Canada Mortgage and Housing Corporation

Quarterly Financial Report

Second Quarter
June 30, 2016
(Unaudited)

Canada

CMHC SCHL

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Management's Discussion and Analysis

Overview

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 24 August 2016 is prepared for the second quarter ended 30 June 2016 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month period in 2015. The MD&A includes explanations of significant deviations in actual financial results from the targets outlined in the Corporate Plan Summary that may impact the current and future quarters of our fiscal year. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2015 Annual Report. The unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. The unaudited quarterly consolidated financial statements have been reviewed by CMHC's external auditors. All amounts are expressed in millions Canadian dollars, unless otherwise stated.

Information related to our significant accounting policies, judgments and estimates can be found in our 2015 Annual Report. There have been no material changes to our significant accounting policies, judgments or estimates to the end of the second quarter of 2016.

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 2016", and "Financial Results by Reportable Business Segment" sections of the report. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties which may cause actual results to differ materially from expectations expressed in these forward-looking statements.

Non-IFRS measures

We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with International Financial Reporting Standards (IFRS), are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements which are prepared in accordance with IFRS and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the quarterly financial report can be found in the Glossary for Non-IFRS Financial Measures section of the 2015 Annual Report.

The Operating Environment and Outlook For 2016

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

Economic context and housing indicators (as at 20 July 2016)

For the first quarter of 2016, growth in real Gross Domestic Product (GDP) was 2.4% (quarter-to-quarter annualized change), following 0.5% in the final quarter of 2015[1]. Canada's exports rebounded at the start of 2016, buoyed by a lower exchange rate and improving U.S. economic conditions. GDP growth, however, is estimated to have declined in the second quarter of 2016 due to the fires in Alberta. By the third quarter of 2016, growth is expected to resume as rebuilding efforts get underway in Alberta, and fiscal stimulus measures are introduced. Turning to 2017, economic growth is forecast to strengthen. Further improvement in global economic conditions will drive demand for Canada's non-energy exports while the drag from lower oil prices on business investment will lessen as the economy adapts.

There remains a high level of uncertainty regarding economic growth. Externally, there are downside risks relating to slower economic growth in China, as well as uncertainty in the wake of the U.K. referendum vote to exit the European Union. Oil prices are determined globally, but pose a significant risk to the domestic economic outlook. Two important vulnerabilities that could exacerbate the impact of any economic downturn in Canada are: 1) evidence of imbalances in key housing markets as detected by CMHC's Housing Market Assessment framework and 2) high household debt levels (the Canadian debt-to-income ratio stood at a historical peak of 165.3% in the first quarter of 2016).

There are upside risks to the outlook as well. The most important would be for stronger-than-expected U.S. economic growth, which would boost demand for Canada's exports which would support growth in the economy and housing markets.

The consensus among private sector forecasters[2] which helps guide CMHC's views regarding economic activity, notes that:

- Canadian GDP is forecast to increase by between 1.2% and 1.5% in 2016 before moving up to a higher range of 1.7% and 3.0% in 2017. GDP growth was 1.1% in 2015; and
- The overall Canadian unemployment rate is expected to be in the range of 6.9% to 7.3% in 2016 and in the range of 6.4% to 7.3% in 2017. The unemployment rate was 6.9% in 2015.

To account for risks and vulnerabilities that can affect the housing market outlook for Canada, CMHC produces forecast ranges for several housing variables. CMHC expects:

- The growth of housing starts to slow in 2016 and 2017. On an annual basis, housing starts are expected to range from 181,300-192,300 units in 2016 and from 172,600-183,000 units in 2017, a slowdown compared to 2015 when there were 195,535 units.
- Multiple Listing Service® (MLS®)[3] Sales are expected to range from 501,700-525,400 units in 2016. In 2017, MLS® sales are expected to be in a lower range of 485,500-508,400. Demand for existing units is expected to moderate relative to 2015 and 2016, reflecting demographic trends and the gradual rise in mortgage rates.
- The average MLS® price for Canada to range between $474,200 and $495,800 in 2016 and between $479,300 and $501,100 in 2017.
- Higher prices in 2016 following a strong start to the year led by British Columbia and Ontario. The rate of price growth for 2017 is expected to slow because of a composition shift with a reduction in more expensive resale units, and an increase in moderately priced resale units. Furthermore, a projected slowdown in demand from rising mortgage rates in the second half of 2017 will contribute to slower price growth.

[1] *Statistics Canada CANSIM Series No. V62305752*

[2] *Consensus Economics' survey of private sector forecasters, as of 11 July 2016.*

[3] *Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.*

Assisted Housing developments

Budget 2016, *Growing the Middle Class,* announced significant short-term investments to support affordable, social and rental housing, and respond to pressing housing needs in the North and on reserves.

Affordable and Social Housing
The Budget announced the following investments, totalling nearly $1.4 billion over two years, which will be mostly administered through the Investment in Affordable Housing (IAH):

- $504.4 million to support the construction of new, and renovation and repair of existing, affordable housing; housing affordability such as rent supplements; and safe, independent living.
- $200.7 million for the construction, repair and adaptation of affordable housing for seniors.
- $89.9 million for the construction and renovation of shelters and transition houses for victims of family violence.
- $573.9 million to renovate and retrofit existing social housing to address increasing demand for repairs, improve efficiency and reduce energy use.

As at 30 June 2016, supplementary IAH agreements for Budget 2016 funding have been signed and announced with British Columbia, Ontario and Prince Edward Island.

The Budget also announced the reallocation of $30 million over two years to help federally administered social housing providers continue serving low-income households.

Affordable Rental Housing
Budget 2016 proposed $208.3 million over five years, to be administered by CMHC, in an Affordable Rental Housing Innovation Fund to test new, innovative business approaches that will encourage the construction of affordable rental housing.

CMHC will also consult with stakeholders on the design of an Affordable Rental Financing Initiative to provide low-cost loans to municipalities and housing developers for the construction of new affordable rental housing. Up to $500 million in loans will be available each year for five years ($2.5 billion total).

Northern and Inuit Housing
The Budget included $177.7 million over two years to address urgent housing needs in the North and Inuit communities.

Housing in First Nations Communities
CMHC will deliver a $148.1 million investment in First Nation housing. Funding will be delivered through existing programs. $120 million over two years will support the renovation and retrofit of existing housing through CMHC`s existing suite of on-reserve programs. This funding will help improve housing and living conditions, prolong the life of existing units, increase health and safety and reducing overcrowding. $10 million over two years will help improve housing capacity in First Nation communities by supporting the development of knowledge, skills and expertise in the design, construction, inspection and overall management of housing on reserve.

Additionally, to increase the safety and security of victims of family violence, another investment of $10.4 million over three years will support the construction of 5 new shelters and renovation of up to 20 existing shelters on reserve and will be delivered through the existing Shelter Enhancement Program.

A further $5 million for one year will be provided for an additional 500 internships under the Housing Internship Initiative for First Nation and Inuit Youth to provide work experience and on-the-job training.

Pyrrhotite
The Budget announced up to $30 million over three years to help homeowners dealing with the consequences of pyrrhotite.

Mortgage Loan Insurance developments

Amendments to the Insurable Housing Loan Regulations

Effective 15 February 2016, the minimum down payment for new insured mortgages increased from 5% to 10% for the portion of the house price above $500,000. The 5% minimum down payment for properties up to $500,000 remains unchanged. The Government of Canada (Government) announced these changes to the rules for government-backed mortgage insurance to contain risks in the housing market, reduce taxpayer exposure and support long-term stability.

New insurability criteria require that, effective 1 July 2016, low loan-to-value portfolio insured mortgage loans must be securitized via the *National Housing Act* Mortgage-Backed Securities (NHA MBS) program within six months of being insured. These amendments prohibit the use of insured mortgages as collateral in securitization vehicles that are not sponsored by CMHC and restore portfolio insurance to its original purpose of allowing access to funding for mortgage assets. Certain exceptions and transition provisions apply to the implementation of the amendment to the regulations.

We communicated with Approved Lenders prior to 1 July 2016, with respect to the operationalization of the regulations.

Securitization developments

Annual limit on new securities guaranteed

For 2016, the Minister of Finance has authorized CMHC to provide up to $105 billion of new guarantees of market NHA MBS and up to $40 billion of new guarantees for Canada Mortgage Bonds (CMB). The authorized limit for market NHA MBS was increased to reflect the changes under the CMB Program where all NHA MBS sold to Canada Housing Trust (CHT) for all CMB series issued after 1 July 2016, as original or reinvestment assets, will be subject to separate NHA MBS guarantee fees. These annual guarantee limits are separate and distinct from the $600 billion limit on mortgage insurance-in-force.

NHA MBS Guarantee fees

On 11 December 2015, CMHC announced a revised fee structure effective 1 July 2016 that is intended to encourage the development of alternative funding options in the private market.

Maple bank GmbH Toronto

Since February 2016, Maple Bank GmbH was no longer allowed to operate as an Approved Issuer of NHA MBS. The Canadian branch of Maple Bank is continuing to be wound up, and the process to appoint a replacement issuer for the NHA MBS issued by Maple Bank is on going.

CMHC continues to provide a timely payment guarantee of interest and principal to Maple Bank's NHA MBS investors. The Corporation does not expect to incur any costs as a result of its guarantee which it will not be able to recover.

National Housing Strategy

While the short-term investments announced in Budget 2016 will help to address immediate housing priorities, long-term approaches are needed to improve housing outcomes for Canadians. Over the coming year, the Government will consult with provinces and territories, municipalities, Indigenous and other communities, and key stakeholders to develop a National Housing Strategy (NHS) aimed at improving outcomes. On 28 June 2016, the public consultation in support of the NHS was officially launched by Minister Duclos. The goal of the consultation is to invite Canadians to share their insights, ideas and opinions of the future of housing in Canada.

