FIRST QUARTER
31 MARCH 2024
(UNAUDITED)

Quarterly Financial Report

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Management's Discussion and Analysis

Overview

The following Management's Discussion and Analysis (MD&A) of the financial position and results of operations as approved by the Audit Committee on 17 May 2024 is prepared for the first quarter ended 31 March 2024 and is intended to provide readers with an overview of our performance including comparatives against the same quarter in 2023. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2023 Annual Report. The unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. 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 2023 Annual Report as well as in Note 4 of these unaudited quarterly consolidated financial statements. There have been no material changes to our significant accounting policies, judgments or estimates to the end of the first quarter of 2024.

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 2024" section of the report. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties which may cause actual results to differ materially from expectations expressed in these forward-looking statements.

Non-IFRS measures

We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements, which are prepared in accordance with IFRS, and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the QFR can be found in the Glossary for Non-IFRS Financial Measures section of the 2023 Annual Report.

The Operating Environment and Outlook for 2024

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

Economic Conditions and Housing Indicators

Canada's economy regained momentum at the start of 2024, after some weakness in the second half of 2023. The recovery was largely due to stronger-than-expected population growth and increased consumer spending. On an annual average basis, this would imply growth in real gross domestic product growth of 0.9% in 2024 and about 1.9% in 2025, according to the April Consensus Forecast[1].

The current economic environment evolved against the backdrop of past monetary policies. Inflation in Canada is showing signs of easing as past interest rates increases helped reduce inflationary pressures. However, while Consumer Price Index (CPI) inflation dropped from 8.1% in June 2022 to 2.9% in March 2024, inflation remains a concern. Shelter price inflation is expected to ease as growth in mortgage interest costs slows, driven by fewer households renewing or taking on new mortgages over the near term. Nevertheless, it is anticipated to remain high due to mortgage interest costs and rental price inflation.

Over the near term, growth in consumption spending has been robust largely because of population growth. However, with record-high levels of household debt, Canadians could become more frugal, leading to a per capita reduction in consumption spending.

The household debt to disposable income ratio dipped slightly to a seasonally adjusted 178.7% in the fourth quarter of 2023 from 179.2% in the third quarter, with growth in household disposable income outpacing debt (1.3% vs. 1.0%, respectively). This means that for every dollar of disposable income, Canadians owed $1.79 in credit market debt.

Looking ahead, however, the ratio is expected to edge higher before stabilizing, as the share of income allocated to interest payments at current rates is expected to continue to rise, although at a more gradual pace. Thus, elevated household indebtedness remains a key vulnerability for the Canadian economy, especially given recent signs of weakness in the labour market.

Labour market conditions continued to ease over the first quarter of this year. The unemployment rate rose to 6.1% in March. Meanwhile, the job vacancy rate has returned to near pre-pandemic levels (3.1% in January 2024, compared with 3.0% in January 2020), and labor costs are expected to align with inflation as wage growth slows.

After setting a record in the first quarter of 2021 at 738,560 units[2] sold on the resale market (seasonally adjusted and annualized rate, SAAR), homeownership demand in Canada experienced a significant downward adjustment. This decline reflected substantial increases in mortgage costs, worsening affordability conditions, and growing uncertainty. Following a trough in the first quarter of 2023, MLS® sales in the first quarter of 2024 recovered by 15%, reaching 470,124 SAAR units[2]. During this period, MLS® listings also experienced a similar rebound.

The seasonally adjusted MLS® price in the first quarter of 2024, at $668,559[2], was 4% higher than the trough level observed during the same period in 2023. According to our recently released Housing Market Outlook report (HMO), prices are likely to further rebound, indicating a lack of short-term affordability improvement.

[1] Consensus Economics Inc., Surveys of International Economic Forecasts, April 2024.

[2] The Canadian Real Estate Association's (CREA) historical seasonally adjusted data is subject to regular revisions due to updates in actual data and seasonal adjustments.

The new home construction market began 2024 strongly, marking one of its strongest first quarters on record. Housing starts reached 252,124 SAAR units, up 15% from the first quarter of 2023, and exceeding the average level of 2023. This increase was to a large degree driven by the condominium apartments. Condominium apartment starts are expected to slow in the later part of 2024[3]. This reflects a slowdown in pre-sale activity and challenges in securing construction financing for condominium projects observed in 2023.

These economic conditions continue to have a significant impact on our financial results. The sustained high interest environment from recent interest rate increases has led to continued higher investment and interest income in the first quarter of 2024. As discussed above, higher house prices and interest rates are contributing to transactional homeowner unit volumes remaining relatively consistent with prior year. Additionally, our arrears remain low which is resulting in low levels of claims paid. These impacts are discussed further in the "Financial Results" section below.

Risk Management

Overall, financial risks are low and within risk tolerances. Credit risk and liquidity risk remain low and stable. Market risk is consistent with established risk limits and tolerances. The strong credit quality and diversification of our investment portfolios continues to provide resiliency and mitigate the impact of uncertain market and economic conditions. Homeowner insurance risk is stable and arrears remain low. Multi-unit insurance risk remains moderate, though we continue to monitor the business and financial impact of the increasing share of MLI Select loans in our multi-unit portfolio.

For more details, please refer to our 2023 Annual Report.

Federal Budgets (2023 and 2024)

Update since Q4 2023

In Budget 2024, the Government of Canada announced new initiatives, additional investments and changes to existing programs which implicate CMHC, including:

- Several announcements related to the Apartment Construction Loan Program (ACLP):
  - An additional $15 billion in new loan funding, starting in 2025–26, for the ACLP, bringing the program's total to over $55 billion.
    - Of this amount, at least $100 million will be used to build homes above existing shops and businesses, especially in big cities where land is scarce and where density is key;
    - Leveraging the $55 billion ACLP as part of Canada Builds to partner with provinces and territories to build more rental housing across the country;
    - The ACLP will earmark at least $500 million to homebuilders that use innovative construction techniques, such as modular housing, for new rental projects; and
    - There are also program reforms to the ACLP.
- $976 million over five years, starting in 2024–25, and $24 million in future years, to launch a new Rapid Housing stream under the Affordable Housing Fund to build deeply affordable housing, supportive housing, and shelters for our most vulnerable;
- $477.2 million over five years, starting in 2024–25, and $147.8 million in future years, to launch a new $1.5 billion Canada Rental Protection Fund, to be administered by CMHC, to protect the stock of affordable housing in Canada;
- $409.6 million over four years, starting in 2025–26, to launch a new Canada Secondary Suite Loan Program, enabling homeowners to access up to $40,000 in low-interest loans to add secondary suites to their homes;
- An additional $400 million over four years, starting in 2024–25, to top up the Housing Accelerator Fund;

[3] Canada Mortgage and Housing Corporation, 2024 Housing Market Outlook.

- $179.4 million over five years, starting in 2024–25, with $5.7 million in future years, to launch a $1 billion Child Care Expansion Loan Program;
- $112.6 million over five years, starting in 2024–25, and $4.3 million in future years, to top up the Federal Lands Initiative to unlock more federal lands for affordable housing providers;
- $20 million over four years, starting in 2024–25, to modernize and enhance the collection and dissemination of housing data, including municipal-level data on housing starts and completions;
- Intent to establish a subsidiary of CMHC to deliver flood reinsurance, and $15 million in 2025–26 to advance implementation of a national flood insurance program by 2025;
- $11.6 million in 2024–25 to support the development of its Housing Design Catalogue for up to 50 housing designs; and
- Intent to introduce flexibilities to the Federal Community Housing Initiative to ensure that eligible housing providers can access funding to maintain housing affordability for low-income tenants and co-op members.

The effects of these Budget 2024 measures will be reflected in future financial results once requisite authorities are obtained and programs launched.

In addition to the above, Budget 2024 announced the following legislative changes:

- Extending the amortization limits by five years to allow 30-year amortizations for first-time home buyers purchasing newly constructed homes;
- The removal of GST for new student residences to incentivize educational institutions to build more student housing;
- A temporary accelerated capital cost allowance, at a rate of 10 per cent for eligible new purpose-built rental projects; and
- An increase to the insurance-in-force and guarantees-in-force legislative limits under the *National Housing Act* to $800 billion.

These legislative changes are expected to lead to increased activity in our Mortgage Insurance and Mortgage Funding Activities, however, we are unable to assess the extent at this time.

In Budget 2023, the Government of Canada announced an additional $4 billion, over seven years, starting in 2024–25, to implement a co-developed Urban, Rural, and Northern Indigenous Housing Strategy. Requisite financial authorities have been obtained during the quarter.

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

Other Updates

Update since Q4 2023

Climate Related Financial Disclosures

The Climate Risk Management Project continues to enhance our climate risk and opportunities management practices and processes.

In the first quarter of 2024, we continued to integrate assessing climate-related risks into CMHC's existing risk governance three lines of defense into our business functions so that the identification and assessment of climate risk and opportunities is further integrated into operations. Scope 3 emissions reporting is advancing as planned and this quarter resulted in a data collection process being established for category 7: Employee Commuting. The project continues to advance the quantification of flood and wildfire material impacts to our business and is working to resolve these climate hazard data limitations. We continue to monitor the evolution of climate risk management standards and adapt our planned activities accordingly.

