CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER

June 30, 2017

(Unaudited)

Canada

CMHC SCHL

Table of Contents

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 23 August 2017 is prepared for the second quarter ended 30 June 2017 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month period in 2016. 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 2016 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 of Canadian dollars, unless otherwise stated.

Information related to our significant accounting policies, judgments and estimates can be found in our 2016 Annual Report. There have been no material changes to our significant accounting policies, judgments or estimates to the end of the second quarter of 2017.

Forward-looking statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in the "The Operating Environment and Outlook for 2017" 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 2016 Annual Report.

The Operating Environment and Outlook for 2017

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

Economic conditions and housing indicators (as of July 2017)

The outlook for world economic growth remains largely unchanged from the previous QFR that was published in May, with global growth expected to stabilize in 2017 and 2018 at a modestly higher level than in 2016. However, this outlook remains subject to considerable uncertainty. Uncertainties reflect the United Kingdom's exit from the European Union, weakness in commodity prices, and persistent financial imbalances in China, while uncertainties related to U.S. tax and trade policies have increased.

In Canada, economic growth was weak in 2016. Business investment was a major drag on the economy. At the same time, Canada's trade sector continued to dampen gross domestic product (GDP) growth, despite the depreciation of the loonie against the U.S. dollar. On the positive side, consumer spending growth picked up, while residential investment continued to increase. Overall, the Canadian economy managed an increase of 1.4% in 2016. Growth in the first quarter of 2017 strengthened markedly to 3.7% (annualized rate), driven by stronger-than-expected gains in consumer spending, residential investment and the strongest gain in business investment since the first quarter of 2010. However, some of the factors driving this growth are expected to diminish in the near term. As a result, the May 2017 Consensus Forecast of private sector Canadian forecasters calls for real GDP to moderate from its first quarter pace and register annual growth in the 1.9-2.8% range in 2017 and the slightly lower 1.2-2.6% range in 2018[1]. Growth will be driven by government stimulus, a rebound in exports and business investment, including improved performance in the energy sector as energy production continues to adapt to lower oil prices.

The most important vulnerability is Canada's high level of household debt, which could amplify the impact of an economic shock if indebted households begin to deleverage or struggle to repay their debt balances in the event of a rise in unemployment. While further moderate increases in interest rates are likely anticipated by the market and homeowners – and have been incorporated into the outlooks of CMHC (the Corporation) and private forecasters – larger-than-expected increases in interest rates are another risk that would boost the cost of debt charges carried by borrowers that could cause many households to cut back on spending. Negative impacts on business investment and exports from a rise in global trade protectionism, particularly in the U.S., also pose a risk to Canada's economic outlook.

Against this backdrop, CMHC's latest *Housing Market Assessment* framework, published in July 2017, continues to detect strong overall evidence of problematic conditions. On a national basis, the framework identifies the level of evidence as strong due to overvaluation and acceleration in house prices. At the regional level, the overall assessment indicates strong evidence of problematic conditions in Toronto, Hamilton, Saskatoon, Victoria and Vancouver. Relative to the previous *Assessment* of April 2017, evidence of overheating has increased from weak to moderate in Vancouver, as a result of strong demand and tight market conditions.

Average annual resale prices saw strong growth in 2016, fuelled by British Columbia's lower mainland and the Greater Toronto Area. However, price growth slowed in the latter half of 2016 and has continued to moderate in 2017, largely reflecting the impact of price changes in British Columbia. Price growth is expected to moderate further in 2018. There are a number of factors that are expected to dampen resale activity in 2017 and 2018 from recent highs, including tighter mortgage rules, further moderate increases in mortgage rates, high household debt, and the shift in the distribution of sales from the higher end of the market toward relatively lower-priced units. Housing starts posted a small gain in 2016 and have continued to increase in the first half of 2017. New construction activity is expected to stabilize near current levels by 2018.

---

[1] The most recent CMHC *Housing Market Outlook, Canada Edition* was published in October 2016, with economic assumptions based on the average of private sector Canadian forecasters from September 2016. At that time, growth in 2017 was expected to range between 1.8-3.0% in 2017, broadly similar to the latest average of private sector Canadian forecasters of May 2017 (no forecast for 2018). The next CMHC *Housing Market Outlook, Canada Edition* will be published in October 2017.

National Housing Strategy

On National Housing Day, 22 November 2016, a 'What We Heard' report was released summarizing the views, ideas and insights we gathered through the National Housing Strategy (NHS) consultations. A key finding was that Canadians want better housing outcomes for those in greatest need. In addition, NHS survey respondents cited affordability, sustainability, inclusivity, and housing that supports a better quality of life, amongst the most important housing outcomes to strive towards.

Development of the NHS involves examining long-standing and emerging housing challenges and capitalizing on opportunities to address them in new and innovative ways. We are considering all of the ideas put forth by Canadians and continue to work with stakeholders to determine how the views and insights gathered can support an NHS that best responds to the housing needs of Canadians.

Budget 2017 proposes new federal investments of over $11.2 billion over 11 years, as well as preservation of funding for social housing and new low-cost loans to support affordable housing under a National Housing Strategy. These figures will build on additional federal funding of $5 billion made available through Budget 2016, a portion of which is reflected in CMHC's 2017 expenditures for Housing Programs. The incremental federal funding proposed through Budget 2017 will support affordable housing through new investments and lending. CMHC will be entrusted to deliver $9.1 billion of this important investment.

The Government of Canada (Government), through CMHC, is undertaking targeted consultations with the housing sector to finalize the design of programs and initiatives and will release a comprehensive National Housing Strategy in 2017.

Budget 2016

Rental Construction Financing

In April 2017, we launched the Rental Construction Financing Initiative (the Initiative) that will provide $2.5 billion in low-cost loans to support the construction of new rental housing. The Initiative was announced as part of Budget 2016 and is expected to fund the construction of 10,000 new rental housing units in Canada. The Initiative will provide up to $625 million in loans each year for four years to encourage the development of new rental housing by municipalities, private sector developers and builders and non-profit housing providers. The Initiative is designed such that we will hold the loans for a period of 10 years, at which point the borrower will need to arrange financing with a CMHC-approved lender. The loans will not be prepayable and we will fund the loans with borrowings from the Government. The loans and the related borrowings, once issued, will be reflected in our Assisted Housing Activity.

The loans will carry CMHC insurance for the full duration of the amortization period, which could be up to 50 years. The insurance premiums will not be payable by the borrower (applicable provincial sales tax is payable). Premiums received, earned, and insurance claims and related liabilities will be reflected in the Mortgage Loan Insurance Activity. To date, the Initiative has received excellent interest and the first loans are expected to be issued during the third quarter of 2017.

Dividends

CMHC has been working with the Department of Finance and other crown corporations on the development of a common capital and dividend policy framework. Beginning in 2017, we have started making dividend payments to the Government to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet the needs of the Corporation for purposes of the National Housing Act (NHA), Canada Mortgage and Housing Corporation Act (CMHC Act) or any other purpose authorized by Parliament relating to housing. We make use of the Own Risk & Solvency Assessment (ORSA) to determine the dividend amount subject to governance principles articulated in our Risk Appetite Framework and Capital Management Policy.

In May 2017, we declared a dividend to the Government of $145 million, the first in our history, from our Mortgage Loan Insurance Activity. This dividend was paid in June 2017.

In June 2017, we also returned accumulated excess capital to the Government through the declaration of a $4 billion special dividend from our Mortgage Loan Insurance Activity. This one-time action has aligned our actual capital with our capital holding target (operating level). In each of July and August 2017, we paid $500 million of the dividend and the remaining amount is expected to be paid in instalments over a period not to exceed two years.

Mortgage Loan Insurance developments

Mortgage loan insurance premiums

As a result of our annual review of insurance products in 2016, and to reflect the new Office of the Superintendent of Financial Institutions (OSFI) capital requirements, we adjusted pricing for portfolio mortgage insurance effective 1 January 2017 and increased transactional homeowner mortgage loan insurance premiums for newly originated loans effective 17 March 2017. For the average CMHC-insured homebuyer, the higher transactional premium will result in an increase of approximately $5 to their monthly mortgage payment.

We also revised our premium schedule for multi-unit properties effective 15 May 2017 to continue to support government efforts to expand and preserve the supply of affordable housing units and participate in multi-unit market segments that address the rental needs of Canadians. These segments include standard rental housing, student housing, single room occupancy projects, retirement homes and supportive housing projects.

Affordable Rental Housing

In addition to the revised premium schedule noted above, we introduced other enhancements to our multi-unit mortgage loan insurance effective 15 May 2017 to further enable the construction, purchase and refinancing of affordable rental housing options. These enhancements include greater underwriting flexibilities, such as higher loan-to-value ratios and lower debt coverage ratios.

IFRS 17 *Insurance Contracts*

In May 2017, the International Accounting Standards Board issued IFRS 17 *Insurance Contracts* (IFRS 17), which is required to be implemented by 1 January 2021. IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure that is expected to have pervasive impacts across our insurance business. Refer to Note 2 – Changes in Accounting Policies of the unaudited quarterly consolidated financial statements for more information.

Securitization developments

Refined guarantee fee structure for shorter-term NHA MBS

Effective 1 January 2017, CMHC introduced a more refined guarantee fee term structure for shorter-term National Housing Act Mortgage-Backed Securities (NHA MBS) to provide flexibility and better align costs of these short-term NHA MBS with the annualized guarantee fee costs for longer-term NHA MBS.

New administration fee applicable to issuers' unused annual NHA MBS guarantee allocation

CMHC is introducing a 0.01% administration fee that will be assessed against a portion of an issuer's unused NHA MBS guarantee allocation beyond a specified threshold. The policy took effect on 1 April 2017 and will be applied to unused allocations. The new fee is meant to better align requested guarantees with actual NHA MBS funding needs of issuers and to smooth out the allocation of NHA MBS guarantees throughout the year.

OSFI guidelines

Changes to capital requirements for residential mortgages

On 15 December 2016, OSFI released its revised capital advisory for mortgage insurers titled Capital Requirements for Federally Regulated Mortgage Insurers (Advisory) with an effective date of 1 January 2017. Refer to Note 7 – Capital Management of the unaudited quarterly consolidated financial statements for complete disclosure.

