CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER
March 31, 2014
(Unaudited)

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the results of operations and financial condition of CMHC is prepared for the first quarter ended 31 March 2014 and is intended to provide readers with an overview of CMHC's performance including comparatives against the prior quarter and same quarter in 2013. The 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. This MD&A should be read in conjunction with the unaudited Quarterly Consolidated Financial Statements as well as the 2013 Annual Report. The unaudited Quarterly Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are reviewed by CMHC's external auditors. All amounts are expressed in Canadian dollars. This MD&A is current as of 21 May 2014 and has been approved by the Audit Committee.

Forward-Looking Statements

CMHC's Quarterly Financial Report contains forward-looking statements in various sections of the report.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. These risks and uncertainties, many of which are beyond the control of CMHC, include, but are not limited to, economic, financial and regulatory conditions, nationally and internationally, and could cause actual results to differ materially from the expectations expressed in these forward-looking statements. Forward-looking statements are typically identified by words such as "may", "should", "could", "would", "will", as well as expressions such as "believe", "expect", "forecast", "anticipate", "intend", "plan", "estimate" and other similar expressions.

The forward-looking information contained in the Quarterly Financial Report is presented to assist readers in understanding our financial condition and performance. They may not be suitable for other purposes and readers should not place undue reliance on them. The forward-looking statements are based on management's current predictions, forecasts, projections, expectations and conclusions and the assumptions related to these predictions, forecasts, projections, expectations and conclusions may not prove to be correct. CMHC does not undertake to update any forward-looking statements made in this Quarterly Financial Report.

Non-IFRS Measures

CMHC uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited Quarterly Consolidated Financial Statements which are prepared in accordance with IFRS and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. A definition of non-IFRS measures used throughout the Quarterly Financial Report can be found in the Glossary for Non-IFRS Financial Measures section of the 2013 Annual Report.

Information related to the disclosure of changes in accounting policies and critical accounting policies and estimates can be found in CMHC's 2013 Annual Report. There have been no significant changes in accounting policies during the first quarter of 2014.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2014

The following events have occurred during the quarter and can be expected to have an impact on CMHC's business going forward.

Operating Budget Freeze

In the October 2013 Speech from the Throne, the Government announced its intention to implement an operating budget freeze for two years for federal departments and Crown corporations. Treasury Board Secretariat (TBS) subsequently issued additional details to clarify the impact for appropriation based and non-appropriation based Crown corporations.

The freeze directive applies to all appropriation-based organizations. This would include CMHC's Housing Programs. Adjustments to the base are only permitted for new initiatives and non-discretionary increases, subject to Treasury Board approval.

CMHC's Insurance, Securitization and Lending Activities fall under the non-appropriation based category. While not bound by the directive, these activities are expected to respect "the spirit and intent" of the directive.

For CMHC's appropriations-based activities the base year is 2013-2014 while for CMHC's non-appropriations-based activities, the base year is 2013. CMHC has consistently sought out opportunities for improvement and efficiencies in its discretionary expenditures, with a view to balancing the need for constraint and prudence with the requirements of CMHC's revenue generating activities.

Portfolio Insurance

CMHC implemented changes to its portfolio insurance product effective 1 January 2014 to support the long-term stability of the Canadian housing and mortgage markets, and to promote the efficient functioning and competitiveness of the housing finance market. Changes include:

- For 2014, a uniform annual allocation of $360 million per portfolio lender has been implemented, based on a total annual allocation of $9 billion.
- The substitution feature is no longer available on new portfolio pools. The substitution feature will continue to exist for portfolio pools insured on or before 31 December 2013.
- Revised pricing has been implemented to cover increased costs including the government guarantee fees while reflecting market prices.

The allocation of CMHC portfolio insurance does not affect the availability of CMHC's mortgage loan insurance for qualified home buyers or for the purchase, construction or refinance of multi-unit properties.

Annual Limit on New Securities Guaranteed

The limit on new guarantees of National Housing Act Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bonds (CMB) is an important oversight mechanism to manage housing market risks and the Government's exposure to the housing sector. Under section 14(1) of the NHA, the Minister of Finance has the authority to specify the terms or conditions under which CMHC may guarantee payment of any or all of the principal or interest, or both, in respect of securities issued on the basis of housing loans. For 2014, the Minister of Finance authorized CMHC to provide up to $80 billion of new guarantees of NHA MBS and up to $40 billion of new guarantees for CMB. The guarantee limits authorized for 2014 are in line with the historical demand for guarantees.

Fees Payable to the Government of Canada

Pursuant to section 8.2 of the NHA, effective 1 January 2014, CMHC's mortgage loan insurance business is subject to a risk fee payable to the Government of Canada of 3.25% of premiums written and an additional 10 basis points on new portfolio insurance written. The CMHC fee of 3.25% takes into account the full government backing of CMHC's insurance liabilities as opposed to the 90% guarantee of private mortgage insurers.

Homeowner Mortgage Loan Insurance Premiums

On 28 February 2014, CMHC announced that it will increase its mortgage loan insurance premiums for homeowner and 1-4 unit rental properties effective 1 May 2014. This increase reflects CMHC's higher capital targets. CMHC's capital holdings reduce Canadian taxpayers' exposure to the housing market and contribute to the long term stability of the financial system.

Minimum Capital Test ("MCT") for Mortgage Loan Insurers

The Office of the Superintendant of Financial Institutions (OSFI) is in the process of developing a new capital framework specific to mortgage insurers which will replace the current Minimum Capital Test (MCT). This new framework is not expected to be in place until 2016 or later. As a result, mortgage loan insurers' will be expected to implement a customized MCT starting 1 January 2015 based on the draft MCT for Federally Regulated Property and Casualty insurers that was released by OSFI on 20 December 2013. CMHC has reviewed the proposed customized MCT and expects that the changes will cause the Corporation's MCT ratio to modestly decline, partly due to increased capital margins required on its equity investments.

Investment in Affordable Housing

Economic Action Plan 2013 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 March 2019. This federal investment of $1.25 billion will be provided through CMHC over five years, beginning in April 2014, and will be cost-shared by provinces and territories. Funds provided to provinces and territories through the IAH will support the use of apprentices, which will support training of skilled labour.

On 4 March 2014, the Governments of Canada and British Columbia announced the extension of the IAH agreement to March 2019, for a combined federal/provincial investment of more than $300 million.

Events since the End of the Reporting Period

OSFI Draft Guideline B-21: Residential Mortgage Insurance Underwriting Practices and Procedures

On 14 April 2014, OSFI released its Draft Guideline B-21 for mortgage insurers. The Draft Guideline sets out OSFI's expectations with respect to prudent residential mortgage insurance underwriting and related activities. CMHC has reviewed the guideline and does not anticipate any significant changes to its current operations following the finalization of the guideline.

Review of Commercial Operations

As a result of changes to CMHC's mandate to contribute to the stability of the housing market, benefitting all Canadians, while effectively managing and reducing taxpayers' exposure to risk, CMHC is undertaking a review of its products and services to ensure that they are aligned with this objective. On 25 April 2014 CMHC announced that it would be discontinuing its Second Home and Self-Employed Without 3rd Party Income Validation mortgage insurance products effective 30 May 2014. This is the first set of changes resulting from this review.

Investment in Affordable Housing

On 25 April 2014, the Governments of Canada and Prince Edward Island announced the extension of the IAH agreement to March 2019, for a combined federal/provincial investment of some $15 million.

On 28 April 2014, the Governments of Canada and New Brunswick announced the extension of the IAH agreement to March 2019, for a combined federal/provincial investment of $78 million.

On 2 May 2014, the Governments of Canada and Alberta announced the extension of the IAH agreement to March 2019, for a combined federal/provincial investment of more than $200 million.

FINANCIAL HIGHLIGHTS

(in millions, unless otherwise indicated) CORPORATE RESULTS	Q1 2014	Q4 2013	Q3 2013[1]	Q2 2013[1]	Q1 2013[1]	Q4 2012[1]	Q3 2012[1]	Q2 2012[1]
Total Assets	253,081	270,051	289,091	289,766	302,005	292,040	302,232	292,614
Total Liabilities	236,570	254,213	273,943	275,166	287,593	278,196	288,885	279,753
Total Equity of Canada	16,511	15,838	15,148	14,600	14,412	13,844	13,347	12,861
Total Revenues	1,311	1,426	1,255	1,184	1,276	1,400	1,256	1,148
Total Expenses[2]	905	873	803	738	898	853	879	817
Net Income	406	553	452	446	378	547	377	331
HOUSING PROGRAMS								
Parliamentary Appropriations for Housing Programs Expenses	587	538	501	459	573	516	509	489
Housing Programs Expenses	587	538	501	459	573	516	509	489
LENDING								
Net Income	4	63	21	8	(1)	2	3	7
Total Equity	158	192	128	87	32	9	(9)	14
MORTGAGE LOAN INSURANCE								
Insurance-in-force ($B)	555	557	560	562	563	566	576	576
Total Insured Volumes	9,328	14,457	17,646	20,755	8,195	11,596	15,937	19,542
Premiums and Fees Received	206	321	401	376	210	291	409	471
Claims Paid	102	97	89	116	133	74	136	168
Premiums and Fees Earned	400	457	444	438	415	478	456	448
Insurance Claims Losses	102	71	70	55	113	69	157	142
Net Income	352	432	369	384	322	464	308	253
Loss Ratio	25.5%	15.5%	15.8%	12.6%	27.2%	14.4%	34.4%	31.7%
Operating Expense Ratio	14.3%	12.5%	12.4%	12.3%	14.2%	11.7%	10.1%	11.2%
Combined Ratio	39.8%	28.0%	28.2%	24.9%	41.4%	26.1%	44.5%	42.9%
Severity Ratio	28.3%	28.9%	28.9%	29.0%	30.2%	28.5%	29.8%	29.4%
Return on Equity	9.6%	12.3%	10.9%	11.6%	9.9%	14.9%	10.2%	8.7%
Return on Capital Holding Target	12.6%	15.4%	13.3%	13.7%	11.7%	17.1%	11.3%	9.4%
Capital Available to Minimum Capital Required	264%	250%	243%	234%	231%	231%	222%	214%
% Estimated Outstanding Canadian Residential Mortgages with CMHC Insurance Coverage ($)	45.3%	45.6%	47.0%	48.2%	48.5%	48.6%	50.0%	51.2%
SECURITIZATION								
Total Guarantees-in-force ($B)	400	398	399	400	393	382	384	377
Quarterly Securities Guaranteed	22,505	20,522	29,007	45,845	27,268	27,436	25,667	37,644
Guarantee and Application Fees Received	53	49	64	91	61	60	60	76
Guarantee and Application Fees Earned	59	59	64	64	60	60	61	63
Net Income	47	49	53	54	51	79	55	60
Operating Expense Ratio	10.7%	11.3%	10.9%	9.7%	10.6%	9.8%	9.2%	9.4%
Return on Equity	13.1%	14.2%	15.9%	16.7%	16.3%	26.2%	19.1%	22.0%
Return on Capital Holding Target	25.2%	25.1%	26.4%	26.4%	25.1%	39.2%	27.2%	29.9%
Capital Available to Capital Required	199%	182%	166%	162%	153%	156%	144%	142%
% of Total Outstanding Residential Mortgages Securitized Under CMHC's Programs ($)	32.0%	31.1%	30.6%	29.9%	29.1%	28.5%	28.4%	28.9%
CHT								
Assets	207,399	207,115	205,809	204,456	214,630	204,060	213,573	203,201
Liabilities	207,399	207,115	205,809	204,456	214,630	204,060	213,573	203,201

[1] Restated for comparative purposes; refer to Note 3 of CMHC's 2013 Consolidated Financial Statements.
[2] Includes Income Taxes.

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed Consolidated Balance Sheet

(in millions)	As at 31 March 2014	As at 31 December 2013
Total Assets	253,081	270,051
Total Liabilities	236,570	254,213
Total Equity of Canada	16,511	15,838

Total Assets

Total Assets were $253.1 billion as at 31 March 2014, of which $216.2 billion (85.4%) represented loans receivable arising from the IMPP and CMB programs.

Total Assets decreased by $17.0 billion (6.3%) from 31 December 2013 primarily due to lower loans receivable balances arising from IMPP, Lending and CMB related activity, partially offset by an increase in Accrued Interest Receivable, an increase in Available for Sale Investment Securities and an increase in investments in the Lending Activity.

Loans receivable arising from IMPP and Lending were $9.9 billion and $10.6 billion, respectively. These balances decreased by $18.2 billion (64.9%) for the IMPP and $281 million (2.6%) for the Lending Activity from the prior quarter due to scheduled maturities of loans receivable.

Loans receivable arising from CMB activity were $206.4 billion, a decrease of $231 million (0.1%) from 31 December 2013 as scheduled maturities outweighed new issuances.

Accrued Interest Receivable was $1,344 million, an increase of $485 million (56.5%) as interest payouts on the majority of investments under the CMB program are only made semi-annually. Available for Sale Investment Securities were $20,335 million, an increase of $676 million (3.4%) due to cash inflows over the three months. Investments under the Lending Activity, which fluctuate based on cash requirements and renewals of loans, increased by $417 million (71.3%).

