CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER
31 March 2020
(Unaudited)

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Management’s Discussion and Analysis

OVERVIEW

The following Management’s Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 20 May 2020 is prepared for the first quarter ended 31 March 2020 and is intended to provide readers with an overview of our performance including comparatives against the same three month period in 2019. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2019 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 2019 Annual Report. As a result of the launch of the Insured Mortage Purchase Program (IMPP) we have disclosed our accounting policy and critical judgment related to the program. The global COVID-19 pandemic has led to additional measurement uncertainty when developing assumptions used in judgments and estimates. Additional information has been included in Note 4 of our unaudited quarterly consolidated financial statements. Except for the matters discussed above, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the first quarter of 2020.

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 2020” 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 2019 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2020

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

COVID-19

Since 31 December 2019, the outbreak of a novel strain of coronavirus, causing the disease specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. The Government of Canada has announced a new set of economic measures to help stabilize the economy during this challenging period.

We and other mortgage insurers are offering tools to lenders that can assist homeowners and multi-unit borrowers who may be experiencing financial difficulty. These include payment deferral, loan re-amortization, capitalization of outstanding interest arrears and other eligible expenses, and special payment arrangements. The Government, through CMHC, is providing increased flexibility for homeowners and multi-unit borrowers facing financial difficulties to defer mortgage payments on CMHC-insured mortgage loans. CMHC will permit lenders to allow payment deferral. Similar flexibility will be provided to housing providers that have direct loans with CMHC should they experience financial difficulty, with the objective of providing a solution that meets their needs.

As a further proactive and coordinated measure to strengthen the financial system and the Canadian economy, the Government launched an Insured Mortgage Purchase Program (IMPP). Further information on the accounting for the IMPP can be found in Note 2 to the unaudited quarterly consolidated financial statements. Under this program, the Government will purchase up to $150 billion of insured mortgage pools through CMHC, of which $5 billion was purchased by 31 March 2020. This will provide long-term stable funding to banks and mortgage lenders, help facilitate continued lending to Canadian consumers and businesses, and add liquidity to Canada's mortgage market. Since the IMPP will be financed through the Crown Borrowing Program, the Minister of Finance has approved increases to our total outstanding short-term and long-term borrowing limits to $20 billion and $154 billion, respectively. In addition, the Minister of Finance increased our NHA MBS and CMB guarantee limits to $295 billion and $60 billion, respectively.

On 20 March 2020, the Minister of Finance announced changes to the eligibility criteria for portfolio insurance to help mortgage lenders access the IMPP. Effective 24 March 2020, low loan-to-value mortgages funded prior to 20 March 2020 with amortization up to 30 years from the date the loan was funded, as well as refinance loans, are eligible until 31 December 2020. As of 31 March 2020, we had approved $1.6 billion of portfolio insurance volumes under these extended eligibility criteria. The Government enabled these measures by raising CMHC's guarantees-in-force and insurance-in-force limits to $750 billion each. These increased limits are only to be in place for a five-year period with the expectation that they will then be decreased.

On 24 April 2020, the Government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses, a program that will provide rent relief for small businesses experiencing financial hardship due to COVID-19. The program will offer forgivable loans to eligible commercial property owners so that they can reduce the rent owed by their impacted small business tenants by at least 75% for the months of April, May and June 2020. We will administer this program on behalf of the Government of Canada and our provincial and territorial partners by providing the forgivable loans to the eligible commercial property owners.

As a result of COVID-19 and the measures being taken nationally to combat the outbreak, there has been a significant increase in employment insurance claims with over 1 million applicants in the month of March 2020 alone. This said, given the measures instituted by the Government of Canada and the deferral of mortgages for those in need by financial institutions, the impacts on mortgage insurance claims will not be known for a number of months and is likely to take longer to be fully realized in our financial results compared to normal economic conditions. Furthermore, due to the rapidly changing environment, we are experiencing increased volatility in our financial results due to re-measurements in our financial instruments, pension obligations, expected credit losses and the provision for claims. The impact to homeowner transactional business cannot be estimated at this time, however, portfolio insurance volumes may increase in subsequent quarters due to the short-term expanded eligibility criteria.

Given our role as Canada's national housing agency, we may take further action to support Canadians through the crisis and subsequently to support the economic recovery. According to our Risk Appetite Framework, our role as a key stabilizing component of the Canadian financial system means we will continue to increase our appetite for risk as we and other institutions absorb the impacts of these events. Additional government responses to the pandemic might require further program changes and risk absorption by CMHC. There can be no assurance of the impact or magnitude of these events on our future financial results. As a result, we have prudently suspended our dividend to conserve our capital to support further action by the Government, through CMHC, should the need arise. At 31 March 2020, our capital position remains strong and our excess capital of $3 billion will serve to buffer future impacts to our capital position.

To support the management of our capital during the crisis, we are performing stress tests and scenario analysis to understand the potential future impacts that may materialize in future periods.

In the event our capital position is significantly impacted, under the Capital and Dividend Policy Framework for Financial Crown Corporations, the Government is prepared to inject capital into CMHC should additional capital be needed to deliver on our public policy mandate. This was further reinforced on 24 March 2020, when the Government approved a $10 billion recapitalization limit for CMHC.

In early-March we enacted our Crisis Readiness Framework (CRF) in order to monitor current developments and provide timely direction with regards to our COVID-19 response. The CRF and its governance structure promote an efficient and effective response while, in times of crisis, our Risk Appetite increases as we focus on system stability.

Our primary focus was, and continues to be, the health and safety of our staff and ensuring the continuity of our operations. Our "Results Only" work philosophy enables our employees to work remotely, minimizing the operational impact of the pandemic on our core activities. We identified essential and critical staff needed to ensure business continuity, and our people leaders continue to monitor staffing levels in these key areas.

Some operational and financial targets as outlined in our 2020-2024 Corporate Plan may not be achieved given the current economic environment, as our stakeholders focus on their response to the global COVID-19 pandemic and due to our increased focus on financial stability.

Economic conditions and housing indicators

The coronavirus pandemic and collapsing oil prices have been significant hits to the Canadian economy. Governments' actions to limit the spread of the virus led to a sudden and severe drop in demand in the economy. Moreover, the supply of goods and services fell as many businesses closed their doors, and cutbacks to expected global economic growth eroded business confidence and export demand. With more than a million jobs lost in Canada, unemployment rose to 7.8 percent by March 2020, and many other households saw cuts to their incomes with curtailed working hours.

Prior to the coronavirus pandemic, Canada's economy had been growing near its potential. It posted annual growth of 1.6 percent in 2019, following a rate of 2.0 percent in 2018. Growth had persisted despite elevated household debt, international trade tensions and low energy prices.

The speed and timing of the economic recovery remains highly uncertain. Renewal of economic growth in our export-oriented economy depends in the first instance on global policies to contain and combat the spread of the virus. Any re-emergence of the virus after its original containment would further undermine confidence, damaging economic prospects. Persistent uncertainty will lead to consumers continuing to curtail overall demand, and risks to financial conditions could rise with concerns about borrowers' liquidity and solvency should they fail to see renewed demand for their products. Compounding this concern is the high level of household debt in Canada, which remained elevated at 176 percent of disposable income at the end of 2019. A return to pre-pandemic economic activity is unlikely until researchers find an effective vaccine.

Governments responded swiftly to offset employment and income losses. For its part, the federal government announced direct support to households and businesses with an estimated cost of $146 billion[1] as of 24 April 2020. In the same month, the Bank of Canada lowered its interest rate to 0.25 percent. The Bank also committed to adding liquidity to financial institutions and supporting key markets.

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[1] *Sourced from PBO's April 28th update to its COVID-19 Analysis. Link here:* https://www.pbo-dpb.gc.ca/en/covid-19

As of the end of April, the impact of this turbulence on housing was just starting to enter reported data. Canada's average MLS® price had reached a record high of $540,821 during the first three months of 2020, a 14 percent increase from the same period in 2019. While MLS® sales and housing starts had risen for the first three months of 2020 compared to the prior year, the impact of the virus will see these numbers fall sharply in the coming months. Following an immediate curtailment in showings of properties for sale, housing sales fell sharply in the last few weeks of March. With actions curtailing construction to limit the spread of the virus, and many municipalities putting processes for obtaining construction-related permits on hold, housing supply will also be held back.

The housing market will face significant downside risks to prices, sales and starts in the short to medium term. As consumer confidence and incomes recover over time, however, renewed economic and population growth will re-establish demand for housing. Lost supply of housing over the near term will therefore need to be reaccelerated in the medium term to ensure long-term affordability in the Canadian housing system.

Federal Budget 2020

The Government was scheduled to release Federal Budget 2020 on 30 March 2020. However, the release has been postponed indefinitely as the government actively responds to the global COVID-19 pandemic.

Progress on the National Housing Strategy

CMHC continues to deliver on Canada's National Housing Strategy (NHS), a 10-year, $55+ billion plan that will give more Canadians a place to call home.

