CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

THIRD QUARTER
September 30, 2017
(Unaudited)

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Management's Discussion and Analysis

OVERVIEW

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 20 November 2017 is prepared for the third quarter ended 30 September 2017 and is intended to provide readers with an overview of our performance including comparatives against the same three and nine 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 Canada Mortgage and Housing Corporation's (CMHC or Corporation) 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. Except for a new accounting policy regarding dividends disclosed in Note 1 of our unaudited quarterly consolidated financial statements, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the third 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 October 2017)

The outlook for world economic growth has strengthened slightly since the previous QFR that was published in the second quarter of 2017, with modest upward revisions to forecasts for global growth among most major economic forecasters. However, this outlook remains subject to considerable uncertainty. Uncertainties reflect the United Kingdom's exit from the European Union, persistent financial imbalances in China, and uncertainties related to United States tax and trade policies.

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. Overall, the Canadian economy expanded by 1.5% in 2016. Growth in the first half of 2017 strengthened markedly in comparison to 2016, with gains of 3.7% and 4.5% (annualized rates) recorded in the first and second quarters, respectively. Consumer spending and a strong rebound from 2016 in business investment were major factors. Notably, business investment in the first half of 2017 reflects strong contributions from the energy sector, which continues to adapt to a low oil-price environment. Some of the factors that drove growth in the first half of 2017 are expected to cool in the near term, but economic conditions in 2017 and 2018 are expected to be stronger than in 2016. As a result, the September 2017 Consensus Forecast of private sector Canadian forecasters calls for real GDP to moderate from its pace in the first half of 2017 and register annual growth in the 2.4% to 3.2% range in 2017 before moderating further in 2018 to the 1.2-2.5% range[1]. Growth in 2017 and 2018 is expected to be supported by government stimulus, improvement in net exports and business investment, including further 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. Further moderate increases in interest rates are likely and have been incorporated into the outlooks of CMHC and private forecasters. However, 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 October 2017, continues to indicate a high degree of vulnerability at the national level, with moderate overvaluation and price acceleration being detected. At the regional level, the overall assessment indicates a high degree of vulnerability in Victoria, Vancouver, Calgary, Hamilton and Toronto.

Regional housing market dynamics varied in 2016, with generally strong activity and price growth in British Columbia and Ontario, declining activity and price growth in oil-producing regions, and stable conditions in the rest of Canada. In the first half of 2017, Ontario saw activity moderate in Toronto and surrounding centers that have seen strong housing demand conditions in recent years, while activity in Vancouver rebounded sharply from a temporary slowdown in late 2016. Oil-producing regions showed signs of continuing adaptation to lower oil prices.

Regional differences in housing market dynamics are expected to continue to dissipate over the forecast horizon of 2017 to 2022. Oil-producing provinces are expected to register gradual improvement in housing indicators as employment and population growth improve through the process of further adjustment to lower oil prices. Housing indicators in British Columbia and Ontario, including price growth, will moderate from recent highs, due in part to the expectation of further gradual and modest increases in mortgage rates and an anticipated shift in Multiple Listing Service (MLS®) sales in these provinces toward more moderately priced homes. Stabilization of activity in the resale market will also result in less demand spilling over into the new home market and the gradual dissolution of the current evidence of overvaluation. Housing activity in other regions is expected to remain stable.

[1] The most recent CMHC *Housing Market Outlook, Canada Edition* was published in October 2017, with economic assumptions based on the average of private sector Canadian forecasters from September 2017. The next CMHC *Housing Market Outlook, Canada Edition* will be published in October 2018.

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 a 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 NHS in late fall 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 be received through housing appropriations while applicable provincial sales taxes will be payable by the borrower. 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 commitment was signed during the third quarter of 2017.

Dividends

Beginning in 2017, we 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.

For the nine months ended 30 September 2017, we declared $4,385 million of dividends, of which $1,385 million was paid. An additional $1,000 million was paid prior to the release of the unaudited quarterly consolidated financial statements. Refer to Note 7 – Capital Management of the unaudited quarterly consolidated financial statements for more information.

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, and, effective 17 March 2017, increased transactional homeowner mortgage loan insurance premiums for newly originated loans. 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.

Securitization developments

Introduction of changes to loan and pool parameters under the NHA Mortgage-Backed Security (MBS) program

CMHC introduced revised loan and pool parameters under the NHA MBS Program consisting of the removal of the following pooling requirements: (a) $2 million minimum pool size requirement, (b) the requirement that a single loan may not exceed 25% of total aggregate principal amount of the pool and (c) the restriction on the loans' remaining amortization provided the pool principal at issuance does not exceed $15 million. The policy changes became effective 1 October 2017.

Expanded eligibility criteria for approved issuer status under the NHA MBS program

CMHC introduced changes to eligibility requirements applicable to entities seeking to obtain Approved Issuer status under the NHA MBS Program, including revised documentation requirements and removal of the Approved Lender requirement for non-regulated entities. The policy changes have taken effect on 1 September 2017 and are being applied to Issuer applications approved after this date.

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 19 October 2017, OSFI released a revised Minimum Capital Test (MCT) Guideline (the New MCT Guideline) for federally regulated property and casualty insurers with an effective date of 1 January 2018. The New MCT Guideline removes requirements that are no longer applicable. It also aligns the terminology and examples to the quarterly statutory returns for consistency.

We do not expect a material impact to our capital position in the Mortgage Loan Insurance Activity as a result of the New MCT Guideline.

Future changes to accounting standards

The following standards issued by the International Accounting Standards Board (IASB) have been assessed as having a possible impact on the Corporation in the future.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39) and will be effective for CMHC beginning 1 January 2018. IFRS 9 sets out the requirements for recognition and derecognition, classification and measurement and impairment of financial instruments and hedge accounting. The IFRS 9 requirements are discussed in further detail in the MD&A included in our 2016 Annual Report.

We are in the advanced stages of preparation to adopt IFRS 9 on 1 January 2018. Our preparation for IFRS 9 is supported by a formal governance structure comprising a Steering Committee of senior stakeholders, with key decisions being presented to senior management and our Audit Committee. The cross-functional project team responsible for implementing the new standard has analyzed CMHC's financial instruments and related business models and acquired and developed the data systems and processes required to produce financial reporting under the new standard.

The following discussion broadly outlines the changes IFRS 9 will introduce to CMHC's financial reporting and the associated status of our implementation project. As the IFRS 9 requirements for recognition and derecognition are largely consistent with IAS 39, and CMHC does not apply hedge accounting, the discussion is focused on the classification and measurement and impairment requirements having the most impact on CMHC.

Transition

We will adopt IFRS 9 on 1 January 2018. During 2018 we will not restate our comparative consolidated financial statements as permitted by IFRS 9; rather, a cumulative adjustment to reflect the application of the new standard will be made to our consolidated balance sheet as at 1 January 2018. Based on the work performed to date, we do not expect the impact of IFRS 9 on total Equity of Canada to be material at transition

Classification and Measurement

Upon initial recognition, each financial asset will be classified under IFRS 9 as either fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost.

Equity investment securities: Equity instruments are measured at FVTPL under IFRS 9, unless an irrevocable election is made to present fair value changes in OCI. As we do not expect to make use of this election for our common equity investment securities (30 September 2017 – $1,112 million) on transition, changes in their fair value will be recognized in net income. This differs from our current practice where unrealized gains and losses arising from changes in fair value of our equity investments are recorded in OCI until the investments are sold, derecognized or determined to be impaired, at which time they are transferred to net income. Consequently, there will be more volatility in net income under IFRS 9. As the election is made at initial recognition and may be applied on a transaction-by-transaction basis, we may make use of this election for certain common equity investment securities in the future.

We expect to make the election to present fair value changes in OCI for our preferred equity investment securities (30 September 2017 – $52 million). Under this election there is no recycling of gains and losses from OCI to net income on sale. This differs from our current practice only in that realized gains and losses will not be transferred to net income when the investment is sold or derecognized.

Debt investment securities and loans: Our debt instrument financial assets such as investment securities and loans will be classified and measured under IFRS 9 according to our business model for managing the assets and their cash flow characteristics. According to the assessments we have made to date, we anticipate the following classifications on transition to IFRS 9:

- Mortgage Loan Insurance Activity debt investment securities (30 September 2017 – $18,367 million, net of eliminations of $4,085 million) are expected to be largely classified as FVOCI, consistent with current practice under IAS 39. We anticipate classifying an immaterial amount of debt investment securities as FVTPL due to their cash flows not meeting the criteria for being solely payments of principal and interest.

