CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

THIRD QUARTER
September 30, 2014
(Unaudited)

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of our results of operations and financial condition is prepared for the third quarter ended 30 September 2014 and is intended to provide readers with an overview of our performance including comparatives against the prior quarter, the same quarter in 2013 and the same nine-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 our 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 the Canada Mortgage and Housing Corporation's (CMHC's) external auditors. All amounts are expressed in Canadian dollars. This Quarterly Financial Report is current as of 20 November 2014 and has been approved by the Audit Committee.

Forward-Looking Statements

We may make forward-looking statements in various sections of the Quarterly Financial Report (QFR).

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. We do not undertake to update any forward-looking statements made in this Quarterly Financial Report.

Non-IFRS Measures

We use a number of financial measures to assess 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 our 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 our business going forward:

Economic Context and Housing Indicators (as at 30 October 2014)

Economic conditions in Canada are projected to gradually improve in 2014 and 2015. The consensus of private sector forecasters[1] notes that:

- Real Canadian Gross Domestic Product (GDP) is forecast to increase between 2.1 and 2.5 per cent in 2014 and between 2.2 and 2.9 per cent in 2015.
- The overall Canadian unemployment rate will decrease, with the unemployment rate between 6.7 and 7.2 per cent in 2014 and within a range of 6.4 to 7.3 per cent in 2015 compared to 7.1 per cent in 2013.
- 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.

In the third quarter of 2014, total housing starts and sales in Canada displayed moderate growth relative to the same quarter in 2013. Total housing starts[2] in the third quarter of 2014 increased 2.3 per cent relative to the third quarter of 2013, while Multiple Listing Service® (MLS®)[3] Sales[4] increased 4.9 per cent over the same period.

The Canadian housing sector is projected to continue to grow moderately in 2014 and 2015, driven by geographical pockets of higher activity. This trend is demonstrated through a stable housing starts forecast and moderate growth in existing home sales in 2014 and 2015 compared to 2013. CMHC's fourth quarter Housing Market Outlook forecasts that on an annual basis, housing starts are expected to range between 186,300 and 191,700 units in 2014 and 172,800 to 204,000 units in 2015. MLS® sales are expected to range between 467,400 and 482,000 units in 2014 and between 457,300 to 507,300 units in 2015.

- The MLS® Home Price Index[5], which uses statistical techniques to control for changes over time in the types and quality of homes sold, registered an increase of 1.1 per cent between August 2014 and September 2014, the sixth consecutive monthly gain. The MLS® Home Price Index rose by 5.5 per cent from September 2013 to September 2014, following a gain of 5.3 per cent between August 2013 and August 2014. CMHC's fourth quarter Housing Market Outlook forecasts the average MLS® price to be between $401,600 and $405,400 in 2014 and between $403,600 and $417,800 in 2015.
- Overall employment[6] gains so far in 2014 continue to support housing demand, albeit at a moderate pace. Average monthly employment gains from January to September 2014 were 0.2 per cent, similar to the average gains over the same period in 2013. Over this period, employment growth reflected full-time employment recording greater average monthly gains in 2014 relative to 2013, offsetting slower growth in part-time employment.
- GDP[7] expanded 0.7 per cent, on a quarter over quarter basis, between the first quarter of 2014 and the second quarter of 2014. Real gross domestic product is up 2.5 per cent when comparing the second quarter of 2014 to the second quarter of 2013.

---

[1] Consensus Private Sector Forecasters Survey as of 8 September, 2014.
[2] Housing starts quarterly, seasonally adjusted at an annualized rate.
[3] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.
[4] MLS® Sales quarterly, seasonally adjusted.
[5] National MLS® Home Price Index, seasonally adjusted.
[6] Statistics Canada, Table 282-001 (Overall Employment V2091072, Full-time Employment V2091093, Part-time Employment V2091114).
[7] Statistics Canada, Table 380-0084 (V62305752).

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 our Housing Programs. Adjustments to the base are only permitted for new initiatives and non-discretionary increases, subject to Treasury Board approval.

Our 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 our appropriations-based activities the base year is 2013-2014, while for our non-appropriations-based activities, the base year is 2013. We have consistently sought out opportunities for improvement and efficiencies in our discretionary expenditures, with a view to balancing the need for constraint and prudence with the requirements of our revenue generating activities.

Portfolio Insurance

We implemented changes to the 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 our portfolio insurance does not affect the availability of our 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 we 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 us to provide up to $80 billion of new guarantees of NHA MBS and up to $40 billion of new guarantees for CMB.

Fees Payable to the Government of Canada

Pursuant to section 8.2 of the NHA, effective 1 January 2014, our 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. Our fee of 3.25% takes into account the full government backing of our insurance liabilities as opposed to the 90% guarantee of private mortgage insurers.

Homeowner Mortgage Loan Insurance Premiums

On 28 February 2014, we announced that we would increase (by approximately 15%, on average) our mortgage loan insurance premiums for homeowner and 1– 4 unit rental properties effective 1 May 2014. This increase reflects our objective of reducing Canadian taxpayers' exposure to the housing market and contributes 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 are expected to use an interim capital framework, which is a modified version of the MCT for federally regulated property and casualty insurers that was released by OSFI on 24 September 2014. We have reviewed the proposed modified MCT and expect that once the new Mortgage Loan Insurance asset allocation has been fully implemented, that targets a shorter fixed income portfolio, the changes will cause our MCT ratio to decline by 10 to 20 percentage points 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 is being provided through CMHC over five years, and is 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. As at 30 September 2014, agreements for the five-year extension of the IAH had been announced with nine jurisdictions. Subsequent to the end of the third quarter, an agreement for the five-year extension of the IAH was also announced with Nunavut.

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

On 6 November 2014, OSFI published its final Guideline B-21 on Residential Mortgage Insurance Underwriting Practices and Procedures. The guideline sets out OSFI's expectations for prudent residential mortgage insurance underwriting and related activities for all federally-regulated mortgage insurers. CMHC has already adopted many of the insurance practices and procedures contained in the guideline and does not anticipate any significant changes to operations as a result.

Review of Mortgage Loan Insurance Business

Legislative amendments in 2012 enhanced our mandate to include contributing to the stability of the housing market, benefiting all Canadians, while effectively managing and reducing taxpayers' exposure to risk. We undertook a review of our products and services to ensure that they are aligned with this objective. The review of the mortgage loan insurance business is complete and the following changes were announced and implemented in Q2:

- Our Second Home and Self-Employed Without 3rd Party Income Validation mortgage insurance products were discontinued.
- Our mortgage loan insurance for the financing of multi-unit condominium construction was discontinued.
- We aligned our low-ratio transactional mortgage loan insurance product with our high-ratio product by establishing maximum house prices, amortization periods and debt servicing ratios.

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 us. 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.

Covered Bonds

Subsequent to the end of the third quarter, the European Union announced that it will allow European banks to use Canadian covered bonds as Level 2A liquid assets to help them meet their Liquidity Coverage Ratio under Basel III.

FINANCIAL HIGHLIGHTS

(in millions, unless otherwise indicated)								
CORPORATE RESULTS	**Q3 2014**	**Q2 2014**	**Q1 2014**	**Q4 2013**	**Q3 2013[1]**	**Q2 2013[1]**	**Q1 2013[1]**	**Q4 2012[1]**
Total Assets	246,557	251,274	253,081	270,051	289,091	289,766	302,005	292,040
Total Liabilities	228,933	234,125	236,570	254,213	273,943	275,166	287,593	278,196
Total Equity of Canada	17,624	17,149	16,511	15,838	15,148	14,600	14,412	13,844
Total Revenues	1,811	1,202	1,311	1,426	1,255	1,184	1,276	1,400
Total Expenses[2]	905	767	905	873	803	738	898	853
Net Income	906	435	406	553	452	446	378	547
HOUSING PROGRAMS								
Parliamentary Appropriations for Housing Programs Expenses	435	490	587	538	501	459	573	516
Housing Programs Expenses	435	490	587	538	501	459	573	516
LENDING								
Net Income	46	-	4	63	21	8	(1)	2
Total Equity	187	151	158	192	128	87	32	9
MORTGAGE LOAN INSURANCE								
Insurance-in-force ($B)	546	551	555	557	560	562	563	566
Total Insured Volumes	16,045	15,769	9,328	14,457	17,646	20,755	8,195	11,596
Premiums and Fees Received	409	372	206	321	401	376	210	291
Claims Paid	123	92	102	97	89	117	133	74
Premiums and Fees Earned	425	423	400	457	444	438	415	478
Insurance Claims Losses	85	58	102	71	70	55	113	69
Net Income	812	389	352	432	369	384	322	464
Loss Ratio	20.0 %	13.7 %	25.5 %	15.5 %	15.8 %	12.6 %	27.2 %	14.4 %
Operating Expense Ratio	13.9 %	11.8 %	14.3 %	12.5 %	12.4 %	12.3 %	14.2 %	11.7 %
Combined Ratio	33.9 %	25.5 %	39.8 %	28.0 %	28.2 %	24.9 %	41.4 %	26.1 %
Severity Ratio	33.0 %	27.7 %	28.3 %	28.9 %	28.9 %	29.0 %	30.2 %	28.5 %
Return on Equity	20.6 %	10.2 %	9.6 %	12.3 %	10.9 %	11.6 %	9.9 %	14.9 %
Return on Capital Holding Target	29.7 %	12.7 %	11.6 %	14.4 %	12.6 %	13.2 %	11.2 %	16.5 %
Capital Available to Minimum Capital Required	294 %	272 %	264 %	250 %	243 %	234 %	231 %	231 %
% Estimated Outstanding Canadian Residential Mortgages with CMHC Insurance Coverage ($)	43.7 %	44.8 %	45.3 %	45.6 %	47.0 %	48.2 %	48.5 %	48.6 %
SECURITIZATION								
Total Guarantees-in-force ($B)	404	402	400	398	399	400	393	382
Securities Guaranteed	30,393	24,389	22,505	20,522	29,007	45,845	27,268	27,436
Guarantee and Application Fees Received	73	59	53	49	64	91	61	60
Guarantee and Application Fees Earned	61	59	59	59	64	64	60	60
Net Income	48	49	47	49	53	54	51	79
Operating Expense Ratio	11.2 %	10.3 %	10.7 %	11.3 %	10.9 %	9.7 %	10.6 %	9.8 %
Return on Equity	12.4 %	13.1 %	13.1 %	14.2 %	15.9 %	16.7 %	16.3 %	26.2 %
Capital Available to Capital Required	152 %	209 %	199 %	182 %	166 %	162 %	153 %	156 %
% of Total Outstanding Residential Mortgages Securitized Under CMHC's Programs ($)	32.5 %	32.5 %	32.0 %	31.0 %	30.6 %	29.9 %	29.1 %	28.5 %
CHT								
Assets	206,966	208,335	207,399	207,115	205,809	204,456	214,630	204,060
Liabilities	206,966	208,335	207,399	207,115	205,809	204,456	214,630	204,060

[1] Restated for comparative purposes; refer to Note 3 of our 31 December 2013 Consolidated Financial Statements.
[2] Includes Income Taxes.

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed Consolidated Balance Sheet

	As at	
(in millions)	**30 September 2014**	**31 December 2013**
Total Assets	246,557	270,051
Total Liabilities	228,933	254,213
Total Equity of Canada	17,624	15,838

Total Assets

Total Assets were $246.6 billion as at 30 September 2014, of which $209.4 billion (84.9%) represented loans receivable arising from the Insured Mortgage Purchase Program (IMPP) and CMB programs.