Our disclosures are based on recommendations issued by Task Force on Climate-Related Financial Disclosures and will evolve over time as we work towards compliance with OSFI Guideline B-15 Climate Risk Management. In March 2024, OSFI released updates to Guideline B-15: Climate Risk Management (Guideline B-15) to align its disclosure expectations with the International Sustainability Standards Board's final IFRS S2 Climate-related Disclosures standard. In addition to these updates, OSFI also released new Climate Risk Returns that will be used to collect climate-related data on emissions and exposures from FRFIs. Although we are not currently required to report against requirements issued by the International Sustainability Standards Board or the Canadian Sustainability Standards Board, we are monitoring developments at the international and Canadian levels for potential future impacts on our climate related financial disclosures.

Capital and Dividend Policy Framework for Financial Crown Corporations

On 16 April 2024, the Department of Finance released an amended Capital and Dividend Policy Framework to support the changes to Financial Crown corporations as announced in Budget 2024. The objective of the amended Framework is to ensure that financial Crown corporations have appropriate methodologies in place to determine their capital adequacy requirements; that they are maximizing economic growth objectives; that they effectively manage their capital in relation to risk; and, that dividends are paid to the shareholder when capital exceeds determined levels. We are assessing the impact of the amended Framework on CMHC and any changes will be included in future Corporate Plans and financial reports.

Updates from the Office of the Superintendent of Financial Institutions (OSFI)

In the first quarter of 2024, the following updates occurred:

OSFI's New Supervisory Framework

On 8 February 2024, OSFI released its new supervisory framework which was officially implemented on 1 April 2024 for federally regulated financial institutions (FRFIs) and private pension plans. The new framework is the most significant change to OSFI's supervisory approach in 25 years and brings notable changes including:

- expanding the 4-point risk rating scale to an 8-point scale which will provide an earlier indication of changes in OSFI's risk assessment of their organizations;
- including more information about the drivers of risk rating; and
- introducing new risk assessment categories: business risk, financial resilience, operational resilience, risk governance together with the integration of climate risk considerations.

Mortgage Insurer Capital Adequacy Test (MICAT) 2024 Guideline

On 1 January 2024, OSFI's MICAT 2024 Guideline came into effect. This revised guideline builds on MICAT 2023 and reflects two key revisions, including clarifying the maximum remaining amortization in the requirements calculations, and increasing the maximum LTV to 105% from 100% in the requirements calculations. These amendments did not have a material impact to our MICAT ratio.

Guideline B-10 Third-Party Risk Management

In April 2023, OSFI published Guideline B-10, effective 1 May 2024, which sets out associated risk expectations to manage third-party arrangements. We have established a third-party risk management directive to govern the Vendor Risk Management Program. This directive provides accountability, guidance, and tools for effective third-party risk management practices by outlining the processes to identify, assess, treat (control), and monitor the risk exposure of conducting business with vendors of goods and services, including reference to vendor criticality and contract risk.

Guideline B-13 Technology and Cyber Risk Management

In January 2024, OSFI's Guideline B-13: Technology and Cyber Risk Management came into effect. This Guideline sets out expectations for the sound management of technology and cyber risk for FRFIs outlining expectations for financial institutions to compete effectively and take full advantage of digital innovation, while maintaining sound technology risk management. CMHC's practices align to the principles of Guideline B-13. We continue to enhance processes to improve our maturity in this space.

Consultation on draft Standardized Climate Scenario Exercise (SCSE)

In April 2024, OSFI issued a consultation on the draft Standardized Climate Scenario Exercise (SCSE) — Phase 2, following Phase 1 which was completed in December 2023. OSFI used feedback from the first phase of the SCSE consultation to update the draft methodology, create a draft workbook along with a set of instructions, and produce a "What We Heard" report.

The SCSE aims to increase FRFIs' understanding of their potential exposures to climate-related risks. It also aims to build their capacity to conduct climate scenario analysis and risk assessments. As a fully standardized exercise, the SCSE will also give OSFI a comparable quantitative assessment of climate-related risks across FRFIs.

Guideline for Assurance on Capital, Leverage and Liquidity Returns

In November 2022, OSFI released a new Guideline for Assurance on Capital, Leverage and Liquidity Returns. The Guideline seeks to inform external auditors and institutions on the work to be performed on their regulatory returns to enhance and align OSFI's assurance expectations across all FRFIs. Regulatory returns are key contributors to the assessment of the soundness of an FRFI. Beginning the first quarter of 2024, review and senior management attestation will be provided on the accuracy and completeness of the MICAT Cover schedule on a quarterly basis. Updates to policies, guidelines, and processes will be introduced as required to meet OSFI's requirements.

Updates on Current and Future Changes to Accounting Standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) that may affect us can be found in Note 3 of our audited consolidated financial statements for the year ended 31 December 2023 and in Note 3 of these unaudited quarterly consolidated financial statements. The only notable change is International Financial Reporting Standard (IFRS) 18 *Presentation and Disclosure in Financial Statements* (IFRS 18).

Financial Results

Key Financial Highlights

Condensed consolidated balance sheets

As at 31 March 2024 and 31 December 2023

	Housing Programs Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Total assets	21,241	19,407	18,217	18,251	273,709	262,640	(743)	(729)	312,424	299,569
Total liabilities	20,369	18,593	7,733	7,971	272,248	261,183	(758)	(741)	299,592	287,006
Total equity of Canada	872	814	10,484	10,280	1,461	1,457	15	12	12,832	12,563

Total equity of Canada has increased by $269 million (2%) primarily due to comprehensive income of $414 million, partially offset by $145 million of dividends declared and paid.

Total assets increased by $12,855 million (4%) primarily due to:

- An increase in loans at amortized cost of $11,029 million (4%) as new issuances of CMB program loans due to the CMB expansion announced in September 2023 exceeded maturities resulting in $10,223 million (4%) increased loans, as well as $818 million of additional loans under the Apartment Construction Loan Program (ACLP), Affordable Housing Fund (AHF) and Canada Greener Homes Loan (CGHL) programs.
- An increase in Due from Government of Canada of $888 million (370%) driven mainly by significant housing programs expenses at the end of the government fiscal year.
- An increase in accrued interest receivable of $816 million related to CMB program loans (97%) primarily driven by higher interest rates and timing, as larger coupon payments are received in the second and fourth quarters of the year.
- An increase in cash and cash equivalents of $531 million (27%) mainly attributable to net new borrowings in lending programs.
- These increases were partially offset by a decrease in investment securities at fair value through other comprehensive income (FVOCI) of $411 million (2%) mainly due to investments being sold to fund the large tax payment for 2023 related to the transition to IFRS 17.

Total liabilities increased by $12,586 million (4%) mainly driven by $11,595 million (4%) of higher borrowings at amortized cost of CMB and increased borrowings from the Government of Canada to fund NHS program loans as noted above. In addition, accrued interest payable increased $810 million (103%) due to higher interest rates and timing as explained above, and accounts payable and other liabilities increased $525 million (92%) mainly attributed to higher accruals at the end of the government fiscal year. This was partially offset by a decrease in income taxes payable of $405 million (74%) mainly due to the large tax payment in the quarter as noted above.

Condensed consolidated statements of income and comprehensive income

Three months ended 31 March

(in millions)	Housing Programs Activity 2024	Housing Programs Activity 2023	Mortgage Insurance Activity 2024	Mortgage Insurance Activity 2023	Mortgage Funding Activity 2024	Mortgage Funding Activity 2023	Eliminations 2024	Eliminations 2023	Total 2024	Total 2023
Government funding	2,000	2,136	-	-	-	-	-	-	2,000	2,136
Housing programs expenses	(1,920)	(2,029)	-	-	-	-	-	-	(1,920)	(2,029)
Premiums and fees earned	-	-	9	7	218	201	-	-	227	208
Insurance service result	-	-	244	210	-	-	-	-	244	210
Operating expenses	(95)	(123)	(48)	(39)	(17)	(16)	-	-	(160)	(178)
All other income[1]	18	20	57	53	33	18	1	3	109	94
Income (loss) before income taxes	**3**	**4**	**262**	**231**	**234**	**203**	**1**	**3**	**500**	**441**
Income taxes	(2)	(2)	(66)	(55)	(58)	(52)	-	(1)	(126)	(110)
Net income (loss)	**1**	**2**	**196**	**176**	**176**	**151**	**1**	**2**	**374**	**331**
Other comprehensive income (loss)	57	24	8	185	(27)	51	2	(6)	40	254
Comprehensive income (loss)	**58**	**26**	**204**	**361**	**149**	**202**	**3**	**(4)**	**414**	**585**

[1] Includes net interest income (loss), investment income, net gains/(losses) on financial instruments, insurance finance expense for contracts issued, other income (loss) and self-insurance service income.

Government funding and housing programs expenses have decreased compared to the same quarter last year, mainly due to $100 million for the one-time top up to the Canada Housing Benefit (CHB) which ended in the first quarter of 2023. Due to the nature of many NHS programs, funding patterns may vary significantly year over year.

Total income before income taxes increased by $59 million (13%) from the same quarter last year mainly due to:

- An increase in all other income of $15 million mainly due to an increase of $11 million (55%) in net interest income and an increase in investment income of $60 million (52%), due to higher interest rates and higher holdings in the insurance portfolio since the dividend suspension in 2023. These were partially offset by an increase of $20 million (54%) in insurance finance expenses due to higher balances of insurance contract liabilities and higher locked-in discount rates and a decrease of $17 million (170%) in other income due to impairments and losses on sales of properties.
- An increase in insurance service result of $34 million (16%) mainly due to higher insurance revenue as a result of higher multi-unit volumes compared to the same quarter of last year, as well as increased profit recognition patterns (CSM) for all insurance products due to more favourable repeat price index (RPI) projections.
- An increase of $17 million (8%) in guarantee fees earned in the Mortgage Funding Activity due to price increases in recent years and higher NHA MBS and CMB annual issuance limits, which have resulted in higher volumes in the quarter compared to the same quarter of last year.

