FIRST QUARTER
31 March 2023
(Unaudited)

Quarterly Financial Report

Canada

CMHC SCHL

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Management's Discussion and Analysis

OVERVIEW

The following Management's Discussion and Analysis (MD&A) of the financial position and results of operations as approved by the Audit Committee on 19 May 2023 is prepared for the first quarter ended 31 March 2023 and is intended to provide readers with an overview of our performance including comparatives against the same quarter in 2022. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2022 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 2022 Annual Report as well as in Note 4 of these unaudited quarterly consolidated financial statements. Except for the adoption of International Financial Reporting Standards (IFRS) 17 *Insurance Contracts* (IFRS 17), 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 2023. As required by IFRS 17, we have restated our 2022 comparative results leading to the restatement of certain amounts and metrics in the MD&A.

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 2023" section 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 2022 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2023

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

Economic conditions and housing indicators

While Canadian economic growth in 2022 remained a robust 3.4%, it was lower than the pandemic recovery of 5.0% growth in 2021. Tight labour markets, strong wage growth and historically high immigration supported consumer demand. Despite slower economic activity since mid-2022, demand for goods and services continues to outpace supply in early 2023. In fact, in the first quarter of 2023, the unemployment rate remained stable, near a record low, while employment gains and wage growth stayed robust.

Inflation remains elevated at 4.3% in March 2023. It has declined from a peak of 8.1% in June 2022 because of lower energy prices, easing supply chain constraints and successive interest rate hikes from the Bank of Canada (BoC). These BoC rate hikes increased the policy rate from 0.25% in March 2022 to 4.5% in April 2023.

The rise in interest rates have increased the already elevated debt-service burden. The household debt to disposable income ratio remains at a near record high of 180% in the fourth quarter of 2022. High household debt levels remain a financial stability and downside economic risk.

Homeownership demand has slowed, reacting to high inflation and increasing borrowing costs. After declining throughout 2022, MLS® sales decreased 38% in the first quarter of 2023 relative to the same quarter in 2022 to 400,184 units (seasonally adjusted and annualized rate, SAAR). House prices continued to come down from their peak recorded in early 2022. Canada's MLS® price averaged $633,130 during the first quarter of 2023, 18% lower than the same quarter in 2022. However, prices remain elevated and near their early 2021 levels. Elevated prices combined with higher mortgage rates has made homeownership less affordable. In 2022 housing starts decreased and remained relatively low since the beginning of 2023. They reached 219,912 SAAR units in the first quarter of 2023, down 7% from the same quarter last year. Labour shortages, combined with elevated construction and financing costs are constraining new housing construction activity. This is exacerbating current shortfalls in housing supply, notably in Toronto and Vancouver.

High levels of uncertainty remain for Canada's economic outlook. Lingering inflation and interest rates remaining higher for longer than expected would result in larger declines in starts, prices and sales. Global supply chains could also take more time to recover in a context of increased geopolitical risk which could lead to a lower GDP growth. This would result in weaker housing demand and even lower sales, prices and starts.

These economic conditions continue to have a significant impact on our financial results and our ability to meet the outcomes of the federal budget initiatives discussed below. The impacts of inflation and movements in interest rates continue to result in volatility in our investments and defined benefit plans, with stronger investment performance and lower discount rates in the first quarter of 2023. Higher house prices and mortgage rates have resulted in lower transactional homeowner unit volumes consistent with the decreases in MLS® sales noted above. Despite economic headwinds as described above, our arrears remain low. These impacts are discussed further in the "Financial Results" section below. These economic conditions will impact our ability to achieve our corporate performance targets.

Risk Management

Although we observed a slight increase in credit risk due to a worsening outlook for interest rate sensitive sectors such as banking, our financial risks remain stable and within acceptable tolerances. Our operational risks improved slightly this quarter (e.g., people risk and strategy execution risk) evidenced through the achievement of our Q1 internal performance targets. Our investments also continue to be well-diversified and have strong credit ratings to withstand uncertain economic conditions. For more details on our risk management, refer to our 2022 Annual Report.

Federal Budgets (2022 and 2023)

In Budget 2023, the Government of Canada announced new investments involving CMHC:

- An additional $4 billion, over seven years, starting in 2024-25, to implement a co-developed Urban, Rural, and Northern Indigenous Housing Strategy. Other federal departments are involved in this work, and we are confirming CMHC's role in implementation of the Strategy;
- $55 million in operating funding to further support the delivery of National Housing Strategy programs; and
- $31.7 million over three years, starting in 2023-24, to Public Safety Canada and CMHC to work with the Department of Finance Canada to stand-up a low-cost flood insurance program, aimed at protecting households at high risk of flooding and without access to adequate insurance.

Budget 2023 also announced the Government's intention to support the reallocation of funding from the National Housing Co-Investment Fund's repair stream to its new construction stream, as needed, to boost the construction of new affordable homes for Canadians who need them most.

Budget 2023 also announced the Government's intention to undertake market consultations on the proposal to consolidate Canada Mortgage Bonds (CMB) within it's regular borrowing program, including on an implementation plan that would ensure stable access to mortgage financing. The Government will return in the fall economic and fiscal update on this matter.

The effects of the new programming will be reflected in future financial results once requisite authorities are obtained and programs are launched.

In Budget 2022, the Government of Canada announced new investments in housing and adjustments to existing housing programs. The following Budget 2022 items for which we have obtained financial authorities are expected to have impacts on CMHC's financial statements in 2023:

- $1.5 billion over two years, starting in 2022-23, to extend the Rapid Housing Initiative, to address the urgent housing needs of Canadians placed in vulnerable situations (launched November 10, 2022).
- $200 million for the new rent-to-own stream under the Affordable Housing Innovation Fund to help develop and scale up rent-to-own projects across Canada (launched August 30, 2022).
- The One-Time Top-Up to the Canada Housing Benefit to provide a one-time federal payment of $500 for up to 1.8 million low-income renters struggling with the cost of housing (launched on December 12, 2022).
- $4 billion over five years, starting in 2022-23, for a new Housing Accelerator Fund, which will provide incentive funding to local governments encouraging initiatives aimed at increasing housing supply (launched March 17, 2023).
- $5 million over two years, starting in 2022-23, to engage with provinces and territories to develop and implement a Home Buyers' Bill of Rights.
- $25.7 million to support homeowners in Quebec whose homes require remediation from damages to their foundations caused by the mineral pyrrhotite.
- An additional $458.5 million, for the Canada Greener Affordable Housing (CGAH) stream of the Canada Greener Homes Loan Program announced in Budget 2021. With a total of $680.4 million, the CGAH program (stream 2) will provide low-interest loans and contributions to low-income housing providers (expected to launch in June 2023).

We continue to deliver Canada's National Housing Strategy, which is giving more people in Canada a place to call home. This comprehensive plan covers the entire housing continuum, from shelters and transitional housing, to community and affordable housing, to market rental and homeownership. Dynamic and adaptable, it is designed to evolve as needed to better respond to the changing housing needs of people in Canada. The successful delivery of the NHS contributes significantly to our strategic results and outcomes.

We report progress on the achievement of NHS targets quarterly at www.placetocallhome.ca

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Consultation on draft Culture and Behaviour Risk Guideline

In February 2023, OSFI released a draft Culture and Behaviour Risk Guideline for consultation. The draft Guideline sets principles-based expectations for federally regulated financial institutions (FRFIs) to oversee their culture and assess the impact of behavioural patterns to effectively manage the associated risks. A final Guideline is expected to be issued by the end of 2023. We have not yet determined the full impact of the proposed amendments on our operations.

Consultation on Residential Mortgage Underwriting Practices & Procedures Guideline B-20

In January 2023, OSFI released a consultative document on Guideline B-20 on a set of proposed measures that OSFI could pursue to address heightened mortgage lending risks arising from high household indebtedness. Feedback from this initial consultation will inform future revisions to B-20, which will be issued for public consultation at a later date.

Guideline on capital, leverage and liquidity returns assurance

In November 2022, OSFI released a new guideline on capital, leverage and liquidity returns assurance. This guideline sets out OSFI's assurance expectations for capital, leverage and liquidity returns. The guideline seeks to inform external auditors and institutions on the work to be performed on their regulatory returns in an effort to enhance and align OSFI's assurance expectations across all FRFIs. Regulatory returns are key contributors to the assessment of the soundness of a FRFI. OSFI expects review and senior management attestation on the accuracy and completeness of the MICAT Cover schedule on a quarterly basis, beginning fiscal 2024. In addition, OSFI expects internal auditors to evaluate and opine on the effectiveness of the processes and internal controls in place for the MICAT, including related systems effective beginning fiscal 2023, at least once every three years based on Federally Regulated Insurers (FRI's) frequency of review. Lastly, beginning fiscal 2025 on an annual basis, OSFI expects external auditors to evaluate and opine on MICAT related calculations to ensure they have been prepared in accordance with the appropriate regulatory framework and are free of material misstatements.

We are reviewing the new guideline and are currently analyzing the change necessary to comply with OSFI's requirement. Updates to policies, guidelines, and processes will be introduced as required to meet OSFI's requirements.

New Guideline B-13 for technology and cyber risk management

In July 2022, OSFI released its final Guideline B-13 which sets out OSFI's expectations for how FRFIs should manage technology and cyber risks such as data breaches, technology outages and more. The final Guideline B-13 will be effective as of January 1, 2024. We have not yet determined the full impact of the proposed amendments on our operations.

OSFI letter on revisions to Guideline E-23 (Model Risk Management)

In May 2022, OSFI announced it will expand the scope of Guideline E-23 to address emerging risks and to clarify OSFI's expectations that all FRFIs and Federally Regulated Pension Plans (FRPPs) appropriately assess and manage model risks at the enterprise level. OSFI plans to launch a consultation on Guideline E-23 in the second quarter of 2023, with final guidance planned for publication by the end of 2023 and target implementation by June 2024.

Consultation on expectations to advance climate risk management through Guideline B-15

In May 2022, OSFI launched an industry consultation with the publication of a draft guideline B-15: Climate Risk Management. The guideline proposes a prudential framework that is more climate sensitive and recognizes the impact of climate change on managing risk. The draft Guideline sets the stage for OSFI's expectations of federally regulated financial institutions. The final guideline was released in the first quarter of 2023 and sets out the following expectations for financial institutions:

1. Understands and mitigates against potential impacts of climate-related risks to its business model and strategy.
2. Has appropriate governance and risk management practices to manage identified climate-related risks.
3. Remains financially resilient through severe, yet plausible, climate risk scenarios, and operationally resilient through disruption due to climate-related disasters.

The Guideline will become effective at fiscal year-end 2024 and the Integrating Climate Risks and Opportunities project was launched to advance our ambition of meeting the OSFI B-15 requirements.

Consultation on third-party risk management through a revised Guideline B-10

In April 2022, OSFI released a revised draft guideline B-10 setting their expectations around enhanced third-party risk management for public consultation. The draft guideline recognized that the financial industry has been leveraging third-party agreements for a long time to seek efficiency, innovation, and other process improvement objectives. A more comprehensive set of third-party risks is captured within this recent draft with the objective of enhancing operational and financial resilience. The final guideline was released on April 24, 2023 which emphasizes governance and risk management programs and includes new, clear expected outcomes associated with effective third-party risk management.

We are reviewing the final guideline and are analyzing to assess the expectations against our current practices and vendor risk management program. Updates to policies, guidelines, and processes will be introduced as required to meet OSFI's requirements.

