Canada Mortgage and Housing Corporation

Quarterly Financial Report

THIRD QUARTER

September 30th, 2016

(Unaudited)

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Management's Discussion and Analysis

Overview

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 21 November 2016 is prepared for the third quarter ended 30 September 2016 and is intended to provide readers with an overview of our performance including comparatives against the same three and nine 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 third 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 30 September 2016)

For the second quarter of 2016, real Gross Domestic Product (GDP) declined by 1.6% (quarter-to-quarter annualized change), following growth of 2.5% in the first quarter of 2016[1]. Canada's exports rebounded at the start of 2016, buoyed by a lower exchange rate. GDP declined in the second quarter of 2016 due to a large decline in petroleum output as a result of continued weakness in the energy sector combined with the devastation caused by the Fort McMurray fire. While the shock caused by the fires is temporary, the overall economic activity profile is weaker than during our last outlook.

There remains a high level of uncertainty regarding economic growth. Externally, there are downside risks relating to slower global economic growth as there is more financial uncertainty in the wake of the U.K. vote on *Brexit*. 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) several major housing centres show moderate or strong evidence of problematic conditions 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 167.6% in the second 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 hence supporting 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 1.1% and 1.3% in 2016 before moving up to a higher range of 1.8% to 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 7.0% to 7.2% 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:

- Multiple Listing Service® (MLS®)[3] sales to be higher than in 2015 (505,500 units), ranging from 517,000 units to 533,400 units in 2016. Resales should moderate in 2017, ranging between 489,500 and 509,700 units.
- The average MLS® price to be between $473,400 and $495,000 in 2016 and between $483,600 and $507,800 in 2017. The average price was $443,046 in 2015.
- Housing starts to range slightly lower in 2016 than in 2015, between 185,100 and 192,900 units, and to a lower range in 2017, from 174,500 to 184,300 units, thus in line with demographic fundamentals.
- There was strong price growth in 2016 largely attributable to activity in British Columbia and Ontario. In 2017, house prices will continue to increase, but at a considerably slower rate than in the previous years. A key factor in the moderation of price growth will be the continuing shift in sales from the higher end of the resale market (e.g. single-detached) to lower priced units (e.g. condominiums).

[1] *Statistics Canada CANSIM Series No. V62305752*
[2] *Consensus Economics' survey of private sector forecasters, as of 12 Seotember 2016.*
[3] *Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.*

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 was to invite Canadians to share their insights, ideas and opinions of the future of housing in Canada. On 22 November National Housing Day in Canada, Minister Duclos released a What We Heard Report and held a Facebook Live event to share the results of consultations on a National Housing Strategy. The What We Heard Report was posted online at www.letstalkhousing.ca.

Assisted Housing developments

Budget 2016 update

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 investments totalling nearly $1.4 billion over two years, which will be mostly administered through the Investment in Affordable Housing (IAH). As at 30 September 2016, supplementary IAH agreements for Budget 2016 funding have been signed and announced with British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan and Yukon. Commitments and funding have begun to help build, renovate and retrofit existing social housing, including for seniors, off reserve.

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 encourage new funding models and innovative building techniques in the rental housing sector while supporting the construction of affordable rental housing. The Innovation Fund was launched to the public on 30 September 2016.

Housing in First Nations Communities

Commitments and funding have begun to support the renovation and retrofit of existing housing through CMHC`s existing suite of on-reserve programs as well as to improve housing capability and on-the-job training.

Social Housing Agreement

In June 2016, the province of Alberta and CMHC agreed to transfer terms for federally-funded social housing stock to the province that brought the total number of provinces and territories for which Social Housing Agreements (SHA) have been signed to eleven.

This is the first SHA transfer in 10 years. The transfer will enable housing programs to be tailored by the Province to reflect local and regional social housing needs. Savings will be realised through streamlined administration and efficiencies, and can be reinvested in housing for low-income Albertans.

Lending Financing Strategy

In August 2016, we started employing a new asset/liability matching strategy under our current initiative for the refinancing of renewable loans and for new commitments on-reserve. Under this strategy, we structure the future cash flows of the borrowings taken to fund the loans to approximately match those to be received from the loans. This differs from the previous strategy under which we manage cash flow timing mismatches by reinvesting loan collections until the borrowings mature and by entering into derivatives.

Mortgage Loan Insurance developments

Modernization of the Master Loan Insurance Policy

CMHC's Master Loan Insurance Policy (MLIP) sets out the basic terms and conditions of CMHC mortgage loan insurance coverage pursuant to the National Housing Act. In 2015, CMHC initiated a review of its MLIP with a view to consolidate, modernize and update the document, in order to provide greater clarity and certainty to Approved Lenders. Following a period of lender consultation, the updated MLIP was concurrently issued with an Advice to Approved Lenders and took effect on September 1, 2016. The updated MLIP clearly and concisely establishes the basic terms and conditions governing CMHC's relationship with Approved Lenders, pulling together and incorporating key aspects of the previous MLIP. The new MLIP responds to Approved Lender requests for, and the broader goal of providing a clear, modern and consolidated MLIP that reflects best practices.

Amendments to Insured Mortgage Rates for Qualification

Effective 17 October 2016, all high ratio insured mortgages must be qualified by applying a Mortgage Rate Stress Test. The new stress test requirement must be based on the greater of the contract interest rate, or the Bank of Canada's conventional five-year fixed posted rate. The Government of Canada announced these rule changes for government-backed mortgage insurance aimed at providing homebuyers with a buffer to be able to continue servicing their debts even in a higher interest rate environment, or if faced with a reduction in household income.

The Government also announced upcoming changes to Low Ratio Mortgage Insurance Eligibility Requirements. Once they become effective the new changes to low-ratio insured government-backed mortgages will require low-ratio mortgages to meet eligibility criteria that previously only applied to high-ratio insured mortgages. These new eligibility criteria will help target the funding support provided by government-backed low-ratio mortgage insurance towards alternate forms of lending.

Government consultations on lender risk sharing

As part of a long term review of Canada's housing finance framework, on 21 October 2016, the Department of Finance Canada launched consultations on lender risk sharing for government-backed insured mortgages to determine the suitability and potential design of a risk sharing policy for Canada's housing finance system.

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 *National Housing Act* Mortgage-Backed Securities (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, the Canadian branch of Maple Bank GmbH (Maple Bank) has ceased to operate as an Approved Issuer of NHA MBS. In September 2016, CMHC entered into an agreement to appoint Equitable Bank as the successor issuer for the NHA MBS issued by the Canadian branch of Maple Bank. The transaction closed on 18 October 2016.

CMHC continues to provide a timely payment guarantee of interest and principal to NHA MBS investors that had been issued by Maple Bank. There was not a claim made on our Timely Payment Guarantee and the Corporation did not incur any costs which it was not able to recover as a result of this transaction.

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 23 September 2016, OSFI issued a draft Advisory: Capital Requirements for Federally Regulated Mortgage Insurers (the "Advisory") for public consultation. The Advisory, along with Guideline A - Minimum Capital Test, will provide the framework within which the Superintendent will assess whether a mortgage insurer maintains adequate capital and presents a new standard approach for determining the capital requirements for single-family residential mortgages. The new capital guidelines reflect changing risks in the Canadian mortgage market and encourage prudent underwriting and proper due diligence when originating insured mortgages. The new OSFI draft capital adequacy requirements are expected to result in higher levels of capital in certain segments of our business. CMHC reviews its premiums and capital requirements on an annual basis and we are currently assessing whether the higher capital levels are sufficient to warrant changes to our mortgage insurance premiums.

