CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

THIRD QUARTER
September 30, 2013
(Unaudited)

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MANAGEMENT'S DISCUSSION & ANALYSIS

September 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.

CMHC is governed by a Board of Directors and is accountable to Parliament through the Minister of Employment and Social Development and Minister for Multiculturalism. 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 nine months ended 30 September 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 and Note 3 of the unaudited Quarterly Consolidated Financial Statements). CMHC's unaudited Quarterly Consolidated Financial Statements for the period ended 30 September 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, 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, housing market activity is influenced by economic and financial market factors such as income growth and mortgage interest rates. These and other factors influence CMHC's operating environment.

Economic and Demographic Context (as at 16 October 2013)

Employment gains so far in 2013 continue to support housing demand, albeit at a more moderate pace. Employment was up by 1.2 per cent in September, according to Statistics Canada. This represents an increase of 212,400 jobs when compared with the same month in 2012. Full-time employment recorded an increase of 1.1 per cent when compared to the same month a year ago, an increase of 157,800 jobs. Part-time employment saw a year-over-year gain of 1.7 per cent, an increase of 54,600 jobs.

On a monthly basis, employment increased in September by 11,900 jobs when compared to August 2013, the second consecutive monthly increase. Year-to-date, the average monthly employment gain was roughly 12,700 jobs, almost half the monthly average gain of 24,600 jobs registered over the first nine months of 2012.

Real gross domestic product by industry[1] grew 0.6 per cent in July, rebounding from a 0.5 per cent decline in June. The decline in June was the first monthly decline in 2013 and was marked by a 2.1 per cent decline in the construction industry. Construction during the month was partly hampered by a labour dispute in Quebec which was resolved in July. With respect to quarterly GDP growth, Statistics Canada reports that real gross domestic product expanded 0.4 per cent in the second quarter of 2013 following 0.5 per cent growth in the first quarter.

Migration flows are supportive of Canada's housing market. On a seasonally adjusted basis, total net migration, which is the sum of net international migration and net inter-provincial migration, has been moving steadily upwards since the fourth quarter of 2012. By the first quarter of 2013 total net migration was 69,557 persons, while the second quarter of 2013 saw it rise again to 72,075 persons. On an unadjusted basis, total net migration rose from 93,544 persons in the second quarter of 2012 to 97,583 persons (4.3 per cent) in the second quarter of 2013.

[1] According to Statistics Canada, this activity provides information for current economic analysis from an industry point of view. Gross Domestic Product (GDP) by industry at basic prices is a measure of the economic production which takes place within the geographical boundaries of Canada. The GDP by industry measures provide an alternate measure of total economic activity that supplements the income and expenditure-based estimates, which is produced quarterly.

Housing Indicators

Housing Starts (as at 16 October 2013)

Housing starts in Canada were trending at 190,492 units in September, compared to 188,440 in August[2]. The trend in total housing starts edged up slightly in September, while remaining close to the range of roughly 182,000 to 188,000 units that was observed between March and August of 2013. This recent moderate gain is consistent with sales of existing homes which have trended higher since February 2013. The trend in the new home market typically lags the trend in the existing home market.

Resale Market (as at 16 October 2013)

The seasonally adjusted annual rate of MLS®[3] sales increased for a seventh consecutive month in September, rising to 489,516 units from 485,568 units in August. The seasonally adjusted annual rate of MLS® new listings decreased, declining to 872,712 units from 885,384 units in August. As a result, the sales-to-new listings ratio has trended higher over the same period. The ratio stood at 56.1 per cent, up from 54.8 per cent in August, thus moving slightly above the 55.0 per cent threshold between a balanced and a sellers' market.

The national seasonally adjusted average MLS® price registered a gain of 1.4 per cent in September to $393,192 from $387,924 in August. In addition, the unadjusted average MLS® price increased by 8.8 per cent to $385,906 from $354,608 a year before.

The MLS® Home Price Index[4], which uses statistical techniques to control for changes over time in the types and quality of homes sold, registered no growth between August 2013 and September 2013 for the second consecutive month. The MLS® Home Price Index rose by 3.1 per cent from September 2012 to September 2013 in the markets covered, following a gain of 2.8 per cent between August 2012 and August 2013.

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[2] The trend is a six-month moving average of the monthly seasonally adjusted annual rates (SAAR) of housing starts. CMHC uses the trend measure as a complement to the monthly SAAR of housing starts to account for considerable swings in monthly estimates and obtain a more complete picture of the state of the housing market. In some situations, analyzing only SAAR data can be misleading, as they are largely driven by the multiples segment, which can be quite volatile.

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

[4] The MLS® Home Price Index is based on single-family, townhouse/row, and apartment unit sales activity in Greater Vancouver, the Fraser Valley, Calgary, Regina, Greater Toronto and Greater Montréal.

Legislative Impacts

Economic Action Plan 2013

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. Of the $100 million, $30 million will be provided to the Territory in 2013/14 through a Supplementary Agreement to the Investment in Affordable Housing 2011-2014 Agreement signed by the Governments of Canada and Nunavut in 2011.

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.

Ensuring that our Financial System Remains Strong

Economic Action Plan 2013 will implement changes to limit the use of portfolio insurance and prohibit the use of any government-backed insured mortgage as collateral in securitization vehicles that are not sponsored by Canada Mortgage and Housing Corporation.

With the financial crisis well behind us, the Government is amending the rules for portfolio insurance to increase market discipline in residential lending and reduce taxpayer exposure to the housing sector. The changes will include gradually limiting the insurance of low-ratio mortgages to only those mortgages that will be used in CMHC securitization programs. In addition, the Government intends to prohibit the use of any taxpayer-backed insured mortgage, both high and low ratio, as collateral in securitization vehicles that are not sponsored by CMHC. These measures will restore taxpayer-backed portfolio insurance to its original purpose of allowing access to funding for mortgage assets. The Government is consulting with industry stakeholders on implementation details and the timing of these measures.

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. As of September 30, 2013, one of the issuers has issued three covered bonds while the second has issued one since their approval.

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 would be introducing an allocation methodology for new guarantees of market NHA MBS. In the interim, each issuer was subject to a maximum limit of $350 million of new guarantees of market NHA MBS during the month of August.

On 30 August 2013, CMHC announced an allocation methodology among issuers going forward. Approximately $15 billion of new guarantees of market NHA MBS were allocated for the remainder of 2013. CMHC intends to continue to allocate the limit set by the Minister of Finance among issuers going forward.

Fees Payable to the Government of Canada

Pursuant to section 8.2 of the NHA, effective 1 January 2014, the mortgage loan insurance activity will be subject to a risk fee payable to the Government of Canada of 3.25% of premiums written and 10 basis points on new portfolio insurance written.

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)	Nine months ended 30 September 2013	Year ended 31 December 2012[1]	Nine months ended 30 September 2012[1]
BALANCE SHEET			
Total Assets	**289,091**	292,040	302,232
Total Liabilities	**273,943**	278,196	288,885
Total Equity of Canada	**15,148**	13,844	13,347
Accumulated Other Comprehensive Income	**807**	1,038	1,125
Retained Earnings Set Aside for Capitalization	**11,368**	10,764	10,733
NET INCOME			
Revenues	**9,124**	13,455	10,049
Interest Income	**5,909**	8,889	6,680
Premiums and Fees	**1,485**	2,049	1,511
Parliamentary Appropriations	**1,533**	2,197	1,681
Interest Expenses	**5,418**	8,178	6,169
Net Claims	**238**	487	418
Net Income	**1,276**	1,699	1,152
Net Adjusted Income[2]	**1,205**	1,641	1,114
MORTGAGE LOAN INSURANCE			
Total Insurance-in-force ($B)	**559.8**	566.1	575.8
Total Insured Volumes ($M)	**46,596**	66,029	54,433
Premium and Fees Received	**987**	1,475	1,184
Net Income	**1,075**	1,405	941
Operating Expense Ratio (per cent)	**13.0%**	11.7%	11.7%
Severity Ratio (per cent)[3]	**30.0%**	31.3%	31.7%
Arrears Rate (per cent)[4]	**0.33%**	0.35%	0.34%
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets	**48.7%**	47.2%	45.7%
Capital Available to Minimum Capital Required (per cent)	**243%**	231%	222%
SECURITIZATION			
Total Guarantee-in-Force ($B)	**399.0**	381.6	384.1
Securities Guaranteed	**102,120**	119,531	92,095
Guarantee Fees Received	**191**	230	177
Net Income	**158**	272	193
Operating Expense Ratio (per cent)	**5.6%**	4.5%	4.8%
Per Cent of Residential Mortgages Securitized	**30.6%**	28.5%	28.4%
Capital Available to Capital Required (per cent)	**166%**	156%	144%
LENDING			
Investments (including cash)	**1,966**	1,778	1,615
Loans and Investments in Housing Programs	**11,095**	11,779	11,987
Borrowings	**13,026**	13,668	13,701
Net Income	**28**	12	10
Reserve Fund for Lending	**103**	(16)	(34)
HOUSING PROGRAMS			
Housing Programs (excluding operating expenses)	**1,448**	2,197	1,586
Funding Under Long-Term Commitments for Existing Social Housing	**1,245**	1,675	1,255
Funding for New Commitments of Affordable Housing	**198**	390	325

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 September 2013	As at 31 December 2012	Variance
Total Assets	**289,091**	292,040	(2,949)
Total Liabilities	**273,943**	278,196	(4,253)
Contributed Capital	**25**	25	-
Accumulated Other Comprehensive Income (AOCI)	**807**	1,038	(231)
Retained Earnings Set Aside for Capitalization	**11,368**	10,764	604
Retained Earnings (other)[1]	**2,948**	2,017	931
Total Equity of Canada	**15,148**	13,844	1,304

[1] Includes Unappropriated Retained Earnings and Reserve Fund

TOTAL ASSETS AND TOTAL LIABILITIES

Total Assets and Total Liabilities as at 30 September 2013 were approximately $289 billion and $274 billion respectively. The Insured Mortgage Purchase Program (IMPP) and CHT's Canada Mortgage Bonds (CMB) accounted for approximately 90% of the Corporation's Total Assets and Liabilities.

Total Assets as at 30 September 2013 decreased by 1% ($2.9 billion) from 31 December 2012. The reduction in Total Assets was mainly the result of $4.4 billion in IMPP NHA MBS maturities as well as a net decrease of $684 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 issuances net of maturities of $1.3 billion in NHA MBS from the CHT program, as well as an increase in accrued interest receivable of $464 million resulting mainly from the timing of the semi-annual interest payout on the majority of the CHT investments.

