CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

THIRD QUARTER
September 30, 2019
(Unaudited)

Canada

CMHC SCHL

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Management’s Discussion and Analysis

OVERVIEW

The following Management’s Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 26 November 2019 is prepared for the third quarter ended 30 September 2019 and is intended to provide readers with an overview of our performance including comparatives against the same three and nine month periods in 2018. 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 2018 Annual Report. The 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. The unaudited quarterly consolidated financial statements have been reviewed by Ernst & Young LLP. 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 2018 Annual Report. Except for the adoption of International Financial Reporting Standard (IFRS) 16 *Leases*, as disclosed in Note 3 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 2019.

Forward-looking statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in “The Operating Environment and Outlook for 2019” and “Financial Results” 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 IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements, which are prepared in accordance with IFRS, and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the QFR can be found in the Glossary for Non-IFRS Financial Measures section of the 2018 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2019

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

Economic conditions and housing indicators

While global headwinds continue to restrain Canada's economy, transitory factors have supported a robust expansion in the second quarter of 2019. Following the recent period of below-potential growth, real gross domestic product (GDP) in Canada has picked up to an annualized rate of 3.7 per cent in second quarter of 2019. Overall, GDP is forecast to expand by 1.5 per cent in 2019 and 1.7 per cent in 2020, according to the September Consensus Economics forecast[1].

The expansion was underpinned by growth in exports of goods, partly reflecting a surge in energy exports after some easing of mandatory production curtailments in Alberta. The non-energy commodity sector has also picked up with broad-based, strong growth. Some of the major contributors include exports of aircraft and related parts, farm products, and minerals. Services-related exports have also contributed to the sector, posting another quarter of positive growth. Overall, exports of Canadian goods and services rose 3.2 per cent in the second quarter, after three quarters of subdued gains.

Trade tensions between the United States and China continue to weigh on global demand, with the negative spillover effects dampening the level of business sentiment and investment in Canada. While GDP numbers for Canada already include some of the impacts from elevated uncertainty, further downside risks still remain. Over time, lower levels of business investment could reduce the economy's productive capacity and potential GDP in Canada.

Altogether, second-quarter business investment growth registered a 1.6 per cent decline. The decline was largely due to a 9.3 per cent drop in spending on aircraft and other transportation equipment, which completely erased same-industry gains of 9.3 per cent in the previous quarter. This followed consecutive quarterly losses of 0.6 per cent and 4.3 per cent, since the second half of 2018.

The Bank of Canada's policy interest rate has held steady at 1.75 per cent since October 2018. Over the same period, consumer and corporate borrowing rates have generally moved lower overall following a slight uptick at the end of 2018. In this interest rate environment, household spending remained sensitive to past and future expectations of interest rate increases. Accordingly, spending growth slowed to 0.1 per cent in the second quarter, from a 0.7 per cent increase in the previous quarter, as households continued to adjust their spending on rate-sensitive components, such as motor vehicles. Meanwhile, the debt-to-disposable income ratio has fallen to a seasonally-adjusted 177 per cent in the second quarter, after peaking at 178 per cent over each of the past three quarters.

Labour market conditions will be key in smoothing the path for household expenditures this year. On this front, indicators continue to provide a firm basis for steady gains in income. Both employment and wage growth accelerated at the start of the year, and the unemployment rate in September remained close to its 40-year low, at 5.5 per cent.

National house prices stayed relatively flat relative to a year ago, despite the recent pick up in home sales activity. The overall picture suggests that Canada's housing market is showing signs of price stability at the national level, as activity in the sector continues to adjust to the impact of changes in housing market policies and past interest rate increases.

All this put Canada's average MLS® price at $487,750 during the first eight months of 2019, still below its 2016 level when price growth hit a 27-year high of nearly 13 per cent. This represents a slight 0.2 per cent drop from the same period a year earlier, after a much stronger decline of 4.3 per cent 12 months ago. Over the same period, MLS® sales activity rose 3.4 per cent, to 314,037 units, compared with 303,660 a year ago. Meanwhile, national housing starts contracted by 2.6 per cent over the period, its second consecutive decline, to 140,143 units.

[1] *Consensus Economics survey of private sector forecasters, as of September 2019.*

Federal Budget 2019

As a result of new investments proposed in Federal Budget 2019, Canada's National Housing Strategy (NHS) has become a 10 -year, $55+ billion plan that will give more Canadians a place to call home.

New measures proposed in Budget 2019 will build on the Government's previous investments to enhance housing affordability for those who need it most. New measures proposed include:

- An investment of $1.25 billion over three years towards a new First-Time Home Buyer Incentive (FTHBI) to help make homeownership more affordable for first-time home buyers. The FTHBI launched in early September 2019.
- Up to $100 million in lending to shared equity mortgage providers over a five-year period to help these providers scale-up their business and encourage new players to enter the market. The Shared Equity Mortgage Providers Fund launched on 31 July 2019.
- An expansion of the Rental Construction Financing initiative by $10 billion over 9 years to support the construction of 28,500 additional rental units in communities across Canada, increasing the total loans available to $13.75 billion and the construction of 42,500 total units.
- An investment of $300 million toward a new Housing Supply Challenge (Challenge) that will invite communities and other groups to propose initiatives that break down barriers limiting the creation of new housing. The Challenge is anticipated to launch in Spring 2020.
- A total of $4 million over two years to support the work of a new Expert Panel on the Future of Housing Supply and Affordability, which seeks to identify and evaluate measures to increase housing supply in British Columbia. Members of the Expert Panel were announced in September 2019, to be supported by CMHC.
- A total of $5 million over two years for state-of-the-art housing supply modelling and related data collection.

The federal government also enacted a new legislation, the National Housing Strategy Act (Act) in June 2019. The Act will require the federal government to maintain a National Housing Strategy (Strategy) that prioritizes the housing needs of the most vulnerable and will require regular reporting to Parliament on progress toward the Strategy's goals and outcomes. The legislation will also put in place strong accountability and participatory measures through the creation of a Federal Housing Advocate to identify and report on systemic housing issues, and through a diverse National Housing Council to advise on housing matters. We launched an eight-week public call for applications for the National Housing Council in August 2019, which will lead to Ministerial appointments of Council members.

National Housing Strategy

In the third quarter of 2019, CMHC continued delivery of NHS initiatives that launched in the spring of 2018 and continued the in-take and selection of funding applications including those for the National Housing Co-Investment Fund.

We continued bilateral negotiations with provinces and territories under the new Housing Partnership Framework. This quarter, bilateral agreements were announced for Nova Scotia and Nunavut, totalling to 12 signed agreements to date. We also continued the work with provinces and territories to co-develop the Canada Housing Benefit, set to launch in April 2020.

Program implementation work for the Federal Community Housing Initiative Phase 2 continued in preparation for launch in April 2020. This will provide new rental assistance support for low-income households in federally administered community housing projects reaching the expiration of their operating agreements.

A second round of annual funding applications closed this summer for the NHS Demonstration Initiative, Solutions Labs, and Research and Planning Fund, while projects funded in the previous cycle are in implementation. This work supports research and demonstrations to inform decision-making, to encourage innovative solutions and partnerships, and to build research capacity in the academic and housing sector.

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Mortgage Insurer Capital Adequacy Test guideline

We implemented the Mortgage Insurer Capital Adequacy Test (MICAT) guideline on 1 January 2019. MICAT combines the January 2017 advisory on Capital Requirements for Federally Regulated Mortgage Insurers and the relevant portions of the 2018 Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies.

With this new guideline, OSFI simplified the calculation of insurance risk, streamlined the requirements for single-family residential mortgages, included requirements for IFRS 16, and specified credit risk factors for securitized assets.

Changes in the MICAT framework predominantly relate to streamlining the requirements for single-family residential mortgages as follows:

- Base total asset requirements will require the mortgage insurer to use the borrower's credit score at origination and remove the use of updated credit scores, and;
- Increases the base total asset requirements uniformly by 5%, with a corresponding 1% increase in operational risk, to allow for deterioration in borrower credit scores after origination.

Refer to Note 9 – Capital Management of the unaudited quarterly consolidated financial statements for complete disclosure.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) affecting the Corporation can be found in Note 3 of our 2018 audited consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2021

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*. On 26 June 2019, the IASB issued an Exposure Draft (ED) containing proposed amendments responding to concerns and implementation challenges raised by stakeholders. In total, there are 12 amendments proposed to 8 areas of the standard. The ED also contains several minor adjustments to clarify wording or correct unintended consequences and several proposed changes to defined terms in the standard. The IASB staff have indicated that they plan to finalize and issue the amended standard by Q2 2020. The most notable proposed amendment to CMHC is the proposed deferral of the effective date by one year, to 1 January 2022. We have evaluated the entire suite of proposed amendments and except for the deferral we do not expect them to have a significant impact on our implementation.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows, adjusted for risk, as well as contractual service margin, which will be released over the coverage period. Contractual service margin will represent the difference between the premium received at inception and the present value of the risk-adjusted cash flows (i.e. profit to be earned in the future). If this difference is negative at inception, the insurance contract would be considered onerous and the difference immediately recorded in income. There are also revised presentation and disclosure requirements.

