CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER
31 March 2019
(Unaudited)

Canada

CMHC SCHL

Table of Contents

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 22 May 2019 is prepared for the first quarter ended 31 March 2019 and is intended to provide readers with an overview of our performance including comparatives against the same three month period in 2018. 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 2018 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 Ernst & Young LLP. 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 2018 Annual Report. Except for the adoption of International Financial Reporting Standard (IFRS) 16 *Leases*, as disclosed in Note 3 of our unaudited quarterly consolidated financial statements, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the first quarter of 2019.

Forward-looking statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in "The Operating Environment and Outlook for 2019" and "Financial Results" 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 QFR can be found in the Glossary for Non-IFRS Financial Measures section of the 2018 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2019

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

Economic conditions and housing indicators

After ending 2018 on a low note, Canada's economy continued to ease modestly over the first quarter of 2019. Economic growth is still expected to pick up following the unwinding of temporary factors, but with less momentum than previously projected. On an average annual basis, gross domestic product (GDP) is expected to grow by 1.5% in 2019 and 1.7% in 2020, according to the April 2019 Industry Consensus[1].

Much of the recent slowdown stemmed from transitory influences in the energy sector, notably lower oil prices and mandated production cuts in Alberta. The impact of the decline in oil prices has also dampened energy exports, while the production cuts have lifted imports of refined petroleum. These developments have taken place against the backdrop of broad-based weakness in the trade sector, ongoing uncertainty in U.S.-China trade policy as well as declines in non-energy export volumes. Altogether, the Canadian trade deficit is expected to widen in the near term, before recovering over the second half of 2019, supported by the expansion of transportation capacity and a return to full oil production in Alberta.

Overall business investment is expected to provide a modest contribution to growth in 2019, taking into account the mixed effects of recent developments. On one hand, the pullback in the oil sector has led to a downward revision to the investment outlook. On the other hand, the federal government has introduced new measures allowing firms to write off a larger share of their capital expenditures in the year investments are made. These measures should help Canadian firms outside of the energy sector expand investment, thereby contributing to current economic activity and building future productive capacity for the economy.

Despite a relatively stable interest rate environment expected this year, the pace of consumption growth continues to slow. Meanwhile, growth of household credit continues to rise faster than income. As a result, the ratio of household debt to disposable income has reached another all-time high, peaking at a seasonally adjusted 179% in the second half of 2018. With higher debt levels, household spending is expected to be more sensitive to interest rate changes relative to past economic cycles. Accordingly, households are expected to adjust their spending on rate-sensitive components, such as vehicles and other purchases correlated with home sales.

Overall, household spending is projected to ease from 2.1% in 2018 to a pace closer to 1.4% in 2019. Still, labour market conditions will be key in smoothing the path for household expenditures this year. On this front, indicators continue to provide a firm basis for steady gains in employment and wages. Both employment and wage growth accelerated at the start of the year, and the unemployment rate remains close to its 40-year low, at 5.8%.

After years of strong activity, the national housing market started to show signs of cooling in 2018. Taken together, tighter mortgage rules, rising interest rates and a slowing economy are expected to underpin reduced demand for housing, resulting in slower price growth over the near term.

All this put Canada's average MLS® price at $490,426 for 2018 as a whole. This represents a drop of 4.1% from 2017, marking the first annual decline in home prices since the 2008 recession. Meanwhile, MLS® sales activity also contracted, dropping nearly 11% to 452,795 units. National housing starts decreased by 2.8% from a year earlier, the first contraction since 2013. As of March 2019, both prices and sales had contracted by about 5% and 4%, respectively, since the beginning of the year.

---

[1] *Consensus Economics* survey of private sector forecasters, as of April 2019.

Federal Budget 2019

As a result of new investments proposed in Federal Budget 2019, Canada's National Housing Strategy (NHS) becomes a 10-year, $55+ billion plan that will give more Canadians a place to call home.

New measures proposed in Budget 2019 will build on the Government's previous investments to enhance housing affordability for those who need it most. NHS measures proposed in Budget 2019 include:

- An investment of $1.25 billion over three years towards a new First-Time Home Buyer Incentive to help make homeownership more affordable for first-time home buyers.
- Up to $100 million in lending to shared equity mortgage providers over a five-year period, starting in 2019–20, to help these providers scale-up their business and encourage new players to enter the market.
- An expansion of the Rental Construction Financing initiative by $10 billion over 9 years to support the construction of 28,500 additional rental units in communities across Canada, increasing the total loans available to $13.75 billion and the construction of 42,500 total units.
- An investment of $300 million toward a new Housing Supply Challenge that will invite communities and other groups to propose initiatives that break down barriers limiting the creation of new housing.
- Investments of $4 million over two years to support the work of the Expert Panel on the Future of Housing Supply and Affordability, which seeks to identify and evaluate measures to increase housing supply in British Columbia, and $5 million over two years for state-of-the-art housing supply modelling and related data collection.

Through Budget 2019, the Government has also proposed new legislation that would require the federal government to maintain a National Housing Strategy that prioritizes the housing needs of the most vulnerable and would require regular reporting to Parliament on progress toward the Strategy's goals and outcomes. The legislation would also put in place strong accountability and participatory measures through the creation of a Federal Housing Advocate to identify and report on systemic housing issues, and through a diverse National Housing Council to advise on housing matters.

Budget 2019 proposes to increase the Home Buyers' Plan (HBP) withdrawal limit from $25,000 to $35,000, providing first-time home buyers with greater access to their Registered Retirement Savings Plan savings to buy a home. The HBP limit has not been increased since 2009.

National Housing Strategy

In the first quarter of 2019, CMHC continued delivery of NHS initiatives that launched in the spring of 2018 and continued the in-take and selection of funding applications. In this quarter we publicly launched the Federal Lands Initiative, making select surplus federal lands and buildings available to housing providers at a discounted cost (or at no cost) for new affordable housing.

We continued bilateral negotiations with provinces and territories under the new Housing Partnership Framework. This quarter, bilateral agreements were signed with Prince Edward Island on 16 January 2019, and with Alberta and Yukon on 14 March 2019. We also continued the work with provinces and territories to co-develop the Canada Housing Benefit, set to launch in April 2020.

As part of the NHS research and innovation initiatives, we entered into contribution agreements to get work underway for the NHS Demonstration Initiative, Solutions Labs, Research and Planning Fund, and the Collaborative Housing Research Network. This work supports research and demonstrations to inform decision-making, to encourage innovative solutions and partnerships, and to build research capacity in the academic and housing sector.

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Mortgage Insurer Capital Adequacy Test (MICAT) guideline

We implemented the MICAT guideline on 1 January 2019. MICAT combines the 1 January 2017 advisory on Capital Requirements for Federally Regulated Mortgage Insurers and the relevant portions of the 2018 Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies.

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

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 2018 audited consolidated financial statements.