Consultation on pension investment risk management

In March 2022, OSFI released a consultation paper on pension investment risk management, which introduces principles for the management of investment risk that OSFI believes are relevant for federally regulated pension plans. These expectations cover four areas: independent risk oversight, risk appetite and risk limits, portfolio and risk reporting, and valuation policies and processes.

In October 2022, OSFI provided summary of feedback to the consultation paper. As for the next steps, OSFI will collaborate with Canadian Association of Pension Supervisory Authorities' (CAPSA) Risk Management Guideline Committee to develop guidance on setting principles for the management of investment risk and will provide an opportunity for comments before publishing final guidance. We do not expect this proposal to have a direct impact on our financial statements, but, as the CMHC pension plan sponsor, we will closely monitor any developments.

Updates on current and future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) that may or will affect us can be found in Note 3 of our audited consolidated financial statements for the year ended 31 December 2022 and in Note 3 of these unaudited quarterly consolidated financial statements.

IFRS 17 Insurance contracts – effective date of 1 January 2023

We adopted IFRS 17 Insurance contracts, which replaces IFRS 4 Insurance contracts on 1 January 2023. As the adoption of IFRS 17 has been applied retrospectively, we have restated the 2022 comparative results, where applicable, within this quarterly financial report.

Financial statement line items on the consolidated balance sheet have changed with the provision for claims replaced by insurance contract liabilities, which now also includes unearned premiums and fees from insurance contracts. In addition, amounts related to deferred acquisition costs, deferred government of Canada fees, estimated borrower judgement recoveries, and premiums receivable are now recorded within insurance contract liabilities instead of accounts receivable and other assets. Government of Canada fees payable, previously recorded in accounts payable and other liabilities, is also recorded in insurance contract liabilities.

Financial statement line item descriptions on the consolidated statement of income and comprehensive income have changed with insurance claims expense removed a self-insurance service expense added. IFRS 17 also requires us to present the following financial statement line items: insurance revenue, insurance service expenses, insurance service result and insurance finance expense for contracts issued.

With the adoption of IFRS 17 we have also adopted new performance metrics as follows:

- Insurance service expense ratio: Replacing the loss ratio, this metric measures the ratio between insurance service expense over insurance revenues.
- Contractual Service Margin (CSM): Represents the expected future profit of our insurance contract liabilities.
- Net initial CSM ratio: Represents the estimated embedded profit of premiums received on insurance contracts in the period.

We are expecting both our return on equity and return on required equity to be 2%-5% lower on average subsequent to the adoption of IFRS 17 mainly due to slower recognition patterns of premiums received based on new recognition methodologies required by the standard.

Other updates

Draft Tax Legislation on Excessive Interest and Financing Expenses Limitation

On 3 November 2022, the Department of Finance released updates in respect of the draft Excessive Interest and Financing Income Limitation (EIFEL) legislation introduced on February 4, 2022 based on submissions to the original draft. The EIFEL rules are aimed at limiting the amount of interest and other financing expenses that businesses may deduct for income tax purposes based on a proportion of earnings, interest, taxes, depreciation and amortization. The proposed legislation is broadly in line with the recommendations in the Action 4 report set out by the Organization for Economic Cooperation and Development in respect of its Base Erosion and Profit Shifting Initiative. Based on the latest updates, the EIFEL rules are now proposed to apply in respect of taxation years beginning on or after 1 October 2023, rather than 1 January 2023, as initially proposed. Based on the latest draft legislation, no impact on CMHC or CHT is anticipated.

Task Force on Climate-Related Financial Disclosures (TCFD) Integrating Climate-related financial risks and opportunities

We continue to expand our capabilities and processes for identifying, assessing and managing climate related financial risk to facilitate alignment with all TCFD recommendations and the recently released OSFI's B-15 Climate Risk Management Guideline. We continue to progress with implementing structures and processes for oversight and management of climate-related financial risks and will be enhancing disclosures of the climate-related financial risks and impacts to our business and strategy in future periods.

To ensure continued alignment with expectations for climate risk management and reporting, we initiated the Integrating Climate Risks and Opportunities project to formally dedicate resources to advance our climate risk management practices. The project seeks to ensure CMHC: is compliant with adoption of TCFD and OSFI (B-15) requirements; understands and manages against potential impacts of climate-related risks and opportunities to its business; and, remains resilient to climate-related risks and disasters. Executive oversight of the project is in place with a steering committee of representatives from our lines of business, policy, risk and corporate services functions.

Executive committee approved the first phase of the 2023 project plan (deliverables, timelines, and resource commitments) that addresses the governance and risk management categories of the OSFI B-15 requirements. Planning is underway to further advance our work associated with the strategy and metrics and targets categories of the OSFI B-15 requirements.

Additional disclosure will be included in the 2023 Annual Report.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 31 March 2023 and 31 December 2022	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2023	2022	2023	2022 (restated)	2023	2022	2023	2022	2023	2022 (restated)
Total assets	18,321	17,642	17,134	16,766	269,902	263,752	(985)	(992)	304,372	297,168
Total liabilities	17,449	16,796	7,253	6,996	268,514	262,421	(995)	(1,006)	292,221	285,207
Total equity of Canada	872	846	9,881	9,770	1,388	1,331	10	14	12,151	11,961

Total equity of Canada has increased by $190 million (2%) primarily due to comprehensive income of $585 million partially offset by $395 million of dividends declared in 2023.

Total assets increased by $7,204 million (2%) primarily due to:

- An increase in loans at amortized cost of $5,978 million (2%) as new issuances of CMB program loans exceeded maturities resulting in $5,500 million (2%) increased loans, as well as $476 million of additional loans under the Rental Construction Financing Initiative (RCFi), National Housing Co-Investment Fund (NHCF) and Canada Greener Homes Loan (CGHL) programs.
- An increase in Due from Government of Canada of $938 million (100%) driven mainly by significant claims at the end of the government fiscal year.
- An increase in investment securities measured at fair value through other comprehensive income by $460 million (3%) as a result of lower interest rates in the quarter.

Total liabilities increased by $7,014 million (2%) mainly driven by higher borrowings at amortized cost of CMB and increased borrowings from the Government of Canada to fund NHS program loans as noted above, increased accrued interest payable as coupon payments are only made in the second and fourth quarters as well as an increase of $395 million in dividends payable as the dividend declaration in March 2023 was paid in April 2023.

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)	2023	2022	2023	2022 (restated)	2023	2022	2023	2022	2023	2022 (restated)
Government funding	2,136	1,655	-	-	-	-	-	-	2,136	1,655
Housing programs	(2,029)	(1,585)	-	-	-	-	-	-	(2,029)	(1,585)
Premiums and fees earned	-	-	7	5	201	194	-	-	208	199
Insurance service result	-	-	210	274	-	-	-	-	210	274
Operating expenses	(123)	(71)	(39)	(45)	(16)	(19)	-	-	(178)	(135)
All other income[1]	20	9	53	22	18	16	3	5	94	52
Income before income taxes	**4**	**8**	**231**	**256**	**203**	**191**	**3**	**5**	**441**	**460**
Income taxes	(2)	(2)	(55)	(64)	(52)	(48)	(1)	(1)	(110)	(115)
Net income	**2**	**6**	**176**	**192**	**151**	**143**	**2**	**4**	**331**	**345**
Other comprehensive income (loss)	24	120	185	(270)	51	(89)	(6)	14	254	(225)
Comprehensive income	**26**	**126**	**361**	**(78)**	**202**	**54**	**(4)**	**18**	**585**	**120**

[1] *Includes net interest income, net financial result, other income and self-insurance service income.*

Our total income before income taxes decreased by $19 million (4%) from the same quarter last year mainly due to:

- An increase in housing programs expense of $444 million (28%) driven mainly by $324 million for NHCF, $68 million for CHB, $43 million for Canada Community Housing Initiative (CCHI) and a one-time top-up to the CHB of $250 million. This is partially offset by a decrease in Rapid Housing Initiative (RHI) of $215 million. Due to the nature of many NHS programs, funding patterns are expected to vary significantly year over year.
- An increase of $43 million (32%) in operating expenses driven mainly by $37 million of administration expenses incurred by the Canada Revenue Agency (CRA) for the program costs to run the one-time top-up to the CHB.
- A decrease of $64 million (23%) in the insurance service result mainly due to higher insurance service expense in the period compared to the same quarter last year where lower arrears volume, better than expected economic conditions and updates to model assumptions subsequent to the transition to IFRS 17 on 1 January 2022 led to a large release in the estimate of our liabilities for incurred claims.
- This was partially offset by an increase of $481 million (29%) in government funding for housing programs resulting from higher spend as described previously and an increase of $42 million (81%) in all other income. The increase in other income is mainly due to an increase of $22 million (1,100%) in net interest income and $34 million (41%) increase in investment income as a result of higher interest rates as compared to the same quarter last year.

Other comprehensive income (OCI), net of tax, increased by $479 million (213%) from the same quarter last year due to economic movements.

- Decreases in interest rates and strong investment performance have led to unrealized gains on our investments of $249 million, gains in the remeasurement of defined benefit plans of $42 million, offset by higher insurance finance expenses of $37 million.
- During the same quarter last year, interest rates increased, which led to unrealized losses in our investments of $579 million offset by gains in the remeasurement of defined benefit plans of $254 million and insurance finance income of $100 million.

Financial metrics and ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	Insurance-in-force ($B) As at 31 March 2023	31 December 2022
Transactional homeowner	176	179
Portfolio	82	84
Multi-unit residential	142	136
Total	**400**	**399**

Insurance-in-force increased by $1 billion due to new volumes insured exceeding the run-off of existing policies-in-force. New loans insured were $12 billion, while estimated loan amortization and pay-downs were $11 billion.

(in millions, unless otherwise indicated)	Insured volumes (units)		Insured volumes ($)		Premiums and fees received[1]		Claims paid[2]		Contractual Service Margin	
	Three months ended 31 March								As at	
	2023	2022	2023	2022	2023	2022	2023	2022	31 March 2023	31 December 2022
Transactional homeowner	7,090	12,438	2,294	4,211	80	149	16	11	1,970	1,938
Portfolio	3,663	2,050	1,007	581	4	2	1	-	91	94
Multi-unit residential	44,568	41,789	8,715	7,932	180	248	2	-	2,551	2,515
Total	**55,321**	**56,277**	**12,016**	**12,724**	**264**	**399**	**19**	**11**	**4,612**	**4,547**

1 *Premiums and fees received may not equal premiums received on insurance contracts written in the period and premiums and fees deferred on self-insured contracts written during the period due to timing of receipts.*

2 *Claims paid refers to the net cash amounts paid out on settlement of the claims excluding claims administration expenses.*

Transactional homeowner unit volumes decreased across all provinces as high house prices and rising interest rates put downward pressure on insured volumes. Portfolio unit volumes increased across all provinces except British Columbia, as a result of increased appetite by large lenders to securitize in a high interest environment. The increase in multi-unit residential unit volumes is driven by an increase in new construction units insured, especially in the MLI Select product which focuses on affordability, accessibility, and climate compatibility.

Total insured dollars decreased, driven primarily by lower transactional homeowner unit volumes combined with a decrease in the average insured loan amount attributable to the decline in house prices. The decrease in transactional homeowner is partially offset by the increases in portfolio and multi-unit residential, which are the result of the increases in unit volumes as explained previously.

The $135 million (34%) decrease in premiums and fees received is driven by lower transactional homeowner volumes and average insured loan as explained above, combined with lower multi-unit residential premiums due to the high volume of MLI Select loans which have a lower premium rate.

