

CANADA MORTGAGE AND HOUSING CORPORATION

SECOND QUARTER

30 June 2021

(Unaudited)

Quarterly Financial Report

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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 August 2021 is prepared for the second quarter ended 30 June 2021 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month periods in 2020. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2020 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 2020 Annual Report. The ongoing global COVID-19 pandemic has led to additional measurement uncertainty when making judgments and developing assumptions used in estimates. We have included additional information 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 second quarter of 2021.

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 2021" 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 International Financial Reporting Standards (IFRS), are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements, which are prepared in accordance with IFRS, and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the QFR can be found in the Glossary for Non-IFRS Financial Measures section of the 2020 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2021

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

COVID-19

The first half of 2021 has seen an acceleration of COVID-19 vaccinations across Canada and generally increased stability in the Canadian economy. Accordingly, although the Government of Canada has extended some support programs to individuals and businesses affected by the pandemic, it has also ended many others. This includes most of the programs that we operated on behalf of the Government in 2020, such as the Canada Emergency Commercial Rent Assistance, Insured Mortgage Purchase Program, expanded portfolio insurance eligibility and our expanded Canada Mortgage Bond authorities which we described in further detail in our 2020 Annual Report.

This improved stability has reduced volatility in our financial results. Nonetheless, we continue to perform stress tests and scenario analyses to understand potential pandemic impacts that may materialize in future periods. Our testing indicates that we have sufficient capital to issue dividends while conserving enough capital to sustain extremely severe downturns. Accordingly, we reinstated our dividend in the first quarter and have declared and paid \$4,290 million of dividends to the Government of Canada so far this year. This has reduced our Mortgage Insurer Capital Adequacy Test (MICAT) ratio, investment holdings, and investment income.

Furthermore, effective 5 July 2021, we returned to our pre-July 2020 underwriting practices for homeowner mortgage loan insurance, specifically:

- We will consider a Gross Debt Service (GDS) ratio up to 39% and Total Debt Service (TDS) ratio up to 44% for borrowers who have a strong history of managing their payment obligations;
- At least one borrower (or guarantor) must have a credit score that is greater than or equal to 600 at the time of the request for insurance; and
- As always, we will consider the overall strength of the mortgage loan insurance application, including alternative methods of establishing creditworthiness for borrowers without a credit history.

While the impacts of COVID-19 continue to become clearer, they have not completely subsided. The pandemic and related policy responses have led to a variety of effects that continue to influence our business and financial results. As discussed below in “Economic conditions and housing indicators”, house prices have continued to climb in 2021 in most regions in Canada, while the national gross domestic product (GDP) and unemployment rate have improved compared to 2020.

Meanwhile, we now consider our arrears data to be complete, several months after mortgage deferral arrangements available to Canadians formally ceased on 30 September 2020. These arrangements reduced the number of loans in arrears and hindered our ability to determine whether a loan in arrears was due to a default.

As these effects have unfolded and the deferral arrangements have ended, loans that were in deferral did not materialize into paid claims as originally expected and our arrears rate has remained low. Based on our assessment of these claims and arrears data, and economic variables, we further reduced our provision for claims in the second quarter. See “Financial metrics and ratios” below and Notes 4 and 7 of our unaudited quarterly consolidated financial statements for further information.

Our crisis management capabilities continue to ensure we remain resilient to external threats. However, uncertainty and risks remain. The risk of proliferation of COVID-19 variants of concern and greater restrictions on households and businesses, in addition to risks related to the unvaccinated population, could derail economic recovery and affect our financial results.

Beyond economic impacts, we have also maintained our focus on 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.

We continue to closely monitor developments related to the pandemic and, in our role as Canada’s national housing agency, stand ready to take further action to support Canadians and the economy through the crisis as needed.

Economic conditions and housing indicators

As of mid-July 2021, the successful rollout of COVID-19 vaccinations has made Canada one of the most vaccinated countries in the world¹. The rollout solidifies the foundations of a sustainable recovery. Broad immunity and the subsequent easing of restrictions is expected to lead to strong economic growth in the second half of 2021.

Canada bore the negative impacts of the pandemic in 2020 with a 5.3 per cent decline in real GDP. This follows growth rates of 2.4 per cent and 1.9 per cent in 2018 and 2019, respectively. However, the economy is expected to rebound in 2021 with 6.0 per cent growth², more than offsetting its 2020 decline. Highly accommodative monetary and fiscal policies will continue to support the economic recovery. Consumers are likely to lead the rebound due to pent-up demand, elevated accumulated savings during the pandemic, increased consumer confidence and income from an improving labour market. Increased business confidence observed in the first half of 2021 should accelerate business investment. Strong foreign demand and high commodity prices will support Canada's export recovery.

The Canadian labour market has not yet fully recovered. As of June 2021, 340,000 jobs remain lost compared to pre-pandemic levels. Virtually all of the jobs lost are full-time positions. The number of long-term unemployed, those that have been searching for a job for more than 27 weeks, also remains elevated relative to pre-pandemic levels. This could lead to persistent economic scarring as the long-term unemployed could face skills depreciation reducing their productivity and earnings relative to pre-pandemic levels.

In 2021, the housing market maintained the momentum of rapid growth from the second half of 2020. Canada's MLS® price averaged a record high of \$675,492 during the first six months of 2021. This represents a 30 per cent increase from the same period in 2020, when housing activity temporarily seized in March and April. Similarly, during the first six months of 2021, and compared to the same period in 2020, MLS® sales increased by 71 per cent to a historical high of 717,368 seasonally adjusted annualized (SAAR) units and housing starts increased by 48 per cent to another historical high of 293,567 SAAR units. Low borrowing costs, lower employment impacts from the pandemic on higher income households, changes in buyers' preferences towards single-detached homes, limited supply and government income support programs have all supported the recent strength in the housing market.

High levels of uncertainty remain for Canada's housing market. Upside risks include an economic boom combined with low mortgage rates, a return of immigration, and a continued preference for larger units under enduring remote work schemes. Downside risks include consumer hesitancy, stronger-than-expected inflationary pressures leading to higher interest and mortgage rates, and the evolution of new COVID-19 variants globally. Household debt-to-disposable income ratios have also returned to elevated levels, registering at 172 per cent in Q1 2021. CMHC will continue to monitor signs of increased housing market vulnerability.

Federal Budget 2021

In Budget 2021, the Government of Canada announced several items that relate to housing, including new investments and the reprofiling of existing programs. We are leading the following initiatives:

New investment in loans to homeowners for energy retrofits. To build on the Canada Greener Homes Grant run by Natural Resources Canada, Budget 2021 proposed \$4.4 billion over 5 years, starting in 2021-2022, to help more than 200,000 homeowners complete deep home retrofits through interest-free loans worth up to \$40,000. Loans would be available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment.

¹ [Ourworldindata.org](https://ourworldindata.org): Share of people who received at least one dose of COVID-19 vaccine (Canada = 70%).

² Bank of Canada, Monetary Policy Report July 2021

New investments in the National Housing Strategy (NHS). The Budget proposed to provide an additional \$2.5 billion over seven years, starting in 2021-22, for the following programs:

- \$1.5 billion for the Rapid Housing Initiative (RHI) in 2021-22 to address the urgent housing needs of vulnerable Canadians by providing them with adequate affordable housing in short order. At least 25 per cent of this funding will go towards women-focused housing projects, and units are to be constructed within 12 months of when funding is provided to program applicants. Overall, this new funding will add a minimum of 4,500 new affordable units to Canada's housing supply, building on the 4,700 units already funded in the 2020 Fall Economic Statement through its \$1 billion investment. The Government publicly announced this funding on 30 June 2021.
- \$600 million over seven years to renew and expand the Affordable Housing Innovation Fund, which encourages new funding models and innovative building techniques in the affordable housing sector.
- \$315.4 million over seven years through the Canada Housing Benefit (CHB) to increase direct financial assistance for low-income women and children fleeing violence to help with their rent payments.
- \$118.2 million over seven years through the Federal Community Housing Initiative (FCHI) to support community housing providers including co-ops that deliver long-term housing to many of our most vulnerable Canadians. This builds on the \$500 million currently being delivered through the FCHI.

Advancement and reallocation of existing NHS funding. The Budget proposed to advance and reallocate \$1.3 billion of previously announced funding:

- In 2021-22 and 2022-23, \$300 million from the Rental Construction Financing Initiative (RCFi) will be allocated to support the conversion of vacant commercial property into housing.
- In 2021-22 and 2022-23, \$750 million under the National Housing Co-Investment Fund (NHCF) will be advanced to accelerate the creation of 3,400 new units and to repair 13,700 units. \$250 million under the NHCF will be allocated to support the construction, repair, and operating costs of an estimated 560 units of transitional housing and shelter spaces for women and children fleeing violence.

Strengthening diversity in corporate governance. The Government proposed amendments to the Public Service Employment Act to affirm the importance of a diverse and inclusive workforce and avoid biases and barriers in hiring. In addition, the Budget proposed that Crown corporations will be required to implement gender and diversity reporting, starting in 2022.

Strengthening public climate-related disclosures. Crown corporations will adopt the Task Force on Climate-related Financial Disclosures (TCFD) standards as an element of their corporate reporting. Large Crown corporations (entities with over \$1 billion in assets) will report on climate-related financial risks for their financial years starting in calendar year 2022 at the latest. We began to report on climate-related financial risks more formally in our 2020 Annual Report and will continue to enhance our disclosures in accordance with TCFD standards.

Progress on the National Housing Strategy

We continue to deliver on Canada's NHS, which is now a \$70+ billion, 10-year plan that will give more Canadians a place to call home and are encouraged by the additional investments outlined above. The NHS is a comprehensive strategy that covers the entire housing continuum, from shelters and transitional housing, to community and affordable housing, to market rentals and homeownership. Dynamic and adaptable, the NHS is designed to evolve as needed to better respond to the changing housing needs of Canadians.

