CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER

June 30, 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 second quarter ended 30 June 2014 and is intended to provide readers with an overview of CMHC's performance including comparatives against the prior quarter, the same quarter in 2013 and the same six month period 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 Quarterly Financial Report is current as of 27 August 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 quarter or year-to-date period.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2014

The following events can be expected to have an impact on CMHC's business going forward.

Economic Context and Housing Indicators

Economic conditions in Canada are projected to gradually improve in 2014 and 2015. The consensus of private sector forecasters notes that Canadian Gross Domestic Product (GDP) is forecast to grow by 2.3 per cent in 2014 and 2.5 per cent in 2015. The consensus forecast is also predicting that the Canadian unemployment rate will continue to decline, falling to 6.9 per cent in 2014 and further to 6.7 per cent in 2015, compared to 7.1 per cent in 2013. Finally, continuing low interest rates will continue to buoy Canada's housing sector, although there is a potential for modest interest rate increases during the latter months of 2015.

Overall housing demand is projected to see a moderate reduction for 2014 and 2015, with geographical pockets of higher activity, reflected mainly in lower housing starts when compared to 2013, as existing home sales are expected to essentially stabilize in 2014 and 2015. Developments in the housing market are broadly in line with fundamentals and indicate the probability of a cooling and soft landing in the housing market.

- The MLS® Home Price Index[1], which uses statistical techniques to control for changes over time in the types and quality of homes sold, registered an increase of 0.7 per cent between May 2014 and June 2014, the sixth consecutive monthly gain. The MLS® Home Price Index rose by 5.4 per cent from June 2013 to June 2014 in the markets covered, following a gain of 5.0 per cent between May 2013 and May 2014.
- Employment gains so far in 2014 continue to support housing demand, albeit at a more moderate pace. Year-to-date the average monthly employment gain was roughly 8,800, about two-thirds the monthly average gain of 13,300 registered over the first six months of 2013. Full-time employment recorded an increase of 0.2 per cent when compared to the same month a year ago, an increase of 35,600. Part-time employment saw a year-over-year gain of 1.1 per cent, an increase of 36,600.
- Real gross domestic product by industry grew 0.4% in May, the fifth consecutive monthly increase. Real gross domestic product expanded 0.3% between the fourth quarter of 2013 and the first quarter of 2014. Real gross domestic product is up 2.2% when comparing the first quarter of 2014 to the first quarter of 2013.

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.

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

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 was 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 was 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 would increase (by approximately 15%, on average) its mortgage loan insurance premiums for homeowner and 1- 4 unit rental properties effective 1 May 2014. This increase reflects CMHC's objective to reduce Canadian taxpayers' exposure to the housing market and contribute to the long term stability of the financial system. The projected impact on Premiums and Fees Received and Premiums and Fees Earned is estimated at less than $161 million and $20 million respectively for 2014, and at approximately $162 million and $54 million respectively for 2015.

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

The Office of the Superintendent 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 forecasted MCT ratio of 280% as at 31 December 2014 to decline to 256% as at 1 January 2015.

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.

At quarter end, extension agreements had been announced in British Columbia, Prince Edward Island, New Brunswick and Alberta.

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

On 14 April 2014, OSFI released for public consultation its Draft Guideline B-21 for mortgage insurers, which 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. OSFI plans to review and consider all comments prior to finalizing the Guideline later in 2014.

Review of Mortgage Loan Insurance Business

Legislative amendments in 2012 enhanced CMHC's mandate to include contributing to the stability of the housing market, benefiting all Canadians, while effectively managing and reducing taxpayers' exposure to risk. CMHC undertook a review of its products and services to ensure that they are aligned with this objective. The review of the mortgage loan insurance business is now complete. Changes announced include:

- CMHC Second Home and Self-Employed Without 3rd Party Income Validation mortgage insurance products were discontinued effective 30 May 2014 (announced on 25 April 2014).
- CMHC mortgage loan insurance for the financing of multi-unit condominium construction was discontinued effective 6 June 2014 (announced on 6 June 2014).
- CMHC aligned its low-ratio transactional mortgage loan insurance product with its high-ratio product by establishing maximum house prices, amortization periods and debt servicing ratios effective 31 July 2014 (announced on 6 June 2014).

Amendments to the *National Housing Act* (NHA) and the *Protection of Residential Mortgage or Hypothecary Insurance Act* (PRMHIA) in Part 6, Division 24 of the *Economic Action Plan 2014 Act, No. 1*

On 19 June 2014, Bill C-31, an Act to implement certain provisions of the budget tabled in Parliament on 11 February 2014 and other measures (Economic Action Plan 2014 Act, No. 1) received Royal Assent. The Act brings several amendments to the NHA and PRMHIA that affect CMHC. Specifically, the Act explicitly extends regulation-making power over government-backed insurance to existing insured loans (as opposed to only new insurance) under PRMHIA and the NHA. In addition, an amendment is made to PRMHIA which provides that mortgage loans insured before the coming into force of PRMHIA also have to comply with any regulations under PRMHIA that relate to mortgage loans that may back securities guaranteed under the NHA.

Events since the End of the Reporting Period

Investment in Affordable Housing

Since the end of the second quarter, agreements for the five-year extension of the IAH have been announced in Manitoba, Yukon, Nova Scotia, Ontario and Saskatchewan.

FINANCIAL HIGHLIGHTS

(in millions, unless otherwise indicated) CORPORATE RESULTS	Q2 2014	Q1 2014	Q4 2013	Q3 2013[1]	Q2 2013[1]	Q1 2013[1]	Q4 2012[1]	Q3 2012[1]
Total Assets	251,274	253,081	270,051	289,091	289,766	302,005	292,040	302,232
Total Liabilities	234,125	236,570	254,213	273,943	275,166	287,593	278,196	288,885
Total Equity of Canada	17,149	16,511	15,838	15,148	14,600	14,412	13,844	13,347
Total Revenues	1,202	1,311	1,426	1,255	1,184	1,276	1,400	1,256
Total Expenses[2]	767	905	873	803	738	898	853	879
Net Income	435	406	553	452	446	378	547	377
HOUSING PROGRAMS								
Parliamentary Appropriations for Housing Programs Expenses	490	587	538	501	459	573	516	509
Housing Programs Expenses	490	587	538	501	459	573	516	509
LENDING								
Net Income	-	4	63	21	8	(1)	2	3
Total Equity	151	158	192	128	87	32	9	(9)
MORTGAGE LOAN INSURANCE								
Insurance-in-force ($B)	551	555	557	560	562	563	566	576
Total Insured Volumes	15,769	9,328	14,457	17,646	20,755	8,195	11,596	15,937
Premiums and Fees Received	372	206	321	401	376	210	291	409
Claims Paid	92	102	97	89	117	133	74	136
Premiums and Fees Earned	423	400	457	444	438	415	478	456
Insurance Claims Losses	58	102	71	70	55	113	69	157
Net Income	389	352	432	369	384	322	464	308
Loss Ratio	13.7%	25.5%	15.5%	15.8%	12.6%	27.2%	14.4%	34.4%
Operating Expense Ratio	11.8%	14.3%	12.5%	12.4%	12.3%	14.2%	11.7%	10.1%
Combined Ratio	25.5%	39.8%	28.0%	28.2%	24.9%	41.4%	26.1%	44.5%
Severity Ratio	27.7%	28.3%	28.9%	28.9%	29.0%	30.2%	28.5%	29.8%
Return on Equity	10.2%	9.6%	12.3%	10.9%	11.6%	9.9%	14.9%	10.2%
Return on Capital Holding Target[3]	12.7%	11.6%	14.4%	12.6%	13.2%	11.2%	16.5%	10.9%
Capital Available to Minimum Capital Required[4]	272%	264%	250%	243%	234%	231%	231%	222%
% Estimated Outstanding Canadian Residential Mortgages with CMHC Insurance Coverage ($)	44.8%	45.3%	45.6%	47.0%	48.2%	48.5%	48.6%	50.0%
SECURITIZATION								
Total Guarantees-in-force ($B)	402	400	398	399	400	393	382	384
Securities Guaranteed	24,389	22,505	20,522	29,007	45,845	27,268	27,436	25,667
Guarantee and Application Fees Received	59	53	49	64	91	61	60	60
Guarantee and Application Fees Earned	59	59	59	64	64	60	60	61
Net Income	49	47	49	53	54	51	79	55
Operating Expense Ratio	10.3%	10.7%	11.3%	10.9%	9.7%	10.6%	9.8%	9.2%
Return on Equity	13.1%	13.1%	14.2%	15.9%	16.7%	16.3%	26.2%	19.1%
Capital Available to Capital Required[4]	209%	199%	182%	166%	162%	153%	156%	144%
% of Total Outstanding Residential Mortgages Securitized Under CMHC's Programs ($)	32.5%	32.0%	31.0%	30.6%	29.9%	29.1%	28.5%	28.4%
CHT								
Assets	208,335	207,399	207,115	205,809	204,456	214,630	204,060	213,573
Liabilities	208,335	207,399	207,115	205,809	204,456	214,630	204,060	213,573

[1] Restated for comparative purposes; refer to Note 3 of CMHC's 31 December 2013 Consolidated Financial Statements.
[2] Includes Income Taxes.
[3] Restated to reflect annualized Net Income, adjusted to reflect earnings based on 200% MCT, divided by the average of the beginning and ending Capital Holding Target (200% MCT) for the period.
[4] Ratio is calculated at a point in time.

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed Consolidated Balance Sheet

	As at	
(in millions)	30 June 2014	31 December 2013
Total Assets	251,274	270,051
Total Liabilities	234,125	254,213
Total Equity of Canada	17,149	15,838

Total Assets

Total Assets were $251.3 billion as at 30 June 2014, of which $214.8 billion (85.5%) represented loans receivable arising from the IMPP and CMB programs.

Total Assets decreased by $18.8 billion (7.0%) from 31 December 2013 primarily due to lower loans receivable balances arising from IMPP and Lending related activity, and lower Held for Trading Investment Securities. These decreases were partially offset by higher loans receivable balances arising from CMBs as well as higher Available for Sale Investment Securities and Cash and Cash Equivalents.

Loans receivable arising from IMPP and Lending were $6.9 billion and $10.4 billion respectively. These balances decreased by $21.1 billion (75.3%) for the IMPP and $467 million (4.3%) for the Lending Activity from 31 December 2013 due to scheduled maturities.

Held for Trading Investment Securities were $13 million, a $431 million (97.1%) decrease from 31 December 2013 due to the liquidation of Nordea International Equity Fund (Nordea). Proceeds from the liquidation were reinvested in a separate equity fund accounted for as an available for sale investment. The divestiture of Nordea was completed in July 2014.

Loans receivable arising from CMB activity were $207.9 billion, a $1.3 billion (0.6%) increase from 31 December 2013 due to the acquisition of beneficial interests in NHA MBS from Approved Issuers, net of scheduled maturities.

