficulties and remain in their homes.

In the first quarter of 2013, the Provision for Claims declined by $20 million, representing an overall decline in the expectation of future losses, due primarily to the continued decline in arrears during the first quarter of 2013. The smaller decline in the Provision for Claims in Q1 2013 (negative $20 million) compared to Q1 2012 (negative $35 million) is due to a larger decline in arrears in the first quarter of 2012.

Net Income

Mortgage Loan Insurance Net Income decreased by $60 million in the three months ended 31 March 2013 compared to the same period in 2012, as a result of lower Total Revenues as described above. This was partially offset by lower Income Taxes due to lower Income before taxes.

Other Financial Measures

Measures	Three months ended 31 March		Variance
	2013	2012	
Premiums and Fees Received (total $ millions):	**210**	304	(94)
Homeowner	**77%**	84%	(7pts)
Multi-unit Residential	**23%**	16%	7pts
Operating Expense Ratio (per cent)	**14%**	13%	1pt
Severity Ratio (per cent)	**30%**	31%	(1pt)

Premiums and Fees received for the three months ended 31 March 2013 were $94 million lower compared to the same period last year as a result of lower portfolio insurance volumes and the reduced size of the high ratio homeowner mortgage loan insurance market. This, combined with the slight increase in multi-unit volumes, explains the 7 percentage point drop in Homeowner premiums and fees received and the corresponding identical increase for multi-unit residential.

The Severity Ratio is the ratio of Losses on Claims compared to the original insured loan amount for the claims paid in the period. Minor variations in CMHC's Severity Ratio, such as the one percentage point decline year-over-year, can be attributed to fluctuations in the Corporation's deficiency sales rate, housing market trends, and recovery levels.

Capital Management

(in millions) (unless otherwise indicated)	As at 31 March 2013	 31 December 2012	Variance
Mortgage Loan Insurance Retained Earnings	**12,019**	11,658	361
Mortgage Loan Insurance Appropriated Capital:			
Appropriated Retained Earnings	**10,294**	9,983	311
Accumulated Other Comprehensive Income (loss)	**1,179**	1,047	132
Total Appropriated Capital	**11,473**	11,030	443
Unappropriated Retained Earnings	**1,725**	1,675	50
Total Equity	**13,198**	12,705	493
Capital Available to Minimum Capital Required (100% MCT)	**231%**	231%	-
CMHC's Internal Capital Target (% MCT)	**175%**	175%	-
CMHC's Capital Holding Target (% MCT)	**200%**	200%	-

Under its Capital Management Framework, CMHC applies OSFI rules, guidelines and regulations for private sector financial institutions 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 January 2013, OSFI increased the margin for interest rate risk (MIRR) from 50 bps to 75 bps, which is estimated to have reduced the 31 December 2012 MCT level of 231% MCT to 220% MCT as at 1 January 2013. The change in MIRR resulted in an increase to the Corporation's Appropriated Capital of $292 million, from $11,030 million as at 31 December 2012.

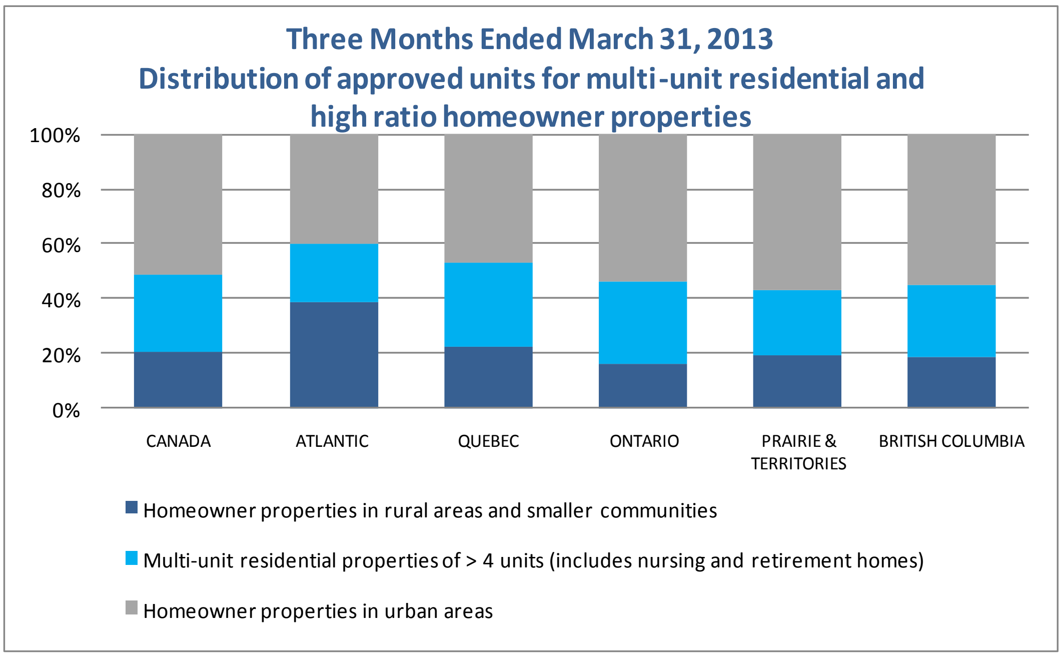
Total Mortgage Loan Insurance Available Capital was 231% MCT as at Q1 2013 (up from 220% MCT as at 1 January 2013), primarily as a result of the Corporation's continued profitability. Insurance Available Capital is more than twice the minimum capital under OSFI guidelines.

CMHC's Mortgage Loan Insurance Activity is fully capitalized with Appropriated Retained Earnings in Q1 2013 of $10,294 million and AOCI of $1,179 million.

SERVING GAPS IN THE MARKETPLACE

CMHC contributes to the stability of the financial system, including housing markets, by providing qualified Canadians in all parts of the country with access to a range of housing options in both good and bad economic times. This sets CMHC apart from private sector competitors who have the ability to select the markets in which they operate. CMHC continues to be the only mortgage loan insurer for large multi-unit residential properties including nursing and retirement homes. The Corporation's support for these forms of housing is vital 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. The share of CMHC's total homeowner and rental business to address less-served markets was nearly 49% in the first three months of 2013, up from slightly more than 47% at the end of 2012. The 10% difference in the government guarantee between CMHC and private insurers compensates CMHC for this difference.



MANAGING RISK PRUDENTLY

The profile of CMHC's insurance-in-force as at 31 March 2013 demonstrates the nature and level of risk associated with CMHC's mortgage loan insurance business. CMHC carries out rigorous due diligence in assessing applications for mortgage loan insurance. All applications for mortgage loan insurance are initially reviewed and assessed by lenders prior to submission to CMHC. Upon receipt of an application for mortgage loan insurance, CMHC then assesses the risk presented by the borrower, the property, the market in which the property is located and the application as a whole. Key borrower risk factors include the level and source of down payment and stringent credit requirements demonstrating the borrower's ability to manage financial obligations.

As shown in the following table, based on updated property values the majority (76%) of CMHC-insured mortgages currently have loan-to-value ratios of 80% or less. The average equity in CMHC's insured High and Low Ratio Homeowner loan portfolio remained stable at 45% as at 31 March 2013.

Distribution of homeowner Insurance-in-force by loan-to-value (LTV) ratio based on updated property value[1] (%)	As at			
	31 March 2013			31 December 2012
	High Ratio Homeowner	Low Ratio Portfolio	High and Low Ratio Homeowner	High and Low Ratio Homeowner
<=50%	9	39	**22**	22
>50.01% <=60%	6	20	**12**	12
>60.01% <=70%	14	24	**19**	18
>70.01% <=80%	28	17	**23**	24
>80.01% <=90%	31	0	**17**	17
>90.01% <=95%	11	0	**6**	6
>95.01%	1	0	**1**	1
Average updated loan-to-value	67	43	**55**	55
Average updated equity	33	57	**45**	45

[1] LTV calculated on the basis of updated property values reflecting changes in local resale prices.

While homebuyers could choose an amortization period greater than 25 years prior to 9 July 2012, the average amortization period at the time of mortgage approval for all CMHC-insured homeowner and multi-unit residential loans has remained stable at 25 years as at the end of 31 March 2013.

Distribution of Insurance-in-force by amortization (years)	As at			
	31 March 2013			31 December 2012
	High and Low Ratio Homeowner	Multi-unit Residential	Overall	Overall
Average amortization period at origination	25	25	**25**	25

CMHC analysis shows that more than a third of CMHC-insured high ratio borrowers with fixed-rate mortgages are consistently ahead of their scheduled amortization by at least one mortgage payment per year. The figure rises to about three quarters 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.