We have a multi-disciplinary team dedicated to analyzing and implementing the new accounting standard, and a detailed project plan is in place. We continue to evaluate where we will need to change our existing accounting and reporting processes and how this could affect our consolidated financial statements.

Financial Outlook

As a result of our annual review of insurance products, we made a pricing change for portfolio insurance effective 1 April 2019. The new pricing is more risk-sensitive and may lead to slightly lower average premium rates for portfolio insurance if the trend of improving portfolio quality continues. There were no changes to premiums for transactional homeowner and multi-unit residential mortgage loan insurance.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 September 2019 and 31 December 2018	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total assets	8,725	9,139	18,726	19,231	250,321	239,424	(1,087)	(3,918)	276,685	263,876
Total liabilities	8,455	8,848	6,496	7,148	247,949	236,912	(1,043)	(3,913)	261,857	248,995
Total equity of Canada	270	291	12,230	12,083	2,372	2,512	(44)	(5)	14,828	14,881

We declare dividends to the government only after we meet regulatory and other capitalization requirements that ensure that our Mortgage Insurance and Mortgage Funding activities are appropriately capitalized. Because we continue to meet these requirements, we have declared and paid $1,515 million of dividends in 2019. Comprehensive income of $1,462 million partially offset this, resulting in a slight decrease in total equity of Canada since 31 December 2018.

Our total assets and liabilities increased approximately in line with each other, at $12,809 million (5%) and $12,862 million (5%), respectively. This was driven mainly by the issuance of Canada Mortgage Bonds (CMB) during the year, which resulted in increases in both loans and borrowings at amortized cost.

Condensed consolidated statements of income and comprehensive income

Three months ended 30 September	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Government funding for housing programs	393	416	-	-	-	-	-	-	393	416
Premiums and fees earned	-	-	359	358	146	121	-	-	505	479
All other income[1]	18	15	104	121	25	18	4	-	151	154
Total revenues	**411**	**431**	**463**	**479**	**171**	**139**	**4**	**-**	**1,049**	**1,049**
Housing programs	393	416	-	-	-	-	-	-	393	416
Insurance claims	-	-	42	35	-	-	-	-	42	35
Operating expenses	7	4	75	67	16	14	-	-	98	85
Total expenses	**400**	**420**	**117**	**102**	**16**	**14**	**-**	**-**	**533**	**536**
Income taxes	1	1	91	94	39	31	2	-	133	126
Net income	**10**	**10**	**255**	**283**	**116**	**94**	**2**	-	**383**	**387**
Other comprehensive income (loss)	13	25	28	(57)	(3)	**(22)**	3	**31**	41	(23)
Comprehensive income	**23**	**35**	**283**	**226**	**113**	**72**	**5**	**31**	**424**	**364**

[1] *Includes net interest income, investment income, net gains (losses) on financial instruments and other income.*

Nine months ended 30 September	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Government funding for housing programs	1,550	1,905	-	-	-	-	-	-	1,550	1,905
Premiums and fees earned	-	-	1,071	1,070	426	351	-	-	1,497	1,421
All other income[1]	36	28	427	358	73	51	(35)	13	501	450
Total revenues	**1,586**	**1,933**	**1,498**	**1,428**	**499**	**402**	**(35)**	**13**	**3,548**	**3,776**
Housing programs	1,550	1,905	-	-	-	-	-	-	1,550	1,905
Insurance claims	-	-	151	172	-	-	-	-	151	172
Operating expenses	21	17	234	227	48	42	-	-	303	286
Total expenses	**1,571**	**1,922**	**385**	**399**	**48**	**42**	**-**	**-**	**2,004**	**2,363**
Income taxes	-	(2)	283	254	113	90	(8)	3	388	345
Net income	**15**	**13**	**830**	**775**	**338**	**270**	**(27)**	**10**	**1,156**	**1,068**
Other comprehensive income (loss)	(36)	66	307	(177)	47	(19)	(12)	50	306	(80)
Comprehensive income	**(21)**	**79**	**1,137**	**598**	**385**	**251**	**(39)**	**60**	**1,462**	**988**

[1] *Includes net interest income, investment income, net gains (losses) on financial instruments and other income.*

Q3 2019 vs Q3 2018

Our total revenues were consistent with the same quarter last year. Changes in revenue across our activities were mainly due to:

- A decrease of $23 million (6%) in government funding, driven by the expiry of funding for Budget 2016 initiatives and Investments in Affordable Housing (IAH) funding that ended in the first quarter of 2019, partially offset by an increase in funding for NHS initiatives.
- An increase of $26 million (5%) in premiums and fees earned, mainly due to higher guarantee and application fees earned on mortgage-backed securities and Canada Mortgage Bonds as a result of recent price increases and the implementation of a revised tiered pricing structure.

Total expenses decreased by $3 million (1%) from the same quarter last year mainly due to the net impact of funding for Budget 2016 initiatives, IAH, and NHS initiatives as described above, which resulted in lower housing programs expenses by $23 million (6%). This decrease was partially offset by increases of $7 million (20%) in insurance claims and $13 million (15%) in operating expenses.

Other comprehensive income increased by $64 million (278%) from the same quarter last year mainly due to:

- A decrease in bond yields in the current quarter, compared to an increase in the third quarter of 2018. This resulted in an increase of $76 million (101%) in net unrealized gains from debt instruments held at fair value through other comprehensive income.
- Partially offsetting this increase was a $28 million (47%) decrease in remeasurement gains on defined benefit plans compared to the same quarter last year. This was mainly because there was no change in the discount rate used to determine the benefit obligation this quarter; the remeasurement gain was driven only by a higher than expected return on plan assets. In contrast, in the same quarter last year, the discount rate increased, which resulted in a higher remeasurement gain.

YTD 2019 vs. YTD 2018

Our total revenues decreased by $228 million (6%) from the same nine month period last year mainly due to:

- A decrease of $355 million (19%) in government funding, for the same reasons described above.
- A decrease of $26 million (7%) in investment income, primarily due to a decrease in average portfolio size as a result of selling investments to fund dividend payments to the Government.
- These decreases were offset by an increase of $122 million (207%) in net gains on financial instruments, mainly caused by a significant rebound in equity markets in the first quarter of 2019, during which we sold much of our equity investment portfolio.
- In addition, Mortgage Funding guarantee fees earned increased by $75 million (21%) due to recent price increases and the implementation of a revised tiered pricing structure.

Total expenses decreased by $359 million (15%) from the same nine month period last year mainly due to a decrease in government funding of $355 million (19%), as noted above.

Financial metrics and ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	Insurance-in-force ($B) As at 30 September 2019	31 December 2018
Transactional homeowner	229	236
Portfolio	121	136
Multi-unit residential	83	76
Total	**433**	**448**

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed $600 billion (2018 – $600 billion). Insurance-in-force decreased by $15 billion (3%) due to lower volumes insured in the current year compared to recent years, and run-off of existing policies-in-force. New loans insured were $36 billion, while estimated loan amortization and pay-downs were $51 billion.

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid[3]	
	Three months ended 30 September							
	2019	2018	2019	2018	2019	2018	2019	2018
Transactional homeowner	29,477	30,481	8,302	8,244	292	290	46	54
Portfolio	4,997	6,980	944	1,674	2	6	6	5
Multi-unit residential	38,208	28,218	4,817	3,387	172	113	1	1
Total	**72,682**	**65,679**	**14,063**	**13,305**	**466**	**409**	**53**	**60**

[1] *Portfolio substitutions were 3,048 units and $432 million for the three months ended 30 September 2019 (1,172 units and $162 million for the three months ended 30 September 2018).*

[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 is reduced by property sale proceeds and excludes social housing mortgage and index-linked mortgage claims.*

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid[3]	
	Nine months ended 30 September							
	2019	2018	2019	2018	2019	2018	2019	2018
Transactional homeowner	74,697	80,479	20,068	21,153	713	745	158	164
Portfolio	23,908	28,943	5,083	5,536	19	15	13	13
Multi-unit residential	90,640	77,103	10,995	8,886	385	305	2	5
Total	**189,245**	**186,525**	**36,146**	**35,575**	**1,117**	**1,065**	**173**	**182**

[1] *Portfolio substitutions were 8,216 units and $1,069 million for the nine months ended 30 September 2019 (15,352 units and $2,106 million for the nine months ended 30 September 2018).*

[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 is reduced by property sale proceeds and excludes social housing mortgage and index-linked mortgage claims.*

Q3 2019 vs Q3 2018

Transactional homeowner volumes decreased by 1,004 units (3%) primarily due to our reduced share of a reduced insured mortgage market. Transactional homeowner volumes increased by $58 million (1%) due to increased housing prices in certain regions. In addition, portfolio unit volumes decreased by 1,983 units (28%) due to lower eligible volumes for the portfolio substitutions product. Portfolio insured dollars decreased by $730 million (44%) driven by fewer new pools submitted. Multi-unit residential volumes increased by 9,990 units (35%) and $1.4 billion (42%) driven by increased borrower refinancing due to increased demand for rental housing, and increased demand for insured mortgages partly due to anticipated interest rate increases.

Higher multi-unit volumes account for the majority of the $57 million (14%) increase in total premiums and fees received.