Total Liabilities

Total Liabilities were $236.6 billion as at 31 March 2014, of which $216.2 billion (91.4%) represented borrowings incurred for the IMPP and CMB programs.

Total Liabilities decreased by $17.6 billion (6.9%) from 31 December 2013 primarily as a result of lower borrowings for IMPP and CMB activity, offset by higher borrowings related to Lending Activity, an increase in Accrued Interest Payable, an increase in Securities Sold Under Repurchase Agreements and an increase in the Pension Benefit Plans Liability.

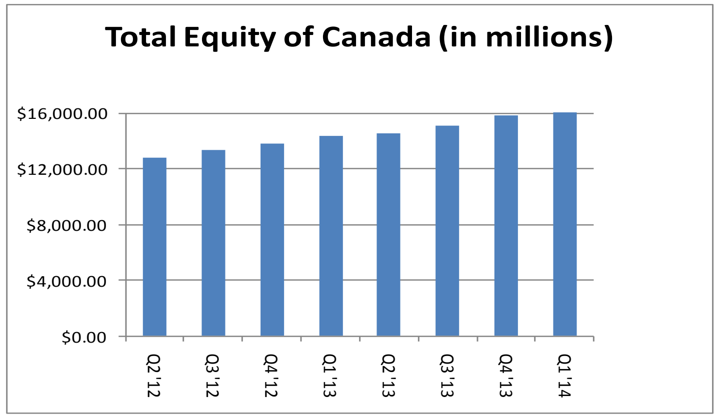
Borrowings from IMPP and CMB activity were $9.9 billion and $206.4 billion respectively. These balances were a decrease from the prior quarter of $18.2 billion (64.9%) for the IMPP due to repayments of debt incurred by CMHC for the initial purchase of IMPP assets and $231 million (0.1%) from CMB activity as a result of repayments due to scheduled maturities.

Borrowings from the Lending Activity were $12.8 billion, an increase of $149 million (1.2%) due to debt incurred for upcoming renewals and new loan issuances.

Accrued Interest Payable was $1,128 million, an increase of $476 million (73.0%) due to the timing of interest payout for CMBs. Securities Sold Under Repurchase Agreements were $348 million, an increase of $257 million (282.4%) as a result of a decrease in activity during the fourth quarter of 2013 which returned to normal levels in the first quarter of 2014. The Pension Benefit Plans Liability was $451 million, an increase of $101 million (28.9%) as a result of a decrease in the discount rate (31 March 2014 – 4.3%, 31 December 2013 – 4.8%) which is determined by reference to market yields at the balance sheet date on high quality long term corporate bonds.

Total Equity of Canada

Total Equity was $16,511 million, an increase of $673 million (4.2%) which represents the Comprehensive Income recognized by CMHC during the first quarter of 2014.



Condensed Consolidated Statement of Income and Comprehensive Income

	Three months ended		
(in millions)	**31 March 2014**	**31 December 2013**	**31 March 2013**
Total Revenues	1,311	1,426	1,276
Total Expenses	778	697	777
Income Taxes	127	176	121
Net Income	406	553	378
Other Comprehensive Income	267	137	190
Comprehensive Income	673	690	568

Total Revenues

Q1 2014 vs. Q4 2013

Total Revenues decreased by $115 million (8.1%) from the prior quarter primarily due to lower Premiums and Fees Earned, lower Net Interest Income and lower Investment Income. This decrease was partially offset by higher Parliamentary Appropriations for Housing Programs.

Premiums and Fees Earned were $459 million, a $57 million (11.0%) decrease from the prior quarter primarily due to decreasing insured volumes in the Mortgage Loan Insurance Activity over the past several years.

Net Interest Income was $28 million, a $48 million (63.2%) decrease from the prior quarter primarily due to the recording of an interest loss recovery of $53 million during 2013 while no amount was recovered in the first quarter of 2014. The interest loss recovery is a reimbursement for interest losses incurred by CMHC as a result of prepayment and re-pricing activities. This reimbursement is included in Interest Income and recovered from the Government through Housing Programs Appropriations.

Investment Income was $147 million, a $39 million (21.0%) decrease from the prior quarter primarily due to annual pooled fund distributions of $37 million earned in the fourth quarter of 2013.

Parliamentary Appropriations for Housing Programs were $587 million, a $49 million (9.1%) increase from the prior quarter primarily due to the $30 million provided for new affordable housing in Nunavut. The remaining $19 million is due to the timing of claims submitted by provinces and territories under the Investment in Affordable Housing (IAH).

Q1 2014 vs. Q1 2013

Total Revenues increased by $35 million (2.7%) from the same quarter last year primarily due to higher Investment Income and higher Other Income.

Investment Income was $147 million, a $12 million (8.9%) increase from the same quarter last year primarily due to higher returns in the bond portfolio attributable to rising yields in bond markets throughout 2013, as well as a larger investment portfolio in the Mortgage Loan Insurance Activity.

Other Income was $90 million, an increase of $19 million (26.8%) from the same quarter last year primarily due to the variance of its component Net Realized Gains (Losses). Net Realized Gains were $47 million, an $18 million (62.1%) increase over the same quarter last year primarily due higher gains on the sale of equity investments due to a continued rally in the equity markets resulting from an improved global growth picture, healthy corporate earnings and stronger consumer sentiment, among other factors. In addition, there were no impairment losses recognized in the current quarter compared with $16 million in the first quarter of 2013.

Total Expenses

Q1 2014 vs. Q4 2013

Total Expenses increased by $81 million (11.6%) from the prior quarter primarily due to higher Housing Programs expenses and higher Insurance Claims losses.

Housing Programs expenses were $587 million, a $49 million (9.1%) increase in accordance with revenues as noted above.

Insurance Claims losses, which represents the losses incurred during the period as a result of the change in the Provision for Claims, was $102 million, a $31 million (43.7%) increase from the prior quarter. The fourth quarter of 2013 saw a decrease in the Provision for Claims, in line with actuarial assumptions associated with improving economic conditions over the quarter. There was no change to the Provision for Claims during the first quarter of 2014 as actuarial assumptions reflected stable economic conditions. Insurance Claims losses for the period reflect the change within the provision related to Claims Paid for the quarter, which was greater than the overall change in the fourth quarter.

Q1 2014 vs. Q1 2013

Total Expenses increased by $1 million (0.1%) from the same quarter last year remaining relatively consistent.

Income Taxes

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Income Tax expense decreased by $49 million (27.8%) from the prior quarter and increased by $6 million (5.0%) over the same quarter last year primarily as a result of the change in Net Income. The effective tax rate was 24% in all quarters.

Net Income

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Net Income decreased by $147 million (26.6%) from the prior quarter and increase by $28 million (7.4%) from the same quarter last year primarily as a result of the above mentioned variances.

The variances in Parliamentary Appropriations for Housing Programs and Housing Programs expenses offset one another and have no effect on Net Income.

Other Comprehensive Income

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Other Comprehensive Income increased by $130 million (94.9%) from the fourth quarter of 2013 and by $77 million (40.5%) from the first quarter of 2013 primarily due to an increase in Net Unrealized Gains from Available for Sale Financial Instruments (net of tax) partially offset by a decrease in the Remeasurements of the Net Defined Benefit Plans.

Net Unrealized Gains from Available for Sale Financial Instruments (net of tax) was $372 million, an increase of $219 million (143.1%) and $218 million (141.6%) over the fourth quarter of 2013 and first quarter of 2013 respectively, primarily due to a greater drop in bond yields during the current quarter.

Remeasurements of the Net Defined Benefit Plan was $95 million, a decrease of $96 million (9,600.0%) and $161 million (169.5%) from the fourth quarter of 2013 and first quarter of 2013 respectively, primarily as a result of a decline in the discount rate used to calculate the present value of the defined benefit obligation from 4.8% at 31 December 2013 to 4.3% at 31 March 2014.

Resource Management

	Three months ended		
(in millions)	**31 March 2014**	**31 December 2013**	**31 March 2013**
Operating Expenses	89	88	91
Housing Programs Operating Expenses	27	31	29
Total Operating Expenses	**116**	**119**	**120**
Staff-Years (Full Time Equivalent)	434	468	446

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Total Operating Expenses were relatively consistent over the periods with a decrease of $3 million (2.5%) from the prior quarter and a decrease of $4 million (3.3%) from the first quarter of 2013.

For the three months ended 31 March 2014, staff-years consumed decreased by 34 staff-years (7.3%) compared to the prior quarter and by 12 staff-years (2.7%) compared to the same quarter last year. The decrease reflects lower mortgage loan insurance activity, while the additional decrease compared to Q4 2013 was largely due to seasonal survey work.

FINANCIAL RESULTS BY BUSINESS ACTIVITY

Financial analysis is provided for the following activities: Housing Programs, Lending Activity, Mortgage Loan Insurance Activity, Securitization Activity and the Canada Housing Trust (CHT).

Housing Programs and the Lending Activity support CMHC`s first objective; to support access to affordable housing for Canadians in Need.

The Mortgage Loan Insurance Activity, Securitization and CHT support CMHC's second objective; to 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.

These objectives and other performance measures are discussed in greater detail in CMHC's 2013 Annual Report.

HOUSING PROGRAMS

FINANCIAL ANALYSIS

	For the three months ended		
(in millions)	31 March 2014	31 December 2013	31 March 2013
Parliamentary Appropriations for Housing Programs	587	538	573
Housing Programs Expenses	587	538	573
Total	-	-	-

Q1 2014 vs. Q4 2013

Appropriation spending related to Housing Programs Expenses was higher than the prior quarter by $49 million (9.1%) primarily due to the $30 million provided for new affordable housing in Nunavut, as announced in Economic Action Plan 2013. The remaining $19 million is mainly due to the timing of claims submitted by provinces and territories under the IAH.

Q1 2014 vs. Q1 2013

Appropriation spending related to Housing Programs Expenses was higher than the same quarter last year by $14 million (2.4%) primarily due to the $30 million provided for new affordable housing Nunavut which was offset by the timing of claims submitted by provinces and territories under the IAH and lower subsidy requirements for the existing social housing portfolio.

FINANCIAL CONDITION

Balance Sheet Review

Housing Program Expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada, and the Housing Program accruals are recognized in accrued liabilities in the Lending Activity Balance Sheet.

Liquidity

The Corporation's source of liquidity to fund Housing Programs is derived from the Government through annual parliamentary appropriations.

The Housing Programs Activity is subject to minimal liquidity risk as a result of timing differences in cash flows between the spending of appropriations (i.e.: payments to third party) and the recoveries of appropriations from the Government. To mitigate this risk, CMHC maintains a source of short term liquid assets in order to mitigate timing mismatch. The Corporation also has daily access to the Consolidated Revenue Fund where funding for appropriations is provided by the Government.

Off-Balance Sheet Arrangements and Contractual Obligations

There have been no significant changes to long-term agreements during the quarter. Details of off-balance sheet arrangements and contractual obligations related to the Housing Programs Activity can be found in CMHC'S 2013 Annual Report.

REPORTING ON USE OF APPROPRIATIONS

The following table reconciles the amount of appropriations authorized by Parliament as available to the Corporation during the Government fiscal year (31 March) with the total amount recognized by the Corporation in its calendar year.

	Three months ended	
(in millions)	31 March 2014	31 March 2013
Amounts provided for Housing Programs:		
Amounts authorized in 2013/14 (2012/13)		
Main Estimates	2,131	2,140
Supplementary estimates A	-	-
Supplementary estimates B	-	-
Supplementary estimates C	-	-
Unused Statutory Authorities	-	-
	2,131	2,140
Less: Portion recognized in calendar 2013 (2012)	(1,498)	(1,514)
Less: Appropriations lapsed for 2013/2014 (2012/13)	(46)	(53)
2013/14 (2012/13) portions recognized in 2014 (2013)	**587**	**573**
Amounts authorized in 2014/2015 (2013/14)		
Main Estimates	2,097	2,131
Supplementary estimates A	-	-
Supplementary estimates B	-	-
Supplementary estimates C	-	-
Total fiscal year appropriations	2,097	2,131
Less: Portion to be recognized in calendar 2014 (2013)	(2,097)	(2,131)
Forecasted lapse for 2014/15 (Actual lapse in 2013/14)	-	-
2014/15 (2013/14) portions recognized in 2014 (2013)	**-**	**-**
Total appropriations recognized – three months ended 31 March	**587**	**573**

Total appropriations approved by Parliament for the year 2013/14 of $2,131 million include $30 million for new affordable housing in Nunavut, which was approved through Bill C-60, Economic Action Plan 2013 Act, No 1. The total spending against the reference level as at 31 March 2014 was $2,085 million (98%).

CMHC's recognized lapse for fiscal year 2013/14 was $46 million. Included within the $2,131 million reference level for 2013/14 was a frozen allotment in the amount of $10.2 million as a result of funding which was reprofiled to future years through the 2014/15 Annual Reference Level Update. When netted against this frozen allotment, CMHC's lapse was $36 million. The lapse is due to lower interest rates resulting in reduced subsidy requirements for the existing social housing portfolio.