- Securitization Activity investment securities (30 September 2017 – $3,420 million) are expected to be classified as FVOCI and loans (30 September 2017 – $233,947 million) are expected to be classified as amortized cost, consistent with current practice under IAS 39.
- Lending Activity investment securities (30 September 2017 – $1,048 million, net of eliminations of $398 million) and economically hedged loans (30 September 2017 – $3,097 million) are expected to be designated at FVTPL as doing so significantly reduces the accounting mismatch that would otherwise arise from measuring the direct lending program derivatives at fair value. Other Lending Activity loans (30 September 2017 – $4,148 million) are expected to be classified as amortized cost. These classifications are consistent with current practice under IAS 39.

Impairment

The IFRS 9 impairment requirements are applicable to debt instrument financial assets that are classified as amortized cost or FVOCI. Loan commitments and financial guarantee contracts that are not measured at FVTPL are also included in the scope of the new model.

The impairment requirements of IFRS 9 are significantly different from those of IAS 39 in that it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an allowance for expected credit losses (ECLs) is established at initial recognition (or the date CMHC becomes party to a loan commitment or financial guarantee) and updated throughout the life of the asset.

We have developed impairment models to determine the allowance for ECLs on our debt investment securities and loans classified as FVOCI and amortized cost, respectively. Our allowance for ECLs is based on three main drivers: point-in-time probability of default, loss given default and exposure at default. We will calculate ECLs as the probability-weighted average ECL under a range of macroeconomic scenarios.

The loss allowance for ECLs under IFRS 9 is to be either for 12-month ECLs (for stage 1 instruments) or lifetime ECLs (for stage 2 and 3 instruments) mainly depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. Lifetime ECLs are the ECLs over the expected life of a financial instrument, whereas 12-month ECLs are the portion that result from default events possible within the 12 months after the reporting date.

- Stage 1 instruments are those which have not experienced a SICR since initial recognition
- Stage 2 instruments are those which have experienced a SICR since initial recognition. In subsequent periods, if the credit risk of an instrument has improved such that there is no longer a SICR since initial recognition, the loss allowance will revert to 12-month ECLs (stage 1).
- Stage 3 instruments are considered credit-impaired as one or more events that have a detrimental impact on estimated future cash flows have occurred

Investment securities: For our investment securities, we will consider a SICR since initial recognition not to have occurred for securities having low credit risk at the reporting date (low credit risk simplification). Securities having an external credit rating of investment grade at the reporting date will be considered to have low credit risk. For securities falling below investment grade, an assessment of whether a SICR has occurred will be made. As our credit risk policies generally restrict our investments to those having an investment grade rating, we anticipate substantially all of our investment securities to be classified in Stage 1 on transition.

Loans: We will assess SICR for Assisted Housing Activity loans using the low credit risk simplification for certain loans and solely past-due information for others. We expect past-due information will be the primary basis for the SICR assessment of the majority of Assisted Housing Activity loans and for the small amount of loans in the Mortgage Loan Insurance Activity. Loans whose contractual payments are more than 30 days past due will be considered to have a SICR.

Guarantees: For the NHA MBS timely payment guarantees issued by CMHC, we expect to assess a SICR based on the issuer of the NHA MBS and the pool of insured mortgages directly backing the NHA MBS. For the Canada Mortgage Bond (CMB) timely payment guarantees issued by CMHC, we expect to assess a SICR based on the swap counterparties and reinvestment assets held in the CMB program that provide the cash flows for payments due on CMB. An allowance for ECLs on our guarantees will only be recognized where it exceeds in aggregate the unearned guarantee fees liability.

Impairment models: Our impairment models make use of customized third-party specialized software, which apply our forward-looking macroeconomic scenarios to determine the ECLs on our financial assets. We continue to test and refine the impairment models by performing parallel runs for 2017 periods. Our independent Model Risk Management and Validation group has assessed our impairment models' risk and is currently performing a more in-depth review of the models.

A governance structure is being implemented around the forward-looking macroeconomic scenarios we use. These scenarios will be regularly reviewed and scrutinized by representatives from our Finance, Risk, and Capital Markets sectors as well as our Market Analysis Centre. The Finance and Risk Committee, which consists of key executive level stakeholders, is expected to provide ongoing oversight over this process.

Capital Management

We do not expect IFRS 9 to have a material impact on capital levels upon transition.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and is required to be implemented by 1 January 2018. This standard sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).

IFRS 15 establishes a comprehensive five-step framework for determining when and how much revenue to recognize. The core principle of the framework is that an entity should recognize revenue when a performance obligation is satisfied to transfer promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This performance obligation may be satisfied at a point in time or over time.

The primary impact to the Corporation as a result of adopting IFRS 15 relates to the recognition of application fees revenue in our Securitization activity.

Currently, application fees for timely payment guarantees are recognized as revenue upon receipt (at the application date). Under IFRS 15, the application fee and the timely payment guarantee are considered as one performance obligation and the related revenue should be recognized only when the performance obligation is satisfied (over the life of the guaranteed CMB or NHA MBS).

We expect to apply IFRS 15 using the cumulative effect method. Consequently, the unearned premiums and fees balance on 1 January 2018 will be adjusted to include the unearned application fee revenue with a corresponding decrease to retained earnings. The amount of the adjustment is estimated to be approximately $71 million.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, 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.

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed consolidated balance sheets

	As at	
(in millions)	**30 September 2017**	**31 December 2016**
Total assets	268,771	259,532
Total liabilities	251,209	238,542
Total equity of Canada	17,562	20,990

Our total equity of Canada decreased by $3,428 million (16%) primarily due to the declaration of $4,385 million in dividends partially offset by comprehensive income of $957 million during the first nine month of the year. Our total assets and total liabilities increased by $9,239 million (4%) and $12,667 million (5%) respectively mainly due to net issuances of CMB resulting in a $10,785 million (5%) increase in loans – loans and receivables and a $10,677 million (5%) increase in Borrowings – Other financial liabilities. As at 30 September 2017, $3,000 million of our dividend remains to be paid to the Government, which also contributes to the increase in our total liabilities.

Offsetting the increase in our loans – loans and receivables is a $1,123 million (56%) decrease in cash and cash equivalents and a $276 million (1%) decrease in investment securities – available for sale used partially to fund the dividend payments and to repay matured Government borrowings. The net repayments translate into a $1,161 (20%) million decrease in Borrowings – designated at fair value through profit or loss, which partially offsets the increases in our total liabilities caused by net CMB issuances and dividend payable mentioned above.

Condensed consolidated statements of income and comprehensive income

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Total revenues	1,282	1,200	4,773	3,506
Total expenses	664	762	3,140	2,212
Income taxes	151	107	399	312
Net income	467	331	1,234	982
Other comprehensive income (loss)	(118)	84	(277)	132
Comprehensive income	349	415	957	1,114

Q3 2017 vs. Q3 2016

Total revenues increased by $82 million (7%) primarily due to net gains on financial instruments which increased by $69 million (1,725%) mostly due to net gains realized on the sale of investment securities due to portfolio rebalancing.

Total expenses decreased by $98 million (13%) primarily due a to a decrease of $93 million (69%) in insurance claims 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.

Other comprehensive income (loss) decreased by $202 million (241%) primarily due to a decrease in net unrealized gains (losses) from available for sale financial instruments offset by an increase in remeasurement gains on defined benefit plans.

Net unrealized gains (losses) from available for sale financial instruments decreased by $314 million (413%) primarily due to unrealized losses on the fixed income investment portfolio as a result of a steep increase in market yields in the current quarter and the reversal of unrealized gains on investments securities sales. Unrealized gains were recognized in the same period last year primarily due to unrealized gains on equity securities.

Remeasurement gains on our defined benefits plans increased by $112 million (1,400%) primarily due to an increase in the discount rate from Q2 2017, partially offset by an actual return on plan assets that was less than expected, which resulted in a net decrease in the defined benefit liability. By comparison, in Q3 2016, there was a smaller net decrease in the defined benefit liability, caused by the actual return on plan assets having been higher than expected, partially offset by a decrease in the discount rate.