In response to emerging pressures from COVID-19, the Government of Canada announced the \$1 billion RHI in 2020, which is quickly creating over 4,700 new affordable housing units across Canada by funding the construction of modular housing, the acquisition of land, and the conversion of existing buildings. We committed all funds by 31 March 2021.

We continue to work with provinces and territories to co-develop the CHB. As of 30 June 2021, seven jurisdictions have launched CHB programs after finalizing agreements and action plans (Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan, British Columbia and Yukon).

We have actively examined ways to accelerate the flow of funding for projects under the NHCF and worked to simplify application and approvals processes. We report progress on the achievement of NHS targets quarterly on the website (www.placetocallhome.ca).

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Draft MICAT 2023 guideline

On 21 June 2021, OSFI launched an industry consultation with the publication of a revised draft MICAT 2023 guideline, reporting forms and instructions for consultation. Key revisions to the guideline aim to adapt the MICAT for IFRS 17 *Insurance Contracts*, better reflect changes in the level of insurance risk during periods when mortgage insurers are under stress, and specify credit risk requirements in a manner consistent with IFRS 9 *Financial Instruments* terminology. In parallel with this public consultation, OSFI is also conducting a quantitative impact study with mortgage insurers.

We are currently reviewing the publications and materials shared, assessing the impacts on our business and collaborating with OSFI's requests on these matters.

Consultation on climate-related risks in the financial sector

On 11 January 2021, OSFI launched an industry consultation with the publication of a discussion paper, *Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks*. CMHC has responded to the discussion paper which focuses on risks arising from climate change that can affect the safety and soundness of federally regulated financial institutions and federally regulated pension plans. OSFI may use the consultation to inform the development of climate-related guidance in the future.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) that may or will affect us can be found in Note 2 of our audited consolidated financial statements for the year ended 31 December 2020.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*. We have a multi-disciplinary team dedicated to this new accounting standard and continue to progress toward implementing it.

On 28 May 2021, the Department of Finance launched an industry consultation on tax implications resulting from the implementation of IFRS 17. In its news release announcing the consultation, the Department of Finance indicated that it would not consider the contractual service margin to be a deductible reserve for tax purposes; its conclusion would create a current tax liability for insurance providers. CMHC has responded to the consultation request.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 June 2021 and 31 December 2020	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>(in millions)</i>										
Total assets	12,605	10,914	18,404	20,864	265,515	269,616	(895)	(424)	295,629	300,970
Total liabilities	12,098	10,582	7,193	7,494	263,971	266,705	(860)	(386)	282,402	284,395
Total equity of Canada	507	332	11,211	13,370	1,544	2,911	(35)	(38)	13,227	16,575

We declare dividends to the government only after we meet regulatory and other capitalization requirements that ensure that our Mortgage Insurance (MI) and Mortgage Funding (MF) activities are appropriately capitalized. We resumed our dividends to the Government of Canada in the first quarter of 2021, and we have paid \$4,290 million of dividends since the end of 2020. This, partially offset by comprehensive income of \$942 million, led our total equity of Canada to decrease by \$3,348 million.

Our total assets and liabilities decreased by \$5,341 million (2%) and \$1,993 million (1%), respectively. This was mainly driven by two factors: a decrease in our investments portfolio as instruments were sold to fund the dividend payment, as well as lower loans and borrowings at amortized cost as we are no longer issuing loans under the Insured Mortgage Purchase Program (IMPP).

Condensed consolidated statements of income and comprehensive income

Three months ended 30 June	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>(in millions)</i>										
Government funding for housing programs	547	629	-	-	-	-	-	-	547	629
Premiums and fees earned	-	-	349	346	176	170	-	-	525	516
All other income ¹	32	47	92	553	10	39	(7)	(3)	127	636
Total revenues and government funding	579	676	441	899	186	209	(7)	(3)	1,199	1,781
Housing programs	472	557	-	-	-	-	-	-	472	557
Insurance claims	-	-	(63)	292	-	-	-	-	(63)	292
Operating expenses	75	88	82	74	18	18	-	-	175	180
Total expenses	547	645	19	366	18	18	-	-	584	1,029
Income taxes	8	6	107	133	42	48	(2)	(1)	155	186
Net income	24	25	315	400	126	143	(5)	(2)	460	566
Other comprehensive income (loss)	(9)	(136)	24	(173)	(5)	4	-	3	10	(302)
Comprehensive income	15	(111)	339	227	121	147	(5)	1	470	264

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

Q2 2021 vs Q2 2020

Our total revenues and government funding decreased by \$582 million (33%) from the same quarter last year mainly due to:

- A decrease of \$82 million (13%) in government funding for housing programs driven mainly by the Canada Emergency Commercial Rent Assistance (CECRA) program ending in December 2020 (\$221 million), partially offset by the spend of \$125 million in the current quarter for the Rapid Housing Initiative.
- A decrease of \$484 million (93%) in net gains on financial instruments mainly due to the rebalancing of our insurance investment portfolio in Q2 2020, resulting in a significant realized gain.
- This was partially offset by an increase of \$9 million (2%) in premiums and fees earned mainly as a result of recent pricing changes and fee increases in the Mortgage Funding activity. In addition, earned premiums are higher in the Mortgage Insurance activity mainly due to higher multi-unit volumes from prior years being recognized.

Total expenses decreased by \$445 million (43%) from the same quarter last year mainly due to:

- The decrease in government funding for housing programs as described above, which resulted in lower housing program expenses and operating expenses for the quarter.
- A decrease of \$355 million (122%) in insurance claims as a result of the continued favourable economic conditions compared to the same period last year during the onset of COVID-19, as well as actual claims lower than expected in our prior provisions.

Other comprehensive income (OCI), net of tax, increased by \$312 million (103%) from the same quarter last year mainly due to:

- An increase of \$84 million (382%) in net unrealized gains from debt instruments held at fair value through other comprehensive income. Although both quarters saw a decrease in bond yields, the prior year quarter also included the transfer of some gains from OCI to net income, which partially offset the impact. This resulted from the rebalancing of our insurance investment portfolio.
- A decrease of \$231 million (92%) in remeasurement losses on defined benefit plans in the quarter. This is primarily due to a smaller decrease in the discount rate we used to remeasure the defined benefit plans obligation than in the same quarter last year.

Six months ended 30 June (in millions)	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Government funding for housing programs	1,939	1,543	-	-	-	-	-	-	1,939	1,543
Premiums and fees earned	-	-	696	681	348	330	-	-	1,044	1,011
All other income ¹	55	44	183	581	46	60	(3)	1	281	686
Total revenues and government funding	1,994	1,587	879	1,262	394	390	(3)	1	3,264	3,240
Housing programs	1,787	1,399	-	-	-	-	-	-	1,787	1,399
Insurance claims	-	-	(248)	414	-	-	-	-	(248)	414
Operating expenses	153	151	169	143	38	36	-	-	360	330
Total expenses	1,940	1,550	(79)	557	38	36	-	-	1,899	2,143
Income taxes	11	6	240	177	89	89	(1)	-	339	272
Net income	43	31	718	528	267	265	(2)	1	1,026	825
Other comprehensive income (loss)	132	(65)	(127)	204	(94)	124	5	(7)	(84)	256
Comprehensive income	175	(34)	591	732	173	389	3	(6)	942	1,081

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

YTD 2021 vs YTD 2020

Our total revenues and government funding increased by \$24 million (1%) from the same six-month period last year, mainly due to:

- An increase of \$396 million (26%) in government funding for housing programs. This was driven mainly by \$474 million for the Rapid Housing Initiative and \$214 million for Provincial/Territorial NHS initiatives, partially offset by a decrease in CECRA of \$221 million, as explained above.
- This increase was partially offset by the decrease of \$341 million (79%) in net gains on financial instruments, as described above, as well as a decrease of \$43 million (19%) in investment income, mainly due to a decrease in average portfolio size as a result of selling investments to fund dividend payments to the Government combined with a decline in interest rates.

Total expenses decreased by \$244 million (11%) from the same six-month period last year mainly due to the decrease of \$662 million (160%) in insurance claims, partially offset by the increase in government funding for housing programs of \$388 million (28%), as described above.

Other comprehensive income, net of tax, decreased by \$340 million (133%) from the same six-month period last year, mainly due to:

- An increase of \$633 million (160%) in net unrealized losses from debt instruments held at fair value through other comprehensive income. There was a significant increase in bond yields in the first quarter of 2021, resulting in a higher overall level of the yield curve as compared to the same period last year. The net effect of this increase last quarter and a slight decrease in bond yields in the current quarter resulted in \$237 million in net unrealized losses, compared to \$396 million in unrealized gains as bond yields decreased over the same period last year.
- There was a \$352 million (306%) increase in remeasurement gains on defined benefit plans mainly as a result of the discount rate increasing throughout 2021 while the same period last year experienced a decrease in the discount rate.

Financial metrics and ratios

Mortgage Insurance

<i>(in millions, unless otherwise indicated)</i>	Insurance-in-force (\$B)	
	As at	
	30 June 2021	31 December 2020
Transactional homeowner	203	216
Portfolio	99	114
Multi-unit residential	107	101
Total	409	431

Insurance-in-force decreased by \$22 billion (5%) due to lower transactional homeowner and portfolio volumes insured in the current year compared to recent years. New loans insured were \$25 billion, while estimated loan amortization and pay-downs were \$47 billion.

<i>(in millions, unless otherwise indicated)</i>	Insured volumes ¹ (units)		Insured volumes ¹ (\$)		Premiums and fees received ²		Claims paid	
	Three months ended							
	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020
Transactional homeowner	23,029	28,982	6,571	8,000	241	283	29	31
Portfolio	2,435	60,066	640	14,374	2	76	-	3
Multi-unit residential ³	49,015	44,109	8,181	5,892	265	214	1	-
Total	74,479	133,157	15,392	28,266	508	573	30	34

¹ No portfolio substitutions for the three months ended 30 June 2021 (18,979 units and \$4,060 million for the three months ended 30 June 2020).