Other – Office of the Superintendent of Financial Institutions (OSFI) Guidelines

IFRS 9 Financial Instruments and Disclosures

On 21 June 2016, OSFI published its final guideline on International Financial Reporting Standard 9 Financial Instruments and Disclosures. The guideline provides guidance to Federally Regulated Entities (FREs) on the application of IFRS 9 *Financial Instruments* (IFRS 9) which will be effective for annual periods beginning on or after 1 January 2018. The guideline has been tailored to the size, nature and complexity of FREs and provides guidance on the application of expected credit losses and revisions or replacement of seven existing OSFI guidelines. CMHC is currently preparing for the transition to IFRS 9.

Changes to Capital Requirements for Residential Mortgages

On 11 December 2015, OSFI announced its plans to update the regulatory capital requirements for loans secured by residential real estate properties (i.e. residential mortgages). The anticipated changes will impact the regulatory capital requirements for those deposit taking institutions using internal models for mortgage default risk and the standardized capital requirements for Canada's mortgage insurers.

For federally regulated private mortgage insurers, OSFI will introduce a new standardized approach that updates the capital requirements for mortgage guarantee insurance risk and will require more capital when house prices are high relative to borrower incomes.

OSFI is consulting with federally regulated financial institutions and other stakeholders before making changes and expects final rules to be in place no later than 2017. The anticipated changes may impact our regulatory capital requirements.

Condensed Consolidated Financial Results

Condensed consolidated balance sheets

	As at	
(in millions)	**30 June 2016**	**31 December 2015**
Total assets	254,319	252,107
Total liabilities	233,981	232,468
Total equity of Canada	20,338	19,639

Total assets increased by $2,212 million (0.9%) from 31 December 2015, primarily due to increases in loans and receivables offset by increased holdings of CHT CMB.

Loans and receivables increased by $3,122 million (1.4%), due to net purchases of NHA MBS in the Securitization Activity, partially offset by a decline in the loan portfolio due to net repayments in the Assisted Housing Activity.

Holdings of CHT CMB increased by $1,014 million (27.3%) from 31 December 2015. The holdings of CMB reduced net assets as the holdings are eliminated upon consolidation of CHT.

Total liabilities increased by $1,513 million (0.7%) from 31 December 2015 due to increases in borrowings – other financial liabilities partially offset by a decrease in borrowings – designated at fair value through profit or loss mainly due to repayments. Borrowings – other financial liabilities increased by $2,172 million (1.0%) primarily due to net issuances of CMB exceeding maturities in the Securitization Activity and increased holdings of CMB as noted above.

Condensed consolidated statements of income and comprehensive income

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Total revenues	1,106	1,127	2,306	2,382
Total expenses	662	668	1,450	1,472
Income taxes	106	111	205	220
Net income	338	348	651	690
Other comprehensive (loss) income	61	(112)	48	98
Comprehensive income	399	236	699	788

Q2 2016 vs. Q2 2015

Total revenues decreased by $21 million (1.9%) from the same quarter last year primarily due to lower parliamentary appropriations for housing programs and net realized gains (losses).

Parliamentary appropriations for housing programs decreased by $17 million (3.5%) from the same quarter last year primarily due to the timing of expenditure claims and maturity of programs offset by spending for new initiatives under budget 2016 for new commitments of affordable housing.

Net realized gains (losses) decreased by $16 million (400.0%) from the same quarter last year primarily due to purchases of CMB which have increased in volume compared to the prior year due to a larger allocation in our portfolio, whereby any premium paid upon purchase is considered to be a cost of debt retirement and is immediately recognized in income.

Total expenses decreased by $6 million (0.9%) from the same quarter last year primarily due to lower housing program expenses partially offset by higher insurance claims.

Housing program expenses decreased by $17 million (3.5%) from the same quarter last year in accordance with parliamentary appropriation for housing programs as previously noted.

Insurance claims increased by $13 million (13.3%) from the same quarter last year primarily due to an increase in the provision for claims caused by increases in unemployment rates as well as the weakening economy in the oil producing regions.

Other comprehensive income (loss) increased by $173 million (154.5%) from the same quarter last year primarily due to an increase in net unrealized gains from available for sale financial instruments partially offset by a decrease in remeasurements of the net defined benefit plans.

Net unrealized gains (losses) from available for sale financial instruments increased by $348 million (168.9%). The increase was mainly attributed to an increase in market value of fixed income investments due to a decline in bond yields in the current quarter resulting in unrealized fair value gains. In contrast, increasing bond yields in Q2 2015 resulted in unrealized fair value losses.

Remeasurements of the net defined benefit plan decreased by $175 million (180.4%) from the same quarter last year primarily due to a significant decrease in the discount rate.

YTD 2016 vs. YTD 2015

Total revenues decreased by $76 million (3.2%) from the same six month period last year primarily due to lower parliamentary appropriations for housing programs and net realized gains (losses).

Parliamentary appropriations for housing programs decreased by $58 million (5.2%) from the same six month period last year primarily as a result of timing of expenditure claims and maturity of programs. These decreases were partially offset by spending for new initiatives under budget 2016 for new commitments of affordable housing.

Net realized gains (losses) decreased by $50 million (555.6%) from the same six month period last year primarily due to purchases of CMB which have increased in volume compared to the prior year due to a larger allocation in our portfolio, whereby any premium paid upon purchase is considered to be a cost of debt retirement and is immediately recognized in income.

Total expenses decreased by $22 million (1.5%) from the same six month period last year primarily due to lower housing program expenses partially offset by higher insurance claims and operating expenses.

Housing program expenses decreased by $58 million (5.2%) from the same six month period last year in accordance with parliamentary appropriation for housing programs as previously noted.

Insurance claims increased by $28 million (15.1%) from the same six month period last year primarily due to an increase in the provision for claims caused by increases in unemployment rates as well as the weakening economy in the oil producing regions.

Operating expenses increased by $8 million (4.5%) from the same six month period last year primarily due to an increase in personnel costs.

Other comprehensive income (loss) decreased by $50 million (51.0%) from the same six month period last year primarily due to a decline in remeasurements of the net defined benefit plans partially offset by an increase in net unrealized gains (losses) from available for sale financial instruments.Net unrealized gains (losses) from available for sale financial instruments increased by $117 million (114.7%) mainly attributed to stronger performance in equity markets when compared to the same period last year resulting in unrealized fair value gains. In addition, unrealized gains on fixed income investments have increased over the same period last year due to a larger decline in long term bond yields.

Remeasurements of the net defined benefit plan decreased by $168 million (16,800.0%) from the same six month period last year primarily due to a significant decrease in the discount rate.

Financial Results by Reportable Business Segment

Financial analysis is provided for the following activities: Assisted Housing, Mortgage Loan Insurance and Securitization.

Assisted Housing

Financial analysis

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2016	2015	2016	2015
Net interest income	2	-	5	-
Parliamentary appropriations for housing programs	463	480	1,052	1,110
Other income	1	7	13	17
Total revenues	**466**	**487**	**1,070**	**1,127**
Housing programs expenses	463	480	1,052	1,110
Operating expenses	3	6	6	11
Total expenses	**466**	**486**	**1,058**	**1,121**
Income before income taxes	**-**	**1**	**12**	**6**
Income taxes	(2)	(1)	-	(1)
Net income	**2**	**2**	**12**	**7**

Q2 2016 vs. Q2 2015

Total revenues decreased by $21 million (4.3%) from the same quarter last year. The decline was primarily driven by a decrease in parliamentary appropriations for housing programs.

Appropriations spending related to housing programs expenses for the three months ended 30 June 2016 was $17 million (3.5%) lower than the same period last year primarily as a result of a decrease of $16 million due to the timing of expenditure claims from the Provinces and Territories under the IAH, $9 million due to the scheduled reduction in the SHA payments, and $9 million due to timing of expenditures for the non-transferred programs off reserve. These decreases were partially offset by $10 million spending for new initiatives under budget 2016 for new commitments of affordable housing.

Total expenses decreased by $20 million (4.1%) primarily driven by a decrease in housing programs expenses as explained above.

YTD 2016 vs. YTD 2015

Total revenues decreased by $57 million (5.1%) from the same six month period last year. The decline was primarily driven by a decrease in parliamentary appropriations for housing programs.

Appropriations spending related to housing programs expenses for the six months ended 30 June 2016 was $58 million (5.2%) lower than the same period last year primarily as a result of a decrease of $65 million due to the timing of expenditure claims from the Provinces and Territories under the IAH, $15 million due to expenditures for the affordable housing in Nunavut program that ended in 2015. These decreases were partially offset by $10 million spending for new initiatives under budget 2016 for new commitments of affordable housing.

Total expenses decreased by $63 million (5.6%) primarily driven by a decrease in housing programs expenses as explained above.

The Lending Activity is operated on a planned breakeven basis over the long term such that in any given year a profit or loss may be realized.

Capital management

Lending Programs

We maintain a reserve fund pursuant to Section 29 of the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act"). A portion of the Lending Programs' earnings are retained in this reserve fund as part of our strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (31 December 2015 - $240 million). Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

Unrealized fair value market fluctuations incurred by the Lending Programs as well as remeasurements of the net defined benefit plans for Assisted Housing are absorbed in retained earnings. The housing programs' portion of remeasurements is recorded in retained earnings until it is reimbursed by the Government through housing programs appropriations.

The following table presents the components of the capital available for the Lending Programs.

	As at	
(in millions)	**30 June 2016**	**31 December 2015**
Reserve fund	136	136
Retained earnings	(13)	41
Total Lending Programs capital available	**123**	**177**

Housing Programs

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

Reporting on use of appropriations

The following table reconciles the amount of appropriations authorized by Parliament as available to us during the Government fiscal year (31 March) with the total amount recognized by us in our calendar year.

