CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

THIRD QUARTER
30 SEPTEMBER 2020
(Unaudited)

Canada

CMHC SCHL

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Management’s Discussion and Analysis

OVERVIEW

The following Management’s Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 24 November 2020 is prepared for the third quarter ended 30 September 2020 and is intended to provide readers with an overview of our performance including comparatives against the same three and nine month periods in 2019. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2019 Annual Report. The unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. The unaudited quarterly consolidated financial statements have been reviewed by 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 2019 Annual Report. As a result of the launch of the Insured Mortgage Purchase Program (IMPP) we have disclosed our accounting policy and critical judgment related to the program in note 2 to the unaudited quarterly consolidated financial statements. The global COVID-19 pandemic has led to additional measurement uncertainty when making judgments and developing assumptions used in estimates. Additional information has been included in Note 4 of our unaudited quarterly consolidated financial statements. Except for the matters discussed above, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the third quarter of 2020.

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 2020” section 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 2019 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2020

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

COVID-19

In the third quarter of 2020, the COVID-19 pandemic continued to impact the Canadian economy and those of countries around the world. The Government of Canada continues to provide support to individuals and businesses affected by the pandemic to help stabilize the economy during this challenging period. As some previously enacted programs conclude, there are new programs being implemented.

We and other mortgage insurers are offering tools to lenders that can assist mortgage holders in Canada who may be experiencing financial difficulty. These include default management tools such as payment deferral, loan re-amortization, capitalization of eligible expenses, and other options as applicable to the borrower. The Government, through CMHC, has worked with lenders to allow mortgage payment deferrals for up to six months as part of extraordinary measures to help homeowners and multi-unit borrowers facing financial difficulties during the pandemic, as well as minimize the risks of further financial and market instabilities. CMHC has also worked with housing providers that have direct loans with CMHC to assess their changing financial situation, with the objective of providing a solution that meets their needs.

Mortgages deferred are contributing to a higher insurance claims expense and provision for claims due to their higher claim risk. Although our actual claims paid have been lower year over year, the level of paid claims may increase should our estimates of claims coming from this book be realized. As of September 2020, we are seeing a decline in loans being deferred in all categories – homeowner, portfolio, and multi-unit[1].

As a further proactive and coordinated measure to strengthen the financial system and the Canadian economy, the Government launched an Insured Mortgage Purchase Program (IMPP) on 16 March 2020. Under this program, the Government will purchase up to $150 billion of insured mortgage pools through CMHC by 31 December 2020, of which $5.8 billion was purchased by 30 September 2020. The IMPP provides long-term stable funding to banks and mortgage lenders, helps facilitate continued lending to Canadian consumers and businesses, and adds liquidity to Canada’s mortgage market. Since the IMPP is financed through the Crown Borrowing Program, the Minister of Finance has approved increases to our total outstanding short-term and long-term borrowing limits to $20 billion and $154 billion, respectively. In addition, the Minister of Finance increased our NHA MBS and CMB guarantee limits to $295 billion and $60 billion, respectively.

On 20 March 2020, the Minister of Finance announced changes to the eligibility criteria for portfolio insurance to help mortgage lenders access the IMPP. Effective 24 March 2020, low loan-to-value mortgages funded prior to 20 March 2020 with amortization up to 30 years from the date the loan was funded, as well as refinance loans, are eligible until 31 December 2020. As of 30 September 2020, we had approved $15.6 billion of portfolio insurance volumes under these extended eligibility criteria. The Government enabled these measures by raising CMHC’s guarantees-in-force and insurance-in-force limits to $750 billion each. These increased limits will be in place for a five-year period.

On 24 April 2020, the Government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses, a program that provides rent relief for small businesses experiencing financial hardship due to COVID-19. The program offers forgivable loans to eligible commercial property owners so that they can reduce the rent owed by their impacted small business tenants by at least 75% for the months of April, May, and June 2020. The Government subsequently announced that CECRA would be extended to also cover rent for July, August and September 2020. The forgivable loans from the Federal and Provincial governments will cover 50% of the monthly rent, the landlord will absorb another 25%, leaving the tenant to pay the remaining 25%. We are administering this program on behalf of the Government of Canada and our provincial and territorial partners by providing the forgivable loans to the eligible commercial property owners, and were approved to distribute up to $3 billion. As at 30 September 2020, we have disbursed $1.7 billion. Although this program has not been extended beyond September 2020, the application deadline is 30 October 2020. Therefore, we anticipate disbursing funds in the fourth quarter.

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[1] Details on our loans in deferral are published on our website

In July 2020, the federal government announced $16.7 million in emergency funding for Granville Island to facilitate the provision of rent relief to its tenants. CMHC manages Granville Island, on behalf of the Government of Canada, and as the Government is the landlord for many of the businesses of Granville Island, these tenants did not qualify for rent relief provided to small businesses under CECRA. As of 30 September, CMHC has appropriated and transferred $7.2 million to Granville Island.

In September 2020, as a rapid response to emerging pressures from COVID-19, the Government of Canada announced a $1 billion Rapid Housing Initiative (RHI) to help address urgent housing needs of vulnerable Canadians. The RHI will create up to 3,000 new affordable housing units across Canada by funding the construction of modular housing, as well as the acquisition of land, and the conversion of existing buildings. RHI funding will be available to municipalities, provinces, territories, Indigenous governing bodies and organizations, and non-profit organizations. Increasing supply of affordable housing will help vulnerable populations mitigate the risks related to COVID-19 over the long-term, and support Canada's economic recovery.

In response to the anticipated impact of the pandemic on Canadian house prices, and in order to protect future homebuyers and reduce risk, on 4 June 2020 we announced changes to our mortgage underwriting criteria effective 1 July 2020.

- Gross/Total Debt Servicing (GDS/TDS) ratio is limited to our standard requirement of 35/42;
- A minimum credit score of 680 for at least one borrower; and
- Non-traditional sources of down payments that increase indebtedness will no longer be treated as equity for insurance purposes.

Further, we have also suspended refinancing for multi-unit mortgage insurance, except where funds are used for repairs or reinvestment in housing. These decisions are within CMHC's authorities under the *National Housing Act* and are in anticipation of potential house price adjustments. We continue to monitor market conditions and work with our federal colleagues on potential prudent policy options.

Due to the rapidly changing environment, we are experiencing increased volatility in our financial results due to re-measurements in our financial instruments, pension obligations, expected credit losses and the provision for claims. We have not seen any significant increase in claims paid as a result of the pandemic and the number of mortgages being deferred is decreasing. The revision to the underwriting criteria caused a decrease in CMHC's homeowner transactional volumes.

Given our role as Canada's national housing agency, we may take further action to support Canadians through the crisis and subsequently to support the economic recovery. According to our Risk Appetite Framework, our role as a key stabilizing component of the Canadian financial system means we will continue to increase our appetite for risk as we and other institutions absorb the impacts of these events. Additional government responses to the pandemic might require further program changes and risk absorption by CMHC. There can be no assurance of the impact or magnitude of these events on our future financial results. As a result, we have prudently suspended our dividend to conserve our liquidity and capital to support further action by the Government, through CMHC, should the need arise. At 30 September 2020, our capital position remains strong and our excess capital of $5 billion will serve to buffer future impacts to our capital position.

To support the management of our capital during the crisis, we are performing stress tests and scenario analysis to understand the potential future impacts that may materialize in future periods. Our testing confirms that our capital holdings are sufficient to cover our obligations with certain management actions.

In the event our capital position is significantly impacted, under the Capital and Dividend Policy Framework for Financial Crown Corporations, the Government is prepared to inject capital into CMHC should additional capital be needed to deliver on our public policy mandate. This was further reinforced on 24 March 2020, when the Government approved a $10 billion recapitalization limit for CMHC.

Our Crisis Readiness Framework (CRF) enables us to monitor current developments and provide timely direction with regards to our COVID-19 response. The CRF and its governance structure promote an efficient and effective response while, in times of crisis, our Risk Appetite increases as we focus on system stability.

Our primary focus continues to be, the health and safety of our staff and ensuring the continuity of our operations. Our “Results Only” work philosophy enables our employees to work remotely, minimizing the operational impact of the pandemic on our core activities. We identified essential and critical staff needed to ensure business continuity, and our people leaders continue to monitor staffing levels in these key areas.

Some operational and financial targets as outlined in our 2020-2024 Corporate Plan may not be achieved given the current economic environment, as our stakeholders focus on their response to the global COVID-19 pandemic and due to our increased focus on financial stability. Other variances from the financial targets outlined in the Corporate Plan can be explained by changes in the economic variables that drive our key estimates, such as the provision for claims and expected credit loss provisions, as a result of the economic impacts of the COVID-19 pandemic. In addition, we also realized significant gains as part of the rebalancing of our mortgage insurance investment portfolio.

Economic conditions and housing indicators

The initial shock of the coronavirus pandemic on the Canadian economy was unprecedented. In March and April 2020, containment measures led to a sudden and severe drop in economic activity. Three million Canadians lost their jobs, while many others became underemployed. The economy partly recovered in the following months along with a strong bounce back in labour market conditions. However, as we find ourselves in the midst of a second wave, the path and timing for a full recovery to pre-pandemic levels remains uncertain.

Before the coronavirus pandemic, Canada’s economy operated near its potential. Real Gross Domestic Product (GDP) posted an annual growth rate of 1.7 per cent in 2019, following a 2.0 per cent growth rate in 2018. In both years, the economy grew resiliently despite being constrained by elevated household debt, international trade tensions and low energy prices. However, the latest data show declines in GDP of 8.2 per cent and 38.7 per cent (at annualized rates) respectively for the first and second quarters of 2020.

With gradual reopening in summer 2020, the Canadian economy has somewhat recuperated. Monthly indicators of economic activity and labour market conditions suggest a rebound in the third quarter of 2020 but not yet to pre-pandemic levels. Seventy-six per cent of the jobs lost in the first two months of the pandemic have been recovered as of September 2020. Consumer and business sentiment have improved since the early summer but remain subdued compared to pre-pandemic levels.

As of October 2020, a second wave of viral cases is emerging in Canada. This generates renewed uncertainty on the recovery path of the economy and incomes to pre-pandemic levels. A slower recovery could result from a severe second wave of viral cases and renewed containment measures in Canada or its major trading partners. While therapeutics and control measures will serve as a stopgap, a return to pre-pandemic economic activity is unlikely until effective vaccines are discovered and widely distributed.

The policy response to the economic shock has been extraordinary and even led to a significant increase in total household after-tax income during the second quarter of 2020. Direct support for households and businesses from federal, provincial and territorial governments is estimated at $256 billion[2] or roughly 12 per cent of Canadian GDP. The Bank of Canada (BoC) has kept the policy interest rate at the effective lower bound of 0.25 per cent since April. The BoC also committed to adding liquidity to the financial system and purchasing key assets to support market functioning. These unconventional monetary policy measures are helping keep interest rates in the wider economy low.