As at 31 March 2013, the average outstanding loan amount for homeowners who took out high ratio loans above 80% loan-to-value at origination was $176,720. This is approximately 15% higher than the average outstanding loan amount remaining on portfolio insured low ratio loans. The figures include 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 2013				31 December 2012
	High Ratio Homeowner	Low Ratio Portfolio	Multi-unit Residential (per unit)	Overall	Overall
Over $550,000	3	7	0	**4**	5
Over $400,000 to $550,000	9	8	0	**8**	8
Over $250,000 to $400,000	32	25	1	**27**	27
Over $100,000 to $250,000	47	46	22	**44**	44
Over $60,000 to $100,000	6	9	35	**10**	9
$60,000 or under	3	5	42	**7**	7
Average outstanding loan amount ($)	176,720	153,545	52,455	**140,032**	140,587

MANAGING PORTFOLIO RISK THROUGH DIVERSIFICATION

Consistent with its mandate, CMHC provides mortgage loan insurance in all Canadian markets, which spreads the Corporation's insurance-in-force across all provinces and territories, diversifying risk in different regions, each with a distinct economic outlook.

Distribution of Insurance-in-force by Province (%)	As at				
	31 March 2013				31 December 2012
	High Ratio Homeowner	Low Ratio Portfolio	Multi-unit Residential	Overall	Overall
Ontario	37.1	46.3	35.2	**40.6**	40.8
British Columbia	12.6	20.3	12.9	**15.8**	15.8
Alberta	17.6	14.6	11.1	**15.8**	15.6
Quebec	19.5	11.5	30.3	**17.1**	17.3
Nova Scotia	2.7	1.7	3.7	**2.4**	2.4
Saskatchewan	2.9	1.9	1.5	**2.4**	2.3
Manitoba	3.1	1.7	3.0	**2.5**	2.5
New Brunswick	2.2	0.8	1.0	**1.5**	1.5
Newfoundland	1.5	0.9	0.4	**1.2**	1.2
Prince Edward Island	0.3	0.2	0.2	**0.3**	0.3
Territories	0.5	0.1	0.7	**0.4**	0.3

MANAGING PORTFOLIO QUALITY THROUGH PRUDENT UNDERWRITING

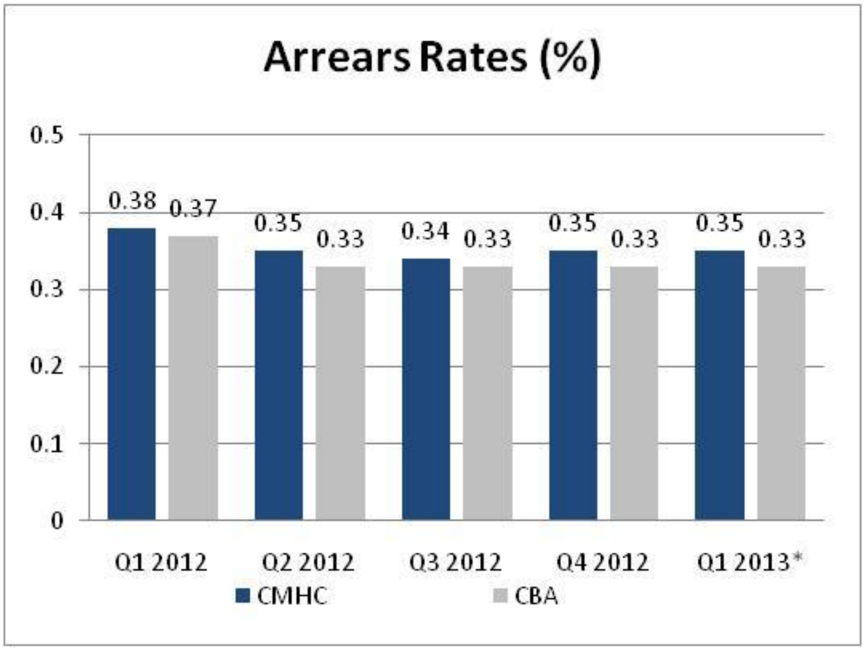
Canadian credit scores generally range between 300 and 900. The higher the score, the lower the risk of borrower default. In order to qualify for a CMHC-insured high ratio loan, the borrower/co-borrower must have a credit score of 600, consistent with the first round of government guarantee parameters introduced in 2008.

Distribution of Insurance-in-force by Credit Score at Origination (%)	As at			
	31 March 2013		31 December 2012	
	High-Ratio Homeowner	Low-Ratio Portfolio	High-Ratio Homeowner	Low-Ratio Portfolio
No score	**1**	1	**1**	1
= 0 < 600	**1**	1	**1**	1
>=600 < 660	**9**	4	**9**	4
>=660 < 700	**15**	9	**15**	9
>=700	**74**	85	**74**	85
Average Credit Score at Origination	**726**	755	**726**	755

Distribution of Approved Loans by Credit Score at Origination (%)	Three months ended 31 March			
	2013		2012	
	High-Ratio Homeowner	Low-Ratio Portfolio	High-Ratio Homeowner	Low-Ratio Portfolio
No score	**0**	0	**0**	0
= 0 < 600	**0**	0	**0**	1
>=600 < 660	**5**	1	**8**	3
>=660 < 700	**13**	4	**15**	8
>=700	**82**	95	**77**	88
Average Credit Score at Origination	**742**	770	**736**	759

CMHC has been able to maintain its strong market position and manage its risks while applying prudent underwriting practices. This is demonstrated by an average credit score of 726 for CMHC's high-ratio homeowner insurance-in-force at 31 March 2013. The high average credit score demonstrates a strong ability among homebuyers with CMHC-insured mortgages to manage their debts.

CMHC's overall arrears rate as at March 31, 2013 was 0.35%, unchanged from year-end 2012, and a 0.03 percentage point improvement compared to the same period last year. The decline in the overall arrears rate year-over-year was driven by improving Homeowner arrears rates, particularly in Q2 and Q3 2012, while Portfolio arrears rates have remained relatively stable. CMHC's mortgage arrears rate reported in recent quarters has been in line with the industry trend as reported by the Canadian Bankers' Association (CBA).



* Latest available CBA arrears rate is for January 2013.

CMHC calculates its arrears rate as the ratio of all loans that are more than 90 days past due (i.e. no payments for 90 days on homeowner loans) 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 calculated in the same way that the Canadian Bankers Association (CBA) calculates and reports 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 helping ensure lenders and, in turn, borrowers have access to an adequate supply of funding for residential mortgages throughout changing economic cycles and market conditions.

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

Under the NHA MBS program, Approved Issuers pool insured residential mortgages into marketable NHA MBS which provide investors with the opportunity to hold high quality, secure investments in Canadian residential mortgages. This enhances the efficiency and increases competition in the mortgage market. Through the CMB program, Canada Housing Trust (CHT) sells CMB to domestic and international investors with the proceeds used to purchase NHA MBS, which further enhances the supply of mortgage funds for Canadians.

SECURITIES GUARANTEED

Measures	Three months ended 31 March 2013	2012	Variance
Securities Guaranteed ($M)	**27,268**	28,784	(1,516)
Market NHA MBS	**17,268**	18,284	(1,016)
CMB	**10,000**	10,500	(500)
Per cent of residential mortgages securitized[1]	**29.1%**	28.3%	0.8pt

[1]Information as at 31 January 2013

For the three months ended 31 March 2013, a total of $27.3 billion new guarantees were granted by CMHC. This is in line with the $28.8 billion guaranteed as at 31 March 2012.

Under the NHA MBS program, Approved Issuers issued and CMHC provided new guarantees for $17.3 billion in market NHA MBS as at 31 March 2013. Through the CMB program, CMHC issued and guaranteed $10 billion in Canada Mortgage Bonds.

The following table summarizes the CMB and IMPP issuances and maturities as at 31 March 2013.

	CMB		IMPP[1]	
	As at		As at	
(in billions)	31 March 2013	31 December 2012	31 March 2013	31 December 2012
Opening Balance	**203**	201	**53**	55
Issuances/ Purchases	**10**	40	**-**	-
Maturities	**-**	38	**1**	2
Closing Balance	**213**	203	**52**	53

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

CMHC's guarantees-in-force totalled $393 billion as at 31 March 2013, which is 3% higher than total guarantees-in-force at 31 December 2012 ($382 billion) and 5% higher than the $373 billion for the same period last year. CMHC's total outstanding guarantees limit is $600 billion.

FOCUS ON MORTGAGE FUNDING IN CANADA

Funding costs and the availability of funds in Canada have been relatively less volatile than in other countries as Canadian lenders are supported by a diverse and stable funding base. This funding base includes deposits from customers and capital markets funding (e.g. securitization, covered bonds and other corporate debt).