	Six months ended 30 June	
(in millions)	**2016**	**2015**
Amounts provided for housing programs:		
Amounts authorized in 2015/16 (2014/15)		
Main estimates	2,026	2,097
Less: Portion recognized in calendar 2015 (2014)	(1,420)	(1,423)
Less: Appropriations lapsed for 2015/16 (2014/15)	(17)	(44)
2015/16 (2014/15) portions recognized in 2016 (2015)	**589**	**630**
Amounts authorized in 2016/17 (2015/16)		
Main estimates	2,028	2,026
Supplementary Estimates A[1,2]	1,070	-
Total fiscal year appropriations	**3,098**	**2,026**
Less: Portion to be recognized in subsequent quarters	(2,635)	(1,546)
2016/17 (2015/16) portions recognized in 2016 (2015)	**463**	**480**
Total appropriations recognized – six months ended 30 June	**1,052**	**1,110**

[1] *Supplementary Estimates are additional appropriations voted on by Parliament during the government's fiscal year.*

[2] *Budget 2016 provided funding for affordable housing and social infrastructure projects over five years. The 2016/17 portion of the social infrastructure investment is included above.*

Total appropriations approved by Parliament for fiscal year 2016/2017 are $3,098 million. The total spending against the reference level as at 30 June 2016 was $463 million (14.9%).

Mortgage Loan Insurance

We provide mortgage loan insurance for transactional homeowner, portfolio and multi-unit residential units in all parts of Canada. We operate these programs on a commercial basis. Revenues from premiums, fees and investments cover all expenses, including insurance claim losses, and we are expected to generate a reasonable return for the Government with due regard for loss. We derive our net income primarily from this activity.

Our mortgage loan insurance business is exposed to some seasonal variation. While premiums earned, net realized gains (losses) and net unrealized gains (losses) vary from quarter to quarter as underlying balances change, premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Losses on 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.

Financial metrics

Measures	**As at**	
(in billions)	**30 June 2016**	**31 December 2015**
Insurance-in-force	**523**	**526**
Transactional homeowner	272	275
Portfolio	189	193
Multi-unit Residential	62	58

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2015 – $600 billion). At 30 June 2016, Insurance-in-force was $523 billion, a $3 billion (0.6%) decrease from 31 December 2015. New loans insured were $41 billion, while estimated loan amortization and pay-downs were $44 billion.

Measures	**Three months ended 30 June**		**Six months ended 30 June**	
(in millions, unless otherwise indicated)	**2016**	**2015**	**2016**	**2015**
Total insured volumes (units)	**134,891**	**121,344**	**217,725**	**189,871**
Transactional homeowner	49,429	50,007	73,591	75,171
Portfolio[1]	53,981	50,150	90,671	76,322
Multi-unit Residential	31,481	21,187	53,463	38,378
Total insured volumes ($)	**26,872**	**23,313**	**41,208**	**36,319**
Transactional homeowner	11,721	11,771	17,487	17,776
Portfolio[1]	12,735	10,111	19,714	15,904
Multi-unit residential	2,416	1,431	4,007	2,639
Premiums and fees received	**478**	**393**	**726**	**613**
Transactional homeowner	361	323	534	486
Portfolio	34	15	51	27
Multi-unit residential	83	55	141	100
Claims Paid[2]	**90**	**88**	**192**	**178**
Transactional homeowner	83	77	166	158
Portfolio	5	6	14	11
Multi-unit residential	2	5	12	9
Arrears rate (%)	**0.32**	**0.34**	**0.32**	**0.34**

1 *Portfolio volumes have been modified to reflect Lender substitutions along with new business volumes.*
2 *Claims paid does not include Social Housing Mortgage and Index Linked Mortgage claims.*

Q2 2016 vs. Q2 2015

Our total insured volumes in the second quarter of 2016 were 13,547 units (11.2%) higher than the same quarter last year due to higher volumes in multi-unit residential and portfolio products.

- Multi-unit residential volumes increased by 10,294 units (48.6%) primarily due to an increase in refinance units of 51.9%.
- Portfolio volumes (new and substitutions) increased by 3,831 units (18.1%) mainly due to a revised allocation of new portfolio volumes distributed among lenders for 2016.

Premiums and fees received increased by $85 million (21.6%) from the same quarter last year primarily due to increased fees implemented on 1 June 2015 for the transactional homeowner product and higher insured volumes on multi-unit residential and portfolio (new).

Claims paid increased $2 million (2.3%) from the same quarter last year primarily due to the transactional homeowner product. There was an increase in payments related to the new claims payment process where claims are paid based on gross dollar values and are occurring earlier when compared to the same quarter last year.

YTD 2016 vs. YTD 2015

Our total insured volumes in the first six months of 2016 were 27,854 units (14.7%) higher than the same six month period last year due to higher volumes in multi-unit residential and portfolio products.

- Multi-unit residential volumes increased by 15,085 units (39.3%) due to increases in both refinance units (49.8%) and purchase units (36.3%).
- Portfolio volumes (new and substitutions) increased by 14,349 units (18.8%) mainly due to a revised allocation of new portfolio volumes distributed among lenders in 2016.

Premiums and fees received increased by $113 million (18.4%) from the same six month period last year primarily due to increased fees implemented on 1 June 2015 for the transactional homeowner product and higher insured volumes on multi-unit residential and portfolio (new).

Claims paid increased $14 million (7.9%) from the same six month period last year primarily due to transactional homeowner product. There was an increase in payments related to the new claims payment process where claims are paid based on gross dollar values and are occurring earlier when compared to the same six month period last year.

	As at			
	30 June 2016		31 December 2015	
	No. of Delinquent Loans	Arrears Rate	No. of Delinquent Loans	Arrears Rate
Transactional homeowner	6,591	0.48 %	7,087	0.50 %
Portfolio	1,704	0.14 %	1,808	0.15 %
Multi-unit residential	91	0.40 %	132	0.60 %
Total	**8,386**	**0.32 %**	**9,027**	**0.34 %**

Our arrears rate is calculated on the basis of all loans that are more than 90 days past due over the number of outstanding insured loans.

Our overall arrears rate and total number of loans in arrears as at 30 June 2016 decreased compared to year-end 2015. With respect to the transactional homeowner, portfolio and multi-unit residential arrears rate, there was a decrease from year-end primarily due to the decrease in the number of delinquent loans.

Financial analysis

(in millions)	Three months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Premiums and fees earned	393	400	761	775
Investment income	151	141	295	278
Other income	2	5	5	10
Total revenues	**546**	**546**	**1,061**	**1,063**
Insurance claims	111	98	213	185
Operating expenses	55	58	121	114
Total expenses	**166**	**156**	**334**	**299**
Income before income taxes	**380**	**390**	**727**	**764**
Income taxes	92	95	176	186
Net income	**288**	**295**	**551**	**578**

Q2 2016 vs. Q2 2015

Investment income increased by $10 million (7.1%) primarily due to a larger investment portfolio, partially offset by lower yields earned.

Total expenses increased by $10 million (6.4%) from the same quarter last year mainly due to higher insurance claims.

Insurance claims increased by $13 million (13.2%) due to an increase in the provision for claims. The provision for claims estimate is an actuarial forecast based on a number of economic assumptions. Increases in unemployment rates as well as the weakening economy in the oil producing regions over the quarter were the key drivers for the increase.

Operating expenses decreased by $3 million (5.2%) due to lower issuance costs, partially offset by increased Government of Canada guarantee fee expense and personnel costs compared to the same quarter last year.

YTD 2016 vs. YTD 2015

Investment income increased by $17 million (6.1%) mainly due to a larger investment portfolio.

Total expenses increased by $35 million (11.7%) from the same six month period last year due to higher insurance claims and operating expenses.

Insurance claims increased by $28 million (15.1%) due to an increase in the provision for claims. The provision for claims estimate is an actuarial forecast based on a number of economic assumptions. Increases in unemployment rates as well as the weakening economy in the oil producing regions over the current six month period were the key drivers for the increase.

Operating expenses increased by $7 million (6.1%) due to increases in personnel costs and the Government of Canada guarantee fee expense compared to the same six month period last year.

Ratios

To supplement financial results of the Mortgage Loan Insurance Activity, we also use financial measures and ratios to analyze our financial performance.

(in percentages)	Three months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Severity ratio	27.5	29.5	31.7	31.1
Loss ratio	28.2	24.5	28.0	23.9
Operating expense ratio	14.0	14.5	15.9	14.7
Combined ratio	42.2	39.0	43.9	38.6
Return on equity	6.4	6.9	6.1	6.9
Return on capital holding target	11.3	11.9	10.7	11.6

Q2 2016 vs. Q2 2015

The severity ratio decreased by 2.0 percentage points from the same quarter last year primarily due to fluctuations in the Corporation's deficiency sales rates, housing prices and recovery levels.

The loss ratio increased by 3.7 percentage points from the same quarter last year primarily due to the increase in insurance claims as previously discussed and due to a decrease in premiums and fees earned.

The operating expense ratio decreased by 0.5 percentage points from the same quarter last year due to the decrease in operating expenses as previously discussed.

YTD 2016 vs. YTD 2015

The severity ratio was relatively consistent from the same six month period last year, increasing by 0.6 percentage points.

The loss ratio increased by 4.1 percentage points from the same six month period last year primarily due to the increase in insurance claims as previously discussed and due to a decrease in premiums and fees earned.

The operating expense ratio increased by 1.2 percentage points from the same six month period last year primarily due to the increase in operating expenses as previously discussed. The decrease in premiums and fees earned also contributed to the increase in the operating expense ratio.

Capital management

Amounts set aside for the Mortgage Loan Insurance Activity is based on our capital management framework which follows guidelines as set out by OSFI. OSFI's minimum regulatory capital required is 100% of its Minimum Capital Test (MCT). The test is to ensure that the amount available is, at minimum, capital required by OSFI Guidelines for private sector federally regulated financial institutions ('Minimum Capital Required').

We set an internal capitalization target above the Minimum Capital Required. The internal capitalization target is set at a level that covers all material risks and is calibrated using specified confidence intervals designed to provide management with an early indication of the need to resolve financial problems. The internal capitalization target has been set at 205% (31 December 2015 – 205%) of the Minimum Capital Required.