In the first quarter of 2020, CMHC continued delivery of NHS initiatives that launched throughout 2018 and 2019. The NHS initiatives ramp up over the next few periods as our older programs continue to sunset. We also actively examined ways in which we could accelerate the flow of funding for projects under the NHS overall, and worked to simplify the application and approvals processes. We continued the work with provinces and territories to co-develop the Canada Housing Benefit and, to date, we have finalized agreements and action plans with Ontario and two other jurisdictions where agreements have yet to be formally announced, while work is ongoing with the remaining jurisdictions. Progress on the NHS against targets is reported quarterly on our website (www.placetocallhome.ca).

Due to the current COVID-19 pandemic, some modifications to delivery of the NHS have been enacted on a short-term basis, in order to ensure continuity for housing providers and vulnerable populations during this unprecedented time. Of note:

- The launch date for Phase II of the Federal Community Housing initiative has been delayed to 1 September 2020. Eligible housing providers who opted in and who have federally administered operating agreements expiring in the coming months will continue to receive their current level of financial assistance;
- Housing providers may be eligible for up to six (6) months of loan payment deferral (principal and interest) with regards to a CMHC-financed loan in good standing, should they encounter difficulty in making payments due to COVID-related factors, including construction and labour disruptions; and,
- The National Housing Conference, originally scheduled for 12 and 13 May 2020, has been postponed to an undetermined date.

Office of the Superintendent of Financial Institutions (OSFI) guidelines

In light of the COVID-19 situation, most consultations with OSFI have been put on hold. Additionally, the proposed changes to the mortgage rate stress test that were to take effect on 6 April 2020 have been suspended with no new effective date announced.

OSFI has also issued guidance to mortgage insurers with respect to the Mortgage Insurance Capital Adequacy Test for loans that have been approved for deferral by financial institutions. Specifically, loans that were performing and are now being deferred under the new programs are treated as performing loans for capital purposes.

Total Requirements for First-Time Home Buyer Incentive (FTHBI) Mortgages

We implemented the Mortgage Insurer Capital Adequacy Test (MICAT) Total Requirements for FTHBI insured Mortgages Advisory on 1 January 2020. This Advisory complements the MICAT Guideline that was implemented on 1 January 2019 and sets out a new method for calculating the reciprocal of loan-to-value (LTV) ratio. For FTHBI insured mortgages, the reciprocal of LTV ratio is the weighted average of:

- The reciprocal of LTV ratio calculated using the outstanding balance of the loan (current method); and
- The reciprocal of LTV ratio calculated using the sum of the outstanding balance of the loan and the shared equity amount.

There was no material financial impact as a result of implementing this new requirement. Refer to Note 9 – Capital Management of the unaudited quarterly consolidated financial statements for complete disclosure.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) affecting the Corporation can be found in Note 2 of our 2019 audited consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*. In June 2019, the IASB issued an Exposure Draft containing proposed amendments responding to concerns and implementation challenges raised by stakeholders. On 17 March 2020, the IASB tentatively decided on most of the proposals in the Exposure Draft with some changes to address feedback received. The most notable proposed amendment to CMHC is that the IASB has tentatively decided to defer the effective date by two years, to 1 January 2023. We evaluated the entire suite of proposed amendments and except for the deferral, we do not expect them to have a significant impact on our implementation. The IASB expects to issue the amended standard in Q2 2020.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows, adjusted for risk, as well as a contractual service margin and deferred acquisition costs, which will be released over the coverage period. Contractual service margin will represent the difference between the premium received at inception and the present value of the risk-adjusted cash flows (i.e. profit to be earned in the future). If this difference is negative at inception, the insurance contract would be considered onerous and the difference immediately recorded in income. There are also revised presentation and disclosure requirements.

We have a multi-disciplinary team dedicated to analyzing and implementing the new accounting standard, and a detailed project plan is in place. We continue to evaluate where we will need to change our existing accounting and reporting processes and how this could affect our consolidated financial statements.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 31 March 2020 and 31 December 2019	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Total assets	10,632	9,698	19,198	18,586	254,862	249,020	(981)	(1,045)	283,711	276,259
Total liabilities	10,253	9,396	6,629	6,523	252,335	246,735	(936)	(1,008)	268,281	261,646
Total equity of Canada	379	302	12,569	12,063	2,527	2,285	(45)	(37)	15,430	14,613

Our total assets and liabilities increased approximately in line with each other, by $7,452 million (3%) and $6,635 million (3%), respectively. This was driven mainly by the issuance of Canada Mortgage Bonds (CMB) and the purchase of insured mortgage pools under the IMPP in the quarter, which resulted in increases in both loans and borrowings at amortized cost.

Condensed consolidated statements of income and comprehensive income

Three months ended 31 March	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Government funding for housing programs	914	777	-	-	-	-	-	-	914	777
Premiums and fees earned	-	-	335	355	160	138	-	-	495	493
All other income[1]	(3)	12	28	171	21	22	4	4	50	209
Total revenues	**911**	**789**	**363**	**526**	**181**	**160**	**4**	**4**	**1,459**	**1,479**
Housing programs	842	733	-	-	-	-	-	-	842	733
Insurance claims	-	-	122	73	-	-	-	-	122	73
Operating expenses	63	51	69	85	18	16	-	-	150	152
Total expenses	**905**	**784**	**191**	**158**	**18**	**16**	**-**	**-**	**1,114**	**958**
Income taxes	-	-	44	90	41	36	1	1	86	127
Net income	**6**	**5**	**128**	**278**	**122**	**108**	**3**	**3**	**259**	**394**
Other comprehensive income (loss)	71	(26)	377	216	120	38	(10)	(47)	558	181
Comprehensive income	**77**	**(21)**	**505**	**494**	**242**	**146**	**(7)**	**(44)**	**817**	**575**

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

Our total revenues decreased by $20 million (1%) from the same quarter last year mainly due to the net impact of:

- An increase of $137 million (18%) in government funding, driven by an increase in funding for the Federal/Provincial/Territorial Housing Partnership, the National Housing Co-Investment Fund and other NHS initiatives. This is partially offset by decreased funding for older initiatives, mainly Investments in Affordable Housing, which ended in 2019.
- A decrease of $144 million (257%) in net gains (losses) on financial instruments, mainly caused by an increase in our expected credit loss provisions of $91 million due to the economic impacts of COVID-19.
- An increase of $2 million (1%) in premiums and fees earned, driven by a $20 million decrease in earned premiums in the Mortgage Insurance activity due mainly to revised earning patterns, partially offset by an increase of $22 million in earned fees in the Mortgage Funding activity due to pricing changes made in recent years.

Total expenses increased by $156 million (16%) from the same quarter last year mainly due to the net impact of:

- An increase in funding for NHS initiatives as described above, which resulted in higher housing programs expenses.
- An increase of $49 million (67%) in insurance claims, mainly caused by an increase in our provision for claims due to the economic impacts of COVID-19, reflecting an increase in the risk of loss for loans in arrears at 31 March 2020.

Other comprehensive income increased by $377 million (208%) from the same quarter last year mainly due to:

- A decrease in bond yields in the current quarter, compared to a smaller decrease in the first quarter of 2019. This resulted in an increase of $177 million (73%) in net unrealized gains from debt instruments held at fair value through other comprehensive income.
- An increase of $200 million (318%) in remeasurement gains (losses) on defined benefit plans as a result of an increase in the discount rate, partially offset by lower returns on plan assets compared to the lower discount rate used and higher returns on plan assets in the first quarter of 2019. While bond yields have decreased in the quarter, an increase in credit risk spreads due to the economic impacts of COVID-19 have resulted in the higher discount rate used to measure the defined benefit plan obligation.

Financial metrics and ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	Insurance-in-force ($B)		Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid[3]	
	As at		Three months ended							
	31 Mar 2020	**31 Dec 2019**	**31 Mar 2020**	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Transactional homeowner	225	227	15,023	13,893	4,203	3,764	149	130	56	70
Portfolio	112	117	4,222	3,303	1,327	835	7	4	4	3
Multi-unit residential	88	85	36,757	22,485	5,265	2,763	192	89	3	1
Total	**425**	**429**	**56,002**	**39,681**	**10,795**	**7,362**	**348**	**223**	**63**	**74**

[1] *There were no portfolio substitutions units for the three months ended 31 March 2020 (3,766 units and $529 million for the three months ended 31 March 2019).*

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

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

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed $750 billion (2019 – $600 billion). Insurance-in-force decreased by $4 billion (5%) due to lower volumes insured in the current year compared to recent years, and run-off of existing policies-in-force. New loans insured were $10.8 billion, while estimated loan amortization and pay-downs were $34 billion.

Transactional homeowner volumes increased by 1,130 units (8%) primarily due to a strong housing market in the first quarter and increased housing prices. In addition, portfolio unit volumes increased by 919 units (28%) due to an uptake by lenders. Multi-unit residential volumes increased by 14,272 units (63%) with multi-unit refinancing representing most of the increase as many borrowers refinanced to benefit from the lower interest rates. Insured dollars for these products increased by $3.4 billion (47%) driven by the increase in units, as noted above, and higher property values.

Higher volumes in multi-unit and homeowner products account for the majority of the $125 million (56%) increase in total premiums and fees received.