Claims paid increased by $8 million (73%), driven mainly by a $5 million (45%) increase in claims paid on transactional homeowner loans as a result of lower borrower judgement recoveries.

CSM increased by $65 million (1%) due to $115 million of additional CSM on new business underwritten in the quarter, $79 million changes in estimates of future cash flows, and $25 million interest accretion offset by a decrease of $154 million due to earned CSM. The favourable change in estimates is due to better than expected economic variables.

(in percentages)	Three months ended 31 March 2023	2022 (restated)
Insurance service expense ratio[1, 2]	8.7	(28.0)
Operating expense ratio	17.0	21.0
Combined ratio	25.7	(7.0)
Net initial contractual service margin ratio	48.3	71.2
Severity ratio	33.0	27.0
Return on equity	7.2	7.1
Return on required equity	7.7	8.9

1 *On adoption of IFRS 17 the loss ratio that was calculated previously under IFRS 4 was replaced by this ratio.*

2 *Insurance service expense ratio on transactional homeowner and portfolio products excluding multi-unit residential was 9.3% for the three months ended 31 March 2023 ((50.2)% for the three months ended 31 March 2022).*

The insurance service expense ratio and combined ratio increased mainly due to a higher insurance service expense in 2023 due to the reversal of the liability for incurred claims in 2022 due to lower arrears volume, better than expected economic conditions and updates to model assumptions subsequent to the transition to IFRS 17 on 1 January 2022.

The operating expense ratio decrease is mostly attributable to lower operating and technology transformation costs.

The net initial contractual service margin ratio decreased mainly due to increased volumes of the MLI Select product, which has a lower initial contractual service margin.

The severity ratio increased due to weaker sales proceeds as the average home price has dropped compared to the same quarter last year.

The return on equity ratio remained consistent with the ratio from the same quarter in the prior year.

The decrease on return on required equity ratio for the three months ended March 31 is due to the lower net income mainly driven by the increase in insurance claims expense as explained previously.

	As at 31 March 2023		As at 31 December 2022	
	No. of delinquent loans	Arrears rate	No. of delinquent loans	Arrears rate
Transactional homeowner	3,081	0.36%	2,920	0.34%
Portfolio	967	0.16%	836	0.14%
Multi-unit residential	76	0.26%	108	0.38%
Total	**4,124**	**0.28%**	**3,864**	**0.25%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. Reported delinquencies remain low in all regions, which is consistent with strong economic conditions. There was a slight increase in the arrears rate mainly due to increased delinquencies in Alberta, Ontario, and Quebec.

Mortgage Funding

	Total guarantees-in-force ($B) As at 31 March 2023	31 December 2022
National Housing Act Mortgage-Backed Securities (NHA MBS)	221	216
CMB	260	255
Total	**481**	**471**

Total guarantees-in-force represents the maximum principal obligation related to our timely payment guarantee. Guarantees-in-force were $481 billion as at 31 March 2023, an increase of $10 billion (2%) as new guarantees exceeded maturities, principal run-off and prepayments.

(in millions, unless otherwise indicated)	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended 31 March			
	2023	**2022**	**2023**	**2022**
NHA MBS	33	33	149	177
CMB	10	10	43	42
Total	**43**	**43**	**192**	**219**

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

New securities guaranteed remained stable compared to the same quarter last year, while guarantee and application fees received decreased by $27 million (12%), mainly due to more issuances of affordability-linked pools, which carry a lower fee.

(in percentages)	Three months ended 31 March	
	2023	**2022**
Operating expense ratio	6.5	7.4
Return on equity	44.4	38.9

Operating expense ratio is lower and the return on equity is higher than last year, mainly due to an increase in guarantee and application fees earned as older pools with lower fees are fully recognized and are replaced with new pools with a higher associated fee.

Government Funding

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

	Three months ended 31 March	
(in millions)	**2023**	**2022**
Amounts authorized in 2022/23 (2021/22)		
Main estimates	3,549	3,259
Supplementary estimates A[1,2,5]	46	1,800
Supplementary estimates B[1,3,5]	693	44
Supplementary estimates C[1,4,5]	1,119	41
Total fiscal year government funding	**5,407**	**5,144**
Less: portion recognized in calendar 2022 (2021)	(2,129)	(2,367)
Less: government funding lapsed for 2022/23 (2021/22)	(1,197)	(1,049)
Less: frozen allotment	(48)	(53)
2022/23 (2021/22) government funding recognized in 2023 (2022)	**2,033**	**1,675**
Amounts authorized in 2023/24 (2022/23)		
Main estimates	5,105	3,549
Supplementary estimates A[1,2,5]	-	46
Supplementary estimates B[1,3.5]	-	693
Supplementary estimates C[1,4,5]	-	1,119
Total fiscal year government funding	**5,105**	**5,407**
Less: portion to be recognized in subsequent quarters	(5,105)	(4,162)
Less: forecasted lapse for 2023/24 (Actual lapse in 2022/23)	-	(1,197)
Less: frozen allotment	-	(48)
2023/24 (2022/23) government funding recognized in 2023 (2022)	**-**	**-**
Total government funding – three months ended 31 March	**2,033**	**1,675**

[1] *Supplementary estimates are additional government funding voted on by Parliament during the Government's fiscal year.*

[2] *Approved 2022/23 supplementary estimates A for RHI, and Granville Island Emergency Relief Fund. (2021/22 for RHI, NHCF, CGHL, Granville Island Emergency Relief Fund, Canada Emergency Commercial Rent Assistance (CECRA), CHB and funding to support youth).*

[3] *Approved 2022/23 supplementary estimate B for RHI, Affordable Housing Innovation Fund, Federal Lands initiative, RCFi, pyrrhotite, NHCF, FTHBI, Urban, Rural and Northern Indigenous Housing Strategy, CECRA, Emergency shelter for women and girls, CHB, CHB for women and children fleeing violence, and for Research and Data Initiative. (2021/22 for RCFi).*

[4] *Approved 2022/23 supplementary estimates C for CGHL and Home Buyer's Bill of Rights. (2021/22 for the construction and operation of shelters and transition houses for Indigenous women, children, 2SLGBTQQ/Q+ people, CHB, Federal Community Housing Initiative (FCHI), Research and Data Initiative).*

[5] *We exclude funding received for the Granville Island Emergency Relief Fund from our consolidated financial statements as we do not control the activities of Granville Island.*

Capital Management

Frameworks

For our Assisted Housing Activity, we maintain a reserve fund pursuant to Section 29 of the *CMHC Act* to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. Lending programs' earnings are retained in this reserve fund except for the unrealized fair value fluctuations as well as remeasurement gains and losses on defined benefit plans. Unrealized fair value market fluctuations and remeasurement losses on defined benefit plan are absorbed in retained earnings until the time they are realized. Aside from the reserve fund, we do not hold capital for our Assisted Housing activities, as they do not present material financial risks to us that we do not already otherwise mitigate.

For our Mortgage Insurance Activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT as our economic capital is lower than OSFI's regulatory capital requirements.

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.

In August 2022, our Board of Directors approved maintaining the internal targets and operating levels of 155% and 165% respectively for Mortgage Insurance and 105% and 110% for Mortgage Funding for 2023. For Mortgage Funding, the Board approved a reduction of the economic capital required at the operating level from $2.7 billion to $1.8 billion, effective 1 January 2023.

Ratios

The following table presents our capital management ratios.

	As at	
(in percentages)	**31 March 2023**	**31 December 2022 (restated)**
Mortgage Insurance: Capital available to minimum capital required (MICAT)	176	175
Mortgage Funding: Economic capital available to capital required[1]	114	112

[1] *In 2023, the capital required in the Mortgage Funding ratio has been updated to consider the minimum liquidity requirement resulting in a decrease of 37 percentage points in our 2022 comparative ratio .*

The Mortgage Insurance capital available to minimum capital required ratio remained stable in the first quarter of 2023 as dividends declared offset net income for the quarter. The implementation of IFRS 17 had an immaterial impact on capital available as at 31 December 2022 (see Note 9 of the unaudited quarterly consolidated financial statements). On transition to IFRS 17 at 1 January 2022 our equity increased by $64 million (see Note 3 of the unaudited quarterly consolidated financial statements), however, during the 2022 year the impact to equity due to reporting under IFRS 17 vs IFRS 4 resulted in a decrease of $70 million. This results in net change of $6 million to capital available as at 31 December 2022. IFRS 17 did not have an impact on appropriated capital in 2022 as MICAT requirements reflecting IFRS 17 were effective as of 1 January 2023. As a result, MICAT ratio was unchanged as at 31 December 2022.

Mortgage Funding capital available to capital required ratio remained stable as dividends paid offset net income for the quarter.

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

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q1 2023	Q4 2022 (restated) [4]	Q3 2022 (restated) [4]	Q2 2022 (restated) [4]	Q1 2022 (restated)[4]	Q4 2021	Q3 2021	Q2 2021
Consolidated Results								
Total assets	304,372	297,168	304,049	297,593	299,160	300,357	300,457	295,629
Total liabilities	292,221	285,207	292,073	285,465	286,761	287,147	287,206	282,402
Total equity of Canada	12,151	11,961	11,976	12,128	12,399	13,210	13,251	13,227
Total revenues and government funding	2,642	1,378	1,035	995	2,178	1,956	1,076	1,199
Total expenses (including income taxes)	2,311	1,009	644	661	1,833	1,472	662	739
Net income	331	369	391	334	345	484	414	460
Assisted Housing								
Government funding	2,136	810	454	489	1,655	1,277	452	547
Net income (loss)	2	76	23	35	6	38	10	24
Total equity of Canada	872	846	799	781	695	569	547	507
Mortgage Insurance[6]								
Insurance-in-force ($B)[2]	400	399	397	397	394	401	404	409
Total insured volumes[1]	12,016	17,181	18,027	18,390	12,724	18,659	13,356	15,392
Premiums and fees received	264	354	416	506	399	547	417	508
Premiums and fees earned	7	6	6	6	5	353	350	349
Insurance revenue	230	223	210	220	214	-	-	-
Claims paid	19	20	19	14	11	30	45	30
Insurance claims expense	-	-	-	-	-	(57)	(12)	(63)
Insurance service expense	(20)	(18)	68	(4)	60	-	-	-
Net income	176	145	222	168	192	302	265	315
Arrears rate	0.28%	0.25%	0.24%	0.25%	0.26%	0.28%	0.29%	0.31%
Loss ratio	-	-	-	-	-	(16.1)%	(3.4)%	(18.1) %
Insurance service expense ratio	8.7%	8.1%	(32.4)%	1.8%	(28.0)%	-%	-%	-%
Operating expense ratio	17.0%	22.0%	19.5%	19.1%	21.0%	23.0%	21.1%	23.4%
Combined ratio	25.7%	30.1%	(12.9)%	20.9%	(7.0)%	6.9%	17.7%	5.3%
Net initial contractual service margin ratio	48.3%	54.3%	73.1%	73.4%	71.2%	-	-	-
Severity ratio	33.0%	32.4%	29.6%	24.8%	27.0%	28.4%	30.8%	27.8%
Return on equity	7.2%	5.9%	9.0%	6.6%	7.1%	10.1%	9.5%	11.3%
Return on required equity	7.7%	6.3%	10.1%	7.8%	8.9%	14.0%	12.0%	13.5%
Capital available to minimum capital required (% MICAT)	176%	175%	184%	193%	194%	213%	209%	201%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	19.2%	19.2%	19.4%	19.9%	20.1%	21.0%	23.1%	24.2%
Mortgage Funding								
Guarantees-in-force ($B)[2]	481	471	463	456	460	461	460	461
Securities guaranteed ($B)	43	50	50	44	43	48	51	46
Guarantee and application fees received	192	301	227	215	219	338	250	229
Guarantee and application fees earned	201	193	189	180	194	189	179	176
Net income	151	144	142	127	143	139	139	126
Operating expense ratio	6.5%	7.5%	7.3%	7.9%	7.4%	8.2%	7.6%	8.5%
Return on equity	44.4%	39.0%	42.4%	36.8%	38.9%	36.6%	36.4%	32.2%
Economic capital available to capital required[3]	114%	112%	109%	108%	110%	113%	109%	107%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantee	23.2%	22.9%	22.8%	22.9%	23.3%	24.1%	26.3%	27.2%

[1] *Total insured volumes include portfolio substitutions.*

[2] *Our total exposure is less than the sum of these figures because we insure a portion of the instruments included in guarantees-in-force.*

[3] *In 2023, the capital required in the Mortgage Funding ratio has been updated to consider the minimum liquidity requirement resulting in adjustments to the historical ratios.*

[4] *Figures have been restated to reflect the adoption of IFRS 17 effective 1 January 2022.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2023

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.

