CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

FIRST QUARTER
31 MARCH 2021
(Unaudited)

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS 3
OVERVIEW 3
THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2021 4
FINANCIAL RESULTS 8
RISK MANAGEMENT 14
HISTORICAL QUARTERLY INFORMATION 15
UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS 16

Management’s Discussion and Analysis

OVERVIEW

This Management’s Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 25 May 2021 is prepared for the first quarter ended 31 March 2021 and is intended to provide readers with an overview of our performance including comparatives against the same three month period in 2020. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2020 Annual Report. The unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* 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 2020 Annual Report. The ongoing global COVID-19 pandemic has led to additional measurement uncertainty when making judgments and developing assumptions used in estimates. We have included additional information in Note 4 of our unaudited quarterly consolidated financial statements. Except for the matters discussed therein, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the first quarter of 2021.

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 2021” 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 International Financial Reporting Standards (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 2020 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2021

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

COVID-19

The first quarter of 2021 marked one year since the onset of the COVID-19 pandemic in Canada. While the Government of Canada has extended some support programs to individuals and businesses affected by the pandemic, it has also ended many others based on increased stability in the Canadian economy. This includes many of the programs that we operated on behalf of the Government, including the Canada Emergency Commercial Rent Assistance, Insured Mortgage Purchase Program, expanded portfolio insurance eligibility and our expanded Canada Mortgage Bond authorities which we described in further detail in our 2020 Annual Report.

This improved stability will lead to less volatility in our financial results. We continue to perform stress tests and scenario analysis to understand potential future impacts that may materialize in future periods. Our testing indicates that we have sufficient capital to re-instate our dividend while conserving enough capital to sustain extremely severe downturns. Accordingly, we declared dividends of $3,895 million to the Government of Canada on 25 March 2021 and paid them in April. Accordingly, our Mortgage Insurer Capital Adequacy Test (MICAT) ratio decreased in the first quarter and our investments and investment income will decrease starting in the second quarter.

While the impacts of COVID-19 have become clearer than a year ago, they have not completely subsided. The pandemic and related policy responses have led to a variety of effects that continue to influence our business and financial results. As discussed below in “Economic conditions and housing indicators”, house prices have climbed again in the first quarter of 2021 in most regions in Canada, while the national gross domestic product (GDP) and unemployment rate have improved compared to 2020. Our Mortgage Insurance Activity is experiencing the effects of the homeowner underwriting changes and multi-unit refinancing restrictions that we implemented on 1 July 2020 to protect future homebuyers and reduce risk. Furthermore, although not complete, we have a more accurate picture of our arrears data now that several months have elapsed since the end of the mortgage deferral arrangements available to Canadians in 2020, which reduced the number of loans in arrears and hindered our ability to determine whether a loan in arrears was due to a default.

As these effects have unfolded and the deferral arrangements have ended, we have experienced lower insurance claims paid than the same period last year and continued low arrears rate in our Mortgage Insurance Activity. In other words, loans that were in deferral have not materialized into claims. Furthermore, based on our assessment of these economic variables, claims and arrears data, we reduced our provision for claims. See “Financial metrics and ratios” below and Notes 4 and 7 of our unaudited quarterly consolidated financial statements for further information.

Our crisis management capabilities continue to ensure we remain resilient to external threats. However, uncertainty and risks remain from the more contagious and rapidly spreading COVID-19 variants of concern. Rising risks from a severe third wave of COVID-19 coupled with higher restrictions on households and businesses could derail economic recovery and affect our financial results.

Beyond economic impacts, we have also maintained our focus on 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.

We continue to closely monitor developments related to the pandemic and, in our role as Canada’s national housing agency, stand ready to take further action to support Canadians and the economy through the crisis as needed.

Economic conditions and housing indicators

In early 2021, the Canadian economy faces the coronavirus pandemic with great resilience as businesses and consumers are adapting to the third wave of the pandemic and restrictions. Despite rising viral case numbers, the economy is still projected to have grown in the first quarter of 2021[1]. With the steady rollout of vaccines, broad immunity is expected in Canada by the end of 2021.

[1] Bank of Canada, Monetary Policy Report April 2021.

In 2020, Canada's real GDP realized a 5.4 per cent decline, after growing by 2.4 and 1.9 per cent respectively in 2018 and 2019. The economy is set to rebound in 2021, with the reduction in new COVID infections and easing of restrictions. Highly accommodative monetary and fiscal policies will continue supporting Canada's economic activity until reaching its full potential. Consumer expenditures will contribute to the rebound due to increased confidence, pent-up demand, elevated savings accumulated during the pandemic and sustainable gains in employment conditions and earnings. Business investment is also expected to strengthen as business confidence increases. The global economic recovery will also support Canada's exports and its economy.

The Canadian labour market has not yet fully recovered. As of March 2021, almost 300,000 jobs remain lost compared to pre-pandemic levels. The number of long-term unemployed, those who have been searching for a job for more than 27 weeks, also remains elevated relative to pre-pandemic levels. This could potentially lead to longer-term scarring as these long-term unemployed could face skills depreciation reducing their productivity and earnings from pre-pandemic levels.

In early 2021, the housing market maintained the momentum of rapid growth from the latter half of 2020. Canada's MLS® price averaged a record high of $680,717 during the first three months of 2021. This represents a 27 per cent increase from the same period in 2020, when prices temporarily tumbled in March and April. Similarly, MLS® sales increased 57 per cent to 791,008 seasonally adjusted annual rate (SAAR) units and housing starts increased 49 per cent to 307,665 SAAR units during the first three months of 2021 relative to the same period in 2020. Low borrowing costs, lower employment impacts from the pandemic to higher income households, changes in buyers' preferences for single-detached homes, limited supply and government income support programs have all supported the recent strength in the housing market.

High levels of uncertainty remain for Canada's economy and housing market. A key upside risk is stronger-than-expected household expenditures due to a faster-than-expected reduction of households' elevated savings accumulated during the pandemic. Key downside risks are earlier- and larger-than-predicted increases in borrowing costs and a still elevated household debt-to-disposable income ratio. In Q4 2020, this ratio stood at 175 per cent, near its historical peak of 183 per cent recorded in Q3 2018. Going forward, CMHC will continue to monitor signs of increased housing market vulnerability.

Federal Budget 2021

In Budget 2021, the Government of Canada announced several items that relate to housing, including new investments and the reprofiling of existing program funding. We will lead the following initiatives:

New investment in loans to homeowners for energy retrofits. The Budget proposes $4.4 billion over five years to help homeowners complete deep home retrofits through interest-free loans worth up to $40,000. Loans would be available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment. This program will also include a dedicated stream of funding to support low-income homeowners and rental properties serving low-income renters including cooperatives and not-for-profit owned housing. The program would be available by summer 2021, and it is estimated that more than 200,000 households would take advantage of this opportunity. This program is intended to complement the one million free energy audits and up to 700,000 grants, valued at up to $5,000, announced in the 2020 Fall Economic Statement.

New investments in the National Housing Strategy (NHS). The Budget proposes $2.5 billion, starting in 2021-22, for the following programs:

- $1.5 billion for the Rapid Housing Initiative (RHI) in 2021-22 to address the urgent housing needs of vulnerable Canadians by providing them with adequate affordable housing in short order. At least 25 per cent of this funding will go towards women-focused housing projects, and units are to be constructed within 12 months of when funding is provided to program applicants. Overall, this new funding will add a minimum of 4,500 new affordable units to Canada's housing supply, building on the 4,700 units already funded in the 2020 Fall Economic Statement through its $1 billion investment.
- $600 million over seven years to renew and expand the Affordable Housing Innovation Fund, which encourages new funding models and innovative building techniques in the affordable housing sector.
- $315.4 million over seven years through the Canada Housing Benefit (CHB) to increase direct financial assistance for low-income women and children fleeing violence to help with their rent payments.
- $118.2 million over seven years through the Federal Community Housing Initiative (FCHI) to support community housing providers that deliver long-term housing to many of the most vulnerable Canadians. This builds on the $500 million currently being delivered through the FCHI.