Total Liabilities as at 30 September 2013 decreased by 1.5% ($4.3 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 fluctuations in accrued interest in the CHT due to the timing of interest payout. Further contributing to the decrease were loan maturities in the Lending Activity leading to repayments of $150 million relating to Capital Market Borrowings and repayments net of additional borrowings of $350 million relating to Borrowings from the Government of Canada.

In addition, Total Liabilities were $475 million lower mainly due to reductions in the pension obligation as a result of CMHC's contributions to the pension plans, changes in actuarial assumptions as well as a higher rate of return on pension plan assets leading to actuarial gains. Also contributing to the reduction in Total Liabilities was a decrease of $265 million in Unearned Premiums and Fees due to lower insured volumes over the past few years.

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 September 2013, total AOCI was $807 million, a $231 million decrease from 31 December 2012. This decrease was mainly caused by $154 million in Net Unrealized Losses from Available for Sale Financial Instruments due to year-to-date increases in bond yields as well as a reclassification of prior years` net unrealized gains of $77 million. For additional explanation refer to the Other Comprehensive Income (Loss) section.

- **Retained Earnings**
  Total Retained Earnings were $14,316 million of which $11,368 million was set aside for the capitalization of the Mortgage Loan Insurance and Securitization Activities in accordance with CMHC's Capital Management Framework.

  The residual $2,948 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.

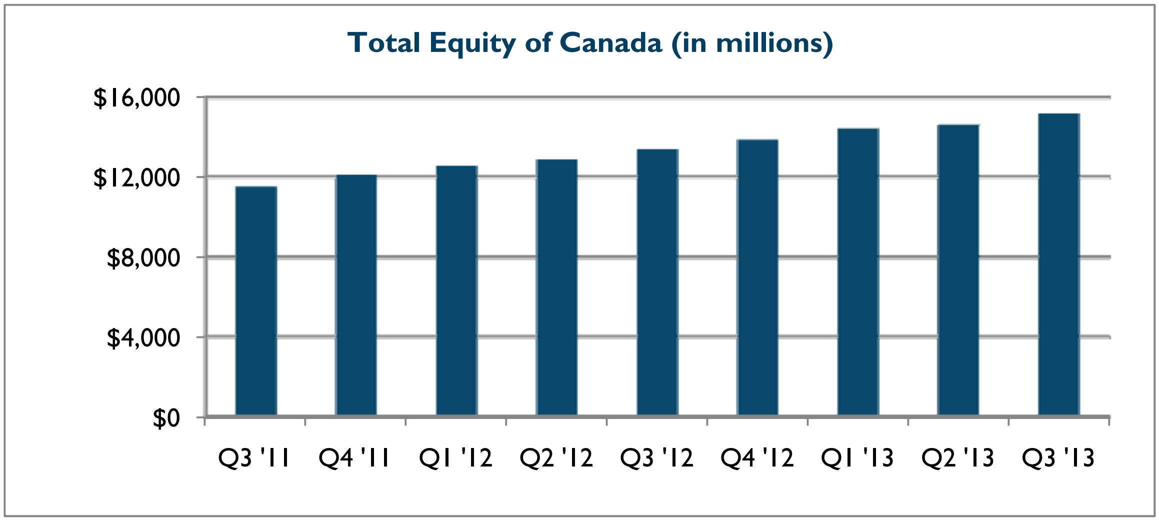
Retained Earnings related to the Mortgage Loan Insurance Activity are appropriated in accordance with the Capital Management Framework which is based on guidelines developed by OSFI. For its Mortgage Loan Insurance Activity, CMHC has Appropriated Retained Earnings as well as AOCI representing its capital holding target of 200% Minimum Capital Test (MCT). Mortgage Loan Insurance Capital Available resulted in a 243% MCT as at 30 September 2013.

Retained Earnings related to the Securitization Activity are also appropriated based on regulatory and economic capital principles. As at 30 September 2013, Securitization Capital Available represented 166% 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 (MILP) loans. These Retained Earnings, referred to as the Reserve Fund, include amounts representing unrealized fair market valuation changes on the financial instruments 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 September 2013, the total Reserve Fund for the Lending Activity was $103 million. Additional details can be found under Objective 1 of the segmented financial results section.

As at 30 September 2013, the Corporation's Total Equity of Canada was $15,148 million, an increase of $1,304 million compared to 31 December 2012. This increase was mainly the result of the year-to-date Net Income of $1,276 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 September		Variance	Nine months ended 30 September		Variance
	2013	2012		2013	2012	
Revenues	**2,987**	3,243	(256)	**9,124**	10,049	(925)
Expenses	**2,387**	2,730	(343)	**7,440**	8,509	(1,069)
Income Taxes	**148**	136	12	**408**	388	20
Net Income	**452**	377	75	**1,276**	1,152	124
Other Comprehensive Income (Loss)	**96**	109	(13)	**28**	105	(77)
Comprehensive Income	**548**	486	62	**1,304**	1,257	47

Total Revenues for the three and nine months ended 30 September 2013 were $2,987 million and $9,124 million respectively and Total Expenses for the same periods were $2,387 million and $7,440 million respectively. Approximately 56% 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

Quarterly comparison – Q3 2012 vs. Q3 2013

Revenues for the three months ended 30 September 2013 were 8% ($256 million) lower than the same prior year period, mainly as a result of a decrease in Interest Income, Parliamentary Appropriations, as well as Net Realized Gains, which were offset by higher Unrealized Gains from Financial Instruments.

Interest Income decreased by $258 million when compared to the same prior year period. This decrease was primarily due to the reduction of CHT CMB program interest income of $224 million as the NHA MBS maturing over recent years had higher interest rates than the NHA MBS purchased. In addition, there was a decline in interest on the Lending Activity Loans and Investments in Housing Programs of $14 million, due to the maturity of the portfolio.

Further contributing to the decrease in Revenues were Parliamentary Appropriations which decreased by $8 million, primarily due to the timing of spending under the agreements for Investment in Affordable Housing.

Net Realized Gains from Financial Instruments for the three months ended 30 September 2013 decreased by $14 million when compared to the same prior year period. This decrease was mainly due to a decline in value on the sale of bond investments in the Mortgage Loan Insurance portfolio as a result of market fluctuations in bond yields between the periods.

Net Unrealized Gains from Financial Instruments for the three months ended 30 September 2013 increased by $31 million, as a result of fluctuations in market prices of held for trading investments. Further contributing to the increase were higher unrealized gains on the Lending Activity portfolio resulting from a decline in the outstanding balances as they are approaching and reaching maturity and an increase in interest rates between the periods.

Year-to-date comparison – Q3 2012 vs. Q3 2013

Revenues for the nine months ended 30 September 2013 were 9% ($925 million) lower than the same prior year period, mainly as a result of a decrease in Interest Income, Parliamentary Appropriations, and Net Realized Gains, which were partially offset by an increase in Unrealized Gains from Financial Instruments.

Interest Income decreased by $771 million when compared to the same prior year period. The decrease is primarily due to reduced CHT CMB program interest income of $674 million combined with a decline in interest on the Lending Activity of $44 million as explained above.

Parliamentary Appropriations for the nine months ended 30 September 2013 decreased by $148 million as explained above.

Net Realized Gains from Financial Instruments for the nine months ended 30 September 2013 decreased by $33 million when compared to the same prior year period. This decrease resulted partially from the effect of market conditions on the sale of bond investments and equities in the Mortgage Loan Insurance portfolio as discussed above. In addition the rebalancing of the Securitization investment portfolio triggered a decrease in gains on a year to date basis in 2013 compared to 2012.

Net Unrealized Gains from Financial Instruments increased by $40 million as explained above.

Expenses

Expenses for the three and nine months ended 30 September 2013 were 13% ($343 million and $1,069 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 nine months ended 30 September 2013 was lower Net Claims of $70 million and $238 million respectively, a decrease of 55% ($87 million) and 43% ($180 million). 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 nine months ended 30 September 2013 was $452 million and $1,276 million respectively, an increase of 20% ($75 million) and 11% ($124 million) when compared to the same periods in 2012. This increase was mainly attributable to lower Net Claims as discussed above. As a result of lower Net Claims, CMHC expects to exceed the Net Income target set in the Corporate Plan.

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 are recorded in OCI. Also included in OCI are Remeasurements of the Net Defined Benefit Plans.

(in millions)	Three months ended 30 September		Variance	Nine months ended 30 September		Variance
	2013	2012		2013	2012	
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**110**	183	(73)	**(154)**	303	(457)
Reclassification of Prior Years' Net Unrealized (Gains)Losses Realized in the Period in Net Income	**(79)**	(10)	(69)	**(77)**	(80)	3
Remeasurements of the Net Defined Benefit Plans	**65**	(64)	129	**259**	(118)	377
Other Comprehensive Income (Loss)	**96**	109	(13)	**28**	105	(77)

Other Comprehensive Income (Loss) for the three and nine months ended 30 September 2013 was $96 million and $28 million respectively, which was $13 million and $77 million lower when compared to the same prior year periods. This decrease was a result of unrealized gains and losses from AFS financial instruments during the two periods, partially offset by reclassification of prior years' net unrealized losses and Remeasurements of the Net Defined Benefit Plans.

Unrealized gains (losses) from AFS financial instruments for the three months and nine months ended 30 September 2013 were $110 million and ($154) million respectively, which represents a decrease of $73 million and $457 million when compared to the same prior year periods. These decreases were the result of lower bond prices due to increased bond yields during the three months ended 30 September 2013 and year-to-date. These losses were offset by gains on equity investments in Canadian and International equity markets.

Additional unrealized losses resulted from the reclassification of prior years' net unrealized gains for the three and nine months ended 30 September 2013 of $79 million and $77 million respectively, which were $69 million higher and $3 million lower 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 nine months ended 30 September 2013 of $129 million and $377 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 September 2013	2012	Variance	Nine months ended 30 September 2013	2012	Variance
Total Operating Expenses	**109**	102	7	**336**	336	-
Staff-Years (Full Time Equivalent)	**456**	472	(16)	**1,358**	1,412	(54)

Total Operating Expenses for the three months ended 30 September 2013 were $109 million, which is $7 million higher than during the same period in 2012. The increase of 7% was generally due to higher technology costs as well as increased reimbursements of costs to OSFI for expenditures related to their ongoing oversight role. These increases were partially offset by lower personnel costs as discussed below.