Romy Bowers
President and Chief Executive Officer

Michel Tremblay, CPA, CA
Chief Financial Officer and Senior Vice President, Corporate Services

19 May 2023

CONSOLIDATED BALANCE SHEET

		As at		
(in millions of Canadian dollars)	Notes	31 March 2023	31 December 2022 (restated)	As at 1 January 2022 (restated)
Assets				
Cash and cash equivalents	20	2,585	2,649	1,525
Securities purchased under resale agreements		450	650	-
Accrued interest receivable		1,337	878	720
Investment securities:				
Fair value through profit or loss	10	136	133	289
Fair value through other comprehensive income	10, 11	18,503	18,043	19,982
Amortized cost	10, 11	3,340	3,578	2,817
Derivatives		32	-	31
Due from the Government of Canada	6	938	-	363
Loans:	12			
Fair value through profit or loss		471	469	500
Amortized cost		275,185	269,207	272,781
Accounts receivable and other assets		721	941	535
Investment property		402	402	314
Defined benefit plans asset		272	218	-
		304,372	297,168	299,857
Liabilities				
Accounts payable and other liabilities		1,109	707	606
Accrued interest payable		1,249	818	612
Dividends payable		395	-	-
Derivatives		39	87	50
Insurance contract liabilities	7	6,431	6,405	6,132
Due to the Government of Canada	6	-	6	-
Borrowings:	13			
Fair value through profit or loss		358	374	475
Amortized cost		279,558	273,770	275,869
Defined benefit plans liability		171	166	250
Unearned premiums and fees	7, 8	2,606	2,604	2,321
Deferred income tax liabilities		305	270	268
		292,221	285,207	286,583
Commitments and contingent liabilities	20			
Equity of Canada	9			
Contributed capital		25	25	25
Accumulated other comprehensive income or (loss)		(513)	(725)	130
Reserve fund		28	17	29
Retained earnings		12,611	12,644	13,090
		12,151	11,961	13,274
		304,372	297,168	299,857

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	2023	2022 (restated)
Interest income		1,661	1,131
Interest expense		(1,641)	(1,133)
Net interest income (loss)		20	(2)
Insurance revenue	7	230	214
Insurance service income (expense)	7	(20)	60
Insurance service result		210	274
Investment income		116	82
Net losses on financial instruments	14	(21)	(6)
Insurance finance expense for contracts issued	7	(37)	(25)
Net financial result		58	51
Government funding	6	2,136	1,655
Housing programs	6	(2,029)	(1,585)
Premiums and fees earned	7, 8	208	199
Operating expenses		(178)	(135)
Other income		10	1
Self-insurance service income		6	2
Income before income taxes		441	460
Income taxes	18	(110)	(115)
Net income		331	345
Other comprehensive income (loss), net of tax			
Items that will be subsequently reclassified to net income (loss)			
Net unrealized gains (losses) from debt instruments held at fair value through other comprehensive income		227	(580)
Reclassification of gains on debt instruments held at fair value through other comprehensive income on disposal in the year		22	1
Insurance finance income (expense) for contracts issued	7	(37)	100
		212	(479)
Items that will not be subsequently reclassified to net income			
Remeasurement gains on defined benefit plans	17, 18	42	254
Total comprehensive income (loss), net of tax		254	(225)
Comprehensive income		585	120

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	2023	2022 (restated)
Contributed capital		**25**	**25**
Accumulated other comprehensive income (loss)			
Fair value reserve balance at beginning of period		(900)	131
Other comprehensive income (loss) – fair value		249	(579)
Fair value reserve balance at end of period		(651)	(448)
Opening insurance finance reserve		175	-
Impact of adopting IFRS 17	3	-	(1)
Restated opening insurance finance reserve		175	(1)
Other comprehensive income (loss) – insurance finance reserve		(37)	100
Insurance finance reserve balance at end of period		138	99
Balance at end of period		**(513)**	**(349)**
Reserve fund			
Balance at the beginning of period		17	29
Net income (loss)		11	(8)
Balance at end of period		**28**	**21**
Retained earnings			
Opening retained earnings		12,644	13,025
Impact of adopting IFRS 17	3	-	65
Restated opening retained earnings		12,644	13,090
Net income		320	353
Other comprehensive income		42	254
Dividends	9	(395)	(995)
Total retained earnings		**12,611**	**12,702**
Equity of Canada	9	**12,151**	**12,399**

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	2023	2022 (restated)
Cash flows from (used in) operating activities			
Net income		331	345
Adjustments to determine net cash flows from operating activities			
Amortization of premiums and discounts on financial instruments		12	34
Net (gains) losses on financial instruments		80	52
Deferred income taxes	18	4	9
Depreciation, amortization and impairment of fixed and intangible assets		19	6
Changes in operating assets and liabilities			
Derivatives		(80)	(52)
Accrued interest receivable		(459)	(505)
Due from the Government of Canada		(1,021)	(494)
Accounts receivable and other assets		160	11
Accounts payable and other liabilities		432	384
Accrued interest payable		431	509
Insurance contract liabilities		31	74
Defined benefit plans		-	(2)
Unearned premiums and fees		2	40
Other		(2)	(5)
Loans	12		
Repayments		4,934	12,544
Disbursements		(10,885)	(10,754)
Borrowings	13		
Repayments		(6,073)	(15,914)
Issuances		11,812	14,400
		(272)	682
Cash flows from (used in) investing activities			
Investment securities			
Sales and maturities		1,963	3,787
Purchases		(1,869)	(3,863)
Foreign currency forward contract maturities			
Receipts		53	69
Disbursements		(127)	(72)
Securities purchased under resale agreements		200	-
Property and equipment and intangible asset acquisitions		(12)	(21)
		208	(100)
Change in cash and cash equivalents		(64)	582
Cash and cash equivalents			
Beginning of period		2,649	1,525
End of period		2,585	2,107
Represented by			
Cash		147	120
Cash equivalents		2,438	1,987
		2,585	2,107
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		1,435	893
Amount of interest paid during the period		1,342	788
Amount of dividends received during the period		-	1
Amount of income taxes paid during the period		58	93

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, we, or us) 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 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 2023 and were approved and authorized for issue by our Audit Committee on 19 May 2023.

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. We follow the same accounting policies and methods of application as disclosed in Note 2 and 3 of our consolidated financial statements for the year ended 31 December 2022 and these unaudited quarterly consolidated financial statements 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 and Mortgage Funding Activities are exposed to some seasonal variation. Premiums received for some insurance products vary each quarter with the seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage insurance 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. In our Mortgage Funding Activity, guarantee fees received on NHA MBS are generally higher in the last quarter of the year as more issuers guarantee higher fee pools above the Tier 1 threshold as they manage their liquidity and capital requirements.

3. Current and future accounting changes

Current accounting changes

We adopted IFRS 17 *Insurance contracts*, which replaces IFRS 4 *Insurance contracts* on 1 January 2023. IFRS 17 sets out the requirements for recognizing and measuring our insurance contract liabilities. We apply the accounting policies disclosed in Note 3 of our 31 December 2022 consolidated financial statements.

The following table summarizes the impacts of adopting IFRS 17 on our opening balance sheet as at January 1, 2022.

Financial statement line item *(in millions $)*	IFRS 4 31 December 2021	Adjustments	IFRS 17 1 January 2022
Accounts receivable and other assets	1,035	(500)	535
Accounts payable and other liabilities	650	(44)	606
Provision for claims	310	(310)	-
Insurance contract liabilities	-	6,132	6,132
Unearned premiums	8,684	(6,363)	2,321
Deferred income tax liabilities	247	21	268
Equity of Canada	13,210	64	13,274

The following table summarizes the nature of the IFRS 17 opening balance sheet adjustments as at 1 January 2022.

Adjustment	Description
Measurement of insurance contract liability under IFRS 17	We have recognized and measured each group of insurance contracts as if the standard had always applied and where impracticable we have applied the fair value approach. This has resulted in an increase in our insurance contract liabilities of $6,132 million and a corresponding decrease in retained earnings of $4,615 million (net of deferred taxes of $1,539 million).
Derecognition of existing balances that would not exist under IFRS 17	The following balances were derecognized: • Deferred acquisition costs, deferred Government of Canada fees, estimated borrower judgment recoveries, and premiums receivable previously recorded in accounts receivable and other assets of $500 million; • Government of Canada fees payable previously recorded in accounts payable and other liabilities of $61 million; • Unearned premiums and fees related to our Mortgage Insurance Activity of $6,363 million; and • Provision for claims of $310 million. The resulting difference has resulted in an increase in retained earnings of $4,679 million (net of deferred taxes of $1,560 million) and an increase in accounts payable and other liabilities of $17 million related to unearned premiums for social housing and indexed-linked mortgages.

Future accounting changes

There have been no new standards issued by the the International Accounting Standards Board (IASB) that would affect us in the future.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with IFRS requires us 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. We have disclosed key assumptions concerning the future and other important sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, in Note 4 of our 31 December 2022 consolidated financial statements. Notable changes to the key estimates are reflected below.

Use of estimates and assumptions

Insurance contract liabilities

Insurance contract liabilities are determined using deterministic cashflow models that consider a range of possible economic conditions. The following assumptions are used when calculating cash flows within the boundary of insurance contract liabilities:

Claim frequency

Arrears rate and claim rate

Arrears rate determined by loans that are more than 90 days past due for our homeowner and portfolio insurance products and 30 days past due for multi-unit insurance products are a key determinant of future claims. A claim occurs when a borrower has defaulted on the loan and the lender has completed the foreclosure. The arrears and claim rate assumptions are based on our own experience and expectations.

An increase (decrease) in expected arrears or claim rates will increase (decrease) the expected claim cost which will reduce (increase) future profits.

Termination rate

A termination occurs when an insurance contract is no longer in-force and there is no reported claim. Termination rate assumptions are based on historical experience and are adjusted, when appropriate, to reflect revised expectations.

An increase (decrease) in expected termination rates will reduce (increase) the expected claim cost which will increase (decrease) future profits.

Cure rate

A loan is cured from arrears when the borrower pays all the past due amounts. Cure rate assumptions are based on historical experience and are adjusted when appropriate to reflect revised expectations.

An increase (decrease) in expected cure rates will reduce (increase) the expected claim frequency which will increase (decrease) future profits.