(in percentages)	Three months ended 31 March 2020	31 March 2019
Loss ratio[1]	36.5	20.6
Operating expense ratio	20.6	24.0
Combined ratio	57.1	44.6
Severity ratio	28.8	29.3
Return on equity	4.2	9.1
Return on required equity	4.9	10.2

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 38.0% for the three months ended 31 March 2020 (23.9% for the three months ended 31 March 2019).*

The loss ratio increased due to higher insurance claims expenses, as a result of expected weaker economic conditions and higher unemployment rates, combined with lower earned premiums and fees due to revised earnings patterns.

The operating expense ratio decreased due to a decrease in operating expenses, mostly attributable to lower salaries and professional fees.

The severity ratio decreased by 0.5 percentage points due to lower claims as a percentage of insured loan amount, driven by stronger sales proceeds.

Lower net income due to lower earned premiums, higher expected credit losses and higher claims expense caused a decrease in the return on equity by 4.9 percentage points. These factors, which were slightly offset by a decrease in the minimum capital required, also caused a lower return on required equity of 5.3%.

	As at 31 March 2020		As at 31 December 2019	
	No. of delinquent loans	Arrears rate	No. of delinquent loans	Arrears rate
Transactional homeowner	4,878	0.44%	4,859	0.43%
Portfolio	1,291	0.16%	1,275	0.15%
Multi-unit residential	97	0.39%	67	0.28%
Total	**6,266**	**0.32%**	**6,201**	**0.31%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. There were higher reported delinquencies in all regions except the Atlantic, which is consistent with the slightly weaker economic conditions for these regions. Payment deferrals related to COVID-19 are not included in arrears data.

Mortgage Funding

(in millions, unless otherwise indicated)	Total guarantees-in-force ($B)		New securities guaranteed ($B)		Guarantee and application fees received[1]	
	As at		Three months ended			
	31 March 2020	31 December 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
NHA MBS[2]	250	249	35	29	115	92
CMB	244	244	11	10	39	36
Total	**494**	**493**	**46**	**39**	**154**	**128**

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

[2] *$3 billion of new securities as at 31 March 2020 and $2 billion of securities guaranteed in previous quarters were sold into the IMPP.*

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $750 billion (2019 - $600 billion). This limit was increased during the quarter by $150 billion and will be in effect until 24 March 2025. Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee. Guarantees-in-force increased by $1 billion (0.2%) as new guarantees issued during the year exceeded maturities. Guarantees-in-force remain under the $750 billion legislative limit.

Guarantee and application fees received increased by $26 million (20.3%). This is mainly due to higher NHA MBS volumes securitized as a result of the introduction of IMPP.

(in percentages)	Three months ended 31 March 2020	Three months ended 31 March 2019
Operating expense ratio	8.4	8.7
Return on equity	20.4	17.5
Return on required equity	38.7	34.1

The operating expense ratio decreased by 0.3 percentage points as guarantee and application fees earned were higher than in the same quarter last year due to fee increases in recent years.

Return on equity and return on required equity were 2.9 and 4.6 percentage points higher, respectively, than in the same quarter last year. This is due to the increase in adjusted net income, largely driven by higher guarantee and application fees earned from fee increases in recent years.

Government Funding for Housing Programs

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

	Three months ended 31 March	
(in millions)	**2020**	**2019**
Amounts provided for housing programs:		
Amounts authorized in 2019/20 (2018/19)		
Main estimates	2,657	2,452
Supplementary estimates A[1,2]	9	7
Supplementary estimates B[1,3]	78	1
Less: Portion recognized in calendar 2019 (2018)	(1,282)	(1,309)
Less: Government funding lapsed for 2019/20 (2018/19)[4]	(527)	(356)
Less: Frozen Allotment	-	(18)
2019/20 (2018/19) government funding for housing programs funded in 2020 (2019)	**935**	**777**
Less: Funding deferred in period	(21)	-
2019/20 (2018/19) government funding for housing programs recognized in 2020 (2019)	**914**	**777**
Amounts authorized in 2020/21 (2019/20)		
Main estimates	2,920	2,657
Supplementary estimates A[1,2]	-	9
Supplementary estimates B[1,3]	-	78
Total fiscal year government funding for housing programs	**2,920**	**2,744**
Less: portion to be recognized in subsequent quarters	(2,920)	(2,217)
Less: Forecasted lapse for 2020/21 (Actual lapse in 2019/20) [4]	-	(527)
2020/21 (2019/20) government funding for housing programs recognized in 2020 (2019) calendar year	**-**	**-**
Total government funding for housing programs recognized – three months ended 31 March	**914**	**777**

1 *Supplementary estimates are additional government funding voted on by Parliament during the Government's fiscal year.*
2 *Approved supplementary estimates A for Housing Research and Data Initiative, First-Time Home Buyer Initiative, Human-rights based approach to housing and other initiatives.*
3 *Approved supplementary estimates B for Co-Investment Fund, Innovation Fund, First-Time Home Buyer Initiative and other initiatives.*
4 *Pending reprofile requests to future years.*

Capital Management

Frameworks

For our Assisted Housing activity, we maintain a reserve fund pursuant to Section 29 of the CMHC Act. Our Lending Programs operate on a break-even basis; however, a portion of their earnings are retained in this reserve fund as part of our strategy to address future interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations and re-measurement losses on defined benefit plan liabilities are absorbed in retained earnings. We do not hold capital for Housing programs, as this activity does not present risks to the Corporation that would require capital to be set aside.

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

With respect to our Mortgage Funding activity, our capital management framework follows industry best practices and incorporates regulatory principles from OSFI, including those set out in OSFI's E19 – Own Risk and Solvency Assessment guideline, and those of the Basel Committee on Banking Supervision. Our capital adequacy assessment uses an integrated approach to evaluate our capital needs from both a regulatory and economic capital basis to establish capital targets that take into consideration our strategy and risk appetite.

Ratios

The table below presents our capital management ratios.

	As at	
(in percentages)	**31 March 2020**	**31 December 2019**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	207%	195%
Mortgage Funding: Available equity to required equity	211%	190%

Our Mortgage Insurance MICAT ratio increased by 12 percentage points mainly due to the increase in available equity, driven by the temporary suspension of the dividend in the quarter. Capital required for insurance risk also decreased due to lower insurance-in-force in the quarter. We remain adequately capitalized as at 31 March 2020.

Our Mortgage Funding available equity to required equity ratio increased by 21 percentage points. This is due to the increase in available equity, primarily driven by the temporary suspension of the dividend in the first quarter of 2020 as well as the contribution of income in the quarter.

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

Financial Resources

The Mortgage Insurance investment portfolio is funded by cash flow generated by premiums, fees and interest received, net of claims and operating expenses. The investment objective and asset allocation for the Mortgage Insurance investment portfolio focuses on maximizing risk-adjusting return while minimizing the need to liquidate investments. As at 31 March 2020, total investments had a fair value of $18.4 billion (31 December 2019 – $17.8 billion).

The Mortgage Funding investment portfolio is funded by guarantee and application fees and interest received net of expenses. The portfolio is intended to cover risk exposures associated with our Mortgage Funding guarantee programs. The objective of the Mortgage Funding investment portfolio is to maximize our capacity to meet liquidity needs of the timely payment guarantee and to preserve capitalization amounts through investments in Government of Canada securities. As at 31 March 2020, total investments under management had a fair value of $4.2 billion (31 December 2019 – $3.9 billion).

RISK MANAGEMENT

We are exposed to a variety of risks in our operating environment that could have an impact on the achievement of our objectives. These risks are discussed in detail in our 2019 Annual Report.

We are exposed to heightened operational risks including people risk as we closely monitor the impact of the COVID-19 crisis on the health and well-being of our employees. We put in place additional resources to support our employees. We continue to monitor emerging risks and have business continuity plans in place to manage our operations. Our recent investments in technology and increased risk monitoring are helping us navigate through the crisis. We continue to deliver all our regular programs seamlessly including additional stimulus measures under our financial stability mandate.

The current environment including ongoing volatility in financial markets create additional and elevated credit, market and liquidity risks. We continue to manage these risks effectively through high quality investments and heightened monitoring of our counterparties and program participants. Our Mortgage Insurance activity providing support for lenders, homeowners and multi-unit landlords faces increased default risks in the short term due to COVID-19 in the face of higher unemployment, lower commodity prices and increased social distancing measures impacting some sectors disproportionately.