Historically, deposits have been the primary mortgage funding source for Canadian deposit-taking institutions, estimated to account for almost 60% of the funding mix. Today, deposits remain one of the lowest cost funding sources.

Next to deposits, CMHC's securitization programs are among the most cost-effective funding sources for mortgage lenders in Canada. The National Housing Act Mortgage-Backed Securities (NHA MBS) program and Canada Mortgage Bonds (CMB) program allow larger and smaller mortgage lenders to access an adequate supply of mortgage funds in good and bad times, thus also facilitating market competition and promoting stability.

In 2008 CMHC took steps to help foster competition in the mortgage market by helping ensure that smaller lenders have access to CMB funding. Small lender participation in the CMB program increased from 19% in 2006 to 47% as at December 2012. CMHC's securitization programs in general, and the CMB program in particular, played an important role in supporting smaller lenders during the recent financial crisis.

The reliability of CMHC's securitization programs ensure that smaller lenders continue to play an important role in maintaining the competitiveness of the Canadian residential mortgage market.

Net Income - Securitization

(in millions)	Three months ended 31 March 2013	Three months ended 31 March 2012	Variance
SECURITIZATION			
Interest Income from NHA MBS-Loans and Receivables	**410**	426	(16)
Guarantee Fees Earned	**60**	58	2
Income from Investment Securities	**7**	9	(2)
Net Unrealized Gains (Losses) from Financial Instruments	**-**	3	(3)
Net Realized Gains (Losses) from Financial Instruments	**1**	35	(34)
Other Income	**4**	3	1
Total Revenues	**482**	534	(52)
Interest Expense	**410**	426	(16)
Operating Expenses	**4**	3	1
Total Expenses	**414**	429	(15)
Income before Income Taxes	**68**	105	(37)
Income Taxes	**17**	27	(10)
Net Income	**51**	78	(27)

For the three months ended 31 March 2013 Securitization Net Income was $51 million, a decrease of 35% ($27 million) when compared to the same prior year period. This decrease was mainly attributable to lower realized gains on sales due to the liquidation of investments in 2012 as a result of the implementation of a new Strategic Asset Allocation for the Securitization Activity.

Other Financial Measures

Measures	Three months ended 31 March 2013	Three months ended 31 March 2012	Variance
Guarantee Fees Received ($M)	**54**	57	(3)
Operating Expense Ratio (per cent)	**5.7%**	4.5%	1.2pts

Guarantee Fees Received for the three months ended remained relatively consistent when compared to the same period last year.

Operating Expense ratio for the three months ended 31 March 2013 was higher by one percentage points when compared to Q1 2012 as a result of higher pension expenses.

Capital Management

(in millions) (unless otherwise indicated)	As at 31 March 2013	31 December 2012	Variance
Securitization Appropriated Capital:			
Appropriated Retained Earnings	**830**	781	49
Accumulated Other Comprehensive Income	**6**	8	(2)
Total Appropriated Capital	**836**	789	47
Unappropriated Retained Earnings	**444**	439	5
Securitization Retained Earnings	**1,274**	1,220	54
Total Equity	**1,280**	1,228	52
% of Equity against Target Capital	**153%**	156%	(3pts)

CMHC's Securitization capitalization methodology is based on regulatory and economic capital principles. Total Securitization Retained Earnings at 31 March 2013 were $1,274 million of which $830 million was appropriated for capitalization. Target Capital increased from $789 million as of 31 December 2012 to $836 million as of 31 March 2013, due to an increase in guarantees in force and an increase in capital requirements under OSFI guidelines for interest rate risk effective 1 January 2013. As at 31 March 2013, the Securitization Activity had Appropriated Retained Earnings and AOCI representing 100% of its Target Capital. Securitization Capital Available represented 153% of its Target Capital as of 31 March 2013.

Net Income – Canada Housing Trust (CHT)

CHT's functions are limited to the acquisition of interests in eligible housing loans such as NHA MBS and the issuance of CMB. The CMB are guaranteed by CMHC under its Securitization Activity.

CHT revenue is earned primarily from investment income. Although CHT's assets represent 70% of CMHC's total assets, they contribute no Net Income to the Corporation as the revenue derived from this investment income is used to cover all operating expenditures and CMB interest expense. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations.

(in millions)	Three months ended 31 March 2013	2012	Variance
CHT			
Interest Income from NHA MBS -Loans Receivable	**1,309**	1,536	(227)
Other Income	**41**	45	(4)
Total Revenues	**1,350**	1,581	(231)
Interest Expense	**1,306**	1,533	(227)
Operating Expenses	**44**	48	(4)
Total Expenses	**1,350**	1,581	(231)
Net Income	**-**	-	-

Interest Income and Interest Expense from CHT's NHA MBS and CMB for the three months ended 31 March 2013 decreased by 15% ($227 million) when compared to the same period in 2012. These decreases were the results of lower interest rates on CMB issuances.

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.

The Corporation maintains a structured approach to Enterprise Risk Management (ERM) and a strong governance framework. The newly established Risk Management Committee assists the Board in fulfilling its oversight responsibilities with respect to the identification and management of the Corporation's principal risks.

Enterprise Risk Management Policy

CMHC's ERM Policy, which is reviewed and approved annually by the Board of Directors, ensures a coordinated 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 the report, Economic Action Plan 2013 announced new funding to renew the Investment in Affordable Housing and to support the construction of housing in Nunavut. The federal budget also introduced new measures related to portfolio insurance aimed at increasing market discipline and reducing taxpayer exposure to the housing sector. The changes include gradually limiting the insurance of low-ratio mortgages to only those mortgages that will be used in CMHC securitization programs, and prohibiting the use of any government-backed mortgage insurance as collateral in securitization vehicles that are not sponsored by CMHC. Financial institutions will continue to have access to a broad array of financing options, including CMHC-sponsored securitization programs and the recently implemented framework for covered bonds. Individual Canadians applying for mortgages will not be impacted directly by the proposed changes. The Department of Finance will be consulting with stakeholders on the implementation details and timing of these measures.

The notes to the unaudited Quarterly Consolidated Financial Statements include details on market, credit and liquidity risks. Following are details of significant changes to risks reported in the 2012 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

CMHC monitors and reports prepayment risk through quarterly scenario analyses modelled using average historical prepayment activity. Based on historical activity, CMHC could face an estimated impact on annual earnings of $1.33 million per year over a 13-year period.

The Lending Activity has not experienced any significant changes to credit and interest rate risk.

Mortgage Loan Insurance Activity

In June the Government of Canada announced further adjustments to the rules for government-backed insured mortgages to help strengthen Canada's housing market. These changes, which came into effect on 9 July 2012, have reduced insured mortgage volumes below those projected in the 2012-16 Summary of the Corporate Plan.

Securitization Activity

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

CHANGES IN KEY MANAGEMENT PERSONNEL

On 4 February 2013, the following changes were made to CMHC's Management Committee:

- Brian Naish joined CMHC in the position of Chief Financial Officer; and
- Serge Gaudet assumed the role of Sector Head, Technology and Administration.

EVENTS AFTER THE REPORTING PERIOD

Pension Plan

CMHC recently completed a review of the pension plan to ensure its sustainability over the long term. As a result, CMHC is implementing a new defined contribution (DC) pension plan for new employees joining the Corporation and for contract employees who become eligible, effective 4 April 2013. Employees under the DC plan will make contributions of at least 3% and up to 6% of pensionable earnings (salary and incentive) and CMHC will make matching contributions based on the employee's age and years of participation. Current pension plan members will remain in the CMHC defined benefit (DB) pension plan. Effective 1 January 2014, changes will be made to further align CMHC's DB plan with the Federal Public Service Pension Plan. For example, the benefit formula will be modified to reflect a Plan member's best five *consecutive* years of pensionable earnings. CMHC has already taken steps to align its employee contribution rates with those of the federal public service. With these changes, CMHC will continue to provide an attractive total compensation package while effectively managing the costs to the Corporation.

Changes in Key Management Personnel

On 3 May 2013, the Government of Canada announced that Robert P. Kelly was appointed Chairperson of the CMHC Board of Directors.