YTD 2019 vs. YTD 2018

Transactional homeowner volumes decreased by 5,782 units (7%) and $1.1 billion (5%) due to reduced market size and market share. Portfolio unit volumes decreased by 5,035 units (17%), and portfolio insured dollars decreased by $453 million (8%) due to fewer large pools submitted and lower eligible portfolio substitution volumes. Multi-unit residential volumes increased by 13,537 units (18%) and $2.1 billion (24%) due to the same reasons as noted above.

Higher multi-unit volumes account for the majority of the $52 million (5%) increase in total premiums and fees received, partially offset by lower transactional homeowner premiums and fees received.

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2019**	**2018**	**2019**	**2018**
Loss ratio[1]	11.6	9.8	14.1	16.1
Operating expense ratio	20.8	18.7	21.8	21.2
Combined ratio	32.4	28.5	35.9	37.3
Severity ratio	30.0	32.1	30.8	31.4
Return on equity	8.3	8.8	9.1	7.3
Return on required equity	9.8	9.1	10.6	8.2

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 21.3% and 19.3% for the three and nine months ended 30 September 2019 (17.6% and 20.5% for the three and nine months ended 30 September 2018).*

Q3 2019 vs Q3 2018 and YTD 2019 vs YTD 2018

The loss ratio increased by 1.8 percentage points from the same quarter last year primarily due to higher transactional homeowner claim volumes. The loss ratio decreased by 2.0 percentage points compared to the nine month period last year due to lower transactional homeowner insurance claims as a result of more favourable economic conditions.

The operating expense ratio increased by 2.1 and 0.6 percentage points from the same quarter and nine month period last year, respectively, due to higher operating expenses, partly attributed to Government of Canada fees and depreciation on technology transformation projects completed in recent quarters.

The severity ratio decreased by 2.1 and 0.6 percentage points from the same quarter and nine month period last year, respectively, due to lower claims as a percentage of insured loan amount, and lower expenses as a percentage of sales proceeds.

Return on required equity increased by 0.7 and 2.4 percentage points from the same quarter and nine month period last year, respectively. The increase from the same quarter of 2018 is due to a decrease in required equity, as explained below in the capital management section, while the increase from the nine month period of 2018 is due to an increase in net income for the period.

Return on equity decreased by 0.5 percentage points from the same quarter in 2018 due to higher claims expenses and operating expenses, partly offset by lower equity due to dividend declarations. Conversely, return on equity increased by 1.8 percentage points from the same nine month period last year due to higher net gains on financial instruments, lower claims expenses and continued dividend declarations.

	As at 30 September 2019		As at 31 December 2018	
	No. of delinquent loans	**Arrears rate**	**No. of delinquent loans**	**Arrears rate**
Transactional homeowner	4,799	0.42%	5,048	0.42%
Portfolio	1,330	0.15%	1,296	0.13%
Multi-unit residential	87	0.36%	86	0.36%
Total	**6,216**	**0.30%**	**6,430**	**0.29%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. There were lower reported delinquencies in all regions except the Prairies, which is consistent with the slightly weaker economic conditions in this region.

Mortgage Funding

(in millions, unless otherwise indicated)	Total guarantees-in-force ($B) As at 30 September 2019	31 December 2018
NHA MBS	244	254
CMB	244	234
Total	**488**	**488**

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion. Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee. Guarantees-in-force were $488 billion as at 30 September 2019, which is consistent with the 31 December 2018 balance.

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended 30 September			
(in millions, unless otherwise indicated)	**2019**	**2018**	**2019**	**2018**
NHA MBS	33	34	129	119
CMB	10	9	35	37
Total	**43**	**43**	**164**	**156**

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

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Nine months ended 30 September			
(in millions, unless otherwise indicated)	**2019**	**2018**	**2019**	**2018**
NHA MBS	93	89	318	289
CMB	31	29	110	108
Total	**124**	**118**	**428**	**397**

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

Guarantee and application fees received increased by $8 million (5%) and $31 million (8%) from the same quarter and nine month period last year, respectively. This is mainly due to higher average premiums rates as more volumes exceeded the annual guarantee fee threshold compared with Q3 2018, which carry a higher premium rate.

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2019**	**2018**	**2019**	**2018**
Operating expense ratio	9.3	8.4	9.3	9.2
Return on equity	19.1	15.1	18.6	14.8
Return on required equity	35.9	21.2	35.0	20.3

Q3 2019 vs Q3 2018 and YTD 2019 vs YTD 2018

The operating expense ratio increased by 0.9 points from the same quarter last year due to an increase in operating expenses, partly attributed to depreciation on technology transformation projects completed in recent quarters. This was partially offset by increased revenues from higher guarantee and application fees earned.

Return on equity increased by 4.0 and 3.8 percentage points from the same quarter and nine month period last year, respectively, mainly due to higher net income resulting from higher guarantee and application fees earned, and the declaration of dividends this year.

Return on required equity increased by 14.7 percentage points from the same quarter and nine month period last year. This is due to the combined effect of the increase in annualized net income, largely driven by higher guarantee and application fees earned from pricing changes in recent years as well as increased volumes, and decrease in average required equity for the year, due to our revised view on the risks associated with our Mortgage Funding program.

Government Funding for Housing Programs

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

	Nine months ended 30 September	
(in millions)	**2019**	**2018**
Amounts provided for housing programs:		
Amounts authorized in 2018/19 (2017/18)		
Main estimates	2,452	2,735
Supplementary estimates A[1,2,3]	7	41
Supplementary estimates B[1,2,4]	1	1
Supplementary estimates C[1]	-	1
Less: Portion received in calendar 2018 (2017)	(1,309)	(1,663)
Less: Government funding lapsed for 2018/19 (2017/18)[5]	(356)	(74)
Less: Frozen Allotment	(18)	(15)
2018/19 (2017/18) government funding for housing programs received in 2019 (2018)	**777**	**1,026**
Amounts authorized in 2019/20 (2018/19)		
Main estimates	2,657	2,452
Supplementary estimates A[1,3]	-	7
Supplementary estimates B[1,4]	-	1
Supplementary estimates C	-	-
Total fiscal year government funding for housing programs	**2,657**	**2,460**
Less: Portion to be received in subsequent quarters	(1,875)	(1,563)
Less: Frozen Allotment	-	(18)
2019/20 (2018/19) government funding for housing programs received in 2019 (2018) calendar year	**782**	**879**
Total government funding for housing programs received – nine months ended 30 September	**1,559**	**1,905**

1 *Supplementary estimates are additional government funding 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 2017/18 and 2018/19 government funding.*

3 *Approved reprofile request from 2017/18 to 2018/19 in supplementary estimates A for Shelter Enhancement Program.*

4 *Approved supplementary estimates B for First Nations Housing Management Professional Initiative (HMPI).*

5 *Pending reprofile request from 2018/19 to 2019/20 for Rental Construction Financing initiative, Innovation Fund, Prepayment Flexibility program, and other NHS initiatives.*

Capital Management

Frameworks

For our Assisted Housing activity, we maintain a reserve fund pursuant to Section 29 of the CMHC Act. Our Lending Programs operate on a break-even basis; however, a portion of their earnings are retained in this reserve fund as part of our strategy to address future interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations and re-measurement losses on defined benefit plan liabilities are absorbed in retained earnings. 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.

For our Mortgage Insurance activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT.

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

Ratios

The table below presents our capital management ratios.

	As at	
(in percentages)	**30 September 2019**	**31 December 2018**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	197%	168%[1]
Mortgage Funding: Available equity to required equity	198%	209%

[1] *Prior to implementing MICAT on 1 January 2019, this ratio was calculated using the Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (MCT). The MICAT ratio as at 31 December 2018 was estimated at 181% excluding transitional arrangements.*

Our Mortgage Insurance MICAT ratio increased by 29 percentage points mainly due to the implementation of the MICAT guideline on 1 January 2019, which resulted in less capital required. Capital required for market risk also decreased because we sold many of our equity investments, as we rebalance our investment portfolio; and capital available increased due to the increase in comprehensive income, partially offset by our declaration of $990 million of dividends thus far in 2019. We remain adequately capitalized as at 30 September 2019.

Our Mortgage Funding available equity to required equity ratio decreased by 11 percentage points. This is due to the decrease in available equity following dividend declarations of $525 million, partially offset by the contribution of comprehensive income.

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

Financial Resources

The Mortgage Insurance investment portfolio is funded by cash flow generated by premiums, fees and interest received, net of claims and operating expenses. The investment objective and asset allocation for the Mortgage Insurance investment portfolio focuses on maximizing risk-adjusting return while minimizing the need to liquidate investments. As at 30 September 2019, total investments had a fair value of $17.9 billion (31 December 2018 – $18.4 billion).

The Mortgage Funding 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 Mortgage Funding guarantee programs. The objective of the Mortgage Funding 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 2019, total investments under management had a fair value of $3.9 billion (31 December 2018 – $4.2 billion).

