CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER

June 30, 2013

(Unaudited)

Canada

CMHC SCHL

HOME TO CANADIANS

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June 30, 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 Employment and Social 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 (OSFI) 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 and six months ended 30 June 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 30 June 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

Socio-Economic Factors

Housing demand is subject to a range of demographic, social and economic influences. In the long-term, 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. In the short-term, the growth in the housing stock is influenced by financial market conditions, such as mortgage interest rates. These factors influence housing markets and CMHC's operating environment.

Economic Outlook (as at 30 June 2013)

In accordance with the consensus among prominent Canadian economic forecasters, growth in GDP is forecast to be 1.7 per cent in 2013, before strengthening to 2.4 per cent in 2014. Growth in GDP is expected to range between 1.2 per cent and 2.2 per cent in 2013 and between 1.8 per cent and 3.0 per cent in 2014. The ranges are based on the distribution of the predictions among private-sector forecasters.

The forecast for Canadian GDP growth in 2013 was revised down slightly since the 2013 first quarter Housing Market Outlook, largely reflecting downward revisions to expectations of growth in business fixed investment. Nevertheless, the Canadian economy is expected to strengthen in the second half of 2013 and will, therefore, remain supportive of the housing market. The improvement in the quarterly GDP growth rate is expected to continue throughout 2014 and will support increased housing market activity in 2014.

Housing Indicators

Housing Starts (as at 30 June 2013)

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 182,078 units as of June 2013. The forecast for housing starts in 2013 and 2014 is 182,900 units and 188,900 units respectively. Housing starts are expected to range between 177,300 and 188,700 units in 2013 and between 165,900 and 207,900 units in 2014. The ranges reflect economic uncertainty at the time of the outlook.

Resale Market (as at 30 June 2013)

In June, activity on the existing home market increased, continuing the positive trend for Multiple Listing Service®[1] (MLS®) sales, new listings and prices that has been observed so far in 2013. Seasonally adjusted MLS® sales (1.7 per cent), new listings (0.6 per cent) and prices (0.7 per cent) all increased on an average monthly basis in the first half of 2013. This follows a period of average monthly declines that held sway over the last half of 2012, when the average monthly growth rates of seasonally adjusted MLS® sales (-1.2 per cent), new listings (-0.9 per cent) and prices (0 per cent) were negative or showed no change. While MLS® sales and new listings have both trended higher in 2013, sales have outpaced new listings so far this year. This will help maintain balanced market conditions in most local housing markets in Canada. Future price growth is expected to be in line with the rate of inflation.

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

Legislative Impacts

Economic Action Plan 2013 Act

Bill C-60, Economic Action Plan 2013 Act No. 1 (the "Act"), received Royal Assent on 26 June 2013. The Act confirmed the Government of Canada's continued commitment to working with provinces and territories to develop and implement solutions to housing by renewing the Investment in Affordable Housing (IAH) to 31 March 2019. This federal investment of $1.25 billion ($253 million per year over five years) will be provided through CMHC, beginning in April 2014. Funds provided to provinces and territories through the IAH will support the use of apprentices, which will support training of skilled labour.

In recognition of the distinct housing needs of Nunavut, the Act also includes $100 million over two years to support the construction of new affordable housing in Nunavut. This funding will be provided to the territory through CMHC.

Consistent with actions taken relative to high-ratio mortgages since 2008, the government has announced its intention to implement new measures related to insurance of portfolios of low-ratio mortgages, including gradually limiting the use of portfolio insurance and prohibiting 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 is consulting with industry stakeholders on the implementation details and timing of these measures.

Protection of Residential Mortgage or Hypothecary Insurance Act (PRMHIA) and Amendments to the National Housing Act (NHA)

The Government of Canada put in place a legislative framework to formalize existing mortgage loan insurance requirements for private mortgage insurers and CMHC. The new legislative framework, which came into force on 1 January 2013, included the PRMHIA, which applies to private mortgage insurers, and consequential amendments to the NHA, which apply to CMHC. The regulations stemming from recent amendments to the NHA and, in the case of the private mortgage insurers, PRMHIA, outline minimum criteria for the designation of approved/qualified lenders for CMHC and private sector insurers and specify the types of loans eligible for government-backed mortgage loan insurance.

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, 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 established the parameters of the framework in the Canadian Registered Covered Bond Programs Guide (revised in June 2013) and maintains 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. CMHC announced the registration of the first two covered bond programs under the legal framework for covered bonds on 3 July 2013. On July 23, 2013, CMHC announced the third covered bond program.

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)	Six months ended 30 June 2013	Year ended 31 December 2012[1]	Six months ended 30 June 2012[1]
BALANCE SHEET			
Total Assets	**289,766**	292,040	292,614
Total Liabilities	**275,166**	278,196	279,753
Total Equity of Canada	**14,600**	13,844	12,861
Accumulated Other Comprehensive Income	**776**	1,038	952
Retained Earnings Set Aside for Capitalization	**11,408**	10,764	10,875
NET INCOME			
Revenues	**6,137**	13,455	6,806
Interest Income	**4,006**	8,889	4,519
Premiums and Fees	**977**	2,049	994
Parliamentary Appropriations	**1,032**	2,197	1,172
Interest Expenses	**3,683**	8,178	4,179
Net Claims	**168**	487	261
Net Income	**824**	1,699	775
Net Adjusted Income[2]	**798**	1,641	761
MORTGAGE LOAN INSURANCE			
Total Insurance-in-Force ($B)	**562.1**	566.1	576.0
Total Insured Volumes ($M)	**28,950**	66,029	38,496
Premium and Fees Received	**586**	1,475	775
Net Income	**706**	1,405	633
Operating Expense Ratio (per cent)	**13%**	11%	12%
Severity Ratio (per cent)[3]	**29.8%**	31.3%	31.1%
Arrears Rate (per cent)[4]	**0.32%**	0.35%	0.35%
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets	**47.5%**	47.2%	43.5%
Capital Available to Minimum Capital Required (per cent)	**234%**	231%	214%
SECURITIZATION			
Total Guarantee-in-Force ($B)	**399.6**	381.6	377.0
Securities Guaranteed	**73,113**	119,531	66,428
Guarantee Fees Received	**135**	230	124
Net Income	**105**	272	138
Operating Expense Ratio (per cent)	**5.3%**	4.5%	4.9%
Per Cent of Residential Mortgage Securitized	**29.9%**	28.5%	28.9%
Capital Available to Capital Required (per cent)	**162%**	156%	142%
LENDING			
Investments (including cash)	**1,925**	1,778	1,685
Loans and Investments in Housing Programs	**11,338**	11,779	12,200
Borrowings	**13,187**	13,668	13,897
Net Income	**7**	12	7
Reserve Fund for Lending	**62**	(16)	(11)
HOUSING PROGRAMS			
Housing Programs (excluding operating expenses)	**1,032**	2,197	1,172
Funding Under Long-Term Commitments for Existing Social Housing	**828**	1,675	834
Funding for New Commitments of Affordable Housing	**144**	390	267

1 Figures have been restated as a result of implementation of amendments to IAS 19 – Employee Benefits.
2 Net Adjusted Income is defined as Net Income less net Unrealized Gains (Losses) from Financial Instruments.
3 Severity Ratio is the ratio of the losses on claims compared to the original insured loan amount for claims paid in the period.
4 Arrears Rate is the ratio of all loans that are more than 90 days past due to the number of outstanding insured loans.

BALANCE SHEET HIGHLIGHTS

(in millions)	As at 30 June 2013	As at 31 December 2012	Variance
Total Assets	**289,766**	292,040	(2,274)
Total Liabilities	**275,166**	278,196	(3,030)
Contributed Capital	**25**	25	-
Accumulated Other Comprehensive Income (AOCI)	**776**	1,038	(262)
Retained Earnings Set Aside for Capitalization	**11,408**	10,764	644
Retained Earnings (other)[1]	**2,391**	2,017	374
Total Equity of Canada	**14,600**	13,844	756

[1] Includes Unappropriated Retained Earnings and Reserve Fund

Total Assets and Total Liabilities

Total Assets and Total Liabilities as at 30 June 2013 were approximately $290 billion and $275 billion respectively. The Insured Mortgage Purchase Program (IMPP) and CHT's Canada Mortgage Bonds (CMB) accounted for over $254 billion of the Corporation's Total Assets and Liabilities.

Total Assets as at 30 June 2013 decreased by 1% ($2.2 billion) from 31 December 2012. The reduction in Total Assets was mainly the result of $2.4 billion in IMPP NHA MBS maturities as well as a decrease of $441 million in loans from the Lending Activity due to repayments of the Loan programs as they are approaching maturity. These decreases were slightly offset by year-to-date CMB issuances net of maturities of $436 million in NHA MBS as well as approximately $200 million in higher short term investments in the Lending Activity due to timing of principle run-off and repayments of borrowings.

Total Liabilities as at 30 June 2013 decreased by 1% ($3 billion) from 31 December 2012. This decrease was mainly a result of the fluctuations in the IMPP and CMB programs as mentioned above as well as loan maturities in the Lending Activity leading to repayments of $150 million relating to Capital Market Borrowings and net repayments of $205 million relating to Borrowings from the Government of Canada. Further contributing to the decrease in Total Liabilities was $330 million in lower Accounts Payable and Other Liabilities primarily resulting from the Mortgage Loan Insurance and Lending Activities and $247 million in lower Unearned Premiums and Fees from the Mortgage Loan Insurance Activity.

Accounts Payable and Other Liabilities decreased mainly due to reductions in the pension obligation as a result of CMHC's contributions to the pension plans and changes in actuarial assumptions leading to actuarial gains.

Unearned Premiums and Fees from the Mortgage Loan Insurance Activity decreased due to lower insured volumes.

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 30 June 2013, total AOCI was $776 million, a $262 million decrease from 31 December 2012. This decrease was mainly caused by $264 million in Net Unrealized Losses from Available for Sale Financial Instruments due to year-to-date increases in bond yields compared to decreasing bond yields in 2012. For additional explanation refer to the Other Comprehensive Income (Loss) section.

- **Retained Earnings**
  Total Retained Earnings were $13,799 million of which $11,408 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 $2,391 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 and Remeasurements of the Net Defined Benefit Plans 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 AOCI 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.

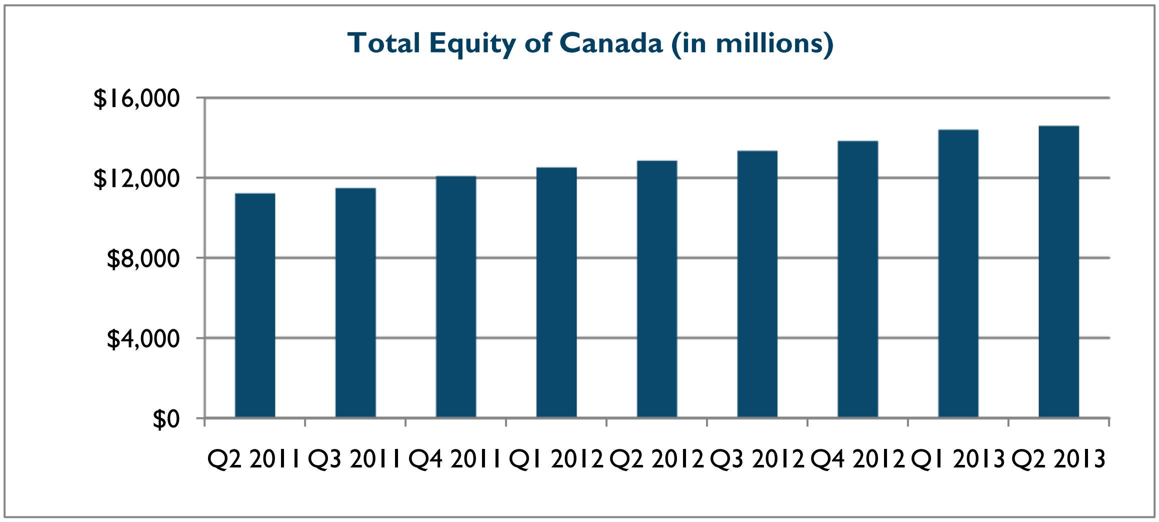
Retained Earnings related to the Mortgage Loan Insurance Activity are appropriated in accordance with the Capital Management Framework which is based on guidelines developed by OSFI. For its Mortgage Loan Insurance Activity, CMHC has Appropriated Retained Earnings as well as AOCI representing its capital holding target of 200% Minimum Capital Test (MCT). Mortgage Loan Insurance Capital Available resulted in a 234% MCT as at 30 June 2013.