For the nine months ended 30 September 2013, Total Operating Expenses were $336 million, which was consistent when compared with 30 September 2012. The increased operating expenses experienced in the third quarter were offset over the nine month period by staff-year reductions earlier in the year.

For the three and nine months ended 30 September 2013, staff-years consumed decreased by 16 staff-years (3.4%) and 54 staff-years (3.8%) respectively compared to the same prior year periods. The decrease was primarily a result of lower Mortgage Loan Insurance activities and the implementation of the review of government spending as discussed below.

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 and Note 3 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 unaudited Quarterly Consolidated Financial Statements, the presentation of these amounts, and the related disclosures. The impact of adopting IAS 19 is summarized below. The adoption of this standard had minimal impact on the Corporation's unaudited Quarterly Consolidated Financial Statements.

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 unaudited Quarterly Consolidated Financial Statements for the nine month period ending 30 September 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 nine months ended 30 September 2012, restated Net Income decreased by $4 and $11 million, respectively. Restated Other Comprehensive Income (Loss) for the three and nine months ended 30 September 2012 increased by $4 and $11 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
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 September		Variance	Nine months ended 30 September		Variance
	2013	2012		2013	2012	
Housing Programs Expenses	**473**	481	(8)	**1,448**	1,586	(138)
Operating Expenses	**28**	28	-	**85**	95	(10)
Total Appropriations	**501**	509	(8)	**1,533**	1,681	(148)

Appropriation spending for the three and nine months ended 30 September 2013 was $501 million and $1,533 million respectively.

Appropriation spending related to Housing Program Expenses for the three months and nine months ended 30 September 2013 was $473 million and $1,448 million respectively, a decrease of 2% ($8 million) and 9% ($138 million) 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 nine months ended 30 September 2013 were $28 million and $85 million respectively. Operating expenses remained stable over the three month period ended 30 September 2013. Over the nine month period ended 30 September 2013 there was a decrease of 11% ($10 million) when compared to the same prior year period. This decrease was the result of the actions taken by CMHC in response to the federal government's spending review.

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 September 2013 amounted to $1,533 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.

	Nine months ended 30 September	
(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	**(1,171)**	(1,142)
2013/14 (2012/13) portions recognized in 2013 (2012)	**960**	998
Total appropriations recognized - nine months ended 30 September	**1,533**	1,681

[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 September 2013, total spending against the 2013-2014 reference level of $2,131 million was $960 million (45%) which is in line with expectation.

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 September		Variance	Nine months ended 30 September		Variance
	2013	2012		2013	2012	
Interest income	**140**	154	(14)	**425**	468	(43)
Net Unrealized Gains (Losses) from Financial Instruments	**21**	(2)	23	**15**	(8)	23
Other Income (Expense)	**6**	5	1	**23**	21	2
Total Revenues	**167**	157	10	**463**	481	(18)
Interest Expense	**136**	148	(12)	**415**	452	(37)
Operating Expenses	**5**	6	(1)	**16**	19	(3)
Total Expenses	**141**	154	(13)	**431**	471	(40)
Income before Income Taxes	**26**	3	23	**32**	10	22
Income Taxes	**5**	-	5	**4**	-	4
Net Income	**21**	3	18	**28**	10	18

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 nine months ended 30 September 2013 decreased compared to the same periods in 2012 as a result of a decline in the loan and debt balances as both are approaching maturity.

Total Net Income from the Lending Activity for the three and nine months ended 30 September 2013 was $21 million and $28 million respectively, an increase of $18 million over each of the same prior year periods. This increase was mainly due to higher unrealized gains on the fair valuation of loans, debt and investments resulting from a decline in their outstanding balances as they are approaching and reaching maturity and an increase in interest rates during the periods. Changes in interest rates resulted in a net unrealized gain, as the fair value of CMHC's borrowings carried at fair value was more sensitive to the rising interest rates than the fair value of the associated loans and investment assets.

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.

	As at		
(in millions)	30 September 2013	31 December 2012	Variance
Reserve Fund for Lending	**103**	(16)	119

The Reserve Fund 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. As all of the Lending Activity's earnings are retained in the Reserve Fund, the Reserve Fund also includes unrealized fair market fluctuations as well as Remeasurements of the Net Defined Benefit Plans.

The Reserve Fund for Lending has increased by $119 million over the last nine months largely as a result of Remeasurements of the Net Defined Benefit Plans. A negative amount within the reserve has no implications on the statutory limit.

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.

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

INSURANCE VOLUMES

Measures	Three months ended 30 September		Variance	Nine months ended 30 September		Variance
	2013	2012		2013	2012	
Total Insured Volumes (units)	**93,653**	91,763	1,890	**260,608**	317,960	(57,352)
Homeowner	58,301	65,805	(7,504)	146,656	196,205	(49,549)
Portfolio	8,881	884	7,997	42,733	55,551	(12,818)
Multi-unit Residential	26,471	25,074	1,397	71,219	66,204	5,015
Total Insured Volumes ($M)	**17,646**	15,937	1,709	**46,596**	54,433	(7,837)
Homeowner	13,884	14,098	(214)	33,486	39,733	(6,247)
Portfolio	2,145	217	1,928	8,479	10,512	(2,033)
Multi-unit Residential	1,617	1,622	(5)	4,631	4,188	443
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets	**51.3%**	51.2%	0.1 pts	**48.7%**	45.7%	3.0 pts

CMHC's insured loan volumes are influenced by the economy, housing markets, competitive pressures and the regulatory environment. Successive changes by the Government of Canada to the guarantee parameters specifying the types of mortgages that can be insured have reduced the size of the high-ratio homeowner mortgage loan insurance market while effectively eliminating the high-ratio refinance market.

Quarterly comparison – Q3 2012 vs. Q3 2013

CMHC's overall insured volumes (units) for the three months ended 30 September 2013 were 1,890 units (2%) higher than the same period in 2012, which is the result of:

- Homeowner purchase and refinance transactions decreased by 7,504 units (11%) compared to the same period in 2012. Purchase volumes increased approximately 11% while refinance volumes were approximately 81% 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 7,997 units (905%) higher compared to the same period last year. Early in 2012, CMHC reduced access to its portfolio insurance product through an allocation process designed to 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, volumes reduced significantly in the second quarter and volumes in the third quarter were very low. By comparison, Portfolio insurance volumes were negligible in the first quarter of 2013, followed by a considerable increase in lender take-up in the second quarter and a less significant increase in the third quarter. Quarterly differences are attributed to lenders changing the timing of their take-up of the portfolio insurance product and are highly variable on a standalone basis. Given that the 2013 annual portfolio allocation is unchanged from 2012, the year over year variability is expected to be minimal; and

- 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. Multi-unit volumes are highly variable on a standalone quarterly basis. Multi-unit volumes were 1,397 units (6%) higher compared to the same period in 2012 and are slightly exceeding expectations. The increase in multi-unit volumes was largely driven by increases in multi-unit property refinancing.

Year-to-date comparison – Q3 2012 vs. Q3 2013

CMHC's overall insured volumes (units) for the nine months ended 30 September 2013 were 57,352 units (18%) lower than the same period in 2012 which can mainly be attributed 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 and to lower portfolio insurance volumes.

- Homeowner purchase and refinance transactions decreased by 49,549 units (25%) compared to the same period in 2012. Purchase volumes declined approximately 8% while refinance volumes were approximately 69% 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 12,818 units (23%) 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. In 2012, essentially all of CMHC's portfolio insurance allocation (94%) was consumed in the first six months with an additional 2% consumption in the third quarter whereas lender take-up has been more evenly spread out in 2013, with 77% of the allocation being consumed in the first three quarters of the year; and
- Multi-unit volumes were 5,015 units (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. For the nine months ended 30 September 2013, there were no condominium construction volumes.

CMHC'S INSURANCE-IN-FORCE

(in billions)	As at		Variance
	30 September 2013	31 December 2012	
Total Insurance-in-force	**559.8**	566.1	(6.3)
Homeowner	**288.9**	290.3	(1.4)
Portfolio	**222.7**	229.5	(6.8)
Multi-unit Residential	**48.2**	46.3	1.9

At the end of the third quarter of 2013, CMHC's insurance-in-force was $559.8 billion, $6.3 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, or portfolio insurance (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.

At the end of the third quarter of 2013, Multi-unit Residential insurance represents approximately 9% of CMHC's insurance-in-force, of which condominium construction volumes represent less than half of one per cent.

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.

	Three months ended 30 September		Variance	Nine months ended 30 September		Variance
(in millions)	2013	2012		2013	2012	
Premiums and Fees Earned	**444**	456	(12)	**1,297**	1,329	(32)
Investment Income	**145**	141	4	**427**	421	6
Net Unrealized Gains (Losses) from Financial Instruments	**28**	18	10	**60**	45	15
Net Realized Gains (Losses) from Financial Instruments	**(2)**	14	(16)	**33**	44	(11)
Other Income	**1**	(1)	2	**12**	-	12
Total Revenues	**616**	628	(12)	**1,829**	1,839	(10)
Interest Expense	**1**	2	(1)	**3**	4	(1)
Operating Expenses	**55**	46	9	**168**	155	13
Net Claims Expense is comprised of:						
Losses on Claims	**89**	136	(47)	**339**	458	(119)
Change in Provision for Claims	**(19)**	21	(40)	**(101)**	(40)	(61)
Total Expenses	**126**	205	(79)	**409**	577	(168)
Income before Income Taxes	**490**	423	67	**1,420**	1,262	158
Income Taxes	**121**	115	6	**345**	321	24
Net Income	**369**	308	61	**1,075**	941	134

Revenues

Quarterly comparison – Q3 2012 vs. Q3 2013

Total Revenues for the three months ended 30 September 2013 were $616 million, a decrease of $12 million when compared to the same prior year period. This variance was mainly a result of Premiums and Fees Earned, Net Realized Gains from Financial Instruments, as well as Net Unrealized Gains from Financial Instruments.

Premiums and Fees Earned decreased by $12 million for the three months ended 30 September 2013 compared to the same prior year period due to decreasing insured volumes over the past few years. 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.

Net Realized Gains from Financial Instruments were $16 million lower for the three months ended 30 September 2013 than during the same prior year period resulting in a loss of $2 million. This decrease was largely the result of realized losses in the bond portfolio compared to realized gains that occurred during the prior year period due to market fluctuations in bond yields.

Net Unrealized Gains from Financial Instruments for the three months ended 30 September 2013 increased by $10 million versus the same prior year period. This is attributed to fluctuations in market prices on held for trading investments.