On 8 May 2013, CMHC announced the following changes to Management Committee:

- Pierre Sabourin will join CMHC on 3 June 2013 as Senior Vice-President, Corporate Services;
- Mark McInnis, Vice-President, Insurance Underwriting, Servicing and Policy left the Corporation; and
- Karen O'Hanley assumed the role of Acting Vice-President, Insurance Underwriting, Servicing and Policy.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2013

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, FCPA, FCA
President and Chief Executive Officer

Brian Naish, CPA, CA
Chief Financial Officer

22 May 2013

Consolidated Balance Sheet

(in millions of Canadian dollars)	Notes	31 March 2013	31 December 2012
ASSETS			
Cash and Cash Equivalents		**1,490**	1,220
Securities Purchased Under Resale Agreements		**248**	63
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		**969**	928
Held for Trading		**393**	415
Available for Sale		**19,235**	19,304
Investment in NHA Mortgage-Backed Securities:			
Loans and Receivables	6	**265,133**	255,967
Loans:			
Designated at Fair Value through Profit or Loss		**6,432**	6,591
Other		**4,374**	4,440
Investments in Housing Programs		**734**	748
Accrued Interest Receivable		**1,567**	959
Deferred Income Tax Assets		**40**	58
Derivatives		**127**	131
Due from the Government of Canada	7	**391**	309
Accounts Receivable and Other Assets		**872**	907
		302,005	292,040
LIABILITIES			
Securities Sold Under Repurchase Agreements		**605**	425
Borrowings:	9		
Canada Mortgage Bonds		**211,503**	201,676
Capital Market Borrowings		**1,842**	1,848
Borrowings from the Government of Canada:			
Designated at Fair Value through Profit or Loss		**6,477**	6,659
Other		**56,779**	57,595
Accrued Interest Payable		**1,436**	753
Derivatives		**46**	46
Accounts Payable and Other Liabilities		**1,202**	1,257
Provision for Claims	10	**976**	996
Unearned Premiums and Fees		**6,726**	6,940
		287,592	278,195
Commitments and Contingent Liabilities	19		
EQUITY OF CANADA			
Contributed Capital		**25**	25
Accumulated Other Comprehensive Income		**1,162**	1,038
Retained Earnings		**13,226**	12,782
		14,413	13,845
		302,005	292,040

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 2013	2012
REVENUES			
Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables		**1,719**	1,962
Premiums and Fees		**475**	483
Interest Earned on Loans		**134**	149
Income from Investment Securities		**143**	152
Net Realized Gains from Financial Instruments	12	**29**	65
Net Unrealized Gains from Financial Instruments	12	**11**	46
Other Income		**28**	28
		2,539	2,885
Parliamentary Appropriations for:	7		
Housing Programs		**544**	646
Operating Expenses		**29**	37
		573	683
		3,112	3,568
EXPENSES			
Interest Expense	9	**1,839**	2,086
Housing Programs	7	**544**	646
Net Claims		**113**	119
Operating Expenses		**117**	122
		2,613	2,973
INCOME BEFORE INCOME TAXES		**499**	595
INCOME TAXES	11		
Current		**116**	133
Deferred		**5**	15
		121	148
NET INCOME		**378**	447
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be subsequently reclassified to Net Income:			
Net Unrealized Gains from Available for Sale Financial Instruments (net of tax)		**154**	53
Reclassification of Prior Years' Net Unrealized (Gains) Realized in the Period in Net Income (net of tax)		**(30)**	(59)
Total items that will be subsequently reclassified to Net Income		**124**	(6)
Items that will not be subsequently reclassified to Net Income:			
Net Actuarial Gains (Losses) on Post-employment Benefits (net of tax)		**66**	(8)
		190	(14)
COMPREHENSIVE INCOME		**568**	433

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 2013	**25**	2,045	9,983	781	(27)	**12,782**	**1,038**	**13,820**	**13,845**
Net Income (Loss)	-	379	-	-	(1)	378	-	378	378
Other Comprehensive Income	-	42	-	-	24	66	124	190	190
Set Aside for Capitalization	-	(360)	311	49	-	-	-	-	-
Balance at End of period 31 March 2013	**25**	2,106	10,294	830	(4)	**13,226**	**1,162**	**14,388**	**14,413**
Balance, 1 January 2012	**25**	1,446	9,028	699	(9)	**11,164**	**902**	**12,066**	**12,091**
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**

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 2013	Three months ended 31 March 2012
CASH FLOWS PROVIDED BY (USED IN) OPERATING			
Net Income		**378**	447
Items Not Affecting Cash or Cash Equivalents:			
Amortization of Premiums and Discounts on Financial Instruments		**22**	18
Deferred Income Taxes		**18**	16
Change in Fair Value of Financial Instruments Carried at Fair Value		**(11)**	(46)
Net (Gain) Loss on Financial Instruments	12	**(29)**	(65)
Net Change in Non-cash Operating Assets and Liabilities			
Accounts Receivable and Other Assets		**35**	(74)
Accrued Interest Receivable		**(608)**	(929)
Due from the Government of Canada		**(82)**	(125)
Unearned Premiums and Fees		**(214)**	(110)
Provision for Claims		**(20)**	(35)
Accounts Payable and Other Liabilities		**(55)**	170
Accrued Interest Payable		**683**	918
Derivatives		**1**	(2)
Other		**20**	(14)
Net Change from Loans and Investments in Housing Programs		**233**	249
Net Change in NHA MBS Loans and Receivables		**(9,156)**	(9,909)
Repayments of Capital Market Borrowings	9	**-**	-
Borrowings from the Government of Canada:	9		
Issuances		**260**	442
Repayments		**(1,266)**	(1,205)
Canada Mortgage Bonds:	9		
Issuances		**9,951**	10,504
Repayments		**-**	-
		160	250
CASH FLOWS PROVIDED BY (USED IN) INVESTING			
Investment Securities:			
Sales and Maturities		**2,419**	4,239
Purchases		**(2,304)**	(4,076)
Change in Securities Purchased Under Resale Agreements		**(185)**	(46)
		(70)	117
CASH FLOWS PROVIDED BY (USED IN) FINANCING			
Change in Securities Sold Under Repurchase Agreements		**180**	225
		180	225
Increase in Cash and Cash Equivalents		**270**	592
Cash and Cash Equivalents			
Beginning of Period		**1,220**	1,401
End of Period		**1,490**	1,993
Represented by:			
Cash		**(34)**	(58)
Cash Equivalents		**1,524**	2,051
		1,490	1.993
Supplementary Disclosure of Cash Flow			
Amount of Interest Received During the Period		**1,433**	1,173
Amount of Interest Paid During the Period		**1,201**	1,246
Amount of Dividends Received During the Period		**16**	15
Amount of Income Taxes Paid During the Period		**145**	175

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 2013

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 unaudited 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 or provides benefits. The Corporation continues to meet the requirements of Section 89(6) of the FAA.

CMHC's mandate is to promote the construction, repair, and modernization of housing; to promote the improvement of housing and living conditions, housing affordability, and choice; to promote the availability of low-cost financing for housing; to promote the national well-being of the housing sector, and in addition and with respect to activities related to mortgage loan insurance and guarantee programs and in administering the Canadian covered bond legal framework, to promote the efficient functioning and competitiveness of the housing finance market, and to promote and contribute to the stability of the financial system, including the housing market, with due regard to the Corporation's exposure to loss. 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 the 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. The assets and liabilities of CHT are neither owned by nor held for the benefit of 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. 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.

Functional Currency

These unaudited Quarterly Consolidated Financial Statements 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 2012. These unaudited Quarterly Consolidated Financial Statements were approved and authorized for issue by CMHC's Audit Committee on 22 May 2013.

The significant accounting policies used in the preparation of these unaudited Quarterly Consolidated Financial Statements are summarized below and conform to IFRS effective as at 31 December 2012 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 Corporations 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 IFRS 10 *Consolidated Financial Statements* (IFRS 10), 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 also consolidated as required by IFRS 10 on the basis that CMHC controls the fund and is included in the investment portfolio within the Mortgage Loan Insurance Activity.

Inter-entity balances and transactions have been eliminated in these 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 unaudited 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
- Defined benefit liabilities for post-employment benefit plans are recognized at the present value of the defined benefit obligations, offset by the fair value of plan assets.

Seasonality

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

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, Available for Sale, Loans and Receivables, and Held to Maturity. 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 its intent and the characteristics of the financial instrument.

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 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 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 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 classified as Designated at Fair Value through Profit or Loss. 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 Net Realized Gains (Losses) from Financial Instruments.
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.

Impairment of Financial Instruments

Management assesses at each Consolidated Balance Sheet date whether there is objective evidence that financial assets are impaired. A financial asset is considered impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event(s) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

As part of its assessment, Management performs a review for any objective evidence of impairment, which includes observable data indicating significant financial difficulty of the issuer, defaults or delinquencies in the payment of interest or principal, the disappearance of an active market for the financial asset because of the issuer's financial difficulties, and bankruptcy or other financial reorganization of the issuer. Credit rating downgrades are considered in the Corporation's assessment, although they alone might not represent objective evidence of impairment.