Other comprehensive income (OCI), net of tax, decreased by $214 million (84%) from the same quarter last year mainly due to higher interest rates in the first quarter of 2024, which led to an increase in unrealized losses on investments of $337 million (135%), an increase in remeasurement gains on the net defined benefit plans of $73 million (174%) and an increase in insurance finance income for contracts issued of $50 million (135%).

Financial Metrics and Ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	Insurance-in-force ($B) As at 31 March 2024	Insurance-in-force ($B) As at 31 December 2023	Contractual service margin (CSM) As at 31 March 2024	Contractual service margin (CSM) As at 31 December 2023
Transactional homeowner	168	169	1,934	1,960
Portfolio	74	77	73	78
Multi-unit residential	176	168	2,916	2,792
Total	**418**	**414**	**4,923**	**4,830**

Insurance-in-force increased by $4 billion due to new volumes insured exceeding the run-off of existing policies-in-force. New loans insured were $17 billion, while estimated loan amortization and pay-downs were $13 billion.

CSM increased by $93 million (2%) due to $235 million of additional CSM on new business underwritten in the period, $5 million changes in estimates of future cash flows, and $37 million interest accretion offset by a decrease of $184 million due to earned CSM.

Three months ended 31 March

	Insured volumes (units)		Insured volumes ($)		Premiums and fees received[1]		Claims paid[2]	
(in millions, unless otherwise indicated)	2024	2023	2024	2023	2024	2023	2024	2023
Transactional homeowner	7,295	7,090	2,510	2,294	88	80	6	16
Portfolio	1,991	3,663	521	1,007	2	4	-	1
Multi-unit residential[3]	63,256	44,568	13,861	7,995	311	180	-	2
Total	**72,542**	**55,321**	**16,892**	**11,296**	**401**	**264**	**6**	**19**

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

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

[3] Multi-unit residential volumes ($) have been adjusted, which resulted in a decrease of $720 million to our 2023 comparative.

Transactional homeowner unit volumes remained relatively stable compared to the same period last year with just a 3% increase. The continuation of high house prices and interest rates have led to lower activity overall in both of these years. Portfolio unit volumes decreased due to fewer large pools insured compared to last year. Multi-unit residential unit volumes increased due to new construction units insured, primarily driven by the MLI Select product which focuses on affordability, accessibility, and climate compatibility.

Total insured dollars increased, driven primarily by the increases in multi-unit residential unit volumes as explained previously and an increase in the cost per unit due to a larger proportion of high loan-to-value (LTV) ratio loans compared to prior year as a result of MLI Select, which allows for higher LTV loans. The increase in multi-unit residential is partially offset by the decrease in portfolio unit volumes due to the reason explained previously.

Premiums and fees are higher compared to prior year due to multi-unit volumes as explained above.

Claims paid remain low and have decreased compared to prior year. The low level of claims is the result of home price appreciation in recent years where additional equity has built up in homes throughout Canada as well as low unemployment rates which has slowed down potential claims.

(in percentages)	Three months ended 31 March 2024	2023
Insurance service expense ratio[1]	14.1	8.7
Operating expense ratio	16.9	17.0
Combined ratio	31.0	25.7
Initial contractual service margin ratio	59.9	62.2
Severity ratio	27.5	33.0
Return on equity	7.6	7.2
Return on required equity	8.4	7.7

[1] Insurance service expense ratio on transactional homeowner and portfolio products excluding multi-unit residential was 11.9% for the three months ended 31 March 2024 (9.3% for the three months ended 31 March 2023).

The insurance service expense ratio and combined ratio increased due to recent increases in loans in arrears and increased risk adjustment updated at year-end.

The operating expense ratio remained consistent with the ratio from the same quarter in the prior year.

The initial contractual service margin ratio decreased mainly due to increase in risk adjustment assumptions to cover the cost of capital for our transactional homeowner business.

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

The return on equity ratio and return on required equity ratio increased mainly due to higher insurance service revenues and investment income as explained in the Key Financial Highlights section above.

	As at 31 March 2024		As at 31 December 2023	
	No. of delinquent loans	Arrears rate	No. of delinquent loans	Arrears rate
Transactional homeowner	3,024	0.38%	3,068	0.38%
Portfolio	870	0.16%	874	0.15%
Multi-unit residential	136	0.41%	119	0.37%
Total	**4,030**	**0.29%**	**4,061**	**0.29%**

The arrears rate includes all loans more than 90 days past due for homeowner and portfolio insurance products and 30 days past due for multi-unit insurance products as a percentage of outstanding insured loans. Reported delinquencies remain low and stable in all regions.

Mortgage Funding

	Total guarantees-in-force ($B) As at	
	31 March 2024	**31 December 2023**
National Housing Act Mortgage-Backed Securities (NHA MBS)	259	254
CMB	265	254
Total	**524**	**508**

Total guarantees-in-force represents the maximum principal obligation related to our timely payment guarantee. Guarantees-in-force were $524 billion as at 31 March 2024, an increase of $16 billion (3%) as new guarantees exceeded maturities, principal run-off and prepayments. This is mainly due to higher annual issuance limits on both NHA MBS and CMB.

Three months ended 31 March

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
(in millions, unless otherwise indicated)	**2024**	**2023**	**2024**	**2023**
NHA MBS	36	33	162	149
CMB	16	10	69	43
Total	**52**	**43**	**231**	**192**

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

New securities guaranteed and fees received increased compared to last year. This is due to an annual issuance limit increase on both NHA MBS and CMB, which resulted in higher volumes.

	Three months ended 31 March	
(in percentages)	**2024**	**2023**
Operating expense ratio	5.9	6.5
Return on equity	48.2	44.4

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

Government Funding

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

Three months ended 31 March

(in millions)	2024	2023
Amounts provided for housing programs:		
Amounts authorized in 2023–24 (2022–23)		
Main estimates	5,105	3,549
Supplementary estimates A[1,2,5]	1,004	46
Supplementary estimates B[1,3,5]	394	693
Supplementary estimates C[1,4,5]	91	1,119
Total fiscal year government funding	**6,594**	**5,407**
Less: portion recognized in calendar 2023 (2022)	(3,455)	(2,129)
Less: government funding lapsed for 2023–24 (2022–23)	(919)	(1,197)
Less: frozen allotment	(170)	(48)
2023–24 (2022–23) government funding recognized in 2024 (2023)	**2,050**	**2,033**
Amounts authorized in 2024–25 (2023–24)		
Main estimates	5,628	5,105
Supplementary estimates A[1,2,5]	-	1,004
Supplementary estimates B[1,3,5]	-	394
Supplementary estimates C[1,4,5]	-	91
Total fiscal year government funding	**5,628**	**6,594**
Less: portion to be recognized in subsequent quarters	(5,628)	(5,505)
Less: forecasted lapse for 2024–25 (Actual lapse in 2023–24)	-	(919)
Less: frozen allotment	-	(170)
2024–25 (2023–24) government funding recognized in 2024 (2023)	**-**	**-**
Total government funding — Three months ended 31 March	**2,050**	**2,033**

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

[2] Approved 2023–24 supplementary estimate A for HAF and Granville Island (2022–23 for RHI and Granville Island Emergency Relief Fund).

[3] Approved 2023–24 supplementary estimate B for Affordable Housing Fund (AHF), Pyrrhotite, Apartment Construction Loan Program (ACLP), RHI, Natural disaster resilience, Emergency shelter for women and girls, Urban, Rural and Northern Indigenous Housing Strategy, and CECRA. Approved 2022–23 supplementary estimate B for RHI, Affordable Housing Innovation Fund, Federal Lands Initiative, ACLP, Pyrrhotite. AHF, First-Time Home Buyer Incentive (FTHBI), Urban, Rural and Northern Indigenous Housing Strategy, CECRA, Emergency shelter for women and girls, CHB, CHB for women and children fleeing violence, and for Research and Data initiative.

[4] Approved 2023–24 supplementary estimate C for Canada Housing Benefit. Approved 2022–23 supplementary estimates C for CGHL and Home Buyer's Bill of Rights.

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

Capital Management

Frameworks

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

For our Mortgage Insurance Activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT as our Own Risk and Solvency Assessment (ORSA) economic capital is lower than OSFI's regulatory capital requirements.

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

In August 2023, our Board of Directors approved maintaining the internal targets and operating levels of 155% and 165% respectively for Mortgage Insurance and 105% and 110% for Mortgage Funding for 2024. For Mortgage Funding, the Board approved an increase of the economic capital required at the operating level from $1.8 billion to $2.2 billion, effective 1 January 2024. However, this is not expected to have an impact on our economic capital available to economic capital required ratio for the next year, as our liquidity target is higher.

Ratios

The following table presents our capital management ratios.

(in percentages)	As at 31 March 2024	As at 31 December 2023
Mortgage Insurance: Capital available to minimum capital required (MICAT)	185	185
Mortgage Funding: Economic capital available to economic capital required	109	109

The Mortgage Insurance capital available to minimum capital required ratio was unchanged as increases in our capital available from comprehensive income generated was offset by increases in our required capital due to the growth in our multi-unit business.