Year-to-date comparison – Q3 2012 vs. Q3 2013

Total Revenues for the nine months ended 30 September 2013 were $1,829 million, a decrease of $10 million when compared to the same prior year period. This variance was mainly a result of Premiums and Fees Earned and Net Realized Gains from Financial Instruments which decreased by $32 million and $11 million respectively as explained above.

These decreases were partially offset by increases in Net Unrealized Gains from Financial Instruments of $15 million resulting from gains on equity investments and an increase in Other Income of $12 million mainly due to the expiration of a program that provided federal assistance to homeowners impacted by pyrite in their foundations.

Expenses

Quarterly comparison – Q3 2012 vs. Q3 2013

Total Expenses for the three months ended 30 September 2013 were $126 million, a decrease of $79 million when compared to the same prior year period.

This decrease was largely due to a reduction in the Net Claims Expense which was $70 million for the three months ended 30 September 2013, $87 million lower than in the same prior year period.

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 $89 million, or 35%, lower for the three months ended 30 September 2013 compared to the same prior year period. The lower losses are the result of declining claim volumes which were 17% lower than those paid during the same prior year period, which is in line with improvements in economic conditions.

Losses on Claims are reduced by recoveries. Consistent with 2012 and the first half of 2013, the level of recoveries continued to improve during the three months ended 30 September 2013, exceeding those obtained during the same prior year period and further contributing to the reduction in Losses on Claims.

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 help borrowers to work through their financial difficulties and remain in their homes.

The Provision for Claims declined by $19 million during the three months ended 30 September 2013, representing an overall decline in the expectation of future losses. The decline in expected future losses is consistent with the improvement in economic condition and a lower arrears rate.

Year-to-date comparison – Q3 2012 vs. Q3 2013

Total Expenses for the nine months ended 30 September 2013 were $409 million, a decrease of $168 million compared to the same prior year period. This decrease was largely due to the Net Claims Expense of $238 million, a decrease of $180 million when compared to the same prior year period.

Losses on Claims were $119 million lower compared to the same prior year period. The lower losses are the result of declining claim volumes paid which decreased by 15% when compared to the same prior year period as explained above.

The Provision for Claims declined by $101 million for the nine months ended September 30 2013, representing an overall decline in the expectation of future losses as discussed above.

Net Income

Net Income from Mortgage Loan Insurance for the three and nine months ended 30 September 2013 was $369 million and $1,075 million respectively, an increase of 20% ($61 million) and 14% ($134 million) when compared to the same periods in 2012. This increase was mainly due to lower Net Claims as described above.

Other Financial Measures

Measures	Three months ended 30 September		Variance	Nine months ended 30 September		Variance
	2013	2012[1]		2013	2012[1]	
Premiums and Fees Received (total $ millions):	**401**	409	(8)	**987**	1,184	(197)
Homeowner	**84%**	86%	(2pts)	**82%**	87%	(5 pts)
Multi-unit Residential	**16%**	14%	2pts	**18%**	13%	5 pts
Operating Expense Ratio (per cent)	**12.4%**	10.1%	2.3pts	**13.0%**	11.7%	1.3 pts
Severity Ratio (per cent)	**28.9%**	29.8%	(0.9pts)	**30.0%**	31.7%	(1.7pts)

[1] Figures have been restated as a result of implementation of amendments to IAS 19 – Employee Benefits.

Premiums and Fees received for the three and nine months ended 30 September 2013 were lower by $8 million and $197 million respectively, compared to the same prior year periods 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, as can be seen by the corresponding identical increase for Multi-unit Residential on a year-to-date basis.

The Operating Expense Ratio is the ratio of Operating Expenses compared to Premiums and Fees Earned. Increases in the Operating Expense Ratio over the three and nine month periods ended 30 September 2013 are mainly due to increased reimbursements of costs to OSFI for expenditures related to their oversight role. Decreasing Premiums and Fees also contributed to the increase in the ratio.

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 0.9 and 1.7 percentage point declines for the three and nine months ended 30 September 2013 compared to the same prior year periods 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 September 2013	 31 December 2012	Variance
Mortgage Loan Insurance Retained Earnings	**12,888**	11,657	1,231
Mortgage Loan Insurance Appropriated Capital:			
Appropriated Retained Earnings	**10,516**	9,983	533
Accumulated Other Comprehensive Income (loss)	**841**	1,047	(206)
Total Appropriated Capital	**11,357**	11,030	327
Unappropriated Retained Earnings	**2,372**	1,674	698
Total Equity	**13,729**	12,704	1,025
Capital Available to Minimum Capital Required (100% MCT)	**243%**	231%	12 pts
CMHC's Internal Capital Target (% MCT)	**185%**	175%	10 pts
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.

On August 22nd 2013 CMHC's Board of Directors reviewed its 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 should be increased from 175% to 185%.

Total Mortgage Loan Insurance Available Capital was 243% MCT as at Q3 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 required under OSFI guidelines.

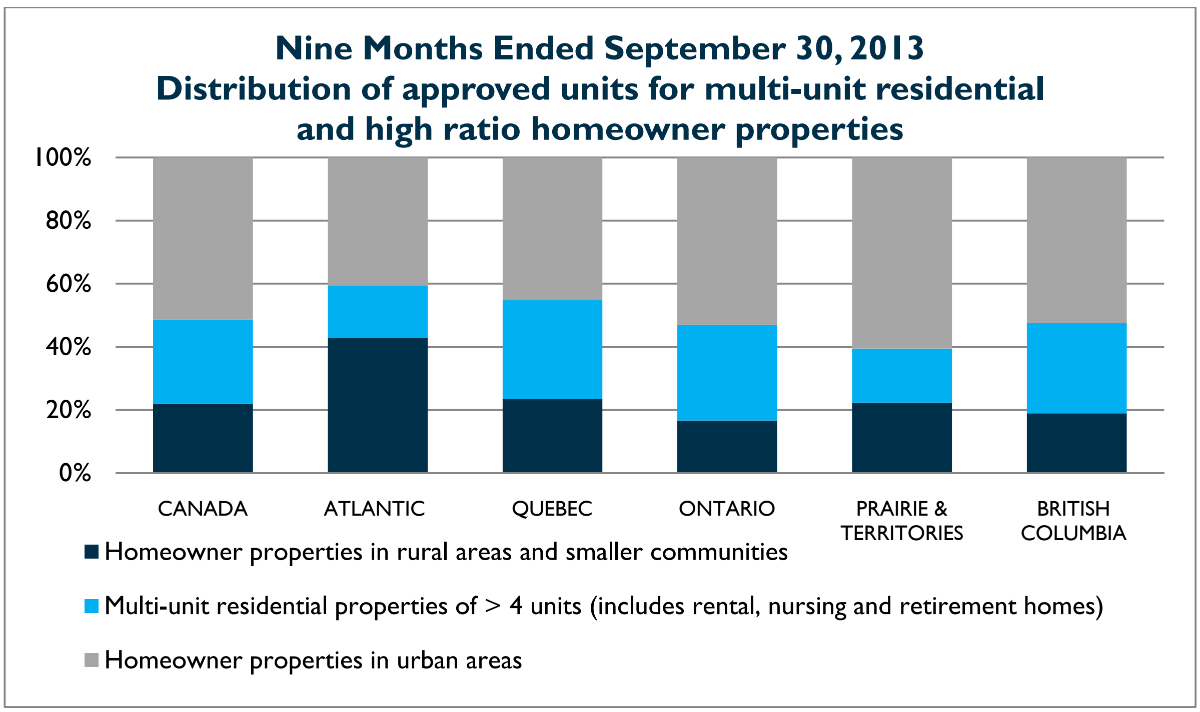
CMHC's Mortgage Loan Insurance Activity is fully capitalized with Appropriated Retained Earnings in Q3 2013 of $10,516 million and AOCI of $841 million.

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 rental, 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 approximately 49% in the first nine months of 2013. Year-to-date volume declines in homeowner purchase and portfolio insurance volumes described earlier have resulted in multi-unit volumes comprising a greater proportion of total insured volumes, which accounts for the three percentage point year-over-year increase in the per cent of units approved to address less-served markets.



MANAGING RISK PRUDENTLY

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

Distribution of homeowner Insurance-in-force by loan-to-value (LTV) ratio based on updated property value[1] (%)	As at			
	30 September 2013			31 December 2012
	High Ratio Homeowner	Low Ratio Portfolio	High and Low Ratio Homeowner	High and Low Ratio Homeowner
<=50%	8	40	**22**	22
>50.01% <=60%	6	20	**12**	12
>60.01% <=70%	14	24	**19**	18
>70.01% <=80%	28	16	**23**	24
>80.01% <=90%	32	-	**18**	17
>90.01% <=95%	11	-	**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 all CMHC-insured homeowner and multi-unit residential loans has remained stable at 25 years as at the end of 30 September 2013.

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

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

As at 30 September 2013, the average outstanding loan amount for homeowners who took out high ratio loans above 80% loan-to-value at origination was $179,608. 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.

	As at				
	30 September 2013				31 December 2012
Distribution of Insurance-in-force by loan amount (%)	**High Ratio Homeowner**	**Low Ratio Portfolio**	**Multi-unit Residential (per unit)**	**Overall**	**Overall**
Over $550,000	4	7	-	**4**	5
Over $400,000 to $550,000	9	8	1	**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	35	**10**	9
$60,000 or under	3	5	41	**7**	7
Average outstanding loan amount ($)	179,608	152,980	53,392	**141,175**	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.

