CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER
March 31, 2018
(Unaudited)

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Management's Discussion and Analysis

OVERVIEW

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 23 May 2018 is prepared for the first quarter ended 31 March 2018 and is intended to provide readers with an overview of our performance including comparatives against the same three month period in 2017. 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 2017 Annual Report. The unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and do not include all of the information required for full annual consolidated financial statements. The unaudited quarterly consolidated financial statements have been reviewed by Canada Mortgage and Housing Corporation's (CMHC or Corporation) external auditors. All amounts are expressed in millions of Canadian dollars, unless otherwise stated.

Information related to our significant accounting policies, judgments and estimates can be found in our 2017 Annual Report. Except for the adoption of International Financial Reporting Standards (IFRS) 9 and IFRS 15, as disclosed in note 3 of our unaudited quarterly financial statements there have been no material changes to our significant accounting policies, judgments or estimates to the end of the first quarter of 2018.

Forward-looking statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in the "The Operating Environment and Outlook for 2018", and "Financial Results by Reportable Business Segment" sections of the report. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties which may cause actual results to differ materially from expectations expressed in these forward-looking statements.

Non-IFRS measures

We use a number of financial measures to assess our 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. Definitions of the non-IFRS measures used throughout the quarterly financial report can be found in the Glossary for Non-IFRS Financial Measures section of the 2017 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2018

The following events can be expected to have an impact on our business going forward:

Economic conditions and housing indicators

The Canadian economy, as measured by gross domestic product (GDP), expanded by 3.0% in 2017, up from 1.4 % in 2016.

In 2017, Canadian household expenditures increased at a strong annual pace of 3.5%, reflecting strong growth in employment—concentrated in full-time positions—and in income. Economic growth in 2017 was also supported by accommodative fiscal and monetary policies as well as a recovery in business investment from a decline in 2016. However, exports were generally weaker than expected in 2017 and were outpaced by imports, leading to a negative contribution to growth from net exports for the year. Economic growth in 2018 is expected to slow from the 3.0% pace registered in 2017, due to expected moderate increases in interest rates, a reduced pace of growth in household income and a weaker boost from fiscal policy. The moderating impact on growth from these factors is expected to be partly offset by further recovery in business investment and stronger net exports. As a result, the March 2018 Consensus Forecast of private sector forecasters calls for real GDP to register annual growth in the 1.5% to 2.6% range in 2018.

This outlook is subject to uncertainty, particularly regarding the future of the North American Free Trade Agreement and global trade more generally. In addition, elevated levels of household debt continue to be a key vulnerability, standing at 170.4% in Q4 2017, essentially unchanged from the record high of 170.5% registered in Q3 2017. A sharp and unexpected increase in interest rates and/or unemployment would significantly deteriorate households' financial position, hence reducing their expenditures and leading to significant downward pressure on economic activity. In addition, more heavily-indebted households could seek to liquidate their assets, including their homes, which would place further downward pressure on housing markets.

Housing markets registered high levels of activity in 2017, consistent with robust economic and income conditions. Housing activity and price growth are expected to moderate gradually in 2018 from the levels recorded in 2017, largely reflecting the expected moderate increases in mortgage rates and a return to levels of housing activity more in line with housing market fundamentals. National housing starts registered 219,763 units in 2017. According to CMHC's latest Housing Market Outlook, Canada Edition published in October 2017, housing starts are expected to range from 192,200 to 203,000 units in 2018. MLS® sales declined in 2017 from the historical peak registered in 2016, but remained elevated at 514,437 units. In 2018, MLS® sales are expected to decline to the 485,600 to 504,400 unit range. The average MLS® price increased by 4.2 % in 2017 to $510,179. This pace is expected to moderate in 2018, leaving the average MLS® price in the range of $491,900 to $512,100. In the few months since the publication of the Housing Market Outlook, actual housing starts, MLS® sales and price levels have been broadly in line with our *Housing Market Outlook*[1].

With respect to rental market activity in 2017, demand for purpose-built rental apartments outpaced growth in supply, leading to a decline in the overall vacancy rate. Across Canada's urban centres, the overall vacancy rate dropped from 3.7% in 2016 to 3.0% 2017.

Federal Budget 2018

The Federal budget 2018 provided an additional $1.25 billion in funding available to be loaned through the Rental Construction Financing initiative, increasing the amount from $2.5 billion to $3.75 billion. Targets for the initiative have also increased from 10,000 to 14,000 new rental housing units for modest- and middle-income households.

[1] CMHC's next *Housing Market Outlook, Canada Edition*, will be published on 25 October 2018 and will contain detailed updates to the current forecast.

National Housing Strategy

Following the announcement of the National Housing Strategy (NHS) on 22 November 2017, CMHC has been working on the implementation of NHS initiatives set to launch throughout 2018 and onward. This process included discussions with stakeholders, seeking financial authorities through Treasury Board, developing application processes and creating the tools necessary to successfully deliver NHS initiatives to Canadians.

In Q1, we also continued multilateral discussions, and started bilateral negotiations with, provinces and territories to deliver approximately $7.7 billion in federal investments. In addition, we initiated consultations on the human rights-based approach to housing.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) affecting the Corporation can be found in note 2 of our 2017 audited consolidated financial statements.

Office of the Superintendent of Financial Institutions (OSFI) Advisory on IFRS 17 Insurance contracts

On 4 May 2018, OSFI issued an Advisory entitled IFRS 17 Transition and Progress Report Requirements for Federally Regulated Insurers (IFRS 17 Advisory). The IFRS 17 Advisory removes an insurer's option to early adopt IFRS 17, establishes a requirement for semi-annual progress reporting to OSFI and requires the use of IFRS 17 for financial guarantee contracts, where the insurer, if applicable, would have had the option to account for its insurance contracts under IFRS 17 or IFRS 9. The IFRS 17 Advisory confirms our conclusion to apply IFRS 17 to our insurance contracts as discussed below.

IFRS 17 Insurance Contracts – effective date of 1 January 2021

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), which will replace IFRS 4 Insurance Contracts. Our insurance contracts meet the definition of financial guarantee contracts under IFRS 9 Financial Instruments and as insurance contracts under IFRS 17, therefore, we have the option to apply either IFRS 17 or IFRS 9 to account for our insurance contracts and this choice exists on a contract by contract basis. We believe IFRS 17 is the appropriate accounting standard for our insurance contracts and currently intend to apply IFRS 17 to all of our insurance contracts.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows adjusted for risk as well as contractual service margin. Contractual service margin will represent the difference between the present value of the risk adjusted cash flows and the premium received at inception and will be released over the coverage period. Should the difference between the premium received and the present value of future cash outflows be negative at inception, the insurance contract would be considered onerous and the difference would be recorded immediately in income. Furthermore, the unit of account is more granular than under current accounting practices. At a minimum, groups of contracts will need to be separated into annual cohorts, though further disaggregation is permitted and in certain cases required. There will also be a new income statement presentation for insurance contracts and additional disclosure requirements.

We have a multi-disciplinary team dedicated to analyzing and implementing the new accounting standard, and a detailed project plan is in place. We are currently evaluating the standard and identifying where changes to our existing accounting and reporting processes will be required, and the potential impact on our consolidated financial statements.

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed consolidated balance sheets

	As at	
(in millions)	**31 March 2018**	**31 December 2017**
Total assets	270,522	267,115
Total liabilities	253,627	249,374
Total equity of Canada	16,895	17,741

Our total equity of Canada decreased by $846 million (5%) primarily as a result of the declaration of $1,000 million in dividends partially offset by comprehensive income of $209 million during the quarter.

An increase in our total assets of $3,407 million (1%) and total liabilities of $4,253 million (2%) were driven mainly by the issuance of Canada Mortgage Bonds (CMB), resulting in a $3,458 million (1%) increase in loans at amortized cost and an increase in borrowings at amortized cost.

Condensed consolidated statements of income and comprehensive income

	Three months ended	
(in millions)	**31 March 2018**	**31 March 2017**
Total revenues	1,576	2,232
Total expenses	1,189	1,744
Income taxes	94	118
Net income	293	370
Other comprehensive income (loss)	(84)	46
Comprehensive income	209	416

Total revenues decreased by $656 million (29%) from the same quarter last year due to decreases in parliamentary appropriations for housing programs and net gains (losses) on financial instruments.

- Parliamentary appropriations for housing programs decreased by $540 million (34%) primarily due to decline in Budget 2016 expenditures.
- Net gains (losses) on financial instruments decreased by $107 million (713%) mainly as a result of negative fair market value fluctuations on common equities where performance was broadly in line with the performance of Canadian equity markets over the first quarter. Fair value fluctuations on our common equities now flow through profit and loss following the implementation of IFRS 9 Financial Instruments: Recognition and Measurement. In the past, unrealized gains and losses on common equities flowed through other comprehensive income (OCI). Refer to Note 3 of the quarterly consolidated financial statements for more information on the transition to IFRS 9.

Total expenses decreased by $555 million (32%) from the same quarter last year mainly due to a decrease in Housing program expenses of $540 million (34%) in accordance with the decline in parliamentary appropriations for housing programs as previously noted.

FINANCIAL RESULTS BY REPORTABLE BUSINESS SEGMENT

Financial analysis is provided for the following activities: Assisted Housing, Mortgage Loan Insurance and Securitization.

ASSISTED HOUSING

We provide federal funding in support of housing programs for Canadians in need, including on-reserve. Our activities also include Lending programs for social housing. The ultimate outcome of our activities is to help Canadians in need have access to affordable and suitable housing.

Financial analysis

	Three months ended	
(in millions)	**31 March 2018**	**31 March 2017**
Net interest income	4	-
Parliamentary appropriations for housing programs	1,026	1,566
Other income[1]	(1)	13
Total revenues	**1,029**	**1,579**
Housing programs expenses	1,026	1,566
Operating expenses	6	7
Total expenses	**1,032**	**1,573**
Income (loss) before income taxes	**(3)**	**6**
Income taxes	(2)	-
Net income (loss)	**(1)**	**6**

[1] *Other income includes net gains (losses) on financial instruments and other income.*

Total revenues decreased by $550 million (35%) from the same quarter last year, mainly due to a $540 million decrease in parliamentary appropriations for housing programs. This was primarily driven by a $519 million decline in Budget 2016 expenditures resulting from a year over year decrease in the volume of claims received, compounded by a reduction in the approved funded levels for these initiatives in 2017/18.

Total expenses decreased by $541 million (34%) primarily driven by a decrease in Housing programs expenses as explained above.

Financial condition

	As at	
	31 March 2018	**31 December 2017**
Total assets	10,120	9,949
Total liabilities	9,885	9,715
Total equity of Canada	235	234

Total assets and liabilities have increased by $171 million (2%) and $170 million (2%), respectively, primarily due to the accrual of an additional $461 million in housing program expenditures mainly relating to Budget 2016 initiatives that are to be recovered from the Government of Canada. This increase was partially offset by the net repayments on our current Lending programs. Proceeds received from repayments and our investment activities were used primarily to repay matured Government Borrowings leading also to a decrease in liabilities.

Capital management

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending program's earnings are retained in this reserve fund as part of our strategy to address interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations as well as remeasurement losses on defined benefit plans are absorbed in retained earnings.

We do not hold capital[2] for Housing programs, as this activity does not present risks to the Corporation that would require capital to be set aside.

Refer to the unaudited quarterly consolidated financial statements Note 9 – Capital Management for complete disclosure on capital management.

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.

	Three months ended 31 March	
(in millions)	**2018**	**2017**
Amounts provided for housing programs:		
Amounts authorized in 2017/18 (2016/17)		
Main estimates	2,735	2,028
Supplementary estimates A[1,2]	41	1,070
Supplementary estimates B[1,2,3]	1	78
Supplementary estimates C[1,3]	1	-
Less: Portion recognized in calendar 2017 (2016)	(1,663)	(1,563)
Less: Appropriations lapsed for 2017/18 (2016/17)	(89)	(47)
2017/18 (2016/17) portions recognized in 2018 (2017)	**1,026**	**1,566**
Amounts authorized in 2018/19 (2017/18)		
Main estimates	2,427	2,735
Supplementary estimates A[1]	-	41
Supplementary estimates B[1]	-	1
Supplementary estimates C[1,3]	-	1
Total fiscal year appropriations	**2,427**	**2,778**
Less: Portion to be recognized in subsequent quarters	(2,427)	(2,778)
2018/19 (2017/18) portions recognized in 2018 (2017)	**-**	**-**
Total appropriations recognized – three months ended 31 March	**1,026**	**1,566**

1 *Supplementary estimates are additional appropriations voted on by Parliament during the Government's fiscal year.*

2 *Budget 2016 provided funding over two years for investments in social infrastructure, as well as funding over five years for a new Affordable Rental Housing Innovation Fund. Years one and two of these investments are reflected within the 2016-17 and 2017-18 appropriations.*

3 *Transfers received in 2017/18 from other government departments as a result of in-year reallocation of resources related to the Youth Employment Strategy. This additional funding will be used to support the Housing Internship Initiative for First Nations and Inuit Youth program.*

The total spending against the reference level as at 31 March 2018 was $2,689 million (97%). Included within the $2,778 million reference level for 2017/2018 is a lapse with a frozen funding in the amount of $15 million to reflect the reduction in CMHC's authorities due to the expiry of long-term operating agreements for existing social housing programs and the reprofiling of funding under the Investment in Affordable Housing program to fiscal year 2019/2020. When netted against this frozen funding, CMHC's lapse is $74 million. We will be seeking to reprofile $41 million of this amount to a future fiscal year.