The suspension of the Mortgage Insurance dividend to the Government of Canada announced in 2023 remains in effect as we continue to retain capital for multi-unit growth.

Mortgage Funding capital available to capital required ratio remained stable compared to last year.

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

Historical Quarterly Information

(in millions, unless otherwise indicated)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022 (restated)[1]	Q3 2022 (restated)[1]	Q2 2022 (restated)[1]
Consolidated Results								
Total assets	312,424	299,569	294,821	302,978	304,372	297,168	304,050	297,594
Total liabilities	299,592	287,006	282,787	291,078	292,221	285,207	292,074	285,466
Total equity of Canada	12,832	12,563	12,034	11,900	12,151	11,961	11,976	12,128
Total revenues and government funding	2,581	1,937	1,899	1,027	2,642	1,378	1,035	996
Total expenses (including income taxes)	2.207	1,619	1,541	724	2,311	1,009	644	661
Net income	374	318	358	303	331	369	391	335
Housing Programs								
Government funding	2,000	1,450	1,345	563	2,136	810	454	489
Net income (loss)	1	(8)	(12)	(2)	2	76	23	35
Total equity of Canada	872	814	887	864	872	846	799	781
Mortgage Insurance								
Insurance-in-force ($B)[2]	418	414	405	403	400	399	397	397
Total insured volumes[3]	16,892	18,709	19,297	17,170	11,296	16,338	17,267	17,188
Premiums and fees received	401	423	434	436	264	354	416	506
Insurance revenue	284	266	260	248	230	223	210	220
Claims paid	6	15	7	11	19	20	19	14
Insurance service expense	40	53	23	23	20	18	(68)	4
Net income	196	156	202	142	176	145	222	168
Arrears rate	0.29%	0.29%	0.28%	0.25%	0.28%	0.25%	0.24%	0.25%
Insurance service expense ratio	14.1%	19.9%	8.8%	9.3%	8.7%	8.1%	(32.4)%	1.8%
Operating expense ratio	16.9%	18.8%	15.4%	17.3%	17.0%	22.0%	19.5%	19.1%
Combined ratio	31.0%	38.7%	24.2%	26.6%	25.7%	30.1%	(12.9)%	20.9%
Initial contractual service margin ratio[4]	59.9%	62.7%	68.0%	66.0%	62.2%	65.3%	73.1%	73.4%
Severity ratio	27.5%	26.7%	24.9%	27.4%	33.0%	32.4%	29.6%	24.8%
Return on equity	7.6%	6.2%	8.3%	5.8%	7.2%	5.9%	9.0%	6.6%
Return on required equity	8.4%	6.7%	8.9%	6.1%	7.7%	6.3%	10.1%	7.8%
Capital available to minimum capital required (% MICAT)	185%	185%	177%	172%	176%	175%	184%	193%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage ($)	19.4%	19.3%	19.0%	19.1%	19.2%	19.2%	19.4%	19.9%
Mortgage Funding								
Guarantees-in-force ($B)[2]	524	508	493	488	481	471	463	456
Securities guaranteed ($B)	52	55	51	47	43	50	50	44
Guarantee and application fees received	231	303	231	209	192	301	227	215
Guarantee and application fees earned	218	211	209	206	201	193	189	180
Net income	176	168	165	161	151	144	142	127
Operating expense ratio	5.9%	7.0%	6.3%	6.6%	6.5%	7.5%	7.3%	7.9%
Return on equity	48.2%	48.0%	49.0%	47.4%	44.4%	39.0%	42.4%	36.8%
Economic capital available to economic capital required[5]	109%	109%	102%	102%	104%	149%	147%	146%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantee ($)	24.4%	23.8%	23.3%	23.2%	23.2%	22.9%	22.8%	22.9%

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

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

[3] Total insured volumes have been updated from previously published reports, resulting in a decrease of between 4% to 7% in the quarters Q2 2022 to Q2 2023.

[4] The Initial contractual service margin ratio has been updated from previously published reports, resulting in an increase between 9.9% to 13.9% in the quarters Q4 2022 to Q3 2023.

[5] In 2023, the capital required in the Mortgage Funding ratio was updated to consider the minimum liquidity target.

Unaudited Quarterly Consolidated Financial Statements

Contents

Management's Responsibility for Financial Reporting

Period ended 31 March 2024

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.

Michel Tremblay, CPA
Acting President and Chief Executive Officer

Nadine Leblanc, CPA
Interim Chief Financial Officer
and Senior Vice President, Policy

17 May 2024

Consolidated Balance Sheet

(in millions of Canadian dollars)	Notes	As at 31 March 2024	As at 31 December 2023
Assets			
Cash and cash equivalents	20	2,470	1,939
Securities purchased under resale agreements		560	700
Accrued interest receivable		1,659	843
Investment securities:			
Fair value through profit or loss	10	68	69
Fair value through other comprehensive income	10, 11	19,751	20,162
Amortized cost	10, 11	3,368	3,229
Derivatives		11	161
Due from the Government of Canada	6	1,128	240
Loans:	12		
Fair value through profit or loss		526	512
Amortized cost		281,679	270,650
Accounts receivable and other assets		465	479
Investment property		398	398
Defined benefit plans asset		313	187
Deferred income tax assets		28	-
		312,424	**299,569**
Liabilities			
Accounts payable and other liabilities		1,098	573
Income taxes payable		140	545
Accrued interest payable		1,596	786
Derivatives		55	55
Insurance contract liabilities	7	7,148	7,079
Borrowings:	13		
Fair value through profit or loss		220	219
Amortized cost		286,352	274,757
Defined benefit plans liability		174	180
Unearned premiums and fees		2,809	2,776
Deferred income tax liabilities		-	36
		299,592	**287,006**
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income (loss)		(396)	(321)
Reserve fund		94	72
Retained earnings		13,109	12,787
		12,832	**12,563**
		312,424	**299,569**

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

Consolidated Statement of Income and Comprehensive Income

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2024	Three months ended 31 March 2023
Interest income		1,997	1,661
Interest expense		(1,966)	(1,641)
Net interest income		**31**	**20**
Insurance revenue	7	284	230
Insurance service expense		(40)	(20)
Insurance service result		**244**	**210**
Investment income		176	116
Net losses on financial instruments	14	(33)	(21)
Insurance finance expense for contracts issued		(57)	(37)
Net financial result		**86**	**58**
Government funding	6	2,000	2,136
Housing programs expenses	6	(1,920)	(2,029)
Premiums and fees earned		227	208
Operating expenses		(160)	(178)
Other income (loss)		(7)	10
Self-insurance service income (expenses)		(1)	6
Income before income taxes		**500**	**441**
Income taxes	18	(126)	(110)
Net income		**374**	**331**
Other comprehensive income (loss), net of tax			
Items that may be subsequently reclassified to net income (loss)			
Net unrealized gains (losses) from debt instruments held at fair value through other comprehensive income		(98)	227
Reclassification of losses on debt instruments held at fair value through other comprehensive income on disposal in the year		10	22
Insurance finance income (expense) for contracts issued		13	(37)
Total items that may be subsequently reclassified to net income		**(75)**	**212**
Items that will not be subsequently reclassified to net income			
Remeasurement gains on defined benefit plans	17, 18	115	42
Total other comprehensive income, net of tax		**40**	**254**
Comprehensive income		**414**	**585**

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

Consolidated Statement of Equity of Canada

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2024	2023
Contributed capital		**25**	**25**
Accumulated other comprehensive income (loss)			
Fair value reserve balance at beginning of period		(421)	(900)
Other comprehensive income (loss) — fair value		(88)	249
Fair value reserve balance at end of period		(509)	(651)
Opening insurance finance reserve		100	175
Other comprehensive income (loss) — insurance finance reserve		13	(37)
Insurance finance reserve balance at end of period		113	138
Balance at end of period		**(396)**	**(513)**
Reserve fund			
Balance at the beginning of period		72	17
Net income (loss)		22	11
Balance at end of period		**94**	**28**
Retained earnings			
Opening retained earnings		12,787	12,644
Net income		352	320
Other comprehensive income (loss)		115	42
Dividends	9	(145)	(395)
Total retained earnings		**13,109**	**12,611**
Equity of Canada	9	**12,832**	**12,151**

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 2024	2023
Cash flows from (used in) operating activities			
Net income		374	331
Adjustments to determine net cash flows from operating activities			
Amortization of premiums and discounts on financial instruments		(12)	12
Net (gains) losses on financial instruments		(111)	98
Capitalized interest	12	(32)	(18)
Deferred income taxes	18	(75)	4
Depreciation, amortization and impairment of fixed and intangible assets		10	10
Changes in operating assets and liabilities			
Derivatives		150	(80)
Accrued interest receivable		(816)	(459)
Due from the Government of Canada		(899)	(1,011)
Accounts receivable and other assets		10	113
Accounts payable and other liabilities		554	432
Income taxes payable/receivable		(388)	47
Accrued interest payable		810	431
Insurance contract liabilities		76	31
Defined benefit plans		4	-
Unearned premiums and fees		33	2
Other		(4)	(3)
Loans	12		
Repayments		5,617	4,934
Disbursements		(16,652)	(10,885)
Borrowings	13		
Repayments		(8,657)	(6,073)
Issuances		20,267	11,812
		259	(272)
Cash flows from (used in) investing activities			
Investment securities			
Sales and maturities		2,582	1,963
Purchases		(2,324)	(1,869)
Foreign currency forward contract maturities			
Receipts		125	53
Disbursements		(92)	(127)
Securities purchased under resale agreements		140	200
Property and equipment and intangible asset acquisitions		(14)	(12)
		417	208
Cash flows used in financing activities			
Dividends paid		(145)	-
Change in cash and cash equivalents		531	(64)
Cash and cash equivalents			
Beginning of period		1,939	2,649
End of period		2,470	2,585
Represented by			
Cash		189	147
Cash equivalents		2,281	2,438
		2,470	2,585
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		1,472	1,435
Amount of interest paid during the period		1,327	1,342
Amount of income taxes paid during the period		590	58

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 2024 and were approved and authorized for issue by our Audit Committee on 17 May 2024.