YTD 2017 vs. YTD 2016

Total revenues increased by $1,267 million (36%) 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 $1,052 million (67%) 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 $126 million (274%) due to net gains realized on the sale of investment securities due to portfolio rebalancing in addition to a decrease in the cost of debt retirement on purchases of CMB.

Premiums and fees earned increased by $64 million (5%) 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).

Total expenses increased by $928 million (42%) due to increases in Housing program expenses and operating expenses, partially offset by a decrease in insurance claims.

Housing program expenses increased by $1,052 million (67%) in accordance with parliamentary appropriations for housing programs as previously noted.

Operating expenses increased by $54 million (19%) mainly due to higher costs from our technology transformation initiative.

Insurance claims decreased by $178 million (51%) for the same reasons noted above.

Other comprehensive income (loss) decreased by $409 million (310%) primarily due to decreases in net unrealized gains (losses) from available for sale financial instruments, partially offset by a decrease in remeasurement losses on defined benefit plans.

Net unrealized gains (losses) from available for sale financial instruments decreased by $528 million (177%) for the same reasons noted above.

Remeasurement gains on our defined benefits plans increased by $154 million (97%) primarily due to a decrease in the discount rate from 31 December 2016, partially offset by an actual return on plan assets that was higher than expected, which resulted in a net increase in the defined benefit liability. By comparison, in the same period in 2016, there was a larger net increase in the defined benefit liability, caused by a larger decrease in the discount rate, partially offset by the actual return on plan assets having been higher than expected.

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 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Net interest income	4	3	8	8
Parliamentary appropriations for housing programs	521	531	2,635	1,583
Other income[1]	4	4	17	17
Total revenues	**529**	**538**	**2,660**	**1,608**
Housing programs expenses	521	531	2,635	1,583
Operating expenses	5	4	19	10
Total expenses	**526**	**535**	**2,654**	**1,593**
Income before income taxes	**3**	**3**	**6**	**15**
Income taxes	(1)	-	(3)	-
Net income (loss)	**4**	**3**	**9**	**15**

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

Q3 2017 vs. Q3 2016

Total revenues and expenses decreased by $9 million (2%). The decrease was primarily driven by lower parliamentary appropriations for housing programs resulting from a $53 million decline due to the timing of expenditures for the existing social housing portfolio, with a partial offset of $42 million as a result of increased spending for new initiatives under Budget 2016.

YTD 2017 vs. YTD 2016

Total revenues increased by $1,052 million (65%) while total expenses increased by $1,061 million (67%) mainly due to higher parliamentary appropriations for housing programs as a result of a $1,081 million increase in spending related to the new initiatives under Budget 2016, partially offset by a decrease in parliamentary appropriations of $42 million due to the timing of expenditures for the existing social housing portfolio. Of the $1,081 million in spending under Budget 2016, $1,031 million relates to new commitments for affordable housing and $50 million is for new commitments for housing in First Nation communities.

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

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[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.

Reporting on use of appropriations

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

	Nine months ended 30 September	
(in millions)	**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	(1,707)	(2,135)
Forecasted lapse for 2017/2018 (Actual lapse in 2016/2017)	-	(47)
2017/18 (2016/17) portions recognized in 2017 (2016)	**1,069**	**994**
Total appropriations recognized – nine months ended 30 September	**2,635**	**1,583**

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 September 2017 was $1,069 million (39%).

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

	As at	
(in billions)	30 September 2017	31 December 2016
Insurance-in-force	**484**	**512**
Transactional homeowner	252	264
Portfolio	165	185
Multi-unit residential	67	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 September 2017, insurance-in-force was $484 billion, a $28 billion (5%) decrease from 31 December 2016. New loans insured were $38 billion, while estimated loan amortization and pay-downs were $66 billion.

	Three months ended 30 September		Nine months ended 30 September	
(in millions, unless otherwise indicated)	2017	2016	2017	2016
Total insured volumes (units)	**67,915**	**127,991**	**211,891**	**345,716**
Transactional homeowner	32,942	46,908	88,402	120,499
Portfolio[1]	5,765	56,153	35,741	146,824
Multi-unit residential	29,208	24,930	87,748	78,393
Total insured volumes ($)	**12,539**	**22,539**	**38,187**	**63,747**
Transactional homeowner	8,893	12,034	23,036	29,521
Portfolio[1]	987	8,362	7,087	28,076
Multi-unit residential	2,659	2,143	8,064	6,150
Premiums and fees received[2]	**414**	**458**	**1,085**	**1,184**
Transactional homeowner	309	360	768	894
Portfolio	7	21	45	72
Multi-unit residential	98	77	272	218
Claims Paid[3]	**74**	**103**	**245**	**295**
Transactional homeowner	61	75	195	241
Portfolio	4	4	12	18
Multi-unit residential	9	24	38	36
Arrears rate (%)	**0.30**	**0.32**	**0.30**	**0.32**

1 *Portfolio volumes have been modified to reflect Lender substitutions along with new business volumes. Portfolio substitutions were 4,022 units and $485 million for the three months ended 30 September 2017 and 22,517 units and $3,831 million for the nine months ended 30 September 2017.*

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.*

Q3 2017 vs. Q3 2016

Our total insured volumes were 60,076 units (47%) lower primarily due to decreases in transactional homeowner and portfolio volumes, partially offset by an increase in multi-unit residential volumes.

- Transactional homeowner volumes decreased by 13,966 units (30%) 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".
- Portfolio volumes (new and substitutions) decreased by 50,388 units (90%) mainly due to the market adjusting to new pricing as a result of the increased capital requirements.
- Multi-unit residential volumes increased by 4,278 units (17%) primarily due to an increase in multi-unit residential refinance transactions mainly resulting from a continued low interest rate environment.

Premiums and fees received decreased by $44 million (10%) 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 decreased by $29 million (28%) due to lower multi-unit residential claims and transactional homeowner claims paid. Lower multi-unit claims relate primarily to one large claim in Q3 2016. Transactional homeowner claims are down due to a stronger economic environment in the last couple of years leading to an improvement in arrears and employment.

YTD 2017 vs. YTD 2016

Our total insured volumes were 133,825 units (39%) lower 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 32,097 units (27%) and portfolio volumes (new and substitutions) decreased by 111,083 units (76%) for the same reasons noted above.
- Multi-unit residential volumes increased by 9,355 units (12%) for the same reasons noted above.

Premiums and fees received decreased by $99 million (8%) for the same reasons noted above.

Claims paid decreased by $50 million (17%) primarily due to lower transactional homeowner claims for the same reasons noted above.

	As at			
	30 September 2017		31 December 2016	
	No. of Delinquent Loans	Arrears Rate	No. of Delinquent Loans	Arrears Rate
Transactional homeowner	5,584	0.44 %	6,456	0.48 %
Portfolio	1,443	0.13 %	1,563	0.13 %
Multi-unit residential	107	0.47 %	94	0.43 %
Total	**7,134**	**0.30 %**	**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 September 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

(in millions)	Three months ended 30 September 2017	2016	Nine months ended 30 September 2017	2016
Premiums and fees earned	394	400	1,167	1,161
Investment income	153	148	457	443
Other income[1]	69	5	89	10
Total revenues	**616**	**553**	**1,713**	**1,614**
Insurance claims	41	134	169	347
Operating expenses	69	64	228	185
Total expenses	**110**	**198**	**397**	**532**
Income before income taxes	**506**	**355**	**1,316**	**1,082**
Income taxes	124	87	324	263
Net income	**382**	**268**	**992**	**819**

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

Q3 2017 vs. Q3 2016

Other income increased by $64 million (1,280%) primarily due to net gains realized on the sale of investment securities due to portfolio rebalancing.

Insurance claims decreased by $93 million (69%) due to stronger economic conditions, which led to an improvement in arrears and a reduction in our incurred but not reported provision (which is 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. Furthermore, there was a large multi-unit residential claim settled in Q3 2016.

YTD 2017 vs. YTD 2016

Investment income increased by $14 million (3%) primarily due to an increase in average portfolio size.

Other income increased by $79 million (790%) while insurance claims decreased by $178 million (51%) for the same reasons noted above.

Operating expenses increased by $43 million (23%) mainly due to higher costs from our technology transformation initiative.