Advancement and reallocation of existing NHS funding. The Budget proposes to advance and reallocate $1.3 billion of previously announced funding as follows:

- In 2021-22 and 2022-23, $300 million from the Rental Construction Financing initiative (RCFi) will be allocated to support the conversion of vacant commercial property into housing.
- In 2021-22 and 2022-23, $750 million under the National Housing Co-Investment Fund (NHCF) is proposed to be advanced to accelerate the creation of 3,400 new units and to repair 13,700 units. An additional $250 million under the NHCF will be allocated to support the construction, repair, and operating costs of an estimated 560 units of transitional housing and shelter spaces for women and children fleeing violence.

Granville Island Emergency Relief Fund Extension. The Budget proposes $22 million to extend emergency relief for Granville Island to sustain its operations in 2021-2022.

Strengthening diversity in corporate governance. The Government proposes amendments to the Public Service Employment Act to affirm the importance of a diverse and inclusive workforce and avoid biases and barriers in hiring. In addition, the Budget proposes that Crown corporations be required to implement gender and diversity reporting, starting in 2022.

Strengthening public climate-related disclosures. Crown corporations will adopt the Task Force on Climate-related Financial Disclosures (TCFD) standards as an element of their corporate reporting. Large Crown corporations (entities with over $1 billion in assets), like us, will report on climate-related financial risks, starting in calendar year 2022 at the latest. We began to report on climate-related financial risks in our 2019 Annual Report and will continue to enhance our disclosures in accordance with TCFD standards.

Progress on the National Housing Strategy

We continue to deliver on Canada's NHS, a 10-year plan that will give more Canadians a place to call home and are encouraged by the additional investments outlined above. Dynamic and adaptable, the NHS is designed to evolve as needed to better respond to Canadians' housing needs as they change over time and as circumstances vary. In response to emerging pressures from COVID-19 in 2020, the Government of Canada announced the $1 billion RHI, which will quickly create over 4,700 new affordable housing units across Canada by funding the construction of modular housing, the acquisition of land, and the conversion of existing buildings. We committed all funds by 31 March 2021 and, as discussed above under "Federal Budget 2021", the Government will provide additional funding for this program in 2021-22.

We continue the work with provinces and territories to co-develop the CHB. Seven jurisdictions have launched CHB programs after finalizing agreements and action plans.

The NHS initiatives will continue to ramp up over the coming quarters as our older programs continue to sunset. We have actively examined ways to accelerate the flow of funding for projects under the NHS, and worked to simplify the application and approvals processes. Progress on the achievement of NHS targets is reported quarterly on the website (www.placetocallhome.ca).

Office of the Superintendent of Financial Institutions (OSFI) developments

Consultation on climate-related risks in the financial sector

On 11 January 2021, OSFI launched an industry consultation with the publication of a discussion paper, Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks. CMHC has responded to the discussion paper which focuses on risks arising from climate change that can affect the safety and soundness of federally regulated financial institutions and federally regulated pension plans. OSFI may use the consultation to inform the development of climate-related guidance in the future.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) that may or will affect us can be found in Note 2 of our audited consolidated financial statements for the year ended 31 December 2020. Notably, as disclosed therein, we will adopt IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*, effective 1 January 2023. We continue to progress toward implementing this standard and have no significant new updates to report as of 31 March 2021.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheet

As at 31 March 2021 and 31 December 2020 *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Total assets	11,895	10,914	20,694	20,864	275,485	269,616	(450)	(424)	307,624	300,970
Total liabilities	11,403	10,582	9,572	7,494	273,917	266,705	(420)	(386)	294,472	284,395
Total equity of Canada	492	332	11,122	13,370	1,568	2,911	(30)	(38)	13,152	16,575

As discussed above in "The Operating Environment and Outlook for 2021", we resumed our dividends to the Government of Canada in the first quarter of 2021 by declaring dividends of $3,895 million. This, partially offset by comprehensive income of $472 million, caused our total equity of Canada to decrease by $3,423 million (21%).

Our total assets and liabilities increased by $6,654 million (2%) and $10,077 million (4%), respectively. This was driven mainly by the issuance of Canada Mortgage Bonds (CMB), which resulted in increases in both loans and borrowings at amortized cost. NHS loan activity also increased investments, loans, and borrowings at amortized cost. The majority of the remaining increase in our liabilities is due to dividends payable as our declaration in March was paid in April.

Condensed consolidated statements of income and comprehensive income

Three months ended 31 March *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Government funding for housing programs	1,392	914	-	-	-	-	-	-	1,392	914
Premiums and fees earned	-	-	347	335	172	160	-	-	519	495
All other income[1]	23	(3)	91	28	36	21	4	4	154	50
Total revenues and government funding	**1,415**	**911**	**438**	**363**	**208**	**181**	**4**	**4**	**2,065**	**1,459**
Housing programs	1,315	842	-	-	-	-	-	-	1,315	842
Insurance claims	-	-	(185)	122	-	-	-	-	(185)	122
Operating expenses	78	63	87	69	20	18	-	-	185	150
Total expenses	**1,393**	**905**	**(98)**	**191**	**20**	**18**	**-**	**-**	**1,315**	**1,114**
Income taxes	3	-	133	44	47	41	1	1	184	86
Net income	**19**	**6**	**403**	**128**	**141**	**122**	**3**	**3**	**566**	**259**
Other comprehensive income (loss)	141	71	(151)	377	(89)	120	5	(10)	(94)	558
Comprehensive income	**160**	**77**	**252**	**505**	**52**	**242**	**8**	**(7)**	**472**	**817**

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

Our total revenues and government funding increased by $606 million (42%) due to:

- An increase of $478 million (52%) in government funding for housing programs, driven mainly by $349 million for the RHI and $203 million for Provincial/Territorial NHS initiatives including the CHB. This was partially offset by a decrease due to a one-time $60 million contribution related to legacy program projects in difficulty in the first quarter of last year.
- An increase of $104 million (208%) in other income mainly caused by a $5 million reduction in our expected credit loss (ECL) provisions, compared to a $91 million increase in our ECL provisions in the same period last year, due to more optimistic financial market projections.

- An increase of $24 million (5%) in premiums and fees earned due to higher earned fees in the Mortgage Funding activity as a result of recent pricing changes and fee increases, as well as higher volumes from prior years being earned. Included is higher earned premiums in the Mortgage Insurance activity mainly due to higher multi-unit volumes from prior years being recognized.

Total expenses increased by $201 million (18%) due to:

- The increase in government funding for housing programs as described above, resulting in an increase in housing programs expenses and operating expenses.
- Decrease of $307 million (252%) in insurance claims as a result of more favourable economic variables as compared to the same period last year during the onset of COVID-19, as well as expected arrears as a result of deferrals not materializing.

Other comprehensive income (net of tax) decreased by $652 million (117%) mainly due to:

- A significant increase in bond yields in the current quarter, compared to a decrease in bond yields in the same period last year. This resulted in an increase of $717 million (192%) in net unrealized losses from debt instruments held at fair value through other comprehensive income.
- This decrease was partially offset by an increase of $121 million (88%) in remeasurement gains on defined benefit plans. This is due to the combined effect of a higher increase in the discount rate compared to the same period last year, as well as a smaller decrease in the return on assets compared to the first quarter of 2020 when returns were significantly lower during the onset of COVID-19.

Financial metrics and ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	**As at**		**Three months ended**							
	Insurance-in-force ($B)		**Insured volumes[1] (units)**		**Insured volumes[1] ($)**		**Premiums and fees received[2]**		**Claims paid[3]**	
	31 Mar 2021	**31 Dec 2020**	**31 Mar 2021**	**31 Mar 2020**	**31 Mar 2021**	**31 Mar 2020**	**31 Mar 2021**	**31 Mar 2020**	**31 Mar 2021**	**31 Mar 2020**
Transactional homeowner	209	216	11,734	15,023	3,354	4,203	117	149	21	56
Portfolio	106	114	730	4,222	210	1,327	1	7	3	4
Multi-unit residential[4]	107	101	35,662	36,757	5,554	5,265	213	192	10	3
Total	**422**	**431**	**48,126**	**56,002**	**9,118**	**10,795**	**331**	**348**	**34**	**63**

[1] *There were no portfolio substitutions units for the three months ended 31 March 2021 (none for the three months ended 31 March 2020).*

[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 refers to the net cash amounts paid out on insurance claims. This does not include social housing mortgage and index-linked mortgage claims.*

[4] *Multi-unit residential premiums and fees received includes $17.1 million for the three months ended 31 March 2021 ($8.5 million for the three months ended 31 March 2020) received from the Government of Canada for the RCFi.*

Insurance-in-force decreased by $9 billion (2%) 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 $9 billion, while estimated loan amortization and pay-downs were $18 billion.