OSFI will consult with federally regulated financial institutions and other stakeholders before making changes and expects final rules to be in place no later than 1 January 2017.

Other – Technology Transformation

During the period, a new strategy with respect to the Corporation's information and technology platform and capabilities was approved by the Corporation's Board of Directors, resulting in the Corporation's restructuring of its information and technology function. To support our technology transformation, we entered into a comprehensive information technology partnership with Accenture to provide ongoing information technology services. Accenture will take on the responsibility for executing the transformation projects as well as for all technology operations at CMHC including managing service providers, application development and maintenance, and managing infrastructure. The partnership will help us benefit from the enhanced capacity of a global technology leader, will greatly enhance data governance and security, will redesign and enhance our business processes and will provide an evergreen inventory of tools, skills and expertise. The transaction with Accenture is structured as a seven year term with the option for three one-year renewals. We analyzed the impact on the consolidated financial statements which resulted in the recognition of immaterial severance charges during the quarter.

Condensed Consolidated Financial Results

Condensed consolidated balance sheets

(in millions)	As at 30 September 2016	As at 31 December 2015
Total assets	260,495	252,107
Total liabilities	239,742	232,468
Total equity of Canada	20,753	19,639

Total assets increased by $8,388 million (3.3%) from 31 December 2015, primarily due to increases in loans and receivables offset by increased holdings of CHT CMB.

Loans and receivables increased by $8,389 million (3.8%), 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 $1,092 million (29.4%) from 31 December 2015. The holdings of CMB reduced net assets as the holdings are eliminated upon consolidation of CHT.

Total liabilities increased by $7,274 million (3.1%) 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 $7,473 million (3.5%) 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 September		Nine months ended 30 September	
(in millions)	2016	2015	2016	2015
Total revenues	1,200	1,107	3,506	3,489
Total expenses	762	604	2,212	2,076
Income taxes	107	123	312	343
Net income	331	380	982	1,070
Other comprehensive (loss) income	84	(161)	132	(63)
Comprehensive income	415	219	1,114	1,007

Q3 2016 vs. Q3 2015

Total revenues increased by $93 million (8.4%) from the same quarter last year primarily due to higher parliamentary appropriations for housing programs and lower net realized losses.

Parliamentary appropriations for housing programs increased by $68 million (14.7%) from the same quarter last year primarily due to the timing of expenditure claims and due to spending for new initiatives under Budget 2016 for new commitments of affordable housing and housing in First Nation communities.

Net realized losses decreased by $18 million (85.7%) primarily due to purchases of CMB which have decreased in volume compared to the prior year, whereby any premium paid upon purchase is considered to be a cost of debt retirement and is immediately recognized in income.

Total expenses increased by $158 million (26.2%) from the same quarter last year primarily due to higher housing program expenses and higher insurance claims.

Housing program expenses increased by $68 million (14.7%) from the same quarter last year in accordance with parliamentary appropriation for housing programs as previously noted.

Insurance claims increased by $81 million (152.8%) from the same quarter last year due to higher than expected claims primarily related to our high loan-to-value products in the oil producing regions and due to a large multi-unit residential claim settled in Q3 2016.

Other comprehensive income (loss) increased by $245 million (152.2%) from the same quarter last year primarily due to an increase in net unrealized gains (losses) from available for sale financial instruments and an increase in remeasurements of the net defined benefit plans.

Net unrealized gains (losses) from available for sale financial instruments increased by $181 million (177.5%) due to stronger performance in equity and bond markets in Q3 2016 compared to the same period last year.

Remeasurements of the net defined benefit plan increased by $65 million (114.0%) from the same quarter last year primarily due to an increase in the return on plan assets offset by a decrease in the discount rate.

YTD 2016 vs. YTD 2015

Total revenues increased by $17 million (0.5%) from the same nine month period last year primarily due to higher parliamentary appropriations for housing programs, higher premium and fees earned, higher investment income, and higher net interest income, offset by higher net realized losses and lower net unrealized gains (losses).

Parliamentary appropriations for housing programs increased by $10 million (0.6%) from the same nine month period last year primarily due to increased spending for new initiatives under Budget 2016 for new commitments of affordable housing and housing in First Nation communities partially offset by timing of expenditure claims.

Net interest income increased by $30 million (44.8%) due to larger holdings of CMB, whereby the related interest expense is eliminated on consolidation.

Premium and fees earned increased by $17 million (1.2%) primarily 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 partially offset by decreasing insurance premiums and fees earned.

Investment income increased by $8 million (1.9%) primarily due to increase in our investment base.

Net realized losses increased by $32 million (266.7%) from the same nine 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.

Net unrealized gains (losses) decreased by $22 million (110%) from the same nine month period last year primarily due to favorable changes in the estimated future cash flows on our swaps that occurred in the prior year period.

Total expenses increased by $136 million (6.6%) from the same nine month period last year primarily due to higher housing program expenses, insurance claims and operating expenses.

Housing program expenses increased by $10 million (0.6%) from the same nine month period last year consistent with parliamentary appropriation for housing programs as previously noted.

Insurance claims increased by $109 million (45.8%) from the same nine month period last year due to higher than expected claims primarily related to our high loan-to-value products in the oil producing regions and due to a large multi-unit residential claim settled in Q3 2016.

Operating expenses increased by $17 million (6.4%) from the same nine month period last year primarily due to an increase in personnel costs and Government of Canada guarantee fees related to the Mortgage Loan Insurance Activity.

Other comprehensive income (loss) increased by $195 million (309.5%) from the same nine month period last year primarily due to an increase in net unrealized gains (losses) from available for sale financial instruments offset by a decline in remeasurements of the net defined benefit plans.

Net unrealized gains (losses) from available for sale financial instruments increased by $298 million due to stronger performance in equity and bond markets in Q3 2016 compared to the same nine month period last year.

Remeasurements of the net defined benefit plan decreased by $103 million (183.9%) from the same nine month period last year primarily due to a significant decrease in the discount rate offset by an increase in the return on plan assets.

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 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Net interest income	3	5	8	5
Parliamentary appropriations for housing programs	531	463	1,583	1,573
Other income	4	14	17	31
Total revenues	**538**	**482**	**1,608**	**1,609**
Housing programs expenses	531	463	1,583	1,573
Operating expenses	4	5	10	16
Total expenses	**535**	**468**	**1,593**	**1,589**
Income before income taxes	**3**	**14**	**15**	**20**
Income taxes	-	2	-	1
Net income	**3**	**12**	**15**	**19**

Q3 2016 vs. Q3 2015

Total revenues increased by $56 million (11.6%) from the same quarter last year. The higher revenues were primarily driven by an increase in parliamentary appropriations for housing programs.

Appropriations spending related to housing programs expenses for the three months ended 30 September 2016 was $68 million (14.7%) higher than the same period last year primarily as a result of an increase of $35 million due to the timing of expenditures for the existing social housing portfolio, and $25 million due to spending for new initiatives under Budget 2016 for new commitments of affordable housing and housing in First Nation communities.

Total expenses increased by $67 million (14.3%) primarily driven by an increase in housing programs expenses as explained above.

YTD 2016 vs. YTD 2015

Total revenues decreased by $1 million (0.1%) from the same nine month period last year. The decline was primarily driven by lower other income, partially offset by increase in parliamentary appropriations for housing programs.