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 2018 Annual Report. There have been no material developments impacting our risk management approaches during this reporting period.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q3 2019	Q2 2019	Q1 2019[2]	Q4 2018	Q3 2018	Q2 2018	Q1 2018[3]	Q4 2017
Consolidated Results								
Total assets	276,685	272,242	269,973	263,876	272,513	268,185	270,522	267,115
Total liabilities	261,857	257,333	255,022	248,995	256,839	251,875	253,627	249,374
Total equity of Canada	14,828	14,909	14,951	14,881	15,674	16,310	16,895	17,741
Total revenues	1,049	1,020	1,477	1,047	1,049	1,151	1,576	1,430
Total expenses (including income taxes)	666	641	1,083	698	662	763	1,283	861
Net income	383	379	394	349	387	388	293	569
Assisted Housing								
Government funding for housing programs	393	380	777	431	416	463	1,026	594
Net income (loss)	10	-	5	13	10	4	(1)	71
Total equity of Canada	270	247	270	291	310	275	235	234
Mortgage Insurance								
Insurance-in-force ($B)	433	439	442	448	453	463	472	480
Total insured volumes	14,063	14,191	7,891	12,159	13,304	14,005	8,265	15,382
Premiums and fees received	466	428	223	380	409	415	241	353
Premiums and fees earned	359	357	355	356	358	359	353	390
Claims paid	53	46	74	60	60	53	69	84
Insurance claims expenses	42	36	73	38	35	72	65	(22)
Net income	255	297	278	233	283	289	203	412
Arrears rate	0.30%	0.29%	0.30%	0.29%	0.29%	0.27%	0.29%	0.29%
Loss ratio	11.6%	10.2%	20.6%	10.7%	9.8%	20.1%	19.8%	(5.6) %
Operating expense ratio	20.8%	20.7%	24.0%	25.6%	18.7%	22.8%	22.1%	23.1%
Combined ratio	32.4%	30.9%	44.6%	36.6%	28.5%	42.9%	41.9%	17.5%
Severity ratio	30.0%	28.8%	29.3%	30.0%	32.1%	29.1%	31.9%	31.9%
Return on equity	8.3%	9.7%	9.1%	7.6%	8.8%	8.3%	5.5%	10.3%
Return on required equity	9.8%	11.3%	10.2%	8.3%	9.1%	8.7%	6.0%	11.4%
Capital available to minimum capital required (% MICAT)[1]	197%	197%	189%	168%	175%	177%	177%	184%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	27.0%	28.0%	28.5%	29.1%	29.7%	30.6%	31.0%	31.9%
Mortgage Funding								
Guarantees-in-force ($B)	488	492	494	488	484	479	481	477
Securities guaranteed	42,930	41,708	38,924	48,556	43,766	37,819	36,733	54,149
Guarantee and application fees received	164	136	128	252	156	120	121	257
Guarantee and application fees earned	146	142	138	132	121	117	113	108
Net income	116	114	108	102	94	88	88	80
Operating expense ratio	9.3%	9.7%	8.7%	10.5%	8.4%	9.6%	9.5%	11.2%
Return on equity	19.1%	18.4%	17.5%	16.0%	15.1%	14.7%	14.9%	14.1%
Return on required equity	35.9%	34.9%	34.1%	26.0%	21.2%	19.9%	19.7%	16.8%
Available equity to required equity	198%	203%	207%	209%	149%	143%	137%	136%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	30.9%	31.4%	32.2%	31.9%	31.7%	31.7%	32.0%	32.2%

[1] *We implemented the MICAT guideline in Q1 2019. Prior quarters were prepared in accordance with the MCT.*

[2] *We implemented IFRS 16 Leases in Q1 2019. Prior quarters were prepared in accordance with IAS 17 and related interpretations.*

[3] *We implemented IFRS 9 and IFRS 15 Revenue from Contracts with Customers in Q1 2018. Prior quarters were prepared in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 2019

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

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

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

Lisa Williams, CPA, CA
Chief Financial Officer

26 November 2019

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at 30 September 2019	As at 31 December 2018
Assets			
Cash and cash equivalents		1,185	837
Accrued interest receivable		1,282	724
Investment securities:			
Fair value through profit or loss	11	863	1,591
Fair value through other comprehensive income	11	20,223	18,164
Amortized cost	10	414	-
Derivatives		33	33
Due from the Government of Canada	6	147	158
Loans:	12		
Fair value through profit or loss		1,429	2,040
Amortized cost		250,017	239,162
Accounts receivable and other assets		819	856
Investment property		273	311
		276,685	263,876
Liabilities			
Securities sold under repurchase agreements		-	280
Accounts payable and other liabilities		594	506
Accrued interest payable		1,107	546
Dividends payable		-	675
Derivatives		27	117
Provision for claims	7	481	512
Borrowings:	13		
Fair value through profit or loss		2,512	3,430
Amortized cost		249,534	235,525
Defined benefit plans liability		452	354
Unearned premiums and fees	7, 8	7,009	6,948
Deferred income tax liabilities		141	102
		261,857	248,995
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		392	5
Retained earnings		14,411	14,851
		14,828	14,881
		276,685	263,876

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2019**	**2018**	**2019**	**2018**
Interest income		1,369	1,347	4,074	3,903
Interest expense		1,354	1,317	4,017	3,805
Net interest income		15	30	57	98
Government funding for housing programs	6	393	416	1,550	1,905
Premiums and fees earned	7, 8	505	479	1,497	1,421
Investment income		124	126	362	388
Net gains (losses) on financial instruments	14	7	(9)	63	(59)
Other income		5	7	19	23
Total revenues and government funding		1,049	1,049	3,548	3,776
Non-interest expenses					
Housing programs	6	393	416	1,550	1,905
Insurance claims		42	35	151	172
Operating expenses		98	85	303	286
Total expenses		533	536	2,004	2,363
Income before income taxes		516	513	1,544	1,413
Income taxes	18	133	126	388	345
Net income		383	387	1,156	1,068
Other comprehensive income (loss), net of tax					
Items that will be subsequently reclassified to net income					
Net unrealized gains (losses) from debt instruments held at fair value through other comprehensive income (loss)		1	(75)	364	(225)
Reclassification of losses (gains) on debt instruments held at fair value through other comprehensive income on disposal in the period		10	(7)	23	(9)
Total items that will be subsequently reclassified to net income		11	(82)	387	(234)
Items that will not be subsequently reclassified to net income					
Net losses from equity securities designated at fair value through other comprehensive income		(1)	-	(2)	(1)
Remeasurement gains (losses) on defined benefit plans	17,18	31	59	(79)	155
Total items that will not be subsequently reclassified to net income		30	59	(81)	154
Total comprehensive income (loss), net of tax		41	(23)	306	(80)
Comprehensive income		424	364	1,462	988

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2019**	**2018**	**2019**	**2018**
Contributed capital		25	25	25	25
Accumulated other comprehensive income (loss)					
Balance reported at the end of previous period		381	(30)	5	490
Impact of adopting IFRS 9		-	-	-	(368)
Restated opening balance		381	(30)	5	122
Other comprehensive income (loss)		11	(82)	387	(234)
Balance at end of period		392	(112)	392	(112)
Retained earnings					
Balance reported at the end of previous period		14,503	16,315	14,851	17,226
Impact of adopting IFRS 9		-	-	-	366
Impact of adopting IFRS 15		-	-	-	(53)
Restated opening balance		14,503	16,315	14,851	17,539
Net income		383	387	1,156	1,068
Other comprehensive income (loss)		30	59	(81)	154
Dividend	9	(505)	(1,000)	(1,515)	(3,000)
Balance at end of period		14,411	15,761	14,411	15,761
Equity of Canada		14,828	15,674	14,828	15,674

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Canadian dollars)	Notes	Three months ended 30 September 2019	2018	Nine months ended 30 September 2019	2018
Cash flows from operating activities					
Net income		383	387	1,156	1,068
Adjustments to determine cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		16	25	51	85
Net (gains) losses on financial instruments		(49)	48	(3)	10
Deferred income taxes	18	2	30	22	24
Changes in operating assets and liabilities					
Derivatives		23	(76)	(90)	23
Accrued interest receivable		(590)	(605)	(558)	(596)
Due from the Government of Canada		235	42	11	(48)
Accounts receivable and other assets		33	(11)	(58)	(76)
Accounts payable and other liabilities		(57)	(53)	88	(153)
Accrued interest payable		520	569	561	597
Provision for claims		(23)	(15)	(31)	(32)
Defined benefit plans liability		9	9	4	(8)
Unearned premiums and fees		114	74	61	53
Other		9	(7)	5	(4)
Loans	12				
Repayments		5,775	5,185	21,107	21,839
Disbursements		(9,753)	(10,063)	(31,306)	(29,666)
Borrowings	13				
Repayments		(6,084)	(5,349)	(23,008)	(22,429)
Issuances		10,070	10,306	33,178	30,213
		633	496	1,190	900
Cash flows from investing activities					
Investment securities					
Sales and maturities		1,369	2,615	8,095	8,340
Purchases		(1,390)	(1,576)	(6,503)	(4,971)
Investment property disposals		36	-	36	-
Securities purchased under resale agreements		-	38	-	-
Securities sold under repurchase agreements		-	(164)	(280)	161
		15	913	1,348	3,530
Cash flows from financing activities					
Dividends paid		(505)	(1,500)	(2,190)	(4,500)
Change in cash and cash equivalents		143	(91)	348	(70)
Cash and cash equivalents					
Beginning of period		1,042	908	837	887
End of period		1,185	817	1,185	817
Represented by					
Cash		6	-	6	-
Cash equivalents		1,179	817	1,179	817
		1,185	817	1,185	817
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		988	932	4,122	3,948
Amount of interest paid during the period		913	799	3,672	3,361
Amount of dividends received during the period		-	8	9	27
Amount of income taxes paid during the period		128	111	234	367

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Canada Mortgage and Housing Corporation (CMHC 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 subject to Part X of the *Financial Administration Act* by virtue of being listed in Part 1 of Schedule III, wholly owned by the Government of Canada (Government), and an agent Crown corporation. Our National Office is located at 700 Montreal Road, Ottawa, Ontario, Canada, K1A 0P7.