Transactional homeowner volumes decreased by 3,289 units (22%) from the same period last year as a result of changes to our underwriting criteria. Portfolio unit volumes decreased by 3,492 units (83%) as the demand for funding by lenders was higher at the onset of the pandemic. In addition, multi-unit residential volumes decreased by 1,095 units (3%) with multi-unit refinancing representing most of the decrease as refinance approvals are restricted for repair and re-investment in housing since 1 July 2020.

Insured dollars decreased by $1.7 billion (16%) from the same period last year, driven by the decrease in units in transactional homeowner and portfolio. This was partially offset by higher property values insured in multi-unit.

Lower volumes in transactional homeowner and portfolio accounts for the majority of the $17 million (5%) decrease in total premiums and fees received.

Lower claims paid is mainly due to a decrease in transactional homeowner claims due to lenders recovering sufficient funds from the sale of the properties to cover losses as a result of improved economic conditions as outlined in "The Operating Environment and Outlook for 2021" section above.

	Three months ended 31 March	
(in percentages)	**2021**	**2020**
Loss ratio[1,2]	(53.3)	36.5
Operating expense ratio	25.1	20.6
Combined ratio	(28.2)	57.1
Severity ratio	31.8	28.8
Return on equity	13.1	4.2
Return on required equity	16.7	4.9

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was (69.9)% for the three months ended 31 March 2021 (38.0% for the three months ended 31 March 2020).*

[2] *The loss ratio is calculated based on the insurance claims expense incurred over the period, which is estimated based on actuarial modelling of projected economic variables and arrears.*

The loss ratio and combined ratio decreased mainly due to lower insurance claims expenses, as a result of a release of the provision in line with lower unemployment rate, a higher gross domestic product and arrears not materializing as expected.

The operating expense ratio increase is mostly attributable to information technology costs partially offset by higher earned premiums and fees as explained above.

Although claims paid decreased, the severity ratio increased due to higher gross claims paid as a percentage of insured loan amount, driven by one large multi-unit claim.

The return on equity and return on required equity ratios increased due to higher annualized net income as explained above. Return on equity further increased also due to the decreased average equity as a result of the dividend of $2,500 million that we declared in March 2021.

	As at 31 March 2021		As at 31 December 2020	
	No. of delinquent loans	**Arrears rate**	**No. of delinquent loans**	**Arrears rate**
Transactional homeowner	4,795	0.46%	4,967	0.47%
Portfolio	1,339	0.17%	1,471	0.18%
Multi-unit residential	74	0.28%	64	0.25%
Total	**6,208**	**0.34%**	**6,502**	**0.34%**

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

Mortgage Funding

(in millions, unless otherwise indicated)	As at: Total guarantees-in-force ($B) 31 March 2021	As at: Total guarantees-in-force ($B) 31 December 2020	Three months ended: New securities guaranteed ($B) 31 March 2021	Three months ended: New securities guaranteed ($B) 31 March 2020	Three months ended: Guarantee and application fees received[1] 31 March 2021	Three months ended: Guarantee and application fees received[1] 31 March 2020
NHA MBS[2]	217	232	28	35	149	115
CMB	262	257	10	11	42	39
Total	**479**	**489**	**38**	**46**	**191**	**154**

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

[2] *As the Insured Mortgage Purchase Program (IMPP) has now closed, no securities were sold into the IMPP in the three months ended 31 March 2021 (three months ended 31 March 2020 – $3 billion of new securities and $2 billion of securities guaranteed in previous quarters).*

Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee. Guarantees-in-force were $479 billion as at 31 March 2021, a decrease of $10 billion (2%) as maturities and principal runoff exceeded new guarantees provided by CMHC.

Guarantee and application fees received increased by $37 million (24%) due to the increased NHA MBS pricing effective 1 January 2021.

(in percentages)	Three months ended 31 March 2021	Three months ended 31 March 2020
Operating expense ratio	8.9	8.4
Return on equity	25.2	20.4
Return on required equity	65.6	38.7

The operating expense ratio increased by 0.5 percentage points as information technology costs increased by more than guarantee and application fees earned, which rose due to rate increases and higher volumes in recent years.

Return on equity increased due to the increase in annualized net income and the decrease in average equity as a result of $1,395 million of dividends declared in March 2021.

Return on required equity ratio increased due to the combined effect of an increase in net income largely driven by higher guarantee and application fees earned as explained above, and a decrease in average required equity as a result of the revised economic capital methodology described in the most recent annual report.

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)	**2021**	**2020**
Amounts authorized in 2020/21 (2019/20)		
Main estimates	2,920	2,657
Supplementary estimates A[1,2]	3,039	9
Supplementary estimates B[1,3]	873	78
Supplementary estimates C[1,4]	(812)	-
Less: portion recognized in calendar 2020 (2019)	(4,064)	(1,282)
Less: government funding lapsed for 2020/21 (2019/20)	(238)	(527)
Less: frozen allotment	(252)	-
2020/21 (2019/20) government funding for housing programs funded in 2021 (2020)	**1,466**	**935**
Amounts authorized in 2021/22 (2020/21)		
Main estimates	3,259	2,920
Supplementary estimates A[1]	-	(3,039)
Supplementary estimates B[1,3]	-	873
Supplementary estimates C[1,4]	-	(812)
Total fiscal year government funding for housing programs	**3,259**	**6,830**
Less: portion to be recognized in subsequent quarters	(3,259)	(6,594)
Forecasted lapse for 2021/22 (Actual lapse in 2020/21)	-	(238)
2021/22 (2020/21) government funding for housing programs funded in 2021 (2020)	**-**	**-**
Total government funding for housing programs funded – three months ended 31 March	**1,466**	**935**

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

[2] *Approved 2020/21 supplementary estimates A for Canada Emergency Commercial Rent Assistance, Housing Supply Challenge and funding to respond to the National Inquiry into Missing and Murdered Indigenous Women and Girls' Final Report: Reclaiming Power and Place Assistance (2019/20 for Housing Research and Data Initiative, First-Time Home Buyer Initiative, Human-rights based approach to housing and other initiatives).*

[3] *Approved 2020/21 supplementary estimates B for Rapid Housing Initiative, Innovation Fund, Federal, Provincial and Territorial initiatives and other National Housing Strategy initiatives (2019/20 for Co-Investment Fund, Innovation Fund, First-Time Home Buyer Initiative and other initiatives).*

[4] *Approved Supplementary estimates C increase of $19 million for COVID programs including CECRA, Rapid Housing Internship For First Nation and Inuit Youth, and Granville Island, and a reduction of $831 million as part of the Fall Economic Statement for CECRA (2019/20 nil).*

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 over the long term, however, a portion of their earnings are retained in this reserve fund in order to account for potential future interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations and remeasurement losses on defined benefit plan liabilities are absorbed in retained earnings. We do not hold capital for our Assisted Housing activities, as they do not present material financial risks to CMHC.

For our Mortgage Insurance activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT as our economic capital is lower than the regulatory capital requirements established by OSFI; therefore, regulatory capital is the binding constraint for required capital.

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 2021**	**31 December 2020**
Mortgage Insurance: capital available to minimum capital required (MICAT)	191%	234%
Mortgage Funding: capital available to capital required	192%[1,2]	349%

[1] *The available capital to required capital as at 31 March 2021 from an economic viewpoint is 128% (31 December 2020 – 176%).*

[2] *Represents the available equity to required equity from an accounting viewpoint that excludes unearned premiums and fees from required equity.*

Our Mortgage Insurance MICAT ratio decreased by 43 percentage points mainly due to the decrease in available equity, driven by declaration of $2,500 million of dividends in the quarter. Capital required for insurance risk also decreased due to lower insurance-in-force in the quarter.

Our Mortgage Funding capital available to capital required ratio decreased by 157 percentage points due to the declaration of dividends during the period.

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 2021, total investments had a fair value of $19.9 billion (31 December 2020 – $20.1 billion), which will decrease in the second quarter as a result of dividend payments.