	As at				
	30 September 2013				31 December 2012
Distribution of Insurance-in-force by Province (%)	**High Ratio Homeowner**	**Low Ratio Portfolio**	**Multi-unit Residential**	**Overall**	**Overall**
Ontario	36.4	46.4	35.9	**40.2**	40.8
British Columbia	12.7	20.0	13.4	**15.6**	15.8
Alberta	18.1	14.3	10.8	**16.0**	15.6
Quebec	19.7	12.0	29.9	**17.5**	17.3
Nova Scotia	2.6	1.7	3.3	**2.3**	2.4
Saskatchewan	2.9	1.9	1.5	**2.4**	2.3
Manitoba	3.2	1.7	3.0	**2.6**	2.5
New Brunswick	2.1	0.8	1.0	**1.5**	1.5
Newfoundland	1.5	0.9	0.3	**1.2**	1.2
Prince Edward Island	0.3	0.2	0.2	**0.3**	0.3
Territories	0.5	0.1	0.7	**0.4**	0.3

MANAGING PORTFOLIO QUALITY THROUGH PRUDENT UNDERWRITING

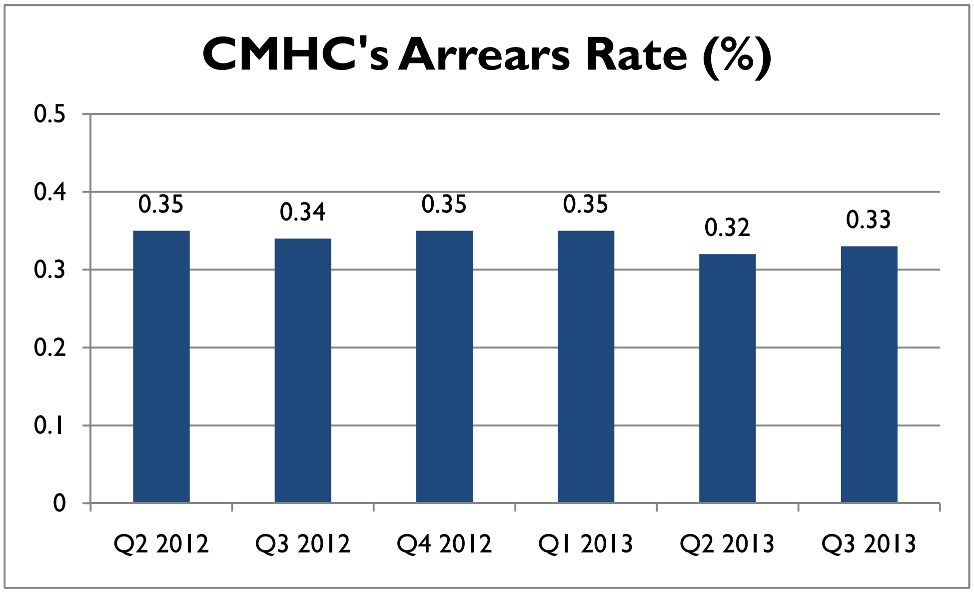
Canadian credit scores generally range between 300 and 900. The higher the score, the lower the risk of borrower default. In order to qualify for a CMHC-insured high ratio loan, the borrower/co-borrower must have a credit score of 600, consistent with the first round of government guarantee parameters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

Distribution of Insurance-in-force by Credit Score at Origination (%)	As at			
	30 September 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	8	15	9
>=700	75	86	74	85
Average Credit Score at Origination	728	757	726	755

Distribution of Approved Loans by Credit Score at Origination (%)	Nine months ended 30 September			
	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	6
>=700	82	92	78	90
Average Credit Score at Origination	741	768	737	762

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 728 for CMHC's high-ratio homeowner insurance-in-force at 30 September 2013. The average credit score for high-ratio homeowner approved loans in the first nine months of 2013 was 741 – up from 737 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 September 2013 was 0.33%, a 0.01 percentage point increase compared to the second quarter of 2013. The current arrears rate is a 0.02 percentage point improvement compared to the year-end 2012 and a 0.01 percentage point improvement compared to the same period last year. The improvement in the overall arrears rate year-over-year was driven by improving Homeowner arrears rates while Portfolio arrears rates have remained relatively consistent.



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.

CMHC has been working closely with lenders following the recent flooding in southern Alberta where impacted properties have CMHC-insured mortgages. Approved Lenders were reminded of the default management tools available to assist borrowers with CMHC-insured mortgages who may require special arrangements to meet their ongoing mortgage obligations. CMHC has also provided 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, CMHC mortgage loan insurance does not cover physical damage to mortgaged premises that is due to Acts of God or force majeure such as overland flooding. The Province of Alberta has put in place a disaster relief program to help affected homeowners repair and rebuild flood-damaged homes.

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 53% as at September 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.

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, including IMPP) 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.

NEW SECURITIES GUARANTEED

Measures	Nine months ended 30 September		Variance
	2013	2012	
New Securities Guaranteed ($M)	**102,120**	92,095	10,025
Market NHA MBS	**73,220**	62,445	10,775
CMB	**28,900**	29,650	(750)
Per cent of residential mortgages securitized[1]	**30.6%**	28.4%	2.2pts

[1]Information as at 31 July 2013

Pursuant to the NHA, the Minister of Finance approves the amount of guarantees permitted to be provided under the NHA MBS and CMB each year. In 2013, the limits were set at $85 billion and $50 billion respectively.

For the nine months ended 30 September 2013, a total of $102 billion new guarantees were granted by CMHC. This exceeds the $92 billion guaranteed as at 30 September 2012 in large part because of higher NHA MBS volumes. Approved Issuers issued and CMHC provided new guarantees for $73 billion in market NHA MBS as at 30 September 2013 compared to $62 billion in the same period in 2012.

Through the CMB program, $29 billion in bonds were issued and guaranteed.

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

	CMB			
	For the Three Month Period Ended 30 September		For the Nine Month Period Ended 30 September	
(in billions)	2013	2012	2013	2012
Opening Balance	**203**	203	**203**	201
Issuances/ Purchases	**9**	10	**29**	30
Maturities	**8**	1	**28**	19
Closing Balance	**204**	212	**204**	212

	IMPP[1]			
	For the Three Month Period Ended 30 September		For the Nine Month Period Ended 30 September	
(in billions)	2013	2012	2013	2012
Opening Balance	**50**	54	**52**	55
Maturities/Amortization	**2**	1	**4**	2
Closing Balance	**48**	53	**48**	53

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

CMHC's guarantees-in-force totalled $399 billion as at 30 September 2013, which is 4.45% higher than total guarantees-in-force as at 31 December 2012 ($382 billion) and 3.91% higher than the $384 billion at 30 September 2012. Under Section 15 of the National Housing Act, the aggregate outstanding amount of principal guarantees may not exceed $600 billion.

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 MBS 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 September 2013	2012	Variance	Nine months ended 30 September 2013	2012	Variance
SECURITIZATION						
Interest Income from NHA MBS-Loans and Receivables	**394**	419	(25)	**1,204**	1,263	(59)
Guarantee Fees Earned	**64**	61	3	**188**	182	6
Income from Investment Securities	**8**	8	-	**23**	25	(2)
Net Unrealized Gains (Losses) from Financial Instruments	**-**	1	(1)	**-**	2	(2)
Net Realized Gains (Losses) from Financial Instruments	**-**	1	(1)	**1**	47	(46)
Other Income	**4**	4	-	**11**	10	1
Total Revenues	**470**	494	(24)	**1,427**	1,529	(102)
Interest Expense	**394**	419	(25)	**1,204**	1,263	(59)
Operating Expenses	**4**	3	1	**12**	9	3
Total Expenses	**398**	422	(24)	**1,216**	1,272	(56)
Income before Income Taxes	**72**	72	-	**211**	257	(46)
Income Taxes	**19**	17	2	**53**	64	(11)
Net Income	**53**	55	(2)	**158**	193	(35)

Securitization Net Income for the three and nine months ended 30 September 2013 was $53 million and $158 million respectively, a decrease of 3.6% ($2 million) and 18.1% ($35 million) when compared to the same prior year periods. The decreases were 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 September 2013	2012	Variance	Nine months ended 30 September 2013	2012	Variance
Guarantee Fees Received ($M)	**56**	53	3	**191**	177	14
Operating Expense Ratio (per cent)	**6.2%**	4.6%	1.6 pts	**5.6%**	4.8%	0.8 pts

Guarantee Fees Received for the three and nine months ended 30 September 2013 were higher than the same prior year period as a result of an increase in volume of market NHA MBS securities guaranteed.

Operating Expense ratio for the three and nine months ended 30 September 2013 was higher by 1.6 and 0.8 percentage points respectively when compared to the same prior year periods as a result of increased reimbursements costs to OSFI for expenditures related to the expanded oversight.

Capital Management

(in millions) (unless otherwise indicated)	As at 30 September 2013	As at 31 December 2012	Variance
Securitization Appropriated Capital:			
Appropriated Retained Earnings	**852**	781	71
Accumulated Other Comprehensive Income	**(34)**	8	(42)
Total Appropriated Capital	**818**	789	29
Unappropriated Retained Earnings	**538**	439	99
Securitization Retained Earnings	**1,390**	1,220	170
Total Equity	**1,356**	1,228	128
Capital Available to Capital Required (per cent)	**166%**	156%	10 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 second quarter 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 September 2013, the Securitization Activity remains fully capitalized, with Capital Available representing 166% 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 September		Variance	Nine months ended 30 September		Variance
(in millions)	**2013**	**2012**		**2013**	**2012**	
CHT						
Interest Income from NHA MBS - Loans Receivable	**1,227**	1,451	(224)	**3,864**	4,538	(674)
Other Income	**38**	41	(3)	**121**	126	(5)
Total Revenues	**1,265**	1,492	(227)	**3,985**	4,664	(679)
Interest Expense	**1,225**	1,448	(223)	**3,857**	4,530	(673)
Operating Expenses	**40**	44	(4)	**128**	134	(6)
Total Expenses	**1,265**	1,492	(227)	**3,985**	4,664	(679)
Net Income	**-**	-	-	**-**	-	-

Interest Income and Interest Expense from CHT's NHA MBS and CMB for the three and nine months ended 30 September 2013 decreased by 15%, 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 No. 1, 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. 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. In August, the Board reviewed the results of the stress testing for the 2014 Corporate Plan and approved a further increase to 185% MCT for the internal target level. Other than the changes to portfolio insurance announced in Economic Action Plan 2013, which will limit portfolio insurance to funding through CMHC securitization programs, there were no program changes that will significantly impact the risk exposures to the mortgage loan insurance activity.

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 third quarter of 2013, the following changes to CMHC's key management personnel were announced:

- Sylvie Crispo, Vice-President, Insurance Product and Business Development announced her retirement effective 27 December 2013.
- Karen O'Hanley, Acting Vice-President, Insurance Underwriting, Servicing and Policy announced her retirement effective 27 December 2013.
- Steven Mennill was named Vice-President, Insurance Underwriting, Servicing and Policy effective 30 December 2013.
- Charles MacArthur was named Vice-President, Insurance Product and Business Development effective 30 December 2013.
- Michel Laurence was named Acting Vice-President, Policy, Research and Planning effective 30 December 2013.