As we exercise our financial stability mandate, we may prioritize our response to COVID-19 over some near-term strategic objectives. Our crisis readiness framework and our risk appetite in times of crisis continue to enable us to manage evolving risks.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019[2]	Q4 2018	Q3 2018	Q2 2018
Consolidated Results								
Total assets	283,711	276,259	276,685	272,242	269,976	263,876	272,513	268,185
Total liabilities	268,281	261,646	261,857	257,333	255,025	248,995	256,839	251,875
Total equity of Canada	15,430	14,613	14,828	14,909	14,951	14,881	15,674	16,310
Total revenues and government funding	1,459	1,191	1,049	1,020	1,479	1,047	1,049	1,151
Total expenses (including income taxes)	1,200	767	666	641	1,085	698	662	763
Net income	259	424	383	379	394	349	387	388
Assisted Housing								
Government funding for housing programs	914	489	393	380	777	431	416	463
Net income (loss)	6	27	10	-	5	13	10	4
Total equity of Canada	379	302	270	247	270	291	310	275
Mortgage Insurance								
Insurance-in-force ($B)	425	429	433	439	442	448	453	463
Total insured volumes	10,795	14,320	14,063	14,191	7,891	12,159	13,304	14,005
Premiums and fees received	348	432	466	428	223	380	409	415
Premiums and fees earned	335	358	359	357	355	356	358	359
Claims paid	63	63	53	46	74	60	60	53
Insurance claims expenses	122	40	42	36	73	38	35	72
Net income	128	266	255	297	278	233	283	289
Arrears rate	0.32%	0.31%	0.30%	0.29%	0.30%	0.29%	0.29%	0.27%
Loss ratio	36.5%	11.3%	11.6%	10.2%	20.6%	10.7%	9.8%	20.1%
Operating expense ratio	20.6%	22%	20.8%	20.7%	24.0%	25.6%	18.7%	22.8%
Combined ratio	57.1%	33.3%	32.4%	30.9%	44.6%	36.6%	28.5%	42.9%
Severity ratio	28.8%	29.9%	30.0%	28.8%	29.3%	30.0%	32.1%	29.1%
Return on equity	4.2%	8.8%	8.3%	9.7%	9.1%	7.6%	8.8%	8.3%
Return on required equity	4.9%	10.6%	9.8%	11.3%	10.2%	8.3%	9.1%	8.7%
Capital available to minimum capital required (% MICAT)[1]	207%	195%	197%	197%	189%	168%	175%	177%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	26.0%	26.4%	27.0%	28.0%	28.5%	29.1%	29.7%	30.6%
Mortgage Funding								
Guarantees-in-force ($B)	494	493	488	492	494	488	484	479
Securities guaranteed	45,930	50,140	42,930	41,708	38,924	48,556	43,766	37,819
Guarantee and application fees received	154	129	164	136	128	252	156	120
Guarantee and application fees earned	160	156	146	142	138	132	121	117
Net income	122	126	116	114	108	102	94	88
Operating expense ratio	8.4%	9.3%	9.3%	9.7%	8.7%	10.5%	8.4%	9.6%
Return on equity	20.4%	21.7%	19.1%	18.4%	17.5%	16.0%	15.1%	14.7%
Return on required equity	38.7%	38.9%	35.9%	34.9%	34.1%	26.0%	21.2%	19.9%
Available equity to required equity	211%	190%	198%	203%	207%	209%	149%	143%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	30.3%	30.6%	30.9%	31.4%	32.2%	31.9%	31.7%	31.7%

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

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

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2020

Management is responsible for the preparation and fair presentation of these unaudited quarterly consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and for such internal controls as Management determines are necessary to enable the preparation of unaudited quarterly consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited quarterly consolidated financial statements.

Based on our knowledge, these unaudited quarterly consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows, as at the date of and for the periods presented in the unaudited quarterly consolidated financial statements.

Evan Siddall, BA, LL.B
President and Chief Executive Officer

Lisa Williams, CPA, CA
Chief Financial Officer

20 May 2020

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	Notes	31 March 2020	31 December 2019
Assets			
Cash and cash equivalents		1,472	922
Securities purchased under resale agreements		214	-
Accrued interest receivable		1,238	737
Investment securities:			
Fair value through profit or loss	11	707	809
Fair value through other comprehensive income	11	21,292	20,633
Amortized cost	10	957	947
Derivatives		31	68
Due from the Government of Canada	6	775	249
Loans:	12		
Fair value through profit or loss		1,194	1,331
Amortized cost		254,681	249,439
Accounts receivable and other assets		874	848
Investment property		276	276
		283,711	276,259
Liabilities			
Accounts payable and other liabilities		1,039	796
Accrued interest payable		1,087	591
Derivatives		166	8
Provision for claims	7	465	407
Borrowings:	13		
Fair value through profit or loss		2,094	2,374
Amortized cost		255,800	249,741
Defined benefit plans liability		294	449
Unearned premiums and fees	7, 8	7,161	7,151
Deferred income tax liabilities		175	129
		268,281	261,646
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		667	247
Retained earnings		14,738	14,341
		15,430	14,613
		283,711	276,259

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2020	2019
Interest income		1,349	1,351
Interest expense		1,336	1,324
Net interest income		13	27
Government funding for housing programs	6	914	777
Premiums and fees earned	7, 8	495	493
Investment income		118	118
Net gains (losses) on financial instruments	14	(88)	56
Other income		7	8
Total revenues and government funding		1,459	1,479
Non-interest expenses			
Housing programs		842	733
Insurance claims		122	73
Operating expenses		150	152
Total expenses		1,114	958
Income before income taxes		345	521
Income taxes	18	86	127
Net income		259	394
Other comprehensive income (loss), net of tax			
Items that will be subsequently reclassified to net income			
Net unrealized gains (losses) from debt instruments held at fair value through other comprehensive income		374	244
Reclassification of gains on debt instruments held at fair value through other comprehensive income on disposal in the period		47	-
Total items that will be subsequently reclassified to net income		421	244
Items that will not be subsequently reclassified to net income			
Remeasurement gains (losses) on defined benefit plans	17, 18	137	(63)
Total items that will not be subsequently reclassified to net income		137	(63)
Total other comprehensive income (loss), net of tax		558	181
Comprehensive income		817	575

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	2020	2019
Contributed capital		25	25
Accumulated other comprehensive income			
Balance at beginning of period		247	5
Other comprehensive income (loss)		420	244
Balance at end of period		667	249
Retained earnings			
Balance at beginning of period		14,341	14,851
Net income		259	394
Other comprehensive income (loss)		138	(63)
Dividends	9	-	(505)
Balance at end of period		14,738	14,677
Equity of Canada		15,430	14,951

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2020	2019
Cash flows from operating activities			
Net income		259	394
Adjustments to determine cash flows from operating activities			
Amortization of premiums and discounts on financial instruments		19	18
Net (gains) losses on financial instruments		(138)	-
Deferred income taxes	18	(53)	12
Changes in operating assets and liabilities			
Derivatives		195	(52)
Accrued interest receivable		(501)	(554)
Due from the Government of Canada		(591)	(427)
Accounts receivable and other assets		(26)	5
Accounts payable and other liabilities		242	269
Accrued interest payable		496	594
Provision for claims		58	7
Defined benefit plans liability		3	1
Unearned premiums and fees		10	(137)
Other		1	(4)
Loans	12		
Repayments		10,711	5,073
Disbursements		(15,806)	(10,371)
Borrowings	13		
Repayments		(13,400)	(5,348)
Issuances		19,148	10,650
		627	130
Cash flows from investing activities			
Investment securities			
Sales and maturities		1,027	1,900
Purchases		(890)	(993)
Securities purchased under resale agreements		(214)	-
Securities sold under repurchase agreements		-	(109)
		(77)	798
Cash flows from financing activities			
Dividends paid	9	-	(675)
Change in cash and cash equivalents		550	253
Cash and cash equivalents			
Beginning of period		922	837
End of period		1,472	1,090
Represented by			
Cash		7	-
Cash equivalents		1,465	1,090
		1,472	1,090
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		1,045	1,023
Amount of interest paid during the period		902	823
Amount of dividends received during the period		1	7
Amount of income taxes paid during the period		211	74

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

These unaudited quarterly consolidated financial statements are as at and for the three months ended 31 March 2020 and were approved and authorized for issue by our Audit Committee on 20 May 2020.

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. In addition to the following new accounting policy described below, we follow the same accounting policies and methods of application as disclosed in Note 2 of our audited consolidated financial statements for the year ended 31 December 2019 and these unaudited quarterly consolidated financial statements should be read in conjunction with those financial statements.

Insured Mortgage Purchase Program (IMPP)

In March 2020, the Government launched the IMPP, under which it will purchase up to $150 billion of insured mortgage pools through CMHC. This program structure is similar to the Canada Mortgage Bond (CMB) Program, with one key difference being that CMHC directly purchases and holds the National Housing Act Mortgage-Backed Securities (NHA MBS) under the IMPP, whereas Canada Housing Trust (CHT) purchases and holds them under the CMB Program. The IMPP's primary financial statement impact is the recognition of loans and borrowings at amortized cost and the associated interest income and interest expense.

IMPP description

Loans under the IMPP represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to us and are funded by the issuance of Borrowings from the Government of Canada. Both the loans and borrowings are amortizing and may be fixed or floating rate. Principal and interest payments occur monthly, and principal repayments on the borrowings are equal to principal receipts on the loans.

Under the IMPP, substantially all of the risks and rewards of the NHA MBS are retained by the issuers through swap agreements with the Corporation. Consequently, the NHA MBS serve as collateral to the loans and are not recognized in the consolidated balance sheet. This collateral is however held in the name of the Corporation and represents the sole source of principal repayment for the loans. The amount due from the swap counterparties represents both the interest earned on the loans, which is recognized in interest income, and the interest expense on the borrowings, which is recognized in interest expense.

Classification and measurement

We classify the loans and borrowings under the IMPP as follows.