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 2021, total investments had a fair value of $5.9 billion (31 December 2020 – $5.4 billion), which will decrease in the second quarter once we have paid our dividends.

RISK MANAGEMENT

In line with recent improvements in the economy as outlined in “The Operating Environment and Outlook for 2021” above, our financial risks have improved since the end of 2020, with Market Risk decreasing to low due to reduced interest rate volatility and hedged currency exposures. In addition, due to the strength in housing markets in Canada and our tightening of underwriting criteria last July, our insurance risk has trended at stable levels. Strategic risk remains high due to an evolving and concerning post-pandemic housing and economic environment in Canada. Rapid increases in house prices throughout Canada have accentuated housing affordability issues for people in the most vulnerable circumstances, posing a challenge to the achievement toward our aspiration. All other risk categories remain unchanged at moderate or low levels since 31 December 2020.

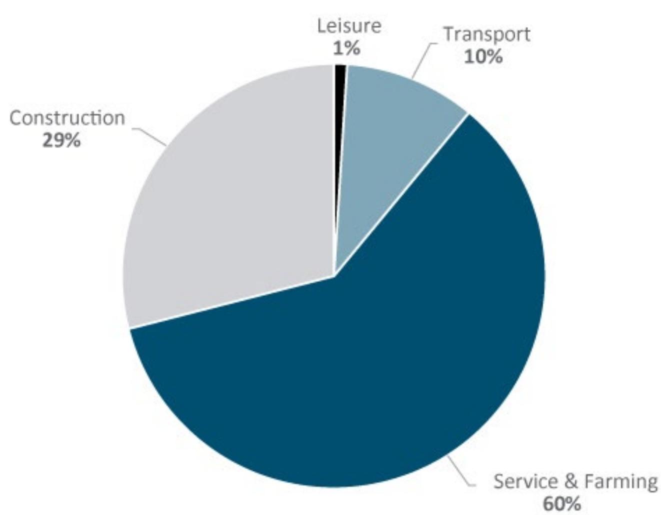
Continuous exploration of potential severe scenarios

While we continue to closely monitor the risks emerging from the recovery path of this pandemic, we have broadened our annual Corporate-Wide Stress Testing by exploring severe scenarios on a quarterly basis. We perform this analysis to identify potential threats to our capital and liquidity levels and to enhance our operational readiness should an event occur.

In the first quarter of 2021, K-shaped recovery analysis was undertaken, under which some sectors recover faster and move upwards while others falter and move downwards. The focus was on potential risks within lagging high-contact service industries in oil-dependent provinces, where exposure is concentrated in the homeowner insurance business. Insurance claims under severe unemployment conditions would be $1.9B accumulated over a 5-year time horizon, an increase of $411 million over normal unemployment conditions.

The risk is due to our transactional homeowner business being exposed to borrowers employed in weakening industries with service and farming industry taking more than 50% of the share as shown below.

Share of the additional $411 million loss by Sector in K-shape recovery scenario



With respect to our multi-unit business, no concentration of exposure exists as our mix of business closely resembles the national average and the overall portfolio stays well diversified despite a higher proportion of insured rental apartment loans in Alberta and Newfoundland and Labrador. The asymmetric economic impacts of K-shape recovery on vulnerable populations are noted by high unemployment and rising income inequality, which may amplify social inequities and would render the achievement of our affordability goals more difficult and challenging.

The results indicate that we are sufficiently capitalized. The scenario as designed does not pose a threat to our financial health and to our operational readiness.

Going forward, our new agile stress testing approach will include quarterly analysis scenarios emerging from the quickly evolving environment.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	**Q1 2021**	**Q4 2020**	**Q3 2020**	**Q2 2020**	**Q1 2020**	**Q4 2019**	**Q3 2019**	**Q2 2019**
Consolidated Results								
Total assets	307,624	300,970	303,227	294,167	283,711	276,259	276,685	272,242
Total liabilities	294,472	284,395	287,196	278,473	268,281	261,646	261,857	257,333
Total equity of Canada	13,152	16,575	16,031	15,694	15,430	14,613	14,828	14,909
Total revenues and government funding	2,065	2,029	2,682	1,781	1,459	1,191	1,049	1,020
Total expenses (including income taxes)	1,499	1,640	2,234	1,215	1,200	767	666	641
Net income	566	389	448	566	259	424	383	379
Assisted Housing								
Government funding for housing programs	1,392	1,372	1,977	629	914	489	393	380
Net income (loss)	19	22	15	25	6	27	10	-
Total equity of Canada	492	332	287	268	379	302	270	247
Mortgage Insurance								
Insurance-in-force ($B)	422	431	438	433	425	429	433	439
Total insured volumes[1]	9,118	19,494	19,617	26,939	10,795	14,320	14,063	14,191
Premiums and fees received	330	518	570	573	348	432	466	428
Premiums and fees earned	347	344	347	346	335	358	359	357
Claims paid	34	23	20	34	63	63	53	46
Insurance claims expense	(185)	(113)	171	292	122	40	42	36
Net income	403	342	192	400	128	266	255	297
Arrears rate	0.34%	0.34%	0.34%	0.34%	0.32%	0.31%	0.30%	0.29%
Loss ratio	(53.3) %	(32.9) %	49.3%	84.3%	36.5%	11.3%	11.6%	10.2%
Operating expense ratio	25.1%	29.4%	19.2%	21.3%	20.6%	22.0%	20.8%	20.7%
Combined ratio	(28.2) %	(3.5) %	68.5%	105.6%	57.1%	33.3%	32.4%	30.9%
Severity ratio	31.8%	27.0%	31.0%	28.9%	28.8%	29.9%	30.0%	28.8%
Return on equity	13.1%	10.4%	5.9%	13.2%	4.2%	8.8%	8.3%	9.7%
Return on required equity	16.7%	10.5%	7.7%	14.9%	4.9%	10.6%	9.8%	11.3%
Capital available to minimum capital required (% MICAT)	191%	234%	233%	231%	207%	195%	197%	197%
% Estimated outstanding Canadian residential mortgages ($) with CMHC insurance coverage	24.8%	26.2%	25.9%	25.8%	26.0%	26.4%	27.0%	28.0%
Mortgage Funding								
Guarantees-in-force ($B)	479	489	500	516	494	493	488	492
Securities guaranteed	38,184	51,855	42,667	84,342	45,930	50,140	42,930	41,708
Guarantee and application fees received	191	241	186	323	154	129	164	136
Guarantee and application fees earned	172	172	165	170	160	156	146	142
Net income	141	135	130	143	122	126	116	114
Operating expense ratio	8.9%	8.8%	7.0%	9.0%	8.4%	9.3%	9.3%	9.7%
Return on equity	25.2%	18.9%	19.1%	21.9%	20.4%	21.7%	19.1%	18.4%
Return on required equity	65.6%	49.6%	40.8%	42.9%	38.7%	38.9%	35.9%	34.9%
Capital available to capital required[2]	192%	349%	233%	223%	211%	190%	198%	203%
% Estimated outstanding Canadian residential mortgages ($) with CMHC securitization guarantee	28.6%	29.5%	29.3%	30.6%	30.3%	30.6%	30.9%	31.4%

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

[2] *Prior to implementing the updated economic capital methodology for Mortgage Funding on 25 November 2020, this ratio was calculated using the Capital Floor methodology when determining required capital.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING 17
CONSOLIDATED BALANCE SHEET 18
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME 19
CONSOLIDATED STATEMENT OF EQUITY OF CANADA 20
CONSOLIDATED STATEMENT OF CASH FLOWS 21
NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS 22
1. CORPORATE INFORMATION 22
2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES 22
3. CURRENT AND FUTURE ACCOUNTING CHANGES 22
4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND MAKING ESTIMATES 23
5. SEGMENTED INFORMATION 24
6. GOVERNMENT FUNDING AND HOUSING PROGRAMS EXPENSES 26
7. MORTGAGE INSURANCE 26
8. MORTGAGE FUNDING 28
9. CAPITAL MANAGEMENT 28
10. FAIR VALUE MEASUREMENT 30
11. INVESTMENT SECURITIES 33
12. LOANS 34
13. BORROWINGS 35
14. FINANCIAL INSTRUMENTS INCOME AND EXPENSES 36
15. MARKET RISK 36
16. CREDIT RISK 37
17. PENSION AND OTHER POST-EMPLOYMENT BENEFITS 38
18. INCOME TAXES 38
19. RELATED PARTY TRANSACTIONS 38
20. COMMITMENTS AND CONTINGENT LIABILITIES 39
21. COMPARATIVE FIGURES 39
22. SUBSEQUENT EVENT 39