Other income decreased mainly due to a $16 million decrease in net unrealized gains primarily as a result of favourable changes in the estimated future cash flows of our swaps from declines in the reference rate that occurred in the prior year period.

Appropriations spending related to housing programs expenses for the nine months ended 30 September 2016 was $10 million (0.6%) higher than the same period last year primarily as a result of an increase of $47 million due to the timing of expenditures for the existing social housing portfolio, and $35 million spending for new initiatives under Budget 2016 for new commitments of affordable housing and housing in First Nation communities. These increases were partially offset by a decrease of $61 million due to the timing of expenditure claims from the Provinces and Territories under the IAH and $15 million due to expenditures for the affordable housing in Nunavut program that ended in 2015.

Total expenses increased by $4 million (0.3%) primarily driven by an increase 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 September 2016**	**31 December 2015**
Reserve fund	135	136
Retained earnings	(6)	41
Total Lending Programs capital available	**129**	**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.

	Nine months ended 30 September	
(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	(2,069)	(1,066)
Forecasted lapse for 2016/2017 (Actual lapse in 2015/2016)	(35)	(17)
2016/17 (2015/16) portions recognized in 2016 (2015)	**994**	**943**
Total appropriations recognized – nine months ended 30 September	**1,583**	**1,573**

[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 September 2016 was $994 million (32.1%). Included within the $3,098 million reference level for 2016/2017 is a frozen allotment in the amount of $35 million to reflect the transfer of delivery of the Inuit Housing Funding from CMHC to Indigenous and Northern Affairs Canada.

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 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 September 2016**	**31 December 2015**
Insurance-in-force	**514**	**526**
Transactional homeowner	267	275
Portfolio	185	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 September 2016, Insurance-in-force was $514 billion, a $12 billion (2.3%) decrease from 31 December 2015. New loans insured were $64 billion, while estimated loan amortization and pay-downs were $76 billion.

Measures	**Three months ended 30 September**		**Nine months ended 30 September**	
(in millions, unless otherwise indicated)	**2016**	**2015**	**2016**	**2015**
Total insured volumes (units)	**127,991**	**100,936**	**345,716**	**290,807**
Transactional homeowner	46,908	47,267	120,499	122,438
Portfolio[1]	56,153	25,643	146,824	101,965
Multi-unit residential	24,930	28,026	78,393	66,404
Total insured volumes ($)	**22,539**	**18,770**	**63,747**	**55,089**
Transactional homeowner	12,034	11,891	29,521	29,667
Portfolio[1]	8,362	5,043	28,076	20,947
Multi-unit residential	2,143	1,836	6,150	4,475
Premiums and fees received	**458**	**428**	**1,184**	**1,041**
Transactional homeowner	360	343	894	829
Portfolio	21	6	72	33
Multi-unit residential	77	79	218	179
Claims Paid[2]	**103**	**76**	**295**	**254**
Transactional homeowner	75	67	241	225
Portfolio	4	6	18	17
Multi-unit residential	24	3	36	12
Arrears rate (%)	**0.32**	**0.35**	**0.32**	**0.35**

[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.*

Q3 2016 vs. Q3 2015

Our total insured volumes in the third quarter of 2016 were 27,055 units (26.8%) higher than the same quarter last year primarily due to higher volumes in portfolio products offset by lower volumes in multi-unit residential products.

- Portfolio volumes (new and substitutions) increased by 30,510 units (119.0%) mainly due to a revised allocation of new portfolio volumes distributed among lenders for 2016.
- Multi-unit residential volumes decreased by 3,096 units (11.0%) primarily due to a decrease in refinance units of 19.5%.

Premiums and fees received increased by $30 million (7.0%) from the same quarter last year primarily due to higher premiums and fees received for transactional homeowner and portfolio (new) products. The increase in transactional homeowner is mainly due to a change in the product mix as there was more insured volume for transactional homeowner products with higher loan-to-value ratios whereby the premium rates are higher. The increase in portfolio is mainly due to increased volume as noted above.

Claims paid increased $27 million (35.5%) from the same quarter last year primarily due to the multi-unit residential and transactional homeowner products. For transactional homeowner products there was an increase in payments related to the new claims payment process that was launched on 31 August 2015 where claims are paid based on gross dollar values and are occurring earlier when compared to the same quarter last year. The new claim payment process allows the submission of claims to CMHC on average 40% sooner which drives the increase in claim paid. For multi-unit residential products, the increase is primarily due to a large claim paid in Q3 2016.

YTD 2016 vs. YTD 2015

Our total insured volumes in the first nine months of 2016 were 54,909 units (18.9%) higher than the same nine month period last year due to higher volumes in multi-unit residential and portfolio products.

- Multi-unit residential volumes increased by 11,989 units (18.1%) due to increases in both refinance units (12.3%) and purchase units (39.5%).
- Portfolio volumes (new and substitutions) increased by 44,859 units (44.0%) mainly due to a revised allocation of new portfolio volumes distributed among lenders in 2016.

Premiums and fees received increased by $143 million (13.7%) from the same nine 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) products.

Claims paid increased $41 million (16.1%) from the same nine month period last year for the same reasons noted above.

	As at			
	30 September 2016		31 December 2015	
	No. of Delinquent Loans	Arrears Rate	No. of Delinquent Loans	Arrears Rate
Transactional homeowner	6,548	0.48 %	7,087	0.50 %
Portfolio	1,639	0.14 %	1,808	0.15 %
Multi-unit residential	99	0.46 %	132	0.60 %
Total	**8,286**	**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 September 2016 decreased compared to year-end 2015. There has been a decrease in the number of delinquent loans and arrears rate in all regions except for the oil producing regions where we have seen an increase in the number of delinquent loans and an increase in the arrears rate. The decreases in the other regions was enough to offset the increases in the oil producing regions resulting in an overall reduction in the arrears rate.

Financial analysis

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Premiums and fees earned	400	398	1,161	1,173
Investment income	148	142	443	420
Other income	5	3	10	13
Total revenues	**553**	**543**	**1,614**	**1,606**
Insurance claims	134	53	347	238
Operating expenses	64	57	185	171
Total expenses	**198**	**110**	**532**	**409**
Income before income taxes	**355**	**433**	**1,082**	**1,197**
Income taxes	87	107	263	293
Net income	**268**	**326**	**819**	**904**

Q3 2016 vs. Q3 2015

Investment income increased by $6 million (4.2%) primarily due to a larger investment portfolio.

Total expenses increased by $88 million (80.0%) from the same quarter last year mainly due to higher insurance claims and operating expenses.

Insurance claims increased by $81 million (152.8%) due to higher than expected claims primarily related to our high loan-to-value products in the oil producing regions and due to a large multi-unit residential claim settled in Q3 2016.

Operating expenses increased by $7 million (12.3%) mainly due to increases in personnel costs and the Government of Canada guarantee fee expense as compared to the same quarter last year. The Government of Canada fee was implemented in 2014 and is expected to increase until a first full cycle of the insurance contracts earning curve.

YTD 2016 vs. YTD 2015

Investment income increased by $23 million (5.5%) primarily due to a larger investment portfolio.

Total expenses increased by $123 million (30.1%) from the same nine month period last year due to higher insurance claims and operating expenses.

Insurance claims increased by $109 million (45.8%) for the same reasons noted above.

Operating expenses increased by $14 million (8.2%) for the same reasons noted above.