On 15 June 2017, OSFI issued the Draft 2018 Minimum Capital Test (MCT) Guideline (the Draft Guideline) for industry consultation. The Draft Guideline proposes amendments to the regulatory capital requirements for federally regulated property and casualty (P&C) insurers. The Draft Guideline proposes the removal of requirements that are no longer applicable, such as the transitional arrangements. It also aligns the terminology and examples to the quarterly statutory returns for consistency.

The consultation period closed on 4 August 2017 and it is expected that the final MCT guideline will be issued in September 2017 with an effective date of 1 January 2018. We do not expect a material impact to our capital position in the Mortgage Loan Insurance Activity as a result of the proposed amendments in the Draft Guideline.

Condensed Consolidated Financial Results

Condensed consolidated balance sheets

	As at	
(in millions)	**30 June 2017**	**31 December 2016**
Total assets	264,713	259,532
Total liabilities	247,260	238,542
Total equity of Canada	17,453	20,990

Total assets increased by $5,181 million (2.0%) from 31 December 2016, primarily due to increases in loans – loans and receivables partially offset by decreases in loans – designated at fair value through profit or loss. Loans – loans and receivables increased by $6,137 million (2.7%) due to the net impact of issuances and maturities of Canada Mortgage Bonds (CMB) of $20.8 billion and $14.8 billion, respectively. Loans – designated at fair value through profit or loss decreased by $631 million (15.7%) mainly due to the receipt of principal repayments.

Total liabilities increased by $8,718 million (3.7%) from 31 December 2016, primarily due to increases in borrowings – other financial liabilities and dividend payable partially offset by decreases in borrowings – designated at fair value through profit or loss. Borrowings – other financial liabilities increased by $5,796 million (2.6%) mainly due to net issuances of CMB. Dividend payable increased by $4,000 million (100.0%) due to a special dividend declared, to be paid to the Government. Borrowings – designated at fair value through profit or loss decreased by $800 million (13.5%) mainly due to principal repayments on borrowing maturities.

Condensed consolidated statements of income and comprehensive income

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2017**	**2016**	**2017**	**2016**
Total revenues	1,241	1,106	3,491	2,306
Total expenses	714	662	2,476	1,450
Income taxes	130	106	248	205
Net income	397	338	767	651
Other comprehensive (loss) income	(205)	61	(159)	48
Comprehensive income	192	399	608	699

Q2 2017 vs. Q2 2016

Total revenues increased by $135 million (12.2%) from the same quarter last year, primarily due to increases in parliamentary appropriations for housing programs, premiums and fees earned and net gains on financial instruments.

Parliamentary appropriations for housing programs increased by $85 million (18.4%) mainly due to an increase for housing support resulting from new initiatives under Budget 2016.

Premiums and fees earned increased by $23 million (5.0%) mainly due to the combined effect of the higher guarantee fees introduced in 2015 and the fee structure implemented in 2016 in the Securitization Activity, which introduced guarantee fees on all NHA MBS sold to Canada Housing Trust (CHT), as well as an increase in premiums and fees received in recent years in the Mortgage Loan Insurance Activity.

Net gains on financial instruments increased by $20 million (100.0%) mainly due to a decrease in the cost of debt retirement on purchases of CMB and gains recognized on investment security sales due to portfolio rebalancing.

Total expenses increased by $52 million (7.9%) from the same quarter last year due to increases in Housing program expenses and operating expenses, partially offset by a decrease in insurance claims.

Housing program expenses increased by $85 million (18.4%) in accordance with parliamentary appropriations for housing programs as previously noted.

Operating expenses increased by $27 million (30.7%) mainly due to higher costs from our technology transformation initiative.

Insurance claims decreased by $60 million (54.1%) due to a lower number of policies in force, improvement in arrears and unemployment rates at a national level, along with improvements in economic conditions particularly in Ontario and British Columbia which has led to rising house prices.

Other comprehensive income (loss) decreased by $266 million (436.1%) from the same quarter last year, primarily due to a decrease in net unrealized gains (losses) from available for sale financial instruments.

Net unrealized gains (losses) from available for sale financial instruments decreased by $255 million (179.6%) from the same quarter last year due to unrealized losses of $113 million on the fixed income investment portfolio as a result of an increase in market yields in the current quarter, compared with unrealized gains of $142 million in the same period last year.

YTD 2017 vs. YTD 2016

Total revenues increased by $1,185 million (51.4%) from the same six month period last year, primarily due to increases in parliamentary appropriations for housing programs, net gains on financial instruments and premiums and fees earned.

Parliamentary appropriations for housing programs increased by $1,062 million (101.0%) mainly due to increases for housing support and housing in First Nation communities resulting from new initiatives under Budget 2016, as well as the timing of expenditure claims.

Net gains on financial instruments increased by $57 million (135.7%) due to the reasons previously noted.

Premiums and fees earned increased by $48 million (5.3%) mainly due to the reasons previously noted.

Total expenses increased by $1,026 million (70.8%) from the same six month period last year due to increases in Housing program expenses and operating expenses, partially offset by a decrease in insurance claims

Housing program expenses increased by $1,062 million (101.0%) in accordance with parliamentary appropriations for housing programs as previously noted.

Operating expenses increased by $49 million (26.5%) mainly due to the reason previously noted.

Insurance claims decreased by $85 million (39.9%) due to the reasons previously noted.

Other comprehensive income (loss) decreased by $207 million (431.3%) from the same six month period last year, primarily due to decreases in net unrealized gains (losses) from available for sale financial instruments and in remeasurement losses on defined benefit plans.

Net unrealized gains (losses) from available for sale financial instruments decreased by $245 million (111.9%) due to the reasons previously noted.

Remeasurement losses on defined benefit plans decreased by $42 million (25.1%) mainly due to a smaller decrease in the discount rate and a greater actual return on plan assets versus expected return on plan assets as compared to the same period last year.

Financial Results by Reportable Business Segment

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

Assisted Housing

We provide federal funding in support of housing programs for Canadians in need, including on-reserve. Our activities also include Lending programs for social housing. The ultimate outcome of our activities is to help Canadians in need have access to affordable and suitable housing.

Financial analysis

	Three months ended		Six months ended	
(in millions)	**30 June 2017**	**30 June 2016**	**30 June 2017**	**30 June 2016**
Net interest income	4	2	4	5
Parliamentary appropriations for housing programs	548	463	2,114	1,052
Other income[1]	-	1	13	13
Total revenues	**552**	**466**	**2,131**	**1,070**
Housing programs expenses	548	463	2,114	1,052
Operating expenses	7	3	14	6
Total expenses	**555**	**466**	**2,128**	**1,058**
Income before income taxes	**(3)**	**-**	**3**	**12**
Income taxes	(2)	(2)	(2)	-
Net income (loss)	**(1)**	**2**	**5**	**12**

[1] *Other income includes net gains (losses) on financial instruments and other income.*

Q2 2017 vs. Q2 2016

Total revenues increased by $86 million (18.5%) from the same quarter last year. This is primarily driven by an increase in parliamentary appropriations for housing programs as a result of the receipt of $73 million in funding for the Affordable Rental Housing Innovation Fund that was launched in late 2016 and a $12 million increase in prepayment penalty reimbursements.

Total expenses increased by $89 million (19.1%) primarily due to an increase in housing programs expenses as explained above.

YTD 2017 vs. YTD 2016

Total revenues increased by $1,061 million (99.2%) from the same six month period last year mainly due to higher parliamentary appropriations for housing programs as a result of an increase of $1,039 million in spending for new initiatives under Budget 2016 and $24 million due to the timing of expenditure claims from the provinces and territories under the Investment in Affordable Housing. Of the $1,039 million in spending under Budget 2016, $983 million relates to new commitments for affordable housing and $56 million is for new commitments for housing in First Nation communities.

Total expenses increased by $1,070 million (101.1%) primarily driven by an increase in housing programs expenses as explained above.

Capital management

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending program's earnings are retained in this reserve fund as part of our strategy to address interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations as well as remeasurement losses on defined benefit plans are absorbed in retained earnings. We do not hold capital[2] for Housing programs, as this activity does not present risks to the Corporation that would

[2] *References to "capital" in this QFR are to the accounting term, and are not limited to "capital" as provided for in the* CMHC Act, National Housing Act *and* Financial Administration Act.

require capital to be set aside. Refer to the unaudited quarterly consolidated financial statements Note 7 – Capital Management for complete disclosure on capital management.

Reporting on use of appropriations

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

	Six months ended 30 June	
(in millions)	**2017**	**2016**
Amounts provided for housing programs:		
Amounts authorized in 2016/17 (2015/16)		
Main estimates	2,028	2,026
Supplementary estimates A[1,2]	1,070	-
Supplementary estimates B[1,2]	78	-
Less: Portion recognized in calendar 2016 (2015)	(1,563)	(1,420)
Less: Appropriations lapsed for 2016/17 (2015/16)[4]	(47)	(17)
2016/17 (2015/16) portions recognized in 2017 (2016)	**1,566**	**589**
Amounts authorized in 2017/18 (2016/17)		
Main estimates	2,735	2,028
Supplementary estimates A[1,2,3]	41	1,070
Supplementary estimates B[1,2]	-	78
Total fiscal year appropriations	**2,776**	**3,176**
Less: Portion to be recognized in subsequent quarters	(2,228)	(2,713)
2017/18 (2016/17) portions recognized in 2017 (2016)	**548**	**463**
Total appropriations recognized – six months ended 30 June	**2,114**	**1,052**

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

[2] *Budget 2016 provided funding over two years for investments in social infrastructure, as well as funding over five years for a new Affordable Rental Housing Innovation Fund. Years one and two of these investments are reflected within the 2016-17 and 2017-18 appropriations.*

[3] *Budget 2016 provided funding over four years to support the delivery of the Rental Construction Financing initiative, while Budget 2017 provided for three years of new funding in support of CMHC's existing Housing Internship Initiative for First Nations and Inuit Youth program. Funding for year one for both of these programs is reflected in the 2017-18 appropriations ($37 million and $4 million, respectively).*

[4] *Included in our appropriations lapsed for fiscal year 2016/17 of $47 million 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. When netted against this frozen allotment, CMHC's lapse was $12 million.*

Total appropriations approved by Parliament for fiscal year 2017/18 are $2,776 million. The total spending against the reference level as at 30 June 2017 was $548 million (19.7%).