These unaudited quarterly consolidated financial statements are as at and for the three and nine months ended 30 September 2019 and were approved and authorized for issue by our Audit Committee on 26 November 2019.

2. Basis of Preparation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. Except as indicated in Note 3, we 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 2018 and these unaudited quarterly consolidated financial statements should be read in conjunction with those financial statements.

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our Mortgage 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 insurance policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

3. Current and future accounting changes

Current accounting changes

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

International Financial Reporting Standard (IFRS) 16 *Leases* (IFRS 16)

On 1 January 2019, we adopted IFRS 16, which replaces IAS 17 *Leases* and related interpretations (collectively, IAS 17). As a result, on that date, we recognized assets and liabilities for leased office space in our regional offices, which we previously accounted for as operating leases under IAS 17. In addition, we now recognize depreciation and interest expense instead of operating lease expenses; the impact of this change on our total expenses is immaterial. In accordance with IFRS 16, we continue to record operating lease expenses for leases of low value or with a term of 12 months or less.

We adopted IFRS 16 using the modified retrospective approach; as a result, comparative information has not been restated and continues to be reported under IAS 17. Consequently, it is not comparable to the information presented for 2019. We also applied the transition relief available whereby we did not reassess whether a contract was, or contained, a lease at the transition date.

Upon transition, we recognized right-of-use assets and lease liabilities based on the present value of the remaining lease payments. Since the interest rates implicit in the leases were not readily determinable, we discounted these payments using a weighted-average incremental borrowing rate of 2.5%. The incremental borrowing rate represents the rate we would pay if we financed a particular lease transaction using debt. In determining this rate for each of our leases, we have considered factors such as our credit worthiness, the lease term, the value and security of the leased asset, and the economic environment in which we entered into the lease.

As a result of adopting IFRS 16, we recognized right-of-use assets and lease liabilities of $62 million on 1 January 2019 that are presented in accounts receivable and other assets and accounts payable and other liabilities, respectively. Depreciation and interest expense are presented in operating expenses. There was no cumulative effect to equity from initially applying IFRS 16.

IFRIC 23 *Uncertainty over Income Tax Treatments* (IFRIC 23)

On 1 January 2019, we adopted International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23. IFRIC 23 provides guidance on the accounting for income tax treatments that have yet to be accepted by tax authorities.

This interpretation did not impact our quarterly consolidated financial statements.

Future accounting changes

There have been no new standards or amendments to existing standards issued by the IASB that would affect CMHC in the future other than the Conceptual Framework for Financial Reporting and amendments indicated below, as well as IFRS 17 *Insurance Contracts,* as disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2018.

Conceptual Framework for Financial Reporting – effective 1 January 2020

In June 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting*, replacing the previous version of the *Conceptual Framework* issued in 2010.

The revised *Conceptual Framework* has an effective date of 1 January 2020, with earlier application permitted, for companies that use the *Conceptual Framework* to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, in particular the definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements requires Management to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. Significant judgments and estimates at 30 September 2019 were consistent with those disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2018.

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing, Mortgage Insurance and Mortgage Funding 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 Mortgage Funding 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 2018, except for IFRS 16 as indicated in Note 3 of these unaudited quarterly consolidated financial statements. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

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

Three months ended 30 September	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Interest income	77	82	-	15	1,293	1,266	(1)	(1)	1,369	1,347
Interest expense	73	80	-	-	1,291	1,264	(10)	(27)	1,354	1,317
Net interest income	**4**	**2**	**-**	**-**	**2**	**2**	**9**	**26**	**15**	**30**
Government funding for housing programs	393	416	-	-	-	-	-	-	393	416
Premiums and fees earned	-	-	359	358	146	121	-	-	505	479
Investment income (losses)	-	-	109	130	19	17	(4)	(21)	124	126
Net gains (losses) on financial instruments	8	6	(3)	(9)	3	(1)	(1)	(5)	7	(9)
Other income (loss)	6	7	(2)	-	1	-	-	-	5	7
Total revenues and government funding	**411**	**431**	**463**	**479**	**171**	**139**	**4**	**-**	**1,049**	**1,049**
Non-interest expenses										
Housing programs	393	416	-	-	-	-	-	-	393	416
Insurance claims	-	-	42	35	-	-	-	-	42	35
Operating expenses	7	4	75	67	16	14	-	-	98	85
Total expenses	**400**	**420**	**117**	**102**	**16**	**14**	**-**	**-**	**533**	**536**
Income before income taxes	**11**	**11**	**346**	**377**	**155**	**125**	**4**	**-**	**516**	**513**
Income taxes	1	1	91	94	39	31	2	-	133	126
Net income	**10**	**10**	**255**	**283**	**116**	**94**	**2**	**-**	**383**	**387**
Total revenues and government funding	411	431	463	479	171	139	4	-	1,049	1,049
Inter-segment income (loss)[1]	(2)	(1)	(4)	(26)	10	27	(4)	-	-	-
External revenues and government funding	409	430	459	453	181	166	-	-	1,049	1,049

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

- *The Assisted Housing Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (CMB);*
- *The Mortgage Insurance Activity recognizes revenues from investing in holdings of CMB; and*
- *Within the Mortgage Funding Activity, CHT recognizes interest expense on CMB held by the Assisted Housing and Mortgage Insurance Activities.*

Nine months ended 30 September	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Interest income	225	253	-	-	3,854	3,653	(5)	(3)	4,074	3,903
Interest expense	222	243	-	-	3,846	3,645	(51)	(83)	4,017	3,805
Net interest income	**3**	**10**	**-**	**-**	**8**	**8**	**46**	**80**	**57**	**98**
Government funding for housing programs	1,550	1,905	-	-	-	-	-	-	1,550	1,905
Premiums and fees earned	-	-	1,071	1,070	426	351	-	-	1,497	1,421
Investment income (losses)	-	-	339	405	55	44	(32)	(61)	362	388
Net gains (losses) on financial instruments	15	(2)	91	(46)	6	(5)	(49)	(6)	63	(59)
Other income (loss)	18	20	(3)	(1)	4	4	-	-	19	23
Total revenues and government funding	**1,586**	**1,933**	**1,498**	**1,428**	**499**	**402**	**(35)**	**13**	**3,548**	**3,776**
Non-interest expenses										
Housing programs	1,550	1,905	-	-	-	-	-	-	1,550	1,905
Insurance claims	-	-	151	172	-	-	-	-	151	172
Operating expenses	21	17	234	227	48	42	-	-	303	286
Total expenses	**1,571**	**1,922**	**385**	**399**	**48**	**42**	**-**	**-**	**2,004**	**2,363**
Income (loss) before income taxes	**15**	**11**	**1,113**	**1,029**	**451**	**360**	**(35)**	**13**	**1,544**	**1,413**
Income taxes	-	(2)	283	254	113	90	(8)	3	388	345
Net income	**15**	**13**	**830**	**775**	**338**	**270**	**(27)**	**10**	**1,156**	**1,068**
Total revenues and government funding	1,586	1,933	1,498	1,428	499	402	(35)	13	3,548	3,776
Inter-segment income (loss)[1]	(6)	(3)	(80)	(67)	51	83	35	(13)	-	-
External revenues and government funding	1,580	1,930	1,418	1,361	550	485	-	-	3,548	3,776

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

- *The Assisted Housing Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (CMB);*
- *The Mortgage Insurance Activity recognizes revenues from investing in holdings of CMB; and*
- *Within the Mortgage Funding Activity, CHT recognizes interest expense on CMB held by the Assisted Housing and Mortgage Insurance Activities.*