Retained Earnings related to the Securitization Activity are also appropriated based on regulatory and economic capital principles. For its Securitization Activity, Capital Available consists of Total Equity adjusted for Positive Deferred Tax Assets. As at 30 June 2013, Securitization Capital Available represented 162% of its Capital Required.

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 Remeasurements of the Net Defined Benefit Plans.

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 30 June 2013, total Reserve Fund for the Lending Activity was $62 million. Additional details can be found under Objective 1 of the segmented financial results section.

As at 30 June 2013, the Corporation's Total Equity of Canada was $14,600 million, an increase of $756 million compared to 31 December 2012. This increase was the result of the year-to-date Net Income of $824 million and Remeasurements of the Net Defined Benefit Plans of $194 million. This was offset by unrealized losses from AFS financial instruments of $264 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 30 June		Variance	Six months ended 30 June		Variance
	2013	2012		2013	2012	
Revenues	**3,025**	3,238	(213)	**6,137**	6,806	(669)
Expenses	**2,440**	2,802	(362)	**5,053**	5,779	(726)
Income Taxes	**139**	105	34	**260**	252	8
Net Income	**446**	331	115	**824**	775	49
Other Comprehensive Income (Loss)	**(258)**	7	(265)	**(68)**	(4)	(64)
Comprehensive Income	**188**	338	(150)	**756**	771	(15)

Total Revenues for the three and six months ended 30 June 2013 were $3,025 million and $6,137 million respectively. Total Expenses for the three and six months ended 30 June 2013 were $2,440 million and $5,053 million respectively. Approximately 57% of the Corporation's Revenues and 68% of Expenses was related to interest income and interest expenses from IMPP and CHT's CMB programs.

Revenues

Revenues for the three and six months ended 30 June 2013 were 7% ($213 million) and 10% ($669 million) lower than the revenues recognized during the same prior year periods. This variance was mainly a result of interest income, Parliamentary Appropriations, as well as net realized and unrealized gains from financial instruments.

Interest income for the three and six months ended 30 June 2013 decreased by $246 million and $513 million respectively, when compared to the same prior year periods. The decrease in interest income is primarily due to the CHT CMB program of $223 million and $450 million respectively, as the NHA MBS that matured over the last couple of years had higher interest rates than the NHA MBS that were purchased. Further contributing to this decrease was a decline in interest on the Lending Activity Loans and Investments in Housing Programs of $15 million and $30 million respectively, due to the maturity of the portfolio.

Parliamentary Appropriations for the three and six months ended 30 June 2013 decreased by $30 million and $140 million respectively, primarily due to timing of spending under the agreements for Investment in Affordable Housing.

Net Unrealized Gains from Financial Instruments for the three and six months ended 30 June 2013 increased by $44 million and $9 million respectively, as a result of fluctuations in market prices on held for trading investments.

Net Realized Gains from Financial Instruments for the three months ended 30 June 2013 increased by $17 million when compared to the same prior year period. The increase was due to $38 million in higher gains in the Mortgage Loan Insurance investment portfolio as a result of stronger gains from sales of equities and bonds. This was offset by a decrease in gains of $11 million in Q2 2013 compared to Q2 2012 triggered by the rebalancing of the Securitization investment portfolio. Further offsetting the increase in Net Realized Gains from Financial Instruments was $10 million in higher inter-company eliminations of gains on CMHC holdings of CHT Canada Mortgage Bonds due to higher retirement of bonds and gains on re-issuances.

Net Realized Gains from Financial Instruments for the six months ended 30 June 2013 decreased by $19 million when compared to the same prior year period. In contrast to the second quarter of 2013, year-to-date net realized gains in the Mortgage Loan Insurance portfolio were fairly consistent. The decrease in Net Realized Gains from Financial Instruments was due to the rebalancing of the Securitization investment portfolio which triggered a decrease in gains of $45 million on a year-to-date basis in 2013 compared to 2012. This was offset by $21 million in lower inter-company eliminations of gains/losses on CMHC holdings of CHT Canada Mortgage Bonds due to lower retirement of bonds and gains on re-issuances.

Expenses

Expenses for the three and six months ended 30 June 2013 were 13% ($362 million and $726 million respectively) lower than the expenses recognized during the same prior year periods. These decreases were primarily due to lower Interest Expenses from the IMPP, CMB programs and Loans and Investments in Housing Programs as well as lower Housing Program Expenses as explained in the Revenue section. Further contributing to the decrease in Expenses for the three and six months ended 30 June 2013 was lower Net Claims of $87 million and $93 million respectively. The decline in Net Claims was primarily the result of lower claims volumes, improvements in the level of recoveries and an overall decline in the expectation of future losses mainly due to decreases in the arrears rate.

Net Income

The variances in interest income from NHA MBS and Loans and Investments in Housing Programs as well as 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.

Reported Net Income for the three and six months ended 30 June 2013 was $446 million and $824 million respectively, an increase of 35% ($115 million) and 6% ($49 million) when compared to the same periods in 2012. This increase was mainly attributable to lower Net Claims as discussed above. Net Income for the quarter increased by a larger percentage than on a year-to-date basis primarily due to variances in realized and unrealized gains from financial instruments as explained above.

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. The unrealized gains/losses on fair valuation of AFS investments is recorded in OCI. Also included in OCI are Remeasurements of the Net Defined Benefit Plans.

(in millions)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2013	2012		2013	2012	
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**(418)**	67	(485)	**(264)**	120	(384)
Reclassification of Prior Years' Net Unrealized (Gains)Losses Realized in the Period in Net Income	**32**	(11)	43	**2**	(70)	72
Remeasurements of the Net Defined Benefit Plans	**128**	(49)	177	**194**	(54)	248
Other Comprehensive Income (Loss)	**(258)**	7	(265)	**(68)**	(4)	(64)

Other Comprehensive Income (Loss) for the three and six months ended 30 June 2013 was a net loss of $258 million and $68 million respectively, which was $265 million and $64 million lower when compared to the same prior year periods. This decrease was a result of unrealized losses from AFS financial instruments partially offset by reclassification of prior years' net unrealized losses and Remeasurements of the Net Defined Benefit Plans.

Unrealized losses from AFS financial instruments for the three and six months ended 30 June 2013 were $418 million and $264 million respectively, which represents a decrease of $485 million and $384 million when compared to the same prior year periods. The decrease is due to increases in bond yields in 2013 compared to year-to-date decreases in bond yields in 2012. Quarter-to-date bond yields remained fairly consistent in 2012 causing a larger loss for the second quarter of 2013.

These losses were partially offset by the reclassification of prior years' net unrealized losses for the three and six months ended 30 June 2013 of $32 million and $2 million respectively, which were $43 million and $72 million higher when compared to the same prior year periods. Reclassification from OCI occurs when financial instruments are sold in the period.

Further offsetting the decline in OCI was higher Remeasurements of the Net Defined Benefit Plans for the three and six months ended 30 June 2013 of $177 million and $248 million respectively, when compared to the same prior year periods. This was primarily as a result of increases in the discount rate and a higher actual rate of return on the plan assets in 2013 than in 2012.

Resource Management

(in millions)	Three months ended 30 June 2013	Three months ended 30 June 2012	Variance	Six months ended 30 June 2013	Six months ended 30 June 2012	Variance
Total Operating Expenses	**110**	108	2	**227**	234	(7)
Staff-Years (Full Time Equivalent)	**456**	474	(18)	**902**	940	(38)

Total Operating Expenses for the three months ended 30 June 2013 of $110 million were relatively consistent when compared to Q2 2012.

For the six months ended 30 June 2013, Total Operating Expenses were $227 million, which is $7 million lower when compared to the same prior year period. The decrease of 3% is mainly due to lower personnel costs as discussed below.

For the three and six months ended 30 June 2013, staff-years consumed decreased by 18 staff-years (4%) and 38 staff-years (4%) respectively, compared to the same prior year periods. 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
Funding Under Long-Term Commitments for Existing Social Housing *Resulting from Corporate operating efficiencies, lower program administration costs in administering CMHC's social housing portfolio and program administration efficiencies*	**4,044**	80,504	80,504
Funding for New Commitments under Affordable Housing *Resulting from Corporate operating efficiencies*	**266**	266	266
Housing Policy, Research and Information Transfer *Resulting from Corporate operating efficiencies and rationalization of research and information dissemination priorities*	**8,923**	10,232	10,232
Canadian Housing Market Research and Analysis *Resulting from Corporate operating efficiencies*	**876**	874	874
Funds not allocated to the 2013/14 Program Alignment Architecture *Resulting from the discontinuation of CMHC's housing export program*	**10,120**	10,494	10,494
Total for Canada Mortgage and Housing Corporation	**24,229**	102,370	102,370

Note: Figures have been restated to conform to changes to CMHC's PAA approved by Treasury Board beginning in fiscal 2013/14.

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

CMHC has adopted new standards and amendments to existing standards issued by the International Accounting Standards Board (IASB) that became effective 1 January 2013. In the first quarter, CMHC adopted the following accounting changes: IFRS 7 *Financial Instruments: Disclosures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

During the second quarter, the Corporation adopted amendments to IAS 19 *Employee Benefits*. The application of these amendments impacted amounts reported in the quarterly Consolidated Financial Statements, the presentation of these amounts, and the related disclosures. The impact of adopting IAS 19 is summarized below.

Amendments to IAS 19 Employee Benefits

On 16 June 2011, the IASB issued amendments to IAS 19 *Employee Benefits* that changed the accounting for termination benefits and improved the recognition, presentation and disclosure for defined benefit plans. The most significant impact to the Corporation is that the amendments required interest income on plan assets to be calculated by applying the same discount rate used to measure the pension obligation. Under the previous requirements of IAS 19, the Corporation calculated interest income on plan assets using the expected rate of return. In addition, the amendments to IAS 19 eliminated the "corridor method," required immediate recognition of past service costs, and incorporated enhanced disclosure requirements. As the Corporation applied the change from the corridor method upon adoption of IFRS, this component of the amendment did not affect the Corporation's Consolidated Financial Statements.

The amendments to IAS 19 were applied retrospectively to the Quarterly Consolidated Financial Statements for the six month period ending 30 June 2013 in accordance with the transitional provisions of IAS 19 *Employee Benefits* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Corporation's adoption of the amendments to IAS 19 resulted in an overall change in the pension expenses reflected in Net Income with a corresponding offset in actuarial gains and losses recognized in Other Comprehensive Income (Loss). The cumulative impact on the Corporation's previously reported financial information was a decrease of $1 million in the Equity of Canada as at 1 January 2012 and 31 December 2012. For the three and six months ended 30 June 2012, restated Net Income decreased by $4 and $7 million, respectively. Restated Other Comprehensive Income (Loss) for the three and six months ended 30 June 2012 increased by $4 and $7 million, respectively. For more details on the impact of these amendments on the Corporation's previously reported Consolidated Financial Statements, see Note 3 of the attached unaudited Quarterly Consolidated Financial Statements.