The housing market has been resilient so far. Although prices and sales fell in March and April, Canada’s MLS® price averaged a record high of $555,758 during the first nine months of 2020, a 13 per cent increase from the same period in 2019. Similarly, MLS® sales increased 5 per cent to 505,324 units (seasonally adjusted annualized rate; SAAR) and housing starts increased 0.7 per cent to 212,641 SAAR units, during the first nine months of 2020.

[2] Department of Finance Canada, Economic and Fiscal Snapshot 2020

The recent strength of the housing market in Q3 2020 was lifted by pent-up demand from the Q2 lockdowns, compositional effects on the type and location of units traded, and temporary government support programs. Heading into 2021, the housing market is expected to return to more normal seasonal patterns. Because of the challenges posed by the pandemic, economic fundamentals risk not being sufficiently strong enough to support the housing market at current levels.

Going forward, the expected worsening of households and businesses' financial position from the pandemic will raise housing market vulnerabilities. Therefore, housing markets face significant downside risks in the medium term.

Progress on the National Housing Strategy

CMHC continues to deliver on Canada's National Housing Strategy (NHS), a 10-year plan that will give more Canadians a place to call home. Dynamic and adaptable, the NHS is designed to evolve as needed to better respond to Canadians' housing needs as they change over time and as circumstances vary. As noted above, in response to emerging pressures from COVID-19, the Government of Canada announced a $1 billion Rapid Housing Initiative (RHI), which will quickly create up to 3,000 new affordable housing units across Canada by funding the construction of modular housing, the acquisition of land, and the conversion of existing buildings. The majority of these funds will be committed to projects in 2020-21, with spending continuing into 2022.

Further incentivizing innovative approaches to creating new housing, the Housing Supply Challenge (the Challenge) announced in August 2020, will welcome new ideas and solutions from across Canada that break down the barriers that limit new housing supply. The Challenge will provide funding over five years through various unique rounds. The first round focuses on developing data solutions that positively impact housing supply that is affordable and meets people's needs. Applications will be accepted beginning in October 2020.

A Canada-Quebec Asymmetrical Bilateral Agreement was signed on 6 October 2020, which respects Quebec's housing system while aligning with the high-level principles of the NHS and the Government of Canada's commitment to report on NHS outcomes.

We continue the work with provinces and territories to co-develop the Canada Housing Benefit. Four jurisdictions have launched their programs following finalized agreements and action plans. Formal announcements and community outreach for the Canada Housing Benefit (CHB) have been delayed by COVID-19. While some provinces and territories have been forced to divert resources toward pandemic response measures, we continue to pursue co-development of the CHB in remaining jurisdictions where agreements and action plans have not yet been executed.

Work also continues to establish a National Housing Council made up of diverse voices, including persons with lived experience of housing need and homelessness, to help further housing policy by providing advice to our Minister on the effectiveness of the NHS.

Phase II of the Federal Community Housing initiative launched on 1 September 2020. While the launch was delayed due to COVID-19, eligible housing providers who opted in and who have federally administered operating agreements expiring in the coming months continued to receive their current level of financial assistance until the end of August.

The NHS initiatives will continue to ramp up over the next few periods as our older programs continue to sunset. We actively examined ways in which we could accelerate the flow of funding for projects under the NHS overall, and worked to simplify the application and approvals processes. Progress on the NHS against targets is reported quarterly on the website (www.placetocallhome.ca).

Office of the Superintendent of Financial Institutions (OSFI) guidelines

In light of the COVID-19 situation, most consultations with OSFI have been put on hold. Additionally, the proposed changes to the mortgage rate stress test that were to take effect on 6 April 2020 have been suspended with no new effective date announced.

Total Requirements for First-Time Home Buyer Incentive (FTHBI) Mortgages

We implemented the Mortgage Insurer Capital Adequacy Test (MICAT) Total Requirements for FTHBI insured Mortgages Advisory on 1 January 2020. This Advisory complements the MICAT Guideline that was implemented on 1 January 2019 and sets out a new method for calculating the reciprocal of loan-to-value (LTV) ratio. For FTHBI insured mortgages, the reciprocal of LTV ratio is the weighted average of:

- The reciprocal of LTV ratio calculated using the outstanding balance of the loan (prior method); and
- The reciprocal of LTV ratio calculated using the sum of the outstanding balance of the loan and the shared equity amount.

There was no material financial impact as a result of implementing this new requirement. 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 2 of our 2019 audited consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*.

In June 2020, the IASB amended IFRS 17 to address concerns and implementation challenges raised by stakeholders. The most notable amendment to CMHC is that the IASB has deferred the effective date by two years, to 1 January 2023. We evaluated the entire suite of 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 a contractual service margin and deferred acquisition costs, 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 have made significant progress, as we are currently finalizing most of our accounting policies and are in the build phase of the technological infrastructure required to support the implementation.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 September 2020 and 31 December 2019 *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Total assets	10,552	9,698	20,442	18,586	272,787	249,020	(554)	(1,045)	303,227	276,259
Total liabilities	10,265	9,396	7,449	6,523	269,992	246,735	(510)	(1,008)	287,196	261,646
Total equity of Canada	287	302	12,993	12,063	2,795	2,285	(44)	(37)	16,031	14,613

Our total assets and liabilities increased approximately in line with each other, by $26,965 million (10%) and $25,541 million (10%), respectively. This was driven mainly by the issuance of Canada Mortgage Bonds (CMB), facilitated by our increased guarantee limit, and the purchase of insured mortgage pools under the IMPP in the first and second quarter of 2020, as a result of increased demand for liquidity from financial institutions. This resulted in increases in both loans and borrowings at amortized cost.

Condensed consolidated statements of income and comprehensive income

Three months ended 30 September *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Government funding for housing programs	1,977	393	-	-	-	-	-	-	1,977	393
Premiums and fees earned	-	-	347	359	165	146	-	-	512	505
All other income[1]	22	18	149	104	23	25	(1)	4	193	151
Total revenues and government funding	**1,999**	**411**	**496**	**463**	**188**	**171**	**(1)**	**4**	**2,682**	**1,049**
Housing programs	1,850	341	-	-	-	-	-	-	1,850	341
Insurance claims	-	-	171	42	-	-	-	-	171	42
Operating expenses	131	59	67	75	15	16	-	-	213	150
Total expenses	**1,981**	**400**	**238**	**117**	**15**	**16**	**-**	**-**	**2,234**	**533**
Income taxes	3	1	66	91	43	39	-	2	112	133
Net income	**15**	**10**	**192**	**255**	**130**	**116**	**(1)**	**2**	**336**	**383**
Other comprehensive income (loss)	4	13	5	28	(9)	(3)	1	3	1	41
Comprehensive income	**19**	**23**	**197**	**283**	**121**	**113**	**-**	**5**	**337**	**424**

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

Nine months ended 30 September (in millions)	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Government funding for housing programs	3,520	1,550	-	-	-	-	-	-	3,520	1,550
Premiums and fees earned	-	-	1,028	1,071	495	426	-	-	1,523	1,497
All other income[1]	66	36	730	427	83	73	-	(35)	879	501
Total revenues and government funding	**3,586**	**1,586**	**1,758**	**1,498**	**578**	**499**	**-**	**(35)**	**5,922**	**3,548**
Housing programs	3,249	1,404	-	-	-	-	-	-	3,249	1,404
Insurance claims	-	-	585	151	-	-	-	-	585	151
Operating expenses	282	167	210	234	51	48	-	-	543	449
Total expenses	**3,531**	**1,571**	**795**	**385**	**51**	**48**	**-**	**-**	**4,377**	**2,004**
Income taxes	9	-	243	283	132	113	-	(8)	384	388
Net income	**46**	**15**	**720**	**830**	**395**	**338**	**-**	**(27)**	**1,161**	**1,156**
Other comprehensive income (loss)	(61)	(36)	209	307	115	47	(6)	(12)	257	306
Comprehensive income	**(15)**	**(21)**	**929**	**1,137**	**510**	**385**	**(6)**	**(39)**	**1,418**	**1,462**

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

Q3 2020 vs Q3 2019

Our total revenues and government funding increased by $1,633 million (156%) mainly due to:

- An increase of $1,584 million (403%) in government funding for housing programs driven mainly by $1,549 million for the CECRA initiative.
- An increase of $42 million (28%) in other income mainly caused by a reduction in our expected credit loss (ECL) provisions by $22 million due to more optimistic financial market projections, partially offset by a decrease in investment income in the Mortgage Insurance activity resulting from lower bond yields.
- An increase of $7 million (1%) in premiums and fees earned driven by higher earned fees in the Mortgage Funding activity due to pricing changes made in recent years and an increase in volume as explained below. This was partially offset by lower earned premiums in the Mortgage Insurance activity mainly due to revised earning patterns reflecting longer claim occurrence patterns.

Total expenses increased by $1,701 million (319%) mainly due to:

- The increase in government funding for housing programs as described above, resulting in an increase in housing programs expenses and operating expenses.
- An increase of $129 million (307%) in insurance claims as COVID-19 has unfavourably impacted the economic variables that drive insurance claims compared to 2019. Although the arrears have decreased, the volume of loans in deferral have been taken into consideration in estimating the incurred but not reported (IBNR) claims which are also contributing to the increase in the insurance claims expense.

Other comprehensive income decreased by $40 million (98%) mainly due to:

- The disposal of a significant portion of our fixed income investments as we rebalanced our insurance investment portfolio. These gains were previously recorded in other comprehensive income (OCI) and reclassified into income upon disposal. This was partially offset by an increase in unrealized gains on our financial instruments due to lower bond yields in 2020.
- A decrease in remeasurement gains (losses) on defined benefit plans as a result of a decrease in the discount rate used to measure the defined benefit plans obligation.

YTD 2020 vs YTD 2019

Our total revenues and government funding increased by $2,374 million (67%) mainly due to:

- An increase of $1,970 million (127%) in government funding for housing programs driven mainly by the $1,770 million investment in the CECRA initiative since it's inception as explained above. Additionally, there was an increase in funding for the Federal/Provincial/Territorial Housing Partnership, the National Housing Co-Investment Fund (NHCF) and other NHS initiatives.
- An increase of $378 million (75%) in other income due to the disposal of fixed income investments, as explained above.
- An increase of $26 million (2%) in premiums and fees earned from the same reasons described above.
- An increase of $30 million (83%) in all other income in the Assisted Housing activity mainly caused by day one gains due to preferred rates on our borrowings from the Government of Canada for NHS initiatives.

Total expenses increased by $2,373 million (118%) mainly due to an increase in government funding for housing programs and insurance claims for the same reasons described above.

Other comprehensive income decreased by $49 million (16%) for the same reasons as described above.