AFS Equity Investment Securities: For equity Investment Securities classified as AFS, objective evidence of impairment also includes if there has been a significant or prolonged decline in fair value below cost, or if significant adverse changes have taken place in the technological, market, economic or legal environment in which the issuer operates. In determining whether a decline in fair value below cost is significant or prolonged, the Corporation applies certain quantitative tests to its total position in each equity security.

For equity Investment Securities classified as AFS that are identified as impaired, the cumulative unrealized loss previously recorded in OCI is reclassified from OCI and recognized as an impairment loss in Net Income for the period through Net Realized Gains (Losses) from Financial Instruments. Further declines in the fair value of impaired AFS equity instruments are recognized in Net Income, while increases in fair value are recorded in OCI.

AFS Debt Investment Securities: For debt Investment Securities classified as AFS that are identified as impaired, the cumulative unrealized loss previously recorded in OCI is reclassified from OCI and recognized as an impairment loss in Net 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 and the increase can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed in Net Income, with the reversal limited in amount to the previously recognized impairment loss. Otherwise, subsequent increases in fair value are recorded in OCI.

Loans and Receivables and HTM Financial Assets: For financial assets classified as Loans and Receivables or HTM that are identified as impaired, the carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses not yet incurred) discounted at the original effective interest rate, with the impairment loss being recorded in Net Income through Net Realized Gains (Losses) from Financial Instruments. Previously recognized impairment losses can be reversed if the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses can be reversed to the extent that the carrying amount of the financial asset does not exceed what the amortized cost would have been had the impairment not occurred.

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of cash and short-term highly liquid investments with a term to maturity of 98 days or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash Equivalents funded by Securities Sold Under Repurchase Agreements are classified as HTM. Otherwise, Cash Equivalents in the Lending Activity are Designated at Fair Value and those 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 Activity are comprised of fixed income and equity securities and are classified as AFS, HFT or Designated at Fair Value through Profit or Loss. The Securitization Activity holds fixed income Investment Securities classified as AFS or Designated at Fair value through Profit and 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 transactions and are classified as Loans and Receivables.

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.

They 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. These 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 represents the transfer of NHA MBS securities issued by Canadian financial institutions (Issuers) to CMHC under the Insured Mortgage Purchase Program (IMPP) or to 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. 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 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 Consolidated 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 the amortization, net operating losses and disposal losses are reimbursed through Parliamentary appropriations.

Derivatives

The Corporation enters into derivatives such as interest rate swaps, interest rate futures and equity index futures in order to manage its exposures to market risks. Derivatives 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 unaudited 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.

The Corporation does not have derivatives embedded in other financial instruments (host contracts) which require separation.

The net of interest income and expense 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 (unearned premiums) 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 unaudited Quarterly Consolidated Balance Sheet date and therefore relate to claims that may occur from the unaudited 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 unaudited 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 unaudited 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 are increased when the DAC assets 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.

Net Estimated Borrower Recoveries: CMHC estimates the net borrower recoveries related to claims paid, based on historical data in accordance with Canadian accepted actuarial practice. Changes to the estimated borrower recovery balance are recorded in Net Claims in the year in which they are determined. Net Estimated Borrower Recoveries are included in Accounts Receivable and Other Assets.

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 Claims 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 unaudited Quarterly Consolidated Balance Sheet date that are expected to be in effect when the asset is realized or the liability is settled. The carrying amount of Deferred Income Tax Assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the Deferred Income Tax Asset to be utilized.

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 recognized in Other Income on the same basis as the related expenses.

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. Subsequent sales are treated as re-issuance of the debt, with gains and losses deferred 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 unaudited 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 unaudited 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 on 1 January by a percentage equivalent to the total average change in the Consumer Price Index over the 12-month period ending 30 September. 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 unaudited 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 properties are initially recognized at cost plus transactions costs. Subsequent to initial recognition, they are 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 unaudited 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 unaudited 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. CURRENT AND FUTURE ACCOUNTING CHANGES

Current Accounting Changes

Effective 1 January 2013, CMHC has adopted the following accounting changes:

- On 16 December 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures* that provide new disclosure requirements in netting arrangements to enable users of the financial statements to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. The Corporation has adjusted its note disclosure in the unaudited Quarterly Consolidated Financial Statements in order to meet the new disclosure requirements under IFRS 7 for netting arrangements.
- On 13 May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation. On 28 June 2012, the IASB issued amendments to IFRS 10 that clarify the transition guidance and also provide additional transition relief. As the Corporation's accounting and consolidation practices are compliant with IFRS 10, the issuance of this standard had no impact on these unaudited Quarterly Consolidated Financial Statements.
- On 13 May 2011, the IASB issued IFRS 11 *Joint Arrangements* to replace IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers.* IFRS 11 establishes principles for the financial reporting of joint arrangements. On 28 June 2012, the IASB issued amendments to IFRS 11 that clarify the transition guidance and also provide additional transition relief. As the Corporation's accounting and consolidation practices are compliant with IFRS 11, the issuance of this standard had no impact on these unaudited Quarterly Consolidated Financial Statements.

- On 13 May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* which combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. On 28 June 2012, the IASB issued amendments to IFRS 12 that clarify the transition guidance and also provide additional transition relief. The Corporation has adjusted its note disclosure in the unaudited Quarterly Consolidated Financial Statements in order to meet the new disclosure requirements under IFRS 12.

Future Accounting Changes

CMHC has identified new standards and amendments to existing standards that have been issued by the IASB. The following pronouncements have been determined to potentially have an impact on the Corporation's results and Consolidated Financial Statements in the future. For standards IFRS 13 and IAS19 which are effective 1 January 2013, the Corporation will be adopting the changes by 31 December 2013. Treasury Board of Canada's Standard on Quarterly Financial Reports for Crown Corporations allows Management the option to only adopt new or changed policies for the first time at year end. No additional standards have been issued that impact CMHC except for those disclosed in its unaudited Quarterly Consolidated Financial Statements for the period ended 31 March 2013.

- On 13 May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. 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.
- 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 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 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 new requirement to use the same discount rate used to measure the pension obligation to calculate interest income on plan assets rather than the expected rate of return that was previously allowed. These amendments also include enhanced disclosure requirements.

Effective Date of 1 January 2014

- On 16 December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. Earlier application is permitted. The Corporation has not yet determined the impact of this amendment on its Consolidated Financial Statements.

Effective Date of 1 January 2015

- On 12 November 2009, the IASB issued IFRS 9 *Financial instruments* 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 this new standard 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 CHT indicates that, as per IFRS10, CMHC controls CHT. CMHC guarantees the timely payment of principal and interest on the Canada Mortgage Bonds, which exposes it to the majority of risks of CHT and as a result, CMHC consolidates CHT. 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 and CMHC, in effect, has the power to govern Nordea's policies so as to obtain benefits from its activities. 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. Per IAS 39 *Financial Instruments – Recognition and Measurement* requirements, CMHC has determined that the sellers of NHA MBS to the Corporation failed the derecognition criteria as they retain the risk and rewards of the NHA MBS through swap agreements; and

- Impairment of Available for Sale Financial Instruments – significant judgment is applied in assessing if there is objective evidence of impairment, including whether declines in the fair value of AFS equity instruments below cost are significant and/or prolonged.

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. Actual results could differ from these estimates and assumptions. Where these differ, 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 unaudited 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 10 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 10 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. See Note 16 for further details.

5. SECURITIES

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

	31 March 2013				31 December 2012	
(in millions)	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost[1]	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value through Profit or Loss	**907**	**62**	**-**	**969**	872	928
Available for Sale	**14,931**	**947**	**(11)**	**15,867**	14,969	15,930
Equities						
Held for Trading	**407**	**-**	**(14)**	**393**	444	415
Available for Sale	**2,734**	**664**	**(30)**	**3,368**	2,930	3,374

[1]Amortized cost for Equities is acquisition cost less impairment losses, if any.

The cumulative unrealized loss from Available for Sale fixed income and equity investments of $41 million (31 December 2012 – $34 million) has been recorded in Accumulated Other Comprehensive Income and has not been recognized as an impairment loss in Net Income.

During the three months ended 31 March 2013, $16.3 million (three months ended 31 March 2012 – nil) of impairment losses on Equities was recognized in Net Income through Net Realized Gains from Financial Instruments and no reversals of previously realized fixed income investment security impairments occurred during the period.

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

For the three month period ending 31 March 2013, there were disbursements of Investment in NHA Mortgage-Backed Securities – Loans and Receivables in the amount of $9,951 million and repayments of $795 million (three months ended 31 March 2012 – disbursements of $10,504 million and repayments of $595 million).