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 and net gains (losses) on financial instruments 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

(in billions)	As at 30 June 2017	As at 31 December 2016
Insurance-in-force	**496**	**512**
Transactional homeowner	258	264
Portfolio	173	185
Multi-unit residential	65	63

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2016 – $600 billion). At 30 June 2017, insurance-in-force was $496 billion, a $16 billion (3.1%) decrease from 31 December 2016. New loans insured were $25 billion, while estimated loan amortization and pay-downs were $41 billion.

	Three months ended		Six months ended	
(in millions, unless otherwise indicated)	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Total insured volumes (units)	**95,230**	**134,891**	**143,976**	**217,725**
Transactional homeowner	36,836	49,429	55,460	73,591
Portfolio[1]	25,314	53,981	29,976	90,671
Multi-unit residential	33,080	31,481	58,540	53,463
Total insured volumes ($)	**17,395**	**26,872**	**25,648**	**41,208**
Transactional homeowner	9,285	11,721	14,143	17,487
Portfolio[1]	4,893	12,735	6,100	19,714
Multi-unit residential	3,217	2,416	5,405	4,007
Premiums and fees received[2]	**443**	**478**	**671**	**726**
Transactional homeowner	310	361	459	534
Portfolio	29	34	38	51
Multi-unit residential	104	83	174	141
Claims Paid[3]	**94**	**90**	**171**	**192**
Transactional homeowner	65	83	134	166
Portfolio	2	5	8	14
Multi-unit residential	27	2	29	12
Arrears rate (%)	**0.29**	**0.32**	**0.29**	**0.32**

[1] *Portfolio volumes have been modified to reflect Lender substitutions along with new business volumes.*
[2] *Premiums and fees received may not equal premiums and fees deferred on contracts written during the period due to timing of receipts.*
[3] *Claims paid does not include social housing and index-linked mortgage claims.*

Q2 2017 vs. Q2 2016

Our total insured volumes in the second quarter of 2017 were 39,661 units (29.4%) lower than the same quarter last year primarily due to decreases in portfolio and transactional homeowner volumes.

- Portfolio volumes (new and substitutions) decreased by 28,667 units (53.1%) mainly due to the market adjusting to new pricing as a result of the increased capital requirements.
- Transactional homeowner volumes decreased by 12,593 units (25.5%) due to lower purchase and refinance volumes. Volumes decreased largely as a result of the new regulations announced by the Government in the fourth quarter of 2016 that eliminate the refinance product and require borrowers to demonstrate their ability to make their mortgage payments at a higher rate through the "mortgage rate stress test".

Premiums and fees received decreased by $35 million (7.3%) from the same quarter last year primarily due to lower premiums and fees received for transactional homeowner and portfolio products, slightly offset by increases in the multi-unit residential product. Premiums and fees for transactional homeowner and portfolio products are down due to lower volumes as noted above, but are partially offset by price increases that took effect during the first quarter. Premiums and fees for multi-unit residential products are higher due to higher volumes.

Claims paid increased by $4 million (4.4%) from the same quarter last year due to higher multi-unit residential claims partially offset by lower transactional homeowner and portfolio claims paid. Higher multi-unit claims relate primarily to one large claim. Transactional homeowner and portfolio claims are down due to a lower number of policies in force, improvement in arrears and unemployment rates at a national level, along with increasing housing prices in Ontario and British Columbia.

YTD 2017 vs. YTD 2016

Our total insured volumes in the first six months of 2017 were 73,749 units (33.9%) lower than the same six month period last year primarily due to decreases in the portfolio and transactional homeowner volumes partially offset by an increase in multi-unit residential volumes.

- Transactional homeowner volumes decreased by 18,131 units (24.6%) and portfolio volumes (new and substitutions) decreased by 60,695 units (66.9%) for the same reasons noted above.
- Multi-unit residential volumes increased by 5,077 units (9.5%) primarily due to an increase in multi-unit residential refinance transactions mainly resulting from the low interest rate environment.

Premiums and fees received decreased by $55 million (7.6%) from the same six month period last year for the same reasons noted above.

Claims paid decreased by $21 million (10.9%) from the same six month period last year due to a lower number of policies in force, improvement in arrears and unemployment rates at a national level, along with increasing housing prices in Ontario and British Columbia, partially offset by a large multi-unit claim in the second quarter.

	As at			
	30 June 2017		31 December 2016	
	No. of Delinquent Loans	Arrears Rate	No. of Delinquent Loans	Arrears Rate
Transactional homeowner	5,703	0.44 %	6,456	0.48 %
Portfolio	1,406	0.13 %	1,563	0.13 %
Multi-unit residential	109	0.49 %	94	0.43 %
Total	**7,218**	**0.29 %**	**8,113**	**0.32 %**

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 the total number of delinquent loans as at 30 June 2017 have decreased compared to year end 2016. There has been a decrease in the number of delinquent loans in all provinces except for Saskatchewan, where we have seen a slight increase in the number of delinquent loans and arrears rate.

Financial analysis

	Three months ended		Six months ended	
(in millions)	**30 June 2017**	**30 June 2016**	**30 June 2017**	**30 June 2016**
Premiums and fees earned	396	393	773	761
Investment income	153	151	304	295
Other income[1]	8	2	20	5
Total revenues	**557**	**546**	**1,097**	**1,061**
Insurance claims	51	111	128	213
Operating expenses	78	55	159	121
Total expenses	**129**	**166**	**287**	**334**
Income before income taxes	**428**	**380**	**810**	**727**
Income taxes	107	92	200	176
Net income	**321**	**288**	**610**	**551**

[1] *Other income includes net gains (losses) on financial instruments and other income.*

Q2 2017 vs. Q2 2016

Other income increased by $6 million (300.0%) from the same quarter last year primarily due to realized gains on investment security sales due to portfolio rebalancing.

Insurance claims decreased by $60 million (54.1%) from the same quarter last year for the same reasons noted in claims paid, which also led to a reduction in our incurred but not reported provision that is also reflected in insurance claim expense. In addition, we reduced our provision for social housing and index-linked mortgages due to decreasing exposure as a result of a decrease in outstanding loan balances.

Operating expenses increased by $23 million (41.8%) from the same quarter last year mainly due to higher costs from our technology transformation initiative.

YTD 2017 vs. YTD 2016

Premiums and fees earned increased by $12 million (1.6%) from the same six month period last year due to an increase in premiums and fees received in recent years.

Investment income increased by $9 million (3.1%) from the same six month period last year primarily due to an increase in portfolio size.

Other income increased by $15 million (300.0%) from the same six month period last year primarily due to an increase in net gains on financial instruments recognized on investment security sales due to portfolio rebalancing.

Insurance claims decreased by $85 million (39.9%) and operating expenses increased by $38 million (31.4%) from the same six month period last year 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		Six months ended	
(in percentages)	**30 June 2017**	**30 June 2016**	**30 June 2017**	**30 June 2016**
Severity ratio	27.5	27.5	28.6	31.7
Loss ratio	12.9	28.2	16.6	28.0
Operating expense ratio	19.7	14.0	20.6	15.9
Combined ratio	32.6	42.2	37.2	43.9
Return on equity[1]	7.5	6.4	7.2	6.1
Return on capital holding target	12.6	11.3	12.0	10.7

[1] *The return on equity for the three months and six months ended 30 June 2017 would be 6.7 and 6.4, respectively, excluding the impact of the dividends declared during the period.*

Q2 2017 vs. Q2 2016 and YTD 2017 vs. YTD 2016

The severity ratio remained the same and decreased by 3.1 percentage points from the same quarter and six month period last year, respectively. The decrease was due to strong market conditions, which resulted in faster sales of properties and higher sales proceeds.

The loss ratio decreased by 15.3 percentage points and 11.4 percentage points from the same quarter and six month period last year, respectively, primarily due to the decrease in insurance claims and the increase in earned premiums and fees as previously discussed.

The operating expense ratio increased by 5.7 percentage points and 4.7 percentage points from the same quarter and six month period last year, respectively, primarily due to higher costs from our technology transformation initiative.

The combined ratio decreased by 9.6 percentage points and 6.7 percentage points from the same quarter and six month period last year, respectively, primarily due to the decrease in insurance claims and higher earned premiums and fees, offset by an increase in operating expenses as noted above.

The return on capital holding target increased by 1.3 percentage points from the same quarter and six month period last year, mainly due to higher net income.

Capital management

Our capital management framework follows OSFI regulations with respect to the use of the MCT for federally regulated insurance companies. The MCT is the ratio of capital available to minimum capital required. Refer to the unaudited quarterly consolidated financial statements Note 7 – Capital Management for complete disclosure on capital management.

	As at	
(in percentages)	**30 June 2017**	**31 December 2016**
Capital available to minimum capital required (% MCT)[1]	173	384

[1] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 30 June 2017 would be 217% with transitional arrangements.*

Capital available to minimum capital required decreased by 211 percentage points from 31 December 2016 mainly due to dividends declared in the second quarter of $4,145 million and the revised MCT capital requirements implemented on 1 January 2017, which resulted in an increase in minimum capital required.

Financial resources

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

As at 30 June 2017, total investments, net of securities sold under repurchase agreements, had a fair value of $24.9 billion (31 December 2016 – $24.7 billion), which was consistent with their book value.

Securitization

We facilitate access to funds for residential mortgage financing through securitization guarantee products and the 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 2016 – $600 billion). Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee, and is broken down as follows.

	As at	
(in billions)	30 June 2017	31 December 2016
Total guarantees-in-force	**456**	**452**
NHA MBS	227	229
CMB	229	223

Guarantees-in-force were $456 billion as at 30 June 2017, an increase of $4 billion (0.9%) as new guarantees provided by CMHC exceeded maturities.

	Three months ended		Six months ended	
(in millions)	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Total new securities guaranteed	**37,730**	**27,373**	**71,910**	**49,207**
NHA MBS	27,730	16,623	51,160	29,207
CMB	10,000	10,750	20,750	20,000
Guarantee and application fees received	**121**	**108**	**236**	**197**
MBS guarantee and application fees received	85	56	160	100
CMB guarantee fees received	36	52	76	97

Q2 2017 vs. Q2 2016

New securities guaranteed increased by $10,357 million (37.8%) from the same quarter last year primarily due to the policy changes introduced on 1 July 2016 which saw NHA MBS sold into CMB series issued after 1 July 2016, as original or reinvestment assets, becoming subject to a NHA MBS guarantee fee.