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* (IFRS 9), and of insurance contracts under IFRS 17. In November 2018, the IASB voted to propose a one-year deferral of the effective date for IFRS 17 to 1 January 2022. In April 2019, the IASB reconfirmed the proposed one-year deferral, in addition to a number of other amendments, some of which may impact CMHC. The IASB expects to issue an exposure draft to amend IFRS 17 by June 2019. We are continuing to monitor the IASB's activities and are assessing how they may impact our implementation plan.

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, which will be released over the coverage period. Contractual service margin will represent the difference between the premium received at inception and the present value of the risk-adjusted cash flows (i.e. profit to be earned in the future). If this difference is negative at inception, the insurance contract would be considered onerous and the difference immediately recorded in income. There are also revised presentation and 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 continue to evaluate where we will need to change our existing accounting and reporting processes and how this could affect our consolidated financial statements.

Financial Outlook

As a result of our annual review of insurance products, we made a pricing change for portfolio insurance effective 1 April 2019. The new pricing is more risk-sensitive and may lead to slightly lower average premium rates for portfolio insurance if the trend of improving portfolio quality continues. There were no changes to premiums for transactional homeowner and multi-unit residential mortgage loan insurance.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 31 March 2019 and 31 December 2018	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total assets	9,272	9,139	18,959	19,231	245,503	239,424	(3,758)	(3,918)	269,976	263,876
Total liabilities	9,002	8,848	6,712	7,148	243,019	236,912	(3,708)	(3,913)	255,025	248,995
Total equity of Canada	270	291	12,247	12,083	2,484	2,512	(50)	(5)	14,951	14,881

We declare dividends to the government only after we meet regulatory and other capitalization requirements that ensure that our Mortgage Insurance and Mortgage Funding activities are appropriately capitalized. Because we continue to meet these requirements, we declared $505 million of dividends in the quarter. This was more than offset by $575 million of comprehensive income, resulting in a slight increase in total equity of Canada.

Our total assets and liabilities increased approximately in line with each other, at $6,100 million (2%) and $6,030 million (2%), respectively. This was driven mainly by the issuance of Canada Mortgage Bonds (CMB) in the quarter, which resulted in increases in both loans and borrowings at amortized cost.

Condensed consolidated statements of income and comprehensive income

Three months ended 31 March	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Government funding for housing programs	777	1,026	-	-	-	-	-	-	777	1,026
Premiums and fees earned	-	-	355	353	138	113	-	-	493	466
All other income[1]	12	3	171	59	22	18	4	4	209	84
Total revenues	**789**	**1,029**	**526**	**412**	**160**	**131**	**4**	**4**	**1,479**	**1,576**
Housing programs	777	1,026	-	-	-	-	-	-	777	1,026
Insurance claims	-	-	73	65	-	-	-	-	73	65
Operating expenses	7	6	85	78	16	14	-	-	108	98
Total expenses	**784**	**1,032**	**158**	**143**	**16**	**14**	**-**	**-**	**958**	**1,189**
Income taxes	-	(2)	90	66	36	29	1	1	127	94
Net income	**5**	**(1)**	**278**	**203**	**108**	**88**	**3**	**3**	**394**	**293**
Other comprehensive income (loss)	(26)	4	216	(102)	38	-	(47)	14	181	(84)
Comprehensive income	**(21)**	3	**494**	101	**146**	88	**(44)**	17	**575**	209

[1] *Includes net interest income, investment income, net gains (losses) on financial instruments and other income.*

Our total revenues decreased by $97 million (6%) from the same quarter last year mainly due to the net impact of:

- A decrease of $249 million (24%) in government funding, driven by the expiry of funding for Budget 2016 initiatives, partially offset by an increase in funding for NHS initiatives.
- An increase of $148 million (161%) in net gains on financial instruments, mainly caused by a significant rebound in equity markets in the quarter, compared to weaker equity markets in the first quarter of 2018. We proceeded to sell much of our equity investment portfolio in the later part of the current quarter, as we adopt a new strategic asset allocation (SAA) that is more liability-aware, capital-efficient, and diversified.

Total expenses decreased by $231 million (19%) from the same quarter last year mainly due to:

- The net impact of funding for Budget 2016 and NHS initiatives as described above, which resulted in lower housing programs expenses by $249 million (24%).

Other comprehensive income increased by $265 million (315%) from the same quarter last year mainly due to:

- A decrease in bond yields in the current quarter, compared to an increase in the first quarter of 2018. This resulted in an increase of $335 million (368%) in net unrealized gains from debt instruments held at fair value through other comprehensive income.
- This was partially offset by an increase of $73 million (730%) in remeasurement losses on defined benefit plans. This was the net result of a decrease in the discount rate we used to measure the defined benefit plans obligation, in line with decreasing bond yields, and a higher return on plan assets, compared to the first quarter of 2018.

Financial metrics and ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	Insurance-in-force ($B)		Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid[3]	
	As at		Three months ended							
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
Transactional homeowner	234	236	13,893	15,912	3,764	4,254	130	148	70	62
Portfolio	132	136	7,069	7,484	1,364	1,251	4	3	3	3
Multi-unit residential	76	76	22,485	24,734	2,763	2,760	89	90	1	4
Total	**442**	**448**	**43,447**	**48,130**	**7,891**	**8,265**	**223**	**241**	**74**	**69**

1 *Portfolio substitutions were 3,766 units and $529 million for the three months ended 31 March 2019 (5,094 units and $675 million for the three months ended 31 March 2018).*

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 mortgage and index-linked mortgage claims.*

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed $600 billion (2018 – $600 billion). Insurance-in-force decreased by $6 billion (1%) due to lower volumes insured in the current year compared to recent years, and run-off of existing policies-in-force. New loans insured were $8 billion, while estimated loan amortization and pay-downs were $14 billion.

Transactional homeowner volumes decreased by 2,019 units (13%) primarily due to our reduced share of a shrinking insured mortgage market. In addition, portfolio unit volumes decreased by 415 units (6%) due to lower eligible volumes for the portfolio substitutions product as past regulations continue to be grandfathered in. Multi-unit residential volumes decreased by 2,249 units (9%) as fewer borrowers refinanced units given higher interest rates. Although multi-unit and portfolio unit volumes decreased, insured dollars for these products were higher due to higher insured loan amounts for multi-unit properties and pools.

Lower volumes in transactional homeowner products account for the majority of the $18 million (7%) decrease in total premiums and fees received.

(in percentages)	Three months ended	
	31 March 2019	31 March 2018
Loss ratio[1]	20.6	19.8
Operating expense ratio	24.0	22.1
Combined ratio	44.6	41.9
Severity ratio	29.3	31.9
Return on equity	9.1	5.5
Return on required equity	10.2	6.0

1 *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 23.9% for the three months ended 31 March 2019 (24.3% for the three months ended 31 March 2018).*

The loss ratio increased marginally due to an increase in insurance claims, as a result of slightly weaker economic conditions. The operating expense ratio increased due to a slight increase in operating expenses, mostly attributable to overhead costs. The severity ratio decreased by 2.6 percentage points due to lower claims as a percentage of insured loan amount, driven by stronger sales proceeds. Higher net income, coupled with a decrease in required equity as explained below in the capital management ratios section, caused an increase in the return on required capital by 4.2 percentage points. These factors, in addition to the declaration of dividends, also caused a higher return on equity.