Financial metrics and ratios

Mortgage Insurance

	Insurance-in-force ($B)	
	As at	
(in millions, unless otherwise indicated)	**30 September 2020**	**31 December 2019**
Transactional homeowner	222	227
Portfolio	117	117
Multi-unit residential	99	85
Total	**438**	**429**

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed $750 billion (2019 – $600 billion). Insurance-in-force increased by $9 billion (2%) due to higher volumes insured in the current year compared to recent years exceeding run-off of existing policies-in-force. New loans insured were $53 billion, while estimated loan amortization and pay-downs were $44 billion.

	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid	
	Three months ended 30 September							
(in millions, unless otherwise indicated)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Transactional homeowner	28,876	29,477	8,313	8,302	298	292	17	46
Portfolio	24,801	4,997	5,253	944	22	2	1	6
Multi-unit residential[3]	42,756	38,208	6,051	4,817	250	172	2	1
Total	**96,433**	**72,682**	**19,617**	**14,063**	**570**	**466**	**20**	**53**

1 *Portfolio substitutions were 8,291 units and $1,316 million for the three months ended 30 September 2020 (3,048 units and $432 million for the three months ended 30 September 2019).*

2 *Premiums and fees received may not equal premiums and fees deferred on contracts written during the period due to timing of receipts.*

3 *Multi-unit residential premiums and fees received includes $11 million for the three months ended 30 September 2020 ($5 million for the three months ended 30 September 2019) received from the government for RCFi.*

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid	
	Nine months ended 30 September							
	2020	2019	2020	2019	2020	2019	2020	2019
Transactional homeowner	72,881	74,697	20,516	20,068	730	713	104	158
Portfolio	89,089	23,908	20,954	5,083	105	19	8	13
Multi-unit residential[3]	123,622	90,640	17,208	10,995	656	385	5	2
Total	**285,592**	**189,245**	**58,678**	**36,146**	**1,491**	**1,117**	**117**	**173**

1 *Portfolio substitutions were 27,270 units and $5,375 million for the nine months ended 30 September 2020 (8,216 units and $1,069 million for the nine months ended 30 September 2019).*

2 *Premiums and fees received may not equal premiums and fees deferred on contracts written during the period due to timing of receipts.*

3 *Multi-unit residential premiums and fees received includes $33 million for the nine months ended 30 September 2020 ($10 million for the nine months ended 30 September 2019) received from the government for RCFi.*

Q3 2020 vs Q3 2019 and YTD 2020 vs YTD 2019

Transactional homeowner volumes decreased by 601 (2%) and 1,816 (2%) units from the same three and nine month period last year, respectively, as a result of the changes to our underwriting criteria as mentioned above. This more than offsets the increase in units from the first quarter driven by a strong housing market. Portfolio unit volumes increased by 19,804 (396%) and 65,181 (273%) units for the same three and nine month period last year, respectively, as a result of the short-term expanded eligibility criteria. In addition, Multi-unit residential volumes increased by 4,548 (12%) and 32,982 (36%) units from the same three and nine month period last year, respectively, with multi-unit refinancing representing most of the increase as many borrowers refinanced to benefit from the lower interest rates. Close to 99% of the refinanced loans funded building improvements and renovations.

Insured dollars for all products increased by $5.6 billion (39%) and $22.5 billion (62%) from the same three and nine month period last year, respectively, driven by the increase in units in portfolio and multi-unit, and higher property values in transactional homeowner.

Higher volumes in multi-unit and homeowner products account for the majority of the $374 million (33%) increase in total premiums and fees received.

Lower claims paid from the same three and nine month period last year is mainly due to a decrease in homeowner claims as a result of court proceedings on hold because of COVID-19 combined with borrowers deferring their mortgage payments under the mortgage deferral program as discussed in the operating environment section above.

(in percentages)	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
Loss ratio[1]	49.3	11.6	56.9	14.1
Operating expense ratio	19.2	20.8	20.4	21.8
Combined ratio	68.5	32.4	77.3	35.9
Severity ratio	31.0	30.0	30.8	30.8
Return on equity	5.9	8.3	7.7	9.1
Return on required equity	7.7	9.8	9.5	10.6

1 *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 57.5% and 66.8% for the three and nine months ended 30 September 2020, respectively (21.3% and 19.3% for the three and nine months ended 30 September 2019).*

Q3 2020 vs Q3 2019 and YTD 2020 vs YTD 2019

The loss ratio increased mainly due to higher insurance claims expenses, as a result of a higher unemployment rate and a lower gross domestic product (GDP) caused by the COVID-19 pandemic.

The operating expense ratio decrease is mostly attributable to lower salaries and professional fees partially offset by lower earned premiums and fees as explained above.

Although claims paid decreased, the severity ratio increased from the same three month period last year due to lower sales proceeds as a percentage of gross claims, driven by sales in regions with lower resale value.

The return on equity and return on required equity ratios decreased from the same three and nine month period last year due to lower net income as explained above coupled with increased average equity.

	As at 30 September 2020		As at 31 December 2019	
	No. of delinquent loans	Arrears rate	No. of delinquent loans	Arrears rate
Transactional homeowner	5,052	0.46%	4,859	0.43%
Portfolio	1,495	0.18%	1,275	0.15%
Multi-unit residential	85	0.33%	67	0.28%
Total	**6,632**	**0.34%**	**6,201**	**0.31%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. There were higher reported delinquencies in all regions except the Atlantic, which is consistent with the slightly weaker economic conditions for these regions. Payment deferrals related to COVID-19 are not included in arrears data.

Mortgage Funding

	Total guarantees-in-force ($B)	
	As at	
(in millions, unless otherwise indicated)	30 September 2020	31 December 2019
NHA MBS	241	249
CMB	259	244
Total	**500**	**493**

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $750 billion (2019 – $600 billion).

Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee. Guarantees-in-force were $500 billion as at 30 September 2020, an increase of $7 billion (1%) as new guarantees provided by CMHC exceeded maturities. This is due to financial institutions accessing our programs for additional sources of liquidity through the IMPP. Guarantees-in-force remain under the $750 billion legislative limit.

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended 30 September			
(in millions, unless otherwise indicated)	2020	2019	2020	2019
NHA MBS[2]	31	33	138	129
CMB	12	10	48	35
Total	**43**	**43**	**186**	**164**

[1] *Guarantee and application fees received for NHA MBS; guarantee fees received for CMB.*
[2] *No securities were sold into the IMPP during the three month period ending 30 September 2020.*

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Nine months ended 30 September			
(in millions, unless otherwise indicated)	2020	2019	2020	2019
NHA MBS[2]	132	93	515	318
CMB	41	31	148	110
Total	**173**	**124**	**663**	**428**

[1] *Guarantee and application fees received for NHA MBS; guarantee fees received for CMB.*
[2] *$4.2 billion of new securities and $1.6 billion of securities guaranteed in previous quarters were sold into the IMPP.*

Q3 2020 vs Q3 2019 and YTD 2020 vs YTD 2019

Guarantee and application fees received increased by $22 million (13%) and $235 million (55%), from the same three and nine month period last year, respectively. This is due to higher CMB volumes as well as more NHA MBS volumes exceeded the annual guarantee fee threshold compared with Q3 2019, which carry a higher guarantee fee.

New securities guaranteed increased by $49 billion (40%) from the same nine month period last year. This is due to financial institutions accessing our programs for additional sources of liquidity. The increased limit on CMB issuances alongside the introduction of the IMPP drove higher CMB volumes.

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2020**	**2019**	**2020**	**2019**
Operating expense ratio	7.0	9.3	8.1	9.3
Return on equity	19.1	19.1	20.8	18.6
Return on required equity	40.8	35.9	40.7	35.0

Q3 2020 vs Q3 2019 and YTD 2020 vs YTD 2019

The operating expense ratio decreased from the same three and nine month period last year, respectively, as guarantee and application fees earned were higher due to fee increases in recent years as well as increased volumes.

Return on equity ratio increased from the same nine month period last year due to the increase in annualized net income. This was partially offset by the increase in average equity which is a result of not paying a dividend in Q3 2020.

Return on required equity ratio increased from the same three and nine month period last year due to the increase in annualized net income, largely driven by higher guarantee and application fees earned as explained above.

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)	**2020**	**2019**
Amounts provided for housing programs:		
Amounts authorized in 2019/20 (2018/19)		
Main estimates	2,657	2,452
Supplementary estimates A[1,2]	9	7
Supplementary estimates B[1,3]	78	1
Less: Portion recognized in calendar 2019 (2018)	(1,282)	(1,309)
Less: Government funding lapsed for 2019/20 (2018/19)	(64)	(356)
Less: Frozen Allotment	(463)	(18)
2019/20 (2018/19) government funding for housing programs funded in 2020 (2019)	**935**	**777**
Less: Funding deferred in period	(21)	-
2019/20 (2018/19) government funding for housing programs recognized in 2020 (2019)	**914**	**777**
Amounts authorized in 2020/21 (2019/20)		
Main estimates	2,920	2,657
Supplementary estimates A[1,2,4]	3,038	9
Supplementary estimates B[1,3]	-	78
Total fiscal year government funding for housing programs	**5,958**	**2,744**
Less: portion to be recognized in subsequent quarters	(3,134)	(1,962)
Less: Frozen Allotment	(41)	-
2020/21 (2019/20) government funding for housing programs funded in 2020 (2019) calendar year	**2,783**	**782**
Less: Funding deferred in period	(177)	**(9)**
2020/21 (2019/20) government funding for housing programs recognized in 2020 (2019) calendar year	**2,606**	**773**
Total government funding for housing programs recognized – nine months ended 30 September	**3,520**	**1,550**

1 *Supplementary estimates are additional government funding voted on by Parliament during the Government's fiscal year.*

2 *Approved 2019/20 supplementary estimates A for Housing Research and Data Initiative, First-Time Home Buyer Initiative, Human-rights based approach to housing and other initiatives.*

3 *Approved 2019/20 supplementary estimates B for Co-Investment Fund, Innovation Fund, First-Time Home Buyer Initiative and other initiatives.*

4 *Approved 2020/21 supplementary estimates A for Canada Emergency Commercial Rent Assistance, Housing Supply Challenge and funding to respond to the National Inquiry into Missing and Murdered Indigenous Women and Girls' Final Report: Reclaiming Power and Place Assistance.*

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 2020**	**31 December 2019**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	233%	195%
Mortgage Funding: Available equity to required equity	233%	190%

Our Mortgage Insurance MICAT ratio increased by 38 percentage points mainly due to the increase in available equity, driven by the temporary suspension of the dividend in the quarter. Capital required for insurance risk also decreased due to lower insurance-in-force in the quarter. We remain adequately capitalized as at 30 September 2020.

Our Mortgage Funding available equity to required equity ratio increased by 43 percentage points. This is due to the increase in available equity, primarily driven by the temporary suspension of the dividend since Q1 2020 and the contribution of income in the period.