As at 30 September 2019 and 31 December 2018	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets										
Cash and cash equivalents	370	527	814	309	1	1	-	-	1,185	837
Accrued interest receivable	103	123	120	113	1,064	501	(5)	(13)	1,282	724
Investment securities:									-	
Fair value through profit or loss	1,138	1,374	124	615	-	-	(399)	(398)	863	1,591
Fair value through other comprehensive income	-	-	16,965	17,450	3,931	4,221	(673)	(3,507)	20,223	18,164
Amortized cost	424	-	-	-	-	-	(10)	-	414	-
Derivatives	27	33	6	-	-	-	-	-	33	33
Due from the Government of Canada	147	158	-	-	-	-	-	-	147	158
Loans:										
Fair value through profit or loss	1,405	2,019	24	21	-	-	-	-	1,429	2,040
Amortized cost	4,695	4,402	102	107	245,220	234,653	-	-	250,017	239,162
Accounts receivable and other assets	152	239	562	569	105	48	-	-	819	856
Investment property	264	264	9	47	-	-	-	-	273	311
	8,725	9,139	18,726	19,231	250,321	239,424	(1,087)	(3,918)	276,685	263,876
Liabilities										
Securities sold under repurchase agreements	-	-	-	280	-	-	-	-	-	280
Accounts payable and other liabilities	303	376	198	100	93	30	-	-	594	506
Accrued interest payable	67	69	-	-	1,045	490	(5)	(13)	1,107	546
Dividends payable	-	-	-	500	-	175	-	-	-	675
Derivatives	10	18	17	99	-	-	-	-	27	117
Provision for claims	-	-	481	512	-	-	-	-	481	512
Borrowings:										
Fair value through profit or loss	2,512	3,430	-	-	-	-	-	-	2,512	3,430
Amortized cost	5,335	4,768	-	-	245,220	234,653	(1,021)	(3,896)	249,534	235,525
Defined benefit plans liability	185	146	263	209	4	(1)	-	-	452	354
Unearned premiums and fees	-	-	5,434	5,375	1,575	1,573	-	-	7,009	6,948
Deferred income tax liabilities	43	41	103	73	12	(8)	(17)	(4)	141	102
	8,455	8,848	6,496	7,148	247,949	236,912	(1,043)	(3,913)	261,857	248,995
Equity of Canada	270	291	12,230	12,083	2,372	2,512	(44)	(5)	14,828	14,881
	8,725	9,139	18,726	19,231	250,321	239,424	(1,087)	(3,918)	276,685	263,876

[1] *Eliminations remove inter-segment holdings of CMB.*

6. Government Funding and Housing Programs Expenses

Government funding was received for the following housing programs expenses, including operating expenses incurred to support these programs.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2019	2018	2019	2018
Assistance for housing needs	347	390	1,426	1,809
Financing for housing	15	8	33	28
Housing expertise and capacity development	33	18	100	68
Total	395	416	1,559	1,905
Government funding deferred in the period	(2)	-	(9)	-
Total recognized	**393**	**416**	**1,550**	**1,905**

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 September 2019 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2019	2018	2019	2018
Balance at beginning of period	382	216	158	126
Total government funding recognized or deferred during the period	395	416	1,559	1,905
Total government funding received during the period	(630)	(457)	(1,574)	(1,856)
Third party remittances (owing) to the Government of Canada	-	(1)	4	(1)
Balance at end of period	**147**	**174**	**147**	**174**

7. Mortgage 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)	2019	2018	2019	2018
Balance at beginning of period	5,338	5,320	5,375	5,352
Premiums deferred on contracts written in the period	446	390	1,107	1,056
Premiums earned in the period	(351)	(351)	(1,048)	(1,049)
Application fees deferred on contracts written in the period	5	4	12	11
Application fees earned in the period[1]	(4)	(4)	(12)	(11)
Balance at end of period	**5,434**	**5,359**	**5,434**	**5,359**

[1] *Only includes earned application fees on multi-unit residential loans during the period. Application fees on low loan-to-value transactional homeowner applications 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)	2019	2018	2019	2018
Balance at beginning of period	187	172	181	165
Acquisition costs deferred	15	14	48	45
Amortization of DAC	(13)	(12)	(40)	(36)
Balance at end of period	**189**	**174**	**189**	**174**

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 and ILM).

Provision for claims comprises the following:

	As at					
	30 September 2019			31 December 2018		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	345	107	452	369	120	489
Discounting	(4)	(14)	(18)	(7)	(20)	(27)
Discounted provision for adverse deviation	27	20	47	28	22	50
Total provision for claims	**368**	**113**	**481**	**390**	**122**	**512**

The following table presents the changes in the provision for claims balance.

	Three months ended 30 September					
	2019			2018		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	388	116	504	380	158	538
Net claims paid during the period	(53)	-	(53)	(60)	1	(59)
Provision for claims provided for and losses incurred during the period[1]	65	-	65	58	-	58
Unfavourable (favourable) development on prior period claims	(32)	(3)	(35)	(7)	(7)	(14)
Provision for claims, end of period	**368**	**113**	**481**	**371**	**152**	**523**

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

	Nine months ended 30 September					
	2019			2018		
(in millions)	IBNR, IBNER and CIP	SH/ILM	Total	IBNR, IBNER and CIP	SH/ILM	Total
Provision for claims, beginning of period	390	122	512	385	170	555
Net claims paid during the period	(173)	(3)	(176)	(182)	(3)	(185)
Provision for claims provided for and losses incurred during the period[1]	183	2	185	174	1	175
Unfavourable (favourable) development on prior period claims	(32)	(8)	(40)	(6)	(16)	(22)
Provision for claims, end of period	**368**	**113**	**481**	**371**	**152**	**523**

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

Insurance 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 2019 identified that no premium deficiency reserve is required.

8. Mortgage Funding

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and *National Housing Act* Mortgage-Backed Securities (NHA MBS) issued by approved issuers on the basis of housing loans under the NHA MBS program in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations under each of the programs.

At the balance sheet date, we have not received a claim on our timely payment guarantees (TPG). As such, no provision in addition to the remaining unearned premium is required.

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

	Three months ended 30 September					
	2019			2018		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,055	502	1,557	933	485	1,418
TPG and application fees received	129	35	164	119	37	156
TPG and application fees earned	(112)	(34)	(146)	(89)	(32)	(121)
Balance at end of period	**1,072**	**503**	**1,575**	**963**	**490**	**1,453**

	Nine months ended 30 September					
	2019			2018		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,079	494	1,573	931	476	1,407
TPG and application fees received	318	110	428	289	108	397
TPG and application fees earned	(325)	(101)	(426)	(257)	(94)	(351)
Balance at end of period	**1,072**	**503**	**1,575**	**963**	**490**	**1,453**

9. 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, being our Mortgage Insurance and Mortgage Funding Activities, 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 Insurance Activity and our Mortgage Funding Activity at a level that is expected to cover all material risks. The internal target is calibrated using specified confidence intervals and is designed to provide us 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 for our Mortgage Insurance Activity and our Mortgage Funding Activity in excess of our internal target. The operating level is calibrated using confidence intervals specified by our capital management policy and is designed to provide Management with adequate time to resolve financial problems before available capital decreases below the internal target.

We declare dividends to the Government from our Mortgage Insurance and Mortgage Funding Activities, to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet 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. We declared and paid dividends of $505 million and $1,515 million for the three and nine months ended 30 September 2019, respectively.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 September 2019**	**31 December 2018**
Contributed capital	25	25
Accumulated other comprehensive income	392	5
Appropriated retained earnings	11,064	13,049
Unappropriated retained earnings[1]	3,347	1,802
Total equity of Canada[2]	**14,828**	**14,881**
Less: assets with a capital requirement of 100%	(36)	(33)
Total capital available	**14,792**	**14,848**

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

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

Mortgage Insurance capital

The following table presents the components of capital available.

	As at	
(in millions, unless otherwise indicated)	**30 September 2019**	**31 December 2018**
Appropriated capital[1]	10,223	11,801
Unappropriated capital	2,007	282
Total Mortgage Insurance capital	**12,230**	**12,083**
Less: assets with a capital requirement of 100%	(36)	(33)
Total Mortgage Insurance capital available	**12,194**	**12,050**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)[2,3]	197%	168%

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

[2] *The MICAT guideline is effective 1 January 2019. For 2018, capital available to minimum capital required is calculated as the MCT ratio.*

[3] *We have not made use of transitional arrangements, which expire during the fourth quarter of 2019, as provided by the OSFI Advisory. Our MICAT ratio as at 30 September 2019 would be 198% with transitional arrangements (31 December 2018 – 184%).*

Mortgage Funding capital

The following table presents the components of capital available.

(in millions, unless otherwise indicated)	As at 30 September 2019	 31 December 2018
Appropriated capital[1]	1,201	1,201
Unappropriated capital	1,171	1,311
Total Mortgage Funding capital available	**2,372**	**2,512**
Capital available to capital required (%)	198%	209%

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 is retained in this reserve fund as part of our strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (2018 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

Unrealized fair value 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 government funding for housing programs.

The following table presents the components of the capital available.

(in millions)	As at 30 September 2019	 31 December 2018
Reserve fund	98	111
Retained earnings	147	155
Total Lending programs capital available	**245**	**266**

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.

10. Fair Value Measurement

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

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

Fair value hierarchy

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

Level 1: Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities. 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 and liabilities, unobservable inputs are significant to the overall measurement of fair value.