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 \$19 million for the three months ended 30 June 2021 (\$5 million for the three months ended 30 June 2020) received from the government for RCFi.

<i>(in millions, unless otherwise indicated)</i>	Insured volumes ¹ (units)		Insured volumes ¹ (\$)		Premiums and fees received ²		Claims paid	
	Six months ended							
	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020
Transactional homeowner	34,763	44,005	9,925	12,203	358	432	50	87
Portfolio	3,165	64,288	850	15,701	3	83	3	7
Multi-unit residential ³	84,677	80,866	13,735	11,157	478	406	11	3
Total	122,605	189,159	24,510	39,061	839	921	64	97

¹ No portfolio substitutions for the six months ended 30 June 2021 (18,979 units and \$4,060 million for the six months ended 30 June 2020).

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 \$36 million for the six months ended 30 June 2021 (\$20 million for the six months ended 30 June 2020) received from the government for RCFi.

Q2 2021 vs Q2 2020 and YTD 2021 vs YTD 2020

Transactional homeowner volumes decreased as a result of changes to our underwriting criteria that we implemented in July 2020. Effective 5 July 2021, we returned to our pre-July 2020 underwriting practices for homeowner mortgage loan insurance as explained above in "The Operating Environment and Outlook for 2021". Portfolio unit volumes decreased in comparison to last year, when portfolio eligibility criteria were temporarily expanded and demand for funding by lenders was higher with the launch of the IMPP at the onset of the COVID-19 pandemic. In addition, multi-unit residential volumes increased, driven by increases in new construction and purchases. These increases were offset by a decrease in refinancing units as approvals have been suspended, except when the funds are used for repairs or re-investment in housing, since 1 July 2020.

Total insured dollars decreased driven primarily by the decrease in portfolio and transactional homeowner volumes partially offset by the multi-unit increase in volume as explained above. In addition, the multi-unit property values insured have increased.

Lower volumes in transactional homeowner and portfolio accounts for the majority of the \$82 million (9%) decrease in total premiums and fees received, partially offset by higher multi-unit volumes, as explained above.

Lower claims paid is mainly due to a decrease in transactional homeowner claims as lenders are recovering sufficient funds from the sale of the properties to cover losses as a result of improved economic conditions as outlined in "The Operating Environment and Outlook for 2021" section above.

<i>(in percentages)</i>	Three months ended		Six months ended	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
Loss ratio ¹	(18.1)	84.3	(35.6)	60.7
Operating expense ratio	23.4	21.3	24.3	21.0
Combined ratio	5.3	105.6	(11.3)	81.7
Severity ratio	27.8	28.9	30.7	29.6
Return on equity	11.3	13.2	11.7	8.8
Return on required equity	13.5	14.9	15.5	10.3

¹ Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was (22.5)% and (46.1)% for the three and six months ended 30 June 2021, respectively (104.1% and 71.5% for the three and six months ended 30 June 2020)

Q2 2021 vs Q2 2020 and YTD 2021 vs YTD 2020

The loss ratio and combined ratio decreased mainly due to lower insurance claims expenses, as a result of a release of the provision in line with lower unemployment rate, a higher gross domestic product and arrears not materializing as expected with the mortgage deferral programs.

The operating expense ratio increase is mostly attributable to information technology costs partially offset by higher earned premiums and fees as explained above.

The severity ratio decreased from the same three-month period last year due to lower gross claims paid as a percentage of insured loan amount, driven by stronger sales proceeds. The six-month ratio increased from the same period last year mainly driven by one large multi-unit claim in the first quarter of 2021.

The return on equity and return on required equity ratios increased from the same six month period last year due to the higher net income mainly driven by the decrease in insurance claims as explained above. The return on equity and return on required equity ratios decreased from the same three month period last year due to a decrease in net income mainly driven by the decrease in net gains on financial instruments in 2020 as explained above.

	As at 30 June 2021		As at 31 December 2020	
	No. of delinquent loans	Arrears rate	No. of delinquent loans	Arrears rate
Transactional homeowner Portfolio	4,252	0.42%	4,967	0.47%
Multi-unit residential	71	0.27%	64	0.25%
Total	5,452	0.31%	6,502	0.34%

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

Mortgage Funding

<i>(in millions, unless otherwise indicated)</i>	Total guarantees-in-force (\$B)	
	As at	
	30 June 2021	31 December 2020
NHA MBS	207	232
CMB	254	257
Total	461	489

Total guarantees-in-force represents the maximum principal obligation related to our timely payment guarantee. Guarantees-in-force were \$461 billion as at 30 June 2021, an decrease of \$28 billion (6%) as maturities and principal run-off exceeded new guarantees provided by CMHC.

<i>(in millions, unless otherwise indicated)</i>	New securities guaranteed (\$B)		Guarantee and application fees received ¹	
	Three months ended			
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
NHA MBS ²	36	66	189	262
CMB	10	18	40	61
Total	46	84	229	323

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

² As the IMPP has now closed, no securities were sold into the IMPP in the three months ended 30 June 2021 (2020 – \$1 billion of new securities and \$22 million of securities guaranteed in previous quarters).

<i>(in millions, unless otherwise indicated)</i>	New securities guaranteed (\$B)		Guarantee and application fees received ¹	
	Six months ended			
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
NHA MBS ²	64	101	338	377
CMB	20	29	82	100
Total	84	130	420	477

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

² As the IMPP has now closed, no securities were sold into the IMPP in the six months ended 30 June 2021 (2020 – \$4.2 billion of new securities and \$1,572 million of securities guaranteed in previous quarters).

Q2 2021 vs Q2 2020 and YTD 2021 vs YTD 2020

Guarantee and application fees received decreased by \$95 million (29%) and \$57 million (12%), from the same three and six month period last year, respectively. As Q2 2020 was heavily impacted by increased volumes due to financial institutions accessing our programs for additional sources of liquidity in the early stages of COVID-19, volumes have decreased substantially this year in comparison while being partially offset by pricing increases effective 1 January 2021.

<i>(in percentages)</i>	Three months ended		Six months ended	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
Operating expense ratio	8.5	9.0	8.7	8.7
Return on equity	32.2	21.9	23.9	21.4
Return on required equity	63.2	42.9	65	40.8

Q2 2021 vs Q2 2020 and YTD 2021 vs YTD 2020

The operating expense ratio decreased by 0.5 percentage points from the same three month period last year, as guarantee and application fees earned were higher as explained above under “Key financial highlights”.

Return on equity and return on required equity increased from the same three and six month period last year largely due to decreases in average equity and required equity, respectively. Average equity decreased as we declared total dividends of \$1,540 million in the first six months of 2021, including \$145 million in Q2. Required equity decreased as a result of the revised economic capital methodology described in our most recent annual report.

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.

<i>(in millions)</i>	Six months ended 30 June	
	2021	2020
Amounts authorized in 2020/21 (2019/20)		
Main estimates	2,920	2,657
Supplementary estimates A ^{1,2,5}	3,039	9
Supplementary estimates B ^{1,3}	873	78
Supplementary estimates C ^{1,4,5}	(812)	-
Less: Portion recognized in calendar 2020 (2019)	(4,064)	(1,282)
Less: Government funding lapsed for 2020/21 (2019/20)	(238)	(64)
Less: Frozen Allotment	(252)	(463)
2020/21 (2019/20) government funding for housing programs funded in 2021 (2020)	1,466	935
Amounts authorized in 2021/22 (2020/21)		
Main estimates	3,259	2,920
Supplementary estimates A ^{1,2,4,5}	1,800	3,039
Supplementary estimates B ^{1,3}	-	873
Supplementary estimates C ^{1,4,5}	-	(812)
Total fiscal year government funding for housing programs	5,059	6,020
Less: portion to be recognized in subsequent quarters	(4,489)	(4,082)
Less: Frozen Allotment	-	(252)
Forecasted lapse for 2021/22 (Actual lapse in 2020/21)	-	(238)
2021/22 (2020/21) government funding for housing programs funded in 2021 (2020)	570	1,448
Total government funding for housing programs funded – six months ended 30 June	2,036	2,383

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

² Approved 2021/22 supplementary estimates A for RHI, NHCF, Canada Greener Homes, Granville Island Emergency Relief Fund, CECRA, CHB and funding to support Youth (2020/21 for CECRA, 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), (2019/20 for Housing Research and Data Initiative, First-Time Home Buyer Initiative, Human-rights based approach to housing and other initiatives).

³ Approved 2020/21 supplementary estimates B for RHI, Innovation Fund, Federal, Provincial and Territorial initiatives and other NHS initiatives (2019/20 for NHCF, Innovation Fund, First-Time Home Buyer Initiative and other initiatives).

⁴ Approved 2020/21 supplementary estimates C increase of \$19 million for COVID-19 programs including CECRA, Rapid Housing Internship For First Nation and Inuit Youth, and Granville Island Emergency Relief Fund, and a reduction of \$831 million as part of the Fall Economic Statement for CECRA.

⁵ We exclude funding received for the Granville Island Emergency Relief Fund from our consolidated financial statements because we do not control the activities of Granville Island.

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 over the long term; however, a portion of their earnings are retained in this reserve fund in order to account for potential 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 our Assisted Housing activities, as they do not present material financial risks to CMHC.

For our Mortgage Insurance activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT as our economic capital is lower than the regulatory capital requirements established by OSFI; therefore, regulatory capital is the binding constraint for required capital.

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.