Ratios

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

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2016**	**2015**	**2016**	**2015**
Severity ratio	26.2	29.5	31.1	31.6
Loss ratio	33.5	13.3	29.9	20.3
Operating expense ratio	16.1	14.3	16.0	14.6
Combined ratio	49.6	27.6	45.9	34.9
Return on equity	5.8	7.6	6.0	7.2
Return on capital holding target	10.4	13.4	10.6	12.2

Q3 2016 vs. Q3 2015

The severity ratio decreased by 3.3 percentage points from the same quarter last year primarily due to a decrease in the claim to insured loan amount.

The loss ratio increased by 20.2 percentage points from the same quarter last year primarily due to the increase in insurance claims as previously discussed.

The operating expense ratio increased by 1.8 percentage points from the same quarter last year due to the increase in operating expenses as previously discussed.

The combined ratio increased by 22.0 percentage points from the same quarter last year primarily due to the increase in insurance claims and operating expenses as previously discussed.

YTD 2016 vs. YTD 2015

The severity ratio was relatively consistent from the same nine month period last year, decreasing by 0.5 percentage points.

The loss ratio increased by 9.6 percentage points from the same nine month period last year primarily due to the increase in insurance claims as previously discussed.

The operating expense ratio increased by 1.4 percentage points from the same nine month period last year primarily due to the increase in operating expenses and a decrease in premiums and fees earned as previously discussed.

The combined ratio increased by 11.0 percentage points from the same nine month period last year primarily due to the increase in insurance claims, operating expenses and a decrease in premiums and fees earned as previously discussed.

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 $10,751 million (31 December 2015 –$10,817 million). As at 30 September 2016, the Mortgage Loan Insurance Activity had amounts available of $18,297 million, 374% 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 September 2016**	**31 December 2015**
Accumulated other comprehensive income	1,077	803
Appropriated retained earnings	9,674	10,014
Appropriated capital	10,751	10,817
Unappropriated retained earnings	7,912	6,842
Total Mortgage Loan Insurance capital	**18,663**	**17,659**
Less: OSFI-mandated deductions from capital	(369)	(264)
Total Mortgage Loan Insurance capital available	**18,294**	**17,395**
Internal capital target	205 %	205 %
Holding capital target	220 %	220 %
Capital available to minimum capital required (% MCT)	374 %	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 September 2016 and 31 December 2015, total investments had a fair value of $25.0 billion and $23.9 billion, respectively which is materially consistent with its book value.

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 September 2016**	**31 December 2015**
Total guarantees-in-force	**435**	**431**
NHA MBS	211	216
CMB	224	215

Guarantees-in-force were $435 billion as at 30 September 2016, an increase of $4 billion (0.9%) as new guarantees provided by CMHC exceeded maturities.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Total new securities guaranteed	**43,109**	**31,923**	**92,316**	**79,645**
NHA MBS	32,859	22,673	62,066	51,395
CMB	10,250	9,250	30,250	28,250
Guarantee and application fees received	**142**	**125**	**339**	**278**
MBS guarantee and application fees received	104	80	204	164
CMB guarantee fees received	38	45	135	114

Q3 2016 vs. Q3 2015

New securities guaranteed increased by $11,186 million (35.0%) primarily due to the policy changes introduced on 1 July 2016. The total new securities guaranteed in 2016 takes into consideration NHA MBS sold into CMB series issued after 1 July 2016 as original or reinvestment assets as these are now subject to a NHA MBS guarantee fee.

Guarantee and application fees received were $17 million (13.6%) higher than the same quarter last year due to increased volumes in 2016 primarily due to the policy changes introduced on 1 July 2016. The new policy, which brought about a decrease in CMB guarantee fees, also resulted in all NHA MBS sold into CMB series issued after 1 July 2016 as original or reinvestment assets being subject to NHA MBS guarantee fees.

YTD 2016 vs. YTD 2015

New securities guaranteed increased by $12,671 million (15.9%) primarily due to the policy changes introduced on 1 July 2016 as noted above.

Guarantee and application fees received were $61 million (21.9%) higher than the same nine month period last year primarily due to increased volumes in 2016 as a result of the new policy discussed above, guarantee fee increases on both NHA MBS and CMB introduced on 1 April 2015, and an increase in the issuance of NHA MBS with longer term.

Financial analysis

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Net interest income	2	2	8	7
Premiums and fees earned[1]	76	68	218	189
Investment income	11	10	32	29
Other income	19	18	57	56
Total revenues	**108**	**98**	**315**	**281**
Total expenses	**29**	**26**	**87**	**78**
Income before income taxes	**79**	**72**	**228**	**203**
Income taxes	20	18	57	51
Net income	**59**	**54**	**171**	**152**

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

Q3 2016 vs. Q3 2015 and YTD 2016 vs. YTD 2015

Net income increased by $5 million (9.3%) and $19 million (12.5%) from the same quarter and nine month period last year, respectively, primarily due to the increase in premiums and fees earned. Premiums and fees earned were $8 million (11.8%) and $29 million (15.3%) higher than the same quarter and nine 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.

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2016**	**2015**	**2016**	**2015**
Operating expense ratio	11.9	12.3	12.0	12.1
Return on equity	11.3	12.0	11.3	11.7
Return on required capital	17.6	17.8	17.3	17.1

Q3 2016 vs. Q3 2015

The operating expense ratio decreased by 0.4 percentage points from the same quarter last year due to increase in revenues as previously discussed.

Return on equity decreased by 0.7 percentage points from the same quarter last year due to an increase in retained earnings.

The return on required capital was relatively consistent from the same quarter last year, decreasing by 0.2 percentage points.

YTD 2016 vs. YTD 2015

The operating expense ratio was relatively consistent from the same nine month period last year, decreasing by 0.1 percentage points.

Return on equity decreased by 0.4 percentage points from the same nine month period last year due to an increase in retained earnings.

The return on required capital was relatively consistent from the same quarter period last year, increasing by 0.2 percentage points.

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 $1,285 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 September 2016, the Securitization Activity had $2,121 million or 165% of the minimum required (31 December 2015 – $1,907 million or 159%) to meet capitalization targets.

We do not have separate capitalization amounts for CHT because the timely payment guarantee exposure to Canada Mortgage Bonds issued by CHT is covered by the Securitization capitalization. The amounts held for Securitization capitalization also recognize the risk mitigation provided by mortgage loan insurers, who are required to hold capital for the underlying mortgage default risk.

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

	As at	
(in millions, unless otherwise indicated)	**30 September 2016**	**31 December 2015**
Accumulated other comprehensive income	113	63
Appropriated retained earnings	1,172	1,137
Appropriated capital	1,285	1,200
Unappropriated retained earnings	836	707
Total securitization capital available	**2,121**	**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 risk exposures 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 September 2016, total investments under management had a fair value of $3.1 billion (31 December 2015 - $2.7 billion) which is materially consistent with its book value.

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 8 September 2016, Wojo Zielonka was appointed to the role of Chief Financial Officer, in addition to retaining his current responsibilities as Senior Vice-President, Capital Markets.