LENDING

FINANCIAL ANALYSIS

	Three months ended		
(in millions)	31 March 2014	31 December 2013	31 March 2013
Net Interest Income	3	56	3
Other Income	4	31	(1)
Total Revenues	**7**	**87**	**2**
Operating Expenses	5	6	6
Total Expenses	**5**	**6**	**6**
Income before Income Taxes	**2**	**81**	**(4)**
Income Taxes	(2)	18	(3)
Net Income	**4**	**63**	**(1)**

Total Revenues

Q1 2014 vs. Q4 2013

Total Revenues decreased by $80 million (92.0%) from the prior quarter. This decline was primarily driven by a decrease in Net Interest Income and Other Income.

Net Interest Income decreased by $53 million (94.6%) from the prior quarter as an interest loss recovery ($53 million) was recorded in Q4 2013 while no amount was recorded in the current quarter.

Other Income decreased by $27 million (87.1%) from the prior quarter primarily due to the impact of adopting IFRS 13 – *Fair Value Measurement* on investment properties during the fourth quarter of 2013, which generated a gain of $23 million.

Q1 2014 vs. Q1 2013

Total Revenues increased by $5 million (250.0%) over the same quarter last year. This growth was primarily driven by an increase in Other Income as unrealized gains on financial instruments increased due to a decrease in interest rates.

Total Expenses

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Total Expenses were consistent with the prior quarter and the same quarter last year.

Net Income

The Lending Activity is operated on a planned breakeven basis but, in any given period, will realize a minimal profit or loss due to mismatches in the hedging structures used to hedge refinancing, reinvestment and foreign exchange risk.

Q1 2014 vs. Q4 2013

Net Income decreased by $59 million (93.7%) over the prior quarter primarily as a result of the decrease in Net Interest Income and Other Income previously noted and the income tax expense impact on these items.

Q1 2014 vs. Q1 2013

Net income increased by $5 million (500.0%) over the same quarter last year primarily as a result of the increase in Other Income previously noted.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	**31 March 2014**	**31 December 2013**
Cash, Cash Equivalents and Investment Securities	2,255	1,838
Loans and Accrued Interest Receivable	10,762	11,102
Due from the Government	362	311
Accounts Receivable and Other	384	342
Total Assets	**13,763**	**13,593**
Borrowings and Accrued Interest Payable	12,946	12,802
Defined Benefit Plans Liability	183	149
Accounts Payable and Other	476	450
Total Liabilities	**13,605**	**13,401**
Total Equity [1]	**158**	**192**

[1] Total Equity for the Lending Activity includes the Reserve Fund of $133 million ($167 million as at 31 December 2013) and Contributed Surplus of $25 million ($25 million as at 31 December 2013).

Total Assets

Total Assets increased by $170 million (1.3%) from 31 December 2013 primarily as a result of an increase in Cash, Cash Equivalents and Investment Securities and Due from the Government. These were partially offset by a decrease in Loans and Accrued Interest Receivable.

Cash, Cash Equivalents and Investment Securities increased by $417 million (22.7%) over 31 December 2013. Investments in the Lending Activity are managed on a short term basis and can fluctuate from one period to the other based on the timing of renewals and new loan issuances.

Due from the Government increased by $51 million (16.4%) over 31 December 2013 driven primarily by the timing of payments made as part of the existing Social Housing Agreements with the provinces and territories.

Loans and Accrued Interest Receivable decreased by $340 million (3.1%) from 31 December 2013 due to scheduled repayments in the loan programs as they are approaching maturity.

Total Liabilities

Total Liabilities increased by $204 million (1.5%) from 31 December 2013 primarily as a result of an increase in Borrowings, Accrued Interest Payable and the Defined Benefit Plans Liability.

Borrowings and Accrued Interest Payable increased by $144 million (1.1%) from 31 December 2013 primarily as a result of funding requirements for upcoming loan renewals and new loan issuances.

The Defined Benefit Plans Liability increased by $34 million (22.8%) from 31 December 2013 primarily due to fluctuations in Remeasurements of the Net Defined Benefit Plans largely as a result of a decline in the discount rate.

Total Equity

Total Equity decreased by $34 million (17.7%) from 31 December 2013 largely as a result of fluctuations in Remeasurements of the Net Defined Benefit Plans as explained above.

Capital Management

In accordance with the *CMHC Act,* the Lending Activity's earnings are retained by the Corporation in a Reserve Fund that is subject to a statutory limit of $240 million.

The Reserve Fund is kept by the Corporation as part of its capital management framework in order to address credit risk as well as interest rate risk on pre-payable loans. The Reserve Fund also includes the Lending Activity's unrealized fair market fluctuations and Remeasurements of the Net Defined Benefit Plans for both the Lending Activity and Housing Programs. The Housing Program's actuarial gains and losses are recorded in the reserve until they are reimbursed by the Government through Housing Programs appropriations.

	As at	
(in millions)	31 March 2014	31 December 2013
Reserve Fund for Lending	133	167

The Reserve Fund for Lending has decreased by $34 million (20.4%) from 31 December 2013 largely as a result of Remeasurements of the Net Defined Benefit Plans.

Liquidity

CMHC manages the Lending Activity to ensure there is sufficient cash to meet requirements as they come due. The Lending Activity's main sources of liquidity are its cash and cash equivalents, the principal and interest received on its loans and its investment securities and an overnight overdraft facility. Ongoing issuance of loans is funded through the Crown Borrowing Program. There have been no significant changes to the Borrowing Plan during the quarter. Details of Lending Activity liquidity can be found in CMHC's 2013 Annual Report.

Off-Balance Sheet Arrangements and Contractual Obligations

There have been no significant changes to lending agreements during the quarter.

MORTGAGE LOAN INSURANCE

CMHC provides insurance to lenders against losses in the event of borrower default on mortgages. Revenues are earned from premiums, fees and investment income. Expenses consist of operating expenses and insurance claim losses. The Corporation's Net Income is primarily derived from this activity.

CMHC's mortgage loan insurance business is exposed to seasonal variation with the first quarter typically being the slowest period. 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.

MORTGAGE LOAN INSURANCE PRODUCTS

Transactional homeowner insurance – default insurance for loans secured by residential properties of 4 or less units issued at the time the loan is originated, the cost of which is usually passed on to the borrower. This is comprised of:

- **High ratio homeowner loans** – the borrower has less than a 20 per cent down payment at origination. At least one of the units must be owner-occupied. Mortgage loan insurance on these loans is a legislative requirement for federally regulated as well as for most provincially regulated lenders.
- **Low ratio homeowner loans** – the borrower has a down payment of 20 per cent or more at origination. Mortgage loan insurance on these loans is not a legislative requirement; however, lenders may require mortgage loan insurance as a condition of approving the loan. Units can be owner-occupied or non-owner occupied (i.e., rental units).

Portfolio insurance – default insurance for pools of low ratio loans secured by residential properties of 4 or less units, previously uninsured on a transactional basis and that must be under repayment. Insurance is purchased and paid for by the lender.

Multi-unit residential insurance – default insurance for loans for the construction, purchase and refinancing of multi-unit residential properties consisting of 5 or more units. These properties include rental buildings, licensed care facilities and retirement homes, affordable housing projects and purpose-built student housing.

INSURANCE VOLUMES

	Three months ended		
Measures	**31 March 2014**	**31 December 2013**	**31 March 2013**
Total Insured Volumes (units):	**55,386**	**83,165**	**52,078**
Transactional Homeowner	27,869	45,759	29,846
Portfolio	6,785	7,240	1,078
Multi-unit Residential	20,732	30,166	21,154
Total Insured Volumes ($M):	**9,328**	**14,457**	**8,195**
Transactional Homeowner	6,511	10,761	6,654
Portfolio	1,669	1,926	224
Multi-unit Residential	1,148	1,770	1,317

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

Q1 2014 vs. Q4 2013

CMHC's total insured units for the first quarter of 2014 were 27,779 units (33.4%) lower than the prior quarter primarily as a result of seasonality; the first quarter is traditionally the lowest volume quarter of the year.

- Transactional Homeowner purchase and refinance transactions decreased by 17,890 units (39.1%) compared to the prior quarter. Purchase units decreased by 40.8% and refinance units decreased by 25.6% compared to the prior quarter primarily due to seasonal patterns combined with decreasing market share;
- Portfolio volumes were 455 units (6.3%) lower compared to the prior quarter primarily due to the timing of lender take-up of the portfolio insurance product which is highly variable on a quarterly basis. CMHC limits access to its portfolio insurance product through an allocation process. For 2014, a total annual allocation of $9 billion (2013 – $11 billion) was distributed among lenders; and
- Multi-unit residential volumes were 9,434 units (31.3%) lower compared to the prior quarter due to decreases in both multi-unit residential property purchase and refinance transactions. Multi-unit residential volumes are highly variable on a standalone quarterly basis.

Q1 2014 vs. Q1 2013

CMHC's insured units for the first quarter of 2014 were 3,308 units (6.4%) higher than the same quarter last year primarily as a result of higher Portfolio insurance volumes.

- Transactional Homeowner purchase and refinance transactions decreased by 1,977 units (6.6%) compared to the same quarter last year. Purchase units decreased by 2.3% and refinance units decreased by 26.6% compared to the same quarter last year mostly as a result of decreasing market share;
- Portfolio volumes were 5,707 units (529.4%) higher compared to the same quarter last year as lenders insured higher volumes of their annual portfolio insurance allocation in the first quarter of 2014 compared to the same period in 2013. Portfolio insurance volumes were negligible in the first quarter of 2013 due to delays in finalizing lender allocations. For 2014, CMHC expects lenders to fully utilize the total annual allocation of $9 billion; and
- Multi-unit residential volumes were 422 units (2.0%) lower compared to the same quarter last year primarily due to decreases in multi-unit residential purchase transactions which were partly offset by increases in multi-unit residential refinance transactions. Multi-unit refinancing volumes accounted for 80% of the total multi-unit volumes in the first quarter. The increase in this product is the result of refinancing of loans originated roughly five years ago when CMHC experienced a significant increase in the volume of applications for insurance following the financial crisis.

FINANCIAL ANALYSIS

	For the three months ended		
(in millions)	31 March 2014	31 December 2013	31 March 2013
Premiums and Fees Received:	**206**	**321**	**210**
Transactional Homeowner	151	254	160
Portfolio	7	4	1
Multi-unit residential	48	63	49
Claims Paid:	**102**	**97**	**133**
Transactional Homeowner	95	91	118
Portfolio	7	5	13
Multi-unit residential	-	1	2
Premiums and Fees Earned	400	457	415
Investment Income	149	188	136
Other Income	74	54	47
Total Revenues	**623**	**699**	**598**
Insurance Claims Losses	102	71	113
Operating Expenses	57	57	59
Total Expenses	**159**	**128**	**172**
Income before Income Taxes	**464**	**571**	**426**
Income Taxes	112	139	104
Net Income	**352**	**432**	**322**
Arrears Rate	0.35%	0.34%	0.35%
Severity Ratio	28.3%	28.9%	30.2%
Loss Ratio	25.5%	15.5%	27.2%
Operating Expense Ratio	14.3%	12.5%	14.2%
Combined Ratio	39.8%	28.0%	41.4%
Capital Available to Minimum Capital Required (%MCT)	264%	250%	231%
Return on Equity	9.6%	12.3%	9.9%
Return on Capital Holding Target	12.6%	15.4%	11.7%

Premiums and Fees Received

Q1 2014 vs. Q4 2013

Premiums and Fees Received decreased by $115 million (35.8%) from the prior quarter which is consistent with lower volumes and seasonality.

Q1 2014 vs. Q1 2013

Premiums and Fees Received were relatively consistent with the same quarter last year showing a decrease of $4 million (1.9%).

Total Revenues

Q1 2014 vs. Q4 2013

Total Revenues decreased by $76 million (10.9%) from the prior quarter primarily due to lower Premiums and Fees Earned and Investment Income, partially offset by an increase in Other Income.

Premiums and Fees Earned decreased by $57 million (12.5%) from the prior quarter primarily due to changes in the regulatory environment governing insured mortgages which are now more fully reflected through declining insured volumes as compared to the prior quarter. The unearned premium reserve was $5.8 billion as at the end of the quarter.

Investment Income decreased by $39 million (20.7%) from the prior quarter due to annual pooled fund distributions of $37 million earned in the fourth quarter of 2013 which did not occur in the first quarter of 2014.

Other Income increased by $20 million (37.0%) from the prior quarter primarily as a result of higher Net Realized Gains of $36 million (180.0%) due to an increase in gains in the bond portfolio of $20 million resulting from a greater change in bond yields over the quarter. Sales of domestic and international equity investments also resulted in an increase in realized gains of $11million due to a continued rally in the equity markets.

The increase in Net Realized Gains was offset by a decrease in Net Unrealized Gains of $16 million (50.0%) largely resulting from lower returns on international equity investments due to market conditions in the first quarter of 2014.