As a result of realignments within the Mortgage Insurance sectors, effective 6 January 2014 the position of Vice-President, Insurance Product and Business Development will be renamed Vice-President, Business Strategy and Development while the position of Vice-President, Insurance Underwriting, Servicing and Policy will be renamed Vice-President, Insurance Operations.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 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

20 November 2013

Consolidated Balance Sheet

(in millions of Canadian dollars)	Notes	30 September 2013	31 December 2012
ASSETS			
Cash and Cash Equivalents		**1,516**	1,220
Securities Purchased Under Resale Agreements		**-**	63
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		**907**	928
Held for Trading		**421**	415
Available for Sale		**19,717**	19,304
Investment in NHA Mortgage-Backed Securities:			
Loans and Receivables	6	**252,847**	255,967
Loans:			
Designated at Fair Value through Profit or Loss		**6,188**	6,591
Other		**4,200**	4,440
Investments in Housing Programs		**707**	748
Accrued Interest Receivable		**1,423**	959
Deferred Income Tax Assets		**-**	58
Derivatives		**103**	131
Due from the Government of Canada	7	**256**	309
Accounts Receivable and Other Assets		**806**	907
		289,091	292,040
LIABILITIES			
Securities Sold Under Repurchase Agreements		**458**	425
Borrowings:	9		
Canada Mortgage Bonds		**202,823**	201,676
Capital Market Borrowings		**1,661**	1,848
Borrowings from the Government of Canada:			
Designated at Fair Value through Profit or Loss		**6,434**	6,659
Other		**52,950**	57,595
Accrued Interest Payable		**1,190**	753
Derivatives		**43**	46
Accounts Payable and Other Liabilities		**783**	1,258
Provision for Claims	10	**895**	996
Unearned Premiums and Fees		**6,675**	6,940
Deferred Income Tax Liabilities		**31**	-
		273,943	278,196
Commitments and Contingent Liabilities	20		
EQUITY OF CANADA			
Contributed Capital		**25**	25
Accumulated Other Comprehensive Income		**807**	1,038
Retained Earnings		**14,316**	12,781
		15,148	13,844
		289,091	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 September 2013	Three months ended 30 September 2012	Nine months ended 30 September 2013	Nine months ended 30 September 2012
REVENUES					
Interest Income from NHA Mortgage-Backed Securities – Loans and Receivables		**1,621**	1,870	**5,068**	5,801
Premiums and Fees		**508**	517	**1,485**	1,511
Interest Earned on Loans and Investments in Housing Programs		**130**	144	**396**	440
Income from Investment Securities		**152**	147	**445**	439
Net Realized Gains from Financial Instruments	12	**(1)**	13	**24**	57
Net Unrealized Gains (Losses) from Financial Instruments	12	**50**	19	**79**	39
Other Income		**26**	24	**94**	81
		2,486	2,734	**7,591**	8,368
Parliamentary Appropriations for:	7				
Housing Programs		**473**	481	**1,448**	1,586
Operating Expenses		**28**	28	**85**	95
		501	509	**1,533**	1,681
		2,987	3,243	**9,124**	10,049
EXPENSES					
Interest Expense	9	**1,735**	1,990	**5,418**	6,169
Housing Programs	7	**473**	481	**1,448**	1,586
Net Claims		**70**	157	**238**	418
Operating Expenses		**109**	102	**336**	336
		2,387	2,730	**7,440**	8,509
INCOME BEFORE INCOME TAXES		**600**	513	**1,684**	1,540
INCOME TAXES	11				
Current		**133**	127	**362**	363
Deferred		**15**	9	**46**	25
		148	136	**408**	388
NET INCOME		**452**	377	**1,276**	1,152
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		**110**	183	**(154)**	303
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income		**(79)**	(10)	**(77)**	(80)
Total items that will be subsequently reclassified to Net Income		**31**	173	**(231)**	223
Items that will not be subsequently reclassified to Net Income:					
Remeasurements of the Net Defined Benefit Plans		**65**	(64)	**259**	(118)
		96	109	**28**	105
COMPREHENSIVE INCOME		**548**	486	**1,304**	1,257

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 September (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 July 2013	**25**	2,338	10,570	838	53	**13,799**	**776**	**14,575**	**14,600**
Net Income (Loss)	-	430	-	-	22	452	-	452	452
Other Comprehensive Income (Loss)	-	45	-	-	20	65	31	96	96
Set Aside for Capitalization	-	40	(54)	14	-	-	-	-	-
Balance at End of Period 30 September 2013	**25**	2,853	10,516	852	95	**14,316**	**807**	**15,123**	**15,148**
Balance, 1 July 2012	**25**	1,035	10,120	755	(26)	**11,884**	**952**	**12,836**	**12,861**
Net Income (Loss)	-	372	-	-	5	377	-	377	377
Other Comprehensive Income (Loss)	-	(38)	-	-	(26)	(64)	173	109	109
Set Aside for Capitalization	-	142	(167)	25	-	-	-	-	-
Balance at End of Period 30 September 2012	**25**	1,511	9,953	780	(47)	**12,197**	**1,125**	**13,322**	**13,347**

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

Consolidated Statement of Equity of Canada

Nine months ended 30 September (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)	-	1,245	-	-	31	1,276	-	1,276	1,276
Other Comprehensive Income (Loss)	-	168	-	-	91	259	(231)	28	28
Set Aside for Capitalization	-	(604)	533	71	-	-	-	-	-
Balance at End of Period 30 September 2013	**25**	2,853	10,516	852	95	**14,316**	**807**	**15,123**	**15,148**
Balance, 1 January 2012	**25**	1,445	9,028	699	(9)	**11,163**	**902**	**12,065**	**12,090**
Net Income (Loss)	-	1,142	-	-	10	1,152	-	1,152	1,152
Other Comprehensive Income (Loss)	-	(70)	-	-	(48)	(118)	223	105	105
Set Aside for Capitalization	-	(1,006)	925	81	-	-	-	-	-
Balance at End of Period 30 September 2012	**25**	1,511	9,953	780	(47)	**12,197**	**1,125**	**13,322**	**13,347**

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 September 2013	Three months ended 30 September 2012	Nine months ended 30 September 2013	Nine months ended 30 September 2012
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net Income		**452**	377	**1,276**	1,152
Items Not Affecting Cash or Cash Equivalents:					
Amortization of Premiums and Discounts on Financial Instruments		**22**	18	**69**	52
Deferred Income Taxes		**22**	(12)	**89**	3
Change in Fair Value of Financial Instruments Carried at Fair Value		**(50)**	(19)	**(79)**	(39)
Net (Gain) Loss on Financial Instruments	12	**1**	(13)	**(24)**	(57)
Net Change in Non-cash Operating Assets and Liabilities					
Accounts Receivable and Other Assets		**184**	(19)	**101**	(129)
Accrued Interest Receivable		**(545)**	(823)	**(464)**	(768)
Due from the Government of Canada		**45**	105	**53**	116
Unearned Premiums and Fees		**(45)**	(53)	**(265)**	(117)
Provision for Claims		**(19)**	21	**(101)**	(40)
Accounts Payable and Other Liabilities		**(145)**	(47)	**(475)**	64
Accrued Interest Payable		**405**	749	**437**	732
Derivatives		**(1)**	(2)	**(3)**	(6)
Other		**46**	(167)	**314**	(211)
Net Change from Loans and Investments in Housing Programs		**231**	191	**588**	607
Net Change in NHA MBS Loans and Receivables		**1,170**	(8,801)	**3,121**	(8,842)
Repayments of Capital Market Borrowings	9	**-**	-	**(150)**	(300)
Borrowings from the Government of Canada	9				
Issuances		**883**	591	**1,976**	1,770
Repayments		**(3,056)**	(1,562)	**(6,741)**	(4,211)
Canada Mortgage Bonds:	9				
Issuances		**8,858**	9,599	**28,794**	29,697
Repayments		**(8,000)**	-	**(27,500)**	(18,700)
		458	133	**1,016**	773
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Investment Securities:					
Sales and Maturities		**2,531**	3,532	**7,670**	12,622
Purchases		**(3,348)**	(4,095)	**(8,486)**	(13,973)
Change in Securities Purchased Under Resale Agreements		**102**	(135)	**63**	(189)
		(715)	(698)	**(753)**	(1,540)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Change in Securities Sold Under Repurchase Agreements		**4**	(37)	**33**	266
		4	(37)	**33**	266
Increase in Cash and Cash Equivalents		**(253)**	(602)	**296**	(501)
Cash and Cash Equivalents					
Beginning of Period		**1,769**	1,502	**1,220**	1,401
End of Period		**1,516**	900	**1,516**	900
Represented by:					
Cash		**11**	(65)	**11**	(65)
Cash Equivalents		**1,505**	965	**1,505**	965
		1,516	900	**1,516**	900
Supplementary Disclosure of Cash Flow					
Amount of Interest Received During the Period		**1,390**	1,371	**5,523**	6,027
Amount of Interest Paid During the Period		**1,367**	1,293	**5,077**	5,604
Amount of Dividends Received During the Period		**17**	15	**51**	44
Amount of Income Taxes Paid During the Period		**60**	177	**297**	529

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended 30 September 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. CMHC 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 20 November 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 it 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.

Pension and Other 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 unaudited Quarterly Consolidated Financial Statements, the presentation of these amounts, and the related disclosures. The impact of adopting IAS 19 is summarized below. The adoption of this standard had minimal impact on the Corporation's unaudited Quarterly Consolidated Financial Statements.

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 unaudited Quarterly Consolidated Financial Statements.

The amendments to IAS 19 were applied retrospectively to the unaudited Quarterly Consolidated Financial Statements for the nine month period ending 30 September 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 nine month periods ended 30 September 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 September 2012			Nine months ended 30 September 2012		
(in millions)	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
Operating Expenses	97	5	**102**	323	13	**336**
Income Taxes	137	(1)	**136**	390	(2)	**388**
Net Income	381	(4)	**377**	1,163	(11)	**1,152**
Remeasurements of the Net Defined Benefit Plans (net of taxes)	(68)	4	**(64)**	(129)	11	**(118)**
Other Comprehensive Income (net of taxes)	105	4	**109**	94	11	**105**
Comprehensive Income	486	-	**486**	1,257	-	**1,257**

Future Accounting Changes

CMHC has identified new standards and amendments to existing standards that have been issued by the IASB but are not yet effective on the date of issuance of these unaudited Quarterly Consolidated Financial Statements. The following pronouncements have been determined to potentially have an impact on the Corporation's results and unaudited Quarterly 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 to date that have been determined to have an impact on the Corporation except for those disclosed in its unaudited Quarterly Consolidated Financial Statements for the period ended 30 September 2013.

- On 13 May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value, sets out a 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. The Corporation currently follows the IFRS 13 principles for determining fair value of its financial instruments. Certain rent-producing real estate properties under the Lending Activity aren't currently fair valued under IFRS 13 principles. 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. These amendments will have no material impact on the Corporation's unaudited Quarterly 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.