Available for Sale Investment Securities were $21.2 billion, an increase of $1.6 billion (8.0%) over 31 December 2013 due to the reinvestment of proceeds from the sale of Nordea, fair value appreciation and cash inflows from operations.

Cash and Cash Equivalents were $1.7 billion, an increase of $387 million (29.0%) over 31 December 2013 due mainly to an increase in repo funded short-term investments and cash inflows from operations.

Total Liabilities

Total Liabilities were $234.1 billion as at 30 June 2014, of which $214.8 billion (91.8%) represented borrowings incurred for the IMPP and CMB programs.

Total Liabilities decreased by $20.1 billion (7.9%) from 31 December 2013 primarily as a result of lower borrowings for IMPP and Lending related activity and a decrease in Unearned Premiums and Fees. This was partially offset by higher issuances of CMBs, an increase in Securities Sold Under Repurchase Agreements and an increase in Accounts Payable and Other.

Borrowings from IMPP and from Lending were $6.9 billion and $12.4 billion respectively. These balances decreased from the prior period by $21.1 billion (75.3%) for the IMPP and by $253 million (2.0%) for the Lending Activity due to the repayments of the related debt.

Unearned Premiums and Fees were $6.3 billion, a $229 million (3.5%) decrease from 31 December 2013. Changes in Unearned Premiums and Fees are comprised of Premiums and Fees Received for the period ($685 million) less premiums and fees recognized in income for the period ($914 million).

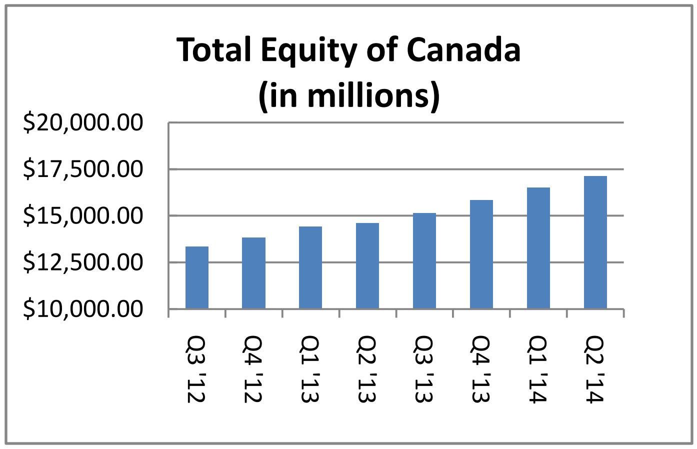
Borrowings from the CMB activity were $207.9 billion, a $1.3 billion (0.6%) increase from 31 December 2013 as a result of net issuances of CMB by CHT.

Securities Sold Under Repurchase Agreements were $361 million, an increase of $270 million (296.7%) over 31 December 2013 as a result of a decrease in activity during the fourth quarter of 2013 which returned to normal levels in the first and second quarters of 2014.

Accounts Payable and Other were $1.1 billion, a $314 million (38.4%) increase over 31 December 2013 primarily due to higher income taxes payable of $155 million on financial instrument fair value increments, an increase in the Pension Benefit Plans Liability of $102 million as a result of a decrease in the discount rate (30 June 2014 – 4.1%, 31 December 2013 – 4.8%) and a $22 million payable to the Government of Canada as a result of the new risk fee in the Mortgage Loan Insurance Activity.

Total Equity of Canada

Total Equity was $17,149 million, an increase of $1,311 million (8.3%) over 31 December 2013, representing the Comprehensive Income recognized by CMHC for the six months ended 30 June 2014.



Condensed Consolidated Statement of Income and Comprehensive Income

(in millions)	Three months ended 30 June 2014	Three months ended 31 March 2014	Three months ended 30 June 2013	Six months ended 30 June 2014	Six months ended 30 June 2013
Total Revenues	1,202	1,311	1,184	2,513	2,460
Total Expenses	628	778	599	1,406	1,376
Income Taxes	139	127	139	266	260
Net Income	435	406	446	841	824
Other Comprehensive Income	203	267	(258)	470	(68)
Comprehensive Income	638	673	188	1,311	756

Total Revenues

Q2 2014 vs. Q1 2014

Total Revenues were $1,202 million, a $109 million (8.3%) decrease from the prior quarter primarily due to lower Parliamentary Appropriations for Housing Programs and lower Net Unrealized Gains (Losses), partially offset by higher Net Realized Gains (Losses).

Parliamentary Appropriations for Housing Programs were $490 million, a $97 million (16.5%) decrease from the prior quarter as a result of extension agreements not being signed with all province and territories for the IAH ($63 million) and the revised timing of expenditures for the existing social housing portfolio ($52 million). This was offset by higher spending of $25 million for new affordable housing in Nunavut.

Net Unrealized Gains (Losses) were a loss of $68 million, a decrease of $85 million (500.0%) from the prior quarter primarily due to the liquidation of Nordea which resulted in a reclassification of gains from unrealized to realized.

Net Realized Gains (Losses) were $97 million, an increase of $50 million (106.4%) over the prior quarter primarily due to a $61 million gain on the liquidation of Nordea.

Q2 2014 vs. Q2 2013

Total Revenues increased by $18 million (1.5%) over the same quarter last year primarily due to higher Parliamentary Appropriations and higher Net Realized Gains (Losses), partially offset by lower Net Unrealized Gains (Losses).

Parliamentary Appropriations were $31 million (6.8%) higher than the same quarter last year primarily due to the funding provided for affordable housing in Nunavut in 2014 which was partially offset by lower spending under the IAH as noted above.

Net Realized Gains (Losses) increased by $101 million (2,525.0%) over the same quarter last year primarily due to $61 million of gains realized on the liquidation of Nordea. In addition, there were no impairment losses recognized in the current quarter compared with $59 million recognized in the second quarter of 2013.

Net Unrealized Gains (Losses) decreased by $86 million (478.0%) from the same quarter last year primarily due to the liquidation of Nordea as explained above.

YTD 2014 vs. YTD 2013

Total Revenues were $2,513 million, a $53 million (2.2%) increase over the same six-month period last year primarily due to higher Parliamentary Appropriations and higher Net Realized Gains (Losses), partially offset by lower Net Unrealized Gains (Losses) and lower Premiums and Fees Earned.

Parliamentary Appropriations for Housing Programs were $1,077 million, a $45 million (4.4%) increase from the same six month period last year primarily due to funding provided for new affordable housing in Nunavut in 2014 offset by lower spending under the IAH as noted above.

Net Realized Gains (Losses) were $144 million, a $119 million (476.0%) increase over the same six month period last year primarily due to gains realized on the liquidation of Nordea. In addition, there were no impairment losses recognized in the current six-month period compared with $75 million in the first six months of 2013.

Net Unrealized Gains (Losses) were a loss of $51 million, an $80 million (275.9%) decrease from the same six-month period last year primarily due to the liquidation of Nordea.

Premiums and Fees Earned were $941 million, a $36 million (3.7%) decrease from the same six-month period last year primarily due to decreasing insured volumes in the Mortgage Loan Insurance Activity over the past several years.

Total Expenses

Q2 2014 vs. Q1 2014

Total Expenses were $628 million, a decrease of $150 million (19.3%) from the prior quarter primarily due to lower Housing Programs expenses and lower Insurance Claims losses.

Housing Programs expenses were $490 million, a $97 million (16.5%) decrease in accordance with Parliamentary Appropriations noted above.

Insurance Claims losses, which represent the losses incurred during the period as a result of the change in the Provision for Claims, were $58 million, a $44 million (43.1%) decrease from the prior quarter. In comparison to the first quarter of 2014, the second quarter had a smaller change in the provision as there were only minor changes in the level of homeowner arrears and economic conditions.

Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Total Expenses increased by $29 million (4.8%) and $30 million (2.2%) from the same three and six-month periods last year primarily due to higher Housing Programs Expenses. These increases are consistent with the increases in Parliamentary Appropriations noted above.

Income Taxes

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Income Tax expense remained relatively consistent over the periods with variances primarily reflecting the changes in Net Income.

The effective tax rate was 24% in all quarters.

Net Income

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Net Income remained relatively consistent over the periods reflecting the above mentioned variances with a YTD increase of $17 million (2.1%) from the same six-month period last year.

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

Q2 2014 vs. Q1 2014

Other Comprehensive Income was $203 million, decreasing by $64 million (24.0%) from the prior quarter primarily due to a decrease in Net Unrealized Gains from Available for Sale Financial Instruments (net of tax), partially offset by the increase in the Remeasurements of the Net Defined Benefit Plans.

Net Unrealized Gains from Available for Sale Financial Instruments (net of tax) were $257 million, a $115 million (30.9%) decrease from the prior quarter primarily due to a weaker performance in the US and International equity portfolios. Unrealized gains within the bond portfolio were lower due to a smaller decline in bond yields during the second quarter than during the first. In addition, the reclassification of unrealized gains on instruments sold resulted in an unrealized loss of $33 million, a $23 million decline over the prior quarter.

Remeasurements of the Net Defined Benefit Plan were a loss of $21 million, a $74 million (77.9%) increase over the prior quarter primarily as a result of a smaller decline in the discount rate offset by a higher rate of return on plan assets.

Q2 2014 vs. Q2 2013

Other Comprehensive Income increased by $461 million (178.7%) from the same quarter last year 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) were $257 million, an increase of $675 million (161.5%) from the same quarter last year primarily due to a drop in bond yields during the second quarter of 2014 compared to a steep rise in yields during the second quarter of 2013.

Remeasurements of the Net Defined Benefit Plan were a loss of $21 million, a decrease of $149 million (116.4%) from the same quarter last year primarily as a result of a decline in the discount rate in the second quarter of 2014 (from 4.3% to 4.1%), while the discount rate increased in the same quarter last year (from 4.0% to 4.6%). The loss created by the decline in the discount rate was partially offset by a higher rate of return on plan assets.

YTD 2014 vs. YTD 2013

Other Comprehensive Income was $470 million, a $538 million (791.2%) increase from the same six-month period last year 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) were $629 million, an increase of $893 million (338.2%) from the same six-month period last year primarily due to a drop in bond yields during the current six-month period compared to a steep rise in yields during the first six months of 2013.

Remeasurements of the Net Defined Benefit Plan were a loss of $116 million, a decrease of $310 million (159.8%) from the same six-month period last year primarily as a result of a decline in the discount rate in 2014 (from 4.8% to 4.1%) compared to increases in the discount rate last year (from 3.9% to 4.6%).

Resource Management

	Three months ended			Six months ended	
(in millions)	30 June 2014	31 March 2014	30 June 2013	30 June 2014	30 June 2013
Operating Expenses	80	89	85	169	176
Housing Programs Operating Expenses	26	27	28	53	57
Total Operating Expenses	**106**	**116**	**113**	**222**	**233**
Staff-Years (Full Time Equivalent)	453	434	456	887	902

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Total Operating Expenses remained relatively consistent between periods with slight decreases as a result of lower pension and benefit costs.