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 31 March 2021

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

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

Romy Bowers
President and Chief Executive Officer

Lisa Williams, CPA, CA
Chief Financial Officer

25 May 2021

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	Notes	31 March 2021	31 December 2020
Assets			
Cash and cash equivalents		4,139	2,301
Securities purchased under resale agreements		-	174
Accrued interest receivable		1,226	714
Investment securities:			
Fair value through profit or loss	11	452	399
Fair value through other comprehensive income	11	20,700	23,094
Amortized cost	10	2,240	1,427
Derivatives		29	117
Due from the Government of Canada	6	863	339
Loans:	12		
Fair value through profit or loss		604	743
Amortized cost		276,158	270,450
Accounts receivable and other assets		932	931
Investment property		281	281
		307,624	300,970
Liabilities			
Accounts payable and other liabilities		1,157	752
Accrued interest payable		1,103	573
Dividends payable	9	3,895	-
Derivatives		44	8
Provision for claims	7	521	735
Borrowings:	13		
Fair value through profit or loss		857	1,156
Amortized cost		278,399	272,369
Defined benefit plans liability		257	549
Unearned premiums and fees	7, 8	8,030	8,021
Deferred income tax liabilities		209	232
		294,472	284,395
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		255	607
Retained earnings		12,872	15,943
		13,152	16,575
		307,624	300,970

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 31 March	
(in millions of Canadian dollars)	Notes	2021	2020
Interest income		1,120	1,349
Interest expense		1,117	1,336
Net interest income		3	13
Government funding for housing programs	6	1,392	914
Premiums and fees earned	7, 8	519	495
Investment income		89	118
Net gains (losses) on financial instruments	14	55	(88)
Other income		7	7
Total revenues and government funding		2,065	1,459
Non-interest expenses			
Housing programs	6	1,315	842
Insurance claims		(185)	122
Operating expenses		185	150
Total expenses		1,315	1,114
Income before income taxes		750	345
Income taxes	18	184	86
Net income		566	259
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	18	(343)	374
Reclassification of losses (gains) on debt instruments held at fair value through other comprehensive income on disposal in the period	18	(9)	47
Total items that will be subsequently reclassified to net income		(352)	421
Items that will not be subsequently reclassified to net income			
Remeasurement gains on defined benefit plans	17, 18	258	137
Total items that will not be subsequently reclassified to net income		258	137
Total other comprehensive income (loss), net of tax		(94)	558
Comprehensive income		472	817

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**	**2021**	**2020**
Contributed capital		25	25
Accumulated other comprehensive income			
Balance at beginning of period		607	247
Other comprehensive income (loss)		(352)	420
Balance at end of period		255	667
Retained earnings			
Balance at beginning of period		15,943	14,341
Net income		566	259
Other comprehensive income		258	138
Dividends	9	(3,895)	-
Balance at end of period		12,872	14,738
Equity of Canada		13,152	15,430

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 2021	2020
Cash flows from operating activities			
Net income		566	259
Adjustments to determine cash flows from operating activities			
Amortization of premiums and discounts on financial instruments		38	19
Net losses (gains) on financial instruments		(189)	(113)
Deferred income taxes	18	(22)	(53)
Depreciation and impairment		30	8
Changes in operating assets and liabilities			
Derivatives		124	195
Accrued interest receivable		(512)	(501)
Due from the Government of Canada		(629)	(591)
Accounts receivable and other assets		75	(15)
Accounts payable and other liabilities		515	244
Accrued interest payable		530	496
Provision for claims		(214)	58
Defined benefit plans liability		6	3
Unearned premiums and fees		9	10
Other		(1)	5
Loans	12		
Repayments		4,924	10,711
Disbursements		(10,471)	(15,806)
Borrowings	13		
Repayments		(5,858)	(13,400)
Issuances		11,667	19,148
		588	677
Cash flows from investing activities			
Investment securities			
Sales and maturities		5,537	1,027
Purchases		(4,601)	(890)
Foreign currency forward contract maturities			
Receipts		206	10
Disbursements		(31)	(39)
Securities purchased under resale agreements		174	(214)
Fixed and intangible asset acquisitions		(35)	(21)
		1,250	(127)
Change in cash and cash equivalents		1,838	550
Cash and cash equivalents			
Beginning of period		2,301	922
End of period		4,139	1,472
Represented by			
Cash		76	7
Cash equivalents		4,063	1,465
		4,139	1,472
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		875	1,045
Amount of interest paid during the period		736	902
Amount of dividends received during the period		-	1
Amount of income taxes paid during the period		146	211

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

These unaudited quarterly consolidated financial statements are as at and for the three months ended 31 March 2021 and were approved and authorized for issue by our Audit Committee on 25 May 2021.

2. Basis of Preparation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. We follow the same accounting policies and methods of application as disclosed in Note 2 of our audited consolidated financial statements for the year ended 31 December 2020 and these unaudited quarterly consolidated financial statements should be read in conjunction with those financial statements.

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our Mortgage Insurance Activity 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.

Future accounting changes

There have been no new standards or amendments to existing standards issued by the IASB that would affect us in the future other than those disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2020. Notably, as disclosed therein, we will implement International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* on 1 January 2023.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with IFRS requires us to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. We have disclosed key assumptions concerning the future and other important sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, in Note 4 of our audited consolidated financial statements for the year ended 31 December 2020. Notable changes to the key judgments and estimates since then are reflected below.

The COVID-19 pandemic continues to affect economies globally and its impacts on our business have become clearer. Loans still in deferral are now negligible, the nature and extent of government and regulatory responses are clearer, and our economic projections are more optimistic. The most significant uncertainty caused by COVID-19, with respect to the assumptions we use in making estimates, continues to pertain to our provision for claims as discussed below.

Judgments in applying accounting policies

Provision for claims

We have revised our estimate of the provision for claims at 31 March 2021 to reflect updated arrears information and economic assumptions available at the balance sheet date. The provision for claims reflects only incurred losses up to 31 March 2021 and does not reflect any losses on claims that may occur in future periods.

Notably, we have resumed using arrears reporting from financial institutions as a primary input in our provisioning methodology. After the first quarter of 2020, we had been relying primarily on projections of economic variables in the determination of our provision for claims because of loan deferral programs made available by financial institutions in 2020 resulted in fewer loans in arrears leading to greater difficulty to assess the health of the loan. Deferral programs formally ceased as of 30 September 2020; consequently, by 31 March 2021 arrears reporting is becoming more reliable and thus factored into our estimate. As the arrears become more complete in future quarters and we have full clarity on the impacts of the deferrals, we expect additional revisions to our provision.

In addition to the re-instatement of arrears data, our provision for claims at 31 March 2021 continues to incorporate projections of economic variables. We consider a number of scenarios when establishing a reasonable range for the provision for claims and our final estimate at 31 March 2021 reflects the following key economic assumptions for the next 18 months: average unemployment rate of 7.9%; increase in house price index of 4.7%; increase in real gross domestic product of 6.9%. See Note 7 for more information on the provision for claims.

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 products and programs in support of our objectives. We include the accounts for Canada Housing Trust (CHT), a separate legal entity, within the Mortgage Funding reportable segment. We determine the financial results of each segment using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2020. For all segments, revenues are attributed to, and assets are located in, Canada.