Claim severity

Loss given default (LGD)

LGD represents the estimated net cash outflow when a default occurs and is based on historical experience and adjusted, when appropriate, to reflect revised expectations.

An increase (decrease) in loss given default will increase (decrease) the fulfilment cash flow which will reduce (increase) future expected profits.

Economic conditions (unemployment rate, mortgage rates and house price index)

The economic conditions are non-financial assumptions used to project future claim levels. Changes in these assumptions, which impact both claim frequency and claim severity, and could increase or decrease the fulfilment cash flow which will impact future profits. An increase in unemployment and mortgage rates and a decrease in house price index will increase claims.

Determining the liabilities for remaining coverage and incurred claims involves the risk that the actual results will deviate, and in certain cases significantly, from the estimates made.

The liability for incurred claims (LIC) reflects claims that have been incurred but not reported (IBNR), claims in process (CIP), incurred but not enough reported (IBNER) and reduced by borrower judgment recoveries (BJR). The estimate for IBNR is based on loans that are reported in arrears and an estimate of loans that are not yet reported in arrears (pure IBNR) at the valuation date and the probability of those loans going to claim without subsequently becoming re-performing. The CIP are estimated by multiplying the insured loan amounts by the calculated LGD. The estimate for IBNER is estimated from the payment pattern of the supplementary amounts on open claims. The estimate for BJR is determined based on historical information on BJR received related to claims paid. The liability for incurred claims is discounted to the balance sheet date consistent with our policy on discount rates.

The fulfilment cash flows included in the liabilities for remaining coverage (LRC) relate to future claims and are subject to a greater degree of uncertainty than the LIC.

The following table sets out the weighted average percentage used for each previously noted assumption:

	31 March 2023	31 December 2022
Claim frequency[1]	0.7%	0.7%
Claim severity[2]	42.2%	42.2%
Unemployment rate[3]	5.9%	5.8%
Mortgage rates[3]	5.9% for 5-year term	5.9% for 5-year term
House price index[3]	472	469

[1] *Includes the weighted average arrears, claims, termination and cure rate. Reflects the probability of a loan going from healthy to claim during its life.*

[2] *Reflects net claim, including expenses as a percentage of the insured loan amount, when a loan defaults.*

[3] *Refers to national five year average projected rates.*

Risk adjustment

The risk adjustment for non-financial risk represents the compensation required for bearing the uncertainty of the amount and timing of the cash flows of groups of insurance contracts and covers insurance risk, lapse risk and expense risk. The risk adjustment reflects an amount we would pay to remove the uncertainty that the future cash out flows will exceed our best estimate of our insurance contract liabilities. We have estimated our risk adjustment for non-financial risk using a cost of capital approach for the LRC and the quantile approach for the LIC. The cost of capital approach requires us to estimate the fulfilment cash flows, and the required capital at each future date following regulatory capital requirements. A cost of capital rate is applied to the additional capital requirement in future reporting periods. The cost of capital represents the return required to compensate for exposure to the non-financial risk and is set at 6% per annum. The quantile approach requires us to estimate a distribution of the fulfillment cash flows and select a confidence level that reflects our risk appetite.

The risk adjustment for our insurance contracts corresponds to an 85% confidence level.

Discount rate

Fulfilment cashflows are determined by discounting the expected future cash flows using a bottom up approach, where the discount curve uses a risk free curve, plus an illiquidity premium. The risk-free curve is determined by reference to the Government of Canada yield curve. The illiquidity premium is determined by reference to observable market rates of A-rated and BBB-rated investment grade bonds, plus a constant illiquidity premium factor of 0.5%.

The weighted average discount rates applied for discounting of future cash flows as at March 31, 2023 and December 31, 2022 are listed below:

	Portfolio duration											
	1-5 years		5-10 years		10-15 years		15-20 years		20-25 years		over 25 years	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Discount rates	4.9%	5.3%	4.8%	5.1%	5.0%	5.3%	5.2%	5.4%	5.2%	5.4%	4.9%	5.0%

Coverage units

The CSM is a component of our insurance contract liabilities and represents the unearned profit to be recognized as insurance coverage is provided.

An amount of the CSM by group of insurance contracts is recognized as insurance revenue each quarter reflecting the services provided during the period.

The amount of CSM recognized is determined by:

- identifying the coverage units applicable to groups of insurance contracts;
- allocating the CSM at the end of the period equally to each coverage unit provided in the current period and expected to be provided in future periods; and
- recognizing, in insurance revenue, the amount allocated to coverage units provided in the period.

The number of coverage units in a group is the total coverage expected to be provided by the insurance contracts in the group, determined by considering the quantity of the benefits provided and the expected duration of the coverage. The quantity of benefits expected to be provided to the policyholder at the end of each period is the outstanding mortgage balance, including accrued interest and customary settlement costs, less the estimated sales price of the insured property securing the mortgage. This is calculated based on a historical average LGD (claim severity), given a loan is in arrears. The total coverage units of each of our groups of insurance contracts are reassessed at the end of each reporting period to reflect changes in our estimates of expected LGD. The coverage units are then allocated based on probability-weighted average duration of each coverage unit provided in the current period and expected to be provided in the future.

Level of aggregation – grouping criteria

Once insurance contracts are aggregated into portfolios based on mortgage insurance products, expected profitability is used to further disaggregate the insurance contracts into those contracts that are onerous, those that have no significant chance of becoming onerous subsequently and a remaining other group of contracts within the portfolio.

To assess expected profitability the following characteristics are used:

- pricing levels (loan-to-value band)
- the most significant insurance contract characteristics that impact the performance of an insurance contract are:
  - product type
  - credit score band
  - region or province
  - housing and property types

Mortgage Insurer Capital Adequacy Test (MICAT)

Insurance-in-force (IIF) is a key input in determining our MICAT ratio and is subject to estimation. Due to availability of data, IIF used in the MICAT is the higher of 1) a projection reflecting an estimate of new business, terminations and claims from our most recent previous quarter-end; and 2) our actual IIF as reported by lenders for the previous quarter-end. Changes in underwriting requirements, regulatory environment and market trends can add volatility to our estimate.

In recent months, lenders have been reporting temporarily extended amortizations on variables rate mortgages that do not have payments that automatically adjust with interest rates. Furthermore, adjustments to interest rates as announced by the Bank of Canada may not be immediately reflected in IIF reporting by lenders and are not factored into our projected IIF calculations as we are unable to accurately predict the future path of interest rates. As a result, we may experience a temporarily lower MICAT ratio due to the temporarily extended amortizations on variable rate mortgages until interest rates stabilize and/or subject variable rate mortgages payments are reset to the original amortization period. Our Q1 2023 MICAT ratio only considers the impacts of rising interest rates on variable rate mortgages up to Q4 2022 and therefore, does not fully reflect the impacts of interest rate increases on amortizations past this point, which may further decrease our ratio in future periods once fully reflected. As at March 31, 2023, we estimate that the MICAT ratio would have been 8-13% higher if it were not for the increased capital required for variable rate mortgages with temporarily extended amortizations.

5. Segmented Information

The unaudited quarterly consolidated financial statements include the Assisted Housing (AH), Mortgage Insurance (MI) and Mortgage Funding (MF) segments, each of which provides different products and programs in support of our objectives. We include the accounts for Canada Housing Trust (CHT), a separate legal entity, within the Mortgage Funding reportable segment. We determine the financial results of each segment using the accounting policies described in Note 2 and 3 of our 31 December 2022 consolidated financial statements for the year ended 31 December 2022. For all segments, revenues are attributed to, and assets are located in, Canada.

We generate revenues for the reportable segments as follows:

- Assisted Housing revenues include government funding and interest income on loans and investments;
- Mortgage Insurance revenues include insurance revenues, 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)	**2023**	**2022**	**2023**	**2022 (restated)**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022 (restated)**
Interest income	122	73	-	-	1,541	1,059	(2)	(1)	1,661	1,131
Interest expense	(110)	(85)	-	-	(1,537)	(1,055)	6	7	(1,641)	(1,133)
Net interest income (loss)	**12**	**(12)**	**-**	**-**	**4**	**4**	**4**	**6**	**20**	**(2)**
Insurance revenue	-	-	230	214	-	-	-	-	230	214
Insurance service income (expense)	-	-	(20)	60	-	-	-	-	(20)	60
Insurance service result	**-**	**-**	**210**	**274**	**-**	**-**	**-**	**-**	**210**	**274**
Investment income (losses)	-	-	100	73	18	10	(2)	(1)	116	82
Net gains (losses) on financial instruments	5	21	(20)	(26)	(7)	(1)	1	-	(21)	(6)
Insurance finance expense for contracts issued	-	-	(37)	(25)	-	-	-	-	(37)	(25)
Net financial result	**5**	**21**	**43**	**22**	**11**	**9**	**(1)**	**(1)**	**58**	**51**
Government funding	2,136	1,655	-	-	-	-	-	-	2,136	1,655
Housing programs	(2,029)	(1,585)	-	-	-	-	-	-	(2,029)	(1,585)
Premiums and fees earned	-	-	7	5	201	194	-	-	208	199
Operating expenses	(123)	(71)	(39)	(45)	(16)	(19)	-	-	(178)	(135)
Other income	3	-	4	(2)	3	3	-	-	10	1
Self-insurance service income	-	-	6	2	-	-	-	-	6	2
Income before income taxes	**4**	**8**	**231**	**256**	**203**	**191**	**3**	**5**	**441**	**460**
Income taxes	(2)	(2)	(55)	(64)	(52)	(48)	(1)	(1)	(110)	(115)
Net income	**2**	**6**	**176**	**192**	**151**	**143**	**2**	**4**	**331**	**345**
Total revenues and government funding[2]	2,156	1,664	264	299	219	210	3	5	2,642	2,178
Less Inter-segment income (loss)[1]	2	1	1	1	(6)	(7)	3	5	-	-
External revenues and government funding	2,154	1,663	263	298	225	217	-	-	2,642	2,178

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

- *Assisted Housing recognizes interest income from investing in holdings of CMB;*
- *Mortgage Insurance recognizes investment income from investing in holdings of CMB; and*
- *Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.*

[2] *Includes net interest income (loss), insurance service result, net financial result, government funding, premiums and fees earned and other income.*