2. Basis of Preparation and Material Accounting Policy Information

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 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 consolidated financial statements for the year ended 31 December 2023 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, we are exposed to some seasonal variation. Premiums received for some insurance products vary each quarter with the seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage insurance policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age. In our Mortgage Funding Activity, guarantee fees received on NHA MBS are generally higher in the last quarter of the year as more issuers guarantee higher fee pools above the Tier 1 threshold as they manage their liquidity and capital requirements.

3. Current and Future Accounting Changes

Current accounting changes

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

Future accounting changes

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements* (IFRS 18), which will replace IAS 1 *Presentation of Financial Statements*.

The objective of IFRS 18 is to improve how information is communicated in the financial statements, with a focus on information in the statement of profit or loss.

IFRS 18 will include requirements for additional defined subtotals in the statement of profit or loss (categorizing the results between operating, investing, and financing), disclosures about management performance measures, and strengthened requirements for aggregation and disaggregation of information.

We have not yet assessed the impact on our consolidated financial statements.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with IFRS requires us to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. We have disclosed key assumptions concerning the future and other important sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, in Note 4 of our 31 December 2023 consolidated financial statements. Notable changes to the key estimates are reflected below.

Use of estimates

Insurance contract liabilities

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

Claim frequency

Arrears rate and claim rate

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

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

Termination rate

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

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

Cure rate

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

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

Claim severity

Loss given default (LGD)

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

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

Economic conditions (unemployment rate and housing repeat-sales price index)

The economic conditions are non-financial assumptions used to project future claim levels. Changes in these assumptions impact both claim frequency and claim severity. An increase (decrease) in unemployment rates and a decrease (increase) in the housing repeat-sales price index will increase (decrease) claims.

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

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

The fulfilment cash flows included in the LRC relate to future claims are derived from deterministic scenarios that project the lifecycle of mortgages. This includes considerations such as variable rate versus fixed rate mortgages. These are subject to a greater degree of uncertainty than the LIC.

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

	31 March 2024	31 December 2023
Claim frequency[1]	0.7%	0.7%
Claim severity[2]	44.1%	43.7%
Unemployment rate[3]	6.3%	6.3%
Repeat-sales price index[3]	539	534

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

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

[3] Refers to national ten year average projected rates.

Risk adjustment

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

The risk adjustment for our insurance contracts corresponds to a 90% confidence level.

Discount rate

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

The weighted average discount rates applied for discounting of future cash flows as at 31 March 2024 and 31 December 2023 are listed below:

	1–5 years		5–10 years		10–15 years		15–20 years		20–25 years		over 25 years	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Discount rates	5.1%	4.9%	5.0%	4.8%	5.2%	4.8%	5.2%	4.9%	5.2%	4.9%	5.1%	4.9%

Mortgage Insurer Capital Adequacy Test (MICAT)

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

Lenders have been reporting temporarily extended amortizations on variable rate mortgages (VRMs) that do not have payments that automatically adjust with interest rates. Due to increasing interest rates, OSFI released a revised MICAT calculation which specifies that a maximum amortization period of 40 years should be used in determining capital required. Our required capital calculation uses the maximum amortization period of 40 years for most VRM loans. Despite a decreasing number of VRM loans, there are now more VRM loans at the maximum amortization period. We estimate that the MICAT would be 12% points higher if these loans were not negatively amortizing.

5. Segmented Information

The unaudited quarterly consolidated financial statements include the Housing Programs (HP), 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 2023. For all segments, revenues are attributed to, and assets are located in, Canada.

We generate revenues for the reportable segments as follows:

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

Three months ended 31 March

	Housing Programs Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Interest income	165	122	-	-	1,833	1,541	(1)	(2)	1,997	1,661
Interest expense	(141)	(110)	-	-	(1,830)	(1,537)	5	6	(1,966)	(1,641)
Net interest income	**24**	**12**	**-**	**-**	**3**	**4**	**4**	**4**	**31**	**20**
Insurance revenue	-	-	284	230	-	-	-	-	284	230
Insurance service expense	-	-	(40)	(20)	-	-	-	-	(40)	(20)
Insurance service result	**-**	**-**	**244**	**210**	**-**	**-**	**-**	**-**	**244**	**210**
Investment income (losses)	-	-	153	100	26	18	(3)	(2)	176	116
Net gains (losses) on financial instruments	(6)	5	(27)	(20)	-	(7)	-	1	(33)	(21)
Insurance finance expense for contracts issued	-	-	(57)	(37)	-	-	-	-	(57)	(37)
Net financial result	**(6)**	**5**	**69**	**43**	**26**	**11**	**(3)**	**(1)**	**86**	**58**
Government funding	2,000	2,136	-	-	-	-	-	-	2,000	2,136
Housing programs expenses	(1,920)	(2,029)	-	-	-	-	-	-	(1,920)	(2,029)
Premiums and fees earned	-	-	9	7	218	201	-	-	227	208
Operating expenses	(95)	(123)	(48)	(39)	(17)	(16)	-	-	(160)	(178)
Other income	-	3	(11)	4	4	3	-	-	(7)	10
Self-insurance service income (expenses)	-	-	(1)	6	-	-	-	-	(1)	6
Income before income taxes	**3**	**4**	**262**	**231**	**234**	**203**	**1**	**3**	**500**	**441**
Income taxes	(2)	(2)	(66)	(55)	(58)	(52)	-	(1)	(126)	(110)
Net income	**1**	**2**	**196**	**176**	**176**	**151**	**1**	**2**	**374**	**331**
Other comprehensive income (loss)	57	24	8	185	(27)	51	2	(6)	40	254
Comprehensive income (loss)	**58**	**26**	**204**	**361**	**149**	**202**	**3**	**(4)**	**414**	**585**
Total revenues and government funding[1]	2,018	2,156	311	264	251	219	1	3	2,581	2,642
Less Inter-segment income (loss)[2]	1	2	3	1	(5)	(6)	1	3	-	-
External revenues and government funding	2,017	2,154	308	263	256	225	-	-	2,581	2,642

[1] Includes net interest income, insurance service result, net financial result, government funding, premiums and fees earned and other income.

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

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

As at 31 March 2024 and 31 December 2023

	Housing Programs Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Assets										
Cash and cash equivalents	1,486	1,169	981	767	3	3	-	-	2,470	1,939
Securities purchased under resale agreements	560	700	-	-	-	-	-	-	560	700
Accrued interest receivable	66	79	119	98	1,479	667	(5)	(1)	1,659	843
Investment securities:										
Fair value through profit or loss	-	-	68	69	-	-	-	-	68	69
Fair value through other comprehensive income	-	-	16,474	16,808	3,787	3,855	(510)	(501)	19,751	20,162
Amortized cost	3,594	3,456	-	-	-	-	(226)	(227)	3,368	3,229
Derivatives	-	-	11	161	-	-	-	-	11	161
Due from the Government of Canada	1,128	240	-	-	-	-	-	-	1,128	240
Loans:										
Fair value through profit or loss	510	494	16	18	-	-	-	-	526	512
Amortized cost	13,434	12,616	26	38	268,219	257,996	-	-	281,679	270,650
Accounts receivable and other assets	69	176	229	190	167	113	-	-	465	479
Investment property	398	398	-	-	-	-	-	-	398	398
Defined benefit plans asset	132	79	170	102	11	6	-	-	313	187
Deferred income tax assets	(136)	-	123	-	43	-	(2)	-	28	-
	21,241	**19,407**	**18,217**	**18,251**	**273,709**	**262,640**	**(743)**	**(729)**	**312,424**	**299,569**
Liabilities										
Accounts payable and other liabilities	985	440	100	98	13	35	-	-	1,098	573
Income taxes payable	7	28	90	486	43	31	-	-	140	545
Accrued interest payable	145	137	-	-	1,456	650	(5)	(1)	1,596	786
Derivatives	52	51	3	4	-	-	-	-	55	55
Insurance contract liabilities	-	-	7,148	7,079	-	-	-	-	7,148	7,079
Borrowings:										
Fair value through profit or loss	220	219	-	-	-	-	-	-	220	219
Amortized cost	18,886	17,502	-	-	268,219	257,996	(753)	(741)	286,352	274,757
Defined benefit plans liability	74	77	94	97	6	6	-	-	174	180
Unearned premiums and fees	-	-	298	278	2,511	2,498	-	-	2,809	2,776
Deferred income tax liabilities	-	139	-	(71)	-	(33)	-	1	-	36
	20,369	**18,593**	**7,733**	**7,971**	**272,248**	**261,183**	**(758)**	**(741)**	**299,592**	**287,006**
Equity of Canada	**872**	**814**	**10,484**	**10,280**	**1,461**	**1,457**	**15**	**12**	**12,832**	**12,563**
	21,241	**19,407**	**18,217**	**18,251**	**273,709**	**262,640**	**(743)**	**(729)**	**312,424**	**299,569**

[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)	**2024**	**2023**
Assistance for housing needs	1,074	1,497
Financing for housing	643	471
Housing expertise and capacity development	333	65
Total	**2,050**	**2,033**
Net change in government funding deferred in the period	(50)	103
Total government funding recognized[1,2]	**2,000**	**2,136**

[1] Includes recoveries of operating expenses of $88 million and expected credit loss (recovery) of ($7) million, and excludes $1 million of housing programs expenses in which the appropriations are deducted from the carrying amount of the related capital assets, for the three months ended 31 March 2024 (three months ended 31 March 2023 — $124 million, ($7) million, and $10 million, respectively).