<i>(in percentages)</i>	As at	
	30 June 2021	31 December 2020
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	201%	234%
Mortgage Funding: Capital available to capital required ^{1, 2}	202%	349%

¹ The capital available to required capital as at 30 June 2021 from an economic viewpoint is 129% (31 December 2020 – 176%).

² Represents the capital available to capital required from an accounting viewpoint that excludes unearned premiums and fees from capital required.

Our Mortgage Insurance MICAT ratio decreased by 33 percentage points mainly due to the decrease in available equity driven by the recommencement of dividend payments of \$2,750 million in 2021. Capital required for insurance risk also decreased due to lower insurance-in-force in the quarter. We remain adequately capitalized as at 30 June 2021.

Our Mortgage Funding available equity to required equity ratio decreased by 147 percentage points because we have declared \$1,540 million of dividends during the period.

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

RISK MANAGEMENT

As the Canadian economy continues to recover with an accelerating vaccine rollout, we are seeing further improvement in our risk profile as well.

- Our financial risks are now trending lower due to a positive economic outlook and an improvement in the credit market, while our reputational risk's trend has improved but remains at a moderate level.
- Insurance risk's rating has moved from moderate to low due to:
 - Strong borrower credit and stable arrears volumes (homeowner insurance risk)
 - Continued historical low arrears and claims levels (multi-unit insurance risk)
- Our operational risk remains moderate but elevated due to risks related to data governance and cybersecurity.
- Lastly, our strategic risk remains high due to increased affordability gaps, existing demand-supply mismatches, and rapid increases in house prices in some regions, which pose a challenge to achieving our aspiration.

Despite some of the positive trends we have seen in the second quarter, we remain cautious given the uncertainties in the economy and the housing market.

Continuous exploration of potential severe scenarios

In 2021, we have broadened our annual corporate-wide stress testing program by exploring potential severe scenarios on a quarterly basis. We perform these analyses to identify potential threats to our capital and liquidity levels and to enhance our operational readiness should an adverse event occur.

In the second quarter of 2021, we presented a prolonged economic recession scenario to our Board of Directors. In this scenario, the economy faced a very slow recovery due to a slow deployment of COVID-19 vaccines, which ultimately resulted in an extended economic recession.

Using our year-end 2020 Mortgage Insurance results as a starting point, insurance claims over a ten year period would increase from \$1.6 billion to \$4.4 billion under such a scenario, and available capital would decrease from \$13.3 billion to \$5.3 billion by the end of 2030.

Our testing results indicated that after implementing management actions in the form of temporarily suspending special and normal dividends, we would maintain sufficient capital and liquidity across all of our activities to withstand such a scenario.

HISTORICAL QUARTERLY INFORMATION

<i>(in millions, unless otherwise indicated)</i>	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Consolidated Results								
Total assets	295,629	307,624	300,970	303,227	294,167	283,711	276,259	276,685
Total liabilities	282,402	294,472	284,395	287,196	278,473	268,281	261,646	261,857
Total equity of Canada	13,227	13,152	16,575	16,031	15,694	15,430	14,613	14,828
Total revenues and government funding	1,199	2,065	2,029	2,682	1,781	1,459	1,191	1,049
Total expenses (including income taxes)	739	1,499	1,640	2,234	1,215	1,200	767	666
Net income	460	566	389	448	566	259	424	383
Assisted Housing								
Government funding for housing programs	547	1,392	1,372	1,977	629	914	489	393
Net income (loss)	24	19	22	15	25	6	27	10
Total equity of Canada	507	492	332	287	268	379	302	270
Mortgage Insurance								
Insurance-in-force (\$B)	409	422	431	438	433	425	429	433
Total insured volumes ¹	15,392	9,118	19,494	19,617	26,939	10,795	14,320	14,063
Premiums and fees received	508	330	518	570	573	348	432	466
Premiums and fees earned	349	347	344	347	346	335	358	359
Claims paid	30	34	23	20	34	63	63	53
Insurance claims	(63)	(185)	(113)	171	292	122	40	42
Net income	315	403	342	192	400	128	266	255
Arrears rate	0.31%	0.34%	0.34%	0.34%	0.34%	0.32%	0.31%	0.30%
Loss ratio	(18.1)%	(53.3)%	(32.9)%	49.3%	84.3%	36.5%	11.3%	11.6%
Operating expense ratio	23.4%	25.1%	29.4%	19.2%	21.3%	20.6%	22.0%	20.8%
Combined ratio	5.3%	(28.2)%	(3.5)%	68.5%	105.6%	57.1%	33.3%	32.4%
Severity ratio	27.8%	31.8%	27.0%	31.0%	28.9%	28.8%	29.9%	30.0%
Return on equity	11.3%	13.1%	10.4%	5.9%	13.2%	4.2%	8.8%	8.3%
Return on required equity	13.5%	16.7%	10.5%	7.7%	14.9%	4.9%	10.6%	9.8%
Capital available to minimum capital required (% MICAT) ²	201%	191%	234%	233%	231%	207%	195%	197%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	24.2%	24.8%	26.2%	25.9%	25.8%	26.0%	26.4%	27.0%
Mortgage Funding								
Guarantees-in-force (\$B)	461	479	489	500	516	494	493	488
Securities guaranteed	46,226	38,184	51,855	42,667	84,342	45,930	50,140	42,930
Guarantee and application fees received	229	191	241	186	323	154	129	164
Guarantee and application fees earned	176	172	172	165	170	160	156	146
Net income	126	141	135	130	143	122	126	116
Operating expense ratio	8.5%	8.9%	8.8%	7.0%	9.0%	8.4%	9.3%	9.3%
Return on equity	32.2%	25.2%	18.9%	19.1%	21.9%	20.4%	21.7%	19.1%
Return on required equity	63.2%	65.6%	49.6%	40.8%	42.9%	38.7%	38.9%	35.9%
Capital available to capital required ²	202%	192%	349%	233%	223%	211%	190%	198%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	27.2%	28.6%	29.5%	29.3%	30.6%	30.3%	30.6%	30.9%

¹ Total insured volumes include portfolio substitutions.

² Prior to implementing the updated economic capital methodology for Mortgage Funding on 25 November 2020, this ratio was calculated using the Capital Floor methodology when determining required capital.

Unaudited Quarterly Consolidated Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 2021

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.



Romy Bowers
President and Chief Executive Officer



Michel Tremblay, CPA, CA
Chief Financial Officer

24 August 2021

CONSOLIDATED BALANCE SHEET

<i>(in millions of Canadian dollars)</i>	Notes	As at	
		30 June 2021	31 December 2020
Assets			
Cash and cash equivalents	20	1,470	2,301
Securities purchased under resale agreements		-	174
Accrued interest receivable		685	714
Investment securities:			
Fair value through profit or loss	11	404	399
Fair value through other comprehensive income	11	19,720	23,094
Amortized cost	10	2,657	1,427
Derivatives		15	117
Due from the Government of Canada	6	460	339
Loans:	12		
Fair value through profit or loss		518	743
Amortized cost		268,463	270,450
Accounts receivable and other assets		955	931
Investment property		282	281
		295,629	300,970
Liabilities			
Accounts payable and other liabilities		757	752
Accrued interest payable		575	573
Derivatives		135	8
Provision for claims	7	430	735
Borrowings:	13		
Fair value through profit or loss		617	1,156
Amortized cost		271,152	272,369
Defined benefit plans liability		287	549
Unearned premiums and fees	7, 8	8,255	8,021
Deferred income tax liabilities		194	232
		282,402	284,395
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		286	607
Retained earnings		12,916	15,943
		13,227	16,575
		295,629	300,970

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

<i>(in millions of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2021	2020	2021	2020
Interest income		1,130	1,248	2,250	2,597
Interest expense		1,130	1,249	2,247	2,585
Net interest income		-	(1)	3	12
Government funding for housing programs	6	547	629	1,939	1,543
Premiums and fees earned	7, 8	525	516	1,044	1,011
Investment income		91	105	180	223
Net gains on financial instruments	14	35	519	90	431
Other income		1	13	8	20
Total revenues and government funding		1,199	1,781	3,264	3,240
Non-interest expenses					
Housing programs	6	472	557	1,787	1,399
Insurance claims		(63)	292	(248)	414
Operating expenses		175	180	360	330
Total expenses		584	1,029	1,899	2,143
Income before income taxes		615	752	1,365	1,097
Income taxes	18	155	186	339	272
Net income		460	566	1,026	825
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		106	22	(237)	396
Reclassification of losses on debt instruments held at fair value through other comprehensive income on disposal in the period		(75)	(72)	(84)	(25)
Total items that will be subsequently reclassified to net income		31	(50)	(321)	371
Items that will not be subsequently reclassified to net income					
Remeasurement gains (losses) on defined benefit plans	17, 18	(21)	(252)	237	(115)
Total comprehensive income (loss), net of tax		10	(302)	(84)	256
Comprehensive income		470	264	942	1,081

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

<i>(in millions of Canadian dollars)</i>	Notes	Three months ended 30 June		Six months ended 30 June	
		2021	2020	2021	2020
Contributed capital		25	25	25	25
Accumulated other comprehensive income					
Balance at beginning of period		255	667	607	246
Other comprehensive income (loss)		31	(50)	(321)	371
Balance at end of period		286	617	286	617
Retained earnings					
Balance at beginning of period		12,872	14,738	15,943	14,342
Net income		460	566	1,026	825
Other comprehensive income (loss)		(21)	(252)	237	(115)
Dividends	9	(395)	-	(4,290)	-
Balance at end of period		12,916	15,052	12,916	15,052
Equity of Canada		13,227	15,694	13,227	15,694