Q1 2014 vs. Q1 2013

Total Revenues increased by $25 million (4.2%) from the same quarter last year primarily as a result of higher Other Income due to the variance of its component Net Realized Gains.

Net Realized Gains were $56 million, a $28 million (100.0%) increase over the same quarter last year primarily due to an increase in gains on equity investments of $20 million due to a continued rally in the equity markets. In addition, there were no impairment losses recognized in the current quarter compared with $16 million in the first quarter of 2013.

Claims Paid and Arrears

Q1 2014 vs. Q4 2013

Claims paid during the quarter were $102 million, relatively stable with an increase of $5 million (5.2%) over the prior quarter which is in-line with the stable economic conditions.

Q1 2014 vs. Q1 2013

Claims paid during the quarter were $31 million (23.3%) lower than the same quarter last year primarily as a result of lower Transactional Homeowner and Portfolio claims paid, which is in line with improving economic conditions.

	As at			
	31 March 2014		31 December 2013	
	No. of Loans in Arrears	Arrears Rate	No. of Loans in Arrears	Arrears Rate
Transactional Homeowner	7,851	0.52%	7,749	0.51%
Portfolio	2,166	0.16%	2,151	0.15%
Multi-unit residential	141	0.68%	133	0.64%
Total	**10,158**	**0.35%**	**10,033**	**0.34%**

CMHC calculates its arrears rate on the basis of all loans that are more than 90 days past due over the number of outstanding insured loans.

CMHC's overall arrears rate as at 31 March 2014 was 0.35%, a 0.01 point increase compared to year-end 2013. The increase was primarily driven by increasing rates on transactional homeowner loans.

Transactional Homeowner arrears represented 77% of the total arrears volumes, Portfolio represented 21% and Multi-Unit residential represented 2%. Recent limitations on portfolio insurance will result in a change in the mix of loans insured by CMHC going forward. As portfolio arrears rates are lower than transactional homeowner arrears rates, CMHC's overall arrears rate is expected to increase over time.

The total number of loans in arrears was 10,158 at 31 March 2014, a 125 unit (1.2%) increase compared to year-end 2013.

Total Expenses

Q1 2014 vs. Q4 2013

Total Expenses increased by $31 million (24.2%) from the prior quarter primarily due to higher Insurance Claims losses which were $31 million (43.7%) higher than the prior quarter. This increase was a result of changes in the actuarial assumptions related to long term economic conditions during the fourth quarter of 2013 as previously explained.

Q1 2014 vs. Q1 2013

Total Expenses remained relatively consistent with the same quarter last year, decreasing by $13 million (7.6%).

Net Income

Q1 2014 vs. Q4 2013

Net Income decreased by $80 million (18.5%) over the prior quarter primarily due to lower Premiums and Fees Earned and Investment Income, combined with higher Insurance Claims losses as previously explained.

Q1 2014 vs. Q1 2013

Net Income increased by $30 million (9.3%) over the same quarter last year primarily due to higher Other Income as previously explained.

Ratios

To supplement financial results of the Mortgage Loan Insurance Activity, CMHC also uses financial measures and ratios to analyze its financial performance.

Q1 2014 vs. Q4 2013

The loss ratio, operating expense ratio and combined ratio for the three months ended 31 March 2014 increased when compared to the three months ended 31 December 2013 due to lower Premiums and Fees Earned as well as higher Insurance Claims losses as explained above.

The return on equity ratio for the three months ended 31 March 2014 was 9.6%, a 2.7 point decrease from the prior quarter due to lower Net Income and a larger average equity.

The return on capital holding target for the three months ended 31 March 2014 was 12.6%, a 2.8 point decrease compared to the prior period due to lower Net Income.

Q1 2014 vs. Q1 2013

Overall, the ratios for the Mortgage Loan insurance Activity have remained fairly consistent when compared to the same quarter last year.

FINANCIAL CONDITION

Balance Sheet Review

(in millions)	As at 31 March 2014	As at 31 December 2013
Cash, Cash Equivalents and Investment Securities	21,833	20,980
Accrued Interest Receivable	157	104
Accounts Receivable and Other	442	457
Total Assets	**22,432**	**21,541**
Securities Sold Under Repurchase Agreements	348	91
Provision for Claims	869	869
Unearned Premiums and Fees	5,756	5,947
Defined Benefit Plans Liability	264	201
Accounts Payable and Other	233	117
Total Liabilities	**7,470**	**7,225**
Total Equity	**14,962**	**14,316**

Total Assets

Total Assets increased by $891 million (4.1%) over 31 December 2013 primarily due to an increase in Cash, Cash Equivalents and Investment Securities and Accrued Interest Receivable.

Cash, Cash Equivalents and Investment Securities increased by $853 million (4.1%) due to positive cash flows from operations and favourable overall investment returns of the portfolio.

Accrued Interest Receivable increased by $53 million (51.0%) primarily due to fewer coupon payments received during the first quarter of 2014 compared to the fourth quarter of 2013 as well as an increase in bond investment balances.

Total Liabilities

Total Liabilities increased by $245 million (3.4%) from 31 December 2013 primarily due to an increase in Securities Sold Under Repurchase Agreements, the Defined Benefit Plans Liability and Accounts Payable and Other, partially offset by a decrease in Unearned Premiums and Fees.

Securities Sold Under Repurchase Agreements increased by $257 million (282.4%) as a result of a decrease in activity during the fourth quarter of 2013 which returned to normal levels in the first quarter of 2014.

Unearned Premiums and Fees decreased by $191 million (3.2%) primarily due to lower Premiums and Fees Received as a result of the decline in volumes as explained above.

The Defined Benefit Plans Liability increased by $63 million (31.3%) due to a decrease in the discount rate.

Accounts Payable and Other increased by $116 million (99.1%) primarily due to an increase of $99 million in the deferred tax liability recognized on the Remeasurements of the Net Defined Benefit Plans.

Total Equity

Total Equity of Canada increased by $646 million (4.5%) due to comprehensive income recognized during the year.

Capital Management

CMHC's Capital Management Framework follows guidelines as set out by OSFI. Under capital guidelines applicable to mortgage insurers in Canada, CMHC calculates the ratio of capital available to the minimum capital required by OSFI. This is referred to as the Minimum Capital Test (MCT).

CMHC sets an Internal Target above the minimum capital required. The Internal Target is set at a level that covers all risks of the Mortgage Loan Insurance Activity. The Internal Target is calibrated using specified confidence intervals and is designed to provide management with an early indication of the need to resolve financial problems. The Internal Target has been set at 185% (2013 – 185%) of the minimum capital required.

Under its Capital Management Framework, CMHC operates at available capital levels above the Internal Target on all but unusual and infrequent occasions. Accordingly, CMHC has established a Holding Target in excess of the Internal Target.

The Holding Target is calibrated using confidence intervals specified by CMHC's Capital Management Framework and is designed to provide management with adequate time to resolve financial problems before available capital decreases below the Internal Target. The Holding Target has been set at 200% (2013 – 200%) of the minimum capital required.

CMHC appropriates Retained Earnings and Accumulated Other Comprehensive Income (Loss) from the Mortgage Loan Insurance Activity at the 200% Holding Target level. Appropriated Capital as at 31 March 2014 was $11,378 million (2013 - $11,493 million).

	As at	
(in millions, unless otherwise indicated)	**31 March 2014**	**31 December 2013**
Unappropriated Retained Earnings	**3,584**	**2,823**
Mortgage Loan Insurance Appropriated Capital		
Appropriated Retained Earnings	10,033	10,497
Accumulated Other Comprehensive Income (Loss)	1,345	996
Total Appropriated Capital	**11,378**	**11,493**
Total Equity	**14,962**	**14,316**
Less: Assets with a Capital Requirement of 100%	(240)	(231)
Total Capital Available	**14,722**	**14,085**
Capital Available to Capital Required (100% MCT)	264%	250%
CMHC's Internal Capital Target (% MCT)	185%	185%
CMHC's Capital Holding Target (%MCT)	200%	200%

Capital Available of $14,722 million (2013 - $14,085 million) was 264% (2013 – 250%) of the minimum required, an increase of 14 points compared to the prior period as a result of an increase in retained earnings reflecting earnings for the period.

Liquidity

CMHC manages the Mortgage Loan Insurance Activity to ensure there is sufficient cash to meet its obligations as they come due. This is done through liquidity risk management policies, cash and liquidity management forecasting processes, and investment in high quality assets. Given the long lead time between the occurrence of a loan default and the payment of the associated claim, and because insurance premiums and fees typically exceed claim payments, liquidity risk in the Mortgage Loan Insurance Activity is generally low.

Financial Resources

The mortgage loan insurance investment portfolio is funded by cash flow from premiums and fees and interest received, net of claims and operating expenses. The objective of the Mortgage Loan Insurance investment portfolio is to maximize the total return on a pre-tax basis after related operating expenses. This is achieved through a strategic asset allocation policy that takes into account the time horizon and liquidity needs of the liabilities, as well as the regulatory environment, capital objectives and risk appetite of the Corporation. The market liquidity of the various investments and asset classes in the Mortgage Loan Insurance portfolio are regularly evaluated against projected cash requirements.

As at 31 March 2014, total investments under management had a fair value of $21.8 billion compared to $21.0 billion at 31 December 2013.

Off-Balance Sheet Arrangements and Contractual Obligation

The Mortgage Loan Insurance Activity engages in some financial transactions that, under IFRS, are either not recorded on the Consolidated Balance Sheet or are recorded in amounts that differ from the full contract or notional amounts. These off-balance sheet arrangements include insurance contracts, contractual obligations and certain commitments. Further detail can be found in CMHC's 2013 Annual Report in addition to the following:

Insurance-in-force

The Mortgage Loan Insurance Activity is exposed to insurance risk from underwriting of mortgage insurance contracts. Mortgage insurance contracts transfer risk to the Corporation by indemnifying lending institutions against credit losses arising from borrower default. Under a mortgage insurance policy, a lending institution is insured against risk of loss arising from borrower default for the entire unpaid principal balance of the loan plus interest for a predetermined length of time. Total insurance-in-force represents the risk exposure of the Mortgage Loan Insurance Activity.

At 31 March 2014 insurance-in-force was $555 billion, a $2 billion (0.4%) decrease over 31 December 2013. New loans insured were $9 billion, while loan amortization and pay-down was $11 billion. 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.

	As at	
(in billions)	31 March2014	31 December 2013
Total Insurance-in-force:	**555**	**557**
Transactional Homeowner	288	288
Portfolio	217	219
Multi-unit Residential	50	50

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (2013 – $600 billion).

SECURITIZATION

CMHC guarantees the timely payment of principal and interest for investors in securities backed by insured mortgages. Revenues are earned from application fees, guarantee fees and investment income as well as interest income on Insured Mortgage Purchase Program (IMPP) loans. Expenses consist primarily of interest expense on IMPP loans and operating expenses. Application fee revenue as well as administration costs related to the new legal framework for covered bonds administered by CMHC are also part of this segment.

Under the National Housing Act, the aggregate outstanding amount of principal guarantees may not exceed $600 billion. For 2014, the Minister of Finance has authorized CMHC to provide up to $80 billion for new guarantees of market NHA MBS and up to $40 billion of new guarantees for CMB. These limits are sufficient to meet the historical demand for guarantees.

CMHC is responsible for administering the legal framework for registered covered bonds in Canada. Neither the Government of Canada nor CMHC guarantee these payments and the bonds cannot be backed by insured residential mortgages. CMHC administers this legal framework on cost-recovery basis.

SECURITIZATION PROGRAMS

National Housing Act Mortgage-Backed Securities (MBS) program – NHA MBS are issued by approved financial institutions and are backed by pools of insured, eligible residential mortgages. Investors in NHA MBS receive principal and interest payments passed through from the mortgages. CMHC guarantees the timely payment of interest and principal to investors.

Canada Mortgage Bonds (CMB) program – CMB are issued by Canada Housing Trust, a special purpose trust that purchases insured, eligible residential mortgages packaged into NHA MBS. Investors in CMB receive fixed or floating rate coupon interest payments and, at maturity of the CMB, the principal payments. CMHC guarantees the timely payment of interest and principal to investors.

Insured Mortgage Purchase Program (IMPP) – In October 2008, as a measure to maintain the availability of longer-term credit in Canada, the Government of Canada authorized CMHC to purchase NHA MBS from Canadian financial institutions through a competitive auction process. IMPP remained available until the end of March 2010 with a total of $69.3 billion in NHA MBS purchased by CMHC under the program. Assets and liabilities under the program have been maturing as scheduled.

NEW SECURITIES GUARANTEED

	Three months ended		
(in millions)	31 March 2014	31 December 2013	31 March 2013
Total New Securities Guaranteed:	**22,505**	**20,522**	**27,268**
NHA MBS	13,505	10,772	17,268
CMB	9,000	9,750	10,000

Q1 2014 vs. Q4 2013

CMHC's new securities guaranteed for the first quarter of 2014 were $2.0 billion (9.7%) higher than the prior quarter primarily as a result of the $20 billion guarantee capacity allocated in the first quarter of 2014 compared to $13 billion in the previous quarter. This resulted in increased guaranteed NHA MBS issuance by Approved Issuers which were $2,733 million (25.4%) higher than the prior quarter.