As at 31 March 2023 and 31 December 2022	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2023	2022	2023	2022 (restated)	2023	2022	2023	2022	2023	2022 (restated)
Assets										
Cash and cash equivalents	1,819	2,070	617	576	149	3	-	-	2,585	2,649
Securities purchased under resale agreements	450	650	-	-	-	-	-	-	450	650
Accrued interest receivable	68	88	100	88	1,174	704	(5)	(2)	1,337	878
Investment securities:										
Fair value through profit or loss	33	33	103	100	-	-	-	-	136	133
Fair value through other comprehensive income	-	-	15,338	15,074	3,629	3,442	(464)	(473)	18,503	18,043
Amortized cost	3,856	4,095	-	-	-	-	(516)	(517)	3,340	3,578
Derivatives	-	-	32	-	-	-	-	-	32	-
Due from the Government of Canada	938	-	-	-	-	-	-	-	938	-
Loans:										
Fair value through profit or loss	455	455	16	14	-	-	-	-	471	469
Amortized cost	10,283	9,807	50	48	264,852	259,352	-	-	275,185	269,207
Accounts receivable and other assets	(99)	(49)	731	746	89	244	-	-	721	941
Investment property	402	402	-	-	-	-	-	-	402	402
Defined benefit plans asset	116	91	147	120	9	7	-	-	272	218
	18,321	**17,642**	**17,134**	**16,766**	**269,902**	**263,752**	**(985)**	**(992)**	**304,372**	**297,168**
Liabilities										
Accounts payable and other liabilities	1,016	591	83	85	10	31	-	-	1,109	707
Accrued interest payable	97	124	-	-	1,157	696	(5)	(2)	1,249	818
Dividends payable	-	-	250	-	145	-	-	-	395	-
Derivatives	39	41	-	46	-	-	-	-	39	87
Insurance contract liabilities	-	-	6,431	6,405	-	-	-	-	6,431	6,405
Due to Government of Canada	-	6	-	-	-	-	-	-	-	6
Borrowings:										
Fair value through profit or loss	358	374	-	-	-	-	-	-	358	374
Amortized cost	15,697	15,424	-	-	264,852	259,352	(991)	(1,006)	279,558	273,770
Defined benefit plans liability	73	69	92	91	6	6	-	-	171	166
Unearned premiums and fees	-	-	225	214	2,381	2,390	-	-	2,606	2,604
Deferred income tax liabilities	169	167	172	155	(37)	(54)	1	2	305	270
	17,449	**16,796**	**7,253**	**6,996**	**268,514**	**262,421**	**(995)**	**(1,006)**	**292,221**	**285,207**
Equity of Canada	**872**	**846**	**9,881**	**9,770**	**1,388**	**1,331**	**10**	**14**	**12,151**	**11,961**
	18,321	**17,642**	**17,134**	**16,766**	**269,902**	**263,752**	**(985)**	**(992)**	**304,372**	**297,168**

[1] *The balance sheet eliminations remove inter-segment holdings of CMB and inter-segment receivables/payables.*

6. Government Funding and Housing Programs Expenses

We used government funding to administer the following housing programs and operating expenses, as shown by core responsibility.

	Three months ended 31 March	
(in millions)	**2023**	**2022**
Assistance for housing needs	1,497	1,506
Financing for housing	471	119
Housing expertise and capacity development	65	50
Total	**2,033**	**1,675**
Net change in government funding deferred in the period	103	(20)
Total government funding recognized [1,2]	**2,136**	**1,655**

[1] *Includes recoveries of operating expenses of $114 million and expected credit loss (gain) of ($7) million for the three months ended 31 March 2023 (three months ended 31 March 2022 – $65 million and $5 million, respectively).*

[2] *Total government funding recognized does not include gains resulting from below market rate funds borrowed under the Crown Borrowing Program, which are recognized in net gains (losses) on financial instruments. These gains totalled $15 million for the three months ended 31 March 2023 (three months ended 31 March 2022 – $35 million).*

The following table presents the change in the due from (to) the Government of Canada account. The outstanding balance as at 31 March 2023 is mainly composed of housing programs expenses incurred but not yet reimbursed.

	As at	
(in millions)	**31 March 2023**	**31 December 2022**
Balance at beginning of the year	(6)	363
Total government funding	2,033	3,804
Government funding received during the period	(1,227)	(3,872)
Third party remittances from (owing to) the Government of Canada	(11)	(2)
Balance at end of period before prior/future period adjustments	789	293
One-time top-up to the Canada Housing Benefit advances	150	(263)
Net change in prior period adjustments	(1)	(36)
Balance at end of period	938	(6)

7. Mortgage Insurance

Overview of insurance contracts

The following table presents the insurance contract liabilities by portfolio at period end.

	As at	
(in millions)	**31 March 2023**	**31 December 2022**
Insurance contracts		
Transactional homeowner	3,042	3,082
Portfolio	133	148
Multi-unit residential	3,256	3,175
Total insurance contract liabilities	6,431	6,405

Insurance revenue

The following table presents the breakdown of insurance revenue recognized in the period.

	Three months ended 31 March	
(in millions)	**2023**	**2022**
Amounts relating to changes in the liability for remaining coverage		
CSM recognized for services provided	154	125
Change in the risk adjustment for non-financial risk	31	38
Expected incurred claims and other insurance expenses	36	46
Recovery of insurance acquisition cash flows	9	5
Total insurance revenue	**230**	**214**

Insurance finance expenses

The following table presents the net financial result, specifically the relationship between insurance finance expenses and investment returns on assets.

	Three months ended 31 March	
(in millions)	**2023**	**2022**
Investment income	100	73
Net gains (losses) on financial instruments	(20)	(26)
Amounts recognized in other comprehensive income	271	(664)
Total investment return	**351**	**(617)**
Interest accreted on insurance contracts using locked-in rate	(37)	(25)
Impact of changes in interest rates in other comprehensive income	(49)	133
Total finance (expense) income from insurance contracts	(86)	108
Total net financial result	**265**	**(509)**
Represented by:		
Amounts recognized in net income before income taxes	**43**	**22**
Amounts recognized in OCI before income taxes	**222**	**(531)**

Insurance contracts by remaining coverage and incurred claims

The following tables present the reconciliation of insurance contract liabilities by LRC and LIC.

	Three months ended 31 March 2023		
(in millions)	LRC	LIC	Total
Insurance contract liabilities at beginning of year	**6,229**	**176**	**6,405**
Insurance revenue			
Contracts under the fair value approach	(131)	-	(131)
Other contracts	(99)	-	(99)
	(230)	**-**	**(230)**
Insurance service expenses			
Incurred claims and other insurance expenses	-	35	35
Amortization of insurance acquisition cash flows	9	-	9
Changes to the liabilities for incurred claims	-	(24)	(24)
	9	**11**	**20**
Insurance service result	**(221)**	**11**	**(210)**
Insurance finance expenses	85	1	86
Total changes in the statement of income and comprehensive income before income taxes	**(136)**	**12**	**(124)**
Cash flows			
Premiums received	250	-	250
Claims and other insurance service expense paid[1]	-	(21)	(21)
Insurance acquisition cash flows	(79)	-	(79)
Total cash flows	**171**	**(21)**	**150**
Insurance contract liabilities at end of period	**6,264**	**167**	**6,431**

[1] *Includes $2 million of claims administration expense, $*8 million *of initial provision for properties that we obtained in the year through default management activities, and excludes $*8 *million of losses on subsequent disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.*

	Twelve month ended 31 December 2022		
(in millions)	LRC	LIC	Total
Insurance contract liabilities at beginning of year	**5,749**	**383**	**6,132**
Insurance revenue			
Contracts under the fair value approach	(586)	-	(586)
Other contracts	(281)	-	(281)
	(867)	**-**	**(867)**
Insurance service expenses			
Incurred claims and other insurance expenses	-	225	225
Amortization of insurance acquisition cash flows	24	-	24
Changes to the liabilities for incurred claims	-	(355)	(355)
	24	**(130)**	**(106)**
Insurance service result	**(843)**	**(130)**	**(973)**
Insurance finance expenses (income)	(122)	2	(120)
Total changes in the statement of income and comprehensive income before income taxes	**(965)**	**(128)**	**(1,093)**
Cash flows			
Premiums received	1,567	-	1,567
Claims and other insurance service expense paid[1]	-	(79)	(79)
Insurance acquisition cash flows	(122)	-	(122)
Total cash flows	**1,445**	**(79)**	**1,366**
Insurance contract liabilities at end of period	**6,229**	**176**	**6,405**

[1] *Includes* $9 million *of claims administration expense, $26 million of initial provision for properties that we obtained in the year through default management activities, and excludes* $20 million *of losses on disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.*

As at 31 March 2023 there were nil loss components (31 December 2022 – nil).

Insurance contracts by measurement components

The following tables present the reconciliation of insurance contract liabilities by measurement component.

	Three months ended 31 March 2023				
			CSM		
(in millions)	**Present value of future cash flows**	**Risk adjustment for non-financial risk**	***Contracts under the fair value approach***	***Other contracts***	**Total**
Insurance contract liabilities at beginning of year	**1,038**	**820**	**2,597**	**1,950**	**6,405**
Changes that relate to current services					
CSM recognized for services provided	-	-	(83)	(71)	(154)
Change in the risk adjustment for non-financial risk	-	(26)	-	-	(26)
Experience adjustments	(6)	-	-	-	(6)
Changes that relate to future services					
Contracts initially recognized in the period	(165)	50	-	115	-
Changes in estimates that adjust the CSM	(48)	(31)	42	37	-
Changes that relate to past services					
Changes to the liabilities for incurred claims	(17)	(7)	-	-	(24)
Insurance service result	**(236)**	**(14)**	**(41)**	**81**	**(210)**
Insurance finance expenses	33	28	13	12	86
Total changes in the statement of income and comprehensive income before income taxes	**(203)**	**14**	**(28)**	**93**	**(124)**
Cash flows					
Premiums received	250	-	-	-	250
Claims and other insurance service expense paid[1]	(21)	-	-	-	(21)
Insurance acquisition cash flows	(79)	-	-	-	(79)
Total cash flows	**150**	**-**	**-**	**-**	**150**
Insurance contract liabilities at end of period	**985**	**834**	**2,569**	**2,043**	**6,431**

[1] *Includes $2 million of claims administration expense, $8 million of initial provision for properties that we obtained in the year through default management activities, and excludes $8 million of losses on disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.*

	Twelve months ended 31 December 2022				
			CSM		
(in millions)	Present value of future cash flows	Risk adjustment for non-financial risk	*Contracts under the fair value approach*	*Other contracts*	Total
Insurance contract liabilities at beginning of year	**1,268**	**976**	**2,704**	**1,184**	**6,132**
Changes that relate to current services					
CSM recognized for services provided	-	-	(332)	(214)	(546)
Change in the risk adjustment for non-financial risk	-	(94)	-	-	(94)
Experience adjustments	22	-	-	-	22
Changes that relate to future services					
Contracts initially recognized in the period	(1,254)	176	-	1,078	-
Changes in estimates that adjust the CSM	(33)	(17)	178	(128)	-
Changes that relate to past services					
Changes to the liabilities for incurred claims	(228)	(127)	-	-	(355)
Insurance service result	**(1,493)**	**(62)**	**(154)**	**736**	**(973)**
Insurance finance expenses (income)	(103)	(94)	47	30	(120)
Total changes in the statement of income and comprehensive income before income taxes	**(1,596)**	**(156)**	**(107)**	**766**	**(1,093)**
Cash flows					
Premiums received	1,567	-	-	-	1,567
Claims and other insurance service expense paid[1]	(79)	-	-	-	(79)
Insurance acquisition cash flows	(122)	-	-	-	(122)
Total cash flows	**1,366**	**-**	**-**	**-**	**1,366**
Insurance contract liabilities at end of year	**1,038**	**820**	**2,597**	**1,950**	**6,405**

[1] *Includes $9 million of claims administration expense, $26 million of initial provision for properties that we obtained in the year through default management activities, and excludes $20 million of losses on disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.*

Effect of new business recognized in the period

The following table presents effects of insurance contracts initially recognized in the period.

(in millions)	Three month ended 31 March 2023 Non-Onerous	Twelve month ended 31 December 2022 Non-Onerous
Estimates of the present value of future cash outflows, excluding insurance acquisition cash flows	49	187
Estimates of insurance acquisition cash flows	24	122
Estimate of the present value of future cash outflows	73	309
Estimate of the present value of future cash inflows	(238)	(1,563)
Risk adjustment for non-financial risk	50	176
CSM	115	1,078

Contractual service margin

The following table presents when the CSM is expected to be recognized into income in future years.