[2] Total government funding recognized does not include gains resulting from below market rate funds borrowed under the Crown Borrowing Program, which are recognized in net gains (losses) on financial instruments. These gains totaled $43 million for the three months ended 31 March 2024 (three months ended 31 March 2023 – $15 million).

The following table presents the change in the due from (to) the Government of Canada account. The outstanding balance as at 31 March 2024 is mainly composed of Housing Programs expenses incurred but not yet reimbursed.

(in millions)	As at 31 March 2024	As at 31 December 2023
Balance at beginning of the year	240	(6)
Total government funding	2,050	5,488
Government funding received during the period	(1,145)	(5,483)
Third party remittances from (owing to) the Government of Canada	(10)	(7)
Balance at end of period before prior/future period adjustments	**1,135**	**(8)**
Net change in One-time top-up to the Canada Housing Benefit advances	(2)	229
Net change in prior period adjustments	(5)	19
Balance at end of period	**1,128**	**240**

7. Mortgage Insurance

Overview of insurance contracts

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

(in millions)	As at 31 March 2024	As at 31 December 2023
Insurance contracts		
Transactional homeowner	3,111	3,180
Portfolio	118	135
Multi-unit residential	3,919	3,764
Total insurance contract liabilities	**7,148**	**7,079**

Insurance contracts by remaining coverage and incurred claims

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

As at 31 March 2024

(in millions)	LRC	LIC	Total
Insurance contract liabilities at beginning of year	**6,876**	**203**	**7,079**
Insurance revenue			
Contracts under the fair value approach	(132)	-	(132)
Other contracts	(152)	-	(152)
	(284)	**-**	**(284)**
Insurance service expenses			
Incurred claims and other insurance expenses	-	48	48
Amortization of insurance acquisition cash flows	13	-	13
Changes to the liabilities for incurred claims	-	(21)	(21)
	13	**27**	**40**
Insurance service result	**(271)**	**27**	**(244)**
Insurance finance expenses	38	1	39
Total changes in the statement of income and comprehensive income before income taxes	**(233)**	**28**	**(205)**
Cash flows			
Premiums received	355	-	355
Claims and other insurance service expense paid[1]	-	(11)	(11)
Insurance acquisition cash flows	(70)	-	(70)
Total cash flows	**285**	**(11)**	**274**
Insurance contract liabilities at end of period	**6,928**	**220**	**7,148**

[1] Includes $4 million of claims administration expense, $2 million of initial provision for properties that we obtained in the year through default management activities, and excludes $1 million of losses on subsequent disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.

As at 31 December 2023

(in millions)	LRC	LIC	Total
Insurance contract liabilities at beginning of year	**6,229**	**176**	**6,405**
Insurance revenue			
Contracts under the fair value approach	(526)	-	(526)
Other contracts	(478)	-	(478)
	(1,004)	**-**	**(1,004)**
Insurance service expenses			
Incurred claims and other insurance expenses	-	156	156
Amortization of insurance acquisition cash flows	41	-	41
Changes to the liabilities for incurred claims	-	(78)	(78)
	41	**78**	**119**
Insurance service result	**(963)**	**78**	**(885)**
Insurance finance expenses (income)	275	3	278
Total changes in the statement of income and comprehensive income before income taxes	**(688)**	**81**	**(607)**
Cash flows			
Premiums received	1,465	-	1,465
Claims and other insurance service expense paid[1]	-	(54)	(54)
Insurance acquisition cash flows	(130)	-	(130)
Total cash flows	**1,335**	**(54)**	**1,281**
Insurance contract liabilities at end of period	**6,876**	**203**	**7,079**

[1] Includes $10 million of claims administration expense, $13 million of initial provision for properties that we obtained in the year through default management activities, and excludes $21 million of losses on subsequent disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.

As at 31 March 2024 there were nil loss components (31 December 2023 – nil).

Insurance contracts by measurement components

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

As at 31 March 2024

(in millions)	Present value of future cash flows	Risk adjustment for non-financial risk	CSM: *Contracts under the fair value approach*	CSM: *Other contracts*	Total
Insurance contract liabilities at beginning of year	**1,178**	**1,071**	**2,318**	**2,512**	**7,079**
Changes that relate to current services					
CSM recognized for services provided	-	-	(85)	(99)	(184)
Change in the risk adjustment for non-financial risk	-	(34)	-	-	(34)
Experience adjustments	(5)	-	-	-	(5)
Changes that relate to future services					
Contracts initially recognized in the period	(288)	53	-	235	-
Changes in estimates that adjust the CSM	(5)	-	3	2	-
Changes that relate to past services					
Changes to the liabilities for incurred claims	(14)	(7)	-	-	(21)
Insurance service result	**(312)**	**12**	**(82)**	**138**	**(244)**
Insurance finance expenses	1	1	13	24	39
Total changes in the statement of income and comprehensive income before income taxes	**(311)**	**13**	**(69)**	**162**	**(205)**
Cash flows					
Premiums received	355	-	-	-	355
Claims and other insurance service expense paid[1]	(11)	-	-	-	(11)
Insurance acquisition cash flows	(70)	-	-	-	(70)
Total cash flows	**274**	**-**	**-**	**-**	**274**
Insurance contract liabilities at end of period	**1,141**	**1,084**	**2,249**	**2,674**	**7,148**

[1] Includes $4 million of claims administration expense, $2 million of initial provision for properties that we obtained in the year through default management activities, and excludes $1 million of losses on disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.

As at 31 December 2023

(in millions)	Present value of future cash flows	Risk adjustment for non-financial risk	CSM: *Contracts under the fair value approach*	CSM: *Other contracts*	Total
Insurance contract liabilities at beginning of year	**1,038**	**820**	**2,597**	**1,950**	**6,405**
Changes that relate to current services					
CSM recognized for services provided	-	-	(350)	(335)	(685)
Change in the risk adjustment for non-financial risk	-	(104)	-	-	(104)
Experience adjustments	(18)	-	-	-	(18)
Changes that relate to future services					
Contracts initially recognized in the period	(1,084)	252	-	832	-
Changes in estimates that adjust the CSM	(58)	43	17	(2)	-
Changes that relate to past services					
Changes to the liabilities for incurred claims	(67)	(11)	-	-	(78)
Insurance service result	**(1,227)**	**180**	**(333)**	**495**	**(885)**
Insurance finance expenses	86	71	54	67	278
Total changes in the statement of income and comprehensive income before income taxes	**(1,141)**	**251**	**(279)**	**562**	**(607)**
Cash flows					
Premiums received	1,465	-	-	-	1,465
Claims and other insurance service expense paid[1]	(54)	-	-	-	(54)
Insurance acquisition cash flows	(130)	-	-	-	(130)
Total cash flows	**1,281**	**-**	**-**	**-**	**1,281**
Insurance contract liabilities at end of year	**1,178**	**1,071**	**2,318**	**2,512**	**7,079**

[1] Includes $10 million of claims administration expense, $13 million of initial provision for properties that we obtained in the year through default management activities, and excludes $21 million of losses on disposal of the properties which are recorded in other income as they are no longer subject to insurance risk.

8. Mortgage Funding

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

At the balance sheet date, we have not received a claim, nor do we expect to receive a claim, in excess of the unearned guarantee fee on our timely payment guarantees (TPG). As such, no provision in addition to the remaining unearned premium is required.

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

	As at 31 March 2024			As at 31 December 2023		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of year	1,874	624	2,498	1,809	581	2,390
TPG and application fees received in the period	162	69	231	740	195	935
TPG and application fees earned in the period	(180)	(38)	(218)	(675)	(152)	(827)
Balance at end of period	**1,856**	**655**	**2,511**	**1,874**	**624**	**2,498**

9. Capital Management

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

Our primary objective with respect to capital management is to ensure that our commercial operations, being our Mortgage Insurance and Mortgage Funding activities, have adequate capital to deliver their mandate while remaining financially self-sustaining and to follow prudent business practices and guidelines existing in the private sector as appropriate. We voluntarily follow guidelines set out by OSFI.

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

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

We declare dividends to the Government from our Mortgage Insurance and Mortgage Funding Activities, to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet our needs for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. We declared and paid dividends of $145 million during the three months ended 31 March 2024 (three months ended 31 March 2023 — $395 million declared which remained payable as at 31 March 2023).