Q1 2014 vs. Q1 2013

CMHC's new securities guaranteed for the first quarter of 2014 were $4.8 billion (17.5%) lower than the same quarter last year primarily due to lower guaranteed NHA MBS issuance by Approved Issuers. The decrease reflects the quarterly allocation methodology in place in the first quarter of 2014, while the first quarter of 2013 did not have an allocation capacity constraining Approved Issuers.

FINANCIAL ANALYSIS

	Three months ended		
(in millions)	31 March 2014	31 December 2013	31 March 2013
Guarantee and Application Fees Received:	**53**	**49**	**61**
Market NHA MBS	31	26	37
CMB	22	23	24
Guarantee and Application Fees Earned	59	59	60
Net Interest Income	-	-	-
Investment Income	8	8	7
Other Income	5	6	8
Total Revenues	**72**	**73**	**75**
Operating Expenses	9	8	7
Total Expenses	**9**	**8**	**7**
Income before Income Taxes	**63**	**65**	**68**
Income Taxes	16	16	17
Net Income	**47**	**49**	**51**
Operating Expense Ratio	10.7%	11.3%	10.6%
Capital Available to Capital Required	199%	182%	153%
Return on Equity	13.1%	14.2%	16.3%
Return on Capital Holding Target	25.2%	25.1%	25.1%

Guarantee and Application Fees Received

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Guarantee and Application Fees Received increased by $4 million (8.2%) from the prior quarter and decreased by $8 million (13.1%) over the same quarter last year which is consistent with the volume variances noted above.

Total Revenues

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Total Revenues remained fairly consistent over the quarters decreasing by $1 million (1.4%) from the prior quarter and $3 million (4.0%) from the same quarter last year.

Total Expenses

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Total Expenses were relatively consistent with an increase of $1 million (12.5%) over the prior quarter and an increase of $2 million (28.6%) over the same quarter last year.

Net Income

Q1 2014 vs. Q4 2013

The Securitization Activity operates in a regulated business environment with the Minister of Finance setting the annual limit on new guarantees and large variances quarter over quarter are not expected. Net Income decreased by $2 million (4.1%) from the prior quarter.

Q1 2014 vs. Q1 2013

Net Income decreased by $4 million (7.8%) from the same quarter last year primarily due to lower volumes as a result of limits on NHA MBS volumes introduced by the Minister of Finance in mid 2013.

Ratios

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

The capital available to capital required ratio as at 31 March 2014 was 199%, a 17 point increase compared to the prior quarter and a 46 point increase compared to the same quarter last year. This increase is due to a lower capital required balance. The capital required calculation is based on balance sheet amounts and as loan repayments are made under the IMPP, a lower capital required balance results.

The return on equity ratio is trending lower, primarily as a result of increasing equity levels. This trend is consistent with the business environment and mandate of the Securitization Activity.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	**31 March 2014**	**31 December 2013**
Cash, Cash Equivalent and Investment Securities	1,955	1,896
Loans and Accrued Interest Receivable	9,887	28,116
Accounts Receivable and Other	45	59
Total Assets	**11,887**	**30,071**
Borrowings and Accrued Interest Payable	9,871	28,110
Unearned Fees	559	564
Defined Benefit Plans Liability	4	-
Accounts Payable and Other	(12)	1
Total Liabilities	**10,422**	**28,675**
Total Equity	**1,465**	**1,396**

Total Assets

Total Assets decreased by $18,184 million (60.5%) from 31 December 2013 primarily due to a decrease in Loans and Accrued Interest Receivable of $18,229 million (64.8%) as a result of principal loan repayments under the IMPP.

Total Liabilities

Total Liabilities decreased by $18,253 million (63.7%) decrease from 31 December 2013 primarily due to a decrease in Borrowings and Accrued Interest Payable of $18,239 million (64.9%) as a result of principal loan repayments under the IMPP.

Total Equity

Total Equity increased by $69 million (4.9%) over 31 December 2013. The increase is primarily caused by the quarterly Net Comprehensive Income.

Capital Management

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. The capital required calculation is based on asset balances as defined by OFSI and as the IMPP program is repaid, less capital is required to secure the remaining exposures.

	As at	
(in millions, unless otherwise indicated)	**31 March 2014**	**31 December 2013**
Unappropriated Retained Earnings	**726**	**623**
Securitization Appropriated Capital		
Appropriated Retained Earnings	758	816
Accumulated Other Comprehensive Income (Loss)	(19)	(43)
Total Appropriated Capital	**739**	**773**
Total Equity	**1,465**	**1,396**
Less: Assets with a Capital Requirement of 100%	(8)	(15)
Total Capital Available	**1,457**	**1,381**
Capital Available to Capital Required	199%	182%

CMHC sets aside a portion of Retained Earnings and Accumulated Other Comprehensive Income (Loss) for capitalization. Appropriated Capital as at 31 March 2014 was $739 million, a decrease of $34 million (4.4%) from the prior period primarily due to IMPP repayments during the year.

At 31 March 2014, Capital Available was 199% of the capital required or $1,457 million (182% or $1,381 million – 31 December 2013).

Liquidity

CMHC manages the Securitization Activity to ensure there is sufficient cash to meet requirements under both the NHA MBS and CMB programs in the event of a call on the timely payment guarantee. Potential liquidity requirements under the timely payment guarantee are contingent on the performance of participants and service providers in the Securitization programs to meet their obligations. The liquidity risk is mitigated with risk management policies, liquid assets and liquidity management processes, minimum standards for participants, the collection of collateral, legal and operational frameworks and the collection of guarantee fees.

Financial Resources

The Securitization investment portfolio is funded by cash flow from guarantee and application fees and interest received, net of claims and expenses. The portfolio is intended to cover obligations associated with CMHC's securitization guarantee programs. The objective of the securitization investment portfolio is to maximize the capacity to meet liquidity needs of the timely payment guarantee and to preserve capital through investments in Government of Canada securities. The strategic asset allocation policy benchmark for the securitization investment portfolio is comprised of Canada Non-Agency Bonds (98%) and 91-day T-Bills (2%). The portfolio is managed passively against its benchmark index.

As at 31 March 2014, total investments under management had a fair value $1.96 billion compared to $1.90 billion at the end of 2013.

Off-Balance Sheet Arrangements and Contractual Obligations

The Securitization Activity engages in some financial transactions that, under IFRS, are either not recorded on the Consolidated Balance Sheet or are recorded in amounts that differ from the full contract or notional amounts. These offbalances sheet arrangements include securitizations, contractual obligations and guarantees. Further detail can be found in CMHC's 2013 Annual Report in addition to the following:

Guarantees-in-force

CMHC guarantees the timely payment of principal and interest of CMB issued as well as NHA MBS for investors in securities issued by Approved Issuers on the basis of housing loans through the IMPP and CMB program. Total Guarantees-in-force represents the risk exposure related to this timely payment guarantee.

	As at	
(in millions)	31 March 2014	31 December 2013
Guarantees-in-force	**399,552**	**397,688**
Market NHA MBS	193,647	191,583
CMB	205,905	206,105

Guarantees-in-force totalled $399.6 billion at 31 March 2014, a $1.9 billion (0.5%) increase over 31 December 2013. In the first quarter of 2014, a total of $22.5 billion new guarantees were granted by CMHC a $2 billion (9.8%) increase over the prior period, primarily resulting from higher NHA MBS volumes.

Under Section 51 of the *National Housing Act*, the aggregate outstanding amount of principal guarantees may not exceed $600 billion.

CANADA HOUSING TRUST

Canada Housing Trust is a special-purpose trust, whose functions are limited to the acquisition of interests in NHA MBS, the issuance of CMB, as well as the purchase of highly rated investments and certain related financial hedging activities. The CMBs are guaranteed by CMHC's Securitization Activity. CHT revenue is earned primarily from interest income on the CMB loans, which is used to cover operating expenses and interest expense.

FINANCIAL ANALYSIS

	Three months ended		
(in millions)	31 March 2014	31 December 2013	31 March 2013
Net Interest Income	3	1	3
Other Income	38	40	41
Total Revenues	**41**	**41**	**44**
Operating Expenses	41	41	44
Total Expenses	**41**	**41**	**44**
Net Income	**-**	**-**	**-**

Total Revenues

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Total Revenues were consistent over the quarters, remaining at the same level as the prior quarter and showing a $3 million (6.8%) decrease from the same quarter last year.

Total Expenses

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Operating expenses were consistent over the quarters, remaining at the same level as the prior quarter and showing a $3 million (6.8%) decrease from the same quarter last year.

Net Income

Q1 2014 vs. Q4 2013 and Q1 2014 vs. Q1 2013

Net income is nil and is consistent with the prior quarters. This is in line with the nature of the Trust as income, after covering expenses, is distributed to the beneficiaries.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	31 March 2014	31 December 2013
Total Assets	207,399	207,115
Total Liabilities	207,399	207,115

Total Assets and Total Liabilities

Total Assets and Total Liabilities increased by $284 million (0.1%) over 31 December 2013 due to an increase in Accrued Interest Receivable and Accrued Interest Payable of $515 million (104.7%) as a result of the timing of the semi-annual interest payout on the majority of investments under the CMB program. This increase was offset by a $231 million (0.1%) decrease in Loans and Borrowings primarily due to scheduled maturities under the CMB program outweighing the acquisition of beneficial interests in NHA MBS from Approved Issuers.

Capital Management

CHT is a special-purpose trust and does not retain any capital.

Liquidity

CHT's main source of liquidity is the loans due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS securities to the CMB Program. Loans arising from the CMB program are funded by the issuance of Canada Mortgage Bonds. Under this arrangement, substantially all of the risks and rewards of the NHA MBS are retained by the issuers through swap agreements with the CHT.

CHT is exposed to liquidity risk should a problem arise with the timely maturities of the loans. This risk is mitigated by the collateral supporting the loans, which consists of NHA MBS and highly rated investments. Liquidity risk relating to the payment of interest on CMB is mitigated by the swap agreements entered into with approved financial institution counterparties, whereby the counterparties pay CMHC an amount equal to the coupon payments on the CMB. In addition, CHT is assured of the ability to pay principal and interest on CMB through the CMHC Securitization Activity's timely payment guarantee.

Off-Balance Sheet Arrangements and Contractual Obligations

There have been no significant changes to off-balance sheet arrangements and contractual obligations during the quarter. Details of off-balance sheet arrangements and contractual obligations related to CHT can be found in CMHC's 2013 Annual Report.

RISK MANAGEMENT

CMHC is exposed to a variety of risks in its operating environment that could have an impact on the achievement of its objectives. These risks are discussed in detail in CMHC's 2013 Annual Report.

The following section discusses material developments impacting CMHC's risk management that have occurred during the since the last reporting period.

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

The regulatory environment for insurers in Canada continues to evolve as governments and regulators enhance the appropriate frameworks for financial regulation to ensure that capital and risk management practices are appropriate and robust enough to withstand economic shocks. In 2012, OSFI published draft guidelines for Insurers: Guideline E-19: *Own Risk and Solvency Assessment* (ORSA) and a draft of revised Guideline A-4: *Internal Target Capital Ratio for Insurance*

Companies. On 11 November 2013 OSFI released final versions of Guideline E-19 and Guideline A-4 (renamed *Regulatory Capital and Internal Capital Targets*).

Both guidelines have an implementation date of 1 January 2014 with an expectation that an ORSA report will be approved by the Board of Directors in 2014. Guideline E-19 sets out OSFI's expectations with respect to the process and considerations of an insurer as it undertakes its Own Risk and Solvency Assessment (ORSA). OSFI expects an insurer to have processes in place to conduct an ORSA that are proportionate to the nature, scale and complexity of its business and risk profile, and that the ORSA be tailored to include the consolidated operations of the insurer. CMHC does not anticipate any significant changes to its capital holdings or to its capital requirements as a result of implementing ORSA. CMHC will carry out its first ORSA in 2014.

CHANGES IN KEY MANAGEMENT PERSONNEL

The following changes to CMHC's key management personnel were announced:

- On 17 December 2013, the Government of Canada announced the appointment of Evan Siddall as President and Chief Executive Officer of CMHC, effective 1 January 2014.
- On 30 January 2014, the Government of Canada announced the appointment of Sandra Hanington, Bruce Shirreff, and Louise Poirier-Landry as members of CMHC's Board of Directors.
- On 19 March 2014, Pierre Sabourin, Senior Vice-President, Corporate Services left the Corporation;
- On 28 March 2014, CMHC announced a change in its senior management structure including the creation of an Executive Committee in an effort to better align functions and enhance accountability. As a result, the following changes to CMHC's key management personnel were announced:
    - Debra Darke, Senior Vice-President, Corporate Development, Policy and Research effective 14 April 2014.
    - Sébastien Gignac, Senior Vice-President, General Counsel and Corporate Secretary effective 28 March 2014.
    - Charles MacArthur, Senior Vice-President, Regional Operations and Assisted Housing effective 14 April 2014.
    - Steven Mennill, Senior Vice-President, Insurance effective 28 March 2014.
    - Gail Tolley, Senior Vice-President, Human Resources effective 14 April 2014.
    - Wojo Zielonka. Senior Vice-President, Capital Markets effective 28 March 2014.
- On 2 April 2014, Deputy Minister of Finance and *ex-officio* member of CMHC's Board of Directors, Michael Horgan, announced his retirement from the Public Service of Canada, effective 17 April 2014. Paul Rochon assumed the position of Deputy Minister of Finance on 21 April 2014 and is now a member of CMHC's Board of Directors.
- On 6 May 2014, Gail Tolley, Senior Vice-President, Human Resources announced her retirement effective 18 September 2014.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2014

Management is responsible for the preparation and fair presentation of these unaudited Quarterly Consolidated Financial Statements in accordance with the Treasury Board of Canada's *Standard on Quarterly Financial Reports for Crown Corporations* and International Accounting Standard 34 *Interim Financial Reporting*, 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.