Under our capital management framework, we operate with amounts available for capitalization above the internal capitalization target on all but unusual and infrequent occasions. Accordingly, we have established a holding target in excess of the internal capitalization target. The holding target is calibrated using confidence intervals specified by our capital management framework and is designed to provide us with adequate time to resolve financial problems before available amounts decrease below the internal capitalization target. The holding target has been set at 220% (31 December 2015 – 220%) of the Minimum Capital Required.

We maintain a holding target of 220% or $10,809 million (31 December 2015 – 220% or $10,817 million). As at 30 June 2016, the Mortgage Loan Insurance Activity had amounts available of $17,961 million, 366% of the Minimum Capital Required (31 December 2015 – $17,395 million or 354%).

The following table presents the components of capital available for the Mortgage Loan Insurance Activity.

	As at	
(in millions, unless otherwise indicated)	**30 June 2016**	**31 December 2015**
Accumulated other comprehensive income	1,004	803
Appropriated retained earnings	9,805	10,014
Appropriated capital	10,809	10,817
Unappropriated retained earnings	7,509	6,842
Total Mortgage Loan Insurance capital	**18,318**	**17,659**
Less: OSFI-mandated deductions from capital	(357)	(264)
Total Mortgage Loan Insurance capital available	**17,961**	**17,395**
Internal capital target	205 %	205 %
Holding capital target	220 %	220 %
Capital available to minimum capital required (% MCT)	366 %	354 %

Financial resources

The Mortgage Loan Insurance investment portfolio is funded by cash flow generated by premiums and fees and interest received, net of claims and operating expenses. The investment objective and asset allocation for the Mortgage Loan Insurance investment portfolio focuses on maximizing risk-adjusted return while minimizing the need to liquidate investments.

As at 30 June 2016 and 31 December 2015, total investments had a fair value of $24.5 billion and $23.9 billion, respectively.

Securitization

We facilitate access to funds for residential mortgage financing through securitization guarantee products and administration of the legal framework for Canadian covered bonds.

Financial metrics

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2015 - $600 billion). Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee, and is broken down as following.

	As at	
(in billions)	**30 June 2016**	**31 December 2015**
Total guarantees-in-force	**426**	**431**
NHA MBS	208	216
CMB	218	215

Guarantees-in-force were $426 billion as at 30 June 2016, a decrease of $5 billion (1.2%) as maturities exceeded new guarantees provided by CMHC.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Total new securities guaranteed	**27,373**	**24,598**	**49,207**	**47,722**
NHA MBS	16,623	14,598	29,207	28,722
CMB	10,750	10,000	20,000	19,000
Guarantee and application fees received	**108**	**98**	**197**	**153**
MBS guarantee and application fees received	56	50	100	84
CMB guarantee fees received	52	48	97	69

Q2 2016 vs. Q2 2015

New securities guaranteed increased by $2,775 million (11.3%) primarily due to an increase in demand.

Guarantee and application fees received were $10 million (10.2%) higher than the same quarter last year primarily due to increased volumes in 2016.

YTD 2016 vs. YTD 2015

New securities guaranteed increased by $1,485 million (3.1%) primarily due to increase in demand.

Guarantee and application fees received were $44 million (28.8%) higher than the same six month period last year primarily due to guarantee fee increases for NHA MBS and CMB that occurred 1 April 2015 and increased volumes in 2016 .

Financial analysis

(in millions)	Three months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Net interest income	3	2	6	5
Premiums and fees earned[1]	71	61	142	121
Investment income	10	9	21	19
Other income	19	20	38	38
Total revenues	**103**	**92**	**207**	**183**
Total expenses	**30**	**26**	**58**	**52**
Income before income taxes	**73**	**66**	**149**	**131**
Income taxes	18	17	37	33
Net income	**55**	**49**	**112**	**98**

[1] *Securitization Activity is comprised of guarantee and application fees earned*

Q2 2016 vs. Q2 2015 and YTD 2016 vs. YTD 2015

Net income increased by $6 million (12.2%) and $14 million (14.3%) from the same quarter and six month period last year, respectively, primarily due to the increase in premiums and fees earned. Premiums and fees earned were $10 million (16.4%) and $21 million (17.4%) higher than the same quarter and six month period last year, respectively, due to the maturity of older NHA MBS and CMB pools being replaced by more recent issuances that reflect the increased guarantee fee rates implemented in 2015.

Ratios

To supplement financial results of the Securitization programs (excluding CHT), we also use financial measures and ratios to analyze our financial performance.

(in percentages)	Three months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Operating expense ratio	12.5	12.1	12.1	12.0
Return on equity	10.9	11.1	11.3	11.4
Return on required capital	16.6	16.5	17.2	16.8

Capital management

Capitalization for the guarantees provided under NHA MBS and CMB programs is determined based on regulatory and economic capital principles. Capitalization targets have been established to be 100% or $1,247 million of the capital required under these principles (31 December 2015 – 100% or $1,200 million). CMHC's capitalization targets incorporate elements from OSFI's MCT capital requirements for insurance companies for asset exposures and principles from the Basel Committee on Banking Supervision for counterparty credit risk and guarantee exposures as applicable. As at 30 June 2016, the Securitization Activity had $2,058 million or 165% (31 December 2015 – $1,907 million or 159%) to meet capitalization targets.

We do not have separate capitalization amounts for CHT because current exposure is covered by mortgage insurance and the timely payment guarantees for which Mortgage Loan Insurance capitalization and Securitization capitalization amounts are available.

The following table presents the components of the capital available for the Securitization Activity.

	As at	
(in millions, unless otherwise indicated)	**30 June 2016**	**31 December 2015**
Accumulated other comprehensive income	110	63
Appropriated retained earnings	1,137	1,137
Appropriated capital	1,247	1,200
Unappropriated retained earnings	811	707
Total securitization capital available	**2,058**	**1,907**
Capital available to capital required	165 %	159 %

Financial resources

The Securitization investment portfolio is funded by guarantee and application fees and interest received net of expenses. The portfolio is intended to cover obligations associated with our securitization guarantee programs. The objective of the Securitization investment portfolio is to maximize the capacity to meet liquidity needs of the timely payment guarantee and to preserve capitalization amounts through investments in Government of Canada securities.

As at 30 June 2016, total investments under management had a fair value of $2.9 billion compared to $2.7 billion at the end of 2015.

Risk Management

We are exposed to a variety of risks in our operating environment that could have an impact on the achievement of our objectives. These risks are discussed in detail in our 2015 Annual Report. There have been no material developments impacting our risk management since the last reporting period.

Changes in Key Management Personnel

The following changes to our key management personnel were announced prior to the release of the QFR:

- Effective 16 May 2016, Louise Levonian was appointed Deputy Minister, Employment and Social Development, succeeding Mr. Ian Shugart as ex-officio member of CMHC's Board of Directors.
- Effective 30 June, 2016, Debra Darke retired from the Corporation. Michel Tremblay has been appointed to the role of Senior Vice-President, Policy, Research and Public Affairs.

Historical Quarterly Information

(in millions, unless otherwise indicated)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Consolidated Results								
Total assets	254,319	256,789	252,107	255,897	249,968	246,916	248,490	246,557
Total liabilities	233,981	236,850	232,468	236,708	230,998	228,182	230,308	228,933
Total equity of Canada	20,338	19,939	19,639	19,189	18,970	18,734	18,182	17,624
Total revenues	1,106	1,200	1,147	1,107	1,127	1,255	1,875	1,811
Total expenses (including income taxes)	768	887	729	727	779	913	997	905
Net income	338	313	418	380	348	342	878	906
Assisted Housing								
Parliamentary appropriations for housing programs expenses	463	589	476	463	480	630	498	435
Net income	2	10	6	12	2	5	2	46
Total equity of Canada	148	176	202	188	198	158	191	187
Mortgage Loan Insurance								
Insurance-in-force ($B)	523	520	526	525	534	539	543	546
Total insured volumes [1]	26,872	14,336	25,358	18,770	23,313	13,006	21,014	20,375
Premiums and fees received	478	248	397	428	393	220	328	409
Premiums and fees earned	393	368	419	398	400	375	440	425
Claims paid	90	102	99	76	88	90	94	114
Insurance claims	111	102	52	53	98	87	83	85
Net income	288	263	360	326	295	283	821	812
Loss ratio	28.2 %	27.7 %	12.4 %	13.3 %	24.5 %	23.2 %	18.9 %	20.0 %
Operating expense ratio	14.0 %	17.9 %	9.8 %	14.3 %	14.5 %	14.9 %	18.9 %	13.9 %
Combined ratio	42.2 %	45.6 %	22.2 %	27.6 %	39.0 %	38.1 %	37.8 %	33.9 %
Severity ratio	27.5 %	34.4 %	29.6 %	29.5 %	29.5 %	30.2 %	27.1 %	33.0 %
Return on equity	6.4 %	5.9 %	8.2 %	7.6 %	6.9 %	6.8 %	13.2 %	13.0 %
Return on capital holding target	11.3 %	10.5 %	14.8 %	13.4 %	11.9 %	11.4 %	24.1 %	20.2 %
Capital available to minimum capital required (% MCT)	366 %	362 %	354 %	345 %	337 %	331 %	343 %	294 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage ($)	38.1 %	38.1 %	39.1 %	39.8 %	41.2 %	42.1 %	42.7 %	43.7 %
Securitization								
Guarantees-in-force ($B)	426	429	431	426	420	421	422	404
Securities guaranteed	27,373	21,834	36,077	31,923	24,598	23,124	40,356	30,393
Guarantee and application fees received	108	89	195	125	98	55	88	73
Guarantee and application fees earned	71	71	79	68	61	60	66	61
Net income	55	57	63	54	49	49	53	48
Operating expense ratio	12.5 %	11.6 %	8.7 %	12.3 %	12.1 %	11.9 %	11.2 %	11.2 %
Return on equity	10.9 %	11.8 %	13.2 %	12.0 %	11.1 %	11.4 %	13.1 %	12.4 %
Return on required capital	16.6 %	17.8 %	20.0 %	17.8 %	16.5 %	16.9 %	18.8 %	21.0 %
Capital available to capital required	165 %	161 %	159 %	157 %	158 %	159 %	157 %	152 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees($)	32.0 %	32.3 %	32.5 %	32.5 %	33.1 %	33.7 %	32.8 %	32.5 %