Future Accounting Changes

The 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.

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	Postponed
Amended Standards			
IAS 32	*Financial Instruments: Presentation*	No material impact	1 January 2014

By 31 December 2013, the Corporation will be adopting IFRS 13 which is effective 1 January 2013. Treasury Board of Canada's Standard on Quarterly Financial Reports for Crown Corporations allows Management the option of only adopting new or changed policies for the first time at year end.

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 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

Ongoing Investments in Housing

The Corporation spends approximately $2 billion a 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.

Approximately $1.7 billion of the $2 billion is provided annually in the form of ongoing subsidies (of which $1 billion is paid to provinces and territories that administer the housing portfolio pursuant to Social Housing Agreements with CMHC) in support of close to 594,000 households living in existing social housing, including 29,300 First Nation households on reserve.

In addition to the ongoing subsidies provided for the existing social housing on reserve, CMHC continues to make new commitments on reserve in support of First Nations housing needs, including the construction of new social housing units, the renovation of existing homes and an investment in capacity building.

The Government of Canada, through CMHC, continues to provide annual funding under the agreements for Investment in Affordable Housing (IAH) (2011-2014), 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 31 March 2014.

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. Twelve of the 13 jurisdictions have entered into agreements for the IAH. Yukon extended its existing arrangements for the Affordable Housing Initiative and CMHC-delivered renovation programs.

Expenditures relating to the first year of the two-year funding announced through Economic Action Plan 2013 for Nunavut 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.

FINANCIAL ANALYSIS

(in millions)	Three months ended 30 June 2013	Three months ended 30 June 2012	Variance	Six months ended 30 June 2013	Six months ended 30 June 2012	Variance
Housing Programs Expenses	**431**	459	(28)	**975**	1,105	(130)
Operating Expenses	**28**	30	(2)	**57**	67	(10)
Total Appropriations	**459**	489	(30)	**1,032**	1,172	(140)

Appropriation spending for the three and six months ended 30 June 2013 was $459 million and $1,032 million respectively. Appropriation spending for the quarter consisted of $431 million in Housing Programs Expenses and $28 million in Operating Expenses. Appropriation spending for the six months ended 30 June 2013 consisted of $975 million in Housing Programs Expenses and $57 million in Operating Expenses. Housing Programs expenditures for the three and six months ended 30 June 2013 decreased by 6% ($28 million) and 12% ($130 million) respectively, when compared to the same prior year periods. These decreases were primarily due to the revised timing of spending under the Investment in Affordable Housing.

Related Operating Expenses for the three and six months ended 30 June 2013 were $28 million and $57 million respectively, a decrease of 7% ($2 million) and 15% ($10 million) when compared to the same prior year periods. These decreases were the 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 30 June 2013 amounted to $1,032 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.

	Six months ended 30 June	
(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[1,3]	**-**	-
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)*	***(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
Budget Implementation Act (BIA)	**30**	-
Supplementary estimates A[1, 2]	**-**	-
Supplementary estimates B[1, 3]	**-**	-
Supplementary estimates C[1]	**-**	-
	2,131	2,140
Less: Portion to be recognized in subsequent quarters	**(1,672)**	(1,651)
2013/14 (2012/13) portions recognized in 2013 (2012)	**459**	489
Total appropriations recognized - six months ended 30 June	**1,032**	1,172

[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 2013-2014 of $2,131 million includes $30 million for new affordable housing in Nunavut, which was approved through Bill C-60, Economic Action Plan 2013 Act, No. 1. As at 30 June 2013, total spending against the 2013-2014 reference level of $2,131 million was $459 million (22%), which is on plan.

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 breakeven 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 applied including prepayment charges.

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.

FINANCIAL ANALYSIS

Net Income

(in millions)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2013	2012		2013	2012	
Interest income	**141**	156	(15)	**285**	314	(29)
Net Unrealized Gains (Losses) from Financial Instruments	**2**	-	2	**(6)**	(6)	-
Other Income (Expense)	**10**	10	-	**17**	16	1
Total Revenues	**153**	166	(13)	**296**	324	(28)
Interest Expense	**138**	151	(13)	**279**	304	(25)
Operating Expenses	**5**	7	(2)	**11**	13	(2)
Total Expenses	**143**	158	(15)	**290**	317	(27)
Income before Income Taxes	**10**	8	2	**6**	7	(1)
Income Taxes	**2**	1	1	**(1)**	-	(1)
Net Income	**8**	7	1	**7**	7	-

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. Interest Income and Interest Expense from the Lending Activity for the three months and six months ended 30 June 2013 decreased compared to the same periods in 2012 as a result of a decline in the loan and debt outstanding balances as both are approaching maturity.

Total Net Income from the Lending Activity for the three and six months ended 30 June 2013 was $8 million and $7 million respectively, which is consistent with the same prior year periods.

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 30 June 2013	As at 31 December 2012	Variance
Reserve for All Other Lending-Related Items	**111**	102	9
Reserve for Unrealized Gains (Losses)	**(49)**	(118)	69
Reserve Fund for Lending	**62**	(16)	78

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 increased from 31 December 2012 mainly as a result of the year-to-date net interest income from the Lending activities.

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 six months largely as a result of Remeasurements of the Net Defined Benefit.

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 and competition in the marketplace by providing lenders of all sizes with securitization-ready assets.

INSURANCE VOLUMES

Measures	Three months ended 30 June 2013	Three months ended 30 June 2012	Variance	Six months ended 30 June 2013	Six months ended 30 June 2012	Variance
Total Insured Volumes (units)	**114,877**	112,152	2,725	**166,955**	226,197	(59,242)
Total Insured Volumes ($M)	**20,755**	19,542	1,213	**28,950**	38,496	(9,546)
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets	**46.6%**	44.1%	2.5 pts	**47.5%**	43.5%	4.0 pts

CMHC's insured loan volumes are influenced by the economy, housing markets, competitive pressures and the regulatory environment.

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 leading up to the end of the quarter.

Quarterly comparison – Q2 2012 vs. Q2 2013

CMHC's overall insured volumes (units) for the three months ended 30 June 2013 were approximately 2% higher than the same period in 2012, which is the result of:

- Homeowner Purchase volumes declined approximately 16% while Homeowner Refinance volumes were 60% lower compared to the same period in 2012. The latest mortgage insurance parameter changes that took effect in July 2012 effectively eliminated refinancing at loan-to-value over 80%;
- Portfolio volumes were approximately 232% higher 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 the first quarter of 2012, and then subsequently reduced their volumes significantly in the second quarter of 2012. By comparison, Portfolio insurance volumes were negligible in the first quarter of 2013, followed by a significant increase in lender take-up in the second quarter. The year over year differences are attributed to lenders changing the timing of their take-up of the portfolio insurance product. Quarterly take-up of the portfolio allocation is highly variable on a standalone quarterly basis; however, given that the 2013 portfolio allocation is unchanged from 2012, the year over year variability is expected to be minimal; and
- Multi-unit volumes were approximately 12% higher compared to the same period in 2012 and are on par with expectations. Multi-unit insured volumes consist of mortgage loan insurance for the construction, purchase and refinancing of multi-unit residential properties, including rental buildings, licensed care facilities and retirement homes, condominium construction, as well as affordable housing and some student housing. The increase in multi-unit volumes was largely driven by increases in multi-unit property refinancing. Multi-unit volumes are highly variable on a standalone quarterly basis.

Year-to-date comparison – Q2 2012 vs. Q2 2013

CMHC's overall insured volumes (units) for the six months ended 30 June 2013 were approximately 26% percent lower than the same period in 2012 which 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.

- Homeowner Purchase volumes declined approximately 19% while Homeowner Refinance volumes were 64% lower compared to the same period in 2012. The new mortgage insurance parameters that took effect in July 2012 effectively eliminated refinancing at loan-to-value over 80%;
- Portfolio volumes were approximately 38% lower compared to the same period last year. The year-over-year decline in portfolio activity is attributable to lenders changing the timing of their take-up of the portfolio insurance product to date in 2013, compared to 2012. Essentially all of CMHC's portfolio insurance allocation (94%) was consumed in the first six months of 2012, while lender take up has been more spread out in 2013, with only 58% of the allocation being consumed in the first two quarters of the year; and
- Multi-unit volumes were approximately 8.8% higher compared to the same period in 2012 and are on par with expectations. The increase in multi-unit volumes was also largely driven by year-over-year increases in multi-unit property refinancing volumes. Combined with the volume declines in homeowner purchase and portfolio volumes described above, this has resulted in multi-unit volumes comprising a greater proportion of total insured volumes, which accounted for the four 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 30 June 2013	As at 31 December 2012	Variance
Total Insurance-in-Force	**562.1**	566.1	(4)
High Ratio Homeowner	**288.8**	290.3	(1.5)
Low Ratio Portfolio	**225.7**	229.5	(3.8)
Multi-unit Residential	**47.6**	46.3	1.3

At the end of the second quarter of 2013, CMHC's insurance-in-force was $562.1 billion, $4 billion lower than the insurance-in-force at year end 2012.

Consistent with year-end 2012, approximately 40% 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 as well as provide a reasonable return to the Government of Canada. CMHC's Mortgage Loan Insurance Activity is operated at no cost to Canadian taxpayers. 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.

(in millions)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2013	2012		2013	2012	
Premiums and Fees Earned	**438**	448	(10)	**853**	873	(20)
Investment Income	**145**	134	11	**282**	280	2
Net Unrealized Gains (Losses) from Financial Instruments	**14**	(24)	38	**32**	27	5
Net Realized Gains (Losses) from Financial Instruments	**7**	(31)	38	**35**	30	5
Other Income	**10**	-	10	**11**	1	10
Total Revenues	**614**	527	87	**1,213**	1,211	2
Interest Expense	**1**	1	-	**2**	2	-
Operating Expenses	**54**	50	4	**113**	109	4
Net Claims Expense is comprised of:						
Losses on Claims	**117**	168	(51)	**250**	322	(72)
Change in Provision for Claims	**(62)**	(26)	(36)	**(82)**	(61)	(21)
Total Expenses	**110**	193	(83)	**283**	372	(89)
Income before Income Taxes	**504**	334	170	**930**	839	91
Income Taxes	**120**	81	39	**224**	206	18
Net Income	**384**	253	131	**706**	633	73

Revenues

Quarterly comparison – Q2 2012 vs. Q2 2013

Total Revenues for the three months ended 30 June 2013 were $614 million, $87 million higher than during the same period in 2012.

This increase was largely due to the following results:

Investment income increased by $11 million in Q2 2013 compared to the same period in 2012 due to higher dividends earned.

Net Unrealized Gains from Financial Instruments for the three months ended 30 June 2013 increased by $38 million versus the same period in 2012. This is attributed to fluctuations in market prices on held for trading investments.

Net Realized Gains from Financial Instruments were $38 million higher in Q2 2013 than those recognized in 2012. This increase was the result of stronger gains from sales of equities and bonds.

Other Income for the second quarter of 2013 was $10 million greater compared to the same period in 2012, which is attributable to the expiration of a program that provided federal assistance to homeowners impacted by pyrite in their foundations.

These increases were partially offset by $10 million in lower Premiums and Fees Earned for the three months ended 30 June 2013 versus the same period in 2012 due to lower insured volumes over the past few years.

Year-to-date comparison – Q2 2012 vs. Q2 2013

Total Revenues for the six months ended 30 June 2013 remained relatively consistent at $1,213 million when compared to the same prior year period with some fluctuations within line items. On a year-to-date basis, Premiums and Fees Earned declined by $20 million which was partially offset by a $10 million increase in Other Income as explained above in the quarterly comparison.