Historical Quarterly Information

(in millions, unless otherwise indicated)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Consolidated Results								
Total assets	260,495	254,319	256,789	252,107	255,897	249,968	246,916	248,490
Total liabilities	239,742	233,981	236,850	232,468	236,708	230,998	228,182	230,308
Total equity of Canada	20,753	20,338	19,939	19,639	19,189	18,970	18,734	18,182
Total revenues	1,200	1,106	1,200	1,147	1,107	1,127	1,255	1,875
Total expenses (including income taxes)	869	768	887	729	727	779	913	997
Net income	331	338	313	418	380	348	342	878
Assisted Housing								
Parliamentary appropriations for housing programs expenses	531	463	589	476	463	480	630	498
Net income	3	2	10	6	12	2	5	2
Total equity of Canada	154	148	176	202	188	198	158	191
Mortgage Loan Insurance								
Insurance-in-force ($B)	514	523	520	526	525	534	539	543
Total insured volumes [1]	22,539	26,872	14,336	25,358	18,770	23,313	13,006	21,014
Premiums and fees received	458	478	248	397	428	393	220	328
Premiums and fees earned	400	393	368	419	398	400	375	440
Claims paid	103	90	102	99	76	88	90	94
Insurance claims	134	111	102	52	53	98	87	83
Net income	268	288	263	360	326	295	283	821
Loss ratio	33.5 %	28.2 %	27.7 %	12.4 %	13.3 %	24.5 %	23.2 %	18.9 %
Operating expense ratio	16.1 %	14.0 %	17.9 %	9.8 %	14.3 %	14.5 %	14.9 %	18.9 %
Combined ratio	49.6 %	42.2 %	45.6 %	22.2 %	27.6 %	39.0 %	38.1 %	37.8 %
Severity ratio	26.2 %	27.5 %	34.4 %	29.6 %	29.5 %	29.5 %	30.2 %	27.1 %
Return on equity	5.8 %	6.4 %	5.9 %	8.2 %	7.6 %	6.9 %	6.8 %	13.2 %
Return on capital holding target	10.4 %	11.3 %	10.5 %	14.8 %	13.4 %	11.9 %	11.4 %	24.1 %
Capital available to minimum capital required (% MCT)	374 %	366 %	362 %	354 %	345 %	337 %	331 %	343 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage ($)	36.9 %	38.1 %	38.1 %	39.1 %	39.8 %	41.2 %	42.1 %	42.7 %
Securitization								
Guarantees-in-force ($B)	435	426	429	431	426	420	421	422
Securities guaranteed	43,109	27,373	21,834	36,077	31,923	24,598	23,124	40,356
Guarantee and application fees received	142	108	89	195	125	98	55	88
Guarantee and application fees earned	76	71	71	79	68	61	60	66
Net income	59	55	57	63	54	49	49	53
Operating expense ratio	11.9 %	12.5 %	11.6 %	8.7 %	12.3 %	12.1 %	11.9 %	11.2 %
Return on equity	11.3 %	10.9 %	11.8 %	13.2 %	12.0 %	11.1 %	11.4 %	13.1 %
Return on required capital	17.6 %	16.6 %	17.8 %	20.0 %	17.8 %	16.5 %	16.9 %	18.8 %
Capital available to capital required	165 %	165 %	161 %	159 %	157 %	158 %	159 %	157 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees($)	31.5 %	32.0 %	32.3 %	32.5 %	32.5 %	33.1 %	33.7 %	32.8 %

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

Unaudited Quarterly Consolidated Financial Statements

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Management's Responsibility for Financial Reporting

Period ended 30 September 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

Wojciech (Wojo) Zielonka, CPA, CA
Chief Financial Officer and
Senior Vice-President,
Capital Markets

21 November 2016

Consolidated Balance Sheets

(in millions of Canadian dollars)	Notes	As at 30 September 2016	As at 31 December 2015
Assets			
Cash and cash equivalents		1,286	2,020
Securities purchased under resale agreements		-	35
Investment securities	8		
Designated at fair value through profit or loss		1,208	1,147
Available for sale		22,999	22,168
Loans			
Designated at fair value through profit or loss		4,382	4,955
Loans and receivables		228,102	219,713
Accrued interest receivable		1,264	694
Derivatives		113	117
Due from the Government of Canada	6	210	161
Investment property		259	258
Accounts receivable and other assets		672	839
		260,495	252,107
Liabilities			
Securities sold under repurchase agreements		378	697
Borrowings			
Designated at fair value through profit or loss		6,325	7,078
Other financial liabilities		223,747	216,274
Accrued interest payable		1,008	461
Derivatives		31	31
Accounts payable and other liabilities		475	487
Defined benefit plans liability		612	445
Provision for claims	5	756	708
Unearned premiums and fees		6,384	6,229
Deferred income tax liabilities		26	58
		239,742	232,468
Commitments and contingent liabilities	16		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income		1,098	807
Retained earnings		19,630	18,807
		20,753	19,639
		260,495	252,107

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

Consolidated Statements of Income and Comprehensive Income

(in millions of Canadian dollars)	Notes	Three months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2016	Nine months ended 30 September 2015
Interest income					
Loans – designated at fair value through profit or loss		20	29	68	92
Loans and receivables		1,102	1,171	3,340	3,560
Other		13	18	39	52
		1,135	1,218	3,447	3,704
Interest expense					
Borrowings – designated at fair value through profit or loss		30	42	95	130
Other financial liabilities		1,072	1,149	3,255	3,507
		1,102	1,191	3,350	3,637
Net interest income		**33**	**27**	**97**	**67**
Non-interest revenues and parliamentary appropriations					
Parliamentary appropriations for housing programs	6	531	463	1,583	1,573
Premiums and fees earned		476	466	1,379	1,362
Investment income		140	140	420	412
Net realized losses	7	(3)	(21)	(44)	(12)
Net unrealized gains (losses)	7	(1)	10	(2)	20
Other income		24	22	73	67
Total revenues and parliamentary appropriations		**1,200**	**1,107**	**3,506**	**3,489**
Non-interest expenses					
Housing programs	6	531	463	1,583	1,573
Insurance claims	5	134	53	347	238
Operating expenses		97	88	282	265
		762	604	2,212	2,076
Income before income taxes		**438**	**503**	**1,294**	**1,413**
Income taxes	14	107	123	312	343
Net income		**331**	**380**	**982**	**1,070**
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		79	(102)	298	-
Reclassification of prior years' net unrealized gains realized in the period in net income		(3)	(2)	(7)	(7)
Total items that will be subsequently reclassified to net income		76	(104)	291	(7)
Items that will not be subsequently reclassified to net income					
Remeasurements of the net defined benefit plans		8	(57)	(159)	(56)
		84	(161)	132	(63)
Comprehensive income		**415**	**219**	**1,114**	**1,007**

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

Consolidated Statements of Equity of Canada

	Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Contributed capital	**25**	**25**	**25**	**25**
Accumulated other comprehensive income				
Balance at beginning of period	1,022	900	807	803
Other comprehensive income (loss)	76	(104)	291	(7)
Balance at end of period	**1,098**	**796**	**1,098**	**796**
Retained earnings				
Balance at beginning of period	19,291	18,045	18,807	17,354
Net income	331	380	982	1,070
Other comprehensive income (loss)	8	(57)	(159)	(56)
Balance at end of period	**19,630**	**18,368**	**19,630**	**18,368**
Equity of Canada	**20,753**	**19,189**	**20,753**	**19,189**