7. HOUSING PROGRAMS

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

	Three months ended 31 March	
(in millions)	**2013**	**2012**
Funding Under Long-Term Commitments for Existing Social Housing	**445**	448
Funding for New Commitments of Affordable Housing	**97**	196
Housing Support	**1**	1
Housing Policy, Research and Information Transfer	**1**	1
Total Housing Programs Expenses	**544**	646
Operating Expenses	**29**	37
Total Appropriations	**573**	683

The following table presents the changes in the Due from (to) the Government of Canada account. The outstanding balance as of 31 March 2013 is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 31 March	
(in millions)	**2013**	**2012**
Due from (to) the Government of Canada		
Balance at Beginning of Period	**309**	403
Total Appropriations	**573**	683
Total Appropriations Received	**(490)**	(555)
Reimbursements	**(1)**	(3)
Balance at End of Period	**391**	528

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 2012 – $600 billion).

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

	As at	
(in billions)	31 March 2013	31 December 2012
NHA MBS[1]	**180**	179
CMB[2]	**213**	203
Total Guarantees-in-Force	**393**	382

[1]Includes $32 billion (31 December 2012 – $38 billion) in NHA MBS held as collateral in CMHC's IMPP Program

[2]Includes $2 billion (31 December 2012 – $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 2013 is $1,286 million (three months ended 31 March 2012 – $1,506 million).

For the three months ended 31 March 2013, CHT issued Canada Mortgage Bonds in the amount of $9,951 million (three months ended 31 March 2012 – $10,504 million). There were no in maturities for the three months ended 31 March 2013 (three months ended 31 March 2012 – nil).

Capital Market Borrowings

The interest expense related to Capital Market Borrowings for the three months ended 31 March 2013 is $19 million (three months ended 31 March 2012 – $23 million).

CMHC made no repayments for the three months ended 31 March 2013 relating to its Capital Market Borrowings (three months ended 31 March 2012 – nil).

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 2013 is $540 million (three months ended 31 March 2012 – $565 million).

For the three months ended 31 March 2013, CMHC had new borrowings in the amount of $260 million (three months ended 31 March 2012 – $442 million), and repayments in the amount of $1,266 million (three months ended 31 March 2012 – $1,205 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)	Three months ended 31 March 2013	2012
Balance at Beginning of Period	**6,394**	6,731
Premium Deferred on Contracts Written in the Period	**194**	301
Premiums Earned in the Period	**(409)**	(418)
Application Fees Deferred on Contracts Written in the Period	**3**	4
Application Fees Earned in the Period	**(3)**	(3)
Balance at End of Period	**6,179**	6,615

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)	Three months ended 31 March 2013	2012
Balance at Beginning of Period	**996**	1,041
Losses on Claims During the Period	**(133)**	(154)
Provision for Claims Incurred During the Period	**113**	119
Balance at End of Period	**976**	1,006

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 2012 – $600 billion).

At 31 March 2013, insurance-in-force, which represents the risk exposure of the CMHC Mortgage Loan Insurance Activity, totalled $563 billion (31 December 2012 – $566 billion).

11. INCOME TAXES

The following table presents the total income taxes.

(in millions)	Three months ended 31 March	
	2013	2012
Other Comprehensive Income:		
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**53**	16
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	**(11)**	(23)
Net Actuarial Gains (Losses) on Employee Benefit Plans	**16**	(3)
Income Tax Expense (Benefit) on Quarterly Consolidated Other Comprehensive Income	**58**	(10)
Income Tax Expense on Quarterly Consolidated Net Income	**121**	148
Total	**179**	138

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 recorded and 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 that 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 by discounting expected future cash flows, making maximum use of directly or indirectly observable market data such as yield curves and implied forward curves constructed from benchmark interest rates and credit spreads of identical or similar instruments.

Level 3: Financial assets and liabilities not quoted in active markets that are measured based on discounting expected future cash flows. Where possible, inputs are based on observable market data such as yield curves and implied forward curves constructed from benchmark interest rates and credit spreads of identical or similar instruments. Where observable inputs are not available, unobservable inputs are used, mainly including assumptions related to credit and liquidity risk premiums.

The following table represents the fair value hierarchy in which fair value measurements are categorized for assets and liabilities recorded on the unaudited Quarterly Consolidated Balance Sheet.

	As at 31 March 2013			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and Cash Equivalents	253	633	-	**886**
Investment Securities:				
Designated at Fair Value through Profit or Loss	763	64	142	**969**
Held for Trading	393	-	-	**393**
Available for Sale	19,210	10	15	**19,235**
Loans:				
Designated at Fair Value through Profit or Loss	-	6,432	-	**6,432**
Derivatives	-	127	-	**127**
Financial Assets not recorded at Fair Value and Other Assets				**273,963**
Total Assets	20,619	7,266	157	**302,005**
Liabilities and Equity of Canada				
Borrowings:				
Capital Market Borrowings	1,842	-	-	**1,842**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	6,477	-	**6,477**
Derivatives	-	46	-	**46**
Liabilities and Equity not recorded at Fair Value				**293,640**
Total Liabilities and Equity of Canada	1,842	6,523	-	**302,005**

	As at 31 December 2012			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and Cash Equivalents	177	619	-	**796**
Investment Securities:				
Designated at Fair Value through Profit or Loss	726	65	137	**928**
Held for Trading	415	-	-	**415**
Available for Sale	19,290	-	14	**19,304**
Loans:				
Designated at Fair Value through Profit or Loss	-	6,591	-	**6,591**
Derivatives	-	131	-	**131**
Financial Assets not recorded at Fair Value and Other Assets				**263,875**
Total Assets	20,608	7,406	151	**292,040**
Liabilities and Equity of Canada				
Borrowings:				
Capital Market Borrowings	1,848	-	-	**1,848**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	6,659	-	**6,659**
Derivatives	-	46	-	**46**
Liabilities and Equity not recorded at Fair Value				**283,487**
Total Liabilities and Equity of Canada	1,848	6,705	-	**292,040**

During the three months ended 31 March 2013, there were no significant transfers between Level 1 and Level 2.

Comparison of Carrying and Fair Values

The following table compares the carrying and fair values of financial instruments. Carrying value is the amount at which an item is measured on the Consolidated Balance Sheet.

	As at			
	31 March 2013		31 December 2012	
(in millions)	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets				
Cash and Cash Equivalents	**1,490**	**1,490**	1,220	1,220
Securities Purchased Under Resale Agreements	**248**	**248**	63	63
Investment Securities:				
Designated at Fair Value through Profit or Loss	**969**	**969**	928	928
Held for Trading	**393**	**393**	415	415
Available for Sale	**19,235**	**19,235**	19,304	19,304
Investment in NHA Mortgage-Backed Securities – Loans and Receivables	**271,757**	**265,133**	262,576	255,967
Loans:				
Designated at Fair Value through Profit or Loss	**6,432**	**6,432**	6,591	6,591
Other	**5,492**	**4,374**	5,579	4,440
Investments in Housing Programs	**1,350**	**734**	1,374	748
Accrued Interest Receivable	**1,567**	**1,567**	959	959
Derivatives	**127**	**127**	131	131
Due from the Government of Canada	**391**	**391**	309	309
Accounts Receivable	**394**	**394**	432	432
Financial liabilities				
Securities Sold Under Repurchase Agreements	**605**	**605**	425	425
Borrowing:				
Canada Mortgage Bonds	**217,228**	**211,503**	207,144	201,676
Capital Market Borrowings	**1,842**	**1,842**	1,848	1,848
Borrowings from the Government of Canada				
Designated at Fair Value through Profit or Loss	**6,477**	**6,477**	6,659	6,659
Other	**59,621**	**56,779**	60,702	57,595
Accrued Interest Payable	**1,436**	**1,436**	753	753
Derivatives	**46**	**46**	46	46
Accounts Payable	**1,202**	**1,202**	1,257	1,257
Provision for Claims	**976**	**976**	996	996

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.

(in millions)	Three months ended 31 March 2013	Three months ended 31 March 2012
Held for Trading		
Equities	**15**	50
Derivatives	**(2)**	(27)
Total Held for Trading	**13**	23
Designated at Fair Value through Profit or Loss		
Investment Securities – Designated at Fair Value through Profit or Loss	**6**	(5)
Loans – Designated at Fair Value through Profit or Loss	**(8)**	(73)
Capital Market Borrowings	**6**	31
Borrowings from the Government of Canada – Designated at Fair Value through Profit or Loss	**(6)**	70
Total Designated at Fair Value through Profit or Loss	**(2)**	23
Total Net Unrealized Gains from Financial Instruments	**11**	46

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 and reinvestment, 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.

There has been no change in the fair value of Loans – Designated at Fair Value through Profit or Loss as a result of changes in credit risk.