Expenses

Quarterly comparison – Q2 2012 vs. Q2 2013

Total Expenses for the three months ended 30 June 2013 were $110 million, $83 million lower than expenses in the same periods in 2012.

This decrease was largely due to Net Claims Expense which was $55 million in Q2 2013, $87 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 $51 million (30%) lower in Q2 2013 compared to the same quarter in 2012. The lower losses are the result of declining claim volumes (16% lower than those received in Q2 2012) in line with improvements in economic conditions. Following the trend noted for 2012 and Q1 2013, the level of recoveries also continued to improve in Q2 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.

The Provision for Claims declined by $62 million in the second quarter of 2013, representing an overall decline in the expectation of future losses. Expected future losses declined in line with the improvement in economic conditions and lower current arrears.

The greater decline in the Provision for Claims in Q2 2013 (negative $62 million) compared to Q2 2012 (negative $26 million) is primarily due to the continued decreases in the level of arrears and higher than expected house price appreciation.

Year-to-date comparison – Q2 2012 vs. Q2 2013

Total Expenses for the six months ended 30 June 2013 were $283 million, $89 million lower than Total Expenses in the same periods in 2012. This decrease was largely due to Net Claims Expense which was $168 million for the six months ended 30 June 2013, $93 million lower than in the same period of 2012.

Losses on Claims were $72 million lower compared to the same period in 2012. The lower losses are the result of declining claims volumes (15% lower than those received during the first six months of 2012) as explained in the quarterly comparison.

The Provision for Claims declined by $82 million in the first six months of 2013, representing an overall decline in the expectation of future losses as discussed in the quarterly comparison.

Net Income

Mortgage Loan Insurance Net Income for the three and six months ended 30 June 2013 was $384 million and $706 million respectively, an increase of $131 million (52%) and $73 million (12%) when compared to the same periods in 2012. This increase was mainly due to lower Net Claims as described above. Net Income for the quarter increased by a larger percentage than on a year-to-date basis primarily due to variances in Total Revenues as explained above. Increases in Income before Income Taxes for the three and six months ended 30 June 2013 resulted in Income Taxes that were $39 million and $18 million higher than the same prior year periods.

Other Financial Measures

Measures	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2013	2012		2013	2012	
Premiums and Fees Received (total $ millions):	**376**	471	(95)	**586**	775	(189)
Homeowner	**84%**	90%	(6 pts)	**81%**	87%	(6 pts)
Multi-unit Residential	**16%**	10%	6 pts	**19%**	13%	6 pts
Operating Expense Ratio (per cent)	**12%**	11%	1 pt	**13%**	12%	1 pt
Severity Ratio (per cent)	**29.0%**	29.4%	(0.4 pts)	**29.8%**	31.1%	(1.3 pts)

Premiums and Fees received for the three and six months ended 30 June 2013 were $95 million and $189 million lower respectively, compared to the same periods last year as a result of lower volumes and the reduced size of the high ratio homeowner mortgage loan insurance market. This was partially offset by the increase in multi-unit volumes, which explains the 6 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 0.4 and 1.3 percentage point declines in Q2 and year-to-date 2013 compared to the same periods in 2012 can be attributed to fluctuations in the Corporation's deficiency sales rate, housing prices, and recovery levels.

Capital Management

(in millions) (unless otherwise indicated)	As at 30 June 2013	 31 December 2012	Variance
Mortgage Loan Insurance Retained Earnings	**12,478**	11,657	821
Mortgage Loan Insurance Appropriated Capital:			
Appropriated Retained Earnings	**10,570**	9,983	587
Accumulated Other Comprehensive Income (loss)	**804**	1,047	(243)
Total Appropriated Capital	**11,374**	11,030	344
Unappropriated Retained Earnings	**1,908**	1,674	234
Total Equity	**13,282**	12,704	578
Capital Available to Minimum Capital Required (100% MCT)	**234%**	231%	3 pts
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.

OSFI plans to develop a new and separate capital guideline for mortgage insurers, which is scheduled to be implemented in 2015. The new guideline will result in a new capital structure and could affect how capital levels are determined.

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 $344 million, from $11,374 million as at 31 December 2012.

Total Mortgage Loan Insurance Available Capital was 234% MCT as at Q2 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.

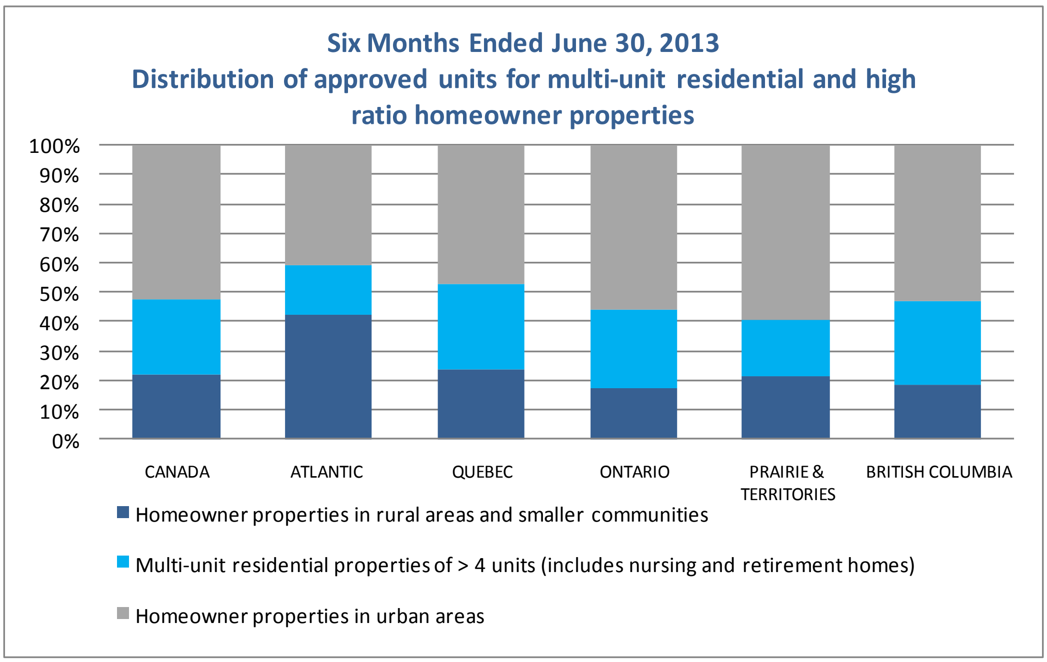
CMHC's Mortgage Loan Insurance Activity is fully capitalized with Appropriated Retained Earnings in Q2 2013 of $10,570 million and AOCI of $804 million.

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

CMHC continues to be the only mortgage loan insurer for large multi-unit residential properties including nursing and retirement homes. 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 slightly above 47% in the first six months of 2013, virtually unchanged compared to the end of 2012.



MANAGING RISK PRUDENTLY

The profile of CMHC's insurance-in-force as at 30 June 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 30 June 2013.

Distribution of homeowner Insurance-in-force by loan-to-value (LTV) ratio based on updated property value[1] (%)	As at			
	30 June 2013			31 December 2012
	High Ratio Homeowner	Low Ratio Portfolio	High and Low Ratio Homeowner	High and Low Ratio Homeowner
<=50%	8	39	**22**	22
>50.01% <=60%	6	20	**12**	12
>60.01% <=70%	14	24	**19**	18
>70.01% <=80%	29	17	**23**	24
>80.01% <=90%	32	-	**18**	17
>90.01% <=95%	10	-	**6**	6
>95.01%	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.

The average amortization period at the time of mortgage approval for multi-unit residential loans increased slightly, while overall it remained the same at 25 years as at the end of 30 June 2013.

Distribution of Insurance-in-force by amortization (years)	As at			
	30 June 2013			31 December 2012
	High and Low Ratio Homeowner	Multi-unit Residential	Overall	Overall
Average amortization period at origination	25	26	**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, and increase equity in the home at a faster rate and lower risk over time.

As at 30 June 2013, the average outstanding loan amount for homeowners who took out high ratio loans above 80% loan-to-value at origination was $178,212. This is approximately 17% 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 30 June 2013 High Ratio Homeowner	Low Ratio Portfolio	Multi-unit Residential (per unit)	Overall	As at 31 December 2012 Overall
Over $550,000	4	7	-	**4**	5
Over $400,000 to $550,000	9	8	-	**8**	8
Over $250,000 to $400,000	32	25	1	**27**	27
Over $100,000 to $250,000	46	46	22	**44**	44
Over $60,000 to $100,000	6	9	36	**10**	9
$60,000 or under	3	5	41	**7**	7
Average outstanding loan amount ($)	178,212	152,507	52,917	**140,581**	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 30 June 2013 High Ratio Homeowner	Low Ratio Portfolio	Multi-unit Residential	Overall	As at 31 December 2012 Overall
Ontario	36.7	46.2	35.7	**40.5**	40.8
British Columbia	12.6	20.1	12.8	**15.7**	15.8
Alberta	17.7	14.5	11.4	**15.9**	15.6
Quebec	19.9	12.0	30.0	**17.5**	17.3
Nova Scotia	2.6	1.7	3.6	**2.3**	2.4
Saskatchewan	2.9	1.9	1.4	**2.4**	2.3
Manitoba	3.2	1.6	2.9	**2.6**	2.5
New Brunswick	2.2	0.8	1.0	**1.5**	1.5
Newfoundland	1.5	0.9	0.3	**1.1**	1.2
Prince Edward Island	0.3	0.2	0.3	**0.2**	0.3
Territories	0.4	0.1	0.6	**0.3**	0.3

MANAGING PORTFOLIO QUALITY THROUGH PRUDENT UNDERWRITING

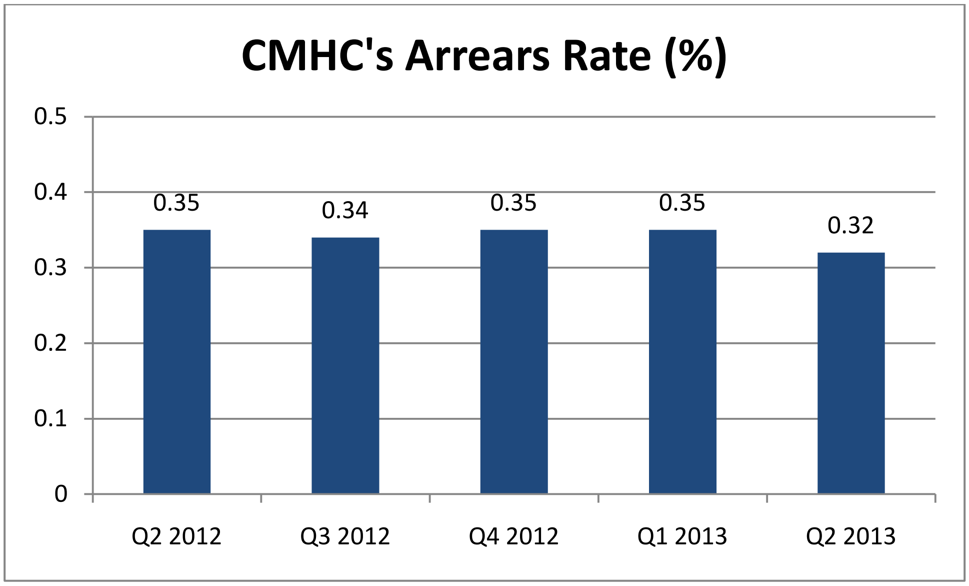
Canadian credit scores generally range between 300 and 900. The higher the score, the lower the risk of borrower default. In order to qualify for a CMHC-insured high ratio loan, the borrower/co-borrower must have a credit score of 600, consistent with the first round of government guarantee parameters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

Distribution of Insurance-in-force by Credit Score at Origination (%)	As at			
	30 June 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	**8**	4	**9**	4
>=660 < 700	**15**	9	**15**	9
>=700	**75**	85	**74**	85
Average Credit Score at Origination	**727**	756	**726**	755

Distribution of Approved Loans by Credit Score at Origination (%)	Six months ended 30 June			
	2013		2012	
	High-Ratio Homeowner	Low-Ratio Portfolio	High-Ratio Homeowner	Low-Ratio Portfolio
No score	**-**	-	**-**	-
= 0 < 600	**-**	1	**-**	1
>=600 < 660	**5**	2	**7**	3
>=660 < 700	**13**	5	**15**	7
>=700	**82**	92	**78**	89
Average Credit Score at Origination	**741**	766	**736**	760

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 727 for CMHC's high-ratio homeowner insurance-in-force at 30 June 2013. The average credit score for high-ratio homeowner approved loans in the first six months of 2013 was 741 – up from 736 during the same period in 2012. These high average credit scores demonstrate a strong ability among homebuyers with CMHC-insured mortgages to manage their debts. Credit score trends for approved loans have been improving recently and are indicative of overall improvements to the risk profile of CMHC's loan portfolio, supported by prudent underwriting, as well as changes to the government guarantee parameters, including successive changes reducing maximum amortization periods from 40 to 25 years and maximum LTVs for Refinance from 95% to 80%.