[2] *References to "capital" in this QFR are to the accounting term, and are not limited to "capital" as provided for in the* CMHC Act, National Housing Act *and* Financial Administration Act.

MORTGAGE LOAN INSURANCE

We provide mortgage loan insurance for transactional homeowner, portfolio and multi-unit residential units in all parts of Canada. We operate these programs on a commercial basis. Revenues from premiums, fees and investments cover all expenses, including insurance claim losses, and we are expected to generate a reasonable return for the Government with due regard for loss.

Our mortgage loan insurance business is exposed to some seasonal variation. While premiums earned and net gains (losses) on financial instruments 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.

Financial metrics

	As at	
(in billions)	**31 March 2018**	**31 December 2017**
Insurance-in-force	**472**	**480**
Transactional homeowner	244	249
Portfolio	156	162
Multi-unit residential	72	69

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (2017 – $600 billion). At 31 March 2018, insurance-in-force was $472 billion, a $8 billion (2%) decrease from 31 December 2017. New loans insured were $8 billion, while estimated loan amortization and pay-downs were $16 billion.

	Three months ended	
(in millions, unless otherwise indicated)	**31 March 2018**	**31 March 2017**
Total insured volumes (units)	**48,130**	**48,746**
Transactional homeowner	15,912	18,624
Portfolio[1]	7,484	4,662
Multi-unit residential	24,734	25,460
Total insured volumes ($)	**8,265**	**8,253**
Transactional homeowner	4,254	4,858
Portfolio[1]	1,251	1,207
Multi-unit residential	2,760	2,188
Premiums and fees received[2]	**241**	**228**
Transactional homeowner	148	149
Portfolio	3	9
Multi-unit residential	90	70
Claims Paid[3]	**69**	**77**
Transactional homeowner	62	69
Portfolio	3	6
Multi-unit residential	4	2
Arrears rate (%)	**0.29**	**0.32**

[1] *Portfolio volumes include Lender substitutions along with new business volumes. Portfolio substitutions were 5,094 units and $675 million for the three months ended 31 March 2018 (1,872 units and $435 million for the three months ended 31 March 2017)*

[2] *Premiums and fees received may not equal premiums and fees deferred on contracts written during the period due to timing of receipts.*

[3] *Claims paid does not include social housing and index-linked mortgage claims.*

Our total insured volumes in the first quarter of 2018 were 616 units (1%) lower than the same quarter last year primarily due to the decrease in transactional homeowner and multi-unit residential volumes, partially offset by an increase in portfolio volumes.

- Transactional homeowner volumes decreased by 2,712 units (15%) as both purchase and refinance volumes decreased largely due to the new Government regulations that became effective in 2017.
- Portfolio volumes (new and substitutions) increased by 2,822 units (61%) mainly due to an increase in portfolio substitution driven by higher eligible volumes partially offset by a decrease in new portfolio volumes related to price increases introduced in 2017.
- Multi-unit residential volumes decreased by 726 units (3%) primarily due to a decrease in new purchase units partially offset by an increase in refinance volumes. The increase in multi-unit residential refinance transactions mainly results from the continued low interest rate environment.

Premiums and fees received increased by $13 million (6%) from the same quarter last year primarily due to higher premiums and fees received for multi-unit residential product, slightly offset by a decline in new portfolio products for the same reasons noted above.

Claims paid decreased by $8 million (10%) attributable to lower reported claims in Ontario, Atlantic and Quebec, a lower number of policies in force, improvement in arrears and unemployment rates at a national level, along with increasing housing prices especially in British Columbia.

	As at			
	31 March 2018		31 December 2017	
	No. of Delinquent Loans	**Arrears Rate**	**No. of Delinquent Loans**	**Arrears Rate**
Transactional homeowner	5,283	0.43 %	5,376	0.43 %
Portfolio	1,343	0.13 %	1,362	0.13 %
Multi-unit residential	98	0.42 %	106	0.48 %
Total	**6,724**	**0.29 %**	**6,844**	**0.29 %**

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 has remained constant while the total number of delinquent loans as at 31 March 2018 has decreased slightly compared to year end 2017. There has been a slight decrease in the number of delinquent loans in all regions except for Quebec and the Prairies.

Financial analysis

	Three months ended	
(in millions)	**31 March 2018**	**31 March 2017**
Premiums and fees earned	353	377
Investment income	138	151
Other income[1]	(79)	12
Total revenues	**412**	**540**
Insurance claims	65	77
Operating expenses	78	81
Total expenses	**143**	**158**
Income before income taxes	**269**	**382**
Income taxes	66	93
Net income	**203**	**289**

[1] *Other income includes net gains (losses) on financial instruments and other income.*

Premiums and fees earned decreased by $24 million (6%) primarily due to revised expectations of claim occurrence based on recent experience.

Investment income decreased by $13 million (9%) primarily due to a decrease in average portfolio size as a result of dividend payments to the Government of Canada.

Other income decreased by $91 million (758%) primarily due to an increase in unrealized losses on financial instruments resulting from under performance of our Canadian equities.

Insurance claims decreased by $12 million (16%) as a result of fewer policies in force, improvements in the unemployment rate throughout Canada and significant appreciation in housing prices especially in British Columbia. These stronger economic conditions led to a decrease in incurred claims. In addition, we reduced our provision for social housing and index linked mortgages as a result of a decrease in outstanding loan balances.

Ratios

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

	Three months ended	
(in percentages)	**31 March 2018**	**31 March 2017**
Severity ratio	31.9	30.5
Loss ratio[1]	19.8	20.4
Operating expense ratio	22.1	21.5
Combined ratio	41.9	41.9
Return on equity	5.5	6.1
Return on required equity[2]	6.0	6.9

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 24.3% for the three months ended 31 March 2018 (25.1%) for the three months ended 31 March 2017)*

[2] *Return on required equity is calculated as the annualized net income, adjusted to remove investment income earned on equity in excess of required equity, divided by the average required equity for the period. Required equity is determined at our operating MCT level of 165%.*

The severity ratio increased by 1.4 percentage points due to higher claims on social housing and indexed linked mortgage (SH and ILM) with higher severity.

The loss ratio decreased by 0.6 percentage points primarily due to the decrease in claims paid for transactional homeowner product and reduction of our provision for SH and ILM slightly offset by the decrease in the earned premiums and fees.

The operating expense ratio increased by 0.6 percentage points due to the decrease in earned premiums and fees as previously discussed.

The return on equity and return on required equity ratios decreased by 0.6 and 0.9 percentage points respectively due to higher unrealized losses on financial instruments and lower premiums and fees earned.

Capital management

Our capital management framework follows OSFI regulations with respect to the use of the Minimum Capital Test (MCT) for insurance companies. The MCT is the ratio of capital available to minimum capital required. Refer to the unaudited quarterly consolidated financial statements Note 9 – Capital Management for complete disclosure on capital management.

	Three months ended	
(in percentages)	**31 March 2018**	**31 March 2017**
Capital available to minimum capital required (% MCT)[1]	177	215

[1] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 31 March 2018 would be 197% with transitional arrangements (31 March 2017 – 277%).*

Capital available to minimum capital required decreased by 38 percentage points mainly due to the declaration of $5,675 million of dividends since 1 April 2017.

Financial resources

The Mortgage Loan Insurance investment portfolio is funded by cash flow generated by premiums, fees and interest received, net of claims and operating expenses. The investment objective and asset allocation for the Mortgage Loan Insurance investment portfolio focuses on maximizing risk-adjusted return while minimizing the need to liquidate investments. As at 31 March 2018 total investments had a fair value of $21.2 billion (31 December 2017 - $22.8 billion).

SECURITIZATION

We facilitate access to funds for residential mortgage financing through securitization guarantee products and the administration of the legal framework for Canadian covered bonds.

Financial metrics

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion. Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee, and is broken down as follows.

	As at	
(in billions)	**31 March 2018**	**31 December 2017**
Total guarantees-in-force	**481**	**477**
NHA MBS	244	244
CMB	237	233

Guarantees-in-force were $481 billion as at 31 March 2018, an increase of $4 billion (1%) as new CMB guarantees provided by CMHC exceeded CMB maturities.

	Three months ended	
(in millions)	**31 March 2018**	**31 March 2017**
Total new securities guaranteed	**36,733**	**34,180**
NHA MBS	27,233	23,430
CMB	9,500	10,750
Guarantee and application fees received	**121**	**115**
MBS guarantee and application fees received	86	75
CMB guarantee fees received	35	40

New securities guaranteed increased by $2,553 million (7%) primarily due to a revised NHA MBS issuer allocation which led to higher volume in the quarter. The higher NHA MBS volumes were partially offset by lower CMB volumes which reflect investor demand.

Guarantee and application fees received were $6 million (5%) higher than the same quarter last year. NHA MBS guarantee and application fees received increased by $11 million and CMB guarantee fees decreased by $5 million as a result of the guaranteed volumes described above.

Financial analysis

	Three months ended	
(in millions)	**31 March 2018**	**31 March 2017**
Net interest income	3	3
Premiums and fees earned[1]	113	87
Investment income	14	11
Other income[2]	1	3
Total revenues	**131**	**104**
Total expenses	**14**	**13**
Income before income taxes	**117**	**91**
Income taxes	29	23
Net income	**88**	**68**

[1] *Securitization Activity is comprised of guarantee and application fees earned.*

[2] *Other income includes net gains (losses) on financial instruments and other income.*

Net income increased by $20 million (29%) from the same quarter last year, primarily due to the increase in guarantee and application fees earned, which were $26 million (30%) higher than the same quarter last year. The increase in fees earned is mainly driven by NHA MBS fees earned and is a result of the policy change which came into effect on 1 July 2016, and which introduced an NHA MBS guarantee fee on NHA MBS sold to CHT.

Ratios

To supplement financial results of the Securitization programs (excluding Canada Housing Trust (CHT)), we also use financial measures and ratios to analyze our financial performance.

	Three months ended	
(in percentages)	**31 March 2018**	**31 March 2017**
Operating expense ratio	9.5	10.7
Return on equity	14.9	12.9

The operating expense ratio decreased by 1.2 percentage points from the same quarter last year as guarantee and application fees earned were higher and operating expenses remained stable.

Return on equity increased by 2 percentage points from the same quarter last year due to higher net income.

Capital management

Our Capital Management Framework for the Securitization Activity follows industry best practices and incorporates regulatory principles from OSFI, including those set out in OSFI's E19 – Own Risk and Solvency Assessment (ORSA) guideline, and the Basel Committee on Banking Supervision.

Our capital adequacy assessment uses an integrated approach to evaluate our capital needs from both a regulatory and economic capital basis to establish capital targets that take into consideration our strategy and risk appetite. Refer to the unaudited quarterly consolidated financial statements Note 9 – Capital Management for complete disclosure on capital management.

	Three months ended	
(in percentages)	**31 March 2018**	**31 March 2017**
Capital available to capital required	137	106
Return on required equity	19.7	13.2

Capital available to capital required was 31 percentage points higher due to the combined effect of an increase in equity available and a decrease in required equity. Required equity decreased from 31 March 2017 levels mainly due to lower market risk as a result of lower durations in our securitization investment portfolio.

Return on required equity was 6.5 percentage points higher due to the combined effect of the increase in adjusted net income and the decrease in Equity required explained above.

Financial resources

The Securitization investment portfolio is funded by guarantee and application fees and interest received net of expenses. The portfolio is intended to cover risk exposures associated with our securitization guarantee programs. The objective of the Securitization investment portfolio is to maximize our capacity to meet liquidity needs of the timely payment guarantee and to preserve capitalization amounts through investments in Government of Canada securities. As at 31 March 2018, total investments under management had a fair value of $3.7 billion (31 December 2017 - $3.6 billion).