Total Assets decreased by $23.5 billion (8.7%) from 31 December 2013 primarily due to lower loan receivable balances arising from the IMPP, Lending and CMB related activity, and lower Held for Trading Investment Securities. These decreases were partially offset by an increase in Accrued Interest Receivable and higher Cash and Cash Equivalents balances.

Loans receivable arising from IMPP and Lending were $3.4 billion and $10.1 billion respectively. These balances decreased by $24.6 billion (87.8%) for the IMPP and $745 million (6.8%) for the Lending Activity from 31 December 2013 due to scheduled maturities of loans receivable. Loans receivable arising from CMB activity were $205.9 billion, a decrease of $682 million (0.3%) from 31 December 2013 as scheduled maturities outweighed new issuances.

Held for Trading Investment Securities were nil, a $444 million (100%) decrease from 31 December 2013 as a result of the divestment of our holdings of Nordea International Equity Fund (Nordea) during the second quarter of 2014. Proceeds from the divestiture were reinvested in a separate equity fund accounted for as an Available for Sale investment.

Accrued Interest Receivable was $1.4 billion, an increase of $516 million (60.1%) over 31 December 2013 due to the timing of the semi-annual interest payout on the majority of investments under the CMB program.

Cash and Cash Equivalents were $3.5 billion, an increase of $2.1 billion (160.0%) over 31 December 2013 primarily due to a change in the asset allocation in the Mortgage Loan Insurance investment portfolio. The transition to the new asset allocation was initiated during the third quarter, with substantial implementation of the approved asset mix and investment strategy to be completed by 1 January 2015. We implemented the new allocation to focus on maximizing risk-adjusted return while meeting cash flow requirements, and minimizing the requirement to liquidate investments. The revised asset allocation policy recommends a 100% fixed income portfolio with the authority to invest in equities and alternative investments to a maximum of 10%. The policy targets a shorter fixed income portfolio duration of 4.5 years. The transition to the new allocation resulted in the sale of Canadian and foreign equities totalling $1.7 billion and long term bonds totalling $1.4 billion. The majority of the proceeds from the sale transactions were temporarily invested in short term investments.

An increase in repo funded short-term investments and cash inflows from operations as well as the timing of loan renewals and the repayment of debt in the Lending Activity also contributed to the increase in Cash and Cash Equivalents.

Total Liabilities

Total Liabilities were $228.9 billion as at 30 September 2014, of which $209.4 billion (91.5%) represented borrowings incurred for the IMPP and CMB programs.

Total Liabilities decreased by $25.3 billion (9.9%) from 31 December 2013 primarily as a result of lower borrowings for IMPP, Lending and CMB related activity and a decrease in Unearned Premiums and Fees. This was partially offset by higher Accrued Interest Payable.

Borrowings from IMPP and from Lending were $3.4 billion and $12.3 billion respectively. These balances decreased from the prior period by $24.6 billion (87.8%) for the IMPP and by $419 million (3.3%) for the Lending Activity due to the repayments of the related debt.

Borrowings from the CMB activity were $205.9 billion, a $682 million (0.3%) decrease from 31 December 2013 as a result of scheduled maturities under the CMB program outweighing the acquisition of beneficial interests in NHA MBS from Approved Issuers.

Unearned Premiums and Fees were $6.3 billion, a $239 million (3.7%) decrease from 31 December 2013. Changes in Unearned Premiums and Fees are comprised of Premiums and Fees Received for the period ($1,156 million) less premiums and fees recognized in income for the period ($1,395 million). Premiums and Fees Received have shown a downward trend due to lower levels of insured volumes over the past several years.

Accrued Interest Payable was $1.1 billion, an increase of $491 million (75.3%) due to the timing of interest payout for CMBs.

Total Equity of Canada

Total Equity was $17.6 billion, an increase of $1.8 billion (11.3%) over 31 December 2013, representing the Comprehensive Income recognized for the nine months ended 30 September 2014.

Condensed Consolidated Statement of Income and Comprehensive Income

	Three months ended			Nine months ended	
(in millions)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Total Revenues	1,811	1,202	1,255	4,324	3,715
Total Expenses	610	628	655	2,016	2,031
Income Taxes	295	139	148	561	408
Net Income	906	435	452	1,747	1,276

Total Revenues

Q3 2014 vs. Q2 2014

Total Revenues were $1,811 million, a $609 million (50.7%) increase from the prior quarter primarily due to higher Net Realized and Unrealized Gains (Losses), partially offset by lower Parliamentary Appropriations for Housing Programs.

Net Realized Gains (Losses) were $623 million, an increase of $526 million (542.3%) over the prior quarter primarily due to the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio during the third quarter. As a result of the transition to the new allocation, we recognized gains of $506 million on Canadian and foreign equities and $29 million on long term bonds. In addition, realized gains on normal equity trading were $62 million higher than the prior quarter due to a continued rally in the equity markets, offsetting the decrease in gains from those recognized in the prior quarter ($61 million) as a result of the divestment of our holdings of Nordea, an equity fund.

Net Unrealized Gains (Losses) were $63 million, an increase of $131 million (192.6%) from the prior quarter primarily due to the reversal of a deferred net gain on direct lending borrowings and loans (refer to the Lending financial results for further details).

Parliamentary Appropriations for Housing Programs were $435 million, a $55 million (11.2%) decrease from the prior quarter due to the timing of claims submitted for affordable housing in Nunavut.

Q3 2014 vs. Q3 2013

Total Revenues increased by $556 million (44.3%) over the same quarter last year primarily due to higher Net Realized Gains (Losses), partially offset by lower Parliamentary Appropriations for Housing Programs.

Net Realized Gains (Losses) increased by $624 million (62,400.0%) over the same quarter last year primarily due to $535 million in gains realized with the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio and $67 million in gains on other domestic equity due to a continued rally in the equity markets.

Parliamentary Appropriations were $66 million (13.2%) lower than the same quarter last year primarily due to lower spending under the IAH as a result of the timing of claims submitted by provinces and territories ($35 million) and revised timing of expenditures under long term commitments for existing social housing ($31 million).

YTD 2014 vs. YTD 2013

Total Revenues were $4,324 million, a $609 million (16.4%) increase over the same nine-month period last year primarily due to higher Net Realized Gains (Losses), partially offset by lower Net Unrealized Gains (Losses) and Lower Premiums and Fees Earned.

Net Realized Gains (Losses) were $767 million, a $743 million (3,095.8%) increase over the same nine-month period last year primarily due to $535 million in gains realized with the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio, $40 million in gains on the sale of other domestic equity investments due to a continued rally in the equity markets, and $70 million in gains from the divestment of our holdings in Nordea. In addition, regular bond trading experienced an increase of $40 million in realized gains due to a decline in bond yields, and hence higher market values for bonds, in 2014 versus 2013. Bond yields declined in 2014 primarily due to concerns over weaker than expected global growth which put downward pressure on inflation expectations resulting in an increased demand for bonds. Finally, there were no impairment losses recognized in the current nine-month period compared with $75 million in the first nine months of 2013 due to a decline in equity markets.

Net Unrealized Gains (Losses) were $12 million, a $67 million (84.8%) decrease from the same nine-month period last year primarily due to the divestment of our holdings of Nordea which resulted in a reclassification of gains from unrealized to realized. This was partially offset by the reversal of a deferred net gain on direct lending borrowings and loans.

Premiums and Fees Earned were $1,427 million, a $58 million (3.9%) decrease from the same nine-month period last year primarily due to decreasing insured volumes in the Mortgage Loan Insurance Activity over the past several years.

Total Expenses

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Total Expenses decreased over the periods primarily due to lower Housing Programs expenses and lower Insurance Claims losses with a year-to-date decrease of $15 million (0.7%) from the same period last year.

Housing Programs expenses decreased over the periods in accordance with Parliamentary Appropriations noted above.

Insurance Claims losses were $245 million year-to-date 2014, a $7 million (2.9%) increase from the same period last year. These losses represent an estimate of future losses on mortgages that are in arrears but have not yet been reported as a claim by the lender. The estimate is an actuarial forecast based on a number of economic assumptions. The key drivers underlying these economic assumptions, such as the unemployment rate, and house price inflation did not improve as much over the current nine-month period as over the same nine-month period last year. When compared to the same nine-month period last year, the unemployment rate decreased from 7.1% to 7.0% in 2014 (7.3% to 7.1% in 2013) and house price inflation increased from 5.3% to 8.3% in 2014 (0.3% to 4.6% in 2013).

Income Taxes

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Income Tax expense increased over the periods primarily as a result of higher Net Income with year-to-date Income Tax expense of $561 million a $153 million (37.5%) increase over the same period last year.

The effective tax rate was 25% in the third quarter of 2014 and 24% year-to-date 2014.

Net Income

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Net Income increased over the periods primarily due to the crystallization of gains from the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio, with a year-to-date increase of $471 million (36.9%) from the same nine-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.

Resource Management

	Three months ended			Nine months ended	
(in millions)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Operating Expenses	90	80	84	259	260
Housing Programs Operating Expenses	28	26	28	81	85
Total Operating Expenses	**118**	**106**	**112**	**340**	**345**
Staff-Years (Full Time Equivalent)	458	453	456	1,345	1,358

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013

Total Operating Expenses remained relatively consistent between periods with slight increases primarily as a result of increased investment in technology.

For the three months ended 30 September 2014, staff-years consumed increased by 5 staff-years (1.1%) compared to the prior quarter and by 2 staff-years (0.4%) compared to the same quarter last year primarily due to increased staff requirements in information and technology and risk.

YTD 2014 vs. YTD 2013

Total Operating Expenses remained relatively consistent with a slight decrease primarily as a result of lower pension and benefit costs.

For the nine months ended 30 September 2014, staff-years consumed decreased by 13 staff-years (1.0%) compared to the same period last year primarily 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 our first objective: to support access to affordable housing for Canadians in need.

Mortgage Loan Insurance, Securitization and CHT support our 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 our 2013 Annual Report.

HOUSING PROGRAMS

FINANCIAL ANALYSIS

	Three months ended			Nine months ended	
(in millions)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Parliamentary Appropriations for Housing Programs	435	490	501	1,512	1,533
Housing Programs Expenses	435	490	501	1,512	1,533
Total	-	-	-	-	-

Q3 2014 vs. Q2 2014

Appropriation spending related to Housing Programs Expenses was lower than the prior quarter by $55 million (11.2%) due to the timing of claims submitted for affordable housing in Nunavut.

Q3 2014 vs. Q3 2013

Appropriation spending related to Housing Programs Expenses was lower than the same quarter last year by $66 million (13.2%) due to lower spending under the IAH as a result of the timing of claims submitted by provinces and territories ($35 million) and revised timing of expenditures under long term commitments for existing social housing ($31 million).

YTD 2014 vs. YTD 2013

Appropriation spending related to Housing Programs Expenses was lower than the same nine-month period last year by $21 million (1.4%). Of the decrease, $70 million is due to the timing of expenditures under the IAH and $31 million for long term commitments for existing social housing. These decreases were partially offset by an increase of $85 million for affordable housing in Nunavut.

FINANCIAL CONDITION

Balance Sheet Review

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

Liquidity

Our 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, we maintain a source of short-term liquid assets in order to mitigate timing mismatch. We also have 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 our 2013 Annual Report.