Ratios

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

(in percentages)	Three months ended 30 September 2017	2016	Nine months ended 30 September 2017	2016
Severity ratio	30.3	26.2	31.4	31.1
Loss ratio	10.4	33.5	14.5	29.9
Operating expense ratio	17.5	16.1	19.5	16.0
Combined ratio	27.9	49.6	34.0	45.9
Return on equity[1]	10.1	5.8	7.8	6.0
Return on capital holding target	14.8	10.4	13.1	10.6

1 *The return on equity for the three months and nine months ended 30 September 2017 would be 7.9 and 6.9, respectively, excluding the impact of the dividends declared during the period.*

Q3 2017 vs. Q3 2016 and YTD 2017 vs. YTD 2016

The severity ratio increased by 4.1 percentage points and 0.3 percentage points from the same quarter and nine month period last year, respectively, primarily due to a higher proportion of claims on high loan-to-value loans.

The loss ratio decreased by 23.1 percentage points and 15.4 percentage points from the same quarter and nine month period last year, respectively, primarily due to the decrease in insurance claims.

The operating expense ratio increased by 1.4 percentage points and 3.5 percentage points from the same quarter and nine month period last year, respectively, primarily due to higher costs from our technology transformation initiative.

The combined ratio decreased by 21.7 percentage points and 11.9 percentage points from the same quarter and nine month period last year, respectively, primarily due to the decrease in insurance claims offset by an increase in operating expenses as noted above.

The return on equity increased by 4.3 percentage points and 1.8 percentage points from the same quarter and nine month period last year, respectively, mainly due to higher net income and the return of excess capital to the Government through our dividend payments.

The return on capital holding target increased by 4.4 percentage points and 2.5 percentage points from the same quarter and nine month period last year respectively, 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 September 2017**	**31 December 2016**
Capital available to minimum capital required (% MCT)[1]	179	384

[1] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 30 September 2017 would be 214% with transitional arrangements.*

Capital available to minimum capital required decreased by 205 percentage points from 31 December 2016 mainly due to dividends declared of $4,385 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 September 2017, total investments, net of securities sold under repurchase agreements, had a fair value of $23.7 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 September 2017**	**31 December 2016**
Total guarantees-in-force	**459**	**452**
NHA MBS	226	229
CMB	233	223

Guarantees-in-force were $459 billion as at 30 September 2017, an increase of $7 billion (2%) as new guarantees provided by CMHC exceeded maturities.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Total new securities guaranteed	**41,172**	**43,109**	**113,082**	**92,316**
NHA MBS	31,672	32,859	82,832	62,066
CMB	9,500	10,250	30,250	30,250
Guarantee and application fees received	**134**	**142**	**370**	**339**
MBS guarantee and application fees received	100	104	260	204
CMB guarantee fees received	34	38	110	135

Q3 2017 vs. Q3 2016

New securities guaranteed decreased by $1,937 million (5%). Of the decrease, $750 million is due to lower CMB volumes due to a combination of lower investor demand in Q3 2017 as well as higher issuance levels in Q1 2017, which resulted in lower issuance levels in the current quarter so as not to breach our $40 billion new guaranteed CMB annual limit. A further $1,187 million is due to NHA MBS volumes which were lower in Q3 2017 because the demand for and allocation of NHA MBS by issuer was spread out more evenly across the quarters this year than it was last year. In 2016, the allocations were significantly smaller in Q1 and Q2 with higher allocations provided in Q3 and Q4.

Guarantee and application fees received were $8 million (6%) lower due to the decrease in volumes explained above.

YTD 2017 vs. YTD 2016

New securities guaranteed increased by $20,766 million (23%) due to the policy change effective 1 July 2016 which saw NHA MBS sold to CHT become subject to a guarantee fee.

Guarantee and application fees received increased by $31 million (9%). NHA MBS guarantee and application fees received increased by $56 million (28%) 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 $25 million (19%) mainly as a result of decreases in the CMB fees effective 1 July 2016.

Financial analysis

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Net interest income	2	2	8	8
Premiums and fees earned[1]	98	76	276	218
Investment income	13	11	36	32
Other income[2]	17	19	56	57
Total revenues	**130**	**108**	**376**	**315**
Total expenses	**28**	**29**	**89**	**87**
Income before income taxes	**102**	**79**	**287**	**228**
Income taxes	26	20	72	57
Net income	**76**	**59**	**215**	**171**

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

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

Q3 2017 vs. Q3 2016 and YTD 2017 vs. YTD 2016

Net income increased by $17 million (29%) and $44 million (26%) from the same quarter and nine month period last year, respectively, primarily due to increases in premiums and fees earned of $22 million (29%) and $58 million (27%), respectively. Increases in premiums and fees earned are mainly due to the combined effect of the higher guarantee fees introduced in 2015 and the fee structure implemented in 2016, which introduced guarantee fees on all NHA MBS sold to CHT.

Ratios

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

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2017**	**2016**	**2017**	**2016**
Operating expense ratio	10.4	11.9	10.7	12.0
Return on equity	13.5	11.3	13.2	11.3
Return on required capital	15.4	17.6	13.8	17.3

Q3 2017 vs. Q3 2016 and YTD 2017 vs. YTD 2016

The operating expense ratio decreased by 1.5 percentage points and 1.3 percentage points from the same quarter and nine month period last year, respectively, due to higher guarantee and application fees earned.

Return on equity increased by 2.2 percentage points and 1.9 percentage points from the same quarter and nine month period last year, respectively, due to higher net income.

The return on required capital decreased by 2.2 percentage points and 3.5 percentage points from the same quarter and nine 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 effective Q4 2016.

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 September 2017**	**31 December 2016**
Capital available to capital required	112	100

Capital available to capital required increased by 12 percentage points from 31 December 2016 mainly due to 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 September 2017, total investments under management had a fair value of $3.4 billion (31 December 2016 – $3.1 billion), which was 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

There were no changes to our key management personnel announced prior to the release of the QFR.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Consolidated Results								
Total assets	268,771	264,713	266,188	259,532	260,495	254,319	256,789	252,107
Total liabilities	251,209	247,260	244,782	238,542	239,742	233,981	236,850	232,468
Total equity of Canada	17,562	17,453	21,406	20,990	20,753	20,338	19,939	19,639
Total revenues and parliamentary appropriations	1,282	1,241	2,250	1,186	1,200	1,106	1,201	1,147
Total expenses (including income taxes)	815	844	1,880	790	869	768	888	729
Net income	467	397	370	396	331	338	313	418
Assisted Housing								
Parliamentary appropriations for housing programs expenses	521	548	1,566	570	531	463	589	476
Net income (loss)	4	(1)	6	(29)	3	2	10	6
Total equity of Canada	203	151	186	196	154	148	176	202
Mortgage Loan Insurance								
Insurance-in-force ($B)	484	496	502	512	514	523	520	526
Total insured volumes[1]	12,539	17,395	8,253	20,528	22,539	26,872	14,336	25,358
Premiums and fees received	414	443	228	374	458	478	248	397
Premiums and fees earned	394	396	377	344	400	393	368	419
Claims paid	74	94	77	82	103	90	102	99
Insurance claims	41	51	77	(13)	134	111	102	52
Net income	382	321	289	364	268	288	263	360
Loss ratio	10.4 %	12.9 %	20.4 %	(3.8) %	33.5 %	28.2 %	27.7 %	12.4 %
Operating expense ratio	17.5 %	19.7 %	21.5 %	21.2 %	16.1 %	14.0 %	17.9 %	9.8 %
Combined ratio	27.9 %	32.6 %	41.9 %	17.4 %	49.6 %	42.2 %	45.6 %	22.2 %
Severity ratio	31.6 %	27.5 %	30.5 %	29.9 %	26.2 %	27.5 %	34.4 %	29.6 %
Return on equity	10.1 %	7.5 %	6.1 %	7.7 %	5.8 %	6.4 %	5.9 %	8.2 %
Return on capital holding target	14.8 %	12.6 %	11.3 %	14.2 %	10.4 %	11.3 %	10.5 %	14.8 %
Capital available to minimum capital required (% MCT)[2]	179 %	173 %	215 %	384 %	374 %	366 %	362 %	354 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage ($)	32.7 %	34.3 %	34.9 %	36.0 %	36.9 %	38.1 %	38.1 %	39.1 %
Securitization								
Guarantees-in-force ($B)	459	456	457	452	435	426	429	431
Securities guaranteed	41,172	37,730	34,180	52,117	43,109	27,373	21,834	36,077
Guarantee and application fees received	134	121	115	240	142	108	89	195
Guarantee and application fees earned	98	91	87	66	76	71	71	79
Net income	76	71	68	53	59	55	57	63
Operating expense ratio	10.4 %	10.7 %	10.7 %	14.2 %	11.9 %	12.5 %	11.6 %	8.7 %
Return on equity	13.5 %	13.0 %	12.9 %	9.9 %	11.3 %	10.9 %	11.8 %	13.2 %
Return on required capital	15.4 %	14.3 %	13.2 %	12.4 %	17.6 %	16.6 %	17.8 %	20.0 %
Capital available to capital required	112 %	120 %	106 %	100 %	165 %	165 %	161 %	159 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees ($)	31.2 %	31.9 %	32.6 %	32.6 %	31.5 %	32.0 %	32.3 %	32.5 %