Staff-years consumed increased by 19 staff-years (4.4%) compared to the prior quarter largely due to seasonal survey work. When compared to the same three and six-month periods last year, total staff-years consumed decreased by 3 staff-years (0.7%) and 15 staff-years (1.7%) respectively as a result of lower mortgage loan insurance activity.

FINANCIAL RESULTS BY BUSINESS ACTIVITY

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

Housing Programs and Lending support CMHC's first objective: to support access to affordable housing for Canadians in need.

Mortgage Loan Insurance, 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

	Three months ended			Six months ended	
(in millions)	30 June 2014	31 March 2014	30 June 2013	30 June 2014	30 June 2013
Parliamentary Appropriations for Housing Programs	490	587	459	1,077	1,032
Housing Programs Expenses	490	587	459	1,077	1,032
Total	-	-	-	-	-

Q2 2014 vs. Q1 2014

Appropriation spending related to Housing Programs Expenses was lower than prior quarter by $97 million (16.5%) due to the lower spending under the IAH as a result of agreements not being signed with all provinces and territories for the 2014-2019 extension ($63 million) and the revised timing of expenditures related to the existing social housing portfolio ($52 million). This was offset by higher spending in Q2 2014 for affordable housing in Nunavut ($25 million).

Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Appropriation spending related to Housing Programs Expenses was higher than the same quarter last year by $31 million (6.8%), and higher than the same six-month period last year by $45 million (4.4%), primarily due to the higher expenditures for affordable housing in Nunavut which was partially offset by lower spending under the IAH, as previously explained.

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, both of which are contained 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.

	Six months ended 30 June	
(in millions)	**2014**	**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 2013/14 (2012/13)	(46)	(53)
2013/14 (2012/13) portions recognized in 2014 (2013)	**587**	**573**
Amounts authorized in 2014/15 (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 subsequent quarters	(1,607)	(1,672)
Forecasted lapse for 2014/15 (Actual lapse in 2013/14)	-	-
2014/15 (2013/14) portions recognized in 2014 (2013)	**490**	**459**
Total appropriations recognized – six months ended 30 June	**1,077**	**1,032**

Total appropriations approved by Parliament for the year 2014/15 are $2,097 million and include $70 million for affordable housing in Nunavut as announced in the Economic Action Plan 2013. The total spending as at 30 June 2014 was $490 million (23.4%).

LENDING

FINANCIAL ANALYSIS

(in millions)	Three months ended 30 June 2014	31 March 2014	30 June 2013	Six months ended 30 June 2014	30 June 2013
Net Interest Income	1	3	3	4	6
Other Income	2	4	12	6	11
Total Revenues	**3**	**7**	**15**	**10**	**17**
Operating Expenses	4	5	5	9	11
Total Expenses	**4**	**5**	**5**	**9**	**11**
Income before Income Taxes	**(1)**	**2**	**10**	**1**	**6**
Income Taxes	(1)	(2)	2	(3)	(1)
Net Income	**-**	**4**	**8**	**4**	**7**

Total Revenues

Q2 2014 vs. Q1 2014
Total Revenues were relatively consistent with the prior quarter.

Q2 2014 vs. Q2 2013
Total Revenues decreased by $12 million (80%) from the same quarter last year as a result of Other Income due to a decrease in unrealized gains on financial instruments caused by lower interest rates. Further contributing to the decrease in Other Income was the lower recovery of actuarial gains and losses from the Housing Programs Activity. The prior year's remeasurement gains decreased the recovery as it is reimbursed over a period of 10 years.

YTD 2014 vs. YTD 2013
Total Revenues decreased by $7 million (41%) from the same six-month period last year. This decline was primarily driven by a decrease in Other Income largely as a result of a decrease in the recovery of actuarial gains and losses from the Housing Programs Activity as explained above.

Total Expenses

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013
Total Expenses remained relatively consistent over the periods with a YTD decrease of $2 million (18.1%).

Net Income

The Lending Activity is operated on a planned breakeven basis over the long term such that in any given year a profit or loss may be realized.

Q2 2014 vs. Q1 2014
Net Income was relatively consistent with the prior quarter.

Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013
Net income decreased by $8 million (100%) and $3 million (43%) from the same three and six-month periods last year primarily as a result of the decrease in Other Income previously noted and the income tax expense impact on these items.

FINANCIAL CONDITION

Balance Sheet Review

(in millions)	As at 30 June 2014	As at 31 December 2013
Cash, Cash Equivalents and Investment Securities	2,051	1,838
Loans and Accrued Interest Receivable	10,596	11,102
Due from the Government	336	311
Accounts Receivable and Other	340	342
Total Assets	**13,323**	**13,593**
Borrowings and Accrued Interest Payable	12,545	12,802
Defined Benefit Plans Liability	182	149
Accounts Payable and Other	445	450
Total Liabilities	**13,172**	**13,401**
Total Equity [1]	**151**	**192**

[1] Total Equity for the Lending Activity includes the Reserve Fund of $126 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 decreased by $270 million (2%) from 31 December 2013 primarily as a result of a decrease in Loans and Accrued Interest Receivable, partially offset by an increase in Cash, Cash Equivalents and Investment Securities.

Loans and Accrued Interest Receivable decreased by $506 million (4.6%) from 31 December 2013 due to scheduled repayments in the loans as they approach maturity.

Cash, Cash Equivalents and Investment Securities increased by $213 million (11.6%) over 31 December 2013. Investments in the Lending Activity are managed on a short term basis and can fluctuate from one period to another based on the timing of renewals and the repayment of the debt.

Total Liabilities

Total Liabilities decreased by $229 million (1.7%) from 31 December 2013 primarily as a result of a decrease in Borrowings and Accrued Interest Payable due to repayments, net of issuances.

Total Equity

Total Equity decreased by $41 million (21.4%) from 31 December 2013 largely as a result of fluctuations in Remeasurements of the Net Defined Benefit Plans as explained in the consolidated section.

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 Programs' actuarial gains and losses are recorded in the reserve until they are reimbursed by the Government through Housing Programs appropriations.

(in millions)	As at 30 June 2014	As at 31 December 2013
Reserve Fund for Lending	126	167

The Reserve Fund for Lending has decreased by $41 million (24.6%) from 31 December 2013 largely as a result of Remeasurements of the Net Defined Benefit Plans as explained in the consolidation section.

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. 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 fewer 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 fewer 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			Six months ended	
Measures	**30 June 2014**	**31 March 2014**	**30 June 2013**	**30 June 2014**	**30 June 2013**
Total Insured Volumes (units):	**87,765**	**55,386**	**114,877**	**143,151**	**166,955**
Transactional Homeowner	54,204	27,869	58,509	82,073	88,355
Portfolio	6,082	6,785	32,774	12,867	33,852
Multi-unit Residential	27,479	20,732	23,594	48,211	44,748
Total Insured Volumes ($M):	**15,769**	**9,328**	**20,755**	**25,097**	**28,950**
Transactional Homeowner	12,489	6,511	12,947	19,000	19,601
Portfolio	1,496	1,669	6,111	3,165	6,335
Multi-unit Residential	1,784	1,148	1,697	2,932	3,014

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.

Q2 2014 vs. Q1 2014

CMHC's total insured units for the second quarter of 2014 were 32,379 units (58.5%) higher than the prior quarter primarily as a result of seasonality. The first quarter is traditionally the lowest quarter of the year, whereas the second quarter represents the spring period, a more active season for mortgage insurance business.

- Transactional Homeowner volumes were 26,335 units (94.5%) higher compared to the prior quarter. Purchase units increased by 101.7% and refinance units increased by 50.3% compared to the prior quarter primarily due to seasonal patterns;
- Portfolio volumes were 703 units (10.4%) lower compared to the prior quarter primarily due to the timing of lender take-up of the portfolio insurance product which is highly variable; and
- Multi-unit residential volumes were 6,747 units (32.5%) higher compared to the prior quarter. Purchase units increased by 22.1% and refinance units increased by 35.2% compared to the prior quarter. Multi-unit residential volumes are highly variable on a quarterly basis.

Q2 2014 vs. Q2 2013

CMHC's insured units for the second quarter of 2014 were 27,112 units (23.6%) lower than the same quarter last year primarily as a result of decreasing portfolio business.

- Transactional Homeowner volumes were 4,305 units (7.4%) lower compared to the same quarter last year. Purchase units decreased by 2.9% and refinance units decreased by 33.0% compared to the same quarter last year mostly as a result of a decreasing market share and in-line with the current economic context (refer to Operating Environment);
- Portfolio volumes were 26,692 units (81.4%) lower compared to the same quarter last year as lenders insured lower volumes of their annual allocation in the second quarter of 2014 compared to the same period in 2013. Portfolio insurance volumes were negligible in the first quarter of 2013, followed by a significant increase in lender take-up in the second quarter of 2013. For 2014, CMHC expects lenders to fully utilize the total annual allocation of $9 billion, however quarterly take-up of the portfolio allocation is highly variable; and
- Multi-unit residential volumes were 3,885 units (16.5%) higher compared to the same quarter last year primarily due to increases in multi-unit residential refinance transactions which were partly offset by decreases in multi-unit residential purchase transactions. Multi-unit refinancing volumes accounted for 81.5% of the total multi-unit volumes in the second quarter. The year-over-year increase in this product is the result of refinancing of loans originating roughly five years ago when there was a significant increase in the volume of applications for insurance following the financial crisis.

YTD 2014 vs. YTD 2013

CMHC's insured units for the first six months of 2014 were 23,804 units (14.3%) lower than the same six-month period last year primarily as a result of decrease in portfolio business.

- Transactional Homeowner purchase and refinance transactions decreased by 6,282 units (7.1%) compared to the same six-month period last year. Purchase units decreased by 2.7% and refinance units decreased by 30.6% compared to the same six-month period last year, mostly as a result of a decreasing market share and in-line with the current economic context (refer to Operating Environment). Transactional Homeowner dollar volumes were stable compared to the same six month period last year, with gains in the average loan amount offsetting the decline in units;
- Portfolio volumes were 20,985 units (62.0%) lower compared to the same six-month period last year due mostly to the timing of lender take-up and the reduced portfolio insurance annual allocation in 2014; and
- Multi-unit residential volumes were 3,463 units (7.7%) higher compared to the same six-month period last year primarily due to increases in multi-unit residential refinance transactions as explained above.