Guarantee and application fees received were $13 million (12.0%) higher than the same quarter last year. NHA MBS guarantee and application fees received increased by $29 million (51.8%) mainly due to the policy changes regarding NHA MBS sold into CMB series discussed above, as well as due to a greater volume of market NHA MBS. CMB guarantee fees decreased by $16 million (30.8%) mainly due to decreases in the CMB fees effective 1 July 2016 as well as a decrease in CMB volumes due to the timing of quarterly issuances.

YTD 2017 vs. YTD 2016

New securities guaranteed increased by $22,703 million (46.1%) from the same six month period last year for the same reasons explained above.

Guarantee and application fees received were $39 million (19.8%) higher than the same six month period last year. NHA MBS guarantee and application fees received increased by $60 million (60.0%) mainly due to the policy changes regarding NHA MBS sold into CMB series discussed above, as well as due to a greater volume of market NHA MBS. CMB guarantee fees decreased by $21 million (21.6%) mainly as a result of decreases in the CMB fees effective 1 July 2016, partially offset by an increase in CMB volumes due to the timing of issuances.

Financial analysis

(in millions)	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Net interest income	3	3	6	6
Premiums and fees earned[1]	91	71	178	142
Investment income	12	10	23	21
Other income[2]	18	19	39	38
Total revenues	**124**	**103**	**246**	**207**
Total expenses	**30**	**30**	**61**	**58**
Income before income taxes	**94**	**73**	**185**	**149**
Income taxes	23	18	46	37
Net income	**71**	**55**	**139**	**112**

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

[2] *Other income includes net gains (losses) on financial instruments and other income.*

Q2 2017 vs. Q2 2016 and YTD 2017 vs. YTD 2016

Net income increased by $16 million (29.1%) and $27 million (24.1%) from the same quarter and six month period last year, respectively, primarily due to increases in premiums and fees earned of $20 million (28.2%) and $36 million (25.4%), respectively, as previously discussed under the condensed consolidated statements of income and comprehensive income.

Ratios

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

(in percentages)	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Operating expense ratio	10.7	12.5	10.9	12.1
Return on equity	13.0	10.9	12.9	11.3
Return on required capital	14.3	16.6	13.9	17.2

Q2 2017 vs. Q2 2016 and YTD 2017 vs. YTD 2016

The operating expense ratio decreased by 1.8 percentage points and 1.2 percentage points from the same quarter and six month period last year, respectively, due to higher guarantee and application fees earned.

Return on equity increased by 2.1 percentage points and 1.6 percentage points from the same quarter and six month period last year, respectively, due to higher net income.

The return on required capital decreased by 2.3 percentage points and 3.3 percentage points from the same quarter and six month period last year, respectively, due to enhancements to modelling of catastrophic risk within our 2016 assessment of guarantee risk, which increased our required capital for the Securitization Activity.

Capital management

Our Capital Management Framework for the Securitization Activity follows industry best practices and incorporates regulatory principles from OSFI, including those set out in OSFI's E19 – ORSA guideline, and the Basel Committee on Banking Supervision.

Our capital adequacy assessment uses an integrated approach to evaluate our capital needs from both a regulatory and economic capital basis to establish capital targets that take into consideration our strategy and risk appetite. Refer to the unaudited quarterly consolidated financial statements Note 7 – Capital Management for complete disclosure on capital management.

	As at	
(in percentages)	**30 June 2017**	**31 December 2016**
Capital available to capital required	120	100

Capital available to capital required increased by 20 percentage points from 31 December 2016 mainly due to the combined effect of a decrease in required capital in the period and an increase in total equity as a result of net income in the period.

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 our capacity to meet liquidity needs of the timely payment guarantee and to preserve capitalization amounts through investments in Government of Canada securities.

As at 30 June 2017, total investments under management had a fair value of $3.4 billion (31 December 2016 – $3.1 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 2016 Annual Report. There have been no material developments impacting our risk management approaches during this reporting period.

Changes in Key Management Personnel

The following change to our key management personnel was announced prior to the release of the QFR:

- Effective 28 August 2017 Deborah Greenberg is appointed as CMHC's new General Counsel and Corporate Secretary.

Historical Quarterly Information

(in millions, unless otherwise indicated)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Consolidated Results								
Total assets	264,713	266,188	259,532	260,495	254,319	256,789	252,107	255,897
Total liabilities	247,260	244,782	238,542	239,742	233,981	236,850	232,468	236,708
Total equity of Canada	17,453	21,406	20,990	20,753	20,338	19,939	19,639	19,189
Total revenues	1,241	2,250	1,186	1,200	1,106	1,201	1,147	1,107
Total expenses (including income taxes)	844	1,880	790	869	768	888	729	727
Net income	397	370	396	331	338	313	418	380
Assisted Housing								
Parliamentary appropriations for housing programs expenses	548	1,566	570	531	463	589	476	463
Net income	(1)	6	(29)	3	2	10	6	12
Total equity of Canada	151	186	196	154	148	176	202	188
Mortgage Loan Insurance								
Insurance-in-force ($B)	496	502	512	514	523	520	526	525
Total insured volumes[1]	17,395	8,253	20,528	22,539	26,872	14,336	25,358	18,770
Premiums and fees received	443	228	374	458	478	248	397	428
Premiums and fees earned	396	377	344	400	393	368	419	398
Claims paid	94	77	82	103	90	102	99	76
Insurance claims	51	77	(13)	134	111	102	52	53
Net income	321	289	364	268	288	263	360	326
Loss ratio	12.9 %	20.4 %	(3.8) %	33.5 %	28.2 %	27.7 %	12.4 %	13.3 %
Operating expense ratio	19.7 %	21.5 %	21.2 %	16.1 %	14.0 %	17.9 %	9.8 %	14.3 %
Combined ratio	32.6 %	41.9 %	17.4 %	49.6 %	42.2 %	45.6 %	22.2 %	27.6 %
Severity ratio	27.5 %	30.5 %	29.9 %	26.2 %	27.5 %	34.4 %	29.6 %	29.5 %
Return on equity	7.5 %	6.1 %	7.7 %	5.8 %	6.4 %	5.9 %	8.2 %	7.6 %
Return on capital holding target	12.6 %	11.3 %	14.2 %	10.4 %	11.3 %	10.5 %	14.8 %	13.4 %
Capital available to minimum capital required (% MCT)	173 %	215 %	384 %	374 %	366 %	362 %	354 %	345 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	34.3 %	34.9 %	36.0 %	36.9 %	38.1 %	38.1 %	39.1 %	39.8 %
Securitization								
Guarantees-in-force ($B)	456	457	452	435	426	429	431	426
Securities guaranteed	37,730	34,180	52,117	43,109	27,373	21,834	36,077	31,923
Guarantee and application fees received	121	115	240	142	108	89	195	125
Guarantee and application fees earned	91	87	66	76	71	71	79	68
Net income	71	68	53	59	55	57	63	54
Operating expense ratio	10.7 %	10.7 %	14.2 %	11.9 %	12.5 %	11.6 %	8.7 %	12.3 %
Return on equity	13.0 %	12.9 %	9.9 %	11.3 %	10.9 %	11.8 %	13.2 %	12.0 %
Return on required capital	14.3 %	13.2 %	12.4 %	17.6 %	16.6 %	17.8 %	20.0 %	17.8 %
Capital available to capital required	120 %	106 %	100 %	165 %	165 %	161 %	159 %	157 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees ($)	31.9 %	32.6 %	32.6 %	31.5 %	32.0 %	32.3 %	32.5 %	32.5 %

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

Unaudited Quarterly Consolidated Financial Statements

Contents

Management's Responsibility for Financial Reporting

Period ended 30 June 2017

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, ICD.D Chief Financial Officer and Senior Vice-President, Capital Markets

23 August 2017

Consolidated Balance Sheets

		As at	
(in millions of Canadian dollars)	Notes	30 June 2017	31 December 2016
Assets			
Cash and cash equivalents		1,147	1,995
Securities purchased under resale agreements		-	17
Investment securities:	9		
Designated at fair value through profit or loss		1,077	1,173
Available for sale		23,595	23,226
Loans:	10		
Designated at fair value through profit or loss		3,389	4,020
Loans and receivables		233,447	227,310
Accrued interest receivable		650	705
Derivatives		86	86
Due from the Government of Canada	5	304	59
Accounts receivable and other assets		751	674
Investment property		267	267
		264,713	259,532
Liabilities			
Securities sold under repurchase agreements		468	704
Borrowings:	11		
Designated at fair value through profit or loss		5,105	5,905
Other financial liabilities		228,952	223,156
Accrued interest payable		451	542
Derivatives		26	32
Dividend payable	7	4,000	-
Accounts payable and other liabilities		550	548
Defined benefit plans liability		503	384
Provision for claims	6	608	654
Unearned premiums and fees		6,543	6,564
Deferred income tax liabilities		54	53
		247,260	238,542
Commitments and contingent liabilities	17		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income		727	761
Retained earnings		16,701	20,204
		17,453	20,990
		264,713	259,532

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 June		Six months ended 30 June	
		2017	2016	2017	2016
Interest income					
Loans – designated at fair value through profit or loss		15	23	31	48
Loans and receivables		1,127	1,122	2,225	2,238
Other		11	12	23	26
		1,153	1,157	2,279	2,312
Interest expense					
Borrowings – designated at fair value through profit or loss		23	31	48	65
Other financial liabilities		1,093	1,094	2,161	2,183
		1,116	1,125	2,209	2,248
Net interest income		**37**	**32**	**70**	**64**
Non-interest revenues and parliamentary appropriations					
Parliamentary appropriations for housing programs	5	548	463	2,114	1,052
Premiums and fees earned		487	464	951	903
Investment income		145	143	287	280
Net gains (losses) on financial instruments	8	-	(20)	15	(42)
Other income		24	24	54	49
Total revenues and parliamentary appropriations		**1,241**	**1,106**	**3,491**	**2,306**
Non-interest expenses					
Housing programs	5	548	463	2,114	1,052
Insurance claims		51	111	128	213
Operating expenses		115	88	234	185
		714	662	2,476	1,450
Income before income taxes		**527**	**444**	**1,015**	**856**
Income taxes	15	130	106	248	205
Net income		**397**	**338**	**767**	**651**
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		(113)	142	(26)	219
Reclassification of prior years' net unrealized gains realized in the period in net income		(6)	(3)	(8)	(4)
Total items that will be subsequently reclassified to net income		(119)	139	(34)	215
Items that will not be subsequently reclassified to net income					
Remeasurement losses on defined benefit plans		(86)	(78)	(125)	(167)
		(205)	61	(159)	48
Comprehensive income		**192**	**399**	**608**	**699**