[1] *Portfolio volumes have been modified to reflect the Lender substitutions along with new business volumes.*

Unaudited Quarterly Consolidated Financial Statements

Contents

Management's Responsibility for Financial Reporting

Period ended 30 June 2016

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

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

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

Brian Naish, CPA, CA
Chief Financial Officer

24 August 2016

Consolidated Balance Sheets

		As at	
(in millions of Canadian dollars)	Notes	30 June 2016	31 December 2015
Assets			
Cash and cash equivalents		1,147	2,020
Securities purchased under resale agreements		-	35
Investment securities	8		
Designated at fair value through profit or loss		1,096	1,147
Available for sale		22,562	22,168
Loans			
Designated at fair value through profit or loss		4,637	4,955
Loans and receivables		222,835	219,713
Accrued interest receivable		629	694
Derivatives		121	117
Due from the Government of Canada	6	389	161
Investment property		259	258
Accounts receivable and other assets		644	839
		254,319	252,107
Liabilities			
Securities sold under repurchase agreements		338	697
Borrowings			
Designated at fair value through profit or loss		6,597	7,078
Other financial liabilities		218,446	216,274
Accrued interest payable		431	461
Derivatives		29	31
Accounts payable and other liabilities		505	487
Defined benefit plans liability		632	445
Provision for claims	5	726	708
Unearned premiums and fees		6,257	6,229
Deferred income tax liabilities		20	58
		233,981	232,468
Commitments and contingent liabilities	16		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income		1,022	807
Retained earnings		19,291	18,807
		20,338	19,639
		254,319	252,107

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

Consolidated Statements of Income and Comprehensive Income

		Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	Notes	2016	2015	2016	2015
Interest income					
Loans – designated at fair value through profit or loss		23	31	48	63
Loans and receivables		1,122	1,166	2,238	2,389
Other		12	16	26	34
		1,157	1,213	2,312	2,486
Interest expense					
Borrowings – designated at fair value through profit or loss		31	42	65	88
Other financial liabilities		1,094	1,152	2,183	2,358
		1,125	1,194	2,248	2,446
Net interest income		**32**	**19**	**64**	**40**
Non-interest revenues and parliamentary					
Parliamentary appropriations for housing programs	6	463	480	1,052	1,110
Premiums and fees earned		464	461	903	896
Investment income		143	137	280	272
Net realized gains (losses)	7	(12)	4	(41)	9
Net unrealized gains (losses)	7	(8)	2	(1)	10
Other income		24	24	49	45
Total revenues and parliamentary appropriations		**1,106**	**1,127**	**2,306**	**2,382**
Non-interest expenses					
Housing programs	6	463	480	1,052	1,110
Insurance claims	5	111	98	213	185
Operating expenses		88	90	185	177
		662	668	1,450	1,472
Income before income taxes		**444**	**459**	**856**	**910**
Income taxes	14	106	111	205	220
Net income		**338**	**348**	**651**	**690**
Other comprehensive income (loss), net of tax					
Items that will be subsequently reclassified to net income					
Net unrealized gains (losses) from available for sale financial instruments		142	(206)	219	102
Reclassification of prior years' net unrealized gains realized in the period in net income		(3)	(3)	(4)	(5)
Total items that will be subsequently reclassified to net income		139	(209)	215	97
Items that will not be subsequently reclassified to net income					
Remeasurements of the net defined benefit plans		(78)	97	(167)	1
		61	(112)	48	98
Comprehensive income		**399**	**236**	**699**	**788**

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

Consolidated Statements of Equity of Canada

	Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Contributed capital	**25**	**25**	**25**	**25**
Accumulated other comprehensive income				
Balance at beginning of period	883	1,109	807	803
Other comprehensive income (loss)	139	(209)	215	97
Balance at end of period	**1,022**	**900**	**1,022**	**900**
Retained earnings				
Balance at beginning of period	19,031	17,600	18,807	17,354
Net income	338	348	651	690
Other comprehensive income (loss)	(78)	97	(167)	1
Balance at end of period	**19,291**	**18,045**	**19,291**	**18,045**
Equity of Canada	**20,338**	**18,970**	**20,338**	**18,970**

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

Consolidated Statements of Cash Flows

(in millions of Canadian dollars)	Notes	Three months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash flows provided by (used in) operating activities					
Net income		338	348	651	690
Adjustments to determine net cash flows provided by (used in) operating activities					
Amortization of premiums and discounts on financial instruments		53	48	105	80
Deferred income taxes		(14)	4	(15)	(4)
Change in fair value of financial instruments carried at fair value	7	7	(20)	5	(2)
Net (gain) loss on financial instruments	7	12	(4)	41	(9)
Accrued interest receivable		676	680	65	60
Derivatives		1	14	(6)	(14)
Due from the Government of Canada		58	86	(228)	(62)
Accounts receivable and other assets		95	(186)	195	(196)
Accrued interest payable		(637)	(660)	(30)	(56)
Accounts payable and other liabilities		(81)	(31)	(52)	(213)
Defined benefit plans liability		(8)	(13)	(15)	(22)
Provision for claims		20	(6)	18	(12)
Unearned premiums and fees		137	46	28	(111)
Other		1	2	(6)	(3)
Loans	9				
Repayments		12,446	5,714	17,262	17,808
Disbursements		(10,780)	(10,038)	(20,062)	(19,119)
Borrowings	10				
Repayments		(12,816)	(6,432)	(18,292)	(19,484)
Issuances		11,131	10,341	20,997	20,681
		639	(107)	661	12
Cash flows provided by (used in) investing activities					
Investment securities					
Sales and maturities	10	1,368	2,967	2,862	6,157
Purchases		(2,208)	(3,565)	(4,071)	(6,966)
Investment property					
Additions		-	-	(1)	-
Securities purchased under resale agreements		-	361	35	126
Securities sold under repurchase agreements		(159)	12	(359)	(93)
		(999)	(225)	(1,534)	(776)
Change in cash and cash equivalents		(360)	(332)	(873)	(764)
Cash and cash equivalents					
Beginning of period		1,507	1,737	2,020	2,169
End of period		1,147	1,405	1,147	1,405
Represented by					
Cash		14	7	14	7
Cash equivalents		1,133	1,398	1,133	1,398
		1,147	1,405	1,147	1,405
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		2,039	2,104	2,798	2,967
Amount of interest paid during the period		1,799	1,880	2,364	2,576
Amount of dividends received during the period		15	10	25	19
Amount of income taxes paid during the period		-	190	-	613

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

Notes to Unaudited Quarterly Consolidated Financial Statements

CMHC 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* (FAA) by virtue of being listed in Part I of Schedule III, wholly owned by the Government of Canada (Government), and an agent Crown corporation. Our Corporation's National Office is located at 700 Montreal Road, Ottawa, Ontario, Canada, K1A 0P7.

These consolidated financial statements are as at and for the three and six months ended 30 June 2016 and were approved and authorized for issue by our Audit Committee on 24 August 2016.

1. Basis of Presentation and Significant Accounting Policies

Our 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. They should be read in conjunction with our audited consolidated financial statements for the year ended 31 December 2015. These unaudited quarterly consolidated financial statements follow the same accounting policies and methods of application as disclosed in Note 2 of our audited consolidated financial statements for the year ended 31 December 2015.

Seasonality

Our mortgage loan insurance business is exposed to some seasonal variation. While premiums earned, net realized gains (losses) and net unrealized gains (losses) vary from quarter to quarter as underlying balances change, premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Losses on 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.

We have concluded that our business is not highly seasonal in accordance with IAS 34.

2. Changes in Accounting Policies

Current accounting policy changes

On 1 January 2016, we adopted the amendments to IAS 1 *Presentation of Financial Statements* (amendments to IAS 1). The amendments to IAS 1 are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements of International Financial Reporting Standards (IFRS), and do not affect recognition and measurement. The adoption of the amendments to IAS 1 did not have a material impact on the quarterly consolidated financial statements.

Future accounting policy changes

There were no new standards and amendments to existing standards issued by the International Accounting Standards Board (IASB) during the six month period that would affect CMHC in the future other than those disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2015.

3. Use of Judgments and Estimates

The preparation of financial statements requires Management to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. Significant judgments and estimates at 30 June 2016 were consistent with those disclosed in Note 4 of our audited consolidated financial statements as at and for the year ended 31 December 2015.

4. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing, Mortgage Loan Insurance and Securitization Activities, each of which provides different programs in support of our objectives. The accounts for Canada Housing Trust (CHT), a separate legal entity, are included within the Securitization Activity. The financial results of each activity are determined using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2015. Revenues are attributed to, and assets are located in, Canada.

Revenues for the reportable segments are generated as follows:

- Assisted Housing revenues are earned from interest income on loans and also include parliamentary appropriations;
- Mortgage Loan Insurance revenues are earned from premiums, fees and investment income; and
- Securitization revenues are earned from guarantee and application fees, investment income and interest income on loans.