	As at 31 March 2019		As at 31 December 2018	
	No. of delinquent loans	Arrears rate	No. of delinquent loans	Arrears rate
Transactional homeowner	5,033	0.43%	5,048	0.42%
Portfolio	1,368	0.15%	1,296	0.13%
Multi-unit residential	105	0.45%	86	0.36%
Total	**6,506**	**0.30%**	**6,430**	**0.29%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. There were higher reported delinquencies in all regions except the Atlantic, which is consistent with the slightly weaker economic conditions for these regions.

Mortgage Funding

	Total guarantees-in-force ($B)		New securities guaranteed ($B)		Guarantee and application fees received[1]	
	As at		Three months ended			
(in millions, unless otherwise indicated)	**31 March 2019**	**31 December 2018**	**31 March 2019**	**31 March 2018**	**31 March 2019**	**31 March 2018**
NHA MBS	255	254	29	27	92	86
CMB	239	234	10	10	36	35
Total	**494**	**488**	**39**	**37**	**128**	**121**

[1] *Guarantee and application fees received for NHA MBS; guarantee fees received for CMB.*

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. Guarantees-in-force increased by $6 billion (1%) as new guarantees issued during the year exceeded maturities. Guarantees-in-force remain under the $600 billion legislative limit.

Guarantee and application fees received increased by $7 million (6%). This is mainly due to higher NHA MBS volumes securitized as a result of increased securitization activity in the quarter.

	Three months ended	
(in percentages)	**31 March 2019**	**31 March 2018**
Operating expense ratio	8.7	9.5
Return on equity	17.5	14.9
Return on required equity	34.1	19.7

The operating expense ratio decreased by 0.8 percentage points as guarantee and application fees earned were higher because of fee increases in recent years. This was partially offset by a slight increase in operating expenses.

Return on equity increased by 2.6 percentage points from the same quarter last year due to higher net income and the declaration of a dividend this quarter.

Return on required equity was 14.4 percentage points higher than in the same quarter last year. This is due to the combined effect of the increase in adjusted net income, largely driven by higher guarantee and application fees earned from pricing changes in recent years, and decrease in average required equity for the year, because of our revised view on the risks associated with our Mortgage Funding program.

Government Funding for Housing Programs

The following table reconciles the amount of government funding for housing programs authorized by Parliament as available to us during the Government's fiscal year (31 March) with the total amount we recognized in our calendar year.

	Three months ended 31 March	
(in millions)	**2019**	**2018**
Amounts provided for housing programs:		
Amounts authorized in 2018/19 (2017/18)		
Main estimates	2,452	2,735
Supplementary estimates A[1,2,3]	7	41
Supplementary estimates B[1,2,4]	1	1
Supplementary estimates C[1]	-	1
Less: Portion recognized in calendar 2018 (2017)	(1,309)	(1,663)
Less: Government funding lapsed for 2018/19 (2017/18)[5]	(356)	(74)
Less: Frozen Allotment	(18)	(15)
2018/19 (2017/18) government funding for housing programs recognized in 2019 (2018)	**777**	**1,026**
Amounts authorized in 2019/20 (2018/19)		
Main estimates	2,657	2,452
Supplementary estimates A[1,3]	-	7
Supplementary estimates B[1,4]	-	1
Supplementary estimates C	-	-
Total fiscal year government funding for housing programs	**2,657**	**2,460**
Less: portion to be recognized in subsequent quarters	(2,657)	(2,442)
Less: Frozen Allotment	-	(18)
2019/20 (2018/19) government funding for housing programs recognized in 2019 (2018) calendar year	**-**	**-**
Total government funding for housing programs recognized – three months ended 31 March	**777**	**1,026**

1 *Supplementary estimates are additional government funding 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 2017/18 and 2018/19 government funding.*

3 *Approved reprofile request from 2017/18 to 2018/19 in supplementary estimates A for Shelter Enhancement Program.*

4 *Approved supplementary estimates B for First Nations Housing Management Professional Initiative (HMPI).*

5 *Pending reprofile request from 2018/19 to 2019/20 for Rental Construction Financing initiative, Innovation Fund, Prepayment Flexibility program, and other NHS initiatives.*

Capital Management

Frameworks

For our Assisted Housing activity, we maintain a reserve fund pursuant to Section 29 of the CMHC Act. Our Lending Programs operate on a break-even basis; however, a portion of their earnings are retained in this reserve fund as part of our strategy to address future interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations and re-measurement losses on defined benefit plan liabilities are absorbed in retained earnings. 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.

For our Mortgage Insurance activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT for insurance companies.

With respect to our Mortgage Funding activity, our capital management framework follows industry best practices and incorporates regulatory principles from OSFI, including those set out in OSFI's E19 – Own Risk and Solvency Assessment guideline, and those of 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.

Ratios

The table below presents our capital management ratios.

	As at	
(in percentages)	**31 March 2019**	**31 December 2018**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	189%	168%[1]
Mortgage Funding: Available equity to required equity	207%	209%

[1] *Prior to implementing MICAT on 1 January 2019, this ratio was calculated using the Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (MCT). The MICAT ratio as at 31 December 2018 was estimated at 181% excluding transitional arrangements.*

Our Mortgage Insurance MICAT ratio increased by 21 percentage points mainly due to the implementation of the MICAT guideline on 1 January 2019, which resulted in less capital required. Capital required for market risk also decreased because we sold many of our equity investments, as we adopt a new SAA; and capital available increased due to the increase in comprehensive income, partially offset by our declaration of a $330 million dividend. We remain adequately capitalized as at 31 March 2019.

Our Mortgage Funding available equity to required equity ratio decreased by 2 percentage points. This is due to the decrease in available equity following the declaration of a $175 million dividend in March 2019, partially offset by the contribution of comprehensive income in the quarter.

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

Financial Resources

The Mortgage 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 Insurance investment portfolio focuses on maximizing risk-adjusting return while minimizing the need to liquidate investments. As at 31 March 2019, total investments had a fair value of $18.2 billion (31 December 2018 – $18.4 billion).