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

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

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

	As at					
	30 September 2019			31 December 2018		
(in millions)	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
Financial assets						
Loans at amortized cost[1]	250,017	254,282	4,265	239,162	239,820	658
Investments at amortized cost[2]	414	414	-	-	-	-
Financial liabilities						
Borrowings at amortized cost[3]	249,534	253,822	4,288	235,525	236,311	786

1 *$253,821 million (31 December 2018 – $239,704 million) fair value categorized as Level 2, $461 million (31 December 2018 – $116 million) fair value categorized as Level 3.*

2 *$414 million (31 December 2018 – nil) fair value categorized as Level 2.*

3 *$158,916 million (31 December 2018 – $120,580 million) fair value categorized as Level 1, $94,906 million (31 December 2018 – $115,731 million) fair value categorized as Level 2.*

Fair value hierarchy for items carried at fair value

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

	As at							
	30 September 2019				31 December 2018			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	29	-	29	-	80	-	80
Federal government issued	811	-	-	811	24	-	-	24
Total cash equivalents	811	29	-	840	24	80	-	104
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	130	-	130	-	278	-	278
Provinces/municipalities	78	278	-	356	229	177	-	406
Sovereign and related entities	-	264	-	264	-	317	-	317
Equities								
Canadian common shares	-	-	-	-	492	-	-	492
Limited partnership units	-	-	113	113	-	-	98	98
Total at FVTPL	78	672	113	863	721	772	98	1,591
FVOCI								
Debt instruments								
Corporate/other entities	1,679	5,623	-	7,302	1,412	7,200	-	8,612
Federal government issued	8,262	40	-	8,302	4,663	57	-	4,720
Provinces/municipalities	2,354	1,996	-	4,350	1,978	2,487	-	4,465
Sovereign and related entities	-	269	-	269	-	268	-	268
Equities								
Canadian preferred shares	-	-	-	-	99	-	-	99
Total at FVOCI	12,295	7,928	-	20,223	8,152	10,012	-	18,164
Loans designated at FVTPL	-	1,388	-	1,388	-	2,002	-	2,002
Loans mandatorily at FVTPL	-	17	24	41	-	17	21	38
Derivatives	-	33	-	33	-	33	-	33
Investment property	-	-	273	273	-	-	311	311
Total assets carried at fair value	**13,184**	**10,067**	**410**	**23,661**	**8,897**	**12,916**	**430**	**22,243**
Liabilities								
Borrowings designated at FVTPL	-	2,512	-	2,512	-	3,430	-	3,430
Derivatives	-	27	-	27	-	117	-	117
Total liabilities carried at fair value	**-**	**2,539**	**-**	**2,539**	**-**	**3,547**	**-**	**3,547**

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 2019, there were $39 million and $1,059 million of transfers from Level 2 to Level 1, respectively (three and nine months ended 30 September 2018 – $494 million and $2,187 million, respectively). During the three and nine months ended 30 September 2019, there were $441 million and $816 million of transfers from Level 1 to Level 2, respectively (three and nine months ended 30 September 2018 – $1,347 million and $1,769 million, respectively).

Change in fair value measurement for items classified as Level 3

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

(in millions)	Investment securities - FVTPL	Loans - FVTPL	Investment property	Total
Three months ended 30 September 2019				
Fair value as at 1 July 2019	105	24	311	440
Purchases	6	10	-	16
Net gains (losses) in net income[1,2]	2	-	(2)	-
Cash receipts on settlements/disposals	-	(10)	(36)	(46)
Fair value as at 30 September 2019	**113**	**24**	**273**	**410**
Nine months ended 30 September 2019				
Fair Value as at 1 January 2019	98	21	311	430
Purchases	11	35	-	46
Net gains (losses) in net income[1,2]	4	1	(2)	3
Cash receipts on settlements/disposals	-	(33)	(36)	(69)
Fair value as at 30 September 2019	**113**	**24**	**273**	**410**
Three months ended 30 September 2018				
Fair value as at 1 July 2018	92	22	305	419
Purchases	3	9	-	12
Net gains in net income[1,2]	-	-	-	-
Cash receipts on settlements/disposals	-	(12)	-	(12)
Fair value as at 30 September 2018	**95**	**19**	**305**	**419**
Nine months ended 30 September 2018				
Fair Value as at 1 January 2018	88	26	305	419
Purchases	9	34	-	43
Net gains in net income[1,2]	3	-	-	3
Cash receipts on settlements/disposals	(5)	(41)	-	(46)
Fair value as at 30 September 2018	**95**	**19**	**305**	**419**

[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 valuations 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 2019, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 September 2019 did not materially change from 31 December 2018. The sensitivity of the fair value of items classified as Level 3 to changes in unobservable inputs remained as disclosed in the audited consolidated financial statements for the year ended 31 December 2018.

11. Investment Securities

The following table shows the cumulative unrealized gains (losses) on investment securities recorded at fair value.

	As at							
	30 September 2019				31 December 2018			
(in millions)	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value
Debt instruments								
FVTPL	751	1	(2)	750	1,007	2	(8)	1,001
FVOCI[2]	19,696	545	(18)	20,223	17,964	275	(174)	18,065
Equities								
FVTPL	89	24	-	113	371	223	(4)	590
FVOCI	-	-	-	-	108	-	(9)	99

1 *Amortized cost for equities is weighted-average acquisition cost.*

2 *Includes debt instruments denominated in U.S. dollars with a carrying value of $2,386 million (31 December 2018 – $2,278 million).*

At 30 September 2019, we do not hold investment securities (31 December 2018 – $283 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 OCI 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.

Credit quality

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an expected credit loss (ECL) allowance based on 12-month ECL. Credit ratings are based on our internal credit rating system and amounts in the table represent the gross carrying amounts of the financial assets.

	As at 30 September 2019				
(in millions)	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Total
Investment securities[1]					
FVOCI	9,069	1,727	7,850	1,577	20,223
Amortized cost	107	75	232	-	414

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

Expected credit losses

The ECL allowance for debt instruments held at FVOCI was $6 million at 30 September 2019 (30 September 2018 – $6 million). During the three and nine months ended 30 September 2019, ECLs on debt instruments held at FVOCI did not change (decrease of $1 million and 3 million for the three and nine months ended 30 September 2018, respectively).

The ECL allowance for debt instruments held at amortized cost was nil at 30 September 2019 (30 September 2018 – nil) and no amount was recognized in net gains (losses) on financial instruments for these securities during the three and nine months ended 30 September 2019 (nil for the three and nine months ended 30 September 2018).

12. Loans

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

		Three months ended 30 September						
		Cash flows		Non-cash changes				
(in millions)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers[1]	Balance at end of period
2019								
FVTPL								
Lending programs	1,607	(55)	-	(1)	-	-	(146)	1,405
MI Activity loans	24	(10)	10	-	-	-	-	24
Total at FVTPL	**1,631**	**(65)**	**10**	**(1)**	**-**	**-**	**(146)**	**1,429**
Amortized cost								
Loans under the CMB program	241,171	(5,567)	9,605	-	11	-	-	245,220
Lending programs	4,552	(141)	138	-	-	-	146	4,695
MI Activity loans	103	(2)	-	-	-	1	-	102
Total amortized cost	**245,826**	**(5,710)**	**9,743**	**-**	**11**	**1**	**146**	**250,017**
Total	**247,457**	**(5,775)**	**9,753**	**(1)**	**11**	**1**	**-**	**251,446**
2018								
FVTPL								
Lending programs	2,351	(84)	-	(8)	-	-	(104)	2,155
MI Activity loans	39	(12)	9	-	-	-	-	36
Total at FVTPL	**2,390**	**(96)**	**9**	**(8)**	**-**	**-**	**(104)**	**2,191**
Amortized cost								
Loans under the CMB program	237,170	(4,950)	9,977	-	10	-	-	242,207
Lending programs	4,273	(131)	75	-	-	-	104	4,321
MI Activity loans	110	(8)	2	-	2	5	-	111
Total amortized cost	**241,553**	**(5,089)**	**10,054**	**-**	**12**	**5**	**104**	**246,639**
Total	**243,943**	**(5,185)**	**10,063**	**(8)**	**12**	**5**	**-**	**248,830**

[1] *Transfers are matured loans that have been renewed where the new loans are no longer part of a portfolio of economically hedged loans and borrowings and therefore classified at amortized cost.*

		Nine months ended 30 September						
		Cash flows		Non-cash changes				
(in millions)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers[1]	Balance at end of period
2019								
FVTPL								
Lending programs	2,019	(190)	-	9	-	-	(433)	1,405
MI Activity loans	21	(33)	35	1	-	-	-	24
Total at FVTPL	**2,040**	**(223)**	**35**	**10**	**-**	**-**	**(433)**	**1,429**
Amortized cost								
Loans under the CMB program	234,653	(20,411)	30,944	-	34	-	-	245,220
Lending programs	4,402	(462)	323	-	-	(1)	433	4,695
MI Activity loans	107	(11)	4	-	-	2	-	102
Total amortized cost	**239,162**	**(20,884)**	**31,271**	**-**	**34**	**1**	**433**	**250,017**
Total	**241,202**	**(21,107)**	**31,306**	**10**	**34**	**1**	**-**	**251,446**
2018								
FVTPL								
Lending programs	2,906	(278)	-	(17)	-	-	(456)	2,155
MI Activity loans	43	(41)	34	-	-	-	-	36
Total at FVTPL	**2,949**	**(319)**	**34**	**(17)**	**-**	**-**	**(456)**	**2,191**
Amortized cost								
Loans under the CMB program	233,786	(21,050)	29,441	-	30	-	-	242,207
Lending programs	4,138	(455)	183	-	-	(1)	456	4,321
MI Activity loans	117	(15)	8	-	2	(1)	-	111
Total amortized cost	**238,041**	**(21,520)**	**29,632**	**-**	**32**	**(2)**	**456**	**246,639**
Total	**240,990**	**(21,839)**	**29,666**	**(17)**	**32**	**(2)**	**-**	**248,830**

[1] *Transfers are matured loans that have been renewed where the new loans are no longer part of a portfolio of economically hedged loans and borrowings and therefore classified at amortized cost.*

The collection of principal and accrued interest on 99% (31 December 2018 – 99%) of our loans is guaranteed by various levels of government, CMHC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program. For loans designated at FVTPL, there were no changes in fair value attributable to changes in credit risk.