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

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in millions of Canadian dollars)</i>	Notes	Three months ended 30 June		Six months ended 30 June	
		2021	2020	2021	2020
Cash flows from operating activities					
Net income		460	566	1,026	825
Adjustments to determine cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		35	35	73	54
Net gains on financial instruments		(146)	(364)	(335)	(473)
Deferred income taxes	18	(11)	51	(33)	(2)
Depreciation and impairment		14	8	44	16
Changes in operating assets and liabilities					
Derivatives		105	(158)	229	37
Accrued interest receivable		541	577	29	76
Due from the Government of Canada		427	550	(202)	(41)
Accounts receivable and other assets		(21)	(75)	54	(90)
Accounts payable and other liabilities		(415)	453	100	697
Accrued interest payable		(528)	(553)	2	(57)
Provision for claims		(91)	255	(305)	313
Defined benefit plans liability		(2)	10	4	13
Unearned premiums and fees		225	397	234	407
Other		1	(5)	-	(4)
Loans repayments	12	18,177	10,400	23,101	21,111
Loans disbursements	12	(10,366)	(19,847)	(20,837)	(35,653)
Borrowings repayments	13	(21,630)	(13,227)	(27,488)	(26,627)
Borrowings issuances	13	14,617	22,551	26,284	41,699
		1,392	1,624	1,980	2,301
Cash flows from investing activities					
Investment securities					
Sales and maturities		4,378	9,989	9,915	11,016
Purchases		(4,268)	(10,094)	(8,869)	(10,984)
Foreign currency forward contract maturities					
Receipts		187	70	393	80
Disbursements		(32)	(132)	(63)	(171)
Investment property additions		(1)	-	(1)	-
Securities purchased under resale agreements		-	(684)	174	(898)
Fixed and intangible asset acquisitions		(35)	(13)	(70)	(34)
		229	(864)	1,479	(991)
Cash flows from financing activities					
Dividends paid		(4,290)	-	(4,290)	-
Change in cash and cash equivalents		(2,669)	760	(831)	1,310
Cash and cash equivalents					
Beginning of period		4,139	1,472	2,301	922
End of period		1,470	2,232	1,470	2,232
Represented by					
Cash		170	632	170	632
Cash equivalents		1,300	1,600	1,300	1,600
		1,470	2,232	1,470	2,232
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		1,924	2,046	2,799	3,091
Amount of interest paid during the period		1,801	1,885	2,537	2,787
Amount of dividends received during the period		12	1	12	2
Amount of income taxes paid during the period		140	200	286	411

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, we, or us) 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 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 six months ended 30 June 2021 and were approved and authorized for issue by our Audit Committee on 24 August 2021.

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. 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 2020 and these unaudited quarterly consolidated financial statements should be read in conjunction with those financial statements.

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our Mortgage Insurance (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.

Future accounting changes

There have been no new standards or amendments to existing standards issued by the IASB that would affect us in the future other than those disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2020. Notably, as disclosed therein, we will implement International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* on 1 January 2023.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with IFRS requires us 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. We have disclosed key assumptions concerning the future and other important sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, in Note 4 of our audited consolidated financial statements for the year ended 31 December 2020. Notable changes to the key judgments and estimates are reflected below.

The COVID-19 pandemic continues to affect economies globally and its impacts on our business have become clearer. Loans still in deferral are now negligible, the nature and extent of government and regulatory responses are clearer, and our economic projections are more optimistic. The most significant uncertainty caused by COVID-19, with respect to the assumptions we use in making estimates, continues to pertain to our provision for claims as discussed below.

Judgments in applying accounting policies

Provision for claims

We have revised our estimate of the provision for claims at 30 June 2021 to reflect updated arrears information and economic assumptions available at the balance sheet date. The provision for claims reflects only incurred losses up to 30 June 2021 and does not reflect any losses on claims that may occur in future periods.

Notably, we have resumed using arrears reporting from financial institutions as a primary input in our provisioning methodology. After the first quarter of 2020, we relied primarily on projections of economic variables in the determination of our provision for claims as loan deferral programs made available by financial institutions in 2020 resulted in fewer loans in arrears, leading to difficulty in assessing the health of the loan. Deferral programs formally ceased as of 30 September 2020; consequently, as at 30 June 2021, we consider arrears reporting to be complete.

Our provision for claims at 30 June 2021 continues to incorporate projections of economic variables, however less weight is applied due to arrears being complete. We consider a number of scenarios when establishing a reasonable range for the provision for claims and our final estimate at 30 June 2021 reflects the following key economic assumptions for the next 18 months: average unemployment rate of 7.3%; increase in house price index of 5.6%; and increase in real gross domestic product of 5.1%. See Note 7 for more information on the provision for claims.

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 products and programs in support of our objectives. We include the accounts for Canada Housing Trust (CHT), a separate legal entity, within the Mortgage Funding reportable segment. We determine the financial results of each segment using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2020. For all segments, revenues are attributed to, and assets are located in, Canada.

We generate revenues for the reportable segments as follows:

- Assisted Housing revenues include government funding and interest income on loans and investments;
- 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 June (in millions)	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Interest income	66	71	-	-	1,062	1,178	2	(1)	1,130	1,248
Interest expense	74	80	-	-	1,059	1,176	(3)	(7)	1,130	1,249
Net interest income (loss)	(8)	(9)	-	-	3	2	5	6	-	(1)
Government funding for housing programs	547	629	-	-	-	-	-	-	547	629
Premiums and fees earned	-	-	349	346	176	170	-	-	525	516
Investment income (losses)	-	-	81	90	11	18	(1)	(3)	91	105
Net gains (losses) on financial instruments	44	49	10	462	(8)	14	(11)	(6)	35	19
Other income (loss)	(4)	7	1	1	4	5	-	-	1	13
Total revenues and government funding	579	676	441	899	186	209	(7)	(3)	1,199	1,781
Non-interest expenses										
Housing programs	472	557	-	-	-	-	-	-	472	557
Insurance claims	-	-	(63)	292	-	-	-	-	(63)	292
Operating expenses	75	88	82	74	18	18	-	-	175	180
Total expenses	547	645	19	366	18	18	-	-	584	1,029
Income (loss) before income taxes	32	31	422	533	168	191	(7)	(3)	615	752
Income taxes	8	6	107	133	42	48	(2)	(1)	155	186
Net income (loss)	24	25	315	400	126	143	(5)	(2)	460	566
Total revenues and government funding	579	676	441	899	186	209	(7)	(3)	1,199	1,781
Inter-segment income (loss) ¹	9	1	1	9	(3)	(7)	(7)	(3)	-	-
External revenues and government funding	570	675	440	890	89	216	-	-	1,199	1,781

¹ Inter-segment income relates to the following:

- Assisted Housing recognizes interest income from holding Canada Mortgage Bonds (CMB) as investments;
- Mortgage Insurance recognizes investment income from holding CMB as investments; and
- Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.

Six months ended 30 June <i>(in millions)</i>	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Interest income	127	146	-	-	2,121	2,453	2	(2)	2,250	2,597
Interest expense	143	154	-	-	2,114	2,447	(10)	(16)	2,247	2,585
Net interest income (loss)	(16)	(8)	-	-	7	6	12	14	3	12
Government funding for housing programs	1,939	1,543	-	-	-	-	-	-	1,939	1,543
Premiums and fees earned	-	-	696	681	348	330	-	-	1,044	1,011
Investment income (losses)	-	-	156	194	27	35	(3)	(6)	180	223
Net gains (losses) on financial instruments	73	39	27	387	2	12	(12)	(7)	90	431
Other income (loss)	(2)	13	-	-	10	7	-	-	8	20
Total revenues and government funding	1,994	1,587	879	1,262	394	390	(3)	1	3,264	3,240
Non-interest expenses										
Housing programs	1,787	1,399	-	-	-	-	-	-	1,787	1,399
Insurance claims	-	-	(248)	414	-	-	-	-	(248)	414
Operating expenses	153	151	169	143	38	36	-	-	360	330
Total expenses	1,940	1,550	(79)	557	38	36	-	-	1,899	2,143
Income (loss) before income taxes	54	37	958	705	356	354	(3)	1	1,365	1,097
Income taxes	11	6	240	177	89	89	(1)	-	339	272
Net income (loss)	43	31	718	528	267	265	(2)	1	1,026	825
Total revenues and government funding	1,994	1,587	879	1,262	394	390	(3)	1	3,264	3,240
Inter-segment income (loss) ¹	9	2	4	13	(10)	(16)	(3)	1	-	-
External revenues and government funding	1,985	1,585	875	1,249	404	406	-	-	3,264	3,240

¹ Inter-segment income relates to the following:

- Assisted Housing recognizes interest income from holding Canada Mortgage Bonds (CMB) as investments;
- Mortgage Insurance recognizes investment income from holding CMB as investments; and
- Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.