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

2 *Effective 1 January 2017, capital available to minimum capital required reflects OSFI's revised capital advisory for mortgage insurers as previously discussed.*

Unaudited Quarterly Consolidated Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 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	Wojciech (Wojo) Zielonka, CPA, CA, ICD.D
President and Chief Executive Officer	Chief Financial Officer and
	Senior Vice-President, Capital Markets

20 November 2017

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)	Notes	As at 30 September 2017	As at 31 December 2016
Assets			
Cash and cash equivalents		872	1,995
Securities purchased under resale agreements		-	17
Investment securities:	9		
Designated at fair value through profit or loss		1,049	1,173
Available for sale		22,950	23,226
Loans:	10		
Designated at fair value through profit or loss		3,097	4,020
Loans and receivables		238,095	227,310
Accrued interest receivable		1,313	705
Derivatives		67	86
Due from the Government of Canada	5	278	59
Accounts receivable and other assets		783	674
Investment property		267	267
		268,771	259,532
Liabilities			
Securities sold under repurchase agreements		404	704
Borrowings:	11		
Designated at fair value through profit or loss		4,744	5,905
Other financial liabilities		233,833	223,156
Accrued interest payable		1,117	542
Derivatives		35	32
Dividend payable	7	3,000	-
Accounts payable and other liabilities		474	548
Defined benefit plans liability		343	384
Provision for claims	6	586	654
Unearned premiums and fees		6,591	6,564
Deferred income tax liabilities		82	53
		251,209	238,542
Commitments and contingent liabilities	17		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income		489	761
Retained earnings		17,048	20,204
		17,562	20,990
		268,771	259,532

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2017**	**2016**	**2017**	**2016**
Interest income					
Loans – designated at fair value through profit or loss		12	20	43	68
Loans and receivables		1,150	1,102	3,375	3,340
Other		11	13	34	39
		1,173	1,135	3,452	3,447
Interest expense					
Borrowings – designated at fair value through profit or loss		24	30	72	95
Other financial liabilities		1,114	1,072	3,275	3,255
		1,138	1,102	3,347	3,350
Net interest income		35	33	105	97
Non-interest revenues and parliamentary appropriations					
Parliamentary appropriations for housing programs	5	521	531	2,635	1,583
Premiums and fees earned		492	476	1,443	1,379
Investment income		145	140	432	420
Net gains (losses) on financial instruments	8	65	(4)	80	(46)
Other income		24	24	78	73
Total revenues and parliamentary appropriations		1,282	1,200	4,773	3,506
Non-interest expenses					
Housing programs	5	521	531	2,635	1,583
Insurance claims		41	134	169	347
Operating expenses		102	97	336	282
		664	762	3,140	2,212
Income before income taxes		618	438	1,633	1,294
Income taxes	15	151	107	399	312
Net income		467	331	1,234	982
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		(204)	79	(230)	298
Reclassification of prior years' net unrealized gains realized in the period in net income		(34)	(3)	(42)	(7)
Total items that will be subsequently reclassified to net income		(238)	76	(272)	291
Items that will not be subsequently reclassified to net income					
Remeasurement gains (losses) on defined benefit plans		120	8	(5)	(159)
		(118)	84	(277)	132
Comprehensive income		349	415	957	1,114

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

CONSOLIDATED STATEMENTS OF EQUITY OF CANADA

(in millions of Canadian dollars)	Three months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Contributed capital	25	25	25	25
Accumulated other comprehensive income				
Balance at beginning of period	727	1,022	761	807
Other comprehensive income (loss)	(238)	76	(272)	291
Balance at end of period	489	1,098	489	1,098
Retained earnings				
Balance at beginning of period	16,701	19,291	20,204	18,807
Net income	467	331	1,234	982
Other comprehensive income (loss)	120	8	(5)	(159)
Dividends	(240)	-	(4,385)	-
Balance at end of period	17,048	19,630	17,048	19,630
Equity of Canada	17,562	20,753	17,562	20,753

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 September 2017	2016	Nine months ended 30 September 2017	2016
Cash flows provided by (used in) operating activities					
Net income		467	331	1,234	982
Adjustments to determine net cash flows provided by (used in) operating activities					
Amortization of premiums and discounts on financial instruments		(9)	55	79	160
Deferred income taxes		6	3	30	(12)
Net (gains) losses on financial instruments		(52)	-	(55)	46
Accrued interest receivable		(663)	(635)	(608)	(570)
Derivatives		28	10	22	4
Due from the Government of Canada		26	179	(219)	(49)
Accounts receivable and other assets		45	(28)	(17)	167
Accrued interest payable		666	577	575	547
Accounts payable and other liabilities		(76)	(54)	(74)	(106)
Defined benefit plans liability		(14)	(10)	(47)	(25)
Provision for claims		(22)	30	(68)	48
Unearned premiums and fees		48	127	27	155
Other		13	(1)	10	(7)
Loans	10				
Repayments		5,214	5,311	20,607	22,658
Disbursements		(9,584)	(10,322)	(30,493)	(30,462)
Borrowings	11				
Repayments		(5,860)	(5,974)	(22,681)	(24,351)
Issuances		10,130	11,085	32,337	32,160
		363	684	659	1,345
Cash flows provided by (used in) investing activities					
Investment securities					
Sales and maturities		2,579	825	5,512	3,687
Purchases		(1,913)	(1,410)	(5,626)	(5,481)
Investment property additions		-	-	-	(1)
Securities purchased under resale agreements		-	-	17	35
Securities sold under repurchase agreements		(64)	40	(300)	(319)
		602	(545)	(397)	(2,079)
Cash flows used in financing activities					
Dividends paid		(1,240)	-	(1,385)	-
		(1,240)	-	(1,385)	-
Change in cash and cash equivalents		(275)	139	(1,123)	(734)
Cash and cash equivalents					
Beginning of period		1,147	1,147	1,995	2,020
End of period		872	1,286	872	1,286
Represented by					
Cash		(1)	6	(1)	6
Cash equivalents		873	1,280	873	1,280
		872	1,286	872	1,286
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		767	729	3,527	3,527
Amount of interest paid during the period		556	582	2,939	2,946
Amount of dividends received during the period		11	11	35	36
Amount of income taxes paid during the period		72	110	327	110

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Canada Mortgage and Housing Corporation (CMHC or Corporation) 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 nine months ended 30 September 2017 and were approved and authorized for issue by our Audit Committee on 20 November 2017.

1. Basis of Presentation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements. In addition to the following new accounting policy regarding dividends, they 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 and should be read in conjunction with those financial statements.

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. A corresponding amount is recognized directly in equity. The Board of Directors holds the authority to declare dividends.

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

There have been no new standards or amendments to existing standards issued by the International Accounting Standards Board (IASB) 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, and one new standard and one new interpretation indicated below: International Financial Reporting Standard (IFRS) 17 and International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23. We have not yet determined their full impact on our consolidated financial statements.

As disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2016, we will implement IFRS 9 *Financial instruments* and IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018. An update on the implementation of these standards is included in our Management's Discussion and Analysis.

IFRS 17 Insurance Contracts – effective date of 1 January 2021

In May 2017, the IASB issued 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.

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

In June 2017, IFRIC 23 *Uncertainty over Income Tax Treatments* was issued to outline 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.