CMHC's overall arrears rate as at 30 June 2013 was 0.32%, a 0.03 percentage point improvement compared to the 0.35% arrears rate reported in Q1 2013 and at year-end 2012, and a 0.02 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, while Portfolio arrears rates have remained relatively stable.



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.

CMHC has been working closely with lenders to assist borrowers impacted by the recent floods in Alberta and Western Canada through the use of CMHC's default management tools. CMHC is also providing lenders and other mortgage professionals with guidance regarding the underwriting of loans secured by impacted properties. Regarding claims payment, while CMHC mortgage insurance remains in force for properties impacted by the flooding in Alberta, CMHC mortgage loan insurance is not intended to cover losses arising from damage to property, whether due to Acts of God or Force Majeure. Moreover, the Province of Alberta has put in place a disaster relief program to help affected homeowners repair and rebuild flood-damaged homes.

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 efficiency and increases competition in the mortgage market, which contributes to the availability of funding for mortgages. 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	Six months ended 30 June 2013	Six months ended 30 June 2012	Variance
Securities Guaranteed ($M)	**73,113**	66,428	6,685
Market NHA MBS	**53,113**	46,428	6,685
CMB	**20,000**	20,000	-
Per cent of residential mortgages securitized[1]	**29.9%**	28.9%	1pt

[1]Information as at 30 April 2013

For the six months ended 30 June 2013, a total of $73.1 billion new guarantees were granted by CMHC. This exceeds the $66.4 billion guaranteed as at 30 June 2012 in large part because of higher NHA MBS volumes. Approved Issuers issued and CMHC provided new guarantees for $53 billion in market NHA MBS as at 30 June 2013 compared to $46 billion in the same period in 2012.

Through the CMB program, $20 billion in bonds were issued and guaranteed.

The following tables summarize the CMB and IMPP issuances and maturities for the three month and six month periods ended 30 June 2013.

	CMB			
	For the Three Month Period Ended 30 June		For the Six Month Period Ended 30 June	
(in billions)	2013	2012	2013	2012
Opening Balance	**213**	212	**203**	201
Issuances/ Purchases	**10**	9	**20**	20
Maturities	**19**	18	**19**	18
Closing Balance	**204**	203	**204**	203

	IMPP[1]			
	For the Three Month Period Ended 30 June		For the Six Month Period Ended 30 June	
(in billions)	2013	2012	2013	2012
Opening Balance	**52**	55	**53**	55
Maturities	**1**	1	**2**	1
Closing Balance	**51**	54	**51**	54

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

CMHC's guarantees-in-force totalled $399.6 billion as at 30 June 2013, which is 5% higher than total guarantees-in-force as at 31 December 2012 ($382 billion) and 6% higher than the $377 billion at 30 June 2012. CMHC's legislative total outstanding guarantees-in-force limit is $600 billion. For 2013, the total guarantee limit for NHA MBS is $85 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.

The NHA MBS and CMB programs are highly successful and important pillars of Canadian financial institutions' diversified mortgage funding platforms. Program participants, smaller lenders in particular, benefit from the stable and reliable access to funds that these programs offer resulting in their ability to compete on the basis of costs, terms and products with more established larger lenders and thereby maintain the competiveness of the Canadian residential mortgage market.

In 2008 CMHC took steps to help foster competition in the mortgage market by revising the CMB funding allocation methodology to help ensure that smaller lenders have access to an equal share of available CMB funding. Small lender participation in the CMB program increased from 19% in 2006 to 49% as at June 2013. 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.

FINANCIAL ANALYSIS

Net Income – Securitization

Included within the Securitization Activity Net Income is the Insured Mortgage Purchase Program (IMPP) introduced in 2008 as a measure to maintain the availability of longer-term credit in Canada. The IMPP will reach maturity by 2015. The Interest Income received from NHA Mortgage-Backed Securities – Loans and Receivables is offset by Interest Expense on the program's borrowings. Since these securities consist of insured mortgage pools that are already backed by the Government of Canada (through insurance issued by CMHC or private sector mortgage insurers,) IMPP did not create any additional risk to the Government. By the time the program ends in 2014-15, it will have generated an estimated $2.5 billion in net revenues that will improve the Government's fiscal position.

(in millions)	Three months ended 30 June		Variance	Six months ended 30 June		Variance
	2013	2012		2013	2012	
SECURITIZATION						
Interest Income from NHA MBS-Loans and Receivables	**400**	418	(18)	**810**	844	(34)
Guarantee Fees Earned	**64**	63	1	**124**	121	3
Income from Investment Securities	**8**	8	-	**15**	17	(2)
Net Unrealized Gains (Losses) from Financial Instruments	**-**	(2)	2	**-**	1	(1)
Net Realized Gains (Losses) from Financial Instruments	**-**	11	(11)	**1**	46	(45)
Other Income	**3**	3	-	**7**	6	1
Total Revenues	**475**	501	(26)	**957**	1,035	(78)
Interest Expense	**400**	418	(18)	**810**	844	(34)
Operating Expenses	**4**	3	1	**8**	6	2
Total Expenses	**404**	421	(17)	**818**	850	(32)
Income before Income Taxes	**71**	80	(9)	**139**	185	(46)
Income Taxes	**17**	20	(3)	**34**	47	(13)
Net Income	**54**	60	(6)	**105**	138	(33)

Securitization Net Income for the three and six months ended 30 June 2013 was $54 million and $105 million respectively, a decrease of 10% ($6 million) and 24% ($33 million) when compared to the same prior year periods. The decrease was mainly attributable to lower realized gains on sales (net of taxes) due to the liquidation of investments in 2012 as a result of the implementation of a new Strategic Asset Allocation late Q3 2012 for the Securitization Activity.

Other Financial Measures

Measures	Three months ended 30 June 2013	Three months ended 30 June 2012	Variance	Six months ended 30 June 2013	Six months ended 30 June 2012	Variance
Guarantee Fees Received ($M)	**81**	67	14	**135**	124	11
Operating Expense Ratio (per cent)	**5.1%**	4.6%	0.5 pt	**5.3%**	4.9%	0.4 pt

Guarantee Fees Received for the three and six months ended 30 June 2013 were higher than the same prior year periods as a result of greater volumes of market NHA MBS securities guaranteed.

Operating Expense ratio for the three and six months ended 30 June 2013 remained relatively consistent when compared to the same periods last year.

Capital Management

(in millions) (unless otherwise indicated)	As at 30 June 2013	As at 31 December 2012	Variance
Securitization Appropriated Capital:			
Appropriated Retained Earnings	**838**	781	57
Accumulated Other Comprehensive Income	**(29)**	8	(37)
Total Appropriated Capital	**809**	789	20
Unappropriated Retained Earnings	**495**	439	56
Securitization Retained Earnings	**1,333**	1,220	113
Total Equity	**1,304**	1,228	76
Capital Available to Capital Required (per cent)	**162%**	156%	6 pts

CMHC's Securitization capitalization methodology is based on regulatory and economic capital principles. Capital required is calculated by applying risk factors to Securitization investment assets and liabilities exposures. Securitization capital requirements increased in 2013 due to changes to OSFI guidelines for interest rate risk effective 1 January 2013. Effective 30 June 2013, the Corporation has also made internal policy changes to its capital requirements by increasing the capitalization factors for its asset risks. This change reduced the year-to-date Capital Available to Capital Required from 180% to 162%.

Securitization Capital Available consists of Total Equity adjusted for Positive Deferred Tax Assets. As at 30 June 2013, the Securitization Activity remains fully capitalized, with Capital Available representing 162% of Capital Required (156% as at 31 December 2012). This increase is primarily the result of the changes in capital requirements discussed above as well as Securitization's continued profitability.

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 71% 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.

	Three months ended 30 June		Variance	Six months ended 30 June		Variance
(in millions)	**2013**	**2012**		**2013**	**2012**	
CHT						
Interest Income from NHA MBS -Loans Receivable	**1,328**	1,551	(223)	**2,637**	3,087	(450)
Other Income	**42**	40	2	**83**	85	(2)
Total Revenues	**1,370**	1,591	(221)	**2,720**	3,172	(452)
Interest Expense	**1,326**	1,549	(223)	**2,632**	3,082	(450)
Operating Expenses	**44**	42	2	**88**	90	(2)
Total Expenses	**1,370**	1,591	(221)	**2,720**	3,172	(452)
Net Income	**-**	-	-	**-**	-	-

Interest Income and Interest Expense from CHT's NHA MBS and CMB for the three and six months ended 30 June 2013 decreased by 14% ($223 million) and 15% ($450 million) respectively, when compared to the same periods 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 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 Act renewed the Investment in Affordable Housing and committed support for the construction of housing in Nunavut. The Act also introduced new measures related to portfolio insurance aimed at increasing market discipline and reducing taxpayer exposure to the housing sector. The Department of Finance is 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 $1.3 million per year over a 13-year period.

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

Mortgage Loan Insurance Activity

Actual capital is currently in excess of the 200% capital holding target. Beyond the changes to the use of portfolio insurance, there were no other potential significant new risks or opportunities identified.

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

During the second quarter of 2013, the following changes were made to CMHC's key management personnel:

- On 3 May 2013, the Government of Canada announced the appointment of Robert P. Kelly as Chairperson of the CMHC Board of Directors.
- On 8 May 2013, Mark McInnis, Vice-President, Insurance Underwriting, Servicing and Policy, left the Corporation.
- Karen O'Hanley assumed the position of Acting Vice-President, Insurance Underwriting, Servicing and Policy, effective 8 May 2013.
- On 3 June 2013, Pierre Sabourin joined the Corporation as Senior Vice-President, Corporate Services.
- On 3 June 2013, Douglas Stewart was named Interim President and Chief Executive Officer, effective 17 June 2013, following the retirement of Karen Kinsley from CMHC.
- Debra Darke assumed the position of Acting Vice-President, Regional Operations and Assisted Housing, effective 17 June 2013.