As at 30 June 2021 and 31 December 2020 (in millions)	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations ¹		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Assets										
Cash and cash equivalents	688	1,171	766	1,121	16	9	-	-	1,470	2,301
Securities purchased under resale agreements	-	174	-	-	-	-	-	-	-	174
Accrued interest receivable	78	91	86	95	522	529	(1)	(1)	685	714
Investment securities:										
Fair value through profit or loss	318	318	86	81	-	-	-	-	404	399
Fair value through other comprehensive income	-	-	16,720	18,676	3,446	4,821	(446)	(403)	19,720	23,094
Amortized cost	3,105	1,447	-	-	-	-	(448)	(20)	2,657	1,427
Derivatives	15	24	-	93	-	-	-	-	15	117
Due from the Government of Canada	460	339	-	-	-	-	-	-	460	339
Loans:										
Fair value through profit or loss	498	719	20	24	-	-	-	-	518	743
Amortized cost	7,019	6,160	77	80	261,367	264,210	-	-	268,463	270,450
Accounts receivable and other assets	142	190	649	694	164	47	-	-	955	931
Investment property	282	281	-	-	-	-	-	-	282	281
	12,605	10,914	18,404	20,864	265,515	269,616	(895)	(424)	295,629	300,970
Liabilities										
Accounts payable and other liabilities	573	519	76	192	108	41	-	-	757	752
Accrued interest payable	59	57	-	-	517	517	(1)	(1)	575	573
Derivatives	18	8	117	-	-	-	-	-	135	8
Provision for claims	-	-	430	735	-	-	-	-	430	735
Borrowings:										
Fair value through profit or loss	617	1,156	-	-	-	-	-	-	617	1,156
Amortized cost	10,629	8,529	-	-	261,367	264,210	(844)	(370)	271,152	272,369
Defined benefit plans liability	117	242	160	299	10	8	-	-	287	549
Unearned premiums and fees	-	-	6,291	6,129	1,964	1,892	-	-	8,255	8,021
Deferred income tax liabilities	85	71	119	139	5	37	(15)	(15)	194	232
	12,098	10,582	7,193	7,494	263,971	266,705	(860)	(386)	282,402	284,395
Equity of Canada	507	332	11,211	13,370	1,544	2,911	(35)	(38)	13,227	16,575
	12,605	10,914	18,404	20,864	265,515	269,616	(895)	(424)	295,629	300,970

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

6. Government Funding and Housing Programs Expenses

We used government funding to administer the following housing programs, including operating expenses incurred to support them, as shown by core responsibility.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
Assistance for housing needs	460	336	1,730	1,089
Financing for housing	80	1,084	231	1,229
Housing expertise and capacity development	30	28	75	65
Total¹	570	1,448	2,036	2,383
Government funding deferred in the period	(23)	(819)	(97)	(840)
Total Government funding recognized²	547	629	1,939	1,543

¹ Includes operating expenses of \$75 million and \$152 million for the three and six months ended 30 June 2021, respectively (three and six months ended 30 June 2020 – \$84 million and \$141 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 \$49 million and \$78 million for the three and six months, respectively, ended 30 June 2021 (three and six months ended 30 June 2020 – \$30 million and \$54 million).

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 June 2021 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
Balance at beginning of period	863	775	339	249
Add back prior period adjustments (net)	(1)	7	-	-
Total government funding	570	1,448	2,036	2,383
Government funding received during the period	(972)	(1,912)	(1,924)	(2,314)
Third party remittances to the Government of Canada	(1)	1	8	1
Balance at end of period before prior/future period adjustment	459	319	459	319
Net change in prior period adjustments	1	(52)	1	(52)
Balance at end of period	460	267	460	267

7. Mortgage Insurance

Unearned premiums and fees

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

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
Balance at beginning of period	6,119	5,512	6,129	5,496
Premiums deferred on contracts written in the period	510	577	840	922
Premiums earned in the period	(345)	(337)	(688)	(666)
Application fees deferred on contracts written in the period	10	8	17	11
Application fees earned in the period ¹	(3)	(4)	(7)	(7)
Balance at end of period	6,291	5,756	6,291	5,756

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.

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:

<i>(in millions)</i>	As at					
	30 June 2021			31 December 2020		
	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	375	23	398	651	25	676
Discounting	(4)	(3)	(7)	(4)	(2)	(6)
Discounted provision for adverse deviation	34	5	39	60	5	65
Total provision for claims	405	25	430	707	28	735

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

<i>(in millions)</i>	Three months ended 30 June					
	2021			2020		
	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	495	26	521	422	43	465
Net claims paid during the period	(30)	-	(30)	(34)	-	(34)
Provision for claims provided for and losses incurred during the period ¹	56	2	58	246	-	246
Unfavourable (favourable) development on prior period claims	(116)	(3)	(119)	43	-	43
Provision for claims, end of period	405	25	430	677	43	720

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.

<i>(in millions)</i>	Six months ended 30 June					
	2021			2020		
	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	707	28	735	364	43	407
Net claims paid during the period	(64)	-	(64)	(97)	-	(97)
Provision for claims provided for and losses incurred during the period ¹	134	2	136	314	-	314
Unfavourable (favourable) development on prior period claims	(372)	(5)	(377)	96	-	96
Provision for claims, end of period	405	25	430	677	43	720

¹ Included as part of insurance claims on the consolidated statements of income and comprehensive income. Provision for claims provided for and losses incurred may not equal insurance claims expense as certain insurance claims expenses 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 June 2021 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 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, consisting primarily of insured mortgage loans, under each of the programs.

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.

<i>(in millions)</i>	Three months ended 30 June					
	2021			2020		
	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,355	556	1,911	1,144	505	1,649
TPG and application fees received in the period	189	40	229	262	61	323
TPG and application fees earned in the period	(138)	(38)	(176)	(129)	(41)	(170)
Balance at end of period	1,406	558	1,964	1,277	525	1,802

<i>(in millions)</i>	Six months ended 30 June					
	2021			2020		
	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,341	551	1,892	1,152	503	1,655
TPG and application fees received in the period	338	82	420	377	100	477
TPG and application fees earned in the period	(273)	(75)	(348)	(252)	(78)	(330)
Balance at end of period	1,406	558	1,964	1,277	525	1,802

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 this, we also meet the requirements of the CMHC Act and the NHA.

Effective 25 November 2020, our Board of Directors approved an updated economic capital methodology for determining required capital for Mortgage Funding, which we have applied prospectively from that date. See the 2020 Annual Report for further information on the revised economic capital methodology.

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 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 us 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 our needs for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, we do not manage our capital to issue a dividend. In the current quarter, we paid \$3,895 million of dividends that were declared in the first quarter of 2021 and we declared and paid an additional \$395 million of dividends in the second quarter (three and six months ended 30 June 2020 – no dividends paid or declared).

The components of consolidated capital available are presented below.

<i>(in millions)</i>	As at	
	30 June 2021	31 December 2020
Contributed capital	25	25
Accumulated other comprehensive income	286	607
Appropriated retained earnings	9,926	9,905
Unappropriated retained earnings ¹	2,990	6,038
Total equity of Canada²	13,227	16,575
Less: assets with a capital requirement of 100%	(67)	(67)
Total capital available	13,160	16,508

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.

<i>(in millions, unless otherwise indicated)</i>	As at	
	30 June 2021	31 December 2020
Appropriated capital ¹	9,140	9,374
Unappropriated capital	2,071	3,996
Total Mortgage Insurance capital	11,211	13,370
Less: assets with a capital requirement of 100%	(67)	(67)
Total Mortgage Insurance capital available	11,144	13,303
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	201%	234%

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

Mortgage Funding capital

Mortgage Funding capital is appropriated for the guarantees provided by our NHA MBS and CMB programs. There is no regulatory capital and the appropriated amount of capital is based on the economic capital methodology as outlined in the most recent annual report. Under the revised methodology implemented effective 25 November 2020, the total asset requirement is \$3 billion (economic capital required) and this will be re-assessed annually as part of the ORSA process. At 30 June 2021, we had \$1,544 million of equity and \$1,964 million of unearned premiums and fees, for a total of \$3,508 million of economic capital available to more than offset the \$3 billion total asset requirement. Therefore, we are sufficiently capitalized from an economic capital standpoint.

Appropriated retained earnings is determined by deducting unearned guarantee and application fees from the total asset requirement to arrive at accounting capital required. We compare our closing equity balance to the appropriated retained earnings determined above to assess possible capital available for dividends while also ensuring that our available assets do not decrease below the \$3 billion economic capital required.

The following table presents the components of the capital available.

<i>(in millions, unless otherwise indicated)</i>	As at	
	30 June 2021	31 December 2020
Appropriated capital ¹	1,036	1,107
Unappropriated capital	508	1,804
Total Mortgage Funding capital available	1,544	2,911
Capital available to capital required (%)	202%	349%
Economic capital available to economic capital required	129%	176%

¹ We appropriate retained earnings and AOCI at the operating level of accounting capital required (as defined above), which is set at 110% of our capital needs determined by ORSA less unearned guarantee and application fees. Our internal target is set at 105% of our 'Own View' of capital needs less unearned premium and fees.

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Assisted Housing 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 (2020 – \$240 million), which we have determined through our ORSA to be in a reasonable range. Should we exceed the statutory limit, 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.

<i>(in millions)</i>	As at	
	30 June 2021	31 December 2020
Reserve fund	51	59
Retained earnings	431	248
Total Lending programs capital available	482	307

Housing programs

We do not hold capital for housing programs as this activity does not present risks 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 ordinary 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 (i.e. investment property) 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.

Level 2: Assets and liabilities that are measured based on observable inputs other than Level 1 prices. Level 2 inputs include prices obtained from markets that are not considered sufficiently active, and fair values obtained by discounting expected future cash flows, making maximum use of directly or indirectly observable market data.

Level 3: Assets and liabilities not quoted in active markets that are measured using valuation techniques. 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.

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.

(in millions)	As at					
	30 June 2021			31 December 2020		
	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
Financial assets¹						
Investments at amortized cost ²	2,657	2,658	1	1,427	1,439	12
Loans at amortized cost ³	268,463	273,244	4,781	270,450	280,561	10,111
Financial liabilities						
Borrowings at amortized cost ⁴	271,152	276,064	4,912	272,369	282,708	10,339

¹ Does not include cash and cash equivalents of \$759 million (31 December 2020 - \$1,023 million) and securities purchased under resale agreements of \$nil million (31 December 2020 - \$174 million) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.

² \$2,658 million (31 December 2020 - \$1,439 million) fair value categorized as level 2.

³ \$270,711 million (31 December 2020 - \$278,750 million) fair value categorized as level 2, \$2,533 million (31 December 2020 - \$1,811 million) fair value categorized as level 3.

⁴ \$203,309 million (31 December 2020 - \$219,834 million) fair value categorized as level 1, \$72,755 million (31 December 2020 - \$62,874 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.