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 2020, total investments had a fair value of $19.6 billion (31 December 2019 – $17.8 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 2020, total investments under management had a fair value of $4.7 billion (31 December 2019 – $3.9 billion).

Please refer to the COVID-19 section with respect to the increase to our borrowing limits and Government's approval of our recapitalization limit.

RISK MANAGEMENT

We continue to actively manage risks arising from the effects of COVID-19 that may have an impact on our operating environment. There are additional risks as discussed in our most recent Annual Report that could have an impact on the achievement of our objectives. We continue to manage all risks that our business is exposed to according to our policies and frameworks and there have been no changes to our risk management approaches during this reporting period.

Our exposure to operational risks has improved from high to a moderate level due to the reduction in the uncertainty surrounding the operational impact of the pandemic. At the same time, our internal capabilities including strong crisis monitoring and reporting in place have helped to manage our response. Our people's health and safety and business continuity remain our focus as we manage the impacts from the resurgence of the virus in parts of Canada. We continue to ensure our business continuity plans remain appropriate to manage our operations under a variety of situations and we support our employees through best practice workplace reintegration measures. We remain committed to monitoring the uncertainties and potential emerging risks from the second wave of infections and any further lockdown measures. Our recent investments in technology are helping us navigate through the current crisis and we continue our increased risk monitoring. There has been no change to the delivery of regular programs ensuring critical services to Canadians are uninterrupted. We continue to offer the Insured Mortgages Purchase Program (IMPP) under our financial stability mandate, scheduled to end by the end of 2020.

Global financial markets have considerably improved since the initial shock as the World Health Organization (WHO) declared COVID-19 a global pandemic. In addition, risks including market, credit and liquidity risks continue to be at a stable level. However, we remain alert to any risks from the second wave of COVID-19 infections that may prompt additional lockdown measures impacting economic recovery. We continue to manage any developing risks to our commercial programs and investments effectively through high quality investments and ongoing monitoring of our counterparties and program participants. Our Mortgage Insurance activity, providing support for lenders, homeowners and multi-unit landlords, may face increased default risks as customers are expected to resume repayments after a period of payment deferrals. In addition, potential decline in house prices in vulnerable markets along with elevated unemployment rate, commodity price shocks and continuation of social distancing measures for a longer duration will have an impact on the economy.

As we navigate the current crisis, we may continue our focus on limiting the negative impact of COVID-19 on Canadians over some near-term strategic objectives. Our crisis readiness framework and our risk appetite in times of crisis continue to enable us to manage current crisis and any evolving risks with a view to preserve stability of the housing finance system in Canada.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019[2]	Q4 2018
Consolidated Results								
Total assets	303,227	294,167	283,711	276,259	276,685	272,242	269,976	263,876
Total liabilities	287,196	278,473	268,281	261,646	261,857	257,333	255,025	248,995
Total equity of Canada	16,031	15,694	15,430	14,613	14,828	14,909	14,951	14,881
Total revenues and government funding	2,682	1,781	1,459	1,191	1,049	1,020	1,479	1,047
Total expenses (including income taxes)	2,234	1,215	1,200	767	666	641	1,085	698
Net income	448	566	259	424	383	379	394	349
Assisted Housing								
Government funding for housing programs	1,977	629	914	489	393	380	777	431
Net income (loss)	15	25	6	27	10	-	5	13
Total equity of Canada	287	268	379	302	270	247	270	291
Mortgage Insurance								
Insurance-in-force ($B)	438	433	425	429	433	439	442	448
Total insured volumes	19,617	26,939	10,795	14,320	14,063	14,191	7,891	12,159
Premiums and fees received	570	573	348	432	466	428	223	380
Premiums and fees earned	347	346	335	358	359	357	355	356
Claims paid	20	34	63	63	53	46	74	60
Insurance claims	171	292	122	40	42	36	73	38
Net income	192	400	128	266	255	297	278	233
Arrears rate	0.34%	0.34%	0.32%	0.31%	0.30%	0.29%	0.30%	0.29%
Loss ratio	49.3%	84.3%	36.5%	11.3%	11.6%	10.2%	20.6%	10.7%
Operating expense ratio	19.2%	21.3%	20.6%	22.0%	20.8%	20.7%	24.0%	25.6%
Combined ratio	68.5%	105.6%	57.1%	33.3%	32.4%	30.9%	44.6%	36.6%
Severity ratio	31.0%	28.9%	28.8%	29.9%	30.0%	28.8%	29.3%	30.0%
Return on equity	5.9%	13.2%	4.2%	8.8%	8.3%	9.7%	9.1%	7.6%
Return on required equity	7.7%%	14.9%	4.9%	10.6%	9.8%	11.3%	10.2%	8.3%
Capital available to minimum capital required (% MICAT)[1]	233%	231%	207%	195%	197%	197%	189%	168%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	25.9%	25.8%	26.0%	26.4%	27.0%	28.0%	28.5%	29.1%
Mortgage Funding								
Guarantees-in-force ($B)	500	516	494	493	488	492	494	488
Securities guaranteed	42,667	84,342	45,930	50,140	42,930	41,708	38,924	48,556
Guarantee and application fees received	186	323	154	129	164	136	128	252
Guarantee and application fees earned	165	170	160	156	146	142	138	132
Net income	130	143	122	126	116	114	108	102
Operating expense ratio	7.0%	9.0%	8.4%	9.3%	9.3%	9.7%	8.7%	10.5%
Return on equity	19.1%	21.9%	20.4%	21.7%	19.1%	18.4%	17.5%	16.0%
Return on required equity	40.8%	42.9%	38.7%	38.9%	35.9%	34.9%	34.1%	26.0%
Available equity to required equity	233%	223%	211%	190%	198%	203%	207%	209%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	29.3%	30.6%	30.3%	30.6%	30.9%	31.4%	32.2%	31.9%

1 *We implemented the MICAT guideline in Q1 2019. Prior quarters were based off the Minimum Capital Test (MCT).*

2 *We implemented IFRS 16 Leases in Q1 2019. Prior quarters were based off International Accounting Standard 17 Leases and related interpretations.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 2020

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

24 November 2020

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at 30 September 2020	As at 31 December 2019
Assets			
Cash and cash equivalents		2,055	922
Securities purchased under resale agreements		221	-
Accrued interest receivable		1,295	737
Investment securities:			
Fair value through profit or loss	11	421	809
Fair value through other comprehensive income	11	22,867	20,633
Amortized cost	10	1,291	947
Derivatives		27	68
Due from the Government of Canada	6	260	249
Loans:	12		
Fair value through profit or loss		871	1,331
Amortized cost		272,737	249,439
Accounts receivable and other assets		904	848
Investment property		278	276
		303,227	276,259
Liabilities			
Accounts payable and other liabilities		812	796
Accrued interest payable		1,154	591
Derivatives		75	8
Provision for claims	7	857	407
Borrowings:	13		
Fair value through profit or loss		1,507	2,374
Amortized cost		274,251	249,741
Defined benefit plans liability		582	449
Unearned premiums and fees	7, 8	7,791	7,151
Deferred income tax liabilities		167	129
		287,196	261,646
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		600	247
Retained earnings		15,406	14,341
		16,031	14,613
		303,227	276,259

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(in millions of Canadian dollars)	Notes	Three months ended 30 September 2020	Three months ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Interest income		1,181	1,369	3,778	4,074
Interest expense		1,179	1,354	3,764	4,017
Net interest income		2	15	14	57
Government funding for housing programs	6	1,977	393	3,520	1,550
Premiums and fees earned	7, 8	512	505	1,523	1,497
Investment income		93	124	316	362
Net gains (losses) on financial instruments	14	89	7	520	63
Other income		9	5	29	19
Total revenues and government funding		2,682	1,049	5,922	3,548
Non-interest expenses					
Housing programs	6	1,850	341	3,249	1,404
Insurance claims		171	42	585	151
Operating expenses		213	150	543	449
Total expenses		2,234	533	4,377	2,004
Income before income taxes		448	516	1,545	1,544
Income taxes	18	112	133	384	388
Net income		336	383	1,161	1,156
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)		6	1	402	364
Reclassification of losses (gains) on debt instruments held at fair value through other comprehensive income on disposal in the period		(24)	10	(49)	23
Total items that will be subsequently reclassified to net income		(18)	11	353	387
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)
Remeasurement gains (losses) on defined benefit plans	17, 18	19	31	(96)	(79)
Total items that will not be subsequently reclassified to net income		19	30	(96)	(81)
Total other comprehensive income (loss), net of tax		1	41	257	306
Comprehensive income		337	424	1,418	1,462

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

(in millions of Canadian dollars)	Notes	Three months ended 30 September 2020	Three months ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Contributed capital		25	25	25	25
Accumulated other comprehensive income (loss)					
Balance at beginning of period		618	381	247	5
Other comprehensive income (loss)		(18)	11	353	387
Balance at end of period		600	392	600	392
Retained earnings					
Balance at beginning of period		15,051	14,503	14,341	14,851
Net income		336	383	1,161	1,156
Other comprehensive income (loss)		19	30	(96)	(81)
Dividend	9	-	(505)	-	(1,515)
Balance at end of period		15,406	14,411	15,406	14,411
Equity of Canada		16,031	14,828	16,031	14,828

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 2020	Three months ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Cash flows from operating activities					
Net income		336	383	1,161	1,156
Adjustments to determine cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		37	16	91	51
Net (gains) losses on financial instruments		(16)	(49)	(580)	(3)
Deferred income taxes	18	(15)	2	(17)	22
Changes in operating assets and liabilities					
Derivatives		71	23	108	(90)
Accrued interest receivable		(634)	(590)	(558)	(558)
Due from the Government of Canada		39	235	(2)	11
Accounts receivable and other assets		58	33	(56)	(58)
Accounts payable and other liabilities		(731)	(59)	(28)	83
Accrued interest payable		620	520	563	561
Provision for claims		137	(21)	450	(26)
Defined benefit plans liability		9	9	22	4
Unearned premiums and fees		233	114	640	61
Other		(9)	9	(13)	5
Loans	12				
Repayments		5,754	5,775	26,865	21,107
Disbursements		(13,984)	(9,753)	(49,637)	(31,306)
Borrowings	13				
Repayments		(6,222)	(6,084)	(32,849)	(23,008)
Issuances		14,705	10,070	56,404	33,178
		388	633	2,564	1,190
Cash flows from investing activities					
Investment securities					
Sales and maturities		2,323	1,369	13,339	8,095
Purchases		(3,565)	(1,390)	(14,549)	(6,503)
Investment property disposals		-	36	-	36
Securities sold under repurchase agreements		-	-	-	(280)
Securities purchased under resale agreements		677	-	(221)	-
		(565)	15	(1,431)	1,348
Cash flows from financing activities					
Dividends paid		-	(505)	-	(2,190)
Change in cash and cash equivalents		(177)	143	1,133	348
Cash and cash equivalents					
Beginning of period		2,232	1,042	922	837
End of period		2,055	1,185	2,055	1,185
Represented by					
Cash		107	6	107	6
Cash equivalents		1,948	1,179	1,948	1,179
		2,055	1,185	2,055	1,185
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		819	988	3,910	4,122
Amount of interest paid during the period		711	913	3,498	3,672
Amount of dividends received during the period		-	-	2	9
Amount of income taxes paid during the period		149	128	560	234

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 also 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 Corporation's 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 2020 and were approved and authorized for issue by our Audit Committee on 24 November 2020.