Evan Siddall, BA,LL.B
President and Chief Executive Officer

Brian Naish, CPA, CA
Chief Financial Officer

21 May 2014

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at 31 March 2014	As at 31 December 2013
ASSETS			
Cash and Cash Equivalents		1,645	1,336
Securities Purchased Under Resale Agreements		240	-
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		1,015	1,012
Available for Sale		20,335	19,659
Held for Trading		425	444
Loans:	6		
Designated at Fair Value through Profit or Loss		5,918	6,041
Loans and Receivables		220,926	239,531
Accrued Interest Receivable		1,344	859
Derivatives		103	96
Due from the Government of Canada	7	362	311
Accounts Receivable and Other Assets		768	762
		253,081	270,051
LIABILITIES			
Securities Sold Under Repurchase Agreements		348	91
Borrowings:	9		
Designated at Fair Value through Profit or Loss		8,056	7,818
Other Financial Liabilities		218,732	237,378
Accrued Interest Payable		1,128	652
Derivatives		32	44
Accounts Payable and Other Liabilities		1,057	817
Provision for Claims	10	869	869
Unearned Premiums and Fees		6,315	6,511
Deferred Income Tax Liabilities		33	33
		236,570	254,213
Commitments and Contingent Liabilities	18		
EQUITY OF CANADA			
Contributed Capital		25	25
Accumulated Other Comprehensive Income		1,305	943
Retained Earnings		15,181	14,870
		16,511	15,838
		253,081	270,051

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 31 March	
(in millions of Canadian dollars)	Notes	2014	2013
Parliamentary Appropriations for Housing Programs	7	587	573
Premiums and Fees Earned		459	475
Interest Income			
Loans	6	1,427	1,853
Other		14	14
		1,441	1,867
Interest Expense	9	1,413	1,845
Net Interest Income		28	22
Investment Income		147	135
Net Realized Gains	4	47	29
Net Unrealized Gains	4	17	11
Other Income		26	31
TOTAL REVENUES		**1,311**	**1,276**
EXPENSES			
Housing Programs	7	587	573
Insurance Claims	10	102	113
Operating Expenses		89	91
		778	777
INCOME BEFORE INCOME TAXES		**533**	**499**
Income Taxes	11	127	121
NET INCOME		**406**	**378**
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		372	154
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income		(10)	(30)
Total Items that Will Be Subsequently Reclassified to Net Income		362	124
Items that Will Not Be Subsequently Reclassified to Net Income:			
Remeasurements of the Net Defined Benefit Plans		(95)	66
		267	190
COMPREHENSIVE INCOME		**673**	**568**

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

(in millions of Canadian dollars)	Three months ended 31 March 2014	Three months ended 31 March 2013
CONTRIBUTED CAPITAL	**25**	**25**
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance at Beginning of Period	943	1,038
Other Comprehensive Income (Loss)	362	124
Balance at End of Period	**1,305**	**1,162**
RETAINED EARNINGS		
Balance at Beginning of Period	14,870	12,781
Net Income	406	378
Other Comprehensive Income (Loss)	(95)	66
Balance at End of Period	**15,181**	**13,225**
EQUITY OF CANADA	**16,511**	**14,412**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Three months ended 31 March	
(in millions of Canadian dollars)	Notes	2014	2013
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net Income		406	378
Items Not Affecting Cash or Cash Equivalents:			
Amortization of Premiums and Discounts on Financial Instruments		21	22
Deferred Income Taxes		-	18
Change in Fair Value of Financial Instruments Carried at Fair Value	4	(17)	(11)
Net Gain on Financial Instruments	4	(47)	(29)
Net Change in Non-cash Operating Assets and Liabilities:			
Accrued Interest Receivable		(485)	(608)
Accounts Receivable and Other Assets		(6)	35
Due from the Government of Canada		(51)	(82)
Accrued Interest Payable		476	683
Accounts Payable and Other Liabilities		240	(55)
Derivatives		(1)	1
Provision for Claims		-	(20)
Unearned Premiums and Fees		(196)	(214)
Other		(231)	20
Loans:	6		
Repayments		27,724	1,059
Disbursements		(8,994)	(9,982)
Borrowings:	9		
Repayments		(28,111)	(1,266)
Issuances		9,793	10,211
		521	160
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Investment Securities:			
Sales and Maturities		2,363	2,419
Purchases		(2,592)	(2,304)
Change in Securities Purchased Under Resale Agreements		(240)	(185)
Change in Securities Sold Under Repurchase Agreements		257	180
		(212)	110
Increase in Cash and Cash Equivalents		309	270
Cash and Cash Equivalents			
Beginning of Period		1,336	1,220
End of Period		1,645	1,490
Represented by:			
Cash		33	(34)
Cash Equivalents		1,612	1,524
		1,645	1,490
Supplementary Disclosure of Cash Flow			
Amount of Interest Received During the Period		1,177	1,433
Amount of Interest Paid During the Period		975	1,201
Amount of Dividends Received During the Period		17	16
Amount of Income Taxes Paid During the Period		128	145

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Three months ended 31 March 2014

1. CORPORATE MANDATE

The Corporation's 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 I of Schedule III, is wholly owned by the Government of Canada, and is an agent Crown Corporation.

CMHC's mandate, as set out in the NHA, is to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. In relation to financing for housing, the NHA's purpose is to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing, and generally to contribute to the well-being of the housing sector. In addition, CMHC has the following objects in carrying out any activities related to mortgage loan insurance and guarantee programs and in administering the Canadian covered bond legal framework: (a) to promote the efficient functioning and competitiveness of the housing finance market; (b) to promote and contribute to the stability of the financial system, including the housing market; and (c) to have due regard to the Corporation's exposure to loss. The mandate is carried out through the following four activities:

- Mortgage Loan Insurance;
- Securitization;
- Housing Programs; and
- Lending.

CMHC consolidates the account of CHT, a separate legal entity. CHT was established in 2001 as a special-purpose trust, separate from CMHC. While CMHC controls the activities of CHT, its assets and liabilities are neither owned by nor held for the benefit of CMHC.

From this point forward, "CMHC" and "the Corporation" will be used interchangeably and will represent the Consolidated Entity.

2. BASIS OF PRESENTATION

These unaudited Quarterly Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. They should be read in conjunction with CMHC's audited Consolidated Financial Statements for the year ended 31 December 2013. These unaudited Quarterly Consolidated Financial Statements were approved and authorized for issue by CMHC's Audit Committee on 21 May 2014.

These unaudited Quarterly Consolidated Financial Statements include the accounts of CMHC and, as required by IFRS 10 *Consolidated Financial Statements* (IFRS 10), the accounts of CHT, a special purpose entity to which CMHC has exposure to its risks and rewards. The Nordea International Equity Fund (Nordea) is also consolidated as required by IFRS 10 on the basis that CMHC controls the fund and is included in the investment portfolio within the Mortgage Loan Insurance Activity.

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

Significant Accounting Policies

The significant accounting policies used in the preparation of these unaudited Quarterly Consolidated Financial Statements are disclosed in Note 2 of CMHC's 2013 Annual Report and are in compliance with IFRS effective as at 31 March 2014 as issued by the International Accounting Standards Board.

Income Taxes

CMHC (non-consolidated entity) 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.

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 disclosed in Note 4 of CMHC's audited Consolidated Financial Statements for the year ended 31 December 2013.

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.

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.

3. CURRENT AND FUTURE ACCOUNTING CHANGES

Current Accounting Changes

The International Accounting Standards Board (IASB) issued certain pronouncements that are mandatory for periods beginning 1 January 2014 which are not applicable to the Corporation other than the pronouncements disclosed in the 2013 Annual Report.

Future Accounting Changes

CMHC actively monitors the new standards and amendments to existing standards that have been issued by the IASB.

Effective Date of 1 January 2016

On 6 May 2014, the IASB issued amendments to IAS 11 *Joint Arrangements* that add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. Earlier application is permitted. The Corporation has not yet determined the impact of this new standard on its unaudited Quarterly Consolidated Financial Statements.

4. FAIR VALUE MEASUREMENTS

Determination of Fair Value

The Corporation measures certain financial assets and liabilities and non-financial assets at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of non-financial assets (i.e.: Non-current Assets Held for Sale and Investment Property) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values are estimated using the following fair value methods which maximize the use of relevant observable inputs and minimizes the use of unobservable inputs. The fair value measurement hierarchy reflects the observability of the most significant inputs used in making these measurements.

Fair Value Hierarchy

Level 1: Assets and liabilities quoted in active markets that are measured based on the quoted price of an identical asset or liability.

Level 2: 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 assets or liabilities.

Level 3: 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 similar assets or liabilities. Where observable inputs are not available, unobservable inputs are used, mainly including assumptions related to liquidity and risk premiums.

Comparison of Carrying and Fair Values

The following table compares the carrying and fair values of financial instruments, except where the carrying amount is a reasonable approximation of fair value. Carrying value is the amount at which an item is measured on the unaudited Quarterly Consolidated Balance Sheet. Fair value is estimated using valuation methods as described above. All financial assets and liabilities are recognized initially at fair value. For items not carried at fair value on the unaudited Quarterly Consolidated Balance Sheet, the hierarchy level for the disclosed fair value is provided on the following page.

(in millions)	Carrying Value: Amortized Cost	Carrying Value: Fair Value through Net Income	Carrying Value: Fair Value through OCI	Carrying Value: Total	Fair Value	Fair Value Over (Under) Carrying Value
	As at 31 March 2014					
Financial Assets						
Cash and Cash Equivalents	348	763	534	1,645	1,645	-
Securities Purchased Under Resale Agreements	240	-	-	240	240	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,015	-	1,015	1,015	-
Available for Sale	-	-	20,335	20,335	20,335	-
Held for Trading	-	425	-	425	425	-
Loans:						
Designated at Fair Value through Profit or Loss	-	5,918	-	5,918	5,918	-
Loans and Receivables[1]	220,926	-	-	220,926	225,787	4,861
Derivatives	-	103	-	103	103	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements[1]	348	-	-	348	348	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	8,056	-	8,056	8,056	-
Other Financial Liabilities[2]	218,732	-	-	218,732	223,760	5,028
Derivatives	-	32	-	32	32	-
	As at 31 December 2013					
Financial Assets						
Cash and Cash Equivalents	91	587	658	1,336	1,336	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,012	-	1,012	1,012	-
Available for Sale	-	-	19,659	19,659	19,659	-
Held for Trading	-	444	-	444	444	-
Loans:						
Designated at Fair Value through Profit or Loss	-	6,041	-	6,041	6,041	-
Loans and Receivables[1]	239,531	-	-	239,531	243,404	3,873
Derivatives	-	96	-	96	96	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements[1]	91	-	-	91	91	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	7,818	-	7,818	7,818	-
Other Financial Liabilities[2]	237,378	-	-	237,378	241,402	4,024
Derivatives	-	44	-	44	44	-

[1] Fair value determined based on Level 2 Criteria. The Loans and Receivables fair value estimate is derived by discounting the assets' cash flows. Inputs into the discount model are the Government of Canada yield curve and spreads derived from assets with comparable financial risks.

[2] $207,453 million (31 December 2013 – $206,812 million) fair value determined based on Level 1 Criteria, $16,307 million (31 December 2013 – $34,590 million) fair value determined based on Level 2 Criteria. The Level 2 fair value estimate is derived by discounting the liability cash flows. Inputs into the discount model are the Government of Canada yield curve and spreads derived from instruments with comparable financial risks.

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

Fair Value Hierarchy

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. For financial instruments, accrued interest is separately recorded and disclosed. The fair value of financial assets and liabilities not recorded at fair value is disclosed in the previous section Comparison of Carrying and Fair Values.