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 2017 Annual Report. There have been no material developments impacting our risk management approaches during this reporting period.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q1 2018 [2]	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Consolidated Results								
Total assets	270,522	267,115	268,771	264,713	266,188	259,532	260,495	254,319
Total liabilities	253,627	249,374	251,209	247,260	244,782	238,542	239,742	233,981
Total equity of Canada	16,895	17,741	17,562	17,453	21,406	20,990	20,753	20,338
Total revenues	1,576	1,430	1,266	1,224	2,232	1,186	1,200	1,106
Total expenses (including income taxes)	1,283	861	799	827	1,862	790	869	768
Net income	293	569	467	397	370	396	331	338
Assisted Housing								
Parliamentary appropriations for housing programs expenses	1,026	594	521	548	1,566	570	531	463
Net income (loss)	(1)	71	4	(1)	6	(29)	3	2
Total equity of Canada	235	234	203	151	186	196	154	148
Mortgage Loan Insurance								
Insurance-in-force ($B)	472	480	484	496	502	512	514	523
Total insured volumes[1]	8,265	15,382	12,539	17,395	8,253	20,528	22,539	26,872
Premiums and fees received	241	353	414	443	228	374	458	478
Premiums and fees earned	353	390	394	396	377	344	400	393
Claims paid	69	84	74	94	77	82	103	90
Insurance claims	65	(22)	41	51	77	(13)	134	111
Net income	203	412	382	321	289	364	268	288
Arrears rate	0.29%	0.29 %	0.30 %	0.29 %	0.32 %	0.32 %	0.32 %	0.32 %
Loss ratio	19.8%	(5.6) %	10.4 %	12.9 %	20.4 %	(3.8) %	33.5 %	28.2 %
Operating expense ratio	22.1%	23.1 %	17.5 %	19.7 %	21.5 %	21.2 %	16.1 %	14.0 %
Combined ratio	41.9%	17.5 %	27.9 %	32.6 %	41.9 %	17.4 %	49.6 %	42.2 %
Severity ratio	31.9%	31.9 %	31.6 %	27.5 %	30.5 %	29.9 %	26.2 %	27.5 %
Return on equity	5.5%	10.3 %	10.1 %	7.5 %	6.1 %	7.7 %	5.8 %	6.4 %
Return on required equity	6.0%	11.4 %	10.2 %	8.5 %	6.9 %	15.8 %	11.7 %	12.7 %
Capital available to minimum capital required (% MCT)	177%	184 %	179 %	173 %	215 %	384 %	374 %	366 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage ($)	31.0%	31.9 %	32.7 %	34.3 %	34.9 %	36.0 %	36.9 %	38.1 %
Securitization								
Guarantees-in-force ($B)	481	477	459	456	457	452	435	426
Securities guaranteed	36,733	54,149	41,172	37,730	34,180	52,117	43,109	27,373
Guarantee and application fees received	121	257	134	121	115	240	142	108
Guarantee and application fees earned	113	108	98	91	87	66	76	71
Net income	88	80	76	71	68	53	59	55
Operating expense ratio	9.5%	11.2 %	10.4 %	10.7 %	10.7 %	14.2 %	11.9 %	12.5 %
Return on equity	14.9%	14.1 %	13.5 %	13.0 %	12.9 %	9.9 %	11.3 %	10.9 %
Return on required capital	19.7%	16.8 %	15.4 %	14.3 %	13.2 %	12.4 %	17.6 %	16.6 %
Capital available to capital required	137%	136 %	112 %	120 %	106 %	100 %	165 %	165 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees ($)	32.0%	32.2 %	31.2 %	31.9 %	32.6 %	32.6 %	31.5 %	32.0 %

[1] *Portfolio volumes have been modified to reflect Lender substitutions along with new business volumes.*

[2] *We implemented IFRS 9 and IFRS 15 in Q1 2018. Prior quarters were based off International Accounting Standard (IAS) 39 and IAS 18.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Three months ended 31 March 2018

Management is responsible for the preparation and fair presentation of these unaudited quarterly consolidated financial statements in accordance with 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

Lisa Williams, CPA, CA
Chief Financial Officer

23 May 2018

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at 31 March 2018	As at 31 December 2017
Assets			
Cash and cash equivalents	11	1,016	887
Accrued interest receivable		1,275	705
Investment securities:	12		
Fair value through profit or loss		2,256	1,234
Fair value through other comprehensive income		19,945	-
Available for sale		-	22,112
Derivatives		45	61
Due from the Government of Canada	6	706	126
Loans:	13		
Fair value through profit or loss		2,681	2,906
Amortized cost		241,554	237,944
Accounts receivable and other assets		739	835
Investment property		305	305
		270,522	267,115
Liabilities			
Securities sold under repurchase agreements		648	297
Accounts payable and other liabilities		982	561
Accrued interest payable		1,104	545
Dividend payable	9	1,500	2,000
Derivatives		78	39
Provision for claims	7	549	555
Borrowings:	14		
Fair value through profit or loss		4,262	4,564
Amortized cost		237,349	233,592
Defined benefit plans liability		428	450
Unearned premiums and fees	7, 8	6,662	6,687
Deferred income tax liabilities		65	84
		253,627	249,374
Commitments and contingent liabilities	21		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income		29	490
Retained earnings		16,841	17,226
		16,895	17,741
		270,522	267,115

The accompanying notes are an integral part of these quarterly consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 31 March	
(in millions of Canadian dollars)	Notes	2018	2017
Interest income	15	1,251	1,126
Interest expense	15	1,216	1,093
Net interest income		35	33
Parliamentary appropriations for housing programs	6	1,026	1,566
Premiums and fees earned		466	464
Investment income	15	131	142
Net gains (losses) on financial instruments	15	(92)	15
Other income		10	12
Total revenues and parliamentary appropriations		1,576	2,232
Non-interest expenses			
Housing programs	6	1,026	1,566
Insurance claims		65	77
Operating expenses		98	101
		1,189	1,744
Income before income taxes		387	488
Income taxes	19	94	118
Net income		293	370
Other comprehensive income (loss), net of tax			
Items that will be subsequently reclassified to net income			
Net unrealized gains from available for sale financial instruments		-	87
Net unrealized losses from debt instruments held at fair value through other comprehensive income		(91)	-
Reclassification of gains on available for sale financial instruments to net income on disposal in the period		-	(2)
Reclassification of gains on debt instruments held at fair value through other comprehensive income on disposal in the period		(2)	-
Total items that will be subsequently reclassified to net income		(93)	85
Items that will not be subsequently reclassified to net income			
Net unrealized losses from equity securities designated at fair value through other comprehensive income		(1)	-
Remeasurement gains (losses) on defined benefit plans		10	(39)
Total items that will not be subsequently reclassified to net income		9	(39)
		(84)	46
Comprehensive income		209	416

The accompanying notes are an integral part of these quarterly consolidated financial statements.

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

		Three months ended 31 March	
(in millions of Canadian dollars)	Notes	2018	2017
Contributed capital		25	25
Accumulated other comprehensive income			
Balance reported at the end of previous year		490	761
Impact of adopting IFRS 9	3	(368)	-
Restated opening balance		122	761
Other comprehensive income (loss)		(93)	85
Balance at end of period		29	846
Retained earnings			
Balance reported at the end of previous year		17,226	20,204
Impact of adopting IFRS 9	3	366	-
Impact of adopting IFRS 15	3	(53)	-
Restated opening balance		17,539	20,204
Net income		293	370
Other comprehensive income (loss)		9	(39)
Dividend	9	(1,000)	-
Balance at end of period		16,841	20,535
Equity of Canada		16,895	21,406

The accompanying notes are an integral part of these quarterly consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Three months ended 31 March	
(in millions of Canadian dollars)	Notes	2018	2017
Cash flows from operating activities			
Net income		293	370
Adjustments to determine cash flows from operating activities			
Amortization of premiums and discounts on financial instruments		32	54
Net (gains) losses on financial instruments		30	(18)
Deferred income taxes		(5)	-
Changes in operating assets and liabilities			
Derivatives		55	4
Accrued interest receivable		(570)	(506)
Due from the Government of Canada		(580)	(968)
Accounts receivable and other assets		(11)	(12)
Accounts payable and other liabilities		421	611
Accrued interest payable		559	443
Provision for claims		(6)	1
Defined benefit plans liability		(8)	(14)
Unearned premiums and fees		(96)	(114)
Other		3	(2)
Loans	13		
Repayments		6,597	5,085
Disbursements		(9,844)	(10,768)
Borrowings	14		
Repayments		(6,542)	(5,622)
Issuances		9,698	11,192
		26	(264)
Cash flows from investing activities			
Investment securities			
Sales and maturities		2,486	1,952
Purchases		(1,234)	(2,334)
Securities purchased under resale agreements		-	17
Securities sold under repurchase agreements		351	64
		1,603	(301)
Cash flows from financing activities			
Dividends paid	9	(1,500)	-
		(1,500)	-
Change in cash and cash equivalents		129	(565)
Cash and cash equivalents			
Beginning of period		887	1,995
End of period		1,016	1,430
Represented by			
Cash		31	(4)
Cash equivalents		985	1,434
		1,016	1,430
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		882	855
Amount of interest paid during the period		706	690
Amount of dividends received during the period		10	13
Amount of income taxes paid during the period		108	147

The accompanying notes are an integral part of these quarterly consolidated financial statements.

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Canada Mortgage and Housing Corporation (CMHC or Corporation) was established in Canada as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (CMHC Act) to carry out the provisions of the *National Housing Act* (NHA). We are also subject to Part X of the *Financial Administration Act* (FAA) by virtue of being listed in Part 1 of Schedule III, wholly owned by the Government of Canada (Government), and an agent Crown corporation. Our Corporation's National Office is located at 700 Montreal Road, Ottawa, Ontario, Canada, K1A 0P7.

These consolidated financial statements are as at and for the three months ended 31 March 2018 and were approved and authorized for issue by our Audit Committee on 23 May 2018.

2. Basis of Preparation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with *International Accounting Standard (IAS) 34 Interim Financial Reporting (IAS 34)* and do not include all of the information required for full annual consolidated financial statements. Except as indicated in Note 3, we follow the same accounting policies and methods of application as disclosed in Note 2 of our audited consolidated financial statements for the year ended 31 December 2017 and should be read in conjunction with those financial statements.

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our mortgage loan insurance (MLI) business is exposed to some seasonal variation. 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. Insurance 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

International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15)

We adopted IFRS 15, with an initial application date of 1 January 2018, using the cumulative catch-up method. Therefore the comparative information for 2017 is reported under IAS 18 *Revenue* and is not comparable to the information presented in 2018. The net effect of transitioning to IFRS 15 was recognized in Equity of Canada on 1 January 2018. The application of IFRS 15 impacted how we account for application fees on timely payment guarantees (TPG) in our Securitization activity. There were no other material changes as a result of the adoption of IFRS 15.

Whereas the application fees were previously recognized as revenue on payment date, under IFRS 15, the application fee and the TPG fee are considered one performance obligation and the corresponding revenue should be recognized as the performance obligation is satisfied. The application fees are recognized on the same basis as the TPG.

As a consequence, the unearned premiums and fees balance on 1 January 2018 was $72 million higher than the balance under the previous policy. The corresponding net of tax adjustment to retained earnings was $53 million.

International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9)

We adopted IFRS 9, which replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), on 1 January 2018. IFRS 9 addresses the recognition and derecognition, classification and measurement and impairment of financial instruments and hedge accounting. We have not restated comparative figures for financial instruments for dates and periods before 1 January 2018 as permitted by IFRS 9. Therefore the comparative information for 2017 is reported in accordance with IAS 39 and is not comparable to the information presented in 2018. The net effect of transitioning to IFRS 9 was recognized in Equity of Canada on 1 January 2018. CMHC does not apply hedge accounting.

Amendments were also made to *IFRS 7 Financial Instruments: Disclosures* to reflect the differences between IAS 39 and IFRS 9. These changes include transitional disclosures which we have disclosed below along with expanded quantitative and qualitative credit risk disclosures which we will adopt for the annual period ending 31 December 2018.

Classification and measurement of financial instruments

With the adoption of IFRS 9, we now classify our financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortized cost. Classification is determined at initial recognition based on our business model for managing the asset and the contractual cash flow characteristics of the asset.

Financial liabilities are classified as either financial liabilities at FVTPL or amortized cost which is essentially unchanged from IAS 39, with the exception that changes in fair value of liabilities designated at FVTPL due to our own credit risk are presented in other comprehensive income (OCI), rather than profit or loss.

The following table presents a description of all our financial instruments along with their classification under IFRS 9 and the criteria for classifying them as such:

Classification	Financial Instruments (Activity)[1]	Description	Criteria and accounting treatment
Financial assets at amortized cost	Cash and cash equivalents (AH, MLI, SEC)	highly liquid investments with a term to maturity of 98 days or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value	Financial assets are classified at amortized cost if the assets: a) are held within a business model whose objective is to collect contractual cash flows; b) generate cash flows on specified dates that are solely payment of principal and interest (SPPI); and c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at amortized cost. Financial assets at amortized cost are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method (EIRM), net of an allowance for expected credit losses (ECL). Interest income is recognized using the EIRM in interest income in AH and investment income under MLI and SEC. ECL are recognized in profit or loss on financial assets at amortized cost.
	Securities purchased under resale agreements (Reverse Repurchase Agreements) (AH, MLI)	purchase of securities, typically Government treasury bills or bonds, with the commitment to resell the securities to the original seller at a specified price and future date in the near term	
	Loans – Canada Mortgage Bonds Program (CMB) (SEC)	amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in National Housing Act Mortgage Backed Securities (NHA MBS) to Canada Housing Trust (CHT)	
	Loans - Lending Programs (AH)	loans not economically hedged within our AH Activity	
	Loans (MLI)	mortgages or loans that benefit from the MLI supported default management activities that enable borrowers to work through their financial difficulties	
Debt instruments at FVOCI	Cash equivalents (MLI, SEC)	highly liquid investments with a term to maturity of 98 days or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value	Debt instruments are classified as at FVOCI if the assets: a) are held within a business model whose objective is achieved by collecting contractual cash flows and selling assets; b) generate cash flows on specified dates that are SPPI; and c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at FVOCI. Financial assets at FVOCI are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value. Unrealized gains and losses arising from changes in fair value are recorded in other comprehensive income (OCI) until the financial asset is derecognized at which point, cumulative gains or losses previously recognized in OCI are reclassified from accumulated other comprehensive income (AOCI) to net gains (losses) on financial instruments. Unrealized foreign exchange gains (losses) are recognized in net gains (losses) on financial instruments. Interest income is recognized using the EIRM. ECL are recognized on financial assets held at FVOCI. The cumulative ECL allowance is recorded in OCI and does not reduce the carrying amount of the financial asset on the balance sheet. The change in the ECL allowance is recognized in profit and loss.
	Investment Securities – debt instruments (MLI, SEC)	consists of Corporate, Federal, Provincial and Sovereign debt instruments	