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 September 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 September	**Assisted Housing**		**Mortgage Loan Insurance**		**Securitization**		**Eliminations**		**Total**	
(in millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest income	93	107	-	-	1,082	1,029	(2)	(1)	1,173	1,135
Interest expense	89	104	-	-	1,080	1,027	(31)	(29)	1,138	1,102
Net interest income	**4**	**3**	**-**	**-**	**2**	**2**	**29**	**28**	**35**	**33**
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	521	531	-	-	-	-	-	-	521	531
Premiums and fees earned	-	-	394	400	98	76	-	-	492	476
Investment income	-	-	153	148	13	11	(21)	(19)	145	140
Net gains (losses) on financial instruments	(2)	(2)	69	5	(1)	1	(1)	(8)	65	(4)
Other income	6	6	-	-	18	18	-	-	24	24
Total revenues and parliamentary appropriations	**529**	**538**	**616**	**553**	**130**	**108**	**7**	**1**	**1,282**	**1,200**
Non-interest expenses										
Housing programs	521	531	-	-	-	-	-	-	521	531
Insurance claims	-	-	41	134	-	-	-	-	41	134
Operating expenses	5	4	69	64	28	29	-	-	102	97
Total expenses	**526**	**535**	**110**	**198**	**28**	**29**	**-**	**-**	**664**	**762**
Income before income taxes	**3**	**3**	**506**	**355**	**102**	**79**	**7**	**1**	**618**	**438**
Income taxes	(1)	-	124	87	26	20	2	-	151	107
Net income	**4**	**3**	**382**	**268**	**76**	**59**	**5**	**1**	**467**	**331**
Total revenues and parliamentary appropriations	529	538	616	553	130	108	7	1	1,282	1,200
Inter-segment income (loss)[1]	-	(1)	(24)	(27)	31	29	(7)	(1)	-	-
External revenues and parliamentary appropriations	529	537	592	526	161	137	-	-	1,282	1,200

[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.*

Nine months ended 30 September	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations		Total	
(in millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest income	284	329	-	-	3,172	3,121	(4)	(3)	3,452	3,447
Interest expense	276	321	-	-	3,164	3,113	(93)	(84)	3,347	3,350
Net interest income	**8**	**8**	**-**	**-**	**8**	**8**	**89**	**81**	**105**	**97**
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	2,635	1,583	-	-	-	-	-	-	2,635	1,583
Premiums and fees earned	-	-	1,167	1,161	276	218	-	-	1,443	1,379
Investment income (losses)	-	-	457	443	36	32	(61)	(55)	432	420
Net gains (losses) on financial instruments	(3)	-	87	9	-	2	(4)	(57)	80	(46)
Other income	20	17	2	1	56	55	-	-	78	73
Total revenues and parliamentary appropriations	**2,660**	**1,608**	**1,713**	**1,614**	**376**	**315**	**24**	**(31)**	**4,773**	**3,506**
Non-interest expenses										
Housing programs	2,635	1,583	-	-	-	-	-	-	2,635	1,583
Insurance claims	-	-	169	347	-	-	-	-	169	347
Operating expenses	19	10	228	185	89	87	-	-	336	282
Total expenses	**2,654**	**1,593**	**397**	**532**	**89**	**87**	**-**	**-**	**3,140**	**2,212**
Income before income taxes	**6**	**15**	**1,316**	**1,082**	**287**	**228**	**24**	**(31)**	**1,633**	**1,294**
Income taxes	(3)	-	324	263	72	57	6	(8)	399	312
Net income	**9**	**15**	**992**	**819**	**215**	**171**	**18**	**(23)**	**1,234**	**982**
Total revenues and parliamentary appropriations	2,660	1,608	1,713	1,614	376	315	24	(31)	4,773	3,506
Inter-segment income (loss)[1]	(1)	(7)	(68)	(108)	93	84	(24)	31	-	-
External revenues and parliamentary appropriations	2,659	1,601	1,645	1,506	469	399	-	-	4,773	3,506

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

- *The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of 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 September 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	463	1,101	408	704	1	190	-	-	872	1,995
Securities purchased under resale agreements	-	17	-	-	-	-	-	-	-	17
Investment securities:										
Designated at fair value through profit or loss	1,446	1,499	1	73	-	1	(398)	(400)	1,049	1,173
Available for sale	-	-	23,615	24,523	3,420	2,937	(4,085)	(4,234)	22,950	23,226
Loans:										
Designated at fair value through profit or loss	3,097	4,021	-	-	-	-	-	(1)	3,097	4,020
Loans and receivables	4,148	3,995	-	-	233,947	223,315	-	-	238,095	227,310
Accrued interest receivable	126	162	182	149	1,027	407	(22)	(13)	1,313	705
Derivatives	57	86	10	-	-	-	-	-	67	86
Due from the Government of Canada	278	59	-	-	-	-	-	-	278	59
Accounts receivable and other assets	177	63	587	518	19	92	-	1	783	674
Investment property	169	169	98	98	-	-	-	-	267	267
	9,961	11,172	24,901	26,065	238,414	226,942	(4,505)	(4,647)	268,771	259,532
Liabilities										
Securities sold under repurchase agreements	-	-	404	704	-	-	-	-	404	704
Borrowings:										
Designated at fair value through profit or loss	4,744	5,908	-	-	-	-	-	(3)	4,744	5,905
Other financial liabilities	4,330	4,327	-	-	233,947	223,315	(4,444)	(4,486)	233,833	223,156
Accrued interest payable	129	154	-	-	1,010	399	(22)	(11)	1,117	542
Derivatives	25	32	10	-	-	-	-	-	35	32
Dividend payable	-	-	3,000	-	-	-	-	-	3,000	-
Accounts payable and other liabilities	375	391	76	113	23	44	-	-	474	548
Defined benefit plans liability	144	158	201	226	(2)	-	-	-	343	384
Provision for claims	-	-	586	654	-	-	-	-	586	654
Unearned premiums and fees	-	-	5,404	5,472	1,187	1,092	-	-	6,591	6,564
Deferred income tax liabilities	11	6	91	80	(8)	6	(12)	(39)	82	53
	9,758	10,976	9,772	7,249	236,157	224,856	(4,478)	(4,539)	251,209	238,542
Equity of Canada	203	196	15,129	18,816	2,257	2,086	(27)	(108)	17,562	20,990
	9,961	11,172	24,901	26,065	238,414	226,942	(4,505)	(4,647)	268,771	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 $36 million and $118 million for the three and nine months ended 30 September 2017, respectively (three and nine months ended 30 September 2016 – $35 million and $104 million, respectively), in support of housing programs.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Funding under long-term commitments for existing social housing	401	433	1,232	1,282
Funding for new commitments of affordable housing	103	82	1,275	254
Housing support	3	3	83	10
Market analysis information	6	6	19	15
Housing policy, research and information transfer	8	7	26	22
Total	**521**	**531**	**2,635**	**1,583**

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Balance at beginning of period	304	389	59	161
Total appropriations recognized in revenues during the period	521	531	2,635	1,583
Total appropriations received during the period	(547)	(710)	(2,417)	(1,534)
Third party reimbursements in excess of remittance to Government of Canada	-	-	1	-
Balance at end of period	**278**	**210**	**278**	**210**

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 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Balance at beginning of period	5,393	5,405	5,472	5,432
Premiums deferred on contracts written in the period	399	451	1,076	1,173
Premiums earned in the period	(388)	(392)	(1,146)	(1,142)
Application fees deferred on contracts written in the period	4	6	13	12
Application fees earned in the period[1]	(4)	(5)	(11)	(10)
Balance at end of period	**5,404**	**5,465**	**5,404**	**5,465**

[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 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Balance at beginning of period	157	137	149	127
Acquisition costs deferred	15	20	45	44
Amortization of deferred acquisition costs	(11)	(16)	(33)	(30)
Balance at end of period	**161**	**141**	**161**	**141**

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 September 2017			31 December 2016		
(in millions)	**IBNR, IBNER and CIP**	**SH/ILM**	**Total**	**IBNR, IBNER and CIP**	**SH/ILM**	**Total**
Undiscounted estimated losses	401	138	539	446	154	600
Discounting	(6)	-	(6)	(5)	-	(5)
Discounted provision for adverse deviation	31	22	53	34	25	59
Total provision for claims	**426**	**160**	**586**	**475**	**179**	**654**

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

	Three months ended 30 September					
	2017			2016		
(in millions)	**IBNR, IBNER and CIP**	**SH/ILM**	**Total**	**IBNR, IBNER and CIP**	**SH/ILM**	**Total**
Provision for claims, beginning of period	444	164	608	501	225	726
Net claims (paid) recovered during the period	(74)	(1)	(75)	(103)	1	(102)
Provision for claims provided for (recoveries) and losses incurred during the period[1]	56	(3)	53	130	2	132
Provision for claims, end of period	**426**	**160**	**586**	**528**	**228**	**756**

	Nine months ended 30 September					
	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	(245)	-	(245)	(295)	(1)	(296)
Provision for claims provided for (recoveries) and losses incurred during the period[1]	196	(19)	177	338	6	344
Provision for claims, end of period	**426**	**160**	**586**	**528**	**228**	**756**

[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, as at 30 September 2017, has identified that no premium deficiency reserve 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.