Classification	Financial instruments	Description	Criteria and accounting treatment
Financial assets at amortized cost	Loans – IMPP	Amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to CMHC.	Financial assets are classified at amortized cost if the assets: a) are held within a business model whose objective is to collect contractual cash flows; b) generate cash flows on specified dates that are solely payment of principal and interest (SPPI); and c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at amortized cost. Financial assets at amortized cost are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method (EIRM), net of an allowance for expected credit losses (ECL). Interest income is recognized using the EIRM in interest income. ECL are recognized in net gains (losses) on financial instruments. Gains and losses arising on derecognition are recognized directly in net gains (losses) on financial instruments.
Financial liabilities at amortized cost	Borrowings from the Government of Canada – IMPP	Amortizing borrowings incurred to fund loans under the IMPP.	Financial liabilities are classified at amortized cost, unless they have been classified at FVTPL. Financial liabilities are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the EIRM, with interest expense recorded in interest expense.

Measurement of expected credit losses

Loans under the IMPP are collateralized by the NHA MBS acquired in the transactions. The NHA MBS and swaps represent the sole source of principal and interest repayment on the loans, and thus directly affect the probability of a default occurring. Therefore, our assessment of SICR is based on the credit risk of these supporting assets.

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

Presentation of results

The IMPP is a mortgage funding activity, intended to provide liquidity to financial institutions so that they can continue to lend. Financial results of the IMPP will be reported to our Chief Operating Decision Maker (CODM), the Executive Committee within the Mortgage Funding segment. Accordingly, we report IMPP results within that segment in our financial statements.

Additional IMPP disclosures

These disclosures are in addition to information on the IMPP found in Notes 8, 10, 12, 13, 15, and 16.

The following tables present the contractual maturity profile and average yield of IMPP loans and borrowings based on carrying value.

(in millions, unless otherwise indicated)	Year of maturity[1]						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**Total as at 31 March 2020**
Loans under the IMPP	-	-	67	217	4,066	650	5,000
Yield	-	-	1.7%	1.7%	1.7%	1.7%	1.7%
Borrowings from the Government of Canada – IMPP	-	-	67	217	4,066	650	5,000
Yield	-	-	1.7%	1.7%	1.7%	1.7%	1.7%

[1] *Considering the nature of the IMPP, whereby principal repayments on the loans and borrowings are equal and therefore have no net impact to CMHC, year of maturity reflects the maturity of the NHA MBS pools.*

In the three months ended 31 March 2020, interest income and interest expense under the IMPP were nil.

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our Mortgage Insurance (MI) business is exposed to some seasonal variation. Premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

3. Current and future accounting changes

Current accounting changes

We actively monitor new standards and amendments to existing standards that have been issued by the IASB. There were no new or amended standards issued by the IASB that had an impact on our quarterly consolidated financial statements.

Conceptual Framework for Financial Reporting

We adopted the revised *Conceptual Framework for Financial Reporting* on 1 January 2020. The *Conceptual Framework* is used to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, in particular the definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

We have completed our assessment and concluded that the revised *Conceptual Framework* does not have an impact on our consolidated financial statements.

Future accounting changes

The following new standard and interpretation issued by the IASB have been assessed as having a possible impact on the Corporation in the future. We intend to adopt this standard and this interpretation, if applicable, as at the required effective date indicated below and are currently assessing the impact on our consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*. In June 2019, the IASB issued an Exposure Draft (ED) containing proposed amendments responding to concerns and implementation challenges raised by stakeholders. On 17 March 2020, the IASB tentatively decided on most of the proposals in the ED with some changes to address feedback received. The most notable proposed amendment to CMHC is that the IASB has decided to defer the effective date by two years, to 1 January 2023. We evaluated the entire suite of proposed amendments and except for the deferral, we do not expect them to have a significant impact on our implementation. The IASB expects to issue the amended standard in Q2 2020.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows, adjusted for risk, as well as a contractual service margin and deferred acquisition costs, which will be released over the coverage period. Contractual service margin will represent the difference between the premium received at inception and the present value of the risk-adjusted cash flows (i.e. profit to be earned in the future). If this difference is negative at inception, the insurance contract would be considered onerous and the difference immediately recorded in income. There are also revised presentation and disclosure requirements.

We have a multi-disciplinary team dedicated to analyzing and implementing the new accounting standard, and a detailed project plan is in place. We continue to evaluate where we will need to change our existing accounting and reporting processes and how this could affect our consolidated financial statements.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires Management to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities have been disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2019. Notable changes to the key judgments and estimates are reflected below.

The outbreak of a novel strain of coronavirus, causing the disease specifically identified as “COVID-19” has led to a global pandemic that is significantly impacting a number of global economies. The economic impacts of COVID-19 are not fully known and there may be additional government, private sector and regulatory responses introduced to mitigate the outbreak and the related economic impacts. As a result of these and other factors, there is additional uncertainty with respect to assumptions used when making judgments and estimates as well as their impact on our financial results.

Judgments in applying accounting policies

Derecognition

In assessing whether transfers of NHA MBS from Canadian financial institutions to CMHC under the IMPP qualify for derecognition, significant judgment is applied in determining whether substantially all the risks and rewards of ownership of the NHA MBS have been transferred. We have determined that the sellers of NHA MBS to CMHC fail to meet the derecognition criteria as they retain the risks and rewards of the NHA MBS through swap agreements. As a result, we do not recognize the underlying NHA MBS in the consolidated balance sheet but rather account for the transfers as loans.

Use of estimates and assumptions

Our methodology for the estimation of expected credit losses on debt securities classified as amortized cost or FVOCI includes different economic scenarios (baseline, optimistic and pessimistic) that are based on forecasted macro-economic inputs published by third parties and reviewed and approved by our Chief Economist. The significant inputs to the model include forecasted Canadian and US equity markets and unemployment rates, credit spreads, oil price and volatility index (VIX).

We assign a weight to the different scenarios for the purpose of calculating the ECL provision. The appropriate weight assigned to each economic scenario is determined by our Chief Economist.

The ECL at 31 March 2020 was calculated using a 50% weighting to the pessimistic scenario, 50% weighting to the baseline and zero weight to the optimistic scenario (31 December 2019 – 35% pessimistic, 45% baseline and 20% optimistic). The revised scenarios, in conjunction with our revised weightings, reflect a higher probability of losses in the next 12 months. See Notes 11 and 12 for more information on expected credit losses.

Provision for claims

We have revised our estimate of the provision for claims at 31 March 2020 reflecting up to date arrears information and economic assumptions available at the balance sheet date. The provision for claims reflects only incurred losses up to 31 March 2020 and does not reflect any losses on claims that may occur in future periods. The impact of mortgage deferral arrangements by financial institutions may delay the realization of the financial impacts and contributes to the additional uncertainty of this estimate. See Note 7 for more information on the provision for claims.

Valuation of pension benefit obligation

Due to current market circumstances, increased volatility in the discount rate used to measure the pension obligation was experienced, resulting in a net actuarial gain for the quarter. While bond yields have decreased, an increased credit risk spread due to heightened uncertainty in the market due to COVID-19 resulted in a higher discount rate than expected. See Note 17 for more information on the valuation of our pension obligation.

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing (AH), Mortgage Insurance (MI) and Mortgage Funding (MF) segments, each of which provides different programs in support of our objectives. The accounts for CHT, a separate legal entity, are included within the Mortgage Funding reportable segment. The financial results of each segment are determined using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2019, as well as the new accounting policy described in Note 2 of these quarterly consolidated financial statements. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

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

Three months ended 31 March	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	75	76	-	-	1,275	1,277	(1)	(2)	1,349	1,351
Interest expense	74	74	-	-	1,271	1,274	(9)	(24)	1,336	1,324
Net interest income	**1**	**2**	**-**	**-**	**4**	**3**	**8**	**22**	**13**	**27**
Government funding for housing programs	914	777	-	-	-	-	-	-	914	777
Premiums and fees earned	-	-	335	355	160	138	-	-	495	493
Investment income	-	-	104	117	17	18	(3)	(17)	118	118
Net gains (losses) on financial instruments	(10)	4	(75)	54	(2)	(1)	(1)	(1)	(88)	56
Other income	6	6	(1)	-	2	2	-	-	7	8
Total revenues and government funding	**911**	**789**	**363**	**526**	**181**	**160**	**4**	**4**	**1,459**	**1,479**
Non-interest expenses										
Housing programs	842	733	-	-	-	-	-	-	842	733
Insurance claims	-	-	122	73	-	-	-	-	122	73
Operating expenses	63	51	69	85	18	16	-	-	150	152
Total expenses	**905**	**784**	**191**	**158**	**18**	**16**	**-**	**-**	**1,114**	**958**
Income before income taxes	**6**	**5**	**172**	**368**	**163**	**144**	**4**	**4**	**345**	**521**
Income taxes	-	-	44	90	41	36	1	1	86	127
Net income	**6**	**5**	**128**	**278**	**122**	**108**	**3**	**3**	**259**	**394**
Total revenues and government funding	911	789	363	526	181	160	4	4	1,459	1,479
Inter-segment income (loss)[1]	(1)	(2)	(4)	(18)	9	24	(4)	(4)	-	-
External revenues and government funding	910	787	359	508	190	184	-	-	1,459	1,479