[1] *Denotes in which Activity we hold the instruments: Assisted Housing (AH), Mortgage Loan Insurance (MLI) or Securitization (SEC)*

Financial assets at FVTPL	Cash equivalents, loans, investment securities designated at FVTPL (AH)	for certain portfolios of loans and associated borrowings originated prior to August 2016, the AH Activity uses derivatives to manage refinancing and reinvestment risks, as well as mismatches between the timing of receipts from assets and payments of liabilities. These assets form part of the lending economic hedging structure and are designated at FVTPL	Financial assets that do not meet the criteria for classification as financial assets at amortized cost or financial assets at FVOCI are classified as at FVTPL, unless an irrevocable election has been made at initial recognition for certain equity investments to have their changes in fair value be presented in OCI. Financial assets at FVTPL include any financial assets whose contractual cash flows are not SPPI, or any financial assets that are not held within a business model whose objective is achieved by collecting contractual cash flows or collecting cash flows and selling assets. Financial assets at FVTPL also include derivatives or instruments that have been irrevocably designated upon initial recognition as at FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them in those categories. Financial assets at FVTPL are initially recognized and subsequently measured at fair value. Unrealized gains and losses arising from changes in fair value and gains and losses realized on disposition are recorded in net gains (losses) on financial instruments. Transaction costs are expensed as incurred. Interest income using the EIRM and dividend income is recognized in profit and loss. ECL are not recognized on financial instruments measured at FVTPL.
	Derivatives – Interest rate swaps (AH) and FX contracts (MLI)	interest rate swaps and foreign exchange contracts used to economically hedge foreign exchange risks on US Dollar denominated debt instruments	
	Investment Securities – Common equity securities and limited partnership units (MLI)	mandatorily classified at FVTPL	
	Investment Securities – debt instruments (MLI)	subordinated debt securities whose contractual cash flows do not give rise to cash flows that are SPPI	
	Loans – (AH, MLI)	workout loans which contain interest adjustment clauses and therefore fail the SPPI test as well as assignment of mortgages for which we only expect to recover the value of the underlying collateral	
Equity instruments designated at FVOCI	Investment Securities - Preferred equity securities (MLI)	Preferred shares	An irrevocable election is available upon initial recognition to present changes in the fair value of equity instruments in OCI if the instruments are not held for trading and is not a contingent consideration in a business combination. An instrument that is held for trading is: a) acquired principally for the purpose of selling in the near term; b) on initial recognition part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual short-term profit-taking; or c) a derivative (other than financial guarantee derivatives or designated effective hedging instruments). The election is made upon initial recognition on an instrument-by-instrument basis. Amounts recognized in OCI shall not be transferred to profit or loss; however, they may be transferred to a different category within equity (e.g. retained earnings) upon derecognition. We have elected to present cumulative OCI directly in retained earnings. ECL are not recognized on equity instruments. Dividend income is recognized in profit and loss.
Financial liabilities at FVTPL	Borrowings (AH – Lending programs)	borrowings that are economically hedged as part of our lending hedging structure	A financial liability is classified at FVTPL if it is held for trading or designated as at FVTPL. A financial liability may be irrevocably designated upon initial recognition as at FVTPL if: a) doing so eliminates or reduces significantly an accounting match; or b) its performance is evaluated on a fair value basis in accordance with risk management policies. Unrealized gains and losses arising from changes in fair value are recognized in profit or loss except for changes in fair value attributable to an entity's own

			credit risk which are recognized in OCI unless doing so would create an accounting mismatch, in which case, the entire fair value change is presented in profit or loss. Interest expense is recognized using the EIRM.
Financial liabilities at amortized cost	Borrowings – Canada Mortgage Bonds (SEC) Borrowings from the Government of Canada (AH) Securities sold under repurchase agreements (MLI)	interest-bearing bullet bonds issued by CHT and guaranteed by CMHC borrowings incurred to fund loans in the Assisted Housing Activity that are not part of the lending hedging structure sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term. Proceeds received from these agreements are generally invested in Reverse Repurchase Agreements or cash equivalents for the purpose of generating additional income. These transactions are entered into simultaneously with matching terms to maturity	Financial liabilities are classified at amortized cost unless they have been classified at FVTPL. Financial liabilities are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the EIRM. Interest expense is recognized using the EIRM.
Financial guarantee contracts	*National Housing Act* Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bonds (CMB) (SEC)	guarantee to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due	NHA MBS TPG and application fees and CMB TPG fees are initially recognized in unearned premiums and fees at fair value (the premium received). Subsequently, they are measured at the higher of i) amount initially recognized less the amortization of guarantee and application fee revenue; and ii) the amount of the allowance for ECL.

Classification and measurement of debt instruments

The classification and measurement of debt instruments is based on the business model for managing the assets and whether contractual cash flows are SPPI.

Business model assessment

The business model reflects how we manage assets in order to generate cash flows. That is, whether the objective is solely to collect contractual cash flows, or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither is applicable, then the financial asset is measured at FVTPL. We assess our business models at a level that reflects how our financial instruments are managed to achieve our business objectives. This assessment begins at the operating segment level, and where applicable, by sub-portfolios of instruments that are managed together within a particular activity to achieve common business objectives.

Upon initial and subsequent application of IFRS 9, we perform our business model assessment based on the following main criteria:

- management's strategic objectives of the business model and how these objectives are carried out in practice;
- how performance of the business model is evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and how we manage those risks. Key risks include credit, market and liquidity risks as described in detail in our consolidated financial statements for the year ended 31 December 2017;
- how managers of the business model are compensated;
- the frequency, value and timing of historical sales activity and expectations for future sales activities;

Assessment of whether contractual cash flows are SPPI

We assess whether the cash flows of our debt instruments meet the SPPI criteria based on the asset's contractual terms. For this assessment, we define principal as the fair value of the asset upon initial recognition and interest as consideration for the time value of money, the credit risk of the transaction and for other lending risks and costs as well as a profit margin.

Contractual terms that introduce exposure to risk or volatility to the contractual cash flows that are inconsistent with a basic lending agreements do not satisfy the SPPI requirement. Equity instruments and derivatives fail the SPPI test.

Impairment of financial instruments

We recognize an allowance for ECL on all debt instruments not carried at FVTPL. We also recognize an allowance for ECL for our financial guarantees to the extent they exceed the balance of unearned fees associated with the guarantees. Changes in our estimate of ECL are recognized in expected credit losses on financial assets in net gains (losses) on financial instruments in the consolidated statement of income and comprehensive income.

Credit losses are defined as the difference between all contractual cash flows due to the Corporation over the maximum contractual period, including extension options, and the cash flows that we expect to receive (cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired assets). ECL are the weighted average of credit losses determined by evaluating a range of possible outcomes using reasonable, supportable information about past events and current and forecasted future economic conditions.

Measurement of expected credit losses

The Corporation has developed an impairment model to determine the allowance for ECL on our debt securities classified as amortized cost or FVOCI, loans classified as amortized cost and our financial guarantee contracts. We determine an allowance for ECL at initial recognition of the financial instrument (or the date we become party to a financial guarantee) that is updated at each reporting period throughout the life of the instrument.

The ECL allowance is based on the ECL over the life of the financial instrument (lifetime ECL), unless there has been no significant increase in credit risk (SICR) since initial recognition, in which case the ECL allowance is measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months (12-month ECL).

ECL are determined based on three main drivers: probability of default, loss given default and exposure at default:

- Probability of default (PD): a point in time estimate of the likelihood of default either over the next 12 months (12-month ECL) or over the remaining life of the instrument (lifetime ECL). Our PD's are determined by mapping internal credit ratings to point-in-time PD tables based on statistical models derived from a large data set of publicly traded entities.
- Loss given default (LGD): is the percentage of the gross carrying amount of the instrument that will be lost on default at a given point in time. It is based on the difference between contractual cash flows due and those expected to be received, including the realization of collateral;
- Exposure at default (EAD): the gross carrying amount of the instrument at a given point in time and is calculated as the present value of the outstanding contractual cash flows using the EIRM.

The ECL is calculated using a scenario based approach where, for each scenario, the PD, LGD and EAD are projected for each individual exposure at each cash flow date over the next 12 months (12-month ECL) or remaining life of the instrument (lifetime ECLs). The components are multiplied together at each future date and discounted back using the original effective interest rate to the reporting date and summed. A probability-weighted average ECL is then determined across the multiple scenarios. We have modelled all ECLs at the individual instrument level.

Significant increase in credit risk

We have established a policy to perform an assessment at the end of each reporting period, of whether the instrument's credit risk has increased significantly since initial recognition (or the date we become party to a financial guarantee). Based on this assessment, we group the instruments into the following categories:

- Stage 1: instruments which have not experienced a SICR since initial recognition. ECL are recognized based on 12-month ECL;
- Stage 2: instruments which have experienced a SICR since initial recognition. In subsequent periods, if the credit risk of an instrument has improved such that there is no longer a SICR since initial recognition, the ECL allowance will revert to stage 1. ECLs are recognized based on lifetime ECLs;
- Stage 3: instruments are considered credit-impaired as one or more events that have a detrimental impact on estimated future cash flows have occurred. ECL are recognized based on lifetime ECL;
- Purchased or originated credit-impaired (POCI) – instruments that are credit impaired on initial recognition. ECL are recognized based on lifetime ECL.

Interest revenue on stage 3 or POCI financial instruments is calculated based on the carrying amount of the asset, net of the loss allowance, rather than the gross carrying amount.

For instruments that we assess as having low credit risk at the reporting date, we applied the low credit risk exemption and have presumed that credit risk has not increased significantly since initial recognition. We use our internal credit ratings at the reporting date to assess whether the instrument has low credit risk. Our internal ratings are based on internal assessments of counterparty creditworthiness and generally correspond to those provided by credit rating agencies. We consider an instrument to have low credit risk when our internal rating is BBB- or higher.

We consider an instrument in default, which is fully aligned with the definition of credit-impaired, when it meets the following criteria:

- Observable data exists that has a detrimental impact on the estimated future cash flows such as:
  - significant financial difficulty of the issuer;
  - the granting of a new loan to assist the borrower work through financial difficulties;
  - it becomes probable that the issuer will enter bankruptcy or other financial reorganization, and
  - the disappearance of an active market due to financial difficulties.
- Borrower becomes 90 days past due on its contractual payments.

An instrument is no longer considered impaired when all past due amounts, including interest, have been recovered and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms of the instrument. We write off instruments, either partially or in full, against the related ECL allowance when we judge that there is no realistic prospect of future recovery.

We apply the following policies in determining whether there has been a SICR on our financial instruments subject to ECL:

Debt instruments at amortized cost / FVOCI

The Corporations' credit risk policies restricts the investment in debt instruments to an internal rating of BBB- or higher and therefore all debt instruments held are presumed to have low credit risk and we have applied the low credit risk exemption (stage 1). A backstop is applied where the financial instrument is considered to have experienced a SICR if the counterparty is more than 30 days past due on its contractual payments.

Loans under the CMB program

Loans under the CMB program represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS securities to us. The loans are collateralized by the NHA MBS and associated reinvestment securities acquired in the transactions. The NHA MBS, reinvestment assets and swaps represent the sole source of repayment on the loans, and thus directly affect the probability of a default occurring. Therefore, our assessment of SICR is based on the credit risk of these supporting assets.

The supporting assets are limited to NHA MBS and reinvestment assets rated R-1 (high) or AAA and swap counterparties with a minimum rating of BBB-. As such, all loans under the CMB program are presumed to have low credit risk and we have applied the low credit risk exemption (stage 1).

Assisted Housing Activity loans / Mortgage Loan Insurance Activity loans

Loans with an internal rating of BBB- or higher are presumed to have low credit risk and the low credit risk exemption has been applied (stage 1). These loans consist of those issued to municipalities under the Municipal Infrastructure Lending Program and loans indemnified by provinces and territories through provisions under Social Housing Agreements (SHA) where the credit rating of the province or territory is considered in the SICR assessment. This credit enhancement is relevant to assessing changes in credit risk since it directly impacts the probability of default. The province or territory is responsible for collecting loan payments from the borrower and, in turn, makes all payments to CMHC directly in accordance with the contractual terms of the loan on behalf of the borrower. These payment are made to CMHC, irrespective of the borrower's payment status.

A backstop is applied to these loans where the financial instrument is considered to have experienced a SICR if the borrower is more than 30 days past due on its contractual payments.

All remaining loans issued under our Assisted Housing or Mortgage Loan Insurance activities have not been internally rated and therefore the low credit risk presumption will not be used. Our SICR assessment of these loans is based on the following criteria which is primarily based on days past due:

- Stage 1: All current loans to 30 days past due.
- Stage 2: Loans between 30 & 90 days past due;
- Stage 3: Loans more than 90 days past due. Note, a loan that is not past due, but has been issued a workout loan to assist with financial difficulties will be considered credit impaired irrespective of days past due.

Based on analysis of internal data, we have determined there is a correlation between loans that are more than 30 days past due and loans that are 90 days past due (default threshold).