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

(in millions)	As at 31 March 2024	As at 31 December 2023
Contributed capital	25	25
Accumulated other comprehensive income	(396)	(321)
Reserve fund	94	72
Appropriated retained earnings	10,868	10,564
Unappropriated retained earnings[1]	2,241	2,223
Total equity of Canada[2]	**12,832**	**12,563**
Less: regulatory deductions	(218)	(170)
Total capital available	**12,614**	**12,393**

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

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

Mortgage Insurance capital

The following table presents the components of capital available.

(in millions, unless otherwise indicated)	As at 31 March 2024	As at 31 December 2023
Appropriated capital[1]	9,171	9,011
Unappropriated capital	1,313	1,269
Total Mortgage Insurance capital	**10,484**	**10,280**
Less: regulatory deductions	(218)	(170)
Total Mortgage Insurance capital available	**10,266**	**10,110**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	185%	185%

[1] We appropriate retained earnings and accumulated other comprehensive income (AOCI) at the 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. The Board approved an increase of the economic capital required from $1.8 billion to $2.2 billion, effective 1 January 2024, which compares to $4.0 billion of assets available as at 31 March 2024 (31 December 2023 – $4.0 billion assets available). These amounts exclude assets and liabilities related to IMPP. Appropriated capital is determined by deducting unearned guarantee and application fees from the total asset required, subject to a minimum liquidity target.

The following table presents the components of the capital available.

(in millions, unless otherwise indicated)	As at 31 March 2024	As at 31 December 2023
Appropriated capital	1,247	1,180
Unappropriated capital	214	277
Total Mortgage Funding capital available	**1,461**	**1,457**
Economic capital available to economic capital required (%)	109%	109%

Housing Programs capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act, to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. Lending programs' earnings are retained in this reserve fund except for the unrealized fair value fluctuations as well as remeasurement gains and losses on defined benefit plans. The reserve fund is subject to a statutory limit of $240 million (2023 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should we exceed the statutory limit, we would be required to pay the excess to the Government. Aside from the reserve fund, we do not hold capital for our Housing Programs activities, as they do not present material financial risks for us that we do not already otherwise mitigate.

The following table presents the components of the capital available.

(in millions)	As at 31 March 2024	As at 31 December 2023
Reserve fund[1]	97	75
Retained earnings	750	714
Total Lending programs capital available	**847**	**789**

[1] Excludes the impact of eliminations of $3 million (2023 – $3 million).

Housing programs

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

10. Fair Value Measurement

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

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

Fair value hierarchy

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

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

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

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

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

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

For investment property, fair value is determined by independent external property appraisers or our internal appraisers who hold recognized and relevant professional qualifications.

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 2024			As at 31 December 2023		
(in millions)	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Financial assets[1]						
Investments at amortized cost[2]	3,368	3,314	(54)	3,229	3,176	(53)
Loans at amortized cost[3]	281,679	270,428	(11,251)	270,650	261,936	(8,714)
Financial liabilities						
Borrowings at amortized cost[4]	286,352	275,172	(11,180)	274,757	266,144	(8,613)

[1] Does not include cash and cash equivalents of $1,452 million (31 December 2023 — $1,074 million) and securities purchased under resale agreements of $560 million (31 December 2023 — $700 million) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.

[2] $671 million (31 December 2023 — $444 million) fair value categorized as Level 1 and $2,643 million (31 December 2023 — $2,732 million) fair value categorized as Level 2.

[3] $264,064 million (31 December 2023 — $255,725 million) fair value categorized as Level 2, $6,364 million (31 December 2023 — $6,211 million) fair value categorized as Level 3.

[4] $190,250 million (31 December 2023 — $193,908 million) fair value categorized as Level 1, $84,922 million (31 December 2023 — $72,236 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 2024				As at 31 December 2023			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	177	-	177	-	172	-	172
Federal government issued	-	838	-	838	-	686	-	686
Corporate/other entities	-	3	-	3	-	7	-	7
Total cash equivalents	-	1,018	-	1,018	-	865	-	865
Investment securities								
Fair value through profit or loss (FVTPL)								
Debt instruments								
Corporate/other entities	-	18	-	18	-	18	-	18
Provinces/municipalities	-	-	-	-	-	-	-	-
Sovereign and related entities	-	-	-	-	-	-	-	-
Equities								
Limited partnership units	-	-	50	50	-	-	51	51
Total at FVTPL	-	18	50	68	-	18	51	69
FVOCI								
Debt instruments								
Corporate/other entities	3,056	4,439	-	7,495	2,261	5,044	-	7,305
Federal government issued	7,219	1,515	-	8,734	7,587	1,771	-	9,358
Provinces/municipalities	2,741	410	-	3,151	2,685	465	-	3,150
Sovereign and related entities	321	50	-	371	282	67	-	349
Total at FVOCI	13,337	6,414	-	19,751	12,815	7,347	-	20,162
Loans designated at FVTPL	-	49	-	49	-	54	-	54
Loans mandatorily at FVTPL	-	11	466	477	-	12	446	458
Derivatives	-	11	-	11	-	161	-	161
Investment property	-	-	398	398	-	-	398	398
Total assets carried at fair value	**13,337**	**7,521**	**914**	**21,772**	**12,815**	**8,457**	**895**	**22,167**
Liabilities								
Borrowings designated at FVTPL	-	(220)	-	(220)	-	(219)	-	(219)
Derivatives	-	(7)	(48)	(55)	-	(8)	(47)	(55)
Total liabilities carried at fair value	**-**	**(227)**	**(48)**	**(275)**	**-**	**(227)**	**(47)**	**(274)**
Net assets at FVTPL	**13,337**	**7,294**	**866**	**21,497**	**12,815**	**8,230**	**848**	**21,893**

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at each balance sheet date. Transfers are dependent on internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three months ended 31 March 2024, there were $1,128 million of transfers from Level 2 to Level 1 and $347 million of transfers from Level 1 to Level 2 (during the twelve months ended 31 December 2023 — $2,289 million and $3,067 million, respectively).

Change in fair value measurement for items classified as Level 3

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

(in millions)	Investment securities — FVTPL	Loans — FVTPL	Investment property	Derivatives	Total
Fair value as at 1 January 2024	**51**	**446**	**398**	**(47)**	**848**
Purchases/issuances	-	27	-	-	27
Net gains (losses) in profit or loss[1,2]	(1)	1	-	(1)	(1)
Cash receipts on settlements/disposals	-	(8)	-	-	(8)
Fair value as at 31 March 2024	**50**	**466**	**398**	**(48)**	**866**
Fair value as at 1 January 2023	**78**	**344**	**402**	**(34)**	**790**
Purchases/issuances	-	117	-	-	117
Net gains (losses) in profit or loss[1,2]	-	13	13	(13)	13
Cash receipts on settlements/disposals	(27)	(28)	(17)	-	(72)
Fair value as at 31 December 2023	**51**	**446**	**398**	**(47)**	**848**

[1] Included in net gains (losses) on financial instruments for investment securities, loans and derivatives; other income for investment property.

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

Unobservable inputs for items classified as Level 3

The valuation of instruments classified as Level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 31 March 2024, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 31 March 2024 did not materially change from 31 December 2023. 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 2023.

11. Investment Securities

Credit quality

The following table presents the credit quality of our cash equivalents and investment securities based on our internal credit rating system. Amounts in the table represent the gross carrying amounts.

	As at 31 March 2024						As at 31 December 2023					
(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
Cash equivalents	838	452	991	-	-	2,281	686	303	844	-	-	1,833
Investment securities[1]												
FVTPL	18	-	-	-	-	18	18	-	-	-	-	18
FVOCI	9,598	3,623	3,919	2,553	58	19,751	10,199	3,708	3,765	2,421	69	20,162
Amortized cost	1,556	1,434	378	-	-	3,368	1,524	1,399	306	-	-	3,229

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

Expected credit losses

The ECL allowance for debt instruments held at FVOCI and amortized cost was $14 million at 31 March 2024 (31 December 2023 — $21 million) with a corresponding gain of $7 million recognized in net gains (losses) on financial instruments during the three months ended 31 March 2024 (three months ended 31 March 2023 — $5 million gain).

12. Loans

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

Three months ended 31 March 2024

		Cash flows		Non-cash changes					
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	Balance at end of period
FVTPL									
Lending programs	494	(9)	24	1	-	-	-	-	510
MI Activity loans	18	(5)	3	-	-	-	-	-	16
Total at FVTPL	**512**	**(14)**	**27**	**1**	**-**	**-**	**-**	**-**	**526**
Amortized cost									
CMB program loans	255,130	(5,115)	15,640	-	11	-	-	-	265,666
Lending programs[2]	12,616	(164)	985	(40)	5	-	32	-	13,434
IMPP loans	2,866	(313)	-	-	-	-	-	-	2,553
MI Activity loans	38	(11)	-	-	3	(4)	-	-	26
Total amortized cost	**270,650**	**(5,603)**	**16,625**	**(40)**	**19**	**(4)**	**32**	**-**	**281,679**
Total	**271,162**	**(5,617)**	**16,652**	**(39)**	**19**	**(4)**	**32**	**-**	**282,205**

[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.

[2] Fair value changes for loans at amortized cost relate to losses recognized immediately upon initial advance of loans issued below market value.