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

Consolidated Statements of Equity of Canada

	Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	**2017**	**2016**	**2017**	**2016**
Contributed capital	**25**	**25**	**25**	**25**
Accumulated other comprehensive income				
Balance at beginning of period	846	883	761	807
Other comprehensive income (loss)	(119)	139	(34)	215
Balance at end of period	**727**	**1,022**	**727**	**1,022**
Retained earnings				
Balance at beginning of period	20,535	19,031	20,204	18,807
Net income	397	338	767	651
Other comprehensive loss	(86)	(78)	(125)	(167)
Dividends	(4,145)	-	(4,145)	-
Balance at end of period	**16,701**	**19,291**	**16,701**	**19,291**
Equity of Canada	**17,453**	**20,338**	**17,453**	**20,338**

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

Consolidated Statements of Cash Flows

(in millions of Canadian dollars)	Notes	Three months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash flows provided by (used in) operating activities					
Net income		397	338	767	651
Adjustments to determine net cash flows provided by (used in) operating activities					
Amortization of premiums and discounts on financial intruments		34	53	88	105
Deferred income taxes		24	(14)	24	(15)
Net (gains) losses on financial instruments		15	20	(3)	47
Accrued interest receivable		561	676	55	65
Derivatives		(10)	1	(6)	(6)
Due from the Government of Canada		723	58	(245)	(228)
Accounts receivable and other assets		(50)	95	(62)	195
Accrued interest payable		(534)	(637)	(91)	(30)
Accounts payable and other liabilities		(609)	(81)	2	(52)
Defined benefit plans liability		(19)	(8)	(33)	(15)
Provision for claims		(47)	20	(46)	18
Unearned premiums and fees		93	137	(21)	28
Other		(1)	1	(3)	(7)
Loans	10				
Repayments		10,308	12,488	15,393	17,347
Disbursements		(10,141)	(10,816)	(20,909)	(20,140)
Borrowings	11				
Repayments		(11,199)	(12,859)	(16,821)	(18,377)
Issuances		11,015	11,167	22,207	21,075
		560	639	296	661
Cash flows provided by (used in) investing activities					
Investment securities					
Sales and maturities		981	1,368	2,933	2,862
Purchases		(1,379)	(2,208)	(3,713)	(4,071)
Investment property additions		-	-	-	(1)
Securities purchased under resale agreements		-	-	17	35
Securities sold under repurchase agreements		(300)	(159)	(236)	(359)
		(698)	(999)	(999)	(1,534)
Cash flows used in financing activities					
Dividend paid		(145)	-	(145)	-
		(145)	-	(145)	-
Change in cash and cash equivalents		(283)	(360)	(848)	(873)
Cash and cash equivalents					
Beginning of period		1,430	1,507	1,995	2,020
End of period		1,147	1,147	1,147	1,147
Represented by					
Cash		13	14	13	14
Cash equivalents		1,134	1,133	1,134	1,133
		1,147	1,147	1,147	1,147
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		1,905	2,039	2,760	2,798
Amount of interest paid during the period		1,693	1,799	2,383	2,364
Amount of dividends received during the period		11	15	24	25
Amount of income taxes paid during the period		108	-	255	-

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 1 of Schedule III, wholly owned by the Government of Canada (Government), and an agent Crown corporation. Our Corporation's National Office is located at 700 Montreal Road, Ottawa, Ontario, Canada, K1A 0P7.

These consolidated financial statements are as at and for the three and six months ended 30 June 2017 and were approved and authorized for issue by our Audit Committee on 23 August 2017.

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 2016. Except for the following new accounting policy, 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 2016.

Dividend distributions to the Government

Dividends to the Government are recognized as a liability in the period in which the dividends are authorized and are no longer at the discretion of the Corporation. Dividends are considered to be authorized when they are approved by the Board of Directors. A corresponding amount is recognized directly in equity.

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. Premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

2. Changes in Accounting Policies

Future accounting changes

The following new standard and interpretation issued by the International Accounting Standards Board (IASB) have been assessed as having a possible impact on the Corporation in the future. We are currently assessing the impact on our consolidated financial statements. There were no other new standards or amendments to existing standards issued by the IASB during the six month period that would affect CMHC in the future other than those disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2016.

IFRS 17 Insurance Contracts – effective date of 1 January 2021

In May 2017, the IASB issued International Financial Reporting Standard (IFRS) 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*. Under IFRS 17, insurance contract liabilities will be calculated as the present value of future insurance cash flows adjusted for risk. The discount rate will reflect current interest rates, which are delinked from the assets held. Contractual service margin will represent the difference between the present value of the risk adjusted cash flows and the premium received at inception and will be released over the coverage period. Should the difference between the premium received and the present value of future cash outflows be negative at inception, the insurance contract would be onerous and the difference would be recorded immediately in income. Furthermore, the unit of account is more granular than under current accounting practice. At a minimum, groups of contracts will need to be separated into annual cohorts, though further disaggregation is permitted and in certain cases required. There will also be a new income statement presentation for insurance contracts and additional disclosure requirements.

We have not yet determined the full impact of this new standard on our consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments – effective date of 1 January 2019

In June 2017, International Financial Reporting Interpretations Committee Interpretation (IFRIC) 23 *Uncertainty over Income Tax Treatments* was issued to provide guidance on the accounting for income tax treatments that have yet to be accepted by tax authorities.

IFRIC 23 outlines the approach to follow in determining recognition and measurement of income taxes for accounting purposes in situations in which it is unclear whether a given tax treatment used by a reporting issuer in its tax return will be accepted by the relevant tax authority. In such instances, the key determining factor is whether it is probable that the tax authority will accept the chosen tax treatment. If this is determined to be probable, the income tax amount recognized in the financial statements should reflect the chosen treatment and be measured at the amount that reflects the best prediction of the resolution of the uncertainty, either the most likely amount or the expected value.

We have not yet determined the full impact of this new standard on our consolidated financial statements.

3. Use of Judgments and Estimates

The preparation of financial statements requires Senior Management (Management) to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. Significant judgments and estimates at 30 June 2017 were consistent with those disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2016.

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 2016. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

- Assisted Housing revenues include parliamentary appropriations and interest income on loans;
- 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 June	**Assisted Housing**		**Mortgage Loan Insurance**		**Securitization**		**Eliminations**		**Total**	
(in millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest income	96	109	-	-	1,058	1,050	(1)	(2)	1,153	1,157
Interest expense	92	107	-	-	1,055	1,047	(31)	(29)	1,116	1,125
Net interest income	4	2	-	-	3	3	30	27	37	32
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	548	463	-	-	-	-	-	-	548	463
Premiums and fees earned	-	-	396	393	91	71	-	-	487	464
Investment income (losses)	-	-	153	151	12	10	(20)	(18)	145	143
Net gains (losses) on financial instruments	(7)	(4)	8	1	1	1	(2)	(18)	-	(20)
Other income	7	5	-	1	17	18	-	-	24	24
Total revenues and parliamentary appropriations	**552**	**466**	**557**	**546**	**124**	**103**	**8**	**(9)**	**1,241**	**1,106**
Non-interest expenses										
Housing programs	548	463	-	-	-	-	-	-	548	463
Insurance claims	-	-	51	111	-	-	-	-	51	111
Operating expenses	7	3	78	55	30	30	-	-	115	88
	555	466	129	166	30	30	-	-	714	662
Income (loss) before income taxes	**(3)**	**-**	**428**	**380**	**94**	**73**	**8**	**(9)**	**527**	**444**
Income taxes	(2)	(2)	107	92	23	18	2	(2)	130	106
Net income (loss)	**(1)**	**2**	**321**	**288**	**71**	**55**	**6**	**(7)**	**397**	**338**
Total revenues and parliamentary appropriations	552	466	557	546	124	103	8	(9)	1,241	1,106
Inter-segment income (loss)[1]	-	(6)	(23)	(32)	31	29	(8)	9	-	-
External revenues and parliamentary appropriations	552	460	534	514	155	132	-	-	1,241	1,106

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

- *The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (CMB), and recognizes revenues from investing in holdings of Capital Market Borrowings; and*
- *The Assisted Housing Activity recognizes revenues from investing in holdings of CMB.*

Six months ended 30 June	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations		Total	
(in millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest income	191	222	-	-	2,090	2,092	(2)	(2)	2,279	2,312
Interest expense	187	217	-	-	2,084	2,086	(62)	(55)	2,209	2,248
Net interest income	4	5	-	-	6	6	60	53	70	64
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	2,114	1,052	-	-	-	-	-	-	2,114	1,052
Premiums and fees earned	-	-	773	761	178	142	-	-	951	903
Investment income (losses)	-	-	304	295	23	21	(40)	(36)	287	280
Net gains (losses) on financial instruments	(1)	2	18	4	1	1	(3)	(49)	15	(42)
Other income	14	11	2	1	38	37	-	-	54	49
Total revenues and parliamentary appropriations	**2,131**	**1,070**	**1,097**	**1,061**	**246**	**207**	**17**	**(32)**	**3,491**	**2,306**
Non-interest expenses										
Housing programs	2,114	1,052	-	-	-	-	-	-	2,114	1,052
Insurance claims	-	-	128	213	-	-	-	-	128	213
Operating expenses	14	6	159	121	61	58	-	-	234	185
	2,128	1,058	287	334	61	58	-	-	2,476	1,450
Income before income taxes	**3**	**12**	**810**	**727**	**185**	**149**	**17**	**(32)**	**1,015**	**856**
Income taxes	(2)	-	200	176	46	37	4	(8)	248	205
Net income	**5**	**12**	**610**	**551**	**139**	**112**	**13**	**(24)**	**767**	**651**
Total revenues and parliamentary appropriations	2,131	1,070	1,097	1,061	246	207	17	(32)	3,491	2,306
Inter-segment income (loss)[1]	(1)	(6)	(44)	(81)	62	55	(17)	32	-	-
External revenues and parliamentary appropriations	2,130	1,064	1,053	980	308	262	-	-	3,491	2,306

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

- *The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (CMB), and recognizes revenues from investing in holdings of Capital Market Borrowings; and*
- *The Assisted Housing Activity recognizes revenues from investing in holdings of CMB.*