FINANCIAL ANALYSIS

(in millions, unless otherwise indicated)	Three months ended 30 June 2014	31 March 2014	30 June 2013	Six months ended 30 June 2014	30 June 2013
Premiums and Fees Received:	**372**	**206**	**376**	**578**	**586**
Transactional Homeowner	301	151	302	452	462
Portfolio	8	7	13	15	14
Multi-unit residential	63	48	61	111	110
Claims Paid:	**92**	**102**	**117**	**194**	**250**
Transactional Homeowner	88	95	111	183	229
Portfolio	3	7	6	10	19
Multi-unit residential	1	-	-	1	2
Premiums and Fees Earned	423	400	438	823	853
Investment Income	159	149	144	308	280
Other Income	40	74	31	114	78
Total Revenues	**622**	**623**	**613**	**1,245**	**1,211**
Insurance Claims Losses	58	102	55	160	168
Operating Expenses	50	57	54	107	113
Total Expenses	**108**	**159**	**109**	**267**	**281**
Income before Income Taxes	**514**	**464**	**504**	**978**	**930**
Income Taxes	125	112	120	237	224
Net Income	**389**	**352**	**384**	**741**	**706**
Arrears Rate[1]	0.33%	0.35%	0.32%	0.33%	0.32%
Severity Ratio	27.7%	28.3%	29.0%	28.9%	29.8%
Loss Ratio	13.7%	25.5%	12.6%	19.4%	19.7%
Operating Expense Ratio	11.8%	14.3%	12.3%	13.0%	13.2%
Combined Ratio	25.5%	39.8%	24.9%	32.4%	32.9%
Capital Available to Minimum Capital Required (%MCT)[1]	272%	264%	234%	272%	234%
Return on Equity[2]	10.2%	9.6%	11.6%	9.9%	10.9%
Return on Capital Holding Target[3]	12.7%	11.6%	13.2%	12.1%	12.3%

[1] Ratio is calculated at a point in time.
[2] Reflects annualized Net Income divided by the average of the beginning and ending Equity for the period.
[3] Restated to reflect annualized Net Income, adjusted to reflect earnings based on 200% MCT, divided by the average of the beginning and ending Capital Holding Target (200% MCT) for the period.

Premiums and Fees Received

Q2 2014 vs. Q1 2014

Premiums and Fees Received increased by $166 million (80.6%) from the prior quarter which is consistent with higher volumes and seasonal patterns. The impact of the premium increase effective 1 May 2014 was minimal during the quarter.

Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Premiums and Fees Received were relatively consistent with the same three and six months last year showing a decrease of $4 million (1.1%) and $8 million (1.4%) respectively.

Total Revenues

Q2 2014 vs. Q1 2014

Total Revenues were relatively consistent with the prior quarter as lower Other Income was offset by increases in Premiums and Fees Earned.

Other Income decreased by $34 million (45.9%) from the prior quarter primarily due to lower Net Unrealized Gains (Losses) partially offset by higher Realized Gains (Losses).

Net Unrealized Gains (Losses) decreased by $84 million (525.0%) from the prior quarter primarily due to the liquidation of Nordea which resulted in a reclassification of gains from unrealized to realized. The liquidation of Nordea also contributed to the increase in Net Realized Gains (Losses) of $52 million (92.9%).

Premiums and Fees Earned increased by $23 million (5.8%) from the prior quarter consistent with higher Premiums and Fees Received and higher insured volumes noted above and reflecting the contribution from recent books of business. The unearned premium reserve was $5.7 billion as at the end of the quarter.

Q2 2014 vs. Q2 2013

Total Revenues increased by $9 million (1.5%) from the same quarter last year primarily as a result of higher Other Income and higher Investment Income, partially offset by lower Premiums and Fees Earned.

Other Income increased by $9 million (29.0%) primarily as a result of higher Net Realized Gains (Losses) partially offset by lower Net Unrealized Gains (Losses).

Net Realized Gains increased by $101 million (1,442.9%) over the same quarter last year primarily due $61 million of gains from the liquidation of Nordea. In addition, there were no impairment losses recorded in the second quarter of 2014, compared with $59 million in the same quarter last year. The liquidation of Nordea was the primary contributor to the decrease in Net Unrealized Gains of $84 million.

Investment Income increased by $15 million (10.4%) from the same quarter last year due mainly to $6 million of final distributions earned on liquidated pooled fund investments. In addition, income earned on bond investments increased due to higher yields and increased portfolio size.

Premiums and Fees Earned decreased by $15 million (3.4%) from the same quarter last year as a result of lower Premiums and Fees Received and lower levels of insured volumes over the past several years.

YTD 2014 vs. YTD 2013

Total Revenues increased by $34 million (2.8%) from the same six-month period last year primarily as a result of higher Other Income and higher Investment Income, partially offset by lower Premiums and Fees Earned.

Other Income increased by $36 million (46.2%) from the same six-month period last year primarily as a result of higher Net Realized Gains (Losses), partially offset by lower Net Unrealized Gains (Losses).

Net Realized Gains (Losses) increased by $129 million (368.6%) over the same six-month period last year primarily due to $69 million of gains realized on the liquidation of Nordea. In addition, there was no impairment losses recorded in 2014 compared with $75 million in the first six months of 2013. The liquidation of Nordea was the primary contributor to the decrease in Net Unrealized Gains (Losses) of $84 million.

Investment Income increased by $28 million (10.0%) over the same six-month period last year as explained above.

Premiums and Fees Earned decreased by $30 million (3.5%) from the same six-month period last year as a result of lower Premiums and Fees Received and lower levels of insured volumes over the past several years. The impact of the premium increase effective 1 May 2014 was minimal YTD.

Claims Paid and Arrears

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Claims paid during the quarter were $10 million (9.8%) lower than the prior quarter and $25 million (21.4%) lower than the same quarter last year. YTD claims paid were $56 million (22.4%) lower than the same six-month period last year. The decrease over the periods was primarily a result of improving economic conditions.

	As at			
	30 June 2014		31 December 2013	
	No. of Loans in Arrears	Arrears Rate	No. of Loans in Arrears	Arrears Rate
Transactional Homeowner	7,429	0.49%	7,749	0.51%
Portfolio	2,035	0.15%	2,151	0.15%
Multi-unit residential	153	0.73%	133	0.64%
Total	**9,617**	**0.33%**	**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 30 June 2014 was 0.33%, a 0.01 point decrease compared to year-end 2013. The decrease was primarily driven by decreasing rates on transactional homeowner loans.

Transactional Homeowner arrears represented 77.2% of the total arrears volumes, Portfolio represented 21.2% and Multi-Unit residential represented 1.6%. 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 9,617 at 30 June 2014, a 416 unit (4.1%) decrease compared to year-end 2013.

Total Expenses

Q2 2014 vs. Q1 2014

Total Expenses decreased by $51 million (32.1%) from the prior quarter primarily due to lower Insurance Claims losses of $44 million (43.1%). This decrease was a result of a significant decline in the level of homeowner arrears and improvements in economic conditions (decrease in the unemployment rate from 6.97% to 6.93%, increase in house price inflation from 4.53% to 5.02%).

Q2 2014 vs. Q2 2013

Total Expenses remained consistent with the same quarter last year, decreasing by $1 million (0.9%).

YTD 2014 vs. YTD 2013

Total Expenses decreased by $14 million (5.0%) from the same six month period last year due to lower Insurance Claims losses and lower Operating Expenses. Insurance Claims losses were relatively consistent, with a decrease of $8 million (4.8%) from the same six-month period last year, reflecting stable economic conditions. Operating Expenses were $6 million (5.3%) lower primarily as a result of lower pension and benefits costs.

Net Income

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Net Income remained relatively consistent over the periods reflecting the above mentioned variances with a YTD increase of $35 million (5.0%) over the same six-month period last year.

Ratios

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

Q2 2014 vs. Q1 2014

The loss ratio and combined ratio for the three months ended 30 June 2014 decreased when compared to the three months ended 31 March 2014 as a result of lower Insurance Claims Losses combined with higher Premiums and Fees Earned as explained above. In addition, the operating expense ratio decreased as a result of slightly lower Operating Expenses and higher Premium and Fees Earned as explained above. The risk fee payable to the Government of Canada effective 1 January 2014 is included in Operating Expenses and is projected to have an increasing impact on the operating expense ratio in future quarters.

Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Overall, the ratios for the Mortgage Loan insurance Activity have remained fairly consistent when compared to the same three and six-month periods last year.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	**30 June 2014**	**31 December 2013**
Cash, Cash Equivalents and Investment Securities	22,464	20,980
Accrued Interest Receivable	102	104
Accounts Receivable and Other	499	457
Total Assets	**23,065**	**21,541**
Securities Sold Under Repurchase Agreements	361	91
Provision for Claims	835	869
Unearned Premiums and Fees	5,724	5,947
Defined Benefit Plans Liability	266	201
Accounts Payable and Other	327	117
Total Liabilities	**7,513**	**7,225**
Total Equity	**15,552**	**14,316**

Total Assets

Total Assets increased by $1,524 million (7.1%) over 31 December 2013 primarily due to an increase in Cash, Cash Equivalents, Investment Securities and Accounts Receivable and Other.

Cash, Cash Equivalents and Investment Securities increased by $1,484 million (7.1%) due to positive fair value changes in the available-for-sale equity and bond portfolios of $264 million and $484 million respectively. Also contributing to the increase were positive cash flows from net operations of $402 million and an increase in short-term investments funded by repos of $270 million.

Accounts Receivable and Other increased by $42 million (9.2%) mainly due to higher real estate investments.

Total Liabilities

Total Liabilities increased by $288 million (4.0%) from 31 December 2013 primarily due to an increase in Securities Sold Under Repurchase Agreements and Accounts Payable and Other, partially offset by a decrease in Unearned Premiums and Fees.

Securities Sold Under Repurchase Agreements increased by $270 million (296.7%) as activity has returned to normal levels following a decrease during the fourth quarter of 2013.

Accounts Payable and Other increased by $210 million (179.5%) primarily due to higher income taxes payable of $155 million on current period financial instrument fair value increments and a $22 million payable to the Government of Canada for the new insurance risk fee.

Unearned Premiums and Fees decreased by $223 million (3.7%) primarily due to lower Premiums and Fees Received in the first and second quarters of 2014, which is largely a result of the decline in volumes as explained above.

Total Equity

Total Equity of Canada increased by $1,236 million (8.6%) which represents the comprehensive income recognized for the six months ended 30 June 2014.

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.

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.

	As at	
(in millions, unless otherwise indicated)	**30 June 2014**	**31 December 2013**
Unappropriated Retained Earnings	**4,062**	**2,823**
Mortgage Loan Insurance Appropriated Capital		
Appropriated Retained Earnings	9,932	10,497
Accumulated Other Comprehensive Income (Loss)	1,558	996
Total Appropriated Capital	**11,490**	**11,493**
Total Equity	**15,552**	**14,316**
Less: Assets with a Capital Requirement of 100%	(233)	(231)
Total Capital Available	**15,319**	**14,085**
Capital Available to Capital Required (100% MCT)	272%	250%
CMHC's Internal Capital Target (% MCT)	185%	185%
CMHC's Capital Holding Target (%MCT)	200%	200%

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 30 June 2014 was $11,490 million (2013 - $11,493 million).