REPORTING ON USE OF APPROPRIATIONS

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

(in millions)	Nine months ended 30 September 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	(1,172)	(1,171)
Forecasted lapse for 2014/15 (Actual lapse in 2013/14)	-	-
2014/15 (2013/14) portions recognized in 2014 (2013)	**925**	**960**
Total appropriations recognized – nine months ended 30 September	**1,512**	**1,533**

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 September 2014 was $925 million (44.1%) and expectations are that spending will be within planned levels at fiscal year-end.

LENDING

FINANCIAL ANALYSIS

	Three months ended			Nine months ended	
(in millions)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Net Interest Income	1	1	4	5	10
Other Income	66	2	27	72	38
Total Revenues	**67**	**3**	**31**	**77**	**48**
Operating Expenses	5	4	5	14	16
Total Expenses	**5**	**4**	**5**	**14**	**16**
Income before Income Taxes	**62**	**(1)**	**26**	**63**	**32**
Income Taxes	16	(1)	5	13	4
Net Income	**46**	**-**	**21**	**50**	**28**

Total Revenues

Q3 2014 vs. Q2 2014

Total Revenues increased by $64 million (2,133.3%) over the prior quarter as a result of higher Other Income. The increase in Other Income was primarily due to higher Net Unrealized Gains (Losses) on financial instruments caused by the reversal of a deferred net gain on direct lending borrowings and loans.

At initial recognition, the fair value of our direct lending borrowings and loans is not equal to the exchange amount as the rates on the borrowings and loans are off market. Differences between the exchange amount and the fair value result in the recognition of a day one gain and/or loss, which prior to the third quarter, have been deferred and recognized in income over the life of the financial instrument on a straight line basis. As a result of a review of the market observability of the inputs used in the valuation of these financial instruments, the deferred net gains on the borrowings and loans were reversed to net income during the third quarter. Starting Q3, any differences between the exchange amount and the fair value will be recorded immediately in Net Income which is consistent with assumptions used in the determination of the fair value estimate of the overall Lending hedging structure. For further detail refer to the Consolidated Financial Statements Note 4 Fair Value Measurements.

Q3 2014 vs. Q3 2013

Total Revenues increased by $36 million (116.1%) over the same quarter last year as a result of higher Other Income as explained above. This increase was partially offset by a fair value adjustment for swaps recorded in the third quarter of 2013 while no adjustment was required in 2014.

YTD 2014 vs. YTD 2013

Total Revenues increased by $29 million (60.4%) over the same nine-month period last year primarily as a result of higher Other Income as explained above. This was partially offset by the lower recovery of actuarial losses from the Housing Programs Activity (refer to 2013 Annual Report for further detail on Post-employment Benefits). These losses are the difference between our actual defined benefit plan costs and the estimated cost based on actuarial assumptions. These recoveries have decreased from last year due to the recognition of remeasurement gains last year which did not occur in the current period.

Total Expenses

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Total Expenses remained relatively consistent over the periods with a year-to-date decrease of $2 million (12.5%).

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.

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Net income increased by $46 million (from nil), $25 million (119.0%) and $22 million (78.6%) from the prior quarter and same three and nine-month periods last year primarily as a result of the increase in Other Income previously noted and the related income tax expense impact.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	**30 September 2014**	**31 December 2013**
Cash, Cash Equivalents and Investment Securities	2,182	1,838
Loans and Accrued Interest Receivable	10,320	11,102
Due from the Government	254	311
Accounts Receivable and Other	348	342
Total Assets	**13,104**	**13,593**
Borrowings and Accrued Interest Payable	12,384	12,802
Defined Benefit Plans Liability	193	149
Accounts Payable and Other	340	450
Total Liabilities	**12,917**	**13,401**
Total Equity[1]	**187**	**192**

[1] Total Equity for the Lending Activity includes the Reserve Fund of $162 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 $489 million (3.6%) 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 $782 million (7.0%) from 31 December 2013 due to scheduled repayments in the loans as they approach maturity.

Cash, Cash Equivalents and Investment Securities increased by $344 million (18.7%) 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 loan renewals and the repayment of the debt.

Total Liabilities

Total Liabilities decreased by $484 million (3.6%) from 31 December 2013 primarily as a result of a decrease in Borrowings and Accrued Interest Payable due to repayments, net of issuances. Further contributing to the decrease was the reversal of the deferred day one gains/losses on the borrowings/loans as explained in the Financial Analysis section.

Total Equity

Total Equity decreased by $5 million (2.6%) from 31 December 2013 largely as a result of fluctuations in Remeasurements of the Net Defined Benefit Plans as a result of a decline in the discount rate in 2014. This decrease was partially offset by increased Net Unrealized Gains (Losses) on financial instruments as explained above.

Capital Management

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

We keep the Reserve Fund as part of our 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.

	As at	
(in millions)	**30 September 2014**	**31 December 2013**
Reserve Fund for Lending	162	167

The Reserve Fund for Lending has decreased by $5 million (3.0%) from 31 December 2013 largely as a result of the change in the Remeasurements of the Net Defined Benefit Plans as a result of a decline in the discount rate in 2014. This decrease was partially offset by increased Net Unrealized Gains (Losses) on financial instruments as explained above.

Liquidity

We manage 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 our 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

We provide insurance to approved 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. We derive our Net Income primarily from this activity.

Our 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			Nine months ended	
Measures	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Total Insured Volumes (units):	**83,113**	**87,765**	**93,653**	**226,264**	**260,608**
Transactional Homeowner	53,292	54,204	58,301	135,365	146,656
Portfolio	5,980	6,082	8,881	18,847	42,733
Multi-unit Residential	23,841	27,479	26,471	72,052	71,219
Total Insured Volumes ($M):	**16,045**	**15,769**	**17,646**	**41,142**	**46,596**
Transactional Homeowner	13,125	12,489	13,884	32,125	33,485
Portfolio	1,424	1,496	2,145	4,589	8,480
Multi-unit Residential	1,496	1,784	1,617	4,428	4,631

Our 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.

Q3 2014 vs. Q2 2014

Our total insured units for the third quarter of 2014 were 4,652 units (5.3%) lower than the prior quarter primarily as a result of seasonality. Mortgage originations, and related mortgage policies written, typically peak in the spring and summer months.

- Transactional Homeowner volumes were 912 units (1.7%) lower compared to the prior quarter. Purchase units decreased by 0.8% and refinance units decreased by 8.9% compared to the prior quarter primarily due to seasonal patterns. Transactional Homeowner dollar volumes were fairly stable compared to the prior quarter, with growth in the average loan amount, primarily due to rising home prices, offsetting the decline in units;
- Portfolio volumes were 102 units (1.7%) lower compared to the prior quarter primarily due to the timing of lender take-up of the portfolio insurance product which is highly variable on a quarterly basis; and
- Multi-unit residential volumes were 3,638 units (13.2%) lower compared to the prior quarter. Purchase units increased by 39.3% and refinance units decreased by 25.2% compared to the prior quarter. Multi-unit residential volumes are highly variable on a quarterly basis.

Q3 2014 vs. Q3 2013

Our total insured units for the third quarter of 2014 were 10,540 units (11.3%) lower than the same quarter last year, which is the result of:

- Transactional Homeowner volumes were 5,009 units (8.6%) lower compared to the same quarter last year. Purchase units, which accounted for approximately 90% of the total Transactional Homeowner units in the third quarter, decreased by 7.9% and refinance units decreased by 12.1% compared to the same quarter last year mostly as a result of a decreasing market share;
- Portfolio volumes were 2,901 units (32.7%) lower compared to the same quarter last year as lenders insured lower volumes of their annual allocation in the third quarter of 2014 compared to the same period in 2013. We expect lenders to fully utilize the total annual allocation of $9 billion by the end of the fourth quarter; however, quarterly lender take-up is highly variable on a quarterly basis; and
- Multi-unit residential volumes were 2,630 units (9.9%) lower compared to the same quarter last year due to decreases in multi-unit residential refinance transactions as a result of the high variability on a quarterly basis. Multi-unit refinancing volumes accounted for 70.2% of the total multi-unit volumes in the third quarter.

YTD 2014 vs. YTD 2013

Our total insured units for the first nine months of 2014 were 34,344 units (13.2%) lower than the same nine-month period last year largely as a result of the decrease in portfolio business.

- Transactional Homeowner volumes were 11,291 units (7.7%) lower compared to the same nine-month period last year. Purchase units, which accounted for approximately 89% of the total Transactional Homeowner units in the nine month period, decreased by 7.1% and refinance units decreased by 11.3% compared to the same nine-month period last year, mostly as a result of a decreasing market share;
- Portfolio volumes were 23,886 units (55.9%) lower compared to the same nine-month period last year due mostly to the timing of lender take-up and the reduced portfolio insurance annual allocation in 2014. In the first nine months of 2014, lenders have utilized approximately 51% of the annual $9 billion allocation ($11 billion – 2013). Nonetheless, we expect lenders to fully utilize the unused 2014 annual allocation; and
- Multi-unit residential volumes were 833 units (1.2%) higher compared to the same nine-month period last year primarily due to increases in multi-unit residential refinance transactions which were partially offset by decreases in multi-unit residential purchase transactions.

FINANCIAL ANALYSIS

	Three months ended			Nine months ended	
(in millions, unless otherwise indicated)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Premiums and Fees Received:	**409**	**372**	**401**	**987**	**987**
Transactional Homeowner	347	301	328	799	790
Portfolio	6	8	8	21	22
Multi-unit residential	56	63	65	167	175
Claims Paid:	**123**	**92**	**89**	**317**	**339**
Transactional Homeowner	99	88	81	282	310
Portfolio	8	3	7	18	26
Multi-unit residential	16	1	1	17	3
Premiums and Fees Earned	425	423	444	1,248	1,297
Investment Income	166	159	144	474	424
Other Income	628	40	27	742	105
Total Revenues	**1,219**	**622**	**615**	**2,464**	**1,826**
Insurance Claims Losses	85	58	70	245	238
Operating Expenses	59	50	55	166	168
Total Expenses	**144**	**108**	**125**	**411**	**406**
Income before Income Taxes	**1,075**	**514**	**490**	**2,053**	**1,420**
Income Taxes	263	125	121	500	345
Net Income	**812**	**389**	**369**	**1,553**	**1,075**
Arrears Rate	0.34 %	0.33 %	0.33 %	0.34 %	0.33 %
Severity Ratio	33.0 %	27.7 %	28.9 %	30.5 %	30.0 %
Loss Ratio	20.0 %	13.7 %	15.8 %	19.6 %	18.4 %
Operating Expense Ratio	13.9 %	11.8 %	12.4 %	13.3 %	13.0 %
Combined Ratio	33.9 %	25.5 %	28.2 %	32.9 %	31.4 %
Capital Available to Minimum Capital Required (% MCT)	294 %	272 %	243 %	294 %	243 %
Return on Equity[1]	20.6 %	10.2 %	10.9 %	13.7 %	10.8 %
Return on Capital Holding Target	29.7 %	12.7 %	12.6 %	19.6 %	12.7 %

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

Premiums and Fees Received

Q3 2014 vs. Q2 2014

Premiums and Fees Received increased by $37 million (9.9%) from the prior quarter due in part to the premium increase effective 1 May 2014 and consistent with growth in the average loan amount (refer to Operating Environment for further details regarding the premium increase).

Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Premiums and Fees Received year-to-date were consistent with the same year-to-date period last year, and increased by $8 million (2.0%) from the same quarter last year as a result of the premium increase which was offset by declining insured volumes.

Total Revenues

Q3 2014 vs. Q2 2014

Total Revenues increased by $597 million (96.0%) from the prior quarter as a result of higher Other Income.

Other Income increased by $588 million (1,470.0%) from the prior quarter primarily due to higher Net Realized Gains (Losses) and higher Net Unrealized Gains (Losses).

Net Realized Gains (Losses) increased by $521 million (482.4%) from the prior quarter primarily due to the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio during the third quarter which focuses on preserving capital through stable income in order to meet cash flow requirements. The implementation resulted in realized gains of $535 million. In addition, realized gains on normal equity trading were $62 million higher than the prior quarter due to a continued rally in the equity markets, offsetting the decrease in gains from those recognized in the prior quarter due to the divestment of our holdings of Nordea, an equity fund.

Net Unrealized Gains (Losses) increased by $67 million (98.5%) from the prior quarter as the divestment of our holdings of Nordea in the second quarter of this year resulted in no further unrealized gains or losses to be recognized.

Q3 2014 vs. Q3 2013

Total Revenues increased by $604 million (98.2%) from the same quarter last year primarily as a result of higher Other Income.

Other Income increased by $601 million (2,225.9%) primarily as a result of higher Net Realized Gains (Losses) which increased by $631 million (31,550.0%) over the same quarter last year primarily due to the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio during the third quarter that resulted in realized gains of $535 million. Further contributing to the growth in realized gains was $67 million in gains on other domestic equity investments due to a continued rally in the equity markets.

YTD 2014 vs. YTD 2013

Total Revenues increased by $638 million (34.9%) from the same nine-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 $637 million (606.7%) from the same nine-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 $760 million (2,303.0%) over the same nine-month period last year primarily due to $535 million in gains realized with the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio, $40 million in gains on the sale of other domestic equity investments due to a continued rally in the equity markets, and $70 million in gains from the divestment of our holdings of Nordea. In addition, regular bond trading experienced an increase of $40 million in realized gains due to declining bond yields in 2014 whereas bond yields increased over 2013. There were no impairment losses recognized in the current nine-month period compared with $75 million in the first nine months of 2013.

Net Unrealized Gains (Losses) decreased by $113 million (188.3%) over the same nine-month period last year primarily due to the divestment of our holdings of Nordea which resulted in the reclassification of gains from unrealized to realized.

Investment Income increased by $50 million (11.8%) over the same nine-month period last year primarily due to final distributions earned on liquidated pooled fund investments and the divestment of our holdings of Nordea. In addition, income earned on bond investments increased due to increased portfolio size.

Premiums and Fees Earned decreased by $49 million (3.8%) from the same nine-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 premium increase effective 1 May 2014 will increasingly impact Premiums and Fees Earned as the books age.

Claims Paid and Arrears

Q3 2014 vs. Q2 2014 and Q3 2014 vs. Q3 2013

Claims paid during the quarter were $31 million (33.7%) higher than the prior quarter and $34 million (38.2%) higher than the same quarter last year. The increase over the quarterly periods was primarily a result of higher Multi-unit residential claims paid due to the timing of the payment processing of several large claims and higher Transactional Homeowner claims paid.

YTD 2014 vs. YTD 2013

Year-to-date claims paid were $22 million (6.5%) lower than the same nine-month period last year. The year-over-year decrease is attributed to lower Transactional Homeowner and Portfolio claims paid as a result of improving economic conditions. This was partially offset by higher Multi-unit residential claims paid due to several large claims being paid in the third quarter.

	As at			
	30 September 2014		31 December 2013	
	No. of Loans in Arrears	Arrears Rate	No. of Loans in Arrears	Arrears Rate
Transactional Homeowner	7,479	0.50%	7,749	0.51%
Portfolio	2,000	0.15%	2,151	0.15%
Multi-unit residential	138	0.62%	133	0.64%
Total	**9,617**	**0.34%**	**10,033**	**0.34%**

Our arrears rate is calculated on the basis of all loans that are more than 90 days past due over the number of outstanding insured loans.

Our overall arrears rate as at 30 September 2014 was 0.34%, consistent with year-end 2013. While the overall arrears rate was unchanged compared to year-end 2013, the arrears rate for both Transactional Homeowner and Multi-unit residential declined slightly.

Transactional Homeowner arrears represented 77.8% of the total arrears volumes, Portfolio represented 20.8% and Multi-Unit residential represented 1.4%. Recent limitations on portfolio insurance will result in a change in the mix of loans we insure going forward. As portfolio arrears rates are lower than transactional homeowner arrears rates, our overall arrears rate is expected to increase over time.

The total number of loans in arrears was 9,617 at 30 September 2014, a 416 unit (4.1%) decrease compared to year-end 2013.

Total Expenses

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Total Expenses increased by $36 million (33.3%), $19 million (15.2%) and $5 million (1.2%) from the prior quarter, the same quarter last year and the same nine-month period last year respectively primarily due to higher Insurance Claims losses.

Insurance Claims losses increased over the periods with a year-to-date increase of $7 million (2.9%) from the same period last year. These losses represent an estimate of future losses on mortgages that are in arrears but have not yet been reported as a claim by the lender. The estimate is an actuarial forecast based on a number of economic assumptions. The key drivers underlying these economic assumptions, such as the unemployment rate, and house price inflation did not improve as much over the current nine-month period as over the same nine-month period last year.

Net Income

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Net Income increased by $423 million (108.7%) over the prior quarter, by $443 million (120.1%) from the same quarter last year and by $478 million (44.5%) over the same nine-month period last year primarily due to higher Other Income offset by higher Insurance Claims Losses as previously explained.

Ratios

To supplement financial results of the Mortgage Loan Insurance Activity, we also use financial measures and ratios to analyze our financial performance.

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

The severity ratio for the three and nine months ended 30 September 2014 increased over the periods primarily as a result of higher Multi-unit residential claims paid as noted above.

The combined ratio for the three and nine months ended 30 September 2014 increased over the periods primarily as a result of a higher Insurance Claims losses in the third quarter of 2014 as noted above. The operating expense ratio also showed an upward trend over the periods. While year-to-date operating expenses remained relatively stable with the same period last year, quarter over quarter operating expenses increased as a result of an increase in information and technology costs. 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.

The return on equity ratio for the three months and nine months ended 30 September 2014 increased over the periods primarily as a result of higher Net Income due to the implementation of the new asset allocation in the Mortgage Loan Insurance investment portfolio.

The return on capital holding target for the three and nine months ended 30 September 2014 increased over the periods due to higher Net Income primarily resulting from the new asset allocation in the Mortgage Loan Insurance investment portfolio, partially offset by the increase in the Holding Target. Refer to the Capital Management section for further details.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	**30 September 2014**	**31 December 2013**
Cash, Cash Equivalents and Investment Securities	22,772	20,980
Accrued Interest Receivable	158	104
Accounts Receivable and Other	489	457
Total Assets	**23,419**	**21,541**
Securities Sold Under Repurchase Agreements	346	91
Provision for Claims	798	869
Unearned Premiums and Fees	5,704	5,947
Defined Benefit Plans Liability	288	201
Accounts Payable and Other	344	117
Total Liabilities	**7,480**	**7,225**
Total Equity	**15,939**	**14,316**

Total Assets

Total Assets increased by $1,878 million (8.7%) over 31 December 2013 primarily due to an increase in Cash, Cash Equivalents and Investment Securities.

Cash, Cash Equivalents and Investment Securities increased by $1,792 million (8.5%). Cash and Cash Equivalents increased primarily due to a change in the asset allocation in the Mortgage Loan Insurance investment portfolio, cash inflows from operations and positive overall investment returns for the portfolio.

Total Liabilities

Total Liabilities increased by $255 million (3.5%) from 31 December 2013 primarily due to an increase in Securities Sold Under Repurchase Agreements, Accounts Payable and Other and the Defined Benefit Plans Liability. This increase was partially offset by a decrease in the Provision for Claims and Unearned Premiums and Fees.

Securities Sold Under Repurchase Agreements increased by $255 million (280.2%) as activity has returned to normal levels compared to a decrease during the fourth quarter of 2013.

Accounts Payable and Other increased by $227 million (194.0%) primarily due to higher income taxes payable of $170 million on current period net income and a $36 million payable to the Government of Canada for the new insurance risk fee.

The Defined Benefits Plans liability increased by $87 million (43.3%) due to a decrease in the discount rate in 2014 (from 4.8% to 4.0%).

The Provision for Claims decreased by $71 million (8.2%) as a result of aging of the book of business, a decrease in the early delinquency rate for Transactional Homeowner, and higher than expected house price inflation.

Unearned Premiums and Fees decreased by $243 million (4.1%) primarily due to the lower levels of insured volumes over the past several years.

Total Equity

Total Equity of Canada increased by $1,623 million (11.3%) which represents the comprehensive income recognized for the nine months ended 30 September 2014.

Capital Management

Our Capital Management Framework follows guidelines as set out by OSFI. Under capital guidelines applicable to federally regulated mortgage insurers in Canada, we calculate the ratio of capital available to the minimum capital required by OSFI. This is referred to as the MCT.

We set 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 us with an early indication of the need to resolve financial problems. During the quarter, the Board of Directors reviewed our capital targets and determined that the Internal Target should be increased to 205% (2013 – 185%) of the minimum capital required.

We operate at available capital levels above the Internal Target on all but unusual and infrequent occasions. Accordingly, we have established a Holding Target in excess of the Internal Target.

The Holding Target is calibrated using confidence intervals specified by our Capital Management Framework and is designed to provide us with adequate time to resolve financial problems before available capital decreases below the Internal Target. During the quarter, the Board of Directors reviewed our capital targets and determined that the Holding Target should be increased to 220% (2013 – 200%).

(in millions, unless otherwise indicated)	As at 30 September 2014	As at 31 December 2013
Unappropriated Retained Earnings	**3,944**	**2,823**
Mortgage Loan Insurance Appropriated Capital		
Appropriated Retained Earnings	10,846	10,497
Accumulated Other Comprehensive Income (Loss)	1,149	996
Total Appropriated Capital	**11,995**	**11,493**
Total Equity	**15,939**	**14,316**
Less: Assets with a Capital Requirement of 100%	(248)	(231)
Total Capital Available	**15,691**	**14,085**
Capital Available to Capital Required (100% MCT)	294 %	250 %
CMHC's Internal Capital Target (% MCT)	205 %	185 %
CMHC's Capital Holding Target (% MCT)	220 %	200 %

We appropriate Retained Earnings and Accumulated Other Comprehensive Income (Loss) from the Mortgage Loan Insurance Activity at the 220% Holding Target level. Appropriated Capital as at 30 September 2014 was $11,995 million (2013 – $11,493 million).

Capital Available of $15,691 million (2013 – $14,085 million) was 294% (2013 – 250%) of the minimum required, an increase of 44 points compared to 31 December 2013 as a result of an increase in total equity during the period.

Liquidity

The Mortgage Loan Insurance Activity is managed 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 generated by premiums and fees and interest received, net of claims and operating expenses. During the quarter, the Board of Directors approved a new investment objective and asset allocation for the Mortgage Loan Insurance investment portfolio that focuses on maximizing risk-adjusted return while meeting cash flow requirements. The transition to the new asset allocation was initiated at during the third quarter with substantial implementation of the approved asset mix and investment strategy to be completed by 1 January 2015.