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 for the accounting policy described below, 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 2019. These unaudited quarterly consolidated financial statements should be read in conjunction with those financial statements.

Canada Emergency Commercial Rent Assistance (CECRA) for Small Businesses

On 24 April 2020, the Government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. This program will provide forgivable loans to qualified commercial property owners who have set up rental forgiveness arrangements with their small business tenants. Under the program, forgivable loans will be offered to eligible commercial property owners so that they can reduce the rent owed by their impacted small business tenants by at least 75% for the months of April, May, June, July, August and September 2020. The forgivable loans from the Federal and Provincial governments will cover 50% of the monthly rent, the landlord will absorb another 25%, leaving the tenant to pay the remaining 25%.

We are administering the program on behalf of the government of Canada and our provincial partners by providing the forgivable loans to the eligible commercial property owners. Funding for the program comes from the Government by way of appropriations similar to the way funding is received for housing programs activities. The financial results related to CECRA will be reported to our Chief Operating Decision Maker (CODM), the Executive Committee, within the Assisted Housing segment. Accordingly, we report CECRA results within that segment of our financial statements.

We follow existing accounting policies for government programs for the CECRA program.

Insured Mortgage Purchase Program (IMPP)

In March 2020, the Government launched the IMPP, under which it will purchase up to $150 billion of insured mortgage pools through CMHC. The IMPP is structured similarly to the Canada Mortgage Bond (CMB) Program, with the key difference being that CMHC directly purchases and holds the National Housing Act Mortgage-Backed Securities (NHA MBS) under the IMPP, whereas Canada Housing Trust (CHT) directly purchases and holds them under the CMB Program and we then consolidate CHT's accounts with ours. The IMPP's primary financial statement impact is the recognition of loans and borrowings at amortized cost and the associated interest income and interest expense.

IMPP description

Loans under the IMPP represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to us and are funded by the issuance of Borrowings from the Government of Canada. Both the loans and borrowings are amortizing and may be fixed or floating rate. Principal and interest payments occur monthly, and principal repayments on the borrowings are equal to principal receipts on the loans.

Under the IMPP, substantially all of the risks and rewards of the NHA MBS are retained by the issuers through swap agreements with the Corporation. Consequently, the NHA MBS serve as collateral to the loans and are not recognized in the consolidated balance sheet. This collateral is, however, held in the name of the Corporation and represents the sole source of principal repayment for the loans. The amount due from the swap counterparties represents both the interest earned on the loans, which is recognized in interest income, and the interest expense on the borrowings, which is recognized in interest expense.

Classification and measurement

We classify the loans and borrowings under the IMPP as follows.

Classification	Financial instruments	Description	Criteria and accounting treatment
Financial assets at amortized cost	Loans – IMPP	Amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to CMHC.	Financial assets are classified at amortized cost if the assets: a) are held within a business model whose objective is to collect contractual cash flows; b) generate cash flows on specified dates that are solely payment of principal and interest (SPPI); and c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at amortized cost. Financial assets at amortized cost are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method (EIRM), net of an allowance for expected credit losses (ECL). Interest income is recognized using the EIRM in interest income. ECL are recognized in net gains (losses) on financial instruments. Gains and losses arising on derecognition are recognized directly in net gains (losses) on financial instruments.
Financial liabilities at amortized cost	Borrowings from the Government of Canada – IMPP	Amortizing borrowings incurred to fund loans under the IMPP.	Financial liabilities are classified at amortized cost, unless they have been classified at FVTPL. Financial liabilities are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the EIRM, with interest expense recorded in interest expense.

Measurement of expected credit losses

Loans under the IMPP are collateralized by the NHA MBS acquired in the transactions. The NHA MBS and swaps represent the sole source of principal and interest repayment on the loans, and thus directly affect the probability of a default occurring. Therefore, our assessment of significant increase in credit risk (SICR) is based on the credit risk of these supporting assets.

The supporting assets are limited to NHA MBS rated R-1 (high) or AAA and swap counterparties with a minimum rating of A-. As such, all loans under the IMPP are presumed to have low credit risk and we have applied the low credit risk exemption (stage 1).

Presentation of results

The IMPP is a mortgage funding activity, intended to provide liquidity to financial institutions so they can continue to lend. Financial results of the IMPP will be reported to our CODM, the Executive Committee, within the Mortgage Funding segment. Accordingly, we report IMPP results within that segment in our financial statements.

Additional IMPP disclosures

These disclosures are in addition to information on the IMPP found in Notes 8, 10, 12, 13, 15, and 16.

The following tables present the contractual maturity profile and average yield of IMPP loans and borrowings based on carrying value.

(in millions, unless otherwise indicated)	Year of maturity[1] 2020	2021	2022	2023	2024	2025	Total as at 30 September 2020
Loans under the IMPP	-	12	146	228	4,397	722	5,505
Yield	-	1.3%	1.5%	1.7%	1.7%	1.7%	1.7%
Borrowings from the Government of Canada – IMPP	-	12	146	228	4,397	722	5,505
Yield	-	1.3%	1.5%	1.7%	1.7%	1.7%	1.7%

[1] *Year of maturity in the table above reflects the year in which we will receive the final cash flows from the underlying NHA MBS pools. However, we will actually receive cash flows earlier and over time. Under the IMPP, we use any principal cash flows received from the loans to repay the borrowings.*

In the three and nine months ended 30 September 2020, both interest income and interest expense under the IMPP were $24 million and $47 million, respectively (three and nine months ended 30 September 2019 – nil).

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our Mortgage Insurance (MI) business is exposed to some seasonal variation. Premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

3. Current and future accounting changes

Current accounting changes

We actively monitor new standards and amendments to existing standards that have been issued by the IASB. There were no new or amended standards issued by the IASB that had an impact on our quarterly consolidated financial statements.

Conceptual Framework for Financial Reporting

We adopted the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) on 1 January 2020. The *Conceptual Framework* is used 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 completed our assessment and concluded that the revised *Conceptual Framework* does not have an impact on our consolidated financial statements.

Future accounting changes

The following new standard and interpretation issued by the IASB have been assessed as having a possible impact on the Corporation in the future. We intend to adopt this standard and this interpretation, if applicable, as at the required effective date indicated below and are currently assessing the impact on our consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*.

In June 2020, the IASB amended IFRS 17 to address concerns and implementation challenges raised by stakeholders. The most notable amendment to us is that the IASB has deferred the effective date by two years, to 1 January 2023. We evaluated the entire suite of 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 a contractual service margin and deferred acquisition costs, 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.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards 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. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities have been disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2019. Notable changes to the key judgments and estimates are reflected below.

The outbreak of a novel strain of coronavirus, causing the disease specifically identified as “COVID-19” has led to a global pandemic that is significantly impacting a number of global economies. The economic impacts of COVID-19 are not fully known and there may be additional government, private sector and regulatory responses introduced to mitigate the outbreak and the related economic impacts. As a result of these and other factors, there is additional uncertainty with respect to making judgments and the assumptions used in making estimates as well as their impact on our financial results.

Judgments in applying accounting policies

Derecognition

In assessing whether transfers of NHA MBS from Canadian financial institutions to CMHC under the IMPP qualify for derecognition, significant judgment is applied in determining whether substantially all the risks and rewards of ownership of the NHA MBS have been transferred. We have determined that the sellers of NHA MBS to CMHC fail to meet the derecognition criteria as they retain the risks and rewards of the NHA MBS through swap agreements. As a result, we do not recognize the underlying NHA MBS in the consolidated balance sheet but rather account for the transfers as loans.

Use of estimates and assumptions

Our methodology for the estimation of expected credit losses on debt securities classified as amortized cost or FVOCI includes different economic scenarios (baseline, optimistic and pessimistic) that are based on forecasted macro-economic inputs published by third parties and reviewed and approved by our Chief Economist. The significant inputs to the ECL model include forecasted Canadian and US equity markets, unemployment rates, credit spreads, oil price and volatility index (VIX).

We assign a weight to the different scenarios for the purpose of calculating the ECL provision. The appropriate weight assigned to each economic scenario is determined by our Chief Economist.

The ECL at 30 September 2020 was calculated using a 40% weighting to the pessimistic scenario, 40% weighting to the baseline and 20% weight to the optimistic scenario (31 December 2019 – 35% pessimistic, 45% baseline and 20% optimistic). The revised scenarios, in conjunction with our revised weightings, reflect a higher probability of losses in the next 12 months compared to 31 December 2019. See Notes 11 and 12 for more information on expected credit losses.

Provision for claims

We have revised our estimate of the provision for claims at 30 September 2020, reflecting up to date arrears information and economic assumptions available at the balance sheet date. The provision for claims includes only incurred losses up to 30 September 2020 and does not include any losses on claims that may occur in future periods. The impact of mortgage deferral arrangements by financial institutions makes it difficult to determine the claims that were incurred during the quarter. As a result, we have relied on our internal model to estimate the incurred claims between 1 April 2020 and 31 December 2020, and based on our economic assumptions, experience and judgement, have selected the portion of these that occurred before 30 September 2020.

We consider a number of scenarios when establishing a reasonable range for the provision for claims and our final estimate reflects the following key assumptions for the next 18 months: average unemployment rate of 12.1%; change in house price index of negative 6.2%; change in real gross domestic product of positive 13.5%. See Note 7 for more information on the provision for claims.

Valuation of pension benefit obligation

The current market circumstances have resulted in decreased bond yields and credit spreads that have impacted the discount rate used to measure the pension benefit obligation. We have revised our estimate of the defined benefit plans liability at 30 September 2020 to reflect these changes. See Note 17 for more information on the valuation of our pension obligation.