The Mortgage Funding 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 Mortgage Funding guarantee programs. The objective of the Mortgage Funding 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 2019, total investments under management had a fair value of $4.2 billion (31 December 2018 – $4.2 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 2018 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 2019[2]	Q4 2018	Q3 2018	Q2 2018	Q1 2018[3]	Q4 2017	Q3 2017	Q2 2017
Consolidated Results								
Total assets	269,973	263,876	272,513	268,185	270,522	267,115	268,771	264,713
Total liabilities	255,022	248,995	256,839	251,875	253,627	249,374	251,209	247,260
Total equity of Canada	14,951	14,881	15,674	16,310	16,895	17,741	17,562	17,453
Total revenues	1,477	1,047	1,049	1,151	1,576	1,430	1,266	1,224
Total expenses (including income taxes)	1,083	698	662	763	1,283	861	799	827
Net income	394	349	387	388	293	569	467	397
Assisted Housing								
Government funding for housing programs	777	431	416	463	1,026	594	521	548
Net income (loss)	5	13	10	4	(1)	71	4	(1)
Total equity of Canada	270	291	310	275	235	234	203	151
Mortgage Insurance								
Insurance-in-force ($B)	442	448	453	463	472	480	484	496
Total insured volumes	7,891	12,159	13,304	14,005	8,265	15,382	12,539	17,395
Premiums and fees received	223	380	409	415	241	353	414	443
Premiums and fees earned	355	356	358	359	353	390	394	396
Claims paid	74	60	60	53	69	84	74	94
Insurance claims	73	38	35	72	65	(22)	41	51
Net income	278	233	283	289	203	412	382	321
Arrears rate	0.30 %	0.29 %	0.29 %	0.27 %	0.29 %	0.29 %	0.30 %	0.29 %
Loss ratio	20.6 %	10.7 %	9.8 %	20.1 %	19.8 %	(5.6) %	10.4 %	12.9 %
Operating expense ratio	24.0 %	25.6 %	18.7 %	22.8 %	22.1 %	23.1 %	17.5 %	19.7 %
Combined ratio	44.6 %	36.6 %	28.5 %	42.9 %	41.9 %	17.5 %	27.9 %	32.6 %
Severity ratio	29.3 %	30.0 %	32.1 %	29.1 %	31.9 %	31.9 %	31.6 %	27.5 %
Return on equity	9.1 %	7.6 %	8.8 %	8.3 %	5.5 %	10.3 %	10.1 %	7.5 %
Return on required equity	10.2 %	8.3 %	9.1 %	8.7 %	6.0 %	11.4 %	10.2 %	8.5 %
Capital available to minimum capital required (% MICAT)[1]	189 %	168 %	175 %	177 %	177 %	184 %	179 %	173 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	28.5 %	29.1 %	29.7 %	30.6 %	31.0 %	31.9 %	32.7 %	34.3 %
Mortgage Funding								
Guarantees-in-force ($B)	494	488	484	479	481	477	459	456
Securities guaranteed	38,924	48,556	43,766	37,819	36,733	54,149	41,172	37,730
Guarantee and application fees received	128	252	156	120	121	257	134	121
Guarantee and application fees earned	138	132	121	117	113	108	98	91
Net income	108	102	94	88	88	80	76	71
Operating expense ratio	8.7 %	10.5 %	8.4 %	9.6 %	9.5 %	11.2 %	10.4 %	10.7 %
Return on equity	17.5 %	16.0 %	15.1 %	14.7 %	14.9 %	14.1 %	13.5 %	13.0 %
Return on required equity	34.1 %	26.0 %	21.2 %	19.9 %	19.7 %	16.8 %	15.4 %	14.3 %
Available equity to required equity	207 %	209 %	149 %	143 %	137 %	136 %	112 %	120 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	32.2 %	31.9 %	31.7 %	31.7 %	32.0 %	32.2 %	31.2 %	31.9 %

[1] *We implemented the MICAT guideline in Q1 2019. Prior quarters were based off the MCT.*

[2] *We implemented IFRS 16 Leases in Q1 2019. Prior quarters were based off International Accounting Standard 17 and related interpretations.*

[3] *We implemented IFRS 9 and IFRS 15 Revenue from Contracts with Customers in Q1 2018. Prior quarters were based off IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2019

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

22 May 2019

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	Notes	31 March 2019	31 December 2018
Assets			
Cash and cash equivalents		1,090	837
Accrued interest receivable		1,278	724
Investment securities:			
Fair value through profit or loss	11	1,065	1,591
Fair value through other comprehensive income	11	18,109	18,164
Amortized cost	10	219	-
Derivatives		34	33
Due from the Government of Canada	6	520	158
Loans:	12		
Fair value through profit or loss		1,806	2,040
Amortized cost		244,714	239,162
Accounts receivable and other assets		830	856
Investment property		311	311
		269,976	263,876
Liabilities			
Securities sold under repurchase agreements		171	280
Accounts payable and other liabilities		776	506
Accrued interest payable		1,140	546
Dividends payable	9	505	675
Derivatives		66	117
Provision for claims	7	517	512
Borrowings:	13		
Fair value through profit or loss		3,093	3,430
Amortized cost		241,418	235,525
Defined benefit plans liability		430	354
Unearned premiums and fees	7, 8	6,811	6,948
Deferred income tax liabilities		98	102
		255,025	248,995
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		249	5
Retained earnings		14,677	14,851
		14,951	14,881
		269,976	263,876

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2019	2018
Interest income		1,351	1,251
Interest expense		1,324	1,216
Net interest income		27	35
Government funding for housing programs	6	777	1,026
Premiums and fees earned	7, 8	493	466
Investment income		118	131
Net gains (losses) on financial instruments	14	56	(92)
Other income		8	10
Total revenues and government funding		1,479	1,576
Non-interest expenses			
Housing programs	6	777	1,026
Insurance claims		73	65
Operating expenses		108	98
Total expenses		958	1,189
Income before income taxes		521	387
Income taxes	18	127	94
Net income		394	293
Other comprehensive income (loss), net of tax			
Items that will be subsequently reclassified to net income			
Net unrealized gains (losses) from debt instruments held at fair value through other comprehensive income		244	(91)
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		244	(93)
Items that will not be subsequently reclassified to net income			
Net losses from equity securities designated at fair value through other comprehensive income		-	(1)
Remeasurement gains (losses) on defined benefit plans	17, 18	(63)	10
Total items that will not be subsequently reclassified to net income		(63)	9
Total other comprehensive income (loss), net of tax		181	(84)
Comprehensive income		575	209

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	2019	2018
Contributed capital		25	25
Accumulated other comprehensive income			
Balance reported at the end of previous year		5	490
Impact of adopting IFRS 9		-	(368)
Restated opening balance		5	122
Other comprehensive income (loss)		244	(93)
Balance at end of period		249	29
Retained earnings			
Balance reported at the end of previous year		14,851	17,226
Impact of adopting IFRS 9		-	366
Impact of adopting IFRS 15		-	(53)
Restated opening balance		14,851	17,539
Net income		394	293
Other comprehensive income (loss)		(63)	9
Dividends	9	(505)	(1,000)
Balance at end of period		14,677	16,841
Equity of Canada		14,951	16,895