As at 30 September 2014, total investments had a fair value of $22.8 billion compared to $21.0 billion at 31 December 2013.

Off-Balance Sheet Arrangements and Contractual Obligation

The Mortgage Loan Insurance Activity engages in some financial transactions that, under IFRS, are either not recorded on the Consolidated Balance Sheet or are recorded in amounts that differ from the full contract or notional amounts. These off-balance sheet arrangements include insurance contracts, contractual obligations and certain commitments. Further details can be found in our 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 us 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, in accordance with and subject to the terms of the mortgage insurance policy. Total insurance-in-force represents the risk exposure of the Mortgage Loan Insurance Activity.

(in billions)	As at 30 September 2014	As at 31 December 2013
Total Insurance-in-force:	**546**	**557**
Transactional Homeowner	286	288
Portfolio	206	219
Multi-unit residential	54	50

At 30 September 2014, insurance-in-force was $546 billion, an $11 billion (2.0%) decrease from 31 December 2013. New loans insured were $41.1 billion, while estimated loan amortization and pay-downs were $52 billion. We expect mortgage repayments to continue in the range of approximately $65 to $75 billion per year. These repayments offset future increases to our insurance-in-force resulting from new business being written.

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

We guarantee 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 legal framework for covered bonds that we administer 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 us 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. We guarantee 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. We guarantee 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 us 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 us under the program. Assets and liabilities under the program have been maturing as scheduled.

We are responsible for administering the legal framework for registered covered bonds in Canada. Neither we, nor the Government of Canada guarantee these payments and the bonds cannot be backed by insured residential mortgages. We administer this legal framework on a cost-recovery basis.

NEW SECURITIES GUARANTEED

	Three months ended			Nine months ended	
(in millions)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Total New Securities Guaranteed:	**30,393**	**24,389**	**29,007**	**77,287**	**102,120**
NHA MBS	19,893	14,889	20,107	48,287	73,220
CMB	10,500	9,500	8,900	29,000	28,900

Q3 2014 vs. Q2 2014
New securities guaranteed for the third quarter of 2014 were $6 billion (24.6%) higher than the prior quarter primarily as a result of a cyclical increase in mortgage activity.

Q3 2014 vs. Q3 2013
New securities guaranteed for the third quarter of 2014 were relatively consistent with the same quarter last year showing an increase of $1 billion (4.8%).

YTD 2014 vs. YTD 2013
New securities guaranteed for the first nine months of 2014 were $25 billion (24.3%) lower than the same nine-month period last year primarily due to the timing of NHA MBS issuance by Approved Issuers. The decrease reflects the quarterly allocation methodology for 2014, while the first two quarters of 2013 did not have an allocation methodology.

FINANCIAL ANALYSIS

	Three months ended			Nine months ended	
(in millions, unless otherwise indicated)	30 Sept 2014	30 June 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Guarantee and Application Fees Received:	**73**	**59**	**64**	**185**	**216**
Market NHA MBS	48	36	42	115	146
CMB	25	23	22	70	70
Guarantee and Application Fees Earned	61	59	64	179	188
Net Interest Income	-	-	-	-	-
Investment Income	9	10	8	27	23
Other Income	1	4	7	10	21
Total Revenues	**71**	**73**	**79**	**216**	**232**
Operating Expenses	7	8	7	24	21
Total Expenses	**7**	**8**	**7**	**24**	**21**
Income before Income Taxes	**64**	**65**	**72**	**192**	**211**
Income Taxes	16	16	19	48	53
Net Income	**48**	**49**	**53**	**144**	**158**
Operating Expense Ratio	11.2 %	10.3 %	10.9 %	10.7 %	10.4 %
Capital Available to Capital Required	152 %	209 %	166 %	152 %	166 %
Return on Equity[1]	12.4 %	13.1 %	15.9 %	12.9 %	16.4 %

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

Guarantee and Application Fees Received

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013
Guarantee and Application Fees Received variances were consistent with the volume variances noted above with a year-to-date decrease of $31 million (14.4%) from the same nine-month period last year.

Total Revenues

Q3 2014 vs. Q2 2014
Total Revenues remained fairly consistent with the prior quarter decreasing by $2 million (2.7%).

Q3 2014 vs. Q3 2013
Total Revenues decreased by $8 million (10.1%) when compared to the same quarter last year, primarily due to a decline in Other Income. Recognized in other income are administration fees on IMPP which decreased over the periods, consistent with the ongoing wind-up of the program.

YTD 2014 vs. YTD 2013

Total Revenues decreased by $16 million (6.9%) from the same nine-month period last year primarily due to a decline in Other Income due to lower administration fees on IMPP. This was offset by higher covered bond revenue from a greater number of Approved Issuers, as well as an annual fee being enacted in 2014.

Total Expenses

Q3 2014 vs. Q2 2014 and Q3 2014 vs. Q3 2013

Total Expenses were relatively consistent with a decrease of $1 million (12.5%) from the prior quarter and no change over the same quarter last year.

YTD 2014 vs. YTD 2013

Total Expenses were relatively consistent with an increase of $3 million (14.3%) over the same nine-month period last year primarily due to increasing covered bond administrative costs resulting from a greater number of approved issuers.

Net Income

Q3 2014 vs. Q2 2014 and Q3 2014 vs. Q3 2013

The Securitization Activity operates in a regulated business environment with the Minister of Finance setting the annual limit on new guarantees and large variances quarter over quarter are not expected. Net Income decreased by $1 million (2.0%) from the prior quarter and decreased by $5 million (9.4%) 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 $14 million (8.9%) from the same nine-month period last year due to lower Other Income as explained above.

Ratios

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013

Overall, the operating expense ratio has remained relatively consistent over the periods. The return on equity ratio has decreased from the same three and nine month periods last year due to Net Income. Refer to the Capital Management section for further information on the capital available to capital required ratio.

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	30 September 2014	31 December 2013
Cash, Cash Equivalent and Investment Securities	2,094	1,896
Loans and Accrued Interest Receivable	3,453	28,116
Accounts Receivable and Other	49	59
Total Assets	**5,596**	**30,071**
Borrowings and Accrued Interest Payable	3,438	28,110
Unearned Fees	568	564
Defined Benefit Plans Liability	6	-
Accounts Payable and Other	4	1
Total Liabilities	**4,016**	**28,675**
Total Equity	**1,580**	**1,396**

Total Assets

Total Assets decreased by $24,475 million (81.4%) from 31 December 2013 primarily due to a decrease in Loans and Accrued Interest Receivable of $24,663 million (87.7%) 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 $24,659 million (86.0%) from 31 December 2013 primarily due to a decrease in Borrowings and Accrued Interest Payable of $24,672 million (87.8%) as a result of principal loan repayments under the IMPP.

Total Equity

Total Equity increased by $184 million (13.2%) over 31 December 2013 which represents the comprehensive income recognized for the nine months ended 30 September 2014.

Capital Management

Our 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 as defined by OSFI.

	As at	
(in millions, unless otherwise indicated)	30 September 2014	31 December 2013
Unappropriated Retained Earnings	**539**	**623**
Securitization Appropriated Capital		
Appropriated Retained Earnings	1,039	816
Accumulated Other Comprehensive Income (Loss)	2	(43)
Total Appropriated Capital	**1,041**	**773**
Total Equity	**1,580**	**1,396**
Less: Assets with a Capital Requirement of 100%	(2)	(15)
Total Capital Available	**1,578**	**1,381**
Capital Available to Capital Required	152 %	182 %

We set aside a portion of Retained Earnings and Accumulated Other Comprehensive Income (Loss) for capitalization. Appropriated Capital as at 30 September 2014 was $1,041 million, an increase of $268 million (34.7%) from 31 December 2013, primarily due to methodology changes in the calculation of capital required. During the third quarter, the Board of Directors reviewed our internal targets and approved internal policy changes to the Securitization capital requirements by increasing capitalization factors for interest rate risks and increasing capital requirements for swap exposures and operational risks.

At 30 September 2014, Capital Available was 152% of the capital required or $1,578 million (182% or $1,381 million – 31 December 2013). Prior to the internal policy changes noted above, the capital required ratio grew steadily each quarter due to Total Equity increasing with Net Income and required capital decreasing due to IMPP repayments. The decrease in the Capital Available to Capital Required ratio from year end is a result of the methodology changes in the calculation of capital required, partially offset by the ongoing upwards pressure on the ratio due to IMPP repayments.

Liquidity

We manage 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 our 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 September 2014, total investments under management had a fair value of $2.0 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 our 2013 Annual Report in addition to the following:

Guarantees-in-force

We guarantee 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.

	As at	
(in billions)	**30 September 2014**	**31 December 2013**
Guarantees-in-force	**404**	**398**
Market NHA MBS	198	192
CMB	206	206

Guarantees-in-force totalled $404 billion at 30 September 2014, a $6 billion (1.5%) increase over 31 December 2013. Guarantees-in-force change as new guarantees are made and as guaranteed securities mature. In the nine-month period ending 30 September 2014, new guarantees granted by CMHC exceeded 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. We guarantee 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			Nine months ended	
(in millions)	**30 Sept 2014**	**30 June 2014**	**30 Sept 2013**	**30 Sept 2014**	**30 Sept 2013**
Net Interest Income	2	2	2	7	7
Other Income	43	40	38	121	121
Total Revenues	**45**	**42**	**40**	**128**	**128**
Operating Expenses	45	42	40	128	128
Total Expenses	**45**	**42**	**40**	**128**	**128**
Net Income	**-**	**-**	**-**	**-**	**-**

Total Revenues

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013
Total Revenues were consistent over the quarters, increasing by $3 million (7.1%) from the prior quarter and by $5 million (12.5%) from the same quarter last year due to timing of CMB issuances. On a year-to-date basis, overall issuances have remained steady resulting in consistent revenues.

Total Expenses

Q3 2014 vs. Q2 2014, Q3 2014 vs. Q3 2013 and YTD 2014 vs. YTD 2013
Operating Expenses were consistent over the quarters, increasing by $3 million (7.1%) over the prior quarter and by $5 million (12.5%) from the same quarter last year. On a year-to-date basis, consistent overall CMB issuance volumes have resulted in consistent Operating Expenses.

Net Income

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

FINANCIAL CONDITION

Balance Sheet Review

	As at	
(in millions)	30 September 2014	31 December 2013
Total Assets	206,966	207,115
Total Liabilities	206,966	207,115

Total Assets and Total Liabilities
Total Assets and Total Liabilities remained consistent with a decrease of $149 million (0.1%) from 31 December 2013 primarily due to a decrease in CMB net issuances, which was offset by higher accrued interest receivable due to the timing of coupon payments.

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 our 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 our 2013 Annual Report.

RISK MANAGEMENT

We are exposed to a variety of risks in our operating environment that could have an impact on the achievement of our objectives. These risks are discussed in detail in our 2013 Annual Report. There have been no material developments impacting our risk management since the last reporting period.