Pension and Other 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 pension and other 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.

	As at 30 September 2013				As at 31 December 2012	
(in millions)	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost[1]	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value through Profit or Loss	**847**	**61**	**(1)**	**907**	872	928
Available for Sale	**16,080**	**522**	**(195)**	**16,407**	14,969	15,930
Equities						
Held for Trading	**395**	**26**	**-**	**421**	444	415
Available for Sale	**2,537**	**783**	**(10)**	**3,310**	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 $205 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 nine months ended 30 September 2013, impairment losses on Equities of $1 million and $76 million, respectively (three and nine months ended 30 September 2012 – $24 million and $94 million, respectively 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 nine month period ending 30 September 2013, there were disbursements of Investment in NHA Mortgage-Backed Securities – Loans and Receivables in the amount of $8,858 million and $28,794 million and repayments of $10,028 million and $31,915 million, respectively (three and nine months ended 30 September 2012 – disbursements of $9,599 million and $29,697 million and repayments of $798 million and $20,855 million, respectively).

7. HOUSING PROGRAMS

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2013**	**2012**	**2013**	**2012**
Funding Under Long-Term Commitments for Existing Social Housing	**417**	421	**1,245**	1,255
Funding for New Commitments of Affordable Housing	**54**	58	**198**	325
Housing Support	**1**	1	**3**	3
Housing Policy, Research and Information Transfer	**1**	1	**2**	3
Total Housing Programs Expenses	**473**	481	**1,448**	1,586
Operating Expenses	**28**	28	**85**	95
Total Appropriations	**501**	509	**1,533**	1,681

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2013**	**2012**	**2013**	**2012**
Due from (to) the Government of Canada				
Balance at Beginning of Period	**301**	392	**309**	403
Total Appropriations	**501**	509	**1,533**	1,681
Total Appropriations Received	**(545)**	(615)	**(1,585)**	(1,795)
Reimbursements	**(1)**	1	**(1)**	(2)
Balance at End of Period	**256**	287	**256**	287

8. SECURITIZATION

Guarantees-in-force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2012 – $600 billion).

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

	As at	
(in billions)	**30 September 2013**	**31 December 2012**
NHA MBS[1]	**195**	179
CMB[2]	**204**	203
Total Guarantees-in-Force	**399**	382

[1]Includes $13 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 nine months ended 30 September 2013 is $1,204 million and $3,796 million, respectively (three and nine months ended 30 September 2012 – $1,424 million and $4,451 million, respectively).

For the three and nine months ended 30 September 2013, CHT issued Canada Mortgage Bonds in the amount of $8,858 million and $28,794 million, respectively (three and nine months ended 30 September 2012 – $9,599 million and $29,697 million, respectively). There were $8,000 million and $27,500 million in maturities for the three and nine months ended 30 September 2013, respectively (three and nine months ended 30 September 2012 – nil and $18,700 million, respectively).

Capital Market Borrowings

The interest expense related to Capital Market Borrowings for the three and nine months ended 30 September 2013 is $17 million and $55 million, respectively (three and nine months ended 30 September 2012 – $20 million and $65 million, respectively).

For the three and nine months ended 30 September 2013, CMHC made nil and $150 million in repayments, respectively, relating to its Capital Market Borrowings (three and nine months ended 30 September 2012 – nil and $300 million, respectively).

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 nine months ended 30 September 2013 is $521 million and $1,587 million, respectively (three and nine months ended 30 September 2012 – $557 million and $1,678 million, respectively).

For the three and nine months ended 30 September 2013, CMHC had new borrowings in the amount of $883 million and $1,976 million, respectively (three and nine months ended 30 September 2012 – $591 million and $1,770 million, respectively), and repayments in the amount of $3,056 million and $6,741 million, respectively (three and nine months ended 30 September 2012 – $1,562 million and $4,211 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:

(in millions)	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Balance at Beginning of Period	**6,147**	6,648	**6,394**	6,731
Premium Deferred on Contracts Written in the Period	**392**	397	**984**	1,173
Premiums Earned in the Period	**(437)**	(449)	**(1,277)**	(1,308)
Application Fees Deferred on Contracts Written in the Period	**4**	3	**11**	10
Application Fees Earned in the Period	**(4)**	(3)	**(10)**	(10)
Balance at End of Period	**6,102**	6,596	**6,102**	6,596

Provision for Claims

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

(in millions)	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Balance at Beginning of Period	**914**	980	**996**	1,041
Losses on Claims During the Period	**(89)**	(136)	**(339)**	(458)
Provision for Claims Incurred During the Period	**70**	157	**238**	418
Balance at End of Period	**895**	1,001	**895**	1,001

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 September 2013, insurance-in-force, which represents the risk exposure of the CMHC Mortgage Loan Insurance Activity, totalled $560 billion (31 December 2012 – $566 billion).

11. INCOME TAXES

The following table presents the total income taxes.

(in millions)	Three months ended 30 September 2013	Three months ended 30 September 2012	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Other Comprehensive Income:				
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	**37**	37	**(52)**	94
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	**(28)**	(19)	**(29)**	(48)
Remeasurements of the Net Defined Benefit Plans	**16**	(15)	**61**	(28)
Income Tax Expense (Benefit) on Quarterly Consolidated Other Comprehensive Income	**25**	3	**(20)**	18
Income Tax Expense on Quarterly Consolidated Net Income	**148**	136	**408**	388
Total	**173**	139	**388**	406

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 September 2013			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and Cash Equivalents	38	1,020	-	**1,058**
Investment Securities:				
Designated at Fair Value through Profit or Loss	699	63	145	**907**
Held for Trading	421	-	-	**421**
Available for Sale	19,648	53	16	**19,717**
Loans:				
Designated at Fair Value through Profit or Loss	-	6,188	-	**6,188**
Derivatives	-	103	-	**103**
Financial Assets not recorded at Fair Value and Other Assets				**260,697**
Total Assets	20,806	7,427	161	**289,091**
Liabilities and Equity of Canada				
Borrowings:				
Capital Market Borrowings	1,661	-	-	**1,661**
Borrowings from the Government of Canada: Designated at Fair Value through Profit or Loss	-	6,434	-	**6,434**
Derivatives	-	43	-	**43**
Liabilities and Equity not recorded at Fair Value				**280,953**
Total Liabilities and Equity of Canada	1,661	6,477	-	**289,091**

	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 nine months ended 30 September 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 September 2013		31 December 2012	
(in millions)	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets				
Cash and Cash Equivalents	**1,516**	**1,516**	1,220	1,220
Securities Purchased Under Resale Agreements [2]	**-**	**-**	63	63
Investment Securities:				
Designated at Fair Value through Profit or Loss	**907**	**907**	928	928
Held for Trading	**421**	**421**	415	415
Available for Sale	**19,717**	**19,717**	19,304	19,304
Investment in NHA Mortgage-Backed Securities – Loans and Receivables [2]	**255,601**	**252,847**	262,576	255,967
Loans:				
Designated at Fair Value through Profit or Loss	**6,188**	**6,188**	6,591	6,591
Other [2]	**5,049**	**4,200**	5,579	4,440
Investments in Housing Programs [2]	**1,230**	**707**	1,374	748
Derivatives	**103**	**103**	131	131
Financial Liabilities				
Securities Sold Under Repurchase Agreements [2]	**458**	**458**	425	425
Borrowing:				
Canada Mortgage Bonds [1]	**205,201**	**202,823**	207,144	201,676
Capital Market Borrowings	**1,661**	**1,661**	1,848	1,848
Borrowings from the Government of Canada				
Designated at Fair Value through Profit or Loss	**6,434**	**6,434**	6,659	6,659
Other [2]	**54,862**	**52,950**	60,702	57,595
Derivatives	**43**	**43**	46	46

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

The Corporation assessed that Accrued Interest Receivable, Due from the Government of Canada, Accounts Receivable, Accrued Interest Payable and Accounts Payable approximate their carrying value largely due to the short-term maturities of these instruments.

Gains and Losses from Financial Instruments

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

(in millions)	Three months ended 30 September 2013	Three months ended 30 September 2012	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Held for Trading				
Equities	**27**	17	**55**	39
Derivatives	**15**	(2)	**(28)**	(12)
Total Held for Trading	**42**	15	**27**	27
Designated at Fair Value through Profit or Loss				
Investment Securities – Designated at Fair Value through Profit or Loss	**3**	5	**5**	8
Loans – Designated at Fair Value through Profit or Loss	**(13)**	(23)	**(99)**	(74)
Capital Market Borrowings	**9**	11	**38**	42
Borrowings from the Government of Canada – Designated at Fair Value through Profit or Loss	**10**	12	**110**	38
Total Designated at Fair Value through Profit or Loss	**9**	5	**54**	14
Gains (Losses) from Related Party Transactions	**(1)**	(1)	**(2)**	(2)
Total Net Unrealized Gains (Losses) from Financial Instruments	**50**	19	**79**	39

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

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

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

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

(in millions)	Three months ended 30 September 2013	Three months ended 30 September 2012	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Held for Trading	**-**	-	**-**	(3)
Available for Sale	**(2)**	13	**27**	79
Retirement of Debt	**1**	-	**(3)**	(19)
Total Net Realized Gains (Losses) from Financial Instruments	**(1)**	13	**24**	57

13. UNCONSOLIDATED STRUCTURED ENTITIES

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

	As at	
(in millions)	30 September 2013	31 December 2012
Investment Funds	**1,233**	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 $42 million and $194 million for the three and nine months ended 30 September 2013, respectively (three and nine months ended 30 September 2012 - $31 million and $161 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 September 2013 is $355 million (31 December 2012 – $273 million). The total VaR as at 30 September 2013 is comprised of $344 million (31 December 2012 – $270 million) for AFS investments and $28 million (31 December 2012 – $26 million) for HFT investments, net of $17 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 $4 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 $87 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 $49 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 September 2013 is $0.1 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 September 2013 was $2 million (31 December 2012 – nil).

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

The master netting agreements give CMHC a legally enforceable right to reduce derivative exposure through the provision of a single net settlement of all financial instruments covered by the agreement with the same counterparty in the event of default. All derivative counterparties must have a minimum credit rating of A-, or its equivalent, from at least two rating agencies.

The fair value of the collateral related to derivatives held by CMHC (including those related to Investments in NHA Mortgage-Backed Securities – Loans and Receivables – IMPP) as at 30 September 2013 is $42 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 September 2013 is $795 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, Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements.