Twelve months ended 31 December 2023

		Cash flows		Non-cash changes					
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	Balance at end of period
FVTPL									
Lending programs	455	(51)	101	18	-	-	-	(29)	494
MI Activity loans	14	(12)	16	-	-	-	-	-	18
Total at FVTPL	**469**	**(63)**	**117**	**18**	**-**	**-**	**-**	**(29)**	**512**
Amortized cost									
CMB program loans	255,903	(46,040)	45,225	-	42	-	-	-	255,130
Lending programs[2]	9,807	(594)	3,397	(109)	5	(2)	83	29	12,616
IMPP loans	3,449	(583)	-	-	-	-	-	-	2,866
MI Activity loans	48	(40)	-	-	14	16	-	-	38
Total amortized cost	**269,207**	**(47,257)**	**48,622**	**(109)**	**61**	**14**	**83**	**29**	**270,650**
Total	**269,676**	**(47,320)**	**48,739**	**(91)**	**61**	**14**	**83**	**-**	**271,162**

[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.

[2] Fair value changes for loans at amortized cost relate to losses recognized immediately upon initial advance of loans issued below market value.

We are assured collection of principal and accrued interest on 99% (31 December 2023 — 99%) of our loans by various levels of government, CMHC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program and IMPP.

Expected credit losses

Total undrawn loan commitments outstanding at 31 March 2024 were $8,746 million (31 December 2023 — $9,028 million), of which $8,314 million are subject to 12-month ECL (31 December 2023 — $8,549 million) and $1 million (31 December 2023 — $2 million) are commitments outstanding on purchased or originated credit impaired loans.

At 31 March 2024, the ECL on undrawn loan commitments was $19 million (31 December 2023 — $25 million), and the ECL on loans was $61 million (31 December 2023 — $57 million). We recognize changes in ECL in net gains (losses) on financial instruments.

13. Borrowings

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

Three months ended 31 March 2024

(in millions)	Balance at beginning of period	Cash flows: Issuances	Cash flows: Repayments	Non-cash changes: Fair value changes	Non-cash changes: Accretion and other	Non-cash changes: Eliminations	Balance at end of period
Designated at FVTPL							
Borrowings from the Government of Canada — Lending programs	219	-	-	1	-	-	220
Amortized cost							
Canada mortgage bonds	254,389	15,640	(5,115)	-	11	(12)	264,913
Borrowings from the Government of Canada — Lending programs	17,502	4,627	(3,229)	(43)	29	-	18,886
Borrowings from the Government of Canada — IMPP	2,866	-	(313)	-	-	-	2,553
Total amortized cost	**274,757**	**20,267**	**(8,657)**	**(43)**	**40**	**(12)**	**286,352**
Total	**274,976**	**20,267**	**(8,657)**	**(42)**	**40**	**(12)**	**286,572**

Twelve months ended 31 December 2023

(in millions)	Balance at beginning of period	Cash flows: Issuances	Cash flows: Repayments	Non-cash changes: Fair value changes	Non-cash changes: Accretion and other	Non-cash changes: Eliminations	Balance at end of period
Designated at FVTPL							
Borrowings from the Government of Canada — Lending programs	374	-	(162)	7	-	-	219
Amortized cost							
Canada mortgage bonds	254,897	45,204	(45,727)	-	42	(27)	254,389
Borrowings from the Government of Canada — Lending programs	15,424	13,831	(11,755)	(80)	82	-	17,502
Borrowings from the Government of Canada — IMPP	3,449	-	(583)	-	-	-	2,866
Total amortized cost	**273,770**	**59,035**	**(58,065)**	**(80)**	**124**	**(27)**	**274,757**
Total	**274,144**	**59,035**	**(58,227)**	**(73)**	**124**	**(27)**	**274,976**

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 2024, we have excluded nil (three months ended 31 March 2023 — nil) of CMB maturities from repayments in the previous table and from investment securities — sales and maturities in the consolidated statement of cash flows. We have also excluded during the three months ended 31 March 2024 nil (three months ended 31 March 2023 — $3 million) of CMB purchases in the primary market from issuances in the previous table and from investment securities — purchases in the consolidated statement of cash flows.

Borrowing authorities

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

For 2024, the limits on our short-term borrowings outstanding and long-term borrowings issued are $6.5 billion and $6.5 billion, respectively (31 December 2023 — $6.5 billion and $6.5 billion). Actual short-term borrowings outstanding as at 31 March 2024 were $1.3 billion (31 December 2023 — $939 million). Actual long-term borrowings issued in the three months ended 31 March 2024 were $1.3 billion (31 December 2023 — $2.4 billion).

14. Financial Instruments Income and Expenses

Gains and losses from financial instruments

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

	Three months ended 31 March	
(in millions)	**2024**	**2023**
Financial instruments designated at FVTPL		
Loans	-	1
Borrowings	(1)	(3)
Total financial instruments designated at FVTPL	**(1)**	**(2)**
Financial instruments mandatorily at FVTPL		
Equity securities	(2)	6
Derivatives	(117)	5
Loans	1	(1)
Total financial instruments mandatorily at FVTPL	**(118)**	**10**
Debt instruments held at FVOCI[1]	87	(43)
Loans — amortized cost[2]	(53)	(17)
Borrowings — amortized cost[3]	43	15
Expected credit recoveries (losses) on financial assets	9	16
Total	**(33)**	**(21)**

[1] Includes a foreign exchange gain of $117 million (three months ended 31 March 2023 — loss $5 million) resulting from translation of U.S. dollar-denominated debt instruments.

[2] Includes losses on loans recognized immediately upon initial advance of $40 million (three months ended 31 March 2023 — $12 million) and the amortization of deferred net losses of $13 million (three months ended 31 March 2023 — $5 million).

[3] Includes gains from the issuance of borrowings of $43 million (three months ended 31 March 2023 — $15 million).

Deferred net losses on financial instruments

The following table presents the deferred net losses on financial instruments for certain Lending program loans not recognized in the consolidated statement of income and comprehensive income.

	Three months ended 31 March	
(in millions)	2024	2023
Balance at beginning of the year	433	263
Deferred net losses on financial instruments in the period	48	45
Recognized net losses on financial instruments in the period	(13)	(5)
Balance at end of period	**468**	**303**

15. Market Risk

Market risk is the risk of adverse financial impacts arising from changes in underlying market factors, including interest rates and foreign exchange rates. Despite changes in economic and market conditions, there were no material changes to our assessment and management of market risk in the three months ended 31 March 2024.

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 $4,271 million in debt instruments denominated in U.S. dollars as at 31 March 2024 (31 December 2023 — $4,127 million), which we present as investment securities at FVOCI or at FVTPL.

Value at Risk (VaR)

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

	Mortgage Insurance		Mortgage Funding	
(in millions)	31 March 2024	31 December 2023	31 March 2024	31 December 2023
Investment securities:				
Interest rate risk on debt instruments				
CAD-denominated securities	173	187	73	78
USD-denominated securities	88	86	-	-
Effect of diversification	(7)	(1)	-	-
Total VaR	**254**	**272**	**73**	**78**

Interest rate sensitivity

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

For the Housing Programs 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 2024 after accounting for derivatives.

The Housing Programs 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 2024 is presented in the following table.

	As at 31 March 2024 Interest rate shift		As at 31 December 2023 Interest rate shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Increase (decrease) in fair value of net assets[1]	(770)	636	(694)	572

[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 2023. There has been no significant change in the nature of the risks and how we manage them in the three month period ended 31 March 2024.

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)	2024	2023	2024	2023
Current service cost	9	11	-	-
Net interest expense (income)	(1)	(3)	1	1
Expense recognized in net income	**8**	**8**	**1**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	104	(69)	3	(3)
Return on plan assets, excluding amounts included in net interest expense	29	121	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**133**	**52**	**3**	**(3)**
CMHC's contributions	4	8	1	1
Employee contributions	5	5	-	-
Total contributions	**9**	**13**	**1**	**1**

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

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 2024 was 4.9% (31 December 2023 — 4.6%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	**2024**	**2023**
Current income tax expense	201	106
Deferred income tax relating to origination and reversal of temporary differences	(75)	4
Total income tax expense included in net income	**126**	**110**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized gains (losses) from FVOCI financial instruments	(33)	75
Reclassification of prior years' net unrealized losses realized in the period in net income	3	7
Insurance finance income (expense) for insurance contracts issued	5	(12)
Remeasurement gains on defined benefit plans	21	7
Total income tax expense (recovery) included in other comprehensive income (loss)	**(4)**	**77**
Total	**122**	**187**

19. Related Party Transactions

We defer and amortize the Government fees paid in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. In Mortgage Insurance, these fees will reduce the CSM on initial recognition and are subsequently amortized over the expected coverage period of our insurance contracts with equal offsetting amounts to insurance revenue and insurance service expenses in the period. This amounts to $6 million for the three months ended 31 March 2024 (three months ended 31 March 2023 — $4 million). In Mortgage Funding, these fees, which are recorded in operating expenses, amount to $7 million for the three month period ended 31 March 2024 (three months ended 31 March 2023 — $8 million). All other material related party transactions and outstanding balances are disclosed in relevant notes.

20. Commitments and Contingent Liabilities

As at 31 March 2024, we have $9,249 million in contractual financial obligations relating to Housing Programs which extend for periods up to 25 years and $290 million in other contractual obligations up to the year 2029 (31 December 2023 — $9,304 million and $280 million, respectively).

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

(in millions)	**As at 31 March 2024**	**As at 31 December 2023**
Affordable Rental Housing Innovation Fund	31	35
Apartment Construction Loan Program (ACLP)	897	757
Affordable Housing Fund (AHF)	263	209
Direct Lending (DL) — Economically Hedged	177	172
Total	**1,368**	**1,173**

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