CHANGES IN KEY MANAGEMENT PERSONNEL

The following changes to our key management personnel were announced:

- Effective 31 August 2014, Michel Gendron resigned from our Board of Directors after completing his full four-year term.
- Effective 31 October 2014, Rennie Pieterman resigned from our Board of Directors after completing her full four-year term.
- On 14 November 2014, Gail Tolley, Senior Vice-President, Human Resources, retired from CMHC. Kathryn Howard was announced as Gail Tolley's replacement, effective 1 December 2014.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 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, our financial position, results of operations and cash flows, 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

20 November 2014

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at 30 September 2014	As at 31 December 2013
ASSETS			
Cash and Cash Equivalents		3,473	1,336
Securities Purchased Under Resale Agreements		63	-
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		1,069	1,012
Available for Sale		19,933	19,659
Held for Trading		-	444
Loans:	6		
Designated at Fair Value through Profit or Loss		5,620	6,041
Loans and Receivables		213,884	239,531
Accrued Interest Receivable		1,375	859
Derivatives		97	96
Due from the Government of Canada	7	254	311
Accounts Receivable and Other Assets		789	762
		246,557	270,051
LIABILITIES			
Securities Sold Under Repurchase Agreements		346	91
Borrowings:	9		
Designated at Fair Value through Profit or Loss		7,631	7,818
Other Financial Liabilities		211,597	237,378
Accrued Interest Payable		1,143	652
Derivatives		33	44
Accounts Payable and Other Liabilities		1,051	817
Provision for Claims	10	798	869
Unearned Premiums and Fees		6,272	6,511
Deferred Income Tax Liabilities		62	33
		228,933	254,213
Commitments and Contingent Liabilities	18		
EQUITY OF CANADA			
Contributed Capital		25	25
Accumulated Other Comprehensive Income		1,125	943
Retained Earnings		16,474	14,870
		17,624	15,838
		246,557	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 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2014**	**2013**	**2014**	**2013**
Parliamentary Appropriations for Housing Programs	7	435	501	1,512	1,533
Premiums and Fees Earned		486	508	1,427	1,485
Interest Income					
Loans	6	1,333	1,751	4,131	5,464
Other		18	16	47	45
		1,351	1,767	4,178	5,509
Interest Expense	9	1,330	1,742	4,109	5,438
Net Interest Income		21	25	69	71
Investment Income		163	143	467	420
Net Realized Gains (Losses)	4	623	(1)	767	24
Net Unrealized Gains (Losses)	4	63	50	12	79
Other Income		20	29	70	103
TOTAL REVENUES		**1,811**	**1,255**	**4,324**	**3,715**
EXPENSES					
Housing Programs	7	435	501	1,512	1,533
Insurance Claims	10	85	70	245	238
Operating Expenses		90	84	259	260
		610	655	2,016	2,031
INCOME BEFORE INCOME TAXES		**1,201**	**600**	**2,308**	**1,684**
Income Taxes	11	295	148	561	408
NET INCOME		**906**	**452**	**1,747**	**1,276**
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		(100)	110	529	(154)
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income		(304)	(79)	(347)	(77)
Total Items that Will Be Subsequently Reclassified to Net Income		(404)	31	182	(231)
Items that Will Not Be Subsequently Reclassified to Net Income:					
Remeasurements of the Net Defined Benefit Plans		(27)	65	(143)	259
		(431)	96	39	28
COMPREHENSIVE INCOME		**475**	**548**	**1,786**	**1,304**

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 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
CONTRIBUTED CAPITAL	**25**	**25**	**25**	**25**
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance at Beginning of Period	1,529	776	943	1,038
Other Comprehensive Income (Loss)	(404)	31	182	(231)
Balance at End of Period	**1,125**	**807**	**1,125**	**807**
RETAINED EARNINGS				
Balance at Beginning of Period	15,595	13,799	14,870	12,781
Net Income	906	452	1,747	1,276
Other Comprehensive Income (Loss)	(27)	65	(143)	259
Balance at End of Period	**16,474**	**14,316**	**16,474**	**14,316**
EQUITY OF CANADA	**17,624**	**15,148**	**17,624**	**15,148**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	Notes	2014	2013	2014	2013
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net Income		906	452	1,747	1,276
Items Not Affecting Cash or Cash Equivalents:					
Amortization of Premiums and Discounts on Financial Instruments		21	22	64	69
Deferred Income Taxes		29	22	29	89
Change in Fair Value of Financial Instruments Carried at Fair Value	4	(63)	(50)	(12)	(79)
Net (Gain) Loss on Financial Instruments	4	(623)	1	(767)	(24)
Net Change in Non-cash Operating Assets and Liabilities:					
Accrued Interest Receivable		(643)	(545)	(516)	(464)
Accounts Receivable and Other Assets		(5)	185	(27)	102
Due from the Government of Canada		82	45	57	53
Accrued Interest Payable		582	405	491	437
Accounts Payable and Other Liabilities		(80)	(145)	234	(475)
Derivatives		10	(1)	6	(3)
Provision for Claims		(37)	(19)	(71)	(101)
Unearned Premiums and Fees		(10)	(45)	(239)	(265)
Other		165	46	(164)	314
Loans:	6				
Repayments		16,298	10,285	55,147	32,687
Disbursements		(10,575)	(8,885)	(29,091)	(28,979)
Borrowings:	9				
Repayments		(17,796)	(11,056)	(57,604)	(34,391)
Issuances		12,188	9,741	31,852	30,770
		449	458	1,136	1,016
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Investment Securities:					
Sales and Maturities		5,203	2,531	10,800	7,670
Purchases		(3,878)	(3,348)	(9,991)	(8,486)
Change in Securities Purchased Under Resale Agreements		(9)	102	(63)	63
Change in Securities Sold Under Repurchase Agreements		(15)	4	255	33
		1,301	(711)	1,001	(720)
Increase in Cash and Cash Equivalents		1,750	(253)	2,137	296
Cash and Cash Equivalents					
Beginning of Period		1,723	1,769	1,336	1,220
End of Period		3,473	1,516	3,473	1,516
Represented by:					
Cash		(10)	11	(10)	11
Cash Equivalents		3,483	1,505	3,483	1,505
		3,473	1,516	3,473	1,516
Supplementary Disclosure of Cash Flow from Operating Activities					
Amount of Interest Received During the Period		906	1,390	4,263	5,523
Amount of Interest Paid During the Period		795	1,367	3,738	5,077
Amount of Dividends Received During the Period		27	17	66	51
Amount of Income Taxes Paid During the Period		113	60	371	297

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended 30 September 2014

1. CORPORATE MANDATE

Our 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.

Our 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, we have 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 our exposure to loss. The mandate is carried out through the following four activities:

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

We consolidate the accounts of CHT, a separate legal entity. CHT was established in 2001 as a special-purpose trust, separate from CMHC. While we control the activities of CHT, its assets and liabilities are neither owned by nor held for our benefit.

2. BASIS OF PREPARATION

Our 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 our audited Consolidated Financial Statements for the year ended 31 December 2013. These unaudited Quarterly Consolidated Financial Statements were approved and authorized for issue by our Audit Committee on 20 November 2014.

Our unaudited Quarterly Consolidated Financial Statements include the accounts of CMHC and, as required by International Financial Reporting Standards (IFRS) 10 *Consolidated Financial Statements* (IFRS 10), the accounts of CHT, a special purpose entity to which we have exposure to its risks and rewards. The Nordea International Equity Fund (Nordea), an equity fund included in the investment portfolio within the Mortgage Loan Insurance Activity, was also consolidated until it was sold in the second quarter of 2014.

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

Significant Accounting Policies

The significant accounting policies used in the preparation of our unaudited Quarterly Consolidated Financial Statements are disclosed in Note 2 of our 2013 Annual Report and are in compliance with IFRS effective as at 30 September 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 our accounting policies, Management is required to make various judgments, apart from those involving estimations, that can significantly affect the amounts we recognize in the unaudited Quarterly Consolidated Financial Statements. The judgments having the most significant effect on the amounts recognized in our unaudited Quarterly Consolidated Financial Statements are disclosed in Note 4 of our audited Consolidated Financial Statements for the year ended 31 December 2013.

Use of Estimates and Assumptions

The preparation of our 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

Our 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 us other than the pronouncements disclosed in the 2013 Annual Report.

Future Accounting Changes

We actively monitor 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 our 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 are not expected to have a material impact on our 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. These amendments are not expected to have a material impact on our 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. These amendments are not expected to have a material impact on our 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. These amendments are not expected to have a material impact on our 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. We have not yet determined the impact of this new standard on our Consolidated Financial Statements.

4. FAIR VALUE MEASUREMENTS

Determination of Fair Value

We measure 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 September 2014			
Financial Assets						
Cash and Cash Equivalents	346	916	2,211	3,473	3,473	-
Securities Purchased Under Resale Agreements[1]	63	-	-	63	63	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,069	-	1,069	1,069	-
Available for Sale	-	-	19,933	19,933	19,933	-
Loans:						
Designated at Fair Value through Profit or Loss	-	5,620	-	5,620	5,620	-
Loans and Receivables[1]	213,884	-	-	213,884	219,018	5,134
Derivatives	-	97	-	97	97	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements[1]	346	-	-	346	346	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	7,631	-	7,631	7,631	-
Other Financial Liabilities[2]	211,597	-	-	211,597	216,907	5,310
Derivatives	-	33	-	33	33	-
			As at 31 December 2013			
Financial Assets						
Cash and Cash Equivalents	91	587	658	1,336	1,336	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,012	-	1,012	1,012	-
Available for Sale	-	-	19,659	19,659	19,659	-
Held for Trading	-	444	-	444	444	-
Loans:						
Designated at Fair Value through Profit or Loss	-	6,041	-	6,041	6,041	-
Loans and Receivables[1]	239,531	-	-	239,531	243,404	3,873
Derivatives	-	96	-	96	96	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements[1]	91	-	-	91	91	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	7,818	-	7,818	7,818	-
Other Financial Liabilities[2]	237,378	-	-	237,378	241,402	4,024
Derivatives	-	44	-	44	44	-

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

[2] $207,231 million (31 December 2013 – $206,812 million) fair value determined based on Level 1 Criteria, $9,676 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.

We 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 September 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	-	871	-	871	45	916
Corporate/Other Entities	-	140	-	140	150	290
Government of Canada	1,983	-	-	1,983	-	1,983
Provinces/Municipalities	-	143	-	143	151	294
Total Cash and Cash Equivalents	1,973	1,154	-	3,127	346	3,473
Investment Securities:						
Designated at Fair Value through Profit or Loss:						
Fixed Income:						
Corporate/Other Entities	109	9	158	276	-	276
Provinces/Municipalities	662	-	-	662	-	662
Sovereign and Related Entities	30	101	-	131	-	131
Total Designated at Fair Value through Profit or Loss	801	110	158	1,069	-	1,069
Available for Sale:						
Fixed Income:						
Corporate/Other Entities	5,713	-	-	5,713	-	5,713
Government of Canada	5,439	-	-	5,439	-	5,439
Provinces/Municipalities	6,705	4	-	6,709	-	6,709
Sovereign and Related Entities	155	-	-	155	-	155
Equities:						
Canadian	1,898	-	19	1,917	-	1,917
Total Available for Sale	19,910	4	19	19,933	-	19,933
Loans:						
Designated at Fair Value through Profit or Loss	-	5,620	-	5,620	-	5,620
Derivatives	-	97	-	97	-	97
Accounts Receivable and Other Assets:						
Investment Property	-	-	244	244	-	244
Other Accounts Receivable and Other Assets	-	-	-	-	545	545
Total Accounts Receivable and Other Assets	-	-	244	244	545	789
Assets not Recorded at Fair Value	-	-	-	-	215,576	215,576
TOTAL ASSETS	**22,684**	**6,985**	**421**	**30,090**	**216,467**	**246,557**
LIABILITIES AND EQUITY OF CANADA						
Borrowings:						
Designated at Fair Value through Profit or Loss	1,427	6,204	-	7,631	-	7,631
Derivatives	-	33	-	33	-	33
Liabilities and Equity of Canada not Recorded at Fair Value	-	-	-	-	238,893	238,893
TOTAL LIABILITIES AND EQUITY OF CANADA	**1,427**	**6,237**	**-**	**7,664**	**238,893**	**246,557**

	As at 31 December 2013					
	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	(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 September 2014, there were no transfers between Level 1 and Level 2. During the nine months ended 30 September 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 September 2014, which may change materially in subsequent periods. As at 30 September 2014, we 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.