Three months ended 30 June	**Assisted Housing**		**Mortgage Loan Insurance**		**Securitization**		**Eliminations**		**Total**	
(in millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	109	123	-	-	1,050	1,091	(2)	(1)	1,157	1,213
Interest expense	107	123	-	-	1,047	1,089	(29)	(18)	1,125	1,194
Net interest income	2	-	-	-	3	2	27	17	32	19
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	463	480	-	-	-	-	-	-	463	480
Premiums and fees earned	-	-	393	400	71	61	-	-	464	461
Investment income (losses)	-	-	151	141	10	9	(18)	(13)	143	137
Net realized gains (losses)	-	-	1	4	1	2	(14)	(2)	(12)	4
Net unrealized gains (losses)	(4)	1	-	1	-	-	(4)	-	(8)	2
Other income	5	6	1	-	18	18	-	-	24	24
Total revenues and parliamentary appropriations	**466**	**487**	**546**	**546**	**103**	**92**	**(9)**	**2**	**1,106**	**1,127**
Non-interest expenses										
Housing programs	463	480	-	-	-	-	-	-	463	480
Insurance claims	-	-	111	98	-	-	-	-	111	98
Operating expenses	3	6	55	58	30	26	-	-	88	90
	466	486	166	156	30	26	-	-	662	668
Income (loss) before income taxes	**-**	**1**	**380**	**390**	**73**	**66**	**(9)**	**2**	**444**	**459**
Income taxes	(2)	(1)	92	95	18	17	(2)	-	106	111
Net income (loss)	**2**	**2**	**288**	**295**	**55**	**49**	**(7)**	**2**	**338**	**348**
Total revenue and parliamentary appropriations	466	487	546	546	103	92	(9)	2	1,106	1,127
Inter-segment revenue[1]	(6)	(1)	(32)	(15)	29	18	9	(2)	-	-
External revenues and parliamentary appropriations	460	486	514	531	132	110	-	-	1,106	1,127

[1] *Inter-segment revenue relates to the Mortgage Loan Insurance Activity that recognizes revenues from investing in Canada Mortgage Bonds.*

Six months ended 30 June	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations		Total	
(in millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	222	251	-	-	2,092	2,237	(2)	(2)	2,312	2,486
Interest expense	217	251	-	-	2,086	2,232	(55)	(37)	2,248	2,446
Net interest income	5	-	-	-	6	5	53	35	64	40
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	1,052	1,110	-	-	-	-	-	-	1,052	1,110
Premiums and fees earned	-	-	761	775	142	121	-	-	903	896
Investment income (losses)	-	-	295	278	21	19	(36)	(25)	280	272
Net realized gains (losses)	-	-	3	8	1	3	(45)	(2)	(41)	9
Net unrealized gains (losses)	2	7	1	2	-	-	(4)	1	(1)	10
Other income	11	10	1	-	37	35	-	-	49	45
Total revenues and parliamentary appropriations	**1,070**	**1,127**	**1,061**	**1,063**	**207**	**183**	**(32)**	**9**	**2,306**	**2,382**
Non-interest expenses										
Housing programs	1,052	1,110	-	-	-	-	-	-	1,052	1,110
Insurance claims	-	-	213	185	-	-	-	-	213	185
Operating expenses	6	11	121	114	58	52	-	-	185	177
	1,058	1,121	334	299	58	52	-	-	1,450	1,472
Income (loss) before income taxes	**12**	**6**	**727**	**764**	**149**	**131**	**(32)**	**9**	**856**	**910**
Income taxes	-	(1)	176	186	37	33	(8)	2	205	220
Net income (loss)	**12**	**7**	**551**	**578**	**112**	**98**	**(24)**	**7**	**651**	**690**
Total revenue and parliamentary appropriations	1,070	1,127	1,061	1,063	207	183	(32)	9	2,306	2,382
Inter-segment revenue[1]	(6)	(1)	(81)	(27)	55	37	32	(9)	-	-
External revenues and parliamentary appropriations	1,064	1,126	980	1,036	262	220	-	-	2,306	2,382

[1] *Inter-segment revenue relates to the Mortgage Loan Insurance Activity that recognizes revenues from investing in Canada Mortgage Bonds*

As at 30 June 2016 and 31 December 2015	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations[1]		Total	
(in millions)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Assets										
Cash and cash equivalents	662	1,184	408	834	77	2	-	-	1,147	2,020
Securities purchased under resale agreements	-	35	-	-	-	-	-	-	-	35
Investment securities										
Designated at fair value through profit or loss	1,407	1,255	91	90	1	1	(403)	(199)	1,096	1,147
Available for sale	-	-	24,030	23,019	2,863	2,680	(4,331)	(3,531)	22,562	22,168
Loans										
Designated at fair value through profit or loss	4,637	4,955	-	-	-	-	-	-	4,637	4,955
Loans and receivables	3,945	4,091	-	-	218,890	215,622	-	-	222,835	219,713
Accrued interest receivable	141	188	140	143	361	374	(13)	(11)	629	694
Derivatives	121	117	-	-	-	-	-	-	121	117
Due from the Government of Canada	389	161	-	-	-	-	-	-	389	161
Investment property	156	156	103	102	-	-	-	-	259	258
Accounts receivable and other assets	61	40	522	736	61	63	-	-	644	839
	11,519	12,182	25,294	24,924	222,253	218,742	(4,747)	(3,741)	254,319	252,107
Liabilities										
Securities sold under repurchase agreements	-	-	338	697	-	-	-	-	338	697
Borrowings										
Designated at fair value through profit or loss	6,600	7,091	-	-	-	-	(3)	(13)	6,597	7,078
Other financial liabilities	4,037	4,194	-	-	218,890	215,622	(4,481)	(3,542)	218,446	216,274
Accrued interest payable	91	106	-	-	353	366	(13)	(11)	431	461
Derivatives	29	31	-	-	-	-	-	-	29	31
Accounts payable and other liabilities	358	364	93	96	54	27	-	-	505	487
Defined benefit plans liability	242	179	378	263	12	3	-	-	632	445
Provision for claims	-	-	726	708	-	-	-	-	726	708
Unearned premiums and fees	-	-	5,405	5,432	852	797	-	-	6,257	6,229
Deferred income tax liabilities	14	15	36	69	34	20	(64)	(46)	20	58
	11,371	11,980	6,976	7,265	220,195	216,835	(4,561)	(3,612)	233,981	232,468
Equity of Canada	148	202	18,318	17,659	2,058	1,907	(186)	(129)	20,338	19,639
	11,519	12,182	25,294	24,924	222,253	218,742	(4,747)	(3,741)	254,319	252,107

[1] *The balance sheet Eliminations remove inter-segment holdings of Canada Mortgage Bonds and Capital Market Borrowings, as well as inter-segment accrued interest receivable/payable.*

5. Mortgage Loan Insurance

Unearned premiums and fees

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period	5,306	5,422	5,432	5,575
Premium deferred on contracts written in the period	486	401	722	617
Premiums earned in the period	(389)	(393)	(750)	(763)
Application fees deferred on contracts written in the period	3	5	6	8
Application fees earned in the period	(1)	(3)	(5)	(5)
Balance at end of period	**5,405**	**5,432**	**5,405**	**5,432**

Provision for claims

The provision for claims includes amounts set aside for incurred but not reported (IBNR) claims, claims in process (CIP) and for Social Housing Mortgage and Index Linked Mortgage claims (SH and ILM).

Provision for claims comprises the following:

	As at					
	30 June 2016			31 December 2015		
(in millions)	**IBNR and CIP**	**SH and ILM**	**Total**	**IBNR and CIP**	**SH and ILM**	**Total**
Undiscounted estimated losses	470	188	658	456	186	642
Discounting	(5)	-	(5)	(6)	-	(6)
Provision for adverse deviation	36	37	73	35	37	72
Total provision for claims	**501**	**225**	**726**	**485**	**223**	**708**

The following tables present the changes in the provision for claims balance:

	Three months ended 30 June					
	2016			2015		
(in millions)	**IBNR and CIP**	**SH and ILM**	**Total**	**IBNR and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	482	224	706	542	230	772
Net claims paid during the period	(90)	(1)	(91)	(88)	(4)	(92)
Provision for claims provided for and losses incurred during the period[1]	109	2	111	82	4	86
Provision for claims, end of period	**501**	**225**	**726**	**536**	**230**	**766**

	Six months ended 30 June					
	2016			2015		
(in millions)	**IBNR and CIP**	**SH and ILM**	**Total**	**IBNR and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	485	223	708	551	227	778
Net claims paid during the period	(192)	(2)	(194)	(178)	(6)	(184)
Provision for claims provided for and losses incurred during the period[1]	208	4	212	163	9	172
Provision for claims, end of period	**501**	**225**	**726**	**536**	**230**	**766**

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

Insurance claims

Insurance claims expense includes claim settlement amounts net of recoveries, the change in provision for claims over the period, and related expenses.

Insurance claims expense is comprised of the following:

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2016	2015	2016	2015
Claims expense	89	103	181	198
Change in provision	20	(5)	17	(12)
Related expenses	2	-	15	(1)
Insurance claims expense	**111**	**98**	**213**	**185**

Deferred acquisition costs

Deferred acquisition costs are included in accounts receivable and other assets. The following table presents the changes in the deferred acquisition costs.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2016	2015	2016	2015
Balance at beginning of period	123	118	127	117
Acquisition costs deferred	16	9	24	18
Amortization of deferred acquisition costs	(2)	(9)	(14)	(17)
Balance at end of period	**137**	**118**	**137**	**118**

Insurance policy liability adequacy

Liability adequacy tests are performed quarterly and are also performed on an annual basis as part of the actuarial valuation. Premium liabilities represent a provision for future claims and expenses which are expected to arise from the unearned portion of the policies in-force. Thus, this provision is for claims that have not yet occurred and therefore, covers the period from the date of the valuation to the date of default (the assumed claim occurrence date).

The liability adequacy test for the Corporation, as at 30 June 2016, has identified that no provision for premium deficiency is required.

6. Parliamentary Appropriations and Housing Programs Expenses

We receive parliamentary appropriations to fund the following program expenditures, including operating expenses of $35 million and $69 million for the three and six months ended 30 June 2016, respectively (three and six months ended 30 June 2015 – $29 million and $58 million, respectively), in support of housing programs.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2016	2015	2016	2015
Funding under long-term commitments for existing social housing	388	402	849	843
Funding for new commitments of affordable housing	61	66	172	242
Housing support	2	2	7	5
Market analysis information	5	5	9	11
Housing policy, research and information transfer	7	5	15	9
Total	**463**	**480**	**1,052**	**1,110**

The following table presents the changes in the due from the Government of Canada account. The outstanding balance as at 30 June is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period	447	433	161	285
Total appropriations recognized in revenues during the period	463	480	1,052	1,110
Total appropriations received during the period	(521)	(565)	(824)	(1,050)
Third party reimbursements in excess of remittance to Government of Canada	-	(1)	-	2
Balance at end of period	**389**	**347**	**389**	**347**

7. Fair Value Measurement

We measure certain financial instruments and non-financial assets at fair value and disclose the fair value of certain other items. 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. For financial instruments, accrued interest is separately recorded and disclosed.