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

Consolidated Statements of Cash Flows

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	2016	2015	2016	2015
Cash flows provided by (used in) operating activities					
Net income		334	380	985	1,070
Adjustments to determine net cash flows provided by (used in) operating activities					
Amortization of premiums and discounts on financial instruments		55	49	160	129
Deferred income taxes		3	8	(12)	4
Change in fair value of financial instruments carried at fair value	7	(3)	(7)	2	(9)
Net (gain) loss on financial instruments	7	3	21	44	12
Accrued interest receivable		(635)	(697)	(570)	(637)
Derivatives		10	(2)	4	(16)
Due from the Government of Canada		179	76	(49)	14
Accounts receivable and other assets		(28)	(85)	167	(281)
Accrued interest payable		577	636	547	580
Accounts payable and other liabilities		(57)	(52)	(109)	(265)
Defined benefit plans liability		(10)	(26)	(25)	(48)
Provision for claims		30	(27)	48	(39)
Unearned premiums and fees		127	88	155	(23)
Other		(1)	(8)	(7)	(11)
Loans	9				
Repayments		5,267	3,831	22,529	21,639
Disbursements		(10,282)	(9,212)	(30,344)	(28,331)
Borrowings	10				
Repayments		(5,930)	(3,773)	(24,222)	(23,257)
Issuances		11,045	9,475	32,042	30,156
		684	675	1,345	687
Cash flows provided by (used in) investing activities					
Investment securities					
Sales and maturities	10	825	1,413	3,687	7,570
Purchases		(1,410)	(1,806)	(5,481)	(8,772)
Investment property					
Additions		-	(1)	(1)	(1)
Securities purchased under resale agreements		-	(269)	35	(143)
Securities sold under repurchase agreements		40	12	(319)	(81)
		(545)	(651)	(2,079)	(1,427)
Change in cash and cash equivalents		139	24	(734)	(740)
Cash and cash equivalents					
Beginning of period		1,147	1,405	2,020	2,169
End of period		1,286	1,429	1,286	1,429
Represented by					
Cash		6	(2)	6	(2)
Cash equivalents		1,280	1,431	1,280	1,431
		1,286	1,429	1,286	1,429
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		729	731	3,527	3,698
Amount of interest paid during the period		582	608	2,946	3,184
Amount of dividends received during the period		11	10	36	29
Amount of income taxes paid during the period		110	190	110	803

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 nine months ended 30 September 2016 and were approved and authorized for issue by our Audit Committee on 21 November 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

We have concluded that our business is not highly seasonal in accordance with IAS 34, however, 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, included in insurance claims, vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

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 nine 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 September 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 generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

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

Three months ended 30 September	**Assisted Housing**		**Mortgage Loan Insurance**		**Securitization**		**Eliminations**		**Total**	
(in millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	107	127	-	-	1,029	1,091	(1)	-	1,135	1,218
Interest expense	104	122	-	-	1,027	1,089	(29)	(20)	1,102	1,191
Net interest income	3	5	-	-	2	2	28	20	33	27
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	531	463	-	-	-	-	-	-	531	463
Premiums and fees earned	-	-	400	398	76	68	-	-	476	466
Investment income (losses)	-	-	148	142	11	10	(19)	(12)	140	140
Net realized gains (losses)	-	-	4	2	1	2	(8)	(25)	(3)	(21)
Net unrealized gains (losses)	(2)	9	1	-	-	-	-	1	(1)	10
Other income	6	5	-	1	18	16	-	-	24	22
Total revenues and parliamentary appropriations	**538**	**482**	**553**	**543**	**108**	**98**	**1**	**(16)**	**1,200**	**1,107**
Non-interest expenses										
Housing programs	531	463	-	-	-	-	-	-	531	463
Insurance claims	-	-	134	53	-	-	-	-	134	53
Operating expenses	4	5	64	57	29	26	-	-	97	88
	535	468	198	110	29	26	-	-	762	604
Income (loss) before income taxes	**3**	**14**	**355**	**433**	**79**	**72**	**1**	**(16)**	**438**	**503**
Income taxes	-	2	87	107	20	18	-	(4)	107	123
Net income (loss)	**3**	**12**	**268**	**326**	**59**	**54**	**1**	**(12)**	**331**	**380**
Total revenue and parliamentary appropriations	538	482	553	543	108	98	1	(16)	1,200	1,107
Inter-segment revenue[1]	(1)	1	(27)	(37)	29	20	(1)	16	-	-
External revenues and parliamentary appropriations	537	483	526	506	137	118	-	-	1,200	1,107

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

Nine months ended 30 September	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations		Total	
(in millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	329	378	-	-	3,121	3,328	(3)	(2)	3,447	3,704
Interest expense	321	373	-	-	3,113	3,321	(84)	(57)	3,350	3,637
Net interest income	8	5	-	-	8	7	81	55	97	67
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	1,583	1,573	-	-	-	-	-	-	1,583	1,573
Premiums and fees earned	-	-	1,161	1,173	218	189	-	-	1,379	1,362
Investment income (losses)	-	-	443	420	32	29	(55)	(37)	420	412
Net realized gains (losses)	-	-	7	10	2	5	(53)	(27)	(44)	(12)
Net unrealized gains (losses)	-	16	2	2	-	-	(4)	2	(2)	20
Other income	17	15	1	1	55	51	-	-	73	67
Total revenues and parliamentary appropriations	**1,608**	**1,609**	**1,614**	**1,606**	**315**	**281**	**(31)**	**(7)**	**3,506**	**3,489**
Non-interest expenses										
Housing programs	1,583	1,573	-	-	-	-	-	-	1,583	1,573
Insurance claims	-	-	347	238	-	-	-	-	347	238
Operating expenses	10	16	185	171	87	78	-	-	282	265
	1,593	1,589	532	409	87	78	-	-	2,212	2,076
Income (loss) before income taxes	**15**	**20**	**1,082**	**1,197**	**228**	**203**	**(31)**	**(7)**	**1,294**	**1,413**
Income taxes	-	1	263	293	57	51	(8)	(2)	312	343
Net income (loss)	**15**	**19**	**819**	**904**	**171**	**152**	**(23)**	**(5)**	**982**	**1,070**
Total revenue and parliamentary appropriations	1,608	1,609	1,614	1,606	315	281	(31)	(7)	3,506	3,489
Inter-segment revenue[1]	(7)	-	(108)	(64)	84	57	31	7	-	-
External revenues and parliamentary appropriations	1,601	1,609	1,506	1,542	399	338	-	-	3,506	3,489

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

As at 30 September 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	724	1,184	495	834	67	2	-	-	1,286	2,020
Securities purchased under resale agreements	-	35	-	-	-	-	-	-	-	35
Investment securities										
Designated at fair value through profit or loss	1,520	1,255	91	90	1	1	(404)	(199)	1,208	1,147
Available for sale	-	-	24,429	23,019	2,979	2,680	(4,409)	(3,531)	22,999	22,168
Loans										
Designated at fair value through profit or loss	4,382	4,955	-	-	-	-	-	-	4,382	4,955
Loans and receivables	3,943	4,091	-	-	224,159	215,622	-	-	228,102	219,713
Accrued interest receivable	146	188	187	143	955	374	(24)	(11)	1,264	694
Derivatives	113	117	-	-	-	-	-	-	113	117
Due from the Government of Canada	210	161	-	-	-	-	-	-	210	161
Investment property	157	156	102	102	-	-	-	-	259	258
Accounts receivable and other assets	100	40	506	736	66	63	-	-	672	839
	11,295	12,182	25,810	24,924	228,227	218,742	(4,837)	(3,741)	260,495	252,107
Liabilities										
Securities sold under repurchase agreements	-	-	378	697	-	-	-	-	378	697
Borrowings										
Designated at fair value through profit or loss	6,328	7,091	-	-	-	-	(3)	(13)	6,325	7,078
Other financial liabilities	4,148	4,194	-	-	224,159	215,622	(4,560)	(3,542)	223,747	216,274
Accrued interest payable	95	106	-	-	937	366	(24)	(11)	1,008	461
Derivatives	31	31	-	-	-	-	-	-	31	31
Accounts payable and other liabilities	286	364	144	96	45	27	-	-	475	487
Defined benefit plans liability	236	179	365	263	11	3	-	-	612	445
Provision for claims	-	-	756	708	-	-	-	-	756	708
Unearned premiums and fees	-	-	5,465	5,432	919	797	-	-	6,384	6,229
Deferred income tax liabilities	17	15	39	69	35	20	(65)	(46)	26	58
	11,141	11,980	7,147	7,265	226,106	216,835	(4,652)	(3,612)	239,742	232,468
Equity of Canada	154	202	18,663	17,659	2,121	1,907	(185)	(129)	20,753	19,639
	11,295	12,182	25,810	24,924	228,227	218,742	(4,837)	(3,741)	260,495	252,107