As at 30 June 2017 and 31 December 2016	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations[1]		Total	
(in millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Assets										
Cash and cash equivalents	564	1,101	468	704	115	190	-	-	1,147	1,995
Securities purchased under resale agreements	-	17	-	-	-	-	-	-	-	17
Investment securities:										
Designated at fair value through profit or loss	1,476	1,499	1	73	-	1	(400)	(400)	1,077	1,173
Available for sale	-	-	24,790	24,523	3,240	2,937	(4,435)	(4,234)	23,595	23,226
Loans:										
Designated at fair value through profit or loss	3,389	4,021	-	-	-	-	-	(1)	3,389	4,020
Loans and receivables	4,114	3,995	-	-	229,333	223,315	-	-	233,447	227,310
Accrued interest receivable	121	162	146	149	399	407	(16)	(13)	650	705
Derivatives	68	86	18	-	-	-	-	-	86	86
Due from the Government of Canada	304	59	-	-	-	-	-	-	304	59
Accounts receivable and other assets	171	63	539	518	41	92	-	1	751	674
Investment property	169	169	98	98	-	-	-	-	267	267
	10,376	11,172	26,060	26,065	233,128	226,942	(4,851)	(4,647)	264,713	259,532
Liabilities										
Securities sold under repurchase agreements	-	-	468	704	-	-	-	-	468	704
Borrowings:										
Designated at fair value through profit or loss	5,105	5,908	-	-	-	-	-	(3)	5,105	5,905
Other financial liabilities	4,342	4,327	-	-	229,333	223,315	(4,723)	(4,486)	228,952	223,156
Accrued interest payable	77	154	-	-	390	399	(16)	(11)	451	542
Derivatives	26	32	-	-	-	-	-	-	26	32
Dividend payable	-	-	4,000	-	-	-	-	-	4,000	-
Accounts payable and other liabilities	469	391	65	113	16	44	-	-	550	548
Defined benefit plans liability	199	158	299	226	5	-	-	-	503	384
Provision for claims	-	-	608	654	-	-	-	-	608	654
Unearned premiums and fees	-	-	5,393	5,472	1,150	1,092	-	-	6,543	6,564
Deferred income tax liabilities	7	6	70	80	7	6	(30)	(39)	54	53
	10,225	10,976	10,903	7,249	230,901	224,856	(4,769)	(4,539)	247,260	238,542
Equity of Canada	151	196	15,157	18,816	2,227	2,086	(82)	(108)	17,453	20,990
	10,376	11,172	26,060	26,065	233,128	226,942	(4,851)	(4,647)	264,713	259,532

[1] *The balance sheet eliminations remove inter-segment holdings of CMB and Capital Market Borrowings, as well as inter-segment receivables/payables.*

5. Parliamentary Appropriations and Housing Programs Expenses

We receive parliamentary appropriations to fund the following program expenditures, including operating expenses of $40 million and $81 million for the three and six months ended 30 June 2017, respectively (three and six months ended 30 June 2016 – $35 million and $69 million, respectively), in support of housing programs.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2017**	**2016**	**2017**	**2016**
Funding under long-term commitments for existing social housing	391	388	831	849
Funding for new commitments of affordable housing	67	61	1,172	172
Housing support	75	2	80	7
Market analysis information	6	5	13	9
Housing policy, research and information transfer	9	7	18	15
Total	**548**	**463**	**2,114**	**1,052**

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2017**	**2016**	**2017**	**2016**
Balance at beginning of period	1,027	447	59	161
Total appropriations recognized in revenues during the period	548	463	2,114	1,052
Total appropriations received during the period	(1,271)	(521)	(1,870)	(824)
Third party reimbursements in excess of remittance to Government of Canada	-	-	1	-
Balance at end of period	**304**	**389**	**304**	**389**

6. Mortgage Loan Insurance

Unearned premiums and fees

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2017**	**2016**	**2017**	**2016**
Balance at beginning of period	5,330	5,306	5,472	5,432
Premiums deferred on contracts written in the period	451	486	677	722
Premiums earned in the period	(387)	(389)	(758)	(750)
Application fees deferred on contracts written in the period	3	3	9	6
Application fees earned in the period[1]	(4)	(1)	(7)	(5)
Balance at end of period	**5,393**	**5,405**	**5,393**	**5,405**

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

Deferred acquisition costs

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2017	2016	2017	2016
Balance at beginning of period	153	123	149	127
Acquisition costs deferred	15	16	30	24
Amortization of deferred acquisition costs	(11)	(2)	(22)	(14)
Balance at end of period	**157**	**137**	**157**	**137**

Provision for claims

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

Provision for claims comprises the following:

	As at					
	30 June 2017			31 December 2016		
(in millions)	*IBNR, IBNER and CIP*	*SH/ILM*	Total	*IBNR, IBNER and CIP*	*SH/ILM*	Total
Undiscounted estimated losses	418	141	559	446	154	600
Discounting	(5)	-	(5)	(5)	-	(5)
Discounted provision for adverse deviation	31	23	54	34	25	59
Total provision for claims	**444**	**164**	**608**	**475**	**179**	**654**

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

	Three months ended 30 June					
	2017			2016		
(in millions)	***IBNR, IBNER and CIP***	***SH/ILM***	***Total***	***IBNR, IBNER and CIP***	***SH/ILM***	***Total***
Provision for claims, beginning of period	476	179	655	482	224	706
Net claims (paid) recovered during the period	(94)	2	(92)	(90)	(1)	(91)
Provision for claims provided for (recoveries) and losses incurred during the period[1]	62	(17)	45	109	2	111
Provision for claims, end of period	**444**	**164**	**608**	**501**	**225**	**726**

	Six months ended 30 June					
	2017			2016		
(in millions)	***IBNR, IBNER and CIP***	***SH/ILM***	***Total***	***IBNR, IBNER and CIP***	***SH/ILM***	***Total***
Provision for claims, beginning of period	475	179	654	485	223	708
Net claims (paid) recovered during the period	(171)	1	(170)	(192)	(2)	(194)
Provision for claims provided for (recoveries) and losses incurred during the period[1]	140	(16)	124	208	4	212
Provision for claims, end of period	**444**	**164**	**608**	**501**	**225**	**726**

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

Insurance policy liability adequacy

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

The liability adequacy test for the Corporation, as at 30 June 2017, has identified that no provision for premium deficiency is required.

7. Capital Management

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

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

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

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

CMHC has been working with the Department of Finance and other crown corporations on the development of a common capital and dividend policy framework. Beginning in 2017, we have started making dividend payments to the Government to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet the needs of the Corporation for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, our capital is not managed to issue a dividend. In May 2017, we declared a dividend of $145 million, which was paid in June 2017.

On 29 June 2017, the Corporation also declared a special dividend of $4 billion reflecting excess capital that has been accumulated by the Corporation. In each of July and August 2017, we paid $500 million of the dividend and the remaining amount is expected to be paid over a period not to exceed two years.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 June 2017**	**31 December 2016**
Contributed capital	25	25
Accumulated other comprehensive income	727	761
Appropriated retained earnings	15,550	11,956
Unappropriated retained earnings[1]	1,151	8,248
Total equity of Canada[2]	**17,453**	**20,990**
Less: assets with a capital requirement of 100%	-	(200)
Total capital available	**17,453**	**20,790**

1 *Unappropriated retained earnings represents retained earnings in excess of our operating level for the Mortgage Loan Insurance and Securitization Activities.*

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

Mortgage Loan Insurance capital

The appropriated retained earnings of the Mortgage Loan Insurance Activity is based on our Board of Directors approved Capital Management Policy, which follows guidelines developed by OSFI. OSFI's minimum regulatory capital requirement is 100% of its Minimum Capital Test (MCT). The OSFI Supervisory target is 150% of the minimum capital required. We set an internal target above the Supervisory capital required under OSFI guidelines.

On 15 December 2016, OSFI released its revised capital advisory for mortgage insurers titled Capital Requirements for Federally Regulated Mortgage Insurers (Advisory) with an effective date of 1 January 2017. The objective of the Advisory was to introduce a new standard approach that updates the capital requirements for mortgage insurance risk and increases the probability that mortgage insurance companies can absorb severe, but plausible losses. The framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization, and outstanding loan balance.

The Advisory focuses on capital requirements for insurance risk, which primarily consist of:

- A base requirement that applies to all insured mortgages at all times; and
- A supplementary requirement that applies only to mortgages originated during periods when the housing market for the region that corresponds to the mortgage has a house price-to-income ratio that exceeds a specified threshold (with this supplementary requirement not applying to mortgages insured prior to 1 January 2017); less
- Premium liabilities, consisting of unearned premiums reserve and the reserve for IBNR claims.

Supplementary capital will be tied to the behaviour of property prices, both in terms of recent housing price trends and the behaviour of housing prices relative to household incomes using data for each of the 11 cities in the Teranet–National Bank House Price Index™ for those exposures within such cities. The Supplementary Capital Requirement Indicators (SCRI), based primarily on the ratio of the Teranet Index for a metropolitan area over the national per capita income, is compared to a prescribed threshold value for that particular area. If the SCRI exceeds the threshold value for that metropolitan area, then additional capital is required for any new insured mortgages originated during the next quarter in that metropolitan area. The supplementary capital requirement continues to apply for the life of those loans.

We have reviewed the methodology for calculating SCRI and as at 30 June 2017 observed that Calgary, Edmonton, Toronto, Vancouver, Victoria and Hamilton were breaching their SCRI thresholds, as prescribed by OSFI. These metropolitan areas represent approximately 29% of transactional new insurance written in the six months ended 30 June 2017.

The Advisory includes transitional arrangements to allow for a smooth transition to the new framework. Although the Advisory requires us to make use of these transitional arrangements, they are not considered in how we manage capital.

Based on analysis completed in the fourth quarter of 2016, the Board of Directors approved a change to the insurance internal target from 205% under the old MCT framework to 155% under the new MCT framework, and a change to the operating level from 220% under the old MCT framework to 165% under the new MCT framework. The Corporation implemented the revised MCT capital requirements and targets on 1 January 2017.

At 31 December 2016, the operating level of 220% required that we appropriate $10,653 million under the old MCT framework, which resulted in a capital available to minimum capital required of 384%. Applying the new MCT framework excluding transitional arrangements at 31 December 2016 for purposes of comparison, the operating level of 165% would have required that we appropriate $14,865 million, which would have resulted in a capital available to minimum capital required of 209% as at 31 December 2016.

The following table presents the components of capital available.