Capital Available of $15,319 million (2013 - $14,085 million) was 272% (2013 – 250%) of the minimum required, an increase of 22 points compared to 31 December 2013 as a result of an increase in total equity during 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 30 June 2014, total investments under management had a fair value of $22.5 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 details 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 30 June 2014, insurance-in-force was $551 billion, a $6 billion (1.1%) decrease over 31 December 2013. New loans insured were $25.1 billion, while estimated loan amortization and pay-downs were $31 billion. CMHC expects mortgage repayments to continue in the range of approximately $60 to $65 billion per year. These repayments offset future increases to CMHC's insurance-in-force resulting from new business being written.

	As at	
(in billions)	**30 June 2014**	**31 December 2013**
Total Insurance-in-force:	**551**	**557**
Transactional Homeowner	287	288
Portfolio	212	219
Multi-unit residential	52	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.

SECURITIZATION PROGRAMS

National Housing Act Mortgage-Backed Securities (NHA 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.

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 a cost-recovery basis.

NEW SECURITIES GUARANTEED

	Three months ended			Six months ended	
(in millions)	30 June 2014	31 March 2014	30 June 2013	30 June 2014	30 June 2013
Total New Securities Guaranteed:	**24,389**	**22,505**	**45,845**	**46,894**	**73,113**
NHA MBS	14,889	13,505	35,845	28,394	53,113
CMB	9,500	9,000	10,000	18,500	20,000

Q2 2014 vs. Q1 2014

CMHC's new securities guaranteed for the second quarter of 2014 were almost $2 billion (8.4%) higher than the prior quarter primarily as a result of a cyclical increase in mortgage activity in the spring months or second quarter, which are then secured.

Q2 2014 vs. Q2 2013

CMHC's new securities guaranteed for the second quarter of 2014 were $21 billion (46.8%) 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 for 2014, while the second quarter of 2013 did not have an allocation capacity constraining Approved Issuers.

YTD 2014 vs. YTD 2013

CMHC's new securities guaranteed for the first six months of 2014 were $26 billion (35.9%) lower than the same six-month period last year. The decrease reflects the quarterly allocation methodology change as mentioned above.

FINANCIAL ANALYSIS

	Three months ended			Six months ended	
(in millions, unless otherwise indicated)	30 June 2014	31 March 2014	30 June 2013	30 June 2014	30 June 2013
Guarantee and Application Fees Received:	**59**	**53**	**91**	**112**	**152**
Market NHA MBS	36	31	67	67	104
CMB	23	22	24	45	48
Guarantee and Application Fees Earned	59	59	64	118	124
Net Interest Income	-	-	-	-	-
Investment Income	10	8	8	18	15
Other Income	4	5	6	9	14
Total Revenues	**73**	**72**	**78**	**145**	**153**
Operating Expenses	8	9	7	17	14
Total Expenses	**8**	**9**	**7**	**17**	**14**
Income before Income Taxes	**65**	**63**	**71**	**128**	**139**
Income Taxes	16	16	17	32	34
Net Income	**49**	**47**	**54**	**96**	**105**
Operating Expense Ratio	10.3%	10.7%	9.7%	10.5%	10.1%
Capital Available to Capital Required[1]	209%	199%	162%	209%	162%
Return on Equity[2]	13.1%	13.1%	16.7%	13.1%	16.7%

[1] Ratio is calculated at a point in time

[2] Reflects annualized Net Income divided by the average of the beginning and ending Equity for the period.

Guarantee and Application Fees Received

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Guarantee and Application Fees Received variances were consistent with the volume variances noted above with a YTD decrease of $40 million (26.3%) from the same six-month period last year.

Total Revenues

Q2 2014 vs. Q1 2014

Total Revenues remained fairly consistent with the prior quarter increasing by $1 million (1.4%).

Q2 2014 vs. Q2 2013

Total Revenues remained fairly consistent from the same quarter last year decreasing by $5 million (6.4%) due to lower application fees as a result of a decrease in new NHA MBS issuances. Application fees are recognized in full upon issuance. This decrease was partially offset by increasing covered bond revenues resulting from the implementation of an annual fee and the approval of additional issuers.

YTD 2014 vs. YTD 2013

Total Revenues remained fairly consistent over the six-month periods decreasing by $8 million (5.2%) from the same six-month period last year primarily due to lower application fees noted above, partially offset by increasing covered bond revenues.

Total Expenses

Q2 2014 vs. Q1 2014 and Q2 2014 vs. Q2 2013

Total Expenses were relatively consistent with a decrease of $1 million (11.1%) from the prior quarter and an increase of $1 million (14.3%) over the same quarter last year.

YTD 2014 vs. YTD 2013

Total Expenses were relatively consistent with an increase of $3 million (21.4%) over the same six-month period last year primarily due to increasing covered bond administrative costs.

Net Income

Q2 2014 vs. Q1 2014 and Q2 2014 vs. Q2 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 increased by $2 million (4.3%) from the prior quarter and decreased by $5 million (9.3%) from the same quarter last year. These reductions are the result of variances in revenues and expenses as noted above.

The variances in covered bond revenues and covered bond administrative costs offset one another and have no effect on Net Income.

YTD 2014 vs. YTD 2013

Net Income decreased by $9 million (8.6%) from the same six-month period last year as a result of the revenue and expense movement explanations detailed above.

Ratios

Q2 2014 vs. Q1 2014, Q2 2014 vs. Q2 2013 and YTD 2014 vs. YTD 2013

Overall, ratios have remained relatively consistent over the comparative periods. Refer to the Capital Management section for further information on the capital available to capital required ratio.

FINANCIAL CONDITION

Balance Sheet Review

(in millions)	As at 30 June 2014	As at 31 December 2013
Cash, Cash Equivalent and Investment Securities	2,029	1,896
Loans and Accrued Interest Receivable	6,952	28,116
Accounts Receivable and Other	49	59
Total Assets	**9,030**	**30,071**
Borrowings and Accrued Interest Payable	6,945	28,110
Unearned Fees	558	564
Defined Benefit Plans Liability	4	-
Accounts Payable and Other	(5)	1
Total Liabilities	**7,502**	**28,675**
Total Equity	**1,528**	**1,396**

Total Assets

Total Assets decreased by $21,041 million (70.0%) from 31 December 2013 primarily due to a decrease in Loans and Accrued Interest Receivable of $21,164 million (75.3%) as a result of principal loan repayments under the IMPP. This was partially offset by an increase in Cash, Cash Equivalent and Investment Securities due to cash inflows from net operations for the period.

Total Liabilities

Total Liabilities decreased by $21,173 million (73.8%) from 31 December 2013 primarily due to a decrease in Borrowings and Accrued Interest Payable of $21,165 million (75.3%) as a result of principal loan repayments under the IMPP.

Total Equity

Total Equity increased by $132 million (9.5%) over 31 December 2013 which represents the comprehensive income recognized for the six months ended 30 June 2014.

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 OSFI. As the IMPP program is repaid, less capital is required to secure the remaining exposures.

(in millions, unless otherwise indicated)	As at 30 June 2014	As at 31 December 2013
Unappropriated Retained Earnings	**796**	**623**
Securitization Appropriated Capital		
Appropriated Retained Earnings	735	816
Accumulated Other Comprehensive Income (Loss)	(3)	(43)
Total Appropriated Capital	**732**	**773**
Total Equity	**1,528**	**1,396**
Less: Assets with a Capital Requirement of 100%	(3)	(15)
Total Capital Available	**1,525**	**1,381**
Capital Available to Capital Required	209%	182%

CMHC sets aside a portion of Retained Earnings and Accumulated Other Comprehensive Income (Loss) for capitalization. Appropriated Capital as at 30 June 2014 was $732 million, a decrease of $41 million (5.3%) from 31 December 2013, primarily due to IMPP repayments during the year.

At 30 June 2014, Capital Available was 209% of the capital required or $1,525 million (182% or $1,381 million – 31 December 2013).

Liquidity

CMHC manages the Securitization Activity to ensure there are sufficient liquid assets or other sources of liquidity to meet requirements under both the NHA MBS and CMB programs in the event of a call on the timely payment guarantee. A potential liquidity call under the timely payment guarantee is 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 30 June 2014, total investments under management had a fair value of $2 billion compared to $1.9 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 off-balance sheet arrangements include securitizations, contractual obligations and guarantees. Further details 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 by Canada Housing Trust under the CMB program and NHA MBS issued by Approved Issuers on the basis of housing under the NHA MBS program. Total Guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee.

(in billions)	As at 30 June 2014	31 December 2013
Guarantees-in-force	**402**	**398**
Market NHA MBS	195	192
CMB	207	206

Guarantees-in-force totalled $402 billion at 30 June 2014, a $4 billion (1.0%) increase over 31 December 2013. Guarantees-in-force changes as new guarantees are made and as guaranteed securities mature. In the six month period ending 30 June 2014, new guarantees granted by CMHC were marginally higher than maturities.

Under Section 15 of the *National Housing Act*, the aggregate outstanding amount of principal guarantees may not exceed $600 billion.

CANADA HOUSING TRUST

Canada Housing Trust (CHT) 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. CMHC guarantees the timely payment of interest and principal to investors in CMB. 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			Six months ended	
(in millions)	30 June 2014	31 March 2014	30 June 2013	30 June 2014	30 June 2013
Net Interest Income	2	3	2	5	5
Other Income	40	38	42	78	83
Total Revenues	**42**	**41**	**44**	**83**	**88**
Operating Expenses	42	41	44	83	88
Total Expenses	**42**	**41**	**44**	**83**	**88**
Net Income	**-**	**-**	**-**	**-**	**-**

Total Revenues

Q2 2014 vs. Q1 2014 and Q2 2014 vs. Q2 2013

Total Revenues were consistent over the quarters, increasing by $1million (2.4%) from the prior quarter and decreasing by $2 million (4.5%) from the same quarter last year.

YTD 2014 vs. YTD 2013

Total Revenues were $5 million (5.7%) lower than the same six-month period last year primarily due to a decrease in bond issue fees resulting from lower CMB issuances.

Total Expenses

Q2 2014 vs. Q1 2014 and Q2 2014 vs. Q2 2013

Operating expenses were consistent over the quarters, increasing by $1 million (2.4%) over the prior quarter and decreasing by $2 million (4.5%) from the same quarter last year.

YTD 2014 vs. YTD 2013

Operating expenses were $5 million, (5.7%) lower than the same six-month period last year primarily due to lower bond issuance expenses resulting from lower CMB issuances.

Net Income

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

(in millions)	As at 30 June 2014	As at 31 December 2013
Total Assets	208,335	207,115
Total Liabilities	208,335	207,115

Total Assets and Total Liabilities

Total Assets and Total Liabilities remained consistent with an increase of $1,220 million (0.6%) over 31 December 2013 as a result of net new CMB issuances.

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. In addition, CHT is assured of the ability to satisfy its CMB interest and principal payment obligations through CMHC's timely payment guarantee on CMB.

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.

There were no material developments impacting CMHC's risk management since the last reporting period.