[1] *The balance sheet Eliminations remove inter-segment holdings of CMB 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 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period	5,405	5,432	5,432	5,575
Premium deferred on contracts written in the period	451	422	1,173	1,039
Premiums earned in the period	(392)	(392)	(1,142)	(1,155)
Application fees deferred on contracts written in the period	6	5	12	13
Application fees earned in the period	(5)	(4)	(10)	(9)
Balance at end of period	**5,465**	**5,463**	**5,465**	**5,463**

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 September 2016			31 December 2015		
(in millions)	**IBNR and CIP**	**SH and ILM**	**Total**	**IBNR and CIP**	**SH and ILM**	**Total**
Undiscounted estimated losses	495	190	685	456	186	642
Discounting	(5)	-	(5)	(6)	-	(6)
Provision for adverse deviation	38	38	76	35	37	72
Total provision for claims	**528**	**228**	**756**	**485**	**223**	**708**

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

	Three months ended 30 September					
	2016			2015		
(in millions)	**IBNR and CIP**	**SH and ILM**	**Total**	**IBNR and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	501	225	726	536	230	766
Net claims paid during the period	(103)	1	(102)	(76)	-	(76)
Provision for claims provided for and losses incurred during the period[1]	130	2	132	50	(1)	49
Provision for claims, end of period	**528**	**228**	**756**	**510**	**229**	**739**

	Nine months ended 30 September					
	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	(295)	(1)	(296)	(254)	(6)	(260)
Provision for claims provided for and losses incurred during the period[1]	338	6	344	213	8	221
Provision for claims, end of period	**528**	**228**	**756**	**510**	**229**	**739**

[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 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Claims expense	107	82	287	280
Change in provision	30	(27)	48	(39)
Related expenses	(3)	(2)	12	(3)
Insurance claims expense	**134**	**53**	**347**	**238**

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 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period	137	118	127	117
Acquisition costs deferred	20	58	44	76
Amortization of deferred acquisition costs	(16)	(56)	(30)	(73)
Balance at end of period	**141**	**120**	**141**	**120**

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 September 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 $104 million for the three and nine months ended 30 September 2016, respectively (three and nine months ended 30 September 2015 – $29 million and $87 million, respectively), in support of housing programs.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Funding under long-term commitments for existing social housing	433	399	1,282	1,242
Funding for new commitments of affordable housing	82	51	254	293
Housing support	3	2	10	7
Market analysis information	6	5	15	16
Housing policy, research and information transfer	7	6	22	15
Total	**531**	**463**	**1,583**	**1,573**

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period	389	347	161	285
Total appropriations recognized in revenues during the period	531	463	1,583	1,573
Total appropriations received during the period	(710)	(539)	(1,534)	(1,589)
Third party reimbursements in excess of remittance to Government of Canada	-	-	-	2
Balance at end of period	**210**	**271**	**210**	**271**

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, 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 September 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]	228,102	236,586	8,484	219,713	227,168	7,455
Financial liabilities						
Borrowings - other financial liabilities[2]	223,747	232,267	8,520	216,274	223,829	7,555

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

[2] *$226,528 million (31 December 2015 – $218,045 million) fair value categorized as level 1, $5,739 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 September 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	-	-	-	-	(1)	-	-	(1)
Interest bearing deposits with banks	-	230	-	230	-	1,108	-	1,108
Corporate/other entities	-	124	-	124	-	40	-	40
Government of Canada	163	-	-	163	97	-	-	97
Provinces/municipalities	-	55	-	55	-	79	-	79
Total cash and cash equivalents[1]	163	409	-	572	96	1,227	-	1,323
Investment securities								
Designated at fair value through profit or loss								
Fixed income								
Corporate/other entities	-	195	166	361	-	62	164	226
Provinces/municipalities	-	477	-	477	-	600	-	600
Sovereign and related entities	-	370	-	370	-	321	-	321
Total designated at fair value through profit or loss	-	1,042	166	1,208	-	983	164	1,147
Available for sale								
Fixed income								
Corporate/other entities	-	10,584	-	10,584	-	10,411	-	10,411
Government of Canada	3,651	25	-	3,676	3,717	50	-	3,767
Provinces/municipalities	-	7,122	-	7,122	-	6,518	-	6,518
Sovereign and related entities	-	360	-	360	-	354	-	354
Equities – Canadian	1,219	-	38	1,257	1,084	-	34	1,118
Total available for sale	4,870	18,091	38	22,999	4,801	17,333	34	22,168
Loans								
Designated at fair value through profit or loss	-	4,382	-	4,382	-	4,955	-	4,955
Derivatives	-	113	-	113	-	117	-	117
Investment property	-	-	259	259	-	-	258	258
Total assets carried at fair value	**5,033**	**24,037**	**463**	**29,533**	**4,897**	**24,615**	**456**	**29,968**
Liabilities								
Borrowings								
Designated at fair value through profit or loss	275	6,050	-	6,325	739	6,339	-	7,078
Derivatives	-	31	-	31	-	31	-	31
Total liabilities carried at fair value	**275**	**6,081**	**-**	**6,356**	**739**	**6,370**	**-**	**7,109**

[1] *Of the total cash and cash equivalents carried at fair value, $389 million (31 December 2015 - $1,186 million) is classified as designated at fair value through profit or loss and $183 million (31 December 2015 - $137 million) is classified as available for sale. Cash and cash equivalents on the consolidated balance sheet also includes $714 million (31 December 2015 - $697) of cash equivalents carried at amortized cost.*

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 nine months ended 30 September 2016 (nine months ended 30 September 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 September 2016					
Fair value as at 30 June 2016	166	37	203	259	462
Purchases	-	-	-	-	-
Unrealized gains in net income[1,2]	-	-	-	-	-
Unrealized gains in OCI	-	1	1	-	1
Fair value as at 30 Sept 2016	**166**	**38**	**204**	**259**	**463**
Nine months ended 30 Sept 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	-	3	3	-	3
Fair value as at 30 Sept 2016	**166**	**38**	**204**	**259**	**463**
Three months ended 30 September 2015					
Fair value as at 30 June 2015	162	29	191	248	439
Purchases	-	6	6	1	7
Unrealized gains in net income[1,2]	-	-	-	-	-
Unrealized gains in OCI	-	-	-	-	-
Fair value as at 30 Sept 2015	**162**	**35**	**197**	**249**	**446**
Nine months ended 30 Sept 2015					
Fair value as at 31 December 2014	159	19	178	247	425
Purchases	-	9	9	1	10
Unrealized gains in net income[1,2]	3	-	3	1	4
Unrealized gains in OCI	-	7	7	-	7
Fair value as at 30 Sept 2015	**162**	**35**	**197**	**249**	**446**