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

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

As at 31 March 2020 and 31 December 2019	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Assets										
Cash and cash equivalents	881	630	590	291	1	1	-	-	1,472	922
Securities purchased under resale agreements	214	-	-	-	-	-	-	-	214	-
Accrued interest receivable	78	103	121	96	1,044	540	(5)	(2)	1,238	737
Investment securities:										
Fair value through profit or loss	933	1,037	125	122	-	-	(351)	(350)	707	809
Fair value through other comprehensive income	-	-	17,706	17,370	4,186	3,931	(600)	(668)	21,292	20,633
Amortized cost	982	972	-	-	-	-	(25)	(25)	957	947
Derivatives	29	19	2	49	-	-	-	-	31	68
Due from the Government of Canada	775	249	-	-	-	-	-	-	775	249
Loans:										
Fair value through profit or loss	1,168	1,307	26	24	-	-	-	-	1,194	1,331
Amortized cost	5,051	4,893	96	101	249,534	244,445	-	-	254,681	249,439
Accounts receivable and other assets	254	221	523	524	97	103	-	-	874	848
Investment property	267	267	9	9	-	-	-	-	276	276
	10,632	9,698	19,198	18,586	254,862	249,020	(981)	(1,045)	283,711	276,259
Liabilities										
Accounts payable and other liabilities	742	425	207	269	90	102	-	-	1,039	796
Accrued interest payable	65	64	-	-	1,026	529	(4)	(2)	1,087	591
Derivatives	6	8	160	-	-	-	-	-	166	8
Provision for claims	-	-	465	407	-	-	-	-	465	407
Borrowings:										
Fair value through profit or loss	2,094	2,374	-	-	-	-	-	-	2,094	2,374
Amortized cost	7,180	6,287	-	-	249,534	244,445	(914)	(991)	255,800	249,741
Defined benefit plans liability	115	185	184	260	(5)	4	-	-	294	449
Unearned premiums and fees	-	-	5,512	5,496	1,649	1,655	-	-	7,161	7,151
Deferred income tax liabilities	51	53	101	91	41	-	(18)	(15)	175	129
	10,253	9,396	6,629	6,523	252,335	246,735	(936)	(1,008)	268,281	261,646
Equity of Canada	379	302	12,569	12,063	2,527	2,285	(45)	(37)	15,430	14,613
	10,632	9,698	19,198	18,586	254,862	249,020	(981)	(1,045)	283,711	276,259

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

6. Government Funding and Housing Programs Expenses

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

	Three months ended 31 March	
(in millions)	2020	2019
Assistance for housing needs	753	731
Financing for housing	145	8
Housing expertise and capacity development	37	38
Total[1]	**935**	**777**
Government funding deferred in the period	(21)	-
Total Government Funding recognized[2]	**914**	**777**

[1] *Includes $57 million (three months ended 31 March 2019 – $44 million) of operating expenses.*

[2] *Total government funding recognized does not include gains resulting from funds borrowed under the Crown Borrowing Program, which are recognized in net gains (losses) on financial instruments. These gains totaled $24 million (three months ended 31 March 2019 – $6 million).*

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 31 March 2020 is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 31 March	
(in millions)	2020	2019
Balance at beginning of period	249	158
Total Government Funding	935	777
Government funding received during the period	(402)	(419)
Third party remittances to the Government of Canada	-	4
Balance at end of period before future period adjustment	**782**	**520**
Government funding to be received in future periods	14	-
Government funding deferred in the period	(21)	-
Balance at end of period	**775**	**520**

7. Mortgage Insurance

Unearned premiums and fees

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

	Three months ended 31 March	
(in millions)	2020	2019
Balance at beginning of period	5,496	5,375
Premiums deferred on contracts written in the period	345	223
Premiums earned in the period	(329)	(348)
Application fees deferred on contracts written in the period	3	2
Application fees earned in the period[1]	(3)	(4)
Balance at end of period	**5,512**	**5,248**

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

Deferred acquisition costs

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

	Three months ended 31 March	
(in millions)	**2020**	**2019**
Balance at beginning of period	194	181
Acquisition costs deferred	17	15
Amortization of DAC	(14)	(14)
Balance at end of period	**197**	**182**

Provision for claims

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

Provision for claims comprises the following:

	As at					
	31 March 2020			31 December 2019		
(in millions)	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**
Undiscounted estimated losses	395	39	434	341	40	381
Discounting	(4)	(5)	(9)	(4)	(6)	(10)
Discounted provision for adverse deviation	31	9	40	27	9	36
Total provision for claims	**422**	**43**	**465**	**364**	**43**	**407**

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

	Three months ended 31 March					
	2020			2019		
(in millions)	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	364	43	407	390	61	451
Net claims paid during the period	(63)	-	(63)	(74)	(3)	(77)
Provision for claims provided for and losses incurred during the period[1]	68	-	68	61	1	62
Unfavourable (favourable) development on prior period claims	53	-	53	21	1	22
Provision for claims, end of period	**422**	**43**	**465**	**398**	**60**	**458**

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

Insurance policy liability adequacy

We perform a liability adequacy test on the premium liabilities and claim liabilities quarterly. Premium liabilities represent a provision for future claims and expenses that are expected to arise from the unearned portion of the policies in-force. Thus, this provision is for claims that have not yet occurred and, therefore, covers the period from the date of the valuation to the date of default (the assumed claim occurrence date).

The liability adequacy test as at 31 March 2020 identified that no premium deficiency reserve is required.

8. Mortgage Funding

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and NHA MBS issued by approved issuers on the basis of housing loans under the NHA MBS program and the 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 under each of the programs.

For 2020, the Minister of Finance has authorized CMHC to provide up to $295 billion of new guarantees of market NHA MBS and up to $60 billion of new guarantees for CMB.

At the balance sheet date, we have not received a claim on our timely payment guarantees (TPG). Based on our analysis, no provision in addition to the remaining unearned premium is required.

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

	Three months ended 31 March					
	2020			2019		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,152	503	1,655	1,079	494	1,573
TPG fees received in the period	115	39	154	92	36	128
TPG fees earned in the period	(123)	(37)	(160)	(105)	(33)	(138)
Balance at end of period	**1,144**	**505**	**1,649**	**1,066**	**497**	**1,563**

9. Capital Management

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

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

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

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

We declare dividends to the Government from our Mortgage Insurance and Mortgage Funding Activities, to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet the needs of the Corporation for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, our capital is not managed to issue a dividend. We have not paid or declared any dividends during the three months ended 31 March 2020 (three months ended 31 March 2019 - $675 million paid and $505 million declared).

On 24 March 2020, the Government approved a $10 billion recapitalization limit in the event that CMHC may need to be recapitalized in the future.

The components of consolidated capital available are presented below.

(in millions)	As at 31 March 2020	As at 31 December 2019
Contributed capital	25	25
Accumulated other comprehensive income	667	247
Appropriated retained earnings	10,562	11,178
Unappropriated retained earnings[1]	4,176	3,163
Total equity of Canada[2]	**15,430**	**14,613**
Less: assets with a capital requirement of 100%	(40)	(40)
Total capital available	**15,390**	**14,573**

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

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

Mortgage Insurance capital

The following table presents the components of capital available.

(in millions, unless otherwise indicated)	As at 31 March 2020	As at 31 December 2019
Appropriated capital[1]	10,005	10,192
Unappropriated capital	2,564	1,871
Total mortgage insurance capital	**12,569**	**12,063**
Less: assets with a capital requirement of 100%	(40)	(40)
Total mortgage insurance capital available	**12,529**	**12,023**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	207%	195%

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

Mortgage Funding capital

The following table presents the components of the capital available.

(in millions, unless otherwise indicated)	As at 31 March 2020	As at 31 December 2019
Appropriated capital[1]	1,200	1,199
Unappropriated capital	1,327	1,086
Total Mortgage Funding capital available	**2,527**	**2,285**
Capital available to capital required (%)	211%	190%

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

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending programs' earnings is retained in this reserve fund as part of our strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (2019 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

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

The following table presents the components of the capital available.

	As at	
(in millions)	**31 March 2020**	**31 December 2019**
Reserve fund	97	94
Retained earnings	257	183
Total Lending programs capital available	**354**	**277**

Housing programs

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

10. Fair Value Measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of non-financial assets takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. For financial instruments, accrued interest is separately recorded and disclosed.

Fair value hierarchy

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

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

Level 2: Assets and liabilities that are measured based on observable inputs other than level 1 prices. Level 2 inputs include prices obtained from third-party pricing services based on independent dealers’ quotes for identical assets or liabilities in markets that are not considered sufficiently active. Level 2 also includes fair values obtained by discounting expected future cash flows, making maximum use of directly or indirectly observable market data such as yield curves and implied forward curves constructed from foreign exchange rates, benchmark interest rates and credit spreads of identical or similar assets or liabilities.

Level 3: Assets and liabilities not quoted in active markets that are measured using valuation techniques. Where possible, inputs to the valuation techniques are based on observable market data, such as yield curves and implied forward curves constructed from benchmark interest rates and credit spreads of similar assets or liabilities. Where observable inputs are not available, unobservable inputs are used. For level 3 assets and liabilities, unobservable inputs are significant to the overall measurement of fair value.