Fair value is determined using a consistent measurement framework. The methods and assumptions used in measuring fair value are the same as those used in the preparation of our audited consolidated financial statements for the year ended 31 December 2015. These methods make maximum use of relevant observable inputs and minimize the use of unobservable inputs.

Fair value hierarchy

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

Level 3
Assets and liabilities not quoted in active markets that are measured using valuation techniques. Where possible, inputs to the valuation techniques are based on observable market data. 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.

For financial instruments classified as level 3, the valuation techniques include discounted cash flow analysis using unobservable risk premiums and, for our equity investments in private limited partnerships, the use of net asset values as reported by the fund managers.

For investment property, which is classified as level 3, fair value is measured using discounted cash flow analysis and market approach techniques. Discounted cash flow analysis is generally used for rent producing properties, having as significant unobservable inputs assumptions about the properties' future cash flows, including future rental values, and discount rates reflecting the properties' characteristics. The market approach is generally applied to non-income generating properties, such as vacant land, and has the estimated price per square foot as a significant unobservable input, derived in part by market transactions involving comparable properties.

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

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

	As at					
	30 June 2016			31 December 2015		
(in millions)	Carrying Value	Fair Value	Fair Value Over (Under) Carrying Value	Carrying Value	Fair Value	Fair Value Over (Under) Carrying Value
Financial assets						
Loans - loans and receivables[1]	222,835	231,524	8,689	219,713	227,168	7,455
Financial liabilities						
Borrowings - other financial liabilities[2]	218,446	227,165	8,719	216,274	223,829	7,555

[1] *Fair value of loans and receivables is categorized as level 2.*

[2] *$221,511 million (31 December 2015 – $218,045 million) fair value categorized as level 1, $5,654 million (31 December 2015 – $5,784 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 quarterly consolidated balance sheets.

	As at							
	30 June 2016				31 December 2015			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash and cash equivalents								
Cash	14	-	-	14	(1)	-	-	(1)
Interest bearing deposits with banks	-	506	-	506	-	1,108	-	1,108
Corporate/other entities	-	154	-	154	-	40	-	40
Government of Canada	77	-	-	77	97	-	-	97
Provinces/municipalities	-	58	-	58	-	79	-	79
Total cash and cash equivalents[1]	91	718	-	809	96	1,227	-	1,323
Investment securities								
Designated at fair value through profit or loss								
Fixed income								
Corporate/other entities	-	137	166	303	-	62	164	226
Provinces/municipalities	-	472	-	472	-	600	-	600
Sovereign and related entities	-	321	-	321	-	321	-	321
Total designated at fair value through profit or loss	-	930	166	1,096	-	983	164	1,147
Available for sale								
Fixed income								
Corporate/other entities	-	10,412	-	10,412	-	10,411	-	10,411
Government of Canada	3,534	25	-	3,559	3,717	50	-	3,767
Provinces/municipalities	-	7,047	-	7,047	-	6,518	-	6,518
Sovereign and related entities	-	360	-	360	-	354	-	354
Equities – Canadian	1,147	-	37	1,184	1,084	-	34	1,118
Total available for sale	4,681	17,844	37	22,562	4,801	17,333	34	22,168
Loans								
Designated at fair value through profit or loss	-	4,637	-	4,637	-	4,955	-	4,955
Derivatives	-	121	-	121	-	117	-	117
Investment property	-	-	259	259	-	-	258	258
Total assets carried at fair value	**4,772**	**24,250**	**462**	**29,484**	**4,897**	**24,615**	**456**	**29,968**
Liabilities								
Borrowings								
Designated at fair value through profit or loss	278	6,319	-	6,597	739	6,339	-	7,078
Derivatives	-	29	-	29	-	31	-	31
Total liabilities carried at fair value	**278**	**6,348**	**-**	**6,626**	**739**	**6,370**	**-**	**7,109**

[1] *Of the total cash and cash equivalents carried at fair value, $662 million (31 December 2015-$1,186 million) is classified as designated at fair value through profit or loss and $147 million (31 December 2015-$137 million) is classified as available for sale.*

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period. Transfers may occur between levels of the fair value hierarchy as a result of changes in the availability of quoted market prices or observable market inputs. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. There were no transfers during the six months ended 30 June 2016 (six months ended 30 June 2015 – nil).

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.

	Investment securities				
(in millions)	**Designated at fair value through profit or loss – asset backed securities**	**Available for sale – limited partnership units**	**Total investment securities**	**Investment property**	**Total**
Three months ended 30 June 2016					
Fair value as at 31 March 2016	165	40	205	259	464
Purchases	-	1	1	-	1
Unrealized gains in net income[1,2]	1	-	1	-	1
Unrealized gains in OCI	-	(4)	(4)	-	(4)
Fair value as at 30 June 2016	**166**	**37**	**203**	**259**	**462**
Six months ended 30 June 2016					
Fair value as at 31 December 2015	164	34	198	258	456
Purchases	-	1	1	1	2
Unrealized gains in net income[1,2]	2	-	2	-	2
Unrealized gains in OCI	-	2	2	-	2
Fair value as at 30 June 2016	**166**	**37**	**203**	**259**	**462**
Three months ended 30 June 2015					
Fair value as at 31 March 2015	161	24	185	247	432
Purchases	-	3	3	-	3
Unrealized gains in net income[1,2]	1	-	1	1	2
Unrealized gains in OCI	-	2	2	-	2
Fair value as at 30 June 2015	**162**	**29**	**191**	**248**	**439**
Six months ended 30 June 2015					
Fair value as at 31 December 2014	159	19	178	247	425
Purchases	-	3	3	-	3
Unrealized gains in net income[1,2]	3	-	3	1	4
Unrealized gains in OCI	-	7	7	-	7
Fair value as at 30 June 2015	**162**	**29**	**191**	**248**	**439**

[1] *Included in net unrealized gains (losses) for investment securities; other income for investment property.*
[2] *Comprises unrealized gains relating to assets held at the end of the respective periods.*

Unobservable inputs for items classified as level 3

The valuation of items classified as level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 June 2016, which may change materially in subsequent periods. The following table presents quantitative information about the significant unobservable inputs used in level 3 fair value measurements for items carried at fair value.

	30 June 2016				31 December 2015	
(in millions, unless otherwise indicated)	**Asset fair value**	**Valuation Technique**	**Unobservable inputs**	**Weighted average input/range**	**Asset fair value**	**Weighted average input/range**
Investment securities						
Designated at fair value through profit or loss						
Asset-backed securities	166	Discounted cash flow	Risk premium	1.4%	164	1.4%
Available for sale						
Limited partnership investment	37	Share of partnership net asset value	Reported partnership net asset value	n.a.	34	n.a.
Total investment securities	**203**				**198**	
Investment property						
Investment property held by Mortgage Loan Insurance Activity	103	Discounted cash flow	Estimated rental value per square foot	$4 - $37	102	$4 - $37
			Discount rate	7.0% - 8.0%		7.0% - 8.0%
Investment property held by Assisted Housing Activity	17	Discounted cash flow	Estimated rental value per square foot	$22 - $148	17	$22 - $148
			Discount rate	4.0% - 5.8%		4.0% - 5.8%
	139	Market Approach	Price per square foot	$0 - $325	139	$0 - $325
Total investment property	**259**				**258**	
Total level 3 items carried at fair value	**462**				**456**	

Level 3 sensitivity analysis

Investment securities

For the asset-backed securities classified as level 3, increases (decreases) in the unobservable risk premiums included in the discount rates used to calculate fair value would result in a decrease (increase) in the fair value measurement. We assessed the impact of a change in risk premium by 100 bps to income before income taxes and determined that it was immaterial as at the end of the period.

Investment property

For investment property, increases (decreases) in estimated rental value and price per square foot could result in a significantly higher (lower) fair value of the properties. Increases (decreases) in discount rates could result in a significantly lower (higher) fair value.

Gains and losses from financial instruments

The following table presents the net realized gains (losses) related to financial instruments.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Investment securities – available for sale	2	6	4	11
Borrowings – other financial liabilities[1]	(14)	(2)	(45)	(2)
Total	**(12)**	**4**	**(41)**	**9**

[1] *Comprises open market purchases of Canada Mortgage Bonds (CMB) by CMHC accounted for as retirements on consolidation of CHT*

The net unrealized gains (losses) arising from changes in fair value related to financial instruments classified as held for trading (HFT) and those designated at fair value through profit or loss (FVTPL) are presented in the following table.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Held for trading				
Derivatives	-	(17)	5	9
Total held for trading	**-**	**(17)**	**5**	**9**
Designated at fair value through profit or loss				
Investment securities	-	(2)	-	8
Loans	1	(27)	(5)	16
Borrowings	(9)	48	(1)	(23)
Total designated at fair value through profit or loss	**(8)**	**19**	**(6)**	**1**
Total	**(8)**	**2**	**(1)**	**10**

8. Investment Securities

Investment securities include fixed income and equity securities. The following table shows the cumulative unrealized gains (losses) on investment securities recorded at fair value.

	As at					
	30 June 2016				31 December 2015	
(in millions)	**Amortized cost[1]**	**Gross cumulative unrealized gains**	**Gross cumulative unrealized losses**	**Fair value**	**Amortized cost[1]**	**Fair value**
Investment securities						
Fixed income						
Designated at fair value through profit or loss	1,016	80	-	1,096	1,069	1,147
Available for sale	20,443	942	(7)	21,378	20,342	21,050
Equities						
Available for sale	732	452	-	1,184	726	1,118

[1] *Amortized cost for Equities is acquisition cost less impairment losses, if any.*

We have investment securities of $339 million (31 December 2015 – $698 million) that are part of securities sold under repurchase agreements with terms that do not exceed 93 days. We continue to earn investment income and recognize in other comprehensive income (loss) changes in fair values on these investment securities during the period.