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing (AH), Mortgage Insurance (MI) and Mortgage Funding (MF) segments, each of which provides different programs in support of our objectives. The accounts for CHT, a separate legal entity, are included within the Mortgage Funding reportable segment. The financial results of each segment are determined using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2019, as well as the new accounting policy described in Note 2 of these 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)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	67	77	-	-	1,114	1,293	-	(1)	1,181	1,369
Interest expense	73	73	-	-	1,112	1,291	(6)	(10)	1,179	1,354
Net interest income (loss)	**(6)**	**4**	**-**	**-**	**2**	**2**	**6**	**9**	**2**	**15**
				-						
Government funding for housing programs	1,977	393	-	-	-	-	-	-	1,977	393
Premiums and fees earned	-	-	347	359	165	146	-	-	512	505
Investment income (losses)	-	-	77	109	17	19	(1)	(4)	93	124
Net gains (losses) on financial instruments	21	8	73	(3)	1	3	(6)	(1)	89	7
Other income (loss)	7	6	(1)	(2)	3	1	-	-	9	5
Total revenues and government funding	**1,999**	**411**	**496**	**463**	**188**	**171**	**(1)**	**4**	**2,682**	**1,049**
Non-interest expenses										
Housing programs	1,850	341	-	-	-	-	-	-	1,850	341
Insurance claims	-	-	171	42	-	-	-	-	171	42
Operating expenses	131	59	67	75	15	16	-	-	213	150
Total expenses	**1,981**	**400**	**238**	**117**	**15**	**16**	**-**	**-**	**2,234**	**533**
Income (loss) before income taxes	**18**	**11**	**258**	**346**	**173**	**155**	**(1)**	**4**	**448**	**516**
Income taxes	3	1	66	91	43	39	-	2	112	133
Net income	**15**	**10**	**192**	**255**	**130**	**116**	**(1)**	**2**	**336**	**383**
Total revenues and government funding	1,999	411	496	463	188	171	(1)	4	2,682	1,049
Inter-segment income (loss)[1]	-	(2)	(7)	(4)	6	10	1	(4)	-	-
External revenues and government funding	1,999	409	489	459	194	181	-	-	2,682	1,049

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

- *Assisted Housing recognizes interest income from investing in holdings of CMB*;
- *Mortgage Insurance recognizes investment income from investing in holdings of CMB; and*
- *Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.*

Nine months ended 30 September *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	213	225	-	-	3,567	3,854	(2)	(5)	3,778	4,074
Interest expense	227	222	-	-	3,559	3,846	(22)	(51)	3,764	4,017
Net interest income (loss)	**(14)**	**3**	**-**	**-**	**8**	**8**	**20**	**46**	**14**	**57**
Government funding for housing programs	3,520	1,550	-	-	-	-	-	-	3,520	1,550
Premiums and fees earned	-	-	1,028	1,071	495	426	-	-	1,523	1,497
Investment income (losses)	-	-	271	339	52	55	(7)	(32)	316	362
Net gains (losses) on financial instruments	60	15	460	91	13	6	(13)	(49)	520	63
Other income (loss)	20	18	(1)	(3)	10	4	-	-	29	19
Total revenues and government funding	**3,586**	**1,586**	**1,758**	**1,498**	**578**	**499**	**-**	**(35)**	**5,922**	**3,548**
Non-interest expenses										
Housing programs	3,249	1,404	-	-	-	-	-	-	3,249	1,404
Insurance claims	-	-	585	151	-	-	-	-	585	151
Operating expenses	282	167	210	234	51	48	-	-	543	449
Total expenses	**3,531**	**1,571**	**795**	**385**	**51**	**48**	**-**	**-**	**4,377**	**2,004**
Income (loss) before income taxes	**55**	**15**	**963**	**1,113**	**527**	**451**	**-**	**(35)**	**1,545**	**1,544**
Income taxes	9	-	243	283	132	113	-	(8)	384	388
Net income	**46**	**15**	**720**	**830**	**395**	**338**	**-**	**(27)**	**1,161**	**1,156**
Total revenues and government funding	3,586	1,586	1,758	1,498	578	499	-	(35)	5,922	3,548
Inter-segment income (loss)[1]	(2)	(6)	(20)	(80)	22	51	-	35	-	-
External revenues and government funding	3,584	1,580	1,738	1,418	600	550	-	-	5,922	3,548

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

- *Assisted Housing recognizes interest income from investing in holdings of CMB;*
- *Mortgage Insurance recognizes investment income from investing in holdings of CMB; and*
- *Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.*

As at 30 September 2020 and 31 December 2019 *(in millions)*	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets										
Cash and cash equivalents	1,260	630	789	291	6	1	-	-	2,055	922
Securities purchased under resale agreements	221	-	-	-	-	-	-	-	221	-
Accrued interest receivable	81	103	106	96	1,111	540	(3)	(2)	1,295	737
Investment securities:										
Fair value through profit or loss	389	1,037	82	122	-	-	(50)	(350)	421	809
Fair value through other comprehensive income	-	-	18,694	17,370	4,649	3,931	(476)	(668)	22,867	20,633
Amortized cost	1,316	972	-	-	-	-	(25)	(25)	1,291	947
Derivatives	26	19	1	49	-	-	-	-	27	68
Due from the Government of Canada	260	249	-	-	-	-	-	-	260	249
Loans:										
Fair value through profit or loss	849	1,307	22	24	-	-	-	-	871	1,331
Amortized cost	5,741	4,893	85	101	266,911	244,445	-	-	272,737	249,439
Accounts receivable and other assets	142	221	652	524	110	103	-	-	904	848
Investment property	267	267	11	9	-	-	-	-	278	276
	10,552	9,698	20,442	18,586	272,787	249,020	(554)	(1,045)	303,227	276,259
Liabilities										
Accounts payable and other liabilities	536	425	162	269	114	102	-	-	812	796
Accrued interest payable	65	64	-	-	1,092	529	(3)	(2)	1,154	591
Derivatives	6	8	69	-	-	-	-	-	75	8
Provision for claims	-	-	857	407	-	-	-	-	857	407
Borrowings:										
Fair value through profit or loss	1,507	2,374	-	-	-	-	-	-	1,507	2,374
Amortized cost	7,830	6,287	-	-	266,911	244,445	(490)	(991)	274,251	249,741
Defined benefit plans liability	260	185	312	260	10	4	-	-	582	449
Unearned premiums and fees	-	-	5,967	5,496	1,824	1,655	-	-	7,791	7,151
Deferred income tax liabilities	61	53	82	91	41	-	(17)	(15)	167	129
	10,265	9,396	7,449	6,523	269,992	246,735	(510)	(1,008)	287,196	261,646
Equity of Canada	287	302	12,993	12,063	2,795	2,285	(44)	(37)	16,031	14,614
	10,552	9,698	20,442	18,586	272,787	249,020	(554)	(1,045)	303,227	276,259

[1] *The balance sheet eliminations remove inter-segment holdings of CMB and inter-segment receivables/payables*

6. Government Funding and Housing Programs Expenses

Government funding was used to fund 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)	2020	2019	2020	2019
Assistance for housing needs	374	347	1,463	1,426
Financing for housing	932	15	2,161	33
Housing expertise and capacity development	29	33	94	100
Total[1]	**1,335**	395	**3,718**	1,559
Change in Government funding deferred (net)	642	(2)	(198)	(9)
Total Government funding recognized[2]	**1,977**	**393**	**3,520**	**1,550**

1 *Includes operating expenses of $126 million and $267 million for the three and nine months ended 30 September 2020, respectively (three and nine months ended 30 September 2019 – $51 million and $146 million).*

2 *Total government funding recognized does not include gains resulting from below market rate funds borrowed under the Crown Borrowing Program, which are recognized in net gains (losses) on financial instruments. These gains totaled $17 million and $71 million, respectively, for the three and nine months ended 30 September 2020 (three and nine months ended 30 September 2019 – $11 million and $25 million).*

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 September 2020 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	2020	2019	2020	2019
Balance at beginning of period	267	382	249	158
Total government funding	1,335	395	3,718	1,559
Government funding received during the period	(1,399)	(630)	(3,713)	(1,574)
Third party remittances to the Government of Canada	-	-	1	4
Balance at end of period before prior/future period adjustments	**203**	**147**	**255**	**147**
Change in prior period adjustments (net)	57	-	5	-
Balance at end of period	**260**	**147**	**260**	**147**

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)	2020	2019	2020	2019
Balance at beginning of period	5,756	5,338	5,496	5,375
Premiums deferred on contracts written in the period	547	446	1,469	1,107
Premiums earned in the period	(339)	(351)	(1,005)	(1,048)
Application fees deferred on contracts written in the period	6	5	17	12
Application fees earned in the period[1]	(3)	(4)	(10)	(12)
Balance at end of period	**5,967**	**5,434**	**5,967**	**5,434**

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)	2020	2019	2020	2019
Balance at beginning of period	199	187	194	181
Acquisition costs deferred	16	15	49	48
Amortization of DAC	(14)	(13)	(42)	(40)
Balance at end of period	**201**	**189**	**201**	**189**

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 2020			31 December 2019		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	759	36	795	341	40	381
Discounting	(4)	(3)	(7)	(4)	(6)	(10)
Discounted provision for adverse deviation	60	9	69	27	9	36
Total provision for claims	**815**	**42**	**857**	**364**	**43**	**407**

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

	Three months ended 30 September					
	2020			2019		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	677	43	720	388	58	446
Net claims paid during the period	(20)	-	(20)	(53)	-	(53)
Provision for claims provided for and losses incurred during the period[1]	177	-	177	65	-	65
Unfavourable (favourable) development on prior period claims	(19)	(1)	(20)	(32)	(1)	(33)
Provision for claims, end of period	**815**	**42**	**857**	**368**	**57**	**425**

[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					
	2020			2019		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	364	43	407	390	61	451
Net claims paid during the period	(117)	-	(117)	(173)	(3)	(176)
Provision for claims provided for and losses incurred during the period[1]	491	-	491	183	2	185
Unfavourable (favourable) development on prior period claims	77	(1)	76	(32)	(3)	(35)
Provision for claims, end of period	**815**	**42**	**857**	**368**	**57**	**425**

[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 2020 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 NHA MBS issued by approved issuers on the basis of housing loans under the NHA MBS program and the IMPP 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.

For 2020, the Minister of Finance has authorized CMHC to provide up to $295 billion of new guarantees of market NHA MBS and up to $60 billion of new guarantees for CMB.

At the balance sheet date, we have not received a claim on our timely payment guarantees (TPG). Based on our analysis, 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					
	2020			2019		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,277	525	1,802	1,055	502	1,557
TPG and application fees received	138	48	186	129	35	164
TPG and application fees earned	(132)	(32)	(164)	(112)	(34)	(146)
Balance at end of period	**1,283**	**541**	**1,824**	**1,072**	**503**	**1,575**

	Nine months ended 30 September					
	2020			2019		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,152	503	1,655	1,079	494	1,573
TPG fees received in the period	515	148	663	318	110	428
TPG fees earned in the period	(384)	(110)	(494)	(325)	(101)	(426)
Balance at end of period	**1,283**	**541**	**1,824**	**1,072**	**503**	**1,575**

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 Management with an early indication of the need to resolve financial problems. Under our capital management policy, we operate at available capital levels above the internal target on all but unusual and infrequent occasions. Accordingly, we have established an operating level 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 have not paid or declared any dividends during the three and nine month periods ended 30 September 2020 (three months ended 30 September 2019 – $505 million declared and paid; nine months ended 30 September 2019 – $1,515 million declared and paid).