(in millions)	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Insurance contracts	575	1,501	1,088	1,448

Self-insurance products and other application fees

The following table presents the composition of premiums and fees earned for our self-insurance product and other application fees.

	Three months ended 31 March	
(in millions)	**2023**	**2022**
Earned premiums	6	4
Earned application fees[1]	1	1
Total	**7**	**5**

[1] *Includes low loan-to-value transactional homeowner applications fees which are earned when received and application fees earned on our self-insurance product.*

The following table presents the changes in the unearned premiums and fees balance for our self-insured products.

	As at	
(in millions)	**31 March 2023**	**31 December 2022**
Balance at beginning of year	214	137
Premiums and fees deferred on self-insured products in the period	17	92
Premiums and fees earned on self-insured products in the period	(6)	(15)
Balance at end of period	**225**	**214**

8. Mortgage Funding

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 and under the Insured Mortgage Purchase Program (IMPP) 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, consisting primarily of insured mortgage loans, under each of the programs.

At the balance sheet date, we have not received a claim, nor do we expect to receive a claim, in excess of the unearned guarantee fee 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.

	As at					
	31 March 2023			31 December 2022		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of year	1,809	581	2,390	1,617	567	2,184
TPG and application fees received in the period	149	43	192	798	164	962
TPG and application fees earned in the period	(163)	(38)	(201)	(606)	(150)	(756)
Balance at end of period	**1,795**	**586**	**2,381**	**1,809**	**581**	**2,390**

9. Capital Management

For capital management, we consider our capital available to be equal to the total equity of Canada less regulatory deductions.

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 to follow prudent business practices and guidelines existing in the private sector as appropriate. We voluntarily follow guidelines set out by 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 this, we also meet 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 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 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 us 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 our needs for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. We declared dividends of $395 million during the three months ended 31 March 2023, which remained payable as at 31 March 2023 (three months ended 31 March 2022 – $995 million declared which remained payable as at 31 March 2022).

The components of consolidated capital available are presented in the following table.

	As at	
(in millions)	**31 March 2023**	**31 December 2022 (restated)[3]**
Contributed capital	25	25
Accumulated other comprehensive income	(513)	(725)
Reserve fund	28	17
Appropriated retained earnings	10,531	11,004
Unappropriated retained earnings[1]	2,080	1,640
Total equity of Canada[2]	**12,151**	**11,961**
Less: regulatory deductions	(203)	(185)
Total capital available	**11,948**	**11,776**

[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.*

[3] *On transition to IFRS 17, total equity of Canada decreased by $6 million.*

Mortgage Insurance capital

The following table presents the components of capital available.

	As at	
(in millions, unless otherwise indicated)	**31 March 2023**	**31 December 2022 (restated)**
Appropriated capital[1]	9,068	9,039
Unappropriated capital	813	731
Total Mortgage Insurance capital	**9,881**	**9,770**
Less: regulatory deductions	(203)	(185)
Total Mortgage Insurance capital available	**9,678**	**9,585**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)[2]	176%	175%

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

[2] *On transition to IFRS 17, unappropriated capital decreased by $6 million which has not impacted the MICAT ratio.*

Mortgage Funding capital

Mortgage Funding capital is appropriated primarily for the guarantees provided by our NHA MBS and CMB programs. There is no regulatory capital and the appropriated amount of capital is based on the economic capital methodology as outlined in the most recent annual report. The Board approved a reduction of the economic capital required (total asset required at 110%) from $2.7 billion to $1.8 billion, effective 1 January 2023, which compares to $3.8 billion of assets available as at 31 March 2023 (31 December 2022 – $3.7 billion assets available). These amounts exclude assets and liabilities related to IMPP. Appropriated capital is determined by deducting unearned guarantee and application fees from the total asset required, subject to a minimum liquidity requirement.

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**31 March 2023**	**31 December 2022**
Appropriated capital	893	1,177
Unappropriated capital	495	154
Total Mortgage Funding capital available	**1,388**	**1,331**
Economic capital available to capital required[1]	114%	112%

[1] *In 2023, the capital required in the Mortgage Funding ratio has been updated to consider the minimum liquidity requirement resulting in a decrease of 37 percentage point in our 2022 comparative ratio.*

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act, to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. Lending programs' earnings are retained in this reserve fund except for the unrealized fair value fluctuations as well as remeasurement gains and losses on defined benefit plans. The reserve fund is subject to a statutory limit of $240 million (2022 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should we exceed the statutory limit, we would be required to pay the excess to the Government. Aside from the reserve fund, we do not hold capital for our Assisted Housing activities, as they do not present material financial risks for us that we do not already otherwise mitigate.

The following table presents the components of the capital available.

	As at	
(in millions)	**31 March 2023**	**31 December 2022**
Reserve fund[1]	37	23
Retained earnings	810	798
Total Lending programs capital available	**847**	**821**

[1] *Includes the impact of eliminations of $9 million (2022 - $6 million).*

Housing programs

We do not hold additional capital for Housing programs as this activity does not present risks that would require us to set capital 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.

Level 2: Assets and liabilities that are measured based on observable inputs other than Level 1 prices. Level 2 inputs include prices obtained from markets that are not considered sufficiently active, and fair values obtained by discounting expected future cash flows, making maximum use of directly or indirectly observable market data.

Level 3: Assets and liabilities not quoted in active markets that are measured using valuation techniques. 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.

We have processes and controls in place to ensure fair value is appropriately measured. The valuation of financial instruments is performed by the Systems and Analytics Division (SAD) of the Investments and Treasury group. SAD has developed models and methodologies to determine fair value of financial instruments not quoted in active markets which are reviewed and monitored on an ongoing basis. All valuations are subject to independent price verification (IPV) managed by the sector of the Chief Risk Officer. IPV is a process where valuations are independently verified against external market prices and other relevant market data on an ongoing basis.

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.

For investment property, fair value is determined by independent external property appraisers who hold recognized and relevant professional qualifications and have recent relevant experience and our internal appraisers on a rotating basis.

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 2023			31 December 2022		
(in millions)	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Financial assets[1]						
Investments at amortized cost[2]	3,340	3,255	(85)	3,578	3,464	(114)
Loans at amortized cost[3]	275,185	264,653	(10,532)	269,207	254,629	(14,578)
Financial liabilities						
Borrowings at amortized cost[4]	279,558	269,025	(10,533)	273,770	258,915	(14,855)

1 *Does not include cash and cash equivalents of $1,691 million (31 December 2022 - $1,924 million) and securities purchased under resale agreements of $450 million (31 December 2022 – $650 million) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

2 *$485 million (31 December 2022 – $608 million) fair value categorized as Level 1 and $2,770 million (31 December 2022 - $2,856 million) fair value categorized as Level 2.*

3 *$259,601 million (31 December 2022 – $250,204 million) fair value categorized as Level 2, $5,052 million (31 December 2022 – $4,425 million) fair value categorized as Level 3.*

4 *$184,538 million (31 December 2022 – $156,522 million) fair value categorized as Level 1, $84,487 million (31 December 2022 – $102,393 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 2023				31 December 2022			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	232	-	232	-	240	-	240
Federal government issued	652	-	-	652	183	262	-	445
Corporate/other entities	-	10	-	10	-	40	-	40
Total cash equivalents	652	242	-	894	183	542	-	725
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	20	-	20	-	22	-	22
Provinces/municipalities	-	25	-	25	-	25	-	25
Sovereign and related entities	-	8	-	8	-	8	-	8
Equities								
Limited partnership units	-	-	83	83	-	-	78	78
Total at FVTPL	-	53	83	136	-	55	78	133
FVOCI								
Debt instruments								
Corporate/other entities	2,083	5,089	-	7,172	2,110	5,106	-	7,216
Federal government issued	7,327	596	-	7,923	7,057	618	-	7,675
Provinces/municipalities	2,237	851	-	3,088	2,421	515	-	2,936
Sovereign and related entities	239	81	-	320	122	94	-	216
Total at FVOCI	11,886	6,617	-	18,503	11,710	6,333	-	18,043
Loans designated at FVTPL	-	102	-	102	-	112	-	112
Loans mandatorily at FVTPL	-	12	357	369	-	13	344	357
Derivatives	-	32	-	32	-	-	-	-
Investment property	-	-	402	402	-	-	402	402
Total assets carried at fair value	**12,538**	**7,058**	**842**	**20,438**	**11,893**	**7,055**	**824**	**19,772**
Liabilities								
Borrowings designated at FVTPL	-	(358)	-	(358)	-	(374)	-	(374)
Derivatives	-	(6)	(33)	(39)	-	(53)	(34)	(87)
Total liabilities carried at fair value	**-**	**(364)**	**(33)**	**(397)**	**-**	**(427)**	**(34)**	**(461)**
Net assets at FVTPL	**12,538**	**6,694**	**809**	**20,041**	**11,893**	**6,628**	**790**	**19,311**

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 each balance sheet date. Transfers are dependent on internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three months ended 31 March 2023, there were $451 million of transfers from Level 2 to Level 1 and $998 million of transfers from Level 1 to Level 2 (31 March 2022 – $567 million and $2,498 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	Derivatives	Total
Fair value as at 1 January 2023	78	344	402	(34)	790
Purchases/issuances	-	19	-	-	19
Net gains (losses) in profit or loss[1,2]	6	(1)	-	1	6
Cash receipts on settlements/disposals	(1)	(5)	-	-	(6)
Fair value as at 31 March 2023	**83**	**357**	**402**	**(33)**	**809**
Fair value as at 1 January 2022	79	298	314	(31)	660
Purchases/issuances	3	86	-	-	89
Net gains (losses) in profit or loss[1,2]	1	2	88	(3)	88
Cash receipts on settlements/disposals	(5)	(42)	-	-	(47)
Fair value as at 31 December 2022	**78**	**344**	**402**	**(34)**	**790**

1 *Included in net gains (losses) on financial instruments for investment securities, loans and derivatives; 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 valuation of instruments 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 2023, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 31 March 2023 did not materially change from 31 December 2022. 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 2022.

11. Investment Securities

Credit quality

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an expected credit loss (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 2023						31 December 2022					
(in millions)	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Lower than BBB-	Total	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Lower than BBB-	Total
Investment securities[1]												
FVOCI	8,786	3,670	3,710	2,268	69	18,503	7,972	3,962	3,801	2,238	70	18,043
Amortized cost	1,437	1,615	288	-	-	3,340	1,410	1,664	504	-	-	3,578

1 *The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by 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 and amortized cost was $9 million at 31 March 2023 (31 December 2022 – $14 million) with a corresponding gain of $5 million recognized in net gains (losses) on financial instruments during the three months ended 31 March 2023 (three months ended 31 March 2022 – $1 million gain).