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

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

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

	As at					
	31 March 2020			31 December 2019		
(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]	957	971	14	947	946	(1)
Loans at amortized cost [3]	254,681	263,411	8,730	249,439	251,777	2,338
Financial liabilities						
Borrowings at amortized cost [4]	255,800	264,570	8,770	249,741	252,142	2,401

[1] *Does not include cash and cash equivalents of $763 million (31 December 2019 - $555 million) and securities purchased under resale agreements of $214 million (31 December 2019 – nil) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

[2] *$971 million (31 December 2019 – $946 million) fair value categorized as level 2.*

[3] *$262,462 million (31 December 2019 – $251,107 million) fair value categorized as level 2, $949 million (31 December 2019 – $670 million) fair value categorized as level 3.*

[4] *$173,842 million (31 December 2019 – $146,905 million) fair value categorized as level 1, $90,728 million (31 December 2019 – $105,237 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 2020				31 December 2019			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	119	-	119	-	131	-	131
Federal government issued	559	-	-	559	286	-	-	286
Provinces/municipalities	-	31	-	31	-	-	-	-
Total cash equivalents	559	150	-	709	286	131	-	417
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	104	-	104	-	122	-	122
Provinces/municipalities	131	200	-	331	26	304	-	330
Sovereign and related entities	-	151	-	151	-	239	-	239
Equities								
Limited partnership units	-	-	121	121	-	-	118	118
Total at FVTPL	131	455	121	707	26	665	118	809
FVOCI								
Debt instruments								
Corporate/other entities	1,914	4,905	-	6,819	1,625	5,390	-	7,015
Federal government issued	9,946	192	-	10,138	9,280	40	-	9,320
Provinces/municipalities	2,508	1,706	-	4,214	667	3,463	-	4,130
Sovereign and related entities	-	121	-	121	-	168	-	168
Total at FVOCI	14,368	6,924	-	21,292	11,572	9,061	-	20,633
Loans designated at FVTPL	-	1,079	-	1,079	-	1,244	-	1,244
Loans mandatorily at FVTPL	-	17	98	115	-	17	70	87
Derivatives	-	31	-	31	-	68	-	68
Investment property	-	-	276	276	-	-	276	276
Total assets carried at fair value	**15,058**	**8,656**	**495**	**24,209**	**11,884**	**11,186**	**464**	**23,534**
Liabilities								
Borrowings designated at FVTPL	-	2,094	-	2,094	-	2,374	-	2,374
Derivatives	-	166	-	166	-	8	-	8
Total liabilities carried at fair value	**-**	**2,260**	**-**	**2,260**	**-**	**2,382**	**-**	**2,382**

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period. Transfers are dependent on our assessment of market trading activity of the last month of each reporting period using internal classification criteria. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. There were $2,049 million of transfers from level 2 to level 1 and $251 million of transfers from level 1 to level 2 during the three months ended 31 March 2020 (three months ended 31 March 2019 – $437 million and $350 million, respectively).

Change in fair value measurement for items classified as level 3

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

(in millions)	Investment securities - FVTPL	Loans - FVTPL	Investment property	Total
Fair value as at 1 January 2020	**118**	**70**	**276**	**464**
Purchases/Issuances	-	34	-	34
Net gains in net income[1,2]	3	-	-	3
Gains in OCI	-	-	-	-
Cash receipts on settlements/disposals	-	(6)	-	(6)
Fair value as at 31 March 2020	**121**	**98**	**276**	**495**
Fair value as at 1 January 2019	**98**	**21**	**311**	**430**
Purchases	3	13	-	16
Net gains in net income[1,2]	-	1	-	1
Gains in OCI	2	-	-	2
Cash receipts on settlements/disposals	-	(11)	-	(11)
Fair value as at 31 March 2019	**103**	**24**	**311**	**438**

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

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

Unobservable inputs for items classified as level 3

The valuations of items classified as level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 31 March 2020, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as level 3 at 31 March 2020 did not materially change from 31 December 2019. 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 2019.

11. Investment Securities

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

	As at							
	31 March 2020				31 December 2019			
(in millions)	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value
Debt instruments								
FVTPL	582	4	-	586	692	1	(2)	691
FVOCI[2]	20,288	1,063	(59)	21,292	20,345	368	(80)	20,633
Equities								
FVTPL	89	34	(2)	121	89	29	-	118

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

2 *Includes debt instruments denominated in U.S. dollars with a carrying value of $2,543 million (31 December 2019 – $2,334 million).*

The changes in the fair value of investments in CHT-issued CMB are eliminated from the consolidated financial statements.

Credit quality

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an ECL allowance based on 12-month ECL with the exception of four instruments at FVOCI with a gross carrying value of $49 million that have an ECL allowance based on lifetime 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 2020						31 December 2019					
(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	10,684	2,955	6,270	1,334	49	21,292	9,973	1,653	7,591	1,416	-	20,633
Amortized Cost	382	313	262	-	-	957	434	213	300	-	-	947

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

Expected credit losses

The ECL allowance for debt instruments held at FVOCI was $70 million at 31 March 2020 (31 December 2019 – $5 million) with a corresponding loss of $65 million recognized in net gains (losses) on financial instruments during the three months ended 31 March 2020 (three months ended 31 March 2019 – $1 million gain).

The ECL allowance for debt instruments held at amortized cost was $4 million at 31 March 2020 (31 December 2019 – nil) with a corresponding loss of $4 million recognized in net gains (losses) on financial instruments during the three months ended 31 March 2020 (three months ended 31 March 2019 – nil).

The internal credit rating of four instruments decreased below investment grade resulting in a significant increase in credit risk and the assets being transferred from Stage 1 to Stage 2. This resulted in an increase to the ECL allowance of $2 million.

12. Loans

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

		Three months ended 31 March							
		Cash flows		Non-cash changes					
(in millions)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized interest	Transfers[1]	Balance at end of period
2020									
FVTPL									
Lending programs	1,307	(52)	26	14	-	-	-	(127)	1,168
MI Activity loans	24	(6)	8	-	-	-	-	-	26
Total at FVTPL	**1,331**	**(58)**	**34**	**14**	**-**	**-**	**-**	**(127)**	**1,194**
Amortized cost									
CMB program loans	244,445	(10,420)	10,496	-	13	-	-	-	244,534
IMPP loans	-	-	5,000	-	-	-	-	-	5,000
Lending programs	4,893	(226)	275	-	-	(22)	4	127	5,051
MI Activity loans	101	(7)	1	-	1	-	-	-	96
Total amortized cost	**249,439**	**(10,653)**	**15,772**	**-**	**14**	**(22)**	**4**	**127**	**254,681**
Total	**250,770**	**(10,711)**	**15,806**	**14**	**14**	**(22)**	**4**	**-**	**255,875**
2019									
FVTPL									
Lending programs	2,019	(71)	-	8	-	-	-	(174)	1,782
MI Activity loans	21	(11)	12	2	-	-	-	-	24
Total at FVTPL	**2,040**	**(82)**	**12**	**10**	**-**	**-**	**-**	**(174)**	**1,806**
Amortized cost									
CMB program loans	234,653	(4,791)	10,279	-	12	-	-	-	240,153
Lending programs	4,402	(195)	77	-	-	-	-	174	4,458
MI Activity loans	107	(5)	3	-	-	(2)	-	-	103
Total amortized cost	**239,162**	**(4,991)**	**10,359**	**-**	**12**	**(2)**	**-**	**174**	**244,714**
Total	**241,202**	**(5,073)**	**10,371**	**10**	**12**	**(2)**	**-**	**-**	**246,520**

[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 2019 – 99%) of our loans by various levels of government, CHMC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program and IMPP. For loans designated at FVTPL, the change in fair value attributable to changes in credit risk was immaterial.

Expected credit losses

Total undrawn loan commitments outstanding at 31 March 2020 were $2,911 million, of which $2,903 million are subject to 12-month ECL and $8 million are commitments outstanding on purchased or credit impaired loans.

At 31 March 2020, the ECL on undrawn loan commitments was $19 million (31 December 2019 – $6 million), and the ECL on loans was $111 million (31 December 2019 – $102 million). Changes in ECL are recognized 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					
		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**
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,374	-	(312)	32	-	-	2,094
Borrowings at amortized cost							
Canada mortgage bonds	243,454	10,496	(10,340)	-	13	(3)	243,620
Borrowings from the Government of Canada – Lending programs	6,287	3,652	(2,748)	(24)	13	-	7,180
Borrowings from the Government of Canada – IMPP	-	5,000	-	-	-	-	5,000
Total borrowings at amortized cost	**249,741**	**19,148**	**(13,088)**	**(24)**	**26**	**(3)**	**255,800**
Total	**252,115**	**19,148**	**(13,400)**	**8**	**26**	**(3)**	**257,894**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	3,430	-	(356)	19	-	-	3,093
Borrowings at amortized cost							
Canada mortgage bonds	230,757	10,279	(4,791)	-	12	224	236,481
Borrowings from the Government of Canada – Lending programs	4,768	371	(201)	(6)	5	-	4,937
Total borrowings at amortized cost	**235,525**	**10,650**	**(4,992)**	**(6)**	**17**	**224**	**241,418**
Total	**238,955**	**10,650**	**(5,348)**	**13**	**17**	**224**	**244,511**

When CMHC holds CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statement of cash flows. During the three months ended 31 March 2020, $80 million (three months ended 31 March 2019 – nil) of CMB maturities have been excluded from repayments in the table above and from investment securities – sales and maturities in the consolidated statement of cash flows.