CHANGES IN KEY MANAGEMENT PERSONNEL

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

- On 20 April 2014, Deputy Minister of Finance Michael Horgan retired from the Public Service of Canada. Paul Rochon was announced as Mr. Horgan's replacement, effective 21 April 2014.
- On 5 June 2014, Gail Tolley, Senior Vice-, Human Resources announced her retirement effective late 2014.
- On 20 June 2014, Douglas Stewart, Advisor to the President, retired from CMHC.

EVENTS AFTER THE REPORTING PERIOD

Mortgage Loan Insurance - Increase to Capital Targets

Subsequent to the end of the second quarter, CMHC's Board of Directors reviewed CMHC's Mortgage Loan Insurance capital targets and determined that the Internal Target would be increased from 185% to 205% and the Holding Target would be increased from 200% to 220%.

Securitization - Increase to Capital Requirements

Subsequent to the end of the second quarter, the Corporation made changes to its Securitization capital requirements by updating its capitalization framework.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 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

27 August 2014

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at 30 June 2014	31 December 2013
ASSETS			
Cash and Cash Equivalents		1,723	1,336
Securities Purchased Under Resale Agreements		54	-
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		1,043	1,012
Available for Sale		21,239	19,659
Held for Trading		13	444
Loans:	6		
Designated at Fair Value through Profit or Loss		5,779	6,041
Loans and Receivables		219,467	239,531
Accrued Interest Receivable		732	859
Derivatives		104	96
Due from the Government of Canada	7	336	311
Accounts Receivable and Other Assets		784	762
		251,274	270,051
LIABILITIES			
Securities Sold Under Repurchase Agreements		361	91
Borrowings:	9		
Designated at Fair Value through Profit or Loss		7,716	7,818
Other Financial Liabilities		217,180	237,378
Accrued Interest Payable		561	652
Derivatives		26	44
Accounts Payable and Other Liabilities		1,131	817
Provision for Claims	10	835	869
Unearned Premiums and Fees		6,282	6,511
Deferred Income Tax Liabilities		33	33
		234,125	254,213
Commitments and Contingent Liabilities	18		
EQUITY OF CANADA			
Contributed Capital		25	25
Accumulated Other Comprehensive Income		1,529	943
Retained Earnings		15,595	14,870
		17,149	15,838
		251,274	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 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	**Notes**	**2014**	**2013**	**2014**	**2013**
Parliamentary Appropriations for Housing Programs	7	490	459	1,077	1,032
Premiums and Fees Earned		482	502	941	977
Interest Income					
Loans	6	1,371	1,860	2,798	3,713
Other		15	15	29	29
		1,386	1,875	2,827	3,742
Interest Expense	9	1,366	1,851	2,779	3,696
Net Interest Income		20	24	48	46
Investment Income		157	142	304	277
Net Realized Gains (Losses)	4	97	(4)	144	25
Net Unrealized Gains (Losses)	4	(68)	18	(51)	29
Other Income		24	43	50	74
TOTAL REVENUES		**1,202**	**1,184**	**2,513**	**2,460**
EXPENSES					
Housing Programs	7	490	459	1,077	1,032
Insurance Claims	10	58	55	160	168
Operating Expenses		80	85	169	176
		628	599	1,406	1,376
INCOME BEFORE INCOME TAXES		**574**	**585**	**1,107**	**1,084**
Income Taxes	11	139	139	266	260
NET INCOME		**435**	**446**	**841**	**824**
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		257	(418)	629	(264)
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income		(33)	32	(43)	2
Total Items that Will Be Subsequently Reclassified to Net Income		224	(386)	586	(262)
Items that Will Not Be Subsequently Reclassified to Net Income:					
Remeasurements of the Net Defined Benefit Plans		(21)	128	(116)	194
		203	(258)	470	(68)
COMPREHENSIVE INCOME		**638**	**188**	**1,311**	**756**

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 30 June		Six months ended 30 June	
	2014	2013	2014	2013
CONTRIBUTED CAPITAL	**25**	**25**	**25**	**25**
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance at Beginning of Period	1,305	1,162	943	1,038
Other Comprehensive Income (Loss)	224	(386)	586	(262)
Balance at End of Period	**1,529**	**776**	**1,529**	**776**
RETAINED EARNINGS				
Balance at Beginning of Period	15,181	13,225	14,870	12,781
Net Income	435	446	841	824
Other Comprehensive Income (Loss)	(21)	128	(116)	194
Balance at End of Period	**15,595**	**13,799**	**15,595**	**13,799**
EQUITY OF CANADA	**17,149**	**14,600**	**17,149**	**14,600**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Canadian dollars)	Notes	Three months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2014	Six months ended 30 June 2013
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net Income		435	446	841	824
Items Not Affecting Cash or Cash Equivalents:					
Amortization of Premiums and Discounts on Financial Instruments		22	25	43	47
Deferred Income Taxes		-	49	-	67
Change in Fair Value of Financial Instruments Carried at Fair Value	4	68	(18)	51	(29)
Net (Gain) Loss on Financial Instruments	4	(97)	4	(144)	(25)
Net Change in Non-cash Operating Assets and Liabilities:					
Accrued Interest Receivable		612	689	127	81
Accounts Receivable and Other Assets		(16)	(118)	(22)	(83)
Due from the Government of Canada		26	90	(25)	8
Accrued Interest Payable		(567)	(651)	(91)	32
Accounts Payable and Other Liabilities		74	(275)	314	(330)
Derivatives		(3)	(3)	(4)	(2)
Provision for Claims		(34)	(62)	(34)	(82)
Unearned Premiums and Fees		(33)	(6)	(229)	(220)
Other		(98)	248	(329)	268
Loans:	6				
Repayments		11,125	21,343	38,849	22,402
Disbursements		(9,522)	(10,112)	(18,516)	(20,094)
Borrowings:	9				
Repayments		(11,697)	(22,069)	(39,808)	(23,335)
Issuances		9,871	10,818	19,664	21,029
		166	398	687	558
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Investment Securities:					
Sales and Maturities		3,234	2,720	5,597	5,139
Purchases		(3,521)	(2,834)	(6,113)	(5,138)
Change in Securities Purchased Under Resale Agreements		186	146	(54)	(39)
Change in Securities Sold Under Repurchase Agreements		13	(151)	270	29
		(88)	(119)	(300)	(9)
Increase in Cash and Cash Equivalents		78	279	387	549
Cash and Cash Equivalents					
Beginning of Period		1,645	1,490	1,336	1,220
End of Period		1,723	1,769	1,723	1,769
Represented by:					
Cash		11	(35)	11	(35)
Cash Equivalents		1,712	1,804	1,712	1,804
		1,723	1,769	1,723	1,769
Supplementary Disclosure of Cash Flow from Operating Activities					
Amount of Interest Received During the Period		2,180	2,700	3,357	4,133
Amount of Interest Paid During the Period		1,968	2,509	2,943	3,710
Amount of Dividends Received During the Period		22	18	39	34
Amount of Income Taxes Paid During the Period		130	92	258	237

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 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 accounts 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 27 August 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. Nordea was liquidated during the second quarter of 2014 and this divestiture was completed in July 2014.

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 30 June 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. These pronouncements 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. The following presents pronouncements which were assessed as having a possible impact on the Corporation Consolidated Financial Statements.

Effective Date of 1 July 2014

On 21 November 2013, the IASB published narrow scope amendments to IAS 19 *Employee Benefits* entitled Defined Benefit Plans: Employee Contributions. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. These amendments will have no material impact on the Corporation's Consolidated Financial Statements.

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 Consolidated Financial Statements.

On 12 May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that clarify the acceptable methods of depreciation and amortization. Earlier application is permitted. The Corporation has not yet determined the impact of this new standard on its Consolidated Financial Statements.

Effective Date of 1 January 2017

On 28 May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* that will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related Interpretations. This standard sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). Earlier application is permitted. The Corporation has not yet determined the impact of this new standard on its Consolidated Financial Statements.

Effective Date of 1 January 2018

On 24 July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. Earlier application is permitted. The Corporation has not yet determined the impact of this new standard on its 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 minimize 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 30 June 2014					
Financial Assets						
Cash and Cash Equivalents	346	783	594	1,723	1,723	-
Securities Purchased Under Resale Agreements[1]	54	-	-	54	54	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,043	-	1,043	1,043	-
Available for Sale	-	-	21,239	21,239	21,239	-
Held for Trading	-	13	-	13	13	-
Loans:						
Designated at Fair Value through Profit or Loss	-	5,779	-	5,779	5,779	-
Loans and Receivables[1]	219,467	-	-	219,467	224,848	5,381
Derivatives	-	104	-	104	104	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements[1]	361	-	-	361	361	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	7,716	-	7,716	7,716	-
Other Financial Liabilities[2]	217,180	-	-	217,180	222,725	5,545
Derivatives	-	26	-	26	26	-
	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] $209,415 million (31 December 2013 – $206,812 million) fair value determined based on Level 1 Criteria, $13,310 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 30 June 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	10	-	-	10	-	10
Interest Bearing Deposits with Banks	-	697	-	697	45	742
Corporate/Other Entities	-	145	-	145	150	295
Government of Canada	348	-	-	348	-	348
Provinces/Municipalities	-	177	-	177	151	328
Total Cash and Cash Equivalents	358	1,019	-	1,377	346	1,723
Investment Securities:						
Designated at Fair Value through Profit or Loss:						
Fixed Income:						
Corporate/Other Entities	110	10	156	276	-	276
Provinces/Municipalities	636	-	-	636	-	636
Sovereign and Related Entities	30	101	-	131	-	131
Total Designated at Fair Value through Profit or Loss	776	111	156	1,043	-	1,043
Available for Sale:						
Fixed Income:						
Corporate/Other Entities	5,595	7	-	5,602	-	5,602
Government of Canada	4,905	-	-	4,905	-	4,905
Provinces/Municipalities	6,476	-	-	6,476	-	6,476
Sovereign and Related Entities	80	-	-	80	-	80
Equities:						
Canadian	2,384	-	19	2,403	-	2,403
U.S.	890	-	-	890	-	890
Foreign	883	-	-	883	-	883
Total Available for Sale	21,213	7	19	21,239	-	21,239
Held for Trading:						
Foreign Equities	13	-	-	13	-	13
Total Held for Trading	13	-	-	13	-	13
Loans:						
Designated at Fair Value through Profit or Loss	-	5,779	-	5,779	-	5,779
Derivatives	-	104	-	104	-	104
Accounts Receivable and Other Assets:						
Investment Property	-	-	246	246	-	246
Other Accounts Receivable and Other Assets	-	-	-	-	538	538
Total Accounts Receivable and Other Assets	-	-	246	246	538	784
Assets not Recorded at Fair Value	-	-	-	-	220,589	220,589
TOTAL ASSETS	**22,360**	**7,020**	**421**	**29,801**	**221,473**	**251,274**
LIABILITIES AND EQUITY OF CANADA						
Borrowings:						
Designated at Fair Value through Profit or Loss	1,437	6,279	-	7,716	-	7,716
Derivatives	-	26	-	26	-	26
Liabilities and Equity of Canada not Recorded at Fair Value	-	-	-	-	243,532	243,532
TOTAL LIABILITIES AND EQUITY OF CANADA	**1,437**	**6,305**	**-**	**7,742**	**243,532**	**251,274**