We generate revenues for the reportable segments as follows:

- Assisted Housing revenues include government funding and interest income on loans and investments;
- Mortgage Insurance revenues include 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)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Interest income	61	75	-	-	1,059	1,275	-	(1)	1,120	1,349
Interest expense	69	74	-	-	1,055	1,271	(7)	(9)	1,117	1,336
Net interest income (loss)	**(8)**	**1**	**-**	**-**	**4**	**4**	**7**	**8**	**3**	**13**
Government funding for housing programs	1,392	914	-	-	-	-	-	-	1,392	914
Premiums and fees earned	-	-	347	335	172	160	-	-	519	495
Investment income	-	-	75	104	16	17	(2)	(3)	89	118
Net gains (losses) on financial instruments	29	(10)	17	(75)	10	(2)	(1)	(1)	55	(88)
Other income (loss)	2	6	(1)	(1)	6	2	-	-	7	7
Total revenues and government funding	**1,415**	**911**	**438**	**363**	**208**	**181**	**4**	**4**	**2,065**	**1,459**
Non-interest expenses										
Housing programs	1,315	842	-	-	-	-	-	-	1,315	842
Insurance claims	-	-	(185)	122	-	-	-	-	(185)	122
Operating expenses	78	63	87	69	20	18	-	-	185	150
Total expenses	**1,393**	**905**	**(98)**	**191**	**20**	**18**	**-**	**-**	**1,315**	**1,114**
Income before income taxes	**22**	**6**	**536**	**172**	**188**	**163**	**4**	**4**	**750**	**345**
Income taxes	3	-	133	44	47	41	1	1	184	86
Net income	**19**	**6**	**403**	**128**	**141**	**122**	**3**	**3**	**566**	**259**
Total revenues and government funding	1,415	911	438	363	208	181	4	4	2,065	1,459
Inter-segment income (loss)[1]	-	(1)	(3)	(4)	7	9	(4)	(4)	-	-
External revenues and government funding	1,415	910	435	359	215	190	-	-	2,065	1,459

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

- *Assisted Housing recognizes interest income from holding Canada Mortgage Bonds (CMB) as investments;*
- *Mortgage Insurance recognizes investment income from holding CMB as investments; and*
- *Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.*

As at 31 March 2021 and 31 December 2020 *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Assets										
Cash and cash equivalents	779	1,171	2,264	1,121	1,096	9	-	-	4,139	2,301
Securities purchased under resale agreements	-	174	-	-	-	-	-	-	-	174
Accrued interest receivable	70	91	97	95	1,061	529	(2)	(1)	1,226	714
Investment securities:										
Fair value through profit or loss	369	318	83	81	-	-	-	-	452	399
Fair value through other comprehensive income	-	-	17,449	18,676	3,699	4,821	(448)	(403)	20,700	23,094
Amortized cost	2,240	1,447	-	-	-	-	-	(20)	2,240	1,427
Derivatives	18	24	11	93	-	-	-	-	29	117
Due from the Government of Canada	863	339	-	-	-	-	-	-	863	339
Loans:										
Fair value through profit or loss	581	719	23	24	-	-	-	-	604	743
Amortized cost	6,526	6,160	78	80	269,554	264,210	-	-	276,158	270,450
Accounts receivable and other assets	168	190	689	694	75	47	-	-	932	931
Investment property	281	281	-	-	-	-	-	-	281	281
	11,895	10,914	20,694	20,864	275,485	269,616	(450)	(424)	307,624	300,970
Liabilities										
Accounts payable and other liabilities	1,046	519	101	192	10	41	-	-	1,157	752
Accrued interest payable	58	57	-	-	1,047	517	(2)	(1)	1,103	573
Dividends payable	-	-	2,500	-	1,395	-	-	-	3,895	-
Derivatives	10	8	34	-	-	-	-	-	44	8
Provision for claims	-	-	521	735	-	-	-	-	521	735
Borrowings:										
Fair value through profit or loss	857	1,156	-	-	-	-	-	-	857	1,156
Amortized cost	9,250	8,529	-	-	269,554	264,210	(405)	(370)	278,399	272,369
Defined benefit plans liability	102	242	161	299	(6)	8	-	-	257	549
Unearned premiums and fees	-	-	6,119	6,129	1,911	1,892	-	-	8,030	8,021
Deferred income tax liabilities	80	71	136	139	6	37	(13)	(15)	209	232
	11,403	10,582	9,572	7,494	273,917	266,705	(420)	(386)	294,472	284,395
Equity of Canada	492	332	11,122	13,370	1,568	2,911	(30)	(38)	13,152	16,575
	11,895	10,914	20,694	20,864	275,485	269,616	(450)	(424)	307,624	300,970

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

6. Government Funding and Housing Programs Expenses

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

	Three months ended 31 March	
(in millions)	**2021**	**2020**
Assistance for housing needs	1,270	753
Financing for housing	151	145
Housing expertise and capacity development	45	37
Total[1]	**1,466**	**935**
Net change in government funding deferred	(74)	(21)
Total government funding recognized[2]	**1,392**	**914**

[1] *Includes operating expenses of $77 million for the three months ended 31 March 2021 (three months ended 31 March 2020 – $57 million).*

[2] *Total government funding recognized does not include gains resulting from below market rate funds borrowed under the Crown Borrowing Program, which are recognized in net gains (losses) on financial instruments. These gains totaled $29 million for the three months ended 31 March 2021 (three months ended 31 March 2020 – $24 million).*

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 31 March 2021 is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 31 March	
(in millions)	**2021**	**2020**
Balance at beginning of period	339	249
Total government funding	1,466	935
Government funding received during the period	(952)	(402)
Third party remittances to the Government of Canada	9	-
Balance at end of period before prior/future period adjustments	**862**	**782**
Net change in prior period adjustments	1	(7)
Balance at end of period	**863**	**775**

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)	**2021**	**2020**
Balance at beginning of period	6,129	5,496
Premiums deferred on contracts written in the period	330	345
Premiums earned in the period	(343)	(329)
Application fees deferred on contracts written in the period	7	3
Application fees earned in the period[1]	(4)	(3)
Balance at end of period	**6,119**	**5,512**

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

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 2021			31 December 2020		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	458	23	481	651	25	676
Discounting	(5)	(2)	(7)	(4)	(2)	(6)
Discounted provision for adverse deviation	42	5	47	60	5	65
Total provision for claims	**495**	**26**	**521**	**707**	**28**	**735**

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

	Three months ended 31 March					
	2021			2020		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	707	28	735	364	43	407
Net claims paid during the period	(34)	-	(34)	(63)	-	(63)
Provision for claims provided for and losses incurred during the period[1]	78	-	78	68	-	68
Unfavourable (favourable) development on prior period claims	(256)	(2)	(258)	53	-	53
Provision for claims, end of period	**495**	**26**	**521**	**422**	**43**	**465**

[1] *Included as part of insurance claims on the consolidated statements of income and comprehensive income. Provision for claims provided for and losses incurred may not equal insurance claims expense as certain insurance claims expenses 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 2021 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 in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations, consisting primarily of insured mortgage loans, under each of the programs.

At the balance sheet date, we have not received a claim 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					
	2021			2020		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,341	551	1,892	1,152	503	1,655
TPG and application fees received in the period	149	42	191	115	39	154
TPG and application fees earned in the period	(135)	(37)	(172)	(123)	(37)	(160)
Balance at end of period	**1,355**	**556**	**1,911**	**1,144**	**505**	**1,649**

9. Capital Management

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

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

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

Effective 25 November 2020, our Board of Directors approved an updated economic capital methodology for determining required capital for Mortgage Funding, which we have applied prospectively from that date. See the 2020 Annual Report for further information on the revised economic capital methodology.

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

We declare dividends to the Government from our Mortgage Insurance and Mortgage Funding Activities, to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet our needs for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, we do not manage our capital to issue a dividend. We declared dividends of $3,895 million during the three months ended 31 March 2021 (three months ended 31 March 2020 – no dividends paid or declared), which remained payable as at 31 March 2021.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**31 March 2021**	**31 December 2020**
Contributed capital	25	25
Accumulated other comprehensive income	255	607
Appropriated retained earnings	10,444	9,905
Unappropriated retained earnings[1]	2,428	6,038
Total equity of Canada[2]	**13,152**	**16,575**
Less: assets with a capital requirement of 100%	(64)	(67)
Total capital available	**13,088**	**16,508**

[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.