Under the terms of certain construction loans issued by our Assisted Housing Activity or workout loans issued by our Mortgage Loan Insurance Activity, there may be a period of time where the loan has been advanced but not under repayment and therefore days past due cannot be used in the SICR assessment. For these loans that are not under repayment, we will assess SICR by applying the following criteria:

- days past due on loans issued by the same borrower;
- collective assessment by reviewing past due status of borrowers with shared credit risk characteristics;
- qualitative assessment of specific indicators of the construction project such as: project delays, performance against budget and remaining costs to complete.

Financial gurarantees

CMHC issues financial guarantees for NHA MBS and CMB whereby CMHC guarantees the timely payment of principal and interest to NHA MBS and CMB investors. Upon issuance of a guarantee, CMHC collects a fee which is considered the fair value of the guarantee and is deferred and recognized as revenue over the expected life of the guarantee.

Under the NHA MBS program, a financial institution (the “NHA MBS issuer”) creates a pool of eligible mortgages and sells the pool to investors. The underlying pool of mortgages is designed to provide sufficient cash flows to fund the NHA MBS with the issuer having the obligation to fund any shortfalls that may arise, thus exposing the Corporation to credit risk of the issuer with the underlying pool of mortgages serving as a credit enhancement. This credit enhancement directly affects the likelihood of the issuer defaulting since shortfalls only occur if the underlying pool has provided insufficient cash flows to fund NHA MBS payments to investors. Our assessment of SICR is therefore based on both the credit risk of the issuer and the credit risk of the pool of mortgages underlying the NHA MBS. The pool of mortgages are considered low credit risk since only mortgages insured by CMHC or by approved private mortgage insurers are eligible to be pooled in NHA MBS, all of which carry investment grade credit ratings.

Under the CMB program, the credit risk exposures are, by design, the CMB loans that are the sole source of funds to fulfill CHT’s CMB obligations. As discussed above, the NHA MBS, reinvestment assets and swaps represent the sole source of repayment on the loans. The SICR assessment for the CMB guarantee is based on the credit risk of these supporting assets all of which have been assessed as low credit risk.

We have assessed the TPG under both the NHA MBS and CMB programs as having low credit risk and will apply the low credit risk exemption (stage 1).

Forward looking macroeconomic variables

The Corporation has incorporated forward looking economic information into its ECL by performing the calculation under multiple scenarios resulting in a probability-weighted average ECL based on the weightings of each scenario. We have used three sets of economic scenarios for all instruments representing a baseline, upside and downside scenario.

We performed an economic variable selection process to identify the sets of macroeconomic variables that had the highest correlation with our portfolios. This process resulted in three sets of economic variables that are most highly correlated to our portfolios dependent on the geographic and industry sector of the exposure that include the following variables: unemployment rates, oil prices, 10-year corporate bond spreads and the CBOE Volatility Index.

All macroeconomic variables are projected over a five year period, subsequently reverting to long-run averages. Forecasts and scenarios weightings are prepared by the Corporation annually and reviewed quarterly by a cross-functional committee represented by members of our Capital Markets, Finance, Risk and Market Analysis sectors with recommendations presented to an executive committee for approval.

Impact of adoption of IFRS 9

Reclassifications

The following table compares the carrying amount of financial assets and liabilities under IAS 39 with those under IFRS 9 upon transition at 1 January 2018. We have not restated 2017 comparative information presented under IAS 39. Differences upon transition have been recorded directly in retained earnings.

		IAS 39				IFRS 9	
Financial instrument type	**Notes**	**Classification**	**Carrying Amount**	**Reclassification**	**Remeasurement**	**Classification**	**Carrying Amount**
Assets:							
Cash and cash equivalents	1, 7	Designated at FVTPL	55	-	-	Designated at FVTPL	55
	1	Available for sale (AFS)	67	-	-	Debt instruments at FVOCI	67
	1	Loans and receivables	765	-	-	Amortized cost	765
Total cash and cash equivalents			887	-	-		887
Accrued interest receivable	1	Loans and receivables	705	-	-	Amortized Cost	705
Investment securities							
Debt instruments	1, 7	Designated at FVTPL	1,234	-	-	Designated at FVTPL	1,234
	1	AFS	20,842	-	-	Debt instruments at FVOCI	20,842
	2	AFS	97	-	-	FVTPL	97
Common equities	4	AFS	1,105	-	-	FVTPL	1,105
Preferred equities	5	AFS	68	-	-	Equity instruments at FVOCI	68
Total investment securities			23,346	-	-		23,346
Derivatives	1, 7	FVTPL	61	-	-	FVTPL	61
Due from government of Canada	1	Loans and receivables	126	-	-	Amortized Cost	126
Loans	1, 7	Designated at FVTPL	2,906	-	-	Designated at FVTPL	2,906
	1, 3, 6	Loans and receivables	237,944	102	(5)	Amortized Cost	238,041
	3	Loans and receivables	-	26	-	FVTPL	26
	6	Loans and receivables	-	15	2	FVTPL	17
Total loans			240,850	143	(3)		240,990
Accounts receivable and other assets	3	Loans and receivables	193	(143)	-	Amortized cost	50
	1	N/A	642	-	-	N/A	642
Total accounts receivable and other assets			835	(143)	-		692
Investment property		N/A	305	-	-	N/A	305
Total assets			**267,115**	**-**	**(3)**		**267,112**

		IAS 39				IFRS 9	
Financial instrument type	**Notes**	**Classification**	**Carrying Amount**	**Reclassification**	**Remeasurement**	**Classification**	**Carrying Amount**
Liabilities:							
Securities sold under repurchase agreements	1	Other financial liabilities	297	-	-	Amortized cost	297
Accrued interest payable	1	Other financial liabilities	545	-	-	Amortized cost	545
Dividends payable	1	Other financial liabilities	2,000	-	-	Amortized cost	2,000
Derivatives	1, 7	FVTPL	39	-	-	FVTPL	39
Borrowings							
	1, 7	Designated at FVTPL	4,564	-	-	Designated at FVTPL	4,564
	1	Other financial liabilities	233,592	-	-	Amortized cost	233,592
Total borrowings			238,156	-	-		238,156
Accounts payable and other liabilities	1	Other financial liabilities	481			Amortized cost	481
		N/A	80			N/A	80
Total accounts payable and other liabilities			561				561
Other		N/A	7,776	-	-	N/A	7,776
Total liabilities			**249,374**	-	-		**249,374**

[1] *Financial instruments reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis.*

[2] *In our MLI Activity, at January 1, 2018, we held $97 million in subordinated debt instruments which were classified as AFS and measured at FVOCI under IAS 39. These instruments fail the SPPI test and are classified as at FVTPL under IFRS 9. Upon transition, $3 million, net of tax, was reclassified from AOCI to retained earnings.*

[3] *In our MLI Activity, at January 1, 2018, we held $143 million of loans presented in accounts receivable and other assets that have been reclassified to loans. Of these loans, $26 million fail the SPPI test and were classified as at FVTPL and $117 million were classified as amortized cost under IFRS 9.*

[4] *Under IAS 39, our common share equity securities and limited partnership units held in our MLI Activity were classified as AFS. Under IFRS 9, equity securities are mandatorily classified as financial assets at FVTPL unless an irrevocable election is made to present fair value changes in OCI. We have not made use of this election and therefore our common equity securities and limited partnership units were re-classified from AFS to FVTPL. Upon transition, $371 million in unrealized gains (losses), net of tax, were reclassified from AOCI to retained earnings.*

[5] *Under IAS 39, preferred equity securities of $68 million held in our MLI Activity were classified as AFS. Under IFRS 9, we have elected to present fair value changes in OCI. Under this election, there is no recycling of gains and losses from OCI to net income upon derecognition. This differs from our previous practices under AFS where realized gains and losses are recycled to net income when the investment is sold or derecognized.*

[6] *Under IAS 39, loans held under the Municipal Infrastructure Lending Program (MILP) within our Assisted Housing Activity were classified as loans and receivables. Under IFRS 9, one loan of $15 million within this portfolio contains contractual cash flows that fail the SPPI test and has been reclassified to FVTPL. All other loans held within the MILP program pass the SPPI test and are classified and measured at amortized cost under IFRS 9.*

[7] *As at the transition date of 1 January 2018, all of our loans, investment securities and borrowings that were previously designated at FVTPL to eliminate an accounting mismatch with derivatives used in economic hedges of interest rate risk will remain so under IFRS 9 as there have been no changes in the structure of the hedges.*

Reconciliation of impairment allowance from IAS 39 to IFRS 9

The following table reconciles our opening loss allowance under IAS 39's incurred loss model to our expected credit loss allowance under IFRS 9's expected credit loss model.

Measurement Category	Loan loss allowance under IAS 39[1]	Reclassification[2]	Remeasurement[3]	ECL allowance under IFRS 9
Debt instruments at AFS (IAS 39) / FVOCI (IFRS 9)	-	-	9	9
Loans and receivables (IAS 39) / Amortized cost (IFRS 9)	113	(17)	5	101
Total	**113**	**(17)**	**14**	**110**

1 *Under IAS 39, loss allowance was recognized against related loan balance and presented in accounts receivable and other assets.*

2 *Reclassification represents the impact to the impairment allowances from classification and measurement changes.*

3 *Remeasurement represents the before tax impact to the impairment allowance from the adoption of the IFRS 9 ECL model.*

Impact of transition on Equity of Canada

The following table presents the IFRS 9 and IFRS 15 transitional impacts on accumulated OCI and retained earnings as at January 1, 2018.

Accumulated other comprehensive income	
Closing Balance as at 31 December 2017	$490
Impact of adopting IFRS 9, net of tax:	
Impact of reclassifying equity securities from AFS to FVTPL	(371)
Impact of reclassifying debt instruments from AFS to FVTPL	(3)
Recognition of ECL on debt instruments at FVOCI	6
Total impact of adopting IFRS 9, net of tax	(368)
Restated opening balance as at 1 January 2018	**122**
Retained earnings	
Closing Balance as at 31 December 2017	17,226
Impact of adopting IFRS 15, net of tax	(53)
Impact of adopting IFRS 9, net of tax:	
Impact of reclassifying equity securities from AFS to FVTPL	371
Impact of reclassifying debt instruments from AFS to FVTPL	3
Recognition of ECL on debt instruments at FVOCI	(6)
Re-measurement of loans reclassified from amortized cost to FVTPL	2
Re-measurement of ECL on loans at amortized cost	(4)
Total impact of adopting IFRS 9, net of tax	366
Restated opening balance as at 1 January 2018	**17,539**

Future accounting changes

There have been no new standards or amendments to existing standards issued by the International Accounting Standards Board (IASB) that would affect CMHC in the future other than those disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2017, and the Conceptual Framework for Financial Reporting indicated below. As disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2017, we will implement IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* on 1 January 2019 and IFRS 17 *Insurance Contracts* on 1 January 2021.

Conceptual Framework for Financial Reporting

In March 2018 the IASB issued the revised *Conceptual Framework for Financial Reporting*, replacing the previous version of the *Conceptual Framework* issued in 2010.

The revised *Conceptual Framework* has an effective date of 1 January 2020, with earlier application permitted, for companies that use the *Conceptual Framework* to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised *Conceptual Framework* includes: a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, in particular the definitions of an asset and a liability and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. We have not yet determined the full impact on our consolidated financial statements.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements requires Management to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. Significant judgments and estimates at 31 March 2018 were consistent with those disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2017, with the exception of those related to IFRS 9 effective 1 January 2018 which are described below.

Classification and measurement of financial assets

Business model assessment

The classification and measurement of our debt instruments is dependent on our determination of the business model which is based on the objectives under which our portfolios of financial assets are managed and is based on reasonably expected scenarios. Judgement is required in assessing the business model which considers the criteria described in Note 3.

Solely payments of principal and interest test

As a second step in the classification process of our debt instruments, we assess the contractual terms of our debt instruments to determine whether the cash flows meet the SPPI criteria. To make this assessment we apply judgement and consider relevant factors such as, but not limited to: non-cash distributions; performance-linked features; period for which the interest rate is set; conversion options; equity linked payments; limits on claims to specified assets (non-recourse items).

Measurement of expected credit losses

The measurement of ECL on our financial assets is an area that requires the use of complex models and significant assumptions and judgements that are driven by a number of factors, changes in which can result in different levels of allowances.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is described in Note 3.

Elements of the ECL model that are considered accounting judgements and estimates include:

- determining criteria for SICR;
- development of appropriate models and assumptions for the measurement of ECL;
- determination of the economic variables most highly correlated to our portfolios of financial assets; and
- establishing the number and relative weightings of forward-looking macroeconomic scenarios and their effect on economic inputs in the ECL model

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing, Mortgage Loan Insurance and Securitization Activities, each of which provides different programs in support of our objectives. The accounts for Canada Housing Trust (CHT), a separate legal entity, are included within the Securitization Activity. The financial results of each activity are determined using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2017. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

- Assisted Housing revenues include parliamentary appropriations and interest income on loans;
- Mortgage Loan Insurance revenues include premiums, fees and investment income; and
- Securitization revenues include guarantee and application fees, investment income and interest income on loans.