(in millions)	As at 31 December 2013 Total Items Recorded at Fair Value Level 1	Level 2	Level 3	Total	Items not Recorded at Fair Value	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 30 June 2014, there were no significant transfers between Level 1 and Level 2. During the six months ended 30 June 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 an assessment of the prevailing conditions at 30 June 2014, which may change materially in subsequent periods. As at 30 June 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 takes 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 foot would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rates and discount rates 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 30 June		Six months ended 30 June	
(in millions)	**2014**	**2013**	**2014**	**2013**
Held for Trading				
Equities	(69)	13	(55)	28
Derivatives	5	(41)	21	(43)
Total Held for Trading	**(64)**	**(28)**	**(34)**	**(15)**
Designated at Fair Value through Profit or Loss				
Investment Securities – Designated at Fair Value through Profit or Loss	1	(4)	6	2
Loans – Designated at Fair Value through Profit or Loss	(1)	(78)	3	(86)
Borrowings – Designated at Fair Value through Profit or Loss	(3)	129	(25)	129
Total Designated at Fair Value through Profit or Loss	**(3)**	**47**	**(16)**	**45**
Gains (Losses) from Related Party Transactions	(1)	(1)	(1)	(1)
Total Net Unrealized Gains (Losses)	**(68)**	**18**	**(51)**	**29**

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 risks, 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.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2014	2013	2014	2013
Held for Trading	61	1	68	-
Available for Sale	45	(1)	94	29
Retirement of Debt	(9)	(4)	(18)	(4)
Total Net Realized Gains (Losses)	**97**	**(4)**	**144**	**25**

5. INVESTMENT SECURITIES

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

	As at					
	30 June 2014				31 December 2013	
(in millions)	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost[1]	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value through Profit or Loss	972	71	-	1,043	947	1,012
Available for Sale	16,291	805	(33)	17,063	15,862	16,117
Equities						
Available for Sale	2,879	1,309	(12)	4,176	2,508	3,542
Held for Trading	12	1	-	13	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 $45 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 and six months ended 30 June 2014, there were no impairment losses (three and six months ended 30 June 2013 – $59 million and $75 million, respectively) 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.

	Three months ended 30 June			
	2014		2013	
(in millions)	Repayments	Disbursements	Repayments	Disbursement
Designated at Fair Value through Profit or Loss				
Lending	150	15	158	119
Total Designated at Fair Value through Profit or Loss	**150**	**15**	**158**	**119**
Loans and Receivables				
Loans under the IMPP	2,922	-	1,592	-
Loans under the CMB Program	8,000	9,504	19,500	9,985
Lending	53	3	93	8
Total Loans and Receivables	**10,975**	**9,507**	**21,185**	**9,993**
Total	**11,125**	**9,522**	**21,343**	**10,112**

	Six months ended 30 June			
	2014		2013	
(in millions)	Repayments	Disbursements	Repayments	Disbursement
Designated at Fair Value through Profit or Loss				
Lending	297	33	299	145
Total Designated at Fair Value through Profit or Loss	**297**	**33**	**299**	**145**
Loans and Receivables				
Loans under the IMPP	21,137	-	2,387	-
Loans under the CMB Program	17,200	18,476	19,500	19,936
Lending	215	7	216	13
Total Loans and Receivables	**38,552**	**18,483**	**22,103**	**19,949**
Total	**38,849**	**18,516**	**22,402**	**20,094**

The following table presents the Interest Income related to Loans.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2014	2013	2014	2013
Designated at Fair Value through Profit or Loss	38	44	76	88
Loans and Receivables	1,333	1,816	2,722	3,625
Total	**1,371**	**1,860**	**2,798**	**3,713**

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 30 June 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 $26 million and $53 million for the three and six months ended 30 June 2014, respectively (three and six months ended 30 June 2013 – $28 million and $57 million, respectively), in support of Housing Programs.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2014**	**2013**	**2014**	**2013**
Funding Under Long-term Commitments for Existing Social Housing	397	392	847	845
Funding for New Commitments of Affordable Housing	82	55	206	160
Housing Support	1	2	3	4
Market Analysis Information	5	5	10	10
Housing Policy, Research and Information Transfer	5	5	11	13
Total	**490**	**459**	**1,077**	**1,032**

The following table presents the changes in the Due from the Government of Canada account. The outstanding balance as at 30 June 2014 is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2014**	**2013**	**2014**	**2013**
Balance at Beginning of Period	362	391	311	309
Total Appropriations Recognized in Revenues During the Period	490	459	1,077	1,032
Total Appropriations Received During the Period	(515)	(550)	(1,050)	(1,040)
Reimbursements	(1)	1	(2)	-
Balance at End of Period	**336**	**301**	**336**	**301**

8. SECURITIZATION

Guarantees-in-force

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

	As at	
(in billions)	**30 June 2014**	**31 December 2013**
NHA MBS[1]	195	192
CMB[2]	207	206
Total	**402**	**398**

[1] Includes $2.9 billion (31 December 2013 – $7.2 billion) in NHA MBS held as collateral in the IMPP.
[2] Includes $2.5 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.

(in millions)	Three months ended 30 June			
	2014		2013	
	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	-	-	150	-
Borrowings from the Government of Canada	713	367	753	833
Total Designated at Fair Value through Profit or Loss	**713**	**367**	**903**	**833**
Other Financial Liabilities				
Canada Mortgage Bonds	8,000	9,504	19,500	9,985
Borrowings from the Government of Canada	2,984	-	1,666	-
Total Other Financial Liabilities	**10,984**	**9,504**	**21,166**	**9,985**
Total	**11,697**	**9,871**	**22,069**	**10,818**

(in millions)	Six months ended 30 June			
	2014		2013	
	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	-	-	150	-
Borrowings from the Government of Canada	1,319	1,188	1,202	1,093
Total Designated at Fair Value through Profit or Loss	**1,319**	**1,188**	**1,352**	**1,093**
Other Financial Liabilities				
Canada Mortgage Bonds	17,200	18,476	19,500	19,936
Borrowings from the Government of Canada	21,289	-	2,483	-
Total Other Financial Liabilities	**38,489**	**18,476**	**21,983**	**19,936**
Total	**39,808**	**19,664**	**23,335**	**21,029**

The following table presents the Interest Expense related to Borrowings.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Designated at Fair Value through Profit or Loss	50	57	99	115
Other Financial Liabilities	1,316	1,794	2,680	3,581
Total	**1,366**	**1,851**	**2,779**	**3,696**

10. MORTGAGE LOAN INSURANCE

Unearned Premiums and Fees

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2014	2013	2014	2013
Balance at Beginning of Period	5,756	6,179	5,947	6,394
Premium Deferred on Contracts Written in the Period	382	398	586	592
Premiums Earned in the Period	(415)	(431)	(809)	(840)
Application Fees Deferred on Contracts Written in the Period	3	4	6	7
Application Fees Earned in the Period	(2)	(3)	(6)	(6)
Balance at End of Period	**5,724**	**6,147**	**5,724**	**6,147**

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 30 June					
	2014			2013		
(in millions)	IBNR & CIP	SH & ILM	Total	IBNR & CIP	SH & ILM	Total
Balance at Beginning of Period	647	222	869	757	219	976
Claims paid During the Period	(91)	(1)	(92)	(117)	-	(117)
Insurance Claims losses During the Period	59	(1)	58	61	(6)	55
Balance at End of Period	**615**	**220**	**835**	**701**	**213**	**914**

	Six months ended 30 June					
	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	(193)	(1)	(194)	(250)	-	(250)
Insurance Claims losses During the Period	158	2	160	171	(3)	168
Balance at End of Period	**615**	**220**	**835**	**701**	**213**	**914**

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 30 June 2014, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $551 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 30 June 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 30 June		Six months ended 30 June	
(in millions)	**2014**	**2013**	**2014**	**2013**
Other Comprehensive Income:				
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	85	(142)	209	(89)
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	(12)	10	(16)	(1)
Remeasurements of the Net Defined Benefit Plans	(4)	29	(25)	46
Income Tax Expense (Benefit) on Consolidated Other Comprehensive Income	**69**	**(103)**	**168**	**(44)**
Net Income:				
Current Income Tax	137	112	264	228
Deferred Income Tax	2	27	2	32
Income Tax Expense on Consolidated Net Income	**139**	**139**	**266**	**260**
Total	**208**	**36**	**434**	**216**

12. UNCONSOLIDATED STRUCTURED ENTITIES

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

	As at	
(in millions)	30 June 2014	31 December 2013
Investment Funds	1,773	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 (losses) from these Investment Funds included in Net Unrealized Gains (Losses) in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income is ($6 million) and $54 million for the three months and six months ended 30 June 2014, respectively (three months and six months ended 30 June 2013 – $34 million and $152 million, respectively). 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 30 June 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)	30 June 2014	31 December 2013
Investment Securities:		
Available for Sale	347	339
Held for Trading	-	26
Effect of Diversification	-	(15)
Total VaR	**347**	**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			
	30 June 2014		31 December 2013	
	Interest Rate Shift		Interest Rate Shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Net Unrealized Gains (Losses)	(7)	2	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			
	30 June 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	(76)	65	(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 30 June 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)	30 June 2014	31 December 2013
Derivatives	1	-
Loans under IMPP[1]	6,945	28,133
Loans under the CMB program[1]	211,736	209,629
Total	**218,682**	**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:

Three months ended 30 June 2014 (in millions)	1 April 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	30 June 2014
Pension Benefit Plans									
Defined Benefit Obligation	1,866	7	21	28	(18)	58	4	-	1,938
Fair Value of Plan Assets	1,607	-	17	17	(18)	41	4	35	1,686
Pension Benefit Plans Liability	259	7	4	11	-	17	-	(35)	252
Other Post-employment Benefit Plans									
Defined Benefit Obligation	192	1	2	3	(1)	6	-	-	200
Fair Value of Plan Assets	-	-	-	-	(1)	-	-	1	-
Other Post-employment Benefit Plans Liability	192	1	2	3	-	6	-	(1)	200
Defined Benefit Plans Liability	**451**	**8**	**6**	**14**	**-**	**23**	**-**	**(36)**	**452**