[1] *Included in net unrealized gains (losses) for investment securities; other income for investment property.*
[2] *Solely related to unrealized gains for 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 September 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 September 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	38	Share of partnership net asset value	Reported partnership net asset value	n.a.	34	n.a.
Total investment securities	**204**				**198**	
Investment property						
Investment property held by Mortgage Loan Insurance Activity	102	Discounted cash flow	Estimated rental value per square foot	$3.5- $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%
	140	Market Approach	Price per square foot	$0 - $325	139	$0 - $325
Total investment property	**259**				**258**	
Total level 3 items carried at fair value	**463**				**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 losses related to financial instruments.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Investment securities – available for sale	5	4	9	15
Borrowings – other financial liabilities[1]	(8)	(25)	(53)	(27)
Total	**(3)**	**(21)**	**(44)**	**(12)**

[1] *Comprises open market purchases of 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 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Held for trading				
Derivatives	(6)	3	(1)	12
Total held for trading	**(6)**	**3**	**(1)**	**12**
Designated at fair value through profit or loss				
Investment securities	1	(2)	1	6
Loans	(8)	(16)	(13)	-
Borrowings	12	25	11	2
Total designated at fair value through profit or loss	**5**	**7**	**(1)**	**8**
Total	**(1)**	**10**	**(2)**	**20**

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 September 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	1,128	81	(1)	1,208	1,069	1,147
Available for sale	20,775	971	(4)	21,742	20,342	21,050
Equities						
Available for sale	735	522	-	1,257	726	1,118

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

We have investment securities of $379 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 $4 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 nine months ended 30 September 2016, there were no impairment losses (three and nine months ended 30 September 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 September			
	2016		**2015**	
(in millions)	**Repayments**	**Disbursements**	**Repayments**	**Disbursements**
Designated at fair value through profit or loss				
Lending programs	166	1	147	17
Total designated at fair value through profit or loss	**166**	**1**	**147**	**17**
Loans and receivables				
Loans under the CMB program	5,000	10,264	3,600	9,194
Lending programs	101	17	84	1
Total loans and receivables	**5,101**	**10,281**	**3,684**	**9,195**
Total	**5,267**	**10,282**	**3,831**	**9,212**

	Nine months ended 30 September			
	2016		**2015**	
(in millions)	**Repayments**	**Disbursements**	**Repayments**	**Disbursements**
Designated at fair value through profit or loss				
Lending programs	450	12	464	53
Total designated at fair value through profit or loss	**450**	**12**	**464**	**53**
Loans and receivables				
Loans under the IMPP	-	-	2,025	-
Loans under the CMB program	21,750	30,273	18,850	28,274
Lending programs	329	59	300	4
Total loans and receivables	**22,079**	**30,332**	**21,175**	**28,278**
Total	**22,529**	**30,344**	**21,639**	**28,331**

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 September 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 September			
	2016		2015	
(in millions)	**Repayments**	**Issuances**	**Repayments**	**Issuances**
Designated at fair value through profit or loss				
Capital market borrowings	-	-	-	-
Borrowings from the Government of Canada	838	576	89	281
Total designated at fair value through profit or loss	**838**	**576**	**89**	**281**
Other financial liabilities				
Canada mortgage bonds	5,000	10,264	3,600	9,194
Borrowings from the Government of Canada	92	205	84	-
Total other financial liabilities	**5,092**	**10,469**	**3,684**	**9,194**
Total	**5,930**	**11,045**	**3,773**	**9,475**

	Nine months ended 30 September			
	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	1,852	1,564	1,620	1,882
Total designated at fair value through profit or loss	**2,317**	**1,564**	**2,120**	**1,882**
Other financial liabilities				
Canada mortgage bonds	21,654	30,273	18,850	28,274
Borrowings from the Government of Canada	251	205	2,287	-
Total other financial liabilities	**21,905**	**30,478**	**21,137**	**28,274**
Total	**24,222**	**32,042**	**23,257**	**30,156**

When CMHC holds 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 months ended 30 September 2016, there were no CMB maturities held by CMHC. During the nine months ended 30 September 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 nine months ended 30 September 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 September 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 September 2016	As at 31 December 2015
Investment securities:		
Available for sale		
Interest rate risk	260	267
Equity risk	74	69
Effect of diversification	(76)	(77)
Total VaR	**258**	**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 September 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 September 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]	(56)	62	(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 $0.6 million at 30 September 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 nine month period ended 30 September 2016.

Under the CMB program, we are exposed to credit risk in the event of default by any 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 $231,238 million, 103.2% of loan carrying value, as at 30 September 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 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 nine month period ended 30 September are presented in the tables below.

	Three months ended 30 September			
	Pension plans		Other post-employment plans	
(in millions)	2016	2015	2016	2015
Current service cost	8	8	-	1
Net interest expense	4	3	2	2
Expense recognized in net income	**12**	**11**	**2**	**3**
Net actuarial losses arising from changes in financial assumptions	(48)	-	(5)	-
Return on plan assets (excluding amounts included in net interest expense)	63	(71)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**15**	**(71)**	**(5)**	**-**
CMHC's contributions	23	13	1	27
Employee contributions	4	3	-	-
Total contributions	**27**	**16**	**1**	**27**

	Nine months ended 30 September			
	Pension plans		Other post-employment plans	
(in millions)	2016	2015	2016	2015
Current service cost	24	25	1	3
Net interest expense	11	9	4	6
Expense recognized in net income	**35**	**34**	**5**	**9**
Net actuarial losses arising from changes in financial assumptions	(252)	(1)	(17)	(4)
Return on plan assets (excluding amounts included in net interest expense)	77	(64)	-	-
Net remeasurements recognized in other comprehensive loss[1]	**(175)**	**(65)**	**(17)**	**(4)**
CMHC's contributions	61	60	4	31
Employee contributions	11	10	-	-
Total contributions	**72**	**70**	**4**	**31**

[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 $0.7 million and $2.3 million for the three and nine month period ended 30 September 2016, respectively (three and nine months ended 30 September 2015 - $0.5 million and $1.3 million, respectively).

14. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2016**	**2015**	**2016**	**2015**
Current income tax expense	104	116	313	333
Deferred income tax expense	3	7	(1)	10
Total income tax expense included in net income	**107**	**123**	**312**	**343**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized gains (losses) on available for sale financial instruments	27	(34)	99	-
Reclassification of prior years' net unrealized gains realized in the period	(2)	-	(3)	(2)
Remeasurements of the net defined benefit plans	2	(14)	(33)	(13)
Total income tax expense (recovery) included in other comprehensive income (loss)	**27**	**(48)**	**63**	**(15)**
Total	**134**	**75**	**375**	**328**

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 $8 million and $20 million for the three and nine month period ended 30 September 2016, respectively (three and nine months ended 30 September 2015 – $4 million and $11 million, respectively) for the Mortgage Loan Insurance Activity and $4 million and $13 million for the three and nine month period ended 30 September 2016, respectively (three and nine months ended 30 September 2015 – $4 million and $11 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 September 2016, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $514 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 September 2016, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled $435 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.

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