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

(in millions)	Three months ended 31 March 2013	Three months ended 31 March 2012
Held for Trading	**(1)**	(4)
Available for Sale	**30**	82
Retirement of Debt	**-**	(13)
Total Net Realized Gains from Financial Instruments	**29**	65

13. UNCONSOLIDATED STRUCTURED ENTITIES

CMHC has interests in unconsolidated structured entities. These are summarized below:

(in millions)	As at 31 March 2013	As at 31 December 2012
Investment Funds	**1,299**	1,266

These investment funds are included in the unaudited Quarterly Consolidated Balance Sheet in the line item ''Investment Securities: Available for Sale''. The maximum loss exposure represents the fair value at the reporting date. The Gain from these Investment Funds is included in Net Unrealized Gains from Financial Instruments in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income is $203 million of dollars (three months ended 31 March 2012 - $85 million). CHMC receives distributions from these entities which are included in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income.

14. 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 is evaluated through the use of appropriate Value at Risk (VaR) models. 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 total VaR for the Mortgage Loan Insurance and Securitization investment portfolios with a 95% confidence level over a two-week holding period as at 31 March 2013 is $176 million (31 December 2012 – $185 million). The total VaR as at 31 March 2013 is comprised of $172 million (31 December 2012 – $183 million) for AFS investments and $17 million (31 December 2012 – $18 million) for HFT investments, net of $13 million (31 December 2012 – $16 million) in diversification effects. The diversification effects reflect the fact that, as risks are not perfectly correlated among individual portfolios, there is a benefit from diversification and total VaR, when viewed in aggregate, is less than the sum of individual portfolio VaRs. 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 Lending Activity is exposed to interest rate risk. For Loans – Designated at Fair Value through Profit or Loss and Investment Securities, and related borrowings designated at fair value and swaps, the impacts of interest rate shifts are not symmetrical. The following interest rate sensitivities provide the net impact of interest rate shifts on the fair value of all interest-rate sensitive items. A -200 bps interest rate shift would result in a Net Unrealized Gain from Financial Instruments of $6 million (31 December 2012 – nil) whereas a +200 bps interest rate shift would result in a Net Unrealized Loss from Financial Instruments of $8 million (31 December 2011 – $1 million). For the remaining loans and borrowings not recorded at fair value in the financial statements, a -200 bps interest rate shift would cause the fair value of liabilities to increase by $86 million (31 December 2012 – $91 million) more than the fair value of assets, whereas a +200 bps interest rate shift would cause the fair value of liabilities to decrease by $66 million (31 December 2012 – $70 million) more than the fair value of assets. The maximum exposure of the Lending Activity portfolio's net interest margin to interest rate movements with a 95% confidence over a one year period as at 31 March 2013 is $0.4 million (31 December 2012 – $0.2 million). The maximum exposure is limited by CMHC policy to $1.5 million.

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 institution counterparties. 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.

15. 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 insurance of mortgages (refer to Note 10), timely payment guarantee (refer to Note 8), 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, term and by industry sector, and through the use of appropriate legal agreements.

Securities Purchased Under Resale Agreements / Securities Sold Under Repurchase Agreement: By their nature, these balances have a low credit risk given their short terms and as they are largely secured by obtaining collateral from counterparties. These transactions are subject to Global Master Repurchase Agreements which have been entered into with all counterparties. These agreements provide for the posting of collateral by the counterparty when CMHC’s exposure to that entity exceeds a certain ratings-based threshold. Securities held as eligible collateral include debt obligations issued by or guaranteed by the Government of Canada, including Crown Corporations and CHT. Collateral held to offset mark-to-market exposures from these transactions should not be used for any other purpose than to offset such exposure. In the event of counterparty default, CMHC has the right to liquidate collateral held. The Global Master Repurchase Agreements give CMHC a legally enforceable right to reduce its exposure through the provision of a single net settlement of all instruments covered by the agreement with the same counterparty in the event of default. The fair value of collateral held by CMHC to offset mark-to-market exposures as at 31 March 2013 is $2 million (31 December 2012 – nil).

Derivatives: CMHC limits its credit risk associated with derivative transactions by dealing with swap counterparties whose credit ratings are in accordance with its Enterprise Risk Management Policies, which are approved by the Board of Directors and are in accordance with Department of Finance Guidelines; through the use of International Swaps Derivatives Association (ISDA) master netting agreements for derivatives which have been entered into with all counterparties; and, where appropriate, through the use of ratings-based collateral thresholds in the Credit Support Annexes. The Credit Support Annexes give CMHC the right, in the event of default, to liquidate collateral held and apply against amounts due from the counterparty. Collateral held to offset mark-to-market exposures should not be used for any other purpose than to offset such exposure. Securities held as eligible collateral include debt obligations issued by or guaranteed by the Government of Canada, including Crown Corporations and CHT. The master netting agreements give CMHC a legally enforceable right to reduce derivative exposure through the provision of a single net settlement of all financial instruments covered by the agreement with the same counterparty in the event of default. All derivative counterparties must have a minimum credit rating of A-, or its equivalent, from at least two rating agencies.

The fair value of the collateral related to derivatives held by CMHC (including those related to Investments in NHA Mortgage-Backed Securities - Loans and Receivables – IMPP) as at 31 March 2013 is $269 million (31 December 2012 – $316 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 2013 is $170 million (31 December 2012 - $295 million).

Netting arrangements and offsetting of financial assets and financial liabilities

The following tables present the potential effects of the netting arrangements described above for recognized Derivatives and Securities Purchased under Resale Agreements.

Financial assets

	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross Amount Not Offset in the Balance Sheet		(v) = (iii) - (iv)
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet[1]	Financial Instruments[2]	Financial Collateral Received[3]	Net Amount
(in millions)	**As at 31 March 2013**					
Derivatives[1]	202	-	202	(51)	(39)	112
Securities Purchased Under Resale Agreements[1]	248	-	248	-	(248)	-
Total	**450**	**-**	**450**	**(51)**	**(287)**	**112**
(in millions)	**As at 31 December 2012**					
Derivatives[1]	197	-	197	(50)	(40)	107
Securities Purchased Under Resale Agreements[1]	63	-	63	-	(63)	-
Total	**260**	**-**	**260**	**(50)**	**(103)**	**107**

[1] Derivatives are carried at fair value. Securities Purchased Under Resale Agreements are carried at amortized cost.

[2] Gross amounts of financial instruments not offset in the balance sheet refers to amounts recorded to derivative liabilities and securities sold under repurchase agreements where CMHC has a legally enforceable right to offset against amounts recorded to derivative assets and securities purchased under resale agreements, on a counterparty-by-counterparty basis, in the event of default of the counterparty.

[3] CMHC has the right, in the event of default, to liquidate and apply financial collateral held against amounts due from counterparties. For derivatives, these amounts represent the fair value of collateral posted by swap counterparties to CMHC. For securities purchased under resale agreements, these amounts represent fair value of margin posted by counterparties and of securities purchased by CMHC with the commitment to resell to the counterparty at a future date.

Derivatives assets, as presented in the above table, are reconciled to the balance sheet as follows:

	As at	
(in millions)	**31 March 2013**	**31 December 2012**
Derivatives Assets Presented in Offsetting Table	**202**	197
Less: Accrued Interest Receivable Presented Separately in Balance Sheet	**(55)**	(47)
Less: Deferral of Swap Fees Received	**(20)**	(19)
Derivatives Asset Balance Presented in the Balance Sheet	**127**	131

Financial liabilities

	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross Amount Not Offset in the Balance Sheet		(v) = (iii) - (iv)
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet [1]	Financial Instruments[2]	Financial Collateral Pledged[3]	Net Amount
(in millions)	**As at 31 March 2013**					
Derivatives[1]	52	-	52	(51)	-	1
Securities Sold Under Repurchase Agreements[1]	605	-	605	-	(605)	-
Total	**657**	**-**	**657**	**(51)**	**(605)**	**1**
(in millions)	**As at 31 December 2012**					
Derivatives[1]	52	-	52	(50)	-	2
Securities Sold Under Repurchase Agreements[1]	425	-	425	-	(425)	-
Total	**477**	**-**	**477**	**(50)**	**(425)**	**2**

1 Derivatives are carried at Fair Value. Securities Sold Under Repurchase Agreements are carried at amortized cost.

2 Gross amounts of financial instruments not offset in the balance sheet refers to amounts recorded to derivative assets and securities purchased under resale agreements where CMHC has a legally enforceable right to offset against amounts recorded to derivative liabilities and securities sold under repurchase agreements, on a counterparty-by-counterparty basis, in the event of default of the counterparty.

3 Represents the fair value of securities sold by CMHC to counterparties with the commitment by CMHC to repurchase from the counterparty at a future date.