Three months ended 31 March	Assisted Housing Activity		Mortgage Loan Insurance Activity		Securitization Activity		Eliminations		Total	
(in millions)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Interest income	86	95	-	-	1,166	1,032	(1)	(1)	1,251	1,126
Interest expense	82	95	-	-	1,163	1,029	(29)	(31)	1,216	1,093
Net interest income	**4**	**-**	**-**	**-**	**3**	**3**	**28**	**30**	**35**	**33**
Parliamentary appropriations for housing programs	1,026	1,566	-	-	-	-	-	-	1,026	1,566
Premiums and fees earned	-	-	353	377	113	87	-	-	466	464
Investment income (losses)	-	-	138	151	14	11	(21)	(20)	131	142
Net gains (losses) on financial instruments	(9)	6	(79)	10	(1)	-	(3)	(1)	(92)	15
Other income	8	7	-	2	2	3	-	-	10	12
Total revenues and parliamentary appropriations	**1,029**	**1,579**	**412**	**540**	**131**	**104**	**4**	**9**	**1,576**	**2,232**
Non-interest expenses										
Housing programs	1,026	1,566	-	-	-	-	-	-	1,026	1,566
Insurance claims	-	-	65	77	-	-	-	-	65	77
Operating expenses	6	7	78	81	14	13	-	-	98	101
Total expenses	1,032	1,573	143	158	14	13	-	-	1,189	1,744
Income (loss) before income taxes	**(3)**	**6**	**269**	**382**	**117**	**91**	**4**	**9**	**387**	**488**
Income taxes	(2)	-	66	93	29	23	1	2	94	118
Net income (loss)	**(1)**	**6**	**203**	**289**	**88**	**68**	**3**	**7**	**293**	**370**
Total revenues and parliamentary appropriations	1,029	1,579	412	540	131	104	4	9	1,576	2,232
Inter-segment income (loss)[1]	(1)	(1)	(24)	(21)	29	31	(4)	(9)	-	-
External revenues and parliamentary appropriations	1,028	1,578	388	519	160	135	-	-	1,576	2,232

[1] *Inter-segment income relates to the following:*

- *The Assisted Housing Activity recognizes revenues from investing in holdings of CMB;*
- *The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of CMB; and*
- *Within the Securitization Activity, CHT recognizes interest expense on CMBs held by the Assisted Housing and Mortgage Loan Insurance Activities.*

As at 31 March 2018 and 31 December 2017	Assisted Housing Activity		Mortgage Loan Insurance Activity		Securitization Activity		Eliminations[1]		Total	
(in millions)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Assets										
Cash and cash equivalents	355	519	660	342	1	26	-	-	1,016	887
Accrued interest receivable	112	140	156	140	1,029	439	(22)	(14)	1,275	705
Investment securities:										
Fair value through profit or loss	1,627	1,630	1,026	1	-	-	(397)	(397)	2,256	1,234
Fair value through other comprehensive income	-	-	20,101	-	3,712	-	(3,868)	-	19,945	-
Available for sale	-	-	-	22,689	-	3,608	-	(4,185)	-	22,112
Derivatives	45	51	-	10	-	-	-	-	45	61
Due from the Government of Canada	706	126	-	-	-	-	-	-	706	126
Loans:										
Fair value through profit or loss	2,647	2,906	34	-	-	-	-	-	2,681	2,906
Amortized cost	4,198	4,158	112	-	237,244	233,786	-	-	241,554	237,944
Accounts receivable and other assets	174	163	524	618	41	54	-	-	739	835
Investment property	256	256	49	49	-	-	-	-	305	305
	10,120	9,949	22,662	23,849	242,027	237,913	(4,287)	(4,596)	270,522	267,115
Liabilities										
Securities sold under repurchase agreements	-	-	648	297	-	-	-	-	648	297
Accounts payable and other liabilities	918	429	55	101	9	31	-	-	982	561
Accrued interest payable	116	129	-	-	1,010	430	(22)	(14)	1,104	545
Dividend payable	-	-	1,500	2,000	-	-	-	-	1,500	2,000
Derivatives	24	26	54	13	-	-	-	-	78	39
Provision for claims	-	-	549	555	-	-	-	-	549	555
Borrowings:										
Fair value through profit or loss	4,262	4,564	-	-	-	-	-	-	4,262	4,564
Amortized cost	4,355	4,350	-	-	237,244	233,786	(4,250)	(4,544)	237,349	233,592
Defined benefit plans liability	173	181	253	266	2	3	-	-	428	450
Unearned premiums and fees	-	-	5,247	5,352	1,415	1,335	-	-	6,662	6,687
Deferred income tax liabilities	37	36	58	68	(24)	(8)	(6)	(12)	65	84
	9,885	9,715	8,364	8,652	239,656	235,577	(4,278)	(4,570)	253,627	249,374
Equity of Canada	235	234	14,298	15,197	2,371	2,336	(9)	(26)	16,895	17,741
	10,120	9,949	22,662	23,849	242,027	237,913	(4,287)	(4,596)	270,522	267,115

[1] *Eliminations remove inter-segment holdings of CMB.*

6. Parliamentary Appropriations and Housing Programs Expenses

Parliamentary appropriations were used to fund the following housing programs expenses, including operating expenses incurred to support these programs.

	Three months ended 31 March	
(in millions)	**2018**	**2017**
Funding under long-term commitments for existing social housing	450	440
Funding for new commitments of affordable housing	550	1,105
Housing support	7	5
Market analysis information	6	7
Housing policy, research and information transfer	13	9
Total	**1,026**	**1,566**

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 31 March 2018 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

	Three months ended 31 March	
(in millions)	**2018**	**2017**
Balance at beginning of period	126	59
Total appropriations recognized in revenues during the period	1,026	1,566
Total appropriations received during the period	(444)	(599)
Third party remittances (owing) to the Government of Canada	(2)	1
Balance at end of period	**706**	**1,027**

7. Mortgage Loan Insurance

Unearned premiums and fees

The following table presents the changes in the unearned premiums and fees balance.

	Three months ended 31 March	
(in millions)	**2018**	**2017**
Balance at beginning of period	5,352	5,472
Premiums deferred on contracts written in the period	243	226
Premiums earned in the period	(348)	(371)
Application fees deferred on contracts written in the period	4	6
Application fees earned in the period[1]	(4)	(3)
Balance at end of period	**5,247**	**5,330**

[1] *Only includes earned application fees on multi-unit residential loans during the period. Application fee revenue earned on low loan-to-value transactional homeowner application fees are earned immediately as they are received.*

Deferred acquisition costs

Deferred acquisition costs (DAC) are included in accounts receivable and other assets. The following table presents the changes in the DAC balance.

	Three months ended 31 March	
(in millions)	**2018**	**2017**
Balance at beginning of period	165	149
Acquisition costs deferred	14	15
Amortization of DAC	(12)	(11)
Balance at end of period	**167**	**153**

Provision for claims

The provision for claims includes amounts set aside for claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER), claims in process (CIP) and social housing and index-linked mortgages (SH/ILM).

Provision for claims comprises the following:

	As at					
	31 March 2018			31 December 2017		
(in millions)	IBNR, IBNER and CIP	SH/ILM	Total	IBNR, IBNER and CIP	SH/ILM	Total
Undiscounted estimated losses	366	153	519	364	158	522
Discounting	(7)	(19)	(26)	(6)	(17)	(23)
Discounted provision for adverse deviation	28	28	56	27	29	56
Total provision for claims	**387**	**162**	**549**	**385**	**170**	**555**

The following table presents the changes in the provision for claims balance.

	Three months ended 31 March					
	2018			2017		
(in millions)	IBNR, IBNER and CIP	SH/ILM	Total	IBNR, IBNER and CIP	SH/ILM	Total
Provision for claims, beginning of period	386	169	555	474	179	653
Net claims paid during the period	(69)	(5)	(74)	(77)	(1)	(78)
Provision for claims provided for and losses incurred during the period[1]	58	2	60	72	1	73
Unfavourable (favourable) development on prior period claims	12	(4)	8	7	-	7
Provision for claims, end of period	**387**	**162**	**549**	**476**	**179**	**655**

[1] *Included as part of insurance claims on the consolidated statements of income and comprehensive income. Provision for claims provided for and losses may not equal insurance claims expense as certain expenses incurred do not impact the provision for claims.*

Insurance policy liability adequacy

We perform a liability adequacy test on the premium liabilities and claim liabilities quarterly. Premium liabilities represent a provision for future claims and expenses that 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 for the three months ended 31 March 2018 has identified that no premium deficiency reserve is required.

8. Securitization

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and NHA MBS issued by Approved Issuers on the basis of housing loans under the NHA MBS program in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations under each of the programs.

At the balance sheet date, the Corporation has not received a claim on its TPG. As such, no provision in addition to the remaining unearned premium is required.

ECL on our TPG's have been assessed as immaterial at 31 March 2018 and are lower than the balance of unearned fees and therefore have not been recognized.

The following table presents the changes in the unearned premiums and fees balance.

	Three months ended 31 March					
	2018			2017		
	NHA MBS	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance reported at the end of the previous year	859	476	1,335	648	444	1,092
IFRS 15 adjustment for application fees	72	-	72	-	-	-
Restated opening balance	**931**	**476**	**1,407**	**648**	**444**	**1,092**
TPG and application fees received	86	35	121	75	40	115
TPG and application fees earned	(82)	(31)	(113)	(59)	(28)	(87)
Balance at end of period	**935**	**480**	**1,415**	**664**	**456**	**1,120**

9. Capital Management

For capital management, we consider our capital available to be equal to the total equity of Canada less assets with a capital requirement of 100%.

Our primary objective with respect to capital management is to ensure that our commercial operations have adequate capital to deliver their mandate while remaining financially self-sustaining and also to follow prudent business practices and guidelines existing in the private sector as appropriate. Beyond the $25 million capital prescribed by the CMHC Act, we currently have no externally imposed minimal capital requirements; however, we voluntarily follow guidelines set out by Office of the Superintendent of Financial Institutions (OSFI).

We perform an Own Risk & Solvency Assessment, which is an integrated process that evaluates capital adequacy on both a regulatory and economic capital basis and is used to establish capital targets taking into consideration our strategy and risk appetite. Our 'Own View' of capital needs is determined by identifying our risks and evaluating whether or not an explicit amount of capital is necessary to absorb losses from each risk. With the above we have also met the requirements of the CMHC Act and the NHA.

We set an internal target for our commercial operations at a level that is expected to cover all material risks. The internal target is calibrated using specified confidence intervals and is designed to provide Management with an early indication of the need to resolve financial problems. Under our Capital Management Policy, we operate at available capital levels above the internal target on all but unusual and infrequent occasions. Accordingly, we have established an operating level (holding target) for our commercial operations in excess of our internal target. The operating level is calibrated using confidence intervals specified by our Capital Management Policy and is designed to provide Management with adequate time to resolve financial problems before available capital decreases below the internal target.

Beginning in 2017, we started making dividend payments to the Government from our Mortgage Loan Insurance Activity to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet the needs of the Corporation for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, our capital is not managed to issue a dividend. The following table presents the change in the dividend payable balance.

	Dividend declarations[1]				
	Date	Amount	Amount payable at 31 December 2017	Amount paid during the period	Dividend payable at 31 March 2018
2017 Special dividend	29 June 2017	4,000	2,000	1,500	500
Quarterly dividend	22 March 2018	1,000	-	-	1,000
			2,000	1,500	1,500

[1] *Dividends declared in 2017 and paid in full by 31 December 2017 have been excluded from the table.*

The components of consolidated capital available are presented below.

	As at	
(in millions)	**31 March 2018**	**31 December 2017**
Contributed capital	25	25
Accumulated other comprehensive income	29	490
Appropriated retained earnings	15,077	14,918
Unappropriated retained earnings[1]	1,764	2,308
Total equity of Canada[2]	**16,895**	**17,741**
Less: assets with a capital requirement of 100%	(14)	(10)
Total capital available	**16,881**	**17,731**

[1] *Unappropriated retained earnings represents retained earnings in excess of our operating level for the Mortgage Loan Insurance and Securitization Activities.*

[2] *Equity of Canada includes the impact of eliminations.*

Mortgage Loan Insurance capital

The following table presents the components of capital available.

	As at	
(in millions, unless otherwise indicated)	**31 March 2018**	**31 December 2017**
Appropriated capital[1]	13,328	13,648
Unappropriated capital	970	1,549
Total mortgage loan insurance capital	**14,298**	**15,197**
Less: assets with a capital requirement of 100%	(14)	(10)
Total mortgage loan insurance capital available	**14,284**	**15,187**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MCT)[2]	177%	184%

[1] *We appropriate retained earnings and AOCI at the operating level of 165% of MCT.*

[2] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 31 March 2018 would be 197% with transitional arrangements.*

Securitization capital

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**31 March 2018**	**31 December 2017**
Appropriated capital[1]	1,728	1,724
Unappropriated capital	643	612
Total securitization capital available	**2,371**	**2,336**
Capital available to capital required (%)	137%	135%

[1] *We appropriate retained earnings and AOCI at the operating level (capital required) which is set at 110% of economic capital. Our internal target is set at 105% of economic capital.*

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending programs' earnings is retained in this reserve fund as part of our strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (2017 – $240 million). Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

Unrealized fair value fluctuations as well as remeasurement losses on defined benefit plans are absorbed in retained earnings. The Housing programs' portion of remeasurements is recorded in retained earnings until it is reimbursed by the Government through housing programs appropriations.

The following table presents the components of the capital available.

	As at	
(in millions)	**31 March 2018**	**31 December 2017**
Reserve fund	110	116
Retained earnings	100	93
Total Lending programs capital available	**210**	**209**

Housing programs

We do not hold capital for housing programs as this activity does not present risks to the Corporation that would require capital to be set aside.