EVENTS AFTER THE REPORTING PERIOD

Limit on NHA MBS

Pursuant to recent changes in the NHA, the Minister of Finance has, for prudential purposes, granted CMHC the authority to guarantee a maximum of $85 billion in new market NHA MBS for 2013. The limit on NHA MBS is an important oversight mechanism to manage housing market risks and the Government's exposure to the housing sector. This limit was established in consultation between CMHC and the Department of Finance based on past issuance activity and funding needs. As a result of unexpected growth in NHA MBS issuance volumes to date and to better manage volumes going forward, CMHC announced on 1 August 2013 that it will be introducing an allocation methodology for new guarantees of market NHA MBS, which will take effect starting in September. In the interim, each issuer is subject to a maximum limit of $350 million of new guarantees of market NHA MBS.

Increase to Mortgage Loan Insurance Capital Target

Subsequent to the end of the second quarter, CMHC's Board of Directors reviewed CMHC's capital target and determined that while the capital holding target of 200% MCT remained a prudent and appropriate level for the insurance business, the internal capital target would be increased from 175% to 185%.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 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.

Douglas Stewart
Interim President and Chief Executive Officer

Brian Naish, CPA, CA
Chief Financial Officer

21 August 2013

Consolidated Balance Sheet

(in millions of Canadian dollars)	Notes	30 June 2013	31 December 2012
ASSETS			
Cash and Cash Equivalents		**1,769**	1,220
Securities Purchased Under Resale Agreements		**102**	63
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		**907**	928
Held for Trading		**400**	415
Available for Sale		**18,983**	19,304
Investment in NHA Mortgage-Backed Securities:			
Loans and Receivables	6	**254,009**	255,967
Loans:			
Designated at Fair Value through Profit or Loss		**6,322**	6,591
Other		**4,296**	4,440
Investments in Housing Programs		**720**	748
Accrued Interest Receivable		**878**	959
Deferred Income Tax Assets		**-**	58
Derivatives		**89**	131
Due from the Government of Canada	7	**301**	309
Accounts Receivable and Other Assets		**990**	907
		289,766	292,040
LIABILITIES			
Securities Sold Under Repurchase Agreements		**454**	425
Borrowings:	9		
Canada Mortgage Bonds		**202,075**	201,676
Capital Market Borrowings		**1,670**	1,848
Borrowings from the Government of Canada:			
Designated at Fair Value through Profit or Loss		**6,451**	6,659
Other		**55,113**	57,595
Accrued Interest Payable		**785**	753
Derivatives		**47**	46
Accounts Payable and Other Liabilities		**928**	1,258
Provision for Claims	10	**914**	996
Unearned Premiums and Fees		**6,720**	6,940
Deferred Income Tax Liabilities		**9**	-
		275,166	278,196
Commitments and Contingent Liabilities	20		
EQUITY OF CANADA			
Contributed Capital		**25**	25
Accumulated Other Comprehensive Income		**776**	1,038
Retained Earnings		**13,799**	12,781
		14,600	13,844
		289,766	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 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
REVENUES					
Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables		**1,728**	1,969	**3,447**	3,931
Premiums and Fees		**502**	511	**977**	994
Interest Earned on Loans and Investments in Housing Programs		**132**	147	**266**	296
Income from Investment Securities		**150**	140	**293**	292
Net Realized Gains from Financial Instruments	12	**(4)**	(21)	**25**	44
Net Unrealized Gains (Losses) from Financial Instruments	12	**18**	(26)	**29**	20
Other Income		**40**	29	**68**	57
		2,566	2,749	**5,105**	5,634
Parliamentary Appropriations for:	7				
Housing Programs		**431**	459	**975**	1,105
Operating Expenses		**28**	30	**57**	67
		459	489	**1,032**	1,172
		3,025	3,238	**6,137**	6,806
EXPENSES					
Interest Expense	9	**1,844**	2,093	**3,683**	4,179
Housing Programs	7	**431**	459	**975**	1,105
Net Claims		**55**	142	**168**	261
Operating Expenses		**110**	108	**227**	234
		2,440	2,802	**5,053**	5,779
INCOME BEFORE INCOME TAXES		**585**	436	**1,084**	1,027
INCOME TAXES	11				
Current		**113**	103	**229**	236
Deferred		**26**	2	**31**	16
		139	105	**260**	252
NET INCOME		**446**	331	**824**	775
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX					
Items that will be subsequently reclassified to Net Income:					
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments		**(418)**	67	**(264)**	120
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income		**32**	(11)	**2**	(70)
Total items that will be subsequently reclassified to Net Income		**(386)**	56	**(262)**	50
Items that will not be subsequently reclassified to Net Income:					
Remeasurements of the Net Defined Benefit Plans		**128**	(49)	**194**	(54)
		(258)	7	**(68)**	(4)
COMPREHENSIVE INCOME		**188**	338	**756**	771

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

Consolidated Statement of Equity of Canada

Three months ended 30 June (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 April 2013	**25**	2,105	10,294	830	(4)	**13,225**	**1,162**	**14,387**	**14,412**
Net Income (Loss)	-	436	-	-	10	446	-	446	446
Other Comprehensive Income (Loss)	-	81	-	-	47	128	(386)	(258)	(258)
Set Aside for Capitalization	-	(284)	276	8	-	-	-	-	-
Balance at End of Period 30 June 2013	**25**	2,338	10,570	838	53	**13,799**	**776**	**14,575**	**14,600**
Balance, 1 April 2012	**25**	976	9,856	783	(13)	**11,602**	**896**	**12,498**	**12,523**
Net Income (Loss)	-	324	-	-	7	331	-	331	331
Other Comprehensive Income (Loss)	-	(29)	-	-	(20)	(49)	56	7	7
Set Aside for Capitalization	-	(236)	264	(28)	-	-	-	-	-
Balance at End of Period 30 June 2012	**25**	1,035	10,120	755	(26)	**11,884**	**952**	**12,836**	**12,861**

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

Consolidated Statement of Equity of Canada

Six months ended 30 June (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**	2,044	9,983	781	(27)	**12,781**	**1,038**	**13,819**	**13,844**
Net Income (Loss)	-	815	-	-	9	824	-	824	824
Other Comprehensive Income (Loss)	-	123	-	-	71	194	(262)	(68)	(68)
Set Aside for Capitalization	-	(644)	587	57	-	-	-	-	-
Balance at End of Period 30 June 2013	**25**	2,338	10,570	838	53	**13,799**	**776**	**14,575**	**14,600**
Balance, 1 January 2012	**25**	1,445	9,028	699	(9)	**11,163**	**902**	**12,065**	**12,090**
Net Income (Loss)	-	770	-	-	5	775	-	775	775
Other Comprehensive Income (Loss)	-	(32)	-	-	(22)	(54)	50	(4)	(4)
Set Aside for Capitalization	-	(1,148)	1,092	56	-	-	-	-	-
Balance at End of Period 30 June 2012	**25**	1,035	10,120	755	(26)	**11,884**	**952**	**12,836**	**12,861**

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 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net Income		**446**	331	**824**	775
Items Not Affecting Cash or Cash Equivalents:					
Amortization of Premiums and Discounts on Financial Instruments		**25**	16	**47**	34
Deferred Income Taxes		**49**	(1)	**67**	15
Change in Fair Value of Financial Instruments Carried at Fair Value		**(18)**	26	**(29)**	(20)
Net (Gain) Loss on Financial Instruments	12	**4**	21	**(25)**	(44)
Net Change in Non-cash Operating Assets and Liabilities					
Accounts Receivable and Other Assets		**(118)**	(36)	**(83)**	(110)
Accrued Interest Receivable		**689**	984	**81**	55
Due from the Government of Canada		**90**	136	**8**	11
Unearned Premiums and Fees		**(6)**	46	**(220)**	(64)
Provision for Claims		**(62)**	(26)	**(82)**	(61)
Accounts Payable and Other Liabilities		**(275)**	(60)	**(330)**	111
Accrued Interest Payable		**(651)**	(935)	**32**	(17)
Derivatives		**(3)**	(2)	**(2)**	(4)
Other		**248**	(32)	**268**	(44)
Net Change from Loans and Investments in Housing Programs		**124**	167	**357**	416
Net Change in NHA MBS Loans and Receivables		**11,107**	9,868	**1,951**	(41)
Repayments of Capital Market Borrowings	9	**(150)**	(300)	**(150)**	(300)
Borrowings from the Government of Canada	9				
Issuances		**833**	737	**1,093**	1,179
Repayments		**(2,419)**	(1,444)	**(3,685)**	(2,649)
Canada Mortgage Bonds:	9				
Issuances		**9,985**	9,594	**19,936**	20,098
Repayments		**(19,500)**	(18,700)	**(19,500)**	(18,700)
		398	390	**558**	640
CASH FLOWS PROVIDED BY (USED IN)					
Investment Securities:					
Sales and Maturities		**2,720**	4,851	**5,139**	9,090
Purchases		**(2,834)**	(5,802)	**(5,138)**	(9,878)
Change in Securities Purchased Under Resale Agreements		**146**	(8)	**(39)**	(54)
		32	(959)	**(38)**	(842)
CASH FLOWS PROVIDED BY (USED IN)					
Change in Securities Sold Under Repurchase		**(151)**	78	**29**	303
		(151)	78	**29**	303
Increase in Cash and Cash Equivalents		**279**	(491)	**549**	101
Cash and Cash Equivalents					
Beginning of Period		**1,490**	1,993	**1,220**	1,401
End of Period		**1,769**	1,502	**1,769**	1,502
Represented by:					
Restricted Cash		**-**	125	**-**	125
Cash		**(35)**	(57)	**(35)**	(57)
Cash Equivalents		**1,804**	1,434	**1,804**	1,434
		1,769	1,502	**1,769**	1,502
Supplementary Disclosure of Cash Flow					
Amount of Interest Received During the Period		**2,700**	3,483	**4,133**	4,656
Amount of Interest Paid During the Period		**2,509**	3,065	**3,710**	4,311
Amount of Dividends Received During the Period		**18**	14	**34**	29
Amount of Income Taxes Paid During the Period		**92**	177	**237**	352

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 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 21 August 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 net defined benefit plan asset or liability recognized is the present value of the obligations under the plans, less plan assets. Defined benefit plan assets are limited to 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 and, the net of interest cost on the defined benefit obligation and interest income on plan assets. These costs are recognized in Operating Expenses. Remeasurements of the net defined pension plans are recognized in Other Comprehensive Income as incurred, and flow into Retained Earnings on the unaudited Quarterly Consolidated Balance Sheet.

Past service costs are recognized in the current period.

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 20.

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

CMHC has adopted new standards and amendments to existing standards issued by the International Accounting Standards Board (IASB) that became effective 1 January 2013. In the first quarter, CMHC adopted the following accounting changes: IFRS 7 *Financial Instruments: Disclosures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

During the second quarter, the Corporation adopted amendments to IAS 19 *Employee Benefits*. The application of these amendments impacted amounts reported in the Quarterly Consolidated Financial Statements, the presentation of these amounts, and the related disclosures. The impact of adopting IAS 19 is summarized below.

Amendments to IAS 19 Employee Benefits

On 16 June 2011, the IASB issued amendments to IAS 19 *Employee Benefits* that changed the accounting for termination benefits and improved the recognition, presentation and disclosure for defined benefit plans. The most significant impact to the Corporation is that the amendments required interest income on plan assets to be calculated by applying the same discount rate used to measure the pension obligation. Under the previous requirements of IAS 19, the Corporation calculated interest income on plan assets using the expected rate of return. In addition, the amendments to IAS 19 eliminated the "corridor method", required immediate recognition of past service costs, and incorporated enhanced disclosure requirements. As the Corporation applied the change from the corridor method upon adoption of IFRS, this component of the amendment did not affect the Corporation's Consolidated Financial Statements.