	As at 31 March 2014					
	Total Items Recorded at Fair Value				Items not Recorded at Fair Value	
(in millions)	Level 1	Level 2	Level 3	Total		Total
ASSETS						
Cash and Cash Equivalents:						
Cash	32	-	-	32	-	32
Interest Bearing Deposits with Banks	-	655	-	655	-	655
Corporate/Other Entities	-	84	-	84	207	291
Government of Canada	317	-	-	317	-	317
Provinces/Municipalities	-	209	-	209	141	350
Total Cash and Cash Equivalents	349	948	-	1,297	348	1,645
Investment Securities:						
Designated at Fair Value through Profit or Loss:						
Fixed Income:						
Corporate/Other Entities	110	11	155	276	-	276
Provinces/Municipalities	639	-	-	639	-	639
Sovereign and Related Entities	100	-	-	100	-	100
Total Designated at Fair Value through Profit or Loss	849	11	155	1,015	-	1,015
Available for Sale:						
Fixed Income:						
Corporate/Other Entities	5,519	-	-	5,519	-	5,519
Government of Canada	4,874	-	-	4,874	-	4,874
Provinces/Municipalities	6,202	-	-	6,202	-	6,202
Sovereign and Related Entities	29	50	-	79	-	79
Equities:						
Canadian	2,285	-	19	2,304	-	2,304
U.S.	892	-	-	892	-	892
Foreign	465	-	-	465	-	465
Total Available for Sale	20,266	50	19	20,335	-	20,335
Held for Trading:						
Foreign Equities	425	-	-	425	-	425
Total Held for Trading	425	-	-	425	-	425
Loans:						
Designated at Fair Value through Profit or Loss	-	5,918	-	5,918	-	5,918
Derivatives	-	103	-	103	-	103
Accounts Receivable and Other Assets:						
Investment Property	-	-	254	254	-	254
Other Accounts Receivable and Other Assets	-	-	-	-	514	514
Total Accounts Receivable and Other Assets	-	-	254	254	514	768
Assets not Recorded at Fair Value	-	-	-	-	222,872	222,872
TOTAL ASSETS	**21,889**	**7,030**	**428**	**29,347**	**223,734**	**253,081**
LIABILITIES AND EQUITY OF CANADA						
Borrowings:						
Designated at Fair Value through Profit or Loss	1,447	6,609	-	8,056	-	8,056
Derivatives	-	32	-	32	-	32
Liabilities and Equity of Canada not Recorded at Fair Value	-	-	-	-	244,993	244,993
TOTAL LIABILITIES AND EQUITY OF CANADA	**1,447**	**6,641**	**-**	**8,088**	**244,993**	**253,081**

(in millions)	As at 31 December 2013					
	Total Items Recorded at Fair Value				Items not Recorded at Fair Value	Total
	Level 1	Level 2	Level 3	Total		
ASSETS						
Cash and Cash Equivalents:						
Cash	(1)	-	-	(1)	-	(1)
Interest Bearing Deposits with Banks	-	512	-	512	-	512
Corporate/Other Entities	-	95	-	95	91	186
Government of Canada	430	-	-	430	-	430
Provinces/Municipalities	-	209	-	209	-	209
Total Cash and Cash Equivalents	429	816	-	1,245	91	1,336
Investment Securities:						
Designated at Fair Value through Profit or Loss:						
Fixed Income:						
Corporate/Other Entities	111	12	150	273	-	273
Provinces/Municipalities	639	-	-	639	-	639
Sovereign and Related Entities	50	50	-	100	-	100
Total Designated at Fair Value through Profit or Loss	800	62	150	1,012	-	1,012
Available for Sale:						
Fixed Income:						
Corporate/Other Entities	5,387	-	-	5,387	-	5,387
Government of Canada	4,757	-	-	4,757	-	4,757
Provinces/Municipalities	5,897	-	-	5,897	-	5,897
Sovereign and Related Entities	76	-	-	76	-	76
Equities:						
Canadian	2,197	-	17	2,214	-	2,214
U.S.	888	-	-	888	-	888
Foreign	440	-	-	440	-	440
Total Available for Sale	19,642	-	17	19,659	-	19,659
Held for Trading:						
Foreign Equities	444	-	-	444	-	444
Total Held for Trading	444	-	-	444	-	444
Loans:						
Designated at Fair Value through Profit or Loss	-	6,041	-	6,041	-	6,041
Derivatives	-	96	-	96	-	96
Accounts Receivable and Other Assets:						
Investment Property	-	-	234	234	-	234
Other Accounts Receivable and Other Assets	-	-	-	-	528	528
Total Accounts Receivable and Other Assets	-	-	234	234	528	762
Assets not Recorded at Fair Value	-	-	-	-	240,701	240,701
TOTAL ASSETS	**21,315**	**7,015**	**401**	**28,731**	**241,320**	**270,051**
LIABILITIES AND EQUITY OF CANADA						
Borrowings:						
Designated at Fair Value through Profit or Loss	1,455	6,363	-	7,818	-	7,818
Derivatives	-	44	-	44	-	44
Liabilities and Equity of Canada not Recorded at Fair Value	-	-	-	-	262,189	262,189
TOTAL LIABILITIES AND EQUITY OF CANADA	**1,455**	**6,407**	**-**	**7,862**	**262,189**	**270,051**

Transfers may occur between levels of the fair value hierarchy as a result of changes in the availability of quoted market prices or observable market inputs. During the three months ended 31 March 2014, Investment Securities having a fair value of $50 million were transferred to Level 2 from Level 1 as directly observable market prices were not available.

Level 3 Assets

The valuation for Level 3 assets includes unobservable inputs which may significantly affect the measurement of fair value. The valuation was based on its assessment of the prevailing conditions at 31 March 2014, which may change materially in subsequent periods. As at 31 March 2014, CMHC had the following Level 3 assets:

Asset-Backed Securities

The fair value of Asset-Backed Securities is determined by discounting expected future cash flows using market observable discount rates and an unobservable risk premium which take into account the lack of market liquidity and inherent risk of the securities. Significant increases (decreases) in these premiums would result in a significant decrease (increase) in the fair value measurement.

Investment Property

The fair value of Investment Property includes unobservable inputs which may significantly affect the measurement of fair value. Significant increases (decreases) in estimated rental value, rent growth and estimated price per square feet would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rate and discount rate would result in a significantly lower (higher) fair value.

The Corporation has determined that there were no significant changes in prevailing conditions since 31 December 2013.

Gains and Losses from Financial Instruments

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

	Three months ended 31 March	
(in millions)	**2014**	**2013**
Held for Trading		
Equities	14	15
Derivatives	16	(2)
Total Held for Trading	**30**	**13**
Designated at Fair Value through Profit or Loss		
Investment Securities – Designated at Fair Value through Profit or Loss	5	6
Loans – Designated at Fair Value through Profit or Loss	4	(8)
Borrowings – Designated at Fair Value through Profit or Loss	(22)	-
Total Designated at Fair Value through Profit or Loss	**(13)**	**(2)**
Total Net Unrealized Gains (Losses)	**17**	**11**

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 Borrowings, as Designated at Fair Value through Profit or Loss significantly reduces the measurement inconsistency that would otherwise arise from measuring them at amortized cost and measuring the Derivatives at fair value.

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

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

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

(in millions)	Three months ended 31 March 2014	2013
Held for Trading	7	(1)
Available for Sale	49	30
Retirement of Debt	(9)	-
Total Net Realized Gains (Losses)	**47**	**29**

5. INVESTMENT SECURITIES

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

(in millions)	As at 31 March 2014 Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	31 December 2013 Amortized Cost[1]	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value through Profit or Loss	945	70	-	1,015	947	1,012
Available for Sale	16,100	661	(87)	16,674	15,862	16,117
Equities						
Available for Sale	2,463	1,202	(4)	3,661	2,508	3,542
Held for Trading	355	70	-	425	388	444

[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 $91 million (31 December 2013 – $234 million) has been recorded in Accumulated Other Comprehensive Income and has not been recognized as an impairment loss in Net Income.

During the three months ended 31 March 2014, there were no impairment losses (three months ended 31 March 2013 – $16.3 million) recognized in Net Income through Net Realized Gains (Losses) and no reversals of previously realized fixed income investment security impairments occurred during the year.

6. LOANS

The following table presents repayments and disbursements for Loans.

(in millions)	Three months ended 31 March			
	2014		2013	
	Repayments	Disbursements	Repayments	Disbursements
Designated at Fair Value through Profit or Loss				
Lending	147	18	141	26
Total Designated at Fair Value through Profit or Loss	**147**	**18**	**141**	**26**
Loans and Receivables				
Loans under the IMPP	18,215	-	795	-
Loans under the CMB Program	9,200	8,972	-	9,951
Lending	162	4	123	5
Total Loans and Receivables	**27,577**	**8,976**	**918**	**9,956**
Total	**27,724**	**8,994**	**1,059**	**9,982**

The following table presents the Interest Income related to Loans.

(in millions)	Three months ended 31 March	
	2014	2013
Designated at Fair Value through Profit or Loss	38	44
Loans and Receivables	1,389	1,809
Total	**1,427**	**1,853**

CMHC is assured collection of principal and accrued interest on 99% (31 December 2013 – 99%) of its loans.

Uninsured loans are assessed on a regular basis to determine if an allowance for credit losses is necessary. As at 31 March 2014, no impaired loans have been identified (31 December 2013 – nil) and no allowance for credit losses (31 December 2013 – nil) has been determined.

7. PARLIAMENTARY APPROPRIATIONS AND HOUSING PROGRAMS EXPENSES

CMHC receives parliamentary appropriations to fund the following program expenditures, including Operating Expenses of $27 million (three months ended 31 March 2013 – $29 million), in support of Housing Programs.

(in millions)	Three months ended 31 March	
	2014	2013
Funding Under Long-term Commitments for Existing Social Housing	450	453
Funding for New Commitments of Affordable Housing	124	105
Housing Support	2	2
Market Analysis Information	5	5
Housing Policy, Research and Information Transfer	6	8
Total	**587**	**573**

The following table presents the changes in the Due from the Government of Canada account. The outstanding balance as at 31 March 2014 is mainly composed of housing programs expenses incurred but not yet reimbursed.

(in millions)	Three months ended 31 March 2014	2013
Balance at Beginning of Period	311	309
Total Appropriations Recognized in Revenues During the Year	587	573
Total Appropriations Received	(535)	(490)
Reimbursements	(1)	(1)
Balance at End of Period	**362**	**391**

8. SECURITIZATION

Guarantees-in-force

The following table presents the total guarantees-in-force by program, which represents risk exposure related to the timely payment guarantee.

(in billions)	As at 31 March 2014	31 December 2013
NHA MBS[1]	194	192
CMB[2]	206	206
Total	**400**	**398**

[1] Includes $5.3 billion (31 December 2013 – $7.2 billion) in NHA MBS held as collateral in the IMPP.
[2] Includes $2.4 billion (31 December 2013 – $2.3 billion) in investments which are eliminated on the unaudited Quarterly Consolidated Balance Sheet.

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2013 – $600 billion).

9. BORROWINGS

The following table presents repayments and issuances for Borrowings.

	Three months ended 31 March			
	2014		2013	
(in millions)	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	-	-	-	-
Borrowings from the Government of Canada	606	821	449	260
Total Designated at Fair Value through Profit or Loss	**606**	**821**	**449**	**260**
Other Financial Liabilities				
Canada Mortgage Bonds	9,200	8,972	-	9,951
Borrowings from the Government of Canada	18,305	-	817	-
Total Other Financial Liabilities	**27,505**	**8,972**	**817**	**9,951**
Total	**28,111**	**9,793**	**1,266**	**10,211**

The following table presents the Interest Expense related to Borrowings.

	Three months ended 31 March	
(in millions)	2014	2013
Designated at Fair Value through Profit or Loss	49	58
Other Financial Liabilities	1,364	1,787
Total	**1,413**	**1,845**

10. MORTGAGE LOAN INSURANCE

Unearned Premiums and Fees

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

	Three months ended 31 March	
(in millions)	2014	2013
Balance at Beginning of Period	5,947	6,394
Premium Deferred on Contracts Written in the Period	204	194
Premiums Earned in the Period	(394)	(409)
Application Fees Deferred on Contracts Written in the Period	3	3
Application Fees Earned in the Period	(4)	(3)
Balance at End of Period	**5,756**	**6,179**

Provision for Claims

The Provision for Claims includes amounts set aside for Incurred But Not Reported (IBNR) claims, Claims in Process (CIP) and for Social Housing Mortgage and Index Linked Mortgage claims (SH & ILM). The following table presents the changes in the Provision for Claims balance.

	Three months ended 31 March					
	2014			2013		
(in millions)	IBNR & CIP	SH & ILM	Total	IBNR & CIP	SH & ILM	Total
Balance at Beginning of Period	650	219	869	780	216	996
Claims paid During the Period	(102)	-	(102)	(133)	-	(133)
Insurance Claims losses During the Period	99	3	102	110	3	113
Balance at End of Period	**647**	**222**	**869**	**757**	**219**	**976**

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

At 31 March 2014, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $555 billion (31 December 2013 – $557 billion).

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2013 – $600 billion).

Insurance Policy Liability Adequacy

Liability adequacy tests are performed quarterly by Management and are also performed on an annual basis as part of the Actuarial Valuation. Premium liabilities represent a provision for future claims and expenses which are expected to arise from the unearned portion of the policies in-force. Thus, this provision is for claims that have not yet occurred and therefore, covers the period from the date of the valuation to the date of default (the assumed claim occurrence date).