Six months ended 30 June 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	30 June 2014
Pension Benefit Plans									
Defined Benefit Obligation	1,719	13	41	54	(37)	194	8	-	1,938
Fair Value of Plan Assets	1,544	-	36	36	(37)	76	8	59	1,686
Pension Benefit Plans Liability	175	13	5	18	-	118	-	(59)	252
Other Post-employment Benefit Plans									
Defined Benefit Obligation	175	2	4	6	(4)	23	-	-	200
Fair Value of Plan Assets	-	-	-	-	(4)	-	-	4	-
Other Post-employment Benefit Plans Liability	175	2	4	6	-	23	-	(4)	200
Defined Benefit Plans Liability	**350**	**15**	**9**	**24**	**-**	**141**	**-**	**(63)**	**452**

Three months ended 30 June 2013 (in millions)	1 April 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	30 June 2013
Pension Benefit Plans									
Defined Benefit Obligation	1,793	9	18	27	(22)	(157)	5	-	1,646
Fair Value of Plan Assets	1,386	-	13	13	(22)	(20)	5	42	1,404
Pension Benefit Plans Liability	407	9	5	14	-	(137)	-	(42)	242
Other Post-employment Benefit Plans									
Defined Benefit Obligation	208	1	2	3	(2)	(21)	-	-	188
Fair Value of Plan Assets	-	-	-	-	(2)	-	-	2	-
Other Post-employment Benefit Plans Liability	208	1	2	3	-	(21)	-	(2)	188
Defined Benefit Plans Liability	**615**	**10**	**7**	**17**	**-**	**(158)**	**-**	**(44)**	**430**

Six months ended 30 June 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	30 June 2013
Pension Benefit Plans									
Defined Benefit Obligation	1,806	18	35	53	(39)	(182)	8	-	1,646
Fair Value of Plan Assets	1,299	-	26	26	(39)	33	8	77	1,404
Pension Benefit Plans Liability	507	18	9	27	-	(215)	-	(77)	242
Other Post-employment Benefit Plans									
Defined Benefit Obligation	210	3	4	7	(4)	(25)	-	-	188
Fair Value of Plan Assets	-	-	-	-	(4)	-	-	4	-
Other Post-employment Benefit Plans Liability	210	3	4	7	-	(25)	-	(4)	188
Defined Benefit Plans Liability	**717**	**21**	**13**	**34**	**-**	**(240)**	**-**	**(81)**	**430**

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 30 June (in millions)	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
REVENUES														
Parliamentary Appropriations for Housing Programs	-	-	-	-	490	459	-	-	-	-	-	-	490	459
Premiums and Fees Earned	423	438	59	64	-	-	-	-	-	-	-	-	482	502
Interest Income														
Loans	-	-	60	400	-	-	120	132	1,191	1,328	-	-	1,371	1,860
Other	-	-	-	-	-	-	17	17	-	-	(2)	(2)	15	15
	-	-	60	400	-	-	137	149	1,191	1,328	(2)	(2)	1,386	1,875
Interest Expense	-	-	60	400	-	-	136	146	1,189	1,326	(19)	(21)	1,366	1,851
Net Interest Income	-	-	-	-	-	-	1	3	2	2	17	19	20	24
Investment Income	159	144	10	8	-	-	-	-	-	-	(12)	(10)	157	142
Net Realized Gains (Losses)	108	7	-	-	-	-	-	-	-	-	(11)	(11)	97	(4)
Net Unrealized Gains (Losses)	(68)	14	-	-	-	-	(2)	2	-	-	2	2	(68)	18
Other Income	-	10	4	6	-	-	4	10	40	42	(24)	(25)	24	43
TOTAL REVENUES	**622**	**613**	**73**	**78**	**490**	**459**	**3**	**15**	**42**	**44**	**(28)**	**(25)**	**1,202**	**1,184**
EXPENSES														
Housing Programs	-	-	-	-	490	459	-	-	-	-	-	-	490	459
Insurance Claims	58	55	-	-	-	-	-	-	-	-	-	-	58	55
Operating Expenses	50	54	8	7	-	-	4	5	42	44	(24)	(25)	80	85
	108	109	8	7	490	459	4	5	42	44	(24)	(25)	628	599
INCOME BEFORE INCOME TAXES	**514**	**504**	**65**	**71**	**-**	**-**	**(1)**	**10**	**-**	**-**	**(4)**	**-**	**574**	**585**
Income Taxes	125	120	16	17	-	-	(1)	2	-	-	(1)	-	139	139
NET INCOME (LOSS)	**389**	**384**	**49**	**54**	**-**	**-**	**-**	**8**	**-**	**-**	**(3)**	**-**	**435**	**446**
Total Revenues	622	613	73	78	490	459	3	15	42	44	(28)	(25)	1,202	1,184
Inter-segment/entity Revenues[1]	(23)	(21)	-	-	-	-	-	-	(5)	(4)	28	25	-	-
External Revenues	599	592	73	78	490	459	3	15	37	40	-	-	1,202	1,184

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

- the Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds, and recognizes revenues from investing in holdings of Capital Market Borrowings;
- 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.

Six months ended 30 June (in millions)	Mortgage Loan Insurance 2014	Mortgage Loan Insurance 2013	Securitization 2014	Securitization 2013	Housing Programs 2014	Housing Programs 2013	Lending 2014	Lending 2013	Canada Housing Trust 2014	Canada Housing Trust 2013	Eliminations 2014	Eliminations 2013	Total 2014	Total 2013
REVENUES														
Parliamentary Appropriations for Housing Programs	-	-	-	-	1,077	1,032	-	-	-	-	-	-	1,077	1,032
Premiums and Fees Earned	823	853	118	124	-	-	-	-	-	-	-	-	941	977
Interest Income														
Loans	-	-	177	810	-	-	242	266	2,379	2,637	-	-	2,798	3,713
Other	-	-	-	-	-	-	33	34	-	-	(4)	(5)	29	29
	-	-	177	810	-	-	275	300	2,379	2,637	(4)	(5)	2,827	3,742
Interest Expense	-	-	177	810	-	-	271	294	2,374	2,632	(43)	(40)	2,779	3,696
Net Interest Income	-	-	-	-	-	-	4	6	5	5	39	35	48	46
Investment Income	308	280	18	15	-	-	-	-	-	-	(22)	(18)	304	277
Net Realized Gains (Losses)	164	35	-	1	-	-	-	-	-	-	(20)	(11)	144	25
Net Unrealized Gains (Losses)	(52)	32	-	-	-	-	(2)	(6)	-	-	3	3	(51)	29
Other Income	2	11	9	13	-	-	8	17	78	83	(47)	(50)	50	74
TOTAL REVENUES	**1,245**	**1,211**	**145**	**153**	**1,077**	**1,032**	**10**	**17**	**83**	**88**	**(47)**	**(41)**	**2,513**	**2,460**
EXPENSES														
Housing Programs	-	-	-	-	1,077	1,032	-	-	-	-	-	-	1,077	1,032
Insurance Claims	160	168	-	-	-	-	-	-	-	-	-	-	160	168
Operating Expenses	107	113	17	14	-	-	9	11	83	88	(47)	(50)	169	176
	267	281	17	14	1,077	1,032	9	11	83	88	(47)	(50)	1,406	1,376
INCOME BEFORE INCOME TAXES	**978**	**930**	**128**	**139**	**-**	**-**	**1**	**6**	**-**	**-**	**-**	**9**	**1,107**	**1,084**
Income Taxes	237	224	32	34	-	-	(3)	(1)	-	-	-	3	266	260
NET INCOME (LOSS)	**741**	**706**	**96**	**105**	**-**	**-**	**4**	**7**	**-**	**-**	**-**	**6**	**841**	**824**
Total Revenues	1,245	1,211	145	153	1,077	1,032	10	17	83	88	(47)	(41)	2,513	2,460
Inter-segment/entity Revenues[1]	(42)	(29)	-	-	-	-	(1)	(2)	(4)	(10)	47	41	-	-
External Revenues	1,203	1,182	145	153	1,077	1,032	9	15	79	78	-	-	2,513	2,460

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

- the Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds, and recognizes revenues from investing in holdings of Capital Market Borrowings;
- 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.

As at 30 June 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	921	749	18	1	-	-	783	585	1	1	-	-	1,723	1,336
Securities Purchased Under Resale Agreements	15	-	-	-	-	-	39	-	-	-	-	-	54	-
Investment Securities:														
Designated at Fair Value through Profit or Loss	86	83	1	1	-	-	1,229	1,253	-	-	(273)	(325)	1,043	1,012
Available for Sale	21,429	19,704	2,010	1,894	-	-	-	-	-	-	(2,200)	(1,939)	21,239	19,659
Held for Trading	13	444	-	-	-	-	-	-	-	-	-	-	13	444
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	5,779	6,041	-	-	-	-	5,779	6,041
Loans and Receivable	-	-	6,937	28,074	-	-	4,630	4,835	207,900	206,622	-	-	219,467	239,531
Accrued Interest Receivable	102	104	15	42	-	-	187	226	434	492	(6)	(5)	732	859
Derivatives	-	-	-	-	-	-	104	96	-	-	-	-	104	96
Due from the Government of Canada	-	-	-	-	-	-	336	311	-	-	-	-	336	311
Accounts Receivable and Other Assets	499	457	49	59	-	-	236	246	-	-	-	-	784	762
	23,065	21,541	9,030	30,071	-	-	13,323	13,593	208,335	207,115	(2,479)	(2,269)	251,274	270,051
LIABILITIES														
Securities Sold Under Repurchase Agreements	361	91	-	-	-	-	-	-	-	-	-	-	361	91
Borrowings:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	7,730	7,832	-	-	(14)	(14)	7,716	7,818
Other Financial Liabilities	-	-	6,937	28,074	-	-	4,690	4,841	207,900	206,622	(2,347)	(2,159)	217,180	237,378
Accrued Interest Payable	-	-	8	36	-	-	125	129	434	492	(6)	(5)	561	652
Derivatives	-	-	-	-	-	-	26	44	-	-	-	-	26	44
Accounts Payable and Other Liabilities	521	245	1	15	-	-	608	556	1	1	-	-	1,131	817
Provision for Claims	835	869	-	-	-	-	-	-	-	-	-	-	835	869
Unearned Premiums and Fees	5,724	5,947	558	564	-	-	-	-	-	-	-	-	6,282	6,511
Deferred Income Tax Liabilities	72	73	(2)	(14)	-	-	(7)	(1)	-	-	(30)	(25)	33	33
	7,513	7,225	7,502	28,675	-	-	13,172	13,401	208,335	207,115	(2,397)	(2,203)	234,125	254,213
EQUITY OF CANADA	15,552	14,316	1,528	1,396	-	-	151	192	-	-	(82)	(66)	17,149	15,838
	23,065	21,541	9,030	30,071	-	-	13,323	13,593	208,335	207,115	(2,479)	(2,269)	251,274	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 and $6 million for the three months and six months ended 30 June 2014 (three months and six months ended 30 June 2013 – $3 million and $6 million, respectively) for the Securitization Activity and $1.1 million and $1.3 million for the three months and six months ended 30 June 2014, respectively (three months and six months ended 30 June 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

As at 30 June 2014, there are legal claims of $25 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