	As at	
(in millions, unless otherwise indicated)	**30 June 2017**	**31 December 2016**
Total mortgage loan insurance capital	**15,157**	**18,816**
Less: assets with a capital requirement of 100%	-	(200)
Total mortgage loan insurance capital available	**15,157**	**18,616**
Appropriated capital[1]	14,437	10,653
Unappropriated retained earnings	720	8,163
Internal target	155%	205%
Operating level	165%	220%
Capital available to minimum capital required (% MCT)[2]	173%	384%

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

[2] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 30 June 2017 would be 217% with transitional arrangements.*

Securitization capital

Capital related to the Securitization Activity is appropriated for the guarantees provided by our *National Housing Act* Mortgage-Backed Securities (NHA MBS) and CMB programs. There is no regulatory capital and the appropriated amount of capital is based on our 'Own View', as outlined above. We do not have separate capital amounts for CHT because the timely payment guarantee exposure to CMB issued by CHT is covered by the Securitization capital. The amount of Securitization capital held also recognizes 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.

	As at	
(in millions, unless otherwise indicated)	**30 June 2017**	**31 December 2016**
Total securitization capital available	**2,227**	**2,086**
Appropriated capital[1]	1,849	2,086
Unappropriated retained earnings	378	-
Capital available to capital required (%)	120%	100%

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

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending programs' earnings are retained in this reserve fund as part of our strategy to address interest rate risk exposure on prepayable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (2016 – $240 million). Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

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

The following table presents the components of the capital available.

	As at	
(in millions)	**30 June 2017**	**31 December 2016**
Reserve fund	114	96
Retained earnings	12	75
Total Lending programs capital available	**126**	**171**

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.

8. Fair Value Measurement

We measure certain financial instruments and non-financial assets at fair value in the consolidated balance sheets 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 2016. 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. An active market is one where transactions are occurring with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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

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

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

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

	As at					
	30 June 2017			31 December 2016		
(in millions)	**Carrying Value**	**Fair Value**	**Fair Value Over (Under) Carrying Value**	**Carrying Value**	**Fair Value**	**Fair Value Over Carrying Value**
Financial assets						
Loans - loans and receivables[1]	233,447	236,841	3,394	227,310	232,162	4,852
Financial liabilities						
Borrowings - other financial liabilities[2]	228,952	232,455	3,503	223,156	228,124	4,968

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

[2] *\$124,255 million (31 December 2016 – \$47,000 million) fair value categorized as level 1, \$108,200 million (31 December 2016 – \$181,124 million) fair value categorized as level 2.*

Fair value hierarchy for items carried at fair value

The following table presents the fair value hierarchy for assets and liabilities carried at fair value in the quarterly consolidated balance sheets.

	As at							
	30 June 2017				31 December 2016			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash and cash equivalents								
Interest bearing deposits with banks	-	139	-	139	-	258	-	258
Corporate/other entities	-	25	-	25	-	25	-	25
Federal government issued	115	-	-	115	189	-	-	189
Provinces/municipalities	-	65	-	65	-	65	-	65
Total cash and cash equivalents[1]	115	229	-	344	189	348	-	537
Investment securities								
Designated at fair value through profit or loss								
Fixed income								
Corporate/other entities	19	175	-	194	-	193	137	330
Provinces/municipalities	203	294	-	497	138	339	-	477
Sovereign and related entities	-	386	-	386	-	366	-	366
Total designated at fair value through profit or loss	222	855	-	1,077	138	898	137	1,173
Available for sale								
Fixed income								
Corporate/other entities	-	10,422	-	10,422	-	10,384	-	10,384
Federal government issued	3,787	81	-	3,868	3,749	58	-	3,807
Provinces/municipalities	3,364	4,331	-	7,695	3,274	4,167	-	7,441
Sovereign and related entities	-	341	-	341	-	352	-	352
Equities – Canadian	1,220	-	49	1,269	1,204	-	38	1,242
Total available for sale	8,371	15,175	49	23,595	8,227	14,961	38	23,226
Loans								
Designated at fair value through profit or loss	-	3,389	-	3,389	-	4,020	-	4,020
Derivatives	-	86	-	86	-	86	-	86
Investment property	-	-	267	267	-	-	267	267
Total assets carried at fair value	**8,708**	**19,734**	**316**	**28,758**	**8,554**	**20,313**	**442**	**29,309**
Liabilities								
Borrowings								
Designated at fair value through profit or loss	-	5,105	-	5,105	-	5,905	-	5,905
Derivatives	-	26	-	26	-	32	-	32
Total liabilities carried at fair value	**-**	**5,131**	**-**	**5,131**	**-**	**5,937**	**-**	**5,937**

[1] *Of the total cash and cash equivalents carried at fair value, $229 million (31 December 2016 – $348 million) is classified as designated at fair value through profit or loss (FVTPL) and $115 million (31 December 2016 – $189 million) is classified as available for sale. Cash and cash equivalents on the consolidated balance sheet also includes $803 million (31 December 2016 – $1,458 million) of cash and 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 if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period. Transfers are dependent on our assessment of market trading activity of the last month of each reporting period using internal classification criteria. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three and six months ended 30 June 2017, there were $523 million and $1,659 million of transfers from level 2 to level 1, respectively (three and six months ended 30 June 2016 – nil). During the three and six months ended 30 June 2017, there were $1,130 million and $1,913 million of transfers from level 1 to level 2 respectively (three and six months ended 30 June 2016 – nil).

Change in fair value measurement for items classified as level 3

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

	Investment securities				
(in millions)	**Designated at fair value through profit or loss – asset backed securities**	**Available for sale – limited partnership units**	**Total investment securities**	**Investment property**	**Total**
Three months ended 30 June 2017					
Fair value as at 31 March 2017	-	49	49	268	317
Purchases	-	2	2	-	2
Gains in net income[1,2]	-	-	-	(1)	(1)
Gains in other comprehensive income	-	(2)	(2)	-	(2)
Cash receipts on settlements/disposals	-	-	-	-	-
Fair value as at 30 June 2017	**-**	**49**	**49**	**267**	**316**
Six months ended 30 June 2017					
Fair value as at 31 December 2016	137	38	175	267	442
Purchases	-	9	9	-	9
Gains in net income[1,2]	-	-	-	-	
Gains in other comprehensive income	-	3	3	-	3
Cash receipts on settlements/disposals	(137)	(1)	(138)	-	(138)
Fair value as at 30 June 2017	**-**	**49**	**49**	**267**	**316**
Three months ended 30 June 2016					
Fair value as at 31 March 2016	165	40	205	259	464
Purchases	-	1	1	-	1
Gains in net income[1,2]	1	-	1	-	1
Gains in other comprehensive income	-	(4)	(4)	-	(4)
Fair value as at 30 June 2016	**166**	**37**	**203**	**259**	**462**
Six months ended 30 June 2016					
Fair value as at 31 December 2015	164	34	198	258	456
Purchases	-	1	1	1	2
Gains in net income[1,2]	2	-	2	-	2
Gains in other comprehensive income	-	2	2	-	2
Fair value as at 30 June 2016	**166**	**37**	**203**	**259**	**462**

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

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

Unobservable inputs for items classified as level 3

The valuation of items classified as level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 June 2017, which may change materially in subsequent periods. The following table presents quantitative information about the significant unobservable inputs used in level 3 fair value measurements for items carried at fair value.

			30 June 2017		31 December 2016	
(in millions, unless otherwise indicated)	**Valuation Technique**	**Unobservable inputs**	**Asset fair value**	**Weighted average input/range**	**Asset fair value**	**Weighted average input/range**
Investment securities						
Designated at fair value through profit or loss						
Asset-backed securities	Discounted cash flow	Risk premium	-	-	137	1.4%
Available for sale						
Limited partnership investment	Share of partnership equity	Reported partnership equity	49	n.a	38	n.a.
Total investment securities			**49**		**175**	
Investment property						
Mortgage Loan Insurance Activity	Discounted cash flow	Estimated rental value per square foot	98	$4 - $39	98	$4 - $39
		Discount rate		6.5% - 7.3%		6.5% - 7.3%
Assisted Housing Activity	Discounted cash flow	Estimated rental value per square foot	20	$22 - $148	20	$22 - $148
		Discount rate		4.0% - 6.0%		4.0% - 6.0%
	Market Approach	Value per square foot	149	$0 - $325	149	$0 - $325
Total investment property			**267**		**267**	
Total level 3 items carried at fair value			**316**		**442**	

Level 3 sensitivity analysis

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 gains and losses related to financial instruments.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2017**	**2016**	**2017**	**2016**
Held for trading				
Derivatives	11	-	8	5
Total held for trading	**11**	**-**	**8**	**5**
Designated at fair value through profit or loss				
Investment securities	(6)	-	(3)	-
Loans	(25)	1	(29)	(5)
Borrowings	35	(9)	38	(1)
Total designated at fair value through profit or loss	**4**	**(8)**	**6**	**(6)**
Available for sale - investment securities[1]	(13)	2	(5)	4
Loans and receivables - prepayments	16	-	40	-
Borrowings – other financial liabilities[2]	(18)	(14)	(34)	(45)
Total	**-**	**(20)**	**15**	**(42)**

[1] *Includes foreign exchange losses during the three and six months ended 30 June 2017 of $21 million and $22 million respectively (three and six months ended 30 June 2016 – nil), resulting from translation of U.S. dollar denominated debt securities.*

[2] *Includes losses from the retirement of borrowings during the three and six months ended 30 June 2017 of $20 million and $39 million respectively (three and six months ended 30 June 2016 – $14 million and $45 million), net of gains from the issuance of borrowings during the three and six months ended 30 June 2017 of $2 million and $5 million respectively (three and six months ended 30 June 2016 – nil).*

9. Investment Securities

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

	As at					
	30 June 2017				31 December 2016	
(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	1,079	4	(6)	1,077	1,112	1,173
Available for sale[2]	21,890	498	(62)	22,326	21,474	21,984
Equities						
Available for sale	729	540	-	1,269	710	1,242

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

[2] *Includes debt securities denominated in U.S. dollars with a carrying value of $682 million (2016 – nil).*

We have investment securities of $462 million (31 December 2016 – $696 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 value on these investment securities during the period, with the exception of investments in CHT-issued CMB, which are eliminated from the consolidated financial statements.

During the three and six months ended 30 June 2017, there were no impairment losses (three and six months ended 30 June 2016 – nil) recognized in net gains (losses) on financial instruments and no reversals of previously realized fixed income investment security impairments occurred during the period.