	As at	
(in millions, unless otherwise indicated)	**31 March 2021**	**31 December 2020**
Appropriated capital[1]	9,576	9,374
Unappropriated capital	1,546	3,996
Total Mortgage Insurance capital	**11,122**	**13,370**
Less: assets with a capital requirement of 100%	(64)	(67)
Total Mortgage Insurance capital available	**11,058**	**13,303**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	191%	234%

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

Mortgage Funding capital

Mortgage Funding capital is appropriated for the guarantees provided by our NHA MBS and CMB programs. There is no regulatory capital and the appropriated amount of capital is based on the economic capital methodology as outlined in the most recent annual report. Under the revised methodology implemented effective 25 November 2020, the total asset requirement is $3 billion (economic capital required) and this will be re-assessed annually as part of the ORSA process. At 31 March 2021, we held total assets of $4,870 million less $1,403 million of liabilities (excluding unearned premiums and fees). These amounts exclude assets and liabilities related to IMPP. We are sufficiently capitalized from an economic capital standpoint with $3,467 million of net assets (economic capital available) to more than offset the $3 billion total asset requirement.

Appropriated retained earnings is determined by deducting unearned guarantee and application fees from the total asset requirement to arrive at accounting capital required. At 31 March 2021, the appropriated capital of $1.1 billion is lower than the $1.2 billion required under our previous methodology and is due to the removal of the capital floor.

We compare our closing equity balance to the appropriated retained earnings determined above to assess possible capital available for dividends while also ensuring that our available assets do not decrease below the $3 billion economic capital required.

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**31 March 2021**	**31 December 2020**
Appropriated capital[1]	1,087	1,107
Unappropriated capital	481	1,804
Total Mortgage Funding capital available	**1,568**	**2,911**
Capital available to capital required (%)	192%	349%
Economic capital available to economic capital required	128%	176%

[1] We appropriate retained earnings and AOCI at the operating level of accounting capital required (as defined above), which is set at 110% of our capital needs determined by ORSA less unearned guarantee and application fees. Our internal target is set at 105% of our 'Own View' of capital needs less unearned premium and fees.

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Assisted Housing 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 (2020 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should we exceed the statutory limit, we would be required to pay the excess to the Government.

Unrealized fair value fluctuations as well as remeasurement gains and 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 2021**	**31 December 2020**
Reserve fund	57	59
Retained earnings	410	248
Total Lending programs capital available	**467**	**307**

Housing programs

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

10. Fair Value Measurement

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

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

Fair value hierarchy

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

Level 1: Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities.

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

Level 3: Assets and liabilities not quoted in active markets that are measured using valuation techniques. Where observable inputs are not available, unobservable inputs are used. For Level 3 assets and liabilities, unobservable inputs are significant to the overall measurement of fair value.

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

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

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

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

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

	As at					
	31 March 2021			31 December 2020		
(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]	2,240	2,244	4	1,427	1,439	12
Loans at amortized cost [3]	276,158	280,978	4,846	270,450	280,561	10,111
Financial liabilities						
Borrowings at amortized cost [4]	278,399	283,244	4,845	272,369	282,708	10,339

[1] *Does not include cash and cash equivalents of $772 million (31 December 2020 – $1,023 million) and securities purchased under resale agreements of $nil (31 December 2020 – $174 million) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

[2] *$2,244 million (31 December 2020 – $1,439 million) fair value categorized as level 2.*

[3] *$278,910 million (31 December 2020 – $278,750 million) fair value categorized as level 2, $2,068 million (31 December 2020 – $1,811 million) fair value categorized as level 3.*

[4] *$206,090 million (31 December 2020 – $219,834 million) fair value categorized as level 1, $77,154 million (31 December 2020 – $62,874 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 2021				31 December 2020			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	100	-	100	-	290	-	290
Federal government issued	85	3,182	-	3,267	710	266	-	976
Corporate/other entities	-	-	-	-	-	12	-	12
Total cash equivalents	85	3,282	-	3,367	710	568	-	1,278
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	38	120	-	158	38	20	-	58
Provinces/municipalities	77	76	-	153	103	76	-	179
Sovereign and related entities	-	58	-	58	-	81	-	81
Equities								
Limited partnership units	-	-	83	83	-	-	81	81
Total at FVTPL	115	254	83	452	141	177	81	399
FVOCI								
Debt instruments								
Federal government issued	9,383	157	-	9,540	11,280	532	-	11,812
Corporate/other entities	2,949	4,800	17	7,766	1,891	5,856	-	7,747
Provinces/municipalities	3,030	171	-	3,201	2,797	562	-	3,359
Sovereign and related entities	25	168	-	193	16	160	-	176
Total at FVOCI	15,387	5,296	17	20,700	15,984	7,110	-	23,094
Loans designated at FVTPL	-	380	-	380	-	537	-	537
Derivatives	-	29	-	29	-	117	-	117
Loans mandatorily at FVTPL	-	15	209	224	-	17	189	206
Investment property	-	-	281	281	-	-	281	281
Total assets carried at fair value	**15,587**	**9,256**	**590**	**25,433**	**16,835**	**8,526**	**551**	**25,912**
Liabilities								
Borrowings designated at FVTPL	-	857	-	857	-	1,156	-	1,156
Derivatives	-	36	8	44	-	8	-	8
Total liabilities carried at fair value	**-**	**893**	**8**	**901**	**-**	**1,164**	**-**	**1,164**

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at each balance sheet date. Transfers are dependent on internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. There were $2,001 million of transfers from Level 2 to Level 1, $432 million of transfers from Level 1 to Level 2, and $10 million of transfers from Level 2 to Level 3 during the three months ended 31 March 2021 (31 March 2020 – $2,049 million, $251 million, and nil, 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	Investment securities - FVOCI	Loans - FVTPL	Investment property	Total
Fair value as at 1 January 2021	**81**	**-**	**189**	**281**	**551**
Purchases/issuances	1	7	20	-	28
Net gains in net income[1,2]	1	-	8	-	9
Level transfers	-	10	-	-	10
Cash receipts on settlements/disposals	-	-	(8)	-	(8)
Fair value as at 31 March 2021	**83**	**17**	**209**	**281**	**590**
Fair value as at 1 January 2020	**118**	**-**	**70**	**276**	**464**
Purchases/issuances	-	-	34	-	34
Net gains in net income[1,2]	3	-	-	-	3
Level transfers	-	-	-	-	-
Cash receipts on settlements/disposals	-	-	(6)	-	(6)
Fair value as at 31 March 2020	**121**	**-**	**98**	**276**	**495**

[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 2021, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 31 March 2021 did not materially change from 31 December 2020. 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 2020.

11. Investment Securities

Credit quality

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an ECL allowance based on 12-month ECL with the exception of one instrument at FVOCI with a gross carrying value of $4 million that has 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 2021						31 December 2020					
(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	10,655	3,577	3,920	2,457	91	20,700	12,913	3,779	3,920	2,397	85	23,094
Amortized Cost	902	427	911	-	-	2,240	445	391	591	-	-	1,427

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

Expected credit losses

The ECL allowance for debt instruments held at FVOCI was $2 million at 31 March 2021 (31 December 2020 – $5 million) with a corresponding gain of $3 million recognized in net gains (losses) on financial instruments during the three months ended 31 March 2021 (three months ended 31 March 2020 – $65 million loss).

The ECL allowance for debt instruments held at amortized cost was nil at 31 March 2021 (31 December 2020 – nil) with a corresponding gain of nil recognized in net gains (losses) on financial instruments during the three months ended 31 March 2021 (three months ended 31 March 2020 – $4 million loss).

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)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized interest	Transfers[1]	Balance at end of period
2021									
FVTPL									
Lending programs	719	(22)	15	(1)	-	-	-	(130)	581
MI Activity loans	24	(7)	6	-	-	-	-	-	23
Total at FVTPL	**743**	**(29)**	**21**	**(1)**	**-**	**-**	**-**	**(130)**	**604**
Amortized cost									
CMB program loans	258,962	(4,409)	9,993	-	10	-	-	-	264,556
Lending programs	6,160	(228)	456	-	-	4	4	130	6,526
IMPP loans	5,248	(250)	-	-	-	-	-	-	4,998
MI Activity loans	80	(8)	1	-	1	4	-	-	78
Total amortized cost	**270,450**	**(4,895)**	**10,450**	**-**	**11**	**8**	**4**	**130**	**276,158**
Total	**271,193**	**(4,924)**	**10,471**	**(1)**	**11**	**8**	**4**	**-**	**276,762**
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
Lending programs	4,893	(226)	275	-	-	(22)	4	127	5,051
IMPP loans	-	-	5,000	-	-	-	-	-	5,000
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**

[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 2020 – 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.