10. Fair Value Measurement

We measure certain financial instruments and non-financial assets at fair value in the consolidated balance sheet and disclose the fair value of certain other items. Fair value is determined using a consistent measurement framework.

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. Fair value measurement of non-financial assets (i.e. 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. For financial instruments, accrued interest is separately recorded and disclosed.

Fair value hierarchy

The methods used to measure fair value make maximum use of relevant observable inputs and minimize the use of unobservable inputs. Fair value measurements are classified in a fair value hierarchy as level 1, 2 or 3 according to the observability of the most significant inputs used in making the measurements.

Level 1: Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one where transactions are occurring with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Assets and liabilities that are measured based on observable inputs other than level 1 prices. Level 2 inputs include prices obtained from third-party pricing services based on independent dealers' quotes for identical assets or liabilities in markets that are not considered sufficiently active. Level 2 also includes fair values obtained 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 foreign exchange rates, 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 using valuation techniques. Where possible, inputs to the valuation techniques 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. For level 3 assets and liabilities, unobservable inputs are significant to the overall measurement of fair value.

Generally, the unit of account for a financial instrument is the individual instrument, and valuation adjustments are applied at an individual instrument level, consistent with that unit of account.

Comparison of carrying and fair values for financial instruments not carried at fair value

The following table compares the carrying and fair values of financial instruments not carried at fair value. Carrying value is the amount at which an item is measured in the consolidated balance sheet.

	As at					
	31 March 2018			31 December 2017		
(in millions)	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
Financial assets						
Loans at amortized cost[1]	241,554	242,066	512	237,944	239,137	1,193
Financial liabilities						
Borrowings at amortized cost[2]	237,349	238,009	660	233,592	234,918	1,326

1 *$241,954 million (31 December 2017 – $239,137 million) fair value categorized as level 2, $112 million (31 December 2017 – nil) fair value categorized as level 3.*

2 *$129,083 million (31 December 2017 – $111,380 million) fair value categorized as level 1, $108,926 million (31 December 2017 – $123,538 million) fair value categorized as level 2.*

Fair value hierarchy for items carried at fair value

The following table presents the fair value hierarchy for assets and liabilities carried at fair value in the consolidated balance sheet.

	As at							
	31 March 2018				31 December 2017			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	18	-	18	-	55	-	55
Federal government issued	9	-	-	9	67	-	-	67
Total cash equivalents[1]	9	18	-	27	67	55	-	122
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	469	-	469	-	373	-	373
Provinces/municipalities	184	291	-	475	78	399	-	477
Sovereign and related entities	-	384	-	384	-	384	-	384
Equities								
Canadian common shares	836	-	-	836	-	-	-	-
Limited partnership units	-	-	92	92	-	-	-	-
Total at FVTPL	1,020	1,144	92	2,256	78	1,156	-	1,234
FVOCI								
Debt instruments								
Corporate/other entities	1,198	8,690	-	9,888	-	-	-	-
Federal government issued	4,178	85	-	4,263	-	-	-	-
Provinces/municipalities	3,015	2,399	-	5,414	-	-	-	-
Sovereign and related entities	-	286	-	286	-	-	-	-
Equities								
Canadian preferred shares	94	-	-	94	-	-	-	-
Total at FVOCI	8,485	11,460	-	19,945	-	-	-	-
AFS								
Debt instruments								
Corporate/other entities	-	-	-	-	1,010	9,663	-	10,673
Federal government issued	-	-	-	-	4,105	86	-	4,191
Provinces/municipalities	-	-	-	-	2,054	3,734	-	5,788
Sovereign and related entities	-	-	-	-	-	287	-	287
Equities								
Canadian common shares	-	-	-	-	1,017	-	-	1,017
Limited partnership units	-	-	-	-	-	-	88	88
Canadian preferred shares	-	-	-	-	68	-	-	68
Total AFS	-	-	-	-	8,254	13,770	88	22,112
Loans designated at FVTPL	-	2,630	-	2,630	-	2,906	-	2,906
Loans mandatorily at FVTPL	-	17	34	51	-	-	-	-
Derivatives	-	45	-	45	-	61	-	61
Investment property	-	-	305	305	-	-	305	305
Total assets carried at fair value	**9,514**	**15,314**	**431**	**25,259**	**8,399**	**17,948**	**393**	**26,740**
Liabilities								
Borrowings designated at FVTPL	-	4,262	-	4,262	-	4,564	-	4,564
Derivatives	-	78	-	78	-	39	-	39
Total liabilities carried at fair value	**-**	**4,340**	**-**	**4,340**	**-**	**4,603**	**-**	**4,603**

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period. Transfers are dependent on our assessment of market trading activity of the last month of each reporting period using internal classification criteria. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. There were $1,349 million of transfers from level 2 to level 1 and $36 million transfers from level 1 to level 2 during the three months ended 31 March 2018 (three months ended 31 March 2017 – $1,136 million and $783 million, respectively).

Change in fair value measurement for items classified as level 3

The following table presents the change in fair value for items carried at fair value and classified as level 3.

	Investment securities					
(in millions)	**FVTPL – asset backed securities**	**Equities at FVTPL – limited partnership units[4]**	**Total investment securities**	**Loans - FVTPL[3]**	**Investment property**	**Total**
Fair value as at 1 January 2018	-	88	88	26	305	419
Purchases	-	4	4	15	-	19
Net gains in net income[1,2]	-	-	-	-	-	-
Gains in OCI	-	-	-	-	-	-
Cash receipts on settlements/disposals	-	-	-	(7)	-	(7)
Fair value as at 31 March 2018	**-**	**92**	**92**	**34**	**305**	**431**
Fair value as at 1 January 2017	137	38	175	-	267	442
Purchases	-	7	7		-	7
Net gains in net income[1,2]	-	-	-	-	1	1
Gains in OCI	-	5	5	-	-	5
Cash receipts on settlements/disposals	(137)	(1)	(138)		-	(138)
Fair value as at 31 March 2017	**-**	**49**	**49**		**268**	**317**

1 *Included in net gains (losses) on financial instruments for investment securities; other income for investment property.*

2 *Solely relates to unrealized gains for assets held at the end of the respective periods.*

3 *Consists of MLI Activity loans that were reclassified from accounts receivable and other assets to loans at FVTPL as at 1 January 2018.*

4 *Under IAS 39, limited partnership units were previously classified as AFS.*

Unobservable inputs for items classified as level 3

The valuations of items classified as level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 31 March 2018, which may change materially in subsequent periods. The following table presents quantitative information about the significant unobservable inputs used in level 3 fair value measurements for items carried at fair value.

(in millions, unless otherwise indicated)	Valuation technique	Unobservable inputs	31 March 2018 Asset fair value	31 March 2018 Weighted average input/range	31 December 2017 Asset fair value	31 December 2017 Weighted average input/range
Investment securities						
Equities at FVTPL - Limited partnership units[1]	Share of partnership equity	Reported partnership equity	92	n.a.	88	n.a.
Investment property						
Mortgage Loan Insurance Activity	Discounted cash flow	Estimated rental value per square foot	49	$16 - $42	49	$16 - $42
		Discount rate		7%		7%
Assisted Housing Activity	Discounted cash flow	Estimated rental value per square foot	21	$25- $149	21	$25 - $149
		Discount rate		4% - 6%		4% - 6%
	Market approach	Value per square foot	235	$0 - $491	235	$0 - $491
Total investment property			**305**		**305**	
Loans at FVTPL						
MLI activity workout loans	Discounted cash flow	Loss rate	9	63.4%	-	-
MLI activity mortgage assignments	Market approach	Value per square foot	25	$11-$385	-	-
Total loans at FVTPL			**34**			
Total level 3 items carried at fair value			**431**		**393**	

1 *Under IAS 39, limited partnership units were previously classified as AFS*

Level 3 sensitivity analysis

Investment property

For investment property, increases (decreases) in estimated rental value and price per square foot could result in a significantly higher (lower) fair value of the properties. Increases (decreases) in discount rates could result in a significantly lower (higher) fair value.

11. Cash and cash equivalents

The following table provides a breakdown of our cash and cash equivalents:

	As at							
	31 March 2018				31 December 2017			
(in millions)	Amortized cost	FVOCI	FVTPL	Total	Loans and receivables	AFS	FVTPL	Total
Cash	31	-	-	31	3	-	-	3
Interest-bearing deposits with banks	295	-	18	313	450	-	55	505
Corporate/other entities	198	-	-	198	208	-	-	208
Federal government issued	-	9	-	9	-	67	-	67
Provinces/ municipalities	465	-	-	465	104	-	-	104
Total cash and cash equivalents	**989**	**9**	**18**	**1,016**	**765**	**67**	**55**	**887**

We have $80 million of cash and cash equivalents as at 31 March 2018 (31 December 2017 – $80 million) that relates to funds received from the Government that may only be used as part of the Affordable Rental Housing Innovation Fund.

We also have $86 million of cash and cash equivalents (31 December 2017 – $75 million) that may only be used as part of the Rental Construction Financing Initiative.

12. Investment Securities

The following table shows the cumulative unrealized gains (losses) on investment securities recorded at fair value.

	As at							
	31 March 2018				31 December 2017			
(in millions)	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value
Debt instruments								
FVTPL	1,334	5	(11)	1,328	1,242	2	(10)	1,234
FVOCI[2]	19,835	222	(206)	19,851	-	-	-	-
AFS	-	-	-	-	20,837	264	(162)	20,939
Equities								
FVTPL	548	383	(3)	928	-	-	-	-
FVOCI	92	3	(1)	94	-	-	-	-
AFS	-	-	-	-	670	504	(1)	1,173

1 *Amortized cost for equities is acquisition cost less impairment losses, if any.*

2 *Includes debt instruments denominated in U.S. dollars with a carrying value of $1,815 million (31 December 2017 - $1,792 million)*

We have investment securities of $658 million (31 December 2017 – $295 million) that are part of securities sold under repurchase agreements with terms that do not exceed 93 days. We continue to earn investment income and recognize in OCI changes in fair value on these investment securities during the period, with the exception of investments in CHT-issued CMB, which are eliminated from the consolidated financial statements.

Credit quality – FVOCI

The following table presents the credit quality of debt instruments held at FVOCI, all of which are based on 12-month ECL. Credit ratings are based on our internal credit rating system and amounts in the table represent the fair value of the financial asset.

	As at 31 March 2018				
(in millions)	***AAA***	**AA- to AA+**	**A- to A+**	**BBB- to BBB+**	***Total***
Investment securities[1]	5,255	4,588	8,015	1,993	19,851

[1] *The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by the credit rating agencies except in cases where stand-alone ratings exist. A counterparty internal credit rating cannot be higher than the highest stand-alone rating from any of the agencies. A stand-alone rating removes the assumption of Government support from the rating.*

Expected credit losses – FVOCI

The ECL allowance for debt instruments held at FVOCI was $9 million at 31 March 2018 and there were no ECL recognized in net gains (losses) on financial instruments for these securities during the three months ended 31 March 2018.

There were no impairment losses recognized in net gains (losses) on financial instruments for investment securities during the three months ended 31 March 2017 and no reversals of previously realized debt instrument impairments.

13. Loans

The following table presents the cash flows and non-cash changes for loans.

		Three months ended 31 March						
		Cash flows		Non-cash changes				
(in millions)	**Restated opening balance[4]**	**Repayments**	**Disbursements**	**Fair value changes**	**Accretion**	**ECL**	**Transfers[1]**	**Balance at end of period**
2018								
FVTPL								
Lending programs designated at FVTPL	2,906	(117)	-	(6)	-		(153)	2,630
Loans mandatorily at FVTPL[2]	43	(7)	15	-	-		-	51
Total at FVTPL	**2,949**	**(124)**	**15**	**(6)**	**-**		**(153)**	**2,681**
Amortized cost[3]								
Loans under the CMB program	233,786	(6,050)	9,498	-	10		-	237,244
Lending programs	4,138	(420)	328	-	-	(1)	153	4,198
MLI Activity loans[2]	117	(3)	3	-	-	(5)	-	112
Total amortized cost	**238,041**	**(6,473)**	**9,829**	**-**	**10**	**(6)**	**153**	**241,554**
Total	**240,990**	**(6,597)**	**9,844**	**(6)**	**10**	**(6)**	**-**	**244,235**
2017								
Designated at FVTPL								
Lending programs	4,020	(124)	-	(4)	-		(147)	3,745
Loans and receivables[3]								
Loans under the CMB program	223,315	(4,780)	10,742	-	10		-	229,287
Lending programs	3,995	(181)	26	-	-		147	3,987
Total loans and receivables	**227,310**	**(4,961)**	**10,768**	**-**	**10**		**147**	**233,274**
Total	**231,330**	**(5,085)**	**10,768**	**(4)**	**10**		**-**	**237,019**

1 *Transfers are matured loans whose terms have been renewed where the new loans are no longer part of a portfolio of economically hedged loans and borrowings and therefore classified at amortized cost*

2 *Includes MLI Activity loans that were previously classified within accounts receivable and other assets but were reclassified to loans at FVTPL and amortized cost as at 1 January 2018.*

3 *On 1 January 2018, upon adoption of IFRS 9, loans and receivables were renamed to loans at amortized cost.*

4 *Restated opening balances for the 2018 period are presented in accordance with IFRS 9. Reclassifications and remeasurements upon transition from IAS 39 to IFRS 9 are presented in Note 3.*

Credit quality – amortized cost

The following table presents the credit quality of loans at amortized cost, presented separately for those based on 12-month or lifetime ECL. For loans where past due information is used as the primary criteria in assessing SICR, aging of loans past due from contractual due date is presented. For loans where past due information is not the primary criteria used in assessing SICR, credit quality is presented by credit rating category based on our internal credit rating system. Amounts in the table represent the gross carrying amount of the financial asset.