The cumulative unrealized loss from available for sale (AFS) fixed income and equity investments of $7 million (31 December 2015 – $18 million) is included in accumulated other comprehensive income (AOCI) and has not been recognized as an impairment loss in net income since objective evidence of impairment has not been identified.

During the three and six months ended 30 June 2016, there were no impairment losses (three and six months ended 30 June 2015 – nil) recognized in net realized gains (losses) and no reversals of previously realized fixed income investment security impairments occurred during the period.

9. Loans

The following table presents repayments and disbursements for Loans.

	Three months ended 30 June			
	2016		2015	
(in millions)	Repayments	Disbursements	Repayments	Disbursements
Designated at fair value through profit or loss				
Lending programs	141	22	158	14
Total designated at fair value through profit or loss	**141**	**22**	**158**	**14**
Loans and receivables				
Loans under the CMB program	12,250	10,757	5,500	10,022
Lending programs	55	1	56	2
Total loans and receivables	**12,305**	**10,758**	**5,556**	**10,024**
Total	**12,446**	**10,780**	**5,714**	**10,038**

	Six months ended 30 June			
	2016		2015	
(in millions)	Repayments	Disbursements	Repayments	Disbursements
Designated at fair value through profit or loss				
Lending programs	291	50	317	36
Total designated at fair value through profit or loss	**291**	**50**	**317**	**36**
Loans and receivables				
Loans under the IMPP	-	-	2,025	-
Loans under the CMB program	16,750	20,009	15,250	19,080
Lending programs	221	3	216	3
Total loans and receivables	**16,971**	**20,012**	**17,491**	**19,083**
Total	**17,262**	**20,062**	**17,808**	**19,119**

For loans designated at FVTPL, there were no changes in fair value attributable to changes in credit risk. We are assured collection of principal and accrued interest on 99% (31 December 2015 – 99%) of our loans.

Uninsured loans are assessed on a regular basis to determine if an allowance for credit losses is necessary. As at 30 June 2016, an impairment allowance of $23 million has been recognized (31 December 2015 – $23 million).

10. Borrowings

The following table presents repayments and issuances for Borrowings.

	Three months ended 30 June			
	2016		2015	
(in millions)	Repayments	Issuances	Repayments	Issuances
Designated at fair value through profit or loss				
Capital market borrowings	-	-	500	-
Borrowings from the Government of Canada	596	374	367	319
Total designated at fair value through profit or loss	**596**	**374**	**867**	**319**
Other financial liabilities				
Canada mortgage bonds	12,154	10,757	5,500	10,022
Borrowings from the Government of Canada	66	-	65	-
Total other financial liabilities	**12,220**	**10,757**	**5,565**	**10,022**
Total	**12,816**	**11,131**	**6,432**	**10,341**

	Six months ended 30 June			
	2016		2015	
(in millions)	Repayments	Issuances	Repayments	Issuances
Designated at fair value through profit or loss				
Capital market borrowings	465	-	500	-
Borrowings from the Government of Canada	1,014	988	1,531	1,601
Total designated at fair value through profit or loss	**1,479**	**988**	**2,031**	**1,601**
Other financial liabilities				
Canada mortgage bonds	16,654	20,009	15,250	19,080
Borrowings from the Government of Canada	159	-	2,203	-
Total other financial liabilities	**16,813**	**20,009**	**17,453**	**19,080**
Total	**18,292**	**20,997**	**19,484**	**20,681**

When CMHC holds a CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statements of cash flows. During the three and six months ended June 2016 there were $96 million of CMB maturities that have been excluded from Investment securities – Sales and maturities and Borrowings – Repayments in the consolidated statements of cash flows. There were no purchases in the primary market during the three and six months ended 30 June 2016.

11. Market Risk

Market risk is the risk of adverse financial impacts arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Value at risk (VaR)

Market risk for investment securities in the Mortgage Loan Insurance and Securitization Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measure the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence.

The VaR for the Mortgage Loan Insurance and Securitization Activities as at 30 June 2016, calculated with 95% confidence over a 22 business day holding period is outlined in the table below. VaR is presented separately for individual market risk factors and for the total portfolio. The effect of diversification results from the fact that market risks are not perfectly correlated and, consequently, there is a benefit from investment diversification. The VaR figures are based on one-year of historical prices and correlations of bond and equity markets and 26 weeks of volatility.

(in millions)	As at 30 June 2016	As at 31 December 2015
Investment securities:		
Available for sale		
Interest rate risk	276	267
Equity risk	78	69
Effect of diversification	(93)	(77)
Total VaR	**261**	**259**

Interest rate sensitivity

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

For the Assisted Housing Activity's financial instruments designated at FVTPL and HFT, we assessed the impact of a 200 bps shift in interest rates as immaterial as at 30 June 2016.

The Assisted Housing Activity's loans and borrowings measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value from a disclosure perspective is presented below.

	As at			
	30 June 2016		31 December 2015	
	Interest rate shift		Interest rate shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Increase (decrease) to fair value of net assets[1]	(61)	64	(73)	65

[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.*

The Assisted Housing Activity's net interest income is also sensitive to interest rate movements. The maximum negative exposure of net interest income, which is limited by our policy to $1.5 million, is $0.4 million at 30 June 2016 (31 December 2015 – $0.8 million). This is calculated with 95% confidence over a one-year period.

12. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. Full descriptions of credit risks related to our financial instruments are disclosed in Note 22 of our audited consolidated financial statements for the year ended 31 December 2015. There has been no change to the nature of the risk for the three and six month period ended 30 June 2016.

Under the CMB program, we are exposed to credit risk in the event of default by one of our swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. The fair value of total loan collateral held under the CMB program was $225,976 million, 103.2% of loan carrying value, as at 30 June 2016 (31 December 2015 - $221,641 million, 102.8% of carrying value). This includes the fair value of swap collateral held and the fair value of *National Housing Act* Mortgage-Backed Securities (NHA MBS) and reinvestment securities sold by Canadian financial institutions to us.

13. Pension and Other Post-employment Benefits

Expense, remeasurements and contributions for the defined benefit plans for the three and six month period ended 30 June are presented in the tables below.

	Three months ended 30 June			
	Pension plans		Other post-employment	
(in millions)	2016	2015	2016	2015
Current service cost	8	9	1	1
Net interest expense	4	3	1	2
Expense recognized in net income	**12**	**12**	**2**	**3**
Net actuarial gains (losses) arising from changes in financial assumptions	(116)	150	(6)	15
Return on plan assets (excluding amounts included in net interest expense)	29	(46)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(87)**	**104**	**(6)**	**15**
CMHC's contributions	20	26	2	2
Employee contributions	4	4	-	-
Total contributions	**24**	**30**	**2**	**2**

	Six months ended 30 June			
	Pension plans		Other post-employment	
(in millions)	2016	2015	2016	2015
Current service cost	16	17	1	2
Net interest expense	7	6	2	4
Expense recognized in net income	**23**	**23**	**3**	**6**
Net actuarial losses arising from changes in financial assumptions	(204)	(1)	(12)	(4)
Return on plan assets (excluding amounts included in net interest expense)	14	7	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(190)**	**6**	**(12)**	**(4)**
CMHC's contributions	38	47	3	4
Employee contributions	7	7	-	-
Total contributions	**45**	**54**	**3**	**4**

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

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

Expenses for the defined contribution plan were $0.9 million and $1.6 million for the three and six month period ended 30 June 2016, respectively (three and six months ended 30 June 2015 - $0.4 million and $0.8 million, respectively).

14. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2016**	**2015**	**2016**	**2015**
Current income tax expense	109	100	209	217
Deferred income tax expense	(3)	11	(4)	3
Total income tax expense included in net income	**106**	**111**	**205**	**220**
Income tax expense (recovery) on other comprehensive income				
Net unrealized gains (losses) on available for sale financial instruments	46	(68)	72	34
Reclassification of prior years' net unrealized gains realized in the period	(1)	(1)	(1)	(2)
Remeasurements of the net defined benefit plans	(15)	22	(35)	1
Total income tax expense (recovery) included in other comprehensive income (loss)	**30**	**(47)**	**36**	**33**
Total	**136**	**64**	**241**	**253**

15. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Loan Insurance and Securitization activities. The fees, which are recorded in operating expenses, amounted to $7 million and $12 million for the three and six month period ended 30 June 2016, respectively (three and six months ended 30 June 2015 – $4 million and $7 million, respectively) for the Mortgage Loan Insurance Activity and $4 million and $8 million for the three and six month period ended 30 June 2016, respectively (three and six months ended 30 June 2015 – $4 million and $7 million, respectively) for the Securitization Activity.

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

16. Commitments and Contingent Liabilities

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2015 – $600 billion). At 30 June 2016, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $523 billion (31 December 2015 – $526 billion).

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2015 – $600 billion). At 30 June 2016, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled $426 billion (31 December 2015 - $431 billion).

There are legal claims of $3 million (31 December 2015 – $21 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded. We do not expect the ultimate resolution of any of the proceedings to which we are party to have a significant adverse effect on our financial position.

17. Reclassifications and Comparative Figures

Comparative information in the consolidated statements of cash flows have been reclassified to reflect adjustments made within the current year's presentation of cash flows provided by (used in) operating activities section.

Certain other comparative figures in the consolidated statements of income and comprehensive income have also been provided to conform to the current year's presentation.

Certain information presented in note 5 has not been previously reported; the accompanying comparative information has been disclosed.

18. Subsequent Event

Subsequent to 30 June 2016, but prior to issuance of the consolidated financial statements, the Corporation's Board of Directors approved a new strategy with respect to the Corporation's information and technology platform and capabilities. Implementation of the strategy is expected to commence during the third quarter of 2016 and as a result, the Corporation will incur costs in order to restructure our operations that will be reflected in future periods.

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