Derivatives liabilities, as presented in the above table, are reconciled to the balance sheet as follows:

	As at	
(in millions)	**31 March 2013**	**31 December 2012**
Derivatives Liabilities Presented in Offsetting Table	**52**	52
Less: Accrued Interest Payable Presented Separately in Balance Sheet	**(6)**	(6)
Derivative Liabilities Balance Presented in the Balance Sheet	**46**	46

16. 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.

17. 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)	2013	2012	2013	2012
Current Service Cost, Net of Employees' Contributions	**8**	7	**2**	2
Interest Cost	**18**	19	**2**	2
Expected Return on Plan Assets (Gain)	**(13)**	(18)	**-**	-
Defined Benefit Plan Expense	**13**	8	**4**	4

The following assumptions were used to calculate these costs.

	As at	
Measures	31 March 2013	31 December 2012
Defined Benefit Obligation:		
Discount Rate	**4.00%**	3.90%
Rate of Compensation Increase	**3.00%**	3.00%
Benefit Costs:		
Discount Rate	**3.90%**	4.50%
Rate of Compensation Increase	**3.00%**	3.00%
Expected Rate of Return on Plan Assets	**6.11%**	6.11%

The actuarial valuation on a going concern basis of CMHC's registered Pension Plan reports a deficit as at 31 December 2012. As a result, the Corporation will be required to make going concern special payments of between $3.4 and $4.8 million annually for 15 years to amortize the going concern deficit. The valuation on a solvency basis also reports a deficit as at 31 December 2012, and will be submitted to the Board of Directors for approval on 23 May 2013. Once approval from the Board is obtained, the Corporation will be required to make special payments of $115.1 million in 2013 to reduce the solvency deficiency. As is permitted under the *Pension Benefits Standards Act, 1985* (PBSA) and its related regulations, the Corporation will then seek approval to reduce the amount of the solvency special payments. These provisions exist to make funding requirements less sensitive to financial market volatility. The reductions would decrease the solvency special payments in 2013 from $115.1 million to $76.1 million. As such, the total special payments are expected to be $80.9 million in 2013 (2012 – $23.5 million).

Effective 4 April 2013, CMHC's Management approved the introduction of a defined contribution plan for all new employees and for eligible contract employees.

18. 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		Total	
Three months ended 31 March (in millions)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
REVENUES														
Interest Income from NHA MBS - Loans and Receivables	-	-	410	426	-	-	-	-	1,309	1,536	-	-	**1,719**	1,962
Premiums and Fees	415	425	60	58	-		-	-	-	-	-	-	**475**	483
Interest Earned on Loans	-	-	-	-	-	-	134	149	-	-	-	-	**134**	149
Income from Investment Securities	137	146	7	9	-	-	10	9	-	-	(11)	(12)	**143**	152
Net Realized Gains (Losses) from Financial Instruments	28	61	1	35	-	-	-	-	-	-	-	(31)	**29**	65
Net Unrealized Gains (Losses) from Financial Instruments	18	51	-	3	-	-	(8)	(6)	-	-	1	(2)	**11**	46
Parliamentary Appropriations and Other Income	1	1	4	3	573	683	7	6	41	45	(25)	(27)	**601**	711
	599	684	482	534	573	683	143	158	1,350	1,581	(35)	(72)	**3,112**	3,568
EXPENSES														
Interest Expense	1	1	410	426	-	-	141	153	1,306	1,533	(19)	(27)	**1,839**	2,086
Operating Expenses	59	56	4	3	29	37	6	5	44	48	(25)	(27)	**117**	122
Housing Programs and Net Claims	113	119	-	-	544	646	-	-	-	-	-	-	**657**	765
	173	176	414	429	573	683	147	158	1,350	1,581	(44)	(54)	**2,613**	2,973
Income Taxes	104	126	17	27	-	-	(3)	(1)	-	-	3	(4)	**121**	148
NET INCOME (LOSS)	322	382	51	78	-	-	(1)	1	-	-	6	(14)	**378**	447
Total Revenues	599	684	482	534	573	683	143	158	1,350	1,581	(35)	(72)	**3,112**	3,568
Inter-segment/entity Revenues[1]	(9)	(40)	-	-	-	-	(1)	(5)	(25)	(27)	35	72	**-**	-
External Revenues	590	644	482	534	573	683	142	153	1,325	1,554	-	-	**3,112**	3,568

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

- the Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (issued by CHT) and Capital Market Borrowings (issued by the Lending Activity);
- the Lending Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds; and
- the Securitization Activity receives CMB guarantee fees and advisory fees from CHT, and recognizes revenues from investing in holdings of Capital Market Borrowings.

As at 31 March 2013 and 31 December 2012 (in millions)	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations[1]		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
ASSETS														
Cash and Cash Equivalents	1,078	759	-	27	-	-	411	433	1	1	-	-	**1,490**	1,220
Securities Purchased Under Resale Agreements	-	-	-	-	-	-	248	63	-	-	-	-	**248**	63
Investment Securities:														
Designated at Fair Value through Profit or Loss	78	75	1	1	-	-	1,320	1,282	-	-	(430)	(430)	**969**	928
Held for Trading	393	415	-	-	-	-	-	-	-	-	-	-	**393**	415
Available for Sale	19,167	19,064	1,761	1,799	-	-	-	-	-	-	(1,693)	(1,559)	**19,235**	19,304
Investment in NHA Mortgage-Backed Securities: Loans and Receivables	-	-	51,653	52,448	-	-	-	-	213,480	203,519	-	-	**265,133**	255,967
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	6,432	6,591	-	-	-	-	**6,432**	6,591
Other	-	-	-	-	-	-	4,374	4,440	-	-	-	-	**4,374**	4,440
Investments in Housing Programs	-	-	-	-	-	-	734	748	-	-	-	-	**734**	748
Accrued Interest Receivable	153	97	90	83	-	-	188	245	1,149	540	(13)	(6)	**1,567**	959
Deferred Income Tax Assets	(36)	(20)	1	1	-	-	40	42	-	-	35	35	**40**	58
Derivatives	-	-	-	-	-	-	127	131	-	-	-	-	**127**	131
Due from the Government of Canada	-	-	-	-	-	-	391	309	-	-	-	-	**391**	309
Accounts Receivable and Other Assets	547	617	68	(25)	-	-	257	315	-	-	-	-	**872**	907
	21,380	21,007	53,574	54,334	-	-	14,522	14,599	214,630	204,060	(2,101)	(1,960)	**302,005**	292,040
LIABILITIES														
Securities Sold Under Repurchase Agreements	605	425	-	-	-	-	-	-	-	-	-	-	**605**	425
Borrowings:														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	213,480	203,519	(1,977)	(1,843)	**211,503**	201,676
Capital Market Borrowings	-	-	-	-	-	-	1,856	1,862	-	-	(14)	(14)	**1,842**	1,848
Borrowings from the Government of Canada	-	-	51,653	52,448	-	-	11,603	11,806	-	-	-	-	**63,256**	64,254
Accrued Interest Payable	-	-	76	77	-	-	224	142	1,149	540	(13)	(6)	**1,436**	753
Derivatives	-	-	-	-	-	-	46	46	-	-	-	-	**46**	46
Accounts Payable and Other Liabilities	422	487	18	35	-	-	761	734	1	1	-	-	**1,202**	1,257
Provision for Claims	976	996	-	-	-	-	-	-	-	-	-	-	**976**	996
Unearned Premiums and Fees	6,179	6,394	547	546	-	-	-	-	-	-	-	-	**6,726**	6,940
	8,182	8,302	52,294	53,106	-	-	14,490	14,590	214,630	204,060	(2,004)	(1,863)	**287,592**	278,195
EQUITY OF CANADA														
Contributed Capital	-	-	-	-	-	-	25	25	-	-	-	-	**25**	25
Accumulated Other Comprehensive Income	1,179	1,047	6	8	-	-	-	-	-	-	(23)	(17)	**1,162**	1,038
Retained Earnings	12,019	11,658	1,274	1,220	-	-	7	(16)	-	-	(74)	(80)	**13,226**	12,782
	13,198	12,705	1,280	1,228	-	-	32	9	-	-	(97)	(97)	**14,413**	13,845
	21,380	21,007	53,574	54,334	-	-	14,522	14,599	214,630	204,060	(2,101)	(1,960)	**302,005**	292,040

[1] The Balance Sheet Eliminations remove inter-entity holdings of Canada Mortgage Bonds and Capital Market Borrowings, as well as inter-segment receivables/payables.

19. 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 2013 amount to $3 million (three months ended 31 March 2012 – $3 million) for the Securitization Activity and nil (three months ended 31 March 2012 – 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.

20. CONTINGENT LIABILITIES

There are legal claims of $43 million (31 December 2012 – $43 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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