On 24 March 2020, the Government approved a $10 billion recapitalization limit in the event that CMHC may need to be recapitalized in the future.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 September 2020**	**31 December 2019**
Contributed capital	25	25
Accumulated other comprehensive income	600	247
Appropriated retained earnings	10,065	11,178
Unappropriated retained earnings[1]	5,341	3,163
Total equity of Canada[2]	**16,031**	**14,613**
Less: assets with a capital requirement of 100%	(60)	(40)
Total capital available	**15,971**	**14,573**

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 2020**	**31 December 2019**
Appropriated capital[1]	9,178	10,192
Unappropriated capital	3,815	1,871
Total Mortgage Insurance capital	**12,993**	**12,063**
Less: assets with a capital requirement of 100%	(60)	(40)
Total Mortgage Insurance capital available	**12,933**	**12,023**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	**233%**	195%

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

Mortgage Funding capital

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**30 September 2020**	**31 December 2019**
Appropriated capital[1]	1,200	1,199
Unappropriated capital	1,595	1,086
Total Mortgage Funding capital available	**2,795**	**2,285**
Capital available to capital required (%)	233%	190%

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 (2019 – $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.

	As at	
(in millions)	**30 September 2020**	**31 December 2019**
Reserve fund	75	94
Retained earnings	187	183
Total Lending programs capital available	**262**	**277**

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 2020			31 December 2019		
(in millions)	**Carrying value**	**Fair value**	**Fair value over (under) carrying value**	**Carrying value**	**Fair value**	**Fair value over (under) carrying value**
Financial assets[1]						
Investments at amortized cost[2]	1,291	1,305	14	947	946	(1)
Loans at amortized cost [3]	272,737	283,940	11,203	249,439	251,777	2,338
Financial liabilities						
Borrowings at amortized cost [4]	274,251	285,582	11,331	249,741	252,142	2,401

[1] *Does not include cash and cash equivalents of $896 million (31 December 2019 - $505 million) and securities purchased under resale agreements of $221 million (31 December 2019 – nil) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

[2] *$1,305 million (31 December 2019 – $946 million) fair value categorized as level 2.*

[3] *$282,449 million (31 December 2019 – $251,107 million) fair value categorized as level 2, $1,491 million (31 December 2019 – $670 million) fair value categorized as level 3.*

[4] *$199,656 million (31 December 2019 – $146,905 million) fair value categorized as level 1, $85,926 million (31 December 2019 – $105,237 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 2020				31 December 2019			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	464	-	464	-	131	-	131
Federal government issued	-	695	-	695	286	-	-	286
Provinces/municipalities	-	-	-	-	-	-	-	-
Total cash equivalents	-	1,159	-	1,159	286	131	-	417
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	58	-	58	-	122	-	122
Provinces/municipalities	52	129	-	181	26	304	-	330
Sovereign and related entities	-	101	-	101	-	239	-	239
Equities								
Limited partnership units	-	-	81	81	-	-	118	118
Total at FVTPL	52	288	81	421	26	665	118	809
FVOCI								
Debt instruments								
Corporate/other entities	3,135	4,640	-	7,775	1,625	5,390	-	7,015
Federal government issued	11,440	111	-	11,551	9,280	40	-	9,320
Provinces/municipalities	2,684	677	-	3,361	667	3,463	-	4,130
Sovereign and related entities	26	154	-	180	-	168	-	168
Total at FVOCI	17,285	5,582	-	22,867	11,572	9,061	-	20,633
Loans designated at FVTPL	-	694	-	694	-	1,244	-	1,244
Loans mandatorily at FVTPL	-	17	160	177	-	17	70	87
Derivatives	-	27	-	27	-	68	-	68
Investment property	-	-	278	278	-	-	276	276
Total assets carried at fair value	**17,337**	**7,767**	**519**	**25,623**	**11,884**	**11,186**	**464**	**23,534**
Liabilities								
Borrowings designated at FVTPL	-	1,507	-	1,507	-	2,374	-	2,374
Derivatives	-	75	-	75	-	8	-	8
Total liabilities carried at fair value	**-**	**1,582**	**-**	**1,582**	**-**	**2,382**	**-**	**2,382**

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 2020, there were $4,429 million and $7,060 million of transfers from level 2 to level 1, respectively (three and nine months ended 30 September 2019 - $39 million and $1,059 million, respectively). During the three and nine months ended 30 September 2020, there were $551 million and $4,968 million of transfers from level 1 to level 2, respectively (three and nine months ended 30 September 2019 – $441 million and $816 million, respectively). 2020 transfers are mainly the result of our new fair value measurement tool applying additional variables and trading volume thresholds for classification.

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 2020				
Fair value as at 1 July 2020	122	140	278	540
Purchases	-	46	-	46
Net gains in net income[1,2]	(5)	8	-	3
Loan transfer to contributions[3]	-	(20)	-	(20)
Cash receipts on settlements/disposals	(36)	(14)	-	(50)
Fair value as at 30 September 2020	**81**	**160**	**278**	**519**
Nine months ended 30 September 2020				
Fair Value as at 1 January 2020	118	70	276	464
Purchases	2	129	-	131
Net gains in net income[1,2]	(3)	5	2	4
Loan transfer to contributions[3]	-	(20)	-	(20)
Cash receipts on settlements/disposals	(36)	(24)	-	(60)
Fair value as at 30 September 2020	**81**	**160**	**278**	**519**
Three months ended 30 September 2019				
Fair value as at 1 July 2019	105	24	311	440
Purchases	6	10	-	16
Net gains 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 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**

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.*
3 *Loans previously recognized as FVTPL reclassified to reflect contributions.*

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 2020, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 September 2020 did not materially change from 31 December 2019. 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 2019.

11. Investment Securities

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

	As at							
	30 September 2020				31 December 2019			
(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	336	4	-	340	692	1	(2)	691
FVOCI[2]	22,106	815	(54)	22,867	20,345	368	(80)	20,633
Equities								
FVTPL	55	33	(7)	81	89	29	-	118

1 *Amortized cost for equities is weighted-average acquisition cost.*
2 *Includes debt instruments denominated in U.S. dollars with a carrying value of $4,474 million (31 December 2019 – $2,334 million).*

At 30 September 2020, we do not hold investment securities (31 December 2019 – nil) that are part of securities sold under repurchase agreements with terms of 93 days or less.

We 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 ECL allowance based on 12-month ECL with the exception of two instruments at FVOCI with a gross carrying value of $10 million that have an ECL allowance based on lifetime 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 2020						31 December 2019					
(in millions)	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Lower than BBB-	Total	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Lower than BBB-	Total
Investment securities[1]												
FVOCI	12,686	3,779	4,004	2,321	77	22,867	9,973	1,653	7,591	1,416	-	20,633
Amortized Cost	416	402	473	-	-	1,291	434	213	300	-	-	947

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 $8 million at 30 September 2020 (31 December 2019 – $5 million). During the three and nine months ended 30 September 2020, ECLs on debt instruments held at FVOCI decreased by $21 million and increased by $3 million, respectively (nil for the three and nine months ended 30 September 2019). Changes in ECL are recognized in net gains (losses) on financial instruments.

The ECL allowance for debt instruments held at amortized cost was $1 million at 30 September 2020 (31 December 2019 – nil). During the three and nine months ended 30 September 2020, ECLs on debt instruments held at amortized cost decreased by $2 million and increased by $1 million, respectively (nil for the three and nine months ended 30 September 2019).

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	Capitalized Interest	Transfers[1]	Balance at end of period
2020									
FVTPL									
Lending programs	939	(34)	41	1	-	-	-	(98)	849
MI Activity loans	24	(8)	6	-	-	-	-	-	22
Total at FVTPL	**963**	**(42)**	**47**	**1**	**-**	**-**	**-**	**(98)**	**871**
Amortized cost									
CMB program loans	253,143	(5,362)	13,614	-	11	-	-	-	261,406
Lending programs	5,497	(163)	323	-	-	3	3	78	5,741
IMPP Loans	5,679	(174)	-	-	-	-	-	-	5,505
MI Activity loans	92	(13)	-	-	3	3	-	-	85
Total amortized cost	**264,411**	**(5,712)**	**13,937**	**-**	**14**	**6**	**3**	**78**	**272,737**
Total	**265,374**	**(5,754)**	**13,984**	**1**	**14**	**6**	**3**	**(20)**	**273,608**
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									
CMB programs loans	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**

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. For the three months ended 30 September 2020, transfers for loans at FVTPL also includes a $20 million reclassification from loans at FVTPL to contributions recognized in other income (three months ended 30 September 2019 – nil).*

		Nine months ended 30 September							
		Cash flows		Non-cash changes					
(in millions)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	Balance at end of period
2020									
FVTPL									
Lending programs	1,307	(129)	111	18	-	-	-	(458)	849
MI Activity loans	24	(25)	19	4	-	-	-	-	22
Total at FVTPL	**1,331**	**(154)**	**130**	**22**	**-**	**-**	**-**	**(458)**	**871**
Amortized cost									
CMB program loans	244,445	(25,856)	42,781	-	36	-	-	-	261,406
Lending programs	4,893	(507)	908	-	-	(2)	11	438	5,741
IMPP Loans	-	(312)	5,817	-	-	-	-	-	5,505
MI Activity loans	101	(36)	1	-	6	13	-	-	85
Total amortized cost	**249,439**	**(26,711)**	**49,507**	**-**	**42**	**11**	**11**	**438**	**272,737**
Total	**250,770**	**(26,865)**	**49,637**	**22**	**42**	**11**	**11**	**(20)**	**273,608**
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									
CMB programs loans	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**

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. For the nine months ended 30 September 2020, transfers for loans at FVTPL also includes a $20 million reclassification from loans at FVTPL to contributions recognized in other income (nine months ended 30 September 2019 – nil).*

We are assured collection of principal and accrued interest on 99% (31 December 2019 – 99%) of our loans by various levels of government, CHMC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program and IMPP. For loans designated at FVTPL, the change in fair value attributable to changes in credit risk was immaterial.

Expected credit losses

Total undrawn loan commitments outstanding at 30 September 2020 were $3,402 million, of which $3,394 million are subject to 12-month ECL and $8 million are commitments outstanding on purchased or credit impaired loans.

At 30 September 2020, the ECL on undrawn loan commitments was $7 million (31 December 2019 – $6 million), and the ECL on loans was $90 million (31 December 2019 – $102 million). Changes in ECL are recognized in net gains (losses) on financial instruments for Lending program loans and in insurance claims expense for MI Activity loans.