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	2019	2018
Cash flows from operating activities			
Net income		394	293
Adjustments to determine cash flows from operating activities			
Amortization of premiums and discounts on financial instruments		18	32
Net (gains) losses on financial instruments		-	30
Deferred income taxes	18	12	(5)
Changes in operating assets and liabilities			
Derivatives		(52)	55
Accrued interest receivable		(554)	(570)
Due from the Government of Canada		(362)	(580)
Accounts receivable and other assets		(57)	(11)
Accounts payable and other liabilities		268	421
Accrued interest payable		594	559
Provision for claims		5	(6)
Defined benefit plans liability		1	(8)
Unearned premiums and fees		(137)	(96)
Other		(4)	3
Loans	12		
Repayments		5,073	6,338
Disbursements		(10,371)	(9,585)
Borrowings	13		
Repayments		(5,348)	(6,542)
Issuances		10,650	9,698
		130	26
Cash flows from investing activities			
Investment securities			
Sales and maturities		1,900	2,486
Purchases		(993)	(1,234)
Securities sold under repurchase agreements		(109)	351
		798	1,603
Cash flows from financing activities			
Dividends paid	9	(675)	(1,500)
Change in cash and cash equivalents		253	129
Cash and cash equivalents			
Beginning of period		837	887
End of period		1,090	1,016
Represented by			
Cash		-	31
Cash equivalents		1,090	985
		1,090	1,016
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		1,023	882
Amount of interest paid during the period		823	706
Amount of dividends received during the period		7	10
Amount of income taxes paid during the period		74	108

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* 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 unaudited quarterly consolidated financial statements are as at and for the three months ended 31 March 2019 and were approved and authorized for issue by our Audit Committee on 22 May 2019.

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 2018 and these 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 Insurance (MI) 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

There were no new or amended standards issued by the International Accounting Standards Board (IASB) that we adopted during the period that had a material impact on our unaudited quarterly consolidated financial statements other than those discussed below.

IFRS 16 *Leases* (IFRS 16)

We adopted International Financial Reporting Standard (IFRS) 16, which replaces IAS 17 *Leases* and related interpretations (collectively, IAS 17), on 1 January 2019. As a result, on that date, we recognized assets and liabilities for leased office space in our regional offices, which were previously accounted for as operating leases under IAS 17. In addition, we now record depreciation and interest expense instead of straight-line operating lease expenses; the impact of this change on our total expenses is immaterial. In accordance with IFRS 16, we continue to record straight-line lease expenses for leases of low value or with a term of 12 months or less.

We adopted IFRS 16 using the modified retrospective approach; therefore, comparative information has not been restated and continues to be reported under IAS 17 and is not comparable to the information presented for 2019. We also applied the transition relief available, whereby, we did not reassess whether a contract was, or contained, a lease at the transition date.

Upon transition, we recognized right-of-use assets and lease liabilities based on the present value of the remaining lease payments, discounted using a weighted-average incremental borrowing rate of 2.5%. The incremental borrowing rate represents the rate we would pay if we financed a particular lease transaction using debt. Therefore, in determining this rate for each of our leases, we have considered factors such as our credit worthiness, the lease term, the value of the leased asset, the security of the leased asset, and the economic environment in which we entered into the lease.

As a result of adopting IFRS 16, we recognized right-of-use assets and lease liabilities of $62 million. These are presented in accounts receivable and other assets and accounts payable and other liabilities, respectively. Depreciation and interest expense are presented in operating expenses. There was no cumulative effect to equity from initially applying the standard.

IFRIC 23 *Uncertainty over Income Tax Treatments* (IFRIC 23)

We adopted International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23 on 1 January 2019. IFRIC 23 provides guidance on the accounting for income tax treatments that have yet to be accepted by tax authorities.

This interpretation did not impact our consolidated financial statements.

Future accounting changes

There have been no new standards or amendments to existing standards issued by the IASB that would affect CMHC in the future other than the Conceptual Framework for Financial Reporting indicated below and IFRS 17 *Insurance Contracts* as disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2018.

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 2019 were consistent with those disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2018.

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing, Mortgage Insurance (MI) and Mortgage Funding 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 Mortgage Funding 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 2018, except for IFRS 16 as indicated in Note 3 of these unaudited quarterly consolidated financial statements. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

- Assisted Housing revenues include government funding and interest income on loans;
- Mortgage Insurance revenues include premiums, fees and investment income; and
- Mortgage Funding revenues include guarantee and application fees, investment income and interest income on loans.

Three months ended 31 March	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Interest income	76	86	-	-	1,277	1,166	(2)	(1)	1,351	1,251
Interest expense	74	82	-	-	1,274	1,163	(24)	(29)	1,324	1,216
Net interest income	**2**	**4**	**-**	**-**	**3**	**3**	**22**	**28**	**27**	**35**
Government funding for housing programs	777	1,026	-	-	-	-	-	-	777	1,026
Premiums and fees earned	-	-	355	353	138	113	-	-	493	466
Investment income	-	-	117	138	18	14	(17)	(21)	118	131
Net gains (losses) on financial instruments	4	(9)	54	(79)	(1)	(1)	(1)	(3)	56	(92)
Other income	6	8	-	-	2	2	-	-	8	10
Total revenues and government funding	**789**	**1,029**	**526**	**412**	**160**	**131**	**4**	**4**	**1,479**	**1,576**
Non-interest expenses										
Housing programs	777	1,026	-	-	-	-	-	-	777	1,026
Insurance claims	-	-	73	65	-	-	-	-	73	65
Operating expenses	7	6	85	78	16	14	-	-	108	98
Total expenses	**784**	**1,032**	**158**	**143**	**16**	**14**	**-**	**-**	**958**	**1,189**
Income before income taxes	**5**	**(3)**	**368**	**269**	**144**	**117**	**4**	**4**	**521**	**387**
Income taxes	-	(2)	90	66	36	29	1	1	127	94
Net income (loss)	**5**	**(1)**	**278**	**203**	**108**	**88**	**3**	**3**	**394**	**293**
Total revenues and government funding	789	1,029	526	412	160	131	4	4	1,479	1,576
Inter-segment income (loss)[1]	(2)	(1)	(18)	(24)	24	29	(4)	(4)	-	-
External revenues and government funding	787	1,028	508	388	184	160	-	-	1,479	1,576

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

- *The Assisted Housing Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (CMB);*
- *The Mortgage Insurance Activity recognizes revenues from investing in holdings of CMB; and*
- *Within the Mortgage Funding Activity, CHT recognizes interest expense on CMB held by the Assisted Housing and Mortgage Insurance Activities.*