We have 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 Held for Trading (HFT) and those Designated at Fair Value through Profit or Loss are presented in the following table.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2014	2013	2014	2013
Held for Trading				
Equities	(1)	27	(56)	55
Derivatives	(4)	15	17	(28)
Total Held for Trading	**(5)**	**42**	**(39)**	**27**
Designated at Fair Value through Profit or Loss				
Investment Securities – Designated at Fair Value through Profit or Loss	(1)	3	5	5
Loans – Designated at Fair Value through Profit or Loss	(18)	(13)	(15)	(99)
Borrowings – Designated at Fair Value through Profit or Loss	88	19	63	148
Total Designated at Fair Value through Profit or Loss	**69**	**9**	**53**	**54**
Gains (Losses) from Related Party Transactions	(1)	(1)	(2)	(2)
Total Net Unrealized Gains (Losses)	**63**	**50**	**12**	**79**

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.

(in millions)	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
Held for Trading	1	-	69	-
Available for Sale	629	(2)	723	27
Retirement of Debt	(7)	1	(25)	(3)
Total Net Realized Gains (Losses)	**623**	**(1)**	**767**	**24**

5. INVESTMENT SECURITIES

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

(in millions)	As at					
	30 September 2014				31 December 2013	
	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	999	70	-	1,069	947	1,012
Available for Sale	17,222	813	(18)	18,017	15,862	16,117
Equities						
Available for Sale	1,176	740	-	1,916	2,508	3,542
Held for Trading	-	-	-	-	388	444

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

The cumulative unrealized loss from Available for Sale investments of $18 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 nine months ended 30 September 2014, there were no impairment losses (three and nine months ended 30 September 2013 – $1 million and $76 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 period.

6. LOANS

The following tables present repayments and disbursements for Loans.

	Three months ended 30 September			
	2014		2013	
(in millions)	Repayments	Disbursements	Repayments	Disbursement
Designated at Fair Value through Profit or Loss				
Lending	153	28	158	22
Total Designated at Fair Value through Profit or Loss	**153**	**28**	**158**	**22**
Loans and Receivables				
Loans under the IMPP	3,503	-	2,028	-
Loans under the CMB Program	12,500	10,544	8,000	8,858
Lending	142	3	99	5
Total Loans and Receivables	**16,145**	**10,547**	**10,127**	**8,863**
Total	**16,298**	**10,575**	**10,285**	**8,885**

	Nine months ended 30 September			
	2014		2013	
(in millions)	Repayments	Disbursements	Repayments	Disbursement
Designated at Fair Value through Profit or Loss				
Lending	450	61	457	167
Total Designated at Fair Value through Profit or Loss	**450**	**61**	**457**	**167**
Loans and Receivables				
Loans under the IMPP	24,640	-	4,415	-
Loans under the CMB Program	29,700	29,020	27,500	28,794
Lending	357	10	315	18
Total Loans and Receivables	**54,697**	**29,030**	**32,230**	**28,812**
Total	**55,147**	**29,091**	**32,687**	**28,979**

The following table presents the Interest Income related to Loans.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2014	2013	2014	2013
Designated at Fair Value through Profit or Loss	37	43	113	131
Loans and Receivables	1,296	1,708	4,018	5,333
Total	**1,333**	**1,751**	**4,131**	**5,464**

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 September 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

We receive parliamentary appropriations to fund the following program expenditures, including Operating Expenses of $28 million and $81 million for the three and nine months ended 30 September 2014, respectively (three and nine months ended 30 September 2013 – $28 million and $85 million, respectively), in support of Housing Programs.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2014**	**2013**	**2014**	**2013**
Funding Under Long-term Commitments for Existing Social Housing	398	428	1,245	1,273
Funding for New Commitments of Affordable Housing	25	61	231	221
Housing Support	2	1	5	5
Market Analysis Information	5	6	15	16
Housing Policy, Research and Information Transfer	5	5	16	18
Total	**435**	**501**	**1,512**	**1,533**

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2014**	**2013**	**2014**	**2013**
Balance at Beginning of Period	336	301	311	309
Total Appropriations Recognized in Revenues During the Period	435	501	1,512	1,533
Total Appropriations Received During the Period	(515)	(545)	(1,565)	(1,585)
Reimbursements During the Period	(2)	(1)	(4)	(1)
Balance at End of Period	**254**	**256**	**254**	**256**

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 September 2014**	**31 December 2013**
NHA MBS[1]	198	192
CMB[2]	206	206
Total	**404**	**398**

[1] Includes $1.2 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 tables present repayments and issuances for Borrowings.

	Three months ended 30 September			
	2014		2013	
(in millions)	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	-	-	-	-
Borrowings from the Government of Canada	1,710	1,644	892	883
Total Designated at Fair Value through Profit or Loss	**1,710**	**1,644**	**892**	**883**
Other Financial Liabilities				
Canada Mortgage Bonds	12,500	10,544	8,000	8,858
Borrowings from the Government of Canada	3,586	-	2,164	-
Total Other Financial Liabilities	**16,086**	**10,544**	**10,164**	**8,858**
Total	**17,796**	**12,188**	**11,056**	**9,741**

	Nine months ended 30 September			
	2014		2013	
(in millions)	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	-	-	150	-
Borrowings from the Government of Canada	3,029	2,832	2,094	1,976
Total Designated at Fair Value through Profit or Loss	**3,029**	**2,832**	**2,244**	**1,976**
Other Financial Liabilities				
Canada Mortgage Bonds	29,700	29,020	27,500	28,794
Borrowings from the Government of Canada	24,875	-	4,647	-
Total Other Financial Liabilities	**54,575**	**29,020**	**32,147**	**28,794**
Total	**57,604**	**31,852**	**34,391**	**30,770**

The following table presents the Interest Expense related to Borrowings.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2014	2013	2014	2013
Designated at Fair Value through Profit or Loss	50	55	149	170
Other Financial Liabilities	1,280	1,687	3,960	5,268
Total	**1,330**	**1,742**	**4,109**	**5,438**

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 September		Nine months ended 30 September	
(in millions)	2014	2013	2014	2013
Balance at Beginning of Period	5,724	6,147	5,947	6,394
Premium Deferred on Contracts Written in the Period	400	392	986	984
Premiums Earned in the Period	(419)	(437)	(1,228)	(1,277)
Application Fees Deferred on Contracts Written in the Period	3	4	9	11
Application Fees Earned in the Period	(4)	(4)	(10)	(10)
Balance at End of Period	**5,704**	**6,102**	**5,704**	**6,102**

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 tables present the changes in the Provision for Claims balance.

	Three months ended 30 September					
	2014			2013		
(in millions)	IBNR & CIP	SH & ILM	Total	IBNR & CIP	SH & ILM	Total
Balance at Beginning of Period	615	220	835	701	213	914
Claims paid During the Period	(121)	(1)	(122)	(89)	-	(89)
Insurance Claims losses During the Period	76	9	85	68	2	70
Balance at End of Period	**570**	**228**	**798**	**680**	**215**	**895**

	Nine months ended 30 September					
	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	(314)	(2)	(316)	(339)	-	(339)
Insurance Claims losses During the Period	234	11	245	239	(1)	238
Balance at End of Period	**570**	**228**	**798**	**680**	**215**	**895**

Mortgage Loan Insurance Risk Management

We assume 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. We manage our 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 our distribution of business across different geographic areas.

Insurance-in-force

At 30 September 2014, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $546 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 September 2014, has identified that no provision for premium deficiency is required.

11. INCOME TAXES

The following table presents the total income taxes.

(in millions)	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
Other Comprehensive Income:				
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	(33)	37	176	(52)
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period	(98)	(28)	(114)	(29)
Remeasurements of the Net Defined Benefit Plans	(7)	16	(32)	61
Income Tax Expense (Benefit) on Consolidated Other Comprehensive Income	**(138)**	**25**	**30**	**(20)**
Net Income:				
Current Income Tax	280	133	544	362
Deferred Income Tax	15	15	17	46
Income Tax Expense on Consolidated Net Income	**295**	**148**	**561**	**408**
Total	**157**	**173**	**591**	**388**

12. UNCONSOLIDATED STRUCTURED ENTITIES

We had interests in unconsolidated investment fund structured entities. These are summarized below:

(in millions)	As at 30 September 2014	31 December 2013
Investment Funds	-	1,328

These investment funds were liquidated in the third quarter of 2014, resulting in a gain of $462 million recognized in Net Realized Gains (Losses) in the unaudited Quarterly Consolidated Statement of Income and Comprehensive Income. The investment funds were included in the unaudited Quarterly Consolidated Balance Sheet in the line item "Investment Securities: Available for Sale". We received distributions from these entities which were 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 measure 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 September 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 September 2014	31 December 2013
Investment Securities:		
Available for Sale	291	339
Held for Trading	-	26
Effect of Diversification	-	(15)
Total VaR	**291**	**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 September 2014		31 December 2013	
	Interest Rate Shift		Interest Rate Shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Net Unrealized Gains (Losses)	(5)	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 September 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	(79)	69	(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 our policy to $1.5 million, is $0.1 million at 30 September 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. We are exposed to credit risk from various sources, including from our 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. We have further mitigated this risk by having been assigned all rights, title and interest in the underlying mortgages so that we have 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. We collect financial collateral from swap counterparties to mitigate credit risk related to derivative transactions. We have 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, we hold collateral that represents the sole source of principal repayment for loans.

The following table presents the fair value of collateral we hold:

	As at	
(in millions)	**30 September 2014**	**31 December 2013**
Derivatives	1	-
Loans under IMPP[1]	3,436	28,133
Loans under the CMB program[1]	210,198	209,629
Total	**213,635**	**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 us.

15. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Information about the defined benefit plans is as follows:

Three months ended 30 September 2014 (in millions)	1 July 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 September 2014
Pension Benefit Plans									
Defined Benefit Obligation	1,938	6	20	26	(22)	31	4	-	1,977
Fair Value of Plan Assets	1,686	-	18	18	(22)	-	4	9	1,695
Pension Benefit Plans Liability	252	6	2	8	-	31	-	(9)	282
Other Post-employment Benefit Plans									
Defined Benefit Obligation	200	1	2	3	(1)	3	-	-	205
Fair Value of Plan Assets	-	-	-	-	(1)	-	-	1	-
Other Post-employment Benefit Plans Liability	200	1	2	3	-	3	-	(1)	205
Defined Benefit Plans Liability	**452**	**7**	**4**	**11**	**-**	**34**	**-**	**(10)**	**487**

Nine months ended 30 September 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 September 2014
Pension Benefit Plans									
Defined Benefit Obligation	1,719	19	61	80	(59)	225	12	-	1,977
Fair Value of Plan Assets	1,544	-	54	54	(59)	76	12	68	1,695
Pension Benefit Plans Liability	175	19	7	26	-	149	-	(68)	282
Other Post-employment Benefit Plans									
Defined Benefit Obligation	175	3	6	9	(5)	26	-	-	205
Fair Value of Plan Assets	-	-	-	-	(5)	-	-	5	-
Other Post-employment Benefit Plans Liability	175	3	6	9	-	26	-	(5)	205
Defined Benefit Plans Liability	**350**	**22**	**13**	**35**	**-**	**175**	**-**	**(73)**	**487**

Three months ended 30 September 2013 (in millions)	1 July 2013	Pension Expense Included in Net Income: Current Service Cost	Interest Cost / 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 September 2013
Pension Benefit Plans									
Defined Benefit Obligation	1,646	9	17	26	(17)	(25)	3	-	1,633
Fair Value of Plan Assets	1,404	-	13	13	(17)	51	3	14	1,468
Pension Benefit Plans Liability	242	9	4	13	-	(76)	-	(14)	165
Other Post-employment Benefit Plans									
Defined Benefit Obligation	188	2	2	4	(1)	(4)	-	-	187
Fair Value of Plan Assets	-	-	-	-	(1)	-	-	1	-
Other Post-employment Benefit Plans Liability	188	2	2	4	-	(4)	-	(1)	187
Defined Benefit Plans Liability	**430**	**11**	**6**	**17**	**-**	**(80)**	**-**	**(15)**	**352**

Nine months ended 30 September 2013 (in millions)	1 January 2013	Pension Expense Included in Net Income: Current Service Cost	Interest Cost / 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 September 2013
Pension Benefit Plans									
Defined Benefit Obligation	1,806	27	52	79	(56)	(207)	11	-	1,633
Fair Value of Plan Assets	1,299	-	39	39	(56)	84	11	91	1,468
Pension Benefit Plans Liability	507	27	13	40	-	(291)	-	(91)	165
Other Post-employment Benefit Plans									
Defined Benefit Obligation	210	5	6	11	(5)	(29)	-	-	187
Fair Value of Plan Assets	-	-	-	-	(5)	-	-	5	-
Other Post-employment Benefit Plans Liability	210	5	6	11	-	(29)	-	(5)	187
Defined Benefit Plans Liability	**717**	**32**	**19**	**51**	**-**	**(320)**	**-**	**(96)**	**352**

16. SEGMENTED INFORMATION

As described in Note 1, the unaudited Quarterly Consolidated Financial Statements include the accounts of our four activities (Mortgage Loan Insurance, Securitization, Housing Programs and Lending), each of which provides different programs in support of our objectives, and the CHT. The financial results of each activity are determined using the accounting policies described in Note 2 of our 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 our 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 September	Mortgage Loan Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
(in millions)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
REVENUES														
Parliamentary Appropriations for Housing Programs	-	-	-	-	435	501	-	-	-	-	-	-	435	501
Premiums and Fees Earned	425	444	61	64	-	-	-	-	-	-	-	-	486	508
Interest Income														
Loans	-	-	34	394	-	-	118	130	1,181	1,227	-	-	1,333	1,751
Other	-	-	-	-	-	-	19	18	-	-	(1)	(2)	18	16
	-	-	34	394	-	-	137	148	1,181	1,227	(1)	(2)	1,351	1,767
Interest Expense	-	-	34	394	-	-	136	144	1,179	1,225	(19)	(21)	1,330	1,742
Net Interest Income	-	-	-	-	-	-	1	4	2	2	18	19	21	25
Investment Income	166	144	9	8	-	-	-	-	-	-	(12)	(9)	163	143
Net Realized Gains (Losses)	629	(2)	1	-	-	-	-	-	-	-	(7)	1	623	(1)
Net Unrealized Gains (Losses)	(1)	28	-	-	-	-	63	21	-	-	1	1	63	50
Other Income	-	1	-	7	-	-	3	6	43	38	(26)	(23)	20	29
TOTAL REVENUES	**1,219**	**615**	**71**	**79**	**435**	**501**	**67**	**31**	**45**	**40**	**(26)**	**(11)**	**1,811**	**1,255**
EXPENSES														
Housing Programs	-	-	-	-	435	501	-	-	-	-	-	-	435	501
Insurance Claims	85	70	-	-	-	-	-	-	-	-	-	-	85	70
Operating Expenses	59	55	7	7	-	-	5	5	45	40	(26)	(23)	90	84
	144	125	7	7	435	501	5	5	45	40	(26)	(23)	610	655
INCOME BEFORE INCOME TAXES	**1,075**	**490**	**64**	**72**	**-**	**-**	**62**	**26**	**-**	**-**	**-**	**12**	**1,201**	**600**
Income Taxes	263	121	16	19	-	-	16	5	-	-	-	3	295	148
NET INCOME (LOSS)	**812**	**369**	**48**	**53**	**-**	**-**	**46**	**21**	**-**	**-**	**-**	**9**	**906**	**452**
Total Revenues	1,219	615	71	79	435	501	67	31	45	40	(26)	(11)	1,811	1,255
Inter-segment/entity Revenues[1]	(18)	(8)	-	-	-	-	(1)	(1)	(7)	(2)	26	11	-	-
External Revenues	1,201	607	71	79	435	501	66	30	38	38	-	-	1,811	1,255

[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.

Nine months ended 30 September (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	-	-	-	-	1,512	1,533	-	-	-	-	-	-	1,512	1,533
Premiums and Fees Earned	1,248	1,297	179	188	-	-	-	-	-	-	-	-	1,427	1,485
Interest Income														
Loans	-	-	211	1,204	-	-	360	396	3,560	3,864	-	-	4,131	5,464
Other	-	-	-	-	-	-	52	52	-	-	(5)	(7)	47	45
	-	-	211	1,204	-	-	412	448	3,560	3,864	(5)	(7)	4,178	5,509
Interest Expense	-	-	211	1,204	-	-	407	438	3,553	3,857	(62)	(61)	4,109	5,438
Net Interest Income	-	-	-	-	-	-	5	10	7	7	57	54	69	71
Investment Income	474	424	27	23	-	-	-	-	-	-	(34)	(27)	467	420
Net Realized Gains (Losses)	793	33	1	1	-	-	-	-	-	-	(27)	(10)	767	24
Net Unrealized Gains (Losses)	(53)	60	-	-	-	-	61	15	-	-	4	4	12	79
Other Income	2	12	9	20	-	-	11	23	121	121	(73)	(73)	70	103
TOTAL REVENUES	**2,464**	**1,826**	**216**	**232**	**1,512**	**1,533**	**77**	**48**	**128**	**128**	**(73)**	**(52)**	**4,324**	**3,715**
EXPENSES														
Housing Programs	-	-	-	-	1,512	1,533	-	-	-	-	-	-	1,512	1,533
Insurance Claims	245	238	-	-	-	-	-	-	-	-	-	-	245	238
Operating Expenses	166	168	24	21	-	-	14	16	128	128	(73)	(73)	259	260
	411	406	24	21	1,512	1,533	14	16	128	128	(73)	(73)	2,016	2,031
INCOME BEFORE INCOME TAXES	**2,053**	**1,420**	**192**	**211**	**-**	**-**	**63**	**32**	**-**	**-**	**-**	**21**	**2,308**	**1,684**
Income Taxes	500	345	48	53	-	-	13	4	-	-	-	6	561	408
NET INCOME (LOSS)	**1,553**	**1,075**	**144**	**158**	**-**	**-**	**50**	**28**	**-**	**-**	**-**	**15**	**1,747**	**1,276**
Total Revenues	2,464	1,826	216	232	1,512	1,533	77	48	128	128	(73)	(52)	4,324	3,715
Inter-segment/entity Revenues[1]	(60)	(37)	-	-	-	-	(2)	(3)	(11)	(12)	73	52	-	-
External Revenues	2,404	1,789	216	232	1,512	1,533	75	45	117	116	-	-	4,324	3,715

[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 September 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	2,512	749	44	1	-	-	916	585	1	1	-	-	3,473	1,336
Securities Purchased Under Resale Agreements	-	-	-	-	-	-	63	-	-	-	-	-	63	-
Investment Securities:														
Designated at Fair Value through Profit or Loss	87	83	1	1	-	-	1,203	1,253	-	-	(222)	(325)	1,069	1,012
Available for Sale	20,173	19,704	2,049	1,894	-	-	-	-	-	-	(2,289)	(1,939)	19,933	19,659
Held for Trading	-	444	-	-	-	-	-	-	-	-	-	-	-	444
Loans:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	5,620	6,041	-	-	-	-	5,620	6,041
Loans and Receivable	-	-	3,433	28,074	-	-	4,511	4,835	205,940	206,622	-	-	213,884	239,531
Accrued Interest Receivable	158	104	20	42	-	-	189	226	1,025	492	(17)	(5)	1,375	859
Derivatives	-	-	-	-	-	-	97	96	-	-	-	-	97	96
Due from the Government of Canada	-	-	-	-	-	-	254	311	-	-	-	-	254	311
Accounts Receivable and Other Assets	489	457	49	59	-	-	251	246	-	-	-	-	789	762
	23,419	21,541	5,596	30,071	-	-	13,104	13,593	206,966	207,115	(2,528)	(2,269)	246,557	270,051
LIABILITIES														
Securities Sold Under Repurchase Agreements	346	91	-	-	-	-	-	-	-	-	-	-	346	91
Borrowings:														
Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	7,645	7,832	-	-	(14)	(14)	7,631	7,818
Other Financial Liabilities	-	-	3,433	28,074	-	-	4,609	4,841	205,940	206,622	(2,385)	(2,159)	211,597	237,378
Accrued Interest Payable	-	-	5	36	-	-	130	129	1,025	492	(17)	(5)	1,143	652
Derivatives	-	-	-	-	-	-	33	44	-	-	-	-	33	44
Accounts Payable and Other Liabilities	549	245	11	15	-	-	490	556	1	1	-	-	1,051	817
Provision for Claims	798	869	-	-	-	-	-	-	-	-	-	-	798	869
Unearned Premiums and Fees	5,704	5,947	568	564	-	-	-	-	-	-	-	-	6,272	6,511
Deferred Income Tax Liabilities	83	73	(1)	(14)	-	-	10	(1)	-	-	(30)	(25)	62	33
	7,480	7,225	4,016	28,675	-	-	12,917	13,401	206,966	207,115	(2,446)	(2,203)	228,933	254,213
EQUITY OF CANADA	15,939	14,316	1,580	1,396	-	-	187	192	-	-	(82)	(66)	17,624	15,838
	23,419	21,541	5,596	30,071	-	-	13,104	13,593	206,966	207,115	(2,528)	(2,269)	246,557	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

We pay 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 $10 million for the three months and nine months ended 30 September 2014 (three months and nine months ended 30 September 2013 – $3 million and $9 million, respectively) for the Securitization Activity and $1.9 million and $3.2 million for the three months and nine months ended 30 September 2014, respectively (three months and nine months ended 30 September 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 September 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. We do not expect the ultimate resolution of any of the proceedings to which we are party to have a significant adverse effect on our 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