Beginning in 2017, we started making dividend payments to the Government from our Mortgage Loan Insurance Activity 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 and August 2017, we declared dividends of $145 million and $240 million, respectively, which were paid in June and September 2017, respectively.

In addition, 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. Of this amount, $1 billion had been paid as at 30 September 2017 and an additional $1 billion was paid prior to the release of the unaudited quarterly consolidated financial statements. The remainder is expected to be paid over a period not to exceed two years from the declaration date.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 September 2017**	**31 December 2016**
Contributed capital	25	25
Accumulated other comprehensive income	489	761
Appropriated retained earnings	15,544	11,956
Unappropriated retained earnings[1]	1,504	8,248
Total equity of Canada[2]	**17,562**	**20,990**
Less: assets with a capital requirement of 100%	-	(200)
Total capital available	**17,562**	**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 September 2017 observed that Calgary, Edmonton, Toronto, Vancouver, Victoria and Hamilton were breaching their SCRI thresholds, as prescribed by OSFI. These metropolitan areas represent approximately 30% of transactional new insurance written in the nine months ended 30 September 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 September 2017**	**31 December 2016**
Total mortgage loan insurance capital	**15,129**	**18,816**
Less: assets with a capital requirement of 100%	-	(200)
Total mortgage loan insurance capital available	**15,129**	**18,616**
Appropriated capital[1]	13,973	10,653
Unappropriated capital	1,156	8,163
Internal target	155%	205%
Operating level	165%	220%
Capital available to minimum capital required (% MCT)[2]	179%	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 September 2017 would be 214% 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.

(in millions, unless otherwise indicated)	As at 30 September 2017	As at 31 December 2016
Total securitization capital available	**2,257**	**2,086**
Appropriated capital[1]	2,019	2,086
Unappropriated capital	238	-
Capital available to capital required (%)	112%	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.

(in millions)	As at 30 September 2017	As at 31 December 2016
Reserve fund	113	96
Retained earnings	65	75
Total Lending programs capital available	**178**	**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 September 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]	238,095	239,293	1,198	227,310	232,162	4,852
Financial liabilities						
Borrowings - other financial liabilities[2]	233,833	235,165	1,332	223,156	228,124	4,968

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

2 *$118,275 million (31 December 2016 – $47,000 million) fair value categorized as level 1, $116,890 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 September 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	-	113	-	113	-	258	-	258
Corporate/other entities	-	25	-	25	-	25	-	25
Federal government issued	4	-	-	4	189	-	-	189
Provinces/municipalities	-	65	-	65	-	65	-	65
Total cash and cash equivalents[1]	4	203	-	207	189	348	-	537
Investment securities								
Designated at fair value through profit or loss								
Fixed income								
Corporate/other entities	-	193	-	193	-	193	137	330
Provinces/municipalities	119	353	-	472	138	339	-	477
Sovereign and related entities	-	384	-	384	-	366	-	366
Total designated at fair value through profit or loss	119	930	-	1,049	138	898	137	1,173
Available for sale								
Fixed income								
Corporate/other entities	13	10,398	-	10,411	-	10,384	-	10,384
Federal government issued	3,891	68	-	3,959	3,749	58	-	3,807
Provinces/municipalities	3,045	4,084	-	7,129	3,274	4,167	-	7,441
Sovereign and related entities	-	287	-	287	-	352	-	352
Equities – Canadian	1,111	-	53	1,164	1,204	-	38	1,242
Total available for sale	8,060	14,837	53	22,950	8,227	14,961	38	23,226
Loans								
Designated at fair value through profit or loss	-	3,097	-	3,097	-	4,020	-	4,020
Derivatives	-	67	-	67	-	86	-	86
Investment property	-	-	267	267	-	-	267	267
Total assets carried at fair value	**8,183**	**19,134**	**320**	**27,637**	**8,554**	**20,313**	**442**	**29,309**
Liabilities								
Borrowings								
Designated at fair value through profit or loss	-	4,744	-	4,744	-	5,905	-	5,905
Derivatives	-	35	-	35	-	32	-	32
Total liabilities carried at fair value	**-**	**4,779**	**-**	**4,779**	**-**	**5,937**	**-**	**5,937**

[1] *Of the total cash and cash equivalents carried at fair value, $203 million (31 December 2016 – $348 million) is classified as designated at fair value through profit or loss (FVTPL) and $4 million (31 December 2016 – $189 million) is classified as available for sale. Cash and cash equivalents on the consolidated balance sheet also includes $665 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 nine months ended 30 September 2017, there were $334 million and $1,993 million of transfers from level 2 to level 1, respectively (three and nine months ended 30 September 2016 – nil). During the three and nine months ended 30 September 2017, there were $687 million and $2,600 million of transfers from level 1 to level 2 respectively (three and nine months ended 30 September 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 September 2017					
Fair value as at 30 June 2017	-	49	49	267	316
Purchases	-	4	4	-	4
Gains in net income[1,2]	-	-	-	-	-
Gains in other comprehensive income	-	2	2	-	2
Cash receipts on settlements/disposals	-	(2)	(2)	-	(2)
Fair value as at 30 September 2017	**-**	**53**	**53**	**267**	**320**
Nine months ended 30 September 2017					
Fair value as at 31 December 2016	137	38	175	267	442
Purchases	-	13	13	-	13
Gains in net income[1,2]	-	-	-	-	-
Gains in other comprehensive income	-	5	5	-	5
Cash receipts on settlements/disposals	(137)	(3)	(140)	-	(140)
Fair value as at 30 September 2017	**-**	**53**	**53**	**267**	**320**
Three months ended 30 September 2016					
Fair value as at 30 June 2016	166	37	203	259	462
Purchases	-	-	-	-	-
Gains in net income[1,2]	-	-	-	-	-
Gains in other comprehensive income	-	1	1	-	1
Fair value as at 30 September 2016	**166**	**38**	**204**	**259**	**463**
Nine months ended 30 September 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	-	3	3	-	3
Fair value as at 30 September 2016	**166**	**38**	**204**	**259**	**463**

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 September 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.

(in millions, unless otherwise indicated)	30 September 2017 Valuation Technique	Unobservable inputs	Asset fair value	Weighted average input/range	31 December 2016 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	53	n.a.	38	n.a.
Total investment securities			**53**		**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			**320**		**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 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Designated at fair value through profit or loss				
Investment securities	(7)	1	(10)	1
Loans	(24)	(8)	(53)	(13)
Borrowings	42	12	80	11
Total designated at fair value through profit or loss	**11**	**5**	**17**	**(1)**
Held for trading – derivatives	14	(6)	22	(1)
Available for sale – investment securities[1]	37	5	32	9
Loans and receivables – prepayments	23	-	63	-
Borrowings – other financial liabilities[2]	(20)	(8)	(54)	(53)
Total	**65**	**(4)**	**80**	**(46)**

[1] *Includes foreign exchange losses during the three and nine months ended 30 September 2017 of $28 million and $50 million, respectively (three and nine months ended 30 September 2016 – nil), resulting from translation of U.S. dollar denominated debt securities.*

[2] *Includes losses from the retirement of borrowings during the three and nine months ended 30 September 2017 of $22 million and $61 million, respectively (three and nine months ended 30 September 2016 – $10 million and $55 million), net of gains from the issuance of borrowings during the three and nine months ended 30 September 2017 of $2 million and $7 million, respectively (three and nine months ended 30 September 2016 – $2 million).*