Financial assets

	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross Amount Not Offset in the Balance Sheet		(v) = (iii) - (iv)
(in millions)	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
	As at 30 September 2013					
Derivatives[1]	151	-	151	(45)	-	106
Securities Purchased Under Resale Agreements[1]	-	-	-	-	-	-
Total	**151**	**-**	**151**	**(45)**	**-**	**106**
(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 September 2013	31 December 2012
Derivatives Assets Presented in Offsetting Table	**151**	197
Less: Accrued Interest Receivable Presented Separately in Balance Sheet	**(48)**	(47)
Less: Deferral of Swap Fees Received	**-**	(19)
Derivatives Asset Balance Presented in the Balance Sheet	**103**	131

Financial liabilities

	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross Amount Not Offset in the Balance Sheet		(v) = (iii) - (iv)
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet [1]	Financial Instruments[2]	Financial Collateral Pledged[3]	Net Amount
(in millions)	As at 30 September 2013					
Derivatives[1]	49	-	49	(45)	-	4
Securities Sold Under Repurchase Agreements[1]	458	-	458	-	(460)	(2)
Total	**507**	**-**	**507**	**(45)**	**(460)**	**2**
(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:

(in millions)	As at 30 September 2013	31 December 2012
Derivatives Liabilities Presented in Offsetting Table	**49**	52
Less: Accrued Interest Payable Presented Separately in Balance Sheet	**(6)**	(6)
Derivative Liabilities Balance Presented in the Balance Sheet	**43**	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. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

	Three months ended 30 September			
	Pension Plans		Other Post-employment Benefits	
(in millions)	2013	2012[2]	2013	2012[2]
Current Service Cost	**9**	7	**2**	1
Net Interest Cost	**4**	5	**2**	2
Defined Benefit Plan Expense[1]	**13**	12	**4**	3

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

	Nine months ended 30 September			
	Pension Plans		Other Post-employment Benefits	
(in millions)	2013	2012[2]	2013	2012[2]
Current Service Cost	**27**	22	**5**	4
Net Interest Cost	**13**	14	**6**	6
Defined Benefit Plan Expense[1]	**40**	36	**11**	10

[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 September 2013	31 December 2012
Defined Benefit Obligation:		
Discount Rate	**4.70%**	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 has obtained 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 decrease the solvency special payments in 2013 from $115.1 million to $76.1 million. As such, the total special payments are $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 component to the pension 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 September (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	-	-	394	419	-	-	-	-	1,227	1,451	-	-	**1,621**	1,870
Premiums and Fees	444	456	64	61	-	-	-	-	-	-	-	-	**508**	517
Interest Earned on Loans	-	-	-	-	-	-	130	144	-	-	-	-	**130**	144
Income from Investment Securities	145	141	8	8	-	-	10	10	-	-	(11)	(12)	**152**	147
Net Realized Gains (Losses) from Financial Instruments	(2)	14	-	1	-	-	-	-	-	-	1	(2)	**(1)**	13
Net Unrealized Gains (Losses) from Financial Instruments	28	18	-	1	-	-	21	(2)	-	-	1	2	**50**	19
Parliamentary Appropriations and Other Income	1	(1)	4	4	501	509	6	5	38	41	(23)	(25)	**527**	533
	616	628	470	494	501	509	167	157	1,265	1,492	(32)	(37)	**2,987**	3,243
EXPENSES														
Interest Expense	1	2	394	419	-	-	136	148	1,225	1,448	(21)	(27)	**1,735**	1,990
Operating Expenses	55	46	4	3	28	28	5	6	40	44	(23)	(25)	**109**	102
Housing Programs and Net Claims	70	157	-	-	473	481	-	-	-	-	-	-	**543**	638
	126	205	398	422	501	509	141	154	1,265	1,492	(44)	(52)	**2,387**	2,730
Income Taxes	121	115	19	17	-	-	5	-	-	-	3	4	**148**	136
NET INCOME (LOSS)	369	308	53	55	-	-	21	3	-	-	9	11	**452**	377
Total Revenues	616	628	470	494	501	509	167	157	1,265	1,492	(32)	(37)	**2,987**	3,243
Inter-segment/entity Revenues[1]	(8)	(11)	-	-	-	-	(1)	(1)	(23)	(25)	32	37	**-**	-
External Revenues	608	617	470	494	501	509	166	156	1,242	1,467	-	-	**2,987**	3,243

[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.

Nine months ended 30 September (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	-	-	1,204	1,263	-	-	-	-	3,864	4,538	-	-	**5,068**	5,801
Premiums and Fees	1,297	1,329	188	182	-	-	-	-	-	-	-	-	**1,485**	1,511
Interest Earned on Loans	-	-	-	-	-	-	396	440	-	-	-	-	**396**	440
Income from Investment Securities	427	421	23	25	-	-	29	28	-	-	(34)	(35)	**445**	439
Net Realized Gains (Losses) from Financial Instruments	33	44	1	47	-	-	-	-	-	-	(10)	(34)	**24**	57
Net Unrealized Gains (Losses) from Financial Instruments	60	45	-	2	-	-	15	(8)	-	-	4	-	**79**	39
Parliamentary Appropriations and Other Income	12	-	11	10	1,533	1,681	23	21	121	126	(73)	(76)	**1,627**	1,762
	1,829	1,839	1,427	1,529	1,533	1,681	463	481	3,985	4,664	(113)	(145)	**9,124**	10,049
EXPENSES														
Interest Expense	3	4	1,204	1,263	-	-	415	452	3,857	4,530	(61)	(80)	**5,418**	6,169
Operating Expenses	168	155	12	9	85	95	16	19	128	134	(73)	(76)	**336**	336
Housing Programs and Net Claims	238	418	-	-	1,448	1,586	-	-	-	-	-	-	**1,686**	2,004
	409	577	1,216	1,272	1,533	1,681	431	471	3,985	4,664	(134)	(156)	**7,440**	8,509
Income Taxes	345	321	53	64	-	-	4	-	-	-	6	3	**408**	388
NET INCOME (LOSS)	1,075	941	158	193	-	-	28	10	-	-	15	8	**1,276**	1,152
Total Revenues	1,829	1,839	1,427	1,529	1,533	1,681	463	481	3,985	4,664	(113)	(145)	**9,124**	10,049
Inter-segment/entity Revenues[1]	(37)	(60)	-	-	-	-	(3)	(9)	(73)	(76)	113	145	**-**	-
External Revenues	1,792	1,779	1,427	1,529	1,533	1,681	460	472	3,912	4,588	-	-	**9,124**	10,049

[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 September 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	684	759	17	27	-	-	814	433	1	1	-	-	**1,516**	1,220
Securities Purchased Under Resale Agreements	-	-	-	-	-	-	-	63	-	-	-	-	**-**	63
Investment Securities:														
Designated at Fair Value through Profit or Loss	80	75	1	1	-	-	1,152	1,282	-	-	(326)	(430)	**907**	928
Held for Trading	421	415	-	-	-	-	-	-	-	-	-	-	**421**	415
Available for Sale	19,638	19,064	1,847	1,799	-	-	-	-	-	-	(1,768)	(1,559)	**19,717**	19,304
Investment in NHA Mortgage-Backed Securities: Loans and Receivables	-	-	48,033	52,448	-	-	-	-	204,814	203,519	-	-	**252,847**	255,967
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	6,188	6,591	-	-	-	-	**6,188**	6,591
Other	-	-	-	-	-	-	4,200	4,440	-	-	-	-	**4,200**	4,440
Investments in Housing Programs	-	-	-	-	-	-	707	748	-	-	-	-	**707**	748
Accrued Interest Receivable	157	97	83	83	-	-	203	245	994	540	(14)	(6)	**1,423**	959
Deferred Income Tax Assets	-	(20)	-	1	-	-	-	42	-	-	-	35	**-**	58
Derivatives	-	-	-	-	-	-	103	131	-	-	-	-	**103**	131
Due from the Government of Canada	-	-	-	-	-	-	256	309	-	-	-	-	**256**	309
Accounts Receivable and Other Assets	522	617	50	(25)	-	-	234	315	-	-	-	-	**806**	907
	21,502	21,007	50,031	54,334	-	-	13,857	14,599	205,809	204,060	(2,108)	(1,960)	**289,091**	292,040
LIABILITIES														
Securities Sold Under Repurchase Agreements	458	425	-	-	-	-	-	-	-	-	-	-	**458**	425
Borrowings:														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	204,814	203,519	(1,991)	(1,843)	**202,823**	201,676
Capital Market Borrowings	-	-	-	-	-	-	1,675	1,862	-	-	(14)	(14)	**1,661**	1,848
Borrowings from the Government of Canada	-	-	48,033	52,448	-	-	11,351	11,806	-	-	-	-	**59,384**	64,254
Accrued Interest Payable	-	-	69	77	-	-	141	142	994	540	(14)	(6)	**1,190**	753
Derivatives	-	-	-	-	-	-	43	46	-	-	-	-	**43**	46
Accounts Payable and Other Liabilities	246	488	11	35	-	-	525	734	1	1	-	-	**783**	1,258
Provision for Claims	895	996	-	-	-	-	-	-	-	-	-	-	**895**	996
Unearned Premiums and Fees	6,102	6,394	573	546	-	-	-	-	-	-	-	-	**6,675**	6,940
Deferred Income Tax Liabilities	72	-	(11)	-	-	-	(6)	-	-	-	(24)	-	**31**	-
	7,773	8,303	48,675	53,106	-	-	13,729	14,590	205,809	204,060	(2,043)	(1,863)	**273,943**	278,196
EQUITY OF CANADA														
Contributed Capital	-	-	-	-	-	-	25	25	-	-	-	-	**25**	25
Accumulated Other Comprehensive Income (Loss)	841	1,047	(34)	8	-	-	-	-	-	-	-	(17)	**807**	1,038
Retained Earnings	12,888	11,657	1,390	1,220	-	-	103	(16)	-	-	(65)	(80)	**14,316**	12,781
	13,729	12,704	1,356	1,228	-	-	128	9	-	-	(65)	(97)	**15,148**	13,844
	21,502	21,007	50,031	54,334	-	-	13,857	14,599	205,809	204,060	(2,108)	(1,960)	**289,091**	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 nine months ended 30 September 2013 amount to $3 million and $9 million (three and nine months ended 30 September 2012 – $3 million and $9 million, respectively) for the Securitization Activity and nil (three and nine months ended 30 September 2012 – nil) for the Mortgage Loan Insurance Activity.

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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