12. Loans

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

	Three months ended 31 March 2023								
		Cash flows		Non-cash changes					
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	Balance at end of period
FVTPL									
Lending programs	455	(13)	16	-	-	-	-	(3)	455
MI Activity loans	14	(2)	4	-	-	-	-	-	16
Total at FVTPL	**469**	**(15)**	**20**	**-**	**-**	**-**	**-**	**(3)**	**471**
Amortized cost									
CMB program loans	255,903	(4,644)	10,235	-	11	-	-	-	261,505
Lending programs	9,807	(166)	630	(12)	-	3	18	3	10,283
IMPP loans	3,449	(102)	-	-	-	-	-	-	3,347
MI Activity loans	48	(7)	-	-	7	2	-	-	50
Total amortized cost	**269,207**	**(4,919)**	**10,865**	**(12)**	**18**	**5**	**18**	**3**	**275,185**
Total	**269,676**	**(4,934)**	**10,885**	**(12)**	**18**	**5**	**18**	**-**	**275,656**

[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.*

	Twelve months ended 31 December 2022								
		Cash flows		Non-cash changes					
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	Balance at end of period
FVTPL									
Lending programs	480	(61)	65	(5)	-	-	-	(24)	455
MI Activity loans	20	(25)	19	-	-	-	-	-	14
Total at FVTPL	500	(86)	84	(5)	-	-	-	(24)	469
Amortized cost									
CMB program loans	260,587	(44,848)	40,119	-	45	-	-	-	255,903
Lending programs	7,897	(589)	2,436	(3)	-	(5)	47	24	9,807
IMPP loans	4,234	(785)	-	-	-	-	-	-	3,449
MI Activity loans	63	(36)	2	-	6	13	-	-	48
Total amortized cost	272,781	(46,258)	42,557	(3)	51	8	47	24	269,207
Total	273,281	(46,344)	42,641	(8)	51	8	47	-	269,676

[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 2022 – 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 and IMPP.

Expected credit losses

Total undrawn loan commitments outstanding at 31 March 2023 were $8,581 million (31 December 2022 – $8,885 million), of which $8,076 million are subject to 12-month ECL (31 December 2022 – $8,362 million) and $1 million (31 December 2022 – $2 million) are commitments outstanding on purchased or originated credit impaired loans.

At 31 March 2023, the ECL on undrawn loan commitments was $9 million (31 December 2022 – $15 million), and the ECL on loans was $67 million (31 December 2022 – $72 million). We recognize changes in ECL in net gains (losses) on financial instruments.

13. Borrowings

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

		Three months ended 31 March 2023					
		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
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	374	-	(19)	3	-	-	358
Amortized cost							
Canada mortgage bonds	254,897	10,232	(4,644)	-	11	18	260,514
Borrowings from the Government of Canada – Lending programs	15,424	1,580	(1,308)	(15)	16	-	15,697
Borrowings from the Government of Canada – IMPP	3,449	-	(102)	-	-	-	3,347
Total amortized cost	**273,770**	**11,812**	**(6,054)**	**(15)**	**27**	**18**	**279,558**
Total	**274,144**	**11,812**	**(6,073)**	**(12)**	**27**	**18**	**279,916**

		Twelve months ended 31 December 2022					
		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
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	475	-	(80)	(21)	-	-	374
Amortized cost							
Canada mortgage bonds	259,714	40,081	(44,520)	-	45	(423)	254,897
Borrowings from the Government of Canada – Lending programs	11,921	13,794	(10,168)	(175)	52	-	15,424
Borrowings from the Government of Canada – IMPP	4,234	-	(785)	-	-	-	3,449
Total amortized cost	**275,869**	**53,875**	**(55,473)**	**(175)**	**97**	**(423)**	**273,770**
Total	**276,344**	**53,875**	**(55,553)**	**(196)**	**97**	**(423)**	**274,144**

When we hold CMB to maturity or acquire CMB in the primary market, we exclude the related cash flows from the consolidated statement of cash flows. During the three months ended 31 March 2023, we have excluded nil (three months ended 31 March 2022 – nil) of CMB maturities from repayments in the previous table and from investment securities – sales and maturities in the consolidated statement of cash flows. We have also excluded during the three months ended 31 March 2023 $3 million (three months ended 31 March 2022 – $6 million) of CMB purchases in the primary market from issuances in the previous table and from investment securities – purchases in the consolidated statement of cash flows.

Borrowing authorities

The Minister of Finance approves our Borrowing Plan annually and establishes limits and parameters for borrowings, namely capital market borrowings and borrowings from the Government of Canada in the Assisted Housing and Mortgage Funding activities.

For 2023, the limits on our short-term borrowings outstanding and long-term borrowings issued are $6.5 billion and $6.5 billion, respectively (31 December 2022 – $6.0 billion and $6.5 billion). Actual short-term borrowings outstanding as at 31 March 2023 were $461 million (31 December 2022 – $395 million). Actual long-term borrowings issued in the three months ended 31 March 2023 were $470 million (three months ended 31 March 2022 –$856 million).

14. Financial instruments income and expenses

Gains and losses from financial instruments

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

	Three months ended 31 March	
(in millions)	**2023**	**2022 (restated)**
Financial instruments designated at FVTPL		
Loans	1	(3)
Borrowings	(3)	12
Total financial instruments designated at FVTPL	**(2)**	**9**
Financial instruments mandatorily at FVTPL		
Equity securities	6	3
Derivatives	5	49
Loans	(1)	(14)
Total financial instruments mandatorily at FVTPL	**10**	**38**
Debt instruments held at FVOCI[1]	(43)	(79)
Loans – amortized cost	(17)	(6)
Borrowings – amortized cost[2]	15	35
Expected credit recoveries (losses) on financial assets	16	(3)
Total	**(21)**	**(6)**

[1] *Includes a foreign exchange loss of $5 million (three months ended 31 March 2022 – loss $48 million) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes gains from the issuance of borrowings of $15 million (three months ended 31 March 2022 – $35 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. Despite changes in economic and market conditions, there were no material changes to our assessment and management of market risk in the three months ended 31 March 2023.

Currency risk

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 $4,110 million in debt instruments denominated in U.S. dollars as at 31 March 2023 (31 December 2022 – $4,060 million), which we present as investment securities at FVOCI or at FVTPL.

Value at risk (VaR)

We evaluate market risk for investment securities in the Mortgage Insurance and Mortgage Funding Activities 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 following table. The VaR figures are based on one year of historical prices and correlations of bond markets and 26 weeks of volatility.

	As at	
(in millions)	**31 March 2023**	**31 December 2022**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	264	265
USD-denominated securities	95	83
Effect of diversification	(8)	(8)
Total VaR	**351**	**340**

Interest rate sensitivity

We evaluate market risk for the Assisted Housing Activity portfolio of loans, investments, borrowings and swaps 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 200 bps shift in interest rates on fair value as immaterial as at 31 March 2023 after accounting for derivatives.

The Assisted Housing Activity's financial instruments measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value as at 31 March 2023 is presented in the following table.

	As at			
	31 March 2023		**31 December 2022**	
	Interest rate shift		**Interest rate shift**	
(in millions)	**-200 bps**	**+200 bps**	**-200 bps**	**+200 bps**
Increase (decrease) in fair value of net assets[1]	(795)	651	(774)	631

[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.*

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. We disclose full descriptions of credit risks related to our financial instruments and how we manage those risks in Note 19 of our audited consolidated financial statements for the year ended 31 December 2022. There has been no significant change in the nature of the risks and how we manage them in the three month period ended 31 March 2023.

17. Pension and Other Post-Employment Benefits

The following table presents the expenses, remeasurements and contributions for the defined benefit plans.

	Three months ended 31 March			
	Pension plans		Other post-employment plans	
(in millions)	2023	2022	2023	2022
Current service cost	11	15	-	-
Net interest expense	(3)	-	1	1
Expense recognized in net income	**8**	**15**	**1**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	(69)	430	(3)	17
Return on plan assets, excluding amounts included in net interest expense	121	(146)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**52**	**284**	**(3)**	**17**
CMHC's contributions[2]	8	17	1	1
Employee contributions	5	5	-	-
Total contributions	**13**	**22**	**1**	**1**

1 *We remeasure the defined benefit plans quarterly for changes in the discount rate and for actual asset returns. All other actuarial assumptions are updated at least annually.*

2 *Includes solvency payments of nil for the three months ended 31 March 2023 (three months ended 31 March 2022 - $9 million).*

We determine the discount rate in accordance with guidance issued by the Canadian Institute of Actuaries by reference to Canadian AA-rated corporate bonds with terms to maturity approximating the duration of the obligation. The discount rate we used to remeasure the defined benefit obligations at 31 March 2023 was 4.9% (31 December 2022 – 5.1%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	2023	2022 (restated)
Current income tax expense	106	106
Deferred income tax relating to origination and reversal of temporary differences	4	9
Total income tax expense included in net income	**110**	**115**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized gains (losses) from FVOCI financial instruments	75	(194)
Reclassification of prior years' net unrealized gains realized in the period in net income	7	-
Insurance finance (expense) income for insurance contracts issued	(12)	33
Remeasurement gains on defined benefit plans	7	47
Total income tax expense (recovery) included in other comprehensive income (loss)	**77**	**(114)**
Total	**187**	**1**

The following tables present the tax-effected temporary differences which result in deferred income tax assets and liabilities.

(in millions)	As at December 31, 2022 (restated)	Change through consolidated net income	Change through consolidated OCI	Change through consolidated retained earnings	As at March 31 2023
Deferred income tax assets					
Net realized losses on borrowings	18	(1)	-	-	17
Total deferred income tax assets	**18**	**(1)**	**-**	**-**	**17**
Deferred income tax liabilities					
Fair value of financial instruments	10	(16)	(27)	-	(33)
Post-employment benefits	(6)	(1)	(7)	-	(14)
Insurance contract liabilities	(154)	15	-	-	(139)
Fair value of investment properties	(93)	(1)	-	-	(94)
Other	(45)	-	-	3	(42)
Total deferred income tax liabilities	**(288)**	**(3)**	**(34)**	**3**	**(322)**
Net deferred income tax assets (liabilities)	**(270)**	**(4)**	**(34)**	**3**	**(305)**

(in millions)	As at January 1, 2022 (restated)	Change through consolidated net income	Change through consolidated OCI	Change through consolidated retained earnings	As at December 31, 2022 (restated)
Deferred income tax assets					
Fair value of financial instruments	(53)	(21)	84	-	10
Net realized losses on borrowings	23	(5)	-	-	18
Total deferred income tax assets	**(30)**	**(26)**	**84**	**-**	**28**
Deferred income tax liabilities					
Post-employment benefits	46	3	(55)	-	(6)
Insurance contract liabilities	(175)	82	(61)	-	(154)
Fair value of investment properties	(71)	(22)	-	-	(93)
Other	(38)	(5)	-	(2)	(45)
Total deferred income tax liabilities	**(238)**	**58**	**(116)**	**(2)**	**(298)**
Net deferred income tax assets (liabilities)	**(268)**	**32**	**(32)**	**(2)**	**(270)**

The deferred income tax assets have been recognized in full as it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

19. Related Party Transactions

We defer and amortize the Government fees paid in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. In Mortgage Insurance, these fees will reduce the CSM on initial recognition and are subsequently amortized over the expected coverage period of our insurance contracts with equal offsetting amounts to insurance revenue and insurance service expenses in the period. This amounts to $4 million for the three months ended 31 March 31 2023 (three months ended 31 March 2022 - $2 million). In Mortgage Funding, these fees, which are recorded in operating expenses, amount to $8 million for the three month period ended 31 March 2023 (three months ended 31 March 2022 – $8 million). All other material related party transactions and outstanding balances are disclosed in relevant notes.

20. Commitments and Contingent Liabilities

As at 31 March 2023, we have $7,142 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years and $374 million in other contractual obligations up to the year 2028 (31 December 2022 - $7,514 million and $379 million, respectively).

We hold the following cash and cash equivalents that are intended for use as part of the respective programs:

	As at	
(in millions)	**31 March 2023**	**31 December 2022**
Affordable Rental Housing Innovation Fund	45	46
Rental Construction Financing initiative (RCFi)	870	694
National Housing Co-Investment Fund (NHCF)	536	643
Direct Lending (DL) – Economically Hedged	232	240
Total	**1,683**	**1,623**

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