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 September 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	1,057	2	(10)	1,049	1,112	1,173
Available for sale[2]	21,670	287	(171)	21,786	21,474	21,984
Equities						
Available for sale	660	504	-	1,164	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 $1,141 million (2016 – nil).*

We have investment securities of $402 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 nine months ended 30 September 2017, there were no impairment losses (three and nine months ended 30 September 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 September					
		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	3,389	(115)	-	(24)	-	(153)	3,097
Loans and receivables							
Loans under the CMB program	229,333	(4,948)	9,552	-	10	-	233,947
Lending programs	4,114	(151)	32	-	-	153	4,148
Total loans and receivables	**233,447**	**(5,099)**	**9,584**	**-**	**10**	**153**	**238,095**
Total	**236,836**	**(5,214)**	**9,584**	**(24)**	**10**	**-**	**241,192**
2016							
Designated at fair value through profit or loss							
Lending programs	4,637	(166)	1	(8)		(82)	4,382
Loans and receivables							
Loans under the CMB program	218,890	(5,044)	10,304	-	9	-	224,159
Lending programs	3,945	(101)	17	-	-	82	3,943
Total loans and receivables	**222,835**	**(5,145)**	**10,321**	**-**	**9**	**82**	**228,102**
Total	**227,472**	**(5,311)**	**10,322**	**(8)**	**9**	**-**	**232,484**

[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.*

		Nine months ended 30 September					
		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	(356)	-	(53)	-	(514)	3,097
Loans and receivables							
Loans under the CMB program	223,315	(19,800)	30,403	-	29	-	233,947
Lending programs	3,995	(451)	90	-	-	514	4,148
Total loans and receivables	**227,310**	**(20,251)**	**30,493**	**-**	**29**	**514**	**238,095**
Total	**231,330**	**(20,607)**	**30,493**	**(53)**	**29**	**-**	**241,192**
2016							
Designated at fair value through profit or loss							
Lending programs	4,955	(450)	12	(13)		(122)	4,382
Loans and receivables							
Loans under the CMB program	215,622	(21,879)	30,391	-	25	-	224,159
Lending programs	4,091	(329)	59	-	-	122	3,943
Total loans and receivables	**219,713**	**(22,208)**	**30,450**	**-**	**25**	**122**	**228,102**
Total	**224,668**	**(22,658)**	**30,462**	**(13)**	**25**	**-**	**232,484**

[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 September 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 September					
		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	5,105	84	(401)	(44)	-	-	4,744
Other financial liabilities							
Canada mortgage bonds	224,610	9,552	(4,948)	-	10	279	229,503
Borrowings from the Government of Canada	4,342	494	(511)	(2)	7	-	4,330
Total other financial liabilities	**228,952**	**10,046**	**(5,459)**	**(2)**	**17**	**279**	**233,833**
Total	**234,057**	**10,130**	**(5,860)**	**(46)**	**17**	**279**	**238,577**
2016							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	6,319	576	(838)	(7)	-	-	6,050
Capital market borrowings	278	-	-	(3)	-	-	275
Total designated at fair value through profit or loss	**6,597**	**576**	**(838)**	**(10)**	**-**	**-**	**6,325**
Other financial liabilities							
Canada mortgage bonds	214,409	10,304	(5,044)	-	9	(79)	219,599
Borrowings from the Government of Canada	4,037	205	(92)	(2)	-	-	4,148
Total other financial liabilities	**218,446**	**10,509**	**(5,136)**	**(2)**	**9**	**(79)**	**223,747**
Total	**225,043**	**11,085**	**(5,974)**	**(12)**	**9**	**(79)**	**230,072**

		Nine months ended 30 September					
		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	1,083	(1,889)	(82)	-	-	4,744
Capital market borrowings	273	-	(275)	-	-	2	-
Total designated at fair value through profit or loss	**5,905**	**1,083**	**(2,164)**	**(82)**	**-**	**2**	**4,744**
Other financial liabilities							
Canada mortgage bonds	218,829	30,403	(19,667)	-	29	(91)	229,503
Borrowings from the Government of Canada	4,327	851	(850)	(7)	9	-	4,330
Total other financial liabilities	**223,156**	**31,254**	**(20,517)**	**(7)**	**38**	**(91)**	**233,833**
Total	**229,061**	**32,337**	**(22,681)**	**(89)**	**38**	**(89)**	**238,577**
2016							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	6,339	1,564	(1,852)	(1)	-	-	6,050
Capital market borrowings	739	-	(465)	(9)	-	10	275
Total designated at fair value through profit or loss	**7,078**	**1,564**	**(2,317)**	**(10)**	**-**	**10**	**6,325**
Other financial liabilities							
Canada mortgage bonds	212,080	30,391	(21,783)	-	25	(1,114)	219,599
Borrowings from the Government of Canada	4,194	205	(251)	(2)	2	-	4,148
Total other financial liabilities	**216,274**	**30,596**	**(22,034)**	**(2)**	**27**	**(1,114)**	**223,747**
Total	**223,352**	**32,160**	**(24,351)**	**(12)**	**27**	**(1,104)**	**230,072**

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 nine months ended 30 September 2017, there were nil and $133 million, respectively, 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 nine months ended 30 September 2016 – nil and $96 million, respectively). There were no purchases in the primary market during the three and nine months ended 30 September 2017 (30 September 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 September 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 September 2017**	**31 December 2016**
Investment securities:		
Available for sale		
Interest rate risk	245	271
Equity risk	47	66
Effect of diversification	(59)	(78)
Total VaR	**233**	**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 September 2017 we held $1,141 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 September 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 September 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 September 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]	(44)	40	(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 $0.6 million at 30 September 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 nine month period ended 30 September 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 $234,994 million, 100.4% of loan carrying value, as at 30 September 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 September			
	Pension plans		Other post-employment plans	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current service cost	7	8	-	-
Net interest expense	2	4	2	2
Expense recognized in net income	**9**	**12**	**2**	**2**
Net actuarial gains (losses) arising from changes in financial assumptions	152	(48)	8	(5)
Return (loss) on plan assets (excluding amounts included in net interest expense)	(14)	63	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**138**	**15**	**8**	**(5)**
CMHC's contributions	24	23	1	1
Employee contributions	3	4	-	-
Total contributions	**27**	**27**	**1**	**1**

[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.*

	Nine months ended 30 September			
	Pension plans		Other post-employment plans	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current service cost	22	24	1	1
Net interest expense	8	11	4	4
Expense recognized in net income	**30**	**35**	**5**	**5**
Net actuarial losses arising from changes in financial assumptions	(23)	(252)	(3)	(17)
Return on plan assets (excluding amounts included in net interest expense)	20	77	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(3)**	**(175)**	**(3)**	**(17)**
CMHC's contributions	79	61	3	4
Employee contributions	9	11	-	-
Total contributions	**88**	**72**	**3**	**4**

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

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

Expenses for the defined contribution plan were $0.8 million and $2.8 million for the three and nine months ended 30 September 2017, respectively (three and nine months ended 30 September 2016 – $0.7 million and $2.3 million, respectively).

15. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current income tax expense	145	104	369	313
Deferred income tax expense	6	3	30	(1)
Total income tax expense included in net income	**151**	**107**	**399**	**312**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized gains (losses) on available for sale financial instruments	(70)	27	(78)	99
Reclassification of prior years' net unrealized gains realized in the period	(12)	(2)	(15)	(3)
Remeasurement gains (losses) on defined benefit plans	26	2	(1)	(33)
Total income tax expense included in other comprehensive income (loss)	**(56)**	**27**	**(94)**	**63**
Total	**95**	**134**	**305**	**375**

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 $10 million and $27 million for the three and nine months ended 30 September 2017, respectively (three and nine months ended 30 September 2016 – $8 million and $20 million, respectively) for the Mortgage Loan Insurance Activity and $5 million and $15 million for the three and nine months ended 30 September 2017, respectively (three and nine months ended 30 September 2016 – $4 million and $13 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 September 2017, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $484 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 September 2017, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled $459 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 has been reclassified to reflect adjustments made within the current year's presentation of cash flows provided by (used in) operating activities section. The same comparative information has been reclassified accordingly in the related notes to the quarterly consolidated financial statements.

19. Subsequent Event

On 20 November 2017, we declared a dividend of $290 million from our Mortgage Loan Insurance Activity to be paid to the Government by 31 December 2017.

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