Total undrawn loan commitments outstanding at 30 September 2019 were $1,971 million, of which $1,961 million are subject to 12-month ECL and $10 million are commitments outstanding on purchased or credit impaired loans.

At 30 September 2019, the ECL on undrawn loan commitments was $6 million (31 December 2018 – $3 million), and the ECL on loans was $104 million (31 December 2018 – $105 million).

13. Borrowings

The following table presents 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 and other	Eliminations	Balance at end of period
2019							
Designated at FVTPL							
Borrowings from the Government of Canada	2,837	-	(325)	-	-	-	2,512
Borrowings at amortized cost							
Canada mortgage bonds	240,165	9,605	(5,567)	-	11	(15)	244,199
Borrowings from the Government of Canada	5,069	465	(192)	(11)	4	-	5,335
Total borrowings at amortized cost	**245,234**	**10,070**	**(5,759)**	**(11)**	**15**	**(15)**	**249,534**
Total	**248,071**	**10,070**	**(6,084)**	**(11)**	**15**	**(15)**	**252,046**
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	3,913	50	(233)	(16)	-	-	3,714
Borrowings at amortized cost							
Canada mortgage bonds	233,058	9,977	(4,950)	-	10	184	238,279
Borrowings from the Government of Canada	4,453	279	(166)	(9)	16	-	4,573
Total borrowings at amortized cost	**237,511**	**10,256**	**(5,116)**	**(9)**	**26**	**184**	**242,852**
Total	**241,424**	**10,306**	**(5,349)**	**(25)**	**26**	**184**	**246,566**

		Nine months ended 30 September					
		Cash flows		Non-cash changes			
(in millions)	**Balance at beginning of period**	**Issuances**	**Repayments**	**Fair value changes**	**Accretion and other**	**Eliminations**	**Balance at end of period**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada	3,430	-	(942)	24	-	-	2,512
Borrowings at amortized cost							
Canada mortgage bonds	230,757	30,944	(20,411)	-	34	2,875	244,199
Borrowings from the Government of Canada	4,768	2,234	(1,655)	(25)	13	-	5,335
Total borrowings at amortized cost	**235,525**	**33,178**	**(22,066)**	**(25)**	**47**	**2,875**	**249,534**
Total	**238,955**	**33,178**	**(23,008)**	**(1)**	**47**	**2,875**	**252,046**
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	4,564	50	(870)	(30)	-	-	3,714
Borrowings at amortized cost							
Canada mortgage bonds	229,242	29,441	(21,050)	-	30	616	238,279
Borrowings from the Government of Canada	4,350	722	(509)	(13)	23	-	4,573
Total borrowings at amortized cost	**233,592**	**30,163**	**(21,559)**	**(13)**	**53**	**616**	**242,852**
Total	**238,156**	**30,213**	**(22,429)**	**(43)**	**53**	**616**	**246,566**

When CMHC holds CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statement of cash flows. During the three and nine months ended 30 September 2019, no CMB maturities have been excluded from repayments in the table above and from investment securities – sales and maturities in the consolidated statement of cash flows (three and nine months ended 30 September 2018 – nil).

14. Financial instruments income and expenses

Gains and losses from financial instruments

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2019	2018	2019	2018
Financial Instruments designated at FVTPL				
Investment securities	-	(4)	7	(5)
Loans	(1)	(8)	9	(17)
Borrowings	-	16	(24)	30
Total financial instruments designated at FVTPL	**(1)**	**4**	**(8)**	**8**
Financial instruments mandatorily at FVTPL				
Equity securities	1	-	60	(38)
Debt instruments	-	(1)	(1)	(2)
Derivatives	(37)	26	57	(76)
Loans	-	-	1	-
Total financial instruments mandatorily at FVTPL	**(36)**	**25**	**117**	**(116)**
Debt instruments held at FVOCI[1]	33	(50)	(68)	32
Loans at amortized cost – prepayments	1	3	5	19
Borrowings – amortized cost[2]	10	6	18	(4)
Expected credit loss (recovery) on financial assets	-	3	(1)	2
Total	**7**	**(9)**	**63**	**(59)**

[1] *Includes foreign exchange gains of $30 million and losses of $74 million in the three and nine months ended 30 September 2019, (losses of $39 million and gains of $53 million in the three and nine months ended 30 September 2018) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes losses from the retirement of borrowings during the three and nine months ended 30 September 2019 of $1 million and $7 million (three and nine months ended 30 September 2018 – nil and $14 million), net of gains during the three and nine months ended 30 September 2019 from the issuance of borrowings of $11 million and $25 million (three and nine months ended 30 September 2018 – $6 and $10 million).*

15. 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. There were no material changes to our assessment and management of market risk in the three and nine months ended 30 September 2019.

Value at risk (VaR)

Market risk for investment securities in the Mortgage Insurance and Mortgage Funding Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measure the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence. The VaR for the Mortgage Insurance and Mortgage Funding Activities calculated with 95% confidence over a 22 business day holding period is outlined in the table below. 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 2019	31 December 2018
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	187	148
USD-denominated securities	36	30
Equity risk	-	26
Effect of diversification	(6)	(36)
Total VaR	**217**	**168**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. Our internal policies limit the amount of foreign currency investments and require full hedging of currency risk. We held $2,386 million in debt instruments denominated in U.S. dollars as at 30 September 2019 (31 December 2018 – $2,278 million), and residual currency risk was assessed as immaterial.

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 derivatives, we assessed the impact of a 200 bps shift in interest rates as immaterial as at 30 September 2019.

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 is presented below.

	As at			
	30 September 2019		**31 December 2018**	
	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]	(128)	119	(75)	63

[1] *The changes in fair value of net assets resulting from interest rate shifts presented in this table would not be recognized in comprehensive income as the underlying financial instruments are measured at amortized cost.*

16. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. Full descriptions of credit risks related to our financial instruments and how we manage those risks are disclosed in Note 19 of our audited consolidated financial statements. There has been no change to the nature of the risks and how they are managed for the three and nine month period ended 30 September 2019.

17. 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)	**2019**	**2018**	**2019**	**2018**
Current service cost	9	10	-	-
Net interest expense	3	4	1	2
Expense recognized in net income	**12**	**14**	**1**	**2**
Net actuarial gains (losses) arising from changes in financial assumptions	-	93	-	6
Return on plan assets (excluding amounts included in net interest expense)	38	(27)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**38**	**66**	**-**	**6**
CMHC's contributions	1	6	3	1
Employee contributions	4	4	-	-
Total contributions	**5**	**10**	**3**	**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)	2019	2018	2019	2018
Current service cost	27	29	6	1
Net interest expense	9	10	3	4
Expense recognized in net income	**36**	**39**	**9**	**5**
Net actuarial gains (losses) arising from changes in financial assumptions	(354)	184	(18)	11
Return on plan assets (excluding amounts included in net interest expense)	278	(8)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(76)**	**176**	**(18)**	**11**
CMHC's contributions	32	47	9	5
Employee contributions	20	12	-	-
Total contributions	**52**	**59**	**9**	**5**

[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.

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2019	2018	2019	2018
Current income tax expense	131	96	366	321
Deferred income tax relating to origination and reversal of temporary differences	2	30	22	24
Total income tax expense included in net income	**133**	**126**	**388**	**345**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	2	(27)	122	(75)
Reclassification of prior years' net unrealized gains realized in the period in net income	1	(4)	2	(5)
Remeasurement losses (gains) on defined benefit plans	7	13	(15)	32
Total income tax recovery included in other comprehensive income (loss)	**10**	**(18)**	**109**	**(48)**
Total	**143**	**108**	**497**	**297**

19. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. The fees, which are recorded in operating expenses, amount to $11 million and $32 million for the three and nine months ended 30 September 2019, respectively (three and nine months ended 30 September 2018 – $10 million and $29 million) for the Mortgage Insurance Activity and $7 million and $19 million for the three and nine months ended 30 September 2019, respectively (three and nine months ended 30 September 2018 – $6 million and $17 million) for the Mortgage Funding Activity.

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

20. 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 2018 – $600 billion). As at 30 September 2019, insurance-in-force, which represents the risk exposure of the Mortgage Insurance Activity, totalled $433 billion (31 December 2018 – $448 billion). Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2018 – $600 billion). At 30 September 2019, guarantees-in-force, which represents the risk exposure of the Mortgage Funding Activity, totalled $488 billion (31 December 2018 – $488 billion).

There are legal claims of $4 million (31 December 2018 – $4 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.

We have $50 million of cash and cash equivalents as at 30 September 2019 (31 December 2018 – $78 million) that relates to funds received from the Government that may only be used as part of the Affordable Rental Housing Innovation Fund. We also have $183 million of cash and cash equivalents (31 December 2018 – $260 million) that may only be used as part of the Rental Construction Financing initiative, as well as $8 million (31 December 2018 – nil) that may only be used as part of the National Housing Co-Investment Fund.

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