The amendments to IAS 19 were applied retrospectively to the Quarterly Consolidated Financial Statements for the six month period ending 30 June 2013 in accordance with the transitional provisions of IAS 19 *Employee Benefits* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The impact of adopting the amendments to IAS 19 on the Corporation's previously reported Consolidated Financial Statements as at 1 January 2012, as at 31 December 2012 and for the three and six month periods ended 30 June 2012 is summarized as follows:

Consolidated Balance Sheet Highlights

	As at					
	As at 1 January 2012			As at 31 December 2012		
(in millions)	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
Accounts Payable and Other Liabilities	1,172	1	**1,173**	1,257	1	**1,258**
Retained Earnings	11,164	(1)	**11,163**	12,782	(1)	**12,781**
Equity of Canada	12,091	(1)	**12,090**	13,845	(1)	**13,844**

Consolidated Statement of Income and Comprehensive Income Highlights

	Three months ended 30 June			Six months ended 30 June		
(in millions)	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
Operating Expenses	104	4	**108**	226	8	**234**
Income Taxes	105	-	**105**	253	(1)	**252**
Net Income	335	(4)	**331**	782	(7)	**775**
Remeasurements of the Net Defined Benefit Plans	(53)	4	**(49)**	(61)	7	**(54)**
Other Comprehensive Income	3	4	**7**	(11)	7	**(4)**
Comprehensive Income	338	-	**338**	771	-	**771**

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 IFRS 13 which is 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 30 June 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.

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 does not expect that these amendments will have a material impact on its Consolidated Financial Statements.

On 12 November 2009, the IASB issued IFRS 9 *Financial Instruments* with further revisions on 28 October 2010. This forms part of the first phase of the IASB's three phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement.* The first phase of this project addresses classification and measurement requirements for financial assets and financial liabilities. 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. The second and third phases of this project are currently under development, and address impairment and hedge accounting. On 24 July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 pending the finalisation of the impairment, and classification and measurement requirements. CMHC anticipates that the requirements of IFRS 9 may be further amended before the new standard becomes effective. As such, 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 17 for further details.

5. SECURITIES

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

(in millions)	30 June 2013				31 December 2012	
	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	**850**	**58**	**(1)**	**907**	872	928
Available for Sale	**15,348**	**598**	**(174)**	**15,772**	14,969	15,930
Equities						
Held for Trading	**400**	**-**	**-**	**400**	444	415
Available for Sale	**2,575**	**666**	**(30)**	**3,211**	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 $204 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 and six months ended 30 June 2013, impairment losses on Equities of $59 million and $75 million, respectively (three and six months ended 30 June 2012 – $70 million of impairment losses) were 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 and six month period ending 30 June 2013, there were disbursements of Investment in NHA Mortgage-Backed Securities – Loans and Receivables in the amount of $9,985 million and $19,936 million and repayments of $21,092 million and $21,887 million, respectively (three and six months ended 30 June 2012 – disbursements of $9,594 million and $20,098 million and repayments of $19,462 million and $20,057 million, respectively).

7. HOUSING PROGRAMS

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

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
Funding Under Long-Term Commitments for Existing Social Housing	**383**	386	**828**	834
Funding for New Commitments of Affordable Housing	**47**	71	**144**	267
Housing Support	**1**	1	**2**	2
Housing Policy, Research and Information Transfer	**-**	1	**1**	2
Total Housing Programs Expenses	**431**	459	**975**	1,105
Operating Expenses	**28**	30	**57**	67
Total Appropriations	**459**	489	**1,032**	1,172

The following table presents the changes in the Due from (to) the Government of Canada account. The outstanding balance as of 30 June 2013 is mainly composed of housing programs expenses incurred but not yet reimbursed.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
Due from (to) the Government of Canada				
Balance at Beginning of Period	**391**	528	**309**	403
Total Appropriations	**459**	489	**1,032**	1,172
Total Appropriations Received	**(550)**	(625)	**(1,040)**	(1,180)
Reimbursements	**1**	-	**-**	(3)
Balance at End of Period	**301**	392	**301**	392

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.

(in billions)	As at	
	30 June 2013	31 December 2012
NHA MBS[1]	**196**	179
CMB[2]	**204**	203
Total Guarantees-in-Force	**400**	382

[1]Includes $23 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 and six months ended 30 June 2013 is $1,306 million and $2,592 million, respectively (three and six months ended 30 June 2012 – $1,521 million and $3,027 million, respectively).

For the three and six months ended 30 June 2013, CHT issued Canada Mortgage Bonds in the amount of $9,985 million and $19,936 million, respectively (three and six months ended 30 June 2012 – $9,594 million and $20,098 million, respectively). There were $19,500 million in maturities for the three and six months ended 30 June 2013 (three and six months ended 30 June 2012 – $18,700 million).

Capital Market Borrowings

The interest expense related to Capital Market Borrowings for the three and six months ended 30 June 2013 is $19 million and $38 million, respectively (three and six months ended 30 June 2012 – $22 million and $45 million, respectively).

CMHC made $150 million in repayments for the three and six months ended 30 June 2013 relating to its Capital Market Borrowings (three and six months ended 30 June 2012 – $300 million).

Borrowings from the Government of Canada

The interest expense related to Borrowings from the Government of Canada – Designated at Fair Value through Profit or Loss and Other for the three and six months ended 30 June 2013 is $526 million and $1,066 million, respectively (three and six months ended 30 June 2012 – $556 million and $1,121 million, respectively).

For the three and six months ended 30 June 2013, CMHC had new borrowings in the amount of $833 million and $1,093 million, respectively (three and six months ended 30 June 2012 – $737 million and $1,179 million, respectively), and repayments in the amount of $2,419 million and $3,685 million, respectively (three and six months ended 30 June 2012 – $1,444 million and $2,649 million, respectively), 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:

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2013**	**2012**	**2013**	**2012**
Balance at Beginning of Period	**6,179**	6,615	**6,394**	6,731
Premium Deferred on Contracts Written in the Period	**398**	475	**592**	776
Premiums Earned in the Period	**(431)**	(441)	**(840)**	(859)
Application Fees Deferred on Contracts Written in the Period	**4**	3	**7**	7
Application Fees Earned in the Period	**(3)**	(4)	**(6)**	(7)
Balance at End of Period	**6,147**	6,648	**6,147**	6,648

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:

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2013**	**2012**	**2013**	**2012**
Balance at Beginning of Period	**976**	1,006	**996**	1,041
Losses on Claims During the Period	**(117)**	(168)	**(250)**	(322)
Provision for Claims Incurred During the Period	**55**	142	**168**	261
Balance at End of Period	**914**	980	**914**	980

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 30 June 2013, insurance-in-force, which represents the risk exposure of the CMHC Mortgage Loan Insurance Activity, totalled $562 billion (31 December 2012 – $566 billion).

11. INCOME TAXES

The following table presents the total income taxes.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2013	2012	2013	2012
Other Comprehensive Income:				
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**(142)**	41	**(89)**	57
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	**10**	(5)	**(1)**	(29)
Net Actuarial Gains (Losses) on Employee Benefit Plans	**29**	(11)	**46**	(13)
Income Tax Expense (Benefit) on Quarterly Consolidated Other Comprehensive Income	**(103)**	25	**(44)**	15
Income Tax Expense on Quarterly Consolidated Net Income	**139**	105	**260**	252
Total	**36**	130	**216**	267

12. FINANCIAL INSTRUMENTS

Determination of Fair Value

All financial instruments are recognized initially at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. 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 30 June 2013			
(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Cash and Cash Equivalents	450	865	-	**1,315**
Investment Securities:				
Designated at Fair Value through Profit or Loss	701	63	143	**907**
Held for Trading	400	-	-	**400**
Available for Sale	18,924	43	16	**18,983**
Loans:				
Designated at Fair Value through Profit or Loss	-	6,322	-	**6,322**
Derivatives	-	89	-	**89**
Financial Assets not recorded at Fair Value and Other Assets				**261,750**
Total Assets	20,475	7,382	159	**289,766**
Liabilities and Equity of Canada				
Borrowings:				
Capital Market Borrowings	1,670	-	-	**1,670**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	6,451	-	**6,451**
Derivatives	-	47	-	**47**
Liabilities and Equity not recorded at Fair Value				**281,598**
Total Liabilities and Equity of Canada	1,670	6,498	-	**289,766**

	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 and six months ended 30 June 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. For items not carried at fair value on the Consolidated Balance Sheet, the hierarchy level for the disclosed fair value is provided.

	As at			
	30 June 2013		31 December 2012	
(in millions)	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets				
Cash and Cash Equivalents	**1,769**	**1,769**	1,220	1,220
Securities Purchased Under Resale Agreements (2)	**102**	**102**	63	63
Investment Securities:				
Designated at Fair Value through Profit or Loss	**907**	**907**	928	928
Held for Trading	**400**	**400**	415	415
Available for Sale	**18,983**	**18,983**	19,304	19,304
Investment in NHA Mortgage-Backed Securities – Loans and Receivables (2)	**257,320**	**254,009**	262,576	255,967
Loans:				
Designated at Fair Value through Profit or Loss	**6,322**	**6,322**	6,591	6,591
Other (2)	**5,203**	**4,296**	5,579	4,440
Investments in Housing Programs (2)	**1,268**	**720**	1,374	748
Accrued Interest Receivable (2)	**878**	**878**	959	959
Derivatives	**89**	**89**	131	131
Due from the Government of Canada (2)	**301**	**301**	309	309
Accounts Receivable (2)	**525**	**525**	432	432
Financial Liabilities				
Securities Sold Under Repurchase Agreements (2)	**454**	**454**	425	425
Borrowing:				
Canada Mortgage Bonds (1)	**204,761**	**202,075**	207,144	201,676
Capital Market Borrowings	**1,670**	**1,670**	1,848	1,848
Borrowings from the Government of Canada				
Designated at Fair Value through Profit or Loss	**6,451**	**6,451**	6,659	6,659
Other (2)	**57,354**	**55,113**	60,702	57,595
Accrued Interest Payable (2)	**785**	**785**	753	753
Derivatives	**47**	**47**	46	46
Accounts Payable (2)	**928**	**928**	1,258	1,258
Provision for Claims (3)	**914**	**914**	996	996

1 Fair value determined based on Level 1 Criteria
2 Fair value determined based on Level 2 Criteria
3 Fair value determined based on Level 3 Criteria

Gains and Losses from Financial Instruments

The unrealized gains and losses arising from changes in fair value related to financial instruments classified as HFT and those Designated at Fair Value through Profit or Loss are presented in the following table.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2013**	**2012**	**2013**	**2012**
Held for Trading				
Equities	**13**	(28)	**28**	22
Derivatives	**(41)**	17	**(43)**	(10)
Total Held for Trading	**(28)**	(11)	**(15)**	12
Designated at Fair Value through Profit or Loss				
Investment Securities – Designated at Fair Value through Profit or Loss	**(4)**	8	**2**	3
Loans – Designated at Fair Value through Profit or Loss	**(78)**	22	**(86)**	(51)
Capital Market Borrowings	**23**	-	**29**	31
Borrowings from the Government of Canada – Designated at Fair Value through Profit or Loss	**106**	(44)	**100**	26
Total Designated at Fair Value through Profit or Loss	**47**	(14)	**45**	9
Gains (Losses) from Related Party Transactions	(1)	(1)	(1)	(1)
Total Net Unrealized Gains (Losses) from Financial Instruments	**18**	(26)	**29**	20

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.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2013**	**2012**	**2013**	**2012**
Held for Trading	**1**	1	**-**	(3)
Available for Sale	**(1)**	(16)	**29**	66
Retirement of Debt	**(4)**	(6)	**(4)**	(19)
Total Net Realized Gains (Losses) from Financial Instruments	**(4)**	(21)	**25**	44

13. UNCONSOLIDATED STRUCTURED ENTITIES

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

	As at	
(in millions)	30 June 2013	31 December 2012
Investment Funds	1,217	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 included in Net Unrealized Gains from Financial Instruments in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income is $34 million and $152 million for the three and six months ended 30 June 2013, respectively (three and six months ended 30 June 2012 - $10 million and $130 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 one-month holding period as at 30 June 2013 is $382 million (31 December 2012 – $273 million). The total VaR as at 30 June 2013 is comprised of $377 million (31 December 2012 – $270 million) for AFS investments and $24 million (31 December 2012 – $26 million) for HFT investments, net of $19 million (31 December 2012 – $23 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. To better reflect market risk, CMHC increased the holding period used in calculating VaR from two-weeks to one-month. Accordingly, the VaR measurements for 31 December 2012, previously reported using a two-week holding period, have been restated.