<i>(in millions)</i>	As at							
	30 June 2021				31 December 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	37	-	37	-	290	-	290
Federal government issued	667	-	-	667	710	266	-	976
Provinces/municipalities	-	-	-	-	-	12	-	12
Corporate/other entities	-	7	-	7	-	-	-	7
Total cash equivalents	667	44	-	711	710	568	-	1,278
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	158	-	-	158	38	20	-	58
Provinces/municipalities	102	-	-	102	103	76	-	179
Sovereign and related entities	58	-	-	58	-	81	-	81
Equities								
Limited partnership units	-	-	86	86	-	-	81	81
Total at FVTPL	318	-	86	404	141	177	81	399
FVOCI								
Debt instruments								
Corporate/other entities	7,437	524	-	7,961	1,891	5,856	-	7,747
Federal government issued	8,405	-	-	8,405	11,280	532	-	11,812
Provinces/municipalities	3,177	-	-	3,177	2,797	562	-	3,359
Sovereign and related entities	177	-	-	177	16	160	-	176
Total at FVOCI	19,196	524	-	19,720	15,984	7,110	-	23,094
Loans designated at FVTPL	-	254	-	254	-	537	-	537
Loans mandatorily at FVTPL	-	16	248	264	-	17	189	206
Derivatives	-	15	-	15	-	117	-	117
Investment property	-	-	282	282	-	-	281	281
Total assets carried at fair value	20,181	853	616	21,650	16,835	8,526	551	25,912
Liabilities								
Borrowings designated at FVTPL	-	(617)	-	(617)	-	(1,156)	-	(1,156)
Derivatives	-	(119)	(16)	(135)	-	(8)	-	(8)
Total liabilities carried at fair value	-	(736)	(16)	(752)	-	(1,164)	-	(1,164)
Net assets at FVTPL	20,181	117	600	20,898	16,835	7,362	551	24,748

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 internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three and six months ended 30 June 2021, there were \$6,417 million and \$8,418 million of transfers from level 2 to level 1, respectively (three and six months ended 30 June 2020 - \$582 million and \$2,631 million, respectively). During the three and six months ended 30 June 2021, there were \$nil million and \$432 million of transfers from level 1 to level 2, respectively (three and six months ended 30 June 2020 - \$4,166 million and \$4,417 million, respectively).

Change in fair value measurement for items classified as Level 3

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

<i>(in millions)</i>	Investment securities - FVTPL	Investment securities - FVOCI	Loans - FVTPL	Investment property	Derivatives - FVTPL	Total
Three months ended 30 June 2021						
Fair value as at 1 April 2021	83	17	209	281	(8)	582
Purchases/issuances	2	-	44	1	-	47
Net gains in net income ^{1,2}	1	-	11	-	(7)	5
Cash receipts on settlements/disposals	-	(17)	(16)	-	-	(33)
Fair value as at 30 June 2021	86	-	248	282	(15)	601
Six months ended 30 June 2021						
Fair value as at 1 January 2021	81	-	189	281	(4)	547
Purchases/issuances	3	7	64	1	-	75
Net gains in net income ^{1,2}	2	-	19	-	(11)	10
Level transfers	-	10	-	-	-	10
Cash receipts on settlements/disposals	-	(17)	(24)	-	-	(41)
Fair value as at 30 June 2021	86	-	248	282	(15)	601
Three months ended 30 June 2020						
Fair value as at 1 April 2020	121	-	98	276	-	495
Purchases/issuances	2	-	49	-	-	51
Net gains in net income ^{1,2}	(1)	-	(3)	2	-	(2)
Gain in OCI	-	-	-	-	-	-
Cash receipts on settlements/disposals	-	-	(4)	-	-	(4)
Fair value as at 30 June 2020	122	-	140	278	-	540
Six months ended 30 June 2020						
Fair value as at 1 January 2020	118	-	70	276	-	464
Purchases/issuances	2	-	83	-	-	85
Net gains in net income ^{1,2}	2	-	(3)	2	-	1
Cash receipts on settlements/disposals	-	-	(10)	-	-	(10)
Fair value as at 30 June 2020	122	-	140	278	-	540

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

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

Unobservable inputs for items classified as Level 3

The valuations of items classified as Level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 June 2021, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 June 2021 did not materially change from 31 December 2020. 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 2020.

11. Investment Securities

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 one instrument at FVOCI with a gross carrying value of \$4 million that has 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.

(in millions)	As at											
	30 June 2021						31 December 2020					
	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	9,502	3,541	4,012	2,566	99	19,720	12,913	3,779	3,920	2,397	85	23,094
Amortized Cost	1,104	578	975	-	-	2,657	445	391	591	-	-	1,427

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 \$4 million at 30 June 2021 (31 December 2020 – \$5 million) with a corresponding loss of \$2 million and gain of \$1 million recognized in net gains (losses) on financial instruments during the three and six months ended 30 June 2021 (three and six months ended 30 June 2020 – \$41 million gain and \$24 million loss).

The ECL allowance for debt instruments held at amortized cost was nil at 30 June 2021 (31 December 2020 – nil) with a corresponding gain of nil recognized in net gains (losses) on financial instruments during the three and six months ended 30 June 2021 (three and six months ended 30 June 2020 – \$1 million gain and \$3 million loss).

12. Loans

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

<i>(in millions)</i>	Balance at beginning of period	Three months ended 30 June							Balance at end of period
		Cash flows		Non-cash changes					
		Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers ¹	
2021									
FVTPL									
Lending programs	581	(19)	35	8	-	-	-	(107)	498
MI activity loans	23	(14)	6	5	-	-	-	-	20
Total at FVTPL	604	(33)	41	13	-	-	-	(107)	518
Amortized cost									
CMB program loans	264,556	(17,657)	9,747	-	10	-	-	-	256,656
Lending programs	6,526	(186)	577	-	-	(10)	5	107	7,019
IMPP loans	4,998	(287)	-	-	-	-	-	-	4,711
MI activity loans	78	(14)	1	-	8	4	-	-	77
Total amortized cost	276,158	(18,144)	10,325	-	18	(6)	5	107	268,463
Total	276,762	(18,177)	10,366	13	18	(6)	5	-	268,981
2020									
FVTPL									
Lending programs	1,168	(43)	44	3	-	-	-	(233)	939
MI activity loans	26	(11)	5	4	-	-	-	-	24
Total at FVTPL	1,194	(54)	49	7	-	-	-	(233)	963
Amortized cost									
CMB program loans	244,534	(10,074)	18,671	-	12	-	-	-	253,143
Lending programs	5,051	(118)	310	-	-	17	4	233	5,497
IMPP Loans	5,000	(138)	817	-	-	-	-	-	5,679
MI activity loans	96	(16)	-	-	2	10	-	-	92
Total amortized cost	254,681	(10,346)	19,798	-	14	27	4	233	264,411
Total	255,875	(10,400)	19,847	7	14	27	4	-	265,374

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.

(in millions)	Six months ended 30 June								
	Balance at beginning of period	Cash flows		Non-cash changes					Balance at end of period
		Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers ¹	
2021									
FVTPL									
Lending programs	719	(41)	50	7	-	-	-	(237)	498
MI activity loans	24	(21)	12	5	-	-	-	-	20
Total at FVTPL	743	(62)	62	12	-	-	-	(237)	518
Amortized cost									
CMB program loans	258,962	(22,066)	19,740	-	20	-	-	-	256,656
Lending programs	6,160	(414)	1,033	-	-	(6)	9	237	7,019
IMPP loans	5,248	(537)	-	-	-	-	-	-	4,711
MI activity loans	80	(22)	2	-	9	8	-	-	77
Total amortized cost	270,450	(23,039)	20,775	-	29	2	9	237	268,463
Total	271,193	(23,101)	20,837	12	29	2	9	-	268,981
2020									
FVTPL									
Lending programs	1,307	(95)	70	17	-	-	-	(360)	939
MI activity loans	24	(17)	13	4	-	-	-	-	24
Total at FVTPL	1,331	(112)	83	21	-	-	-	(360)	963
Amortized cost									
CMB program loans	244,445	(20,494)	29,167	-	25	-	-	-	253,143
Lending programs	4,893	(344)	585	-	-	(5)	8	360	5,497
IMPP loans	-	(138)	5,817	-	-	-	-	-	5,679
MI activity loans	101	(23)	1	-	3	10	-	-	92
Total amortized cost	249,439	(20,999)	35,570	-	28	5	8	360	264,411
Total	250,770	(21,111)	35,653	21	28	5	8	-	265,374

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.

We are assured collection of principal and accrued interest on 99% (31 December 2020 – 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.

Expected credit losses

Total undrawn loan commitments outstanding at 30 June 2021 were \$6,108 million (31 December 2020 – \$5,022 million), of which \$6,101 million (31 December 2020 – \$5,015 million) are subject to 12-month ECL and \$7 million (31 December 2020 – \$7 million) are commitments outstanding on purchased or originated credit impaired loans.

At 30 June 2021, the ECL on undrawn loan commitments was \$6 million (31 December 2020 – \$7 million), and the ECL on loans was \$89 million (31 December 2020 – \$91 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 tables present the cash flows and non-cash changes for borrowings.