As at 31 March 2019 and 31 December 2018	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets										
Cash and cash equivalents	307	527	783	309	-	1	-	-	1,090	837
Accrued interest receivable	99	123	123	113	1,073	501	(17)	(13)	1,278	724
Investment securities:										
Fair value through profit or loss	1,313	1,374	151	615	-	-	(399)	(398)	1,065	1,591
Fair value through other comprehensive income	-	-	17,258	17,450	4,193	4,221	(3,342)	(3,507)	18,109	18,164
Amortized cost	219	-	-	-	-	-	-	-	219	-
Derivatives	33	33	1	-	-	-	-	-	34	33
Due from the Government of Canada	520	158	-	-	-	-	-	-	520	158
Loans:										
Fair value through profit or loss	1,782	2,019	24	21	-	-	-	-	1,806	2,040
Amortized cost	4,458	4,402	103	107	240,153	234,653	-	-	244,714	239,162
Accounts receivable and other assets	277	239	469	569	84	48	-	-	830	856
Investment property	264	264	47	47	-	-	-	-	311	311
	9,272	9,139	18,959	19,231	245,503	239,424	(3,758)	(3,918)	269,976	263,876
Liabilities										
Securities sold under repurchase agreements	-	-	171	280	-	-	-	-	171	280
Accounts payable and other liabilities	641	376	66	100	69	30	-	-	776	506
Accrued interest payable	105	69	-	-	1,052	490	(17)	(13)	1,140	546
Dividends payable	-	-	330	500	175	175	-	-	505	675
Derivatives	14	18	52	99	-	-	-	-	66	117
Provision for claims	-	-	517	512	-	-	-	-	517	512
Borrowings:										
Fair value through profit or loss	3,093	3,430	-	-	-	-	-	-	3,093	3,430
Amortized cost	4,937	4,768	-	-	240,153	234,653	(3,672)	(3,896)	241,418	235,525
Defined benefit plans liability	173	146	255	209	2	(1)	-	-	430	354
Unearned premiums and fees	-	-	5,248	5,375	1,563	1,573	-	-	6,811	6,948
Deferred income tax liabilities	39	41	73	73	5	(8)	(19)	(4)	98	102
	9,002	8,848	6,712	7,148	243,019	236,912	(3,708)	(3,913)	255,025	248,995
Equity of Canada	270	291	12,247	12,083	2,484	2,512	(50)	(5)	14,951	14,881
	9,272	9,139	18,959	19,231	245,503	239,424	(3,758)	(3,918)	269,976	263,876

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

6. Government Funding and Housing Programs Expenses

Government funding was used to fund the following housing programs expenses, including operating expenses incurred to support these programs.

	Three months ended 31 March	
(in millions)	**2019**	**2018**
Assistance for housing needs	731	987
Financing for housing	8	9
Housing expertise and capacity development	38	30
Total	**777**	**1,026**

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 31 March 2019 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

	Three months ended 31 March	
(in millions)	**2019**	**2018**
Balance at beginning of period	158	126
Total government funding recognized in revenues during the period	777	1,026
Total government funding received during the period	(419)	(444)
Third party remittances (owing) to the Government of Canada	4	(2)
Balance at end of period	**520**	**706**

7. Mortgage 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)	**2019**	**2018**
Balance at beginning of period	5,375	5,352
Premiums deferred on contracts written in the period	223	243
Premiums earned in the period	(348)	(348)
Application fees deferred on contracts written in the period	2	4
Application fees earned in the period[1]	(4)	(4)
Balance at end of period	**5,248**	**5,247**

[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)	**2019**	**2018**
Balance at beginning of period	181	165
Acquisition costs deferred	15	14
Amortization of DAC	(14)	(12)
Balance at end of period	**182**	**167**

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 and ILM).

Provision for claims comprises the following:

	As at					
	31 March 2019			31 December 2018		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	375	115	490	369	120	489
Discounting	(5)	(17)	(22)	(7)	(20)	(27)
Discounted provision for adverse deviation	28	21	49	28	22	50
Total provision for claims	**398**	**119**	**517**	**390**	**122**	**512**

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

	Three months ended 31 March					
	2019			2018		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	390	122	512	386	169	555
Net claims paid during the period	(74)	(3)	(77)	(69)	(5)	(74)
Provision for claims provided for and losses incurred during the period[1]	61	1	62	58	2	60
Unfavourable (favourable) development on prior period claims	21	(1)	20	12	(4)	8
Provision for claims, end of period	**398**	**119**	**517**	**387**	**162**	**549**

[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 as at 31 March 2019 identified that no premium deficiency reserve is required.

8. Mortgage Funding

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and *National Housing Act* Mortgage-Backed Securities (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, we have not received a claim on our timely payment guarantees (TPG). As such, no provision in addition to the remaining unearned premium is required.

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

	Three months ended 31 March					
	2019			2018		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,079	494	1,573	931	476	1,407
TPG fees received in the period	92	36	128	86	35	121
TPG fees earned in the period	(105)	(33)	(138)	(82)	(31)	(113)
Balance at end of period	**1,066**	**497**	**1,563**	**935**	**480**	**1,415**

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, being our Mortgage Insurance and Mortgage Funding Activities, 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 the Office of the Superintendent of Financial Institutions (OSFI).

We perform an Own Risk & Solvency Assessment (ORSA), 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 Mortgage Insurance Activity and our Mortgage Funding Activity 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 Mortgage Insurance Activity and our Mortgage Funding Activity 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.

We declare dividends to the Government from our Mortgage Insurance and Mortgage Funding Activities, 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. In the current quarter, we paid $675 million of dividends that were declared last year, and we declared an additional $505 million of dividends, which remained payable as at 31 March 2019.

The components of consolidated capital available are presented below.

(in millions)	As at 31 March 2019	As at 31 December 2018
Contributed capital	25	25
Accumulated other comprehensive income	249	5
Appropriated retained earnings	11,634	13,049
Unappropriated retained earnings[1]	3,043	1,802
Total equity of Canada[2]	**14,951**	**14,881**
Less: assets with a capital requirement of 100%	(36)	(33)
Total capital available	**14,915**	**14,848**

1 *Unappropriated retained earnings represents retained earnings in excess of our operating level for the Mortgage Insurance and Mortgage Funding Activities.*

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

Mortgage Insurance capital

We implemented the Mortgage Insurer Capital Adequacy Test (MICAT) guideline on 1 January 2019. MICAT combines the 1 January 2017 advisory on Capital Requirements for Federally Regulated Mortgage Insurers and the relevant portions of the 2018 Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies.

With this new guideline OSFI simplified the calculation of insurance risk, streamlined the requirements for single-family residential mortgages, included requirements for IFRS 16, and specified credit risk factors for securitized assets.

Changes in the MICAT framework predominantly relate to streamlining the requirements for single-family residential mortgages as follows:

- Base total asset requirements will require the mortgage insurer to use the borrower's credit score at origination and remove the use of updated credit scores, and;
- Increases of the base total asset requirements uniformly by 5%, with a corresponding 1% increase in operational risk, to allow for deterioration in borrower credit scores after origination.

The following table presents the components of capital available.