Expected credit losses

Total undrawn loan commitments outstanding at 31 March 2021 were $5,709 million (31 December 2020 – $5,022 million), of which $5,702 million (31 December 2020 – $5,015 million) are subject to 12-month ECL and $7 million (31 December 2020 – $7 million) are commitments outstanding on purchased or originated credit impaired loans.

At 31 March 2021, the ECL on undrawn loan commitments was $6 million (31 December 2020 – $7 million), and the ECL on loans was $83 million (31 December 2020 – $91 million). Changes in ECL are recognized in net gains (losses) on financial instruments for Lending program loans and in insurance claims expense for MI Activity loans.

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
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,156	-	(291)	(8)	-	-	857
Amortized cost							
Canada mortgage bonds	258,592	9,993	(4,388)	-	10	(56)	264,151
Borrowings from the Government of Canada – Lending programs	8,529	1,674	(929)	(29)	5	-	9,250
Borrowings from the Government of Canada – IMPP	5,248	-	(250)	-	-	-	4,998
Total amortized cost	**272,369**	**11,667**	**(5,567)**	**(29)**	**15**	**(56)**	**278,399**
Total	**273,525**	**11,667**	**(5,858)**	**(37)**	**15**	**(56)**	**279,256**
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,374	-	(312)	32	-	-	2,094
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 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**

When we hold CMB to maturity or acquire CMB in the primary market, we exclude the related cash flows from the consolidated statement of cash flows. During the three months ended 31 March 2021, we have excluded $21 million (three months ended 31 March 2020 – $80 million) of CMB maturities 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. For 2021, the limits on our short-term borrowings outstanding and long-term borrowings issued are $6 billion and $5 billion, respectively (2020 – $20 billion and $154 billion). Actual short-term borrowings outstanding as at 31 March 2021 were $335 million (31 December 2020 – $410 million). Actual long-term borrowings issued in the three months ended 31 March 2021 were $959 million (three months ended 31 March 2020 – $5.6 billion).

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 31 March	
(in millions)	**2021**	**2020**
Financial instruments designated at FVTPL		
Investment securities	(1)	5
Loans	(3)	13
Borrowings	8	(32)
Total financial instruments designated at FVTPL	**4**	**(14)**
Financial instruments mandatorily at FVTPL		
Equity securities	1	3
Derivatives	50	(224)
Loans	2	1
Total financial instruments mandatorily at FVTPL	**53**	**(220)**
Debt instruments held at FVOCI[1]	(36)	221
Loans – amortized cost	-	2
Borrowings – amortized cost[2]	29	14
Expected credit losses (recoveries) on financial assets[3]	5	(91)
Total	**55**	**(88)**

[1] *Includes a foreign exchange loss of $61 million (three months ended 31 March 2020 – gain of $220 million) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes losses from the retirement of borrowings of nil (three months ended 31 March 2020 – $10 million), net of gains from the issuance of borrowings of $29 million (three months ended 31 March 2020 – $24 million).*

[3] *Excludes a release of expected credit losses on MI Activity loans at amortized cost during the three months ended 31 March 2021 of $5 million (expected credit losses during the three months ended 31 March 2020 – nil). These are presented in insurance claims expense.*

15. Market Risk

Market risk is the risk of adverse financial impacts arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices. There were no material changes to our assessment and management of market risk in the three months ended 31 March 2021.

Currency risk

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. Our internal policies limit the amount of foreign currency investments and require full hedging of currency risk. We held $4,371 million in debt instruments denominated in U.S. dollars as at 31 March 2021 (31 December 2020 – $4,347 million), which we present as investment securities at FVOCI, and we assessed residual currency risk as immaterial.

Value at risk (VaR)

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

	As at	
(in millions)	**31 March 2021**	**31 December 2020**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	155	156
USD-denominated securities	66	75
Effect of diversification	(23)	(28)
Total VaR	**198**	**203**

Interest rate sensitivity

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

For the Assisted Housing Activity's financial instruments designated at FVTPL and derivatives, we assessed the net impact of a 200 bps shift in interest rates on fair value as immaterial as at 31 March 2021 after accounting for derivatives.

The Assisted Housing Activity's financial instruments measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value as at 31 March 2021 is presented below.

	As at			
	31 March 2021		**31 December 2020**	
	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]	(468)	331	(306)	356

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

16. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. We disclose full descriptions of credit risks related to our financial instruments and how we manage those risks in Note 19 of our audited consolidated financial statements for the year ended 31 December 2020. There has been no change in the nature of the risks and how we manage them in the three month period ended 31 March 2021.

17. Pension and Other Post-Employment Benefits

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

	Three months ended 31 March			
	Pension plans		Other post-employment plans	
(in millions)	**2021**	**2020**	**2021**	**2020**
Current service cost	17	11	-	-
Net interest expense	2	3	1	1
Expense recognized in net income	**19**	**14**	**1**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	373	293	17	14
Return on plan assets, excluding amounts included in net interest expense	(92)	(148)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**281**	**145**	**17**	**14**
CMHC's contributions[2]	13	11	1	-
Employee contributions	6	5	-	-
Total contributions	**19**	**16**	**1**	**-**

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

[2] *Includes a solvency payment of $6.1 million for the three months ended 31 March 2021 (2020 - $5.6 million).*

We determine the discount rate in accordance with guidance issued by the Canadian Institute of Actuaries by reference to Canadian AA-rated corporate bonds with terms to maturity approximating the duration of the obligation. The discount rate we used to remeasure the defined benefit obligations at 31 March 2021 was 3.4% (31 December 2020 – 2.6%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	**2021**	**2020**
Current income tax expense	206	139
Deferred income tax relating to origination and reversal of temporary differences	(22)	(53)
Total income tax expense included in net income	**184**	**86**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized gains (losses) from FVOCI financial instruments	(114)	143
Reclassification of prior years' net unrealized gains realized in the period in net income	(3)	-
Remeasurement gains (losses) on defined benefit plans	40	22
Total income tax expense (recovery) included in other comprehensive income (loss)	**(77)**	**165**
Total	**107**	**251**

19. Related Party Transactions

We defer and amortize the Government fees paid in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. The fees, which are recorded in operating expenses, amount to $12 million for the three month period ended 31 March 2021 (three months ended 31 March 2020 – $11 million) for the Mortgage Insurance Activity and $9 million for the three month period ended 31 March 2021 (three months ended 31 March 2020 – $7 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

As at 31 March 2021, we have $9,304 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years (31 December 2020 - $8,926 million), and $213 million in other contractual obligations up to the year 2025 (31 December 2020 - $182 million).

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

	As at	
(in millions)	**31 March 2021**	**31 December 2020**
Rental Construction Financing initiative (RCFi)	403	655
Direct Lending – Economically Hedged	100	290
National Housing Co-Investment Fund (NHCF)	181	122
Affordable Housing Innovation Fund	73	29
Canada Emergency Commercial Rent Assistance	-	7
Total	**757**	**1,103**

21. Comparative Figures

We have reclassified certain comparative information in the consolidated statement of cash flows. We previously presented foreign currency forward contract receipts and disbursements, as well as fixed and intangible asset acquisitions, as cash flows from operating activities but now present them as cash flows from investing activities. In addition, within cash flows from operating activities, we have reclassified comparative information in accounts receivable and other assets and accounts payable and other liabilities, and we now present depreciation and impairment in a separate line, to better reflect the nature of our fixed and intangible asset transactions.

We have revised the capital available to capital required ratio for Mortgage Funding for 31 December 2020 in Note 9 from 263% to 349%.

22. Subsequent Event

On 19 April 2021, the Government tabled Federal Budget 2021: A Recovery Plan for Jobs, Growth, and Resilience, which includes several items that relate to housing, including new investments and the reprofiling of existing program funding. Overall, starting in 2021-22, the Budget proposes to provide an additional $2.5 billion over seven years in new funding as well as the reallocation of another $1.3 billion in existing funding to speed up the construction, repair, or support of 35,000 additional housing units. Refer to "Federal Budget 2021" in our Management's Discussion & Analysis for further details.

CANADA MORTGAGE AND HOUSING CORPORATION
700 Montreal Road
Ottawa, Ontario
K1A 0P7

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

20210505-001A