<i>(in millions)</i>	Balance at beginning of period	Three months ended 30 June					Balance at end of period
		Cash flows		Non-cash changes			
		Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	857	-	(237)	(3)	-	-	617
Borrowings at amortized cost							
Canada mortgage bonds	264,151	9,747	(17,657)	-	9	(438)	255,812
Borrowings from the Government of Canada – Lending programs	9,250	4,870	(3,449)	(49)	7	-	10,629
Borrowings from the Government of Canada – IMPP	4,998	-	(287)	-	-	-	4,711
Total borrowings at amortized cost	278,399	14,617	(21,393)	(49)	16	(438)	271,152
Total	279,256	14,617	(21,630)	(52)	16	(438)	271,769
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,094	-	(440)	5	-	-	1,659
Borrowings at amortized cost							
Canada mortgage bonds	243,620	18,671	(9,862)	-	12	122	252,563
Borrowings from the Government of Canada – Lending programs	7,180	3,063	(2,787)	(30)	11	-	7,437
Borrowings from the Government of Canada – IMPP	5,000	817	(138)	-	-	-	5,679
Total borrowings at amortized cost	255,800	22,551	(12,787)	(30)	23	122	265,679
Total	257,894	22,551	(13,227)	(25)	23	122	267,338

<i>(in millions)</i>	Balance at beginning of period	Six months ended 30 June					Balance at end of period
		Cash flows		Non-cash changes			
		Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,156	-	(528)	(11)	-	-	617
Borrowings at amortized cost							
Canada mortgage bonds	258,592	19,740	(22,045)	-	19	(494)	255,812
Borrowings from the Government of Canada – Lending programs	8,529	6,544	(4,378)	(78)	12	-	10,629
Borrowings from the Government of Canada – IMPP	5,248	-	(537)	-	-	-	4,711
Total borrowings at amortized cost	272,369	26,284	(26,960)	(78)	31	(494)	271,152
Total	273,525	26,284	(27,488)	(89)	31	(494)	271,769
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,374	-	(752)	37	-	-	1,659
Borrowings at amortized cost							
Canada mortgage bonds	243,454	29,167	(20,202)	-	25	119	252,563
Borrowings from the Government of Canada – Lending programs	6,287	6,715	(5,535)	(54)	24	-	7,437
Borrowings from the Government of Canada – IMPP	-	5,817	(138)	-	-	-	5,679
Total borrowings at amortized cost	249,741	41,699	(25,875)	(54)	49	119	265,679
Total	252,115	41,699	(26,627)	(17)	49	119	267,338

When we hold CMB to maturity or acquire CMB in the primary market, we exclude the related cash flows from the consolidated statement of cash flows. During the three and six months ended 30 June 2021, nil and \$20 million, respectively (three and six months ended 30 June 2020, \$212 million and \$292 million) 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 Minister of Finance approved increases to the Borrowing Authorities in May 2021 in conjunction with new housing initiatives per the amended 2021-2025 Corporate Plan, which are financed through the Crown Borrowing Program. The limits on our short-term borrowings outstanding and long-term borrowings issued are \$6 billion and \$6.5 billion, respectively (2020 – \$20 billion and \$154 billion). Actual short-term borrowings outstanding as at 30 June 2021 were \$353 million (31 December 2020 – \$410 million). Actual long-term borrowings issued in the three and six months ended 30 June 2021 were \$1.5 billion and \$2.5 billion, respectively (three and six months ended 30 June 2020 – \$1.5 billion and \$7.1 billion).

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.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
Financial Instruments designated at FVTPL				
Investment securities	(1)	1	(2)	6
Loans	-	4	(3)	17
Borrowings	3	(5)	11	(37)
Total financial instruments designated at FVTPL	2	-	6	(14)
Financial instruments mandatorily at FVTPL				
Equity securities	1	(1)	2	2
Derivatives	51	102	101	(122)
Loans	13	3	15	4
Total financial instruments mandatorily at FVTPL	65	104	118	(116)
Debt instruments held at FVOCI ¹	(63)	324	(99)	545
Loans – amortized cost	-	1	-	3
Borrowings – amortized cost ²	35	30	64	44
Expected credit (loss) recovery on financial assets ³	(4)	60	1	(31)
Total	35	519	90	431

¹ Includes foreign exchange losses during the three months and six months ended 30 June 2021 of \$62 million and \$123 million (for the three and six months ended 30 June 2020 – \$158 million loss and \$62 million gain) resulting from translation of U.S. dollar-denominated debt instruments.

² Includes losses from the retirement of borrowings during the three and six months ended 30 June 2021 of \$14 million and \$14 million (three and six months ended 30 June 2020 – nil and \$10 million), net of gains during the three and six months ended 30 June 2021 from the issuance of borrowings of \$49 million and \$78 million (three and six months ended 30 June 2020 – \$30 million and \$54 million).

³ Excludes a release of expected credit losses on MI Activity loans at amortized cost during the three and six months ended 30 June 2021 of \$4 million and \$9 million, respectively (release of expected credit losses during the three and six months ended 30 June 2020 – \$10 million and \$10 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. There were no material changes to our assessment and management of market risk in the three and six months ended 30 June 2021.

Currency risk

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 \$4,526 million in debt instruments denominated in U.S. dollars as at 30 June 2021 (31 December 2020 – \$4,347 million), which we present as investment securities at FVOCI, and we assessed residual currency risk as immaterial.

Value at risk (VaR)

We evaluate market risk for investment securities in the Mortgage Insurance and Mortgage Funding activities 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 markets and 26 weeks of volatility.

<i>(in millions)</i>	As at	
	30 June 2021	31 December 2020
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	124	156
USD-denominated securities	61	75
Effect of diversification	(19)	(28)
Total VaR	166	203

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 on fair value as immaterial as at 30 June 2021 after accounting for derivatives.

The Assisted Housing activity's financial instruments 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 June 2021 is presented below.

<i>(in millions)</i>	As at			
	30 June 2021		31 December 2020	
	Interest rate shift		Interest rate shift	
	-200 bps	+200 bps	-200 bps	+200 bps
Increase (decrease) to fair value of net liabilities ¹	560	(459)	306	(356)

¹ The changes in fair value of net liabilities 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. We disclose full descriptions of credit risks related to our financial instruments and how we manage those risks in Note 19 of our audited consolidated financial statements for the year ended 31 December 2020. There has been no change in the nature of the risks and how we manage them in the three and six month periods ended 30 June 2021.

17. Pension and Other Post-Employment Benefits

The following table presents the expenses, remeasurements and contributions for the defined benefit plans.

<i>(in millions)</i>	Three months ended 30 June			
	Pension plans		Other post-employment plans	
	2021	2020	2021	2020
Current service cost	14	11	-	-
Net interest expense	3	3	1	1
Expense recognized in net income	17	14	1	1
Net actuarial losses arising from changes in financial assumptions	(137)	(439)	(8)	(22)
Return on plan assets (excluding amounts included in net interest expense)	113	167	-	-
Net remeasurements recognized in other comprehensive income (loss)¹	(24)	(272)	(8)	(22)
CMHC's contributions	19	5	1	1
Employee contributions	10	6	-	-
Total contributions	29	11	1	1

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

² Includes a solvency payment of \$12 million for the three months ended 30 June 2021 (2020 - nil).

<i>(in millions)</i>	Six months ended 30 June			
	Pension plans		Other post-employment plans	
	2021	2020	2021	2020
Current service cost	31	22	-	-
Net interest expense	5	6	2	2
Expense recognized in net income	36	28	2	2
Net actuarial gains (losses) arising from changes in financial assumptions	236	(146)	9	(8)
Return on plan assets (excluding amounts included in net interest expense)	21	19	-	-
Net remeasurements recognized in other comprehensive income (loss)¹	257	(127)	9	(8)
CMHC's contributions ²	32	16	2	1
Employee contributions	16	11	-	-
Total contributions	48	27	2	1

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

² Includes a solvency payment of \$18 million for the six months ended 30 June 2021 (2020 - \$6 million).

We determine the discount rate in accordance with guidance issued by the Canadian Institute of Actuaries by reference to Canadian AA-rated corporate bonds with terms to maturity approximating the duration of the obligation. The discount rate we used to remeasure the defined benefit obligations at 30 June 2021 was 3.1% (31 December 2020 - 2.6%).

18. Income Taxes

The following table presents the components of income tax.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
Current income tax expense	166	135	372	274
Deferred income tax relating to origination and reversal of temporary differences	(11)	51	(33)	(2)
Total income tax expense included in net income	155	186	339	272
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	37	(9)	(77)	134
Reclassification of prior years' net unrealized gains realized in the period in net income	(25)	(9)	(28)	(9)
Remeasurement losses (gains) on defined benefit plans	(11)	(42)	29	(20)
Total income tax expense (recovery) included in other comprehensive income (loss)	1	(60)	(76)	105
Total	156	126	263	377

19. Related Party Transactions

We defer and amortize fees paid to the Government in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding activities. The fees recorded in operating expenses, amount to \$12 million and \$24 million for the three and six months ended 30 June 2021 (three and six months ended 30 June 2020 – \$11 million and \$22 million) for the Mortgage Insurance activity and \$9 million and \$18 million for the three and six months ended 30 June 2021 (three and six months ended 30 June 2020 – \$8 million and \$15 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

As at 30 June 2021, we have \$9,738 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years (31 December 2020 - \$8,926 million), and \$230 million in other contractual obligations up to the year 2025 (31 December 2020 - \$182 million).

We hold the following cash and cash equivalents that are intended for use as part of the respective programs:

<i>(in millions)</i>	As at	
	30 June 2021	31 December 2020
Rental Construction Financing initiative (RCFi)	167	655
Direct Lending – Economically Hedged	37	290
National Housing Co-Investment Fund (NHCF)	218	122
Affordable Housing Innovation Fund	75	29
Canada Emergency Commercial Rent Assistance	-	7
Total	497	1,103

21. Comparative Figures

We have reclassified certain comparative information in the consolidated statement of cash flows. We previously presented foreign currency forward contract receipts and disbursements, as well as fixed and intangible asset acquisitions, as cash flows from operating activities but now present them as cash flows from investing activities. In addition, within cash flows from operating activities, we have reclassified comparative information in accounts receivable and other assets and accounts payable and other liabilities, and we now present depreciation and impairment in a separate line, to better reflect the nature of our fixed and intangible asset transactions.

We have also reclassified certain comparative information in Note 14 to better reflect the nature of our foreign currency forward contracts and to align with the current period's presentation.

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