The liability adequacy test for the Corporation, as at 31 March 2014, has identified that no provision for premium deficiency is required.

11. INCOME TAXES

The following table presents the total income taxes.

	Three months ended 31 March	
(in millions)	**2014**	**2013**
Other Comprehensive Income:		
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	124	53
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	(4)	(11)
Remeasurements of the Net Defined Benefit Plans	(21)	16
Income Tax Expense (Benefit) on Consolidated Other Comprehensive	**99**	**58**
Net Income:		
Current Income Tax	127	116
Deferred Income Tax	-	5
Income Tax Expense on Consolidated Net Income	**127**	**121**
Total	**226**	**179**

12. UNCONSOLIDATED STRUCTURED ENTITIES

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

	As at	
(in millions)	**31 March 2014**	**31 December 2013**
Investment Funds	1,358	1,328

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 Gains from these Investment Funds included in Net Unrealized Gains in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income is $60 million for the three months ended 31 March 2014 (three months ended 31 March 2013 - $203 million). CMHC receives distributions from these entities which are included in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income.

13. MARKET RISK

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

Value at Risk (VaR)

Market risk for investment securities in the Mortgage Loan Insurance and Securitization Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measures the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence.

The total VaR for the Mortgage Loan Insurance and Securitization as at 31 March 2014, calculated with 95% confidence over a 22 business day holding period is outlined in the table below. The effect of diversification reflects the fact that the risks are not perfectly correlated among individual portfolios and, as a result, total portfolio VaR is less than the sum of individual portfolio VaRs. The VaR figures are based on one-year of historical prices, volatilities and correlations of bond and equity markets.

	As at	
(in millions)	31 March 2014	31 December 2013
Investment Securities:		
Available for Sale	348	339
Held for Trading	24	26
Effect of Diversification	(14)	(15)
Total VaR	**358**	**350**

Interest Rate Sensitivity

Market risk for the Lending Activity portfolio of loans, investments, borrowings and swaps is evaluated by measuring their sensitivity to changes in interest rates.

Financial Instruments at Fair Value through Profit or Loss would react to a shift in interest rates as follows:

	As at			
	31 March 2014		31 December 2013	
	Interest Rate Shift		Interest Rate Shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Net Unrealized Gains (Losses)	(21)	14	1	4

Loans and borrowings measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value would be as follows:

	As at			
	31 March 2014		31 December 2013	
	Interest Rate Shift		Interest Rate Shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Increase (Decrease) to Fair Value of Net Assets	(112)	81	(115)	69

The Lending Activity's net interest income is also sensitive to interest rate movements. The maximum negative exposure of net interest income, which is limited by CMHC policy to $1.5 million, is $0.1 million at 31 March 2014 (31 December 2013 – $0.1 million). This is calculated with 95% confidence over a one-year period.

14. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. The Corporation is exposed to credit risk from various sources, including from its insurance of mortgages (refer to Note 10), timely payment guarantee (refer to Note 8), lending, investment, derivative, advances to mortgage-insured social housing projects in difficulty and mortgage receivable transactions.

Credit risk associated with timely payment guarantees is managed through due diligence in approving NHA MBS Issuers, ongoing monitoring of Issuer credit quality and program compliance, and the requirement that all mortgages supporting the NHA MBS be insured against borrower default. CMHC has further mitigated this risk by having been assigned all rights, title and interest in the underlying mortgages so that it has access to principal and interest payments in the event of Issuer default.

Credit risk associated with 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. CMHC collects financial collateral from swap counterparties to mitigate credit risk related to derivative transactions. CMHC has the right, in the event of default, to liquidate and apply financial collateral held against amounts due from swap counterparties. Under the IMPP and the CMB program, CMHC holds collateral that represents the sole source of principal repayment for loans.

The following table presents the fair value of collateral held by CMHC:

	As at	
(in millions)	**31 March 2014**	**31 December 2013**
Derivatives	2	-
Loans under IMPP[1]	9,883	28,133
Loans under the CMB program[1]	210,405	209,629
Total	**220,290**	**237,762**

[1] Collateral held under IMPP and the CMB program include the fair value of swap collateral held and the fair value of NHA MBS and reinvestment securities sold by Canadian financial institutions to CMHC.

15. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Information about the defined benefit plans is as follows:

Changes in defined benefit liability in the three month period ended 31 March 2014

(in millions)	1 January 2014	Pension Expense Included in Net Income: Current Service Cost	Pension Expense Included in Net Income: Interest Cost / Income	Pension Expense Included in Net Income: Sub-total Included in Net Income	Benefits Paid	Remeasurements of the Net Defined Benefit Plans Included in OCI	Employees' Contributions	CMHC's Contributions	31 March 2014
Pension Benefit Plans									
Defined Benefit Obligation	1,719	6	20	26	(19)	136	4	-	1,866
Fair Value of Plan Assets	1,544	-	19	19	(19)	35	4	24	1,607
Pension Benefit Plans Liability	175	6	1	7	-	101	-	(24)	259
Other Post-employment Benefit Plans									
Defined Benefit Obligation	175	1	2	3	(3)	17	-	-	192
Fair Value of Plan Assets	-	-	-	-	(3)	-	-	3	-
Other Post-employment Benefit Plans Liability	175	1	2	3	-	17	-	(3)	192
Defined Benefit Plans Liability	**350**	**7**	**3**	**10**	**-**	**118**	**-**	**(27)**	**451**

Changes in defined benefit liability in the three month period ended 31 March 2013

(in millions)	1 January 2013	Pension Expense Included in Net Income: Current Service Cost	Pension Expense Included in Net Income: Interest Cost / Income	Pension Expense Included in Net Income: Sub-total Included in Net Income	Benefits Paid	Remeasurements of the Net Defined Benefit Plans Included in OCI	Employees' Contributions	CMHC's Contributions	31 March 2013
Pension Benefit Plans									
Defined Benefit Obligation	1,806	9	17	26	(17)	(25)	3	-	1,793
Fair Value of Plan Assets	1,299	-	13	13	(17)	53	3	35	1,386
Pension Benefit Plans Liability	507	9	4	13	-	(78)	-	(35)	407
Other Post-employment Benefit Plans									
Defined Benefit Obligation	210	2	2	4	(2)	(4)	-	-	208
Fair Value of Plan Assets	-	-	-	-	(2)	-	-	2	-
Other Post-employment Benefit Plans Liability	210	2	2	4	-	(4)	-	(2)	208
Defined Benefit Plans Liability	**717**	**11**	**6**	**17**	**-**	**(82)**	**-**	**(37)**	**615**

16. 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), each of which provides different programs in support of CMHC's objectives, and the CHT. The financial results of each activity are determined using the accounting policies described in Note 2 of CMHC's 2013 Annual Report. 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 of CMHC's 2013 Annual Report. These reimbursements are not eliminated in the following table. Revenues are attributed to and assets are located in Canada.

Three months ended 31 March	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
(in millions)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
REVENUES														
Parliamentary Appropriations for Housing Programs	-	-	-	-	587	573	-	-	-	-	-	-	587	573
Premiums and Fees Earned	400	415	59	60	-	-	-	-	-	-	-	-	459	475
Interest Income														
Loans	-	-	117	410	-	-	122	134	1,188	1,309	-	-	1,427	1,853
Other	-	-	-	-	-	-	16	17	-	-	(2)	(3)	14	14
	-	-	117	410	-	-	138	151	1,188	1,309	(2)	(3)	1,441	1,867
Interest Expense	-	-	117	410	-	-	135	148	1,185	1,306	(24)	(19)	1,413	1,845
Net Interest Income	-	-	-	-	-	-	3	3	3	3	22	16	28	22
Investment Income	149	136	8	7	-	-	-	-	-	-	(10)	(8)	147	135
Net Realized Gains (Losses)	56	28	-	1	-	-	-	-	-	-	(9)	-	47	29
Net Unrealized Gains (Losses)	16	18	-	-	-	-	-	(8)	-	-	1	1	17	11
Other Income	2	1	5	7	-	-	4	7	38	41	(23)	(25)	26	31
TOTAL REVENUES	**623**	**598**	**72**	**75**	**587**	**573**	**7**	**2**	**41**	**44**	**(19)**	**(16)**	**1,311**	**1,276**
EXPENSES														
Housing Programs	-	-	-	-	587	573	-	-	-	-	-	-	587	573
Insurance Claims	102	113	-	-	-	-	-	-	-	-	-	-	102	113
Operating Expenses	57	59	9	7	-	-	5	6	41	44	(23)	(25)	89	91
	159	172	9	7	587	573	5	6	41	44	(23)	(25)	778	777
INCOME BEFORE INCOME TAXES	**464**	**426**	**63**	**68**	**-**	**-**	**2**	**(4)**	**-**	**-**	**4**	**9**	**533**	**499**
Income Taxes	112	104	16	17	-	-	(2)	(3)	-	-	1	3	127	121
NET INCOME (LOSS)	**352**	**322**	**47**	**51**	**-**	**-**	**4**	**(1)**	**-**	**-**	**3**	**6**	**406**	**378**
Total Revenues	623	598	72	75	587	573	7	2	41	44	(19)	(16)	1,311	1,276
Inter-segment/entity Revenues[1]	(19)	(8)	-	-	-	-	(1)	(2)	1	(6)	19	16	-	-
External Revenues	604	590	72	75	587	573	6	0	42	38	-	-	1,311	1,276

[1] Inter-segment/entity Revenues relate to the following:
- the Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds;
- the Lending Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds; and
- the Securitization Activity receives CMB guarantee fees and advisory fees from CHT, and recognizes revenues from investing in holdings of Capital Market Borrowings.

As at 31 March 2014 and 31 December 2013 (in millions)	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations[1]		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
ASSETS														
Cash and Cash Equivalents	882	749	-	1	-	-	762	585	1	1	-	-	1,645	1,336
Securities Purchased Under Resale Agreements	-	-	-	-	-	-	240	-	-	-	-	-	240	-
Investment Securities:														
Designated at Fair Value through Profit or Loss	85	83	1	1	-	-	1,253	1,253	-	-	(324)	(325)	1,015	1,012
Available for Sale	20,441	19,704	1,954	1,894	-	-	-	-	-	-	(2,060)	(1,939)	20,335	19,659
Held for Trading	425	444	-	-	-	-	-	-	-	-	-	-	425	444
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	5,918	6,041	-	-	-	-	5,918	6,041
Loans and Receivable	-	-	9,858	28,074	-	-	4,677	4,835	206,391	206,622	-	-	220,926	239,531
Accrued Interest Receivable	157	104	29	42	-	-	167	226	1,007	492	(16)	(5)	1,344	859
Derivatives	-	-	-	-	-	-	103	96	-	-	-	-	103	96
Due from the Government of Canada	-	-	-	-	-	-	362	311	-	-	-	-	362	311
Accounts Receivable and Other Assets	442	457	45	59	-	-	281	246	-	-	-	-	768	762
	22,432	21,541	11,887	30,071	-	-	13,763	13,593	207,399	207,115	(2,400)	(2,269)	253,081	270,051
LIABILITIES					-	-								
Securities Sold Under Repurchase Agreements	348	91	-	-	-	-	-	-	-	-	-	-	348	91
Borrowings:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	8,070	7,832	-	-	(14)	(14)	8,056	7,818
Other Financial Liabilities	-	-	9,858	28,074	-	-	4,752	4,841	206,391	206,622	(2,269)	(2,159)	218,732	237,378
Accrued Interest Payable	-	-	13	36	-	-	124	129	1,007	492	(16)	(5)	1,128	652
Derivatives	-	-	-	-	-	-	32	44	-	-	-	-	32	44
Accounts Payable and Other Liabilities	425	245	(1)	15	-	-	632	556	1	1	-	-	1,057	817
Provision for Claims	869	869	-	-	-	-	-	-	-	-	-	-	869	869
Unearned Premiums and Fees	5,756	5,947	559	564	-	-	-	-	-	-	-	-	6,315	6,511
Deferred Income Tax Liabilities	72	73	(7)	(14)	-	-	(5)	(1)	-	-	(27)	(25)	33	33
	7,470	7,225	10,422	28,675	-	-	13,605	13,401	207,399	207,115	(2,326)	(2,203)	236,570	254,213
EQUITY OF CANADA	14,962	14,316	1,465	1,396	-	-	158	192	-	-	(74)	(66)	16,511	15,838
	22,432	21,541	11,887	30,071	-	-	13,763	13,593	207,399	207,115	(2,400)	(2,269)	253,081	270,051

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

17. 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 in Operating Expenses, amount to $3 million (three months ended 31 March 2013 – $3 million) for the Securitization Activity and $0.2 million (three months ended 31 March 2013 – nil) for the Mortgage Loan Insurance Activity.

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

18. CONTINGENT LIABILITIES

There are legal claims of $24 million (31 December 2013 – $24 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.

CANADA MORTGAGE AND HOUSING CORPORATION
700 Montreal Road
Ottawa, Ontario
K1A 0P7

Available on CMHC's website at www.cmhc.ca or by calling 1-800-668-2642