10. Loans

The following tables present the cash flows and non-cash changes for loans.

		Three months ended 30 June					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	Transfers[1]	Balance at end of period
2017							
Designated at fair value through profit or loss							
Lending programs	3,745	(117)	-	(25)	-	(214)	3,389
Loans and receivables							
Loans under the CMB program	229,287	(10,072)	10,109	-	9	-	229,333
Lending programs	3,987	(119)	32	-	-	214	4,114
Total loans and receivables	**233,274**	**(10,191)**	**10,141**	**-**	**9**	**214**	**233,447**
Total	**237,019**	**(10,308)**	**10,141**	**(25)**	**9**	**-**	**236,836**
2016							
Designated at fair value through profit or loss							
Lending programs	4,776	(136)	9	1	-	(13)	4,637
Loans and receivables							
Loans under the CMB program	220,382	(12,293)	10,793	-	8	-	218,890
Lending programs	3,977	(59)	14	-	-	13	3,945
Total loans and receivables	**224,359**	**(12,352)**	**10,807**	**-**	**8**	**13**	**222,835**
Total	**229,135**	**(12,488)**	**10,816**	**1**	**8**	**-**	**227,472**

[1] *Transfers from designated at fair value through profit or loss to loans and receivables are loans that, upon renewal, are no longer part of a portfolio of economically hedged loans and borrowings.*

		Six months ended 30 June					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	Transfers[1]	Balance at end of period
2017							
Designated at fair value through profit or loss							
Lending programs	4,020	(241)	-	(29)	-	(361)	3,389
Loans and receivables							
Loans under the CMB program	223,315	(14,852)	20,851	-	19	-	229,333
Lending programs	3,995	(300)	58	-	-	361	4,114
Total loans and receivables	**227,310**	**(15,152)**	**20,909**	**-**	**19**	**361**	**233,447**
Total	**231,330**	**(15,393)**	**20,909**	**(29)**	**19**	**-**	**236,836**
2016							
Designated at fair value through profit or loss							
Lending programs	4,955	(284)	11	(5)	-	(40)	4,637
Loans and receivables							
Loans under the CMB program	215,622	(16,835)	20,087	-	16	-	218,890
Lending programs	4,091	(228)	42	-	-	40	3,945
Total loans and receivables	**219,713**	**(17,063)**	**20,129**	**-**	**16**	**40**	**222,835**
Total	**224,668**	**(17,347)**	**20,140**	**(5)**	**16**	**-**	**227,472**

[1] *Transfers from designated at fair value through profit or loss to loans and receivables are loans that, upon renewal, are no longer part of a portfolio of economically hedged loans and borrowings.*

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 2016 – 99%) of our loans.

Uninsured loans are assessed on a regular basis to determine if an allowance for credit losses is necessary. As at 30 June 2017, an impairment allowance of $23 million has been recognized (31 December 2016 – $23 million).

11. Borrowings

The following tables present the cash flows and non-cash changes for borrowings.

		Three months ended 30 June					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion	Eliminations	Balance at end of period
2017							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	5,534	743	(1,137)	(35)	-	-	5,105
Other financial liabilities							
Canada mortgage bonds	224,403	10,109	(9,939)	-	9	28	224,610
Borrowings from the Government of Canada	4,304	163	(123)	(2)	-	-	4,342
Total other financial liabilities	**228,707**	**10,272**	**(10,062)**	**(2)**	**9**	**28**	**228,952**
Total	**234,241**	**11,015**	**(11,199)**	**(37)**	**9**	**28**	**234,057**
2016							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	6,530	374	(596)	11	-	-	6,319
Capital market borrowings	281	-	-	(3)	-	-	278
Total designated at fair value through profit or loss	**6,811**	**374**	**(596)**	8	-	-	6,597
Other financial liabilities							
Canada mortgage bonds	216,416	10,793	(12,197)	-	8	(611)	214,409
Borrowings from the Government of Canada	4,102	-	(66)	-	1	-	4,037
Total other financial liabilities	**220,518**	**10,793**	**(12,263)**	**-**	**9**	**(611)**	**218,446**
Total	**227,329**	**11,167**	**(12,859)**	**8**	**9**	**(611)**	**225,043**

		Six months ended 30 June					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion	Eliminations	Balance at end of period
2017							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	5,632	999	(1,488)	(38)	-	-	5,105
Capital market borrowings	273	-	(275)	-	-	2	-
Total designated at fair value through profit or loss	**5,905**	**999**	**(1,763)**	**(38)**	**-**	**2**	**5,105**
Other financial liabilities							
Canada mortgage bonds	218,829	20,851	(14,719)	-	19	(370)	224,610
Borrowings from the Government of Canada	4,327	357	(339)	(5)	2	-	4,342
Total other financial liabilities	**223,156**	**21,208**	**(15,058)**	**(5)**	**21**	**(370)**	**228,952**
Total	**229,061**	**22,207**	**(16,821)**	**(43)**	**21**	**(368)**	**234,057**
2016							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	6,339	988	(1,014)	6	-	-	6,319
Capital market borrowings	739	-	(465)	(6)	-	10	278
Total designated at fair value through profit or loss	**7,078**	**988**	**(1,479)**	**-**	**-**	**10**	**6,597**
Other financial liabilities							
Canada mortgage bonds	212,080	20,087	(16,739)	-	16	(1,035)	214,409
Borrowings from the Government of Canada	4,194	-	(159)	-	2	-	4,037
Total other financial liabilities	**216,274**	**20,087**	**(16,898)**	**-**	**18**	**(1,035)**	**218,446**
Total	**223,352**	**21,075**	**(18,377)**	**-**	**18**	**(1,025)**	**225,043**

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 and six months ended 30 June 2017, there were $133 million of CMB maturities that have been excluded from investment securities – sales and maturities and borrowings – repayments in the consolidated statements of cash flows (three and six months ended 30 June 2016 – $96 million). There were no purchases in the primary market during the three and six months ended 30 June 2017 (30 June 2016 – nil).

12. 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

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

The VaR for the Mortgage Loan Insurance and Securitization Activities as at 30 June 2017, 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.

	As at	
(in millions)	30 June 2017	31 December 2016
Investment securities:		
Available for sale		
Interest rate risk	270	271
Equity risk	57	66
Effect of diversification	(70)	(78)
Total VaR	**257**	**259**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. CMHC internal policies limit the amount of foreign currency investments and require full hedging of currency risk. As at 30 June 2017 we held $682 million in available for sale debt securities denominated in U.S. dollars (31 December 2016 – nil).

Our strategy to fully hedge currency risk is to continuously enter into a series of short-term foreign currency forward contracts. Under these contracts, most of which are settled net, we exchange U.S. dollars for Canadian dollars at an exchange rate fixed at the outset of the contract for settlement at a future pre-determined date. Given the short terms of the forward contracts, full hedging of currency risk over the life of the foreign-denominated debt securities will require continued application of our strategy in the future. The exposures presented in the table above reflect the offsetting effect of the hedging instruments. Currency risk was assessed as immaterial as at 30 June 2017.

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 held for trading, we assessed the impact of a 200 bps shift in interest rates as immaterial as at 30 June 2017.

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

	As at			
	30 June 2017		31 December 2016	
	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]	(54)	52	(62)	61

[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 $0.3 million at 30 June 2017 (31 December 2016 – $1.4 million). This is calculated with 95% confidence over a one-year period.

13. 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 18 of our audited consolidated financial statements for the year ended 31 December 2016. There has been no change to the nature of the risk for the six month period ended 30 June 2017.

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 $232,696 million, 101.5% of loan carrying value, as at 30 June 2017 (31 December 2016 – $226,947 million, 101.6% 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.

14. Pension and Other Post-Employment Benefits

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

	Three months ended 30 June			
	Pension plans		Other post-employment plans	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current service cost	8	8	1	1
Net interest expense	4	4	1	1
Expense recognized in net income	**12**	**12**	**2**	**2**
Net actuarial losses arising from changes in financial assumptions	(108)	(116)	(7)	(6)
Return on plan assets (excluding amounts included in net interest expense)	11	29	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(97)**	**(87)**	**(7)**	**(6)**
CMHC's contributions	32	20	1	2
Employee contributions	3	4	-	-
Total contributions	**35**	**24**	**1**	**2**

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

	Six months ended 30 June			
	Pension plans		Other post-employment plans	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current service cost	15	16	1	1
Net interest expense	6	7	2	2
Expense recognized in net income	**21**	**23**	**3**	**3**
Net actuarial losses arising from changes in financial assumptions	(175)	(204)	(11)	(12)
Return on plan assets (excluding amounts included in net interest expense)	34	14	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(141)**	**(190)**	**(11)**	**(12)**
CMHC's contributions	55	38	2	3
Employee contributions	6	7	-	-
Total contributions	**61**	**45**	**2**	**3**

[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 $1.2 million and $2.0 million for the three and six months ended 30 June 2017, respectively (three and six months ended 30 June 2016 – $0.9 million and $1.6 million, respectively).

15. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current income tax expense	108	109	224	209
Deferred income tax expense	22	(3)	24	(4)
Total income tax expense included in net income	**130**	**106**	**248**	**205**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized gains on available for sale financial instruments	(37)	46	(8)	72
Reclassification of prior years' net unrealized gains realized in the period	(2)	(1)	(3)	(1)
Remeasurement losses on defined benefit plans	(18)	(15)	(27)	(35)
Total income tax expense included in other comprehensive income (loss)	**(57)**	**30**	**(38)**	**36**
Total	**73**	**136**	**210**	**241**

16. 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 $9 million and $17 million for the three and six months ended 30 June 2017, respectively (three and six months ended 30 June 2016 – $7 million and $12 million, respectively) for the Mortgage Loan Insurance Activity and $5 million and $10 million for the three and six months ended 30 June 2017, respectively (three and six months ended 30 June 2016 – $4 million and $8 million, respectively) for the Securitization Activity.

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

17. 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 2016 – $600 billion). At 30 June 2017, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $496 billion (31 December 2016 – $512 billion).

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2016 – $600 billion). At 30 June 2017, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled $456 billion (31 December 2016 – $452 billion).

There are legal claims of $9 million (31 December 2016 – $9 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.

18. 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.

CANADA MORTGAGE AND HOUSING CORPORATION

700 Montreal Road

Ottawa, Ontario

K1A 0P7

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