(in millions, unless otherwise indicated)	As at 31 March 2019	As at 31 December 2018
Appropriated capital[1]	10,677	11,801
Unappropriated capital	1,570	282
Total mortgage insurance capital	**12,247**	**12,083**
Less: assets with a capital requirement of 100%	(36)	(33)
Total mortgage insurance capital available	**12,211**	**12,050**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)[2,3]	189%	168%

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

2 *The MICAT guideline is effective 1 January 2019. For 2018, capital available to minimum capital required is calculated as the MCT ratio.*

3 *We have not made use of transitional arrangements, which expire during the fourth quarter of 2019, as provided by the OSFI Advisory. Our MICAT ratio as at 31 March 2019 would be 192% with transitional arrangements (31 December 2018 – 172%).*

Mortgage Funding capital

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**31 March 2019**	**31 December 2018**
Appropriated capital[1]	1,200	1,201
Unappropriated capital	1,284	1,311
Total Mortgage Funding capital available	**2,484**	**2,512**
Capital available to capital required (%)	207%	209%

[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 (2018 – $240 million), which we have determined through our ORSA to be in a reasonable range. 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 government funding for housing programs.

The following table presents the components of the capital available.

	As at	
(in millions)	**31 March 2019**	**31 December 2018**
Reserve fund	107	111
Retained earnings	138	155
Total Lending programs capital available	**245**	**266**

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 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 2019			31 December 2018		
(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]	244,714	248,083	3,369	239,162	239,820	658
Investments at amortized cost[2]	219	220	1	-	-	-
Financial liabilities						
Borrowings at amortized cost[3]	241,418	244,892	3,474	235,525	236,311	786

1 *$247,806 million (31 December 2018 – $239,704 million) fair value categorized as level 2, $277 million (31 December 2018 – $116 million) fair value categorized as level 3.*

2 *$220 million (31 December 2018 – nil) fair value categorized as level 2.*

3 *$139,519 million (31 December 2018 – $120,580 million) fair value categorized as level 1, $105,373 million (31 December 2018 – $115,731 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 2019				31 December 2018			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	49	-	49	-	80	-	80
Federal government issued	587	-	-	587	24	-	-	24
Total cash equivalents	587	49	-	636	24	80	-	104
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	239	-	239	-	278	-	278
Provinces/municipalities	132	276	-	408	229	177	-	406
Sovereign and related entities	-	293	-	293	-	317	-	317
Equities								
Canadian common shares	22	-	-	22	492	-	-	492
Limited partnership units	-	-	103	103	-	-	98	98
Total at FVTPL	154	808	103	1,065	721	772	98	1,591
FVOCI								
Debt instruments								
Corporate/other entities	1,702	6,828	-	8,530	1,412	7,200	-	8,612
Federal government issued	4,625	102	-	4,727	4,663	57	-	4,720
Provinces/municipalities	2,075	2,430	-	4,505	1,978	2,487	-	4,465
Sovereign and related entities	-	270	-	270	-	268	-	268
Equities								
Canadian preferred shares	77	-	-	77	99	-	-	99
Total at FVOCI	8,479	9,630	-	18,109	8,152	10,012	-	18,164
Loans designated at FVTPL	-	1,766	-	1,766	-	2,002	-	2,002
Loans mandatorily at FVTPL	-	16	24	40	-	17	21	38
Derivatives	-	34	-	34	-	33	-	33
Investment property	-	-	311	311	-	-	311	311
Total assets carried at fair value	**9,220**	**12,303**	**438**	**21,961**	**8,897**	**12,916**	**430**	**22,243**
Liabilities								
Borrowings designated at FVTPL	-	3,093	-	3,093	-	3,430	-	3,430
Derivatives	-	66	-	66	-	117	-	117
Total liabilities carried at fair value	**-**	**3,159**	**-**	**3,159**	**-**	**3,547**	**-**	**3,547**

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 $437 million of transfers from level 2 to level 1 and $350 million of transfers from level 1 to level 2 during the three months ended 31 March 2019 (three months ended 31 March 2018 – $1,349 million and $36 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.

(in millions)	Investment securities - FVTPL	Loans - FVTPL	Investment property	Total
Fair value as at 1 January 2019	**98**	**21**	**311**	**430**
Purchases	3	13	-	16
Net gains in net income[1,2]	-	1	-	1
Gains in OCI	2	-	-	2
Cash receipts on settlements/disposals	-	(11)	-	(11)
Fair value as at 31 March 2019	**103**	**24**	**311**	**438**
Fair value as at 1 January 2018	**88**	**26**	**305**	**419**
Purchases	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**	**34**	**305**	**431**

[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.*

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 2019, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as level 3 at 31 March 2019 did not materially change from 31 December 2018. The sensitivity of the fair value of items classified as level 3 to changes in unobservable inputs remained as disclosed in the audited consolidated financial statements for the year ended 31 December 2018.

11. Investment Securities

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

	As at							
	31 March 2019				31 December 2018			
(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	941	2	(3)	940	1,007	2	(8)	1,001
FVOCI[2]	17,654	406	(28)	18,032	17,964	275	(174)	18,065
Equities								
FVTPL	94	32	(1)	125	371	223	(4)	590
FVOCI	84	-	(7)	77	108	-	(9)	99

[1] *Amortized cost for equities is weighted-average acquisition cost.*

[2] *Includes debt instruments denominated in U.S. dollars with a carrying value of $2,312 million (31 December 2018 – $2,278 million).*

We have investment securities of $171 million (31 December 2018 – $283 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

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an ECL allowance based on 12-month ECL. Credit ratings are based on our internal credit rating system and amounts in the table represent the gross carrying amounts of the financial assets.

	As at 31 March 2019				
(in millions)	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Total
Investment securities[1]					
FVOCI	5,523	1,952	8,906	1,651	18,032
Amortized cost	149	40	30	-	219

[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

The ECL allowance for debt instruments held at FVOCI was $5 million at 31 March 2019 (31 March 2018 – $9 million) and there was a decrease of $1 million in ECL recognized in net gains (losses) on financial instruments for these securities during the three months ended 31 March 2019 (nil for the three months ended 31 March 2018).

The ECL allowance for debt instruments held at amortized cost was nil at 31 March 2019 (31 March 2018 – nil) and no amount was recognized in net gains (losses) on financial instruments for these securities during the three months ended 31 March 2019 (nil for the three months ended 31 March 2018).