	As at 31 March 2018				
Loans at amortized cost (in millions)	**Stage 1: 12-month ECL**	**Stage 2: Lifetime ECL (not credit impaired)**	**Stage 3: Lifetime ECL (credit impaired)**	**POCI**	**Total**
Days past due:					
0-30 days	2,223	-	-	-	2,223
30-90	-	2	-	-	2
90+	-	-	104	-	104
POCI	-	-	-	130	130
Total gross carrying amount	**2,223**	**2**	**104**	**130**	**2,459**
Internal credit ratings[1]:					
AAA	25	-	-	-	25
AA- to AA+	782	-	-	-	782
A- to A+	995	-	-	-	995
BBB- to BBB+	156	-	-	-	156
Total gross carrying amount	**1,958**	**-**	**-**	**-**	**1,958**
Total	**4,181**	**2**	**104**	**130**	**4,417**
ECL allowance	**(1)**	**-**	**(43)**	**(63)**	**(107)**
Total, net of ECL allowance	**4,180**	**2**	**61**	**67**	**4,310**
Loans under the CMB program[2]					237,244
Total loans at amortized cost					**241,554**

1 *The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by the credit rating agencies except in cases where stand-alone ratings exist. A counterparty internal credit rating cannot be higher than the highest stand-alone rating from any of the agencies. A stand-alone rating removes the assumption of Government support from the rating.*

2 *ECL are not recognized for Loans under the CMB program since the credit risk arising from these loans is reflected in the credit risk of the NHA MBS and CMB TPGs and recognized in unearned premiums and fees. The sole source of repayment on these loans are the NHA MBS securities, reinvestment assets and swaps which are the same credit risk drivers as the NHA MBS and CMB TPGs.*

We are assured collection of principal and accrued interest on 99% (31 December 2017 – 99%) of our loans by various levels of government, CMHC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program. For loans designated at FVTPL, there were no changes in fair value attributable to changes in credit risk.

Expected credit losses

The table below presents the change in the ECL allowance recognized in the consolidated statement of income on loans held at amortized cost.

	As at					
	31 March 2018 – IFRS 9					31 March 2017 – IAS 39[1]
(in millions)	Stage1: 12-month ECL	Stage 2: Lifetime ECL not credit impaired	Stage 3: Lifetime ECL credit impaired	POCI	Total	Total
ECL allowance – beginning of period:						
Lending program loans	1	-	4	-	5	23
MLI activity loans	-	-	33	63	96	187
Total ECL allowance – beginning of period	**1**	**-**	**37**	**63**	**101**	**210**
Increase in ECL allowance:						
Lending program loans	-	-	1	-	1	-
MLI activity loans	-	-	5	-	5	1
Total increase in ECL allowance[2]	-	-	6	-	6	1
ECL allowance – end of period:						
Lending program loans	1	-	5	-	6	23
MLI activity loans	-	-	38	63	101	188
Total ECL allowance – end of period	**1**	**-**	**43**	**63**	**107**	**211**

[1] *IAS 39 loss allowance for MLI activity loans was presented in accounts receivable and other assets.*

[2] *Included in net gains (losses) on financial instruments.*

ECLs on loans increased by $6 million during the three months ended 31 March 2018, primarily due to transfers of loans from stage 1 to stage 3 during the period.

14. Borrowings

The following table presents the cash flows and non-cash changes for borrowings.

		Three months ended 31 March					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion	Eliminations	Balance at end of period
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	4,564	-	(294)	(8)	-	-	4,262
Borrowings at amortized cost							
Canada mortgage bonds	229,242	9,498	(6,050)	-	10	294	232,994
Borrowings from the Government of Canada	4,350	200	(198)	(2)	5	-	4,355
Total borrowings at amortized cost	**233,592**	**9,698**	**(6,248)**	**(2)**	**15**	**294**	**237,349**
Total	**238,156**	**9,698**	**(6,542)**	**(10)**	**15**	**294**	**241,611**
2017							
Designated at FVTPL							
Borrowings from the Government of Canada	5,632	256	(351)	(3)	-	-	5,534
Capital market borrowings	273	-	(275)	-	-	2	-
Total designated at FVTPL	**5,905**	**256**	**(626)**	**(3)**	**-**	**2**	**5,534**
Other financial liabilities							
Canada mortgage bonds	218,829	10,742	(4,780)	-	10	(398)	224,403
Borrowings from the Government of Canada	4,327	194	(216)	(3)	2	-	4,304
Total other financial liabilities	**223,156**	**10,936**	**(4,996)**	**(3)**	**12**	**(398)**	**228,707**
Total	**229,061**	**11,192**	**(5,622)**	**(6)**	**12**	**(396)**	**234,241**

When CMHC holds CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statement of cash flows. During the three months ended 31 March 2018, no CMB maturities have been excluded from repayments in the table above and from investment securities – sales and maturities in the consolidated statement of cash flows (three months ended 31 March 2017 – nil). There were no purchases in the primary market during the three months ended 31 March 2018 (31 March 2017 – nil).

15. Financial instruments income and expenses

Interest income, investment income and interest expense

The following table outlines the total interest income and expense calculated using the effective interest method for financial instruments and the dividend income recognized in the consolidated statement of income and comprehensive income.

	Three months ended					
	31 March 2018			31 March 2017		
(in millions)	Interest income	Investment income	Interest expense	Interest income	Investment income	Interest expense
Interest for financial instruments not at FVTPL:						
Cash equivalents	1	2	-	1	-	-
Debt instruments – FVOCI	-	121	-	-	-	-
Debt instruments – AFS	-	-	-	-	131	-
Loans – amortized cost	1,228	-	-	1,099	-	-
Securities sold under repurchase agreements	-	(2)	-	-	(1)	-
Borrowings – amortized cost	-	-	1,196	-	-	1,068
Total interest for financial instruments not at FVTPL	**1,229**	**121**	**1,196**	**1,100**	**130**	**1,068**
Interest for financial instruments at FVTPL:						
Debt instruments	5	1	-	4	-	-
Loans	12	-	-	16	-	-
Borrowings	-	-	20	-	-	25
Derivatives	5	-	-	6	-	-
Total interest for financial instruments at FVTPL	**22**	**1**	**20**	**26**	**-**	**25**
Total Interest	**1,251**	**122**	**1,216**	**1,126**	**130**	**1,093**
Dividend income[1]	-	9	-	-	12	-
Total	**1,251**	**131**	**1,216**	**1,126**	**142**	**1,093**

[1] *All dividend income was recognized on investments still held at the end of the period.*

Gains and losses from financial instruments

The following table presents the gains (losses) related to financial instruments recognized in the consolidated statement of income and comprehensive income

	Three months ended	
(in millions)	31 March 2018	31 March 2017
Financial Instruments designated at FVTPL		
Investment securities	(1)	3
Loans	(6)	(4)
Borrowings	8	3
Total financial instruments designated at FVTPL	**1**	**2**
Financial instruments mandatorily at FVTPL		
Equity securities	(74)	-
Debt instruments	(1)	-
Derivatives	(56)	(3)
Total financial instruments mandatorily at FVTPL	**(131)**	**(3)**
Debt instruments held at FVOCI[1]	47	-
AFS – investment securities[1]	-	8
Loans at amortized cost – prepayments	3	24
Borrowings – amortized cost[2]	(6)	(16)
Expected credit losses on financial assets	(6)	-
Total	**(92)**	**15**

1 *Includes foreign exchange gain of $54 million (three months ended 31 March 2017 –$1 million) resulting from translation of U.S. dollar-denominated debt instruments.*

2 *Includes losses from the retirement of borrowings of $8 million (three months ended 31 March 2017 – $19 million), net of gains from the issuance of borrowings of $2 million (three months ended 31 March 2017 – $3 million).*

16. Market Risk

Market risk is the risk of adverse financial impacts 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 VaR for the Mortgage Loan Insurance and Securitization Activities as at 31 December, calculated with 95% confidence over a 22 business day holding period, is outlined in the table below. VaR is presented separately for individual market risk factors and for the total portfolio. The effect of diversification results from the fact that market risks are not perfectly correlated and, consequently, there is a benefit from investment diversification. The VaR figures are based on one year of historical prices and correlations of bond and equity markets and 26 weeks of volatility.

	As at	
(in millions)	31 March 2018	31 December 2017
Investment securities:		
Interest rate risk on debt instruments	197	213
Equity risk	37	43
Effect of diversification	(42)	(50)
Total VaR	**192**	**206**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. Our internal policies limit the amount of foreign currency investments and require full hedging of currency risk. We held $1,815 million in debt instruments denominated in U.S. dollars as at 31 March 2018 (31 December 2017 – $1,792 million).

Our strategy to fully hedge currency risk is to continuously enter into a series of short-term foreign currency forward contracts. Under these contracts, most of which are settled net, we exchange U.S. dollars for Canadian dollars at an exchange rate fixed at the outset of the contract for settlement at a future pre-determined date. Given the short terms of the forward contracts, full hedging of currency risk over the life of the foreign-denominated debt instruments will require continued application of our strategy in the future. The exposures presented in the Value at Risk table above reflect the offsetting effect of the hedging instruments. Currency risk was assessed as immaterial as at 31 March 2018.

Interest rate sensitivity

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

For the Assisted Housing Activity's financial instruments designated at FVTPL and derivatives, we assessed the impact of a 200 bps shift in interest rates as immaterial as at 31 March 2018.

The Assisted Housing Activity's 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 is presented below.

	As at			
	31 March 2018		31 December 2017	
	Interest rate shift		Interest rate shift	
(in millions)	**-200 bps**	**+200 bps**	**-200 bps**	**+200 bps**
Increase (decrease) to fair value of net assets[1]	(60)	51	(56)	49

[1] *The changes in fair value of net assets resulting from interest rate shifts presented in this table would not be recognized in comprehensive income as the underlying financial instruments are measured at amortized cost.*

The Assisted Housing Activity's net interest income is also sensitive to interest rate movements. The maximum negative exposure of net interest income is $0.6 million at 31 March 2018 (31 December 2017 – $1.2 million). This is calculated by scenario analysis using multiple simulations of interest rate volatility with 95% confidence over a one-year period.

17. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. Full descriptions of credit risks related to our financial instruments and how we manage those risks are disclosed in Note 18 of our audited consolidated financial statements. There has been no change to the nature of the risk and how they are managed for the three month period ended 31 March 2018.

18. Pension and Other Post-Employment Benefits

Expense, remeasurements and contributions for the defined benefit plans are presented below:

	Three months ended 31 March			
	Pension plans		Other post-employment plans	
(in millions)	**2018**	**2017**	**2018**	**2017**
Current service cost	10	7	-	-
Net interest expense	4	2	1	1
Expense recognized in net income	**14**	**9**	**1**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	42	(67)	2	(4)
Return (loss) on plan assets (excluding amounts included in net interest expense)	(30)	23	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**12**	**(44)**	**2**	**(4)**
CMHC's contributions	22	23	1	1
Employee contributions	3	3	-	-
Total contributions	**25**	**26**	**1**	**1**

[1] *The defined benefit plans are remeasured on a quarterly basis for changes in the discount rate and for actual asset returns. All other actuarial assumptions are updated at least annually.*

We remeasure our defined benefit obligations and the fair value of plan assets at interim periods. The discount rate is determined in accordance with guidance issued by the Canadian Institution of Actuaries by reference to Canadian AA-Corporate bonds with terms to maturity approximating the duration of the obligation. Effective 31 December 2017, the defined contribution plan was closed and all employees were transferred to the new modified defined benefit pension plan. As a result, expenses for the defined contribution plan were nil for the three months ended 31 March 2018 (three months ended 31 March 2017 - $0.8 million).

19. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	**2018**	**2017**
Current income tax expense	99	116
Deferred income tax relating to origination and reversal of temporary differences	(5)	2
Total income tax expense included in net income	**94**	**118**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized losses from FVOCI financial instruments	(32)	-
Net unrealized gains from AFS financial instruments	-	29
Reclassification of prior years' net unrealized gains realized in the period in net income	(1)	(1)
Remeasurement losses on defined benefit plans	4	(9)
Total income tax expense (recovery) included in other comprehensive income (loss)	**(29)**	**19**
Total	**65**	**137**

20. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Loan Insurance and Securitization Activities. The fees, which are recorded in operating expenses, amount to $9 million for the three month period ended 31 March 2018 (three months ended 31 March 2017 – $8 million) for the Mortgage Loan Insurance Activity and $5 million for the three month period ended 31 March 2018 (three months ended 31 March 2017 – $5 million) for the Securitization Activity.

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

21. Commitments and Contingent Liabilities

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2017 – $600 billion). At 31 March 2018, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $472 billion (31 December 2017 – $480 billion). Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2017 – $600 billion). At 31 March 2018, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled $481 billion (31 December 2017 – $477 billion).

There are legal claims of $8 million (31 December 2017 – $8 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.

22. Comparative Figures

Certain comparative information in the consolidated statement of income and comprehensive income has been reclassified to conform to the current period's presentation. The same comparative information has been reclassified accordingly in the related notes to the consolidated financial statements.

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