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 $7 million (31 December 2012 – nil) whereas a +200 bps interest rate shift would result in a Net Unrealized Loss from Financial Instruments of $3 million (31 December 2012 – $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 $89 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 $52 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 30 June 2013 is $0.3 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 30 June 2013 was nil (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 30 June 2013 is $114 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 30 June 2013 is $107 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 30 June 2013**			
Derivatives[1]	149	-	149	(50)	(10)	89
Securities Purchased Under Resale Agreements[1]	102	-	102	-	(102)	-
Total	**251**	**-**	**251**	**(50)**	**(112)**	**89**
(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)	**30 June 2013**	**31 December 2012**
Derivatives Assets Presented in Offsetting Table	**149**	197
Less: Accrued Interest Receivable Presented Separately in Balance Sheet	**(41)**	(47)
Less: Deferral of Swap Fees Received	**(19)**	(19)
Derivatives Asset Balance Presented in the Balance Sheet	**89**	131

Financial liabilities

	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross Amount Not Offset in the Balance Sheet		(v) = (iii) - (iv)
(in millions)	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
			As at 30 June 2013			
Derivatives[1]	53	-	53	(50)	-	3
Securities Sold Under Repurchase Agreements[1]	454	-	454	-	(452)	2
Total	**507**	**-**	**507**	**(50)**	**(452)**	**5**
(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)	30 June 2013	31 December 2012
Derivatives Liabilities Presented in Offsetting Table	**53**	52
Less: Accrued Interest Payable Presented Separately in Balance Sheet	**(6)**	(6)
Derivative Liabilities Balance Presented in the Balance Sheet	**47**	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 30 June			
	Pension Plans		Other Post-employment Benefits	
(in millions)	2013	2012[2]	2013	2012[2]
Current Service Cost	**10**	7	**1**	1
Net Interest Cost	**4**	5	**2**	2
Defined Benefit Plan Expense[1]	**14**	12	**3**	3

[1] Excludes $1 million of other administration costs in other operating expenses
[2] Restated for IAS 19

	Six months ended 30 June			
	Pension Plans		Other Post-employment Benefits	
(in millions)	2013	2012[2]	2013	2012[2]
Current Service Cost	**18**	15	**3**	3
Net Interest Cost	**9**	9	**4**	4
Defined Benefit Plan Expense[1]	**27**	24	**7**	7

[1] Excludes $1 million of other administration costs in other operating expenses
[2] Restated for IAS 19

The following assumptions were used to calculate these costs.

	As at	
Measures	30 June 2013	31 December 2012
Defined Benefit Obligation:		
Discount Rate	**4.60%**	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%

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 is 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 the Corporation is 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 is currently seeking 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 (31 December 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 30 June (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	-	-	400	418	-	-	-	-	1,328	1,551	-	-	**1,728**	1,969
Premiums and Fees	438	448	64	63	-	-	-	-	-	-	-	-	**502**	511
Interest Earned on Loans	-	-	-	-	-	-	132	147	-	-	-	-	**132**	147
Income from Investment Securities	145	134	8	8	-	-	9	9	-	-	(12)	(11)	**150**	140
Net Realized Gains (Losses) from Financial Instruments	7	(31)	-	11	-	-	-	-	-	-	(11)	(1)	**(4)**	(21)
Net Unrealized Gains (Losses) from Financial Instruments	14	(24)	-	(2)	-	-	2	-	-	-	2	-	**18**	(26)
Parliamentary Appropriations and Other Income	10	-	3	3	459	489	10	10	42	40	(25)	(24)	**499**	518
	614	527	475	501	459	489	153	166	1,370	1,591	(46)	(36)	**3,025**	3,238
EXPENSES														
Interest Expense	1	1	400	418	-	-	138	151	1,326	1,549	(21)	(26)	**1,844**	2,093
Operating Expenses	54	50	4	3	28	30	5	7	44	42	(25)	(24)	**110**	108
Housing Programs and Net Claims	55	142	-	-	431	459	-	-	-	-	-	-	**486**	601
	110	193	404	421	459	489	143	158	1,370	1,591	(46)	(50)	**2,440**	2,802
Income Taxes	120	81	17	20	-	-	2	1	-	-	-	3	**139**	105
NET INCOME (LOSS)	384	253	54	60	-	-	8	7	-	-	-	11	**446**	331
Total Revenues	614	527	475	501	459	489	153	166	1,370	1,591	(46)	(36)	**3,025**	3,238
Inter-segment/entity Revenues[1]	(20)	(9)	-	-	-	-	(1)	(3)	(25)	(24)	46	36	**-**	-
External Revenues	594	518	475	501	459	489	152	163	1,345	1,567	-	-	**3,025**	3,238

[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.

Six months ended 30 June (in millions)	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
REVENUES														
Interest Income from NHA MBS – Loans and Receivables	-	-	810	844	-	-	-	-	2,637	3,087	-	-	**3,447**	3,931
Premiums and Fees	853	873	124	121	-	-	-	-	-	-	-	-	**977**	994
Interest Earned on Loans	-	-	-	-	-	-	266	296	-	-	-	-	**266**	296
Income from Investment Securities	282	280	15	17	-	-	19	18	-	-	(23)	(23)	**293**	292
Net Realized Gains (Losses) from Financial Instruments	35	30	1	46	-	-	-	-	-	-	(11)	(32)	**25**	44
Net Unrealized Gains (Losses) from Financial Instruments	32	27	-	1	-	-	(6)	(6)	-	-	3	(2)	**29**	20
Parliamentary Appropriations and Other Income	11	1	7	6	1,032	1,172	17	16	83	85	(50)	(51)	**1,100**	1,229
	1,213	1,211	957	1,035	1,032	1,172	296	324	2,720	3,172	(81)	(108)	**6,137**	6,806
EXPENSES														
Interest Expense	2	2	810	844	-	-	279	304	2,632	3,082	(40)	(53)	**3,683**	4,179
Operating Expenses	113	109	8	6	57	67	11	13	88	90	(50)	(51)	**227**	234
Housing Programs and Net Claims	168	261	-	-	975	1,105	-	-	-	-	-	-	**1,143**	1,366
	283	372	818	850	1,032	1,172	290	317	2,720	3,172	(90)	(104)	**5,053**	5,779
Income Taxes	224	206	34	47	-	-	(1)	-	-	-	3	(1)	**260**	252
NET INCOME (LOSS)	706	633	105	138	-	-	7	7	-	-	6	(3)	**824**	775
Total Revenues	1,213	1,211	957	1,035	1,032	1,172	296	324	2,720	3,172	(81)	(108)	**6,137**	6,806
Inter-segment/entity Revenues[1]	(29)	(49)	-	-	-	-	(2)	(8)	(50)	(51)	81	108	**-**	-
External Revenues	1,184	1,162	957	1,035	1,032	1,172	294	316	2,670	3,121	-	-	**6,137**	6,806

[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 30 June 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	1,126	759	24	27	-	-	618	433	1	1	-	-	**1,769**	1,220
Securities Purchased Under Resale Agreements	-	-	-	-	-	-	102	63	-	-	-	-	**102**	63
Investment Securities:														
Designated at Fair Value through Profit or Loss	78	75	1	1	-	-	1,205	1,282	-	-	(377)	(430)	**907**	928
Held for Trading	400	415	-	-	-	-	-	-	-	-	-	-	**400**	415
Available for Sale	18,809	19,064	1,784	1,799	-	-	-	-	-	-	(1,610)	(1,559)	**18,983**	19,304
Investment in NHA Mortgage-Backed Securities: Loans and Receivables	-	-	50,061	52,448	-	-	-	-	203,948	203,519	-	-	**254,009**	255,967
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	6,322	6,591	-	-	-	-	**6,322**	6,591
Other	-	-	-	-	-	-	4,296	4,440	-	-	-	-	**4,296**	4,440
Investments in Housing Programs	-	-	-	-	-	-	720	748	-	-	-	-	**720**	748
Accrued Interest Receivable	103	97	76	83	-	-	197	245	507	540	(5)	(6)	**878**	959
Deferred Income Tax Assets	-	(20)	-	1	-	-	-	42	-	-	-	35	**-**	58
Derivatives	-	-	-	-	-	-	89	131	-	-	-	-	**89**	131
Due from the Government of Canada	-	-	-	-	-	-	301	309	-	-	-	-	**301**	309
Accounts Receivable and Other Assets	648	617	65	(25)	-	-	277	315	-	-	-	-	**990**	907
	21,164	21,007	52,011	54,334	-	-	14,127	14,599	204,456	204,060	(1,992)	(1,960)	**289,766**	292,040
LIABILITIES														
Securities Sold Under Repurchase Agreements	454	425	-	-	-	-	-	-	-	-	-	-	**454**	425
Borrowings:														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	203,948	203,519	(1,873)	(1,843)	**202,075**	201,676
Capital Market Borrowings	-	-	-	-	-	-	1,684	1,862	-	-	(14)	(14)	**1,670**	1,848
Borrowings from the Government of Canada	-	-	50,061	52,448	-	-	11,503	11,806	-	-	-	-	**61,564**	64,254
Accrued Interest Payable	-	-	70	77	-	-	213	142	507	540	(5)	(6)	**785**	753
Derivatives	-	-	-	-	-	-	47	46	-	-	-	-	**47**	46
Accounts Payable and Other Liabilities	304	488	14	35	-	-	609	734	1	1	-	-	**928**	1,258
Provision for Claims	914	996	-	-	-	-	-	-	-	-	-	-	**914**	996
Unearned Premiums and Fees	6,147	6,394	573	546	-	-	-	-	-	-	-	-	**6,720**	6,940
Deferred Income Tax Liabilities	63	-	(11)	-	-	-	(16)	-	-	-	(27)	-	**9**	-
	7,882	8,303	50,707	53,106	-	-	14,040	14,590	204,456	204,060	(1,919)	(1,863)	**275,166**	278,196
EQUITY OF CANADA														
Contributed Capital	-	-	-	-	-	-	25	25	-	-	-	-	**25**	25
Accumulated Other Comprehensive Income (Loss)	804	1,047	(29)	8	-	-	-	-	-	-	1	(17)	**776**	1,038
Retained Earnings	12,478	11,657	1,333	1,220	-	-	62	(16)	-	-	(74)	(80)	**13,799**	12,781
	13,282	12,704	1,304	1,228	-	-	87	9	-	-	(73)	(97)	**14,600**	13,844
	21,164	21,007	52,011	54,334	-	-	14,127	14,599	204,456	204,060	(1,992)	(1,960)	**289,766**	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 and six months ended 30 June 2013 amount to $3 million and $6 million (three and six months ended 30 June 2012 – $3 million and $6 million, respectively) for the Securitization Activity and nil (three and six months ended 30 June 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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