12. 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)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers[1]	Balance at end of period
2019								
FVTPL								
Lending programs	2,019	(71)	-	8	-	-	(174)	1,782
MI Activity loans	21	(11)	12	2	-	-	-	24
Total at FVTPL	**2,040**	**(82)**	**12**	**10**	**-**	**-**	**(174)**	**1,806**
Amortized cost								
Loans under the CMB program	234,653	(4,791)	10,279	-	12	-	-	240,153
Lending programs	4,402	(195)	77	-	-	-	174	4,458
MI Activity loans	107	(5)	3	-	-	(2)	-	103
Total amortized cost	**239,162**	**(4,991)**	**10,359**	**-**	**12**	**(2)**	**174**	**244,714**
Total	**241,202**	**(5,073)**	**10,371**	**10**	**12**	**(2)**	**-**	**246,520**
2018								
FVTPL								
Lending programs	2,923	(95)	-	(6)	-		(175)	2,647
MI Activity loans	26	(7)	15	-	-		-	34
Total at FVTPL	**2,949**	**(102)**	**15**	**(6)**	**-**		**(175)**	**2,681**
Amortized cost								
Loans under the CMB program	233,786	(6,050)	9,498	-	10		-	237,244
Lending programs	4,138	(183)	69	-	-	(1)	175	4,198
MI Activity loans	117	(3)	3	-	-	(5)	-	112
Total amortized cost	**238,041**	**(6,236)**	**9,570**	**-**	**10**	**(6)**	**175**	**241,554**
Total	**240,990**	**(6,338)**	**9,585**	**(6)**	**10**	**(6)**	**-**	**244,235**

[1] *Transfers are matured loans that 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.*

We are assured collection of principal and accrued interest on 99% (31 December 2018 – 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.

Total undrawn loan commitments outstanding at 31 March 2019 were $688 million, of which $679 million are subject to 12-month ECL and $9 million are commitments outstanding on purchased or credit impaired loans.

At 31 March 2019, the ECL on undrawn loan commitments was $5 million (31 December 2018 – $3 million), and the ECL on loans was $107 million (31 December 2018 – $105 million).

13. 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 and other	Eliminations	Balance at end of period
2019							
Designated at FVTPL							
Borrowings from the Government of Canada	3,430	-	(356)	19	-	-	3,093
Borrowings at amortized cost							
Canada mortgage bonds	230,757	10,279	(4,791)	-	12	224	236,481
Borrowings from the Government of Canada	4,768	371	(201)	(6)	5	-	4,937
Total borrowings at amortized cost	**235,525**	**10,650**	**(4,992)**	**(6)**	**17**	**224**	**241,418**
Total	**238,955**	**10,650**	**(5,348)**	**13**	**17**	**224**	**244,511**
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**

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 2019, 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 2018 – nil).

14. Financial instruments income and expenses

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 2019**	**31 March 2018**
Financial instruments designated at FVTPL		
Investment securities	5	(1)
Loans	8	(6)
Borrowings	(19)	8
Total financial instruments designated at FVTPL	**(6)**	**1**
Financial instruments mandatorily at FVTPL		
Equity securities	60	(74)
Debt instruments	-	(1)
Derivatives	49	(56)
Loans	-	-
Total financial instruments mandatorily at FVTPL	**109**	**(131)**
Debt instruments held at FVOCI[1]	(53)	47
Loans at amortized cost – prepayments	3	3
Borrowings – amortized cost[2]	3	(6)
Expected credit loss on financial assets	-	(6)
Total	**56**	**(92)**

[1] *Includes foreign exchange loss of $52 million (three months ended 31 March 2018 – gain of $54 million) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes losses from the retirement of borrowings of $3 million (three months ended 31 March 2018 – $8 million), net of gains from the issuance of borrowings of $6 million (three months ended 31 March 2018 – $2 million).*

15. 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. There were no material changes to our assessment and management of market risk in the three months ended 31 March 2019.

Value at risk (VaR)

Market risk for investment securities in the Mortgage Insurance and Mortgage Funding 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 Insurance and Mortgage Funding Activities calculated with 95% confidence over a 22 business day holding period is outlined in the table below. 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 2019**	**31 December 2018**
Investment securities:		
Interest rate risk on debt instruments	183	178
Equity risk	1	26
Effect of diversification	(7)	(36)
Total VaR	**177**	**168**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. There has been no change to the nature of currency risk or how we manage this risk for the three month period ended 31 March 2019. We held $2,312 million in debt instruments denominated in U.S. dollars as at 31 March 2019 (31 December 2018 – $2,278 million), and residual currency risk was assessed as immaterial.

Interest rate sensitivity

Market risk for the Assisted Housing Activity's 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 net impact of a shift in interest rates on fair value as immaterial as at 31 March 2019. For the Assisted Housing Activity's financial instruments measured at amortized cost, the net impact of a shift in interest rates on fair value did not materially change in the three months ended 31 March 2019.

16. 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 19 of our audited consolidated financial statements. There has been no change to the nature of the risks and how they are managed for the three month period ended 31 March 2019.

17. 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)	2019	2018	2019	2018
Current service cost	9	10	5	-
Net interest expense	3	4	1	1
Expense recognized in net income	**12**	**14**	**6**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	(230)	42	(12)	2
Return on plan assets (excluding amounts included in net interest expense)	167	(30)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(63)**	**12**	**(12)**	**2**
CMHC's contributions	15	22	2	1
Employee contributions	10	3	-	-
Total contributions	**25**	**25**	**2**	**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.

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	**2019**	**2018**
Current income tax expense	115	99
Deferred income tax relating to origination and reversal of temporary differences	12	(5)
Total income tax expense included in net income	**127**	**94**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized gains (losses) from FVOCI financial instruments	82	(32)
Reclassification of prior years' net unrealized gains realized in the period in net income	-	(1)
Remeasurement gains (losses) on defined benefit plans	(12)	4
Total income tax expense (recovery) included in other comprehensive income (loss)	**70**	**(29)**
Total	**197**	**65**

19. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. The fees, which are recorded in operating expenses, amount to $11 million for the three month period ended 31 March 2019 (three months ended 31 March 2018 – $9 million) for the Mortgage Insurance Activity and $6 million for the three month period ended 31 March 2019 (three months ended 31 March 2018 – $5 million) for the Mortgage Funding Activity.

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

20. 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 2018 – $600 billion). At 31 March 2019, insurance-in-force, which represents the risk exposure of the Mortgage Insurance Activity, totalled $442 billion (31 December 2018 – $448 billion). Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2018 – $600 billion). At 31 March 2019, guarantees-in-force, which represents the risk exposure of the Mortgage Funding Activity, totalled $494 billion (31 December 2018 – $488 billion).

There are legal claims of $4 million (31 December 2018 – $4 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.

We have $50 million of cash and cash equivalents as at 31 March 2019 (31 December 2018 – $78 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 $142 million of cash and cash equivalents (31 December 2018 – $260 million) that may only be used as part of the Rental Construction Financing initiative.

21. Comparative Figures

Government funding presented in Note 6 has been reclassified to conform to the current period's presentation in accordance with Treasury Board's *Policy on Results*. CMHC has been required to report government funding following the Departmental Results Framework for the Government beginning 1 April 2018.

CANADA MORTGAGE AND HOUSING CORPORATION

700 Montreal Road

Ottawa, Ontario

K1A 0P7

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