13. Borrowings

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

		Three months ended 30 September					
	Balance at beginning of period	Cash flows		Non-cash changes			Balance at end of period
(in millions)		Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,659	-	(148)	(4)	-	-	1,507
Borrowings at amortized cost							
Canada mortgage bonds	252,563	13,614	(5,212)	-	11	(60)	260,916
Borrowings from the Government of Canada – Lending programs	7,437	1,091	(688)	(17)	7	-	7,830
Borrowings from the Government of Canada – IMPP	5,679	-	(174)	-	-	-	5,505
Total borrowings at amortized cost	**265,679**	**14,705**	**(6,074)**	**(17)**	**18**	**(60)**	**274,251**
Total	**267,338**	**14,705**	**(6,222)**	**(21)**	**18**	**(60)**	**275,758**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	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 – Lending programs	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**

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

(in millions)	Balance at beginning of period	Cash flows: Issuances	Cash flows: Repayments	Non-cash changes: Fair value changes	Non-cash changes: Accretion and other	Non-cash changes: Eliminations	Balance at end of period
		Nine months ended 30 September					
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,374	-	(900)	33	-	-	1,507
Borrowings at amortized cost							
Canada mortgage bonds	243,454	42,781	(25,414)	-	36	59	260,916
Borrowings from the Government of Canada – Lending programs	6,287	7,806	(6,223)	(71)	31	-	7,830
Borrowings from the Government of Canada – IMPP	-	5,817	(312)	-	-	-	5,505
Total borrowings at amortized cost	**249,741**	**56,404**	**(31,949)**	**(71)**	**67**	**59**	**274,251**
Total	**252,115**	**56,404**	**(32,849)**	**(38)**	**67**	**59**	**275,758**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	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 – Lending programs	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**

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 2020, $150 million and $442 million, respectively (three and nine months ended 30 September 2019 – nil) of 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.

Borrowing authorities

The Minister of Finance approves CMHC's Borrowing Plan annually and establishes limits and parameters for borrowings. The limits and parameters pertain to capital market borrowings and borrowings from the Government of Canada that have been incurred since April 2008 in the Assisted Housing and Mortgage Funding Activities. The Minister of Finance approved increases to the Borrowing Authorities in March 2020 in conjunction with the launch of the IMPP, which is financed through the Crown Borrowing Program. For 2020, the limits on our short-term borrowings outstanding and long-term borrowings issued are $20 billion and $154 billion, respectively (2019 – $5 billion and $4 billion). Actual short-term borrowings outstanding as at 30 September 2020 were $312 million (31 December 2019 – $78 million). Actual long-term borrowings issued in the three and nine months ended 30 September 2020 were $525 million and $7.6 billion, respectively (three and nine months ended 30 September 2019 – $425 million and $933 million).

The legislative authority, which is separate from the limits above and does not apply to borrowings of CHT, requires that the total indebtedness outstanding at any time, other than to the Government, not exceed $20 billion (2019 – $20 billion). The outstanding principal balance of this indebtedness was nil as at 30 September 2020 (2019 – 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)	**2020**	**2019**	**2020**	**2019**
Financial Instruments designated at FVTPL				
Investment securities	-	-	6	7
Loans	1	(1)	18	9
Borrowings	4	-	(33)	(24)
Total financial instruments designated at FVTPL	**5**	(1)	**(9)**	**(8)**
Financial instruments mandatorily at FVTPL				
Equity securities	(5)	1	(3)	60
Debt instruments	-	-	-	(1)
Derivatives	19	(37)	(125)	57
Loans	-	-	4	1
Total financial instruments mandatorily at FVTPL	**14**	(36)	**(124)**	**117**
Debt instruments held at FVOCI[1]	28	33	595	(68)
Loans at amortized cost – prepayments	3	1	6	5
Borrowings – amortized cost[2]	15	10	59	18
Expected credit loss (recovery) on financial assets[3]	24	-	(7)	(1)
Total	**89**	**7**	**520**	**63**

1 *Includes foreign exchange gains during the three and nine months ended 30 September 2020 of $36 million and $120 million (gains of $30 million and losses of $74 million for the three and nine months ended 30 September 2019) resulting from translation of U.S. dollar-denominated debt instruments.*

2 *Includes gain from the issuance of borrowings during the three and nine months ended 30 September 2020 of $17 million and $71 million (three and nine months ended 30 September 2019 – $11 and $25 million), net of amortization of gains during the three and nine months ended 30 September 2020 of $1 million and $2 million (three and nine months ended 30 September 2019 – $1 and $2 million), and losses from the retirement of borrowings during the three and nine months ended 30 September 2020 of $nil and $10 million (three and nine months ended 30 September 2019 – $1 million and $7 million).*

3 *Excludes a release of expected credit losses on MI Activity loans at amortized cost during the three and nine months ended 30 September 2020 of $3 million and $13 million, respectively (expected credit losses during the three and nine months ended 30 September 2019 – $1 million and $2 million). These are presented in insurance claims expense.*

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.

Interest rate risk

Loans under the IMPP are exposed to both interest rate risk and prepayment risk. Prepayment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term, which may reduce the NHA MBS holder's future interest income. To mitigate these risks, we enter into swap agreements with approved financial institution counterparties. Under these agreements, both interest rate and prepayment risks are transferred to swap counterparties. We pay the effective interest received on the underlying NHA MBS less administration costs to the swap counterparties in exchange for an amount equal to the interest owed on the borrowings from the Government of Canada. As a result of these swap agreements, changes in interest rates or prepayments related to the IMPP have no impact on the consolidated statement of income and comprehensive income.

For other programs, there were no material changes to our assessment and management of market risk in the nine months ended 30 September 2020.

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 2020**	**31 December 2019**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	172	207
USD-denominated securities	91	35
Effect of diversification	(37)	(5)
Total VaR	**226**	**237**

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 $4,474 million in debt instruments denominated in U.S. dollars as at 30 September 2020 (31 December 2019 – $2,334 million), and we assessed residual currency risk as immaterial.

Interest rate sensitivity

We evaluate market risk for the Assisted Housing Activity portfolio of loans, investments, borrowings and swaps 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 net impact of a 200 bps shift in interest rates as immaterial as at 30 September 2020.

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 as at 30 September 2020 is presented below.

	As at			
	30 September 2020		31 December 2019	
	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]	(212)	291	(260)	211

[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 2019 audited consolidated financial statements.

As a result of the economic implications of the COVID-19 global pandemic, our potential for financial loss has increased in the near term, which is reflected in the expected credit loss provision as outlined in Note 11 and 12.

Maximum exposure to credit risk

For all financial assets other than guarantees or derivatives, the maximum exposure to credit risk is the carrying amount.

Under the IMPP, loans represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to us. The loans are collateralized by the NHA MBS, which are rated R-1 (high) or AAA. This collateral is held in our name and represents the sole source of principal repayments for the loans.

Under the IMPP, we are exposed to credit-related counterparty risk in the event of default of swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. All IMPP swap counterparties must have a minimum credit rating of A-, or its equivalent, from at least two rating agencies.

The fair value of the loan collateral under the IMPP was $5,619 million, 102% of loan carrying value, as at 30 September 2020 (31 December 2019 – nil).

For other programs, there has been no change to the nature of the risks and how they are managed for the nine month period ended 30 September 2020.

Concentrations and credit quality

Despite recent economic changes, there have been no significant shifts in geographic or industry concentrations in our portfolio. Additionally, the portfolio's overall credit quality remains strong, with shifts mainly in the timing of expected losses.

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)	**2020**	**2019**	**2020**	**2019**
Current service cost	11	9	-	-
Net interest expense	3	3	1	1
Expense recognized in net income	**14**	**12**	**1**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	(9)	-	(1)	-
Return on plan assets (excluding amounts included in net interest expense)	34	38	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**25**	**38**	**(1)**	**-**
CMHC's contributions	5	1	1	3
Employee contributions	5	4	-	-
Total contributions	**10**	**5**	**1**	**3**

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

	Nine months ended 30 September			
	Pension plans		Other post-employment plans	
(in millions)	**2020**	**2019**	**2020**	**2019**
Current service cost	33	27	-	6
Net interest expense	9	9	3	3
Expense recognized in net income	**42**	**36**	**3**	**9**
Net actuarial gains (losses) arising from changes in financial assumptions	(155)	(354)	(9)	(18)
Return on plan assets (excluding amounts included in net interest expense)	53	278	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(102)**	**(76)**	**(9)**	**(18)**
CMHC's contributions	21	32	2	9
Employee contributions	16	20	-	-
Total contributions	**37**	**52**	**2**	**9**

[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. The discount rate used to remeasure the defined benefit obligations at 30 September 2020 was 2.78% (31 December 2019 – 3.1%).

18. Income Taxes

The following table presents the components of income tax.

(in millions)	Three months ended 30 September 2020	Three months ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Current income tax expense	127	131	401	366
Deferred income tax relating to origination and reversal of temporary differences	(15)	2	(17)	22
Total income tax expense included in net income	112	**133**	384	**388**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	8	2	142	122
Reclassification of prior years' net unrealized gains realized in the period in net income	(9)	1	(18)	2
Remeasurement losses (gains) on defined benefit plans	5	7	(15)	(15)
Total income tax recovery included in other comprehensive income (loss)	4	**10**	109	**109**
Total	116	**143**	493	**497**

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 $33 million for the three and nine months ended 30 September 2020 (three and nine months ended 30 September 2019 – $11 million and 32 million) for the Mortgage Insurance Activity and $6 million and $21 million for the three and nine months ended 30 September 2020 (three and nine months ended 30 September 2019 – $7 million and $19 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 $750 billion (31 December 2019 – $600 billion). At 30 September 2020, insurance-in-force, which represents the risk exposure of the Mortgage Insurance Activity, totalled $438 billion (31 December 2019 – $429 billion).

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $750 billion (31 December 2019 – $600 billion). At 30 September 2020, guarantees-in-force, which represents the risk exposure of the Mortgage Funding Activity, totalled $500 billion (31 December 2019 – $493 billion).

There are legal claims of $4 million (31 December 2019 – $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 $29 million of cash and cash equivalents as at 30 September 2020 (31 December 2019 – $26 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 $538 million of cash and cash equivalents (31 December 2019 – $417 million) that may only be used as part of the Rental Construction Financing initiative as well as $123 million (31 December 2019 – $34 million) that may only be used as part of the National Housing Co-Investment Fund, and $221 million (31 December 2019 – $nil) that may only be used for the CECRA Program.

As at 30 September 2020, we have $8,988 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years (31 December 2019 – $9,625 million).

21. Comparative Figures

Operating expenses presented in the consolidated statement of income and comprehensive income have been reclassified to conform to the current period's presentation. Operating expenses related to the administration of housing programs were included in housing program expenses and are now included in the operating expenses under the Assisted Housing segment to align with the nature of the expense.

Provision for claims presented in the consolidated balance sheet, and in Note 7, has been reclassified to conform to the current period's presentation. The provision on self-insured loans is now presented in the accounts payable and other liabilities in accordance with IAS 37.

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