Borrowing authorities

The Minister of Finance approves CMHC's Borrowing Plan annually and establishes limits and parameters for borrowings. The limits and parameters pertain to capital market borrowings and borrowings from the Government of Canada that have been incurred since April 2008 in the Assisted Housing and Mortgage Funding Activities.

The Minister of Finance approved increases to the Borrowing Authorities in March 2020 because of the launch of the IMPP, which will be financed through the Crown Borrowing Program. For 2020, the limits on our short-term borrowings outstanding and long-term borrowings issued are $20 billion and $154 billion, respectively (2019 – $5 billion and $4 billion). Actual short-term borrowings outstanding as at 31 March 2020 were $608 million (31 December 2019 – $78 million). Actual long-term borrowings issued in the three months ended 31 March 2020 were $5.6 billion (three months ended 31 March 2019 –$263 million).

The legislative authority, which is separate from the limits above and does not apply to borrowings of CHT, requires that the total indebtedness outstanding at any time, other than to the Government, not exceed $20 billion (2019 – $20 billion). The outstanding principal balance of this indebtedness was nil as at 31 March 2020 (2019 – nil).

14. Financial instruments income and expenses

Gains and losses from financial instruments

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

	Three months ended	
(in millions)	**31 March 2020**	**31 March 2019**
Financial instruments designated at FVTPL		
Investment securities	5	5
Loans	13	8
Borrowings	(32)	(19)
Total financial instruments designated at FVTPL	**(14)**	**(6)**
Financial instruments mandatorily at FVTPL		
Equity securities	3	60
Derivatives	(224)	49
Loans	1	-
Total financial instruments mandatorily at FVTPL	**(220)**	**109**
Debt instruments held at FVOCI[1]	221	(53)
Loans at amortized cost – prepayments	2	3
Borrowings – amortized cost[2]	14	3
Expected credit loss on financial assets	(91)	-
Total	**(88)**	**56**

[1] *Includes a foreign exchange gain of $220 million (three months ended 31 March 2019 – loss of $52 million) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes losses from the retirement of borrowings of $10 million (three months ended 31 March 2019 – $3 million), net of gains from the issuance of borrowings of $24 million (three months ended 31 March 2019 – $6 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.

Interest rate risk

Loans under the IMPP are exposed to both interest rate risk and prepayment risk. Prepayment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term, which may reduce the NHA MBS holder's future interest income. To mitigate these risks, we enter into swap agreements with approved financial institution counterparties. Under these agreements, both interest rate and prepayment risks are transferred to swap counterparties. We pay the effective interest received on the underlying NHA MBS less administration costs to the swap counterparties in exchange for an amount equal to the interest owed on the borrowings from the Government of Canada. As a result of these swap agreements, changes in interest rates or prepayments related to the IMPP have no impact on the consolidated statement of income and comprehensive income.

For other programs, there were no material changes to our assessment and management of market risk in the three months ended 31 March 2020.

Value at risk (VaR)

Market risk for investment securities in the Mortgage Insurance and Mortgage Funding Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measure the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence. The VaR for the Mortgage Insurance and Mortgage Funding Activities calculated with 95% confidence over a 22 business day holding period is outlined in the table below. The VaR figures are based on one year of historical prices and correlations of bond and equity markets and 26 weeks of volatility.

	As at	
(in millions)	**31 March 2020**	**31 December 2019**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	263	207
USD-denominated securities	80	35
Effect of diversification	(56)	(5)
Total VaR	**287**	**237**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. There has been no change to the nature of currency risk or how we manage this risk for the three month period ended 31 March 2020. We held $2,543 million in debt instruments denominated in U.S. dollars as at 31 March 2020 (31 December 2019 – $2,334 million), and residual currency risk was assessed as immaterial.

Interest rate sensitivity

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

For the Assisted Housing Activity's financial instruments designated at FVTPL and derivatives, we assessed the net impact of a 200 bps shift in interest rates on fair value as immaterial as at 31 March 2020.

For 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 2020 is presented below.

	As at			
	31 March 2020		**31 December 2019**	
	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]	(267)	227	(260)	211

[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. Full descriptions of credit risks related to our financial instruments and how we manage those risks are disclosed in Note 19 of our audited consolidated financial statements.

As a result of the economic fallout from the COVID-19 global pandemic, our potential for financial loss has increased in the near term, which is reflected in the expected credit loss provision as outlined in Note 11.

Maximum exposure to credit risk

For all financial assets other than guarantees or derivatives, the maximum exposure to credit risk is the carrying amount.

Under the IMPP, loans represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to us. The loans are collateralized by the NHA MBS, which are rated R-1 (high) or AAA. This collateral is held in our name and represents the sole source of principal repayments for the loans.

Under the IMPP, we are exposed to credit-related counterparty risk in the event of default of swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. All IMPP swap counterparties must have a minimum credit rating of A-, or its equivalent, from at least two rating agencies.

The fair value of the loan collateral under the IMPP was $5,028 million, 101% of loan carrying value, as at 31 March 2020 (31 December 2019 – nil).

For other programs, there has been no change to the nature of the risks and how they are managed for the three month period ended 31 March 2020.

Concentrations and credit quality

Despite recent economic changes, there have been no significant shifts in geographic or industry concentrations in CMHC's portfolio. Additionally, the portfolio's overall credit quality remains strong, with shifts mainly in the timing of expected losses.

17. Pension and Other Post-Employment Benefits

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

	Three months ended 31 March			
	Pension plans		Other post-employment plans	
(in millions)	**2020**	**2019**	**2020**	**2019**
Current service cost	11	9	-	5
Net interest expense	3	3	1	1
Expense recognized in net income	**14**	**12**	**1**	**6**
Net actuarial gains (losses) arising from changes in financial assumptions	293	(230)	14	(12)
Return on plan assets (excluding amounts included in net interest expense)	(148)	167	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**145**	**(63)**	**14**	**(12)**
CMHC's contributions	11	15	-	2
Employee contributions	5	10	-	-
Total contributions	**16**	**25**	**-**	**2**

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

We remeasure our defined benefit obligations and the fair value of plan assets at interim periods. The discount rate is determined in accordance with guidance issued by the Canadian Institution of Actuaries by reference to Canadian AA-Corporate bonds with terms to maturity approximating the duration of the obligation.

The discount rate used to remeasure the defined benefit obligations at 31 March 2020 was 3.8% (31 December 2019 – 3.1%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	**2020**	**2019**
Current income tax expense	139	115
Deferred income tax relating to origination and reversal of temporary differences	(53)	12
Total income tax expense included in net income	**86**	**127**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized gains from FVOCI financial instruments	143	82
Remeasurement gains (losses) on defined benefit plans	22	(12)
Total income tax expense included in other comprehensive income (loss)	**165**	**70**
Total	**251**	**197**

19. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. The fees, which are recorded in operating expenses, amount to $11 million for the three month period ended 31 March 2020 (three months ended 31 March 2019 – $11 million) for the Mortgage Insurance Activity and $7 million for the three month period ended 31 March 2020 (three months ended 31 March 2019 – $6 million) for the Mortgage Funding Activity.

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

20. Commitments and Contingent Liabilities

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $750 billion (31 December 2019 – $600 billion). At 31 March 2020, insurance-in-force, which represents the risk exposure of the Mortgage Insurance Activity, totalled $425 billion (31 December 2019 – $429 billion).

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $750 billion (31 December 2019 – $600 billion). At 31 March 2020, guarantees-in-force, which represents the risk exposure of the Mortgage Funding Activity, totalled $494 billion (31 December 2019 – $493 billion).

There are legal claims of $4 million (31 December 2019 – $4 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded. We do not expect the ultimate resolution of any of the proceedings to which we are party to have a significant adverse effect on our financial position.

We have $46 million of cash and cash equivalents as at 31 March 2020 (31 December 2019 – $26 million) that relates to funds received from the Government that may only be used as part of the Affordable Rental Housing Innovation Fund. We also have $519 million of cash and cash equivalents (31 December 2019 – $417 million) that may only be used as part of the Rental Construction Financing initiative as well as $67 million (31 December 2019 – $34 million) that may only be used as part of the National Housing Co-Investment Fund.

As at 31 March 2020, we have $9,765 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years (31 December 2019 - $9,625 million).

21. Comparative Figures

Operating expenses presented in the consolidated statement of income and comprehensive income have been reclassified to conform to the current period's presentation. Operating expenses related to the administration of housing programs were included in housing program expenses and are now included in the operating expenses under the Assisted Housing segment to align with the nature of the expense.

Provision for claims presented in the consolidated balance sheet, and in Note 7, has been reclassified to conform to the current period's presentation. The provision on self-insured loans is now presented in the accounts payable and other liabilities in accordance with IAS 37.

22. Subsequent Events

The Government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses on 24 April 2020 to provide rent relief for small businesses that have been impacted by COVID-19. The program will provide forgivable loans to qualified commercial property owners who have set up rental forgiveness arrangements with their small business tenants.

The program will offer assistance for the months of April, May and June 2020 and can be applied retroactively.

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